West Australian Newspapers Holdings Limited

ACN 053 480 845

PROPOSAL TO ACQUIRE SEVEN MEDIA GROUP

EXPLANATORY MEMORANDUM
INDEPENDENT EXPERT'S REPORT
NOTICE OF EXTRAORDINARY GENERAL MEETING

Notice is given that an Extraordinary General Meeting of Shareholders will be held at the Hyatt Regency Hotel, 99 Adelaide Terrace, Perth, Western Australia on 11 April 2011, commencing at 10am (Perth time).

LEGAL ADVISER

Allens Arthur Robinson

FINANCIAL ADVISER

O'Sullivan Partners

Important notices

This Explanatory Memorandum is important and requires immediate attention. It should be read in its entirety before making a decision on how to vote on the Resolutions. In particular, it is important that you consider the disadvantages and potential risks of the Proposed Transaction set out in Section 1.3 and Section 6 and the views of the Independent Expert set out in the Independent Expert's Report contained in Appendix A.

Purpose of this Explanatory Memorandum

This Explanatory Memorandum has been prepared for WAN Shareholders in connection with the Extraordinary General Meeting to be held on 11 April 2011. The purpose of this Explanatory Memorandum is to provide WAN Shareholders with information that the Independent Directors believe to be material to deciding whether or not to approve the Resolutions detailed in the Notice of EGM set out in Appendix E.

No investment advice

This Explanatory Memorandum has been prepared without reference to the investment objectives, financial situation or particular needs of any security holder or any other person. The information contained in this Explanatory Memorandum does not constitute financial product advice. If you are in doubt as to the course you should follow, you should consult your investment, taxation or other professional adviser without delay.

Responsibility for information

Other than the SMG Information, the Independent Expert's Report and the Investigating Accountant's Report, the information contained in this Explanatory Memorandum has been provided by WAN and is its responsibility alone. No member of the SGH Group nor any of their respective directors, officers, employees or advisers assumes any responsibility for the accuracy or completeness of the information provided by WAN.

Seven Group Holdings Limited (ACN 142 003 469) (**SGH**) has prepared, consented to the inclusion of, and is responsible for, the SMG Information. To the maximum extent permitted by law, none of WAN nor its respective Directors, officers, employees or advisers assume any responsibility for the accuracy or completeness of the SMG Information.

The information about SMG that appears in this Explanatory Memorandum (other than the SMG Information) is based upon the SMG Information and from limited audited and unaudited financial information and other information made available by or on behalf of SGH during the due diligence process conducted by WAN in connection with the Proposed Transaction. There is no assurance that this due diligence was conclusive and that all material issues and risks in relation to the Proposed Transaction and SMG have been identified. To the extent that this information is incomplete, incorrect, inaccurate or misleading, there is a risk that the profitability and future results of the operations of the Combined Group may differ (including in a materially adverse way) from WAN's expectations as reflected in this Explanatory Memorandum, or that additional liabilities may emerge.

Ernst & Young Transaction Advisory Services Limited (the **Independent Expert**) has provided and is responsible for the information contained in the Independent Expert's Report. No member of the WAN Group or the SGH Group nor any of their respective directors, officers, employees or advisers assumes any responsibility for the accuracy or completeness of the information contained in the Independent Expert's Report.

PricewaterhouseCoopers Securities Limited, (the **Investigating Accountant**) has provided and is responsible for the information contained in the Investigating Accountant's Report. No member of the WAN Group or the SGH Group nor any of their respective directors, officers, employees or advisers assumes any responsibility for the accuracy or completeness of the information contained in the Investigating Accountant's Report.

Future performance and forward looking statements

Certain statements in this Explanatory Memorandum relate to the future. Forward looking statements in the Explanatory Memorandum are not based on historical fact but rather reflect the current expectations of WAN or SGH (as the case may be) in relation to future results and events. These statements may be identified by the use of forward looking words or phrases such as 'believe', 'aim', 'expect', 'anticipate', 'intend', 'foresee', 'likely', 'should', 'plan', 'estimate', 'potential' or other similar words and phrases. These forward looking statements are not guarantees of future performance. You should be aware that known and unknown risks, uncertainties and other important factors could cause the actual results, performance or achievements to be materially different from the future results, performance or achievements expressed or implied by such statements. Such risks, uncertainties and other important factors include, among other things, the risks in associated with the Proposed Transaction as set out in Section 6. Shareholders are cautioned not to place undue reliance on such forward looking statements. Deviations as to future results, performance and achievement are both normal and expected.

Any discrepancies between totals and sums of components in tables and figures contained in this Explanatory Memorandum are due to rounding.

Not an offer document

This document is not an offer document in relation to the Entitlement Offer or the Public Offer. You should consider the Prospectus, which has been sent to eligible WAN Shareholders, before deciding whether to participate in the Entitlement Offer or Public Offer. Anyone who wishes to acquire WAN securities under the Entitlement Offer or Public Offer will need to complete the application form that will be in, or will accompany, the Prospectus. This document is not intended to be an offer for subscription, invitation, recommendation or sale with respect to any WAN securities in any jurisdiction.

Defined words and expressions

Some words and expressions used in this Explanatory Memorandum have defined meanings, which are explained in the Glossary of this Explanatory Memorandum. A reference to time in this Explanatory Memorandum is to Perth time unless otherwise stated. All financial amounts in this Explanatory Memorandum are expressed in Australian currency unless otherwise stated.

Enquiries

If you have any questions in relation to the subject matter of this Explanatory Memorandum, please contact your stockbroker, accountant or other Professional adviser. If you have questions in relation to how to vote, please call the WAN Seven West Proposal Information Line on the phone number set out below:

Within Australia: 1800 133 562

Outside Australia: +61 3 9415 4603

The WAN Seven West Proposal Information Line is open from 6am to 5pm Perth time (9am to 8pm Sydney time)[1] Monday to Friday until 11 April 2011.

1 From 4 April 2011 the WAN Seven West Proposal Information Line will be open 7am to 5pm Perth time (9am to 7pm Sydney time) to reflect the end of Australian Eastern Daylight Time.

Key Dates

The timetable below is indicative only and subject to change. WAN, subject to the Corporations Act, ASX Listing Rules and other applicable laws, reserves the right to vary any of the dates below. WAN will announce all changes through ASX.

Event	Date and time
Proposed Transaction announced	21 February 2011
Despatch of Notice of EGM and Explanatory Memorandum	11 March 2011
Last date and time for lodgment of proxy forms for the Extraordinary General Meeting (EGM)	10am Perth time 12pm Sydney time on 9 April 2011
Time and date for determining eligibility to vote at the Extraordinary General Meeting	10am Perth time 12pm Sydney time on 9 April 2011
Extraordinary General Meeting to be held	10am Perth time 12pm Sydney time on 11 April 2011

If Resolutions 1 to 4 are approved by WAN Shareholders, and all other conditions precedent to the Share Sale Agreement are satisfied or waived, then Completion of the Proposed Transaction is scheduled to occur by 21 April 2011.

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Letter from the Independent Board Committee

8 March 2011

Dear Shareholder,

On 21 February 2011, West Australian Newspapers Holdings Limited (**WAN**) (ASX: WAN) announced that it had agreed to acquire Seven Media Group (**SMG**) and that it proposed to conduct associated capital raisings.

SMG is one of Australia's leading media groups and operates three key divisions:

- **Seven Network** — Australia's leading FTA television network
- **Pacific Magazines** — Australia's second largest magazine publisher by readership
- **Yahoo!7** — 50% equity interest in one of Australia and New Zealand's leading online platforms with global and local content

SMG is owned by entities associated with Seven Group Holdings Limited (**SGH**) (ASX: SVW), funds affiliated with Kohlberg Kravis Roberts & Co. L.P. (**KKR**), mezzanine investors and members of management relating to SMG.

Summary of the Proposed Transaction

- WAN has contracted to acquire 100% of SMG from SGH for an enterprise value of $4,085 million comprising:
  - $1,081 million in WAN Shares issued to SGH at a price of $5.99 per WAN Share;
  - $250 million of new WAN Convertible Preference Shares (**CPS**) issued to SGH;
  - $650 million repayment of the SGH loan owed by SMG; and
  - $2,104 million of external net debt assumed[1] (before debt reduction of approximately $450 million to $1,654 million) on a pro forma basis,

  (the **Acquisition**). Immediately prior to selling SMG to WAN, SGH will acquire the interests in SMG that it does not already own, so that it can sell 100% of SMG to WAN.
- WAN will also make a placement of approximately $461 million in WAN Shares to KKR, mezzanine investors and members of management relating to SMG at a price of $5.99 per WAN Share (the **KKR Investment**).

The Proposed Transaction is subject to a number of conditions precedent, including WAN Shareholder approval at an Extraordinary General Meeting (**EGM**) to be held on 11 April 2011. If the Proposed Transaction proceeds, WAN will, subject to WAN Shareholder approval, change its name to "Seven West Media Limited".

In conjunction with the Proposed Transaction, WAN is conducting:

- A fully underwritten accelerated non-renounceable pro rata entitlement offer of convertible unsecured loan securities (**CULS**) (the **Entitlement Offer**); and
- A fully underwritten general public offer of WAN Shares (the **Public Offer**),

(together, the **Offers**).

1 At 25 December 2010 pursuant to the Share Sale Agreement.

WAN will raise approximately $693 million through the Offers, comprising:

- $653 million from the Entitlement Offer; and
- $40 million from the Public Offer.

Details of the Offers are set out in the Prospectus which was despatched to WAN Shareholders on 3 March 2011.

Proceeds from the Offers and the $461 million raised under the KKR Investment will be used to reduce SMG's debt (including repayment of the $650 million loan owed by SMG to SGH) and to pay transaction costs of $45 million. Following the completion of the Offers, WAN's consolidated leverage (based on Combined Group Pro Forma Net Debt/FY11PF EBITDA) will be approximately 3.1x.[2]

Further, in conjunction with the Proposed Transaction, SGH will sell its existing 24.3% interest in WAN (**SGH Sell Down**), with the sale being conditional upon the Proposed Transaction being effected. SGH will subsequently receive $1,081 million in WAN Shares as partial consideration for SMG resulting in an anticipated shareholding of 29.6% in WAN. In addition, SGH will also receive $250 million of CPS resulting in a total investment in WAN of $1,331 million.

Proposed Board and Management

As part of the Proposed Transaction, WAN's existing Board membership would remain intact. One further director will be appointed, namely David Leckie, the new Combined Group Chief Executive Officer (**CEO**) and Managing Director. KKR may also nominate a Director following Completion of the Proposed Transaction.[3]

The executive team of the Combined Group will also include Peter Lewis (Combined Group CFO), Chris Wharton (CEO, WAN/WA Media) and Peter Bryant (CFO, WAN/WA Media).

The Independent Directors unanimously recommend the Proposed Transaction

The consideration and negotiation of the Proposed Transaction has been under the supervision and control of the Independent Directors of WAN: Mr Doug Flynn, Mr Graeme John AO, Mr Don Voelte and Mr Sam Walsh AO (the **Independent Board Committee**). The Directors of WAN associated with SGH, Mr Kerry Stokes AC and Mr Peter Gammell, have stood aside from all WAN Board considerations and decisions concerning the Proposed Transaction.

The Independent Directors unanimously recommend that WAN Shareholders vote in favour of the Resolutions, in the absence of a superior proposal. The reason for the Independent Directors' recommendation is that the Proposed Transaction is expected to deliver significant benefits for WAN, including:

- Business diversification across a range of media formats including Australia's leading FTA television network, the second largest magazine group in Australia by readership and one of Australia and New Zealand's leading online platforms;

2 Based on a Combined Group Pro Forma Net Debt as at 31 December 2010 of $1,991 million. Refer to Section 5.11 for further details.

3 Subject to the aggregate holding in WAN Shares of KKR and mezzanine investors remaining above 10%.

- Geographic diversification with the combined operations of the Combined Group, to be named Seven West Media,[4] covering all major Australian metropolitan markets, and when including arrangements with regional affiliates, reaching most of Australia's population;
- SMG's digital multi-channelling and online properties providing WAN with new growth avenues where consumer trends and the regulatory environment are underpinning the potential value in FTA television and online media formats;
- Exposure to the recovery in media advertising spend across all media formats;
- Synergistic benefits, including access to content and deploying across different formats, from magazines to newspapers to online sites;
- The ability to harness the online business expertise in the Yahoo!7 joint venture, which is expected to enable WAN to fast track its online strategy;
- Immediate value accretion for WAN, including earnings per share (**EPS**) accretion of 6.8% based on the forecast pro forma financial year ending 30 June 2011;[5] and
- Balance sheet strength and the ability to pursue growth opportunities as they arise.

Each Independent Director who holds or controls WAN Shares intends to vote those shares, or cause those controlled entities to vote, in favour of the Resolutions.

Independent Expert

The Independent Board Committee has obtained an Independent Expert's Report from Ernst & Young Transaction Advisory Services Limited to assist WAN Shareholders in deciding whether or not to approve the resolutions which must be passed at the WAN EGM in order for the Proposed Transaction to proceed. In that report, the Independent Expert has concluded that the acquisition of SMG and the issue of WAN Shares and CPS to SGH is fair and reasonable to WAN Shareholders (other than SGH and any WAN Shareholders associated with SGH). The Independent Expert's Report is set out in Appendix A, which you should read in full.

Further Information

This Explanatory Memorandum sets out further details of the Proposed Transaction. While the Independent Directors unanimously recommend that you vote in favour of the Proposed Transaction, there are a number of potential disadvantages and risks associated with it set out in detail in Section 1.3 and Section 6. Please read this Explanatory Memorandum in full before making your decision and voting on the Resolutions at the EGM.

4 Subject to WAN Shareholder approval at the EGM.

5 Based on diluted EPS calculated assuming the Combined Group was together for the full year FY11F (with SMG's pro forma net debt of $1,654 million remaining constant) and forecast synergies as set out in Section 5.10.3 but excludes any one-off costs associated with the synergies, any additional amortisation resulting from the final purchase price allocation or transaction costs. WAN expects identified synergies to be implemented in full during the remainder of FY11 and FY12. WAN's standalone FY11F diluted EPS is before transaction costs. Refer calculation set out in Section 5.10.3. Basic EPS accretion of 13.1% on the same basis.

The Independent Directors encourage you to participate in the vote. You can vote in person at the EGM on 11 April 2011 or, if you cannot attend the EGM in person, you can vote by proxy or through an assigned power of attorney or corporate representative using the proxy form contained in Appendix G.

If you have any questions about the Proposed Transaction, you should consult your independent financial adviser. For assistance with matters concerning the Proposed Transaction, the EGM or voting procedures, please contact the WAN Seven West Proposal Line on 1800 133 562 (within Australia) or +61 3 9415 4603 (outside Australia) between 6am and 5pm Perth time (9am to 8pm Sydney time),[6] Monday to Friday until 11 April 2011.

Your Independent Directors consider that the Proposed Transaction represents an attractive opportunity to transform WAN into the pre-eminent media company in Australia, and encourage you to support the Proposed Transaction. If you wish the Proposed Transaction to proceed, it is important that you vote in favour of the Resolutions.

Yours faithfully

Doug Flynn
Non Executive Director
On behalf of the WAN Independent Board Committee

6 From 4 April 2011 the WAN Seven West Proposal Information Line will be open 7am to 5pm Perth time (9am to 7pm Sydney time) to reflect the end of Australian Eastern Daylight Time.

Questions and Answers

Answers to key questions about the Offers:

THE PROPOSED TRANSACTION

What is the Proposed Transaction?	In summary, the Proposed Transaction involves: • WAN acquiring 100% of SMG from SGH for an enterprise value of $4,085 million comprising: — $1,081 million in WAN Shares issued to SGH at a price of $5.99 per WAN Share; — $250 million of CPS issued to SGH; — $650 million repayment of the SGH loan owed by SMG; and — $2,104 million of external net debt assumed on a pro forma basis (the **Acquisition**); and • WAN making a placement of approximately $461 million in WAN Shares to KKR, mezzanine investors and members of management relating to SMG at a price of $5.99 per WAN Share (the **KKR Investment**). In conjunction with the Proposed Transaction: • WAN is conducting the Offers to raise $693 million which (together with the $461 million raised through the KKR Investment) will be used to fund debt reduction of approximately $450 million, repayment of the $650 million SGH loan owed by SMG, payment of transaction costs of approximately $45 million and for other corporate purposes; and • SGH is conducting the SGH Sell Down, under which SGH will sell its existing 24.3% shareholding in WAN to new and existing WAN Shareholders, conditional on the Proposed Transaction proceeding.	Section 2
What will SGH's shareholding be following the Proposed Transaction	Immediately following Completion of the Proposed Transaction, SGH will have a 29.6% shareholding in WAN. It will also hold the CPS, which are convertible into WAN Shares in the future. CPS cannot be converted into ordinary shares until after release of the 1H14 financial statements of the Combined Group (likely to be in February 2014), except in limited circumstances.[1] However, if SGH's shareholding and the WAN Shares on issue immediately post completion of the Proposed Transaction remained unchanged at the time of conversion, conversion of the CPS would increase SGH's shareholding in WAN from 29.6% to 33.6%.	Section 5.4.2
What is SMG?	SMG is one of Australia's leading media groups and operates three key divisions: • Seven Network: Australia's leading FTA television network; • Pacific Magazines: Australia's second largest magazine publisher; and • Yahoo!7: 50% equity interest in one of Australia and New Zealand's leading online platforms with global and local content.	Section 4

1 If SGH's shareholding in the Combined Group is diluted below 29.6% (but only to the extent required to bring their holding back up to that level); if a takeover bid is made by a person (other than SGH) for all the Shares in WAN and that bid is unanimously recommended by the WAN Board; or if consented to in writing by the Board.

What is the Share Sale Agreement?	The Share Sale Agreement is an agreement entered into between WAN and SGH to give effect to the Acquisition.	Section 7.4.1
What are the terms of the CPS to be issued to SGH?	CPS are convertible preference shares which may be converted into WAN Shares in certain circumstances. The terms of the CPS are provided in the CPS Terms of Issue, which are set out in full in Appendix C.	Appendix C
Who is KKR?	Kohlberg Kravis Roberts & Co. L.P. is a global alternative asset manager. KKR holds an approximate 45% interest in SMG.[2]	
What is the KKR Investment?	Under the KKR Subscription Agreement, an agreement entered into between WAN and KKR to give effect to the KKR Investment, KKR, mezzanine investors and members of management relating to SMG will be issued approximately 77 million WAN Shares for cash consideration at a price of $5.99 per WAN Share. The WAN Shares issued under the KKR Subscription Agreement will not be entitled to any interim dividend declared by WAN for the half year ending 31 December 2010. Under the KKR Subscription Agreement, KKR may nominate a Board member while it and the mezzanine investors' aggregate shareholding in WAN remains above 10%.	Sections 2.3 and 7.4.2
What are the Offers?	In conjunction with the Proposed Transaction, WAN is conducting: • a fully underwritten accelerated non-renounceable pro rata entitlement offer of CULS; and • a fully underwritten general public offer of WAN Shares, (together, the **Offers**). WAN will raise approximately $693 million through the Offers, comprising $653 million from the Entitlement Offer, and $40 million from the Public Offer. Details of the Offers are set out in the Prospectus, which was despatched to eligible retail shareholders on 3 March 2011. SGH will not take up its entitlement under the Entitlement Offer.	Section 2.4
Why is the Proposed Transaction being put forward?	The Independent Board Committee considers that the Proposed Transaction will deliver significant benefits for WAN and that the Proposed Transaction represents an attractive opportunity to transform WAN into the pre-eminent media company in Australia. The Independent Board Committee encourages you to support the Proposed Transaction.	Section 1.1
When is the Proposed Transaction expected to be implemented?	Subject to satisfaction or waiver the of the conditions precedent to the Share Sale Agreement, including obtaining WAN Shareholder approval, it is expected that the Proposed Transaction will be completed by 21 April 2011.	
ASSESSMENT OF THE PROPOSED TRANSACTION		
What is the recommendation of the Independent Directors?	The Independent Directors unanimously recommend that WAN Shareholders vote in favour of the Resolutions.	Section 1.5
How were potential conflicts of interest dealt with?	The consideration, negotiation and entry by WAN into the Proposed Transaction has been under the supervision and control of the Independent Board Committee comprising the Independent Directors of WAN; Mr Doug Flynn, Mr Graeme John AO, Mr Don Voelte and Mr Sam Walsh AO. To manage conflicts of interest that could arise, the Directors adopted protocols to govern the conduct of considering and negotiating the Proposed Transaction, including the establishment of the Independent Board Committee. The Directors associated with SGH, Mr Kerry Stokes AC and Mr Peter Gammell, have stood aside from all WAN Board considerations and decisions concerning the Proposed Transaction.	Section 1.4.1

2 SGH's and KKR's respective interests in SMG would be 45% each if fully diluted for future vesting of the SMG Management Equity Plan. Each of SGH's and KKR's respective interests in SMG are each presently approximately 46.5% on an undiluted basis.

Questions and Answers (continued)

What is the opinion of the Independent Expert?	The Independent Expert has concluded that the acquisition of SMG from SGH and the issue of WAN Shares and CPS to SGH under the Acquisition is fair and reasonable to WAN Shareholders (other than SGH and any WAN shareholders associated with SGH). Please read the full Independent Expert's Report in Appendix A.	Appendix A
Are there any risks or potential disadvantages associated with the Proposed Transaction?	While the Independent Directors unanimously recommend that you vote in favour of the Proposed Transaction, there are potential disadvantages and risks associated with the Proposed Transaction. These are set out in detail in Sections 1.3 and 6. Potential disadvantages and risks include: • Existing WAN Shareholders will be diluted; • Change of control of WAN may occur without a control premium for WAN Shareholders; • WAN may become less attractive as a takeover target; • Combined Group debt will be significantly greater; and • WAN will be exposed to new sectors and markets.	Section 1.3 and Section 6
IMPACT OF THE PROPOSED TRANSACTION ON WAN		
Where can I find information in relation to the Combined Group?	If the Proposed Transaction proceeds, WAN will be transformed into a national multi-platform media business with earnings contributed by Australia's leading FTA television network, the leading metropolitan newspaper in Western Australia, the second largest magazine group and one of Australia and New Zealand's leading online platforms. Full details of the Combined Group are set out in Section 5. The financial details of the Combined Group are detailed in Section 5.10.	Section 5
WAN SHAREHOLDER APPROVAL OF A PROPOSED TRANSACTION		
What am I being asked to vote on?	You are being asked to vote on a number of Resolutions. Explanations of the Resolutions are set out in Appendix D. In summary: • Resolution 1 is an ordinary resolution to approve the Acquisition, which is a related party transaction between WAN and SGH (an entity controlled by Mr Kerry Stokes AC), for the purposes of various provisions of the Corporations Act and the Listing Rules; • Resolution 2 is an ordinary resolution to approve the acquisition of relevant interests in WAN Shares by SGH for the purposes of Chapter 6 of the Corporations Act; • Resolution 3 is an ordinary resolution to approve the issues of WAN Shares to KKR, mezzanine investors and members of management relating to SMG under the KKR Investment for the purposes of Listing Rule 7.1; • Resolution 4 is a special resolution to approve the terms of the CPS, and the future subdivision of CPS immediately before their conversion, for the purposes of various provisions of the Corporations Act; and • Resolution 5 is a special resolution to approve the change of name of WAN to Seven West Media Limited with effect from Completion. The Proposed Transaction will not proceed unless all of Resolutions 1 to 4 are passed. The Proposed Transaction is not conditional on Resolution 5. Resolution 5 will not be put to WAN Shareholders at the EGM unless Resolutions 1 to 4 are passed.	Appendices D and E

WAN SHAREHOLDER APPROVAL OF A PROPOSED TRANSACTION		
Who is entitled to vote?	A person's entitlement to vote at the EGM will be taken to be the entitlement of that person shown on the Register at 10am Perth time/12pm Sydney time on 9 April 2011, unless, in respect of Resolutions 1 to 3, a voting exclusion applies to them.	Appendix F
Is SGH voting its 24.3% WAN shareholding on the Resolutions?	SGH and its associates are excluded from voting on Resolutions 1 to 3, but are able to vote on Resolutions 4 and 5.	Appendix E
When and where will the EGM be held?	The EGM will be held at the Hyatt Regency Hotel, 99 Adelaide Terrace, Perth, Western Australia at 10am (Perth time) on Monday, 11 April 2011.	Appendix E
If I wish to vote on the Resolutions, how do I vote?	You can vote on the Resolutions: • In person at the EGM; • Online at www.investorvote.com.au, your secure access information is set out on the proxy form accompanying this Explanatory Memorandum; • By sending in the proxy form accompanying this Explanatory Memorandum, in accordance with the instructions set out on that form: • By attorney; or • For bodies corporate, through a corporate representative.	Appendix F
Are there any conditions to the Proposed Transaction proceeding?	There are a number of conditions that will need to be satisfied or waived in order for the Proposed Transaction to proceed. These conditions include: • Obtaining approval from the Australian Competition and Consumer Commission (**ACCC**); • WAN Shareholders approving Resolutions 1 to 4 at the EGM; and • Conditions precedent set out in the Share Sale Agreement and other transaction agreements. The Proposed Transaction is also subject to a number of termination events, including where the Offers or the SGH Sell Down are terminated. Summaries of the Share Sale Agreement and other key transaction agreements are set out in Section 7.4.	Section 7.4
What will happen if the Resolutions 1 to 4 are not approved or the Proposed Transaction does not otherwise proceed?	If Resolutions 1 to 4 are not approved or the Proposed Transaction does not otherwise proceed: • WAN will not acquire SMG; • WAN will not issue any WAN Shares to SGH, KKR, mezzanine investors or members of management relating to SMG in connection with the Proposed Transaction; • Neither the Public Offer nor the SGH Sell Down will take effect; • WAN will redeem for cash, including the redemption premium payable, all CULS pursuant to their terms of issue; and • None of the changes to the Board, ownership, operations or management of WAN set out in this Explanatory Memorandum will take effect. WAN can be expected to operate in the same manner as it did before the Resolutions were put to WAN Shareholders.	Section 1.4.2

Section 1

Proposed Transaction – Advantages, disadvantages and other relevant considerations

1.1 Advantages of the Proposed Transaction

The Independent Directors expect the Proposed Transaction to deliver significant benefits to WAN, including the following:

- Creation of a leading national multi-platform media group providing advertisers with access to most of the Australian population;
- Market leading positions in a diverse range of core media categories, including FTA television and print media and exposure to the high growth online category;
- Diversified and integrated media model with cross-selling and synergistic benefits;
- Forecast EPS accretion of 6.8% based on FY11PF;[1]
- Dividend yield of approximately 8.7%[2] for FY11F based on the Issue Price and WAN's dividend guidance for FY11PF and a FY11PF P/E of 11.1x[3] based on the Issue Price of $5.20. WAN Shares issued under the Public Offer and WAN Shares issued on any conversion of CULS will not be entitled to the 1H11 dividend; and
- Increased market capitalisation, which is expected to improve index weighting, liquidity and investor interest.

1.1.1 Creation of a leading national multi-platform media group

The Proposed Transaction represents an attractive opportunity to transform WAN into a highly diversified, leading national multi-platform media group, providing advertisers with access to most of the Australian population.

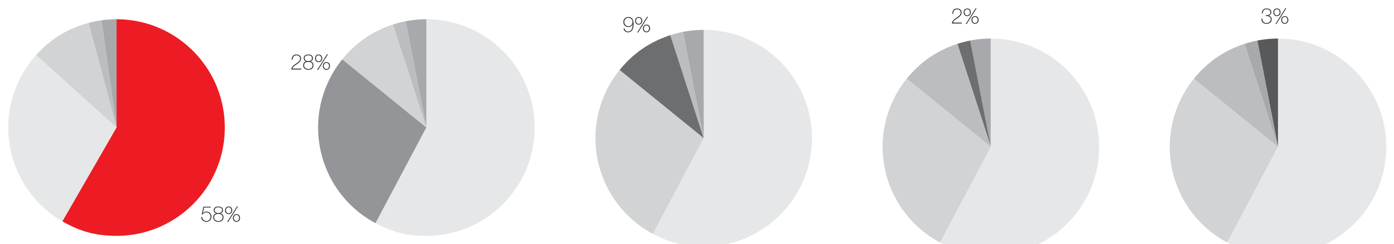
a) Leading media portfolio

Following Completion of the Proposed Transaction, WAN will own a portfolio of leading FTA television, newspaper, magazine, online and other media assets forecast to generate FY11PF EBITDA of $645 million[4] on revenues of $1,967 million.[5]

DIAGRAM 1: THE COMBINED GROUP[5]

FTA Television	Newspapers	Magazines	Online	Other
• Australia's leading FTA television network	• #1 newspaper in WA • 21 regional publications across WA • #1 classified newspaper in WA (Quokka) • Community Newspaper Group (49.9%) with 17 titles across Perth	• Second largest magazine publisher with a portfolio of leading titles	• One of Australia and New Zealand's leading online platforms • Leading websites in Western Australia	• Nine radio licences across regional WA • Other media related investments e.g. 33.3% of Sky News

FY11PF EBITDA contribution



1 Based on diluted EPS calculated assuming the Combined Group was together for the full year FY11F (with SMG's pro forma net debt of $1,654 million remaining constant) and forecast synergies as set out in Section 5.10.3 but excludes any one-off costs associated with the synergies, any additional amortisation resulting from the final purchase price allocation or transaction costs. WAN expects identified synergies to be implemented in full during the remainder of FY11 and FY12. WAN's standalone FY11F diluted EPS is before transaction costs. Refer calculation set out in Section 5.10.3. Basic EPS accretion of 13.1% on the same basis.

2 Based on the 1H11 dividend of 19.0 cents per Share, WAN dividend guidance of 26.0 cents per Share for 2H11F and an Issue Price of $5.20 per share.

3 Based on fully diluted EPS of 47.0 cents.

4 Including share of net profits from associates.

5 FY11PF EBITDA includes share of net profits from associates and forecast pro forma synergies of $15 million (included as part of "other" contribution to Combined Group EBITDA), but excludes one-off costs associated with the synergies. WAN expects synergies to be implemented in full during the remainder of FY11 and FY12.

b) National footprint

On Completion, WAN will continue to provide its shareholders with exposure to WAN's leading metropolitan and regional newspaper market position in Western Australia, the fastest growing state economy in Australia. In addition, the Proposed Transaction will provide WAN with access to SMG's national audience from commercial FTA television licences in the five major capital cities in Australia, as well as one regional licence for Sunshine Television in Queensland. When combined with its key affiliate regional stations (Prime Media Group and Southern Cross Television), the acquisition will extend WAN's geographic footprint into regional Australia.

1.1.2 Market leading positions in a diverse range of core media categories

The Proposed Transaction will extend WAN's exposure to market leading positions in a diverse range of core media categories including FTA television and print media and exposure to the high growth online category.

FTA television represents SMG's most significant operating segment. SMG's FTA television business is forecast to contribute FY11PF EBITDA of $376 million on FY11PF revenue of $1,234 million. This is expected to represent 58% of FY11PF EBITDA for the Combined Group.

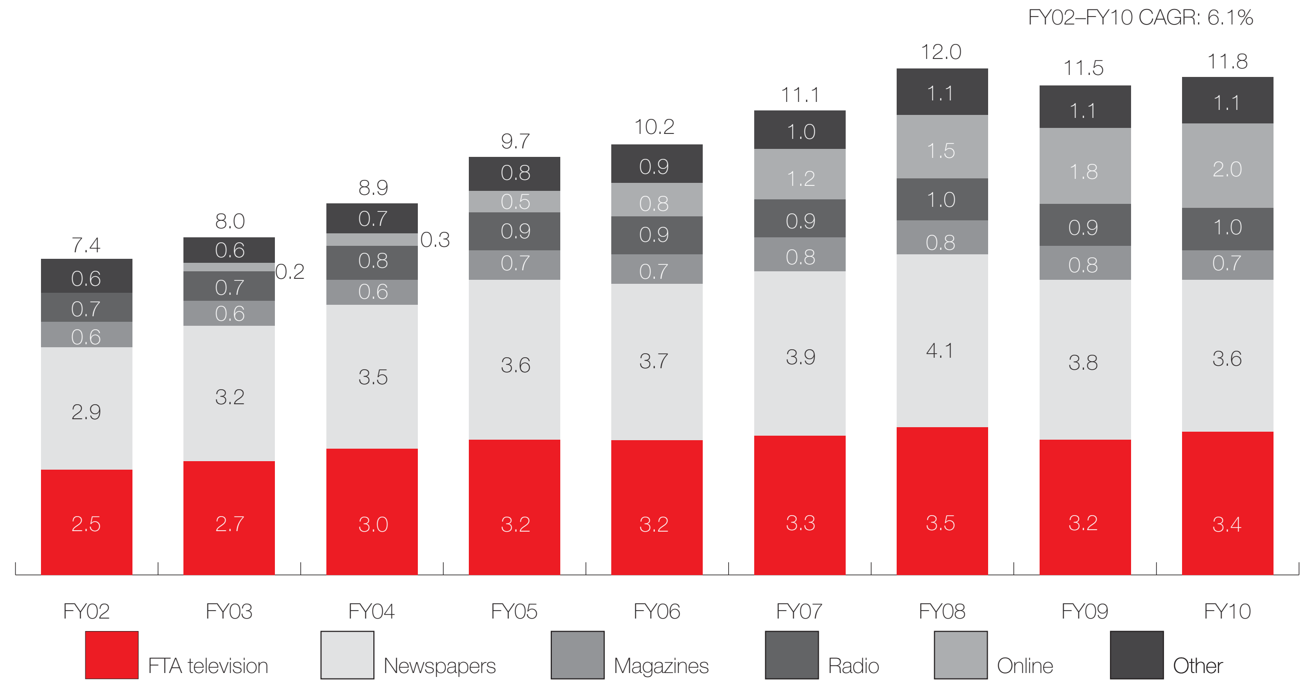
a) Australia's leading FTA television network in a highly attractive segment

The FTA television industry is considered one of the most significant and influential media platforms in Australia. On average, Australians watch between three to five hours of television per day, making it the most consumed media source, and in turn one of the most attractive formats for advertisers. Due to this mass-market appeal, the FTA television industry has remained stable at 84% of the peak time viewing audience over the past three years, with the balance attributable to pay television.[6]

The successful launch of new digital multi-channels, including SMG's 7TWO and 7mate, combined with recovering Australian advertising revenues in 2010, is forecast to result in total FTA television advertising market growth of 16.6% in 2010 (compared to a market contraction in 2009 of 7.6%).

The FTA television advertising market is the second fastest growing media platform in Australia after online.

FIGURE 1: AUSTRALIAN ADVERTISING MARKET BY MEDIUM ($ BILLION)[7]



Seven, SMG's primary FTA television channel, maintained its leading audience share during the key peak time viewing period amongst the FTA television broadcasters in Australia during 2010. This leading market position enabled Seven to again capture the highest level of advertising revenue amongst the commercial metropolitan FTA television networks in FY10.

Importantly, Seven has been able to achieve this leading audience share position consistently since 2006, as well as across a range of FTA television market demographics.

6 Total TV share of all viewing (all homes) (6pm to 12am).

7 Commercial Economic Advisory Service of Australia (CEASA), "Advertising Expenditure in Main Media in Australia" (years to 30 June).

Proposed Transaction – Advantages, disadvantages and other relevant considerations (continued)

FIGURE 2: PEAK TIME FTA TELEVISION AUDIENCE SHARE (2010)[8]

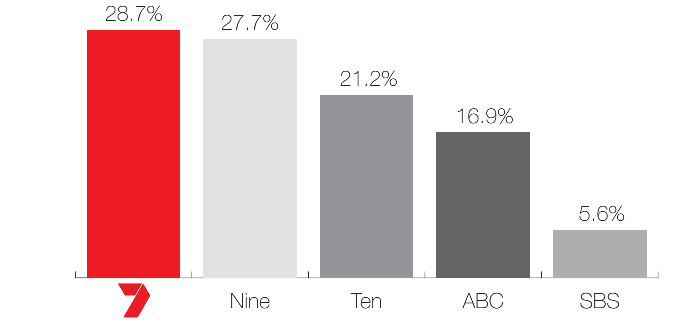
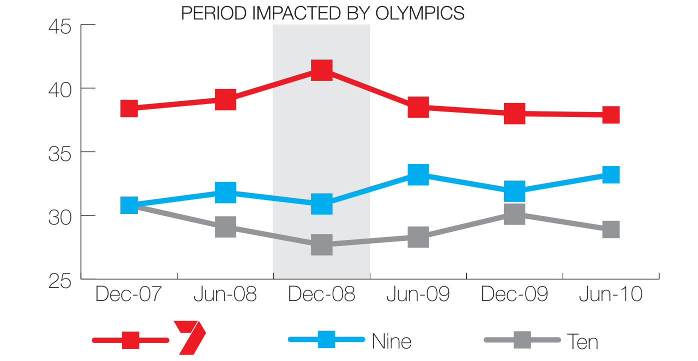


FIGURE 3: COMMERCIAL METROPOLITAN FTA TELEVISION NETWORK SHARE OF ADVERTISING REVENUE (%)[9]



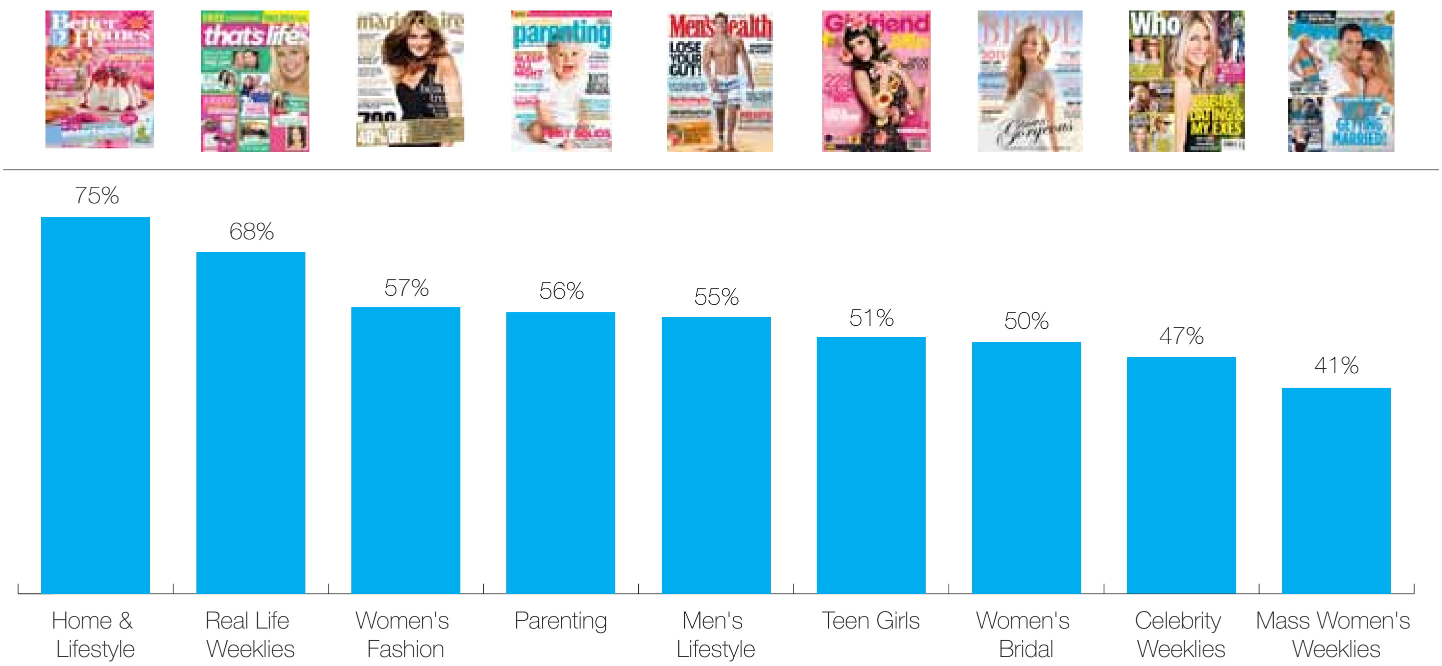
b) Substantial magazine publishing business with a portfolio of leading titles

Pacific Magazines is Australia's second largest domestic magazine publisher with a portfolio of leading titles, including best-selling titles in the key categories of home & lifestyle ("Better Homes and Gardens"), fashion ("Marie Claire") and men's lifestyle ("Men's Health").

Pacific Magazines publishes two of Australia's three best selling weekly magazines ("New Idea" and "That's Life!"). During FY10, Pacific Magazines outperformed the overall magazine industry, building readership and delivering the largest market share increase of any Australian major magazine publisher. It is also the only major magazine publisher to improve its advertising performance in the 12 months to December 2010.

Pacific Magazine's portfolio includes over 25 titles which together amounted to approximately 29% market share of overall gross domestic readership, and 27% market share of total magazine advertising revenue in the 12 months to December 2010.

FIGURE 4: MAGAZINE ADVERTISING REVENUE – PACIFIC MAGAZINES % OF TOTAL MARKET BY CATEGORY



1.1.3 Exposure to high growth new media

Yahoo!7 is a 50:50 joint venture between SMG and Yahoo! Inc that was established in December 2005. Yahoo!7 combines the FTA television and magazine content and marketing capabilities of SMG with the online capabilities of Yahoo!.

Yahoo!7 is currently Australia's fourth most viewed domestic website (by unique browser) as well as the number one television website. Approximately one in every two online Australians visit Yahoo!7 every month and it is the most popular website by unique browser visits within the sport, finance and lifestyle online viewership segments.

8 Based on five-city metropolitan survey year period for 6pm–12am, total individuals FTA share including multi-channels viewing period (7 February 2010 to 25 December 2010).

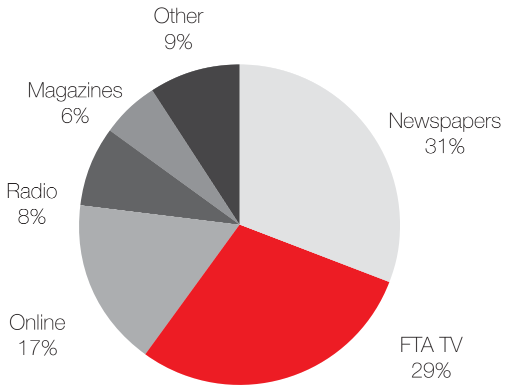
9 Market share of gross advertising revenue for the three Australian commercial FTA television networks in all capital cities (1 July 2007 to 30 June 2010).

The Proposed Transaction is expected to provide further opportunities for WAN to accelerate its online media strategy and will position the business to take advantage of growth opportunities in the online media segment through its exposure to one of the Australia's fastest growing internet platforms.

1.1.4 Diversified and integrated media model with cross-selling and synergistic benefits

Following the Proposed Transaction, the Combined Group's portfolio of FTA television, newspaper, magazine, online and other media assets will provide it with exposure to approximately 91% of the total advertising expenditure market in Australia.

FIGURE 5: MAJOR MEDIA COMPONENTS OF ADVERTISING EXPENDITURE IN AUSTRALIA[10]

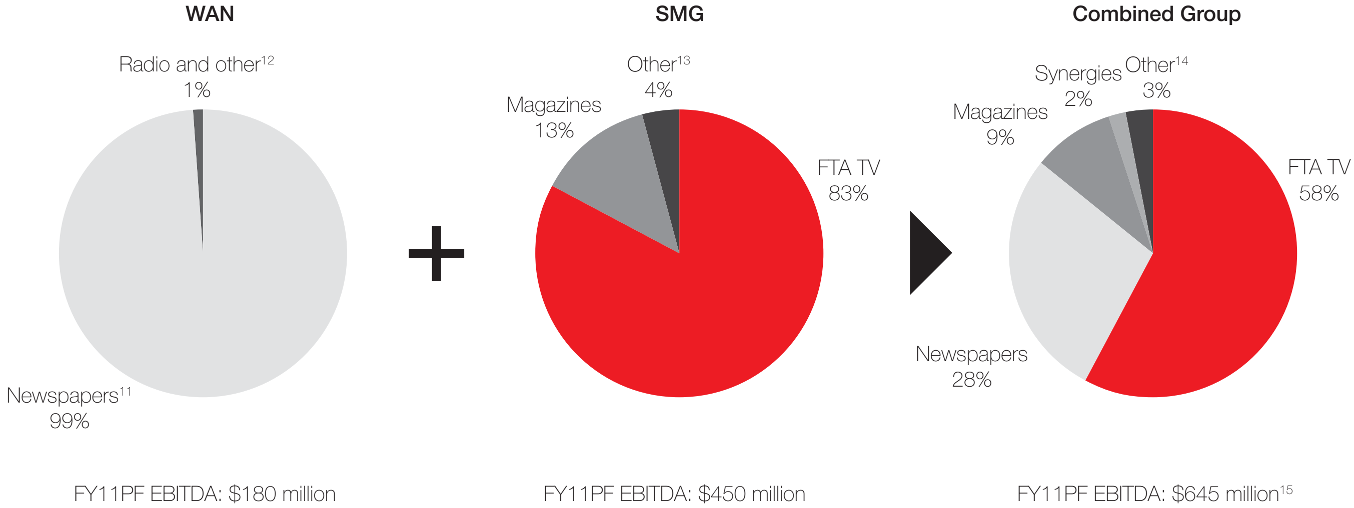


The ownership of such a broad range of media assets addressing a wider national audience is forecast to provide WAN with the opportunity to generate synergies across the group. These synergies are forecast to be driven by cross-selling across an enlarged portfolio of FTA television, newspaper, magazine and online media assets, as well as offering advertising packages to customers across multiple advertising channels, particularly in the Perth market.

See Sections 5.2 and 5.10.3 for a more detailed analysis of the synergies forecast to be generated from the Proposed Transaction.

Additionally, the diversification of WAN's assets across media platforms is expected to assist in mitigating the impact of a downturn in one media platform, while also introducing multiple avenues for future growth in media channels that WAN Shareholders previously did not have exposure to.

FIGURE 6: FY11PF EBITDA



10 CEASA, "Advertising Expenditure in Main Media in Australia" (year to 30 June 2010).

11 Includes The West, Regionals, Quokka and WAN's share of NPAT of its Associate (Community Newspaper Group).

12 Includes Radio, Online, Colour Press and other.

13 Includes SMG's share of NPAT of Associates (predominately Yahoo!7).

14 Includes Radio, Online, Colour Press, SMG's share of NPAT of Associates (predominately Yahoo!7) and other.

15 FY11PF EBITDA includes expected forecast pro forma synergies of $15 million but excludes any one-off costs associated with the synergies. WAN expects identified synergies to be implemented in full during the remainder of FY11 and FY12.

Proposed Transaction – Advantages, disadvantages and other relevant considerations (continued)

1.1.5 EPS accretion to shareholders

Based on the Board's expectations of the financial performance of the existing WAN business and the forecast earnings for SMG, together with pro forma synergies, the Proposed Transaction would, on a FY11PF basis, result in EPS accretion of 6.8%.[16]

Further details on pro forma results and underlying assumptions are set out in Section 5.10.7, including those pertaining to EPS calculations.

FIGURE 7: PRO FORMA OPERATIONAL NPAT ($m)[17]

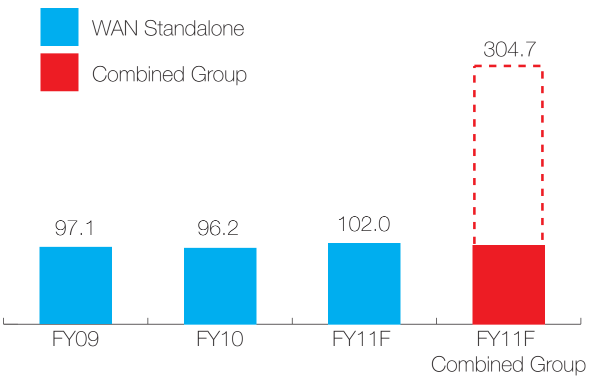
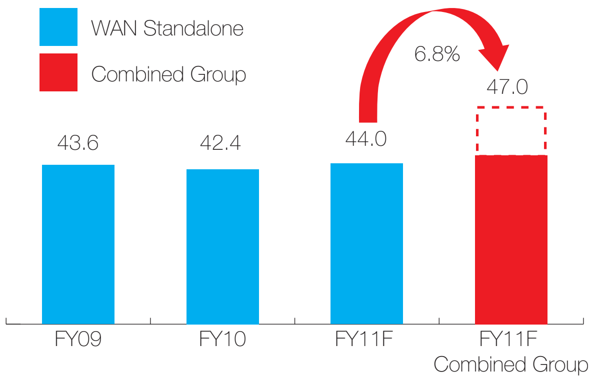


FIGURE 8: ADJUSTED EPS (cents)[16]



1.1.6 Attractive dividend yield and P/E multiple

If the Proposed Transaction is completed, WAN has provided guidance that it expects to deliver a full year dividend for FY11PF of 45 cents per share, having declared on 21 February 2011 a dividend of 19 cents per share for the six months ended 31 December 2010. The second half dividend is ordinarily declared upon the release of the financial year results in late August and paid in late September. WAN Shares issued under the Public Offer and WAN Shares issued on any conversion of CULS will not be entitled to the 1H11 dividend.

Based on WAN's dividend guidance for a FY11PF dividend of 45 cents per WAN Share, the Offers represent a dividend yield of 8.7% based on the Issue Price, and 7.8% based on the TERP.[18]

Based on the FY11PF NPAT of $304.7 million, the Offers imply a FY11PF P/E of 11.1x.[19]

1.1.7 Benefits from enhanced market capitalisation

Following Completion, the Combined Group is likely to become the largest listed Australia-domiciled media company with a pro forma market capitalisation of $3,543 million and the second largest media company on a pro forma free float basis.[20]

Furthermore, the value of the free float is expected to improve WAN's index position from around 126 to around 81.[21] Should WAN be included in the S&P/ASX 100 index, this is likely to enhance WAN's liquidity and index profile.

16 Based on diluted EPS calculated assuming the Combined Group was together for the full year FY11F (with SMG's pro forma net debt of $1,654 million remaining constant) and forecast synergies as set out in Section 5.10.3 but excludes any one-off costs associated with the synergies, any additional amortisation resulting from the final purchase price allocation or transaction costs. WAN expects identified synergies to be implemented in full during the remainder of FY11 and FY12. WAN's standalone FY11F diluted EPS is before transaction costs. Refer calculation set out in Section 5.10.3. Basic EPS accretion of 13.1% on the same basis

17 Refer to Pro Forma financials detailed in Sections 3.5.4, 4.7.3 and 5.10.3.

18 On a fully diluted basis.

19 Based on an Issue Price of $5.20 and FY11PF (diluted) EPS of 47.0 cents per share.

20 Float-adjusted market capitalisation excludes strategic shareholdings of SGH and KKR and is calculated as total shares outstanding multiplied by the share price and percentage of shares available as free float.

21 Based on the constituents of the S&P/ASX 200 Index, ranked by free float-adjusted market capitalisation as at 18 February 2011. Analysis excludes foreign-domiciled companies listed on ASX due to insufficient see-through on free float.

FIGURE 9: DIVIDEND YIELD (%)

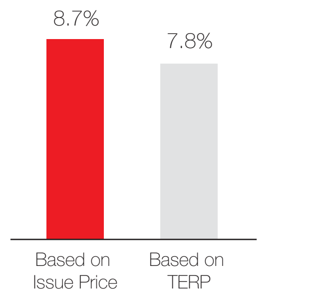
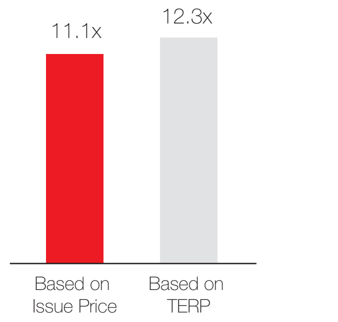


FIGURE 10: P/E (X)[22]



1.2 Independent Expert's opinion

Before the announcement of the Proposed Transaction, WAN commissioned the Independent Expert to prepare a report in relation to the Acquisition. A copy of the Independent Expert's Report is set out in Appendix A.

The Independent Expert has concluded that the acquisition of SMG from SGH and the issue of WAN Shares and CPS to SGH under the Acquisition is fair and reasonable to WAN Shareholders (other than SGH and any WAN Shareholder associated with SGH). The Independent Expert has assessed:

- The fair market value of SMG at between $4,604 million and $5,071 million. The acquisition of SMG for an enterprise value of $4,085 billion is below the valuation range as determined by the Independent Expert (see Section 8 of the Independent Expert's Report for more information on the valuation of SMG); and
- The fair market value per WAN Share before the Proposed Transaction at between $5.59 and $6.41 on a control basis, and the value per Combined Group share after the Proposed Transaction at between $6.17 and $7.51 on a minority basis including entitlements (see Sections 9 and 10 of the Independent Expert's Report for more information on the valuation of WAN and the Combined Group).

1.3 Disadvantages of the Proposed Transaction

The Proposed Transaction has a number of potential disadvantages and risks that WAN Shareholders should consider in deciding whether or not to vote in favour of Resolutions 1 to 4. The Independent Directors are of the opinion that these disadvantages and risks are outweighed by the benefits and advantages of the Proposed Transaction as set out above. WAN Shareholders should consider their own personal circumstances in making their decision whether or not to vote in favour of Resolutions 1 to 4.

1.3.1 Dilution of shareholding in WAN

The aggregate percentage holding of an existing WAN Shareholder other than SGH will be diluted by the issue of WAN Shares to SGH and KKR, mezzanine investors and members of management relating to SMG.[23] If the Proposed Transaction proceeds, then existing WAN Shareholders will be diluted down from 75.7% of WAN Shares on issue to 57.8%.

Additionally, on conversion of the CPS,[24] existing WAN Shareholders would be further diluted to 54.5%.[25]

1.3.2 Potential change of control of WAN without control premium

SGH currently holds 24.3% of the WAN Shares on issue. Immediately following Completion of the Proposed Transaction, SGH will hold 29.6% of the total WAN Shares on issue. In addition, SGH will hold the CPS which are convertible into WAN Shares following release of 1H14 financial statements for the Combined Group.[26] If SGH's shareholding and the WAN Shares on issue immediately following Completion of the Proposed Transaction remained unchanged at the time of conversion, conversion of the CPS would increase SGH's shareholding in WAN from 29.6% to 33.6%.

SGH's holding of WAN Shares and CPS following Completion of the Proposed Transaction, together with any future utilisation of the "creep rule" exception under the Corporations Act, may give SGH a greater degree of control over WAN, including greater influence over the Combined Group's financial and operating policies and the composition of the Combined Group's Board, than is currently the case. SGH may exert that influence in ways that are not consistent with the interests of other WAN Shareholders. This may result in a change of control of WAN (to the extent it has not already occurred at that time) without payment of a control premium to WAN Shareholders. Further details on SGH's potential increase in voting power are set out in Section 5.4.2.

1.3.3 WAN may become a less attractive takeover target

If the Proposed Transaction proceeds, SGH will have an increased shareholding in WAN and any bidder for WAN under a takeover bid would, in effect, require SGH's support for the bid to be successful. This may be a deterrent to potential takeover bidders.

1.3.4 Combined Group debt will be significantly greater

The Combined Group Pro Forma Net Debt at 31 December 2010 of $1,991 million is substantially more than WAN Standalone's net debt of $226 million on the same date, in part reflecting the increased size of the Combined Group, relative to WAN standalone. The Combined Group's leverage ratio of 3.1x (Combined Group Pro Forma Net Debt/FY11PF EBITDA), compares to the standalone leverage ratio of 1.3x (WAN Net Debt/FY11F EBITDA) for WAN and 4.9x (SMG Net Debt/FY11F EBITDA) for SMG based on Net Debt at 31 December 2010. Accordingly, there will be a substantial increase in the financial risk inherent in WAN's capital structure potentially resulting in increased interest costs and interest margins.

1.3.5 Exposure to new sectors and markets

While the Independent Directors believe this to be an advantage, certain WAN Shareholders may take the view that diversification of WAN's business into different media sectors, such as FTA television and magazines, and into broader markets, such as into the national market, may be a disadvantage because WAN would no longer be mainly focussed on "The West" and the West Australian market. Further, this diversification will expose WAN to new challenges and risks and will mean that The West will cease to be the primary revenue driver of WAN.

22 On a fully diluted basis.

23 WAN Shareholders will also be diluted to the extent that they do not participate in the Offers.

24 Under the CPS Terms of Issue, the CPS may be converted at any time after the release of WAN's December 2013 half year accounts. In certain circumstances, SGH may convert the CPS early, as described in Section 2.2.

25 Assuming that SGH's shareholding and the WAN Shares on issue on Completion of the Proposed Transaction remained unchanged at the time of conversion.

26 The CPS may be converted earlier in certain circumstances. Refer to Section 2.2.

1.3.6 Risks in relation to the Proposed Transaction and the Combined Group

In addition to the disadvantages above, there are a number of risks associated with the Proposed Transaction and the Combined Group. Further details regarding these risks are set out in detail in Section 6. Key risks include the following:

- Advertising market – The price at which advertising can be sold by the Combined Group is dictated by the overall demand for advertising, which is inherently cyclical;
- FTA television content – The revenue and profitability of the Combined Group's FTA television business will depend upon its ability to produce and purchase superior television programming and maintain strong audience ratings vis-à-vis its competitors;
- Competition – The Combined Group will compete for audience share and advertising revenues with all forms of media. The introduction and development of new and innovative forms of media has the capacity to fragment audiences and reduce advertising spend directed to existing media. Alternative forms of media could become more attractive for advertisers, as a result of cost reductions, improvement in ease of production or improvement in ability to target audiences;
- Regulatory – The Combined Group may be adversely affected by changes in Government policy, regulation or legislation applying to companies in the media industry or to Australian companies in general;
- Increased leverage – If Completion of the Proposed Transaction occurs, there will be a significant increase in the Combined Group's ratio of net debt to EBITDA, as compared to WAN as a standalone entity. Shares in the Combined Group will therefore represent an investment in an entity which carries significantly more debt on relative terms than WAN on a standalone basis;
- Synergies – Certain synergies are expected to be realised as a result of combining the existing businesses of WAN and SMG (see Section 5.10.3). Those synergies are expected to be implemented in full by the end of FY12. It may not be possible for the Combined Group to realise the full synergies, whether in the expected time frame or at all. This could have an adverse effect on the Combined Group's business results of operations or financial condition and performance; and
- Risks associated with the KKR Investment – Following Completion of the Proposed Transaction, KKR, mezzanine investors and members of management relating to SMG will hold approximately 12.6% of the total WAN Shares on issue. There may be an expectation in the market that KKR will sell all or a substantial part of its WAN Shareholding, which may have a negative effect on the price of WAN Shares.

1.4 Other relevant considerations

1.4.1 Related party interests

Entities under the control of Mr Kerry Stokes AC hold approximately 67.9% of the shares in SGH, and Mr Stokes is chairman of SGH, as well as being the chairman of WAN. SGH is a party to the Share Sale Agreement and will receive financial benefits under the Proposed Transaction, as described in this Explanatory Memorandum. Also, Mr Peter Gammell, a WAN Director, is a director of SGH and has an interest in the Resolutions in that capacity.

To address these related party issues, the Independent Board Committee (consisting of the Independent Directors of WAN: Mr Doug Flynn, Mr Graeme John AO, Mr Don Voelte and Mr Sam Walsh AO) was established to ensure that:

- WAN Shareholders' best interests were advanced by the proper consideration, negotiation and implementation of the Proposed Transaction; and
- The Board and management were free from conflict or undue influence when considering the Proposed Transaction.

The WAN Board delegated the following responsibilities to the Independent Board Committee in relation to the Proposed Transaction:

- Considering and implementing the Proposed Transaction;
- Engaging advisers to assist WAN in consideration, negotiation and implementation of the Proposed Transaction;
- Engaging the Independent Expert to consider if the Acquisition is fair and reasonable to WAN Shareholders (other than SGH and WAN Shareholders associated with SGH);
- Approving processes to be adopted for communication and dealings between WAN, its management and advisers in respect of the Proposed Transaction;
- Determining what, and when, information was to be provided to SGH and KKR; and
- Preparing and reviewing documents in connection with the implementation of the Proposed Transaction.

The Independent Board Committee's due diligence and negotiations were supported by professional advisers including O'Sullivan Partners (financial adviser), Allens Arthur Robinson (legal adviser), Ernst & Young Transaction Advisory Services Limited (Independent Expert) and PricewaterhouseCoopers Securities Limited (Investigating Accountant).

1.4.2 Implications if the Proposed Transaction does not proceed

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

- WAN will continue to exist as an independent, standalone entity listed on ASX;
- WAN will continue to focus on its current businesses and investments, and will continue to implement its strategy as previously announced with the objective of diversifying its earnings and geographic footprint beyond its traditional home market;
- WAN will continue to operate under the existing corporate structure with its Directors and management in place;
- WAN Shareholders will continue to be exposed to the risks in respect of WAN, its businesses and its investments, set out in Section 6;
- The benefits of the Proposed Transaction will not be realised;
- WAN will not issue any WAN Shares or CPS to SGH, KKR, mezzanine investors or members of management relating to SMG in connection with the Proposed Transaction, neither the Public Offer nor the SGH Sell Down will take effect and WAN will redeem for cash, including the redemption premium payable, all CULS pursuant to the CULS terms of issue; and
- WAN will incur transaction costs of approximately $29 million (inclusive of GST) in connection with the Proposed Transaction, which cannot be recovered other than an amount of up to $1.75 million from SGH.

1.4.3 The Proposed Transaction is conditional

The Proposed Transaction is subject to various conditions set out in the Share Sale Agreement and other transaction agreements. A summary of these agreements is set out in Section 7.4.1. Conditions to the Share Sale Agreement include that WAN Shareholders approve the Acquisition at the EGM, the ACCC having no objections or not proposing to take any action, the application period for the SGH Sell Down has ended and all WAN Shares have been offered and applied for, and certain conditions in the KKR Subscription Agreement have been satisfied or waived.

1.4.4 Other strategic options for WAN

WAN has considered several alternative investment opportunities, including acquisition opportunities in related media sectors involving business operating both in Western Australia as well as on the east coast of Australia. However, none of these has been sufficiently attractive to warrant investment by WAN. The Independent Directors consider that there are limited acquisition opportunities for WAN in the Australian media sector.

1.5 Recommendation of Independent Directors

The Independent Directors unanimously recommend WAN Shareholders to vote in favour of the Resolutions, in the absence of a superior proposal. Each Independent Director who holds or controls WAN shares intends to vote those shares, or cause those shares to be voted, in favour of the Resolutions.

In making their recommendation, the Independent Directors have considered:

- The advantages set out above;
- The disadvantages set out above;
- The other relevant considerations set out above;
- The opinion of the Independent Expert set out in Appendix A; and
- The risk factors associated with the Proposed Transaction set out in Section 6.

The Independent Directors also recommend that you carefully read, in full, the Explanatory Memorandum in deciding how to vote on the Resolutions.

Section 2

Summary of Proposed Transaction

2.1 Overview

The Proposed Transaction involves the following elements:

- The Acquisition, as described in Section 2.2 below; and
- The KKR Investment, as described in Section 2.3 below.

Additionally, the following transactions are being conducted in conjunction with the Proposed Transaction:

- The Offers, as described in Section 2.4 below; and
- The SGH Sell Down, as described in Section 2.5 below.

2.2 The Acquisition

On 21 February 2011, WAN and SGH entered into the Share Sale Agreement pursuant to which WAN agreed to acquire 100% of SMG from SGH for an enterprise value of $4,085 million comprising:

- $1,081 million in WAN Shares to be issued to SGH at a price of $5.99 per WAN Share;
- $250 million of CPS to be issued to SGH;
- $650 million repayment of the SGH loan owed by SMG; and
- The assumption by WAN of $2,104 million of external net debt assumed on a pro forma basis.[1]

The Share Sale Agreement is subject to a number of conditions precedent that must be satisfied or waived in order for the Proposed Transaction to proceed. These conditions precedent include, among others:

- The parties have received written advice from the ACCC that it has no objections or does not propose to take any action in respect of the Proposed Transaction;
- The application period for the SGH Sell Down has ended and all WAN Shares have been offered and applied for;
- Certain conditions precedent in the KKR Subscription Agreement have been 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;
- WAN Shareholders approve the Acquisition; and
- WAN receives the consent of the counterparty to the Yahoo!7 Joint Venture Agreement.

As at the date of this Explanatory Memorandum, the condition in relation to the SGH Sell Down has been satisfied and the condition in relation to the Independent Expert has been partially satisfied. WAN is not aware of any circumstance to cause the conditions not to be satisfied or waived.

The WAN Shares to be issued pursuant to the Share Sale Agreement will rank equally with all other WAN Shares on issue, except that they will not be entitled to any interim dividend declared by WAN for the half year ending 31 December 2010.

The full terms and conditions of the CPS are set out in Appendix C. A summary of these terms is described below. The summary below should be read in conjunction with the full CPS Terms of Issue set out in Appendix C.

If the Proposed Transaction proceeds, a total of 2,500 CPS will be issued to SGH at an issue price of $100,000 per CPS. These may be converted by SGH into a fixed number of WAN Shares at any time after the release of WAN's accounts for the half year ending 31 December 2013.[2] Earlier conversion by SGH of the CPS into WAN Shares is permitted where:

- A third party, other than SGH and its associates, makes a takeover bid for WAN that is unanimously recommended by the WAN Directors, or is to acquire all WAN Shares under a scheme of arrangement that has become effective;
- To enable SGH to maintain a shareholding in WAN of no less than 29.6% (less an adjustment for any WAN Shares sold by SGH) in the event of any issue of WAN Shares; and
- To the extent permitted by the WAN Board in writing.

At conversion by SGH, WAN may at its discretion elect whether to settle in WAN Shares or in cash.

If WAN elects to settle in cash, the number of WAN Shares into which each CPS will be converted will be calculated by multiplying the number of CPS being converted by the "conversion ratio". The conversion ratio is equal to the issue price adjusted by 7.143% per annum (compounded on a semi-annual basis) up to the fifth anniversary of the date of issue of the CPS and then adjusted by 9.143% per annum (compounded on a semi-annual basis) thereafter (the "adjusted issue price") divided by the conversion price of $6.68.

If WAN elects to settle in cash, WAN will pay a cash amount for each CPS equal to the number of WAN Shares into which the CPS would have been converted multiplied by the average of the daily VWAPs of the WAN shares over the 10 trading days commencing on the date of service of the conversion notice.

The CPS are otherwise redeemable by WAN at the adjusted issue price five years from the date of issue, and on every half-year anniversary thereafter, at the sole discretion of WAN with the form of settlement, also at the discretion of WAN, in either WAN Shares or cash. The CPS are also redeemable at any time on the occurrence of standard tax and regulatory events. If WAN elects to settle in WAN Shares, the number of WAN Shares into which each CPS will be converted will be calculated by dividing the adjusted issue price by the average of the daily VWAPs of the WAN shares over 5 trading days prior to the date of conversion (calculated at a 5% discount). If WAN elects to settle in cash, WAN will pay a cash amount for each CPS equal to the adjusted issue price. In the case of the tax and regulatory events, WAN's obligations to settle in WAN Shares or in cash will be calculated using 103% of the adjusted issue price.

The conversion price will be adjusted following any reconstruction, consolidation, division, reclassification, securities issue or rights offer (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 also be adjusted downwards for any dividends paid to WAN Shareholders over and above an annual reference dividend yield of 6.5% (excluding franking credits), initially calculated with reference to the first full year of ordinary dividends for FY12.

1 At 25 December 2010 pursuant to the Share Sale Agreement.

2 Expected to announce in February 2014.

WAN may not issue any preferred securities ranking ahead of the CPS without consent of the holders of 75% of the CPS. Voting rights are limited to those set out Listing Rule 6.3. The CPS do not confer any dividend rights, although the conversion price may be adjusted as described above.

Unless the CPS are redeemed, repurchased or exchanged by the fifth anniversary of their date of issue, WAN may not pay dividends, return capital or otherwise distribute value to any equal or lower ranking securityholders until all CPS have been redeemed, repurchased or exchanged (subject to certain limited exceptions).

2.3 KKR Investment

On 21 February 2011, WAN and KKR entered into the KKR Subscription Agreement pursuant to which KKR will subscribe for approximately 77 million WAN Shares at the issue price of $5.99 per WAN Share. A full summary of the KKR Subscription Agreement is set out in Section 7.4.2.

The KKR Subscription Agreement is subject to a number of conditions precedent that must be satisfied in order for WAN Shares to be issued. These conditions precedent include, among others:

- Approval is given under the Foreign Acquisitions and Takeovers Act 1975 (Cth), to the satisfaction of KKR, for the issue of the WAN Shares the subject of the KKR Subscription Agreement;
- The Share Sale Agreement not being terminated and satisfaction or waiver of certain conditions precedent set out in the Share Sale Agreement; and
- KKR has received the full value of the purchase price related to the sale of its interest in the SMG joint venture to SGH.

As at the date of this Explanatory Memorandum, only the first condition precedent listed above has been satisfied. The other conditions above have not been satisfied and WAN is not aware of any circumstance to cause the conditions not to be satisfied or waived

KKR may give written notice to WAN before the final allotment requiring WAN to issue some of the WAN Shares to be issued to KKR to one or more mezzanine investors (being existing financial investors in SMG) or members of management related to SMG. If the substituted subscriber is a member of SMG management, then that subscriber must enter into a 12 month escrow agreement in respect of those WAN Shares.

The WAN Shares to be issued pursuant to the KKR Subscription Agreement will rank equally with all other WAN Shares on issue, except that they will not be entitled to any interim dividend declared by WAN for the half year ending 31 December 2010.

Pursuant to the KKR Subscription Agreement, KKR will be entitled but not obligated to nominate one nominee director to WAN's Board following Completion of the Proposed Transaction, subject to the aggregate shareholding in WAN of KKR and the mezzanine investors remaining above 10%.

2.4 The Offers

In conjunction with the Proposed Transaction, WAN launched the Offers to raise $693 million, comprising:

- The Entitlement Offer, a fully underwritten accelerated non-renounceable pro rata entitlement offer of CULS to raise $653 million; and
- The Public Offer, a fully underwritten general public offer of WAN Shares to raise $40 million.

A brief summary of the Offers is set out below. Full details of the Offers are set out in the Prospectus sent to eligible shareholders on 3 March 2011. A copy is also available on ASX's website at www.asx.com.au under WAN's company announcements page. If you have any questions about the Offers, please contact the WAN Seven West Proposal Information Line on 1800 133 562 between 6am to 5pm Perth time (9am to 8pm Sydney time), Monday to Friday.[3]

A summary of the terms of the underwriting agreement in respect of the Offers is set out in Section 7.4.3. This underwriting agreement contains a number of conditions precedent and termination events and is interconditional with completion of the Proposed Transaction.

While SGH is eligible to participate in the Offers, it will not take up its entitlement under the Entitlement Offer and it will not apply for WAN Shares under the Public Offer.

2.4.1 Entitlement Offer

Under the Entitlement Offer, 125.5 million CULS are being offered at an Issue Price of $5.20 to raise $653 million. Each eligible shareholder was invited to apply for 4 CULS for every 7 existing WAN Shares held by them as at the record date for the Entitlement Offer.

The Entitlement Offer comprises two parts:

- The Institutional Entitlement Offer, under which 62.8 million CULS were issued at an Issue Price of $5.20 to eligible institutional shareholders and certain institutional investors on 2 March 2011 and raised $326 million; and
- The Retail Entitlement Offer opened on 1 March 2011 and will close at 2pm Perth time/5pm Sydney time on 18 March 2011. The Retail Entitlement Offer is an offer to eligible retail shareholders of approximately 62.8 million CULS at an Issue Price of $5.20 per CULS.

The CULS have been specifically designed to meet WAN's funding requirements in relation to the Proposed Transaction. Issuing CULS delivers equity funding certainty to WAN by providing it with funds necessary to complete the Proposed Transaction and it provides flexibility to WAN because if the Proposed Transaction does not proceed, the CULS will be redeemed, enabling WAN to maintain a more optimal capital structure in those circumstances.

2.4.2 Public Offer

Under the Public Offer, 7.7 million WAN Shares are being offered at an Issue Price of $5.20. As outlined in the Prospectus, eligible investors and eligible shareholders were invited to apply for WAN Shares. The Public Offer opened on 3 March 2011 and is expected to close on 11 April 2011 or 13 April 2011, depending on the method of payment by applicants.

Settlement of the Public Offer will only occur if the Proposed Transaction proceeds. If the Proposed Transaction does not proceed, WAN will refund application monies in respect of applications for WAN Shares under the Public Offer.

2.5 SGH Sell Down

On 21 February 2011, SGH conducted a bookbuild for the fully underwritten conditional sell down of its entire 24.3% holding in WAN by way of a block trade to new and existing WAN Shareholders. The bookbuild for the SGH Sell Down completed on 22 February 2011 for the bookbuild price of $5.60 per WAN Share. While WAN is not party to the SGH Sell Down, it is being coordinated in conjunction with the Proposed Transaction.

The SGH Sell Down is conditional on the Proposed Transaction proceeding.

3 From 4 April 2011 the WAN Seven West Proposal Information Line will be open 7am to 5pm Perth time (9am to 7pm Sydney time) to reflect the end of Australian Eastern Daylight Time.

Section

3 Information on WAN's existing business

3.1 Background

WAN is Australia's third largest newspaper publisher and maintains a leading position in the West Australian market. WAN's cornerstone masthead, The West Australian newspaper (The West) was first published in 1833 and is the leading weekday and weekend newspaper in the state. In addition, WAN's portfolio also includes a range of regional publications, radio assets, online media and specialised classified and publishing businesses.

3.2 Overview of the business

DIAGRAM 2: BUSINESS SEGMENTS

Metro newspapers	Regional newspapers	Radio	Online	Specialist and Other[1]
The West Community Newspaper Group (49.9%) – with 17 titles across Perth	21 regional titles	9 radio licenses	Leading websites in Western Australia	Classifieds
FY10 Financial Results				
$322.9m revenue	$45.8m revenue	$8.6m revenue	$1.3m revenue	$30.6m revenue
$135.7m EBIT	$11.8m EBIT	$2.7m EBIT	$1.8m EBIT loss	$2.4m EBIT

The West is WAN's principal operating segment accounting for approximately 87% of EBIT in FY10.[2] The West is the leading weekday and weekend newspaper in Western Australia with an average Monday to Friday readership of mainstream newspapers of 88% and an average weekend readership of 49%.

The balance of WAN's revenue and EBIT is primarily derived from regional West Australian markets.

3.3 Strategic priorities for WAN's existing businesses

3.3.1 Diversification

While WAN is the leading newspaper publisher in Western Australia, it has also identified the benefits of diversifying its earnings and geographic footprint beyond its traditional home market. In addition to publishing the leading metropolitan newspaper in the Perth market, WAN has over the years made investments and acquisitions of regional newspapers, radio broadcasting licenses and, most recently, online platforms.

In addition to diversifying its revenue channels, WAN has also expanded geographically with operations extending from Perth throughout regional Western Australia.

3.3.2 Strategic alliances in online media

Developing a market leading online media presence is a priority for WAN. Accordingly, WAN has begun expanding its online media offerings to complement existing publishing operations. As part of this process WAN has formed strategic alliances with Yahoo!7 (thewest.com.au) and Melbourne based jobsjobsjobs (wjobs.com.au). In July 2010, WAN also acquired a 25% equity holding in bloo.com.au, Western Australia's number one business directory.

WAN's typical approach to its online alliances involves a 50:50 share of revenues, with WAN's partners providing website technology and being responsible for the website's operating costs, while WAN provides the content and branding.

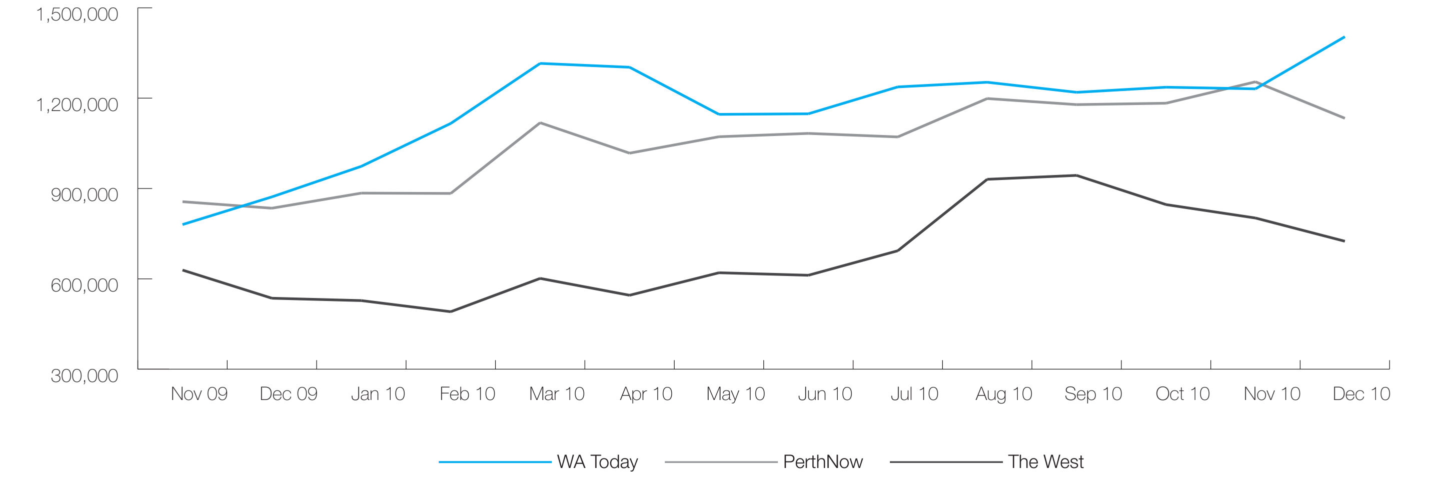
1 Specialist and Other includes Quokka, Colour Press, other specialist publications and corporate costs.

2 Excludes corporate charges and proceeds from sale of radio assets.

Both of WAN's strategic alliance websites have enjoyed strong performances, with:

- thewest.com.au growing its number of unique browsers by approximately 60% over the 12 months to December 2010; and
- wjobs.com.au growing its unique browser numbers by over 280% between March and November 2010.

FIGURE 11: UNIQUE BROWSERS (NOV 2009 TO DEC 2010)



3.3.3 Continued investment in quality content and product

WAN is committed to the quality of its content, products, people and processes. Significant investments have already been made in a number of areas across the organisation, including:

- An award-winning team of journalists and photographers that includes three Walkley Award winners;
- Creation of a world-class printing facility following a $210 million upgrade commissioned in 2008 and recognised internationally in 2010 by IFRA, the World Association of Newspapers and News Publishers; and
- Expansion of North West distribution, through an alliance with Skywest.

Further infrastructure upgrades to finance and circulation management systems have also been approved for the coming year.

3.4 WAN Board of Directors and key management

WAN's current Board of Directors will remain intact following Completion. Further details on Directors are set out in Section 5.7 as part of the overview of WAN's proposed new Board composition.

WAN is led by Chris Wharton (Chief Executive Officer) and Peter Bryant (Chief Financial Officer). Further details for Chris Wharton and Peter Bryant are set out in Section 5.8 as part of the overview of WAN's proposed key management following Completion.

3.5 WAN Financial Information

3.5.1 Introduction

This Section contains a summary of the historical and forecast financial information relating to WAN as a business excluding the impact of the Proposed Transaction, as well as sensitivity analysis on the key forecast assumptions.

The WAN Financial Information comprises:

- Consolidated summary pro forma income statement and summary forecast cash flow information for the financial year ended 30 June 2009 (FY09), financial year ended 30 June 2010 (FY10) and the half year ended 31 December 2010 (1H11);
- Consolidated balance sheet as at 31 December 2010 (together with the consolidated summary pro forma income statements and summary cash flow information, the **WAN Standalone Pro Forma Historical Financial Information**);
- Summary consolidated pro forma forecast income statement and summary cash flow information for FY11F (**WAN Standalone Pro Forma Forecast Financial Information**); and
- Accounting policies, assumptions and notes relevant to the above.

No consolidated pro forma historical or forecast statement of comprehensive income is provided.

The information in this Section should be read in conjunction with other information set out elsewhere in this Explanatory Memorandum, including information on the risk factors set out in Section 6 and the sensitivity of the forecasts to changes in key assumptions set out in Section 3.5.6.

All amounts disclosed in the tables are presented in Australian dollars and, unless otherwise noted, are rounded to the nearest $0.1 million.

Information on WAN's existing business (continued)

3.5.2 Basis of preparation

WAN Financial Information has been prepared in accordance with the recognition and measurement principles of Australian Accounting Standards, although it is presented in an abbreviated form insofar as it does not include all the disclosures, statements or comparative information as required by the Australian Accounting Standards applicable to annual financial reports prepared in accordance with the Corporations Act.

The WAN Financial Information contains certain pro forma adjustments detailed later in this Section and does not include the impact of the estimated transaction costs WAN will incur in connection with the Proposed Transaction. Refer to Section 3.5.3 for a reconciliation of the audited/reviewed financial statements of WAN to the WAN Standalone Pro Forma Historical Financial Information.

WAN is forecast to incur transaction costs before tax of approximately $28.0 million if the Proposed Transaction is not completed. These costs relate to legal, accounting, advisory, underwriting and other expenses in conjunction with the Proposed Transaction, which have not been included in forecast results, and will reduce reported profits in FY11F. Should the Proposed Transaction not proceed by 30 April 2011, the CULS would be redeemed subject to a 2.5% Redemption Premium of $16.3 million, which would also be expensed in FY11.

The WAN Financial Information has been reviewed by PricewaterhouseCoopers Securities Limited, whose Investigating Accountant's Report relating to this information is included in Appendix B.

a) Preparation of the WAN Standalone Pro Forma Historical Financial Information

The WAN Standalone Pro Forma Historical Financial Information for FY09 and FY10 has been extracted from the audited statutory financial accounts of WAN. The income statement for 1H11 and balance sheet at 31 December 2010 has been extracted from the consolidated financial statements for 1H11.

b) Preparation of the WAN Standalone Pro Forma Forecast Financial Information

The Board believes the WAN Standalone Pro Forma Forecast Financial Information has been prepared with due care and attention, and considers all best estimate assumptions when taken as a whole to be reasonable at the time of preparing this information.

The WAN Standalone Pro Forma Forecast Financial Information for FY11F has been prepared on the basis of certain assumptions outlined in Section 3.5.6 of this Explanatory Memorandum. This information is intended to assist investors in assessing the reasonableness and likelihood of the assumptions occurring, and is not intended to be a representation that the assumptions will occur.

The WAN Standalone Forecast Income Statement for FY11F comprises the actual results for 1H11 and forecast results for 2H11F.

Investors should be aware that the timing of actual events and the magnitude of their impact might differ from that assumed in preparing the WAN Standalone Pro Forma Forecast Financial Information, and that this may have a materially positive or negative effect on the WAN Standalone actual financial performance. Accordingly, the Board cannot give any assurance that the forecasts will be achieved. Events and outcomes might differ in quantum and timing from the assumptions, with material consequential impact on the WAN Standalone Pro Forma Forecast Financial Information. Investors are advised to review the key best estimate assumptions set out in Section 3.5.6, in conjunction with the sensitivity analysis set out in Section 3.5.7 and the risk factors set out in Section 6 of this Explanatory Memorandum, together with the other information set out elsewhere in this Explanatory Memorandum.

3.5.3 WAN Standalone Pro Forma Income Statement

Set out below are WAN's summary consolidated pro forma historical income statements for FY09, FY10 and 1H11, and the consolidated forecast income statement for FY11F.

TABLE 1: WAN STANDALONE SUMMARY INCOME STATEMENTS[3]

	Pro forma historical			Pro forma forecast
$m	FY09	FY10	1H11	FY11F
Revenue	418.0	408.7	208.6	415.6
Other income	0.0	0.4	0.1	0.1
Operating expenses	(246.9)	(241.3)	(122.6)	(240.7)
EBITDA[4]	**171.1**	**167.8**	**86.1**	**175.0**
Depreciation and amortisation	(20.5)	(20.9)	(11.1)	(22.6)
EBIT	**150.6**	**146.9**	**75.0**	**152.5**
Share of net profits of associate	4.3	3.9	2.6	4.8
EBIT (including associate)	**154.9**	**150.8**	**77.6**	**157.3**
Net interest expense	(18.7)	(16.7)	(6.9)	(13.1)
Profit before income tax expense	**136.2**	**134.1**	**70.7**	**144.1**
Income tax expense	(39.1)	(37.9)	(20.6)	(42.2)
NPAT	**97.1**	**96.2**	**50.1**	**102.0**
Basic EPS[5]	**44.2**	**42.9**		**44.3**
Diluted EPS[5]	**43.6**	**42.4**		**44.0**

a) Pro forma adjustments

The following pro forma adjustments have been made to the NPAT reported in the audited/reviewed accounts of WAN to calculate the pro forma NPAT for FY09, FY10, 1H11 and FY11F.

3 Interest income of $0.6 million in FY09, $0.5 million in FY10, $0.7 million in 1H11 and $1.1 million in FY11F has been reclassified from Revenue to Net interest expense.

4 EBITDA is stated after the expensing of facility fees of $1.7 million in FY09, $2.8 million in FY10 and $1.1 million in 1H11.

5 In accordance with Australian Accounting Standards, historical basic and diluted EPS have been restated based on an Adjustment Factor of 1.06 to take into account the bonus element of the Entitlement Offer. Further details of the calculation of the Adjustment Factor are set out in Section 5.10.8.

TABLE 2: WAN STANDALONE ADJUSTMENTS

	Pro forma historical			Pro forma forecast
$m	FY09	FY10	1H11	FY11F
NPAT per statutory reporting	**87.2**	**96.2**	**50.1**	**71.7**
Add: Restructuring expenses	9.8	–	–	–
Add: Transaction costs	–	–	–	30.3
Pro forma NPAT	**97.1**	**96.2**	**50.1**	**102.0**

A pro forma adjustment of $9.8 million has been made to statutory FY09 NPAT, to exclude the after-tax impact of a restructuring program included in FY09 operating expenses. The pro forma adjustment principally relates to employee redundancy payments.

Should the Proposed Transaction not complete, WAN would incur tax-adjusted transaction costs of $18.9 million and would be required to pay a tax-adjusted premium of $11.4 million to redeem the CULS.

These items would be expensed in the statutory FY11F NPAT.

3.5.4 WAN Standalone pro forma cash flow

The table below sets out a reconciliation of the WAN Standalone EBITDA to summary pro forma cash flows for FY09, FY10, 1H11 and FY11F.

TABLE 3: WAN STANDALONE CASH FLOWS

	Pro forma historical			Pro forma forecast
$m	FY09	FY10	1H11	FY11F
EBITDA[6]	**171.1**	**167.8**	**86.1**	**175.0**
Working capital and other movements	24.4	(19.6)	(5.3)	(4.1)
Dividends received from associate	4.6	4.3	3.0	3.9
Operating cash flows before interest and tax	**200.1**	**152.5**	**83.8**	**174.8**
Income tax paid	(37.9)	(32.2)	(14.8)	(35.5)
Interest received	0.6	0.5	0.7	1.1
Interest paid	(19.5)	(17.4)	(8.6)	(14.9)
Proceeds from sale of assets	7.6	0.4	0.2	0.2
Payment for property, plant and equipment	(10.6)	(13.9)	(7.4)	(19.1)
Net repayment of borrowings	(24.0)	(57.0)	(20.0)	(35.4)
Dividends paid	(101.3)	(36.9)	(31.7)	(73.1)
Proceeds relating to shares issued	0.4	1.1	0.2	0.2
Net cash flows used in other activities	**(184.7)**	**(155.4)**	**(81.3)**	**(176.5)**
Total net cash flows	**15.4**	**(2.9)**	**2.5**	**(1.7)**

3.5.5 Management discussion and analysis of historical financial information

The operating results for WAN Standalone largely depend on the performance of The West, which contributed approximately 80% of WAN Standalone FY10 revenue, and approximately 87% of its FY10 EBIT. The remainder of the WAN Standalone revenue and EBIT are generated from wholly-owned Regional Newspapers; Radio and Speciality Publication businesses and a 49.9% non-controlling interest in the Community Newspaper Group (reported as a share of net profits of associates).

a) FY10 results compared to FY09

WAN Standalone revenue decreased 2.2% to $408.7 million in FY10, primarily due to an $8.2 million decline in advertising revenue. Advertising revenues are strongly influenced by consumer confidence, in particular within the retail sector. The global financial crisis had a negative impact on this sector in FY10.

The West's FY10 advertising revenues primarily consisted of approximately 50% display advertising and 40% classified advertising. Advertising revenues showed early signs of recovery in the latter stages of FY10, in particular display advertising revenues which had increased by 0.5% when compared to FY09. However, classified advertising revenues fell 8.4% year-on-year in light of the weaker economic conditions, before stabilising during the final quarter of FY10.

WAN focused heavily on cost control throughout FY10 and was able to reduce its operating expenses to $241.3 million, a decrease of $5.6 million on FY09. These savings were most evident in personnel costs which account for just under half of WAN's operating expense base. Personnel expenses declined $3.3 million year-on-year following a restructuring program undertaken in FY09. Also in FY10, WAN renegotiated its newsprint supplier arrangements at significantly lower rates per tonne. The full year effect of these savings is reflected in the FY11F forecasts.

The WAN Standalone pro forma FY10 NPAT decreased by 0.9% to $96.2 million compared to FY09. The result demonstrated a solid year for WAN given 1H09 included higher, pre-global financial crisis trading and advertising levels.

6 EBITDA is stated after the expensing of facility fees of $1.7 million in FY09, $2.8 million in FY10 and $1.1 million in 1H11.

b) 1H11 results

WAN announced its first half financial results on 21 February 2011, reporting an NPAT increase of 1.2% to $50.1 million for 1H11 compared to 1H10. The result reflected overall growth in classified revenue of 6.8%, which was offset by soft retail advertising in the lead up to Christmas 2010, delivering overall growth in advertising revenue of 3.8% against 1H10.

Circulation revenue (after deducting home delivery and newsagent fees) was down 1.8% to $37.3 million compared to 1H10, reflecting increased fees paid to distributors and an increased focus on promotional activities.

WAN's operating costs increased 3.2% to $122.6 million, with reduced newsprint expenses more than offset by higher personnel, distribution and other expenses.

3.5.6 Material best estimate assumptions for WAN Standalone Pro Forma Forecast Financial Information

WAN Standalone Pro Forma Forecast Financial Information for FY11F has been prepared on the basis of the actual results for 1H11 and the forecast results for 2H11F.

The following best estimate assumptions have been used to derive the forecasts for 2H11F, and should be read in conjunction with the risk factors set out in Section 6 of this Explanatory Memorandum.

a) General assumptions

The following general assumptions are relevant to the WAN Standalone Pro Forma Forecast Financial Information:

- No significant deviation from current market expectations of economic conditions;
- No material new investments, business acquisitions or disposals;
- No material industrial strikes or other disturbances, environmental costs or legal claims;
- Retention of key personnel;
- No significant change in the legislative regimes and regulatory environments in the jurisdictions in which WAN operates;
- No material change in inflation;
- No change in the applicable Australian Accounting Standards or other mandatory Australian professional reporting requirements which would have a material effect on WAN's financial performance, cash flows, balance sheet, accounting policies, financial reporting or disclosure; and
- No change in WAN Standalone's capital structure other than as set out in, or contemplated by, this Explanatory Memorandum.

b) Specific assumptions

i) Revenue assumptions

WAN's revenue is principally driven by The West which is impacted by developments in the advertising sector and circulation.

Advertising revenues are forecast to increase by 3.0% in FY11F compared to FY10, as advertising revenues continue to recover from the low in the advertising cycle experienced in FY09. In determining FY11F advertising revenues, the Board has taken into consideration 1H11 actual year-on-year growth of 3.8% and 2H11F forecast year-on-year growth of 2.3%. The second half growth is mainly due to an increase in display advertising of 4% relative to the same period last year. Classified revenues in 2H11F are forecast to remain broadly unchanged year-on-year.

A decrease in circulation revenue of 0.8% is forecast for FY11.

ii) Operating expense assumptions

The FY11F operating expenses are based on the following key assumptions:

- An increase in personnel costs of 3.2% relative to FY10, reflecting a small increase in the expected personnel requirements of WAN and increases in annual salary costs in line with enterprise bargaining agreements and management expectations;
- Newsprint costs are principally driven by consumed tonnes and price per tonne. FY11F tonnage is expected to increase relative to FY10, in line with paging increases, with this increase forecast to be offset by lower prices per tonne, based on the rates renegotiated in FY10;
- Distribution costs are forecast to increase by 2.5% relative to FY10, with the forecast increase based on an assessment of WAN's regional distribution requirements throughout Western Australia and assuming no material changes in WAN's distributor arrangements; and
- Other operating costs are forecast to increase by approximately 4.9% based on historic trends.

iii) Share of profits from associate

WAN's share of profits from associate relates solely to WAN's shareholding in Community Newspaper Group, whose results are primarily driven by trends in small business advertising. This segment has responded relatively quickly to improving economic conditions with WAN's share of profits $0.6 million higher (to $2.6 million) compared to 1H10. Share of profits of the associate is forecast to increase $0.9 million (to $4.8 million) in FY11F compared to FY10.

iv) Depreciation

The forecast depreciation is based on WAN's existing fixed asset base and historical depreciation rates, factoring in additional capital expenditure needs over the forecast period.

3.5.7 WAN Standalone Pro Forma Forecast Financial Information sensitivity analysis

WAN Standalone Pro Forma Forecast Financial Information is based on a number of estimates and assumptions that are subject to business, economic and competitive uncertainties and contingencies, many of which are beyond the control of WAN, its Directors and management, and upon assumptions with respect to future business decisions, which are subject to change.

Set out below is a summary of the sensitivity of certain assumptions to changes in a number of key variables. The changes in the key variables as set out in the sensitivity analysis are not intended to be indicative of the complete range of variations that may be experienced.

While the period of the forecast is 2H11F, sensitivities are calculated and applied on an annualised FY11F basis.

TABLE 4: FY11F WAN STANDALONE SENSITIVITY ANALYSIS

Assumption	Change (%)	NPAT $m	Free Cash Flow $m
Market size sensitivity – WA metropolitan newspapers	+/– 1.0%	2.1	2.9
Market share sensitivity – WA metropolitan newspapers	+/– 1.0%	2.0	2.7

- **Market size**: This illustrates the impact of a +/– 1.0% change in the West Australian metropolitan newspaper market which is forecast to be approximately $360 million, assuming WAN's market share remains constant.
- **Market share**: This illustrates the impact of a +/– 1.0% change in WAN's forecast market share of the West Australian metropolitan newspaper market of approximately 70%, assuming the market size remains constant.

3.5.8 WAN Standalone Balance Sheet

Set out below is the WAN Standalone consolidated balance sheet as at 31 December 2010.

TABLE 5: WAN STANDALONE PRO FORMA BALANCE SHEET

$m	Actual 31 Dec 10
Current assets	
Cash and cash equivalents	14.6
Trade and other receivables	54.5
Inventories	17.2
Derivative financial instruments	0.1
Total current assets	**86.4**
Non-current assets	
Investment accounted using the equity method	12.1
Available for sale financial assets	0.8
Derivative financial instruments	0.2
Property, plant and equipment	209.4
Intangible assets	133.2
Total non-current assets	**355.7**
Total assets	**442.1**
Current liabilities	
Trade and other payables	31.5
Provisions	4.9
Other liabilities	2.6
Total current liabilities	**39.0**
Non-current liabilities	
Interest bearing liabilities	241.0
Deferred tax liabilities	11.2
Provisions and other	0.9
Total non-current liabilities	**253.1**
Total liabilities	**292.1**
Net assets	**150.0**
Equity	
Contributed equity	150.9
Reserves	0.3
Retained profits/(accumulated losses)	(1.2)
Total equity	**150.0**

Section 4

Information on SMG

4.1 Overview

SMG is one of Australia's largest leading media groups and operates three key divisions:

- Seven Network — Australia's leading FTA television network;
- Pacific Magazines — Australia's second largest magazine publisher; and
- Yahoo!7 — 50% equity interest in one of Australia and New Zealand's leading online platforms with global and local content.

SMG was formed in December 2006 as a joint venture between Seven Network Limited (a subsidiary of SGH) and KKR to acquire the FTA television, magazine and online businesses previously wholly held by Seven Network Limited, and to pursue media opportunities in Australia and New Zealand.

4.1.1 Seven Network

Seven Network is Australia's leading FTA television broadcaster with FTA audience share of 29% in 2010. Seven Network owns metropolitan television stations in Sydney, Melbourne, Brisbane, Perth and Adelaide. It also owns and operates a commercial regional television station located in regional Queensland and broadcasts via independently owned and locally branded affiliate networks. The Seven Network signal reaches nearly all of the Australian population through SMG owned and affiliated stations.

Seven is Seven Network's primary channel and is broadcast through both analogue and digital (after analogue switch off, forecast to be in 2013, it will be broadcast in digital only). Additionally, Seven Network has recently launched two new digital multi-channels, 7TWO in standard definition (SD) and 7mate in high definition (HD).

4.1.2 Pacific Magazines

Pacific Magazines is Australia's second largest magazine publishing business, with over 25 titles of varying publication frequencies. Pacific Magazines holds leading positions in substantial advertising magazine categories, including home and garden, fashion and men's lifestyle.

Pacific Magazines' titles reach approximately 7.2 million Australians aged 14 years and over every month, with one in four magazines sold in Australia being published by Pacific Magazines.

4.1.3 Yahoo!7

Yahoo!7 is a joint venture between SMG and Yahoo! Inc. established in December 2005. Yahoo!7 brings together the television and magazine content and marketing capabilities of Seven Network and Pacific Magazines, with the online search and communications capabilities of Yahoo!, providing SMG with exposure to the rapidly growing online advertising market. The business was recently expanded through the acquisition in January 2011 of Spreets, a leading Australian online group buying site.

4.1.4 Other interests

SMG Red is a dedicated cross group sales division of SMG, delivering integrated solutions to advertising clients across multiple platforms. SMG Red offers value added services and new products across FTA television, magazines and online media and so targets incremental revenue for the group.

SMG has a 33% interest in Australian News Channel Pty Ltd (Sky News), which is a three-way joint venture between SMG, Nine Entertainment Co Pty Limited and British Sky Broadcasting Group, and owns and operates Sky News Australia, a leading 24-hour news channel in Australia and New Zealand.

SMG's other non-controlled investments include:

- 33% of OzTAM, a rating services provider;
- 33% of TX Australia Pty Limited, a transmitter facilities provider;
- 50% of Coventary Street Properties, a facilities management company; and
- 33% of Perth Translator Facility, a transmitter facilities provider.

4.2 SMG's ownership and structure

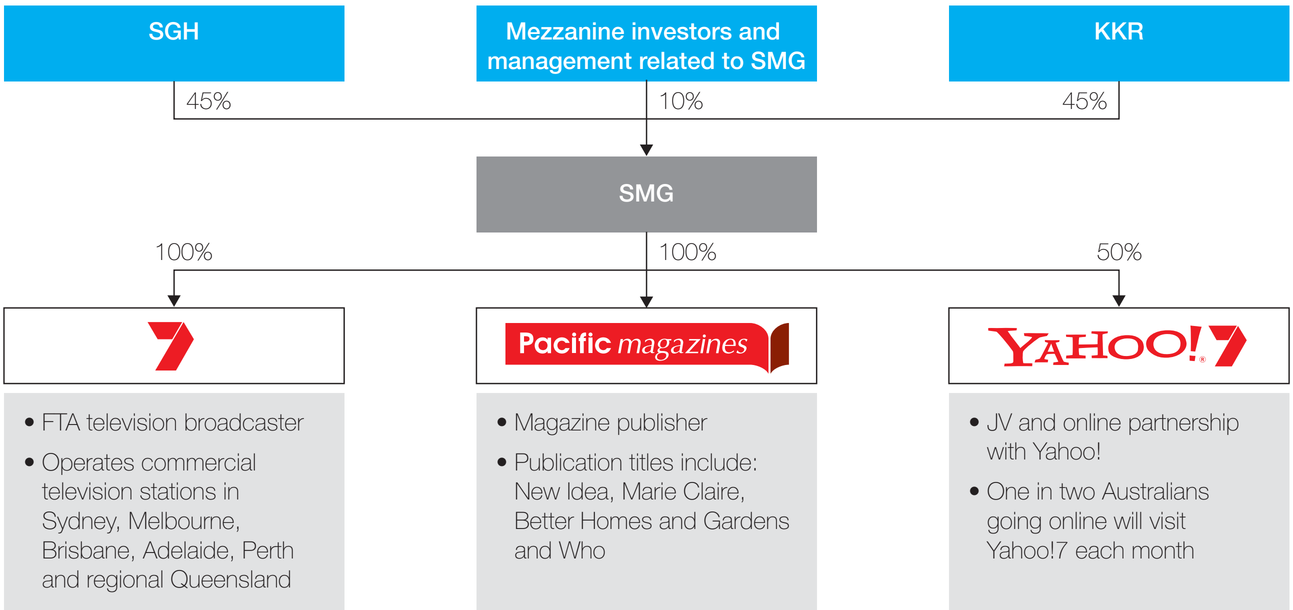
SMG is a joint venture between SGH and KKR. SGH is an ASX listed company in which entities associated with Mr Kerry Stokes AC hold 68%.

SGH and KKR each have an approximate 45% interest in SMG, with the remaining 10% stake held by other mezzanine investors and management related to SMG.[1]

Both Seven Network and Pacific Magazines are 100% owned and controlled by SMG, while Yahoo!7's operations are run as a joint venture with Yahoo! Inc.

1 SGH's and KKR's respective interests in SMG are each presently approximately 46.5%. However, each would be 45% if fully diluted for future vesting of SMG's Management Equity Plan.

DIAGRAM 3: SEVEN MEDIA GROUP



4.3 SMG debt profile

SMG's existing debt facilities include interest bearing loans from external parties and intercompany loans. Interest bearing loans as at 25 December 2010 include:

- A syndicated senior secured debt facility of $1,841 million maturing in 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; and
- Zero coupon notes of $119 million.[2] These notes mature in December 2013, are unsecured and pay a fixed coupon of 12% per annum.

The total undrawn amount under these facilities as at 25 December 2010 was $354 million. In addition, there is an intercompany loan of $650 million relating to a loan from SGH to SMG as included in the pro forma balance sheet set out in Section 4.7.9.

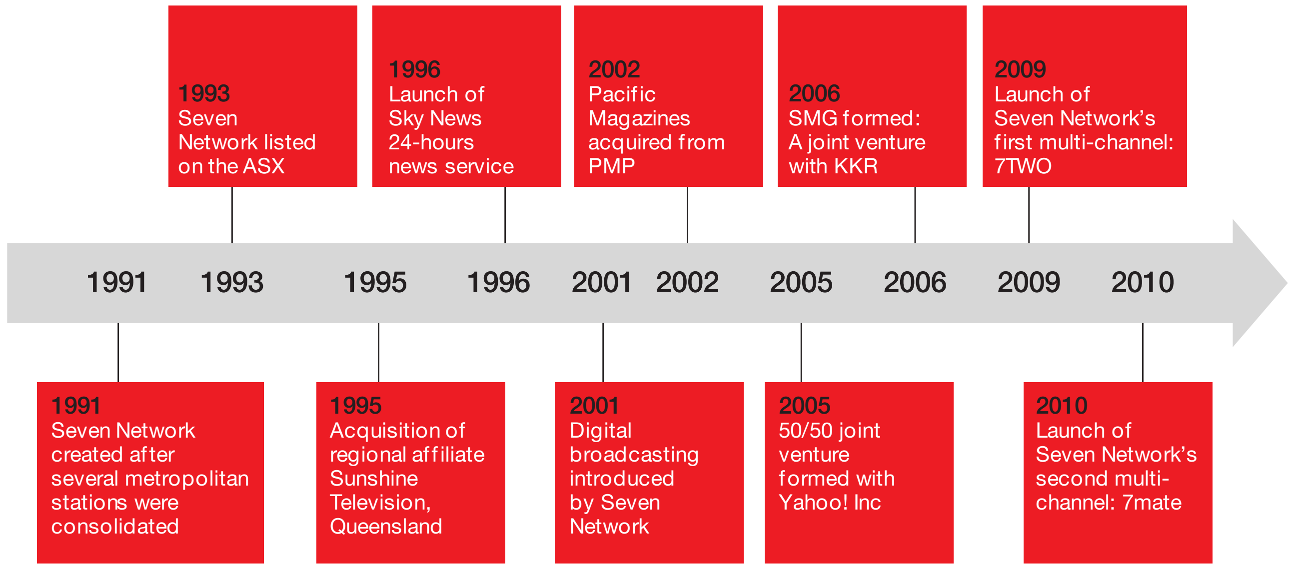
4.4 History of SMG

The Seven Network started as a group of independently operating broadcasters in each major city that operated on the VHF 7 frequency. The first television stations were established in Sydney and Melbourne in 1956, however it was not until 1991 that the stations were consolidated to form the Seven Network.

SMG has grown to become one of the largest media producers and distributors in Australia through the successful strategic acquisitions of Sunshine TV Queensland, Pacific Magazines, Time Australia and Murdoch Magazines, the formation of an online partnership with Yahoo! and the underlying growth of its core FTA television business.

2 Excluding $14.3 million of accrued interest that was capitalised on 29 December 2010.

DIAGRAM 4: SMG HISTORY



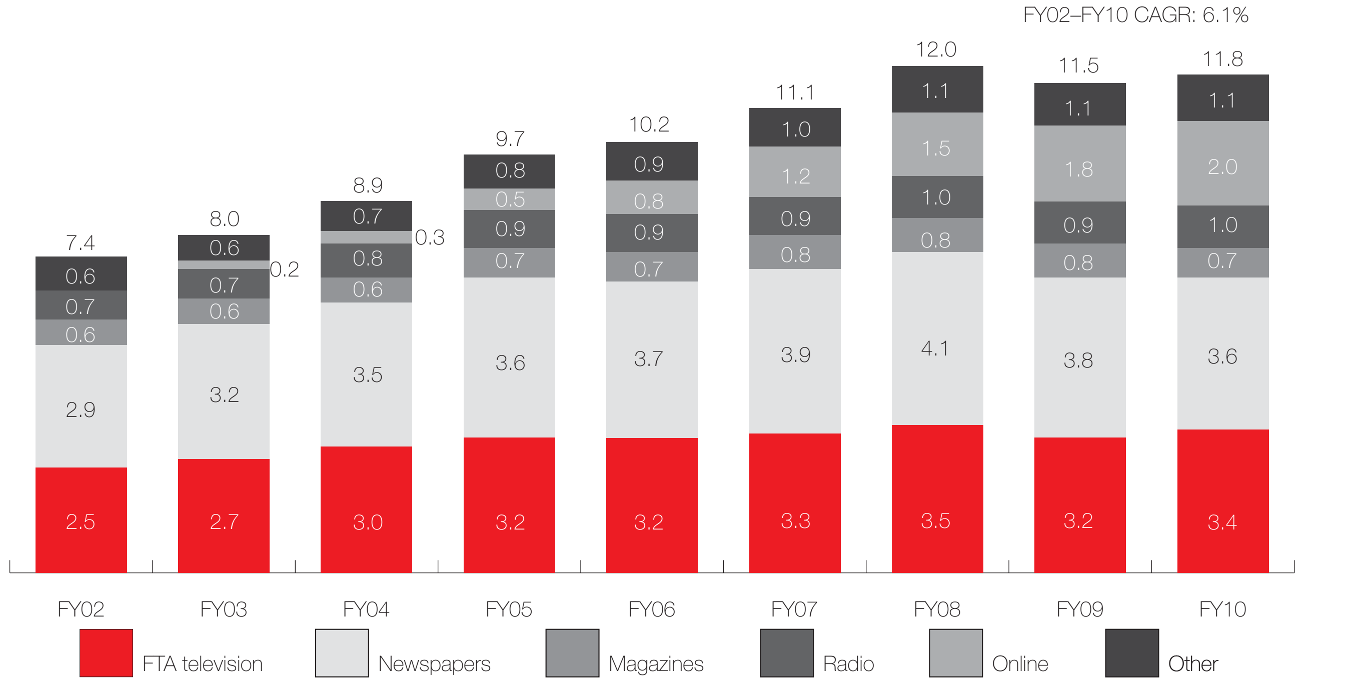
4.5 Media industry overview in Australia

4.5.1 The Australian advertising market

The Australian advertising market comprises five primary mediums: FTA television, radio, newspapers, magazines and online. Total media advertising spend in Australia has grown from $7.4 billion in FY02 to $11.8 billion in FY10 at a CAGR of 6.1%. In FY09, total advertising spend declined by 4.1%, largely due to weaker economic conditions experienced during the global financial crisis, but has since stabilised with 2.0% growth recorded in FY10.

Since FY02, FTA television advertising spend has increased by 35.7% to $3.4 billion in FY10. Over the same period, magazine advertising revenues remained relatively stable, growing from $0.6 billion to $0.7 billion while online has increased rapidly, growing nearly $2.0 billion over the corresponding period.

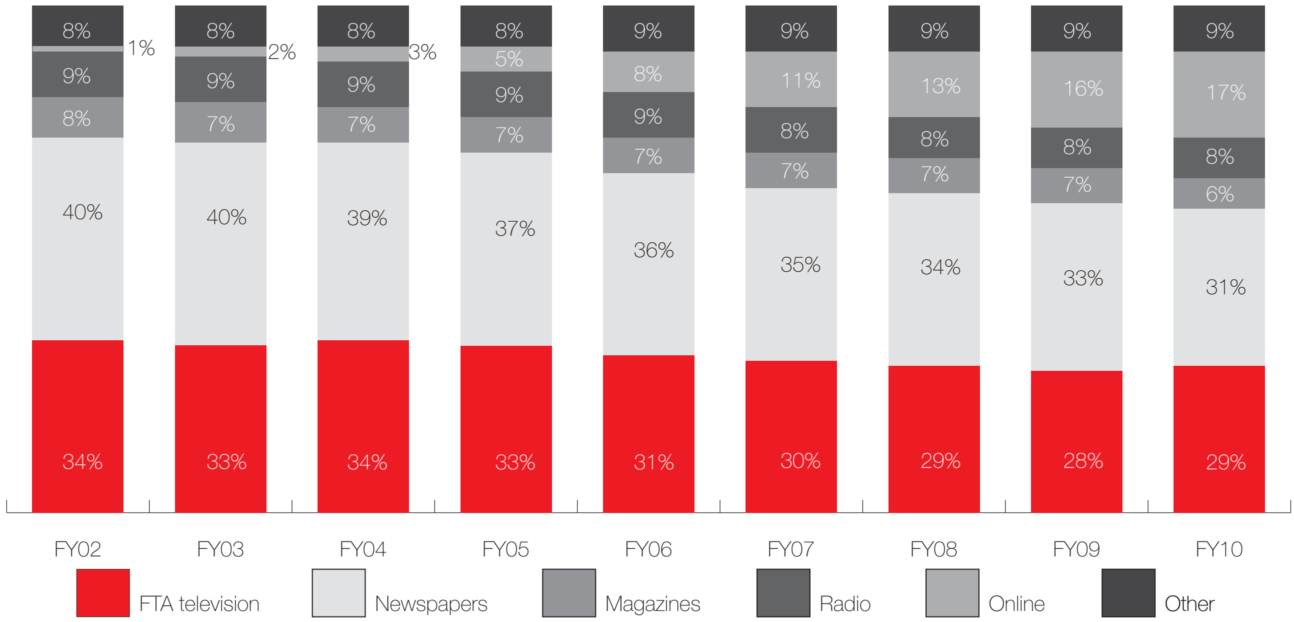
FIGURE 12: AUSTRALIAN ADVERTISING MARKET BY MEDIUM ($ BILLION)[3]



The largest segments of the Australian advertising market are newspapers and television, accounting for 60% of advertising spend. Online advertising is expected to remain the fastest growing advertising medium, having grown from 5% of total advertising in FY05 to 17% in FY10.

3 CEASA, "Advertising Expenditure in Main Media" (years to 30 June).

FIGURE 13: AUSTRALIAN ADVERTISING MARKET BY MEDIUM[4]



4.5.2 FTA television broadcasting in Australia

a) Introduction

The FTA television industry is one of the most significant and influential media platforms in Australia. On average, Australians spend 23 hours, 20 minutes per week watching FTA television and own 2.4 televisions per household. In Australia the FTA television market comprises commercial and public broadcasting networks. The industry derives approximately 90% of total revenues from advertising, with audience ratings a key driver of advertising revenues between networks. The Australian FTA television market is advantaged compared to most other countries due to relatively lower penetration rates of subscription television in this market. Australia's subscription television penetration was estimated to be 32% in Q4 2010 compared to 87% in the United States.

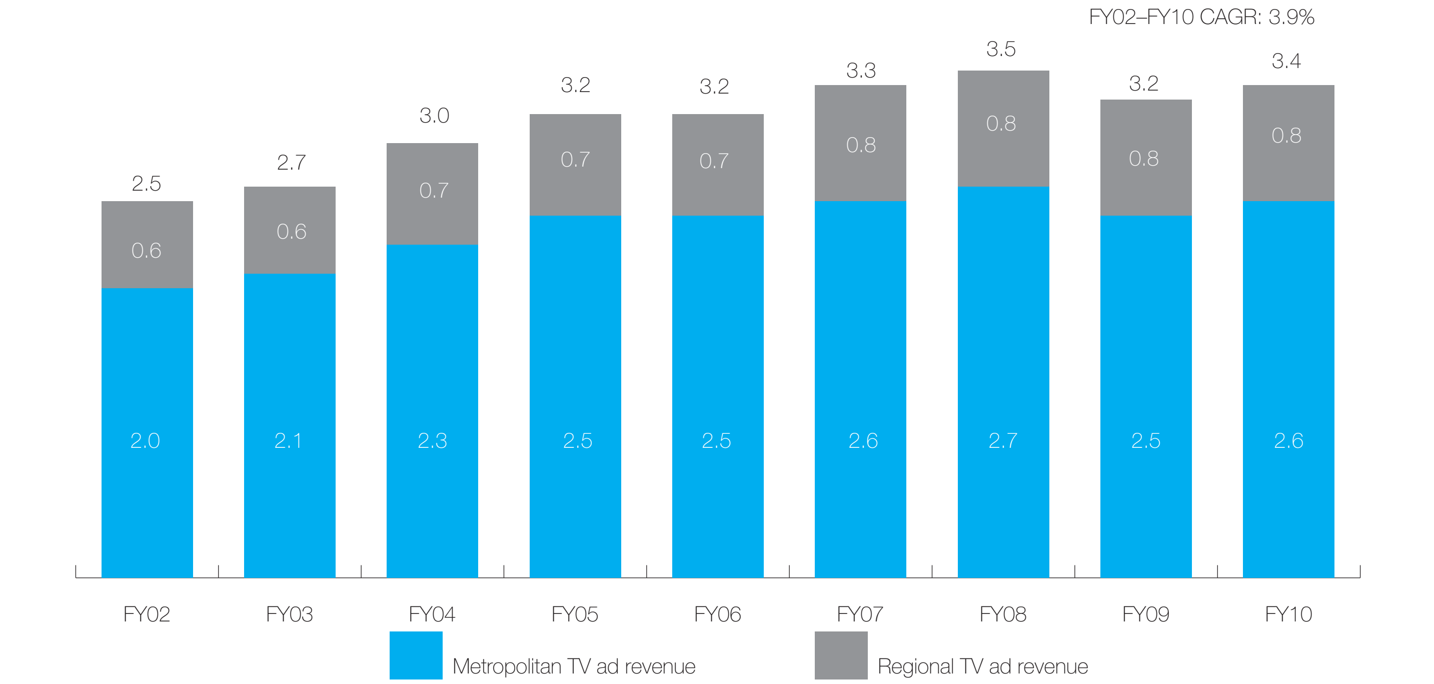
b) Recent performance

Between FY02 and FY08 (trough to peak), FTA television revenue grew by 38.3% to $3.5 billion at a CAGR of 5.6%, driven by a 36.6% increase in five city metropolitan advertising and a 44.5% increase in regional advertising revenue. The market recovered in FY10, following the weak economic conditions of FY09, with growth of 6.0% to $3.4 billion.

4 CEASA, "Advertising Expenditure in Main Media in Australia" (years to 30 June).

Information on SMG (continued)

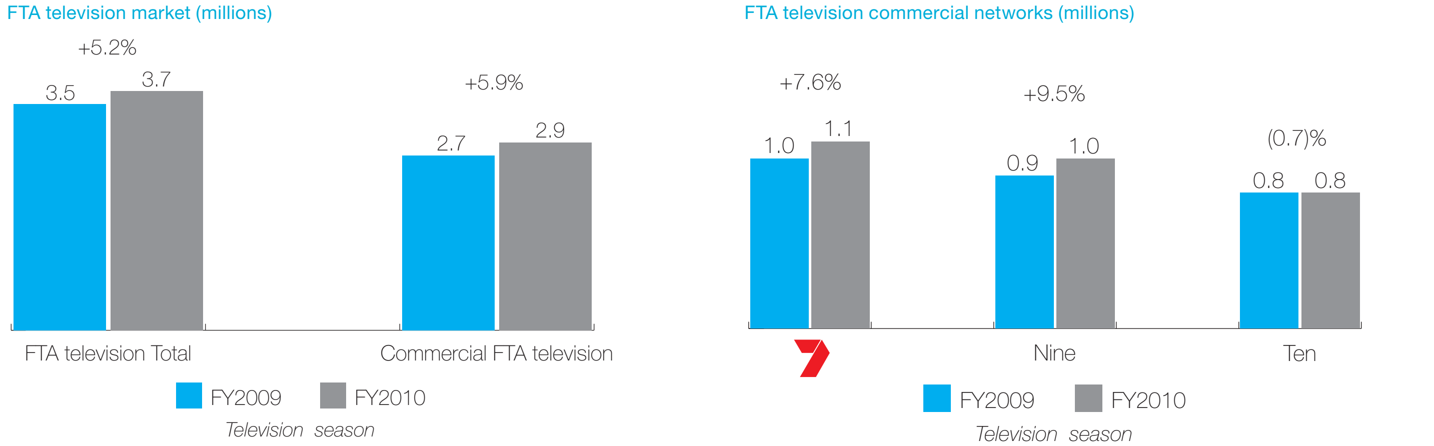
FIGURE 14: AUSTRALIAN FTA TELEVISION ADVERTISING REVENUE ($ BILLION)[5]



In FY09, FTA commercial television networks in Australia launched a number of new digital multi-channels as a means to broaden audience reach, appeal to advertisers and offer an alternative advertising platform to subscription television, radio, newspaper and online content. Seven Network launched 7TWO, Nine launched GO! and Ten Network launched ONE. In FY10, further digital multi-channels were launched including 7mate (Seven Network) and Gem (Nine), with Ten Network subsequently launching Eleven in January 2011. The introduction of digital multi-channels is expected to develop and grow the FTA television platform going forward through a greater number of FTA television channels.

The strength of the FTA television platform is demonstrated by growing audience numbers, especially across the commercial networks.

FIGURE 15: AUSTRALIAN FTA TELEVISION PEAK TIME AVERAGE AUDIENCE (MILLIONS)[6]



c) Key participants

In most areas of Australia there are three FTA television commercial networks signals (Seven Network, Nine and Ten) and two national public broadcast networks signals (ABC and SBS). The commercial networks all operate in capital cities, while in regional areas they broadcast through a mix of network owned and independently owned and operated affiliate stations. Seven Network and Ten own each of their metropolitan stations, while Nine only owns its capital city stations in Sydney, Melbourne and Brisbane, as well as its Newcastle affiliate.

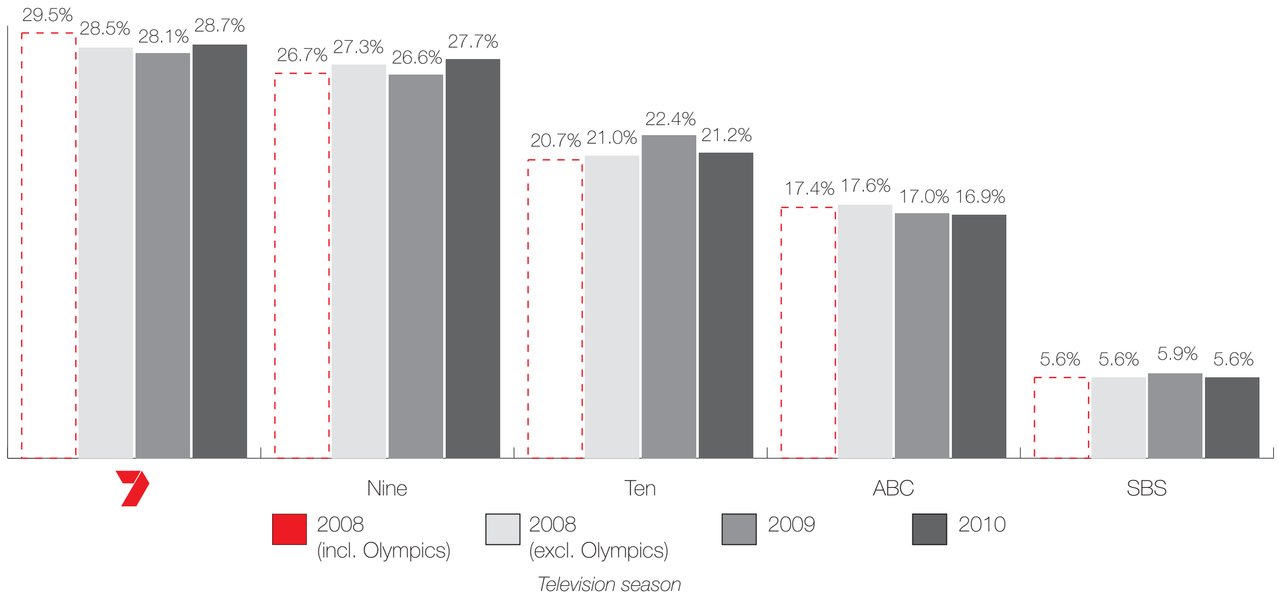
Regional FTA television stations are each affiliated with one of the major metropolitan networks, and generally pay an affiliation fee (based on gross revenues) for broadcasting rights of content (with the exception of Sunshine Television which operates in regional Queensland and is owned directly by Seven Network and NBN which is owned by Nine). The largest independently operated regional networks include Prime Media (a Seven Network affiliate), Southern Cross Television (predominantly a Ten affiliate) and WIN (predominately a Nine affiliate).

Since 2007, Seven Network has been the leading network in audience share and the most viewed FTA television network based on average audience.

5 CEASA, "Advertising Expenditure in Main Media in Australia" (years to 30 June).

6 Based on five-city metropolitan survey year, excluding Easter period for 6pm–12am, total individuals. Average audience includes multi-channels. 2010 consolidated, 2009 live only.

FIGURE 16: AUSTRALIA TELEVISION RATINGS OVER TIME (%) (FTA SHARE)[7]



d) Regulatory environment

The key regulatory body for the Australian FTA television industry is the Australian Communications and Media Authority (**ACMA**).

i) Convergence Review

The Government announced its intention to conduct a Convergence Review in December 2010. The review will assess Australia's communications and media legislation and advise the Government on potential amendments as a response to ongoing technological trends reshaping the media landscape. The review is expected to conclude in the first quarter of 2012.

ii) Audience reach limitations

Under current regulations, a company is prevented from owning broadcasters (deemed control is based on a 15% threshold) that reach more than 75% of the Australian population (commonly referred to as "the audience reach rule"). The impact of these regulations on FTA television commercial broadcasters is that they are largely prevented from owning broadcasting operators in both the metropolitan and regional markets of Australia. The Government has announced that, as part of its Convergence Review (see above), it will be reviewing the audience reach rule, and that the review may lead to a relaxation or removal of audience reach regulations.

iii) Anti-siphoning legislation

Under the anti-siphoning provisions,[8] subscription television licensees are prevented from acquiring exclusive rights to televise a listed event until a right is offered first to the Australian Broadcasting Corporation (**ABC**) or the Special Broadcasting Service Corporation (**SBS**) or to commercial FTA television broadcasters reaching more than 50% of the Australian population.

In December 2010, the Australian Government announced changes to the anti-siphoning list with the creation of a new two-tiered regulation. The Tier A list includes 'premium' events such as the Melbourne Cup, AFL and NRL Grand Finals, and Australian Open singles finals which are required to be broadcast live and in full by the rights holder, and cannot be broadcast on any of the digital multi-channels. The Tier B list covers items such as the regular "home and away" rounds of the NRL and AFL seasons, the Olympic Games, and Australian Open non singles-finals matches which may be broadcast on the digital multi-channels within a four hour period. Prior to these changes, events listed on the anti-siphoning list were unable to be shown on multi-channels.

The proposed changes are largely neutral for the Seven Network as the majority of key sporting events which Seven Network holds (Melbourne Cup, AFL, V8 Supercars and Australian Open) continue to be included on the anti-siphoning list, and can now be shown on the multi-channels, increasing scheduling flexibility. The delisting largely recognises the events which are already contracted to pay television.

iv) Licence fee rebate

In Australia, FTA television operators are required to pay an annual fee to the Government to retain their commercial broadcasting licence. Historically, this licence fee has been 9% of advertising revenues (being gross revenues less agency commission) for metropolitan operators. In February 2010, the Australian Government announced its intention to reduce the FTA television licence fees by 33% on revenue earned in 2010 and 50% on revenue earned in 2011.[9] The aim of the rebate is to enable the FTA television industry to have capacity to continue with current levels of local content production, and to recognise the substantial investment required to switch to digital and relinquish the existing analogue spectrum. In addition, new media platforms such as pay television and Internet do not have to pay such licence fees.

4.5.3 Magazine publishing

a) Introduction

The magazine publishing industry derives revenues from the sale of magazines to consumers (circulation revenue) and advertising. Magazines are an attractive form of advertising as they allow advertisers to focus on specific customer demographics in a "high involvement" medium.

7 Based on five-city metropolitan survey year, excluding Easter period for 6pm–12am, total individuals, includes multi-channels. 2010 consolidated, 2008–9 live only.

8 Section 115 of the Broadcasting Services Act.

9 Note that the final legislative amendment effected a rebate of 16.5% in the 12 months to June 2010, 41.5% in the 12 months to June 2011 and 25% in the 12 months to June 2012 in order to reconcile with the fiscal year end of each network.

Information on SMG (continued)

According to Magazine Publishers of Australia[10], approximately 90% of magazine sales are made at retail outlets, with the residual from subscriptions. This retail contribution is high by world standards, with subscription revenues in markets such as the United States and Canada making up a greater proportion of total circulation revenue. The higher retail revenue, and related unit prices have meant that Australian magazine publishers are less reliant on advertising revenues.

b) Recent performance

The Australian magazine publishing industry generated $1.6 billion in FY10 with circulation revenue accounting for $976 million (59.8%) with magazine advertising making up the balance.[11]

Circulation revenue has steadily decreased since FY06, at an average rate of 4.3% over the last four years. Whilst FY06 represents the peak of circulation revenue since FY02, FY05 and FY06 were favourably impacted by a large number of magazine launches and market activity in the industry surrounding these launches.

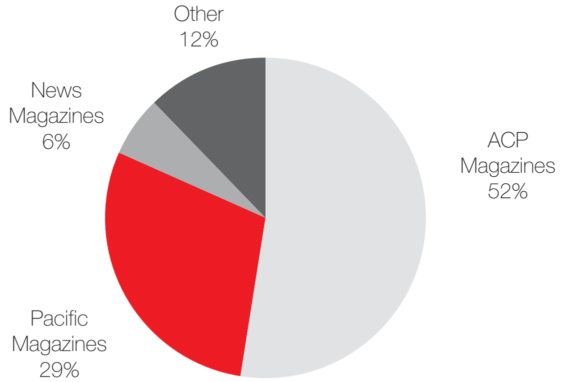
In contrast, advertising revenue grew from $555 million in FY02 to $792 million in FY08. Thereafter revenue has declined due to weaker economic conditions as a result of the global financial crisis.

The largest magazine categories are women's magazines and special interest magazines, accounting for a combined 63% of total magazine advertising revenue in FY10. The remaining categories are fragmented across a broad range of alternative segments.

c) Key participants

The Australian magazine industry is highly concentrated with the top three publishers accounting for approximately 87% of total gross copies sold in FY10. ACP Magazines is the largest magazine publisher with 52% market share, while Pacific Magazines is the second largest publisher with a market share of 29%.

FIGURE 17: AUSTRALIAN MAGAZINE INDUSTRY MARKET SHARE BASED ON ANNUAL GROSS CIRCULATION (FY10)[12]



4.5.4 Online media

a) Introduction

Revenue for online media companies is predominantly generated from access fees to services such as sponsored search and online display and classified advertising. User activity is a key driver of advertising revenue for this segment.

Sponsored search advertising promotes particular businesses ahead of others in response to key words in a search query. Display advertising provides banner advertising on relevant websites and charges clients using an audited service which determines how many people look at the relevant internet sites as well as those that proceed to purchase. In addition to advertising revenue, digital media portals continue to develop new revenue streams offering substantial growth prospects to the industry, one of which in Australia, has been online group buying services (e.g. Spreets).

b) Recent performance

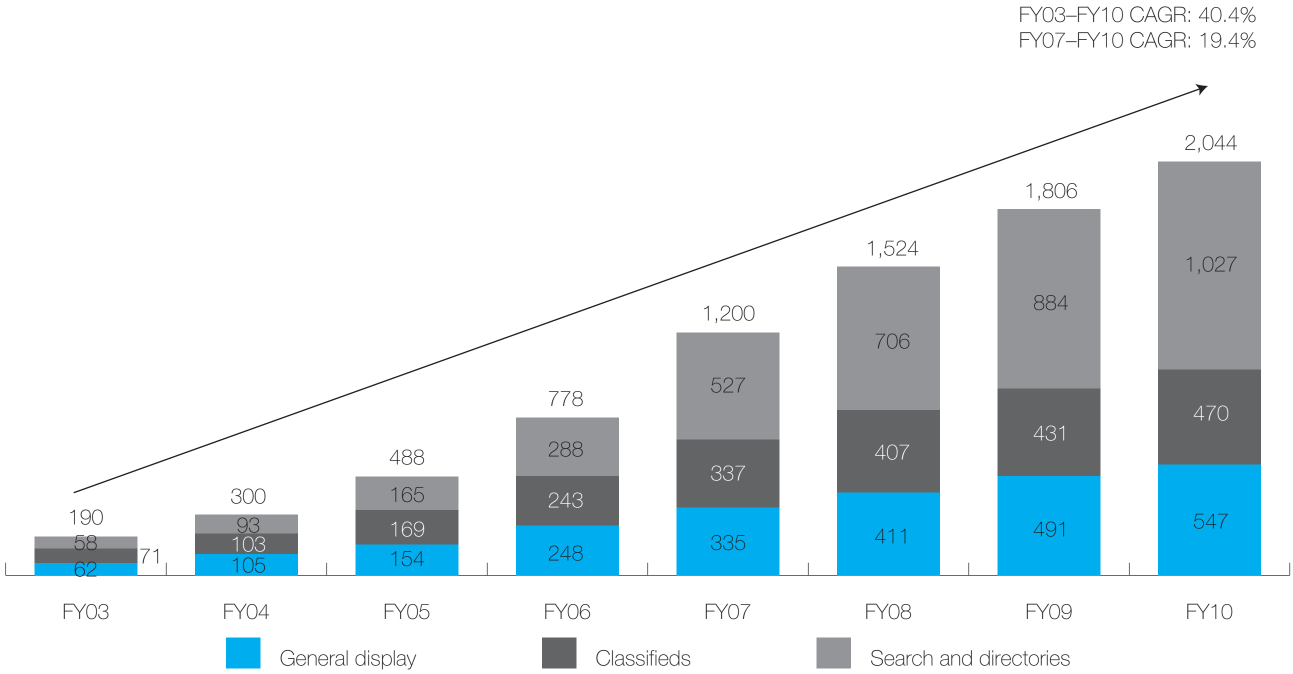
Australian online advertising generated revenues in excess of $2.0 billion in FY10. Online advertising has remained resilient to the economic downturn having grown at a CAGR of 40.4% over the last seven years and 19.4% over the last three years

10 The Magazine Publishers of Australia is an industry body that represents Australian publishers of consumer, cover priced and nationally distributed magazines.

11 Note that these magazine revenue figures are based on two different sources. Due to differences in the number of magazine titles captured by each measure, the actual aggregate figures may differ from those shown above.

12 Based on audited magazine titles only (12 months to December 2010).

FIGURE 18: AUSTRALIAN ONLINE ADVERTISING EXPENDITURES ($ MILLION)[13]



c) *Key participants*

Market share is not easily measured in the online media industry due to difficulties in categorising sites and providing a consistent and appropriate recording mechanism. However, industry research indicates Google attracts the most unique browsers, while Yahoo!7 is the fourth most sought after site.

TABLE 6: TOP WEBSITES IN NOVEMBER 2010 (BY UNIQUE AUDIENCE AND REACH)

Rank	Site	Unique audience ('000)	Active reach (%)
1	Google (incl. YouTube)	12,805	86.89
2	NineMSN/MSN	9,618	65.26
3	Facebook	9,378	63.64
4	Yahoo!7	6,987	47.41
5	Fairfax Digital Media Network	6,052	41.06
6	eBay	5,941	40.32
7	News Digital Media	5,908	40.09
8	Sensis	4,041	27.42
9	Fox Interactive Media	2,115	14.35

4.6 SMG's operations and business description

4.6.1 Seven Network

Seven Network is Australia's leading FTA television network and owns metropolitan television stations in the capital cities of Sydney, Melbourne, Brisbane, Perth and Adelaide, and a regional television station in Queensland. Seven Network wholly owns commercial television licences in each of these jurisdictions. In addition, Seven Network is broadcast via locally branded affiliate networks.

a) *Broadcast Content and Programming*

Seven Network broadcasts a wide variety of content that includes in-house produced and externally purchased programmes from Australia and overseas, catering to a number of different demographics.

The current programming schedule includes a mix of both produced and purchased inventory. Out of the three Australian commercial FTA television networks, Seven Network produces the most in-house content and has had significant success with this in recent years, with programmes such as "Packed to the Rafters", which was Australia's highest rating regular programme in 2010. Its success at developing an effective programming schedule has contributed to Seven Network's leading FTA television network position by audience share over the last four years. It has been the number one broadcaster of news and current affairs for the last five years, with Seven's news and current affairs programming having a 14.5% higher average audience than Nine in 2010. The success of Australian produced content is extremely important for FTA television networks, as regulations require 55% of all broadcast programmes (6am – midnight) to be locally produced.

13 CEASA, "Advertising Expenditure in Main Media in Australia" (years to 30 June).

Information on SMG (continued)

DIAGRAM 5: EXAMPLES OF SEVEN NETWORK PROGRAMMING

Australian drama and reality

News and public affairs

Sport

Seven Network currently holds the broadcasting rights to a number of significant sporting events, including the Australian Open (up to 2014) and the AFL (up to December 2011). Recent changes to anti-siphoning legislation are discussed in Section 4.5.2(d)(iii) of this Explanatory Memorandum. The changes should not adversely affect Seven Network's programming schedule, especially when considering the scheduling flexibility provided by being permitted to play sports programming on its multi-channels.

The other important source of content is internationally produced programmes, for which the Australian FTA television broadcasting rights are generally purchased under 'output' agreements with many of the major US studios. Seven Network has long-standing relationships with studios such as Disney and NBC Universal, which each have provided a number of successful programmes such as "Desperate Housewives" and "Lost". Output agreements are generally valid for a number of years and involve obligations to purchase content, which helps provide Seven Network with certainty of supply of major prime time programmes.

b) Audience market share

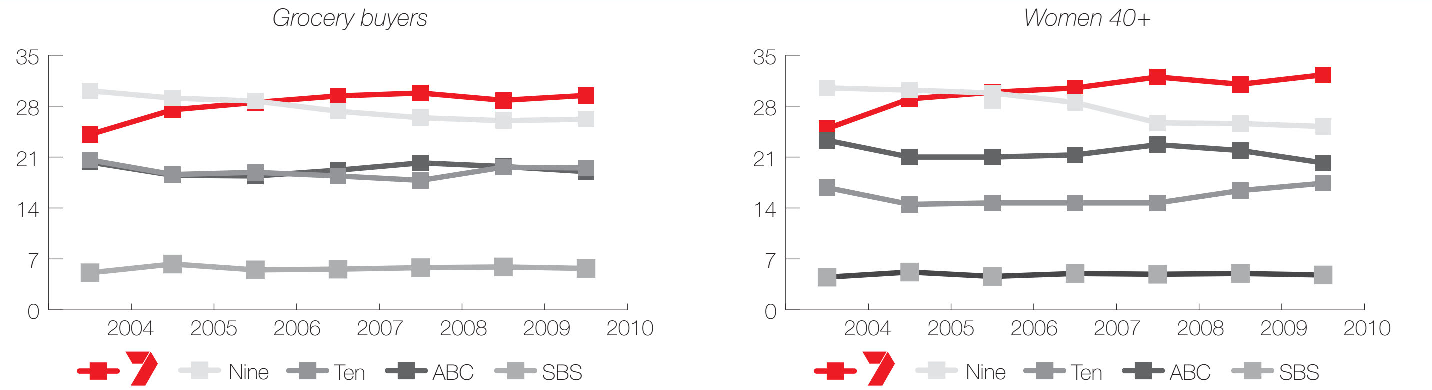
The success of a FTA television network's programming strategy is reflected in its relative share of the viewing audience, which is measured by ratings data. Ratings are measured using data collated by OzTAM, recognised by the FTA television industry as the official source of ratings information.

Ratings data is gathered for each metropolitan and regional market, and split between different timeslots and viewer demographic categories. In particular, the peak time viewing period (6pm – 12am) is seen as the most important audience share measure, as this timeslot is when the largest number of people are watching television. Over the 2010 television season, the average peak audience for commercial networks grew by 5.9%, with Seven Network up by 7.6%.

During the 2010 television viewing period, Seven Network led with a market share in peak time of 28.7%, followed by Nine at 27.7% and Ten at 21.2%. Seven Network has been the best performing FTA television station by audience share during the peak time period for the past four years.

Seven Network's leading position in audience share extends across a wide range of market segments in addition to the peak time period and across key demographic groups. It has held the highest ratings share for breakfast television for the past seven years, morning television for the past four years, overall 6am to midnight broadcast day for the past five years, and news and current affairs for the past five years. It has also held the highest ratings share for the last four years in the key advertising demographic groups of grocery buyers and women over 40.

FIGURE 19: AUDIENCE SHARE BY KEY DEMOGRAPHIC GROUPS FOR ADVERTISERS (%)[14]

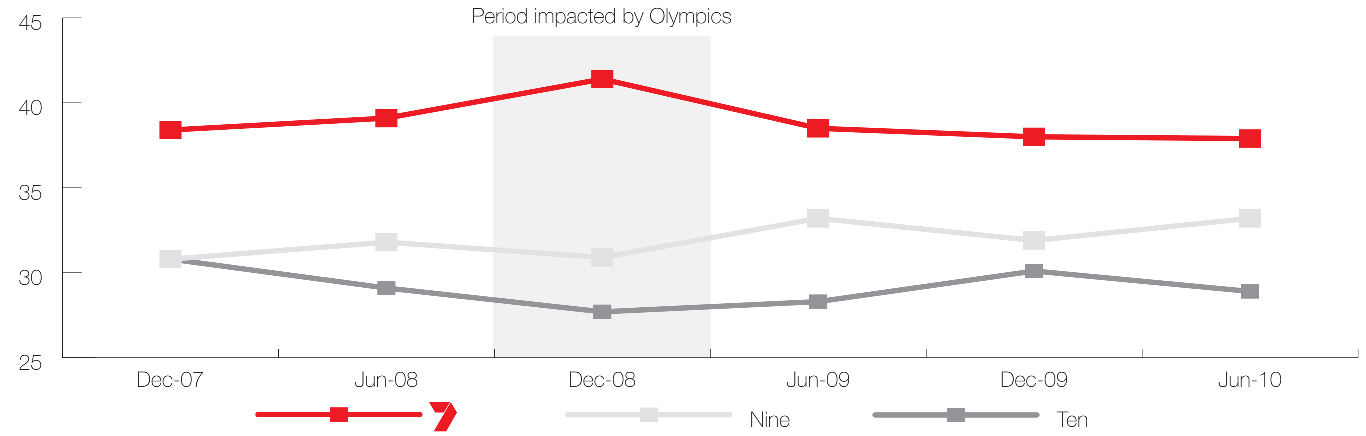


14 Based on five-city metropolitan television survey year excluding Easter period for peak time (6pm to 12am), ratings adjusted to exclude Olympics. 2010 consolidated, 2004–9 live only.

c) Advertising

Advertising airtime on FTA television is predominately sold on the basis of ratings. As such, Seven Network's number one audience share position has translated into a higher share of total advertising revenues compared with the other two major commercial stations. Seven Network has held the greatest market share of total metropolitan advertising revenue from December 2007 to June 2010.

FIGURE 20: SHARE OF ADVERTISING REVENUE (%)



d) New digital multi-channels: 7TWO and 7mate

Seven Network has launched two additional digital multi-channels, 7TWO in November 2009 and 7mate in September 2010.

Both digital multi-channels target specific demographic groups that differ from the primary channel's predominantly female audience skew, with 7TWO targeting an over 25 adult audience and 7mate targeting a male audience aged 16–54. Following the launch of the new channels, Seven Network has a platform of channels targeting specific audience demographics designed to limit audience fragmentation.

Since its inception, 7TWO's audience has grown rapidly and is now the number one most-watched digital multi-channel for people over 25 during peak time. Across the 2010 television season, 7TWO televised 15 of the top 20 regular programmes on the broadcast television digital multi-channels (people over 25). For the last month of the 2010 television season, 7TWO more than doubled its peak time audience delivery compared to the channel's first month on-air in 2009.

Since its launch, 7mate has similarly enjoyed rating and advertising success, having televised nine of the top 20 regular programmes for men aged 16–54 on the broadcast television digital multi-channels (in the period since launch to the end of the 2010 television season). 7mate's audience in peak time for the last week of the 2010 television season was over 20% higher than the channel's first week on-air.

e) Arrangement with affiliates

Seven Network has arrangements to deliver its broadcast signal to its regional affiliates, including Prime Media and Southern Cross Television.

Prime Media broadcasts in regional locations in New South Wales, Australian Capital Territory, Victoria and Western Australia and the Gold Coast area of eastern Queensland. Southern Cross Television broadcasts in Darwin and throughout the Northern Territory, rural Queensland and parts of New South Wales, Victoria, South Australia and Tasmania.

Fees received by Seven Network under each of these arrangements are generally linked to gross airtime advertising revenue in the respective markets. Seven Network's affiliate agreements with Prime Media and Southern Cross Television expire in 2017 and 2013 respectively.

4.6.2 Pacific Magazines

Pacific Magazines comprises SMG's:

- Magazine publishing business; and
- Custom publishing business, Pacific+, (launched in 1991 and formerly known as Text Media).

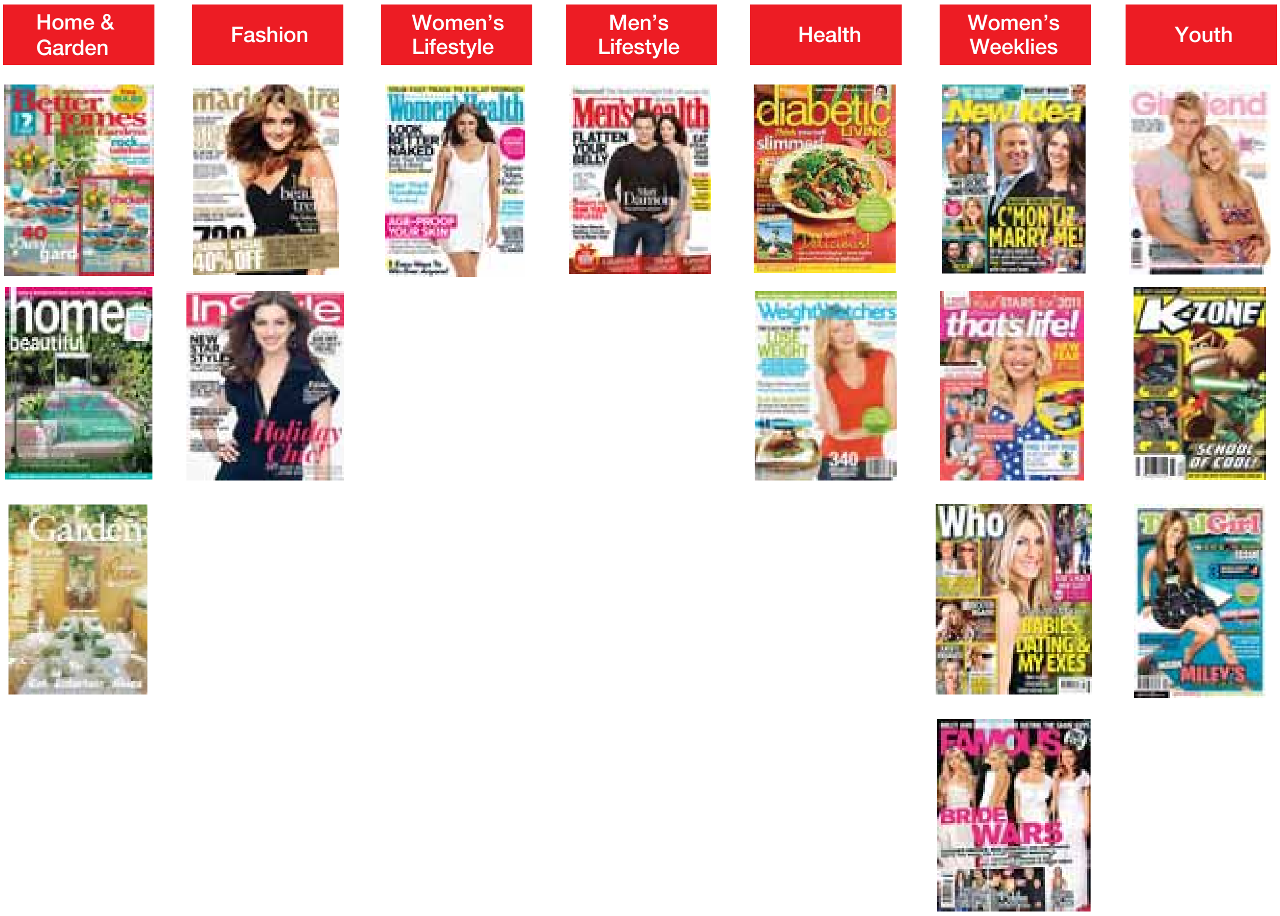
Pacific Magazines forms a key element in driving the development of SMG's brands and content beyond broadcast television as the group develops a broad-based media and entertainment company spanning television, magazines, online and new communications platforms.

Pacific Magazines outperformed the overall magazine industry, delivering the largest circulation share increase of any magazine publishing company over the 12 months to December 2010. Its magazine portfolio occupies the largest per title readership share of all major magazine publishers. Nineteen of Pacific Magazines surveyed titles (representing 14% of all surveyed titles) delivered a 29% share of gross readership over the twelve month period ending December 2010. The main portfolio of titles is split into seven publishing categories as described below.

In addition, Pacific+ publishes magazines for a number of major clients including Virgin Blue, Lexus and Weight Watchers.

Information on SMG (continued)

DIAGRAM 6: TITLE SEGMENTATION



a) Circulation and readership

Pacific Magazines continues to grow market share, with circulation share increasing by 1 percentage point in the 12 months to December 2010 to 29.4%, driven by the strong brand equity in the Pacific Magazines' portfolio. Pacific Magazines is the number one publisher by circulation in Australia in various key categories including Home & Garden, Fashion, Men's Lifestyle, Health and Youth.

Pacific Magazines has a readership market share of nearly 40% out of the top ten magazines.

TABLE 7: TOP 5 MAGAZINES PUBLISHED IN AUSTRALIA BY READERSHIP[15]

Rank	Title	Readership ('000)		Readership (% of population)	
		Dec 09	Dec 10	Dec 09	Dec 10
1	Australian Women's Weekly	2,184	2,228	12.3	12.2
2	Woman's Day	2,056	1,999	11.6	10.9
3	Better Homes and Gardens	1,783	1,950	10.0	10.7
4	New Idea	1,608	1,443	9.0	7.9
5	That's Life!	1,142	1,081	6.4	5.9

The largest magazine category, Women's Weeklies, accounts for almost half (47%) of total magazine unit sales and over one third (37%) of total magazine circulation revenue. Pacific Magazines holds a significant share in this category, with "New Idea", "Who", "FAMOUS" and "That's Life!" combining to deliver a 48% share of circulation volume and 45% share of circulation revenue in this category.

Pacific Magazines' number one title by readership is "Better Homes and Gardens", one of the country's leading integrated media brands. "Better Homes and Gardens" is one of the fastest growing monthly magazines in Australia, with readership of nearly 2 million, and ranks as the second most read monthly magazine in Australia.

Pacific Magazines continues to invest in launching new titles in response to changing demand. Examples of recent launches include "Women's Health" which was launched in October 2007 and has a readership of almost half a million and "FAMOUS" which was launched in February 2006 and has attracted a readership of over 300,000.

b) Advertising

Given Pacific Magazines' wide spread of titles across various categories, the portfolio has significant reach within key advertising categories. Pacific Magazines titles reach the following groups every month:

- 40% of all people;
- 56% of women;
- 23% of men; and
- 45% of main grocery buyers.

Pacific Magazines was the only major Australian magazine publishing company to improve its advertising performance in the twelve months to December 2010, achieving growth of 7%. Pacific Magazines is well positioned relative to the market, with a strong share of advertising revenue in the magazine categories which generate the greatest share of total advertising revenue.

15 Periods show year to December.

TABLE 8: TOP 10 CATEGORIES BY ADVERTISING REVENUE (2010)

Rank	Title	Share of advertising revenue (2010)	Pacific Magazines share of category advertising revenue (2010)
1	Mass Women's Weeklies	17%	41%
2	Women's Fashion	13%	57%
3	Mass Monthlies	12%	6%
4	Celebrity Weeklies	11%	47%
5	Home & Garden	11%	72%
6	Food & Entertaining	8%	–
7	Women's Lifestyle	7%	21%
8	Real Life Weeklies	3%	68%
9	Airline	3%	21%
10	Men's Lifestyle	2%	55%

c) Distribution and print

Pacific Magazines uses a number of channels to distribute its magazines, including over 8,000 retail outlets such as supermarkets and newsagents and mail-delivered subscription services. Pacific Magazines currently utilises the services of Gordon and Gotch, a long standing publications distributor and a subsidiary of PMP Limited, to distribute its magazines.

4.6.3 Yahoo!7

SMG's exposure to the fast-growing online advertising market in Australia is delivered through Yahoo!7, a joint venture with Yahoo!. Approximately one in two online Australians visit Yahoo!7 every month. Yahoo!7 also holds a 51% equity interest in Yahoo! Xtra, a joint venture with Telecom New Zealand Limited, established in December 2006. Yahoo! Xtra delivers online content and applications services in New Zealand. Yahoo! Xtra remains a leading online portal in New Zealand.

Yahoo!7 is continuing to invest in its business to deliver ongoing audience growth. In sports, the recent acquisition of one of Australia's largest online sports tipping websites, Oztips, delivered an engaged fan base. Yahoo!7 also launched a new men's lifestyle destination in July 2010, BANZAI, targeting men aged 25–45 and focusing on fitness, adventure and boardsport lifestyles.

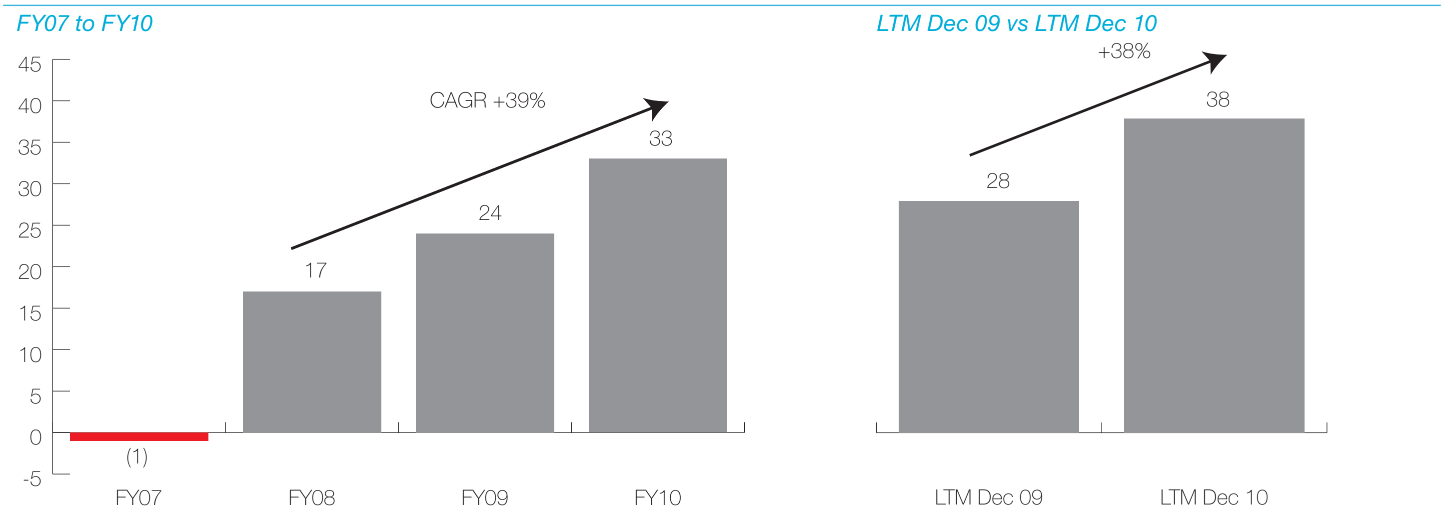
The PLUS7 catch-up TV online destination continues to grow its audience. Building on this success, Yahoo!7 has undertaken a platform-agnostic approach to enabling premium television programming content to be delivered via IPTV. Recent partnerships with Sony, Panasonic and LG secure Yahoo!7 distribution on IP enabled television devices in the lounge room.

Yahoo!7 announced the acquisition of Spreets in January 2011. Spreets is a leading Australian online group buying site with over 500,000 members and more than 274,000 vouchers purchased since inception. The group buying model has rapidly evolved over the past year delivering cost-effective marketing to small businesses and addressing an unmet and growing demand from consumers for online coupon deals.

Yahoo!7 has continued to grow advertising share by driving innovation through its focus on delivering targeted audiences within premium environments. More than 35% of Yahoo!7's display advertising campaigns now include a targeting component with this growth expected to continue in 2011.

Yahoo!7 is delivering strong momentum, achieving 38% growth in EBITDA in the twelve months to December 2010.

FIGURE 21: YAHOO!7 EBITDA MOMENTUM ($ MILLION)[16]



16 Company financials representing 100% of Yahoo!7.

4.6.4 Other interests

a) SMG Red

SMG's cross group sales division, SMG Red, has been well received by advertisers since its launch in November 2008. By leveraging the synergistic benefits of FTA television, magazines and online media, SMG Red is able to provide tailored solutions for advertising clients across multiple platforms. The division accounted for over 10% of group advertising revenue in FY10.

b) Sky News

Sky News owns and operates Sky News Australia, a leading 24-hour news channel in Australia and New Zealand. Sky News Australia commenced its 24-hour news service in 1996, establishing itself as the first Australia-produced television news channel. In addition to its flagship news service, Sky News Australia also produces a variety of weekly half hour programmes, including Agenda and Sportsline. Sky News Australia is available in more than 2.5 million homes and locations across Australia and New Zealand on the FOXTEL, AUSTAR, Optus and Neighbourhood Cable pay television networks and on the Sky subscription television network in New Zealand. Sky News also delivers content across other digital media platforms, including 3G mobile, podcasts, SMS and online.

c) OzTAM

OzTAM manages and markets television ratings data covering all channels for the five city metropolitan areas and nationally for subscription television. A range of organisations including television networks, advertisers, advertising agencies, media buyers and programme suppliers refer to OzTAM data to assist them in assessing programme and network performance and to understand viewer behaviour. OzTAM is responsible for the management of the Television Audience Measurement contract, held by research service provider, Nielsen Television Audience Measurement.

OzTAM is jointly owned by the three commercial FTA television operators, SMG, Nine Entertainment Co and Ten Network Holdings Limited.

4.7 SMG Financial Information

4.7.1 Introduction

This Section contains a summary of the following historical and forecast financial information of SMG (**SMG Standalone Financial Information**) and sensitivity analysis on the key forecast assumptions.

The **SMG Standalone Pro Forma Historical Financial Information** comprises the:

- Consolidated summary pro forma income statements of SMG for the 52 weeks ended 27 June 2009 (FY09) and 26 June 2010 (FY10), and the half year ended 25 December 2010 (1H11);
- Consolidated pro forma summary abridged cash flow of SMG for FY09, FY10 and 1H11; and
- Consolidated pro forma historical balance sheet of SMG as at 25 December 2010.

No consolidated pro forma historical statement of comprehensive income is provided.

The **SMG Standalone Pro Forma Forecast Financial Information** comprises the:

- Consolidated summary pro forma forecast income statements of SMG for the year ending 25 June 2011 (FY11F); and
- Consolidated pro forma forecast abridged cash flow statements of SMG for FY11F.

No consolidated pro forma forecast statement of comprehensive income is provided.

The information in this Section should be read in conjunction with the information set out elsewhere in this Explanatory Memorandum including information on the risk factors set out in Section 6 and the sensitivity of the forecasts to changes in key assumptions, set out in Section 4.7.8 of this Explanatory Memorandum.

All amounts disclosed in the tables are presented in Australian dollars and, unless otherwise noted, are rounded to the nearest $0.1 million.

4.7.2 Basis of preparation

The SMG Standalone Financial Information has been prepared in accordance with recognition and measurement principles of Australian Accounting Standards, although it is presented in an abbreviated form insofar as it does not include all of the disclosures, statements or comparative information as required by the Australian Accounting Standards applicable to annual financial reports prepared in accordance with the Corporations Act.

The SMG Standalone Financial Information has been reviewed by PricewaterhouseCoopers Securities Ltd, whose Investigating Accountant's Report relating to this information is included in Appendix B of this Explanatory Memorandum.

a) Preparation of SMG Pro Forma Historical Financial Information

The SMG Standalone Pro Forma Historical Financial Information for FY09 and FY10 is based on the consolidated audited financial statements of SMGL for those periods. The historical financial information for 1H11 has been extracted from SMG's reviewed financial statements for this period. Historical information for each period has been adjusted to remove expenses which relate to SMG's existing ownership structure and will no longer be incurred following the implementation of the Proposed Transaction.

Refer to Section 4.7.3 of this Explanatory Memorandum for a reconciliation between the financial statements of SMGL and the SMG Standalone Pro Forma Historical Financial Information.

b) Preparation of SMG Pro Forma Forecast Financial Information

The Board believes that the SMG Pro Forma Forecast Financial Information has been prepared with due care and attention, and considers all best estimate assumptions when taken as a whole to be reasonable at the time this information was prepared.

The SMG Standalone Pro Forma Forecast Financial Information has been prepared on the basis of certain assumptions set out in Section 4.7.7 of this Explanatory Memorandum. This information is intended to assist investors in assessing the reasonableness and likelihood of the assumptions occurring, and is not intended to be a representation that the assumptions will occur.

SMG's pro forma consolidated income statement for FY11F comprises the pro forma actual results for the six months ended 25 December 2010 and a consolidated pro forma forecast income statement for the six months ending 25 June 2011.

Investors should be aware that the timing of actual events and the magnitude of their impact might differ from that assumed in preparing the SMG Standalone Pro Forma Forecast Financial Information, and that this may have a materially positive or negative effect on SMG Standalone's actual financial performance. Accordingly, the Board cannot give any assurance that the forecasts will be achieved. Events and outcomes might differ in quantum and timing from the assumptions, with material consequential impact on SMG Standalone Pro Forma Forecast Financial Information. Investors are advised to review the key best estimate assumptions set out in Section 4.7.7, in conjunction with the sensitivity analysis set out in Section 4.7.8 and the risk factors set out in Section 6 of this Explanatory Memorandum, together with the other information set out elsewhere in this Explanatory Memorandum.

4.7.3 SMG Standalone Pro Forma Income Statement

Set out below is a summary of SMG's pro forma consolidated historical income statements for FY09, FY10 and 1H11, as well as the pro forma consolidated forecast income statement for FY11F.

TABLE 9: SMG SUMMARY INCOME STATEMENT

	Pro forma historical			Pro forma forecast
$m	FY09	FY10	1H11	FY11F
Television revenue	1,155.9	1,134.2	664.8	1,233.8
Magazines revenue	317.5	319.0	159.8	317.6
Other revenue	10.4	0.0	0.0	0.0
Total income	**1,483.8**	**1,453.2**	**824.6**	**1,551.4**
Television EBITDA	237.4	306.4	238.9	376.1
Magazines EBITDA	55.5	53.1	27.2	58.2
Other EBITDA	(4.5)	1.7	(0.1)	(0.4)
Total EBITDA	**288.4**	**361.2**	**266.0**	**433.9**
Television EBIT	196.4	270.3	220.0	339.9
Magazines EBIT	46.8	43.7	22.3	48.5
Other EBIT	(13.1)	1.7	(0.1)	(0.4)
EBIT	**230.1**	**315.7**	**242.2**	**388.0**
Share of net profits from associates	9.0	13.4	8.7	16.5
EBIT (including associates)	**239.1**	**329.1**	**250.9**	**404.5**

a) Pro forma adjustments

The following pro forma adjustments have been made to statutory historical earnings before interest and tax to calculate pro forma earnings before interest and tax:

TABLE 10: PRO FORMA ADJUSTMENTS

	Pro forma historical			Pro forma forecast
$m	FY09	FY10	1H11	FY11F
EBIT as per statutory accounts	**(1,738.4)**	**282.2**	**244.8**	**394.3**
Less significant other income	–	(17.5)	–	–
Add significant operating expenses	1,969.1	54.9	–	–
Add monitoring expenses	5.0	5.0	4.3	6.7
Add options expense	3.4	4.5	1.8	3.5
Pro Forma EBIT (including associates)	**239.1**	**329.1**	**250.9**	**404.5**

Pro forma adjustments to statutory EBIT have been applied to exclude significant other income and significant operating expense items disclosed in the FY09 and FY10 consolidated audited financial statements for SMGL and the reviewed special purpose accounts of SMG for 1H11 that relate to amounts relating to the previous ownership structure. Explanations for the statutory pro forma adjustments are as follows:

- FY09:
  - Impairment loss of $1,825.4 million relating to FTA television licences and goodwill;
  - Onerous contracts relating to FTA television programme rights of $129.0 million; and
  - Impairment loss relating to other assets of $14.6 million.
- FY10:
  - Reversal of FY09 FTA television licences impairment loss of $17.5 million; and
  - Impairment loss relating to the magazines mastheads of $54.9 million.

In addition, monitoring expenses and option expenses have been added back to EBIT as they are specific to the current ownership structure of SMG. As such, these will discontinue following the implementation of the Proposed Transaction and have been excluded from pro forma EBIT.

4.7.4 Segment information

SMG's wholly-owned operations consist of two key operating segments, Television and Magazines. Yahoo!7 and Sky News are non-controlled businesses, and are reported in SMG's audited financial statements as share of net profits from associates and as such, pro forma segment information has not been provided on these businesses.

Set out below is a summary of Television's pro forma historical income statements for FY09, FY10 and 1H11, as well as the pro forma forecast income statement for FY11F.

TABLE 11: TELEVISION

	Pro forma historical			Pro forma forecast
$m	FY09	FY10	1H11	FY11F
Advertising revenue	1,024.6	1,010.6	595.0	
Other revenue	131.3	123.6	69.8	
Total income	**1,155.9**	**1,134.2**	**664.8**	**1,233.8**
Programming	(605.7)	(530.5)	(279.1)	
Other	(312.8)	(297.3)	(146.8)	
Total expenses	**(918.5)**	**(827.8)**	**(425.9)**	**(857.7)**
EBITDA	237.4	306.4	238.9	376.1
Depreciation & amortisation	(41.0)	(36.1)	(18.9)	(36.2)
EBIT	**196.4**	**270.3**	**220.0**	**339.9**
Share of net profits from associates	–	–	–	–
EBIT (including associates)	**196.4**	**270.3**	**220.0**	**339.9**

Information on SMG (continued)

Set out below is a summary of Magazines' pro forma historical income statements for FY09, FY10 and 1H11, and the pro forma forecast income statement for FY11F.

TABLE 12: MAGAZINES

	Pro forma historical			Pro forma forecast
$m	FY09	FY10	1H11	FY11F
Advertising revenue	108.4	110.2	60.7	
Other revenue	209.1	208.8	99.1	
Total income	**317.5**	**319.0**	**159.8**	**317.6**
Operating expenses	(262.0)	(265.9)	(132.6)	(259.4)
EBITDA	**55.5**	**53.1**	**27.2**	**58.2**
Depreciation and amortisation	(8.7)	(9.4)	(4.9)	(9.7)
EBIT	**46.8**	**43.7**	**22.3**	**48.5**
Share of net profits from associates	–	–	–	–
EBIT (including associates)	**46.8**	**43.7**	**22.3**	**48.5**

4.7.5 SMG Pro Forma Cash Flows

The table below sets out a reconciliation of SMG's EBITDA to summary cash flows for FY09, FY10, 1H11 and FY11F.

TABLE 13: SMG PRO FORMA CASH FLOWS[17]

	Pro forma historical			Pro forma forecast
$m	FY09	FY10	1H11	FY11F
EBITDA	288.4	361.2	266.0	433.9
Working capital movements	(21.4)	(125.7)	45.4	(57.9)
Dividends received from associates	1.8	4.0	2.7	3.3
Operating cash flows before interest and tax	**268.8**	**239.5**	**314.1**	**379.3**
Proceeds from sale of assets			0.1	0.1
Payment for assets			(14.9)	(32.2)
Operating cash flows available for debt & equity service			**299.3**	**347.2**

4.7.6 Management discussion and analysis of historical financial information

The operating results for SMG comprise the wholly owned operations of Television and Magazines and the non-controlled businesses Yahoo!7 and Sky News (reported as share of net profits from associates).

a) FY10 results compared to FY09

i) Television

Television revenue is derived primarily from advertising, with approximately 80% of total Television revenue generated from the metropolitan advertising market. The balance of Television revenue comprises regional advertising revenue relating to regional Queensland markets, fees received from affiliate networks, programme sales and other sundry revenue. The amount of advertising revenue generated is a function of both market size and market share.

Television costs, excluding depreciation, consist largely of programming costs, which represent approximately 65% of total costs, with the balance consisting of administrative and operating costs. Programming costs comprise locally produced content, purchased programme amortisation (primarily sourced from overseas under output agreements with international suppliers), and production and rights costs for news and current affairs and sports events.

In FY09 the size of the metropolitan television advertising market declined by 8.7%, mainly as a result of the global financial crisis, which resulted in a reduction in advertising revenue. However, in this period Seven Network's overall share of advertising increased to 40.1%, with this strong performance driven by high quality programming and the one-off impact of the Beijing Olympics.

Television EBITDA increased by 29.1% to $306.4 million in FY10 from FY09, driven by a rebound in the advertising market, which grew at 5.4%. Seven Network retained the number one position with a revenue share of 38.0%. Television expenses in FY10 were reduced year-on-year, due mainly to the one off rights and production costs associated with the Beijing Olympics in the prior year, supported by the positive impact of the licence fee rebate.

ii) Magazines

Magazines revenue in FY10 consisted of: circulation revenue 61.1%; advertising revenue 34.5%; and other revenue 4.4%. In FY10, circulation revenue increased 2.4% year-on-year, with growth subdued by soft retail conditions and the impact on discretionary consumer expenditure, which was affected throughout the year by increases in interest rates, petrol prices and cigarette prices. Advertising revenue increased 1.6% in FY10, primarily due to the increase in Pacific Magazines' advertising revenue market share, which increased from 26.5% to 29.4% in the FY10 period. Whilst Pacific Magazines' advertising performance in FY10 was well above the market, it continued to be impacted by reduced marketing budgets (flow on from the global financial crisis) and strong competition. Publishing revenue from the Pacific+ operations (representing approximately 4.9% of total Magazines revenue in FY09) declined by 33.6% due to the impact of the global financial crisis on corporate activity.

Operating expenses remained tightly controlled in FY10, increasing 1.6% overall from FY09. Included in the expenses increases were $1.6 million of one-off expenses associated with the re-signing of a long term distribution contract, provisions for the transition of the New Zealand operations to a licence arrangement, and costs associated with the relocation of premises in Sydney.

EBITDA decreased 4.4% to $53.1 million from FY09.

iii) Other

Yahoo!7 primarily derives its revenue from online display advertising in Australia and New Zealand. In New Zealand, the business operates through a joint venture arrangement with Telecom New Zealand (Yahoo!Xtra). Yahoo!7's FY10 revenue grew 22.9%, with EBITDA and NPAT growth of 35.4% and 22.6% respectively. 1H10 was a challenging period, due to the slowdown in the online display advertising market, however Yahoo!7 outperformed the market in this period to gain share. The online display advertising market showed signs of recovery from October 2009. In October 2009, Yahoo!7 acquired Total Travel (an online travel business) which contributed to diversifying its revenue into listings and fees. In January 2010, Yahoo!7 launched a catch up television service (Plus7) as a supplement to its mainstream broadcasting activities, as a loyalty device and to capitalise on the demand for video advertising.

17 The historical periods have not been presented below cash flows from operating activities due to the proposed change in the capital structure of SMG under the Proposed Transaction.

b) 1H11 results

i) Television

SMG's gross metropolitan advertising revenue grew 14.8% year-on-year in 1H11, reflecting a combination of strong advertising market conditions and continued high quality programming. Key events over the period included the launch of the network's second digital multi-channel 7mate, primarily catering for a 16–54 male demographic, which coincided with the broadcast of the AFL Grand Final, and the launch of new locally produced programmes including The X Factor and Iron Chef.

EBITDA in 1H11 was $238.9 million. EBITDA grew 27.6%[18] year-on-year, driven by the growth in advertising revenue, supported by the positive impact of the licence fee rebate. Total expenses grew 7.5% year-on-year, primarily as a result of greater investment in local programming content.

ii) Magazines

In October 2010 Pacific Magazines entered into a licence deal with APN News & Media for Pacific Magazines' New Zealand operations. The licence fee payable to Pacific Magazines is based on a percentage of revenue. The commentary below (and in the Magazines Revenue assumptions, see Section 4.7.7(b)(i)) is based on comparisons which reflect this change in operations in all historical periods.

Magazines revenue for 1H11 consisted of: circulation revenue 57.0%; advertising revenue 38.0%; and other revenue 5.0%. Circulation revenue in 1H11 decreased 7.3% year-on-year (4.9% like-for-like),[19] due to the continued soft retail conditions and cautious consumer environment. Advertising revenue in 1H11 increased 2.4% year-on-year (4.0% like-for-like)[19]. The magazine advertising market remains competitive, however yields are growing and forward bookings are strong. Market data indicates that Pacific Magazines continued to grow market share during the half year period.

Operating costs remained tightly controlled during the half year, decreasing 1.1% overall year-on-year (but increasing 1.8% like-for-like)[19]. Included in this cost increase were contractual increases on distribution costs (3.1%) and printing costs (2.1%).

EBITDA for 1H11 was $27.2 million.

iii) Other

Yahoo!7 revenues grew 25.4% year-on-year in 1H11, with EBITDA and NPAT growth of 32.0% and 38.0% respectively. The continued recovery of the advertising market over the period contributed to this growth, however the business also continued to outperform the market.

Yahoo!7 acquired Oztips (one of the market leading online tipping businesses) in July 2010. In October 2010, Yahoo!7 also entered into an agreement with Yellow Pages Group Limited in New Zealand to provide its online and mobile offering.

4.7.7 Material best estimate assumptions for SMG Pro Forma Forecast Financial Information

SMG's Standalone Pro Forma Forecast Financial Information for FY11F has been prepared on the basis of the actual results for 1H11 and the forecast results for 2H11F.

The following best estimate assumptions have been used to derive forecasts for 2H11F, and should be read in conjunction with the risk factors set out in Section 6 of this Explanatory Memorandum.

a) General assumptions

The following general assumptions are relevant to the forecast financial information:

- No material change in the competitive operating environment;
- No significant deviation from current market expectations of global economic conditions;
- No material new investments, business acquisitions or disposals, other than the Proposed Transaction;
- No material industrial strikes or other disturbances, environmental costs or legal claims;
- Retention of key rights;
- No significant change in the legislative regimes and regulatory environments in the jurisdictions in which SMG operates;
- Retention of key personnel;
- No change in the applicable Australian Accounting Standards or other mandatory Australian professional reporting requirements which would have a material effect on SMG's financial performance, cash flows, balance sheet, accounting policies, financial reporting or disclosure;
- No change in SMG's capital structure other than as set out in, or contemplated by, this Explanatory Memorandum;
- No material change in CPI and other assumptions underlying the SMG Standalone Pro Forma Forecast Financial Information; and
- No material amendment to any material agreement or arrangement relating to SMG's businesses and investments.

b) Specific assumptions

i) Revenue assumptions

A Television

Television revenue is derived primarily from advertising, which is a function of market size and market share. For the pro forma forecast period of FY11F, the metropolitan television advertising market size is assumed to grow at 10.1% to $3,109 million. The forecast growth in the metropolitan television advertising market is consistent with market expectations and actual year to date growth to December 2010.

SMG has held the number one position in market share for seven consecutive six month periods since the period ended 30 June 2007, with a 38.9% average market share of metropolitan advertising revenue up to the period ended FY10. It is assumed that SMG's FY10 market share of 38.0% will be maintained in the forecast period.

B) Magazines

The forecast for Magazines revenue is based on the following key assumptions:

- Circulation is assumed to decline by 4.9% in FY11F (1.2% on a like-for-like basis)[19] with soft retail conditions prevailing. However, circulation revenue in the second half of FY11F is expected to benefit by $1.0 million year-on-year from cover price increases.
- Advertising display revenue is forecast to increase by 3.4% in FY11F (5.4% on a like-for-like basis)[19], building on first half momentum, with display revenue for 1H11 up 2.4% year-on-year (4.0% on a like-for-like basis)[19]. Forward bookings for the second half of FY11F show growth year-on-year.

18 Based on pro forma EBITDA and includes an adjustment for 1H10 relating to the licence fee rebate recognised in June 2010 for FY10.

19 Includes an adjustment for the licence transaction entered into in October 2010 with APN News & Media for Pacific Magazines' New Zealand business.

Information on SMG (continued)

ii) Operating expense assumptions

A) Television

The forecast for Television operating expenses is based on the following key assumptions:

- SMG's estimated programme cost base for the forecast period is primarily derived from contracted studio output deals, sporting rights and locally produced content. SMG's main output contracts are with Disney and NBC Universal. Programme purchases in FY11F relating to these suppliers are known and quantifiable. Local programme content is based on the current estimated programme schedule to June 2011. Permanent employee expenses are forecast to move largely in line with wage inflation of 4.0%; and
- Back office expenses are forecast to increase at approximately the rate of inflation in the forecast period of 3.1%.

B) Magazines

The forecast for Magazines operating expenses is based on the following key assumptions:

- All contractual cost increases have been incorporated for print, distribution and employee expenses; and
- All volume-driven costs have been incorporated based on forecast circulation/advertising levels.

Overall Magazines expenses for FY11F are forecast to decline 2.5% year-on-year (increasing 1.2% on a like-for-like basis.[20] This decline is in part due to the nature of the $1.6 million one-off expenses incurred in the second half of FY10, as previously detailed.

iii) Share of net profits from associates

SMG's share of results from associates primarily relates to the Yahoo!7 joint venture and is assumed to grow at 33.8% in FY11F. This growth forecast is mainly attributable to the overall online display market in which Yahoo!7 operates, which is estimated to grow at 14.7% in FY11F (management estimate based on market expectations). In addition, market share gains of 1% are expected to contribute to the growth in contribution from Yahoo!7. These market share gains are forecast to come primarily from video advertising, due to the growth of TV video streams (catch up TV and independent studio content), and further growth in direct response and targeting.

iv) Depreciation assumptions

The forecast for depreciation is based on the historic level of depreciation and includes forecast capital expenditure depreciated on a straight line basis over the economic useful life of the assets. Depreciation in FY11F is forecast to increase by $0.4 million.

4.7.8 Sensitivity analysis

SMG's Standalone Pro Forma Forecast Financial Information is based on a number of estimates and assumptions that are subject to business, economic and competitive uncertainties and contingencies, many of which are beyond the control of SMG, its directors and management, and upon assumptions with respect to future business decisions, which are subject to change.

Set out below is a summary of the sensitivity of certain assumptions to changes in a number of key variables. The changes in the key variables as set out in the sensitivity analysis are not intended to be indicative of the complete range of variations that may be experienced.

While the period of the forecast is to 2H11F, sensitivities are calculated and applied on an annualised FY11F basis.

TABLE 14: SENSITIVITY ANALYSIS – YEAR ENDED 25 JUNE 2011

Assumption	Change (%)	Revenue ($m)	EBITDA ($m)
1. Change in metro television advertising market size	+/– 1.0%	10.7	9.1
2. Change in metro television market share	+/– 1.0%	31.1	26.4
3. Change in Pacific Magazines' retail circulation revenue	+/– 1.0%	1.6	0.9

Market size: This illustrates the impact of a +/– 1.0% change in SMG's metropolitan television market size forecast of $3,109 million, presuming SMG's market share remains constant.

Market share: This illustrates the impact of a +/– 1.0% change in SMG's metropolitan television market forecast share of 38.0%, assuming the market size remains constant.

Circulation: This illustrates the impact of a +/– 1.0% change in Pacific Magazines' level of retail circulation revenue, presuming current retail return rates are maintained.

20 Includes an adjustment for the licence transaction entered into in October 2010 with APN News & Media for Pacific Magazines' New Zealand business.

4.7.9 SMG Balance Sheet

Set out below is SMG's pro forma consolidated balance sheet as at 25 December 2010.

TABLE 15: SMG SUMMARY PRO FORMA BALANCE SHEET AS AT 25 DECEMBER 2010

		Adjustments			
$m	SMGL consolidated 25 December 2010[21]	Yahoo!7 transfers	Tax Exit Payment[22]	Recapitalisation	SMG Pro forma 25 December 2010
Current assets					
Cash and cash equivalents	185.8	–	–	–	185.8
Trade and other receivables	263.0	–	–	–	263.0
Program rights and inventories	103.4	–	–	–	103.4
Other	4.0	–	–	–	4.0
Total current assets	**556.2**	**–**	**–**	**–**	**556.2**
Non-current assets					
Receivables/Financial asset	216.0	(216.0)	–	–	–
Investments in associates	2.9	216.0	–	–	218.9
Program rights and inventories	5.6	–	–	–	5.6
Property, plant and equipment	76.9	–	–	–	76.9
Intangible assets	2,191.5	–	–	–	2,191.5
Goodwill	191.6	–	–	–	191.6
Total non-current assets	**2,684.5**	**–**	**–**	**–**	**2,684.5**
Total assets	**3,240.7**	**–**	**–**	**–**	**3,240.7**
Current liabilities					
Trade and other payables	380.3	–	–	–	380.3
Provisions	47.3	–	–	–	47.3
Deferred income	34.8	–	–	–	34.8
Income tax liability	–	–	22.0	(22.0)	–
Total current liabilities	**462.4**	**–**	**22.0**	**(22.0)**	**462.4**
Non-current liabilities					
Trade and other payables	145.3	–	–	–	145.3
Interest bearing loans and liabilities	2,275.5	216.0	–	(216.0)	2,275.5
Intercompany loans	2,106.7	(121.3)	–	(1,335.4)	650.0
Deferred tax liabilities	32.3	–	–	–	32.3
Provisions	14.2	–	–	–	14.2
Deferred income	5.9	–	–	–	5.9
Total non-current liabilities	**4,579.9**	**94.7**		**(1,551.4)**	**3,123.2**
Total liabilities	**5,042.3**	**94.7**	**22.0**	**(1,573.4)**	**3,585.6**
Net assets	**(1,801.6)**	**(94.7)**	**(22.0)**	**1,573.4**	**(344.9)**
Equity					
Share capital	–	–	–	1,573.4	1,573.4
Reserves	5.3	–	–	–	5.3
Accumulated losses	(1,806.9)	(94.7)	(22.0)	–	(1,923.6)
Total equity	**(1,801.6)**	**(94.7)**	**(22.0)**	**1,573.4**	**(344.9)**

The following adjustments have been made to reflect the steps which will occur prior to SMG entering into the Proposed Transaction:

- Transfer of Yahoo!7 into the SMG acquisition structure;
- Clear exit payment in accordance with the Tax Sharing Deed; and
- Recapitalisation and repayment of intercompany loans.

The SMG Consolidated balance sheet information in the above table has been extracted from SMG's reviewed financial statements. The adjustments and SMG pro forma balance sheet at 25 December 2010 have been prepared in accordance with the basis set out in Section 4.7.2.

21 Seven Media Group Pty Limited.

22 Payment by SMGL for exit from tax consolidated group.

Information on SMG (continued)

a) Intangible assets

Set out below is a breakdown of SMG's pro forma intangible assets as at 25 December 2010.

TABLE 16: SUMMARY OF INTANGIBLE ASSETS AS AT 25 DECEMBER 2010

$m	Pro forma 25 December 2010
Television licences	1,800.0
Programme copyrights	22.0
Software	5.4
Magazine mastheads	312.0
Magazine licences	51.7
Restraint of trade	0.4
Total Intangible assets	**2,191.5**
Goodwill	191.6
Total Intangible assets including goodwill	**2,383.1**

b) Loans and liabilities

Set out below is a breakdown of SMG's pro forma loans and liabilities as at 25 December 2010.

TABLE 17: SUMMARY OF PRO FORMA LOANS AND LIABILITIES AS AT 25 DECEMBER 2010

$m	Pro forma 25 December 2010
Bank loans	1,841.1
Secured Notes	315.0
Zero Coupon Notes	119.4
Total interest bearing loans and liabilities	**2,275.5**
Intercompany loans	650.0
Total loans and liabilities	**2,925.5**

It is WAN's intention to use the proceeds of the Offers, together with funds raised through the KKR Investment, to partially pay down the Combined Group's debt post Completion, in addition to paying transaction costs.

c) Commitments

Set out below is a breakdown of SMG's financial commitments as at 26 June 2010.

TABLE 18: SUMMARY OF FINANCIAL COMMITMENTS AS AT 26 JUNE 2010

$m	Payable not later than one year	Payable later than one year but not later than five years	Payable later than five years
Capital expenditure commitments	1.6	–	–
Operating lease commitments[23]	17.6	66.4	151.1
Contracts for purchase of television programmes and sporting broadcast rights	307.9	265.3	–
Contracts for employee services	59.4	35.5	–
Contracts for other services	32.5	59.8	7.5
Other financing commitments[24]	102.3	–	–

23 SMG leases property and equipment under non-cancellable operating leases expiring from one year to 20 years. Leases generally provide SMG a right of renewal at which all terms are renegotiated.

24 Other financing commitments relate to commitments to purchase term loan debt issued by SMG H5 Pty Ltd., a wholly-owned subsidiary, from the secondary market contracted for at the reporting date but not recognised as liabilities. This was subsequently settled in July 2010.

Section 5

Information on the Combined Group

5.1 Overview of the Combined Group

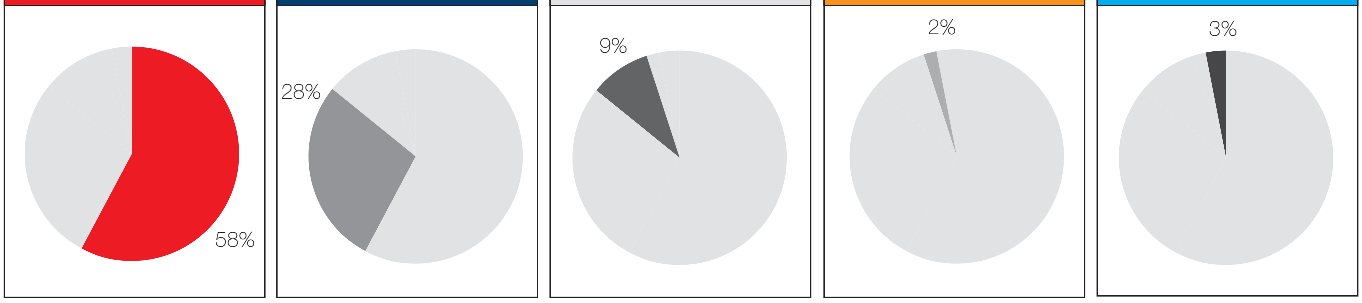
The Proposed Transaction will create one of Australia's leading media groups which is intended to be renamed Seven West Media following Completion.

Following the Proposed Transaction, the Combined Group will have a portfolio of FTA television, newspapers, magazine, online and other media assets with exposure to approximately 91% of the total advertising expenditure market in Australia, and an estimated audience reach of most of the Australian population.

DIAGRAM 7: OVERVIEW OF THE COMBINED GROUP

SEVEN WEST MEDIA

FTA television	Newspapers	Magazines	Online	Other[1]
• Australia's leading FTA television network • Digital channels, 7TWO and 7Mate • Commercial networks in each metro city and regional Queensland • Regional affiliates broadcasting Seven content in VIC, NSW and WA	• #1 metro newspaper in WA • 21 regional newspaper publications in WA • #1 classified newspaper in WA (Quokka) • Investment in Community Newspaper Group (49.9%) - 17 titles across Perth	• #2 magazine publisher • Over 25 publications • Leading titles in 'Home & Lifestyle', 'Fashion' and 'Men's Lifestyle' • Readership base of approximately 7.2m	• A leading platform for online TV, Newspaper and Magazine content • Recent acquisition of Spreets extends online capabilities • Online is expected to be the fastest growing advertising segment in 2011	Radio SkyNews (33.3%) OzTAM (33.3%) TX Australia (33.3%)
FY11F EBITDA: $376m	**FY11F EBITDA: $178m[2]**	**FY11F EBITDA: $58m**	**FY11F EBITDA: $14m[2]**	**FY11F EBITDA: $19m[2]**



1 Other includes forecast pro forma synergies of $15 million but excludes one off costs associated with the synergies. WAN expects synergies to be implemented in full during the remainder of FY11 and FY12.

2 Including share of net profits from associates.

Information on the Combined Group (continued)

5.2 Business integration opportunities

The Board considers that the combined ownership of FTA television, newspapers, magazines, online and other media assets with a wider national audience will provide the Combined Group with considerable opportunities to generate synergies through cross-selling and developing advertising packages for customers across multiple advertising channels.

Additionally, the Board also considers that the Proposed Transaction will provide the Combined Group with the opportunity to generate synergies across the expanded operating cost base, including administrative and support functions.

Synergies of $15 million have been identified and included in the Combined Group Pro Forma Forecast Financial Information set out in Section 5.10.3.

5.3 Rationale for the Acquisition

5.3.1 Diversification of media channels and geographic regions

The Proposed Transaction provides WAN Shareholders with the opportunity to diversify beyond traditional newspaper and radio investments in Western Australia to a broader range of media segments nationally. The Combined Group will hold leading positions across each of the main media categories: FTA television, newspapers, magazines, and online media.

In addition to diversifying the Combined Group's dependency on a particular media platform, it will be able to offer its advertising customers with access to increased content across a greater number of media platforms.

5.3.2 Established positions in FTA television and online media formats

Consumer trends and the regulatory environment are enhancing the potential value in FTA television and online media formats.

In addition, the Proposed Transaction provides further opportunities to consolidate WAN's current online media onto the Yahoo!7 platform and take advantage of continued growth in the online media segment.

5.3.3 Enhanced balance sheet and market capitalisation

The Combined Group is expected to generate strong earnings and operating cash flows. A summary of pro forma cash flows is set out in Section 5.10.4. The enhanced liquidity and balance sheet allows the Combined Group to target opportunities that maximise shareholder value.

5.4 Capital structure of the Combined Group

5.4.1 Borrowings

WAN intends to use the proceeds of the Offers, together with funds raised through the KKR Investment, to fund:

- Interest bearing debt reduction of approximately $450 million;
- $650 million repayment of SGH loan owed by SMG;
- The payment of transaction costs of approximately $45 million; and
- The balance for corporate purposes.

This proposed reduction of the Combined Group's debt is considered to be an appropriate use of the Combined Group's cash resources given the net financial benefit from interest cost savings that will accrue and the Board's desire for a more optimal and sustainable capital structure.

The terms of WAN's current senior debt agreements require consent from financiers following the implementation of the Proposed Transaction. WAN is seeking such consent to maintain the existing facilities which were drawn to $241 million at 31 December 2010. Following announcement of the Proposed Transaction, WAN commenced seeking suitable waivers from its existing financiers. The Board is confident that the existing credit facilities will not be materially altered as a result of the Proposed Transaction.

The Acquisition does not trigger a change of control under the existing SMG credit facilities while SGH's and KKR's (and their respective affiliates) combined shareholding in WAN (on a diluted basis) exceeds 30% and no third party has a greater shareholding in WAN (on a diluted basis) than SGH and KKR (and their affiliates). Accordingly, the Proposed Transaction does not require the repayment of SMG's existing debt.

Following the completion of the Offers and KKR Investment, the Combined Group will have total leverage (based on the Combined Group Pro Forma Net Debt/FY11PF EBITDA) of 3.1x. The Combined Group proposes to undertake a debt reduction of approximately $450 million, expected to be against the existing SMG debt. The Combined Group will begin preparation to refinance the existing SMG credit facilities in the second half of 2011. Given the Combined Group's robust credit ratios and substantial capitalisation, the Combined Group should be well placed to secure financing on attractive terms as to price and tenor.

5.4.2 Ownership Structure

WAN's issued securities consist of the 219.7 million ordinary shares.[3] As at 21 February 2011, SGH held 24.3% of WAN's register with institutional shareholders accounting for approximately 50% and retail shareholders for approximately 50% of the balance of the register.

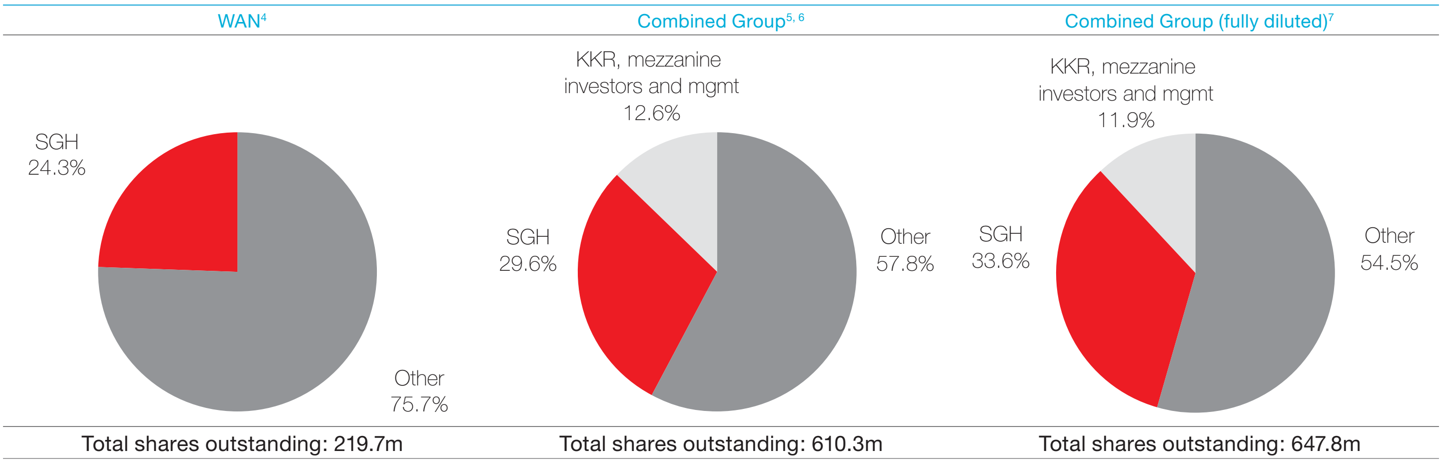
As part of the Proposed Transaction, SGH will sell its existing 24.3% interest in WAN and not take up its entitlement under the Entitlement Offer, such sale being conditional upon the Proposed Transaction being completed. SGH will subsequently receive $1,081 million in WAN Shares as partial consideration for SMG resulting in an increased shareholding of approximately 29.6% in WAN. In addition, as described above, SGH will also receive $250 million of WAN CPS, resulting in a total investment in WAN of $1,331 million.

The terms of the CPS are set out in full in the CPS Terms of Issue at Appendix C.

The Combined Group will have a share capital of 610.3 million as a consequence of WAN Shares issued to SGH, KKR, mezzanine investors and members of management relating to SMG, in addition to the Offers. Following Completion, SGH ownership interest will increase to 29.6%, KKR, mezzanine investors and members of management relating to SMG will have a 12.6% shareholding with the remaining 57.8% of the issued shares being held by institutional and retail investors.

3 Includes 1.6 million shares relating to outstanding loans pursuant to the executive and employee share plans.

FIGURE 22: OWNERSHIP STRUCTURE



5.5 Potential increase in SGH shareholding

SGH currently holds 24.3% of the WAN Shares on issue. Following Completion of the Proposed Transaction, SGH will hold 29.6% of the total WAN Shares on issue. That shareholding and SGH's two nominees on the WAN Board may or may not give SGH practical control of WAN following completion of the Proposed Transaction. WAN Shareholders (other than SMG and its associates) are being asked to vote on a resolution under section 611 Item 7 of the Corporations Act to approve any such change of control as a result of the issue of those shares.

In addition, SGH will hold the WAN CPS which convert into WAN Shares. Those CPS cannot be converted into ordinary shares until after release of the 1H14 financial statements of the Combined Group (likely to be in February 2014), except in limited circumstances.[8] However, if SGH's shareholding and the WAN Shares on issue immediately post completion of the Proposed Transaction remained unchanged at the time of conversion, conversion of the CPS would increase SGH's shareholding in WAN from 29.6% to 33.6%. The section 611 item 7 resolution referred to above will also authorise SGH to increase its shareholding up to 33.6% through the conversion or redemption of CPS.

Following Completion of the Proposed Transaction, SGH will also be able to increase its holding of WAN Shares by acquiring up to an additional 3% of WAN Shares in each six month period, as permitted under the "creep rule" exception in the Corporations Act. Any such acquisitions and/or conversions of CPS may result in a change of control of WAN (to the extent it has not already occurred at that time) without payment of a control premium to WAN shareholders.

5.6 Dividend policy of the Combined Group

Having declared an interim dividend of 19.0 cents per share (fully franked) for 1H11 on 21 February 2011, the Board of WAN provided guidance of 26.0 cents per share (fully franked) for 2H11F, taking the full year dividend to an expected 45.0 cents per share, which will represent an attractive dividend yield of 8.7%.[9] Dividends are expected to be fully franked and are subject to financial forecasts being achieved and other relevant considerations. No guarantee can be given about payment of future dividends, or the level of franking or imputation of such dividends, as these matters will depend upon future events, as well as the risks set out in Section 6.

Those WAN Shares issued to SGH as consideration for the Proposed Transaction, as well as those issued as part of the Offers, will not be entitled to participate in the interim dividend of 19 cents per Share declared on 21 February 2011, but will be entitled to all subsequent dividends, including the 2H11F dividend. WAN's dividend reinvestment plan is suspended at this time.

WAN has a track record of paying meaningful dividends to shareholders and going forward the Board intends to pay a high proportion of the Combined Group's normalised net profit after tax in dividends after having regard to all relevant factors, including working capital requirements and new growth initiatives.

4 Based on shareholding at 4 March 2011.
5 Reflects shareholding post SGH sell down of its 24.3% WAN shareholding and subsequent issue of 180.5 million WAN Shares.
6 Reflects issue of 77.0 million WAN Shares to KKR, mezzanine investors and members of management related to SMG.
7 Reflects conversion of CPS into 37.5 million ordinary WAN Shares.
8 If SGH's shareholding in the Combined Group is diluted below 29.6% (but only to the extent required to bring their holding back up to that level); if a takeover bid is made by a person (other than SGH) for all of the shares in WAN and that bid is unanimously recommended by the WAN Board; or if consented to in writing by the Board.
9 Based on the 1H11 dividend of 19 cents per Share, WAN dividend guidance of 26 cents per Share for 2H11F and an Issue Price of $5.20 per Share. WAN Shares issued under the Public Offer and WAN Shares issued on any conversion of CULS will not be entitled to the 1H11 dividend.

Information on the Combined Group (continued)

5.7 Combined Group Board of Directors

As part of the Proposed Transaction, WAN's existing Board membership would remain intact. One further director will be appointed, namely, David Leckie, the new CEO and Managing Director of the Combined Group.

Further details in relation to remuneration of Directors and Executives are set out later in this Section.

BOARD OF DIRECTORS

Kerry Stokes AC
Chairman

Mr Stokes, 70, is the Executive Chairman of Seven Group Holdings Limited. Mr Stokes' Chairmanship caps four decades of his active involvement in the ownership and management of media companies in Australia. Seven Group comprises WesTrac Holdings, Seven Media Group, and diverse investments – delivering a company with a market-leading presence in media in Australia and the resources services sector in Australia and China through WesTrac & Caterpillar.

In addition, he is Chairman of Australian Capital Equity Pty Limited, which has significant interests in media, entertainment, research and technology development as well as property and industrial activities.

Mr Stokes' many board memberships include him being Founder, Council Member and Chairman of the National Gallery of Australia, a Member of the International Council for Museum & Television, Council Member for the Australian War Memorial, and Trustee for the Special Air Service Trust which provides relief to current and former members of the Special Air Service Regiment and their dependents. Professional recognitions include an Honorary Fellow from Murdoch University and an Honorary Doctorate in Commerce at Edith Cowan University.

Mr Stokes was awarded Australia's highest honour, the Companion in the General Division in the Order of Australia (AC) in 2008. In 1995, he was recognised as Officer in the General Division of the Order of Australia (AO).

Doug Flynn
Non-Executive Director

Mr Flynn, 61, graduated in chemical engineering from the University of Newcastle, New South Wales. He received an MBA with distinction from Melbourne University in 1979.

Mr Flynn was appointed Chief Executive of newspaper publisher Davies Brothers Limited in 1987. The company was acquired by News Corporation in 1989.

During his career at News Limited Group, Mr Flynn held positions as Deputy Managing Director of News International Newspapers Ltd, Director of News International Plc, and Managing Director of News International Plc.

Mr Flynn then held Chief Executive positions with Aegis Group Plc and Rentokil Initial Plc in London, before returning to Australia in 2008.

In April 2008 he became a consultant to, and a Director of, Qin Jia Yuan Media Services Ltd, the leading private television company in China.

Peter Gammell
Non-Executive Director

Mr Gammell, 54, is the Deputy Chairman of Australian Capital Equity Pty Ltd, the holding company associated with Mr Kerry Stokes AC. He was the Managing Director for the last 20 years. Mr Gammell was recently appointed Chief Executive Officer of Seven Group Holdings Limited, a public company listed on ASX which was formed as a result of the merger of Seven Network Limited and WesTrac Holdings Pty Ltd.

Mr Gammell served as a Director of Seven Network Limited for the last 14 years. He was Chairman of the Seven Network Limited Finance Committee and was a member of the Audit Committee. He is the Chairman of Coates Hire, Australia's largest equipment hire company.

Mr Gammell is a former Director of Federal Capital Press Pty Ltd, the publisher of the Canberra Times (1989 to 1998) and is a former Director of the Community Newspaper Group (1996 to 1998).

Mr Gammell is a member of the Institute of Chartered Accountants of Scotland and holds a Bachelor of Science degree from the University of Edinburgh.

Graeme John AO
Non-Executive Director

Mr John, 67, was Managing Director of Australia Post from 1993 to 2009. He is a Fellow of the Chartered Institute of Transport and a Member of the Australian Institute of Company Directors. He is a Board member of QR National, Racing Victoria and an AFL Commissioner.

He is a former Chairman of the Board of the Kahala Posts Group, Board member of the International Post Corporation (Netherlands), and Vice-Chairman of Sai Cheng Logistics International (China), a joint venture with China Post. Mr John was awarded the Officer of the Order of Australia (AO) in 2003, for service to business and to the community. He is also a recipient of the Centennial Medal and the Australian Sports Medal.

Don Voelte
Non-Executive Director

Mr Voelte, 58, has significant experience in the global oil and gas industry, and has been Managing Director and Chief Executive Officer of Woodside Petroleum Limited since joining the company in 2004.

Prior to joining Woodside Petroleum Limited, Mr Voelte held a number of Senior Executive positions in the oil and gas sector. Mr Voelte is a member of the Board of Woodside Petroleum Limited and the University of Western Australia Business School, and is a member of the Society of Petroleum Engineers, the American Society of Civil Engineers, the Chi Epsilon Honor Society, a Foreign Fellow to ATSE (FTSE) and a Fellow of the Australian Institute of Company Directors (AICD). He is a trustee of the University of Nebraska Foundation and was awarded the University of Nebraska Engineering Alumni of Year in 2002. He has a degree in Civil Engineering, from the University of Nebraska.

BOARD OF DIRECTORS

Sam Walsh AO
Non-Executive Director

Mr Walsh, 61, was appointed Chief Executive of Rio Tinto Iron Ore in December 2004, with responsibilities including Rio Tinto's iron ore operations in Australia, Canada, Guinea and India.

In June 2009, Mr Walsh was appointed as an executive director to the Boards of Rio Tinto Plc and Rio Tinto Limited, and in November 2009 he was appointed Chief Executive of Rio Tinto Australia. He is also the Rio Tinto Executive Committee sponsor for Australia, India and West Africa. Prior to joining Rio Tinto, Mr Walsh worked in the automotive industry for more than 20 years in Australia and the USA.

He has a Bachelor of Commerce from Melbourne University and has completed a Fellowship Program at Kettering University in Michigan. He was awarded Honorary Doctor of Commerce in January 2010 by Edith Cowan University.

Mr Walsh is a Fellow of the Australian Institute of Management, the Australian Institute of Mining & Metallurgy, the Chartered Institute of Purchasing & Supply and the Australian Institute of Company Directors, a Vice president of the Australia-Japan Business Co-operation Committee, Chair of the WA Chapter of the Australia Business Arts Foundation, and the Chairman of the Rio Tinto Western Australia Future Fund, patron of the State Library of Western Australia Foundation, a patron of the UWA Hackett Foundation and President of Scouts Australia (WA Branch).

In 2007, Mr Walsh was awarded an Australian Export Hero and Western Australian Citizen of the Year – Industry & Commerce. Mr Walsh was awarded an Order of Australia (AO) in 2010 for his work in the mining industry and establishing employment programs for Indigenous Australians.

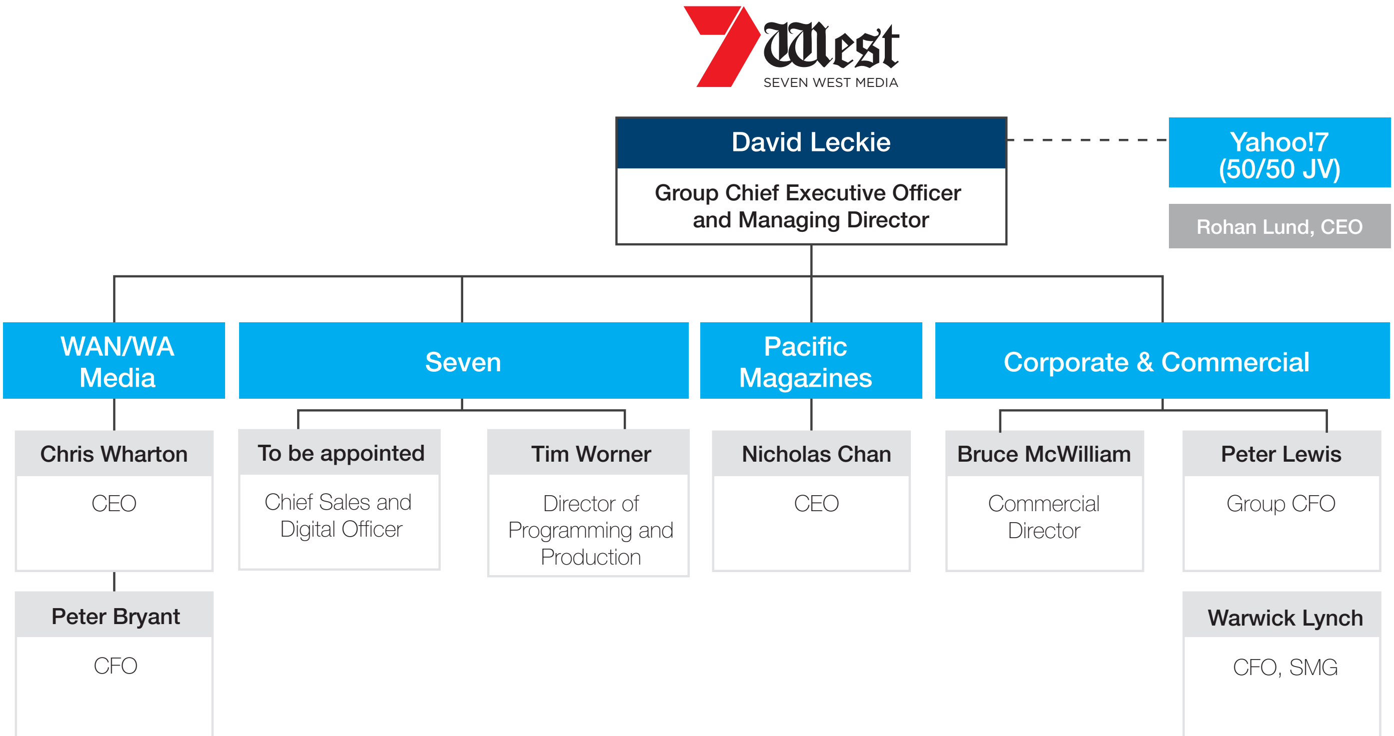
David Leckie
Group Chief Executive Officer and Managing Director

Mr Leckie, 59, was appointed Chief Executive Officer of Seven Media Group in December 2006; he also joined the Board of Directors of Seven Media Group at that time. Mr Leckie joined the Board of Seven Group Holdings Limited in April 2010; he is also a Director of Seven Network (appointed in April 2003) and was Seven Network's Chief Executive Officer, Broadcast Television for over seven years. He holds a Bachelor of Arts (Macquarie University), majoring in Economic and Financial Studies and has over 31 years experience in the media and television industries. Former board positions include Chairman of Pacific Magazines and a Director of Free TV Australia Limited. Mr Leckie is a former Chief Executive Officer of the Nine Network.

Pursuant to the KKR Investment and subject to KKR and the mezzanine investors' aggregate shareholding in WAN remaining above 10%, KKR may also nominate a director following Completion of the Proposed Transaction.

WAN's existing policy is that a majority of the Board must be independent non-executive directors. Following the Proposed Transaction, if KKR nominates a director then there would be four directors out of eight who are independent non-executive directors, with the result that WAN's existing policy will not be complied with. WAN however believes that having half of the Board as independent non-executive directors is appropriate following the Proposed Transaction.

5.8 Combined Group Management Team



Information on the Combined Group (continued)

MANAGEMENT TEAM

David Leckie
Group Chief Executive Officer and Managing Director

Mr Leckie, was appointed Chief Executive Officer of Seven Media Group in December 2006; he also joined the Board of Directors of Seven Media Group at that time. Mr Leckie joined the Board of Seven Group Holdings Limited in April 2010; he is also a Director of Seven Network (appointed in April 2003) and was Seven Network's Chief Executive Officer, Broadcast Television for over seven years. He holds a Bachelor of Arts (Macquarie University), majoring in Economic and Financial Studies and has over 31 years experience in the media and television industries. Former board positions include Chairman of Pacific Magazines and a Director of Free TV Australia Limited. Mr Leckie is a former Chief Executive Officer of the Nine Network.

Bruce McWilliam
Commercial Director

Mr McWilliam was appointed Commercial Director of Seven Network Limited in May 2003 and has been a Director of Seven Network since September 2003, and a Director of SMG since December 2006. Mr McWilliam was a former Director of BSkyB, Executive Director News International Television and General Counsel, News International plc. Previously, Mr McWilliam was a partner of law firms Gilbert & Tobin, Turnbull McWilliam and Allen Allen & Hemsley specialising in media and commercial law.

Peter Lewis
Group Chief Financial Officer

Mr Lewis joined SMG as Chief Financial Officer in May 1998. In December 2008 he was also appointed Chief Operating Officer of SMG. His previous position was Head of Business Affairs for the Sydney Olympic Broadcasting Organization. He has extensive experience in financial management for media companies including Network Ten and Galaxy Media. Mr Lewis holds a Bachelor of Commerce degree and Master of Commerce degree from the University of New South Wales. He is President of Group of 100 Inc, an Associate Member of the Institute of Chartered Accountants in Australia, a Member of the Australian Society of Certified Practicing Accountants and a Fellow of the Institute of Corporate Secretaries and Administrators.

Tim Worner
Director of Programming & Production, Seven

Mr Worner, who has worked at Seven since 1995, took up his current role at the start of the 2003 ratings season. Mr Worner's previous roles with the Network include Head of Program Development, Head of Sport Melbourne and Head of Infotainment. Mr Worner is responsible for programming all three of Seven's channels as well as their production. He is also in charge of Seven Network's on air promotions, marketing, publicity and design departments. More recently, Mr Worner created, developed and launched SMG's multi-channels, 7TWO and 7mate.

Chris Wharton
Chief Executive Officer, WAN/WA Media

Mr Wharton joined WAN in December 2008 after nine years as the Managing Director of Channel Seven Perth. During his tenure, Seven Perth became the highest rating metropolitan television station in Australia and not only maintained its position but also increased its revenue and ratings performance.

Mr Wharton began his newspaper career as a journalist over 30 years ago and has worked in every area of newspaper management in Sydney before being appointed as the Chief Executive Officer of Perth's Community Newspaper Group in 1995.

MANAGEMENT TEAM

Nick Chan
CEO, Pacific Magazines

Mr Chan joined Pacific Magazines in March 2004, having previously held the position of Chief Executive Officer at Text Media Group.

Prior to joining Text Media Group, Nick held a series of senior management positions at Australian Consolidated Press – including Group Publisher – Major Market & Lifestyle Group and Chief Operating Officer. Nick has a total of 25 years publishing experience.

Peter Bryant
Chief Financial Officer, WAN/WA Media

Mr Bryant joined WAN in April 2008 as Company Secretary, and in November 2009 his role was expanded to encompass the position of Chief Financial Officer. Prior to joining WAN he was the Company Secretary and CFO of GRD Limited, where he had been employed for eight years. His commercial experience also includes several financial and management roles within a significant private, Perth based, entrepreneurial group. Peter commenced his career with Ernst & Young working for their offices in Australia, the UK and the US.

Mr Bryant is a Fellow of the Institute of Chartered Accountants in Australia.

Warwick Lynch
Chief Financial Officer, SMG

Mr Lynch was appointed Chief Financial Officer of SMG in March 2010. His previous role was Group Financial Controller for SMG. He joined the Seven Network fourteen years ago. Prior to joining Seven Network he was with the United Kingdom based media company, Chrysalis, and prior to that with Ernst & Young for four years.

He holds a Bachelor of Business degree, majoring in Accounting from Charles Sturt University. He is a member of the Institute of Chartered Accountants in Australia.

Rohan Lund
CEO Yahoo!7

Mr Lund is the CEO of Yahoo!7 and Chairman of Yahoo!Xtra in New Zealand. He is a Director of Yahoo!7, Wireless Broadband Australia (Australia's first 4G network) and the former Chairman of the Internet Advertising Board.

Prior to joining Yahoo!7 in 2004, Mr Lund was Strategy Director with SingTel Optus.

He holds a Master of Laws from Queensland University of Technology.

Information on the Combined Group (continued)

5.9 Combined Group Management Team remuneration and compensation

5.9.1 Employment contracts

Existing WAN and SMG employees who will be members of the Combined Group's Management Team are employed under individual contracts of employment. The contracts generally establish:

- The individual's total fixed compensation, which includes fixed cash remuneration and WAN's superannuation contribution;
- Eligibility to participate in an employee incentive schemes;
- Notice and termination provisions; and
- Leave entitlements and other employment related matters.

Details of the employment contract of the proposed CEO of the Combined Group is set out in Section 7.5.

WAN makes contributions with respect to its employees to complying superannuation funds, in accordance with relevant superannuation legislation. WAN contributes at a rate for senior executives with regard to its obligations under:

- Relevant superannuation legislation (i.e. at least 9% of ordinary time earnings); and
- Individual contracts of employment for the relevant employee.

5.9.2 Combined Group Management Team incentive plans

It is proposed that a new Short Term Incentive (**STI**) plan and Long Term Incentive (**LTI**) plan appropriate for the Combined Group Management Team will be agreed by the WAN Board Remuneration Committee after Completion of the Proposed Transaction. Further details of these plans will be disclosed following Completion of the Proposed Transaction and will be subject to any necessary Combined Group shareholder approvals at the next annual general meeting for the Combined Group.

5.10 Combined Group Financial Information

5.10.1 Introduction

This Section contains a summary of the historical and forecast financial information of Combined Group, assuming the Proposed Transaction is completed.

The **Combined Group Pro Forma Historical Financial Information** comprises:

- Consolidated pro forma summary income statements of Combined Group for FY09, FY10 and 1H11 consisting of:
  - WAN Standalone pro forma historical income statements for the corresponding periods;
  - SMG pro forma historical income statement for the corresponding periods; and
  - Relevant pro forma adjustments to present Combined Group post acquisition.
- Consolidated pro forma summary cash flows of Combined Group for FY10 consisting of:
  - WAN Standalone pro forma summary cash flow information for the corresponding periods; and
  - SMG pro forma summary cash flow information for the corresponding periods.
- Consolidated pro forma balance sheet of Combined Group as at 31 December 2010 consisting of:
  - WAN Standalone balance sheet as at 31 December 2010;
  - SMG pro forma balance sheet as at 25 December 2010;
  - Pro forma adjustments to SMG's balance sheet for the 6 days to 31 December 2010; and
  - Relevant consolidation and pro forma adjustments to present Combined Group post acquisition.

The **Combined Group Pro Forma Forecast Financial Information** comprises:

- Consolidated pro forma forecast income statement of Combined Group for FY11F consisting of:
  - WAN Standalone Pro Forma Forecast Financial Information for the corresponding period;
  - SMG Pro Forma Forecast Financial information for the corresponding period; and
  - Relevant pro forma adjustments to present Combined Group post acquisition.
- Consolidated pro forma forecast summary cash flows of Combined Group for FY11F consisting of:
  - WAN Standalone pro forma summary forecast cash flow information for the corresponding period;
  - SMG pro forma summary forecast cash flow information for the corresponding period; and
  - Relevant pro forma adjustments to present Combined Group post acquisition.

No consolidated pro forma historical or forecast statements of comprehensive income are provided.

The information contained in this Section should be read in conjunction with the information set out elsewhere in this Explanatory Memorandum, including risk factors set out in Section 6 and financial information of WAN Standalone and SMG set out respectively in Sections 3.5 and 4.7.

Important notes

Combined Group Pro Forma Historical Financial Information and Combined Group Pro Forma Forecast Financial Information (collectively the **Combined Group Financial Information**) has been reviewed by PricewaterhouseCoopers Securities Ltd whose Investigating Accountant's Report relating to this information is included in Appendix B.

5.10.2 Basis of preparation

The Combined Group Financial Information has been prepared in abbreviated form. It does not contain all the disclosures that are usually provided in an annual report prepared in accordance with the Corporations Act.

All amounts disclosed in the tables are presented in Australian dollars and, unless otherwise noted, are rounded to the nearest $0.1 million.

Preparation of Combined Group Pro Forma Historical Financial Information

Combined Group Pro Forma Historical Financial Information has been prepared for illustrative purposes only on the assumption that the Proposed Transaction and proposed funding and management structure was in place from 1 July 2008. This is not intended to reflect the financial performance or the financial position that would have actually resulted had the Proposed Transaction been implemented on this date, or the results that may be obtained in the future. If the Proposed Transaction had occurred in the past, the Combined Group financial position and financial performance would likely have been different from that presented in the Combined Group Pro Forma Historical Financial Information. Due to the nature of pro forma information, it may not give a true picture of Combined Group actual financial position and financial performance.

Preparation of Combined Group Forecast Financial Information

The Board believe they have prepared the WAN Standalone Pro Forma Forecast Financial Information with due care and attention, and consider all best estimate assumptions when taken as a whole to be reasonable at the time of preparing this information.

The Board believes that the SMG Pro Forma Forecast Financial Information has been prepared with due care and attention, and considers all best estimate assumptions when taken as a whole to be reasonable at the time this information was prepared.

The Combined Group Pro Forma Forecast Financial Information has been prepared on the basis of certain assumptions, including the key best estimate assumptions applying to the WAN Standalone Pro Forma Forecast Financial Information and the key best estimate assumptions applying to the SMG Pro Forma Forecast Financial Information, in combination (outlined in Sections 3.5 and 4.7 respectively) with specific adjustments to the Combined Group Pro Forma Forecast Financial Information set out later in this Section. This information is intended to assist investors in assessing the reasonableness and likelihood of the assumptions occurring, and is not intended to be a representation that the assumptions will occur.

Community Newspaper Group, Yahoo!7 and Sky News are non-controlled businesses of Combined Group. Whilst the Board have prepared forecast information by reference to their knowledge of these businesses, the forecasts are those of Combined Group and not the underlying businesses.

Investors should be aware that the timing of actual events and the magnitude of their impact might differ from that assumed in preparing the Combined Group Pro Forma Forecast Financial Information, and that this may have a materially positive or negative effect on Combined Group pro forma's actual financial performance. Accordingly, the Board cannot give any assurance that the forecasts will be achieved. Events and outcomes might differ in quantum and timing from the assumptions, with material consequential impact on the Combined Group Pro Forma Forecast Financial Information. Investors are advised to review the key best estimate assumptions, in conjunction with the sensitivity analysis set out in Section 5.10.6, and the risk factors set out in Section 6, together with the other information set out elsewhere in this Explanatory Memorandum.

5.10.3 Combined Group Pro forma Income Statements

The table below outlines the Combined Group pro forma consolidated historical and forecast income statements for the years FY09, FY10, 1H11 and FY11PF. The financial information for FY09, FY10 and 1H11 has not been shown below EBIT (including associates) due to the change in the capital structure of the Combined Group post Completion.

TABLE 19: COMBINED GROUP PRO FORMA INCOME STATEMENT

$m	Pro forma historical			Pro forma forecast
	FY09	FY10	1H11	FY11F
Revenue[10]	1,891.4	1,861.8	1,033.2	1,967.0
Other income	10.4	0.5	0.1	0.1
Operating expenses	(1,442.3)	(1,333.3)	(681.2)	(1,358.2)
Synergies	–	–	–	15.0
EBITDA	**459.5**	**529.0**	**352.1**	**623.9**
Depreciation and amortisation	(78.8)	(66.4)	(34.9)	(68.5)
EBIT	**380.7**	**462.6**	**317.2**	**555.5**
Share of net profits of associates	13.3	17.3	11.3	21.3
EBIT (including associates)	**394.0**	**479.9**	**328.5**	**576.8**
Net interest expense				(152.3)
Profit before income tax				**424.5**
Income tax expense				(119.9)
NPAT				**304.7**

a) Pro forma adjustments

In addition to the pro forma adjustments made to WAN Standalone and SMG results (outlined in Sections 3.5 and 4.7 respectively), the following adjustments have been made to Combined Group:

TABLE 20: COMBINED GROUP ADJUSTMENTS

$m	Pro forma historical			Pro forma forecast
	FY09	FY10	1H11	FY11F
Pro forma EBIT – WAN	154.9	150.8	77.6	157.3
Pro forma EBIT – SMG	239.1	329.1	250.9	404.5
Aggregated Group pro forma EBIT	**394.0**	**479.9**	**328.5**	**561.8**
Combined Group pro forma adjustments				
Add forecast synergies	–	–	–	15.0
Pro forma Combined Group EBIT	**394.0**	**479.9**	**328.5**	**576.8**

10 Interest income of $0.6 million in FY09, $0.5 million in FY10, $0.7 million in 1H11 and $1.1 million in FY11F has been reclassified to net interest expense.

Information on the Combined Group (continued)

i) Operational synergies

The Board forecast revenue and cost synergies as a result of combining the existing businesses of WAN and SMG. Identified synergies of $15.0 million principally comprise:

- Incremental advertising opportunities from leveraging the Combined Group's broader range of media assets and enlarged sales force. SMG Red, the dedicated cross sales group, will be integral to delivering these synergies, targeting integrated solutions to advertising clients across multiple platforms;
- Purchasing benefits, for example paper savings through utilising The Combined Group's buying capacity and existing supplier arrangements to reduce paper costs;
- Operational efficiencies from consolidating resources and reviewing organisation structures for example news resources and the publishing of speciality publications and magazines; and
- Centralising certain overhead functions across the Combined Group.

For the purposes of the pro forma results, the synergies are assumed to be in place from 1 July 2010. The realisation and timing of these synergy benefits are subject to certain key risks, which are further described in Section 6.3.

None of the synergies require significant capital expenditure but there will be one-off costs associated with the implementation including redundancies, training and managing the integration process. Management estimates these costs to be $3 million split evenly across FY11 and FY12. Identified synergies are expected to be implemented in full by the end of the financial year ending 30 June 2012.

ii) Forecast results for FY11PF

The above results are pro forma assuming the acquisition took place on 1 July 2010. The actual result for the Combined Group will need to be adjusted for the following items:

- The results for the period in FY11F that WAN did not own SMG, assuming the Acquisition takes place on 30 April 2011;
- Transaction costs totalling $45.0 million relating to the Proposed Transaction, of which $27.0 million is expensed in FY11F. These costs are not tax deductible assuming the transaction proceeds; and
- $10.5 million of synergies (after tax) reflected in Combined Group results.

TABLE 21: RECONCILIATION OF COMBINED GROUP FY11PF NPAT TO FY11F NPAT

	$m
Combined Group pro forma NPAT (FY11PF)	304.7
SMG NPAT 10 month period not owned	(160.5)
Assumed synergies[11]	(10.5)
Tax adjustment on underwriting fees	(0.9)
Transaction costs	(27.0)
WAN Statutory Forecast NPAT (FY11F)	**105.8**

These adjustments have not been reflected in the Combined Group pro forma forecast income statement for FY11PF.

5.10.4 Summary pro forma cash flows and pro forma forecast cash flows for FY10, 1H11 and FY11PF

The table below sets out a reconciliation of WAN pro forma EBITDA to summary cash flows and forecast cash flows for FY09, FY10 and FY11PF.

TABLE 22: COMBINED GROUP CASH FLOW

	Pro forma historical		Pro forma forecast
$m	FY09	FY10	FY11F
EBITDA	**459.6**	**529.0**	**623.9**
Working capital and other movements	2.9	(145.2)	(62.0)
Dividends received from associates	6.4	8.3	7.2
Operating cash flows before interest and tax	**468.9**	**392.1**	**569.1**
Cash flows from other activities			
Income tax paid			(94.8)
Net interest paid			(152.3)
Proceeds from sale of assets			0.2
Payment for property, plant and equipment			(51.3)
Net repayment of borrowings			(35.4)
Net cash flows used in other activities			**(333.6)**
Free cash flow after debt service			**235.5**

11 Assumes no synergies are realised.

Important notes

In relation to FY09 and FY10, cash flows below operating cash flows have not been included due to the change in the capital structure of the Combined Group. In relation to FY11F, cash flows associated with dividend payments and proceeds received from equity issued in conjunction with the Proposed Transaction have been excluded from pro forma cash flows on the basis that these cash flows are not illustrative of the Combined Group going forward.

5.10.5 Material Best Estimate Assumptions for Forecast Financial Information

The Combined Group Pro Forma Forecast Financial Information has been prepared on the basis of the material best estimate assumptions set out below. This information is intended to assist WAN Shareholders in assessing the reasonableness and likelihood of the assumptions occurring and is not a representation that the assumptions will occur. WAN Shareholders should be aware that the timing of actual events and the magnitude of the impact might differ from that assumed in preparing the forecast financial information, and that this may have a positive or negative effect on WAN's actual financial performance or distributable cash. WAN Shareholders are advised to review the key assumptions in this Section in conjunction with the sensitivity analysis in Section 5.10.6 and the key risks set out in Section 6.

In addition to the general and specific material best estimate assumptions used in preparing WAN Standalone (see Section 3.5.6) and SMG forecast financial information (see Section 4.7.7), the following specific assumptions have been made in preparing Combined Group Pro Forma Forecast Financial Information:

- Interest expense for FY11PF has been calculated as the sum of the interest on assumed Net Debt of $1,654 million from SMG at 25 December 2010 (after assuming a Combined Group debt reduction of approximately $450.0 million) pursuant to the Share Sale Agreement, assumed to be held constant for the entire year from 1 July 2010, plus the interest expense of WAN Standalone, as set out in Section 4.5.3. The effective average interest rate of 7.8% on all these credit facilities is based on current credit facility rates, including those noted in Section 5.11.2(b)(vi). WAN intends to seek financier change of control consent to maintain the existing WAN facilities which were drawn to $241.0 million as at 31 December 2010. It is assumed that WAN will obtain consent from financiers to continue its facilities at broadly consistent terms and that SMG's debt will remain under the current financing agreements;
- No costs have been assumed for the participation of SMG employees in any LTI Plan;
- No material impact has been forecast for the 52 week reporting period used by SMG on FY11F;
- An effective tax rate of 30% has been assumed; and
- The Combined Group has not forecast mark-to-market movements in any hedge or derivative instruments. To the extent there are future movements in FY11, these will be reflected either in equity or the income statement but will not impact cash.

5.10.6 Sensitivity analysis

The Combined Group Pro Forma Forecast Financial Information is sensitive to key assumptions used in preparing the forecast, as discussed above. The sensitivity analysis below demonstrates the potential impact of possible changes in these key assumptions on the Combined Group NPAT and free cash flow. The impact is shown as a positive/(negative) adjustment to the NPAT or free cash flow in the year ending 30 June 2011.

The sensitivity table below should be considered in conjunction with the preceding discussion on the key assumptions. Care should be taken in interpreting this sensitivity analysis. The analysis treats each change in the specific assumption in isolation to the others, whereas in many cases changes may be inter-dependent, with associate changes having cumulative or mitigating impacts. The sensitivity also does not take into account any potential mitigating action which may be taken by management. Proportional variations of the changes presented may not result in a proportional change to the forecast impact.

TABLE 23: COMBINED GROUP SENSITIVITY ANALYSIS

Assumption	Change (%)	NPAT $m	Free Cash Flow $m
1. Market size sensitivity – WA metropolitan newspapers[12]	+/– 1.0%	2.1	2.9
2. Market share sensitivity – WA metropolitan newspapers[12]	+/– 1.0%	2.0	2.7
3. Change in metro TV advertising market size[13]	+/– 1.0%	6.4	9.1
4. Change in metro TV advertising market share[13]	+/– 1.0%	18.4	26.4
5. Change in Pacific Magazines' retail circulation revenue	+/– 1.0%	0.6	0.9

Change in WA metropolitan newspaper

- **Change in WA metropolitan newspaper market size**: This illustrates the impact of a +/– 1.0% change in the West Australian metropolitan newspaper market forecast to be approximately $360 million, presuming WAN's market share remains constant.
- **Change in WA metropolitan newspaper market share**: This illustrates the impacts of a +/– 1.0% change in WAN's forecast market share of the West Australian metropolitan newspaper market of approximately 70%, assuming the market size remains constant.
- **Change in metro TV advertising market size**: This demonstrates the impact of a +/– 1.0% change in market size of the forecast annual Television Advertising market of $3,109 million, assuming market share remains constant at 38%.
- **Change in metro TV advertising market share**: This demonstrates the impact of a +/– 1.0% change in the forecast market share of 38% assuming market size remains constant at $3,109 million.

12 For the purposes of metro newspapers market size and market share sensitivities, EBITDA impact (adjusted for related working capital movements) has been used as a basis for the impact on the estimated free cash flows for the Combined Group. It has been assumed that no significant capital impact expenditure is associated with changes in these sensitivities.

13 For the purposes of the TV advertising market size and market share sensitivities, EBITDA has been used as a basis for the impact on the estimated free cash flows for Combined Group. It has been assumed that there is no significant working capital or capital expenditure associated with changes in these sensitivities.

- **Change in Pacific Magazine circulation**: This illustrates the impact of a +/– 1.0% change in Pacific Magazines' level of retail circulation revenue, presuming current retail return rates are maintained.
- No interest rate sensitivity has been included on the basis that the majority of debt is hedged for FY11F.

5.10.7 Full Year Effect on Earnings Per Share

This Section sets out the calculation of the Combined Group's pro forma of earnings per share (EPS).

TABLE 24: COMBINED GROUP EARNINGS PER SHARE

	FY11PF Basic	FY11PF Diluted
WAN Standalone FY11F NPAT ($m)	102.0	102.0
WANOS[14] (millions)	217.1	218.8
WAN Standalone FY11F EPS (cents)	47.0	46.6
Adjustment Factor	1.06	1.06
Restated WAN Standalone FY11F EPS (cents)	**44.3**	**44.0**
Combined Group FY11F NPAT ($m)	304.7	304.7
WANOS (millions)	607.7	648.2
WAN pro forma EPS (cents)	**50.1**	**47.0**
WAN pro forma EPS accretion (%)	**13.1%**	**6.8%**

The above accretion statement has been made on the basis of the following:

- The inclusion of forecast synergies as set out in Section 5.10.3 assuming the full year effect in FY11PF;[15]
- The exclusion of any one-off costs associated with the achievement of those synergies, which, as noted in Section 5.10.3, are estimated at $3.0 million;
- The exclusion of approximately $27.0 million of transaction costs;
- WAN has not yet conducted its acquisition accounting as at the date of this Explanatory Memorandum and consequently the depreciation and amortisation expenses used in determining pro forma EPS do not reflect any changes that may result from fair value accounting for the identifiable assets, liabilities and contingent liabilities of the acquisition of SMG; and
- No expense has been reflected in FY11F for any additional expense related to the long term incentive arrangements for SMG employees.

In making the above EPS accretion statement, WAN has taken into account earnings assumptions noted earlier in this Section. Weighted average number of shares (WANOS) has been adjusted to reflect:

TABLE 25: CALCULATION OF WANOS

	Time weighting	Basic WANOS (million)	Diluted WANOS (million)
WAN Standalone total shares outstanding – 1 July 2010	100%	214.2	216.0
WAN Entitlement Offer	100%	125.5	125.5
Public Offer	100%	7.7	7.7
Placement to KKR, mezzanine investors and members of management relating to SMG	100%	77.0	77.0
Scrip consideration to SGH	100%	180.5	180.5
CPS issued to SGH – 1 July 2010	100%	–	37.5
2H10 dividend reinvestment plan – 30 September 2010	75%	3.7	3.7
Shares transferred under the employee share purchase plan – 30 September 2010	75%	0.2	–
Increase in CPS notional value – 30 June 2011	50%	–	2.7
Combined Group WANOS		**607.7**	**648.2**

5.10.8 EPS adjustment factor

On completion of the Entitlement Offer, EPS calculations for all prior periods will be adjusted to reflect the bonus element of the Entitlement Offer, as required by AASB 133 "Earnings per Share". The EPS calculations will be based on the WAN Share price and WAN Shares outstanding as at the date of this Explanatory Memorandum.

The calculation of the adjustment factor is set out in the table below:

14 Weighted average number of shares.

15 Based on diluted EPS calculated assuming the Combined Group was together for the full year FY11F (with SMG's pro forma net debt of $1,654 million remaining constant) and forecast synergies as set out in Section 5.10.3 but excludes any one-off costs associated with the synergies, any additional amortisation resulting from the final purchase price allocation or transaction costs. WAN expects identified synergies to be implemented in full during the remainder of FY11 and FY12. WAN's standalone FY11F diluted EPS is before transaction costs. Refer calculation set out in Section 5.10.3. Basic EPS accretion of 13.1% on the same basis.

TABLE 26: CALCULATION OF ADJUSTMENT FACTOR FOR EPS

Closing Share price at 18 February 2011	$	6.34
1H11 Dividend	$	0.19
Adjusted price	$	6.15
Shares outstanding prior to the Entitlement Offer	m	219.7
Market capitalisation of WAN before the Entitlement Offer	**$m**	**1,351.0**
Entitlement Offer Issue Price	$	5.20
Number of shares issued under Entitlement Offer (million)	m	125.5
Gross proceeds raised from Entitlement Offer	**$m**	**652.7**
Current shares outstanding + shares issued in Entitlement Offer	**m**	**345.2**
Theoretical adjusted market capitalisation after the Entitlement Offer	**$m**	**2,003.7**
Theoretical Ex-Rights Price (TERP)	**$**	**5.80**
Adjustment Factor (adjusted price/TERP)		**1.06**

5.11 Combined Group Pro Forma Balance Sheet as at 31 December 2010

The table below sets out the pro forma balance sheet of Combined Group as at 31 December 2010. Refer to Section 5.10.2 for the basis of preparation.

TABLE 27: COMBINED PRO FORMA BALANCE SHEET

$m	WAN 31-Dec-10	Adjustment for Acquisition of SMG	Adjustment SMG Year-End	Adjustment for Capital Raising	Pro Forma Transaction Adjustments	Combined Group Pro Forma 31-Dec-10
Current assets						
Cash and cash equivalents	14.6	185.8	(119.8)	1,154.0	(1,145.0)	89.6
Trade and other receivables	54.5	263.0	(16.6)	–	–	300.9
Program rights and inventories	17.2	103.4	–	–	–	120.6
Other assets	0.1	4.0	–	–	–	4.1
Total current assets	**86.4**	**556.2**	**(136.4)**	**1,154.0**	**(1,145.0)**	**515.2**
Non-current assets						
Program rights and inventories	–	5.6	16.3	–	–	21.9
Property, plant and equipment	209.4	76.9	–	–	–	286.3
Intangible assets	133.2	2,383.1	–	–	1,670.5	4,186.8
Investments accounted for using the equity method	12.1	218.9	–	–	–	231.0
Other assets	0.9	–	–	1,331.0	(1,331.0)	0.9
Total non-current assets	**355.7**	**2,684.5**	**16.3**	**1,331.0**	**339.7**	**4,727.0**
Total assets	**442.1**	**3,240.7**	**(120.1)**	**2,485.0**	**(805.5)**	**5,242.2**
Current liabilities						
Trade and other payables	31.5	380.3	(134.4)	–	–	277.4
Provisions	4.9	47.3	–	–	–	52.2
Other liabilities	2.6	–	–	–	–	2.6
Deferred revenue	–	34.8	–	–	–	34.8
Total current liabilities	**39.0**	**462.4**	**(134.4)**	–	–	**367.0**
Non-current liabilities						
Interest bearing liabilities	241.0	2,275.5	14.3	–	(450.0)	2,080.8
Intercompany loans	–	650.0	–	–	(650.0)	–
Trade and other payables	–	145.3	–	–	–	145.3
Deferred income	–	5.9	–	–	–	5.9
Deferred tax liabilities	11.2	32.3	–	–	(5.4)	38.1
Provisions	0.9	14.2	–	–	–	15.1
Total non-current liabilities	**253.1**	**3,123.2**	**14.3**	–	**(1,105.4)**	**2,285.2**
Total liabilities	**292.1**	**3,585.6**	**(120.1)**	–	**(1,105.4)**	**2,652.2**
Net assets	**150.0**	**(344.9)**	**–**	**2,485.0**	**299.9**	**2,589.9**
Equity						
Contributed equity	150.9	1,573.4	–	2,485.0	(1,591.4)	2,617.9
Reserves	0.3	5.3	–	–	(5.3)	0.3
Retained profits/(accumulated losses)	(1.2)	(1,923.6)	–	–	1,896.6	(28.2)
Total equity	**150.0**	**(344.9)**	**–**	**2,485.0**	**299.9**	**2,589.9**

The pro forma adjustments required to reflect the Combined Group pro forma balance sheet as at 31 December 2010 represent:

5.11.1 Pro forma adjustments

a) Adjustment for Acquisition of SMG

This adjustment represents the acquisition of SMG based on its balance sheet as at 25 December 2010.

b) Adjustments for SMG Year-End

These adjustments reflect:

- Adjustments to SMG's pro forma balance sheet as at 25 December 2010 for significant balance sheet movements in the 6 day period to 31 December 2010. These items include:
  - Collection of significant trade receivables of $16.6 million;
  - Advance payments in relation to programming rights for the Australian Open of $16.3 million; and
  - Payment of ACMA licence fees of $76.5 million, accrued interest on debt facilities of $35.2 million and other miscellaneous payables of $8.4 million accrued at 25 December 2010.

c) Adjustments for Capital Raising

- As part of the Proposed Transaction, WAN will issue:
  - Equity to SGH of $1,081 million comprising an estimated 180.5 million shares at a share price of $5.99. Post Completion, SGH will hold a 29.6% equity interest in the Combined Group;
  - Equity to KKR, mezzanine investors and members of SMG management of $461 million comprising an estimated 77.0 million shares at a share price of $5.99. Post completion, KKR, mezzanine investors and members of management will hold 12.6% equity interest in the Combined Group;
  - A Public Offer of $40 million;
  - Entitlement Offer of $653 million; and
  - CPS of $250 million issued to SGH.

d) Pro Forma Transaction Adjustments

The Combined Group consolidation and pro forma adjustments used in preparing the Combined Group pro forma balance sheet include:

- WAN assuming external net debt of $2,104 million[16] (before debt reduction of approximately $450 million to $1,654 million) on a pro forma basis;
- WAN incurring transaction costs totalling approximately $45 million of which $18 million has been offset against the equity raised and $27 million has been assumed to be expensed through the income statement; and
- A preliminary acquisition accounting adjustment to recognise approximately $1,671 million of intangible assets upon acquisition. This adjustment is based on limited financial information made available by SMG during the due diligence undertaken by WAN, and the actual amount is likely to be different at acquisition date.

These adjustments should be read in conjunction with the significant accounting policy notes set out below.

5.11.2 Significant Accounting Policies and Notes to the financial information

a) Significant policies and notes applicable to WAN audited financial information

WAN financial information presented has been prepared in accordance with AIFRS, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act in Australia. The accounts are presented in accordance with the historical cost convention, unless otherwise stated. The accounting policies adopted in preparing WAN audited financial information are set out in WAN's 30 June 2010 financial statements.

b) Significant policies and notes applicable to Combined Group financial information

Combined Group Financial Information has been prepared on the same basis as the accounting policies disclosed in WAN's audited FY10 accounts. However, to reflect the impact of the Proposed Transaction and the operations of SMG, the following additional policies have also been used:

i) Acquisition accounting

In accordance with Australian Accounting Standards AASB 3 "Business Combinations", WAN is required to allocate consideration of the Acquisition by recognising the identifiable assets, liabilities and contingent liabilities of SMG generally at their fair value at the Completion Date. Any difference between the consideration of the Acquisition and the net fair value of the identifiable assets, liabilities and intangible assets with finite lives, such as mast heads, licenses, customer relationships and contracts, intellectual property are amortised over their estimated useful lives. The goodwill and identifiable intangible assets recognised will be subject to periodic impairment testing.

The pro forma adjustments in Section 5.11.1 include a preliminary allocation of the excess of Purchase Price over the book value of net assets acquired to non-amortisable intangibles based on limited financial information made available by SMG during the due diligence process conducted by WAN in connection with the Proposed Transaction. Australian Accounting Standards allow a period of 12 months from Completion Date to finalise the Purchase Price allocation. It is likely that the final Purchase Price allocation, together with any related deferred tax balances, will be different to the preliminary Purchase Price allocation and could be materially different.

Based on a purchase price of $4,085.0 million and net assets of $2,414.5 million, the excess over net assets would be approximately $1,670.5 million. Accordingly, the Purchase Price allocation may result in a material uplift to the fair value of the amortisable assets of the Combined Group and consequently a material increase in the amortisation charge for the Combined Group in future financial reporting periods. Any amortisation will be reflected in the Combined Group consolidated income statement and there will be no impact on the forecast cash flows of Combined Group.

Refer to note v) below for breakdown of 31 December 2010 intangibles post-acquisition.

ii) SMG net assets

The SMG Financial Information has been incorporated based on audited and special purpose accounts. The accounting policies note in the audited and special purposes accounts of SMGL and SMG respectively highlight SMG's existing capital and debt structure and a deficiency of net assets. The deficiency arose in year ended 27 June 2009 due to the impairment of licences and goodwill. Included in liabilities are Shareholder loans which as noted in the accounts would not be called upon in the event of insolvency. If these Shareholder loans were excluded from the calculation of net position of the balance sheet as at 25 December 2010 this would have resulted in a positive net assets position.

The Proposed Transaction replaces the capital and debt structure, resulting in no net asset deficiency in the Combined Group Pro Forma Balance Sheet.

iii) Revenue recognition

Program sales revenue is recognised upon delivery of episodes to the buyer. Affiliate revenue is recognised as it is accrued.

16 At 25 December 2010 pursuant to the Share Sale Agreement.

iv) Program rights

Television program rights are carried at the lower of cost less amortisation and net recoverable amount. Cost comprises acquisition of program rights and, for programs produced using SMG's facilities, direct labour and material and directly attributable fixed and variable overheads.

Television program assets and program liabilities are recognised from the commencement of the rights period of the contract. Contract payments made prior to commencement of the rights period are disclosed as a prepayment and included under television program rights and inventories.

The amortisation policy requires the amortisation of purchased programs on a straight line basis over a life of one year from commencement of the rights period or over the rights period of the contract (whichever is the lesser). Produced programs are expensed on telecast or in full on the twelfth month after Completion period.

v) Television licenses and other intangibles

The television licenses are renewable every five years under the provisions of the Broadcasting Services Act. The Directors have no reason to believe that they will not be renewed. Television licenses are carried at cost less any impairment loss. Television licenses are considered to have an indefinite useful life and no amortisation is charged.

The breakdown of 31 December 2010 intangibles post-acquisition is as follows:

TABLE 28: WAN INTANGIBLES

$m	WAN 31-Dec-10	Adjustment for Acquisition of SMG	Pro Forma Transaction Adjustment	Combined Group Pro Forma 31-Dec-10
Mastheads	100.6	312.0		412.6
Goodwill	2.5	191.6	1,670.5	1,864.6
Other	30.1	57.5		87.6
Television Licenses		1,800.0		1,800.0
Program Rights		22.0		22.0
Intangible assets	133.2	2,383.1	1,670.5	4,186.8

vi) Interest bearing liabilities

As noted in Section 5.4.1, it is assumed that WAN will obtain consent from financiers to continue its facilities at broadly consistent terms and that SMG's debt will remain under the current financing agreements. Accordingly, the WAN debt has been classified as non-current.

Bills Payable

These are drawn under various bill facilities for WAN totalling $280 million which expire at various stages between January 2012 and June 2013.

Bank Loans

The SMG bank loans are subject to floating interest charges, on which the highest margins applicable are as follows:

- Facility A (term loan) BBR + 2.375% per annum; and
- Facility C (acquisition facility) BBR + 1.375% per annum.

These loans will mature in December 2012 and are secured by a fixed and floating charge over all the assets of certain of SMG's entities.

Secured Notes

The secured notes are subject to a fixed rate of interest, increasing annually from the original rate of 10.16% to a final rate of 12.31% per annum and will mature in December 2013. The secured notes are secured by a second ranking fixed and floating charge over all of the assets of certain of SMG's entities.

Zero Coupon Notes

The zero coupon notes are subject to fixed interest of 12% per annum and will mature in December 2013. The zero coupon notes are unsecured.

TABLE 29: WAN PRO FORMA INTEREST BEARING LIABILITIES

$m	WAN 31-Dec-10	Adjustment for Acquisition of SMG	Adjustment SMG Year End	Pro forma Transaction Adjustment	Combined Group Pro Forma 31-Dec-10
Bills payable	241.0				
Senior Facility A		1,841.1			
Secured Notes		315.0			
Zero Coupon Bonds		119.4	14.3		
Consolidation Adjustment				(450.0)	
Total interest bearing liabilities	**241.0**	**2,275.5**	**14.3**	**(450.0)**	**2,080.8**

vii) Commitments

As noted in Section 4.7.9, as part of the Acquisition of SMG, WAN will assume SMG's financial commitments, which include contracts to purchase television programmes, contracts for employee services and operating lease commitments.

Section 6

Risk factors associated with the Proposed Transaction

6.1 Overview

There are various risks that are both specific to WAN and the Proposed Transaction as general investment risks, which may materially and adversely affect the financial performance and position of WAN and the value of the WAN Shares. Many of these risks are outside the control of WAN.

Before voting at the EGM, WAN Shareholders should carefully consider the risks described in this Section 6. These risk factors do not take into account the investment objectives, financial situation, taxation position or particular needs of any WAN Shareholder. Additional risks and uncertainties not currently known to WAN, or which WAN currently believes to be immaterial, may also have an adverse effect on the value of WAN Shares.

The information set out below does not purport to be, nor should it be construed as representing, an exhaustive summary of all possible risks.

6.2 Proposed Transaction risks

6.2.1 Risk of reliance on information provided to WAN by or on behalf of SGH

The information regarding SMG in this Explanatory Memorandum and on which WAN has relied in relation to the Proposed Transaction has been derived from limited audited and unaudited financial information and other information made available to WAN by or on behalf of SGH during the due diligence process conducted by WAN.

While WAN has conducted due diligence on SMG, and prepared a detailed financial analysis of SMG in order to determine the attractiveness of those businesses, WAN is unable to verify the accuracy or completeness of the information provided to it by or on behalf of SGH and there is no assurance that this due diligence was conclusive and that all material issues and risks in relation to the Proposed Transaction and SMG have been identified. To the extent that this information is incomplete, incorrect, inaccurate or misleading, or the actual results achieved by SMG are weaker than those indicated by WAN's analysis, there is a risk that the profitability and future results of the operations of the Combined Group may differ (including in a materially adverse way) from WAN's expectations as reflected in this Explanatory Memorandum, or that additional liabilities may emerge.

6.2.2 Counterparty change of control risk

Some of the contracts that SMG is a party to may contain change of control clauses which enable a counterparty to terminate its contract upon Completion. In these circumstances, SGH must obtain prior approval from the counterparty to the change of control of SMG. WAN has addressed this risk in relation to certain material contracts which contain change of control clauses through the inclusion of a condition precedent to Completion under the Share Sale Agreement that the relevant counterparties' consent is obtained. SGH may also need to obtain approvals from third parties before it is able to assign to WAN certain contracts relating to SMG.

6.2.3 Management of SMG before Completion

During the period between signing the Share Sale Agreement and Completion, SMG will remain subject to its current corporate governance and management arrangements. While the Share Sale Agreement requires SGH to continue to manage the SMG business in the ordinary course during that period, WAN will not have any ability to direct the management of SMG during that period.

6.2.4 Assumption of SMG

On Completion, WAN will assume the liabilities of SMG, including legal and regulatory liabilities, for which it may not be adequately indemnified. The Share Sale Agreement contains a number of representations, warranties and indemnities. However, the warranties and indemnities may not be sufficient to cover the actual liabilities incurred in connection with any known or unknown liabilities of SMG and WAN may not be able to recover sufficient funds from SGH under the indemnities. Any material unsatisfied warranty or indemnity claims could adversely affect the Combined Group's business, results of operations or financial condition and performance.

6.2.5 Impairment of goodwill and other intangible assets

The financial statements of the Combined Group will be prepared in accordance with AIFRS and consistent with the current accounting policies of WAN. Under AIFRS, intangible assets that have an indefinite useful life including goodwill, are not subject to amortisation and are reviewed annually for impairment. Individual assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an individual asset may not be recoverable. Changes to the carrying amounts of intangible assets of the Combined Group could have an adverse impact on the reported financial performance of the Combined Group and, depending on the extent of the impact, could affect the amount of dividends paid by the Combined Group.

6.2.6 Accounting revisions may be required

SMG has particular accounting policies and methods which are fundamental to how it records and reports its financial position and results of operations. The management of SMG may have exercised judgement in selecting and applying many of these accounting policies and methods. In some cases, SMG management may have selected an accounting policy or method which might have been reasonable under the circumstances yet might have resulted in reporting materially different outcomes than would have been reported under WAN's policies and methods.

While no material differences between WAN and SMG's policies and methods have been identified to date, there remains some uncertainty associated with the extent of the amount of the impact of any such differences.

The integration of SMG's accounting functions may lead to revisions of these accounting policies, which may impact on the Combined Group's reported results of operations or financial condition and performance.

6.2.7 Other risks associated with the Proposed Transaction

In addition to the risks described above, a number of transaction execution risks exist which could prevent WAN from realising the benefits anticipated from the Proposed Transaction, or cause WAN to suffer adverse impacts as a result of the Proposed Transaction. These could include parties such as suppliers, customers or financiers to WAN or SMG whose consent or continued business is desirable, refusing to or imposing onerous or unacceptable conditions on their consent or decreasing their levels of business with WAN or SMG following the transaction. Where these parties have contractual relationships with WAN or SMG, there is a risk that by reason of their rights, interpretation of their rights or adverse response to the Proposed Transaction, they may take action which is adverse to the interests of WAN or SMG whether or not consistent with their rights.

6.3 Combined Group risk factors

6.3.1 WAN may not realise the benefits and synergies it expects from the Proposed Transaction

WAN has undertaken financial and business analysis of SMG in order to determine the attractiveness of the SMG business and whether to pursue the Proposed Transaction. To the extent that the actual results achieved by the Combined Group are weaker than those indicated by WAN's analysis, there is a risk that the profitability and future results of the operations of the Combined Group may differ (including in a materially adverse way) from WAN's expectations as reflected in this Explanatory Memorandum.

Implementation of the Proposed Transaction will involve the integration of businesses that have previously operated independently. The long term success of the Combined Group (and the ability to realise synergies) will depend, in part, on the success of integration of SMG's and WAN's current operations. The integration process will involve, among other things, coordinating geographically separated organisations, integrating complex information technology systems, integrating personnel with diverse business backgrounds and combining different corporate and workplace cultures.

The process of integrating operations could, among other things, divert management's attention, interrupt or lose momentum in the activities of one or more of the businesses and could result in the loss of key personnel. In addition, it may not be possible to effectively integrate or otherwise realise the full synergies that WAN anticipates or in the timeframe that WAN anticipates. Any of these outcomes could have an adverse effect on the Combined Group's business, results of operations or financial condition and performance.

6.3.2 Reliance on key personnel

The Combined Group's operating and financial success will depend partly upon the performance, efforts and expertise of its personnel.

The Proposed Transaction may lead to a loss of key personnel following implementation due to various factors. The loss of key personnel could have an adverse impact on the performance of the Combined Group until any vacated positions are adequately filled.

In addition, there can be no assurance that the Combined Group will be successful in attracting and retaining key management and operating personnel in the future.

6.3.3 The Australian advertising market

The amount of advertising revenue generated by the Combined Group is dictated by advertising market conditions. Since businesses generally reduce or relocate their advertising budgets during economic recessions or downturns, the strong reliance on advertising revenue by the Combined Group makes its operating results susceptible to prevailing economic conditions.

There can be no assurance that advertising spend in the media industries in Australia will not contract in the future. Any contraction in advertising spend in Australia could have a materially adverse effect on the FTA television, radio, newspaper, magazine and online advertising markets as a whole, and in turn the operating and financial performance of the Combined Group.

6.3.4 Competition

The Australian media industry can be highly concentrated and competitive, with a number of operators competing for market share and advertising revenue through the same or alternate products. The actions of an existing competitor or the entry of new competitors in a media segment in which the Combined Group will operate, a competing media segment or generally in the media sector may have a materially adverse effect on the Combined Group.

The Combined Group will compete for audience share and advertising revenues with all forms of media such as FTA television, newspapers, magazines, radio, outdoor advertising, pay television, direct mail, cinema and the internet. The introduction and development of new and innovative forms of media has the capacity to fragment audiences and reduce advertising spend directed to existing media. Alternative forms of media could become more attractive for advertisers, as a result of cost reductions, improvement in ease of production or improvement in ability to target audiences. Any of these circumstances related to the development of other forms of media could adversely impact the media advertising markets which the Combined Group operates within, and in turn the Combined Group's revenue and profitability.

6.3.5 FTA television

a) Changes in broadcasting technology

The television broadcasting industry is characterised by changing technology, evolving industry standards and the emergence of new technologies. Technology plays an increasingly important role in the delivery of media content to customers in a cost-effective manner, for example, the development of digital broadcasting which enables multi-channelling and more efficient delivery of content.

The Combined Group's ability to compete in the television broadcasting industry effectively in the future may be impacted by its ability to maintain or develop appropriate technology platforms for the efficient delivery of its television broadcasting services. No assurance can be given that the Combined Group will have the resources to acquire or the ability to develop new competitive technologies. In addition, maintaining or developing appropriate technologies may require significant capital investment by the Combined Group.

b) New broadcasting licences

ACMA is the regulatory authority overseeing the procedural allocation and regulation of commercial FTA television licences under the Broadcasting Services Act. That Act requires the relevant Minister to conduct a review, including wide public consultation before 1 January 2012, to determine whether any new licences should be issued. Any issue of new licences would increase the level of competition faced by the Combined Group in the FTA television industry, and may adversely impact on its ratings, advertising revenue and profitability.

While WAN is not aware of any breach of any conditions required under existing SMG commercial television licences, there is no guarantee that ACMA will not choose to exercise its power to suspend one or more of the Combined Group's commercial television licences in the future. In addition there is no guarantee that the Combined Group's television broadcasting licences will be renewed at expiry by ACMA. The suspension or non-renewal of one or more of the Combined Group's commercial television licences may impact adversely on the Combined Group's operating and financial performance and its standing in the Australian FTA television market.

Risk factors associated with the Proposed Transaction (continued)

c) Licence fee regime

Holders of commercial television broadcasting licences are required to pay an annual fee to the Government to retain their licences. Historically, this licence fee has been 9% of advertising revenues (being gross revenues less agency commission) for metropolitan operators. In early 2010 the Federal Government announced that it would provide a licence fee rebate to commercial broadcasting licence holders. The aim of the rebate was to protect the quantity and quality of Australian programming as the cost of both purchasing and producing content increased, as well as to recognise the switch to digital has required substantive investment over recent years. The licence fee rebates apply to the FY10, FY11 and FY12 financial reporting periods at a rate of 16.5%, 41.5% and 25% respectively. There is a risk that the Federal Government may not continue the rebate beyond 2012.

d) Programming contracts

The Combined Group's ability to generate advertising revenues through FTA television will be a factor of its programming and audience ratings. Some of the Combined Group's programming will be sourced from external content suppliers under existing contracts. There is a risk that the Combined Group is unable to secure competitive programming, through new contracts or the renewal of existing contracts, on terms favourable to the Combined Group.

There is also a risk that programming costs may increase. Programming costs will represent a significant component of the Combined Group's overall costs, and are to a certain extent beyond the control of the Combined Group. An increase in programming costs would be likely to impact adversely on the Combined Group's profitability. The Combined Group will actively manage its programming portfolio to ensure that a significant proportion of its purchased program inventory does not need to be renewed in any given year.

e) Maintaining ratings

Ratings are the key driver of FTA television advertising pricing and revenue. The revenue and profitability of the Combined Group's FTA television business will depend upon its ability to produce and purchase superior television programming and maintain strong audience ratings vis-à-vis its competitors. The Combined Group's operating and financial performance could be adversely affected by new programming initiatives or increased promotional activities by its competitors.

6.3.6 Magazines

a) General

The Combined Group will operate in the Australian magazine industry through its subsidiary, Pacific Magazines. Pacific Magazines primarily depends upon revenue from magazine circulation and advertising spend in its publications. As such, the profitability and revenue of the Combined Group's magazine business are correlated with the popularity of magazines and the Combined Group's ability to retain market share in the Australian magazine industry.

The magazine industry has experienced declines in circulation and advertising due to the continued shift of readers to alternative media on the internet, particularly for general interest titles and due to subdued economic conditions. SMG has sought to address this through a focus on specialised magazines (which have recently outperformed general titles) and leveraging cross selling opportunities with its FTA television and online businesses.

b) Consumer preferences

Magazine circulation will be impacted by a number of factors including the evolving interests, tastes and preferences of consumers. For example, recently circulation in magazines has demonstrated a movement towards coverage of health, fitness and personal growth issues. In general, these factors will be outside the control of the Combined Group. Accordingly, the operating and financial performance of the Combined Group's will rely in part on the continued ability to meet consumer preferences through Pacific Magazines.

c) Magazine content licensing

Australian magazine publishers, including Pacific Magazines, licence content from overseas and domestic companies for use in their publications. For example, Pacific Magazines has a long-standing relationship with Rodale International, the owner of Men's Health and Women's Health. Pacific Magazine's ability to meet consumer preferences relies in part on the continuation of these relationships on terms which are financially viable. The loss of a content licensing agreement, inability to secure contracts on competitive terms or the renegotiation of existing contracts may impact upon the Combined Group's operating and financial performance.

6.3.7 Newspapers

The Combined Group's newspaper business will primarily depend upon revenue from circulation and advertising spend in its newspaper publications. The Combined Group's profitability and revenue will be impacted by the circulation of its newspapers and the Combined Group's ability to retain market share in those respective markets.

Circulation in the Combined Group's newspaper businesses has been negatively impacted, for example, by migration to alternative online sources, which may continue with any continued growth in such online alternatives.

6.3.8 Online

Growth in online advertising is underpinned by a range of factors including growth in internet penetration in Australia and migration from more traditional forms of media. Internet penetration in the Australian market has been growing at a steady rate, however there can be no guarantee that this will continue in the future, which may have an adverse effect on the growth of the Combined Group's online businesses. Migration has been driven by a number of factors affecting both buyers and sellers including increased Internet penetration and broadband speeds. Whilst the migration online has occurred over recent years, there can be no guarantee that this will continue in the future, which may have an adverse effect on the growth of the Combined Group's online businesses (though any such adverse effect may be partly offset by a corresponding benefit to the Combined Group's traditional media businesses if consumers remain with those forms of media).

6.3.9 Litigation

As with all businesses, the Combined Group will be exposed to potential legal and other claims or disputes in the course of its business, including litigation from employees, regulators or other third parties. Further, the media industry in which the Combined Group operates involves particular risks associated with defamation litigation and litigation to protect media and intellectual property rights. As with all litigation, there are risks involved. An adverse outcome in litigation or the cost of responding to potential or actual litigation may have a materially adverse impact on the financial performance of the Combined Group.

6.3.10 Changes in the nature of the media industry

The Combined Group's business may be affected by changes in the nature of the media industry, such as changes to demand for different media products and services. As the Combined Group's business includes the publication and circulation of media in different forms, these changes may, depending on their nature and the Combined Group's business model at that time, impact on the Combined Group's financial performance.

6.3.11 Technology risk

The media industry is subject to rapid and significant change in technology and the impact of this change on the Combined Group and its businesses cannot be predicted. The cost of implementing emerging and future technologies could be significant. The development or anticipated development of new technology, or use, or anticipated use, of existing technology may have a materially adverse effect on the Combined Group.

6.3.12 Risks associated with SGH's holding in the Combined Group

SGH's holding of WAN Shares and CPS following Completion of the Proposed Transaction may give it a greater degree of control over WAN, including greater influence over the Combined Group's financial and operating policies, and the composition of the Combined Group's Board, than is currently the case. SGH may exert that influence in ways that are not consistent with the interests of other WAN Shareholders. In addition, further acquisitions of shares in WAN by SGH under the "creep rule" exception in the Corporations Act (which permits acquisitions of up to an additional 3% of WAN Shares in each 6 month period) and/or conversions of CPS may result in a change of control of WAN (to the extent it has not already occurred at that time) without payment of a control premium to WAN shareholders.

6.3.13 Risks associated with the KKR Investment

Following Completion of the Proposed Transaction, KKR, mezzanine investors and members of management relating to SMG will hold approximately 12.6% of the total WAN Shares on issue. There may be an expectation in the market that KKR will sell all or a substantial part of its WAN Shareholding, which may have a negative effect on the price of WAN Shares.

6.3.14 Leverage of and interest cost of the Combined Group

The Combined Group Pro Forma Net Debt of $1,991 million is substantially more than WAN's existing net debt of $226 million at 31 December 2010, in part reflecting the increased size of the Combined Group, relative to WAN standalone. The Combined Group's leverage ratio of 3.1x (Combined Group Pro Forma Net Debt/FY11PF EBITDA), compares to the standalone leverage ratio of 1.3x (WAN Net Debt/FY11F EBITDA) for WAN and 4.9x (SMG Net Debt/FY11F EBITDA) for SMG based on Net Debt at 31 December 2010. Accordingly, there will be a substantial increase in the financial risk inherent in WAN's capital structure potentially resulting in increased interest costs and interest margins.

6.3.15 Combined Group refinancing risk

The terms of WAN current senior debt agreements require consent from financiers to the Proposed Transaction. WAN intends to seek such consent to maintain the existing facilities which amount to $280 million. As at the date of this Explanatory Memorandum, discussions are not sufficiently advanced to enable WAN to form a definitive view on the outcome of these discussions. There is a risk that financier consent may not be obtained, in which case amounts owing under the existing facilities may become immediately due and payable.

The Combined Group is also exposed to more general risks relating to any refinancing of its debt facilities. The debt maturity profile for the Combined Group (assuming that WAN obtains financier consent in relation to its current senior debt facilities) is set out in Section 5.11.2. It may be difficult for the Combined Group to refinance all or some of these debt facilities. An inability to secure new debt facilities at a similar quantum and cost to existing debt facilities may adversely affect the financial performance of the Combined Group.

6.3.16 Access to capital is not guaranteed

The Combined Group may need to raise additional capital (whether debt, equity or hybrid) in order to continue growing, meet debt finance obligations and increase its profitability, however WAN has no reason to expect that any capital raising will be required in the short to medium term.

The Combined Group's ability to increase earnings and to make interest and principal payments on its debt will depend, in part, on its ability to source sufficient capital to operate its businesses and meet its debt obligations. There can be no assurance that this capital will be available on acceptable terms, or at all.

6.3.17 Change in Government policy and regulation

The Combined Group may be adversely affected by changes in Government policy, regulation or legislation applying to companies in the media industry or to Australian companies in general. This includes:

- Government policy restricting the issue of a fourth commercial FTA television licence;
- Anti-siphoning legislation which means exclusive rights to Australia's largest sporting events are held by the FTA television networks;
- Government rebates on licence fees for 2010–2012 which encourage commercial broadcasters to invest in new Australian content;
- Legislation such as the Broadcasting Services Act that regulates ownership interests and control of Australian media organisations; and
- Applicable accounting standards.

Additionally, the media industry is subject to restrictions on intellectual property, defamation and contempt, obscene material and advertising and marketing standards. There can be no assurance that Government policy or regulation will not be changed to the detriment of Combined Group and its businesses.

On 14 December 2010, the Minister for Broadband, Communications and the Digital Economy released draft Terms of Reference for a comprehensive review of Australia's communications and media regulation in light of increasing convergence in media platforms. There is a risk that change in regulation arising from the review may adversely impact the Combined Group and its interests in traditional, internet and other media platforms.

6.3.18 Change in macroeconomic conditions

The Combined Group's revenue and profitability will be highly correlated to spending levels by Australian and overseas businesses, which in turn could be affected by changes in macroeconomic conditions in Australia and internationally. Changes in the macroeconomic environment are beyond the control of the Combined Group and include, but are not limited to:

- Changes in inflation, interest rates and foreign currency;
- Exchange rates;
- Changes in employment levels and labour costs, which will affect the cost structure of the Combined Group;
- Changes in aggregate investment and economic output; and
- Other changes in economic conditions which may affect the revenue or costs of the Combined Group.

Risk factors associated with the Proposed Transaction (continued)

In particular, the Combined Group will directly or indirectly generate the majority of its revenue from advertising, and will be dependent upon the strength of the overall advertising market in Australia. Advertising expenditure is closely tied to consumer confidence, the level of GDP growth and the performance of the economy as a whole. Deterioration in macroeconomic conditions in Australia could adversely impact the financial performance of the Combined Group.

6.3.19 Other risks

In addition to the risks described above, a number of other transaction execution risks exist which could prevent the Combined Group from realising the benefits anticipated from the Proposed Transaction, or cause the Combined Group to suffer adverse impacts as a result of the Proposed Transaction. These could include parties such as suppliers, customers or financiers whose consent or continued business is desirable refusing to, or imposing onerous or unacceptable conditions on their, consent or decreasing their levels of business with the Combined Group following the transaction, management disruption caused by the pursuit and implementation of the Proposed Transaction or an adverse response from employees of the Combined Group or subsidiaries who may not be in favour of the Proposed Transaction.

6.4 General risk factors

6.4.1 Investment in capital markets

There are general risks associated with any listed equity or hybrid investment. The trading price of WAN Shares may fluctuate with movements in equity, hybrid and financial markets in Australia and internationally. This may mean that the value of WAN Shares is less or more than the price paid for them.

6.4.2 General regulatory risks

WAN is exposed to any changes in the regulatory conditions under which it operates in Australia. Such regulatory changes can include, for instance, changes in:

- Taxation laws and policies;
- Accounting laws, policies, standards and practices;
- Environmental laws and regulations that may impact upon the operations and processes; and
- Employment laws and regulations, including laws and regulations relating to occupational health and safety.

6.4.3 General commercial risks

WAN faces a number of other general commercial risks that could adversely affect the Combined Group's business, results of operations or financial condition and performance. These include the risks of industrial disruption, loss of key suppliers, litigation, risks associated with development projects (such as cost overruns delays) and other causes of interruption that could adversely affect the Combined Group's business, results of operations or financial condition and performance.

6.4.4 Other risks

The above risks are not an exhaustive list of the risks involved in holding WAN Shares. The risks outlined above and other risks may materially affect the future performance of WAN. Accordingly, no assurances or guarantees of future performance, profitability, distributions, or returns of capital are given by WAN in respect of its future performance.

Section

7 Additional information

7.1 ASX waivers and confirmations

7.1.1 Listing Rule 7.1 in relation to Resolution 3

ASX has granted a waiver from Listing Rule 7.3.8 to the extent necessary that the voting exclusion statement for Resolution 3 need not state that the votes of any WAN Shareholder who participated in the SGH Sell Down (and which WAN Shareholder would not for any other reason be excluded from voting) will be disregarded, on condition that all institutional WAN Shareholders (other than certain foreign institutional WAN Shareholders) are invited to participate in the SGH Sell Down and that participants in the SGH Sell Down are not required to vote in favour of any of Resolutions 1 to 3.

7.1.2 Listing Rule 11

ASX has confirmed that, as WAN Shareholders are being asked to approve the Proposed Transaction, WAN does not require Listing Rule 11 approval in relation to a change in nature or scale of WAN's business.

7.2 Regulatory approvals

WAN, along with SGH, has sought informal clearance from the ACCC to proceed with the Acquisition. The ACCC has announced that it is scheduled to announce its decision in relation to this informal clearance application by 8 April 2011. However, this timing is subject to change by ACCC.

7.3 Interests of Directors

7.3.1 Before Completion

The Board currently comprises:

Name	Position	Independent
Kerry Stokes AC	Non-Executive Director and Chairman	No
Doug Flynn	Non-Executive Director	Yes
Peter Gammell	Non-Executive Director	No
Graeme John AO	Non-Executive Director	Yes
Don Voelte	Non-Executive Director	Yes
Sam Walsh AO	Non-Executive Director	Yes

7.3.2 After Completion

If the Proposed Transaction proceeds, the Board will comprise:

Name	Position	Independent
Kerry Stokes AC	Non-Executive Director and Chairman	No
Doug Flynn	Non-Executive Director	Yes
Peter Gammell	Non-Executive Director	No
Graeme John AO	Non-Executive Director	Yes
Don Voelte	Non-Executive Director	Yes
Sam Walsh AO	Non-Executive Director	Yes
David Leckie	Executive Director	No

Pursuant to the KKR Subscription Agreement and subject to the aggregate shareholding in WAN of KKR and the mezzanine investors remaining above 10%, KKR is entitled, but not obligated, to nominate one nominee director to WAN's Board. KKR may nominate a director following Completion of the Proposed Transaction.

WAN's existing policy is that a majority of the Board must be independent non-executive directors. Following the Proposed Transaction, if KKR nominates a director then there would be four directors out of eight who are independent non-executive Directors, with the result that WAN's existing policy will not be complied with. WAN however believes that having half of the Board as independent non-executive Directors is appropriate following the Proposed Transaction.

7.3.3 Holdings of shares and options

As at the date of this Explanatory Memorandum, relevant interests held by Directors in WAN Shares and options to apply for WAN Shares are as set out below:

Name	Shares
Kerry Stokes AC	53,677,038
Doug Flynn	11,364
Peter Gammell	11,949
Graeme John AO	10,768
Don Voelte	10,212
Sam Walsh AO	29,332

7.4 Material contracts

7.4.1 Share Sale Agreement

On 21 February 2011, SGH and WAN entered into the Share Sale Agreement for SGH to procure the sale of SMG to WAN in consideration for the issue of WAN Shares and CPS by WAN to SGH and the repayment of a $650 million loan owed by to SMG to SGH.

A summary of the key terms of the Share Sale Agreement is set out below.

a) Conditions to the Share Sale Agreement

The Share Sale Agreement is subject to the following conditions:

i) The parties have received written advice from the ACCC that it has no objections or does not propose to take any action in respect of the Proposed Transaction;

ii) The consents, approvals, waivers and relief necessary to implement the Proposed Transaction are issued or granted by ASIC and ASX;

iii) ASX has granted approval for official quotation on ASX of WAN Shares to be issued as part of the consideration;

iv) The parties have agreed any amendments or variations to the terms, timing and structure of the Offers;

v) The application period for the SGH Sell Down has ended and all WAN Shares have been offered and applied for:

vi) Certain conditions precedent in the KKR Subscription Agreement have been satisfied or waived in accordance with their terms;

Additional information (continued)

vii) 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;

viii) WAN Shareholders approve the Acquisition at the EGM;

ix) WAN receives the consent of the counterparty to certain contracts, including the Yahoo!7 Joint Venture Contract; and

x) SGH transfer its shareholding in Yahoo!7 to a designated company within SMG.

b) Purchase Price and Adjustments

The consideration or purchase price is comprised of the issue of 180.5 million WAN Shares and $250 million of CPS to SGH and repayment of a $650 million SGH shareholder loan to SMG at Completion.

c) Warranties and Indemnities

SGH provides certain representations and warranties in favour of WAN in respect of itself and the business being acquired. These include representations and warranties in relation to the following:

- Warranties in relation to SMG's accounts and management accounts and the SMG pro forma balance sheet as at 25 December 2010;
- Warranties in relation to material contracts, assets, interests in land and intellectual property rights;
- Warranties in respect of material financing agreements and guarantees;
- Warranties regarding material proceedings or threatened proceedings, standing orders and judgements; and
- Warranties regarding tax and an indemnity.

Warranties are subject to certain limitations, including for matters fairly disclosed in the due diligence process. Claims made by WAN against SGH in respect of breach of warranty are subject to certain limits, including monetary thresholds, time limits for bringing claims, and obligations to mitigate losses.

d) Termination

Each of SGH and WAN may terminate the Share Sale Agreement before Completion if:

- WAN Shareholders do not approve the Proposed Transaction; or
- Any Condition Precedent is not satisfied or waived by 30 June 2011.

WAN may terminate the Share Sale Agreement any time before Completion by written notice if:

- A SMG Prescribed Occurrence occurs;
- SGH fails to carry on the SMG business in the ordinary course in substantially the same manner as conducted prior to the date of the Share Sale Agreement; or
- One or more Proposed Transaction Agreements is terminated, amended or varied in a material respect adverse to the interest of WAN or the SGH Group, assigned or novated or otherwise ceases to have legal effect, or is or becomes wholly or partially unenforceable.

SGH may terminate the Share Sale Agreement any time before Completion by written notice if:

- A WAN Prescribed Occurrence occurs;
- One or more Proposed Transaction Agreements is terminated, amended or varied in a material respect adverse to the interest of WAN or the SGH Group, assigned or novated or otherwise ceases to have legal effect or is or becomes wholly or partially unenforceable;
- WAN does not provide consent to SGH, within two Business Days, to a matter which is the subject of a negative restriction on the part of SGH in relation to the conduct of SMG's business in the period between execution of the Share Sale Agreement (21 February 2011) and Completion (including consent in relation to entry into material contracts and acquiring or disposing of assets or shares where the value of the consideration is above $10,000,000); or
- Any time before the EGM, any of the Independent Directors changes or withdraws his recommendation that WAN Shareholders vote in favour of the Proposed Transaction or makes a public statement indicating that he no longer supports the Proposed Transaction or supports another transaction.

If the Share Sale Agreement is terminated, then the Proposed Transaction will not proceed.

7.4.2 KKR Subscription Agreement

a) Overview

On 21 February 2011, KKR and WAN entered into the KKR Subscription Agreement under which KKR (and potentially certain mezzanine investors and management relating to SMG) will subscribe for $461 million worth of WAN Shares. A summary of the key terms of the KKR Subscription Agreement is set out below.

b) Conditions precedent to the KKR Subscription Agreement

The KKR Subscription Agreement is subject to the following conditions precedent:

- Approval is given under the *Foreign Acquisitions and Takeovers Act 1975* (Cth), on terms acceptable to KKR, for the issue of the WAN Shares the subject to the KKR Subscription Agreement;
- The Share Sale Agreement not being terminated and satisfaction or waiver of certain conditions precedent set out in the Share Sale Agreement;
- KKR has received the full value of the purchase price related to the sale of all its interests in the SMG joint venture to SGH; and
- ASX granting approval for official quotation on ASX of the WAN Shares the subject to the KKR Subscription Agreement.

c) Allotment / Settlement

The WAN Shares to be issued under the KKR Subscription Agreement will be allotted in two stages. The first allotment will be promptly following the satisfaction of the conditions precedent set out in the Share Sale Agreement and outlined above. The second allotment will occur on 18 April 2011 (based on the current expected Proposed Transaction timetable).

KKR may give written notice to WAN (but no later than three Business Days before the second allotment) requiring WAN to issue some of the WAN Shares to be issued to KKR under the second allotment to one or more mezzanine investors or management relating to SMG. If the substituted subscriber is a member of SMG management, then that subscriber must enter into a 12 month escrow agreement in respect of those WAN Shares.

d) Rights attaching to the WAN Shares

The WAN Shares to be issued under the KKR Subscription Agreement will:

- Rank equally with the existing WAN Shares except that holders of those WAN Shares will not be entitled to the interim dividend declared by WAN for the half year ending 31 December 2010; and
- Be free from all encumbrances other than those provided for in the WAN Constitution and in relation to any WAN shares issued to existing SMG management, a 12 month escrow arrangement.

e) Board Representation

If KKR nominates a person to be appointed to the WAN Board, WAN must nominate KKR's nominee to an existing casual vacancy on its Board as soon as practicable after such nomination (provided that no such appointment will occur before the issue of the second stage of WAN Shares under the KKR Subscription Agreement). Subject to restrictions at law or under the WAN Constitution, KKR may change its Board nominee from time to time by written notice to WAN. KKR's nominee to the Board is subject to re-election as required by the Listing Rules and the WAN Constitution. KKR's right to nominate a person for appointment to the Board and WAN's obligation to support such nomination ceases if KKR and the mezzanine investors' aggregate shareholding in WAN falls below 10%.

f) Warranties and undertakings

Customary warranties are given by each party in relation to, amongst other things, their status, power to execute the agreement, and solvency.

WAN undertakes to provide cleansing notices under section 708A of the Corporations Act to ASX upon the issue of the WAN Shares so that the WAN Shares are freely transferable without the requirement for a disclosure document.

g) Termination

Either WAN or KKR may terminate the KKR Subscription Agreement any time before the issue of the first stage WAN Shares or the second stage WAN Shares by notice to the other party if the Share Sale Agreement is terminated for any reason.

WAN may terminate any time before the issue of the first stage WAN Shares or the second stage WAN Shares by notice to KKR if:

- It is prevented by any Governmental Agency from proceeding;
- KKR becomes insolvent, or is subject to or threatened with a winding up order or is placed into administration; or
- The issue of the first stage WAN Shares or the second stage WAN Shares would breach any applicable laws or regulations.

KKR may terminate any time prior to the issue of the first stage WAN Shares or the second stage WAN Shares by notice to WAN if WAN becomes insolvent, or is subject to or threatened with a winding up order or is placed into administration.

7.4.3 Underwriting Agreement

WAN and the Joint Lead Managers have entered into an Underwriting Agreement dated 21 February 2011, pursuant to which the Joint Lead Managers have agreed to severally manage and underwrite the Offers on the terms and conditions of the Underwriting Agreement.

The following is a summary of the principal provisions of the Underwriting Agreement.

a) Fees, Costs and Expenses

The Joint Lead Managers will receive 50% each of the following fees under the Underwriting Agreement:

- An underwriting fee of 2.0% of each of the proceeds of:
  - The Institutional Entitlement Offer;
  - The Retail Entitlement Offer; and
  - The Public Offer.
- A management and selling fee of 0.5% of each of the proceeds of the:
  - The Institutional Entitlement Offer;
  - The Retail Entitlement Offer; and
  - The Public Offer.

WAN also agrees to reimburse each Joint Lead Manager for all expenses incurred in connection with the Offers, including but not limited to the Joint Lead Managers' roadshow expenses, document production costs, capped legal costs and out of pocket expenses.

The Joint Lead Managers will be responsible for payment of any fees or commissions payable to a sub-underwriter, co-manager or broker in relation to the Offers.

b) WAN's Representations, Warranties and Undertakings

Under the Underwriting Agreement, WAN makes various customary representations and warranties in relation to the Offer documents, the Offers, its compliance with applicable laws and the information provided by WAN to the Joint Lead Managers.

Under the Underwriting Agreement, WAN also provides various customary undertakings to the Joint Lead Managers, including an undertaking that, other than in connection with the Proposed Transaction and except as disclosed in the Offer documents, it will carry on its business and procure that each WAN Group member carries on its business, from the date of this agreement to the date of redemption or conversion of the CULS in the ordinary course and not dispose (or permit any other member of the Group to dispose) of any material part of WAN or the WAN Group's business or property.

WAN also undertakes that it will not propose or activate any equity security or subordinated debt security buy-back, scheme or arrangement or allot or agree to allot, or indicate in any way that it will or might, allot or agree to allot any equity securities or subordinated debt securities or other securities (including hybrid, convertible or equity-linked securities) or grant or agree to grant any options in respect of such securities (or do anything economically equivalent to any of the foregoing), until the date that is 180 days after Completion, without first obtaining the consent of the Joint Lead Managers (this does not apply to the offer of the Offers securities, the conversion and redemption of CULS, or to issues of securities to employees or directors under employee incentive or dividend reinvestment plans (including an underwritten employee incentive or dividend reinvestment plan)).

The Joint Lead Managers' obligations to underwrite the Offers are subject to a number of conditions precedents, including satisfaction of the conditions precedent to the Proposed Transaction. In particular, the obligations of each Joint Lead Manager to subscribe for CULS or WAN Shares in accordance with the terms of the Underwriting Agreement to the extent of their fully diluted holding in WAN would exceed 4.99% (the specified percentage) are conditional on either:

- The Treasurer (or his delegate) providing written advice that there are no objections under Australia's Foreign Investment Policy to the proposed underwriting arrangements contemplated in the Underwriting Agreement; or
- Following notice of the proposed underwriting arrangements contemplated under the Underwriting Agreement having been given to the Joint Lead Managers to the Treasurer under the *Foreign Acquisitions and Takeovers Act 1975* (Cth), the Treasurer ceases to be empowered to make any order under Part II of that Act because of lapse of time.

Further, if the issue of CULS or WAN Shares to a Joint Lead Manager pursuant to the Underwriting Agreement would result in that Joint Lead Manager holding a specified interest in WAN, then where the relevant Joint Lead Manager has not received Foreign Investment Review Board approval (in the manner and on the terms specified in the Underwriting Agreement), the relevant Joint Lead Manager shall advise WAN in accordance with dates specified in the Underwriting Agreement. In such a situation, and where the relevant Joint Lead Manager elects not to take delivery of the CULS or WAN Shares (as applicable) to the extent its interest in WAN would exceed the specified percentage, WAN and the Joint Lead Managers shall use their best endeavours to procure sub-underwriters to subscribe for the CULS or WAN Shares. If the Joint Lead Manager is not able to procure sub-underwriters, the CULS or WAN Shares will be issued to a trustee and the relevant Joint Lead Manager will use its best endeavours as agent of the trustee to sell the CULS or WAN Shares within 12 months after the applicable settlement date.

Additional information (continued)

c) Termination Events

Each Joint Lead Manager may immediately terminate all further obligations under the Underwriting Agreement if any of a number of specified events occurs on or before 4pm Sydney time on the Public Offer settlement date:

- (Share Sale Agreement, KKR Subscription Agreement or SGH Sell Down Underwriting Agreement) The Share Sale Agreement, KKR Subscription Agreement or the SGH Sell Down Underwriting Agreement is terminated, rescinded or repudiated or amended in a material particular (without the prior written consent of the Joint Lead Managers, such consent not unreasonably withheld or delayed).
- (No Completion) WAN or a subsidiary makes a public statement that it cannot or does not intend to complete the Proposed Transaction or WAN is advised that an approval or consent required to complete the Proposed Transaction will not be provided;
- (S&P/ASX 200 Index fall) The S&P/ASX 200 index of ASX:
  - At any time between the date of the Underwriting Agreement and 12pm Sydney time on the Business Day following the Institutional Entitlement Offer closing date falls to a level that is 10% or more below the level at market close on the trading day immediately preceding the date of this agreement (Starting Level); or
  - Closes, on any three consecutive Business Days, at a level that is 15% or more below the Starting Level, during the period from the date of this agreement until the Public Offer settlement date,

and WAN and the Joint Lead Managers do not reach agreement on a new Entitlement Offer Issue Price, Entitlement Offer ratio or Public Offer Issue Price (as applicable) for the Offers following good faith discussions and the parties acting reasonably;

- (Material adverse change) There is a material adverse change in relation to the assets and liabilities, financial position and performance, profits and losses or prospects of the WAN Group from that disclosed in the Prospectus, provided however, that the following shall not be taken into account in determining whether there has been a material adverse change:
  - Any such effect, change or circumstance relating to or resulting from, directly or indirectly, the announcement or implementation of the transactions contemplated by the Proposed Transaction;
  - Any such effects attributable to any new equity plans implemented, or to be implemented, in respect of SMG management;
  - Fees and expenses, severances and other bonus, benefit or compensation costs paid or to be paid by WAN or any WAN Group member in connection with the transactions contemplated in the Share Sale Agreement or the KKR Subscription Agreement;
  - Any action required to be taken under any law or order or any existing contract by which WAN or any WAN Group member is bound;
  - Any failure by WAN to meet any internal projections or forecasts;
  - Any such effect, change in circumstance attributable to general conditions affecting the economy, nationally or regionally which does not affect WAN materially disproportionately relative to other participants in the same industry or market; and
  - Any action taken by any competitor of WAN or SMG or any owner of any competitor of WAN or SMG, including, without limitation the sale or initial public offering of any media business in competition with WAN or SMG;
- (Failure to lodge documents) WAN fails to lodge the Prospectus and the Explanatory Memorandum with ASIC on 21 February 2011;
- (Supplementary Prospectus) WAN issues (without the consent of the Joint Lead Managers, not to be unreasonably withheld or delayed) or, in the reasonable opinion of the Joint Lead Managers, becomes required to issue, a supplementary prospectus under section 719 of the Corporations Act;
- (Australian Proceedings) ASIC seeks an order under section 739 of the Corporations Act, or commences a hearing under the *Australian Securities and Investments Commission Act 2001* (Cth), in relation to the Offer documents or the Offers;
- (New Zealand proceedings) NZSC and/or the New Zealand Registrar take(s) any action (including under the NZ Regulations) which is likely to materially adversely affect the Offers;
- (Withdrawal) WAN withdraws the Prospectus or the Offers or indicates that it does not intend to proceed with all or any part of the Offers;
- (Prescribed occurrence) A prescribed occurrence (being an event contemplated by section 652C of the Corporations Act) occurs in relation to WAN;
- (ASX waivers and ASIC modifications) WAN does not obtain ASX waivers or ASIC modifications required to complete the Offers or ASX waivers or ASIC modifications are subsequently withdrawn, revoked, qualified or amended in a materially adverse particular;
- (Listing) WAN ceases to be admitted to the official list of ASX or its shares are suspended from official quotation on ASX (other than a voluntary suspension required by WAN or consented to by the Joint Lead Managers to facilitate the Offers);
- (Quotation) Unconditional approval for quotation of the Offer securities is not granted by ASX or is withdrawn on or before the relevant trading date, or ASX makes an official statement to any person or indicates to WAN or the Joint Lead Managers that official quotation of the securities to be issued pursuant to the Offers will not be granted;
- (Offer documents) A statement in the Offer documents is or becomes misleading or deceptive, or a matter required to be included Part 6D.2 of the Corporations Act is omitted;
- (Consent) Any person (other than a Joint Lead Manager) whose consent to the issue of this Explanatory Memorandum is required by section 716 of the Corporations Act or having previously consented to the issue of the Prospectus withdraws such consent;
- (Certificate) Any certificate which is required to be provided by WAN to the Joint Lead Managers under the Underwriting Agreement is not provided when required;
- (Timetable) An event specified in the Offer timetable prior to the Institutional Entitlement Offer settlement date is delayed for more than four hours or between the Institutional Entitlement Offer settlement date and the Public Offer settlement date is delayed for more than three Business Days, in each case without the prior written approval of the Joint Lead Managers (such approval not having been unreasonably withheld or delayed);
- (Insolvency) WAN or any material WAN Group member becomes insolvent, commences winding up, has a receiver or receiver and manager appointed, or is placed into voluntary administration;
- *(Change of Law) There is any change of law, which is likely to prohibit or regulate the Offers, capital issues or stock markets or affect the taxation treatment of the Offer securities;

- *(Director) A director or senior manager of WAN is charged with an indictable offence or any director or senior manager of the WAN is disqualified from managing a corporation;
- *(Change in management) There is a change in the senior management of any member of the WAN Group or WAN Board;
- *(Contravention) WAN contravenes the Corporations Act, its constitution, any of the Listing Rules, or any other applicable law or regulation;
- *(Compliance with regulatory requirements) The Offer documents or the public information do not comply with the Corporations Act, the Listing Rules, ASX waivers or any other applicable law or regulation;
- *(Default) WAN defaults in the performance of any of its obligations under the Underwriting Agreement of the CULS trust deed;
- *(Misrepresentation) A representation provided by WAN is not true or correct, or is misleading or deceptive;
- *(Certificate) Any certificate given by WAN under the Underwriting Agreement is false, misleading or deceptive, or inaccurate;
- *(Hostilities) Between the date of the Underwriting Agreement and the Public Offer settlement date, hostilities not presently existing commence or a major escalation in existing hostilities commences involving any one of Australia, the United States, the United Kingdom, or a member of the European Union, or there is a declaration of war, or a major terrorist act is perpetrated in any of those countries;
- *(Disruption in financial markets) There is a general moratorium on commercial banking activities in Australia, the United States or the United Kingdom, or there is a material disruption in commercial banking or settlement services in any of those countries; or trading in all securities quoted or listed on ASX, the London Stock Exchange or the New York Stock Exchange is suspended or limited in a material respect for one Business Day or substantially all of one Business Day; and
- *(Constitution) The Constitution is amended without the prior written consent of the Joint Lead Managers (such consent not to be unreasonably withheld).

No event marked above with an asterisk (*) entitles a Joint Lead Manager to exercise its rights to terminate its obligations under the Underwriting Agreement unless that Joint Lead Manager has reasonable grounds to believe that, and does reasonably believe that Joint Lead Manager the event:

- Has or is likely to have a material adverse effect on the outcome, success or settlement of the Offers;
- Could give rise to a liability of that Joint Lead Manager under any law or regulation; or
- Leads (or is likely to lead) to a contravention by that Joint Lead Manager of (or the involvement of that Joint Lead Manager in a contravention of) any law or regulation.

Any rights or powers of the Joint Lead Managers to terminate may be exercised severally

d) Indemnity

WAN unconditionally and irrevocably undertakes to indemnify and keep indemnified the Joint Lead Managers and any of their affiliates, successors or related bodies corporate, and each of their directors, officers, agents, employees or advisers (the "indemnified parties") from and against, and to hold them harmless from and against, all losses incurred in respect of the Offers, whether directly or indirectly, by an indemnified party as a result of:

- (Offer Documents) the Offer documents or public information, including any false, misleading or deceptive statement (including by omission) or omission of information required to be contained in the Offer documents;
- (Breach) a breach by WAN of the Corporations Act or any other applicable laws in respect of the Offers or its obligations under this the Underwriting Agreement, the CULS trust deed or any other binding obligations in respect of the Offers, including any of the representations and warranties by WAN contained in this agreement not being true and correct;
- (Making, conduct and settlement of the Offers) the distribution of the Offer documents and public information and the making, conduct and settlement of the Offers;
- (Allotment) the allotment and issue of the securities issue pursuant to the Offers or the conversion or redemption of CULS (other than any loss suffered as a result of subscribing for shortfall securities by reason of the Issue Price under an Offer being greater than the price at which CULS or WAN Shares (as applicable) can be acquired on ASX);
- (Generally) any claims that an indemnified party has any liability under the Corporations Act (including sections 1308, 1309 and 1041H) or any other applicable law in relation to the Offers;
- (Regulatory) any review, inquiry or investigation undertaken by ASIC, ASX, NZSC, the New Zealand Registrar, the Australian Taxation Office, any state or territory regulatory office or any other regulatory or Government agency in relation to the Offers or the Offer documents; and
- (Reliance) reliance by any indemnified party on information supplied by WAN or by its authorised officers or employees (including any forward looking information or forecasts in the Offer documents).

This indemnification is not enforceable to the extent that any loss suffered by the indemnified party is finally and judicially determined by a court of competent jurisdiction to have resulted from:

- Any penalty or fine which that indemnified party is required to pay for any contravention by it of the Corporations Act or any other applicable law;
- The wilful misconduct, negligence, recklessness or fraud of that indemnified party or of the Joint Lead Manager associated with that indemnified party; or
- Any amount in respect of which this indemnity would be illegal, void or unenforceable under any law.

7.5 CEO's employment contract

Mr David Leckie, proposed Combined Group CEO and Managing Director of the Combined Group, is employed pursuant to an employment contract for a fixed term ending on 30 June 2012, after which the employment can be terminated by either party by providing the other party with six months' notice. Mr Leckie's fixed annual remuneration (including base salary and superannuation) under his employment contract is $2,500,000. If the Company terminates Mr Leckie's employment (other than for cause), Mr Leckie will be entitled to payment of an amount equivalent to that which he would have been entitled if he had served out the remainder of his term. Mr Leckie may become entitled to participate in the STI and LTI plans referred to in Section 5.9.

Appendix A

Independent Expert's Report

Independent Expert's Report and Financial Services Guide

in relation to the proposed acquisition of Seven Media Group

8 March 2011

Ernst & Young

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8 March 2011

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

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

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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.

[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 following table:

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, following the Proposed Transaction, around 60% of WAN's FY11pro forma 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 Proposed 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 Explanatory Memorandum 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 licence 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.

On 21 February 2011, we provided an independent expert's report on the Proposed Transaction to the Independent Directors of WAN. This report has been updated for inclusion in the Explanatory Memorandum. The recent share price performance of WAN in section 3.5, trading multiples in appendix D and other transaction events have been updated to 2 March 2011. There has been no change to our opinion or the basis of our conclusions.

Yours faithfully
Ernst & Young Transaction Advisory Services Limited

John E Gibson
Director and Representative

Julie Wolstenholme
Representative

Contents

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 conducted a conditional sell down of its existing 53.4 million WAN Shares via a book build carried out as part of the proposed Entitlement Offer detailed in section 1.2.4. The sell down by SGH is conditional on the Proposed Transaction proceeding.

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

[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

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 Explanatory Memorandum, 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

- Certain conditions precedent in the KKR Subscription Agreement are satisfied or waived in accordance with their terms

[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.

- 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

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[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 2011The 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. 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.

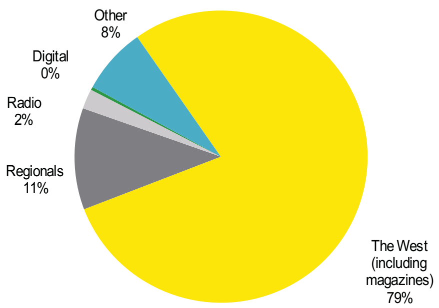
3. Overview of West Australian Newspapers Holdings Limited

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:

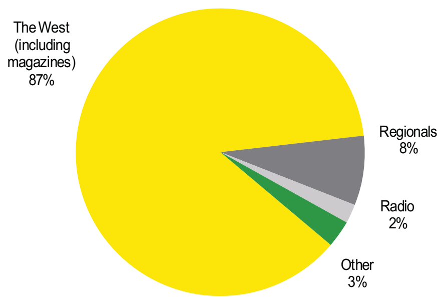
- Ownership of "The West Australian" and "The Weekend West" newspapers (together referred to as The West), the leading metropolitan newspapers in Western Australia by circulation and advertising revenues. As indicated in the charts below, The West contributed 79% of WAN revenues and 87% of earnings before 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.

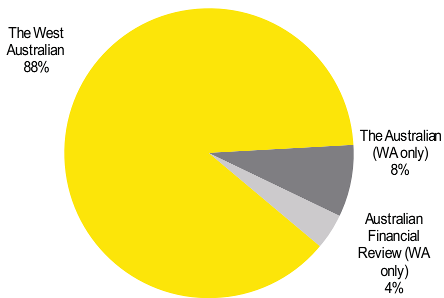
Further details on WAN's key operations are outlined on the following page.

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

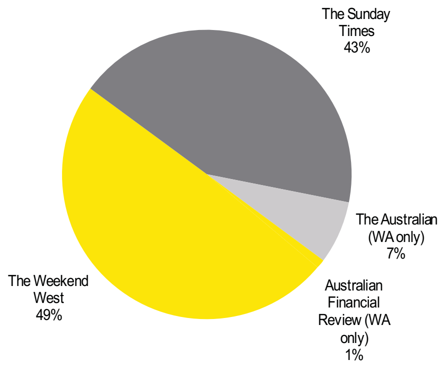
3.1.1 The West newspaper

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)



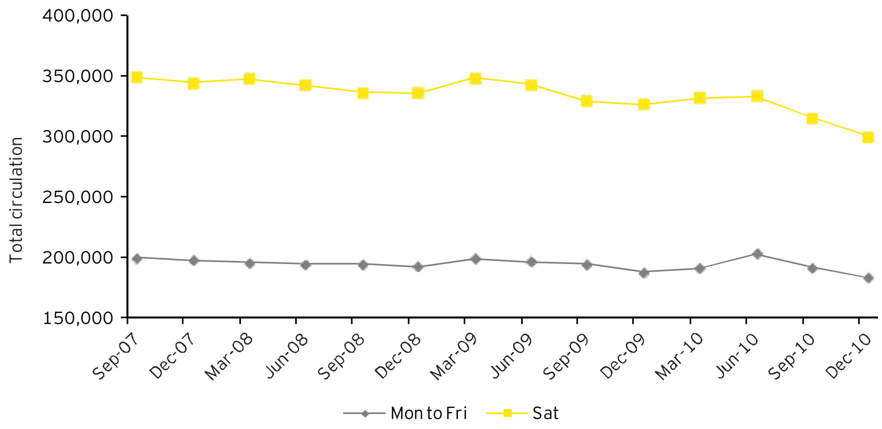
Source: Audit Bureau of Circulations, Roy Morgan Readership Survey, year ended June 2010

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, Explanatory Memorandum

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 Explanatory Memorandum. These assumptions include a 3% increase in advertising revenues in FY11, reflecting WAN's strong leverage to the strengthening Western Australian 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, Explanatory Memorandum

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%**

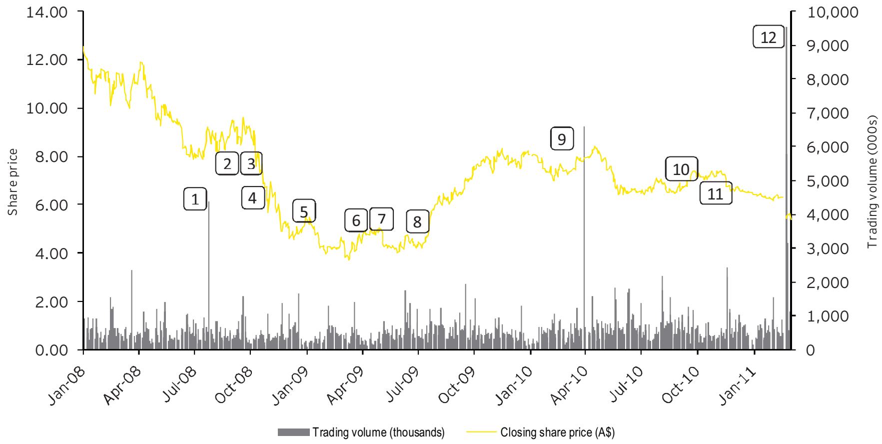
Source: WAN management

[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 3 March2011.

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, prior to the announcement of the Proposed Transaction.

On 21 February 2011, SGH conducted a bookbuild for the fully underwritten conditional sell down of its entire 24.3% holding in WAN by way of a block trade to new and existing WAN Shareholders. The bookbuild for the sell down by SGH completed on 22 February 2011 for the bookbuild price of $5.60 per WAN Share. The sell down is conditional on the Proposed Transaction proceeding.

Subsequent to the announcement of the Proposed Transaction and as at 3 March 2011, WAN has traded between $5.39 and $5.65. We note that this is above the issue price of the Entitlement Offer of $5.20 and below the theoretical ex-rights price of $5.80.

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]

[33] SGH ASX announcement - 26 August 2008

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]

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.

12. On 21 February 2011, WAN announced its half year results and the Proposed Transaction.

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

[34] SGH ASX announcement - 29 October 2008

- 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.

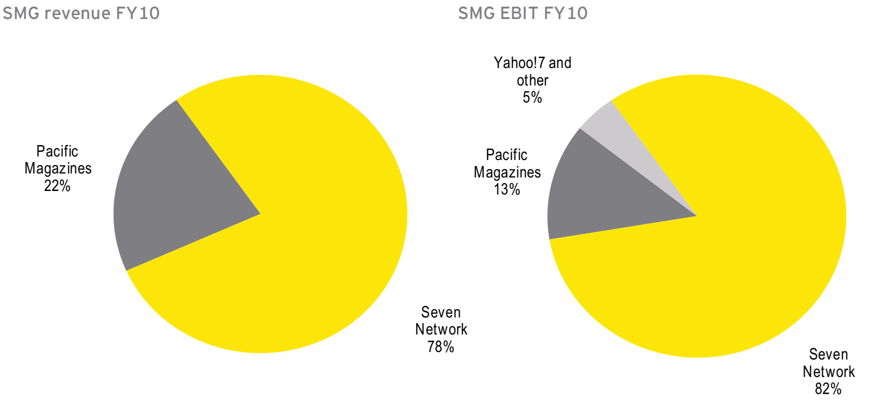
4. Overview of the Seven Media Group

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.



Source: Explanatory Memorandum

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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 4.7 of the Explanatory Memorandum

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.

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[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*.

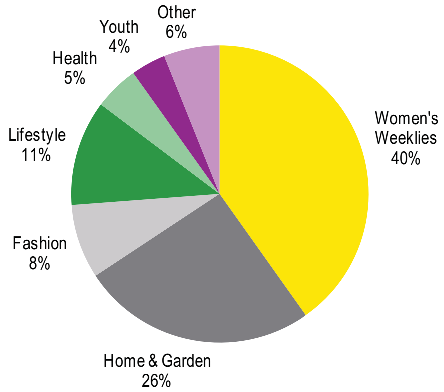
[38] December 2010 management accounts, based on EBIT
[39] SGH investor presentation - 25 August 2010
[40] Seven Network media release - 28 November 2010
[41] SGH Annual Report 2010

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, Explanatory Memorandum

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 Explanatory Memorandum, 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.

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[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: Explanatory Memorandum

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.

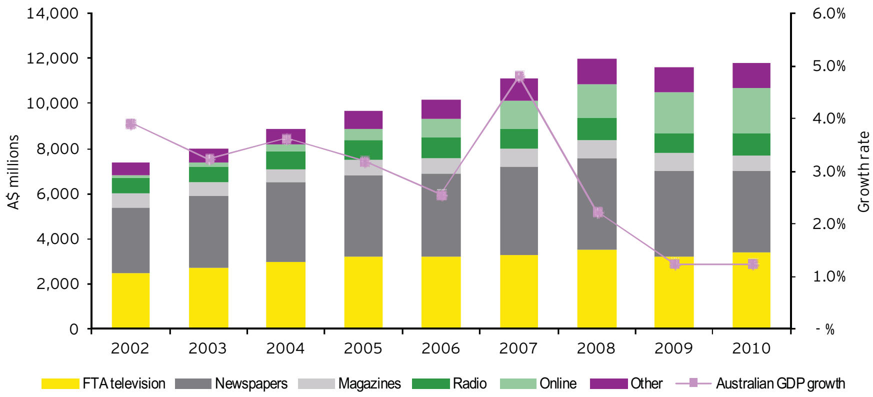
These regulations are enforced by the Australian Communications and Media Authority (ACMA). The ACCC is also responsible for assessing the impact on competition of acquisitions of media groups. Regulations specific to the television sector are further discussed in section 5.3.1.

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.

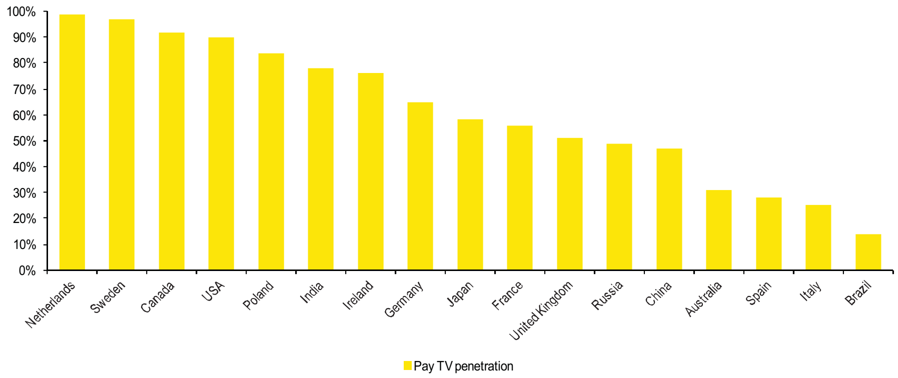
The regulatory environment has also undergone changes with the review of the anti-siphoning scheme. The anti-siphoning scheme ensures that events of national and cultural significance, traditionally major sporting events, are made available to the general public by giving FTA broadcasters the first option 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

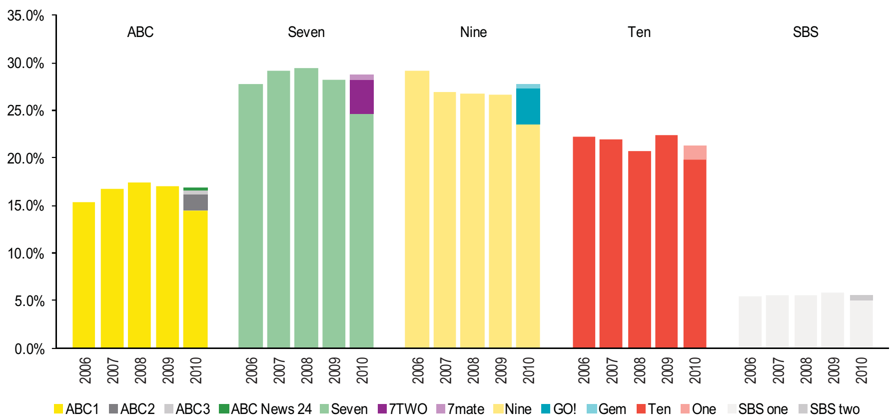


Source: Ofcom International Communications Market Report 2010

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



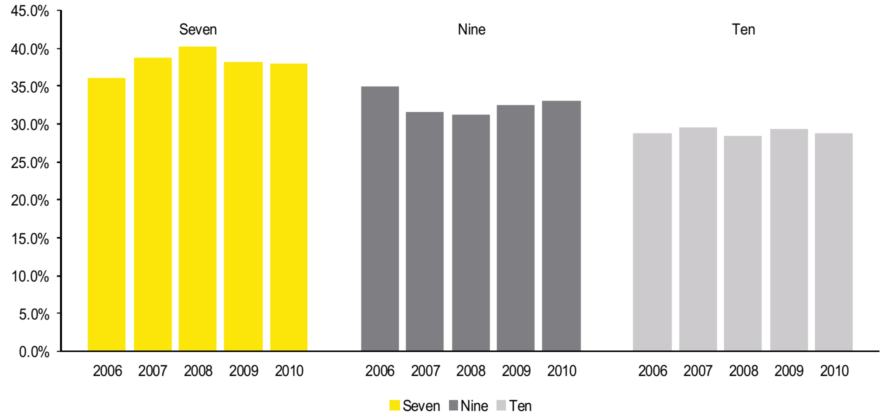
Source: OzTam

[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

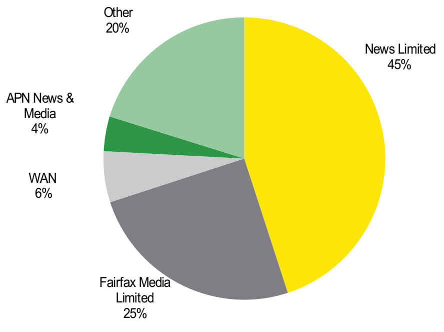
In 2011, Mediabrands forecasts that FTA television advertising revenue will grow by 4.5%[59] driven in part by the increasing popularity of digital channels. Some media commentators also note that the digital channels have made FTA television more competitive against pay TV, with a recent survey finding 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

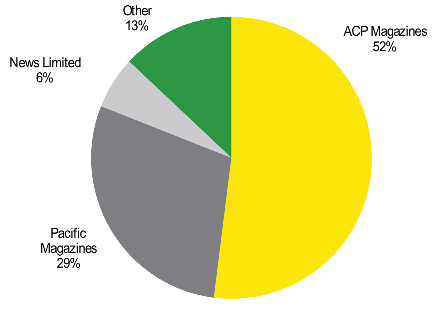
The newspaper and magazine publishing industries have been undergoing change. While each is impacted by slightly different factors, both industries are reliant on circulation and advertising sales, and increasingly impacted by the widespread availability of free information through other outlets, such 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 US, 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.

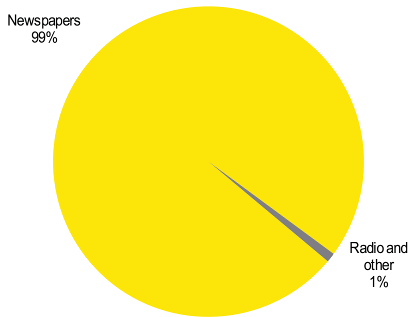
As discussed in section 5.2, the online advertising industry is the fastest growing adverting market with online advertising expenditure growing at a CAGR of 41.2% between 2002 and 2009. In 2009, advertising expenditure was $1.9 billion, compared to $167 million in 2002. This growth is expected to continue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

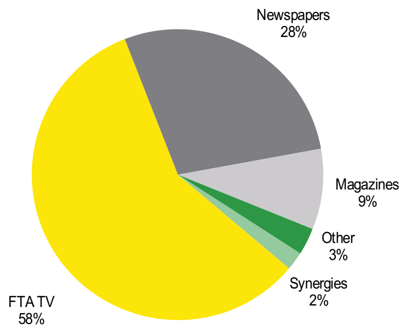
6. Overview of the Combined Group

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
- 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 5.10 of the Explanatory Memorandum. 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: Explanatory Memorandum

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 5.11 of the Explanatory Memorandum. 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: Explanatory Memorandum

The pro forma balance sheet adjustments outlined above are discussed in further detail in section 5.11 of the Explanatory Memorandum. 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 licence 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:

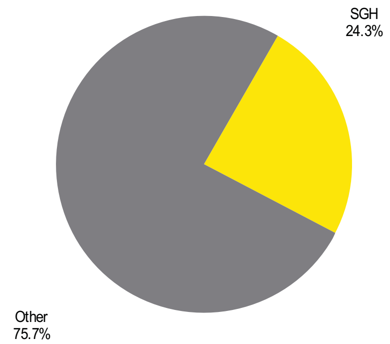
WAN Shares on issue

	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**

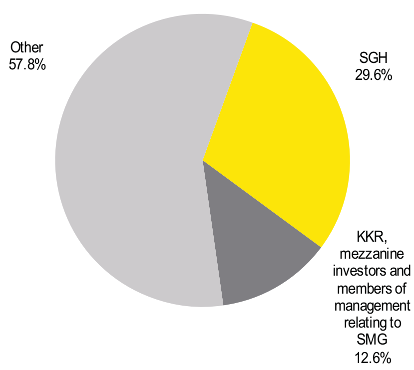
Source: Explanatory Memorandum

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 licence fee rebate of $36 million, or 41.5% of the FY11 licence fee expense. Going forward, the rebate is assumed to be 50% of licence 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 Explanatory Memorandum for FY11 EBITDA of $434 million, excluding contributions from associates, as a basis for our valuation. We note that at the date of the announcement of the Proposed Transaction, analyst consensus forecasts for SMG's FY11 EBITDA were $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 2 March 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	1,369	8.3x	8.7x	13.8x	14.5x
Southern Cross Media Group	AUS	691	7.2x	6.8x	13.0x	11.3x
Prime Media Group Limited	AUS	267	8.3x	7.1x	14.1x	10.4x
ProSiebenSat.1 Media AG*	Germany	7,086	13.9x	9.5x	24.9x	13.8x
Gestevisión Telecinco SA	Spain	4,958	9.8x	10.7x	nm	13.2x
ITV plc	UK	5,836	8.9x	8.4x	19.2x	15.3x
Belo Corp.	USA	990	6.1x	8.0x	12.7x	12.8x
Sinclair Broadcast, Inc	USA	782	6.7x	8.0x	8.8x	12.3x
Journal Communications, Inc.	USA	321	5.0x	6.3x	10.3x	15.0x
Gray Television Inc.	USA	131	7.3x	na	5.6x	nm
Low			**5.0x**	**6.3x**	**5.6x**	**10.4x**
Average			**8.1x**	**8.2x**	**13.6x**	**13.2x**
Median			**7.8x**	**8.0x**	**13.0x**	**13.2x**
High			**13.9x**	**10.7x**	**24.9x**	**15.3x**

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 11.5% in FY12, being higher than other listed Australian media companies, reflecting the licence 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 7.1x and 6.8x 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 10.6x 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

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[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 Explanatory Memorandum, 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 20.1x. These multiples reflect the strong growth prospects of digital media companies with average analysts' consensus estimates for EBITDA growth in FY12 of 18%.
- 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

		Capitalisation multiple		Fair market value	
Currency: A$ millions	Earnings	Low	High	Low	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 licence 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 forecast 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 Explanatory Memorandum, the consideration to be paid to SGH for the acquisition of SMG is $4,085 million and 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 the announcement of the Proposed Transaction, analysts' consensus forecasts for WAN's FY11 EBITDA were $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 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 2 March 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	1,237	8.7x	8.3x	12.9x	12.0x
Fairfax Media Ltd	AUS	3,034	7.2x	7.1x	11.6x	10.1x
APN News & Media Ltd	AUS	1,036	8.1x	7.4x	9.4x	9.4x
Roularta Media Group NV*	Belgium	460	8.7x	6.4x	24.0x	9.5x
Axel Springer AG*	Germany	5,134	15.0x	7.7x	nm	12.2x
RCS Media Group SpA	Italy	1,278	16.8x	9.3x	nm	17.9x
Trinity Mirror PLC	UK	349	4.0x	3.3x	5.7x	3.2x
Johnston Press PLC	UK	123	5.2x	5.1x	5.0x	3.2x
News Corporation	USA	45,475	9.2x	8.4x	17.9x	15.5x
Gannett Co, Inc.	USA	3,862	5.0x	5.2x	6.7x	7.3x
New York Times Co	USA	1,538	5.7x	6.3x	12.7x	18.2x
The E.W. Scripps Company	USA	557	4.0x	6.7x	19.6x	nm
The McClatchy Company	USA	338	5.6x	6.2x	6.4x	9.2x
A.H. Belo Corp	USA	154	1.9x	1.4x	nm	nm
Media General, Inc.	USA	134	6.1x	9.9x	nm	nm
Lee Enterprises	USA	130	6.8x	5.9x	5.7x	na
Low			**1.9x**	**1.4x**	**5.0x**	**3.2x**
Average			**7.4x**	**6.5x**	**11.5x**	**10.6x**
Median			**6.4x**	**6.5x**	**10.5x**	**9.8x**
High			**16.8x**	**9.9x**	**24.0x**	**18.2x**

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 7.1x and 7.4x, respectively and 8.0x and 8.2x 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 10.1x and 9.4x 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 the announcement of the Proposed Transaction 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 5.10.3 of the Explanatory Memorandum, 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 14.5x. Ten Network is predominantly a television broadcaster, with consensus estimates forecasting strong growth in FY12 after tax profits for Ten Network of 19%.
- The implied multiples are significantly lower than News Corp, which is trading at a one-year forecast PE multiple of 15.5x. News Corp is significantly larger and more geographically diverse than the Combined Group.
- The implied multiples are higher than Fairfax, which is trading at 10.1x. 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 11.3x.
- Prior to the announcement of the Proposed Transaction, as at 18 February 2011, WAN was 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

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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, following the Proposed Transaction, around 60% of WAN's FY11 pro forma 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].

[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 licence 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

[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 Explanatory Memorandum 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 as 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 2 March 2011.

Comparable companies trading multiples on a minority basis as at 2 March 2011

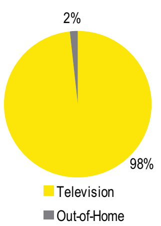
Company name	Country headquarters	Market cap (million)	EBITDA Multiple (H)	EBITDA Multiple (1F)	PE Multiple (H)	PE Multiple (1F)
Ten Network Holdings Limited	AUS	1,369	8.3x	8.7x	13.8x	14.5x
Southern Cross Media Group	AUS	691	7.2x	6.8x	13.0x	11.3x
Prime Media Group Limited	AUS	267	8.3x	7.1x	14.1x	10.4x
ProSiebenSat.1 Media AG*	Germany	7,086	13.9x	9.5x	24.9x	13.8x
Gestevisión Telecinco SA	Spain	4,958	9.8x	10.7x	nm	13.2x
ITV plc	UK	5,836	8.9x	8.4x	19.2x	15.3x
Belo Corp.	USA	990	6.1x	8.0x	12.7x	12.8x
Sinclair Broadcast, Inc	USA	782	6.7x	8.0x	8.8x	12.3x
Journal Communications, Inc.	USA	321	5.0x	6.3x	10.3x	15.0x
Gray Television Inc.	USA	131	7.3x	na	5.6x	nm
Low			**5.0x**	**6.3x**	**5.6x**	**10.4x**
Average			**8.1x**	**8.2x**	**13.6x**	**13.2x**
Median			**7.8x**	**8.0x**	**13.0x**	**13.2x**
High			**13.9x**	**10.7x**	**24.9x**	**15.3x**

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

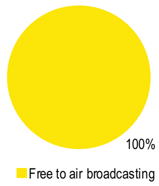


Ten Network operates FTA commercial television stations in Sydney, Melbourne, Brisbane, Adelaide and Perth. It is the third major national FTA television broadcaster in Australia by audience share. Ten Network has recently launched two digital multi-channels and competes directly with Seven Network in 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)

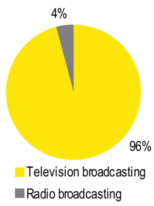
EBIT breakdown



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)

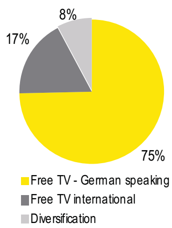
EBIT breakdown[95]



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)

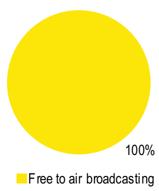
EBIT breakdown



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.

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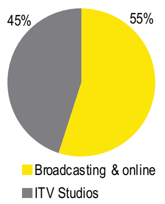
[95] Excludes Prime Media's digital operations which is not included in EBIT

ITV plc (ITV)

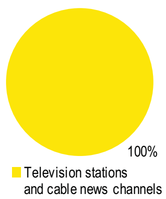
EBITA breakdown



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 a 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)

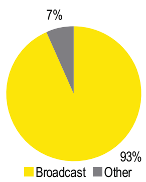
EBIT breakdown



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)

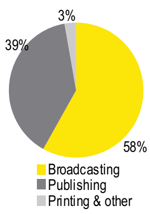
Revenue breakdown



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.

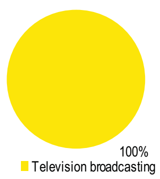
EBITDA breakdown



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 2 March 2011.

Comparable companies trading multiples on a minority basis as at 2 March 2011

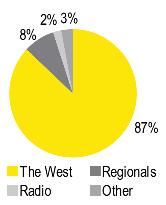
Company name	Country headquarters	Market cap (million)	EBITDA Multiple (H)	EBITDA Multiple (1F)	PE Multiple (H)	PE Multiple (1F)
West Australian Newpapers Ltd	AUS	1,237	8.7x	8.3x	12.9x	12.0x
Fairfax Media Ltd	AUS	3,034	7.2x	7.1x	11.6x	10.1x
APN News & Media Ltd	AUS	1,036	8.1x	7.4x	9.4x	9.4x
Roularta Media Group NV*	Belgium	460	8.7x	6.4x	24.0x	9.5x
Axel Springer AG*	Germany	5,134	15.0x	7.7x	nm	12.2x
RCS Media Group SpA	Italy	1,278	16.8x	9.3x	nm	17.9x
Trinity Mirror PLC	UK	349	4.0x	3.3x	5.7x	3.2x
Johnston Press PLC	UK	123	5.2x	5.1x	5.0x	3.2x
News Corporation	USA	45,475	9.2x	8.4x	17.9x	15.5x
Gannett Co, Inc.	USA	3,862	5.0x	5.2x	6.7x	7.3x
New York Times Co	USA	1,538	5.7x	6.3x	12.7x	18.2x
The E.W. Scripps Company	USA	557	4.0x	6.7x	19.6x	nm
The McClatchy Company	USA	338	5.6x	6.2x	6.4x	9.2x
A.H. Belo Corp	USA	154	1.9x	1.4x	nm	nm
Media General, Inc.	USA	134	6.1x	9.9x	nm	nm
Lee Enterprises	USA	130	6.8x	5.9x	5.7x	na
Low			**1.9x**	**1.4x**	**5.0x**	**3.2x**
Average			**7.4x**	**6.5x**	**11.5x**	**10.6x**
Median			**6.4x**	**6.5x**	**10.5x**	**9.8x**
High			**16.8x**	**9.9x**	**24.0x**	**18.2x**

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

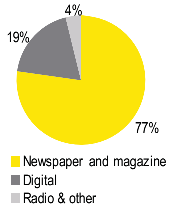


WAN is a media group based in Western Australia. It publishes the West Australian newspapers and other regional and community newspapers. It is also engaged in digital publishing and operates various radio stations in regional Western Australia.

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

Fairfax Media Limited (Fairfax)

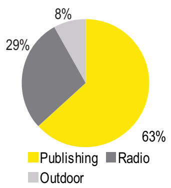
EBIT split



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)

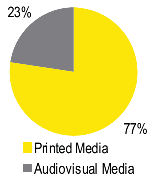
EBIT split



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

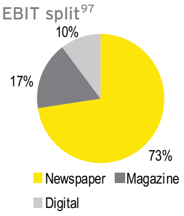
Revenue split



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

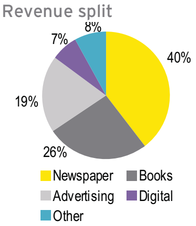
EBIT split[97]



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

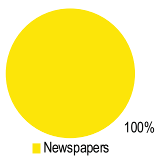


RCS Media Group SpA is an Italian company that has operations in daily newspaper publishing, magazine and book publishing, radio broadcasting, new media and digital and satellite TV. It is also engaged in the advertisement sales and distribution markets. In addition to the Italian, Spanish and French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

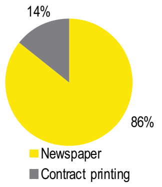
EBIT split



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

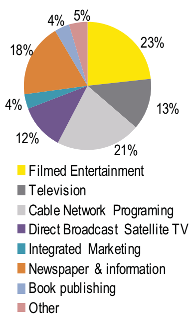
EBIT split



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)

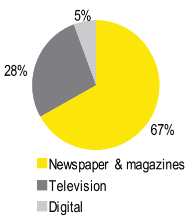
EBIT split



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.

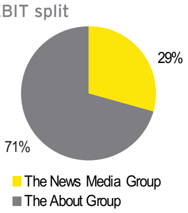
EBIT split



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

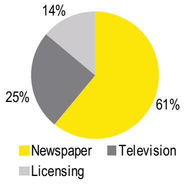
EBIT split



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

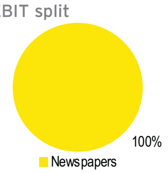
EBITDA split



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

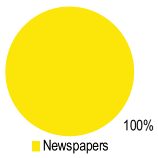
EBIT split



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

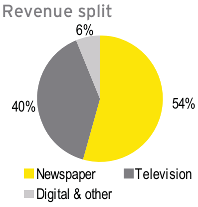
EBIT split



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.

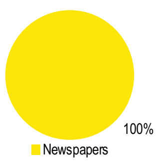
Revenue split



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 2 March 2011.

Comparable companies trading multiples as at 2 March 2011

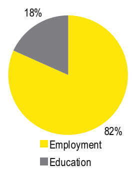
Company name	Country headquarters	Market cap (million)	EBITDA Multiple (H)	EBITDA Multiple (1F)	PE Multiple (H)	PE Multiple (1F)
SEEK Limited	AUS	2,171	20.6x	16.8x	27.6x	21.3x
REA Group Limited	AUS	1,517	18.9x	13.9x	29.9x	22.1x
Carsales.com.au Limited	AUS	1,220	18.9x	14.6x	28.5x	21.9x
Wotif.com Holdings Limited	AUS	1,103	13.4x	12.2x	21.5x	20.4x
Webjet Limited	AUS	168	10.4x	10.1x	16.3x	14.9x
Google, Inc.	USA	190,422	15.8x	11.9x	28.2x	17.4x
Yahoo! Inc.	USA	21,418	13.5x	12.1x	22.9x	21.0x
Low			**10.4x**	**10.1x**	**16.3x**	**14.9x**
Average			**15.9x**	**13.1x**	**25.0x**	**19.9x**
Median			**15.8x**	**12.2x**	**27.6x**	**21.0x**
High			**20.6x**	**16.8x**	**29.9x**	**22.1x**

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

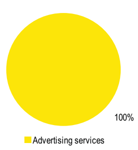
EBIT split



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



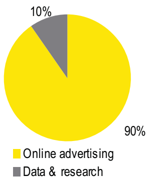
REA Group Limited provides digital marketing services for real estate companies and is based in Australia. It owns and operates real estate and commercial property advertising sites in Australia, including realestate.com.au as well as international real estate property advertising sites such as the Italian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

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

ERNST & YOUNG

Carsales.com.au Limited

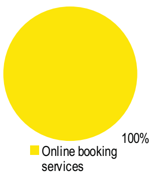
EBITDA split



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

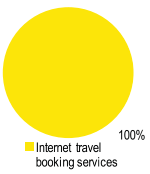
EBIT split



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

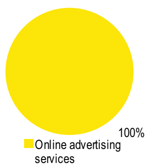
EBIT split



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.

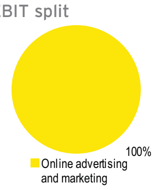
EBIT split



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.

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	GER	€	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 $4.8million.

- 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
$	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
FY11PF	Pro forma FY11
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 Offers	The Entitlement Offer and Public Offer
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

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

8 March 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.

{AFS 00119516}

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.

{AFS 00119516}

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.

{AFS 00119516}

Appendix **B**

Investigating Accountant's Report

7.1 Investigating Accountant's Report

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

8 March 2011

Dear Directors

Subject: Investigating Accountant's Report on Historical and Forecast Financial Information and Financial Services Guide

We have prepared this report on certain historical and forecast financial information of West Australian Newspapers Holdings Limited and its controlled entities (**WAN** or the **Company**) and SMG H1 Pty Limited and its controlled entities (**SMG**) for inclusion in an Explanatory Memorandum dated on or about 8 March 2011 (the **Explanatory Memorandum**) relating to the proposal by WAN to acquire SMG (the **Transaction**) and the related issue of convertible unsecured loan securities and ordinary shares in the Company (the **Issue**).

The nature of this report is such that it should be given by an entity which holds an Australian financial services licence under the Corporations Act 2001. PricewaterhouseCoopers Securities Ltd, which is wholly owned by PricewaterhouseCoopers, holds the appropriate Australian financial services licence. This report is both an Investigating Accountant's Report, the scope of which is set out below, and a Financial Services Guide, as attached at Appendix A.

Background

West Australian Newspapers Holdings Limited has agreed to acquire 100% of SMG from Seven Group Holdings Ltd (**SGH**).

Scope

West Australian Newspapers Holdings Limited has requested PricewaterhouseCoopers Securities Ltd to prepare this investigating accountant's report (the **Report**) covering the following information:

Historical financial information

a) The consolidated summary pro forma income statements and cash flow information of WAN for the years ended 30 June 2009 and 30 June 2010 and the half year ended 31 December 2010 together with the consolidated balance sheet as at 31 December 2010 (together the **WAN Standalone Pro Forma Historical Financial Information**) as disclosed in Section 3.5.3 Table 1, Section 3.5.4 Table 3 and Section 3.5.8 of the Explanatory Memorandum;

b) The consolidated summary pro forma income statements and cash flow information of SMG for the 52 week periods ended 27 June 2009 and 26 June 2010 and the half year ended 25 December 2010 together with the consolidated pro forma balance sheet as at 25 December 2010 (together the **SMG Standalone Pro Forma Historical Financial Information**) as disclosed in Section 4.7.3 Table 9, Section 4.7.5 Table 13 and Section 4.7.9 Table 15 of the Explanatory Memorandum;

c) The WAN and SMG combined pro forma consolidated income statements and cash flow information for the years ended 30 June 2009, 30 June 2010 and the half year ended 31 December 2010 together with the consolidated balance sheet of WAN which assumes completion of the Issue and the Transaction as at 31 December 2010 as set out in Section 5.11.1 a) to d) of the Explanatory Memorandum (the **Pro Forma Transactions**) (together the **Combined Group Pro Forma Historical Financial Information**) as disclosed in Section 5.10.3 Table 19, Section 5.10.4 Table 22 and Section 5.11 Table 27 of the Explanatory Memorandum,

(collectively the **Historical Financial Information**).

PricewaterhouseCoopers Securities Ltd, ACN 003 311 617 ABN 54 003 311 617
Holder of Australian Financial Services Licence No 244572
Darling Park Tower 2, 201 Sussex Street, GPO BOX 2650, SYDNEY NSW 1171
DX 77 Sydney, Australia
T +61 2 8266 0000, F +61 2 8266 9999, www.pwc.com.au

Forecast financial information

a) The summary consolidated forecast income statement and cash flow information of WAN for the year ending 30 June 2011 (the **WAN Standalone Pro Forma Forecast Financial Information**) as disclosed in Section 3.5.3 Table 1 and Section 3.5.4 Table 3 of the Explanatory Memorandum;

b) The summary consolidated pro forma forecast income statement and cash flow information of SMG for the year ending 25 June 2011 (the **SMG Standalone Pro Forma Forecast Financial Information**) as set out in Section 4.7.3 Table 9 and Section 4.7.5 Table 13 of the Explanatory Memorandum; and

c) The WAN and SMG combined pro forma forecast consolidated income statement and combined cash flow information for the year ending 30 June 2011 (the **Combined Group Pro Forma Forecast Financial Information**) as disclosed in Section 5.10.3 Table 19 and Section 5.10.4 Table 22 of the Explanatory Memorandum,

(collectively the **Forecasts**).

This Report has been prepared for inclusion in the Explanatory Memorandum. We disclaim any assumption of responsibility for any reliance on this Report or on the Historical Financial Information or the Forecasts to which this Report relates for any purposes other than the purpose for which it was prepared.

Scope of review of Historical Financial Information

The WAN Standalone Pro Forma Historical Financial Information set out in Section 3.5 of the Explanatory Memorandum has been extracted from the audited statutory financial statements of the Company for the year ended 30 June 2009 and 30 June 2010 and the unaudited financial statements of the Company for the half year ended 31 December 2010. The financial statements of the Company at 30 June 2009 and 30 June 2010 were audited by PricewaterhouseCoopers who issued an unqualified audit opinion on them. The financial statements of the Company for the half year ended 31 December 2010 were reviewed by PricewaterhouseCoopers who issued an unqualified review opinion on them.

The SMG Standalone Pro Forma Historical Financial Information set out in Section 4.7 of the Explanatory Memorandum has been derived from the audited statutory financial statements of Seven Media Group Pty Limited (**SMGL**) for the years ended 27 June 2009 and 26 June 2010 and special purpose financial statements prepared for the directors of SMG for the half year ended 25 December 2010. The financial statements of SMGL for the year ended 27 June 2009 and 26 June 2010 were audited, on which unqualified audit opinions were issued. The special purpose accounts of SMG for the half year ended 25 December 2010 were reviewed and an unqualified review opinion was issued on them. The accounting policies note in the audited accounts and the special purpose accounts highlight the existing capital and debt structure of SMG and a deficiency in net assets. The deficiency arose in the year ended 27 June 2009 due to the impairment of licences and goodwill. Included in liabilities are shareholder loans which as noted in the accounts will not be called upon in the event of insolvency. If these shareholder loans were excluded from the calculation of the net position of the balance sheet as at 25 December 2010 this would have resulted in a positive net assets position.

The Directors of WAN (**WAN Directors**) have prepared and are responsible for the preparation and presentation of the Historical Financial Information which includes the SMG Information provided to WAN by SGH. The WAN Directors are also responsible for the determination of the key assumptions and pro forma transactions as set out in Section 3.5.3 in relation to the WAN Standalone Pro Forma Historical Financial Information and Sections 5.10.3 and 5.11 in relation to the Combined Group Pro Forma Historical Financial Information. The Historical Financial Information incorporates such pro forma transactions and adjustments as the directors of WAN considered necessary to present the Historical Financial Information on a basis consistent with the Forecasts.

We have conducted our review of the Historical Financial Information in accordance with Australian Auditing Standards applicable to review engagements. We made such inquiries and performed such procedures as we, in our professional judgement, considered reasonable in the circumstances including:

- an analytical review of the financial performance of WAN and SMG for the relevant historical period;
- a review of work papers, accounting records and other documents;
- a review of the adjustments made to the Historical Financial Information;
- a review of the assumptions (which include the Pro Forma Transactions as detailed in Sections 5.10.3 and 5.11) used to compile the Combined Group Pro Forma Historical Financial Information;
- a comparison of consistency in application of the recognition and measurement principles under Australian Accounting Standards and other mandatory professional reporting requirements in Australia, and the accounting policies adopted by WAN and SMG (as the case may be) as disclosed in Sections 3.5.2, 4.7.2 and 5.11.2 of the Explanatory Memorandum; and
- enquiry of the WAN Directors and WAN and SMG management and others.

These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion on the Historical Financial Information.

Limitation of scope of review of the Historical Financial Information

Refer paragraph titled "Limitation of scope of review of the Historical Financial Information and Forecasts" for further details.

Review statement on Historical Financial Information

Based on our review, which is not an audit, except for the limitation of scope described above, nothing has come to our attention which causes us to believe that:

- the Combined Group Pro Forma Historical Financial Information has not been properly prepared on the basis of the Pro Forma Transactions set out in Sections 5.10.3 and 5.11;
- the Pro Forma Transactions set out in Sections 5.10.3 and 5.11 do not form a reasonable basis for the Combined Group Pro Forma Historical Financial Information; and
- the Historical Financial Information, as set out in Sections 3.5, 4.7, 6.10 and 5.11 of the Explanatory Memorandum, does not present fairly:
  a) the WAN standalone consolidated pro forma income statements and cash flow information for the years ended 30 June 2009 and 30 June 2010 and the half year ended 31 December 2010 and the WAN consolidated balance sheet as at 31 December 2010;
  b) the SMG standalone consolidated pro forma income statements and cash flow information for the 52 week periods ended 27 June 2009 and 26 June 2010 and the half year ended 25 December 2010 and the SMG consolidated pro forma balance sheet as at 25 December 2010; and
  c) the WAN and SMG combined pro forma consolidated income statements and cash flow information for the years ended 30 June 2009, 30 June 2010 and the half year ended 31 December 2010 and the Combined Group pro forma consolidated balance sheet as at 31 December 2010, assuming completion of the Pro Forma Transactions,

in accordance with the recognition and measurement principles prescribed under Australian Accounting Standards and other mandatory professional reporting requirements in Australia, and the accounting policies adopted by WAN or SMG (as the case may be) disclosed in Sections 3.5.2, 4.7.2 and 5.11.2 of the Explanatory Memorandum.

Scope of review of Forecasts

The WAN Directors have prepared and are responsible for the preparation and presentation of the Forecasts including the best estimate assumptions (which include the Pro Forma Transactions as detailed in Sections 3.5.3, 4.7.3 and 5.10.3) on which they are based.

Our review of the best estimate assumptions underlying the Forecasts was conducted in accordance with Australian Auditing Standards applicable to review engagements. Our procedures consisted primarily of enquiry and comparison and other such analytical review procedures as we considered necessary to form an opinion as to whether anything has come to our attention which causes us to believe that:

a) the best estimate assumptions do not provide a reasonable basis for the Forecasts;
b) in all material respects, the Forecasts are not properly prepared on the basis of the best estimate assumptions and presented fairly in accordance with the recognition and measurement principles prescribed in Australian Accounting Standards and other mandatory professional reporting requirements in Australia, and the accounting policies of WAN and SMG (as the case may be) disclosed in Sections 3.5.2, 4.7.2 and 5.11.2 of the Explanatory Memorandum; or
c) the Forecasts are unreasonable.

The Combined Group Pro Forma Forecast Financial Information has been prepared by the WAN Directors to provide investors with a guide to the Combined Group's potential future financial performance based upon the achievement of certain economic, operating, development and trading assumptions about future events and actions that have not yet occurred and may not necessarily occur. There is a considerable degree of subjective judgement involved in the preparation of Forecasts. Actual results may vary materially from the Forecasts and the variation may be materially positive or negative. Accordingly, investors should have regard to the description of investment risks set out in Section 6 of the Explanatory Memorandum.

Our review of the Forecasts and the best estimate assumptions upon which the Forecasts are based is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards. A review of this nature provides less assurance than an audit. We have not performed an audit and we do not express an audit opinion on the Forecasts included in the Explanatory Memorandum.

Limitation of scope of review of the Historical Financial Information and Forecasts

In preparing the Combined Group Pro Forma Historical Financial Information and Combined Group Pro Forma Forecast Financial Information, only a preliminary purchase price allocation has been made to the fair values of acquired assets and liabilities in accordance with AASB 3 Business Combinations as described in Section 5.11.2 of the Explanatory Memorandum.

Accordingly, the Combined Group Pro Forma Historical Financial Information and Combined Group Pro Forma Forecast Financial Information does not necessarily contain all of the adjustments to the reported amounts of assets and liabilities that will be required to reflect their fair values at the acquisition date. Consequently, the Combined Group Pro Forma historical and forecast income statements do not necessarily reflect the depreciation and or amortisation charges that would be required had final fair value adjustments been undertaken.

pwc

Review statement on the Forecasts

Based on our review of the Forecasts, which is not an audit, and the reasonableness of the best estimate assumptions giving rise to the Forecasts, except for the limitation of scope described above, nothing has come to our attention which causes us to believe that:

a) the best estimate assumptions set out in Sections 3.5.6, 4.7.7 and 5.10.5 of the Explanatory Memorandum do not provide a reasonable basis for the preparation of the Forecasts;

b) in all material respects, the Forecasts are not properly prepared on the basis of the best estimate assumptions and presented fairly in accordance with the recognition and measurement principles prescribed in Australian Accounting Standards and other mandatory professional reporting requirements in Australia, and the accounting policies of WAN or SMG (as the case may be) disclosed in Sections 3.5.2, 4.7.2 and 5.11.2 of the Explanatory Memorandum; or

c) the Forecasts are unreasonable.

The best estimate assumptions set out in Sections 3.5.6; 4.7.7 and 5.10.5 of the Explanatory Memorandum are subject to significant uncertainties and contingencies often outside the control of the Company. If events do not occur as assumed, actual results and distributions achieved by WAN may vary significantly from the Forecasts. Accordingly, we do not confirm or guarantee the achievement of the Forecasts, as future events, by their very nature, are not capable of independent substantiation.

Subsequent events

Apart from the matters dealt with in this Report, and having regard to the scope of our Report, to the best of our knowledge and belief no material transactions or events outside of the ordinary course of business of WAN or SMG have come to our attention that would require comment on, or adjustment to, the information referred to in our Report or that would cause such information to be misleading or deceptive.

Independence or disclosure of interest

PricewaterhouseCoopers Securities Ltd does not have any interest in the outcome of the Issue other than the preparation of this Report and participation in due diligence procedures for which normal professional fees will be received.

Liability

PricewaterhouseCoopers Securities Ltd has consented to the inclusion of this Report in the Explanatory Memorandum in the form and context in which it is included. The liability of PricewaterhouseCoopers Securities Ltd is limited to the inclusion of this Report in the Prospectus. PricewaterhouseCoopers Securities Ltd makes no representation regarding, and has no liability for, any other statements or other material in, or any omissions from, the Prospectus.

Financial Services Guide

We have included our Financial Services Guide as Appendix A to our Report. The Financial Services Guide is designed to assist retail clients in their use of any general financial product advice in our Report.

Yours faithfully

Andrew J Parker
Authorised Representative of
PricewaterhouseCoopers Securities Ltd

Clara Cutajar
Authorised Representative of
PricewaterhouseCoopers Securities Ltd

Appendix A – Financial Services Guide

PRICEWATERHOUSECOOPERS SECURITIES LTD FINANCIAL SERVICES GUIDE

This Financial Services Guide is dated 8 March 2011

1) About us

PricewaterhouseCoopers Securities Ltd (ABN 54 003 311 617, Australian Financial Services Licence no 244572) ("**PwC Securities**") has been engaged by West Australian Newspapers Holdings Limited to provide a report in the form of an Investigating Accountants Report in relation to the Historical and Forecast Financial Information (the "**Report**") for inclusion in the Explanatory Memorandum dated on or about 8 March 2011.

You have not engaged us directly but have been provided with a copy of the Report as a retail client because of your connection to the matters set out in the Report.

2) This Financial Services Guide

This Financial Services Guide ("**FSG**") is designed to assist retail clients in their use of any general financial product advice contained in the Report. This FSG contains information about PwC Securities generally, the financial services we are licensed to provide, the remuneration we may receive in connection with the preparation of the Report, and how complaints against us will be dealt with.

3) Financial services we are licensed to provide

Our Australian financial services licence allows us to provide a broad range of services, including providing financial product advice in relation to various financial products such as securities, interests in managed investment schemes, derivatives, superannuation products, foreign exchange contracts, insurance products, life products, managed investment schemes, government debentures, stocks or bonds, and deposit products.

4) General financial product advice

The Report contains only general financial product advice. It was prepared without taking into account your personal objectives, financial situation or needs.

You should consider your own objectives, financial situation and needs when assessing the suitability of the Report to your situation. You may wish to obtain personal financial product advice from the holder of an Australian Financial Services Licence to assist you in this assessment.

5) Fees, commissions and other benefits we may receive

PwC Securities charges fees to produce reports, including this Report. These fees are negotiated and agreed with the entity who engages PwC Securities to provide a report. Fees are charged on an hourly basis or as a fixed amount depending on the terms of the agreement with the person who engages us. In the preparation of this Report our fees are charged on an hourly basis and as at the date of this Report amount to $650,000 (which includes amounts charged in respect of our investigating accountant's report included in the WAN Prospectus dated 21 February 2010).

Directors or employees of PwC Securities, PricewaterhouseCoopers, or other associated entities, may receive partnership distributions, salary or wages from PricewaterhouseCoopers.

6) Associations with issuers of financial products

PwC Securities and its authorised representatives, employees and associates may from time to time have relationships with the issuers of financial products. For example, PricewaterhouseCoopers may be the auditor of, or provide financial services to, the issuer of a financial product and PwC Securities may provide financial services to the issuer of a financial product in the ordinary course of its business. PwC are the auditors of WAN.

7) Complaints

If you have a complaint, please raise it with us first, using the contact details listed below. We will endeavour to satisfactorily resolve your complaint in a timely manner. In addition, a copy of our internal complaints handling procedure is available upon request.

If we are not able to resolve your complaint to your satisfaction within 45 days of your written notification, you are entitled to have your matter referred to the Financial Ombudsman Service ("**FOS**"), an external complaints resolution service. FOS can be contacted by calling 1300 780 808. You will not be charged for using the FOS service.

Contact Details

PwC Securities can be contacted by sending a letter to the following address:

Andrew Parker or
Clara Cutajar
Authorised Representatives
Darling Park Tower 2
201 Sussex Street
SYDNEY NSW 2000
GPO Box 2650
SYDNEY NSW 1171

Appendix

C CPS Terms of Issue

1 Issue Price

a) The initial issue price of each CPS will be $100,000 ("Issue Price").

b) The Issue Price of each CPS will be increased on each Adjustment Date by multiplying the previous Issue Price by the Adjustment Factor.

c) For purposes of this clause 1, the "**Adjustment Factor**" will be

AF = 1 + (AR x (N/365))

Where

AF = the Adjustment Factor;

AR = In respect of any Adjustment Date before the Redemption Date, 7.143% and in respect of any Adjustment Date on or after the Redemption date, 9.143%; and

N = in relation to the first Adjustment Date, the number of days from (and including) the date of issue of the CPS to the (but excluding) first Adjustment Date. In relation to subsequent Adjustment Dates, the number of days from (and including) the previous Adjustment Date to (but excluding) the relevant Adjustment Date.

2 Maturity

The CPS are perpetual and have no maturity date.

3 Conversion and Exchange

3.1 Meaning of Conversion

a) For the purposes of these Terms of Issue, the share subdivision and corresponding change of the rights of the subdivided CPS under this clause 3.1, are together termed "Conversion".

b) Conversion does not constitute cancellation, redemption or termination of a CPS or an issue, allotment or creation of a new share in the Company.

c) Each CPS confers all of the rights attaching to one Ordinary Share but these rights do not take effect until 5pm (Sydney time) on the date that any CPS are Converted as determined below.

d) At the time a CPS is Converted:

i) each CPS to be Converted will be subdivided in accordance with the ratios set out in clause 3.4 or clause 3.5 (as applicable);

ii) following the subdivision referred to in clause 3.1(d)(i), each subdivided CPS will have the same rights as one Ordinary Share and all other rights and restrictions conferred on that CPS under these Terms of Issue will no longer have effect; and

iii) those CPS will, once Converted, rank equally with all other Ordinary Shares then on issue and the Company will issue a statement that the Holder of that Ordinary Share holds an Ordinary Share so ranking.

3.2 Meaning of Exchange

For the purposes of these Terms of Issue, "**Exchange**" means the Company, at its option, redeeming, buying back or otherwise cancelling a CPS for an amount equal to:

a) in the case of any CPS that the Holder has requested to be Converted pursuant to a Fixed Ratio under clause 3.4 – the total number of Ordinary Shares that would have resulted from a Conversion of that CPS multiplied by the average of the daily VWAP of the Ordinary Shares for the 10 Business Day period commencing on the Business Day immediately following the date of service of the relevant Conversion Notice; or

b) in the case of any CPS being Exchanged by the Company pursuant to clause 3.5 – the Issue Price as of the date of the relevant Exchange.

For the purposes of these Terms of Issue, any Exchange will be deemed to take place at the registered office of the Company or such other place in Australia as the Company may specify at the time of Exchange.

3.3 Holder Conversion generally

a) A Holder may request that some or all of its CPS be Converted in accordance with clause 3.4 or 3.5A by delivering a Conversion Notice to the Company in accordance with this clause 3.3.

b) A valid Conversion Notice must:

i) be in writing; and

ii) specify the number of CPS that the Holder wants to have Converted ("**Conversion CPS**") (which must be a whole number).

c) Upon receipt of a valid Conversion Notice, the Company must either Convert or Exchange (in its discretion) all Conversion CPS on the day that is 20 Business Days (or, in the case of a Change of Control Event, 10 Business Days) after the date of service of the Conversion Notice, provided that if:

i) that day falls within a Blackout Period; and

ii) the Company elects to Convert the Conversion CPS,

then the Conversion CPS will be Converted on the first Business Day after the end of that Blackout Period.

d) The Company must give notice to a Holder within 10 Business Days of receipt of a Conversion Notice under this clause 3.3 from that Holder specifying:

i) whether the Company will Convert or Exchange the Conversion CPS (or, if a combination of the two, the proportions that will be Converted and Exchanged); and

ii) a date on which the CPS the subject of the Conversion Notice will be Converted or Exchanged.

e) If the Company does not Convert or Exchange the Conversion CPS by 10 am (Perth time) on the day that is 20 Business Days (or, in the case of a Change of Control Event, 10 Business Days) after the date of service of the Conversion Notice, the Company will be deemed to have elected to Convert the Conversion CPS and the Conversion CPS will be converted on the day that is 20 Business Days (or, in the case of a Change of Control Event, 10 Business Days) after the date of service of the Conversion Notice, provided that if that day falls within a Blackout Period then the Conversion CPS will be Converted on the first Business Day after the end of that Blackout Period.

f) Notwithstanding anything in this clause 3.3, to the extent that the Holder has requested Conversion of its CPS under clause 3.4(a)(v), the Company must Convert the relevant Conversion CPS.

CPS Terms of Issue (continued)

3.4 Holder Conversion at Fixed Ratio

a) Without limiting any other rights it may have under these Terms of Issue, a Holder may request Conversion of some or all of its CPS:
   i) at any time on or after the Conversion Trigger Date;
   ii) at any time after a Change of Control Event occurs;
   iii) if the Directors have approved the Conversion in writing;
   iv) if the Company issues a Redemption Notice to Holdings in connection with an Accounting Event or a Tax Event; or
   v) if the Holder is SGH, to the extent necessary to allow SGH to maintain its Proportionate Interest.

b) For purposes of clause 3.1(d)(i), each CPS Converted under this clause 3.4 will be subdivided calculated in accordance with the following ratio ("**Fixed Ratio**"):

   N = Issue Price/Fixed Conversion Price

   Where:

   "**N**" is the number of CPS into which 1 CPS will be subdivided;

   "**Issue Price**" is the Issue Price (adjusted in accordance with clause 1) as of the date of Conversion; and

   "**Fixed Conversion Price**" is the Fixed Conversion Price (as may be adjusted in accordance with clause 3.9) as of the date of Conversion

c) Where the total number of CPS held by a Holder following the subdivision provided under this clause 3.4 (when aggregated with all other CPS held by that Holder that are being Converted at the same time) includes a fraction, that fraction will be disregarded.

3.5 Company's right to Redeem

a) The Company may Convert or Exchange some or all of a Holder's CPS on any Variable Rate Conversion Date on the terms of this clause 3.5.

b) If the Company Exchanges any CPS under this clause 3.5, each CPS will be Exchanged for an amount equal to the Issue Price as of the date of Exchange.

c) For purposes of clause 3.1(d)(i), each CPS Converted under this clause 3.5 will be subdivided in accordance with the following ratio ("**Variable Ratio**"):

   N = Issue Price/Redemption Conversion Price

   Where:

   "**N**" is the number of CPS into which 1 CPS will be subdivided;

   "**Issue Price**" is the Issue Price (adjusted in accordance with clause 1) as of the date of Conversion; and

   "**Redemption Conversion Price**" is 95% of the average of the daily VWAP of the Ordinary Shares for the 5 Business Day period commencing on the date of service of the relevant Redemption Notice.

d) Where the total number of CPS held by a Holder following the subdivision provided under this clause 3.5 (when aggregated with all other CPS held by that Holder that are being Converted at the same time) includes a fraction, that fraction will be disregarded.

e) If the Company wishes to Convert or Exchange any CPS under this clause 3.5, it must deliver a valid Redemption Notice to the Holder.

f) A valid Redemption Notice must:
   i) be in writing;
   ii) specify the number of CPS that the Company wants to Convert and the number of CPS that the Company wants to Exchange (together, the "**Redemption CPS**"); and
   iii) be delivered to the Holder at least 25 Business Days, but not more than 40 Business Days, before the Variable Rate Conversion Date.

g) Once the Company has served a Redemption Notice other than in respect of an Accounting Event or a Tax Event, a Holder may not issue a Conversion Notice in respect of the Redemption CPS the subject of that Redemption Notice.

3.5A Redemption on an Accounting Event or a Tax Event

a) The Company may Convert or Exchange all but not some of a Holder's CPS if an Accounting Event or a Change of Control Event occurs.

b) If the Company Exchanges any CPS under this clause 3.5A, each CPS will be Exchanged for an amount equal to the Issue Price (adjusted in accordance with clause 1) as of the date of Exchange, multiplied by 1.03.

c) If the Company Converts any CPS under this clause 3.5A, each CPS will be Converted in accordance with the Variable Ratio.

d) If the Company wishes to Convert or Exchange any CPS under this clause 3.5A, it must deliver a valid Redemption Notice to the Holder within 20 Business Date of the relevant Accounting Event or Tax Event.

e) Any Redemption Notice given under this clause 3.5A must:
   i) comply with the requirements of clause 3.5(f)(i) and (ii); and
   ii) must provide a description of the circumstances leading to the Accounting Event or Tax Event, as applicable.

f) Upon receipt of a Redemption Notice under clause 3.5A(e), a Holder may, within 10 Business Days after receipt of the Redemption Notice ("**Counter-Exercise Date**"), deliver a Conversion Notice in accordance with clause 3.4.

g) If the Company receives a Conversion Notice by the relevant Counter-Exercise Date:
   i) the Redemption Notice will be deemed to have been withdrawn by the Company; and
   ii) the Company must either Convert or Exchange the Conversion CPS at a Fixed Ratio within 20 Business Days after the date of receipt of the Conversion Notice.

h) If the Company does not receive a Conversion Notice by the relevant Counter-Exercise Date, the Company must Convert or Exchange the CPS in accordance with clauses 3.5A(a) and (b).

3.6 Minimum number on Issue

The Company may not elect to Convert or Exchange only some CPS if, as at the date of the notice to Holders, that Conversion or Exchange would result in less than 500 CPS outstanding. In a partial Conversion or Exchange, the Company must endeavour to treat Holders on an approximately equal basis, but may discriminate between Holders to take account of the effect of the Conversion or Exchange on marketable parcels and other factors considered relevant by the Company.

3.7 Restrictions in case of non-Redemption

a) Subject to clause 3.7(b), if for any reason any CPS remain on issue following the Redemption Date, the Company must not without consent of Holders of 75% of the then-outstanding CPS:

i) resolve to pay, or pay, a cash dividend or make any distribution on any share capital over which CPS rank in priority for participation in profits; or

ii) redeem, reduce, cancel, or buy-back for any consideration any share capital of the Company (other than to Convert or Exchange a CPS),

until such time as all CPS have been Converted or Exchanged.

b) The restrictions in clause 3.7(a) do not apply to repurchases (including buy-backs), redemptions or other acquisitions of Ordinary Shares in connection with any employment contract, employee share scheme, benefit plan or other similar arrangement with or for the benefit of any one or more employees, officers, directors or consultants of the Company or any controlled entity.

3.8 Adjustment to VWAP

For the purposes of calculating VWAP in these Terms of Issue:

a) where, on some or all of the Business Days in the relevant Reference Period, Ordinary Shares have been quoted on ASX as cum dividend or cum any other distribution or entitlement and CPS will Convert or Exchange into Ordinary Shares after the date those Ordinary Shares no longer carry that entitlement, then the VWAP on each of the Business Days on which those Ordinary Shares have been quoted cum dividend or cum any other distribution or entitlement shall be reduced by an amount (**Cum Value**) equal to:

i) (in the case of a dividend or other distribution), the amount of that dividend or other distribution including, if the dividend or other distribution is franked, the amount that would be included in the assessable income of a recipient of the dividend or other distribution who is both a resident of Australia and a natural person under the Tax Act;

ii) (in the case of any other entitlement which is traded on ASX during the relevant Reference Period), the volume weighted average sale price of all such entitlements sold on ASX during the Reference Period on the Business Days on which those entitlements were traded; or

iii) (in the case of an entitlement not traded on ASX during the relevant Reference Period), the value of the entitlement as reasonably determined by the Directors;

b) where, on some or all of the Business Days in the relevant Reference Period, Ordinary Shares have been quoted on ASX as ex dividend or ex any other distribution or entitlement, and CPS will Convert or Exchange into Ordinary Shares which would be entitled to receive the relevant dividend or other distribution or entitlement, the VWAP on each of the Business Days on which those Ordinary Shares have been quoted ex dividend or ex any other distribution or entitlement shall be increased by the Cum Value; and

c) where the Ordinary Shares are reconstructed, consolidated, divided or reclassified (other than by way of a bonus issue, rights issue or other essentially pro rata issue) into a lesser or greater number of securities during the relevant Reference Period, the VWAP shall be adjusted by the Company as it considers appropriate to ensure that the Holders are in an economic position in relation to their CPS that is as similar as reasonably practicable to the economic position prior to the occurrence of the event that gave rise to the need for the adjustment. Any adjustment made by the Company will be effective and binding on Holders under these Terms of Issue and these Terms of Issue will be construed accordingly.

Any such adjustment must be notified to the Holders as soon as practicable.

3.9 Adjustment of Fixed Conversion Price

a) Where the Ordinary Shares are reconstructed, consolidated, divided or reclassified into a lesser or greater number of securities, or the Company undertakes a bonus issue of Ordinary Shares or otherwise returns capital in the Company by way of an issue of Ordinary Shares other than where any such Ordinary Shares are issued pursuant to the DRP ("**Dilutionary Event**"), the Fixed Conversion Price will be adjusted in accordance with the following ratio:

$$N = FCP \times \frac{A}{B}$$

Where:

"**N**" is the new Fixed Conversion Price;

"**FCP**" is the Fixed Conversion Price immediately before the Dilutionary Event;

"**A**" is the number of Ordinary Shares on issue immediately before the Dilutionary Event; and

"**B**" is the number of Ordinary Shares on issue immediately after the Dilutionary Event.

Such adjustment shall become effective on the date of issue, reconstruction, consolidations, subdivision or reclassification of such Ordinary Shares.

b) If the Company makes any Capital Distribution to holders of Ordinary Shares, the Fixed Conversion Price will be adjusted in accordance with the following ratio:

$$N = FCP \times \frac{(A - B)}{A}$$

Where:

"**N**" is the new Fixed Conversion Price;

"**FCP**" is the Fixed Conversion Price immediately before the Capital Distribution;

"**A**" is the Current Market Price per Ordinary Share on (i) the first date the Ordinary Shares are traded ex-the relevant Capital Distribution or (ii) in the case of a purchase of Ordinary Shares by or on behalf of the Company or its Subsidiaries, the date on which such Ordinary Shares are purchased; and

"**B**" is the portion of the Fair Market Value of the Capital Distribution (determined as of the date the Capital Distribution is announced) attributable to one Ordinary Share.

Such adjustment shall become effective on the date on which the relevant Capital Distribution is paid or made or, in the case of a purchase of Ordinary Shares on the date such purchase is made.

For the purposes of this clause 3.9, a Capital Distribution means any Distribution which together with any other Distribution in respect of such financial year (disregarding for such purpose any amount previously determined to be a Capital Distribution in respect of that financial year) exceeds the "**Reference Amount**" (being 6.50% of the average of the daily VWAP of the Ordinary Shares for the 40 Business Day period commencing on the ex date for the Distribution), and provided that:

i) the value of any franking credits attaching to any Distribution will be ignored in determining the value of any Distribution; and

ii) any matter covered by clause 3.9(a) will not be a Distribution for the purposes of this clause 3.9(b).

c) If Ordinary Shares shall be issued to holders of Ordinary Shares as a class by way of rights, or if these shall be issued or granted to holders of Ordinary Shares as a class by way of rights, options, warrants or other rights to subscribe for or purchase any Ordinary Shares, in each case at a price per Ordinary Share which is less than 95% of the Current Market Price per Ordinary Share on the Business Day immediately preceding the date of the first public announcement of the terms of issue or the grant of such Ordinary Shares, option, warrants or other rights, the Fixed Conversion Price will be adjusted in accordance with the following ratio:

$$N = FCP \times \frac{A + B}{A + C}$$

Where:

"**N**" is the new Fixed Conversion Price;

"**FCP**" is the Fixed Conversion Price immediately before the rights offer;

"**A**" is the number of Ordinary Shares on issue on the close of business on the date immediately before the first public announcement of the relevant rights offer;

"**B**" is the number of Ordinary Shares which the aggregate amount (if any) payable for the Ordinary Shares to be issued in connection with the rights offer, or for the options or warrants or other rights issued by way of the rights offer and for the total number of Ordinary Shares deliverable on the exercise thereof, would purchase at the Current Market Price per Ordinary Share; and

"**C**" is the number of Ordinary Shares issued or, as the case may be the maximum number of Ordinary Shares which may be issued upon exercise of such options, warrants or rights calculated as at the date of announcement of the rights offer.

Such adjustment shall become effective on the first date on which the Ordinary Shares are traded ex-rights, ex-options or ex-warrants on ASX.

d) If any Securities (other than Ordinary Shares or options, warrants or other rights to subscribe for or purchase any Ordinary Shares) shall be issued to holders of Ordinary Shares as a class by way of rights or if these shall be granted to holders of Ordinary Shares as a class by way of rights, options, warrants or other rights to subscribe for or purchase any Securities (other than Ordinary Shares or options, warrants or other rights to subscribe for or purchase Ordinary Shares), the Fixed Conversion Price will be adjusted in accordance with the following ratio:

$$N = FCP \times \frac{(A - B)}{A}$$

Where:

"**N**" is the new Fixed Conversion Price;

"**FCP**" is the Fixed Conversion Price immediately before such issue or grant;

"**A**" is the Current Market Price per Ordinary Share on the first date the Ordinary Shares are traded ex-rights, ex-options or ex-warrants (the 'ex-date'); and

"**B**"is the Fair Market Value on the date of such announcement of the portion of the rights attributable to one Ordinary Share.

Such adjustment shall become effective on the first date on which the Ordinary Shares are traded ex-rights, ex-options or ex-warrants on ASX.

e) If and whenever there shall be issued (otherwise than as mentioned in clause 3.9(c)) any Ordinary Shares (other than Ordinary Shares issued on the Conversion of CPS or on the exercise of any rights of exchange into, or exchange or subscription for or purchase of, Ordinary Shares) or if and whenever there shall be an issue or grant (otherwise than as mentioned in clause 3.9(c)) of any options, warrants or other rights to subscribe for or purchase any Ordinary Shares (other than the CPS) in each case at a price per Ordinary Share that is less than 95% of the Current Market Price per Ordinary Share on the Business Day preceding the date of the first public announcement of the terms of such issue or grant, the Fixed Conversion Price will be adjusted in accordance with the following ratio:

$$N = FCP \times \frac{A + B}{A + C}$$

Where:

"**N**" is the new Fixed Conversion Price;

"**FCP**" is the Fixed Conversion Price immediately before such issue or grant;

"**A**" is the number of Ordinary Shares in issue immediately before the issue of such Ordinary Shares or the grant of such options, warrants or rights;

"**B**" is the number of Ordinary Shares which the aggregate consideration (if any) receivable for the issue of such addition Ordinary Shares or, as the case may be, for the Ordinary Shares to be issued or otherwise made available upon the exercise of any such options, warrants or rights, would purchase at the Current Market Price per Ordinary Share as of the last Business Day before the first public announcement of the relevant issue or grant; and

"**C**" is the number of Ordinary Shares to be issued pursuant to such issue of such Ordinary Shares or, as the case may be, the maximum number of Ordinary Shares which may be issued upon exercise of such options, warrants or rights calculated as at the date of issue of such options, warrants or rights.

Such adjustment shall become effective on the date of issue of such additional Ordinary Shares or, as the case may be, the grant of such options, warrants or rights.

f) If and whenever there shall be issued (otherwise than as mentioned in clauses 3.9(c), 3.9(d) or 3.9(e) above) any Securities (other than CPS) which by their terms of issue carry (directly or indirectly) rights of conversion into, or exchange or subscription for, Ordinary Shares (or shall grant any such rights in respect of existing Securities so issued) or Securities which by their terms might be redesignated as Ordinary Shares, in each case at a price per Ordinary Share that is less than 95% of the Current Market Price per Ordinary Share on the Business Day preceding the date of the first public announcement of the terms of such Securities, the Fixed Conversion Price will be adjusted in accordance with the following ratio:

$$N = FCP \times \frac{A + B}{A + C}$$

Where:

"**N**" is the new Fixed Conversion Price;

"**FCP**" is the Fixed Conversion Price immediately before such issue or grant;

"**A**" is the number of Ordinary Shares in issue immediately before such issue or grant (but where the relevant Securities carry rights of exchange into or rights of exchange or subscription for Ordinary Shares which have been issued by the Company or any of the Subsidiaries of the Company for the purposes of or in connection with such issue, less the number of such Ordinary Shares so issued);

"**B**" is the number of Ordinary Shares which the aggregate consideration (if any) receivable for the Ordinary Shares to be issued or otherwise made available upon conversion or exchange or upon exercise of the right of subscription attached to such Securities or, as the case may be, for the Ordinary Shares to be issued or to arise from any such redesignation would purchase at such Current Market Price per Ordinary Share; and

"**C**" is the maximum number of Ordinary Shares to be issued or otherwise made available upon conversion or exchange of such Securities or upon the exercise of such right of subscription attached thereto at the initial conversion, exchange or subscription price or rate or, as the case may be, the maximum number of Ordinary Shares which may be issued or arise from any such redesignation.

Provided that if at the time of issue of the relevant Securities or date of grant of such rights (as used in this clause 3.9(f) the "**Specified Date**") such number of Ordinary Shares is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time (which may be when such Securities are exchanged or rights of subscription are exercised or, as the case may be, such Securities are redesignated or at such other time as may be provided) then for the purposes of this clause 3.9(f), "**C**" shall be determined by the application of such formula or variable feature or as if the relevant event occurs or had occurred as at the Specified Date and as if such conversion, exchange, subscription, purchase or acquisition or, as the case may be, redesignation had taken place on the Specified Date.

Such adjustment shall become effective on the date of issue of such Securities or, as the case may be, the grant of such rights.

g) If and whenever there shall be any modification of the rights of conversion, exchange or subscription attaching to any such Securities (other than the CPS) as are mentioned in clause 3.9(f) (other than in accordance with the terms (including terms as to adjustment) applicable to such Securities upon issue) so that following such modification the consideration per Ordinary Share receivable has been reduced and is less than 95% of the Current Market Price per Ordinary Share on the Business Day preceding the date of the first public announcement of the modification, the Fixed Conversion Price will be adjusted in accordance with the following ratio:

$$N = FCP \times \frac{A + B}{A + C}$$

Where:

"**N**" is the new Fixed Conversion Price;

"**FCP**" is the Fixed Conversion Price immediately before such modification;

"**A**" is the number of Ordinary Shares in issue immediately before such modification (but where the relevant Securities carry rights of conversion into or rights of exchange or subscription for Ordinary Shares which have been issued, purchased or acquired by or on behalf of the Company or its Subsidiaries (or at the direction or request or pursuant to any arrangements with the Company or any of its Subsidiaries) for the purposes of or in connection with such issue, less the number of such Ordinary Shares so issued, purchased or acquired);

"**B**" is the number of Ordinary Shares which the aggregate consideration (if any) receivable for the Ordinary Shares to be issued or otherwise made available upon conversion or exchange or upon exercise of the right of subscription attached to the Securities so modified would purchase at such Current Market Price per Ordinary Share or, if lower, the existing conversion, exchange or subscription price of such Securities; and

"**C**" is the maximum number of Ordinary Shares which may be issued or otherwise made available upon conversion or exchange of such Securities or upon the exercise of such rights of subscription attached thereto at the modified conversion, exchange or subscription price or rate but giving credit in such manner as an Independent Financial Adviser shall consider appropriate for any previous adjustment under this sub-paragraph or sub-paragraph (f) above.

Provided that if at the time of such modification (as used in this clause 3.9(g) the "**Specified Date**") such number of Ordinary Shares is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time (which may be when such Securities are converted or exchanged or rights of subscription are exercised or at such other time as may be provided) then for the purposes of this clause 3.9(g), "C" shall be determined by the application of such formula or variable feature or as if the relevant event occurs or had occurred as at the Specified Date and as if such conversion, exchange or subscription had taken place on the Specified Date.

Such adjustment shall become effective on the date of modification of the rights of conversion, exchange or subscription attaching to such Securities.

h) If and whenever there shall be offered any Securities and in connection with that offer holders of Ordinary Shares as a class are entitled to participate in arrangements whereby such Securities may be acquired by them (except where the Fixed Conversion Price is to be adjusted under clauses 3.9(a), 3.9(b), 3.9(c), 3.9(d), 3.9(e), 3.9(f) or 3.9(i) or would fall to be so adjusted if the relevant issue or grant was at less than 95% of the Current Market Price per Ordinary Share on the relevant Business Day) the Fixed Conversion Price will be adjusted in accordance with the following ratio:

$$N = FCP \times \frac{(A - B)}{A}$$

Where:

"**N**" is the new Fixed Conversion Price;

"**FCP**" is the Fixed Conversion Price immediately before the making of such offer;

"**A**" is the Current Market Price of one Ordinary Share on the Business Day immediately preceding the ex-date for entitlements to participate in such arrangements; and

"**B**" is the Fair Market Value on the Business Day immediately preceding the ex-date for entitlements to participate in such arrangements of the portion of the rights attributable to one Ordinary Share.

Such adjustment shall become effective on the ex-date for entitlements to participate in such arrangements.

i) If a Change of Control Event, Accounting Event or Tax Event occurs prior to the Redemption Date (**Early Redemption Event**) then upon any exercise of Conversion right where the Conversion Date falls during the period (the "**Early Redemption Event Period Event Period**") commencing on the occurrence of the Early Redemption Event and ending on and including the 20th Business Day following the Early Redemption Event, the Fixed Conversion Price (the "**Early Redemption Event Fixed Conversion Price**") will be determined as set out below (but adjusted, if appropriate, under this clause 3.9).

$$COCFCP = \frac{FCP}{(1 + (EP \times c/t))}$$

Where:

"**COCFCP**" is the Early Redemption Fixed Conversion Price;

"**FCP**" is the Fixed Conversion Price in effect immediately prior to the Early Redemption Event;

"**EP**" is 15%, the exchange premium;

"**c**" is the number of days from (but excluding) the date the Early Redemption Event occurs to (and including) the Redemption Date, determined on the basis of a 365-day year and, in the case of an incomplete month, the number of days elapsed; and

"**t**" is the number of days from (and including) the Issue Date to (and including) the Redemption Date, determined on the basis of a 365-day year and, in the case of an incomplete month, the number of days elapsed.

If Conversion rights may be exercised in circumstances where the Fixed Conversion Price is to be determined as provided in this clause 3.9(i), then the Company may elect pursuant to the Early Redemption Exercise Notice that a holder exercising Conversion rights in such circumstances will not be entitled to receive that number of Ordinary Shares in excess of the number of Ordinary Shares it would have been entitled to receive if the Fixed Conversion Price had not been adjusted as provided in this clause 3.9(i) (the "**Excess Securities**") but in lieu thereof shall be entitled to receive an amount (the "**Cash Amount**") determined by multiplying the number of Excess Securities by the Current Market Price of the Ordinary Shares on the Conversion Date.

j) If the Company determines that an adjustment should be made to the Fixed Conversion Price as a result of one or more circumstances not referred to above in this clause 3.9 (even if the relevant circumstance is specifically excluded from the operation of clauses 3.9(a) to 3.9(i)), the Company shall, at its own expense and acting reasonably, request an Independent Financial Adviser to determine as soon as practicable what adjustment (if any) to the Fixed Conversion Price is fair and reasonable to take account thereof and the date on which such adjustment should take effect and upon such determination such adjustment (if any) shall be made and shall take effect in accordance with such determination, provided that an adjustment shall only be made pursuant to this sub-paragraph (j) if such Independent Financial Adviser is so requested to make such a determination not more than 21 days after the date on which the relevant circumstance arises and if the adjustment would result in a reduction to the Fixed Conversion Price.

Notwithstanding the foregoing provisions, where the events or circumstances giving rise to any adjustment pursuant to this clause 3.9 have already resulted or will result in an adjustment to the Fixed Conversion Price or where the events or circumstances giving rise to any adjustment arise by virtue of any other events or circumstances which have already given or will give rise to an adjustment to the Fixed Conversion Price or where more than one event which gives rise to an adjustment to the Fixed Conversion Price occurs within such a short period of time that, in the reasonable opinion of the Company, a modification to the operation of the adjustment provisions is required to give the intended result, such modification shall be made to the operation of the adjustment provisions as may be advised by an Independent Financial Adviser to be in its opinion appropriate to give the intended result and provided further that, for the avoidance of doubt, the issue of Ordinary Shares pursuant to the exercise of Conversion rights shall not result in an adjustment to the Fixed Conversion Price.

For the purpose of any calculation of the consideration receivable or price pursuant to clauses 3.9(c), 3.9(e), 3.9(f) and 3.9(g), the following provisions shall apply:

a) the aggregate consideration receivable or price for Ordinary Shares issued for cash shall be the amount of such cash;

b) (x) the aggregate consideration receivable or price for Ordinary Shares to be issued or otherwise made available upon the conversion or exchange of any Securities shall be deemed to be the consideration or price received or receivable for any such Securities and (y) the aggregate consideration receivable or price for Ordinary Shares to be issued or otherwise made available upon the exercise of rights of subscription attached to any Securities or upon the exercise of any options, warrants or rights shall be deemed to be that part (which may be the whole) of the consideration or price received or receivable for such Securities or, as the case may be, for such options, warrants or rights which are attributed by the relevant issuer thereof to such rights of subscription or, as the case may be, such options, warrants or rights or, if no part of such consideration or price is so attributed, the Fair Market Value of such rights of subscription or, as the case may be, such options, warrants or rights as at the date of the first public announcement of the terms of issue of such Securities or, as the case may be, such options, warrants or rights, plus in the case of each of (x) and (y) above, the additional minimum consideration receivable or price (if any) upon the conversion or exchange of such Securities, or upon the exercise of such rights or subscription attached thereto or, as the case may be, upon exercise of such options, warrants or rights and (z) the consideration receivable or price per Ordinary Share upon the conversion or exchange of, or upon the exercise of such rights of subscription attached to, such Securities or, as the case may be, upon the exercise of such options, warrants or rights shall be the aggregate consideration or price referred to in (x) or (y) above (as the case may be) divided by the number of Ordinary Shares to be issued upon such conversion or exchange or exercise at the initial conversion, exchange or subscription price or rate;

c) if the consideration or price determined pursuant to (a) or (b) above (or any component thereof) shall be expressed in a currency other than Australian dollars it shall be converted into Australian dollars at such rate of exchange as may be determined in good faith by an Independent Financial Adviser to be the spot rate ruling at the close of business on the date of the first public announcement of the terms of issue of such Securities (or if no such rate is available on that date, the equivalent rate on the immediately preceding date on which such rate is available); and

d) in determining consideration or price pursuant to the above, no deduction shall made for any commissions or fees (howsoever described) or any expenses paid or incurred for any underwriting, placing or management of the issue of the relevant Ordinary Shares or Securities or otherwise in connection therewith.

3.10 Holder right to Conversion at the Variable Ratio

a) If a Change of Control Event occurs, then the Holder will have the right to have the Company Convert or Exchange all (but not some) of the Holder's CPS.

b) A Holder may exercise its rights under this clause 3.10 by delivering a notice ("**Change of Control Conversion Notice**") to the Company which:

   i) is in writing;

   ii) requests Conversion or Exchange of all of its CPS;

   iii) specifies that the request is being made pursuant to this clause 3.10; and

   iv) must be received by the Company no later than 15 Business Days after the Change of Control Event is publicly announced.

c) The Company must give a "**Change of Control Exercise Notice**" within 10 Business Days of the date that the first Change of Control Conversion Notice is received by the Company. The Change of Control Exercise Notice must specify:
   i) a date on which the CPS of all Holders who have submitted a Change of Control Conversion Notice will be Converted or Exchanged ("**Change of Control Exchange Date**") that is not longer than 20 Business Days and not less than 15 Business Days after the date of the receipt of the first Change of Control Conversion Notice; and
   ii) the number of CPS which are being Converted and the number of CPS which are being Exchanged (which must be proportionately the same for all Holders who have submitted Change of Control Conversion Notices).

d) If the Company does not Convert or Exchange the Conversion CPS within 10 Business Days of its receipt of the Change of Control Conversion Notice, the Company will be deemed to have elected to Convert the Holder's CPS

e) The Company must, on the Change of Control Exchange Date, Convert or Exchange all CPS of any Holder who has submitted a Change of Control Exchange Notice in accordance with the procedures set out in clause 3.5.

f) Once a Holder has served a Change of Control Conversion Notice, the Holder may not issue a Conversion Notice in respect of the CPS the subject of that Change of Control Conversion Notice.

g) The Company must ensure that, where a Change of Control Event occurs in respect of a scheme of arrangement, the scheme of arrangement is structured so that any Conversion under this clause 3.10 occurs in sufficient time to allow Holders the opportunity to participate in the scheme of arrangement.

4 CPS general rights

4.1 Dividends

No dividends will be paid in respect of a CPS.

4.2 CPS rights ranking

CPS which have not been Converted rank equally amongst themselves in all respects and in priority to Ordinary Shares.

4.3 Rights on winding up

If there is a return of capital on a winding up of the Company, Holders will be entitled to receive out of the assets of the Company available for distribution to shareholders, a cash payment equal to $1,000 in respect of each CPS held, before any return of capital is made to holders of Ordinary Shares or any other class of shares in the Company ranking behind CPS.

CPS do not confer on their Holders any right to participate in profits or property except as set out in these Terms of Issue.

4.4 Shortfall on winding up

If, upon a return of capital, there are insufficient funds to pay in full to Holders the relevant amounts referred to in clause 4.3 and to other holders the amounts payable to them in respect of any other shares in the Company ranking as to such distribution equally with CPS on a winding up of the Company, the Holders and the holders of such other shares will share in any distribution of assets of the Company in proportion to the amounts to which they respectively are entitled.

4.5 Participation in surplus assets

Until Conversion, CPS do not confer on the Holders any further right to participate in the surplus assets of the Company on a winding up.

4.6 Restrictions on other issues

Until all CPS have been Converted or Exchanged, the Company must not, without written consent of Holders having at least 75% of the CPS on issue, issue shares ranking in priority to the CPS or permit the variation of any rights of any existing shares so that those shares rank in priority to the CPS, but the Directors are at all times authorised to issue further preference shares ranking equally with any CPS.

4.7 Participation in new issues

Until Conversion, CPS confer no rights to subscribe for new securities in the Company or to participate in any bonus issues.

4.8 Further assurances

If the Company decides to Convert or Exchange CPS in accordance with these Terms of Issue, the Holder must:

a) vote in favour (subject to compliance with the law and to the extent that the Holder is entitled to do so) or otherwise abstain from any required resolution;

b) provide all documentation and execute any authorisation or power necessary; and

c) take all other action necessary or desirable,

to effect the Conversion or Exchange.

4.9 Sale of shares on Exchange

If the Company elects to buy back any CPS under these Terms of Issue, each Holder irrevocably offers to sell all or some (as applicable) of its CPS to the Company for the relevant amount determined under these Terms of Issue.

4.10 Appointment of agent

Each Holder irrevocably appoints the Company and each of its authorised officers (each an "**Appointed Person**") severally to be the agent and attorney of the Holder with power in the name and on behalf of the Holder to do all such things and acts including signing all documents, including any share transfer or buy-back agreement, as may, in the opinion of the Appointed Person, be necessary or desirable to be done in order to give effect to clauses 4.8 and 4.9.

4.11 Transfer

a) Subject to clause 4.11(b), the CPS will be freely transferable by the Holder.

b) During the period of 12 months following the date of issue of the CPS, the Holder will not sell or transfer the CPS, or grant, issue or transfer an interest in, or option over, the CPS unless:
   i) the person to whom the CPS are sold or transferred or to whom an interest in, or option over, the CPS is granted, issued or transferred (the "**Transferee**") is a sophisticated or professional investor within section 708(8) or 708(11) of the Corporations Act; and
   ii) the Transferee agrees:
      A) not to sell or transfer the CPS, or grant, issue or transfer an interest in, or option over, the CPS in that 12 month period following the date of issue of the CPS to a person other than a sophisticated or professional investor within section 708(8) or 708(11) of the Corporations Act; and
      B) to impose terms on any further transferee which restrict, during that 12 month period following the date of issue of the CPS, any sale or transfer of the CPS, or the grant, issue or transfer of an interest in, or option over, the CPS, to persons who are sophisticated or professional investors within section 708(8) or 708(11) of the Corporations Act."

CPS Terms of Issue (continued)

5 Voting Rights

CPS do not entitle their Holders to vote at any general meeting of the Company except in the following circumstances:

a) on a proposal:
   i) to reduce the share capital of the Company;
   ii) that affects rights attached to the CPS;
   iii) to wind up the Company; or
   iv) for the disposal of the whole of the property, business and undertaking of the Company;
b) on a resolution to approve the terms of a buy-back agreement; or
c) during the winding up of the Company.

If Holders are entitled to vote on a poll, a Holder will be entitled to one vote per CPS held.

6 Quotation of Ordinary Shares on ASX

The Company must use all reasonable endeavours and furnish all such documents, information and undertakings as may be reasonably necessary in order to procure and maintain, at its own expense, quotation of all Converted CPS on ASX and any other stock exchange on which other Ordinary Shares are quoted on the date that any CPS are Converted.

7 Amendments to the Terms of Issue

Subject to complying with all applicable laws, the Company may without the authority, assent or approval of Holders amend or add to these Terms of Issue if such amendment or addition is not likely (taken as a whole and in conjunction with all other modifications, if any, to be made contemporaneously with that modification) to be materially prejudicial to the interests of the Holders.

The Company or Holders may, at any time, agree to vary these Terms of Issue subject to the written consent of the Company or Holders having at least 75% of the CPS on issue as applicable.

8 Interpretation

a) Unless the context otherwise requires, if there is any inconsistency between the provisions of these Terms of Issue and the Constitution, then, to the maximum extent permitted by law, the provisions of these Terms of Issue will prevail.
b) If a calculation is required under these Terms of Issue, unless the contrary intention is expressed, the calculation will be performed to four decimal places.
c) Definitions and interpretation under the Constitution will also apply to these Terms of Issue.
d) Where, under these Terms of Issue, the day on or by which any thing is to be done is not a Business Day, that thing must be done on or by the following Business Day.
e) All references to $ are to Australian dollars.
f) The following expressions shall have the following meanings:

   "**Adjustment Date**" in respect of a CPS, initially means [*insert date 6 months after date of issue*] and thereafter means:

   i) each [*insert date 12 months after date of issue*] and [*insert date 6 months after date of issue*] until the CPS is Converted or Exchanged; and
   ii) any date on which the CPS is Converted or Exchanged.

   "**Adjustment Factor**" has the meaning given to that term in clause 1(c).

"**Accounting Event**" means a determination is made by the Directors acting reasonably, following receipt by them of an opinion from the auditors of the Company, that any change in Accounting Standards has had or will have in the current financial half-year, the effect that the CPS would be treated in the Company's consolidated financial statements or in the standalone accounts of the Company other than as equity.

"**Accounting Standards**" means:

i) the accounting standards as defined in the Corporations Act;
ii) the requirements of the Corporations Act for the preparation and content of accounts; and
iii) generally accepted accounting principles and practices consistently applied in Australia, including any domestically accepted international accounting standards, except principles and practices that are inconsistent with those referred to in paragraph (i) or (ii) of this definition.

"**Administrative Action**" means a judicial decision, official administrative pronouncement, published or private ruling, regulatory procedure, notice or announcement (including any notice or announcement of intent to adopt such procedures or regulations) of any taxing or other authority made, taken or changed after the date of issue of the CPS which affects taxation.

"**ASX**" means ASX Limited.

"**Blackout Periods**" means the following periods:

i) the period from the end of the Company's financial year until the date it publicly announces its financial results for that financial year in accordance with ASX Listing Rules 4.3A and 4.3B; and
ii) the period from the end the first half of the Company's financial year until the date it publicly announces its financial results for that half-year in accordance with ASX Listing Rules 4.2A and 4.2B.

"**Business Day**" means a day on which trading on ASX is conducted and which is referred to by ASX as a "trading day".

"**Change of Control Event**" means:

i) a takeover bid is made by a person, other than SGH or any of its associates (as that terms is defined for the purposes of Chapter 6 of the Corporations Act), to acquire all of the Ordinary Shares and the bid is unanimously recommended by the Directors; or
ii) a scheme of arrangement of between the Company and it Ordinary Shareholders under Part 5.1 of the Corporations Act which, when implemented, would result in a person, other than SGH or any of its associates (as that terms is defined for the purposes of Chapter 6 of the Corporations Act), having voting power in the Company of 100% becomes effective.

"**Change of Control Conversion Notice**" has the meaning given to that term in clause 3.10(b).

"**Change of Control Exchange Date**" has the meaning given to that term in clause 3.10(c)(i).

"**Change of Control Exercise Notice**" means a notice given by the Company pursuant to clause 3.10(c).

"**Company**" means West Australian Newspapers Holdings Limited (ABN 91 053 480 845).

"**Constitution**" means the constitution of the Company.

"**Conversion**" has the meaning set out in clause 3.1 and "**Convert**" and "**Converted**" have corresponding meanings.

"**Conversion CPS**" has the meaning given to that term in clause 3.3.

"**Conversion Notice**" means a notice given to a Holder to the Company pursuant to clause 3.3.

"**Conversion Trigger Date**" means the date that the Company's half year accounts for the period ending 31 December 2013 are released to the ASX.

"**Corporations Act**" means the Corporations Act 2001 (Cth).

"**Counter Exercise Date**" has the meaning given to that term in clause 3.5A(f).

"**CPS**" means the convertible preference shares issued pursuant to these Terms of Issue, which are redeemable and convertible preference shares in the Company.

"**CPS Present Value**" has the meaning given to that term in clause 3.5A(b).

"**Current Market Price**" means, in respect of a Ordinary Share at or on a particular date, the average of the VWAP of a Ordinary Share for the 10 consecutive Business Days ending on (and including) the Business Day immediately preceding such date; provided that for the purposes of calculating VWAP, the adjustment to VWAP in clause 3.9 shall apply.

"**Directors**" means the directors of the Company.

"**Distribution**" means, any dividend or distribution whether of cash, assets or other property, whether paid out of income or capital, and whenever paid or made and however described (and for these purposes a distribution of assets includes without limitation a return of capital or an issue of Ordinary Shares or other Securities out of capital or credited as fully or partly paid up by way of capitalisation of profits or reserves).

"**DRP**" means, the Dividend Reinvestment Plan of the Company, in effect on [*insert date of issue*] or any amendment or successor plan thereto.

"**DRP Discount**" means, the discount per Ordinary Share under the DRP at which Ordinary Shares may be issued pursuant to the DRP.

"**Exchange**" has the meaning set out in clause 3.2.

"**Fair Market Value**" means, with respect to any property on any date, the fair market value of that property as determined in good faith by an Independent Financial Adviser provided, that (i) the Fair Market Value of a cash Distribution paid or to be paid shall be the amount of such cash Distribution; (ii) the Fair Market Value of any other cash amount shall be the amount of such cash; (iii) where Securities are publicly traded in a market of adequate liquidity (as determined by an Independent Financial Adviser), the fair market value of such Securities shall equal the average if the VWAP of such Securities, in the case of both during the period of 10 Business Days commencing on such date (or, if later, the first such trading day such Securities are publicly traded); and (iv) in the case of (i) exchanged into Australian dollars (if declared or paid in a currency other than Australian dollars) at the rate of exchange used to determine the amount payable to holders of Ordinary Shares who were paid or are to be paid or are entitled to be paid the cash Distribution in Australian dollars; and in any other case, exchanged into Australian dollars (if expressed in a currency other than Australian dollars) at such rate of exchange as may be determined in good faith by an Independent Financial Adviser to be the spot rate ruling at the close of business on that date (or if no such rate is available on that date the equivalent rate on the immediately preceding date on which such a rate is available).

"**Fixed Conversion Price**" means $6.68, as adjusted pursuant to clause 3.9.

"**Fixed Ratio**" has the meaning set out in clause 3.4.

"**Holder**" means a holder of a CPS.

"**Independent Financial Adviser**" means, a reputable investment bank operating in Australia or an investment bank of international repute, in any such case, appointed by the Company.

"**Issue Price**" has the meaning given to that term in clause 1(a).

"**Ordinary Share**" means a fully paid ordinary share in the capital of the Company.

"**Proportionate Interest**" means a number of Ordinary Shares equal to the lesser of:

i) 29.6% of the total number of outstanding Ordinary Shares of the Company; and
ii) any lower percentage of Ordinary Shares of the Company as SGH may hold immediately following the sale or transfer of Ordinary Shares by SGH.

"**Redemption Date**" means the 5-year anniversary of the date that CPS are first issued.

"**Redemption CPS**" has the meaning given to that term in clause 3.5.

"**Reference Period**" means the period for calculating VWAP in accordance with these Terms of Issue.

"**Securities**" means, any securities including, without limitation, (i) the Ordinary Shares and (ii) bonds, debentures, shares, units or options, warrants or other rights to subscribe for or purchase or acquire any such securities.

"**SGH**" means Seven Group Holdings Limited (ABN 46 142 003 469) and its related bodies corporate (as that term is defined in the Corporations Act).

"**Subsidiary**" means, in relation to any entity, another entity (including, for the avoidance of doubt, a trust) which is a subsidiary of it within the meaning of Part 1.2 Division 6 of the Corporations Act or which is controlled by it for the purposes of section 50AA of the Corporations Act or within the meaning of any approved accounting standard applicable to the first-mentioned.

"**Tax Act**" means:

i) the Income Tax Assessment Act 1936 or the Income Tax Assessment Act 1997 as the case may be as amended or replaced and a reference to any section of the Income Tax Assessment Act 1936 includes a reference to that section as rewritten in the Income Tax Assessment Act 1997;
ii) any other Act setting the rate of income tax payable; and
iii) any regulation promulgated thereunder;

"**Tax Event**" means the receipt by the Company of an opinion from a reputable legal counsel or other tax adviser, experienced in such matters to the effect that, as a result of:

i) any amendment to, clarification of, or change (including any announced prospective change) occurring after the date of issue of the CPS in the laws or treaties (or any regulations thereunder) of any jurisdiction or any political subdivision or taxing authority thereof or therein affecting taxation; or
ii) any Administrative Action; or

CPS Terms of Issue (continued)

iii) any amendment to, clarification of, or change in, the pronouncement that provides for a position with respect to an Administrative Action that differs from the theretofore generally accepted position before the date of issue of the CPS, in each case, by any legislative body, court, governmental authority or regulatory body, irrespective of the manner in which such amendment, clarification, change or Administrative Action is made known,

which amendment, clarification, change or Administrative Action is effective or such pronouncement or decision is announced on or after the Closing Date, there is a more than an insubstantial risk that the Company or its members would be exposed to more than a de minimis increase in their respective costs in relation to the CPS.

"**Variable Conversion Price**" has the meaning given to that term in clause 3.5.

"**Variable Rate Conversion Date**" means the Redemption Date or any subsequent half-year anniversary thereafter.

"**Variable Ratio**" has the meaning set out in clause 3.5.

"**VWAP**" means the average of the daily volume weighted average sale price of Ordinary Shares sold on ASX during the relevant period or on the relevant days (excluding any transaction defined in the ASX Business Rules as "special" crossings prior to the commencement of normal trading, crossings during the after hours adjust phase or any overseas trades or the exercise of options over Ordinary Shares).

9 Notices

a) Except where otherwise provided in these Terms of Issue, a notice may be given by the Company to a Holder in any manner prescribed by the Constitution of the Company for giving notices to members of the Company and the relevant provisions apply with all necessary modifications to notices to Holders.

b) A Redemption Notice, a Change of Control Exercise Notice and a Company Details Notice may each be given to Holders by the Company publishing the notice on its website and announcing the publication of the notice to the ASX.

c) The non-receipt of a notice by a Holder or an accidental omission to give notice to a Holder will not invalidate the giving of that notice either in respect of that Holder or generally.

d) All notices or other communications to the Company in respect of these Terms of Issue must be:

i) in legible writing or typing and in English;

addressed as shown below:

Attention: Company Secretary
West Australian Newspapers Holdings Limited

Address: 50 Hasler Road
Osborne Park WA, 6017

Fax No: +61 8 9482 9080

or to such other address or fax number as the Company notifies to Holders as its address and fax number (as the case may be) for notices or other communications in respect of these Terms of Issue from time to time (as "Issuer Details Notice");

ii) signed by the person making the communication or by a person duly authorised by that person; and

iii) delivered or posted by prepaid post to the address, or sent by fax to the fax number, of the Company in accordance with clause 10(d)(ii).

e) A notice to the Company will be taken to be received:

i) if sent by fax, when actually received in its entirety in legible form, unless it is received on a day that is not a weekday that banks are open for business in Perth, or after 5pm (Perth time) on a weekday that banks are open for business in Perth, in which case that notice will be regarded as being received at 9am (Perth time) on the next weekday that banks are open for business in Perth; and

ii) in any other case, on delivery at the address of the Company as provided for in clause 10(d)(ii), unless that delivery is made on a day that is not a weekday that banks are open for business in Perth, or after 5pm (Perth time) on a weekday that banks are open for business in Perth, in which case that notice will be regarded as being received at 9am (Perth time) on the next weekday that banks are open for business in Perth.

Appendix

D Explanation of Resolutions

Interconditional Resolutions

There are five resolutions to be considered at the EGM:

- Resolution 1 – Approval of the Acquisition as a related party transaction;
- Resolution 2 – Approval of acquisition by SGH of relevant interests in WAN Shares;
- Resolution 3 – Approval of the issue of WAN Shares to KKR and mezzanine investors as part of the KKR Investment;
- Resolution 4 – Approval of the terms, and subsdivision, of the CPS; and
- Resolution 5 – Approval of the change of name of WAN to Seven West Media Limited.

For the Proposed Transaction to proceed, each of Resolutions 1 to 4 must be passed at the EGM. If those Resolutions are not passed, the Proposed Transaction will not proceed and Resolution 5 will not be put to WAN Shareholders.

Resolutions 1, 2 and 3 are ordinary resolutions. In order for an ordinary resolution to be passed, more than 50% of the votes cast on the resolution by WAN Shareholders entitled to vote on the resolution must be in favour of the resolution.

Resolutions 4 and 5 are special resolutions. In order for a special resolution to be passed, more than 75% of the votes cast on the resolution by WAN Shareholders entitled to vote on the resolution must be in favour of the resolution.

SGH currently holds 24.3% of the WAN Shares on issue. SGH and its associates are excluded from voting on Resolutions 1, 2 and 3, but may vote on Resolutions 4 and 5.

The Independent Directors recommend that WAN Shareholders vote in favour of all of the Resolutions.

Resolution 1 – Approval of the Acquisition as a related party transaction

The Acquisition is a related party transaction as it involves the sale by SGH, a related party of WAN, to WAN of SMG. SGH is a related party of WAN because entities under the control of Mr Kerry Stokes AC hold approximately 67.9% of the shares in SGH, and Mr Stokes is chairman of SGH, as well as being the chairman of WAN.

As the Acquisition involves related party transactions, WAN Shareholders are required to approve the Acquisition to comply with section 208 of the Corporations Act, Listing Rule 10.1 and Listing Rule 10.11.

Section 208 of the Corporations Act

Section 208 of the Corporations Act prohibits a public company from giving a financial benefit to a related party without shareholder approval, unless one of the exceptions set out in Chapter 2E of the Corporations Act applies. The provision by WAN of the consideration under the Acquisition constitutes a financial benefit for the purposes of the Act. Section 211 of the Corporations Act sets out an exception to the requirement to obtain shareholder approval under section 208 where the financial benefits are given on terms that would be reasonable in the circumstances if WAN and the related party were dealing at arm's length. While the Independent Directors believe that the exception would apply in relation to the Acquisition, the Independent Directors are of the view that it is prudent to obtain shareholder approval for the financial benefits to be given to SGH as described in the Explanatory Memorandum.

Section 219 of the Corporations Act sets out specific information that must be set out in this Explanatory Memorandum for the purposes of an approval under Chapter 2E, and the following information is set out for that purpose.

Related parties to whom the financial benefits are proposed to be given

SGH entities under the control of Mr Stokes AC hold approximately 67.9% of the shares in SGH, and Mr Stokes is chairman of SGH, as well as being the chairman of WAN.

Nature of the financial benefits

The financial benefits given in connection with the Proposed Transaction are the obligations of WAN to SGH under the Share Sale Agreement in connection with the Acquisition, including the obligation to provide the consideration for acquiring SMG (as described in Section 2.2).

Directors' recommendations to members and reason

The recommendation of the Board is that WAN Shareholders vote in favour of the Resolutions. This recommendation is made only by those members of the Board who are Independent Directors. In particular:

- Mr Kerry Stokes AC and Mr Peter Gammell abstained from voting on all aspects of the Proposed Transaction as they are not independent directors of WAN (entities under the control of Mr Stokes AC hold approximately 67.9% of the shares in SGH, and Mr Stokes is chairman of SGH, as well as being the chairman of WAN, and Mr Gammell is a director of both SGH and WAN) and may have a conflict of interest. Accordingly, Mr Stokes and Mr Gammell give no recommendation with respect to Resolution 1 (or Resolutions 2, 3 and 4, which are inter-conditional with Resolution 1); and
- The Independent Directors recommend members vote in favour of Resolution 1 (and Resolutions 2, 3 and 4, which are inter-conditional with Resolution 1), for the reasons set out in Section 1.5.

Explanation of Resolutions (continued)

Directors' interests in the outcome of the Resolutions

- All of the Directors who hold or control WAN Shares as set out in Section 7.3.3. The Independent Directors have the same interest as other WAN Shareholders in the outcome of the Resolutions.
- Mr Stokes and Mr Gammell have additional interests in the outcome of the Resolutions:
  - Mr Gammell is a director of SGH and he has an interest in the Resolutions in that capacity; and
  - Entities under the control of Mr Stokes AC hold approximately 67.9% of the shares in SGH, and Mr Stokes is chairman of SGH, as well as being the chairman of WAN. SGH is a party to the Share Sale Agreement and will receive financial benefits under the Proposed Transaction, as described in this Explanatory Memorandum.

Other information known to WAN and the Directors

Other than as set out in this Explanatory Memorandum, there is no other information known to WAN or any of the Directors that is reasonably required by WAN Shareholders in order for them to decide whether or not it is in WAN's interests to pass the Resolution (or Resolutions 2, 3 and 4, which are inter-conditional with Resolution 1).

Listing Rule 10.1

Listing Rule 10.1 prohibits an entity from acquiring a substantial asset from a related party without shareholder approval, unless an exception applies. An asset is a substantial asset if its value, or the value of the consideration for it, is 5% or more than the equity interests in the entity as set out in the latest accounts given to ASX under the Listing Rules. In this case, the acquisition of SMG by WAN constitutes the acquisition of a substantial asset from a related party. As required by Listing Rule 10.10, the Independent Expert has prepared the Independent Expert's Report, which is set out in Appendix 1, and has concluded that the Proposed Transaction is fair and reasonable to WAN Shareholders (other than SGH and its associates).

Listing Rule 10.11

Listing Rule 10.11 prohibits an entity from issuing equity securities to a related party without shareholder approval. In this case, the issue by WAN of the WAN Shares and CPS to SGH under the Acquisition (as described in Section 2.2) requires the approval of WAN Shareholders. SGH is a related party of WAN because entities under the control of Mr Stokes AC hold approximately 67.9% of the shares in SGH, and Mr Stokes is chairman of SGH, as well as being the chairman of WAN.

Resolution 2 – Approval of acquisition by SGH of relevant interests in WAN Shares

Section 606 of the Corporations Act prohibits the acquisition of a relevant interest (as that term is defined in the Corporations Act) in voting shares of a listed company if the acquisition would increase a person's voting power (as that term is defined in the Corporations Act) in the company from 20% or below to more than 20%, or from a starting point that is above 20% and below 90%. section 611, item 7, of the Corporations Act permits the acquisition of a relevant interest in voting shares in a listed company that would otherwise contravene section 606 of the Corporations Act if it has previously been approved by a resolution of members where no votes are cast in favour of the resolution by a person acquiring the relevant interest and its associates.

The acquisition by SGH of a relevant interest in the WAN Shares to be issued to it as part of the consideration for selling SMG under the Proposed Transaction would, without shareholder approval pursuant to section 611, item 7, of the Corporations Act, be prohibited under section 606 of the Corporations Act.

In addition, if the Proposed Transaction proceeds, SGH will hold the CPS which convert into WAN Shares. SGH will acquire a relevant interest in WAN Shares upon conversion of any CPS. Under their terms, CPS cannot be converted into ordinary shares until after release of the 1H14 financial statements of the Combined Group (likely to be in February 2014), except in limited circumstances.[1] However, if SGH's shareholding and the WAN Shares on issue immediately following completion of the Proposed Transaction remained unchanged at the time of conversion, conversion of the CPS would increase SGH's shareholding in WAN from 29.6% to 33.6%. If any CPS are redeemed rather than converted, WAN also has the right to settle the amount payable to the holder of the CPS on redemption by issuing WAN Shares at 5% discount to the volume weighted average price at that time. The issue of WAN Shares by WAN to redeem any CPS held by SGH would also result in SGH acquiring a relevant interest in those WAN Shares. The CPS Terms of Issue are set out in Appendix C.

The acquisition by SGH of a relevant interest in the WAN Shares upon conversion or redemption of any CPS may, depending on SGH's shareholding and the WAN Shares on issue at the time, be prohibited under section 606 of the Corporations Act unless prior shareholder approval has been obtained pursuant to section 611, item 7, of the Corporations Act.

Resolution 2 approves, for the purposes of section 611, item 7, of the Corporations Act:

- The acquisition by SGH of a relevant interest in the WAN Shares to be issued to SGH on Completion of the Proposed Transaction, on the basis that SGH's voting power in WAN immediately following Completion of the Proposed Transaction will not exceed 29.6%; and
- The acquisition by SGH of a relevant interest in WAN Shares upon conversion or redemption of any CPS, provided that SGH's voting power in WAN immediately following such conversion or redemption will not exceed 33.6%.

Resolution 3 – Approval of issue of WAN Shares to KKR and mezzanine investors as part of the KKR Investment

The KKR Investment involves the issue of approximately 77 million WAN Shares to KKR (and potentially mezzanine investors (being existing financial investors in SMG) and members of management relating to SMG) at the issue price of $5.99 per WAN Share, as described in the Explanatory Memorandum. The WAN Shares are expected to be issued by 18 April 2011 and in any event by no later than 3 months after the date of the Meeting. Following Completion of the Proposed Transaction, KKR will hold 12.6% of WAN Shares.

Listing Rule 7.1 prohibits a company from issuing equity securities if the equity securities will, when aggregated with the securities issued by the company during the previous 12 months, exceed 15% of the number of fully paid ordinary shares on issue at the commencement of that 12 month period, unless an exception applies.

Because of the way in which the 15% capacity limit in Listing Rule 7.1 is calculated, the aggregate number of WAN Shares to be issued under the KKR Investment will exceed the 15% capacity limit for the purpose of Listing Rule 7.1. Resolution 3 approves the issue of the WAN Shares to KKR, mezzanine investors and members of management relating to SMG under the KKR Investment for the purpose of Listing Rule 7.1.

1 If SGH's shareholding in the Combined Group is diluted below 29.6% (but only to the extent required to bring their holding back up to that level); upon a change of control of the Combined Group or if consented to in writing by the Board.

Resolution 4 – Approval of the terms, and subdivision, of the CPS

CPS Terms of Issue

The CPS that are to be issued to SGH under the Proposed Transactions are preference shares. Under section 254A(2) of the Corporations Act, a company can issue preference shares only if the rights attached to the preference shares with respect to certain matters (such as priority of payment of capital and dividends in relation to other shares) are set out in the company's constitution or have been otherwise approved by special resolution of the company.

The CPS Terms of Issue are set out in Appendix C. As the rights attached to the CPS with respect to the matters set out in section 254(2) are not set out in WAN's constitution, WAN Shareholders are being asked to approve, by special resolution, the CPS Terms of Issue (including all rights attached to the CPS) for the purposes of section 254A(2) of the Corporations Act.

Subdivision of CPS

Conversion of CPS into WAN Shares in accordance with the CPS Terms of Issue will occur by each CPS being subdivided into a multiple number of CPS as determined by particular ratios set out in the CPS Terms of Issue. Following that subdivision, each such subdivided CPS will convert into one WAN Share, also in accordance with the CPS Terms of Issue. In order to be able to subdivide shares (including preference shares such as CP), section 254H of the Corporations Act requires a company to first obtain approval of its shareholders.

Resolution 5 – Change of name of West Australian Newspapers Holdings Limited

WAN Shareholders are being asked to approve, as a special resolution, a change of name of WAN from West Australian Newspapers Holdings Limited to Seven West Media Limited, conditional upon Completion of the Proposed Transaction having occurred. The change of name will reflect the fact that following Completion of the Proposed Transaction, WAN will include the businesses operated by SMG.

Under section 157 of the Corporations Act, a company may change its name by special resolution of its members. A change of name will take effect when ASIC alters the details of the company's registration to reflect the change.

As discussed above, for the Proposed Transaction to proceed, each of Resolutions 1 to 4 must be passed at the EGM. If those Resolutions are not passed, the Proposed Transaction will not proceed and Resolution 5 will not be put to WAN Shareholders.

Appendix

E Notice of Extraordinary General Meeting

West Australian Newspapers Holdings Limited (ACN 053 480 845)

Notice is hereby given that an Extraordinary General Meeting of shareholders of West Australian Newspapers Holdings Limited (ABN 91 053 480 845) will be held at Hyatt Regency Hotel, 99 Adelaide Terrace, Perth, Western Australia at 10am (Perth time) on 11 April 2011.

Important

- The Resolutions should be read in conjunction with the Explanatory Memorandum which sets out a detailed explanation of the background and reasons for the proposed resolutions.
- Certain terms used below are defined in the Glossary of the Explanatory Memorandum.
- WAN must disregard votes cast by certain WAN Shareholders and certain WAN Shareholders should not vote, in relation to particular resolutions as explained in the 'Voting exclusion' paragraphs below. If your vote must be disregarded or if you must not vote please do not vote in either case. If you have any doubts, please take advice.

Resolution 1 – Approval of the Acquisition as a related party transaction

WAN Shareholders are asked to consider and, if thought fit, pass the following resolution as an ordinary resolution:

THAT, subject to Resolutions 2, 3 and 4 being passed, approval is given for the Acquisition as outlined in the Explanatory Memorandum accompanying this Notice of EGM for the purposes of section 208 of the Corporations Act, Listing Rule 10.1, Listing Rule 10.11 and for all other purposes.

Voting exclusion

WAN will disregard any votes cast on this resolution by:

- Any party to the Share Sale Agreement (which includes SGH);
- Any related party of WAN to whom financial benefits are to be given pursuant to this resolution (SGH);
- Any person who is to receive securities in relation to WAN pursuant to this resolution (SGH); and
- An associate of any of them.

However, WAN need not disregard a vote if:

- It is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- It is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Resolution 2 – Approval of acquisition by SGH of relevant interests in WAN Shares

WAN Shareholders are asked to consider and, if thought fit, pass the following resolution as an ordinary resolution:

That, subject to Resolutions 1, 3 and 4 being passed, for the purpose of section 611, item 7, of the Corporations Act, and as outlined in the Explanatory Memorandum accompanying this Notice of EGM, approval is given for:

- The acquisition by SGH of a relevant interest in the WAN Shares to be issued to SGH on Completion of the Proposed Transaction, on the basis that SGH's voting power in WAN immediately following Completion of the Proposed Transaction will not exceed 29.6%; and
- The acquisition by SGH of a relevant interest in WAN Shares upon conversion or redemption of any CPS, provided that SGH's voting power in WAN immediately following such conversion or redemption will not exceed 33.6%.

Voting exclusion

WAN will disregard any votes cast on this resolution by:

- SGH; and
- An associate of SGH.

However, WAN need not disregard a vote if:

- It is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- It is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Resolution 3 – Approval of issue of WAN Shares to KKR and mezzanine investors as part of the KKR Investment

WAN Shareholders are asked to consider and, if thought fit, pass the following resolution as an ordinary resolution:

THAT, subject to Resolutions 1, 2 and 4 being passed, approval is given for the issue of up to 77 million WAN Shares by WAN to KKR and mezzanine investors at an issue price of $5.99 per WAN Share as part of the KKR Investment, as outlined in the Explanatory Memorandum accompanying this Notice of EGM, for the purposes of Listing Rule 7.1 and for all other purposes.

Voting exclusion

WAN will disregard any votes cast on this resolution by:

- KKR and any mezzanine investors nominated under the KKR Subscription Agreement, and SGH; and
- An associate of either of them.

However, WAN need not disregard a vote if:

- It is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- It is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Resolution 4 –
Approval of the terms, and subdivision, of the CPS

WAN Shareholders are asked to consider and, if thought fit, pass the following resolution as a special resolution:

THAT, subject to Resolutions 1, 2 and 3 being passed, approval is given:

- To the CPS Terms of Issue set out in the Explanatory Memorandum accompanying this Notice of EGM (including all rights attached to the CPS) for the purposes of section 254A(2) of the Corporations Act; and
- For the subdivision of CPS into a multiple number of CPS, such number to be determined by particular ratios set out in the CPS Terms of Issue and any such subdivision to occur on any date under which conversion of CPS may occur in accordance with the CPS Terms of Issue, for the purposes of section 254H of the Corporations Act.

Resolution 5 –
Change of name of West Australian Newspapers Holdings Limited

West Australian Newspapers Holdings Limited Shareholders are asked to consider and, if thought fit, pass the following resolution as a special resolution:

THAT, subject to Resolutions 1, 2, 3 and 4 being passed, approval is given for the name of West Australian Newspapers Holdings Limited to be changed to "Seven West Media Limited", conditional upon Completion of the Proposed Transaction having occurred.

By order of the Board

Peter Bryant
Chief Financial Officer and Company Secretary
Dated this 8th of March 2011

Appendix

F Meeting and Notes on voting

Venue and time

Venue – Hyatt Regency Hotel, 99 Adelaide Terrace, Perth, Western Australia

Time – 10am Perth time/12pm Sydney time on Monday, 11 April 2011

Voting Entitlement

WAN has determined that a person's entitlement to vote at the EGM will be taken to be the entitlement of that person show on the Register at 10am Perth time/12pm Sydney time on Saturday, 9 April 2011.

How to Vote

You may vote by attending the EGM in person or by proxy. Shareholders attending in person must register their attendance on arrival at the EGM. A body corporate may vote by appointing a corporate representative. A corporate representative must produce a certificate of appointment (including any authority under which it is signed) before entering the EGM. A form of certificate may be obtained from WAN's Share Registry.

Voting by proxy

You may appoint any person to attend and vote as your proxy, including the Chairman of the EGM. A proxy is not required to be a Shareholder of WAN. To appoint a proxy, please complete and lodge the enclosed form in accordance with the instructions below.

If you are entitled to cast 2 or more votes, you may appoint up to two proxies. Neither proxy is entitled to vote on a show of hands. If you appoint 2 proxies, each proxy is only entitled to vote on a poll the proportion or number of votes specified in the appointment. If no proportion or number of votes is specified, each proxy may vote half of your votes on any poll.

To vote by proxy, the proxy form may be:

- Lodged on-line at www.investorvote.com.au in accordance with the instructions there (however, this method cannot be used to appoint 2 proxies); or
- Mailed in the reply paid envelope to Computershare Investor Services Pty Limited, GPO Box 242, Melbourne Vic 3001; or
- Faxed to Computershare Investor Services Pty Limited on facsimile number 1800 783 447 (International +61 3 9473 2555).

If the proxy is signed by an attorney, the power of attorney, or a certified copy of it, must be sent with the proxy form.

The proxy form must be received by Computershare Investor Services Pty Limited no later than 10am Perth time/12pm Sydney time on Saturday, 9 April 2011.

Chairman's Intention

It is expected that Mr Doug Flynn, an Independent Director, will chair the EGM and vote undirected proxies in favour of the Resolutions.

Appendix

G Proxy Form

This page has been left blank intentionally.

WEST AUSTRALIAN NEWSPAPERS HOLDINGS LIMITED
ABN 91 053 480 845

000001 000 WAN
MR SAM SAMPLE
FLAT 123
123 SAMPLE STREET
THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE VIC 3030

Lodge your vote:

Online:
www.investorvote.com.au

By Mail:
Computershare Investor Services Pty Limited
GPO Box 242 Melbourne
Victoria 3001 Australia

Alternatively you can fax your form to
(within Australia) 1800 783 447
(outside Australia) +61 3 9473 2555

For Intermediary Online subscribers only
(custodians) www.intermediaryonline.com

For all enquiries call:
(within Australia) 1800 133 562
(outside Australia) +61 3 9415 4603

Proxy Form

Vote online or view the annual report, 24 hours a day, 7 days a week:
www.investorvote.com.au

☑ **Cast your proxy vote**

☑ **Access the annual report**

☑ **Review and update your securityholding**

Your secure access information is:
Control Number: 999999

SRN/HIN: I9999999999

PLEASE NOTE: For security reasons it is important that you keep your SRN/HIN confidential.

For your vote to be effective it must be received by 10:00am (WST) Saturday 9 April 2011

How to Vote on Items of Business

All your securities will be voted in accordance with your directions.

Appointment of Proxy

Voting 100% of your holding: Direct your proxy how to vote by marking one of the boxes opposite each item of business. If you do not mark a box your proxy may vote as they choose. If you mark more than one box on an item your vote will be invalid on that item.

Voting a portion of your holding: Indicate a portion of your voting rights by inserting the percentage or number of securities you wish to vote in the For, Against or Abstain box or boxes. The sum of the votes cast must not exceed your voting entitlement or 100%.

Appointing a second proxy: You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you appoint two proxies you must specify the percentage of votes or number of securities for each proxy, otherwise each proxy may exercise half of the votes. When appointing a second proxy write both names and the percentage of votes or number of securities for each in Step 1 overleaf.

A proxy need not be a securityholder of the Company.

Signing Instructions for Postal Forms

Individual: Where the holding is in one name, the securityholder must sign.

Joint Holding: Where the holding is in more than one name, all of the securityholders should sign.

Power of Attorney: If you have not already lodged the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please sign in the appropriate place to indicate the office held. Delete titles as applicable.

Attending the Meeting

Bring this form to assist registration. If a representative of a corporate securityholder or proxy is to attend the meeting you will need to provide the appropriate "Certificate of Appointment of Corporate Representative" prior to admission. A form of the certificate may be obtained from Computershare or online at www.investorcentre.com under the information tab, "Downloadable Forms".

GO ONLINE TO VOTE,
or turn over to complete the form ➔

MR SAM SAMPLE
FLAT 123
123 SAMPLE STREET
THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE VIC 3030

☐ **Change of address.** If incorrect, mark this box and make the correction in the space to the left. Securityholders sponsored by a broker (reference number commences with 'X') should advise your broker of any changes.

I 9999999999 I ND

Proxy Form

Please mark ☒ to indicate your directions

STEP 1 Appoint a Proxy to Vote on Your Behalf

XX

I/We being a member/s of West Australian Newspapers Holdings Limited hereby appoint

☐ **the Chairman of the Meeting** **OR** ______________________

PLEASE NOTE: Leave this box blank if you have selected the Chairman of the Meeting. Do not insert your own name(s).

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, as the proxy sees fit) at the Extraordinary General Meeting of West Australian Newspapers Holdings Limited to be held at the Hyatt Regency Hotel, 99 Adelaide Terrace, Perth, Western Australia on Monday, 11 April 2011 at 10:00am (WST) and at any adjournment of that meeting.

STEP 2 Items of Business

PLEASE NOTE: If you mark the **Abstain** box for an item, you are directing your proxy not to vote on your behalf on a show of hands or a poll and your votes will not be counted in computing the required majority.

ORDINARY RESOLUTIONS		For	Against	Abstain
Resolution 1	Approval of the Acquisition as a related party transaction	☐	☐	☐
Resolution 2	Approval of acquisition by SGH of relevant interests in WAN Shares	☐	☐	☐
Resolution 3	Approval of issue of WAN Shares to KKR and mezzanine investors as part of the KKR Investment	☐	☐	☐
SPECIAL RESOLUTIONS				
Resolution 4	Approval of the terms, and subdivision, of the CPS	☐	☐	☐
Resolution 5	Change of name of West Australian Newspapers Holdings Limited	☐	☐	☐

The Chairman of the Meeting intends to vote undirected proxies in favour of each item of business.

SIGN Signature of Securityholder(s) *This section must be completed.*

Individual or Securityholder 1	Securityholder 2	Securityholder 3
Sole Director and Sole Company Secretary	Director	Director/Company Secretary

Contact Name ______________________ Contact Daytime Telephone ______________________ Date ____ / ____ / ____

Glossary

Terms and abbreviations	Meaning
1H	First half
1H09	The first half of FY09
1H10	The first half of FY10
1H11	The first half of FY11
1H14	The first half of FY14
2H	Second half
2H10	The second half of FY10
2H11F	The second half of FY11F
ACCC	Australian Competition and Consumer Commission
ACMA	Australian Communications and Media Authority
Acquisition	The acquisition of SMG by WAN for the following consideration: • the issue of $1,081 million in WAN Shares; • the issue of $250 million in CPS to SGH; • the repayment of a $650 million SGH loan owed by SMG; and • the assumption by WAN of $2,104 million of external net debt on a pro forma basis, in accordance with the Share Sale Agreement
Adjustment Factor	The EPS adjustment factor calculated in accordance with Section 5.10.8
AIFRS	Australian equivalent to International Financial Reporting Standards
AFL	Australian Football League
ASIC	Australian Securities and Investments Commission
AUSTAR	Austar United Communications Limited
ASX	ASX Limited (ACN 008 624 691), or the market operated by it, the Australian Securities Exchange, as the context requires
BBR	Bank Bill Rate
Board	The board of Directors of WAN
Broadcasting Services Act	*Broadcasting Services Act 1992* (Cth)
Business Day	Has the meaning given in the Listing Rules
CAGR	Compounded Annual Growth Rate
Combined Group	WAN following Completion of the Proposed Transaction
Combined Group Management Team	The proposed senior management team of the Combined Group as set out in Section 5.8
Combined Group Financial Information	Has the meaning set out in Section 5.10
Combined Group Pro Forma Forecast Financial Information	Has the meaning set out in Section 5.10
Combined Group Pro Forma Historical Financial Information	Has the meaning set out in Section 5.10

Glossary (continued)

Terms and abbreviations	Meaning
Combined Group Pro Forma Net Debt	Interest bearing liabilities less cash and cash equivalents in the Combined Group Pro Forma Balance Sheet as at 31 December 2010, as set out in Section 5.11
Community Newspaper Group	Community Newspaper Group Limited (ACN 009 128 081)
Completion	Completion of the Acquisition in accordance with the Share Sale Agreement
Corporations Act	*Corporations Act 2001* (Cth)
CPS	Convertible Preference Shares issued under the CPS Terms of Issue
CPS Terms of Issue	The terms of issue of the CPS as set out in Appendix C
CULS	Convertible unsecured loan securities issued or to be issued by WAN in connection with the Entitlement Offer
CY	Calendar year
Director	A director of WAN
EBIT	Earnings Before Interest and Tax
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
EGM	The Extraordinary General Meeting to be held pursuant to the Notice of EGM
Entitlement Offer	The offers of approximately 125.5 million CULS to eligible shareholders under the Prospectus, comprising an institutional component and a retail component
EPS	Earnings per share
EV	Enterprise Value, being the value of equity plus net debt
Explanatory Memorandum	This explanatory memorandum prepared by WAN in relation to the Proposed Transaction
Free Cash Flow	EBITDA plus dividends received from equity accounted investees, adjusted for movements in working capital, less capital expenditure
FTA	Free-to-air
FY	Financial Year, being: • for WAN, the 52 week period ending on 30 June in the relevant year; • for SMG, the 52 week period ending on the last Saturday of June in the relevant year; and • for the Combined Group, the 52 week period ending on 30 June in the relevant year
FY11F	The forecast financial year: • for WAN, ending 30 June 2011; • for SMG, ending 25 June 2011; and • for the Combined Group, ending 30 June 2011
FY11PF	The forecast pro forma financial year ending 30 June 2011
IFRA	World Association of Newspapers and News Publishers
Independent Board Committee	The Board committee constituted of Independent Directors
Independent Directors	Mr Doug Flynn, Mr Graeme John AO, Mr Don Voelte and Mr Sam Walsh AO
Independent Expert	Ernst & Young Transaction Advisory Services Limited (ABN 87 003 599 844), holder of Australian Financial Services Licence No. 240585
Independent Expert's Report	The report prepared by the Independent Expert set out in this Explanatory Memorandum in relation to the Acquisition
Institutional Entitlement Offer	The institutional component of the Entitlement Offer
Investigating Accountant	PricewaterhouseCoopers Securities Ltd (ACN 003 311 617) holder of Australian Financial Services Licence No. 244572
Investigating Accountant's Report	The report prepared by the Investigating Accountant set out in this Explanatory Memorandum

Terms and abbreviations	Meaning
IPTV	Internet Protocol Television
Issue Price	$5.20 per security. The Issue Price is the same for both the Entitlement Offer and the Public Offer
jobsjobsjobs	jobsjobsjobs Pty Ltd (ACN 120 627 385)
Joint Lead Managers	J.P. Morgan Australia Limited (ACN 002 888 011) and UBS AG, Australia Branch (ARBN 088 129 613)
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 for approximately 77.0 million WAN Shares at the issue price of $5.99 per WAN Share pursuant to the KKR Subscription Agreement
KKR Subscription Agreement	The subscription agreement between WAN and KKR dated 21 February 2011 as described in Section 7.4.2
Listing Rules	The listing rules of ASX
LTM	The last 12 months
Murdoch Magazines	Murdoch Magazines Pty. Ltd., now Pacific MM Pty. Ltd (ACN 007 619 767)
Nine	The television business of Nine Entertainment Co Pty Ltd (ACN 122 205 065)
Notice of EGM	The notice of meeting set out in this Explanatory Memorandum and any notice of any adjournment of the meeting
NPAT	Net Profit After Tax
NRL	National Rugby League
Offers	The Entitlement Offer and the Public Offer
O'Sullivan Partners	O'Sullivan Partners (Advisory) Pty Ltd (ACN 111 843 737)
Oztips	OzTips.com produced by NextGen Sports Pty Ltd (ACN 091 602 229)
Pacific Magazines	The magazine publishing business operated by SMG
P/E	Price to earnings ratio
Proposed Transaction	The Acquisition and the KKR Investment
Proposed Transaction Agreements	The following agreements: • the Share Sale Agreement; • the KKR Subscription Agreement; • the Underwriting Agreement; • the SGH Sell Down Underwriting Agreement; and • the SGH H5 Agreement which relates to ongoing rights of SGH and Kohlberg Kravis Roberts & Co L.P. in relation to SMG H4 Pty Ltd and SMG H5 Pty Ltd
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
Registry	Computershare Investor Services Pty Limited (ACN 078 279 277)
Related Body Corporate	Has the meaning given in section 50 of the Corporations Act
Resolutions	The resolutions set out in the Notice of EGM
Retail Entitlement Offer	The retail component of the Entitlement Offer
Seven	The primary television channel of that name within the Seven Network
Seven Network	The FTA television broadcast business of SMG
S&P	Standard & Poor's
SGH	Seven Group Holdings Limited (ACN 142 003 469)

Glossary (continued)

Terms and abbreviations	Meaning
SGH Group	SGH and its Related Bodies Corporate, but excluding all members of the SMG H1 Group
SGH Sell Down	The sale by SGH of all of the WAN Shares it held as at 21 February 2011 by way of a block trade to new and existing WAN investors
SGH Sell Down Underwriting Agreement	The underwriting agreement between SGH and the Joint Lead Managers in relation to the underwriting of the SGH Sell Down
Share Sale Agreement	The share sale agreement between SGH and WAN as described in Section 7.4.1
Sky News	Australian News Channel Pty Ltd (ACN 068 954 478)
Skywest	Skywest Airlines (Australia) Pty Ltd (ACN 008 997 662)
SMG	As the context requires, either: a) the business carried out by the SMG H1 Group; or b) all of the shares in SMG H1; or c) the SMG H1 Group
SMG H1	SMG H1 Pty Limited (ACN 122 708 007)
SMG Information	The factual and historical information regarding SMG contained in Section 4 of this Explanatory Memorandum and relating to matters, events and circumstances in existence on or before the date on which SGH gave its consent to the form and context in which that information appears in this Explanatory Memorandum. For the avoidance of doubt, the SMG Information does not include forecast financial information for the half year to 25 June 2011
SMG Management Equity Plan	SMG's current MEP
SMG Prescribed Occurrence	Other than: • as required by the Share Sale Agreement or another Proposed Transaction Agreement; • pursuant to the Y Co Restructure (as defined in the Share Sale Agreement); or • as agreed to in writing by WAN, the occurrence of any of the following after the date of the Share Sale Agreement: • a material company in the SMG H1 Group converting all or any of its shares into a larger or smaller number of shares; • a material company in the SMG H1 Group resolving to reduce, or reducing, its share capital in any way; • a material company in the SMG H1 Group declaring, paying or distributing any dividend, bonus or other share of its profits or assets or returning or agreeing to return any capital to its members other than in the ordinary course; • a material company in the SMG H1 Group: — entering into a buy-back agreement; or — resolving to approve the terms of a buy-back agreement under the Corporations Act; • a company in the SMG H1 Group issuing shares or securities convertible into shares, or granting an option over its shares or securities convertible into shares, or agreeing to make such an issue or grant such an option; • a material company in the SMG H1 Group creating, or agreeing to create, any mortgage, charge, lien or other encumbrance over the whole, or a substantial part, of its business or property other than a lien which arises by operation of law or legislation securing an obligation that is not yet due; • SGH or a material company in the SMG H1 Group resolving that it be wound up or the making of an application or order for the winding up or dissolution of a company in the SMG H1 Group other than where the application or order (as the case may be) is set aside within 14 days; • a liquidator or provisional liquidator of SGH or a material company in the SMG H1 Group being appointed; • a court making an order for the winding up of SGH or a material company in the SMG H1 Group; • an administrator of SGH or a material company in the SMG H1 Group being appointed under the Corporations Act; • SGH or a material company in the SMG H1 Group procuring or taking any steps to implement a deed of company arrangement with its creditors or any class of them; or a receiver, or a receiver and manager, being appointed in relation to any part of the property of SGH or a material company in the SMG H1 Group.

Terms and abbreviations	Meaning
SMG Standalone Pro Forma Forecast Financial Information	Has the meaning set out in Section 4.7.1
SMG Standalone Pro Forma Historical Financial Information	Has the meaning set out in Section 4.7.1
SMG Red	The SMG group sales division
SMGH1	SMG H1 Pty Limited (ACN 122 710 089)
SMGH1 Group	SMG H1 and each of its subsidiaries
SMGL	Seven Media Group Pty Limited
SMS	Short message service
Spreets	Spreets Pty Limited (ACN 142 688 524)
Tax Sharing Deed	The Seven Network Limited tax sharing deed dated 28 November 2003, as amended by: deed dated 29 December 2006, notice in accordance with clause 4.2(b) of the Tax Sharing Deed dated 11 August 2006, and a further amending deed dated 29 April 2010 which added Seven Group Holdings Limited as head company
Ten	The television business of Ten Network
Ten Network	Ten Network Holdings Limited (ACN 081 327 068)
The West	The West Australian newspaper
Theoretical Ex-Rights Price or TERP	The theoretical price at which WAN Shares should trade immediately after the ex-date for the Entitlement Offer. This is a theoretical calculation and the actual price at which WAN Shares trade immediately after the ex-date for the Entitlement Offer will depend on many factors and may differ from the Theoretical Ex-Rights Price
TSO	Total Shares Outstanding. As at 18 February 2011 WAN had a total of 219,668,970 ordinary shares outstanding
Underwriting Agreement	The underwriting agreement between WAN and the Joint Lead Managers as described in Section 7.4.3
US or United States	The United States of America, its territories and possessions, each state of the United States and the District of Columbia
US Securities Act	US Securities Act of 1933, as amended
VWAP	Volume weighted average price
WAN	West Australian Newspapers Holdings Limited (ACN 053 480 845)
WAN Constitution	The constitution of WAN, as amended
WAN Financial Information	Has the meaning set out in Section 3.5
WAN Group	WAN and each of its Related Bodies Corporate

Glossary (continued)

Terms and abbreviations	Meaning
WAN Prescribed Occurrence	Other than: • as required by the Share Sale Agreement or another Proposed Transaction Agreement; or • as agreed to in writing by SGH, the occurrence of any of the following after the date of the Share Sale Agreement: • a member of the WAN Group converting all or any of its shares into a larger or smaller number of shares; • a member of the WAN Group resolving to reduce, or reducing, its share capital in any way; • a member of the WAN Group declaring, paying or distributing any dividend, bonus or other share of its profits or assets or returning or agreeing to return any capital to its members other than in the ordinary course; • a member of the WAN Group: — entering into a buy-back agreement; or — resolving to approve the terms of a buy-back agreement under the Corporations Act; • a member of the WAN Group issuing shares or securities convertible into shares, or granting an option over its shares or securities convertible into shares, or agreeing to make such an issue or grant such an option; • a member of the WAN Group creating, or agreeing to create, any mortgage, charge, lien or other encumbrance over the whole, or a substantial part, of its business or property other than a lien which arises by operation of law or legislation securing an obligation that is not yet due; • a member of the WAN Group (other than a company with less than $100,000 in total assets as at the date of the Share Sale Agreement) resolving that it be wound up or the making of an application or order for the winding up or dissolution of a member of the WAN Group other than where the application or order (as the case may be) is set aside within 14 days; • a liquidator or provisional liquidator of a member of the WAN Group being appointed; • a court making an order for the winding up of a member of the WAN Group; • an administrator of a member of the WAN Group being appointed under the Corporations Act; • a member of the WAN Group procuring or taking any steps to implement a deed of company arrangement with its creditors or any class of them; or • a receiver, or a receiver and manager, being appointed in relation to any part of the property of a member of the WAN Group.
WAN Shareholder	Each person who is registered as the holder of WAN Shares
WAN Shares	Fully paid ordinary shares in WAN
WAN Standalone	WAN assuming that the Proposed Transaction is not completed
WAN Standalone Pro Forma Forecast Financial Information	The meaning set out in Section 3.5.1
WAN Standalone Pro Forma Historical Financial Information	The meaning set out in Section 3.5.1
WANOS	Weighted average number of shares
WIN	WIN Corporation Pty Ltd (ACN 000 737 404)
Yahoo!	Yahoo! Inc.
Yahoo!7	Yahoo! Australia & NZ (Holdings) Pty Limited (ACN 117 505 450)

All amounts are in Australian dollars unless otherwise stated.

Corporate Directory

West Australian Newspapers Holdings Limited

ACN 053 480 845

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www.thewest.com.au

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Perth Western Australia 6840

Stock Exchange Listing

Australian Securities Exchange

Share Registry

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Facsimile: (08) 9323 2033

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