APN NEWS & MEDIA

EXPLANATORY MEMORANDUM

For the **Demerger of NZME by APN**

VOTE IN FAVOUR

Your Directors unanimously recommend that you vote in favour of the resolutions to approve the Demerger and the Share Consolidation.

This is an important document and requires your immediate attention. You should read this Explanatory Memorandum in its entirety, taking particular notice of the advantages, disadvantages and risks of the Demerger (see Sections 5.1 to 5.5) and the risks of an investment in NZME (see Section 8.13) and in APN (after the Demerger) (see Section 6.12), prior to deciding whether or not to vote in favour of the resolution to approve the Demerger.

APN Shareholders who have any questions in relation to this Explanatory Memorandum or the Demerger should consult their financial, legal, taxation or other professional adviser.

APN Shareholders can also call the APN Shareholder Information Line on 1300 365 969 (within Australia) or +61 1300 365 969 (outside Australia) between 8:30am and 5:30pm (Sydney time) Monday to Friday, or 0800 729 276 (within New Zealand) between 8.30am and 5.30pm (Sydney time), Monday to Friday.

APN News & Media Limited
ABN 95 008 637 643

APN NEWS & MEDIA LIMITED **EXPLANATORY MEMORANDUM**

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IMPORTANT INFORMATION AND DISCLAIMER

Purpose of this document

The purpose of this Explanatory Memorandum is to explain the terms of the Demerger and the manner in which the Demerger will be considered and implemented (if approved), to set out certain information required by law and to provide all other information (other than information previously disclosed to APN Shareholders) which is known to APN which is material to the decision of APN Shareholders whether or not to vote in favour of the resolution to be considered at the General Meeting.

This Explanatory Memorandum includes a statement of all the information known to APN that is material to APN Shareholders in deciding how to vote on the Demerger Resolution, as required by Section 256C(4) of the Corporations Act.

APN Shareholders should read this Explanatory Memorandum in its entirety before making a decision as to how to vote on the resolutions to be considered at the General Meeting.

Responsibility statements

This Explanatory Memorandum (other than Sections 12 and 13) has been prepared by APN and its Directors as at the date of this Explanatory Memorandum and is the responsibility of APN.

PwCS has prepared the Investigating Accountant's Report set out in Section 12 in relation to the pro forma APN (after the Demerger) historical financial information included in Section 7 and the pro forma NZME historical financial information included in Section 9 and takes responsibility for that report.

Deloitte has prepared the Independent Expert's Report as set out in Section 13 of this Explanatory Memorandum, and takes responsibility for that report.

ASIC

A copy of this Explanatory Memorandum has been lodged with ASIC in accordance with section 256C(5) of the Corporations Act.

Neither ASIC nor any of its officers takes any responsibility for the contents of this Explanatory Memorandum.

Status of this document

Important information for Shareholders in Australia

This document is not a prospectus or other disclosure document under chapter 6D of the Corporations Act.

Important information for Shareholders in New Zealand

This document is not a New Zealand prospectus, investment statement or product disclosure statement and has not been registered, filed with or approved by any New Zealand regulatory authority under or in accordance with the Securities Act 1978 or the Financial Markets Conduct Act 2013 (or any other relevant New Zealand law). The NZME shares will be distributed to existing New Zealand shareholders in reliance on the Financial Markets Conduct (APN News & Media Limited) Exemption Notice 2016.

Notice to certain foreign Shareholders

Shareholders who are Ineligible Overseas Shareholders will not receive NZME Shares under the Demerger. NZME Shares that would otherwise be transferred to these Shareholders under the Demerger will be transferred to the Sale Agent to be sold, with the net proceeds of such sale to be paid to Ineligible Overseas Shareholders. See Section 10.3 for further information.

APN Shareholders resident outside Australia and New Zealand for tax purposes should seek specific tax advice in relation to the Australian and overseas tax implications of the Demerger. For a discussion of the tax implications of the Demerger for resident Australian and New Zealand APN Shareholders please refer to Section 11 for further information.

This Explanatory Memorandum does not in any way constitute an offer of securities in any place in which, or to any person to whom, it would be unlawful to make such an offer.

This Explanatory Memorandum is neither an offer to sell nor a solicitation of an offer to buy securities as those terms are defined under the US Securities Act. The NZME Shares to be transferred under the Demerger have not been and will not be registered under the US Securities Act or the securities laws of any jurisdiction and may not be offered, sold or resold in, or to persons in, the United States except in accordance with an available exemption from registration under the US Securities Act.

None of the US Securities and Exchange Commission (**"SEC"**), any US state securities commission or any other US regulatory authority has passed comment upon or endorsed the merits of the Demerger or the accuracy, adequacy or completeness of this Explanatory Memorandum. Refer to Section 14.12 for information about selling restrictions in other foreign jurisdictions.

NZX and ASX listing

NZME will apply to NZX for permission to list NZME and to quote the NZME Shares on the NZX Main Board. NZME will also apply for admission to the Official List of ASX as a Foreign Exempt Listing and for official quotation of all NZME Shares on ASX. A copy of this Explanatory Memorandum has been lodged with ASX and NZX. None of ASX, NZX or any of their respective officers takes any responsibility for the contents of this Explanatory Memorandum. The fact that NZX may list NZME on the NZX Main Board, or that ASX may admit NZME to the Official List does not make any statement regarding, and should not be taken in any way as an indication of, the merits of an investment in NZME or NZME Shares.

Financial information

Other than as noted in this Explanatory Memorandum, the financial information contained in this Explanatory Memorandum has been prepared and presented in accordance with APN's accounting policies as disclosed in its 31 December 2015 financial statements (contained in its 2015 Annual Report). The 31 December 2015 financial statements have been prepared in accordance with Australian Accounting Standards as issued by the Australian Accounting Standards Board (**"AASBs"**) and International Financial Reporting Standards as issued by the International Accounting Standards Board.

APN and NZME use certain measures to manage and report on its business that are not recognised under Australian Accounting Standards. These measures are collectively referred to as "non-IFRS financial measures" and include EBITDA before exceptional items and net profit before exceptional items.

APN Shareholders should also note that this Explanatory Memorandum contains pro forma historical financial information. In preparing the pro forma historical financial information, certain adjustments were made to the historical financial information of APN that APN considered appropriate to reflect the indicative effect of the Demerger, as described in this Explanatory Memorandum. The financial information contained in this Explanatory Memorandum is historical only. APN Shareholders should note that past financial performance is not necessarily a guide to future financial performance.

Investment decisions

The information in this Explanatory Memorandum is general information only and does not take into account the investment objectives, financial situation or particular needs of any APN Shareholder or any other person. This Explanatory Memorandum should not be relied upon as the sole basis for any investment decisions in relation to APN Shares, NZME Shares or any other securities. You should consider whether the information in this Explanatory Memorandum is appropriate for you in light of your objectives, financial situation and needs and consult your financial, legal, taxation or other professional adviser before making any investment decision.

Forward looking statements

Certain statements in this Explanatory Memorandum relate to the future. While APN and NZME believe there is a reasonable basis for these forward looking statements they do involve known and unknown risks, uncertainties, assumptions and other important factors that could cause the actual results, performance or achievements of APN or NZME to be materially different from the future results, performance or achievements expressed or implied by such statements. Such forward looking statements are based on numerous assumptions regarding present and future business strategies and the environment in which APN or NZME will operate in the future. Certain important factors that could cause actual results, performance or achievements to differ materially from those in the forward looking statements include, among others, the risk factors described in this Explanatory Memorandum, and other unknown risks and uncertainties. Forward looking statements should, therefore, be construed in light of such risk factors. You are cautioned not to place undue reliance on these statements.

Other than as required by law, none of APN, NZME or any other person, gives any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward looking statements in this Explanatory Memorandum will actually occur.

The forward looking statements in this Explanatory Memorandum reflect views held only at the date of this Explanatory Memorandum. Subject to any continuing obligations under law or the Listing Rules or as contemplated by Section 14.15, APN and NZME and their respective directors disclaim any obligation or undertaking to disseminate after the date of this Explanatory Memorandum any updates or revisions to any forward looking statements to reflect any change in expectations in relation to those statements or any change in events, conditions or circumstances on which any such statement is based.

Estimates

Unless otherwise indicated, all references to estimates and derivations of the same in this Explanatory Memorandum are references to estimates by APN management or NZME management (as applicable). Management estimates are based on views at the date of this Explanatory Memorandum and actual facts or outcomes may be materially different from those estimates.

Interpretation

Capitalised terms and certain abbreviations used in this Explanatory Memorandum have the defined meanings set out in the Glossary.

Figures, amounts, percentages, prices, estimates, calculations of value and fractions in this Explanatory Memorandum are subject to the effect of rounding. Accordingly, the actual calculation of these figures may differ from the figures set out in this Explanatory Memorandum.

All references to $, A$, AUD, dollars and cents, are to Australian currency, unless specified otherwise.

All references in this Explanatory Memorandum to time are to Australian Eastern Standard Time (**"AEST"**).

Entitlement to inspect APN's Share Register

Under Section 173 of the Corporations Act, persons are entitled to inspect and copy APN's Share Register. APN's Share Register contains personal information about APN's Shareholders.

Privacy and personal information

The collection of certain personal information is required or authorised by the Corporations Act in Australia.

APN, NZME and their respective share registries (each an **"Organisation"**), may collect personal information in the process of implementing the Demerger. The personal information may include the names, addresses, other contact details and the details of the shareholdings of Shareholders, and the names of individuals appointed by Shareholders as proxies, corporate representatives or attorneys at the General Meeting.

Shareholders who are individuals, and individuals appointed as proxies, corporate representatives or attorneys, in respect of whom personal information is collected as outlined in these Important notices have certain rights to access information. They should call the APN Shareholder Information Line on 1300 365 969 (within Australia) or +61 1300 365 969 (outside Australia) between 8:30am and 5:30pm (Sydney time) Monday to Friday, or 0800 729 276 (within New Zealand) between 8.30am and 5.30pm (Sydney time) Monday to Friday if they have any questions.

The personal information will be collected for the purpose of implementing the Demerger and administering the shareholdings arising from the Demerger. An organisation may disclose personal information collected by it to another organisation, to securities brokers, to print and mail services providers and any other service providers and advisers engaged by an organisation in relation to the implementation and administration of the APN or NZME shareholdings arising from the Demerger.

The personal information of Selling Shareholders and Ineligible Overseas Shareholders may also be disclosed to the Sale Agent for the purpose of operating the Sale Facility. The main consequence of not collecting the personal information referred to in the Important notices would be that APN may be hindered in, or prevented from, conducting the General Meeting and implementing the Demerger.

Shareholders who appoint an individual as their proxy, corporate representative or attorney to vote at the General Meeting, should inform such individuals of the matters outlined in this Important information and disclaimer.

Date

This document is dated 11 May 2016.

APN Shareholders who have any questions or require further information should contact the APN Shareholder Information Line on 1300 365 969 (within Australia) or +61 1300 365 969 (outside Australia) between 8:30am and 5:30pm (Sydney time) Monday to Friday, or 0800 729 276 (within New Zealand) between 8.30am and 5.30pm (Sydney time), Monday to Friday. APN Shareholders should seek independent legal, financial, taxation or other professional advice.

CHAIRMAN'S LETTER

11 May 2016

Dear Shareholder,

On behalf of the APN Board, I am pleased to present you with this Explanatory Memorandum and invite you to support the Demerger of NZME from APN and the Share Consolidation by APN.

If the Demerger proceeds, your investment in APN will be split into separate investments in two listed companies:

- APN will be a growth orientated media and entertainment company consisting of one of Australia's leading metropolitan radio networks, 50% interest in Adshel, the leading street furniture network in Australia and New Zealand, as well as an outdoor advertising company in Hong Kong, and a leading regional media business in Australia, listed on the ASX and NZX; and
- NZME, one of New Zealand's leading media and entertainment businesses, to be listed on the NZX with a foreign exempt listing on the ASX.

The APN Board is of the view that the Demerger will enhance shareholder value by enabling independent focus for each company to better pursue their own strategic priorities and growth initiatives and to adopt tailored capital structures reflecting their operational requirements. Following the approximately $180 million fully underwritten 1 for 3 Entitlement Offer announced on 11 May 2016 and, if the Demerger proceeds, each of APN and NZME will have the necessary capital structures that provide flexibility to pursue their own separate opportunities.

In recommending the Demerger to APN Shareholders, the APN Board has considered a number of alternative options such as retaining the status quo, a divestment or initial public offering of NZME. After considering the advantages, disadvantages and risks of each of these various options, compared to the advantages, disadvantages and risks of the Demerger, the APN Directors unanimously consider that the Demerger is in the best interests of APN Shareholders. The APN Directors believe that the Demerger will, over time, facilitate greater market recognition of the value of the independent businesses compared to the status quo or other potential options.

Following the Demerger, each company will have its own experienced management team and independent board. For APN, I will continue as Chairman and Ciaran Davis will remain as Chief Executive Officer. For NZME, Sir John Anderson will become Chairman and Peter Cullinane will join the NZME Board. Sir John Anderson will retire from the APN Board upon implementation of the Demerger, while Peter Cullinane will remain on both Boards to ensure a smooth Demerger transition. Carol Campbell will also join the NZME Board. Michael Boggs will continue as Chief Executive Officer of NZME.

The APN Board unanimously recommends that you vote in favour of the resolutions to approve the Demerger. Each APN Director intends to vote any APN Shares held by or controlled by that APN Director in favour of the resolutions to approve the Demerger. Deloitte, the Independent Expert appointed by APN to review the Demerger, has also concluded that the Demerger is in the best interests of APN Shareholders. A copy of its report is included in Section 13.

The APN Board intends to initially target a dividend payout ratio of approximately 40% – 60% of Underlying NPAT following the Demerger, subject to maintaining leverage at or below 2.0x EBITDA and having regard to other strategic priorities. The NZME Board intends to initially target a dividend payout ratio of 60-80% of Underlying NPAT subject to maintaining appropriate leverage and having regard to other strategic priorities. NZME's first dividend to be paid is expected to be for the six month period up to 30 June 2016 and to be payable in September 2016.

If the Demerger proceeds, it will be implemented via the Capital Reduction, which will involve each Eligible Shareholder receiving one NZME Share for each APN Share held. Eligible Shareholders will, post implementation of the Demerger, have the choice to retain both their APN Shares and NZME Shares or sell either or both.

APN also intends to undertake a Share Consolidation to consolidate every 7 APN Shares into one APN Share given the large number of shares that will be on issue following the Entitlement Offer.

The Demerger via Capital Reduction and Share Consolidation must be approved by APN Shareholders, who will be able to vote on the Demerger and Share Consolidation at the Meeting to be held at 9.00am (AEST) on Thursday, 16 June 2016 at Baker & McKenzie, Level 27, AMP Building, 50 Bridge Street, Sydney, New South Wales.

I encourage you to read this Explanatory Memorandum carefully and in its entirety as it sets out important information on the Demerger, including advantages, disadvantages and risks (see Sections 5.1 to 5.5), as well as the risks of an investment in NZME (see Section 8.13) and APN (after the Demerger) (see Section 6.12). The Explanatory Memorandum also contains information on the Share Consolidation (see Section 4).

If you have any questions about this Explanatory Memorandum, the Demerger or Share Consolidation, please consult your financial, legal, taxation or other professional adviser. You can also call the APN Shareholder Information Line on 1300 365 969 (within Australia) or +61 1300 365 969 (outside Australia) between 8:30am and 5:30pm (Sydney time) Monday to Friday, or 0800 729 276 (within New Zealand) between 8.30am and 5.30pm (Sydney time), Monday to Friday, or visit the APN website at investorcentre.apn.com.au.

On behalf of the Board, I urge you to support the Demerger and Share Consolidation by voting in favour of them, either in person or by proxy, at the Meeting to be held at 9.00am on Thursday, 16 June 2016 and thank you for your ongoing support of our company.

Yours faithfully,

Peter Cosgrove
Chairman
APN News & Media Limited

1 DEMERGER PROPOSAL OVERVIEW

1.1 BACKGROUND

APN is a media and entertainment company with a combination of radio, outdoor, publishing and digital assets in Australia, New Zealand and Hong Kong.

APN's main asset in New Zealand is NZME which produces high quality news, sport and entertainment content delivered through multiple platforms and across some of New Zealand's most recognised brands including *The New Zealand Herald*, Newstalk ZB and GrabOne.

The Demerger involves the separation of NZME from the rest of APN's business and the listing of NZME on the NZX and ASX. The APN Board believes that separating these businesses through a Demerger has the potential, over time, to facilitate greater market recognition of the value of the independent businesses.

This Explanatory Memorandum is intended to:

- outline the background and rationale for the Demerger;
- outline the advantages, disadvantages and risks associated with the Demerger, and explain why the Board believes the Demerger is in the best interests of APN Shareholders;
- explain the steps required to implement the Demerger;
- provide an overview of APN and of NZME after the Demerger;
- outline the Share Consolidation; and
- explain why you are being asked to vote on the Demerger and Share Consolidation, and to recommend that you vote in favour of the Demerger Resolution and Share Consolidation Resolution.

1.2 OVERVIEW OF DEMERGED ENTITIES

APN NEWS & MEDIA	NZME. NEW ZEALAND MEDIA AND ENTERTAINMENT
INVESTMENT HIGHLIGHTS	
- Focused on growth sectors of radio and outdoor which represent 84% of pro forma FY15 EBITDA - Expansion of digital and data capabilities diversifying revenue growth - Cross platform opportunities to deliver integrated advertising solutions - More efficient capital structure - Proposed dividend payout ratio of 40-60% of Underlying NPAT[1]	- Audience of over 3 million New Zealanders[2] - Successful integration of some of the leading media brands in New Zealand delivering News, Sport and Entertainment across a multi-platform model - Transformational plan delivering on financial and operational targets - Delivering revenue growth from digital and new initiatives - Proposed dividend payout ratio of 60-80% of Underlying NPAT[3]
- Pro forma FY15 Revenue: \$447.5m[4] - Pro forma FY15 EBITDA: \$98.8m[5] - Pro forma leverage: 2.0x FY15 EBITDA	- Pro forma FY15 Revenue: NZ\$433.0m[4] - Pro forma FY15 EBITDA: NZ\$67.5m[6] - Pro forma leverage: 1.5x FY15 EBITDA
KEY BRANDS	
Australian Regional Media, iHeart Radio, Adshel, emotive, cody out of home	Herald on Sunday, Coast, Newstalk ZB, The New Zealand Herald, iHeart Radio, Radio Sport, GrabOne

1. Subject to leverage < 2x and other strategic priorities. Dividend policy subject to review by APN Board. The payment of dividends will be determined by the APN Board from time to time at its discretion, dependent on profitability, costs from and leverage of APN business and its financial position at the time.
2. Source: Nielsen CMI, fused database: February 2016 (based on population 10 years +). Based on unduplicated weekly reach of NZME newspapers, magazines, radio stations, and monthly domestic unique audience of NZME's digital channels.
3. Subject to maintaining appropriate leverage and having regard to other strategic priorities. Dividend policy subject to review by NZME Board. The payment of dividends will be determined by the NZME Board from time to time at its discretion, dependent on profitability, costs and leverage of NZME business and its financial position at the time.
4. Revenue is revenue from continuing operations.
5. EBITDA is before exceptional items. EBITDA includes share of profits from associates.
6. NZME FY15 EBITDA includes additional corporate costs of approximately NZ\$5.1million per annum which NZME will incur due to being a separate listed entity.

1.3 RATIONALE FOR THE DEMERGER

A Demerger recognises the discrete nature of the NZME business, is consistent with APN's strategic focus, and would be a natural progression of NZME's transformation into an integrated media and entertainment business.

Over the past two years, NZME has been successfully established as a discrete and integrated business. This became possible following the acquisition of the remaining 50% of The Radio Network business in February 2014. There is now limited operational connectivity between Australia and New Zealand, and both companies will benefit from separate ownership and management focus on their individual businesses. A Demerger will also allow a tailored capital structure and capital allocation framework to be implemented for each of NZME and APN based on their respective strategic objectives and operational requirements.

Ownership and divestment options for NZME have been considered at various times over the past two years as APN considered its strategic priorities. It is the Board's view the Demerger of NZME from APN will enhance shareholder value over time, enabling independent focus for each company to better pursue their own strategic priorities and growth opportunities and adopt tailored capital structures reflecting their operational requirements. It provides the opportunity for the market to recognise the independent value for both businesses over time, and manage their own exposures to them. The Board has selected a Demerger as the preferred approach to separation as it:

- ensures that all APN Shareholders retain their existing exposure to APN's Australian radio business and outdoor assets in Australia, New Zealand and Hong Kong;
- allows Shareholders to retain their existing ownership of NZME, and provides Shareholders with the opportunity to increase or decrease that ownership by trading in NZME Shares;
- does not crystallise a fixed value for NZME in the current advertising industry and equity market environment, but instead allows Shareholders to continue to hold their shares in NZME. In contrast, a separation undertaken as a divestment or initial public offering would generate a fixed value for NZME at a point in time that may not realise the full underlying value for APN or APN Shareholders;
- provides greater certainty and can be implemented in a shorter time frame compared to a divestment or initial public offering;
- allows an independent and tailored business strategy and capital allocation framework to be implemented by NZME to maximise value for the benefit of its shareholders; and
- believes a Demerger achieves the above outcomes, in a manner that is likely to realise more value for Shareholders compared to other options currently available (including a divestment or an initial public offering), taking into account certainty of outcome, associated costs and time to implement).

Refer to Section 5.1 and 5.2 for further information on the background and alternatives to the Demerger considered by APN.

There will be one-off transaction and implementation costs associated with the Demerger, as would be the case for alternative approaches to separation. The Board believes that the initial costs associated with the Demerger will be outweighed by the longer-term benefits for APN and NZME, and therefore for APN Shareholders.

1.4 KEY ADVANTAGES OF THE DEMERGER

The Board believes that the advantages of the Demerger outweigh the disadvantages and risks. There are a number of risks, including risks to the Demerger (see Section 5.1 to 5.5), risks to APN (see Section 6.12) and risks to NZME (see Section 8.13).

a) Advantages for APN

The Demerger allows APN to achieve its objectives of:

- focusing on its growth assets of radio and outdoor in Australasia; and
- a more efficient capital structure to fund growth initiatives.

Following the Demerger, APN will be able to adopt an independent and tailored capital structure and financial policies appropriate for its operating requirements and strategic objectives.

b) Advantages for NZME

After the Demerger, NZME will be able to adopt an independent capital structure and financial policies that will be tailored for its operating requirements and strategic objectives. In particular, NZME management will have greater freedom to pursue growth opportunities without competing for capital resources with the wider APN business.

As a separately listed company trading on the NZX and ASX, NZME will make its own market disclosures which should enhance investor awareness, focus and ability to evaluate NZME's underlying outlook, performance, strategies and other business characteristics as a standalone business. Over time, this transparency is expected to facilitate better market recognition of the value of NZME.

c) Further advantages for Shareholders

All Shareholders will retain their APN Shares, and will receive NZME Shares under the Demerger.

The Demerger will give APN Shareholders the opportunity to determine their investment levels in NZME and APN separately. For example, NZME Shares will provide investors with the ability to increase or decrease their exposure to the New Zealand media and entertainment markets. This is not currently directly available to the same extent via an investment in APN Shares.

The Board believes that the increased focus and tailored capital structures for APN and NZME will enhance each company's ability to pursue its own growth strategy and maximise shareholder value.

The separation of NZME will enable APN to concentrate its earnings in Australia, with the potential for future dividends to be fully franked. See Section 6.11 for APN's proposed dividend policy.

The Board also believes that the Demerger will facilitate greater shareholder and market awareness of NZME's businesses, and that investors will be better able to independently assess APN and NZME's prospects and performance.

1.5 KEY DISADVANTAGES AND RISKS OF THE DEMERGER

a) Disadvantages for APN

Following the Demerger, APN will be smaller and less diversified in terms of its earnings and the markets to which it is exposed. However, APN will remain a media company of scale with a mix of radio, outdoor and publishing assets (albeit a sale process is currently underway for the publishing assets).

Total one-off costs to implement the Demerger are estimated to be approximately $8.3 million (on a pre-tax basis). If the Demerger is not approved by Shareholders, then total one-off costs of $5.1 million (on a pre-tax basis) are expected to be incurred by APN.

NZME will provide APN with financial and accounting services for a period of up to 3 years following the Demerger with an option to extend. There may be potential delays, unexpected costs or other issues in the provision of these services by NZME to APN. For example, potential transaction processing system failure may cause supply chain disruptions for APN. NZME does, however, have processes in place to help mitigate the impact of any such failures.

b) Disadvantages for NZME

NZME will be smaller and less diversified in terms of its earnings and the markets to which it is exposed than APN immediately before the Demerger. As a less diversified company NZME may be more exposed to fluctuations in equity and debt markets as well as broader market conditions compared to more diversified companies.

NZME is expected to incur additional corporate costs of approximately NZ$5.1 million (pre-tax) per annum, relative to those incurred operating the NZME business as part of APN (see Section 9.4(c). The Demerger would also require NZME to write off NZ$56 million of its deferred tax assets for accounting purposes due to it not meeting shareholder continuity tests to carry forward tax losses. Although such denied tax losses can no longer be utilised to shelter future income, they may still be available to shelter historic income tax risks or associated penalties. However, the Board and NZME believe that the ongoing benefits from the Demerger of NZME will outweigh these additional costs in the near-term.

As an independent entity, NZME may incur additional costs and face additional risks compared to its position as a subsidiary of APN. Whilst NZME has arranged debt facilities on competitive terms (see Section 9.7), the terms and conditions of these facilities and the availability and terms of any future refinancing or new facilities, may not be as favourable as those that would have been available to APN. There may also be potential delays, unexpected costs or other issues in establishing NZME as a standalone entity. Refer to Section 5.4 for further detail.

There can also be no assurance regarding the price at which NZME Shares will trade following the Demerger. Some APN Shareholders may not wish to hold NZME Shares (or may not be permitted to do so under the terms of their investment mandates). However, there may be demand for NZME Shares from investors that do not hold APN Shares including New Zealand-focused investors but there can be no assurance as to the level of demand.

1.6 POTENTIAL MERGER OF NZME AND FAIRFAX NEW ZEALAND

On 11 May 2016, APN and Fairfax Media Limited ("Fairfax") jointly announced that they had entered into exclusive discussions regarding the potential merger of their respective New Zealand businesses. If completed, the combined company will be a leading New Zealand media business, offering depth of news, sport and entertainment coverage across a diverse mix of channels including print, digital and radio.

The New Zealand businesses of NZME and Fairfax are, to a large extent, complementary. The expanded network of brands and channels would create an opportunity to deliver improved, innovative offerings to advertisers and audiences.

Fairfax and APN/NZME have commenced preliminary discussions around a potential transaction structure. The parties will continue to negotiate while APN continues to pursue its other strategic initiatives.

The transaction remains subject to agreement by the respective Boards of the businesses. The discussions are subject to exclusivity provisions with standard fiduciary and other carve-outs.

The transaction is subject to all necessary regulatory consents, including New Zealand Commerce Commission. The parties intend to work towards completion of the merger by the end of calendar 2016 subject to all approvals.

In addition to regulatory approvals, any necessary shareholder approvals will be sought at the appropriate time.

APN has entered into the exclusive discussions independently of the Demerger and if the Demerger is completed, NZME is expected to continue pursuing the proposed transaction with Fairfax and APN will continue discussions if the Demerger does not proceed.

1.7 IF THE DEMERGER DOES NOT PROCEED

If the Demerger does not proceed:

- NZME will continue to operate within APN;
- APN Shareholders will not receive NZME Shares; and
- the advantages of the Demerger described in Section 5 may not be realised, and the disadvantages and risks of the Demerger described in Section 5 may not arise (except for the incurrence of certain costs, as described above).

If the Demerger does not proceed, APN Directors and management may consider alternatives to the Demerger for the NZME businesses. Specifically, if the Demerger does not proceed APN intends to progress exclusive discussions regarding the potential merger of NZME and Fairfax's New Zealand business (refer to Section 1.6 for further detail).

1.8 CONSOLIDATION OF APN SHARES

There are approximately 1,029 million APN Shares on issue. Following the Entitlement Offer there will be approximately 1,372 million APN Shares on issue. This large number of shares may result in relatively small movements in the price of APN Shares reflecting disproportionately large percentage changes in value. Accordingly, APN proposes that prior to the Capital Reduction for the Demerger, every 7 APN Shares will be consolidated into one APN Share so that the number of APN Shares on issue will be reduced from approximately 1,372 million APN Shares to 196 million APN Shares. Any fractional entitlement to an APN Share arising as a consequence of the Share Consolidation will be rounded up.

1.9 HOW THE DEMERGER AND SHARE CONSOLIDATION WILL BE EFFECTED

The Demerger will take place by way of a Capital Reduction, with an in specie distribution of shares in NZME as consideration. Instead of receiving cash from the Capital Reduction, APN Shareholders will receive a distribution of shares in NZME, which is referred to as an in specie distribution.

This will follow the completion of an Internal Restructure to ensure that NZME owns all the companies, assets, rights and operating/contingent liabilities relating to the NZME business, and that APN owns all other companies, assets, rights and liabilities.

Existing Shareholders will retain their shares in APN. If the Demerger Resolution and Share Consolidation Resolution are approved and other conditions are satisfied or waived:

- the Share Consolidation will be implemented prior to the Demerger; and
- following the Share Consolidation, APN Shareholders will be entitled to receive one NZME Share for each APN Share held at the Record Date. Shareholders will not need to take any action or pay any cash to receive NZME Shares.

This will have the result that, if a person holds, say 1,000 APN Shares then, following the implementation of the Share Consolidation and the Demerger, the person will hold 143 APN Shares and 143 NZME Shares.

If the Share Consolidation is not approved by APN Shareholders, the Demerger will be implemented on the same basis through the transfer of one NZME Share for every APN Share held. This will have the result that, if a person holds, say 1,000 APN Shares then, following the implementation of the Demerger, the person will hold 1,000 APN Shares and 1,000 NZME Shares.

Further details of the Demerger process, the Internal Restructure and intercompany agreements are set out in Section 10 and of the Share Consolidation in Section 4.

2 KEY DATES AND TIMES

Event	Indicative date
Last time and date on which APN Proxy Forms for the General Meeting must be received	9.00am, Tuesday, 14 June 2016
Record Date for determining eligibility to vote at the General Meeting	7.00pm, Tuesday, 14 June 2016
APN General Meeting, to be held at the offices of Baker & McKenzie, Level 27, AMP Centre, 50 Bridge Street, Sydney, NSW	9.00am, Thursday, 16 June 2016
Last date on which APN Shares trade on the ASX and NZX cum the APN Share Consolidation	Friday 17 June 2016
Record Date for APN Share Consolidation APN and NZME Share Consolidations implemented immediately following market close	7.00pm Tuesday, 21 June 2016
First date on which APN Shares trade post APN Share Consolidation Dispatch of holding statements to APN Shareholders to reflect APN Share Consolidation	Wednesday 22 June 2016
Last date on which APN Shares trade on the ASX and NZX cum entitlement to NZME Shares	Friday, 24 June 2016
Last time and date on which the Sale Facility Forms (for Small Shareholders who hold APN Shares) must be received	7.00pm, Friday, 24 June 2016
Listing of NZME on NZX Main Board and ASX NZME Shares commence trading on NZX and ASX on a deferred settlement basis (on a post consolidation basis) APN shares commence trading ex entitlement to NZME Shares	Monday, 27 June 2016
Record date for determining entitlements to NZME Shares of APN Shareholders under the Demerger	7.00pm, Tuesday, 28 June 2016
Date of implementation of Demerger and Capital Reduction and issue of NZME Shares to Eligible Shareholders **(Demerger Date)**	Wednesday, 29 June 2016
Dispatch of holding statements for NZME Shares to Eligible Shareholders Last date on which NZME Shares trade on NZX and ASX on a deferred settlement basis	Thursday, 30 June 2016
Commencement of trading of NZME Shares on the NZX and ASX on a normal settlement basis	Friday, 1 July 2016
First Settlement date (all deferred trades first settled)	Tuesday, 5 July 2016

1. Refer to Section 14.4(c) for information in relation to deferred settlement trading.

Shares issued under the Entitlement Offer announced by APN on 11 May 2016 will be issued under the Institutional Entitlement Offer on 20 May 2016 and will be issued under the Retail Entitlement Offer on 7 June 2016.

All dates and times following the date of the General Meetings are indicative only and are subject to change. All dates and times are references to the time in Sydney, Australia.

Any changes to the timetable will be announced through the ASX and NZX and will be notified on the APN website at www.apn.com.au.

3 WHAT YOU NEED TO DO AND HOW TO VOTE

READ THIS DOCUMENT IN FULL

You should read this document in full, including the advantages, disadvantages and risks of the Demerger (refer to Sections 5.1 to 5.5) and an investment in NZME (refer to Section 8.13) as set out in this document, before making any decision on how to vote on the Demerger Resolution.

There are answers to frequently asked questions about the Demerger in Section 4. APN Shareholders who have any additional questions in relation to this document or the Demerger should call the APN Shareholder Information Line on 1300 365 969 (within Australia) or +61 1300 365 969 (outside Australia) between 8:30am and 5:30pm (Sydney time) Monday to Friday, or 0800 729 276 (within New Zealand) between 8.30am and 5.30pm (Sydney time), Monday to Friday.

VOTE ON THE RESOLUTIONS AT THE GENERAL MEETING

As an APN Shareholder, you are entitled to attend and vote at the General Meeting, and accordingly determine whether the Demerger and the Share Consolidation should proceed. The Demerger Resolution and the Share Consolidation Resolution are not conditional on each other. If one is passed, it will be implemented regardless of the result of the other.

You can vote in person or by proxy, by attorney or, in the case of a corporation, by corporate representative. Details of how to vote are set out below.

CHOOSE WHETHER TO KEEP YOUR NZME SHARES OR SELL THEM (VIA THE SALE FACILITY)

If you are a Small Holder

If you are a Small Shareholder, being an Eligible Shareholder, who on the Demerger Record Date, individually holds:

- 3,500 APN Shares or less (if the Share Consolidation is not approved); or
- 500 APN Shares or less (if the Share Consolidation is approved),

you may elect to have all (but not some) of the NZME Shares to which you would have otherwise been entitled under the Demerger sold on market by the Sale Agent and the Sale Facility Proceeds remitted to you, free from any brokerage costs or stamp duty.

To make this election, you must complete and return the Sale Facility Form, in accordance with the instructions on that form, so that it is received by the APN Share Registry by 7.00pm (AEST) on Friday, 24 June 2016.

If you are an Ineligible Overseas Shareholder

If you are an Ineligible Overseas Shareholder, you will not receive NZME Shares. Instead, the NZME Shares which you would otherwise have been entitled to receive under the Demerger, are to be sold on market by the Sale Agent and the Sale Facility Proceeds remitted to you, free of any brokerage costs or stamp duty.

To determine if you are an Ineligible Overseas Shareholder, and for further information regarding eligibility for participation under the Demerger, see Section 10.3.

For further information

If you have any questions after reading this Explanatory Memorandum, please contact your financial, legal, taxation or other professional adviser. You can also call the APN Shareholder Information Line on 1300 365 969 (within Australia) or +61 1300 365 969 (outside Australia) between 8:30am and 5:30pm (Sydney time), Monday to Friday, or 0800 729 276 (within New Zealand) between 8.30am and 5.30pm (Sydney time), Monday to Friday, or visit the APN website at www.apn.com.au.

GENERAL MEETING

The General Meeting is scheduled to be held at 9.00am (AEST) on Thursday, 16 June 2016 at Baker & McKenzie, Level 27, AMP Building, 50 Bridge Street, Sydney New South Wales.

At the General Meeting the Demerger Resolution will be considered, being a resolution to approve the reduction of APN's share capital on the Demerger Date by the Capital Reduction Aggregate Amount with the reduction being effected and satisfied by applying such amount equally against each APN Share on issue and the transfer to each APN Shareholder of one NZME Share for every one APN Share held as at the Record Date.

The Demerger Resolution must be approved by a simple majority of votes cast by APN Shareholders on the resolution in order to be passed.

Additionally, at the General meeting the Share Consolidation Resolution will be considered, being a resolution to approve the reduction of APN Shares from approximately 1,372 million shares to approximately 196 million shares.

The Share Consolidation Resolution must be approved by a simple majority of votes cast by APN Shareholders on the resolution in order to be passed.

VOTING BY POLL

Voting at the General Meeting will be conducted by way of a poll. APN Shareholders will have one vote for every APN Share held (subject to the restrictions on voting rights set out in the Notice of General Meeting).

ENTITLEMENT TO VOTE

Each APN Shareholder who is registered on the APN Share Register as the holder of an APN Share at 7.00pm (AEST) on Tuesday, 14 June 2016 may vote at the General Meeting in person, by proxy, by attorney or, in the case of a corporation, by corporate representative (subject to the restrictions on voting rights referred to in the Notice of General Meeting).

HOW TO VOTE

Each APN Shareholder who is entitled to vote can vote at the General Meeting:

a) In person, by attending the Meeting:

If you plan to attend the General Meeting, please arrive at the office of Baker & McKenzie, Level 27, AMP Building, 50 Bridge Street, Sydney New South Wales, by 8.30am if possible, so that your shareholding may be checked against the APN Share Register and your attendance noted. You must register your attendance on arrival.

b) By attorney or corporate representative:

You are entitled to appoint an attorney or, in the case of a corporate shareholder, a corporate representative to attend and vote at the General Meeting on your behalf.

- If voting by attorney, the power of attorney appointing the attorney must be duly signed and specify the name of each of the APN Shareholder, APN and the attorney, and also specify the meetings at which the appointment may be used. The power of attorney must be returned in the same manner, and by the same time, as outlined for the proxy forms.
- If voting by corporate representative, the representative should bring to the General Meeting a letter or certificate evidencing their appointment.
- A form of corporate representative certificate may be obtained from the APN Share Registry or online at www.linkmarketservices.com.au.

c) By proxy:

- **By lodging a proxy online** at vote.linkmarketservices.com/APN, by going to the "Vote Online" section and following the prompts and instructions;
- **By mailing** the enclosed General Meeting Proxy Form using the enclosed reply paid pre-addressed envelope;
- **By faxing** the enclosed General Meeting Proxy Form to +61 2 9287 0309; or
- **By hand-delivering** the enclosed General Meeting Proxy Form to the APN Share Registry at Link Market Services Limited, Level 12, 680 George Street, Sydney NSW 2000, or 1A Homebush Bay Drive, Rhodes NSW 2138 (Monday to Friday, 9.00am – 5.00pm (AEST)).

To be valid, your proxy form(s) must be received by the APN Share Registry by 9.00am, Tuesday 14 June 2016 (AEST).

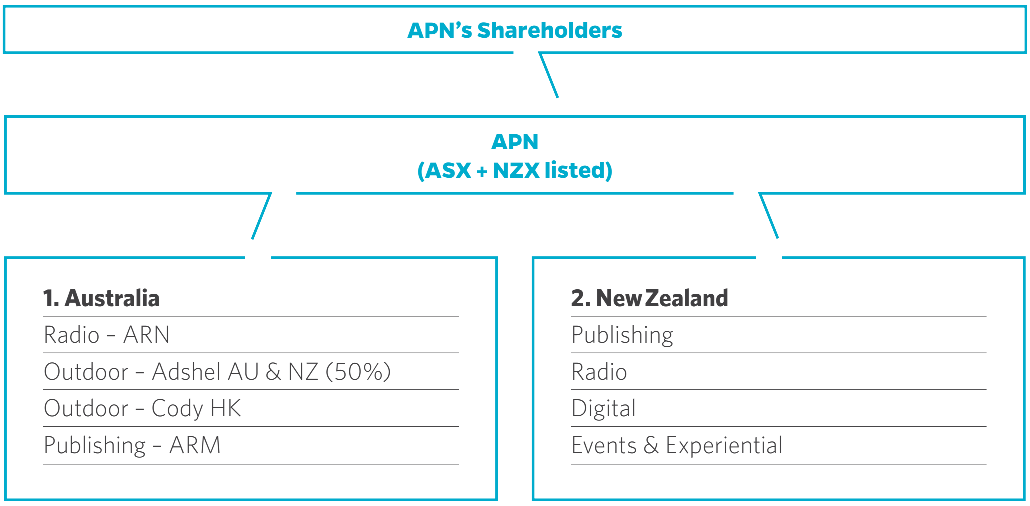
For further information on proxy voting, please refer to the detailed instructions contained on your General Meeting Proxy Form.

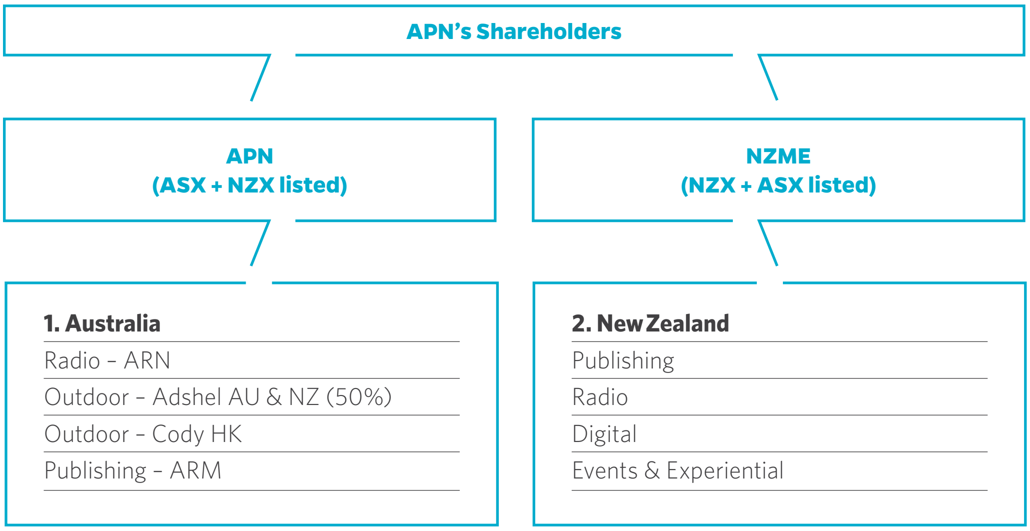
d) By QR scan:

Scan this QR Code with your smartphone or tablet to our dedicated mobile voting site. Log in using your holder number and postcode for your shareholding.

4 FREQUENTLY ASKED QUESTIONS ON THE DEMERGER

This Section provides a summary of answers to frequently asked questions. Further information on the topics below can be found in later Sections of the Explanatory Memorandum.

Question	Answer
TRANSACTION OVERVIEW	
What is the Demerger?	APN owns assets in Australia, New Zealand and Hong Kong. APN's main asset in New Zealand is NZME, which is one of New Zealand's premier media and entertainment companies operating some of the country's leading publishing, radio and eCommerce brands including *The New Zealand Herald*, Newstalk ZB and GrabOne. The Demerger involves the separation of NZME from the rest of APN's business and the listing of NZME on the NZX and ASX. The Demerger will be implemented by way of a: - capital reduction by APN; and - the satisfaction of that capital reduction by APN distributing shares in NZME as consideration to eligible APN shareholders (an in specie distribution). If the Demerger Resolution is approved and other conditions to the Demerger are satisfied or waived: - Shareholders will be entitled to receive one NZME Share for each APN Share held at the Record Date; - APN Shareholders will not need to take any action or pay any cash to receive NZME Shares - Shareholders will retain their existing shares in APN Following the Demerger, existing APN operations will be divided between APN (which will include the Australian and Hong Kong businesses) and NZME (which will include the New Zealand business). **Current structure** 

Question	Answer
TRANSACTION OVERVIEW CONTINUED	
	Proposed structure if the Demerger is implemented 
What is the rationale for the Demerger?	The Demerger recognises the discrete nature of the Australian and New Zealand businesses of APN, their separate geographic focus, is consistent with APN's strategic focus and is a natural progression of the establishment of NZME and integration of its media platforms. The rationale for the Demerger is discussed in detail in Section 1.
Which APN Shareholders are eligible to participate in the Demerger?	An APN Shareholder whose registered address at the Record Date is in Australia or New Zealand. All other APN Shareholders are Ineligible Overseas Shareholders and will not receive NZME Shares under the Demerger.
What will APN Shareholders receive if the Demerger proceeds?	Eligible Shareholders will receive one NZME Share for each APN Share they hold at the Record Date. An NZME Share is a fully paid ordinary share in the capital of NZME Limited (being, Wilson & Horton Limited, a company registered in New Zealand, registration number 1181195, to be renamed as NZME Limited prior to the implementation of the Demerger).
What is the impact of the Demerger on my APN shareholding?	The number of APN Shares you hold will not change as a result of the Demerger. The total number of APN Shares on issue at the Record Date will be the number following the Entitlement Offer.
What are the costs of the Demerger?	Total transaction and implementation costs of the Demerger are expected to be approximately $8.3 million (on a pre-tax basis), the majority of which will be incurred by APN. Approximately $5.1 million of these costs will be committed before the General Meeting.
What are the key advantages, disadvantages and risks associated with the Demerger?	The key advantages, disadvantages and risks of the Demerger are discussed in detail in Sections 5.1 to 5.5.
What alternatives to the Demerger have the Board considered?	The APN Board has considered a number of potential options such as retaining the status quo, a divestment or initial public offering of NZME. After considering the advantages, disadvantages and risks of each of these various options, compared to the advantages, disadvantages and risks of the Demerger (refer to Sections 5.1 to 5.5), the APN Directors unanimously consider that the Demerger is in the best interests of APN Shareholders. The Board believes that the increased focus and independent capital structures for APN and NZME will enhance each company's ability to pursue its own growth strategy and maximise shareholder value. The Board also believes that the Demerger will facilitate greater shareholder and market awareness of NZME's businesses, and that investors will be better able to independently assess APN and NZME's prospects and performance. The Board has concluded that the Demerger is likely to realise more value for APN Shareholders than the other options currently available, taking into account certainty of outcome, associated costs, execution risk, time to implement and risks associated with third party approvals.

Question	Answer
TRANSACTION OVERVIEW CONTINUED	
How does the Board recommend I vote?	The APN Directors unanimously believe that the Demerger is in the best interests of APN Shareholders as a whole. The APN Directors are also of the view that, taking into account all relevant matters, the Capital Reduction is fair and reasonable to APN Shareholders as a whole and will not materially prejudice the ability of APN to pay its creditors. The APN Directors unanimously recommend that APN Shareholders vote in favour of the Demerger Resolution to be considered at the General Meeting. The APN Directors also unanimously recommend that APN Shareholders vote in favour of the Share Consolidation Resolution to be considered at the General Meeting.
What is the Independent Expert's opinion on the Demerger?	The Independent Expert has concluded that the Demerger is in the best interests of APN Shareholders. The Independent Expert has also concluded that the Capital Reduction will not materially prejudice APN's ability to pay its creditors. A copy of the Independent Expert's Report is contained in Section 13.
Is the Demerger subject to any conditions?	Yes. The Demerger is subject to various conditions, including Regulatory Approvals and APN Shareholder approval. These are described in Section 10.
What does the Demerger process involve?	The key steps associated with the Demerger include: - approval of the Demerger Resolution by Shareholders at the General Meeting; - satisfaction or waiver of all conditions to the Demerger; - the reduction of capital in APN; - an in specie distribution of shares in NZME to existing APN Shareholders; and - approval for NZME to list on the NZX and ASX.
What happens if the Demerger does not proceed?	If the Demerger does not proceed: - NZME will continue to operate within APN; - APN Shareholders will not receive NZME Shares; and - the advantages of the Demerger described in Section 5 may not be realised, and the disadvantages and risks of the Demerger described in Section 5 may not arise (except for the incurrence of certain costs, as described above). If the Demerger does not proceed, APN Directors and management may consider alternatives to the Demerger for the NZME businesses. Specifically, if the Demerger does not proceed, APN intends to progress exclusive discussions regarding the potential merger of NZME and Fairfax's New Zealand business (refer to Section 1.6 for further detail).
What will be NZME's relationship with APN after the Demerger?	APN will not own any shares in NZME after the Demerger save for any which it acquires, pending their sale, under the Sale Facility. Certain transitional arrangements between APN and NZME will remain in place for a period of up to three years, or longer as required (see Section 10.5). APN and NZME will enter into the Tax Conduct Deed whereby the parties agree to work together to manage tax matters (see Section 10.5 for further details). After the Demerger, NZME will operate iHeartRadio New Zealand through an exclusive sub-licence with APN with a term to 2024.
What are the taxation implications of the Demerger for APN Shareholders?	The taxation implications of the Demerger will depend on how APN Shareholders hold their APN Shares and in which jurisdiction they are resident for tax purposes. Section 11 sets out information on the taxation implications for Australian resident and New Zealand resident APN Shareholders. No information is specifically provided in relation to APN Shareholders resident in other jurisdictions. The information is expressed in general terms and does not constitute taxation advice in respect of the particular circumstances of any APN Shareholder. It is recommended that you seek your own specific taxation advice for your individual circumstances.

Question	Answer
VOTING ON THE DEMERGER AND SHARE CONSOLIDATION	
Who can vote at the General Meeting?	APN Shareholders who are registered on the APN Share Register at 7.00pm AEST on Tuesday, 14 June 2016 are entitled to vote at the General Meeting.
What is the voting threshold for the Demerger and the Share Consolidation?	For the Demerger to proceed, the Demerger Resolution must be approved as an ordinary resolution of APN Shareholders. For the Share Consolidation to proceed, the Share Consolidation Resolution must be approved as an ordinary resolution of APN Shareholders.
Are the Demerger Resolution and the Share Consolidation Resolution conditional on each other?	The Demerger Resolution and the Share Consolidation Resolution are not conditional on each other. If one is passed, it will be implemented regardless of the result of the other.
When and where is the General Meeting?	The meeting of APN Shareholders will be held at the office of Baker & McKenzie, Level 27, AMP Building, 50 Bridge Street, Sydney New South Wales and begin at 9.00am AEST on Thursday, 16 June 2016.
How do I vote?	APN Shareholders who are entitled to vote may do so by: – attending the General Meeting in person; – by lodging a proxy form online via vote.linkmarketservices.com/APN; or – by completing and returning a proxy form in accordance with the instructions set out in the notice of meeting at Annexure C.
What if I do not vote at the General Meeting or if I vote against the Demerger Resolution?	If APN Shareholders who support the Demerger do not vote, there is a risk the Demerger will not be approved. If you do not vote or vote against the Demerger Resolution, but the Demerger Resolution is approved by the requisite majority of APN Shareholders, then, subject to the other conditions to the Demerger being satisfied or waived, the Demerger will be implemented and binding on all APN Shareholders, including those who did not vote or voted against the Demerger Resolution.
What if I do not vote at the General Meeting or if I vote against the Share Consolidation Resolution?	If APN Shareholders who support the Share Consolidation do not vote, there is a risk the Share Consolidation will not be approved. If you do not vote or vote against the Share Consolidation Resolution, but the Share Consolidation Resolution is approved by the requisite majority of APN Shareholders, then, the Share Consolidation will be implemented and binding on all APN Shareholders, including those who did not vote or voted against the Share Consolidation Resolution.
APN AFTER THE DEMERGER	
What will be APN's strategy after the Demerger?	APN's strategic priorities are set out in Section 6. After the Demerger, APN will continue to be a diversified media and entertainment company. APN's strategy of focusing on growth sectors of radio and outdoor will not change as a result of the Demerger. APN will continue to invest in its strong performing assets and integration opportunities to enhance audience engagement and drive revenue. As APN has already announced, it has commenced a sale process in relation to its publishing assets.
Who will be on the APN Board after the Demerger?	If the Demerger proceeds, the APN Board will comprise: – Peter Cosgrove, Chairman – Peter Cullinane, Non-Executive Director – Anne Templeman-Jones, Non-Executive Director – Paul Connolly, Non-Executive Director – Christine Holman, Non-Executive Director If the Demerger proceeds, Sir John Anderson will retire from the APN Board upon implementation of the Demerger, to assume his position on the NZME Board.
Will there be changes to APN's senior management team as a result of the Demerger?	If the Demerger proceeds, APN's senior management team will comprise: – Ciaran Davis, Chief Executive Officer – Jeff Howard, Chief Financial Officer – Yvette Lamont, Group General Counsel and Company Secretary – Tony Kendall, Chief Executive Officer, Australian Radio Network – Rob Atkinson, Chief Executive Officer, Adshel – Neil Monaghan, Chief Executive Officer, Australian Regional Media

Question	Answer
APN AFTER THE DEMERGER CONTINUED	
What will be the impact of the Demerger on APN's dividends?	APN after Demerger's approach to dividends will be determined by the APN Board post the Demerger at its discretion and may change over time. The APN Board after the Demerger intends to initially target a dividend payout ratio of approximately 40% – 60% of Underlying NPAT, subject to maintaining leverage at or below 2.0x EBITDA and having regard to other strategic priorities. APN after Demerger's first dividend is likely to be paid for the six month period up to 31 December 2016 and to be payable in March or April 2017.
What impact will the Demerger have on APN's existing debt facilities?	On 11 May 2016, APN announced an approximately $180 million equity raising to establish an appropriate capital structure following the Demerger by repaying APN corporate debt. As a result of the Demerger and entitlement offer, APN after Demerger intends to repay a portion of its committed bank facilities in the order of $265 million (based on pro forma net debt as at 31 December 2015). APN after Demerger also intends to reduce committed bank facility limits to $360 million including a $HK50 million tranche. APN after Demerger's pro forma net debt is expected to decrease to $193.2 million, consisting of drawn debt of $207.7 million net of cash of $14.5 million.
What will the APN share price be after the Demerger?	There is no certainty as to the price of APN Shares after the Demerger.
NZME AFTER THE DEMERGER	
What is NZME?	NZME is currently a wholly owned direct subsidiary of APN. After the Demerger, NZME will continue to be one of New Zealand's most recognisable media and entertainment companies which operates some of the country's leading publishing, radio and eCommerce brands including *The New Zealand Herald*, Newstalk ZB and GrabOne.
Where will NZME be listed?	NZME intends to list on the NZX Main Board. NZME also intends to seek a secondary foreign exempt listing on the ASX.
What will be the NZME share price?	There is no certainty as to the price of NZME Shares after the Demerger.
What will be NZME's strategic priorities after the Demerger?	NZME's strategic priorities are set out in Section 6. The NZME Board intends to focus on these strategic priorities following the Demerger. The future strategy of NZME will, however, ultimately be a matter for the NZME Board and senior management to develop over time, and is subject to change.
What will be NZME's dividend policy?	The NZME Board intends for NZME to maintain a dividend paying policy. The payment of dividends is not guaranteed and NZME's dividend policy may change. Dividends and other distributions with respect to NZME Shares will be made as trading and investment conditions permit at the discretion of the NZME Board and subject to the satisfaction of the solvency requirements of the Companies Act 1993. The NZME Board intends to: - target a dividend payout of 60% to 80% of Underlying NPAT subject to maintaining appropriate leverage and having regard to other strategic priorities; - attach imputation credits to dividends to the extent they are available; and - pay dividends semi-annually. NZME's first dividend to be paid is expected to be for the six month period up to 30 June 2016 and to be payable in September 2016.
What will be NZME's capital structure?	At the time of the Demerger, NZME is expected to have approximately NZ$102.2 million of net debt (based on pro forma net debt as at 31 December 2015). This represents approximately 1.5 times pro forma EBITDA of NZ$67.5 million for the year ended 31 December 2015. See Section 9 for further details. Based on the pro forma NZME balance sheet, as at 31 December 2015, NZME's shareholders' equity on Demerger is expected to be approximately NZ$280.6 million. NZME will have only ordinary shares on issue and no other equity securities.
Who will be on the NZME Board?	If the Demerger proceeds, the NZME Board will initially comprise: - Sir John Anderson, Chairman - Peter Cullinane, Independent Director Following the Demerger, Carol Campbell will join the NZME board as a Independent Director. NZME intends to appoint at least one further Independent Director.

Question	Answer
NZME AFTER THE DEMERGER CONTINUED	
Who will be on the senior management team of NZME?	If the Demerger proceeds, NZME's senior management team will include: – Michael Boggs, will continue as Chief Executive Officer of NZME – Search process underway for Chief Financial Officer – Dean Buchanan, Group Director, Entertainment – Richard Harrison, Group Director, e-commerce – Sarah Judkins, Chief Strategy Officer – Shayne Currie, Managing Editor – Carolyn Luey, Chief Operating Officer – Laura Maxwell, Chief Commercial Officer – Liza McNally, Chief Marketing Officer – Michelle Hamilton, Group Director, Culture and Performance
What are the risks of holding NZME Shares?	NZME will be subject to a range of risks in respect of its activities and interests which may adversely affect the future operating or financial performance, prospects, investment returns or value of NZME. Many of these risks are risks to which the assets that form the NZME business are already exposed, while others arise out of, or increase, as a result of the Demerger. These risks are summarised in Section 5. APN Shareholders should review these risks carefully before deciding how to vote in relation to the Demerger Resolution.
SHARE CONSOLIDATION	
What is the 1 for 7 Share Consolidation?	APN is proposing to undertake a consolidation of its share capital through the conversion of every 7 APN Shares into one APN Share. The Share Consolidation is subject to approval by APN Shareholders at the General Meeting on 16 June 2016.
When will the Share Consolidation occur?	The Share Consolidation will take effect from 7.00pm, Tuesday, 21 June 2016 and prior to the Demerger.
Why is APN doing the Share Consolidation?	APN has a very large number of shares on issue (approximately 1,029 million) and following the Entitlement Offer will have approximately 1,372 million shares on issue. Given the large number of shares on issue, small movements in the price of APN Shares can reflect disproportionately large percentage changes in value. Accordingly, APN proposes to reduce this number by way of the Share Consolidation.
What will the effect of the Share Consolidation be?	The number of APN Shares will be reduced from approximately 1,372 million to approximately 196 million. As the Share Consolidation applies equally to all of APN's Shareholders, the Share Consolidation will have no effect on the percentage interest of each individual APN Shareholder, except for rounding up.
What will happen to the share price?	While the Share Consolidation will have no effect on the underlying value of APN, the effect on APN's share price at the time of the conversion should be to trade at 7 times the price at which it previously traded. The share price will continue to be influenced by other factors.
What are the tax implications of the Share Consolidation?	For information on tax implications see Section 11.
What will happen if my holding results in entitlement to a fraction of a share?	Where the Share Consolidation of a shareholder's holding results in an entitlement to a fraction of a share, the fraction will be rounded up to the nearest whole number of shares. If APN reasonably believes that an APN Shareholder has been a party to the division of a shareholding in an attempt to obtain an advantage from this treatment of fractions, APN will take appropriate action, having regard as appropriate to the terms of APN's constitution and the ASX Listing Rules. In particular, APN reserves the right to disregard the division of the shareholding for the purpose of dealing with fractions so as to round up any fraction to the nearest whole number of shares that would have been received but for the division.
OTHER INFORMATION	
If you have further questions	If you have any further questions, it is recommended that you: – contact your stockbroker, bank manager, solicitor, accountant and/or other independent professional adviser; – visit the APN website at www.apn.com.au; or – call the APN Shareholder Information Line (details of which are provided in the Corporate directory at the back of this document).

5 ADVANTAGES, DISADVANTAGES, AND KEY RISKS ASSOCIATED WITH THE DEMERGER

The APN Directors believe that the advantages of the Demerger outweigh the disadvantages and risks. The APN Directors recommend that you vote in favour of the Demerger Resolution. Each APN Director intends to vote any APN Shares held by or controlled by that APN Director in favour of the Demerger Resolution.

APN Shareholders should carefully consider the following advantages, disadvantages and risks of the Demerger, as well as the potential risks associated with an investment in APN (after the Demerger), the potential risks associated with an investment in NZME, and the Independent Expert's Report contained in Section 13, in deciding whether or not to vote in favour of the Demerger Resolution.

5.1 BACKGROUND AND ALTERNATIVES CONSIDERED

APN's strategic objective for NZME has been to transform it into one of New Zealand's leading integrated media platforms. Over the past two years, the transformation program has integrated NZME into a discrete business, led by a standalone management team. Given the extent of APN's implementation of the transformation program, APN now considers it an opportune time to separate its Australian and New Zealand businesses.

The Demerger will enable each company to focus on its standalone business and implement tailored capital structures and capital allocation frameworks. The Demerger also removes competition for capital resources with each business able to pursue its own opportunities.

With the listing of NZME on the NZX and the ASX, the Demerger facilitates access to a new class of investors not otherwise accessible.

5.2 ALTERNATIVES CONSIDERED

As an alternative to a Demerger, APN considered a number of alternative ownership and divestment options for NZME, including a trade sale or an initial public offering. The Board concluded that the Demerger is likely to realise more value for Shareholders than the other options currently available, taking into account certainty of outcome, associated costs, execution risk, time to implement and risks associated with third party approvals.

In reaching this conclusion, the APN Board had regard to factors relevant to several alternative approaches available to APN, including the following:

- a sale process or processes involving some or all of the NZME business would result in cash proceeds being received and, for some assets, it is possible that attractive terms may be realised from trade buyers. However, a sale process or processes would likely involve a high degree of transaction uncertainty and increased execution costs compared to the Demerger. The price realised in one or more sale processes could be significantly affected by prevailing market conditions at the time of execution. Following the Demerger, the NZME board will retain flexibility to initiate transactions that it considers are in the interest of its shareholders;
- an initial public offering would also result in cash proceeds being received. However, an initial public offering would also likely involve a high degree of transaction uncertainty. The proceeds realised in an initial public offering may also be significantly affected by prevailing market conditions at the time of execution and APN may not be able to realise full underlying value for NZME through an initial public offering. In November 2014, APN explored a potential initial public offering of NZME. There was broad and positive feedback on the integration plans and business strategy for NZME. However, based on the progress at the time, APN determined that to maximise value for APN shareholders, any divestment of NZME would be at least 12 months away when the benefits of NZME's integration would be more evident.

Unlike these alternatives, the Demerger offers APN Shareholders the opportunity to make their own decisions regarding their continuing investment in either or both of APN and NZME. APN Shareholders who retain their NZME Shares will also retain direct exposure to NZME's media and entertainment assets in New Zealand and their future performance.

The structure of the Demerger was chosen having regard to the objectives of:

- minimising transaction costs and required third party approvals; and
- establishing NZME with a corporate structure and stock exchange listing appropriate for the nature, location and scale of its assets and the composition of its shareholder base.

5.3 ADVANTAGES OF THE DEMERGER

The advantages of the Demerger include the following:

a) Enhanced flexibility and focus on own business and strategic priorities

APN after Demerger, an Australian focused radio and outdoor media business, and NZME, a New Zealand based integrated media business, face different industry structures, regulation and dynamics and have different business characteristics, financial profiles, strategic priorities and capital requirements. For APN, its significantly reduced exposure to New Zealand will reduce the sensitivity of APN's earnings to movements in foreign currency exchange rates. Separating these businesses allows the separate boards of directors and management teams to focus solely on their respective businesses, and also allows each business to pursue opportunities and develop strategies and capital structures specific to each business. This should enable each of NZME and APN to respond with greater flexibility to challenges and opportunities as they arise, without the distraction of or need to have regard to the needs of the other business.

b) Independent capital structures and financial policies

Following the Demerger, both companies will be able to adopt an independent capital structure and financial policies appropriate for their operating requirements and strategic objectives. In particular, NZME management will have greater freedom to pursue growth opportunities without competing for capital resources with the wider APN business. APN will focus on opportunities in high growth sectors and opportunities that build a national advertising proposition.

Details of the proposed capital structures of NZME and APN following the Demerger are set out in Sections 6.3 and 9. The capital structure and financial policies of NZME and APN after Demerger will be at the discretion of their respective boards and are subject to change as circumstances require.

c) Improved ability for NZME to pursue growth opportunities

APN's strategy and investment priorities over recent years have focused on growth sectors of radio and outdoor. NZME has had to compete for growth capital with APN's other businesses and this has limited, to some extent, the ability of the businesses within NZME to pursue strategic opportunities.

As a separately listed company, NZME will be better able to pursue targeted growth opportunities assessed against its own strategic priorities without the need to consider competing demands for capital from APN's other businesses. Following the Demerger, even though NZME will be of smaller scale than APN (and no longer have the financial support of APN), it will be a leading listed integrated media and entertainment company in New Zealand.

See Section 8 for further details regarding NZME's strategy and the initiatives and opportunities it expects to pursue following the Demerger.

d) Greater investment choice

The business and strategic characteristics, financial profiles and risks of APN and NZME differ and may appeal to different types of investors. Their combination within a single group does not provide choice for investors who may value the flexibility to invest in one of the businesses, but not the other, or to invest in both businesses but in different proportions.

The Demerger will provide APN Shareholders with separate investments in two pre-eminent media and entertainment companies in Australia and New Zealand. Once NZME is separately listed, existing and future investors will have greater investment choice and the opportunity to manage their exposure to the different businesses of APN and NZME respectively, according to their own investment objectives.

As discussed in Section 1.5, certain APN Shareholders may not wish to hold NZME Shares and/or APN Shares and no assurance can be given in relation to the trading price of APN Shares or NZME Shares following the Demerger.

e) Enhanced investor awareness and evaluation of each company

The Demerger will allow investors to independently and appropriately evaluate each of APN and NZME and their respective underlying outlooks, performance, strategies and other business characteristics.

As a separately listed company trading on the NZX and ASX, NZME will directly make its own market disclosures which should enhance investor awareness, focus and ability to evaluate NZME's underlying outlook, performance, strategies and other business characteristics as standalone business. Over time, this transparency is expected to facilitate better recognition of the value of NZME.

5.4 DISADVANTAGES OF THE DEMERGER

a) Reduction in size and diversification

Following the Demerger, APN and NZME will be smaller as measured by earnings and less diversified (in respect of geographic exposure and sources of earnings and profits) than APN immediately prior to the Demerger.

Equity and debt markets as well as broader market conditions can experience extreme volatility at times and as separate listed entities, each of APN and NZME may be more exposed to those fluctuations as less diversified companies. For example, as independent entities with smaller scale than that of APN prior to the Demerger, NZME and APN may face additional costs or risks compared to the position historically, including reduced access to, and less favourable terms in, any future financing facilities and different terms on which it procures goods or services. However, NZME will be one of New Zealand's leading media and entertainment companies and APN will remain a media company of scale with exposure to growing radio and outdoor advertising sectors.

Additionally, risks that may impact APN pre Demerger may have a greater impact on NZME or APN post Demerger, as the adverse impacts of the risks may have a relatively greater impact on the separate entities. For example, an adverse change in New Zealand media laws may have a relatively greater impact on NZME's share price or profitability than it would have had on APN pre Demerger.

Information about the financial performance and financial position of NZME and APN after Demerger is set out in Sections 7 and 9.

b) One-off costs to implement the Demerger

The total one-off transaction and implementation costs associated with the Demerger are estimated to be approximately of $8.3 million on a pre-tax basis (this includes execution costs and NZME set up and separation costs).

Approximately $7.9 million on a pre-tax basis have been or will be paid by APN and the remaining $0.4 million will be paid by NZME following the Demerger.

NZME will provide APN with financial and accounting services for a period of up to three years following the Demerger with an option to extend. There may be potential delays, unexpected costs or other issues in the provision of these services by NZME to APN. For example, potential transaction processing system failure may cause supply chain disruptions for APN. NZME does, however, have systems in place to help mitigate the impact of any such failures.

If the Demerger does not proceed, then total one-off costs of $5.1 million are expected to be incurred by APN.

For further information regarding these transaction and implementation costs see Section 7.7.

c) Additional ongoing costs for NZME

Following the Demerger, NZME will be a separately listed entity on NZX and ASX, which will result in additional corporate costs and operating costs of approximately NZ$7.5 million per annum on a pre-tax basis (inclusive of NZ$2.4 million of existing APN corporate costs transferred to NZME). These costs will include company secretarial costs, NZX and ASX listing and ongoing fees, corporate advisory fees, share registry, maintaining a separate board of directors and executive team, information technology and other corporate functions.

Post Demerger, APN's corporate costs are expected to be lower by $2.2 million per annum on a pre-tax basis as these costs are transferred to NZME as part of the restructuring for the Demerger. These costs predominantly relate to corporate advisory fees and personnel transferring to NZME.

d) There may be taxation implications

The Demerger may result in certain APN Shareholders incurring taxation costs. Further information on taxation implications for certain APN Shareholders is set out in Section 11.

The Demerger would also require NZME to write off NZ$56 million of its deferred tax assets for accounting purposes due to it not meeting shareholder continuity tests to carry forward tax losses. Although such denied tax losses can no longer be utilised to shelter future income, they may still be available to shelter historic income tax risks or associated penalties.

5.5 RISK FACTORS

The potential risks associated with the Demerger include the following:

a) Demerger may not complete

Completion of the Demerger is subject to the satisfaction or waiver of a number of Conditions Precedent specified at paragraph 10.2(d) including, among others:

- all regulatory approvals required for or, in the reasonable opinion of APN, desirable to implement the Demerger being obtained (either unconditionally or on conditions reasonably satisfactory to APN); and
- the passing of the Demerger Resolution by the APN Shareholders at the General Meeting.

If the APN Shareholders do not approve the Demerger Resolution at the General Meetings or any of the other conditions precedent are not satisfied or waived, the Demerger will not proceed.

If implementation of the Demerger does not occur, then APN may experience a delay in the execution of its strategic objectives, and may be unable to realise the benefits for APN Shareholders that the APN Board believes will result from the Demerger. In these circumstances, APN will have incurred costs that have already been incurred or committed, as detailed in Section 5.4b above, notwithstanding that the Demerger would not proceed.

b) No certainty about the share prices of APN or NZME

The APN Directors are of the view that the Demerger will enhance value for APN Shareholders over time. However, it is not possible to predict the market value of APN Shares or NZME Shares following the Demerger. The share prices of APN and NZME may be affected by a range of factors, including market sentiment, economic and advertising market conditions.

In addition, following the Demerger, some APN Shareholders may not wish to hold NZME Shares (or may not be permitted to do so under the terms of their investment mandates). Sales of this sort could create short term selling pressure on the NZME Shares. The sale of NZME Shares by the Sale Agent may also impact the trading price of NZME Shares.

In addition, APN currently has only a small percentage of New Zealand investors (approximately 0.7% as at 9 May 2016), and in conjunction with any short term selling pressure this could have a materially adverse impact on NZME's share price.

c) Potential for delays, unexpected costs or other issues in separating NZME from APN

APN's corporate services infrastructure relating to payroll, accounts receivable and payable management is operated through an internal group called Group Financial Services, which is based in New Zealand. As part of the Demerger, Group Financial Services will be retained by NZME and APN will be reliant on NZME for these services under transitional arrangements for a period of up to three years with an option to extend. There is a risk that these services may not be provided as expected or may involve greater costs than anticipated (see Section 1.5).

As a subsidiary of APN, NZME is currently supported by APN's corporate services infrastructure, including the provision of services relating to accounting, taxation, legal, insurance administration, information management, certain group purchasing and human resources.

As part of the implementation of the Demerger, NZME will replace these support services with its own internal capability, third party contracts and transitional service agreements as appropriate. During a transitional period of up to 12 months, NZME will be reliant on APN for the provision of certain information management-related services (see Section 10.5).

It may take some time for NZME to procure the necessary resources and services and ensure that all processes are operating fully and efficiently. There is a risk that the establishment of these capabilities may take longer than expected or may involve greater costs than anticipated.

d) Not all third party consents may be obtained

The Demerger (or steps associated with the Demerger) may result in breaches or defaults under certain contracts to which APN or NZME is a party, unless relevant counterparty consents are obtained. In addition, there are certain APN Group-wide contracts relevant to NZME's operations, which APN is seeking to assign to NZME or renegotiate so that there are separate contracts for APN and NZME.

Although APN considers that all material contractual consents required to effect the Demerger have been obtained, there are a number of less material consents that have not been obtained as at the date of this Explanatory Memorandum. APN continues to seek these consents, but not all counterparties may provide consent (and some counterparties may seek to alter the terms of the relevant contract, as a condition of providing consent). A failure to obtain these consents may result in breaches or defaults under contracts, or an inability to align contractual arrangements to APN and NZME as independent entities.

e) Potential risk that the ATO concludes that Demerger tax relief is not available

APN has applied for a class ruling from the ATO to confirm that Demerger tax relief is available for APN Shareholders who are residents of Australia for taxation purposes and who hold their APN Shares on capital account. Where Demerger tax relief is available and Australian resident APN Shareholders, who hold their APN Shares on capital account, make the choice to apply such relief, they will not realise any capital gain or loss from the Demerger and the cost base in respect of their APN Shares will be allocated between their APN Shares and the NZME Shares. A further consequence is that the transfer of shares in NZME to APN Shareholders under the Demerger will not be regarded as a dividend which is assessable to APN Shareholders.

APN anticipates that the class ruling will confirm the above taxation treatment for Australian resident APN Shareholders who hold their APN Shares on capital account. However, if the ATO concludes that Demerger tax relief is not available or seeks to apply the anti-avoidance rules applicable to Demergers, then Australian resident APN Shareholders may have an assessable capital gain and the transfer of NZME Shares to APN Shareholders under the Demerger may be taxable as an unfranked dividend in the hands of APN Shareholders.

Section 11 provides further information on the general income tax implications for certain APN Shareholders who are Australian or New Zealand resident individuals or companies, including information on the implications if the class ruling is not issued consistent with the above expectations.

This information is not applicable to APN Shareholders who are not residents of either Australia or New Zealand for taxation purposes. This Explanatory Memorandum also does not take into account APN Shareholders' individual investment objectives, financial situation or needs. The information in this Explanatory Memorandum should not be relied upon as the sole basis for any investment decision. APN Shareholders should seek independent legal, financial, taxation and other professional advice before making any investment decision.

f) Allocation of tax risks between APN and NZME

APN and NZME face certain tax risks which are described at Section 6.12 and 8.13. These risks will be managed in accordance with the Tax Conduct Deed described in Section 10.5. There is a risk that APN and NZME will disagree about how these tax risks are managed. There is also a risk that the outcomes are worse than anticipated, and this could have a material adverse impact on the operating and financial performance of APN or NZME post Demerger, as applicable.

6 INFORMATION ON APN (AFTER DEMERGER)

6.1 BUSINESS OVERVIEW

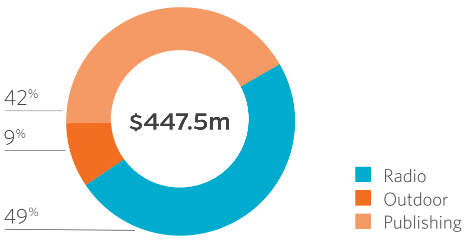
APN after Demerger will be a growth oriented media and entertainment company with radio, digital and publishing assets in Australia and outdoor assets in Australia, New Zealand and Hong Kong. It will continue to be listed on the ASX and the NZX.

APN after Demerger will operate through three leading media platforms:

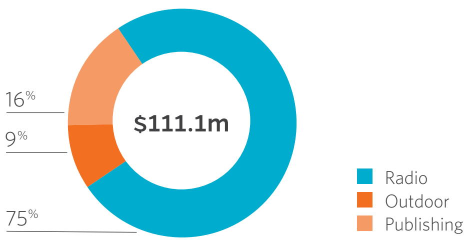
	Radio	Outdoor	Publishing
Key Brands/Titles			+60 community and specialty titles 12 daily newspapers
Highlights	– Two core radio networks across key capital cities –KIIS Network and Classic Hits Pure Gold Network – #1 metropolitan FM radio network in Australia in 2015 – #1 and #2 ranked FM radio stations in Sydney, Melbourne, Brisbane and Adelaide in 2015 – KIIS #1 radio network in Australia in 2015 – iHeartRadio – music streaming, digital entertainment and live events brand – Emotive –content marketing agency	– Adshel – #1 street furniture network in Australia and New Zealand offering advertising solutions that are innovative, creative and flexible – Cody – Over 600 large format outdoor panels in Hong Kong – Cody – Buzplay multimedia installations across 1,200 buses in Hong Kong	– #1 news media brands within regional areas in which they operate – Portfolio of regional newspapers across Queensland and northern New South Wales – Weekly audience of 1.6 million – Multi-platform media footprint – A sale process is currently underway for ARM. There is no certainty that the sale process will result in the sale of ARM, or the timing of any sale.

The pro forma revenue and EBITDA by business unit for APN after Demerger for the year ended 31 December 2015 is as follows:

APN after Demerger pro forma FY15 revenue[1] (by channel)



APN after Demerger pro forma FY15 EBITDA[1] (by channel)



1. Before standalone corporate costs, unallocated costs and exceptional items. Reflects reported EBITDA which includes share of profits of APN's associates including Adshel. Pro forma EBITDA on a proportionate basis including APN's share of Adshel's EBITDA is $120.9 million (before unallocated costs and exceptional items) with Radio representing 69%, Outdoor representing 16% and Publishing representing 15% of total EBITDA

6.2 STRATEGIC CONTEXT

APN after Demerger's strategic priorities and focus will be on those areas of the business that will deliver the greatest shareholder return. Investments will be prioritised and focus on growth areas within the portfolio of APN after Demerger. Radio and outdoor continue to be growth sectors in Australian media with growth of 5% and 17% respectively in 2015. Within these sectors, ARN and Adshel are one of the leading businesses within their respective categories. Both businesses have been experiencing revenue growth.

ARN's earnings growth over the past few years has been driven by its content and ongoing ratings success. This strategy is being supported by investments in new business and digital initiatives aimed at growing audiences and revenues. Increasingly the focus for ARN will be to grow its younger audience base, delivering content across multiple platforms including mobile, video and social, utilising new and existing assets such as iHeartRadio, The Edge and Emotive.

Adshel will continue to focus on the expansion of its digital street furniture networks in Australia and New Zealand which is expected to support further revenue growth for Adshel. In addition, Adshel will continue to look at ways to expand its data capture and insights offering to advertisers.

The cost base of ARM has been reduced by $40 million over the past three years. Overall audiences have experienced marginal growth with growth in digital audiences being offset by declines in print audiences. Pursuing a digital growth strategy will require further investment, particularly in accelerating the digitisation and monetisation of its local audiences. As a result, a process to divest ARM was announced on 25 February 2016, and the process is currently ongoing. There is no certainty that the sale process will result in the sale of ARM, or the timing of any sale.

6.3 CAPITAL STRUCTURE

Following the Demerger and Entitlement Offer, APN will have a capital structure which will reflect its underlying business profile and strategic direction with net debt to pro forma FY15 EBITDA of:

- 2.0x on a statutory report basis; and
- 1.8x on a proportional basis reflecting APN's economic share of the underlying EBITDA and net debt of Adshel, which is reported as an associate on a reported basis.

6.4 AUSTRALIAN RADIO NETWORK

Business overview

Australian Radio Network ("ARN") is one of Australia's leading metropolitan radio broadcasters and home to the national KIIS and Pure Gold networks. ARN also owns youth radio network The Edge.

ARN was the #1 metropolitan FM radio network in Australia in 2015 by audience. ARN also held the #1 and #2 ranked FM radio stations by audience share in Sydney, Melbourne, Brisbane and Adelaide in 2015[7]. The KIIS network is currently the #1 radio network in Australia[8].

In 2015, ARN broadcasted to over 4.4 million listeners each week[7]. The KIIS Network is targeted at the 25 to 44 year old demographic, while the Pure Gold Network is targeted at the 40 to 54 year old demographic. The Edge is a youth radio network targeted to 18-29 year olds.

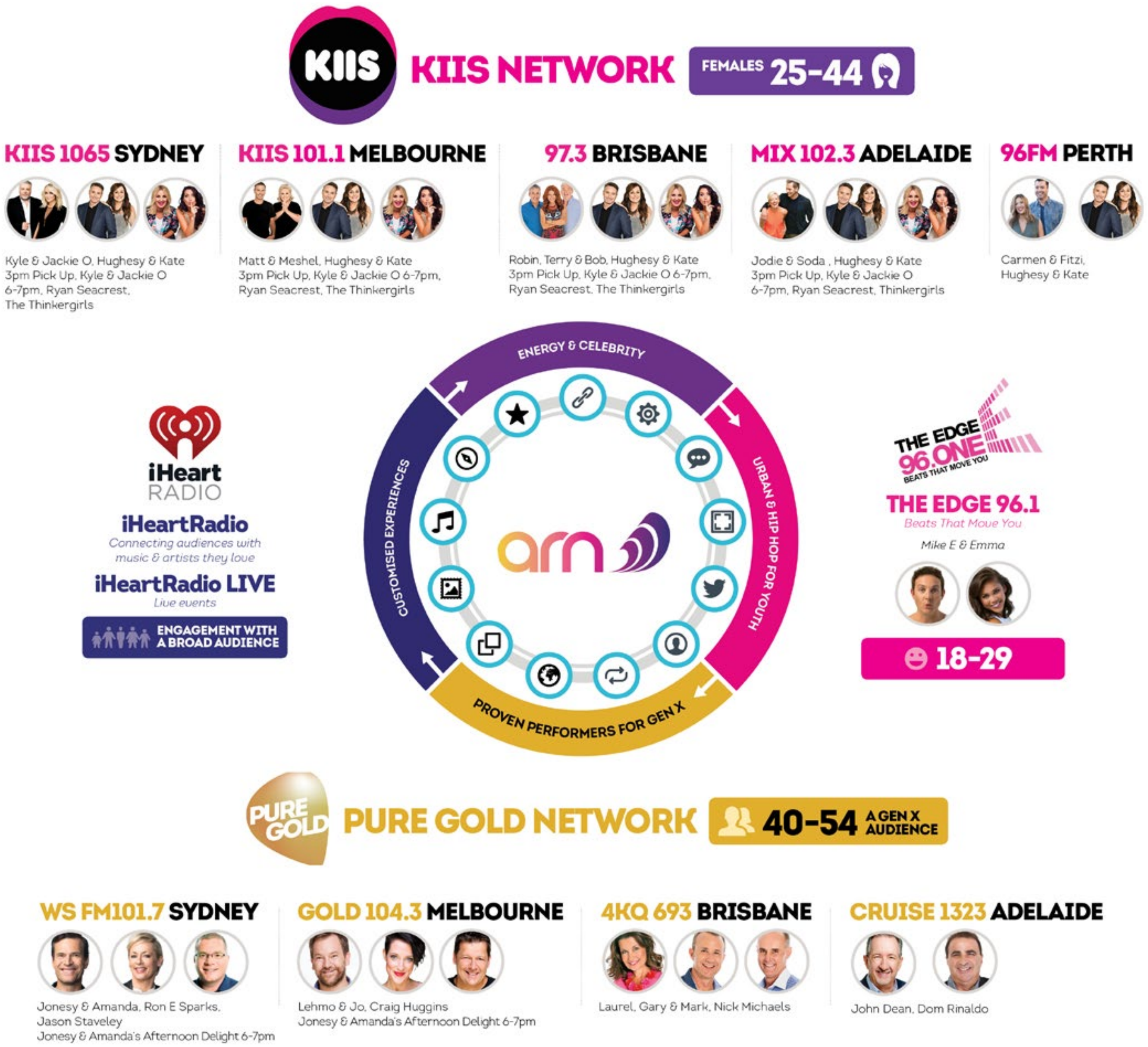
In Australia, ARN also operates music streaming, digital entertainment and live events brand iHeartRadio.

Source:

7 GFK Metro Survey 1-8 2015 average, 10+ Mon-Sun 5.30am-12.00am, Sydney/Brisbane/Melbourne/Adelaide/Perth.

8 GFK Metro Survey 2 2016, Mon-Sun 5.30am-12.00am, Sydney/Brisbane/Melbourne/Adelaide/Perth.

The ARN Ecosystem



ARN's Portfolio

Platform	Brands[10]	Target Demographic	Overview
		25-44 years	- In 2015, ARN was the #1 radio network in Australia[9] - The KIIS breakfast teams lead in Sydney, Adelaide and Brisbane. The KIIS network broadcasts across five capital cities via KIIS 1065 Sydney, KIIS 101.1 Melbourne, 97.3 Brisbane, Mix102.3 Adelaide and 96FM Perth - Delivers content, alongside music, targeted to each city and features some of Australia's most well-known and successful personalities
		40-54 years	- The Pure Gold Network broadcast across Australia via WSFM101.7 Sydney, GOLD104.3 Melbourne, 4KQ693AM Brisbane and Cruise1323 Adelaide - In 2015, Gold 104.3 and WSFM were the #2 FM stations in Melbourne and Sydney[9] - Targeting the Gen X demographic, reflects the music from the 80's, 90's and 2000's
Other Stations		18-29 years	- The Edge 96.1 FM (Sydney) and EDGE DIGITAL (Sydney, Melbourne, Adelaide, Brisbane) plays Hip Hop, R&B, Pop and Dance - Delivers a mix of music and content targeted to a youth audience - Engages with a digitally and socially savvy audience across a multi-platform offering - Facebook reach of 6.2 million
Digital Radio		Under 35 years	- iHeartRadio is a free, all-in-one digital radio service and live events platform that lets audiences listen to and customise their favourite live stations - Operates across Australia and New Zealand with ability to extend to certain countries in Asia - In Australia, 527,000 registered users and 803,000 app downloads resulting in over 2.2 million total streaming hours[11]
Content Marketing			- Launched in February 2015 with APN a founding investor - Created over 23 campaigns for clients such as Optus, Virgin Mobile and Woolworths - Over 90 pieces of content created - Over 40 million video views - 1 million+ social actions - Won 8 awards including a Bronze Cannes Lion

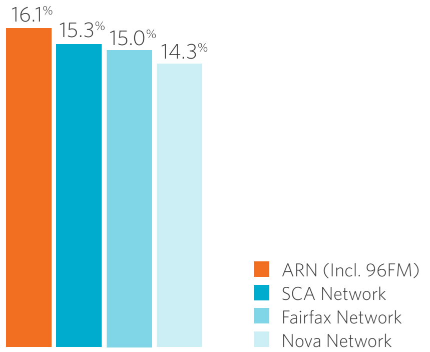
Source:
9 GFK Metro Survey 1-8 2015 average, 10+ Mon-Sun 5.30am-12.00am, Sydney/Brisbane/Melbourne/Adelaide/Perth.
10 APN has a 100% ownership of nine radio stations, 50% interests in four radio stations including 97.3FM, and a licence to operate iHeartRadio for a further 8 years.
11 Internal ARN data. Registered users and app downloads as at December 2015. Average streaming hours across 2015.

Talent and content

Investment in talent and content has contributed to overall audience and revenue growth for ARN particularly in the breakfast and drive daytime segments. Key elements of ARN's talent and content positon are:

- Kyle & Jackie O and Jonesy & Amanda held #1 and #2 FM breakfast positions in Sydney throughout 2014 and 2015;
- The breakfast teams in Adelaide and Brisbane at Mix102.3 and 97.3 led ratings surveys in their respective cities during 2015; and
- The Hughesy & Kate National Drive Show finished 2015 as #2 FM position in the drive time daypart having only launched in January 2015.

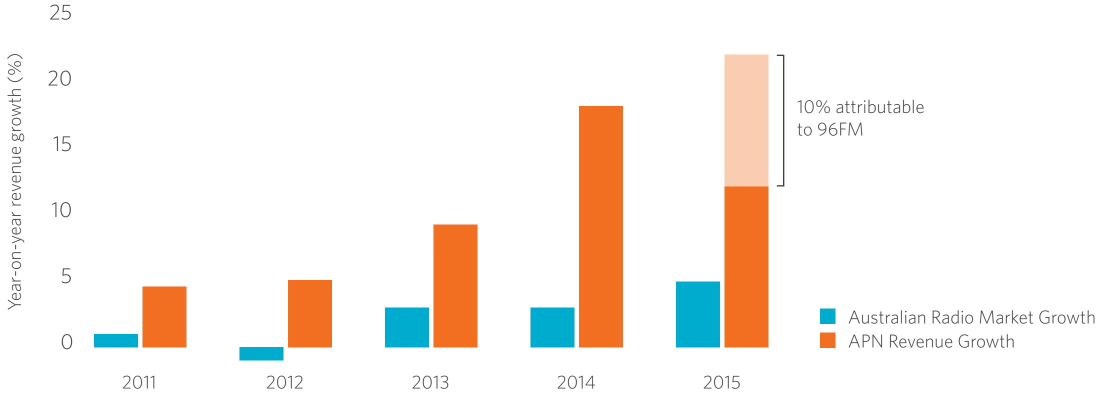
Average 2015 audience share by network



Source: GFK radio survey 10+, Mon-Sun 0530-12mn, Share SMBAP, 2015 s1-s8.

The strength of ARN's share of audience has enabled it to attract more advertisers and sell advertising slots at premium rates. The acquisition of 96FM Perth in January 2015 also completed ARN's five capital city offering which increased ARN's attractiveness to advertising agencies seeking a nationally branded advertising platform. These factors have combined to drive higher revenue growth in 2014 and 2015 relative to the broader Australian radio advertising sector.

ARN's revenue growth versus Australian radio advertising industry revenue growth



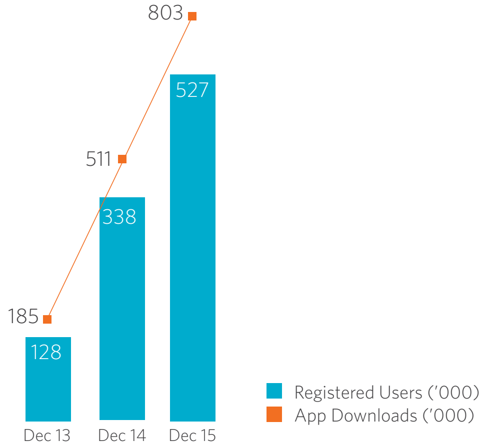
Source: Internal ARN financial data and CRA / Deloitte.

iHeartRadio

iHeartRadio is a music streaming, digital entertainment and live events music brand operated by ARN. In 2015, app downloads increased by 53%, registered users increased by 52% and mobile users increased by 43% year-on-year which contributed to a 49% increase in revenue for iHeartRadio.

iHeartRadio has built its audience by delivering popular music events, featuring artists such as, Justin Bieber, Red Foo and Jessica Mauboy. The success of iHeartRadio has seen commercial sponsorships increase, including a partnership with Optus. At December 2015, iHeartRadio had approximately 527,000 registered users in Australia and 803,000 app downloads averaging over 2.2 million total streaming hours.

Growth in iHeartRadio registered users and app downloads (2013-2015)



Source: Internal iHeartRadio data

Emotive

Emotive is a content marketing business launched in February 2015 with APN as a founding partner. Helping marketers inject emotion into content creation, Emotive specialises in the creation of video content and events in entertainment culture. An ability to leverage off APN's broader network including ARN and Adshel enhances Emotive's innovative amplification model by giving it access to APN's large weekly audience to further boost content distribution. Emotive launched with iHeartRadio as a foundation client. Emotive continues to provide a broad scope of work for iHeartRadio including the continued creation of a series of original music content programs and events for brands.

Since its launch, Emotive has achieved a number of milestones including:

- a Bronze Cannes Lion award, one of the top creative awards in the world, for a campaign featuring Ricky Gervais for Optus and Netflix; and
- appointment as the official content agency partner for Optus and Virgin Mobile in Australia.

6.5 OUTDOOR

APN's outdoor business segment after Demerger will comprise Adshel in Australia and New Zealand and Cody in Hong Kong.

a) Adshel

Business overview

Adshel is a leading outdoor and digital-out-of-home provider in Australia and New Zealand, offering advertising solutions that are innovative, creative, flexible and delivered at scale across its network.

It has almost 20,000 static and digital advertising panels across Australia and New Zealand, in street furniture, rail and petro-convenience environments.

Adshel is a joint venture between APN and Clear Channel International that has been in operation for almost 20 years.

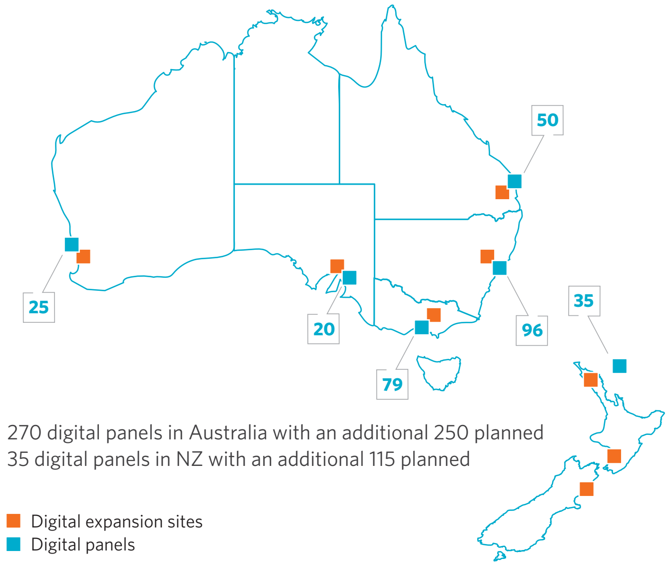
Digital network

Adshel commenced the launch of its digital street furniture network – Adshel LIVE – in 2015 which is transforming the business by delivering significant revenue gains. In June 2015, Adshel digitised 35 of its key advertising panels in Auckland CBD. In October 2015, the business launched a national digital street furniture network with 270 panels across Australia.

Digital outdoor panels enhance audience engagement and experience and provide advertisers with a flexible platform by time of day, geography and scale to deliver campaigns with contextual relevance and dynamic messaging.

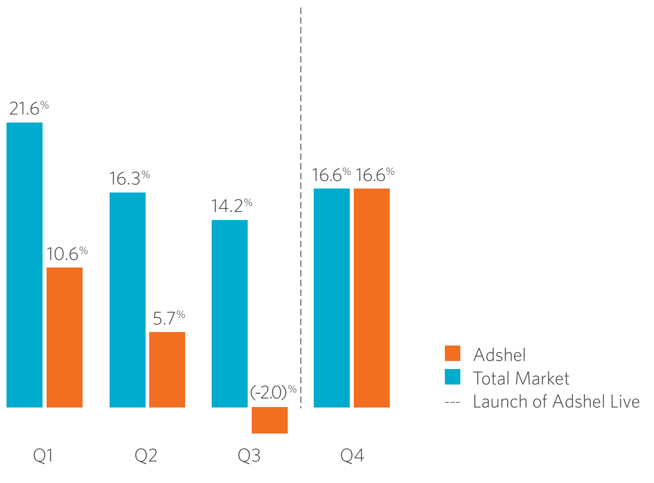
The expansion of Adshel's digital network will continue from 2016 with a further 250 digital panels to be deployed in Australia and 115 digital panels in New Zealand.

Adshel digital outdoor network

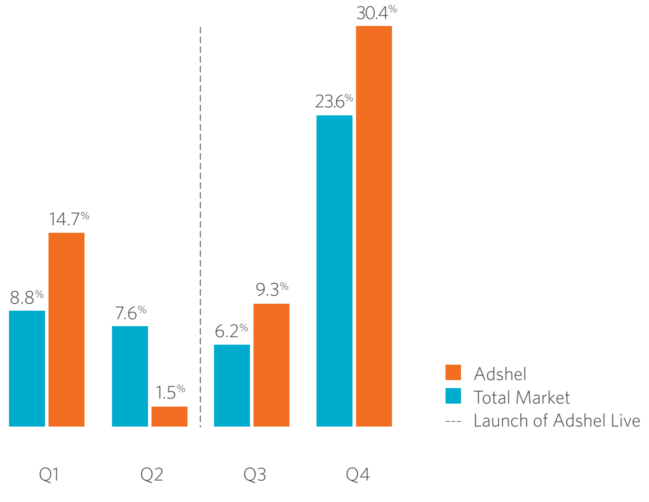


The launch of Adshel LIVE has repositioned the business and increased revenue growth rates to be in line or above growth in the outdoor sector.

Total Australian Outdoor Advertising Revenue vs Adshel (2015)



Total New Zealand Outdoor Advertising Revenue vs Adshel (2015)



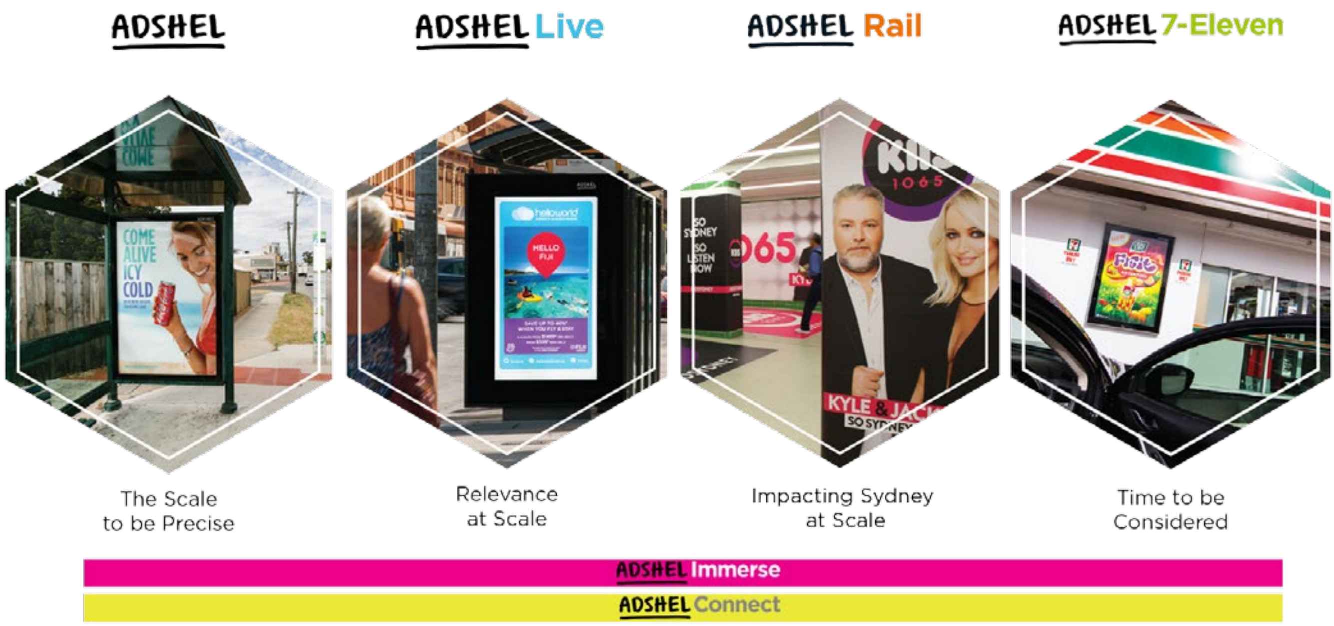
Source: OMA AU & NZ

Data capabilities

Adshel continues to invest in data and innovation. In 2015, the business launched a national beacons network in Australia to enhance its data capture and insights offering for clients. This offering was then expanded to all Adshel's New Zealand panels, creating the country's first national outdoor beacons network.

Following the successful integration of Roy Morgan's Helix Personas consumer segmentation tool into Adshel's Australian panels, the tool has also been made available across Adshel's New Zealand panels. As part of the integration, Adshel coded its entire out-of-home inventory with Helix Personas. Media agencies and brand advertisers can now identify the optimal locations and creative strategies to deliver the right message to the right people at the right time.

Adshel's Offering



b) Cody

Cody is focused on premium billboard advertising in Hong Kong. Cody has a network of over 600 large format billboards across Hong Kong and also maintains Buzplay multimedia installations across 1,200 buses.

In 2015, due to the loss of the Buspak contract for advertising on Hong Kong Island buses, the business refocused on the Cody operations. Cody's offering has been diversified to cover content creation, taxi advertising and experiential advertising solutions. A new management team has been installed.

In early 2016, Cody secured the advertising rights for Hong Kong's Western Harbour Tunnel for an additional seven years. This includes the opportunity to transform one of the sites into the country's first digital out-of-home advertising billboard in a tunnel environment.

6.6 AUSTRALIAN REGIONAL MEDIA (ARM)

ARM connects with over 1.6 million Australians every week across regional Queensland and Northern New South Wales providing unique local content through print, online, mobile and tablet platforms. The business' asset base includes 12 daily newspapers, more than 60 community and non-daily publications and over 30 regional news websites.

ARM is the leading news source in the regions in which it operates and has a high penetration, reaching an average of 87% of the population in the regions in which it operates.

ARM's focus on local content, strong brands, multi-platform delivery and audience reach means it is attractive to local and national advertisers. Approximately 80% of ARM's revenue in 2015 was generated from local advertisers reflecting the strength of its regional offering.

In August 2015, ARM launched Australia's first regional digital subscription program at The Toowoomba Chronicle. The package includes access to ARM's digital products as well as full digital access to a metropolitan news brand, The Washington Post and streaming video-on-demand service Presto. The launch exceeded expectations and ARM fast-tracked the digital subscription rollout across the rest of its daily newspapers in October 2015. Digital subscriptions has contributed additional audience revenues for ARM.

ARM has a continuous focus on cost, integration and efficiencies supporting further cost reductions. The cost base of ARM has been reduced by $40 million over the past three years.

In February 2016, APN announced a process to divest ARM as it focuses its investment decisions on growth opportunities in its radio and outdoor assets.

6.7 STRATEGY AND KEY INITIATIVES

APN after Demerger will focus on growth sectors where it has strong performing assets. As product boundaries become increasingly blurred, APN after Demerger will seek opportunities to provide multi-platform solutions to advertisers that amplify content across radio, outdoor, events and digital assets. The key strategic priorities and where investment will be focused are summarised below:

Grow audience base	– Investing in content and ratings to maintain and enhance network positions in key markets – Enhance the iHeartRadio, Emotive and The Edge assets, utilising their strong digital, mobile and social reach to expand into a younger audience demographic – Investment in Perth and Melbourne radio stations to ensure leadership positions in these markets
Expansion of digital and data capabilities	– Digitisation of outdoor panel network across Australia and New Zealand – Further develop audience knowledge capability through investment in data platforms and resources to support more insight led multi-platform marketing campaigns – Focus on creating additional revenue opportunities from digital products
Diversifying revenues	– Focus on content marketing offering through Emotive – Acceleration of iHeartRadio commercialisation strategies – Rebuild Cody business in Hong Kong to diversify revenues and offering
Optimising integration	– Increase collaboration across radio and outdoor assets to provide advertisers with multiplatform solutions and reach to drive revenue – Continued integration of 96FM into the KIIS network to further strengthen ARN's national proposition

6.8 BOARD AND SENIOR MANAGEMENT

a) Board of Directors

Following the Demerger, the APN Board will be as set out below. APN after Demerger may seek to identify appropriate candidates to join the Board as additional non-executive directors.

Peter Cosgrove, Independent Chairman

Peter Cosgrove has been an APN Board Member since December 2003. He is the founder of the Buspak group of companies in Australia, New Zealand and Hong Kong and has more than 20 years' experience in the publishing, broadcasting and outdoor advertising industries. Mr Cosgrove is a non-executive Chairman of Buspak Hong Kong (since June 2003) and non-executive Deputy Chairman of Clear Media Limited (Director since April 2001), which is listed on the Stock Exchange of Hong Kong. He was previously Chairman of GlobeCast Australia Pty Limited (June 2002 to June 2015), a broadcasting company based in Sydney.

Peter Cullinane, Independent Non-Executive Director

Peter Cullinane was appointed to the APN Board in November 2013. As the former Chief Operating Officer of Saatchi & Saatchi Worldwide (1998 to 2002) as well as the company's Chief Executive, New Zealand and Chairman, Australasia for over eight years prior, he is a respected force in global advertising and marketing who brings extensive industry knowledge, as well as expertise in Australasian and global markets, to the Board. Based in Auckland, Mr Cullinane is currently the founder and Chairman of Lewis Road Creamery Limited, a fast growing, dairy based packaged goods business. He is a Director of STW Communications Group (since 2010) and a retired Director of SKYCITY Entertainment Group (2008- 2015), where he was Chairman of the Corporate and Social Responsibility Committee and a member of the Governance and Nominations Committee.

Anne Templeman-Jones, Independent Non-Executive Director

Anne Templeman-Jones was appointed to the APN Board in June 2013 and brings extensive executive and Non-Executive Director expertise in strategy, banking, finance, risk management and governance. Anne currently serves as the Independent Chair of the Wealth and Advice Subsidiary Boards of the Commonwealth Bank of Australia and as a Non-Executive Director of GUD Holdings Limited, Cuscal Limited, Pioneer Credit Limited and Notre Dame University. Between 1995 and 2015, Anne served as a Non-Executive Director of HBF Health Limited, HBF General Insurance Limited, The McCusker Foundation for Alzheimer's Research and the Travel Compensation Fund. During these tenures, Ms Templeman-Jones held various committees roles Chairing Audit and Risk, Remuneration and Governance. Her executive career up until 2013 included a number of senior executive positions at Westpac, including Director of Corporate and Institutional Banking, Director Group Risk Reward, Head of Strategy and Governance for Pacific Banking and Head of Private Bank (NSW). She previously held senior executive positions in Switzerland, Belgium, Perth and Sydney with AIESEC International, PricewaterhouseCoopers, the Bank of Singapore, the Bank of New Zealand and Australia and New Zealand (ANZ) Banking Group. Ms Templeman-Jones is a Fellow of the Australian Institute of Company Directors and a member of the Australian Institute of Chartered Accountants.

Paul Connolly, Independent Non-Executive Director

Paul Connolly was appointed to the APN Board in October 2012. Mr Connolly has 25 years' experience advising on mergers and acquisitions, takeovers, disposals, fundraisings and initial public offerings. Since 1991, Mr Connolly has been Chairman of Connolly Capital Limited, a Dublin-based corporate finance advisory firm focused on the telecom, media and technology sectors. He was a Director of Esat Telecommunications Limited (Esat Telecom), an Irish telecommunications company, from 1997 to 2000, and then a Director of Digicel Limited, a Caribbean based telecommunications company. In addition, he was a Director of Melita plc from 2007 through 2016. From 1987 through 1991, Mr Connolly held the position of Financial Controller of Hibernia Meats Limited and prior to that he worked with KPMG as an accountant. Mr Connolly holds a Bachelor of Commerce degree from University College Dublin, Ireland and he is a Fellow of Chartered Accountants Ireland and a member of Executive Summit at Stanford Graduate School of Business. Currently, Mr Connolly serves on the Boards of Communicorp Group and Independent News & Media PLC and he is Chairman of Tetrarch Capital Limited, the private Irish media group Business & Finance and also UNICEF Ireland. In October 2010, he was invited to become an external Senior Advisor to Credit Suisse.

Christine Holman, Independent Non-Executive Director

Christine Holman was appointed to the APN Board in November 2015 and brings a strong understanding of digital media and technology. She was the Commercial Director at Telstra Broadcast Services (until 30 March 2016) and sat on their Executive and Remuneration Committees (until 30 March 2016). Prior to her role at Telstra Broadcast Services, Christine was the Chief Financial Officer and Commercial Director of Globecast Australia, a joint venture between Orange SA (previously France Telecom) and Australian shareholders, before being acquired by Telstra in June 2015. Christine spent seven years at Capital Investment Group assisting management and the Board of investee companies on strategy, business development and mergers and acquisitions. She has an MBA from Macquarie University, Post Graduate Diploma in Management from Macquarie University and is a Graduate of the Australian Institute of Company Directors' Company Directors Course.

b) Senior Management Team

APN after Demerger's senior management team has the capability and experience to effectively deliver on APN's strategy.

Ciaran Davis, Chief Executive Officer

Ciaran Davis is the chief executive officer of APN News & Media. He was promoted to the position in August 2015 from his role as CEO of Australian Radio Network (ARN). Ciaran spent five years at ARN repositioning the business to become the number one metropolitan radio operator in Australia. Responsible for the recruitment of leading talent to the network and strategic investments such as 96FM, Emotive and iHeartRadio, Ciaran established a new management team and drove a culture of ambition and success throughout the business. Ciaran joined ARN as CEO in January 2010 from Communicorp Group Ltd in Ireland, where he spent 10 years working in executive leadership roles with the group's radio and media interests in Europe and the Middle East. His positions included Commercial Director (2007 to 2010), Chief Executive Officer for 98FM, Dublin (2003 to 2007) and Marketing Director for 98FM (2000 to 2003). Ciaran is also the Chairman of content marketing agency Emotive and a Director of Commercial Radio Australia, The Australian Ireland Fund, Adshel and Soprano Design.

Jeff Howard, Chief Financial Officer

Jeff Howard joined APN News & Media in 2010 and was appointed Chief Financial Officer in December 2012. Jeff spent more than nine years with ABN AMRO and RBS in corporate lending and broader relationship banking roles that included a focus on the telecommunications and media sectors. Prior to this, Jeff was with KPMG where he spent nearly 10 years in audit and project roles, including a secondment to KPMG's Philadelphia practice. Jeff completed his Executive MBA with the Australian Graduate School of Management in 2005 and is a Chartered Accountant. Jeff is a Director of Soprano Design, Lux Group Limited (formerly AussieCommerce) and Adshel.

Yvette Lamont, Group General Counsel and Company Secretary

Yvette Lamont has been Group General Counsel and Company Secretary of APN News & Media since 1998. She was previously General Counsel of pay television company Australis Media Limited (Galaxy), a Senior Associate with law firm Allens (in the Media and Technology Group) and a solicitor with boutique law firm Boyd, House & Partners specialising in media law. Yvette is a Member of the Media and Communications Committee of the Law Council of Australia, has completed the Company Meetings and Company Secretarial Practice courses with the Chartered Institute of Company Secretaries in Australia (now Governance Institute of Australia) and is a Graduate of the Australian Institute of Company Directors. She was admitted as a solicitor to the Supreme Court of New South Wales in 1987 and the High Court of Australia in 1988.

Tony Kendall, Chief Executive Officer of Australian Radio Network

Tony Kendall commenced his role as Chief Executive Officer of the Australian Radio Network (ARN) in December 2015. Tony joined ARN from Bauer Media where he spent almost three years as director of sales. He joined Bauer in early 2013 from News Corp Australia where he spent over 23 years in senior commercial management roles across Melbourne, Sydney and New York, including a year as the CEO of the Australian magazine division.

Rob Atkinson, Chief Executive Officer of Adshel

Rob Atkinson joined Adshel as Chief Executive Officer in November 2011, having previously held the position of Chief Operating Officer of Clear Channel UK. Rob originally joined Clear Channel as Sales Director in 2005, before being promoted to Group Sales Director and then Managing Director in the same year (2008). Prior to joining Clear Channel, Rob held various senior sales roles at Associated Newspapers in both London and Dublin and won the prestigious Campaign Magazine UK Sales Leader of the Year in 2009. As Chief Executive at Adshel, Rob pioneered the launch of the world's first national digital street furniture network, as well as the biggest national deployment of beacons in the world.

Neil Monaghan, Chief Executive Officer of Australian Regional Media

Neil Monaghan was appointed as Chief Executive Officer of Australian Regional Media in April 2013 after more than 25 years' experience working in procurement and operations across various industries including media, mining and construction. Neil originally joined APN in 2001 as Group Procurement Director and in 2004 was seconded to Dublin to work for Independent News & Media PLC as Head of Global Procurement. After returning to APN in 2008, Neil left in 2009 to consult to the mining industry on projects in Australia and the Middle East, before returning to APN in 2010 as Group Operations & Procurement Director. Neil has a Master of Applied Law from The University of Queensland and is currently a Director of The Newspaper Works.

6.9 CORPORATE GOVERNANCE

APN after Demerger's Board policies, processes, resources, committee structure and general operation will be consistent with those existing prior to the Demerger.

6.10 REMUNERATION AND INCENTIVE PLANS

APN's Director and Executive remuneration arrangements will not change as a result of the Demerger. Details of the current arrangements are included in the Remuneration Report, which can be found in APN's 2015 Annual Report.

In summary, following a review in 2015, APN's executive incentive structure was changed from a combination of a short term and long term incentive plan to a Total Incentive Plan (TIP) that the Directors believe will be more effective in delivering immediate performance gains in an ever changing media market place.

The TIP put's significant focus on one year performance with a half cash and half equity payout, with a requirement that Executives hold the equity for a minimum of 3 years.

6.11 DIVIDEND POLICY

APN's dividend policy will be at the discretion of the APN Board after the Demerger and will be reviewed annually. The APN board after Demerger intends to initially pay 40-60% of its Underlying NPAT. Decisions relating to dividend policy will be subject to maintaining leverage at or below 2.0x and having regard to APN after Demerger's strategic priorities. APN does not intend to pay an interim Dividend for the period ending 30 June 2016, which will broadly coincide with the date the Demerger is implemented if approved by APN Shareholders.

Post Demerger, the absolute value of any dividends paid on APN Shares may be reduced, reflecting the loss of earnings from NZME. However, APN Shareholders will receive any dividends paid by NZME after the Demerger to the extent they remain shareholders of NZME.

The APN Board has confirmed it intends to frank its dividends to the extent practicable. Whether any given dividend can be franked will be affected by APN after Demerger's franking account balance.

6.12 RISKS AFFECTING APN BUSINESS

Following the Demerger, APN will be exposed to largely the same risks it currently faces, including the following:

Advertising market

- APN's revenues and earnings are predominantly derived from radio broadcasting, outdoor advertising, advertising sales across newspaper publishing and online, newspapers sales and online subscriptions, events and commercial partnerships. APN is therefore highly leveraged to fluctuations in the advertising markets in Australia and New Zealand and, to a lesser degree, in Hong Kong. This in turn is influenced, in part, by the general condition of the economy which by its nature is cyclical and subject to change. This can cause APN's earnings to be relatively volatile.
- In addition to the broader advertising market, APN's earnings are also influenced by the composition of spend between different media platforms including publishing, radio broadcasting, television broadcasting, outdoor advertising, digital and direct marketing. As APN does not operate across all these media platforms, APN's advertising revenue can be volatile as a result of advertiser's desired composition of spending changing.
- As a result of economic conditions and general levels of consumer and business confidence, businesses have reduced their advertising spend in recent years and are making shorter term decisions in relation to how they spend their advertising budget. Accordingly, APN has reduced visibility as to the likely future advertising spend in the media industry in Australia.
- There can be no assurance that advertising spend in the media industries in Australia will not contract in the future or the composition of advertisers' media spend may change further.
- A prolonged downturn in the advertising market may adversely impact APN's operating and financial performance.

Competition in the media sector

- The media sectors in Australia, New Zealand and Hong Kong are highly competitive, with a number of operators competing for market share through the same or substitutable products.
- APN faces competition from both existing media groups and other potential new media companies utilising new technologies including digital and other distribution platforms and potentially providing advertisers with richer data and insights.
- The media sector is increasingly fragmented as a result of this heightened competition and there is a shifting share of advertising revenue between the different media platforms.
- The actions of an existing competitor or the entry of new competitors or the issue of new broadcasting licences in either a media sector in which APN operates or in general, or any failure by APN to adapt to or respond to increased competition, may have an adverse effect on APN's operating and financial performance.
- Proposed reforms to Australian media ownership laws, if passed, may allow existing media groups or new entrants to own different or additional media platforms, which may increase competition and facilitate the selling of advertising across different packages of media platforms.

Changes in consumer behaviour and technology

- The media sector is subject to rapid and significant change in technology and subsequent consumer adoption and the impact of this on APN 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 by consumers, or anticipated use of existing technology by consumers may have a material adverse effect on the operating and financial performance of APN.
- APN's ability to compete in the media industry effectively in the future may be impacted by its ability to maintain or develop appropriate technology platforms for the efficient delivery of its services. No assurance can be given that APN 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 APN.
- Additionally, failure of or interruption (including as a result of computer hackers, computer viruses, malicious software or codes, cyber attacks or unauthorised users) to any technology system such as those relied upon by APN's broadcasting businesses, could result in business interruption, the loss of customers and revenue, damaged reputation and weakening of competitive position and could therefore adversely affect APN's operating and financial performance.

Shift to digital media products and services

- APN's business may be affected by changes to demand for digital and other existing media products and services.
- APN's publishing business has been impacted by economic conditions and a shift to alternative media options, including the internet. Although APN has sought to address this issue by investing in its portfolio of digital businesses and expanding its digital capabilities within its business divisions, there can be no guarantee that growth in APN's non-publishing businesses will offset any declines in its publishing business, which could therefore adversely affect APN's operating and financial performance.
- As APN's business includes the publication, circulation and broadcast of media in different forms including online and other distribution platforms, these changes may, depending on their nature and APN's business model at that time, impact on APN's operating and financial performance.

Extraordinary earnings shock

- Extraordinary events and natural disasters, such as the Queensland floods in 2011 and 2013, can have a material impact on APN's operating and financial performance as direct operations are disturbed and local advertising markets slow down.

Risk of dividends not being paid

- The payment of dividends by APN is announced at the time of release of APN's half year and full year results as determined by the Board from time to time at its discretion, dependent on the profitability and cash flow of the APN business and its financial position at the time. Circumstances may arise where APN is required to reduce or cease paying dividends for a period of time. APN has not declared a final dividend in respect of the full year ended 31 December 2015 and may not pay dividends in respect of the full year ending 31 December 2016. Whether or not the Board determines to pay dividends beyond this period will depend on, among other things, the profitability and cash flow of APN's business and its financial position in line with prevailing market conditions.

Asset impairment risk

- Under Australian accounting standards, intangible assets that have an indefinite useful life, are not subject to amortisation and are reviewed annually for impairment or whenever events or changes in circumstances indicate that the carrying amount of an individual asset may not be recoverable. Assets which are considered to have indefinite lives include goodwill, mastheads and Australian radio licences.
- Changes to the carrying amounts of APN's assets (for example radio licences) could have an adverse impact on the reported financial performance of APN in the period that any impairment provision is recorded and could increase volatility of reported earnings in cases where there is further impairment or a reversal of impairment provisions that were recorded in previous periods.
- As part of the financial results for the full year ended 31 December 2015, APN recognised an impairment charge in relation to the carrying amount of mastheads allocated to ARM (set out in APN's FY2015 financial results presentation released to the ASX on 25 February 2016). Depending on APN's financial performance in the future, further impairment charges may need to be recorded.

Divestment and acquisition activities

- From time to time APN evaluates acquisition and divestment opportunities. Any acquisition and/or divestment would lead to a change in the sources of APN's earnings and could increase the volatility of its earnings. However, there can be no assurance that APN will identify suitable acquisition or divestment opportunities or other projects at acceptable prices, or successfully execute such opportunities or projects. Integration of new businesses into APN may be costly, may not generate expected earnings and may occupy a large amount of management's time.
- In addition, APN's past and future acquisitions and divestments and other projects may subject it to unanticipated risks and liabilities, or disrupt its operations and divert management's attention and resources from APN's day to day operations.
- On 25 February 2016, APN announced that it had commenced a process to divest ARM. There can be no assurance that APN will complete a divestment of ARM at an acceptable price or on acceptable terms.

New or loss of broadcasting licences and other regulatory risk

- A loss of one or more broadcasting licences (whether through suspension, cancellation or non-renewal) or the issue of new broadcast licences could have a material adverse effect on APN, its business and prospects. APN has no reason to expect the suspension, cancellation or non-renewal of any of its licences.
- APN operates in a highly regulated environment. APN may be affected by changes in government policy or legislation applicable to companies in the media sector in various geographies, such as regulations regarding radio broadcasting licences, and increased competition in regional areas and future allocation by the Australian Communications and Media Authority of radio frequency spectrum.
- Proposed amendments to the Broadcasting Services Act 1992 (Cth) that regulates ownership interests and control of Australian media organisations may have an adverse effect on APN's operating and financial performance, for example as a result of an increase in foreign ownership restrictions, or an increase in competition that results from a reduction in any such restrictions.

Economic conditions

- APN's business and its performance are subject to changes in the Australian, New Zealand and to a lesser degree Hong Kong economies at large. Global economic conditions may have direct and consequential adverse effects on those economies and APN.
- Changes in the macroeconomic environment are beyond the control of APN 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 APN;
  - Changes in aggregate investment and economic output; and
  - Other changes in economic conditions which may affect the revenue or costs of APN.
- APN's traditional businesses have relatively fixed cost bases which may limit APN's ability to scale its overall cost structure up or down in response to economic conditions.

Joint ventures

- Ownership of APN's joint venture operations in certain outdoor advertising businesses (such as Adshel in Australia and New Zealand) is shared equally with Clear Channel Communications, Inc. In radio, ownership of 97.3FM Brisbane and 93.7FM Perth are shared equally with Nova Entertainment and 106.3FM Canberra is shared equally with Southern Cross Austereo.
- Given the nature of the joint venture agreements, many strategic, financial and operational decisions for each of the joint ventures are made using a shared decision-making process between APN and its applicable joint venture partners. As a result, APN may be constrained in implementing any operational or strategic changes in those businesses. Further, APN's ability to undertake transactions or restructures with certain assets may be constrained by change of control and pre-emption clauses in those joint venture arrangements.
- Matters which affect joint venture partners may therefore also affect APN.

Seasonality of revenue

- APN generally experiences seasonality in earnings which historically has resulted in stronger revenue generation in the six months ending 31 December compared to the six months ending 30 June. APN relies on the seasonality trends historically displayed by its operating results to prepare forecasts and budgets. There is no guarantee that the seasonality trends displayed historically will continue in the future.
- As APN's mix of assets changes over time, the seasonality in earnings for the whole business will also change. As a result, there is no guarantee that the seasonality trends displayed historically will continue in the future.

Credit and Refinancing risk

- Credit market conditions and the operating and financial performance of APN will affect borrowing costs as well as APN's capacity to repay, refinance or increase its debt.
- APN is subject to covenants in its debt facilities, including interest coverage and leverage tests. If APN were to breach any of these covenants, its debt could be immediately declared repayable and there is no guarantee that APN would have sufficient cash flow to meet its repayment obligations or be able to source refinancing on acceptable terms.
- Further, bank facilities will need to be refinanced at various maturity dates. Current APN facilities expire on July 2019. APN may incur increased borrowing costs, or may even be unable to refinance with new debt if its credit profile has deteriorated materially, or if there are reductions in debt market liquidity at or around the time that APN needs to refinance its various debt tranches. Whether this occurs will depend on numerous factors, some of which are outside APN's control, such as the prevailing economic, political and capital market conditions and credit availability. The inability to refinance these facilities on satisfactory terms could adversely affect APN's financial performance.

Risks associated with large shareholders

- APN has a number of shareholders with large shareholdings. An expectation by the market that one or more of these shareholders may sell all or a substantial portion of its APN shareholding, or the actual sale of such a shareholding, could have a negative effect on the price of APN shares.

Counterparty risk

- APN is exposed to collection risk where the counterparty fails to fulfil its contractual obligations.
- For example, APN is exposed to advertising agencies with which it conducts regular business on behalf of their clients. This exposes APN to collection risk with agencies in circumstances where they encounter financial difficulties.

Geographical and foreign exchange risk

- APN's revenue and earnings are derived from its Australian, New Zealand and Hong Kong operations.
- An investment in APN will therefore also include exposure to economic and currency fluctuations in any of these countries.
- Additionally, a substantial part of APN's publishing revenue is derived from regional Australia, including areas that have previously been affected by floods.
- APN's policy is to hold appropriate levels of debt in Australian and New Zealand currency to match the earnings in each of APN's respective geographic businesses. However APN reports debt in Australian dollars in the statutory accounts. Currency fluctuations can impact APN's level of drawn debt reported in Australian currency.
- After the Demerger, APN will have significantly reduced exposure to New Zealand. The change to the geographic focus will result in a different revenue profile by geography of APN as compared with the geographic revenue breakdown of APN prior to the Demerger. The change in geographic revenue profile will reduce APN's sensitivity to movements in foreign currency exchange rates for income as measured in Australian dollars.

Key personnel

- The publishing, broadcasting, outdoor and digital advertising industries are highly dependent on the talent, creative abilities and technical skills of the personnel of the service providers and the relationships their personnel have with clients.
- APN has established a reputation in the industry that attracts talented personnel. However, APN competes with other companies in the media sector to recruit and retain key executives and professional staff.
- There is no assurance that APN will be able to recruit or retain skilled and experienced employees on acceptable terms. In addition, recruiting and retaining skilled and experienced employees may be at a higher than current costs which would impact APN's operating and financial performance.
- Ratings for APN's radio business are highly dependent on content and key talent. As a result, a loss of key personnel, or the inability to attract new qualified personnel, may detrimentally impact APN's operating and financial performance. There can be no certainty or assurance that contracted talent will deliver expected operational and financial performance.

Contract risk

- APN's outdoor businesses are dependent on short and long-term contracts with suppliers. There is no assurance that APN will be able to renew these contracts, on appropriate terms or win new contracts in the future, which may negatively impact on APN's operating and financial performance.

Litigation and legal matters

- APN is exposed to the risk of potential legal action and other claims or disputes in the course of its business, including litigation from employees, regulators or other third parties.
- Furthermore, the media industry involves particular risks associated with defamation litigation and litigation to protect media and intellectual property.
- Some APN employees are engaged in labour that entails risk of workplace accidents and incidents. In the event that an APN employee is injured in the course of their employment, APN may be liable for penalties or damages. This has the potential to harm both the reputation and financial performance of APN.
- As with all litigation, there are risks involved. An adverse outcome in litigation or the cost of responding to potential or actual litigation may materially adversely affect the operating and financial performance of APN.

Taxation risk

- The APN Group operates in multiple tax jurisdictions and is subject to review by the relevant tax authorities.
- As described below, the ATO and IRD are auditing or reviewing arrangements pertaining to a number of matters within the APN Group. APN is satisfied that the APN Group's treatment of each matter is consistent with relevant taxation legislation. If however the IRD or ATO are successful in some or all of these matters, the requirement to pay the relevant tax, penalties and interest may have a material adverse effect on the operating and financial performance of APN, and if the Demerger proceeds, on NZME. The extent of the impact is dependent on a number of factors, including the time at which the amounts become finally due for payment (which may be several years from the date of this Explanatory Memorandum) and the financial position of APN (and NZME, if applicable) at that time.
- In respect of the Demerger, APN and NZME will enter into a Tax Conduct Deed to govern the management and allocation of tax risks, including those described below. This Agreement is summarised in Section 10.5 of this Explanatory Memorandum.

Mandatory Convertible Note (MCN)

- NZME is involved in a dispute with the New Zealand Inland Revenue Department ("IRD") regarding certain financing transactions. The dispute involves tax of NZ$64 million for the period up to 31 December 2014 (when the transactions completed). The IRD is seeking to impose penalties of between 10% and 50% of the tax in dispute in addition to the tax claimed. NZME has tax losses available to offset any amount of tax payable to the extent of NZ$48 million. Interest would accrue on any tax payable.
- On 22 February 2013, the Adjudication Unit of the IRD advised that it agrees with the position taken by the IRD. Accordingly, Notices of Assessment were issued denying deductions in relation to interest claimed on those financing transactions. In response to this step, litigation was commenced by NZME in the High Court of New Zealand to defend its position in relation to this matter. The dispute is expected to be litigated in the High Court in March 2017 and the dispute has the potential to progress through further appeal courts.
- The intention is that following the Demerger, the NZ tax risk associated with this dispute will be retained by NZME.

Branch financing transaction

- Following an audit of certain transactions to finance the acquisition of mastheads by a New Zealand branch of an Australian APN entity, the IRD has indicated that it intends to issue a Notice of Proposed Adjustment ("NOPA") in May 2016 relating to non-resident withholding tax ("NRWT") and thin capitalisation issues.
- Although the NOPA has not yet been issued, based on previous correspondence with the IRD, APN believes the NOPA may assert that NRWT of approximately NZ$27 million (to date) would be payable in respect of those financing arrangements. Tax losses of the APN Group cannot be used to offset any NRWT obligation that may arise.
- Further, APN believes the NOPA may also assert that certain income tax deductions be denied in respect of the thin capitalisation position of the APN Group, which could result in tax of approximately NZ$8-14 million being payable for the period to 31 December 2014 (after utilising currently available tax losses), although the exact figure would depend on a range of factors including the outcome of the MCN dispute mentioned above and the availability of tax losses.
- APN believes the IRD may also seek to impose penalties in respect of the taxes in dispute. Interest would accrue on any tax payable.
- Once any NOPA is received, the IRD formal disputes process would commence, which APN understands can take a period of approximately 12-18 months. On completion of this disputes process, either the matter is resolved in the taxpayer's favour, or a formal Notice of Assessment is issued by the IRD, after which APN and/or NZME, as applicable, would have the ability to contest the assessment through litigation proceedings.
- The ATO is also auditing the New Zealand branch of the Australian APN entity in relation to matters related to the New Zealand mastheads. As at the date of this Explanatory Memorandum there is no certainty as to whether any proposed adjustments or disputes will be raised by the ATO in relation to this matter.
- The intention is that following the Demerger, the tax risk associated with the NRWT will remain with APN, and the income tax risk associated with the thin capitalisation matters will be spread across the relevant APN and NZME entities. It is expected the majority of the income tax risk would sit with APN, however the manner in which this risk would ultimately be borne by the relevant entities will depend on a range of factors including the availability of tax losses to APN and NZME at the relevant time.

Other matters

- The ATO and IRD are also auditing or reviewing other matters within the APN Group. As at the date of this Explanatory Memorandum there is no certainty as to whether any proposed adjustments or disputes will be raised by the ATO or IRD as a result of these audits or reviews.
- The intention is that following the Demerger, any NZ tax risk will be retained by NZME, while any Australian tax risk will be retained by APN.

7 PRO FORMA APN (AFTER THE DEMERGER) FINANCIAL INFORMATION

7.1 OVERVIEW

This Section contains a summary of the pro forma historical financial information of APN (excluding NZME) (**"pro forma APN (after the Demerger) historical financial information"**), which is comprised of the following:

- Pro forma APN (after the Demerger) historical income statements for the years ended 31 December 2013, 31 December 2014 and 31 December 2015 (**"pro forma APN (after the Demerger) historical Income Statements"**);
- Pro forma APN (after the Demerger) historical cash flow statements for the years ended 31 December 2013, 31 December 2014 and 31 December 2015 (**"pro forma APN (after the Demerger) historical Cash Flow Statements"**); and
- Pro forma APN (after the Demerger) historical balance sheet as at 31 December 2015 (**"pro forma APN (after the Demerger) historical Balance Sheet"**).

References to the pro forma APN (after the Demerger) historical financial information are references to consolidated pro forma historical financial information in relation to the assets and operations comprising APN (excluding NZME).

The pro forma APN (after the Demerger) historical financial information has been reviewed by the Investigating Accountant. The Investigating Accountant's Report is included in Section 12. The comments made in relation to the scope and limitations of the Investigating Accountant's Report should be noted.

This Section should be read in conjunction with the risks to which APN is subject and the risks associated with the Demerger, as set out in Section 5.

7.2 BASIS OF PREPARATION

The basis of preparation applied in compiling the pro forma APN (after the Demerger) historical financial information is set out below:

- Unless otherwise noted, the pro forma APN (after the Demerger) historical financial information has been prepared in accordance with the recognition and measurement principles described in Australian Accounting Standards (including Australian Accounting Interpretations) adopted by the Australian Accounting Standards Board, which comply with the recognition and measurement principles of the International Financial Reporting Standards and interpretations adopted by the International Accounting Standards Board. The accounting policies used in preparation of the pro forma APN (after the Demerger) historical financial information are consistent with those set out in the APN annual report for the year ended 31 December 2015;
- The results and cash flows of APN, subsidiaries, joint ventures and other investments are translated into Australian dollars using the average exchange rates for the period. Assets and liabilities of APN, subsidiaries, joint ventures and other investments are translated into Australian dollars at the exchange rate ruling at the balance sheet date;
- The pro forma APN (after the Demerger) historical financial information is presented in an abbreviated form and does not contain all the disclosures required by Australian Accounting Standards in an annual financial report prepared in accordance with the Corporations Act; and
- The pro forma APN (after the Demerger) historical financial information has been derived from APN's financial reports for the years ended 31 December 2013, 31 December 2014 and 31 December 2015 along with APN's management information. APN's financial reports for the years ended 31 December 2013, 31 December 2014 and 31 December 2015 have been audited by PricewaterhouseCoopers in accordance with Australian Auditing Standards. The audit opinions issued to APN in relation to those financial reports were unqualified.

Complete versions of APN's financial reports for these periods are available from APN's website, www.apn.com.au, or ASX's website, www.asx.com.au.

The Pro forma APN (after the Demerger) historical Cash Flow Statements are presented as cash flows after capital expenditure, before financing costs and tax for the years ended 31 December 2013, 31 December 2014 and 31 December 2015.

The pro forma APN (after the Demerger) historical financial information presented in this Section illustrates the financial performance and cash flows of APN as if the Demerger was effective from 1 January 2013 (i.e. after deducting NZME's historical financial performance and cash flows as it operated in the context of APN). Pro forma adjustments have been made in the preparation of the pro forma APN (after the Demerger) historical Income Statements and the Pro forma APN (after the Demerger) historical Cash Flow Statements to reflect:

- The alignment of earnings and cash flows for the relevant periods to entities remaining with APN (after the Demerger);
- Adjustments to remove the impact of exceptional items from pro forma Profit as disclosed in APN's annual financial reports;
- Financing costs of APN (after the Demerger) which have been calculated based on the effective interest rate of APN (after Demerger); and
- Tax adjustments and the tax effect of the above pro forma adjustments.

NZME operated as part of APN during the periods for which financial information is presented and therefore the pro forma APN (after the Demerger) historical financial information does not purport to represent the actual financial performance and cash flows that would have occurred had NZME been a separate group during the periods presented, principally because:

- NZME did not operate independently of APN during the periods for which financial information is presented;
- NZME financial information includes allocations to NZME of certain corporate expenses incurred by APN that are attributable to NZME;
- Pro forma APN (after the Demerger) historical financial information may not reflect the strategies or operations that APN may have followed or undertaken had NZME operated as a separate group rather than as part of APN; and
- APN (after the Demerger) may have been exposed to different financial and business risks had NZME operated as a separate group rather than as part of APN.

The pro forma APN (after the Demerger) historical Balance Sheet has been prepared on the basis that the Demerger was completed on 31 December 2015 and that assets and liabilities of NZME were transferred from APN at their historical book value on a consolidated basis. Pro forma adjustments have been made to reflect:

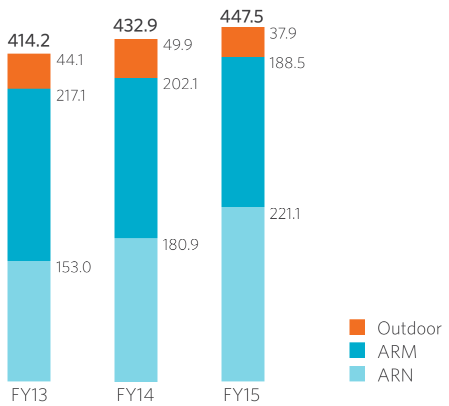
- The separation of assets and liabilities to entities remaining with APN (after the Demerger) and to NZME;
- Demerger transaction costs to be incurred by APN; and
- External financial indebtedness that relates to the APN (after the Demerger) entities upon Demerger.

The pro forma APN (after the Demerger) historical Balance Sheet does not represent the actual financial position of APN at the time of the Demerger, but represents an indication of the pro forma APN (after the Demerger) historical Balance Sheet as at 31 December 2015 in the circumstances set out in this Section.

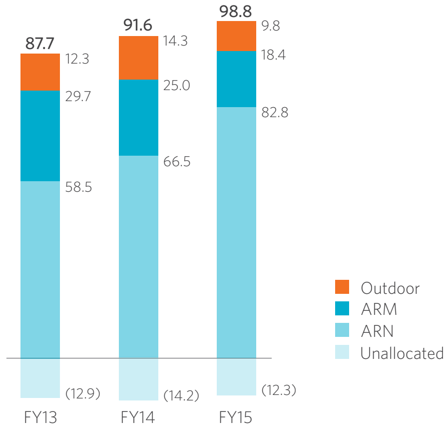
7.3 SEGMENT REPORTING

APN's reported segments reflect ARN, Outdoor and ARM

APN Pro Forma Segment Revenue (A$m)



APN Pro Forma Segment EBITDA (A$m)



7.4 PRO FORMA APN (AFTER THE DEMERGER) HISTORICAL INCOME STATEMENTS

The pro forma APN (after the Demerger) historical Income Statements for the years ended 31 December 2013, 31 December 2014 and 31 December 2015 are set out in Table 7.4 a):

7.4 a) Pro forma APN (after the Demerger) historical Income Statements

A$ in millions	Notes	FY13	FY14	FY15
Pro forma revenue from continuing operations		414.2	432.9	447.5
Pro forma other revenue and income		6.3	3.7	7.8
Pro forma total revenue and other income		**420.5**	**436.6**	**455.4**
Pro forma dividends received from associates		(343.4)	(356.3)	(368.5)
Pro forma dividends paid to minorities		10.6	11.3	11.9
Pro forma EBITDA		**87.7**	**91.6**	**98.8**
Pro forma depreciation and amortisation				(13.3)
Pro forma finance costs	1			(11.2)
Pro forma income tax expense	2			(18.7)
Pro forma profit for the year	3			**55.6**
Pro forma profit for the year is attributable to:				
Pro forma owners of the parent entity				49.8
Pro forma non-controlling interest				5.8
Pro forma profit for the year				**55.6**

Notes:
1. Pro forma finance costs are calculated based on the effective interest rate of the APN (after the Demerger) debt facility and the net debt per the pro forma balance sheet.
2. Pro forma income tax expense is calculated as 30% of pro forma EBITDA (adjusted for share of profits in associates), including depreciation, amortisation and finance costs.
3. No adjustment has been made for pre-acquisition earnings of Radio 96FM Perth (acquired in January 2015) on the basis that it cannot be reliably measured on a like-for-like basis. The FY15 EBITDA contribution from 96FM was $8 million with revenues of $18.7 million.

Exceptional items comprising of one-off gains and non-recurring costs arising during the year have been excluded from Table 7.4 a) above as they are not reflective of the underlying continuing operations. Exceptional items are set out in Table 7.4 e) below and are consistent with the disclosures made in the APN consolidated financial statements and are disclosed to assist users of the APN consolidated financial statements to better understand APN's business results.

Reconciliations of APN historical Income Statements to pro forma APN (after the Demerger) historical Income Statements

The reconciliations of the APN historical Income Statements to pro forma APN (after the Demerger) historical Income Statements are set out in Tables 7.4 b), 7.4 c) and 7.4 d).

7.4 b) Reconciliation of APN historical Income Statement to pro forma APN (after the Demerger) historical Income Statement FY13

A$ in millions	APN Statutory	Less exceptional items	APN Reported	Less NZME (before pro forma adjustment)	APN (after the Demerger)	Pro forma adjustments	Pro forma APN (after the Demerger)
Notes				1		2	
Revenue from continuing operations	817.2	–	817.2	(403.0)	414.2	0.0	414.2
Other revenue and income	15.6	(9.0)	6.6	–	6.6	(0.2)	6.3
Total revenue and other income	**832.8**	**(9.0)**	**823.8**	**(403.0)**	**420.7**	**(0.2)**	**420.5**
Expenses from continuing operations	(696.7)	25.2	(671.5)	325.3	(346.2)	2.8	(343.4)
Share of profit of associates	10.6	–	10.6	–	10.6	–	10.6
EBITDA	**146.7**	**16.1**	**162.8**	**(77.7)**	**85.1**	**2.6**	**87.7**

7.4 c) Reconciliation of APN historical Income Statement to pro forma APN (after the Demerger) historical Income Statement FY14

A$ in millions	APN Statutory	Less exceptional items	APN Reported	Less NZME (before pro forma adjustment)	APN (after the Demerger)	Pro forma adjustments	Pro forma APN (after the Demerger)
Notes				1		2	
Revenue from continuing operations	843.2	–	843.2	(410.2)	433.0	(0.1)	432.9
Other revenue and income	14.6	(7.9)	6.7	–	6.7	(3.1)	3.7
Total revenue and other income	**857.8**	**(7.9)**	**849.9**	**(410.2)**	**439.7**	**(3.1)**	**436.6**
Expenses from continuing operations	(772.2)	75.2	(697.0)	335.1	(362.0)	5.7	(356.3)
Share of profit of associates	11.3	–	11.3	–	11.3	–	11.3
EBITDA	**96.9**	**67.2**	**164.1**	**(75.1)**	**89.0**	**2.6**	**91.6**

7.4 d) Reconciliation of APN historical Income Statement to pro forma APN (after the Demerger) historical Income Statement FY15

A$ in millions	APN Statutory	Less exceptional items	APN Reported	Less NZME (before pro forma adjustment)	APN (after the Demerger)	Pro forma adjustments	Pro forma APN (after the Demerger)
Notes				1		2	
Revenue from continuing operations	850.0	–	850.0	(402.4)	447.6	(0.0)	447.5
Other revenue and income	13.7	(5.7)	8.0	–	8.0	(0.2)	7.8
Total revenue and other income	**863.6**	**(5.7)**	**858.0**	**(402.4)**	**455.5**	**(0.2)**	**455.4**
Expenses from continuing operations	(789.8)	86.1	(703.7)	332.8	(370.9)	2.4	(368.5)
Share of profit of associates	11.9	–	11.9	–	11.9	–	11.9
EBITDA	**85.8**	**80.4**	**166.2**	**(69.6)**	**96.6**	**2.2**	**98.8**
Depreciation and amortisation	(35.3)	–	(35.3)	21.9	(13.4)	0.2	(13.3)
Finance costs	(35.1)	3.3	(31.7)	(0.1)	(31.8)	20.6	(11.2)
Income tax expense	(19.8)	(3.4)	(23.2)	11.2	(12.0)	(6.8)	(18.7)
Profit/(loss) for the year	**(4.4)**	**80.4**	**76.0**	**(36.6)**	**39.4**	**16.2**	**55.6**
Profit/(loss) for the year is attributable to:							
Owners of the parent entity	(10.2)	80.4	70.2	(36.6)	33.5	16.2	49.8
Non-controlling interest	5.8	–	5.8	–	5.8	–	5.8
Profit/(loss) for the year	**(4.4)**	**80.4**	**76.0**	**(36.6)**	**39.4**	**16.2**	**55.6**

Notes:

1. The NZME (before pro forma adjustments) adjustment reflects the removal of earnings for the relevant periods related to entities that comprise the NZME business per the segment note in APN's annual reports.
2. The additional pro forma adjustments include: (i) adjustments to allocate certain corporate income and expenses that have historically been recorded by APN that are attributable to NZME, (ii) adjustments to reflect the impact of the expected capital structure of APN (after the Demerger), (iii) tax adjustments and the tax effect of the above pro forma adjustments.

Pro forma exceptional items FY13 to FY15

Exceptional items in the table below comprising a mix of one-off gains and non-recurring costs are consistent with disclosures made in APN's annual financial reports for the relevant periods.

7.4 e) Pro forma exceptional items FY13 to FY15

A$ in millions	Notes	FY13	FY14	FY15
APN				
Net gain/(loss) on disposal of property and businesses		(2.0)	0.0	(0.2)
Gains on derecognition of contingent consideration provision	1	2.5	–	–
Reversal of impairment of investments in associates	2	3.0	–	–
Redundancies and associated costs	3	(7.1)	(4.7)	(5.2)
Asset write downs and business closures	4	(9.7)	(7.0)	(1.1)
Costs in relation to one off projects	5	–	(6.5)	(0.4)
Foreign exchange gains		–	2.2	–
Impairment of intangible assets	6	–	–	(50.8)
Gains on financial assets held at fair value through P&L	7	–	–	4.0
Gain on insurance claim	8	–	–	1.3
Onerous contract costs	9	–	–	(13.3)
Acquisition costs	10	–	–	(1.3)
Intercompany charge		–	–	0.8
APN (after the Demerger) total (before financing and tax)		(13.3)	(16.0)	(66.4)
NZME				
Net gain/(loss) on disposal of property and businesses		1.3	5.7	0.4
Gains on derecognition of contingent consideration provision	1	2.2	–	–
Redundancies and associated costs	3	(3.5)	(4.2)	(6.7)
Asset write downs and business closures	4	(2.8)	(1.5)	(2.8)
Costs in relation to one off projects	5	–	(1.7)	(4.1)
Impairment of intangible assets	6	–	(49.7)	–
Intercompany charge		–	–	(0.8)
NZME (after the Demerger) total (before financing and tax)		(2.8)	(51.3)	(14.0)
Consolidated total (before financing and tax)		(16.1)	(67.2)	(80.4)
Financing costs		–	(4.3)	(3.3)
Tax expense/(benefit)		6.7	5.3	3.4
Consolidated total, net of tax		(9.4)	(66.2)	(80.4)

Notes:

1. Gains on de-recognition of a contingent consideration provision relates to adjustments to the amounts due under earn out and put option arrangements in relation to the acquisition of iNC (APN) and IdeaHQ (NZME).
2. Reversal of impairment of investments in associates relates to APN's investment in Soprano Design Pty Ltd.
3. Redundancies and associated costs relates to costs of ongoing restructuring of the publishing divisions in 2013 to 2015 across APN and NZME, redundancy costs for the Chief Executive Officer and the Chief Development Officer in 2013 (APN), and costs of integration of the New Zealand operations in 2014 and 2015.
4. Asset write downs and business closures relates to costs and asset write-downs of print and publishing properties and equipment in 2013 and 2015 (APN and NZME) including closure of print sites and onerous lease obligations, the write-off of Hong Kong Outdoor assets (APN) following the loss of the bus body advertising contract in 2015, write-down of assets in relation to digital paywall (NZME) in 2014 and the write-off of leasehold improvements resulting from the NZME office co-location in 2015.
5. Costs in relation to one-off projects relates to APN exploring a potential US bond issue during 2014, proposed NZME IPO process and the integration of NZME in 2014 and 2015 including the cost of external consultants.
6. Impairment of intangible assets relates to NZME and APN publishing assets in 2014 and 2015 respectively.
7. Gain on financial assets held at fair value through profit or loss relates to the gain on APN's interest in Nova 93.7 in 2015.
8. Gain on insurance claims relates to claims made to cover the costs of repair of damage to printing press equipment in 2015 (APN).
9. Onerous contract costs relates to onerous elements of the Buzplay bus advertising contract in Hong Kong in 2015.
10. Acquisition costs relates to the acquisition of Radio Perth 96FM Pty Limited in 2015 (APN).

Management discussion and analysis on APN (after the Demerger) pro forma historical performance

APN annual reports for the years ended 31 December 2013, 31 December 2014 and 31 December 2015 contain a full commentary on the historical results of APN. These are available from APN's website, at www.apn.com.au, or ASX's website at www.asx.com.au. The following is a summary of the key financial highlights as presented within the APN financial statements. Financial commentary is before the impact of pro forma adjustments identified elsewhere.

a) 2013 results

Revenue

APN (after the Demerger) is comprised of Australian Regional Media ("ARM"), Australian Radio Network ("ARN") and Outdoor. The Outdoor division is composed of Hong Kong outdoor companies, Buspak and Cody (Hong Kong) which are consolidated into the financial information above, and a 50% ownership in Australian and New Zealand outdoor advertising company Adshel, which is accounted for as an associate (i.e. recognition of share of profits).

In 2013, ARM revenues were $217.0 million and ARN revenues were $153.0 million. Of the Outdoor divisions, Hong Kong Outdoor revenues were $44.1 million and Adshel revenue was $141 million (excluding revenues from the Adshel Infrastructure and Town & Park businesses which were sold at the end of 2013).

EBITDA

ARM EBITDA for 2013 was $29.7 million and ARN EBITDA was $58.5 million. Hong Kong Outdoor EBITDA was $1.8 million and Adshel EBITDA was $39.2 million (excluding Adshel Infrastructure and Town & Park).

b) 2014 results

Revenue

In 2014, ARM's revenues were down 7% to $202.1 million, which is slightly more than half the rate of decline year-on-year compared to 2013.

While the Australian radio sector grew 3% in 2014, ARN revenues grew 18% to $180.9 million.

Hong Kong Outdoor performed well, despite challenging market conditions during the Occupy Central protests in Q4 with revenue up 6% on a constant currency basis to $49.9 million. Adshel's revenues increased 4% on a like for like basis to $147.2 million.

EBITDA

ARM's EBITDA was down $4.7 million to $25.0 million compared to a $9.0 million decline in 2013. ARN's EBITDA grew 14% to $66.5 million. Hong Kong Outdoor EBITDA grew to $4.7 million due in part to contract improvements. Adshel EBITDA fell 6% to $37.0 million (after adjusting for the impact of the sale of the Adshel Infrastructure and Town and Park businesses at the end of 2013).

c) 2015 results

Revenue

In 2015, ARN revenues grew 22% to $221.1 million, with 10% ($18.7 million) of this arising from the acquisition of Perth 96FM in January of that year. This compares to a radio advertising sector that grew just under 5%. ARM revenues were down 7% to $188.5 million with local revenues remaining resilient, but national revenues continuing to decline. Hong Kong Outdoor revenues were impacted by the non-renewal of the bus body advertising contract at the end of the first half. Revenues were down 37% on a constant currency basis to $37.9 million. Adshel revenues grew 8% to $159.5 million, driven by the success of the Adshel LIVE digital screens launched in the second half of the year.

EBITDA

ARN EBITDA for 2015 was up 25% to $82.8 million, while ARM EBITDA was down $6.6 million to $18.4 million. Cody (Hong Kong) EBITDA fell to $0.4 million as a result of the non renewal of the bus body contract and an organisational restructure executed during the second half to refocus the business on its Cody billboard offering. Adshel EBITDA was up 4% to $38.3 million.

7.5 PRO FORMA APN (AFTER THE DEMERGER) HISTORICAL CASH FLOW STATEMENTS

The Pro forma APN after Demerger historical Cash Flow Statements for the years ended 31 December 2013, 31 December 2014 and 31 December 2015 are shown in Table 7.5a:

7.5 a) Pro forma APN (after the Demerger) historical Cash Flow Statements

A$ in millions	FY13	FY14	FY15
Pro forma EBITDA	87.7	91.6	98.8
Pro forma change in working capital	4.7	(12.1)	1.4
Pro forma deduct share of associates	(10.6)	(11.3)	(11.9)
Pro forma dividends received from associates	13.5	9.5	10.0
Pro forma dividends paid to minorities	(4.3)	(5.1)	(6.0)
Net operating cash flows, before capital expenditure, financing costs and tax	**91.0**	**72.6**	**92.3**
Capital expenditure	(6.9)	(7.0)	(13.6)
Net operating cash flows, before financing costs and tax	**84.1**	**65.6**	**78.7**

Reconciliations of APN historical Cash Flow Statements to pro forma APN (after the Demerger) historical Cash Flow Statements

The reconciliations of APN historical Cash Flow Statements to pro forma APN (after the Demerger) historical Cash Flow Statements are set out in Tables 7.5b, 7.5c and 7.5d.

7.5 b) Reconciliation of APN historical Cash Flow Statement to pro forma APN (after the Demerger) historical Cash Flow Statement FY13

A$ in millions	APN Reported	Less NZME (before pro forma adjustment)	APN (after the Demerger)	Pro forma adjustments	Pro forma APN (after the Demerger)
Notes		1		2	
EBITDA	162.8	(77.7)	85.1	2.6	87.7
Change in working capital	2.4	5.5	7.9	(3.2)	4.7
Deduct share of associates	(10.6)	–	(10.6)	–	(10.6)
Dividends received from associates	13.5	(0.0)	13.5	–	13.5
Dividends paid to minorities	(25.3)	–	(25.3)	21.1	(4.3)
Net operating cash flows, before capital expenditure, financing costs and tax	**142.8**	**(72.2)**	**70.6**	**20.4**	**91.0**
Capital expenditure	(16.1)	8.9	(7.2)	0.2	(6.9)
Net operating cash flows, before financing costs and tax	**126.7**	**(63.3)**	**63.4**	**20.6**	**84.1**

7.5 c) Reconciliation of APN historical Cash Flow Statement to pro forma APN (after the Demerger) historical Cash Flow Statement FY14

A$ in millions	APN Reported	Less NZME (before pro forma adjustment)	APN (after the Demerger)	Pro forma adjustments	Pro forma APN (after the Demerger)
Notes		1		2	
EBITDA	164.1	(75.1)	89.0	2.6	91.6
Change in working capital	(11.7)	(6.2)	(17.8)	5.7	(12.1)
Deduct share of associates	(11.3)	–	(11.3)	–	(11.3)
Dividends received from associates	9.5	(0.0)	9.5	0.0	9.5
Dividends paid to minorities	(5.1)	–	(5.1)	–	(5.1)
Net operating cash flows, before capital expenditure, financing costs and tax	**145.6**	**(81.2)**	**64.3**	**8.3**	**72.6**
Capital expenditure	(20.4)	13.4	(7.0)	0.0	(7.0)
Net operating cash flows, before financing costs and tax	**125.2**	**(67.9)**	**57.3**	**8.3**	**65.6**

7.5 d) Reconciliation of APN historical Cash Flow Statement to pro forma APN (after the Demerger) historical Cash Flow Statement FY15

A$ in millions	APN Reported	Less NZME (before pro forma adjustment)	APN (after the Demerger)	Pro forma adjustments	Pro forma APN (after the Demerger)
Notes		1		2	
EBITDA	166.2	(69.6)	96.6	2.2	98.8
Change in working capital	7.3	(7.1)	0.2	1.2	1.4
Deduct share of associates	(11.9)	–	(11.9)	–	(11.9)
Dividends received from associates	10.0	–	10.0	–	10.0
Dividends paid to minorities	(6.0)	–	(6.0)	–	(6.0)
Net operating cash flows, before capital expenditure, financing costs and tax	**165.6**	**(76.7)**	**88.9**	**3.4**	**92.3**
Capital expenditure	(30.8)	17.1	(13.7)	0.1	(13.6)
Net operating cash flows, before financing costs and tax	**134.8**	**(59.6)**	**75.2**	**3.5**	**78.7**

Notes:

1. The NZME (before pro forma adjustments) column reflects the removal of cash flows for the relevant periods related to entities that comprise the NZME business per the segment note in APN's annual reports.
2. The additional pro forma adjustments include (i) adjustments to allocate certain corporate cashflows that have historically been recorded by APN that are attributable to NZME; and (ii) adjustments to dividends paid to minorities in FY13 to show the impact had ARN been owned 100% in that year.

a) 2013

Pro forma APN after Demerger cash flows in 2013 include dividends received from Adshel of $13.5 million.

b) 2014

Pro forma APN cash flows in 2014 were lower than 2013 due to negative working capital fluctuations and lower dividends from Adshel.

c) 2015

Pro forma cash flows in 2015 were impacted by improved trading performance offset in part by higher capital expenditure.

7.6 PRO FORMA APN (AFTER THE DEMERGER) HISTORICAL BALANCE SHEET

Set out in Table 7.6a is the pro forma APN (after the Demerger) historical Balance Sheet as at 31 December 2015.

7.6 a) Pro forma APN (after the Demerger) historical Balance Sheet at 31 December 2015

A$ in millions	APN Statutory	Equity Raise adjustment	APN (after the Entitlement Offer)	Less NZME (before pro forma adjustments)	APN (after the Demerger)	Pre-demerger restructure	External debt (net of transaction costs)	Deferred Taxes	Pro forma APN (after the Demerger)
Notes		1				2	3	4	
Current Assets									
Cash and cash equivalents	21.7	–	21.7	(3.1)	18.6	(4.1)	–	–	14.5
Receivables	127.2	–	127.2	(53.8)	73.4	(1.0)	–	–	72.4
Inventories	6.3	–	6.3	(2.5)	3.8	–	–	–	3.8
Other assets	6.8	–	6.8	(2.4)	4.4	(0.4)	–	–	4.1
Total current assets	**162.1**	**–**	**162.1**	**(61.8)**	**100.3**	**(5.5)**	**–**	**–**	**94.8**
Non-current Assets									
Other financial assets	32.1	–	32.1	(0.4)	31.7	–	–	–	31.7
Investments[5]	53.8	–	53.8	–	53.8	–	–	–	53.8
Property, plant and equipment	136.8	–	136.8	(75.9)	60.9	(0.4)	–	–	60.6
Intangible assets	712.1	–	712.1	(311.7)	400.3	(0.2)	–	–	400.1
Deferred tax assets	37.4	–	37.4	(0.0)	37.4	–	–	(16.6)	20.7
Total non-current assets	**972.1**	**–**	**972.1**	**(388.0)**	**584.1**	**(0.5)**	**–**	**(16.6)**	**566.9**
Total assets	**1,134.1**	**–**	**1,134.1**	**(449.8)**	**684.4**	**(6.0)**	**–**	**(16.6)**	**661.7**
Current Liabilities									
Payables	(115.9)	–	(115.9)	54.0	(61.9)	4.9	–	–	(57.0)
Interest bearing liabilities	(1.2)	–	(1.2)	1.2	0.0	–	–	–	0.0
Current tax liabilities	(1.5)	–	(1.5)	–	(1.5)	–	–	–	(1.5)
Provisions	(25.6)	–	(25.6)	6.7	(19.0)	–	–	–	(19.0)
Total current liabilities	**(144.2)**	**–**	**(144.2)**	**61.8**	**(82.4)**	**4.9**	**–**	**–**	**(77.5)**
Non-current Liabilities									
Payables	(19.9)	–	(19.9)	12.0	(7.8)	–	–	–	(7.8)
Borrowing costs	5.8	–	5.8	–	5.8	–	(3.3)	–	2.6
Interest bearing liabilities	(476.1)	175.0	(301.1)	0.0	(301.1)	–	93.4	–	(207.7)
Provisions	(6.4)	–	(6.4)	(0.0)	(6.4)	–	–	–	(6.4)
Deferred tax liabilities	(30.2)	–	(30.2)	–	(30.2)	0.0	–	(9.4)	(39.7)
Other liabilities	(1.7)	–	(1.7)	–	(1.7)	–	–	–	(1.7)
Total non-current liabilities	**(528.4)**	**175.0**	**(353.5)**	**12.0**	**(341.5)**	**0.0**	**90.1**	**(9.4)**	**(260.8)**
Total liabilities	**(672.6)**	**175.0**	**(497.7)**	**73.8**	**(423.8)**	**4.9**	**90.1**	**(9.4)**	**(338.3)**
Net assets	**461.5**	**175.0**	**636.5**	**(375.9)**	**260.5**	**(1.1)**	**90.1**	**(26.1)**	**323.5**

Notes:

1. Relates to the proposed equity raise of $180 million net of $5.1 million of transaction costs.
2. Relates to the impact of restructuring the existing APN Group for the Demerger, including (i) allocation of previously unallocated assets and liabilities between APN (after the Demerger) and NZME, and (ii) the settlement of existing intercompany balances
3. Relates to post Demerger capital structure, reflecting a 2.0x target net debt to EBITDA ratio, the pay down of debt by $101.2 million (funded as part of the restructure process), offset by demerger transaction costs of $7.9 million, and the write off of $3.3 million of historical borrowing costs.
4. Relates to the impact of the Demerger on deferred taxes in respect of APN (after the Demerger) and NZME including the write off of historical tax losses in respect of New Zealand totalling approximately NZ$56 million and the write back of temporary FX differences. Refer Section 5.4 for more information.
5 Accounted for using the equity method.

7.7 ONE-OFF TRANSACTION COSTS

The total one-off costs of the Demerger are estimated to be approximately $8.3 million on a pre-tax basis. Approximately $5.1 million of one-off Demerger transaction costs are expected to be incurred prior to the General Meeting. One-off transaction costs relate to a range of activities associated with the Demerger, including advisory fees, financing, marketing and listing costs. These costs are summarised in Table 7.7a.The costs associated with the Entitlement Offer are approximately $5.1 million.

7.7 a) Breakdown of one-off transaction costs

A$ in millions	Notes	
Demerger costs (excl. equity raising costs)		
Advisory fees	1	6.6
Financing costs	2	0.5
Other costs	3	1.2
Total demerger costs		**8.3**
Equity raising costs	**4**	**5.1**
Total transaction costs		**13.3**

Notes:

1. Demerger advisory fees include New Zealand legal fees (legal due diligence and NZX listing), Australian legal fees (ASX listing and other), investigating accountant and accounting advice, tax due diligence fees, Demerger structuring fees, financial advisor fees and independent expert fees.
2. Financing costs include NZME debt arranging costs (including financial advisory fees, legal fees (bank counsel, NZME, APN)), consent fees, upfront costs and sundry costs.
3. Other costs include marketing and logistics fees (including public relations, design, printing and mailing and travel roadshow expenses) broker fees (sale facility), remuneration advice, NZME Board recruitment fees and sundry expenses.
4. Equity raising costs primarily relate to fees paid to underwriters for the Entitlement Offer.

Of the one-off transaction costs:

- Approximately $7.9 million related to the Demerger is expected to be borne by APN, of which $5.1 million is expected to be incurred prior to the General Meeting. In addition, $5.1 million related to the Entitlement Offer will be borne APN; and
- Approximately $0.4 million is expected to be borne by NZME which relates to capitalised financing costs.

7.8 DEBT FACILITY OVERVIEW

As at 31 December 2015, APN's bank debt facilities comprised:

- A$645 million, drawn to A$476.6 million
- HK$50 million, drawn to HK$35.3 million

APN has received consent to proceed with the Demerger from the required majority of its existing lenders.

If the Demerger is implemented, APN proposes to reduce its bank debt facilities to $360 million including a HK$50 million tranche which it deems sufficient to support core debt, working capital and liquidity requirements. Existing drawn debt will be repaid with proceeds from the equity raise and a proportion of APN's existing bank debt facilities will be cancelled.

The following table sets out APN's pro forma net indebtedness as at 31 December 2015 post the Demerger.

Pro forma historical net financial indebtedness summary

A$million	Reported basis 31 December 2015	Proportional basis 31 December 2015[1]
Cash and cash equivalents	14.5	17.5
Bank facilities A$360 million facility limit (A$ tranche drawn to A$201.9 million and HK$ tranche drawn to HK$35.3 million)	207.7	214.4
Total financial indebtedness	**207.7**	**214.4**
Net financial indebtedness	193.2	196.9
Pro forma FY15 EBITDA	98.8	108.7
Pro forma leverage (x Pro forma FY15 EBITDA)	2.0x	1.8x

1. Incorporates share of Adshel's net financial indebtedness and EBITDA, after deduction for share of Adshel's NPAT from reported EBITDA. Adshel is accounted for as an associate on a reported basis.

a) Contingent liabilities

Claims for damages are made against the Group from time to time in the ordinary course of business. The Directors are not aware of any claim that is expected to result in material costs or damages.

Lease commitments

Commitments for minimum lease payments in relation to operating leases and rental commitments contracted for at 31 December 2015 but not recognised as liabilities, payable:

7.7 b) APN Post Demerger Lease commitments

A$ in millions	Year ended 31 Dec-15
Not later than one year	31.9
Later than one year but not later than five years	45.4
Later than five years	13.5
Commitments not recognised in the financial statements	90.8
Representing:	
Cancellable operating leases and rental commitment	1.4
Non-cancellable operating leases and rental commitment	89.4
Commitments not recognised in the financial statements	90.8

7.9 DEMERGER ACCOUNTING

Accounting for Demerger transactions is guided by AASB Interpretation 17 Distributions of Non-cash Assets to Owners. This interpretation requires that obligations for distributions made by a company to its shareholders should be recognised and measured under AASB 137 Provisions, Contingent Liabilities and Contingent Assets. Liabilities for distributions to shareholders are measured at the fair value of the assets to be distributed (the fair value of NZME in this case), which will be determined by reference to the VWAP of NZME Shares as traded over the first five trading days after the Demerger Date.

AASB does not provide guidance as to where a debit to equity should be recorded for the recognition of a distribution liability in the balance sheet of the company making the distribution. The value of the capital reduction will be determined by reference to the tax allocation which will be supported by an ATO ruling. Within APN's equity accounts, the value of the capital reduction will be recorded against contributed equity and the difference between the fair value of NZME Shares demerged by APN and the capital reduction will be allocated to accumulated profits/losses.

On the Demerger Date of the Demerger, APN will recognise a provision based on the estimated fair value of NZME Shares. This provision will be settled through the transfer of the NZME Shares under the Demerger. At the time of the Demerger the difference between the book value of NZME net assets transferred and the fair value of NZME Shares will be recognised in the consolidated financial statements of APN as income to APN and included in APN's FY16 consolidated income statement within discontinued operations. For illustrative purposes only, a range of fair values and the implied profit on Demerger amounts are set out in Table 7.9a). These figures are neither a prediction nor a forecast of NZME's Share price post Demerger and the NZME Share VWAP over the first five trading days may vary substantially from the range set out in table 7.9a).

7.9a) Illustrative Profit on Demerger

NZME's Share VWAP over first five days of trading (NZ$)[1,2]	$1.20	$1.30	$1.40	$1.50	$1.60
NZME's Share VWAP over first five days of trading (NZ$)[1,3]	$0.17	$0.19	$0.20	$0.21	$0.23
Implied fair value of NZME ($m)[4]	220.2	238.6	256.9	275.3	293.6
NZME pro forma net assets ($m)[4]	262.7	262.7	262.7	262.7	262.7
Profit/(Loss) on demerger ($m)[4]	(42.5)	(24.2)	(5.8)	12.5	30.9

Notes:

1. Based on approximately 1,372 million APN Shares on issue after the Entitlement Offer.
2. Based on 1 for 7 Share Consolidation being approved at the General Meeting.
3. Based on 1 for 7 Share Consolidation not being approved at the General Meeting.
4. Translated into Australian dollars at the exchange rate ruling at the 31 December 2015 pro forma balance sheet date.

7.10 MATERIAL CHANGES IN FINANCIAL POSITION SINCE MOST RECENT BALANCE DATE

The most recent published financial statements of APN are included in its annual report for the year ended 31 December 2015, which was released to the ASX and NZX on 24 March 2016. To the knowledge of the APN Directors, as at the date of this Explanatory Memorandum there has not been a material change in the financial position of APN since 31 December 2015, except as disclosed in this Explanatory Memorandum. Any material change in the financial position of APN after the date of this Explanatory Memorandum and prior to the General Meeting will be disclosed in announcements to the ASX and NZX.

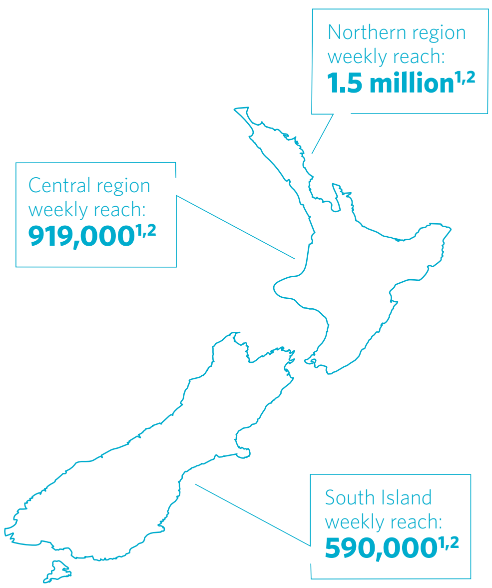
8 INFORMATION ON NZME

8.1 BUSINESS OVERVIEW

In May 2014, APN combined APN NZ Publishing, The Radio Network and GrabOne under one group CEO and launched as New Zealand Media and Entertainment (NZME) in September 2014. NZME is now one of New Zealand's leading media and entertainment businesses and includes some of New Zealand's most recognised publishing, radio and digital brands.

NZME connects with over three million New Zealanders[12] across news (reach of 2.3 million), sport (reach of 1.0 million) and entertainment (reach of 2.4 million). By 9am more than 70% of Aucklanders are likely to have read, watched, listened to or otherwise engaged with NZME. This extensive audience reach across a multi-platform suite enables NZME to offer advertisers broad access to their target markets and means NZME is a key provider for many advertisers seeking to reach an audience in New Zealand. NZME also offers specialised events and experiential services for advertisers.

Audience Reach



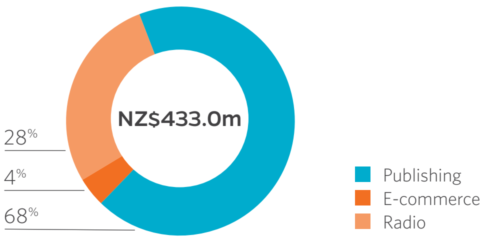
Each month NZME reaches 78% of all New Zealanders including 84% of Aucklanders, more than 82% of the North Island and 64% of the South Island[1]

1. Source: Nielsen CMI, fused database: February 2016 (based on population 10 years +). Based on unduplicated weekly reach of NZME newspapers, magazines, radio stations, and monthly domestic unique audience of NZME's digital channels.
2. Northern region (Northland, Auckland & Waikato); Central region (BOP, Gisborne, HB, Taranaki, Manawatu-Wanganui & Wellington).

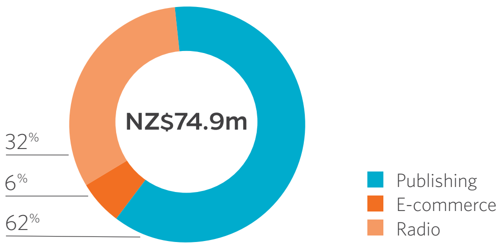
12. Source: Nielsen CMI, February 2016 fused database, AP 10+. Print and Radio based on weekly cume, digital is based on monthly domestic unique audience.

For the year ended 31 December 2015, NZME generated pro forma revenue of NZ$433.0 million and pro forma EBITDA of NZ$74.9 million (before standalone corporate costs, unallocated costs and exceptional items). An overview of NZME's pro forma revenue and EBITDA by channel for the year ended 31 December 2015 is provided below:

NZME pro forma FY15 revenue (by channel) (NZ$M)



NZME pro forma FY15 EBITDA (by channel) (NZ$M)



1. Before standalone corporate costs, unallocated costs and exceptional items.

8.2 STRATEGIC CONTEXT

Post Demerger, NZME will continue to focus on areas that will deliver the greatest shareholder value. NZME will continue the transition into an integrated media and entertainment business with the aim to capture larger audiences. Some of NZME's key strategic imperatives include:

- diversification of revenue streams by investing further in new revenue streams such as digital, video and transactions;
- continued transformation into an audience centric, content driven media and entertainment business; and
- being the home of the best talent in New Zealand via enhanced recruitment, performance and measurement methods.

8.3 TRANSFORMATION AND INTEGRATION

Since May 2014, the transformational plan to integrate NZME has delivered on financial and operational targets.

Integration Target	Outcome
Deliver FY15 EBITDA of NZ$70.8 million[1]	✔ NZ$74.9 million delivered[2]
Merge three business into one	✔ Merged business – one newsroom, merged commercial teams ✔ Relocated all Auckland businesses into new purpose built facility ✔ Eleven regions co-located ✔ Achieved on-time and on-budget
Generate over NZ$55 million of annual revenue from digital and other growth channels in FY15	✔ Over NZ$59 million generated ✔ 33% growth in digital publishing revenue
Deliver cost savings of NZ$18 million	✔ Over NZ$20 million secured ✔ Additional NZ$10 million cost savings target in 2016

Notes:

1. NZ$4 million of listed costs included in the November 2014 market forecast of NZ$70.8 million. Like-for-like comparison therefore is NZ$74.8 million.
2. Before allocation of certain income and expenses that have historically been recorded by APN that are attributable to NZME of NZ$2.4 million (net), incremental stand-alone costs of NZ$5.1 million and exceptional items.

As part of the integration, NZME has successfully integrated some of New Zealand's most recognised media brands and talent across a multi-platform model. NZME has re-positioned its sales proposition with commercial teams focused on selling advertising opportunities based on multi-platform audiences as opposed to channel-specific audiences. As part of this, the business has organised its content into the verticals of News, Sport and Entertainment.

Source: Nielsen CMI, February 2016 fused database. Print and Radio based on weekly (cume), digital based on monthly domestic unique audience

In November 2015, Auckland teams co-located into a central NZME head-office increasing synergy and integration opportunities. In line with this, NZME launched its integrated newsroom, bringing together expertise and capabilities from the publishing, radio and digital teams.

NZME is also leveraging its talent across multiple platforms as part of the integration initiative.

8.4 REVENUE SOURCES

NZME generates revenue predominantly through the sale of advertising and sponsorship of content, across multiple platforms, the circulation of printed media and e-commerce activities.

Advertising revenue is largely generated from the publishing and radio platforms, including digital. In FY15 advertising revenue represented 61% of publishing revenue and 98% of radio revenue. NZME's advertising revenue has historically been influenced by:

- macroeconomic conditions including business confidence, consumer sentiment, political stability and consumer expenditure;
- trends in audience and advertiser preferences, which has influenced both volume and advertising yield;
- changes in the competitive environment and the development of new advertising media such as digital advertising, experiential and events.

Circulation revenue is derived from retail and subscriber volumes and the prices that retail customers and subscribers pay for publications ("yield"). In FY15 circulation revenue represented 32% of publishing revenue. Between FY13 and FY15, retail circulation revenue decreased whilst subscriber circulation revenue remained stable, assisted in part by an increase in average yield.

Revenue from e-Commerce represents GrabOne. In FY15, revenue from GrabOne represented 4% of total NZME revenue. GrabOne derives revenue from commissions.

8.5 CORE BRANDS AND CAPABILITIES

a) Publishing

NZME Publishing has a network of six regional daily newspapers, 23 community newspapers and is home to *The New Zealand Herald*, the #1 read national newspaper, reaching more than 1.3 million New Zealanders each week.

The masthead's achievements were recognised when it was named Newspaper of the Year at the 2015 Trans-Tasman PANPA Newspaper of the Year Awards.

NZME has over 424,000 digital registrations on nzherald.co.nz. NZME is working towards commercialising the data collected from these registrations.

NZME Publishing also has a suite of newspaper inserted magazines (NIMs) on fashion & beauty, lifestyle, automotive, property and entertainment such as Viva, Canvas, Driven, Bite, TimeOut and Herald Homes. These NIMs provide tailored content, and therefore advertising opportunities can be targeted at a specific audience segment.

NZME is also expanding NIMs to digital platforms:

DRIVEN	– driven.co.nz combines motoring classifieds with New Zealand based motoring news including a variety of content leveraging Driven Magazine
spy	– spy.co.nz is home to all of NZME's celebrity news, galleries and entertainment content – Spy brand integrated across digital, radio and print

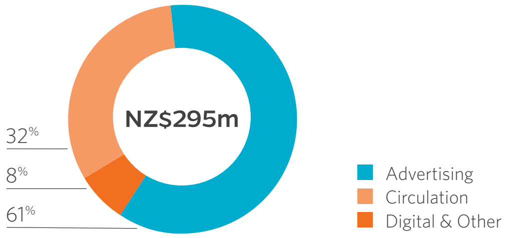
Selected Brands and Content

	Key Brands	Overview
NZME News		– *The New Zealand Herald*: #1 read newspaper in New Zealand – *The Herald on Sunday* – the #1 read Sunday newspaper in New Zealand – One of the largest digital news audiences of any New Zealand media company – Recently launched NZ Herald Focus, a twice daily video news bulletin
NZME Sport		– Provides port-focused content, opinions, analysis and information
NZME Entertainment		– Diverse suite of weekly newspaper-insert publications, including: - *Viva* (fashion) - *Canvas* (lifestyle) - *Travel* - *Herald Homes* (real estate) - *Driven* (motoring) - *Timeout* (entertainment) - *Bite* (food)

Revenue Sources

NZME's publishing revenue is principally generated from print and digital advertising and circulation.

NZME Pro Forma Publishing Revenue Sources FY15 (NZ$M)



NZME's publishing advertising revenue is mainly from the sale of local and national display advertising, the sale of classifieds (primarily employment, motoring and real estate) and the sale of advertising across digital titles.

Display advertising in *The New Zealand Herald* is split approximately 60/40 between sales to advertising agencies and direct sales to customers. A significant proportion of national advertising is directed to the audience in Auckland, New Zealand's largest city with one-third of the national population[11].

Circulation revenue primarily comprises retail sales and subscriptions. Subscription revenue represents over 63% of *New Zealand Herald* and *Herald on Sunday* newspaper sales and over 71% of regional newspaper sales. NZME regularly reviews its newspaper pricing.

Audience Engagement

The New Zealand Herald's combined audience across print and online is over 1.3 million people. The mix between online and print audience has changed over recent years with a shift from print audiences to online.

Printing and Distribution

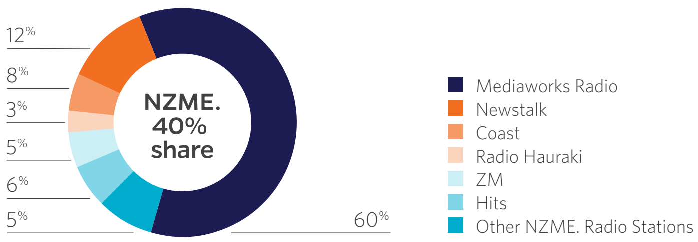
NZME prints newspapers and magazines at its print facility located at Ellerslie in Auckland. NZME also has arrangements for some publications to be printed by The Beacon Printing & Publishing Company Limited (in which NZME has a 21% ownership interest) and by PMP Print Limited. Since July 2014, NZME has provided printing services to Fairfax for many Fairfax newspaper publications.

NZME's paid newspapers are delivered by a network of distribution franchise businesses and distribution service contracts, while community newspapers are delivered by PMP Print Limited.

b) Radio

NZME Radio has a 40% audience share of the commercial radio market in New Zealand reaching more than 1.4 million New Zealanders. It operates nine stations across New Zealand, including the #1 radio station, NewstalkZB, the #1 sport radio station, Radio Sport and the #1 music radio station, Coast.

Audience Share of Ranked Commercial Networks



Source: Gfk New Zealand Commercial Major Markets Survey 1 2016 Station Share (%). All 10+, Mon-Sun 12mn-12mn, unless specified

11. Statistics New Zealand, 2013 Census.

Selected Brands and Content

	Brands	Overview
NZME News	NewstalkZB	– New Zealand's #1 ranked radio station across Major Markets[13] – #1 rankings in the Auckland and Wellington markets and #3 in the Christchurch market[14] – New Zealand's #1 ranked commercial talkback radio station with audience share of 11.8% compared to its nearest competitor at 3.8%[13]
NZME Sport	Radio Sport	– New Zealand's #1 ranked commercial dedicated sports radio station[13] – Broadcasting live sport commentary and sport focused entertainment shows including 'The Crowd Goes Wild' and 'Veitch on Sport'
NZME Entertainment	Coast	– New Zealand's #1 ranked commercial music radio station with audience share of 8.4%[13]
	The Hits	– New Zealand's #1 ranked radio station for 25-54 females age demographic[13] – #1 ranking Auckland radio station for 25-54 age demographic[15] – Features the Polly and Grant Breakfast show
	ZM	– New Zealand's #2 commercial radio station for 18-39 age demographic[13] – Contemporary, hit focused radio station – Engages with audience in multiple forms of media: radio, digital, video, activations and events
	Radio Hauraki	– Hauraki – Focused on alternative rock – New Zealand's #2 commercial rock station[13] – Focused on iconic and alternative rock with high profile personality shows
	flava	– Flava – Focused on hip hop and RnB – New Zealand's #2 ranked commercial urban 'hip-hop' and 'RnB' station[13] – #4 station in Auckland for 10-34 age demographic[15]
	Mix The Best of the 80's & 90's	– Auckland focused station launched in June 2014 – Features the Mel Homer breakfast show – Content sourced from NZME fashion and lifestyle experts

13. Source: Gfk New Zealand Commercial Major Markets Survey 1 2016 Station Share (%). All 10+, Mon-Sun 12mn-12mn, unless specified
14. Source: Gfk New Zealand Commercial Auckland Survey 1 2016 Station Share (%). All 10+, Mon-Sun 12mn-12mn, unless specified
Gfk New Zealand Commercial Wellington Survey 1 2016 Station Share (%). All 10+, Mon-Sun 12mn-12mn, unless specified
Gfk New Zealand Commercial Christchurch Survey 1 2016 Station Share (%). All 10+, Mon-Sun 12mn-12mn, unless specified
15. Source: Gfk New Zealand Commercial Auckland Survey 1 2016 Station Share (%). All 10+, Mon-Sun 12mn-12mn, unless specified

iHeartRadio

NZME Radio also operates iHeartRadio New Zealand through an exclusive sub-licence until 2024. iHeartRadio is a free all-in-one digital radio and music streaming service that connects users with great music. iHeartRadio New Zealand has over 1,900 live stations, 20 million songs, 800,000 artists plus thousands of curated digital stations. iHeartRadio New Zealand also produces live music events featuring some of the world's biggest music artists including Jessie J, Adam Lambert, Ed Sheeran and Lorde.

At April 2016, iHeartRadio New Zealand has approximately 460,000 registered users.

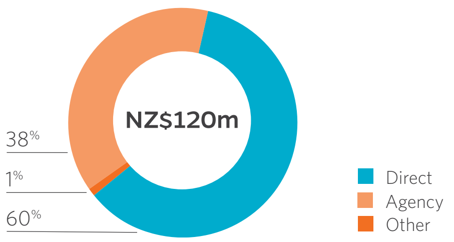
Revenue from the iHeartRadio platform is generated through the following key sources:

- **Digital display advertising:** Advertising is displayed on iHeartRadio platforms and within audio streaming and can be customised for particular audiences.
- **Customised channels:** Advertisers can create customised channels on iHeartRadio to target new audiences or extend existing audience reach;
- **Live radio extensions:** NZME has created new stations on the iHeartRadio platform to attract new audiences. These include ultimate Access (tween station), RadioSportExtra, Flava Old School and NZ Top 40; and
- **Events:** NZME promotes and organises music events featuring local and international artists under the iHeartRadio brand. NZME partners with sponsors for the events, creating experiences for sponsor customers whilst extending iHeartRadio brand engagement.

Revenue Sources

NZME's wide reaching suite of radio stations iHeart digital platform attracts a variety of listeners, allowing advertisers to target specific audiences.

NZME Pro Forma Radio Revenue Sources FY15 (NZ$m)



Large national clients and agency advertising contributes 38% of NZME's radio advertising revenue. Historically, agency advertising has been sold by The Radio Bureau, a commercial joint venture established by NZME and MediaWorks in 2004. In 2015 NZME's in house agency sales team began selling radio advertising as part of its integrated offering.

The remaining direct advertising clients contribute 60% of radio advertising revenue. NZME's suite of nationwide and local stations give advertisers the ability to achieve broad geographical coverage or focus advertising spend on key geographical areas.

c) e-Commerce

Revenue from e-Commerce represents GrabOne, the largest daily deals website in New Zealand. In FY15, revenue from GrabOne represented 4% of total NZME revenue. GrabOne derives revenue from commissions which are driven by a combination of site visits (across desktop, mobile and tablet platforms), conversion rates (the proportion of visits which result in sales) the average value of orders and commission rates (the revenue NZME makes on the sale).

d) Digital and new initiatives

NZME has launched new digital verticals, classifieds and content supported by partially reinvesting savings from NZME's integration program. The new digital verticals classifieds and content include:

- *NZME Vision*, a broadcast production studio creating in-house and third party video content;
- *WatchMe*, a video-on-demand service platform;
- *CreateMe*, an integrated commercial content division that specialises in creating unique branded content solutions, often utilising digital platforms;
- *NZ Herald Focus*, a twice daily video news show filmed in the NZME newsroom;
- *Herald Insights*, a data journalism team that uses data as a source for stories rather than anecdotes;
- *Driven*, an integrated content and listings website incorporating New Zealand based motoring news and user generated classifieds;
- *The Country*, merging multiple brands across radio, digital and print to provide one place for rural content;
- *Spy*, NZME's celebrity news, galleries and entertainment content integrated across print, digital and radio platforms; and
- *Herald Homes app* which utilises image recognition technology that allows readers to instantaneously link to additional detailed information about property listings.

NZME is utilising the GrabOne e-commerce transaction platform to leverage existing brands, relationships and capabilities to general revenue through digital display advertising and transaction commissions.

Events and Experiential

NZME has also expanded its events and experiential business, offering advertisers new ways to engage audiences.

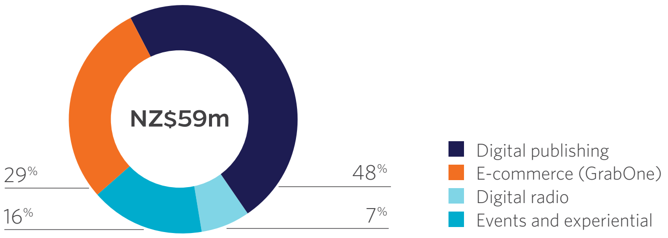
NZME Events is dedicated to producing business, lifestyle and live entertainment events. Events provide opportunities for sponsorship and partnerships with advertisers who view events as high profile exposure, particularly combined with NZME's broader media network. Events deliver multiple potential revenue sources to NZME including exhibitor fees, sponsorship and ticket sales.

Current events include Viva Sessions, Deloitte Top 200, Mood of the Boardroom, PwC Herald Talks and Regional Homeshows.

NZME Experiential delivers campaigns that encourage direct interaction between customers and an advertiser's brand or product (such as brand sampling, user generated content and use of talent to validate a product). NZME has delivered numerous campaigns for local and international companies, including Burger King, Air New Zealand, Tui, Watties and 2Degrees.

The revenues shown in the chart below are also included in the Publishing (Section 8.5(a)) Radio (Section 8.5(b)) and e-Commerce (Section 8.5(c)) sections above.

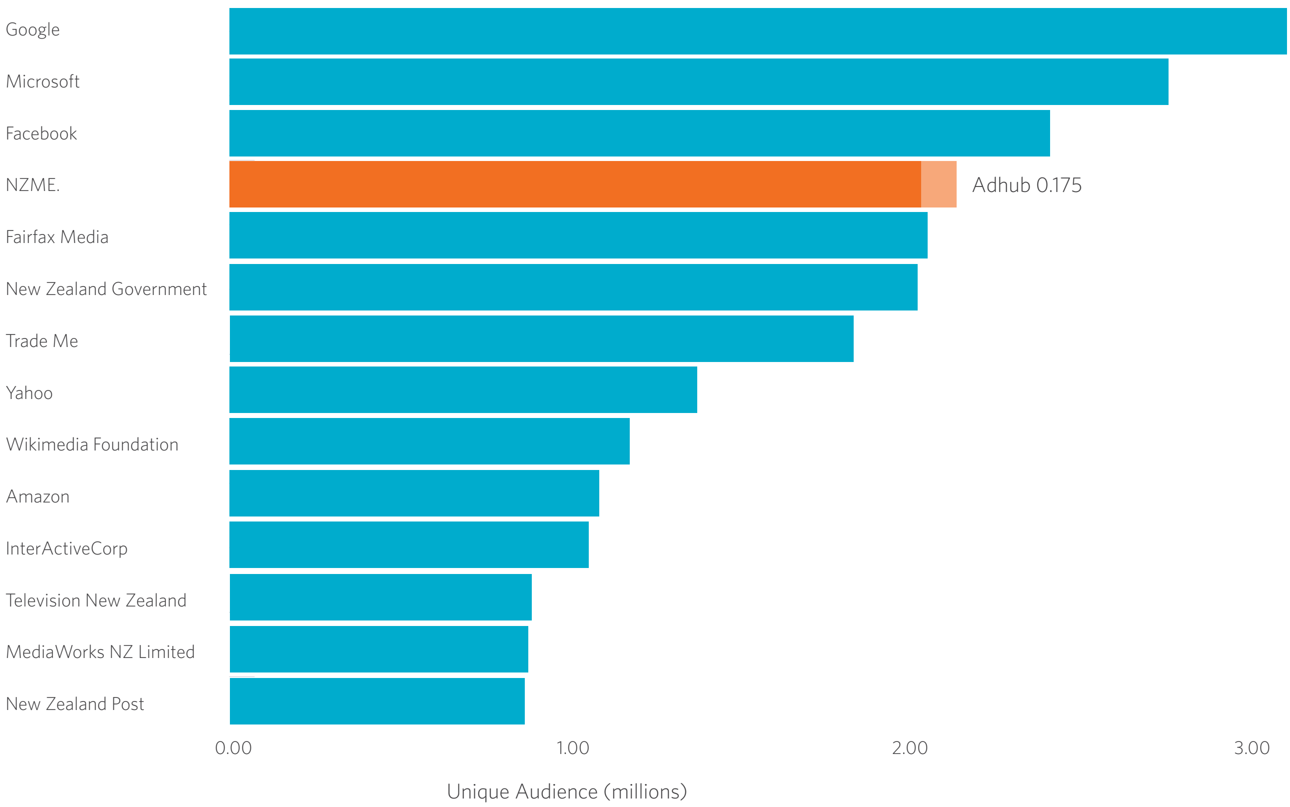
NZME Pro Forma Digital and New Initiatives Revenue Mix by Source FY15 (NZ$m)



NZME's pro forma digital and new initiative revenues (such as experiential and events) have grown from NZ$29.4 million in FY11 to $59.4 million in FY15, and at a CAGR of 19.2% over the same period. Growth in digital and new initiatives revenue has assisted NZME in partially mitigating print advertising revenue declines.

NZME Digital and New Initiatives Revenue (NZ$m)

Audience reach in New Zealand digital platform



Source: Nielsen Online Ratings, March 2016 based on domestic monthly unique audience

8.6 STRATEGIC AND KEY INITIATIVES

NZME aims to build sustainable shareholder value with a focus on growing existing and new revenue streams and delivering cost benefits. The key strategic priorities of NZME are as follows:

Growing audience engagement	– Improve content via audience targeting and measurement – Leverage talent to grow new revenue areas and multi-platform content – Develop content to grow 18-54 audience
Optimising integration opportunities	– Leverage the 'one newsroom' to improve content and efficiencies – Maximise the integrated, multi-platform sales proposition – Explore partnership opportunities with other media organisations and distribution platforms (established examples include the printing and distribution agreements with Fairfax Media, Kiwi premium ad exchange (KPEX) joint venture with Fairfax, TVNZ and Mediaworks)
Diversifying revenues	– Diversify content delivery across digital, video, activations and transactions – Continued focus on growing digital audiences and revenues – Explore ways to monetise and expand data collection following launch of digital registrations – Extend digital verticals suite (eg. *Driven*, *Spy* and *Viva*) – Investment in broader capabilities and new revenue streams such as NZME Vision, Driven, CreateMe and WatchMe

NZME has multiple aspects to its transformational plan to drive growth and efficiencies:

- **Technology integration:** Implementation of a new customer relationship management and advertising operations system to enable streamlining of advertising processes across all parts of the business.
- **Regional Restructure:** Integration of regional offices and management structures to deliver greater leverage and efficiencies whilst maintaining regional product and content.
- **Product Improvement and Rationalisation:** Improving product reporting, lifecycle management and planning of products across the group. In conjunction with this focus, seeking to leverage content across the group.
- **Talent management:** Implementing strategy and performance frameworks to improve talent management and succession planning across the business.

8.7 BOARD AND SENIOR MANAGEMENT

a) Board of Directors

The NZME Board brings a mix of skills and experience relevant to the NZME business. The NZME Board will initially be as set out below.

Sir John Anderson, Independent Chairman

Sir John Anderson joined the APN Board in March 2015. Formerly the Chief Executive Officer of the ANZ National Bank, Sir John is currently Chairman of NPT Limited (since April 2011) and Steel & Tube Holdings Limited (since October 2012), Deputy Chairman of Turners & Growers Limited (since December 2012) and a Director of the Commonwealth Bank of Australia (since April 2007). In 2012, Sir John was awarded an Honorary Doctorate of Commerce by Victoria University, Wellington. Sir John is a Fellow of the New Zealand Institute of Chartered Accountants, Fellow of the Institute of Financial Professionals New Zealand and Fellow of the Institute of Directors and a Life Member of the Australian Institute of Banking and Finance.

Peter Cullinane, Independent Director

Peter Cullinane was appointed to the APN Board in November 2013. As the former Chief Operating Officer of Saatchi & Saatchi Worldwide (1998 to 2002) as well as the company's Chief Executive, New Zealand and Chairman, Australasia for over eight years prior, he is a respected force in global advertising and marketing who brings extensive industry knowledge, as well as expertise in Australasian and global markets, to the NZME Board. Based in Auckland, Mr Cullinane is currently the founder and Chairman of Lewis Road Creamery Limited, a fast growing, dairy based packaged goods business. He is a Director of STW Communications Group (since 2010) and a retired Director of SKYCITY Entertainment Group (2008- 2015), where he was Chairman of the Corporate and Social Responsibility Committee and a member of the Governance and Nominations Committee.

Carol Campbell, Independent Director

Prior to NZME listing on the NZX Main Board, Carol Campbell will join the NZME Board as an independent Non-executive director.

Carol Campbell is a chartered accountant and a member of Chartered Accountants Australia and New Zealand. Mrs Campbell is a director of The Business Advisory Group, a chartered accountancy practice, where she advises privately owned businesses. Prior to that, she was a partner at Ernst & Young for over 25 years. Mrs Campbell has extensive financial experience and a sound understanding of efficient board governance. Mrs Campbell is a Director of NZ Post Limited, Kiwibank Limited, Kingfish Limited, Marlin Global Limited, Barramundi Limited, NPT Limited, T&G Global and a number of other private companies and is chair of Ronald McDonald House Charities.

b) Senior Management Team

NZME's senior management team has the capability and experience to effectively manage the NZME business.

Michael Boggs, Chief Executive Officer

Michael Boggs commenced as CEO of NZME in April 2016. In his previous role as CFO of NZME. Michael was integral in developing the strategy to grow NZME's presence in New Zealand particularly in the areas of digital, video and events whilst upholding the company's traditional brands including The New Zealand Herald and Newstalk ZB. Michael joined NZME from TOWER Limited where he successfully managed TOWER's multibillion dollar assets, TOWER's Pacific Islands operations, TOWER's earthquake recovery programme and the sale of TOWER's life insurance, health insurance and investment management businesses. Prior to TOWER, Michael held executive roles in leading finance, commercial and business functions in major telecommunications and technology organizations including Telstra Clear and previously Clear Communications. In 2014 Michael was awarded CFO of the year at the annual New Zealand CFO Awards.

Chief Financial Officer

Following the promotion of Michael Boggs to CEO, the CFO role will be filled on a contract basis until a permanent appointment is made.

Dean Buchanan, Group Director, Entertainment

Dean has over two decades of experience in developing world class content and talent in New Zealand and internationally. Prior to joining The Radio Network as a Chief Content Officer in September of 2013, then Managing Director Radio, Dean was an international consultant in the UK. He then joined DMG Radio Australia as Group Programme Director and was responsible for launching the highly successful Nova Network. Dean has vast multimedia experience having worked in Touring with TV Touring and establishing a successful talent management company Plus1 Talent, developing the futures of key Australian talent including Darren McMullen (The Voice, The Big Music Quiz, Minute to Win it, The Outsiders) and radio star Dan DeBuf.

Richard Harrison, Group Director, e-commerce

Richard has been leading organisational transformation in the retail sector both locally and internationally for over 20 years. At NZME Richard is responsible for e commerce channels including GrabOne and developing new transactional online solutions that enable advertisers to reach targeted audiences that convert into customers for their business. Richard most recently held the role of General Manager Online at Myer, In this role Richard successfully reset Myers online business development strategy leading a cross functional program to transform Myer into a competitive multi-channel retailer with profitable online channels. Before joining Myer, Richard was General Manager Multi Channel for Warehouse online shopping site which has grown to become one of the leading multi-channel retailer sites in New Zealand.

Sarah Judkins, Chief Strategy Officer

Sarah led the transformation and integration work streams of the three NZME business units in 2015, and the re-location of the business into the new Auckland newsroom. Sarah joined NZME in 2014 from KPMG where she was a director in the transactions team, specialising in operational strategy, transaction support and integration planning. Sarah has 20 years' experience working with business managers and stakeholders in a wide range of industries in New Zealand and Asia developing and implementing strategic plans. Since returning to New Zealand, Sarah has worked with several New Zealand companies on a range of strategic projects and brings a breadth of financial and strategic experience to NZME.

Shayne Currie, Managing Editor

As NZME Managing Editor, Shayne oversees journalists and content across the newsroom including the NZ Herald, Newstalk ZB and Radio Sport. Shayne has been a journalist for 25 years, starting as a crime reporter in Wellington – and briefly, New York before taking up newsroom leadership roles at INL (later Fairfax) and then APN/NZME. Shayne has overseen major change and innovation in newsrooms throughout New Zealand including leading the NZME editorial teams as they came together to form one fully integrated, digital-first newsroom 2015-2016. Previously, he helped launch the Herald on Sunday in 2004 and became editor in 2005. He was editor of the NZ Herald from late 2011 until 2015 and led the editorial project to transform the Herald into an award winn ing compact format.

Carolyn Luey, Chief Operating Officer

Carolyn is the Chief Operating Officer at NZME and is responsible for operations across the digital, radio and print. Previous to this she was Group Strategy and Operations Director where she brought together the technology group through the transformation to NZME and was responsible for strategy, product and development of new businesses. At The Radio Network, as Group General Manager Product, Digital and Technology she grew the digital business and launched iHeartRadio in New Zealand. Prior to joining The Radio Network, Carolyn worked at Telecom New Zealand in marketing, strategy and product roles. Carolyn has over 15 years of experience in digital media, strategy, product management, marketing and business development across a range of industries including fast moving consumer goods, telecommunication and security services.

Laura Maxwell, Chief Commercial Officer

Laura joined The Radio Network as Commercial Director in July 2013, having held the position of General Manager/Director for Yahoo! New Zealand. Laura delivered exceptional sales results over what can only be described as a difficult economic period and led the development of many exclusive partnerships where significant profit was delivered. Laura has over 20 years of experience in media and is well known and respected in the industry, having held roles including sales director for both APN Outdoor and Buspak New Zealand. In July 2014 Laura was appointed as the Group Director Digital Media for NZME. In September 2015 Laura was appointed to the new position of Chief Commercial Officer for NZME. Laura is the Chair of Interactive Advertising Bureau, a board member of both The Radio Bureau and Newspaper Publishers Association and a Director of NZ Press Association Limited.

Liza McNally, Chief Marketing Officer

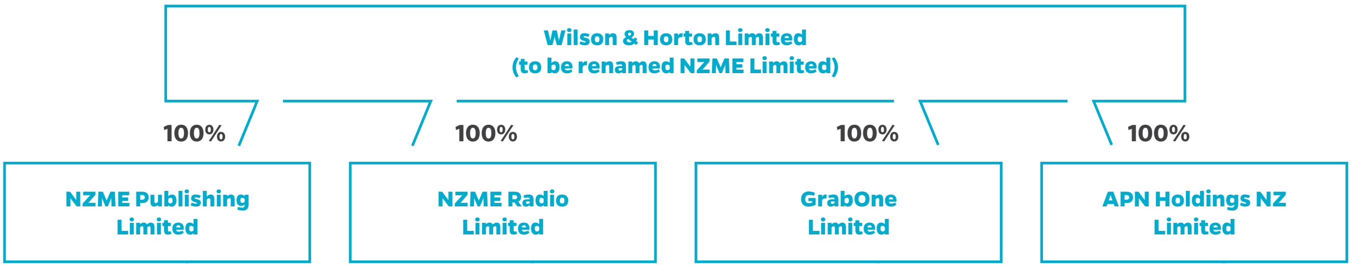
Liza has extensive marketing experience having worked within the media industry in Australia and New Zealand for two decades. She has led strategies to drive audience growth through traditional and emerging channels by leveraging strong content and ambitious creative ideas. Liza has held a number of senior roles at Nationwide News and News Corp Australia and has also run her own consulting firm, Liza McNally Marketing. Liza joined the organisation from working with Spark for whom she managed the retail media strategy through the transition from Telecom to Spark. Upon joining APN in August 2014 Liza was responsible for the successful launch and rollout of the NZME brand both internally and externally.

Michelle Hamilton, Group Director, Culture and Performance

Before joining NZME, Michelle was the HR and Employee Brand Manager at Event Cinemas, joining when they were SKYCITY Cinemas. Michelle established their HR systems and functions as it was a green fields HR site at that time and she managed the acquisition component of the chain by AHL and then the subsequent launch of the EVENT Cinemas' brand into New Zealand, including the employee brand. Prior to that Michelle had eight years at SKYCITY in various senior HR management, project and leadership roles. Her existing knowledge of NZME, having worked with us as GM Culture – Radio for over two years, combined with her expertise and experience will ensure we develop the right culture to allow everyone to perform at their best as our three businesses come together.

8.8 CORPORATE STRUCTURE

The diagram below illustrates a simplified group structure of NZME following the Internal Restructure referred to in Section 10.2, and immediately on implementation of the Demerger:



* Group Financial Services

8.9 CORPORATE GOVERNANCE

a) Role of the NZME Board of Directors

The NZME Board has ultimate responsibility for the strategic direction of NZME and to ensure that it is properly managed to protect and enhance the interests of its shareholders.

b) Board Meetings

The NZME Board plans to meet no less than 6 times each year. Matters arising at a NZME Board meeting shall be decided by the majority of votes of Directors present and voting, and any such decision is taken to be a decision of all Directors. In the case of equality of votes, the Chairman of the meeting shall have a second or casting vote (except where the meeting has only two Directors present).

c) NZME Board Committees

The NZME Board will establish two committees to assist in carrying out the NZME Board's responsibilities – an Audit and Risk Committee and a Governance and Remuneration Committee.

d) Audit and Risk Committee

The Audit and Risk Committee will be responsible for overseeing the risk-management, treasury, insurance, accounting and audit activities of NZME, reviewing the adequacy and effectiveness of internal controls, reviewing the performance of external auditors, reviewing the consolidated financial statements, and making recommendations on financial and accounting policies.

It is proposed that Carol Campbell will be the chair of the Audit and Risk Committee.

e) Governance and Remuneration Committee

The Governance and Remuneration Committee will be responsible for considering appointments to the NZME Board, overseeing management succession planning, establishing employee incentive plans, reviewing and approving remuneration arrangements for employees, recommending to the NZME Board the remuneration of Directors and seeing that NZME and the NZME Board have in place, and follow, policies, procedures and practices with the objective that all laws, rules and requirements applicable to NZME and the Directors are complied with.

It is proposed that Peter Cullinane will be the chair of the Governance and Remuneration Committee.

f) NZME Board Policies and Procedures

The NZME Board will adopt corporate governance policies and practices which reflect contemporary standards in New Zealand and Australia, incorporating principles and guidelines issued by the Financial Markets Authority, and the best practice recommendations issued by NZX and ASX.

g) Trading In Company Securities

NZME will adopt a Securities Trading Policy and Guidelines which will impose trading restrictions on Directors, the Chief Executive Officer and all their direct reports (and those executives directly reporting to them), and participants in any NZME Employee Incentive Plan (as defined in the Policy) where trading is not permitted by law and also during NZME-designated closed periods (prior to the release of half and full year results and any additional periods imposed by NZME from time to time when NZME is considering confidential matters which are not required to be disclosed to the market under NZX Listing Rule 10.1.1).

This policy will also prohibit the entering into of any hedging or other arrangements by which the economic risk associated with any unvested options, rights or similar instruments held pursuant to an NZME Employee Incentive Plan is limited. The policy will state that breaches of the Securities Trading Policy and Guidelines will be subject to disciplinary action, which may include termination of employment.

h) Diversity

NZME views diversity as being important to facilitating the achievement of corporate objectives and the continued growth and success of its businesses. In particular, it is the view of the NZME Board that a diverse workforce is essential for NZME to be able to deliver its strategic objectives and continue to meet its responsibilities to its customers, its employees, the communities in which it operates, and its shareholders.

NZME will adopt a Diversity Policy, which sets measurable objectives. NZME will disclose those measurable objectives, and its progress towards achieving them, in its annual report.

i) Market Disclosure

Once listed, NZME will be required to comply with the NZX Listing Rules and ASX Listing Rules and the disclosure requirements of securities and other laws in New Zealand and Australia. NZME will put in place a Market Disclosure Policy, which will be designed to ensure that there is full and timely disclosure of NZME's activities to shareholders and the market in accordance with the legal and regulatory obligations. NZME's Disclosure Officers (certain senior executives) will be responsible, acting in consultation with the NZME Board, for ensuring that NZME complies with its disclosure obligations.

8.10 REMUNERATION AND INCENTIVE PLANS

a) Director Remuneration and Interests

The fees for Independent Directors of NZME will be fixed as a total pool of NZ$900,000 per annum. Individual Directors' fees vary depending on the duties of the Directors, including for committee work, with current fees as follows:

Role	Fees (NZ$)
Chairman of NZME Board	$150,000
Membership of NZME Board	$100,000
Membership of NZME Board Committees	$10,000
Chair of NZME Board Committees	$20,000

The directors of NZME will also be entitled to be reimbursed for all reasonable travel, accommodation and other costs incurred by them in connection with their attendance at NZME Board or shareholder meetings or otherwise in connection with NZME business.

Sir John Anderson and Peter Cullinane are APN directors and hold APN shares. Sir John Anderson will retire from the APN Board upon implementation of the Demerger, while Peter Cullinane will remain on the APN Board to ensure a smooth Demerger transition.

b) Employees and Remuneration

NZME is focused on retaining and recruiting the best talent and high performing staff as the business transforms and positions for growth and will establish short term and long term incentive plans for nominated employees.

As at 31 December 2015, NZME employed (on a pro forma basis) approximately 1,863 staff on a full-time equivalent basis, excluding casual staff and contractors.

Approximately 122 or 6.7 % of NZME's full-time employees are a party to collective employment agreements.

c) Total Incentive Plan (TIP)

NZME intends to adopt a similar Executive incentive structure to that used by APN. The following table outlines the key terms of the proposed TIP, although this remains subject to consideration by the NZME Board:

Feature	Description	
Eligibility	At the absolute discretion of the NZME Board, the CEO and other Executive KMP are eligible to participate in the TIP.	
Award opportunity	Eligible participants will have a target award opportunity, which will vary between 50% and 100% of fixed remuneration, depending on the participant's role and responsibilities.	
Award frequency	A new TIP opportunity will be offered at the commencement of each financial year.	
Performance period	The award is dependent on performance over a one year period (the relevant financial year). There will be no opportunity for retesting.	
Performance measures	Financial performance conditions (75%) – Performance will be measured against earnings before interest, tax, depreciation and amortisation (EBITDA). Non-financial performance conditions (25%) – Performance will be measured against specific measures, as determined for each participant at the commencement of the performance period. The higher weighting of financial to non-financial metrics emphasises the importance the NZME Board places on financial performance.	
Incentive payout schedule	**Financial metrics**	
	EBITDA	**Percentage of target opportunity awarded**
	<95% of budget	0%
	95% of budget	25%
	>95% to <100% of budget	Pro-rata vesting between 25% and 100%
	100% of budget	100%
	>100% to <110% budget	Pro-rata vesting between 100% and 150%
	At or above 110% of budget	150% vesting
	Non financial metrics	
	Below threshold	0%
	Threshold	25%
	The percentage of target opportunity that will be awarded between Threshold and Target is at the discretion of the NZME Board.	
	Target	100%
	The NZME Board has discretion to increase awards above 100% in exceptional circumstances (i.e. significant performance above plan). The financial performance award schedule has been designed to provide only limited awards where performance is below budget, with sustained upside for performance above budget, up to a maximum cap of 150%. Similarly, the non-financial award schedule has been designed to limit awards below target. Upside will only be provided in exceptional circumstances at the absolute discretion of the NZME Board. It is envisioned that this discretion will only be applied where significant performance above plan is achieved (i.e. leading to substantial shareholder value creation).	
Form of award	The NZME Board determined a significant proportion of Executive KMP's remuneration should be delivered in equity, and that the ability for participants to dispose of their shares should be restricted for three years following the relevant performance period to bolster executive shareholding levels to improve alignment with shareholders. Awards under the TIP are granted to participants following the assessment of performance. To the extent that performance measures are met: – 50% of awards are made in cash following the assessment of performance; and – 50% of awards are granted in rights to acquire fully paid ordinary shares in the Company for nil consideration (Rights): The awards have been structured to balance the short-term and long-term reward of Executive KMP, as well as the cash and equity component.	
Equity allocation methodology	Equity will be granted based on the face value of the Rights.	

8.11 PRO-FORMA SUBSTANTIAL HOLDERS OF NZME SHARES

Based on substantial holder notice disclosure, the shareholders of APN who have a relevant interest of more than 5% in APN shares as at 10 May 2016 are shown below. These shareholders are expected to hold a relevant interest in the same percentage of NZME shares on completion of the Demerger, although these figures will change if those shareholders change their holdings of APN shares prior to the Record Date.

Name	No. of NZME Shares if Share Consolidation approved	No. of APN Shares if Share Consolidation not approved	Percentage of issued NZME shares[1]
Allan Gray Australia Pty Ltd	23,290,960	163,036,719	15.84%
News Limited	22,036,141	154,252,985	14.99%
Perpetual Limited	9,248,463	64,739,240	6.29%
IOOF Holdings Limited	9,202,441	64,417,085	6.26%

1. Based on substantial shareholder notices lodged with the ASX. Percentage ownership of total issued NZME shares will not change due to Share Consolidation, subject to any rounding

8.12 DIVIDEND POLICY

The NZME Board intends for NZME to maintain a dividend paying policy. The payment of dividends is not guaranteed and NZME's dividend policy may change. Dividends and other distributions with respect to the Shares will be made as trading and investment conditions permit at the discretion of the NZME Board and subject to the satisfaction of the solvency requirements of the Companies Act 1993.

The NZME Board intends to:

- target a dividend payout of 60% to 80% of Underlying NPAT subject to maintaining appropriate leverage and having regard to other strategic priorities;
- attach imputation credits to dividends to the extent they are available; and
- pay dividends semi-annually.

The NZME Board intends to pay an initial interim dividend in respect of the six months ending 30 June 2016.

8.13 RISKS

Any investment in the share market has associated risks and this investment is no exception. Risks specific to NZME are set out in this section. These risks, if they were to occur, could materially adversely affect NZME's financial position or performance through loss of assets, reduced revenue, increased costs, loss of customers and suppliers, damage to reputation or a combination of these factors. These could reduce or eliminate the value of your NZME Shares or the returns on them.

You should consider such risk factors together with the other information in this Explanatory Memorandum.

The risk factors set out below are not the only ones NZME faces. There may be additional risk factors of which NZME is currently unaware, or that NZME currently deems immaterial but which may subsequently become key risk factors for NZME.

a) Specific Risks

Change in Advertiser and Audience Preferences

NZME generates a significant proportion of its current earnings from the publication and distribution of newspapers. The newspaper industry has experienced declining circulation and advertising revenue over a number of years as consumers have reduced consumption of printed media in favour of other sources, principally online. NZME considers this trend is likely to continue.

The newspaper publishing industry requires a large fixed cost base for content generation and printing and therefore falling revenue can have a greater than proportional impact on newspaper publishing earnings.

Although NZME considers this trend is likely to continue, its impact is expected to be lessened by NZME's strategy to diversify its business and grow revenue through other channels. Specifically, NZME has responded to this trend by investing in a suite of digital initiatives, improving its digital capabilities, and managing costs however, there can be no guarantee that growth in these initiatives will offset the decline in NZME's traditional publishing business.

While NZME has made investment in its digital capabilities, significant changes in technology, rates of consumer adoption of such technologies and the corresponding impact on NZME and its businesses cannot be predicted. The cost of implementing emerging and future technologies could be significant.

NZME's revenues are also influenced by the allocation of advertising spend across different media channels some of which NZME does not provide, such as television, outdoor and direct marketing.

Media Sector Competition

NZME owns some of New Zealand's most recognisable media brands. However, the media sector is very competitive and a number of operators compete for market share with similar or substitutable products. Due to the level of competition, and the generally lower barriers to entry for the provision of digital offerings relative to traditional sources, the media sector is becoming increasingly fragmented. There is also a shifting share of advertising revenue between the different media players.

NZME faces competition from existing media groups and new media groups utilising new technologies and NZME expects this competition will continue, (see Annexure B: New Zealand Media Industry Overview). The actions of an existing competitor or the entry of new competitors, in either a media sector in which NZME operates or in general, may have a major effect on NZME's operating and financial performance.

Recruitment and Retention of Key Personnel

NZME is dependent on the talent, creative abilities and technical skills of its personnel to create media content, engage its audiences, attract ratings and sell advertising to clients. NZME competes with other companies in the media sector and market generally to recruit and retain key executives and professional staff. It is possible that NZME will be unable to recruit or retain skilled and experienced employees on acceptable terms.

As a result, a loss of key personnel, or the inability to attract new qualified personnel, may have a major impact on the quality or quantity of NZME's media content, audience engagement or ratings and/or the ability to sell advertising.

Information Technology Systems

NZME's ability to compete in the media industry in the future is likely to be affected by its ability to maintain or develop appropriate technology platforms for the efficient delivery of its services. No assurance can be given that NZME will have the resources to acquire, or the ability to develop, new competitive technologies. In addition, maintaining or developing appropriate technologies may require major capital investment by NZME.

The failure of or interruption to any information technology system (including as a result of aging technologies no longer being supported, the use of a number of bespoke systems, technology constraints around automated controls or security breaches) could result in business interruption, the loss of customers and revenue, damaged reputation and weakening of competitive position.

NZME considers that failures in information technology systems are likely (as this is an inherent risk in using any such system), however, the impact of a failure or interruption could range from immaterial to significant and is impossible to predict.

Distribution channels

As part of NZME's content focused strategy, it has consolidated its print sites into a single site in Ellerslie and third party printing services have been engaged. As well as printing its own publications, NZME provides printing services to third parties using its Ellerslie print site. NZME's radio operations rely on access to transmission sites and spectrum licences. NZME's digital products are distributed using a range of information technology systems, software licenses and third party services.

While the loss or failure of any of these distribution channels is not considered likely by NZME, if such a loss or failure were to occur, the impact on NZME could be significant.

NZME Radio operates iHeartRadio in New Zealand through an exclusive sub-licence from ARN with a term to 2024. This sub-licence will terminate if ARN's exclusive licence from Clear Channel Broadcasting Inc. terminates earlier than 2024. That ARN agreement has a range of termination rights, including for a change of ownership interests in ARN, not approved by Clear Channel. While NZME is not aware of any current circumstances under which the sub-licence would likely be terminated, it could have a material impact on NZME if the sub-licence was terminated prior to 2024.

Litigation and Disputes

The media industry faces particular risks associated with defamation litigation and litigation to protect media and intellectual property rights. There are also a range of avenues for audiences to complain about content produced or published by NZME. As a prominent media industry participant, it is likely that NZME will face such actions and complaints in the future. Any action or complaint against NZME could have a significant financial or reputational impact, although NZME expects that the majority of actions or complaints will be able to be resolved with little or no impact on NZME's financial performance.

Some of NZME's employees are engaged in labour that entails risk of workplace accidents and incidents. In the event that an NZME employee is injured in the course of their employment, NZME may be liable for penalties or damages. This has the potential to harm both the reputation and financial performance of NZME.

Taxation risk

- The APN Group operates in multiple tax jurisdictions and is subject to review by the relevant tax authorities.
- As described below, the ATO and IRD are auditing or reviewing arrangements pertaining to a number of matters within the APN Group. APN is satisfied that the APN Group's treatment of each matter is consistent with relevant taxation legislation. If however the IRD or ATO are successful in some or all of these matters, the requirement to pay the relevant tax, penalties and interest may have a material adverse effect on the operating and financial performance of APN, and if the Demerger proceeds, on NZME. The extent of the impact is dependent on a number of factors, including the time at which the amounts become finally due for payment (which may be several years from the date of this Explanatory Memorandum) and the financial position of APN (and NZME, if applicable) at that time.

- In respect of the Demerger, APN and NZME will enter into a Tax Conduct Deed to govern the management and allocation of tax risks, including those described below. This Agreement is summarised in Section 10.5 of this Explanatory Memorandum.

Mandatory Convertible Note (MCN)

- NZME is involved in a dispute with the New Zealand Inland Revenue Department ("IRD") regarding certain financing transactions. The dispute involves tax of NZ$64 million for the period up to 31 December 2014 (when the transactions completed). The IRD is seeking to impose penalties of between 10% and 50% of the tax in dispute in addition to the tax claimed.
- NZME has tax losses available to offset any amount of tax payable to the extent of NZ$48 million. Interest would accrue on any tax payable.
- On 22 February 2013, the Adjudication Unit of the IRD advised that it agrees with the position taken by the IRD. Accordingly, Notices of Assessment were issued denying deductions in relation to interest claimed on those financing transactions. In response to this step, litigation was commenced by NZME in the High Court of New Zealand to defend its position in relation to this matter. The dispute is expected to be litigated in the High Court in March 2017 and the dispute has the potential to progress through further appeal courts.
- The intention is that following the Demerger, the NZ tax risk associated with this dispute will be retained by NZME.

Branch financing transaction

- Following an audit of certain transactions to finance the acquisition of mastheads by a New Zealand branch of an Australian APN entity, the IRD has indicated that it intends to issue a Notice of Proposed Adjustment ("NOPA") in May 2016 relating to non-resident withholding tax ("NRWT") and thin capitalisation issues.
- Although the NOPA has not yet been issued, based on previous correspondence with the IRD, APN believes the NOPA may assert that NRWT of approximately NZ$27 million (to date) would be payable in respect of those financing arrangements. Tax losses of the APN Group cannot be used to offset any NRWT obligation that may arise.
- Further, APN believes the NOPA may also assert that certain income tax deductions be denied in respect of the thin capitalisation position of the APN Group, which could result in tax of approximately NZ$8-14 million being payable for the period to 31 December 2014 (after utilising currently available tax losses), although the exact figure would depend on a range of factors including the outcome of the MCN dispute mentioned above and the availability of tax losses.
- APN believes the IRD may also seek to impose penalties in respect of the taxes in dispute. Interest would accrue on any tax payable.
- Once any NOPA is received, the IRD formal disputes process would commence, which APN understands can take a period of approximately 12-18 months. On completion of this disputes process, either the matter is resolved in the taxpayer's favour, or a formal Notice of Assessment is issued by the IRD, after which APN and/or NZME, as applicable, would have the ability to contest the assessment through litigation proceedings.
- The ATO is also auditing the New Zealand branch of the Australian APN entity in relation to matters related to the New Zealand mastheads. As at the date of this Explanatory Memorandum there is no certainty as to whether any proposed adjustments or disputes will be raised by the ATO in relation to this matter.
- The intention is that following the Demerger, the tax risk associated with the NRWT will remain with APN, and the income tax risk associated with the thin capitalisation matters will be spread across the relevant APN and NZME entities. It is expected the majority of the income tax risk would sit with APN, however the manner in which this risk would ultimately be borne by the relevant entities will depend on a range of factors including the availability of tax losses to APN and NZME at the relevant time.

Other matters

- The ATO and IRD are also auditing or reviewing other matters within the APN Group. As at the date of this Explanatory Memorandum there is no certainty as to whether any proposed adjustments or disputes will be raised by the ATO or IRD as a result of these audits or reviews.

The intention is that following the Demerger, any NZ tax risk will be retained by NZME, while any Australian tax risk will be retained by APN.

Asset Impairment Risk

A substantial proportion of NZME's total assets consist of mastheads, radio licences, goodwill and other intangible assets. Under New Zealand accounting standards, intangible assets that have an indefinite useful life, including mastheads and goodwill, are not subject to amortisation and are reviewed annually for impairment or whenever events or changes in circumstances indicate that the carrying amount of an individual asset may not be recoverable. If the carrying value of mastheads, goodwill or other intangible assets is revised downward by impairment due to NZME's future financial performance, such charges could materially affect NZME's financial position.

9 NZME PRO FORMA FINANCIAL INFORMATION

9.1 OVERVIEW

This Section contains a summary of the pro forma historical financial information of NZME (**"pro forma NZME historical financial information"**), which is comprised of the following:

- Pro forma NZME historical income statements for the years ended 31 December 2013, 31 December 2014 and 31 December 2015 (**"pro forma NZME historical Income Statements"**);
- Pro forma NZME historical cash flow statements for the years ended 31 December 2013, 31 December 2014 and 31 December 2015 (**"pro forma NZME historical Cash Flow Statements"**); and
- Pro forma NZME historical balance sheet as at 31 December 2015 (**"pro forma NZME historical Balance Sheet"**).

References to pro forma NZME historical financial information are references to consolidated pro forma historical financial information in relation to the assets and operations comprising NZME.

The pro forma NZME historical financial information has been reviewed by the Investigating Accountant. The Investigating Accountant's Report is included in Section 12. The comments made in relation to the scope and limitations of the Investigating Accountant's Report should be noted.

This Section should be read in conjunction with the risks to which NZME (as set out in Section 8.13) is subject and the risks associated with the Demerger (as set out in Section 5.5).

9.2 BASIS OF PREPARATION

The basis of preparation applied in compiling the pro forma NZME historical financial information is set out below:

- The NZME historical financial information has been prepared by applying pro forma adjustments to NZME financial information extracted from the segment note in the APN annual report;
- Unless otherwise noted, the pro forma NZME historical financial information has been prepared in accordance with the recognition and measurement principles described in Australian Accounting Standards (including Australian Accounting Interpretations) adopted by the Australian Accounting Standards Board, which comply with the recognition and measurement principles of the International Financial Reporting Standards and interpretations adopted by the International Accounting Standards Board. The accounting policies used in preparation of the pro forma NZME historical financial information are consistent with those set out in the APN annual report for the year ended 31 December 2015;
- The results and cash flows of the entities that comprise the NZME Group are translated into NZ dollars using the average exchange rates for the period. Assets and liabilities of the entities that comprise the NZME Group are translated into NZ dollars at the exchange rate ruling at the balance sheet date[16];
- The pro forma NZME historical financial information is presented in an abbreviated form and does not contain all the disclosures required by Australian Accounting Standards in an annual financial report prepared in accordance with the Corporations Act; and
- The pro forma NZME historical financial information has been derived from APN's financial reports for the years ended 31 December 2013, 31 December 2014 and 31 December 2015 along with APN's management information. APN's annual financial reports for the years ended 31 December 2013, 31 December 2014 and 31 December 2015 have been audited by PricewaterhouseCoopers in accordance with Australian Auditing Standards. The audit opinions issued to APN in relation to those financial reports were unqualified.

Complete versions of APN's financial reports for these periods are available from APN's website, www.apn.com.au, or ASX's website, www.asx.com.au.

The pro forma NZME historical Cash Flow Statements for the years ended 31 December 2013, 31 December 2014 and 31 December 2015, are presented as cash flows after capital expenditure, before financing costs and tax.

The pro forma NZME historical financial information presented in this Section illustrates the financial performance and cash flows of NZME as if the Demerger was effective from 1 January 2013. Pro forma adjustments have been made in the preparation of the pro forma NZME historical Income Statements and the pro forma NZME historical Cash Flow Statements to reflect:

- The alignment of earnings and cash flows for the relevant periods to entities remaining with APN (after the Demerger) or to the entities forming NZME;
- Adjustments to remove the impact of exceptional items from pro forma Profit as disclosed in APN's annual financial reports;
- The anticipated corporate and operating costs of NZME operating as a separately listed legal entity;
- Financing costs of NZME which have been calculated based on the effective interest rate of NZME; and
- Tax adjustments and to tax effect the above pro forma adjustments.

16 Income statement and cash flow statement: FY13: 1.1790; FY14: 1.0870; FY15: 1.0760. Balance sheet: 31 December 2015: 1.0680.

NZME operated as part of APN during the periods for which financial information is presented and therefore the pro forma NZME historical financial information does not purport to represent the actual financial performance and cash flows that would have occurred had NZME been a separate group during the periods presented, principally because:

- NZME did not operate independently of APN during the periods for which financial information is presented;
- The pro forma NZME historical financial information may not reflect the strategies or operations that NZME may have followed or undertaken as a separate group rather than as part of APN; and
- NZME may have been exposed to different financial and business risks had it operated as a separate group rather than as part of APN.

The pro forma NZME historical Balance Sheet has been prepared on the basis that the Demerger was completed on 31 December 2015 and that assets and liabilities of NZME were transferred from APN at their book value on a consolidated basis. Pro forma adjustments have been made to reflect:

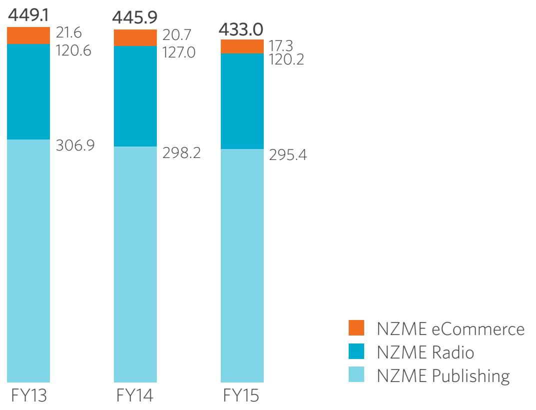
- The separation of assets and liabilities to entities remaining with APN (after the Demerger) and to NZME;
- Demerger transaction costs to be incurred by NZME; and
- External financial indebtedness that relates to the NZME entities upon Demerger.

The pro forma NZME historical Balance Sheet does not represent the actual financial position of NZME at the time of the Demerger, but represents an indication of the pro forma NZME historical Balance Sheet as at 31 December 2015 in the circumstances set out in this Section.

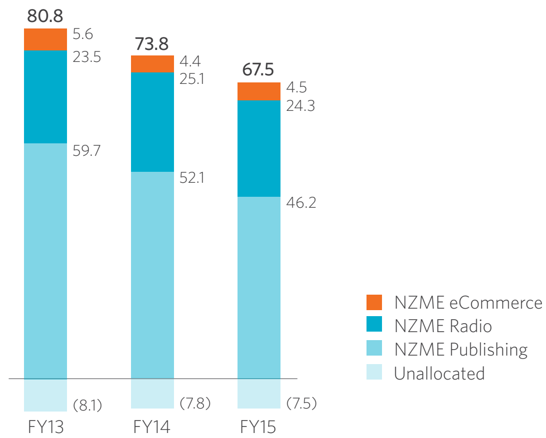
9.3 SEGMENT REPORTING

NZME's reported segments reflect the NZME Publishing, NZME Radio and NZME eCommerce businesses reported in the segment notes of the audited financial statements of APN. The NZME eCommerce business represents GrabOne. Under NZME's transformation plan into an integrated media and entertainment business, the business will operate across news, sport and entertainment content delivery lines and future segment reporting may differ from historically reported segment information.

NZME Pro Forma Segment Revenue (NZ$m)



NZME Pro Forma Segment EBITDA (NZ$m)



9.4 PRO FORMA NZME HISTORICAL INCOME STATEMENTS

The pro forma NZME historical Income Statements for the years ended 31 December 2013, 31 December 2014 and 31 December 2015 shown in Table 9.4a:

9.4 a) Pro Forma NZME historical Income Statements

NZ$ in millions	Notes	FY13	FY14	FY15
Pro forma revenue from continuing operations		449.1	445.9	433.0
Pro forma other revenue and income		0.3	3.3	0.2
Pro forma total revenue and other income		**449.3**	**449.2**	**433.2**
Pro forma expenses from continuing operations		(368.5)	(375.5)	(365.7)
Pro forma share of profit of associates		–	–	–
Pro forma EBITDA		**80.8**	**73.8**	**67.5**
Pro forma depreciation and amortisation				(23.7)
Pro forma finance costs	1			(5.5)
Pro forma income tax expense	2			(10.7)
Pro forma profit for the year				**27.5**

Notes:
1. Pro forma finance costs are calculated based on the effective interest rate of the NZME debt facility and the net debt per the pro forma balance sheet.
2. Pro forma income tax expense is calculated as 28% of the pro forma EBITDA including depreciation, amortisation and finance costs.

Set out in Table 9.4b is the reconciliation of the pro forma NZME historical Income Statements for the years ended 31 December 2013, 31 December 2014 and 31 December 2015, to the reported income statements.

9.4 b) Reconciliation of NZME historical reported Income Statements to pro forma NZME historical Income Statements FY13 to FY15

NZ$ in millions	Notes	FY13	FY14	FY15
Reported revenue from continuing operations (excludes exceptional adjustments)		475.2	445.8	433.0
Pro forma adjustment to assign previously unallocated revenue to NZME	1	0.0	0.1	0.0
Pro forma adjustment to reflect South Island divestiture	2	(4.7)	–	–
Pro forma adjustment to reflect NZ Magazines divestiture	3	(21.5)	–	–
Pro forma revenue from continuing operations		**449.1**	**445.9**	**433.0**
Reported other revenue and income (excludes exceptional adjustments)		–	–	–
Pro forma adjustment to assign previously unallocated other revenue to NZME	1	0.3	3.3	0.2
Pro forma adjustment to reflect South Island divestiture	2	–	–	–
Pro forma adjustment to reflect NZ Magazines divestiture	3	–	–	–
Pro forma other revenue and income		**0.3**	**3.3**	**0.2**
Reported expenses (excludes exceptional adjustments)		(383.5)	(364.2)	(358.1)
Pro forma adjustment to assign previously unallocated expenses to NZME	1	(3.3)	(6.2)	(2.6)
Pro forma adjustment to reflect South Island divestiture	2	4.5	–	–
Pro forma adjustment to reflect NZ Magazines divestiture	3	18.9	–	–
Incremental stand-alone costs	4	(5.1)	(5.1)	(5.1)
Pro forma expenses from continuing operations		**(368.5)**	**(375.5)**	**(365.8)**
Reported EBITDA (excludes exceptional adjustments)		91.6	81.6	74.9
Pro forma adjustment to assign previously unallocated EBITDA to NZME	1	(3.0)	(2.8)	(2.4)
Pro forma adjustment to reflect South Island divestiture	2	(0.1)	–	–
Pro forma adjustment to reflect NZ Magazines divestiture	3	(2.6)	–	–
Incremental stand-alone costs	4	(5.1)	(5.1)	(5.1)
Pro forma EBITDA		**80.8**	**73.8**	**67.5**

Notes:
1. Adjustments to allocate certain corporate income and expenses that have historically been recorded by APN that are attributable to NZME.
2. Adjustment to reflect the removal of earnings and cash flows for the relevant periods for the divestitures of South Island in 2013.
3. Adjustment to reflect the removal of earnings and cash flows for the relevant periods for the divestitures of NZ Magazines early 2014.
4. Adjustment to reflect the impact of expected incremental stand-alone costs for the NZME business post Demerger, reflecting costs NZME is expected to incur as a separately listed and stand-alone business.

Exceptional items include a mix of one-off gains and non-recurring costs arising during the year. Exceptional items are analysed in Table 7.4e in Section 7.4 and are consistent with the disclosures made in the APN's annual financial reports.

a) Estimated additional standalone corporate costs

Following the Demerger, NZME will be a standalone, NZX and ASX listed entity, which will require NZME to necessarily incur additional corporate operating costs over and above those currently incurred as a division of APN as set out in Table 9.4c. NZME will also incur costs associated with certain services previously incurred by APN totalling approximately NZ$2.4 million per annum predominantly relating to, corporate advisory fees (accounting, legal and tax) and personnel costs.

9.4 c) NZME incremental stand-alone costs – FY13 to FY15

NZ$ in millions	Notes	Total
Management incentives	1	1.6
Professional fees	2	1.1
Resourcing	3	0.7
Directors fees	4	0.7
Investor relations	5	0.4
Other	6	0.7
Total		5.1

Notes:
1. Relates to the Total Incentive Package (TIP) for the NZME executive group
2. Relates to incremental professional fees, including statutory audit, tax advisory, accounting advisory, legal and internal audit advisory fees
3. Relates to resourcing fees, including legal, corporate accounting and treasury, internal audit and tax advisory fees
4. Relates to incremental directors fees and travel and entertainment
5. Relates to investor relations fees, including internal and external public relations fees
6. Other costs include regulatory compliance, general corporate insurance and sundry cost

Management discussion and analysis on NZME reported financial performance

APN's annual reports for the years ended 31 December 2013, 31 December 2014 and 31 December 2015 contain a full commentary on the historical results of NZME. These are available from APN's website, at www.apn.com.au, or ASX's website at www.asx.com.au. The following is a summary of the key financial highlights as presented within the APN financial statements. Financial commentary is before the impact of pro forma adjustments identified elsewhere.

b) 2013 Results

Revenue

Total NZME revenues in 2013 were NZ$475.2 million, comprising publishing revenues of NZ$333.0 million, radio revenues of NZ$120.6 million and GrabOne revenues of NZ$21.6 million. Publishing revenues were down 7% on the prior year on a like for like basis significantly impacted by a weak agency market throughout the year. In radio, revenues were up 9% in a strong market, up 8% including growth in digital revenues of 81%.

EBITDA

Total NZME EBITDA for 2013 was $91.6 million, with publishing EBITDA of NZ$62.5 million, radio EBITDA of NZ$23.5 million and GrabOne EBITDA of NZ$5.6 million. The Publishing EBITDA was 2% up on the prior year with costs savings of more than $20m more than offsetting the revenue declines. Radio EBITDA was 22% up on the prior year.

c) 2014 Results

Revenue

Total NZME revenues in 2014 were down 6% to NZ$445.8 million compared to 2013. On a like for like basis, adjusting for the disposal of the Wellington and South Island titles in 2013 and Magazines in early 2014, total revenues were down 2%.

NZME Publishing revenues dropped by 10% on prior year, but saw an improved second half performance with an H2 revenue decline of 8% compared with a first half decline of 13%. On a like for like basis the full year decline was 4% and the H2 decline 2%. Advertising revenues were down 7% on prior year with low single digit declines in direct retail, motoring and real estate pillars.

Circulation revenues were flat year on year, with cover price increased more than offsetting moderating declines in circulation.

NZME Radio delivered a solid revenue performance, up 5% for the year to NZ$127.0 million driven by strong direct revenues which grew 8%. The agency market softened significantly in the final quarter of year, impacting the overall result. Agency revenues for the year were down 2%.

NZME eCommerce/GrabOne, had a stronger second half due to the staged release of an upgraded operating system that make deals more accessible across platforms and a diversification of its business and revenues through close alignment with NZME's other businesses. Revenues were down 4% for the full year to NZ$20.7m.

EBITDA

Total NZME EBITDA was down 11% to NZ$81.6 million as earnings growth in NZME Radio, up 7% to NZ$25.1 million, was offset by declines in NZME Publishing, down 17% to NZ$52.1 million and NZME eCommerce, down 22% to NZ$4.4 million. The growth in radio was a result of the strong direct revenue performance offset by increased costs from investments in sales, a new station (MIX 98.2) and talent and content. Publishing EBITDA was impacted by like for like cost savings of NZ$8m, weighted towards the first half. These savings were offset by investment in integration and new revenue streams in H2.

d) 2015 Results

Revenue

In 2015, total NZME revenues were down 3% to NZ$433.0 million. NZME Publishing revenues were down just 1% to NZ$295.4 million with new revenue streams and the benefits of integration helping the result. Growth in digital revenues and a strong real estate pillar helped to offset a further decline in agency revenues. Circulation revenues were down 1% with subscriber yield growth offsetting retail volume declines.

NZME Radio revenues were impacted by a disruptive radio market and were down 5% to NZ$120.2 million. Direct revenues were down 3% with rural areas impacted by weak local economies. In the Auckland market revenues were up 4%. Agency revenues were down 11%, impacted by the lack of official audience measurement in H1 and changes to the agency buying model during H2. GrabOne revenues were down 16% to NZ$17.3 million.

EBITDA

NZME EBITDA of NZ$74.9 million was down 8% on the prior year. Publishing EBITDA was up 5% to NZ$54.7 million and GrabOne EBITDA was up 2% to NZ$4.5 million. Radio EBITDA was down 3% to NZ$24.3 million. As a result of the integration of the NZME businesses, group costs of NZ$8.5 million relating to the group executive team and other central functions were not allocated to the businesses, but reported separately.

9.5 PRO FORMA NZME HISTORICAL CASH FLOW STATEMENTS

The pro forma NZME historical Cash Flow Statements for the years ended 31 December 2013, 31 December 2014 and 31 December 2015 are shown in Table 9.5a:

9.5 a) Pro Forma NZME historical Cash Flow Statements

NZ$ in millions	FY13	FY14	FY15
Pro forma EBITDA	80.8	73.8	67.5
Pro forma change in working capital	(2.6)	0.5	6.4
Pro forma net operating cash flows, before capital expenditure, financing costs and tax	**78.2**	**74.3**	**73.8**
Pro forma capital expenditure[1]	(10.8)	(14.6)	(18.5)
Pro forma net operating cash flows, before financing costs and tax	**67.4**	**59.7**	**55.3**

1. FY15 shown net of property lease incentive

Set out in Table 9.5b is the reconciliation of the pro forma NZME historical Cash Flow Statements for the years ended 31 December 2013, 31 December 2014 and 31 December 2015 to the reported cash flow statements:

9.5 b) Reconciliation of NZME historical reported Cash Flow Statements to pro forma historical Cash Flow Statements FY13 to FY15

NZ$ in millions	Notes	FY13	FY14	FY15
Reported EBITDA		91.6	81.6	74.9
Pro forma adjustment to assign previously unallocated head office costs	1	(3.0)	(2.8)	(2.4)
Pro forma adjustment to reflect South Island divestiture	2	(0.1)	–	–
Pro forma adjustment to reflect NZ Magazines divestiture	3	(2.6)	–	–
Pro forma adjustment Incremental stand-alone costs	4	(5.1)	(5.1)	(5.1)
Pro forma EBITDA		**80.8**	**73.8**	**67.5**
Reported change in working capital		(6.5)	6.7	7.6
Pro forma adjustment to assign previously unallocated head office costs	1	3.8	(6.2)	(1.2)
Pro forma adjustment to reflect South Island divestiture	2	–	–	–
Pro forma adjustment to reflect NZ Magazines divestiture	3	–	–	–
Pro forma change in working capital		**(2.6)**	**0.5**	**6.4**
Reported capital expenditure[1]		(10.5)	(14.5)	(18.4)
Pro forma adjustment to assign previously unallocated head office costs	1	(0.3)	(0.0)	(0.1)
Pro forma adjustment to reflect South Island divestiture	2	–	–	–
Pro forma adjustment to reflect NZ Magazines divestiture	3	–	–	–
Pro forma capital expenditure		**(10.8)**	**(14.6)**	**(18.5)**
Pro forma net operating cash flows, before financing costs and tax		**67.4**	**59.7**	**55.3**

1. FY15 shown net of property lease incentive

Notes:

1. Adjustments to allocate certain corporate cashflows that have historically been recorded by APN that are attributable to NZME.
2. Adjustment to reflect the removal of earnings and cash flows for the relevant periods for the divestitures of South Island (2013).
3. Adjustment to reflect the removal of earnings and cash flows for the relevant periods for the divestitures of NZ Magazines (early 2014).
4. Adjustment to reflect the impact of expected incremental stand-alone costs for the NZME business post Demerger, reflecting costs NZME is expected to incur as a separately listed and stand-alone business.

a) 2013

Pro forma NZME cash flows for 2013 were impacted by a negative working capital.

b) 2014

Pro forma 2014 cash flows were lower than 2013 due to a lower trading performance and increased capital expenditure.

c) 2015

Pro forma NZME cash flows in 2015 were in line with 2014, with lower EBITDA being offset by an improved working capital outcome. Capital expenditure, which is shown net of a NZ$12.5 million lease incentive was higher due to significant investment in the co-location of NZME and investment in technology supporting the integration of the businesses.

9.6 PRO FORMA NZME HISTORICAL BALANCE SHEET

Set in Table 9.6a is a summary of the pro forma NZME historical Balance Sheet as at 31 December 2015:

9.6 a) Pro forma NZME historical Balance Sheet at 31 December 2015

NZ$ in millions	NZME (as part of APN Group)	Pre-demerger restructure	External debt (net of transaction costs)	Deferred Taxes	Pro forma NZME
Notes		1	2	3	
Current Assets					
Cash and cash equivalents	3.3	4.4	–	–	7.7
Receivables	57.4	1.1	–	–	58.5
Inventories	2.7	–	–	–	2.7
Other assets	2.6	0.4	–	–	2.9
Total current assets	**66.0**	**5.8**	**–**	**–**	**71.8**
Non-current Assets					
Other financial assets	0.4	–	–	–	0.4
Investments	–	–	–	–	–
Property, plant and equipment	81.0	0.4	–	–	81.4
Intangible assets	332.9	0.2	–	–	333.1
Other assets	0.0	–	–	–	0.0
Total non-current assets	**414.4**	**0.6**	**–**	**–**	**414.9**
Total assets	**480.3**	**6.4**	**–**	**–**	**486.8**
Current Liabilities					
Payables	(57.6)	(5.2)	–	–	(62.9)
Interest bearing liabilities	(1.3)	–	–	–	(1.3)
Current tax liabilities	–	–	–	–	–
Provisions	(7.1)	–	–	–	(7.1)
Total current liabilities	**(66.0)**	**(5.2)**	**–**	**–**	**(71.2)**
Non-current Liabilities					
Payables	(12.9)	–	–	–	(12.9)
Borrowing costs	–	–	0.4	–	0.4
Interest bearing liabilities	(0.0)	–	(108.6)	–	(108.6)
Provisions	0.0	–	–	–	0.0
Deferred tax liabilities	–	(0.0)	–	(13.9)	(13.9)
Total non-current liabilities	**(12.9)**	**(0.0)**	**(108.2)**	**(13.9)**	**(135.0)**
Total liabilities	**(78.9)**	**(5.2)**	**(108.2)**	**(13.9)**	**(206.2)**
Net assets	**401.5**	**1.2**	**(108.2)**	**(13.9)**	**280.6**

Notes:

1. Relates to the impact of restructuring the existing APN Group for the Demerger, including (i) allocation of previously unallocated assets and liabilities between APN (after the Demerger) and NZME, and (ii) the settlement of existing intercompany balances.
2. Relates to the impact of the post Demerger debt structure, reflecting a 1.5x target net debt to EBITDA ratio (proceeds used as part of the restructure process) and the impact of one-off Demerger transaction costs.
3. Relates to the impact of the Demerger on deferred taxes.

9.7 DEBT FACILITIES AND CASH

Prior to the Demerger, NZME was funded by a combination of internal cash flows and external financing arrangements. Following the Demerger, funding for NZME will be sourced from a combination of its own cash reserves, internal cash flows and NZ$160 million bilateral bank loan facilities (**"NZME Bilateral Facilities"**).

NZME pro forma net financial indebtedness as at 31 December 2015, after the demerger is approximately NZ$102.2 million, comprising $109.9 million of external debt and NZ$7.7 million of cash. The NZME Board has confirmed that it considers this level of indebtedness and cash, together with the balance of the NZME Bilateral Facilities, to be appropriate at the time of the Demerger with regard to the financial profile of NZME as a separate legal entity.

As at the date of the document, binding commitment letters have been signed by each of the banks providing the NZME Bilateral Facilities subject to various conditions being satisfied and documentation. The NZME Bilateral Facilities contain market standard terms and conditions for a facility of this nature. Each bank has obtained credit committee approval to the terms of the NZME Bilateral Facilities. The key terms are as follows:

a) Facilities Summary

Borrower	Wilson & Horton Limited	
Facilities	Tranche A1	Revolving Cash Advance Facility
	Tranche A2	Revolving Cash Advance Facility/Contingent Instrument Facility
Guarantors	As at the date of the Demerger, a guarantee will be given by each of NZME's wholly owned subsidiaries.	
Currency	New Zealand Dollars	
Commitments	Tranche 1	$150 million
	Tranche 2	$10 million
Maturity	3.5 years	
Applicable interest rates	BKBM plus a margin which is dependent upon a net debt/EBITDA ratio grid	
Conditions precedent to initial drawdown	The NZME Bilateral Facilities contain conditions precedent to initial drawdown that are customary for a facility of this nature and other conditions precedent which relate to the implementation of the Demerger and listing of NZME on the NZX/ASX	
Events of default	The NZME Bilateral Facilities contain customary events of default including, but not limited to payment default, breach of representations, breach of financial covenants and cross default	
Undertakings and Covenants	The NZME Bilateral Facilities contain undertakings which are customary for a facility of this nature including, but not limited to, provision of information, negative pledge and restrictions on priority indebtedness and disposals of assets In addition, NZME must comply with financial covenants (a net debt to EBITDA ratio and an EBITDA to net interest expense ratio) for each 12 month period ending on 30 June and 31 December	
Security	None	

The following table sets out NZME's pro forma net financial indebtedness as at 31 December 2015 post the Demerger.

Pro forma historical net financial indebtedness summary

NZ$ in millions	31 December 2015
Cash and cash equivalents	7.7
Interest bearing liabilities	1.3
Bank facilities	108.6
Total financial indebtedness	**109.9**
Net financial indebtedness	102.2
Pro forma FY15 EBITDA	67.5
Pro forma leverage (x Pro forma FY15 EBITDA)	1.5x

9.8 CONTINGENCIES AT 31 DECEMBER 2015

Claims for damages are made against the Group from time to time in the ordinary course of business. The Directors are not aware of any claim that is expected to result in material costs or damages.

NZME is involved in a dispute with the IRD regarding certain financing transactions. The dispute involves tax of NZ$64 million for the period up to 31 December 2014 (when the transactions completed). The IRD is seeking to impose penalties of between 10% and 50% of the tax in dispute in addition to the tax claimed. NZME has tax losses available to offset any amount of tax payable to the extent of NZ$48 million. Interest would accrue on any tax payable.

On 22 February 2013, the Adjudication Unit of the IRD advised that it agrees with the position taken by the IRD. Accordingly, Notices of Assessment were issued denying deductions in relation to interest claimed on those financing transactions. In response to this step, litigation was commenced by NZME in the High Court of New Zealand to defend its position in relation to this matter. The dispute is expected to be litigated in the High Court in March 2017 and the dispute has the potential to progress through further appeal courts.

9.9 LEASE COMMITMENTS

Commitments for minimum lease payments in relation to operating leases and rental commitments contracted for at the reporting date but not recognised as liabilities, payable:

9.9 a) NZME Lease commitments

NZ$ in millions	Year ended 31 December 2015
Not later than one year	15.8
Later than one year but not later than five years	46.4
Later than five years	89.7
Commitments not recognised in the financial statements	**151.9**
Representing:	
Cancellable operating leases and rental commitment	1.1
Non-cancellable operating leases and rental commit	150.8
Commitments not recognised in the financial statements	**151.9**

9.10 MATERIAL CHANGES IN FINANCIAL POSITION SINCE MOST RECENT BALANCE DATE

The most recent published financial results for NZME are included in the segment note contained within APN annual report for the year ended 31 December 2015, which was released to ASX and NZX on 24 March 2016. To the knowledge of the APN Directors, as at the date of this Explanatory Memorandum there has not been a material change in the financial position of NZME since 31 December 2015, except as disclosed in this Explanatory Memorandum or announcements to ASX. Any material change in the financial position of APN after the date of this Explanatory Memorandum and prior to the General Meeting will be disclosed in announcements to ASX and NZX.

10 DETAILS OF THE DEMERGER

10.1 BACKGROUND

NZME is currently owned by APN.

As a result of the Demerger, NZME will become a standalone company with a listing on the NZX Main Board and a listing on ASX as a Foreign Exempt Listing (NZX/ASX: NZM) and will own APN's New Zealand media and entertainment business, NZME. It will operate entirely independently of APN (other than in respect of certain transitional arrangements outlined in Section 10.5) and will have its own board of directors and management.

After the Demerger, APN will continue to operate all its other businesses, including, its Australian and Hong Kong media businesses. While the majority of the current APN business will remain with APN, each of NZME and APN will be of a substantial size and listed on NZX and ASX.

The steps associated with the implementation of the Demerger include:

- Prior to the Demerger Date, APN will undertake the Internal Restructure (as described in Section 10.2);
- APN will restructure the current financing arrangements for NZME by NZME entering into the NZME Bilateral Facilities;
- APN Shareholders will be asked to consider the Demerger Resolution at the General Meeting;
- If the Demerger Resolution is passed by the requisite majority of APN Shareholders and all other conditions precedent to the Demerger are satisfied or waived:
  - Eligible Shareholders (other than Small Shareholders who elect to participate in the Sale Facility) will receive one NZME Share for every one APN Share which they hold as at the Demerger Record Date (rounded up to the nearest whole NZME Share);
  - Selling Shareholders will receive the Sale Facility Proceeds of the sale of their NZME Shares in accordance with the Sale Facility process described in Section 10.3; and
  - NZME will be established as an NZX and ASX listed company which is independent of APN.

10.2 THE DEMERGER STEPS

a) Restructure

General

APN has initiated the Internal Restructure, being an internal restructure to separate and align the relevant businesses, assets and liabilities of APN with the appropriate entity prior to the Demerger.

The Demerger Implementation Deed provides for the Internal Restructure to be completed so that:

- NZME is created as an identifiable and separate corporate group under NZME Limited, capable of operating on a standalone basis; and
- All subsidiaries, assets and liabilities which do not relate directly to the NZME business will continue to be held by APN upon the Demerger.

Broadly, the Restructure contemplates the following:

- Certain subsidiaries, business, assets and liabilities relating to the NZME business will be aligned or transferred to entities that will be subsidiaries of NZME following the Demerger;
- Certain subsidiaries, business, assets and liabilities relating to the APN business which are held by subsidiaries of NZME Limited will be aligned or transferred to entities that will be subsidiaries of APN (after the Demerger);
- Various intercompany loans, receivables and payables may be repaid or forgiven (other than ordinary trading receivables and payables which will be settled on normal commercial terms) so that upon the Demerger there will be no loans across the APN and NZME businesses outstanding; and
- Various distributions may be made between the subsidiaries of NZME and subsidiaries of APN.

In order to give effect to the share and asset transfers forming part of the Restructure, a series of share and asset sale agreements have been or will be entered into between APN and NZME. These sale agreements are on standard terms for intra-group share and asset sales, including limited title and capacity warranties given by both parties.

Not all of the transactions underlying the Restructure have been entered into or effected on the same terms as could have been obtained from third parties. In particular, agreements for the transactions underlying the Restructure have not included terms such as warranties that might have been obtained from third parties. This reflects the nature of the Demerger (which is unlike a sale to a third party) and the desire of the APN Board to allocate the risks and benefits between NZME and APN appropriately.

Restructure of financing arrangements

Debt funding for NZME is currently provided by APN. If the Demerger is implemented, these arrangements will be replaced by the NZME Bilateral Facilities.

As at the date of this Explanatory Memorandum, two banks have signed commitment letters to provide the NZME Bilateral Facilities in favour of Wilson & Horton Limited (which is to be renamed as "NZME Limited" prior to the implementation of the Demerger) and other members of the NZME Group.

Additional information on APN's and NZME's financing arrangements after the Demerger are outlined in Section 7, and Section 9, respectively.

b) General Meeting

The APN Board has convened the General Meeting to consider and, if thought fit, approve the Demerger Resolution. Details of this resolution is set out in the Notice of General Meeting in Annexure C.

The General Meeting is scheduled to be held at the office of Baker & McKenzie, Level 27, AMP Building, 50 Bridge Street, Sydney on Thursday, 16 June 2016 at 9.00am (AEST).

Each APN Shareholder who is registered on the APN Share Register at 7.00pm (AEST) on Tuesday, 14 June 2016 is entitled to attend the General Meeting and vote on the Demerger Resolution. Voting at the General Meeting will be by poll.

c) Demerger Resolution

APN has proposed the Demerger Resolution to permit APN to reduce its share capital on the Demerger Date. The consideration owing to the APN Shareholders under the Capital Reduction will be satisfied by an in specie distribution of NZME Shares under the Demerger to Eligible APN Shareholders, on the basis of one NZME Share for every APN Share.

The Demerger Resolution must be approved by a simple majority of votes cast on the resolution in order to be passed.

The APN Directors are of the view that, taking into account all relevant matters, the Capital Reduction is fair and reasonable to APN Shareholders as a whole and will not materially prejudice the ability of APN to pay its creditors. The Independent Expert has also concluded that the Demerger is in the best interests of APN Shareholders and the Capital Reduction will not materially prejudice APN's ability to pay its creditors.

d) Conditions Precedent

Implementation of the Demerger is subject to a number of Conditions Precedent being satisfied or waived. The key Conditions Precedent are summarised below:

- the requisite majority of APN Shareholders passing the Demerger Resolution;
- no order or injunction being issued by any court of competent jurisdiction and no other legal restraint or prohibition preventing the Demerger being implemented;
- all Regulatory Approvals, consents, waivers or other acts from Regulatory Authorities required for or, in the reasonable opinion of APN, desirable to implement the Demerger being obtained (either unconditionally or on conditions reasonably satisfactory to APN), including:
  - NZME having made an application for the NZME Shares to be quoted on the NZX Main Board and it having complied with all requirements of NZX relating thereto with which it must comply on or prior to commencement of the trading of NZME Shares on the NZX Main Board;
  - the ASX approving the admission of NZME to the ASX Official List as a Foreign Exempt Listing and granting permission for official quotation of NZME Shares on the ASX;
  - relief from ASIC from the requirement to prepare a prospectus in relation to the invitation to APN Shareholders to vote on the Demerger and in relation to any secondary trading in NZME Shares;
  - a draft class ruling from the Australian Tax Office confirming that APN Shareholders will get the benefit of demerger relief from the Demerger;
  - an exemption from the requirement to obtain consent from the New Zealand Overseas Investment Office to the Demerger under the *Overseas Investment Act 2005* (NZ) and the *Overseas Investment Regulations 2005* (NZ) or an approval from OIO for the Demerger (except that APN and NZME may decide, on advice acceptable to both parties acting reasonably, that no exemption or approval from the OIO is required for the Demerger and, if the parties so decide the parties will agree to waive this condition); and;
  - an exemption from Part 3 of the *Financial Markets Conduct Act 2013* (NZ) from the New Zealand Financial Markets Authority;
- execution by all signatories of, and completion of the transactions contemplated by, the Demerger Implementation Deed, the iHeart Radio Sublicence, the Tax Conduct Deed and the Master Shared Services Agreement
- execution of the Debt Documents by all signatories; and
- no event occurring prior to the distribution of the NZME Shares which would render that distribution unlawful.

The end date for satisfaction or waiver of these conditions is 30 September 2016 (or such other date as may be agreed by APN and NZME).

In addition to the conditions described above, the obligations of APN and NZME to implement the Demerger will terminate (and accordingly, the Demerger will not proceed) if any of the following events occur:

- the majority of the APN directors change their recommendation or withdraw their support for the Demerger; or
- an event occurs which results in one of the conditions described above being breached or becoming incapable of satisfaction and, where that condition is capable of being waived, APN and NZME have not waived that condition within five Business Days.

10.3 ENTITLEMENT TO PARTICIPATE IN THE DEMERGER

a) Eligible Shareholders

You are an Eligible Shareholder if you are an APN Shareholder whose registered address on the APN Share Register as at the Demerger Record Date is in:

- Australia or New Zealand; or
- any other jurisdiction in respect of which APN reasonably believes that it is not prohibited or unduly onerous or impractical to transfer NZME Shares to an APN Shareholder in that place.

If you are an Eligible Shareholder, you will be entitled to have NZME Shares transferred to you pursuant to the Demerger (and, if you are also a Small Shareholder, you may elect to participate in the Sale Facility). You will also continue to hold the same number of APN Shares that you held prior to the Demerger (unless you otherwise sell all or some of them or purchase any additional APN Shares).

b) Selling Shareholders and the Sale Facility

You are a Selling Shareholder if you are an Ineligible Overseas Shareholder or a Small Shareholder who elects to participate in the Sale Facility.

c) Ineligible Overseas Shareholders

You are an Ineligible Overseas Shareholder if you are not an Eligible Shareholder.

NZME Shares will not be transferred or distributed to Ineligible Overseas Shareholders. Instead, NZME Shares to which the Ineligible Overseas Shareholders would otherwise have been entitled will be transferred to the Sale Agent on your behalf and will be dealt with as described in Section 10.3(e).

You will continue to hold the same number of APN Shares that you held prior to the Demerger (unless you otherwise sell all or some of them or purchase any additional APN Shares).

d) Small Shareholders

If you are a Small Shareholder, being an Eligible Shareholder, who on the Demerger Record Date, individually holds:

- 3,500 APN Shares or less (if the Share Consolidation is not approved); or
- 500 APN Shares or less (if the Share Consolidation is approved),

you may elect to have all (but not some) of the NZME Shares to which you would have otherwise been entitled under the Demerger sold on market by the Sale Agent and the Sale Facility Proceeds remitted to you, free from any brokerage costs or stamp duty.

To make this election, you must complete and return the Sale Facility Form, in accordance with the instructions on that form, so that it is received by the APN Share Registry by 7.00pm (AEST) on Friday, 24 June 2016

Small Shareholders who do not elect to participate in the Sale Facility may keep, sell or otherwise deal with the NZME Shares transferred to them pursuant to the Demerger.

You will continue to hold the same number of APN Shares that you held prior to the Demerger (unless you otherwise sell all or some of them or purchase any additional APN Shares).

e) Operation of the Sale Facility

NZME Shares that would otherwise have been transferred to Selling Shareholders under the Demerger will be transferred to the APN Share Registry and will be sold by the Sale Agent under the Sale Facility.

On behalf of the Selling Shareholders, APN will procure that, as soon as reasonably practicable (and in any event not more than 20 Business Days following the Demerger Date or, subject to obtaining any necessary ASIC exemptions or waivers, such longer period of time which APN and the Sale Agent determine) ("Sale Period"), the Sale Agent sells, or procures the sale of those NZME Shares in the ordinary course of trading on market.

The Sale Agent will sell those NZME Shares on market, on either of, the ASX or the NZX, at such price and on such other terms as the Sale Agent determines in good faith, and at the risk of the Selling Shareholders.

As the market price of NZME Shares will be subject to change from time to time, the sale price of those NZME Shares and the proceeds of that sale are at the risk of the Selling Shareholders and cannot be guaranteed. The proceeds received by Selling Shareholders who participate in the Sale Facility will depend on the price at which the NZME Shares are sold under the Sale Facility at the relevant time, applicable exchange rates, and the amount of any applicable taxes, duty, currency conversion or other costs or charges incurred by the Sale Agent in connection with the sale of participating NZME Shares under the Sale Facility. A Selling Shareholder's pro rata share of the Sale Facility may be more or less than the value of the NZME Shares that the Selling Shareholder would have received. None of APN, NZME nor the Sale Agent gives any assurance as to the price that will be achieved for the sale of NZME Shares by the Sale Agent under the Sale Facility.

Selling Shareholders will be able to obtain information on the market price of NZME Shares on the NZX website at www.nzx.com or the ASX website at www.asx.com.au (ticker: NZM).

The net proceeds of the sale (after deducting any applicable taxes, duty, currency conversion or other costs and charges) will be transferred by the Sale Agent to the APN Share Registry and distributed in Australian currency by the APN Share Registry to the relevant Selling Shareholders on a pro rata basis so that all Selling Shareholders will receive the same price for each NZME Share sold on their behalf through the Sale Facility, subject to rounding down of the amount received to the nearest whole Australian cent by:

- Direct credit to the nominated bank account as noted on the APN Share Register on the Record Date; or
- Where an account has not been provided, dispatching by mail to the Selling Shareholder's address as shown on the APN Share Register as at the Record Date by cheque.

No brokerage will be payable in respect of NZME Shares sold under the Sale Facility.

The Sale Agent is acting for APN in connection with the Sale Facility. In providing services to APN in connection with the Sale Facility and the sale of NZME Shares, the Sale Agent is not acting as agent or sub agent of any Selling Shareholder, does not have any duties or obligations (fiduciary or otherwise) to any Selling Shareholder and does not underwrite the sale of the NZME Shares to be sold through the Sale Facility. Selling Shareholders will not receive any interest on the Sale Facility Proceeds relating to their NZME Shares.

10.4 IMPLEMENTATION OF THE DEMERGER

a) Entitlement to and transfer of NZME Shares

If the Demerger is implemented and if you are an APN Shareholder on the APN Share Register as at the Record Date, APN is obliged to transfer to you (or to the Sale Agent on your behalf if you are a Selling Shareholder) one NZME Share for every one APN Share you held at the Record Date.

The obligation to transfer NZME Shares to Eligible Shareholders and to the Sale Agent (in respect of Selling Shareholders) will be discharged by APN as follows:

- APN will execute instruments of transfer for the relevant NZME Shares, both on its own behalf and (as applicable) on behalf of Eligible Shareholders;
- APN will procure that the Sale Agent executes the instruments of transfer relating to NZME Shares in respect of Selling Shareholders; and
- APN will then deliver all of those instruments to NZME Limited for registration.

NZME Limited will register the transfers by entering the names of the Eligible Shareholders and the Sale Agent (as applicable) in the NZME Share Register in respect of NZME Shares transferred to them.

It is expected that Eligible Shareholders (other than those who are Selling Shareholders) will have their names entered on the NZME Share Register by Wednesday, 29 June 2016.

Except for Eligible Shareholders' tax file numbers, any binding instruction or notification between an Eligible Shareholder and APN relating to APN Shares as at the Record Date (including any instructions relating to payment of dividends or to communications from APN) will, unless otherwise determined by NZME Limited, be deemed to be a similarly binding instruction or notification to NZME Limited in respect of relevant NZME Shares. NZME shareholders may subsequently revoke or amend such instructions or notifications by written notice to NZME Limited at its registered address or at the NZME Share Registry.

b) Consequences of approving the Demerger

If APN Shareholders pass the Demerger Resolution, on the Demerger Date (expected to be Wednesday, 29 June 2016):

- APN will undertake the Capital Reduction;
- if you were an APN Shareholder at the Record Date, APN will transfer the amount of NZME Shares to which you are entitled to you if you are an Eligible Shareholder (other than a Small Shareholder who elected to participate in the Sale Facility) or to the Sale Agent on your behalf if you are a Selling Shareholder (as applicable);
- NZME Limited will drawdown from NZME Bilateral Facilities and apply sufficient proceeds of that drawdown to repay the outstanding balance of any amounts owed by a member of NZME to a member of APN (after the Demerger) by way of debt or other financial accommodation; and
- as a result of implementation of the Demerger, NZME will cease to be part of APN.

Please refer to Sections 10.3(a) and 10.3(b) to determine whether you are an Eligible Shareholder or Selling Shareholder.

c) ASX and NZX compliance listing of NZME

NZME will apply, within 7 days after the date of this Explanatory Memorandum, to NZX for permission to list NZME and to quote the NZME Shares on the NZX Main Board. NZME will also apply, within 7 days after the date of this Explanatory Memorandum, to ASX for admission to the list of ASX, and for official quotation of all NZME Shares on ASX.

If the Demerger is implemented, NZME Shares will trade under the code NZM, and are expected to commence trading on NZX and ASX on a deferred settlement basis (on a post consolidation basis) on Monday, 27 June 2016 and on a normal settlement basis on or about Friday, 1 July 2016.

If you are an Eligible Shareholder who will receive NZME Shares, it is your responsibility to determine your entitlement to NZME Shares before trading those shares, to avoid the risk of selling NZME Shares that you do not or will not own. If you sell NZME Shares without receiving confirmation of your entitlement, you do so at your own risk.

If you are an Eligible Shareholder who will receive NZME Shares, holding statements for NZME Shares are expected to be dispatched to you by Thursday, 30 June 2016. A holding statement will be sent to you by prepaid post to your address on the APN Share Register. If you are a joint shareholder, holding statements for NZME Shares will be sent to the address of the Eligible Shareholder whose name first appears on the APN Share Register.

Whether or not the Demerger proceeds, APN will continue to be listed on ASX and APN Shares will continue to be quoted on ASX under the APN code.

10.5 SUMMARY OF AGREEMENTS RELATING TO THE DEMERGER

The key transaction documents to give effect to the Demerger are summarised below.

a) Demerger Implementation Deed

APN and NZME have entered into the Demerger Implementation Deed to facilitate the orderly separation of NZME from APN and the transition and emergence of NZME as an independently owned corporate group.

The key terms of the Demerger Implementation Deed are as follows:

- Benefit: Each party holds the benefit of the Demerger Implementation Deed on trust for its respective directors and officers.
- Conditions precedent: The Demerger Implementation Deed sets out the conditions precedent to completion of the Demerger. These conditions and the date by which they must be satisfied or waived are described in this document at Section 10.2(d).
- Timing: The Demerger Implementation Deed sets out the parties' objectives in relation to progress against and amendments to the timetable for the Demerger (which is discussed at Section 2 of this document). The common objective is to implement the Demerger as soon as possible once all the conditions precedent have been satisfied or waived (see further at Section 10.2(d) of this document) and in any event prior to 30 September 2016. The parties must, and must procure that their subsidiaries, do all things necessary or desirable for the implementation of the Demerger substantially in accordance with the timetable, including satisfying any conditions precedent and implementing the internal restructure (as described in Section 10.2(a)). APN and NZME may agree to revise timetable if necessary or desirable, including at the request of the ASX or NSX or to reflect timing requirements relating to the conditions precedent.
- This document: NZME is responsible for preparing those sections of this document specific to NZME and the NZ Businesses. APN is responsible for preparing all other sections of this document. Each party indemnifies the other party, its subsidiaries and their respective directors, officers and advisers (each, an Indemnified Party) for any claims, liabilities and loss suffered by an Indemnified Party arising out of those sections of this document for which the indemnifying party is responsible. The maximum aggregate liability of a party under or in connection with this document (including under the aforementioned indemnity) is capped at $20 million for APN and A$20 million for NZME.
  If for any reason the indemnity given by APN is unavailable or insufficient to fully indemnity an Indemnified Party then, subject to the liability cap, APN agrees to contribute an amount reflective of its responsibility in relation to the claim, liability or loss suffered as agreed between APN and NZME (or failing such agreement, as determined by a court of competent jurisdiction).
- Other obligations: Both parties must cooperate in preparing this document and use reasonable endeavours to obtain all required consents and approvals and satisfy all conditions precedent. APN is responsible for calling the meeting the subject of this document. NZME must use reasonable endeavours to ensure that any requirements relating to the proposed listing of the NZME Shares on the ASX and NZX are met so that trading in NZME Shares can commence in accordance with the timetable for the Demerger (please refer to Section 2 of this document for information relating to the timetable).
- Internal restructure: Both parties must, and must procure that their subsidiaries, execute all documents and do all acts and things as may be necessary or desirable for the implementation of the internal restructure described in Section 10.2(a) of this document prior to the Demerger. An indicative restructure steps plan is appended to the Demerger Implementation Deed, however the parties acknowledge that this plan is subject to change – in particular, many of the figures used will be determined by actual trading of the relevant businesses in the period prior to Completion.
- Assets: Following the Demerger, if any asset with a value over $10,000 which exclusively relates to a NZME Business is identified as being owned by APN or a subsidiary of APN, APN

must transfer, assign or grant rights over that asset to NZME at APN's cost (including any taxes and duty payable on the transfer). Reciprocal obligations apply to NZME for assets with a value over $10,000 which are held by NZME or a subsidiary of NZME but do not relate exclusively to the NZME Businesses. APN is responsible for the costs associated with these transfers from NZME/its subsidiaries (including any taxes and duty payable on the transfer). Any security interests over these assets must be released prior to these transfers taking place. There is a related acknowledgement in the Demerger Implementation Deed that certain business units and functions (such as the shared services provided by the "GFS" division of APN Holdings NZ Limited) are or will be part of, but are not exclusively used by, the NZME Businesses.

- Shared contracts: If any shared contracts exist under which both parties have rights but only one of APN or NZME is a party (and that shared contract is not covered by the Master Shared Services Agreement, the Tax Conduct Deed, the iHeart Radio Sublicence or the Debt Documents), then APN and NZME will work together to agree a commercially acceptable solution.
- Financial support: NZME is obliged to use its best endeavours to procure the release of all encumbrances, guarantees and other forms of security and financial support (Guarantees) given by APN or an APN Group company in respect of the NZME Businesses within six months following Completion, including offering to provide replacement Guarantees from NZME or its Subsidiaries as consideration for the release. NZME indemnifies APN against all liabilities in relation to such Guarantees until they are released.
- Limitations on liability: Neither party is liable for any indirect or consequential loss arising from or related to the Demerger Implementation Deed or its subject matter. Both parties are required to take all reasonable steps to mitigate any loss or liability that may give rise to a claim under the Demerger Implementation Deed. Past and present directors, officers, advisers and related bodies corporate are released from any claims in relation to anything done in connection with the Demerger Implementation Deed or the Demerger provided they have not acted in bad faith or engaged in wilful misconduct.
- Demerger costs: Each party is responsible for its own costs in relation to the Demerger Implementation Deed and the transactions contemplated by it.
- Insurance: Each party must take all steps required to maintain the existing insurance cover in respect of the directors and officers of each APN Group company or insurance cover on no less favourable terms than the terms of the existing cover, including making all payments required.
- Use of names: NZME must cease using any reference to "APN", including in names and corporate logos, and ensure that its subsidiaries do the same. Any subsidiary of NZME that has "APN" as part of its name must change its name. APN has reciprocal obligations in relation to "NZME", except that APN and its subsidiaries may use the name "NZME" to indicate their historical connection with NZME and as necessary in order to comply with statutory reporting obligations. Each party is also prohibited from registering a name or trade mark which includes substantially all of any business name, trade mark or name of the other party or its subsidiaries, or any confusingly similar word or words.
- Non compete: Subject to certain limited exceptions, for a period of 12 months following the date the NZME Shares commence trading (on a deferred settlement basis) on the NZX:
  - APN is prohibited from being involved in any business in New Zealand that is competitive with the NZME Businesses (except that APN is not restricted in any way from being involved in the "Adshel" joint venture business conducted by APN and its joint venture partner, Clear Channel); and
  - NZME is prohibited from being involved in any business in Australia and Hong Kong that is competitive with the APN Businesses and from being involved in any business (wherever it is located) that is competitive with the out of home and related advertising businesses conducted by the "Adshel" joint venture, including in New Zealand.

  Each party is also prohibited from soliciting or interfering with employees of the other party or its subsidiaries within those territories, or interfering with the relationship between a party and its clients, for that 12 month period. The restriction on soliciting employees does not apply to anyone who answers a publicly advertised position.
- Adshel: If, following the Demerger, APN acquires the 50% interest in the "Adshel" joint venture currently held by its joint venture partner Clear Channel (CC Interest), then NZME may elect to acquire the New Zealand arm of the "Adshel" business (Adshel NZ) from APN for a price calculated using the same multiple paid on EBITDA in the 12 months prior to the proposed acquisition as was paid by or on behalf of APN to Clear Channel for the CC Interest on the same basis, subject to customary completion adjustments.

  NZME has one month from the date APN acquired the CC Interest to notify APN of its intention to acquire Adshel NZ (with such notice being irrevocable) and a further two months in which to complete its acquisition of Adshel NZ.

b) Master Shared Services Agreements

There are two Master Shared Services Agreements, to be entered into between:

a) APN News & Media Limited and NZME; and
b) ARM and NZME.

The two Master Shared Services Agreements are in similar terms, and are separated for practical purposes given somewhat different service arrangements between APN and NZME as compared with ARM and NZME. For simplicity, we refer primarily to the APN/NZME Master Shared Services Agreement below.

The purpose of the Master Shared Services Agreement is to ensure that, where APN or NZME were providing services to each other prior to the Demerger which are essential to the operation of the APN and NZME business, those services will continue to be provided for a defined transition period.

Under the Master Shared Services Agreement, APN and NZME (each a "Service Provider" or "Service Recipient", as relevant) agree to provide certain services to each other. The services to be provided include:

a) accounting services (including general accounting, accounts payable, accounts receivable and billing), payroll services, certain IT services, customer service and credit control services to be provided by NZME to APN; and
b) head office services (including legal support, company secretarial support, taxation and compliance support and

banking and treasury services), and certain IT services to be provided by APN to NZME.

Each service to be provided is a "Shared Service", and is summarised in a schedule to the Master Shared Services Agreement. The relevant schedule sets out (amongst other things) the term during which the Shared Service is to be provided, the amount of notice required for termination of the Shared Service, a minimum period during which the Shared Service cannot be terminated, the fees to be paid by the recipient of the Shared Service and a description of the Shared Service. Each party must nominate a suitably qualified person as its "Co-ordinator" under the Master Shared Services Agreement. The Co-ordinators are responsible for the operational co-ordination and management of the provision of the Shared Services.

Services levels which the service provider must meet in providing a Shared Service are also set out under the Master Shared Services Agreement. However, the service performer may perform the Shared Services in the manner in which it thinks fit from time to time, and the Service Provider may change the nature or method of provision of the Shared Services (including practices and procedures and the location from which the Shared Services are provided).

Before the termination of the Master Shared Services Agreement (or the termination of a Shared Service provided under it), APN and NZME are required to negotiate and finalise a "Transition Plan" setting out how and when the relevant services will be transferred to the recipient, the disengagement plan that will operate upon termination of the Master Shared Services Agreement, any transition services to be provided by a Service Provider and the fees to be paid for the provision of the transition services.

The service terms for the majority of the Shared Services to be provided under the Master Shared Services Agreement is three years, however the parties have options to extend the provision of requested services beyond this term.

c) Tax Conduct Deed

The Tax Conduct Deed is to be entered into by APN and NZME in order to manage certain tax issues specified the Tax Conduct Deed (which are those described in Section 6.12, or identified following the date of the Tax Conduct Deed and added to its scope) in accordance with the process set out under the document (each a "Tax Matter").

In relation to each Tax Matter, a "Co-ordinating Party" is nominated to have primary carriage of the conduct of the Tax Matter, including by taking primary control of the appointment of lawyers, tax advisers, experts and valuers, the conduct of litigation and any settlement negotiations, and communications with relevant government agencies in relation to the Tax Matter. The Tax Conduct Deed contemplates that the role of Co-ordinating Party may transfer to the counterparty in certain circumstances. The costs incurred in relation to the conduct of each Tax Matter will be borne by the party primarily at risk in relation to the Tax Matter. That party is specified in the schedule to the document or, where the Tax Matter is added to the scope of the Tax Conduct Deed after execution of the document, the parties agree to act reasonably to allocate costs to the party primarily at risk in relation to the relevant Tax Matter.

In acting as the "Co-ordinating Party" in relation to a Tax Matter, each party must act in good faith with regard to all matters material to the goodwill of the Co-ordinating Party, and taking into account the reasonable requirements of the other party. The Co-ordinating Party must provide written reports to the other party at reasonable and regular intervals about the progress of the Tax Matter, and must consult reasonably with the other party about the Tax Matter (including in relation to any strategy to be adopted in relation to the Tax Matter, the retention of service providers, the provision of instructions to lawyers or other tax advisers and the settlement of the Tax Matter). In relation to each Tax Matter the parties have identified a number of issues which must be unanimously agreed - these include the engagement strategy with the relevant tax authority and any agreement to compromise or settle a claim.

d) iHeart Sub-licence

The existing Sublicence of Distribution Rights for the iHeartRadio Service New Zealand between APN and an NZME subsidiary in relation to iHeart Radio (**"NZ Sublicence"**) will be amended as part of the implementation of the Demerger.

Previously under the NZ Sublicence, ARN sublicensed to The Radio Network Limited, for the territory of New Zealand, the right to market and promote, and to sell advertising and sponsorship in respect of, the internet radio streaming and customisation platform and software owned and operated by Clear Channel Broadcasting Inc ("CCB") (as developed for use within Australia and New Zealand) ("Territory Application") and the mobile application ("Mobile Application").

Under the Deed of Variation, the NZ Sublicence will be varied to add NZME. Networks Limited and APN as parties to the document, and to confirm various aspects of the sublicence referred to above to NZME. Networks Limited. NZME. Networks Limited also has the right to further sublicense its rights under the NZ Sublicence. The sublicence continues until 30 June 2024, unless the NZ Sublicence is terminated in accordance with its terms (for example, for material breach or failure to perform by a party to the NZ Sublicence). These terms include obligations on NZME to pay to ARN 40% of certain fees and charges payable by ARN to CCB under the iHeartRADIO Agreement and/or the Exclusive Distribution and Services Agreement between CCB, ARN and APN. The liability of each party under the NZ Sublicence is in most instances limited to the total amount of fees payable by NZME to ARN for the sublicence.

Under the amended NZ Sublicence, NZME:

a) must provide ARN with all assistance as is necessary to facilitate the development of the Territory Application by CCB in New Zealand and the Mobile Application pursuant to the iHeartRadio Agreement;
b) will be entitled to access maintenance service support on the same basis as maintenance and support is provided by CCB to ARN (and ARN must keep NZME copied on all correspondence with CCB regarding maintenance and service support);
c) is sublicensed the exclusive right to sell advertising in and sponsorship of the Territory Application and Mobile Application in New Zealand, subject to agreed exceptions (for example, audio advertising in or sponsorship of simulcasts of CCB or ARN owned or operated radio stations);
d) agrees that all advertising and sponsorship relating to the Territory Application and Mobile Application must be in accordance with CCB's guidelines as provided by ARN to NZME and updated from time to time;
e) is granted a non-exclusive, sublicence to use certain trade marks owned by CCB; and

agrees to obtain, maintain and pay for all relevant rights, clearances and licences relating to the Territory Application and the Mobile Application including those required to operate and broadcast content on each application in New Zealand.

11 TAX IMPLICATIONS FOR SHAREHOLDERS

IMPORTANT INFORMATION

a) Section 11 contains a general outline of the taxation implications for certain shareholders of APN that are tax resident in Australia or New Zealand.

b) This does not constitute tax advice. This document does not take into account shareholders' individual investment objectives, financial situation or needs. This document is not a complete analysis of all taxation laws which may apply in relation to the Demerger for shareholders. All shareholders of APN should consult with their own independent taxation advisers regarding the taxation implications of participating in the Demerger given the particular circumstances which apply to them.

c) Special rules may apply to certain shareholders such as tax exempt organisations, listed investment companies, insurance companies, superannuation funds, portfolio investment entities, banks, shareholders who hold their APN Shares as trading stock, shareholders and their associates that hold 10 per cent or more of the issued share capital in APN or NZME (as applicable), shareholders that use NZME Shares at any time in carrying on business through an Australian or New Zealand permanent establishment, shareholders that hold shares as part of a straddle or a hedging or conversion transaction and shareholders who hold their APN Shares in conjunction with an employee share scheme. This outline does not address any of the above circumstances or special rules.

d) This outline relates solely to matters governed by, and should be interpreted in accordance with, the laws of the various countries as in force and as interpreted at 9:00am (AEST) on the date of this document. Future amendments to taxation legislation, or its interpretation by the courts or the taxation authorities may take effect retrospectively and/or affect the conclusions drawn. This outline does not take into account or anticipate changes in the law (by legislation or judicial decision) or practice (by ruling or otherwise) after that time.

Australian Tax Consequences for APN Shareholders that are residents of Australia for income tax purposes

Scope

The following is a general outline of the main Australian taxation implications in relation to the Demerger and Share Consolidation for APN Shareholders who (i) are residents of Australia for income tax purposes (and are not tax residents of any other country), (ii) hold their APN Shares on capital account for income tax purposes, (iii) acquired, or were deemed to have acquired, their APN Shares on or after 20 September 1985 (Post-CGT APN Shares), (iv) are not subject to the rules concerning the taxation of financial arrangements contained in Division 230 of the Income Tax Assessment Act 1997 (Cth) in respect of their APN Shares and (v) participate in the APN Distribution (Participating Australian Shareholders).

A. Share Consolidation

No capital gains tax event should occur as a result of the Share Consolidation because there will be no change to the proportionate beneficial interests held by each Shareholder.

The consolidated shares will have the same acquisition date as the original shares for the purposes of determining any capital gains tax discount.

Participating Australian Shareholders should not be subject to GST in Australia or stamp duty in any State or Territory as a result of the Share Consolidation

B. Demerger

Class Ruling

APN has applied to the Australian Commissioner of Taxation (Commissioner) for a class ruling confirming certain income tax implications of the Demerger for Participating Australian Shareholders. The final class ruling is expected to be received from the Commissioner shortly after the Demerger. APN will notify Shareholders as soon as a ruling is released.

The class ruling application is principally concerned with (i) confirming that any dividend deemed under the Demerger will not be assessable to Participating Australian Shareholders, (ii) confirming that a roll-over may be chosen to disregard any capital gain made by Participating Australian Shareholders, (iii) confirming the appropriate methodology for allocating the cost base of the APN Shares between the APN Shares and the NZME Shares distributed under the Demerger, (iv) determining the acquisition time of the NZME Shares for Participating Australian Shareholders, and (v) confirming that the Commissioner will not apply the anti-avoidance rules applicable to demergers.

APN expects to receive a draft class ruling setting out the Commissioner's preliminary but considered view before the General Meeting on Thursday, 16 June 2016. However, as at the date of this document, the final class ruling is yet to be issued. Accordingly, the information below includes the implications for Participating Australian Shareholders in circumstances where demerger tax relief does apply and, alternatively, where demerger tax relief does not apply.

Outline of the Australian taxation implications of the APN Distribution

i. Implications for Participating Australian Shareholders if demerger tax relief is available

A. APN Distribution

To the extent the distribution of the NZME Shares to Participating Australian Shareholders is treated as a demerger dividend for income tax purposes the relevant amount will not be assessable income or exempt income

B. CGT consequences for Participating Australian Shareholders who hold post-CGT shares

A capital gains tax (CGT) event will happen in relation to each APN Share held by a Participating Australian Shareholder as a result of the Demerger. However, any capital gain or loss will be disregarded if the Participating Australian Shareholder chooses to obtain a rollover.

If demerger tax relief is available then, irrespective of whether demerger tax relief is chosen, Participating Australian Shareholders must apportion the tax cost base of their Post-CGT APN Shares just before the Demerger between the Post-CGT APN Shares and NZME Shares held just after the Demerger.

The first element of the tax cost base of each Post-CGT APN Share and corresponding NZME Share held by a Participating Australian Shareholder immediately after the Demerger will be determined as follows:

i. calculate the total of the cost bases of the Post-CGT APN Shares held (worked out just before the Demerger);
ii. apportion the result of the above calculation between the Post-CGT APN Shares and corresponding NZME Shares held after the Demerger, having regard to the market values (or a reasonable approximation thereof) just after the Demerger of the shares. APN will provide Participating Australian Shareholders with information to assist them in determining the respective cost bases of their Post-CGT APN Shares and corresponding NZME Shares, on the APN website after the Demerger.

Irrespective of whether demerger tax relief is chosen, Participating Australian Shareholders will be treated as having acquired the corresponding NZME Shares on the same date as their Post-CGT APN Shares for the purpose of determining the availability of the CGT discount in respect of any subsequent disposal of those shares (see below). For example, if a Participating Australian Shareholder acquired their Post-CGT APN Shares on 1 July 2010, the corresponding NZME Shares received under the Demerger will be deemed to have been acquired on 1 July 2010.

ii. Implications for APN Shareholders if demerger tax relief is not available

If the Australian Taxation Office ultimately rules that demerger tax relief is not available, then instead of the implications outlined above, the following implications will apply for Participating Australian Shareholders:

- the demerger dividend component (if any) of the APN Distribution and any other amount deemed by the Commissioner of Taxation to be a dividend will be required to be included in their assessable income.
- if the "capital" component of the APN Distribution exceeds the CGT cost base of their APN Shares, a capital gain may arise, otherwise, the CGT cost base of their APN Shares is reduced to the extent of the "capital" component of the distribution;
- the Participating Australian Shareholders will be treated as having acquired the NZME Shares corresponding to their APN Shares on the day of the APN Distribution for the purpose of determining the availability of the CGT discount in respect of any subsequent disposal of those shares (see below). The first element of the tax cost base of the NZME Shares should be their market value on the day of the APN Distribution.

Goods and services tax (GST)

The transfer of the NZME Shares to Participating Australian Shareholders and any other distribution as a result of the APN Distribution will not be subject to GST in Australia.

Stamp duty

Participating Australian Shareholders should not be subject to stamp duty in any Australian State or Territory in respect of the transfer of the NZME Shares to them under the Demerger.

Outline of Australian taxation implications of holding NZME Shares after the Demerger

i. Dividends

Participating Australian Shareholders will generally be required to include dividends in respect of NZME Shares in their assessable income for the income year in which the dividends are received.

However, Participating Australian Shareholders that are a corporate tax entity and have a participation interest of at least 10% in NZME may be able to treat such dividends as non-assessable non-exempt. Such entities should seek their own independent advice.

Dividends paid by NZME to its shareholders will not be subject to Australian withholding tax.

Dividends paid by NZME to its Australian shareholders may however be subject to New Zealand withholding tax. If New Zealand withholding tax is payable on dividends from NZME, shareholders who are tax resident in Australia should seek their own tax advice to determine the Australian and foreign taxation implications, including whether or not a foreign income tax offset may be available.

ii. Sale of shares

A capital gain will arise to the extent the capital proceeds from the disposal of the NZME Shares exceed the cost base of the shares sold.

A capital loss will be incurred to the extent the capital proceeds are less than the reduced cost base of the shares held by a Participating Australian Shareholder. A capital loss may be able to be offset against other capital gains of the Participating Australian Shareholder arising in the same tax year or otherwise carried forward and offset against capital gains realised in the future (subject to satisfaction of loss recoupment tests for certain taxpayers).

For the purpose of determining whether a Participating Australian Shareholder will realise a capital gain or a capital loss in respect of the disposal of NZME Shares, the cost base or reduced cost base of the NZME Shares will be the adjusted cost base of the shares, determined as set out above.

Participating Australian Shareholders who are individuals or trustees of trusts (other than a trust that is a complying superannuation fund) may be entitled to discount the amount of their capital gain from the disposal of NZME Shares (after taking into account current year or carry forward capital losses) by 50 per cent if the disposal is of shares they acquired, or are deemed to have acquired, at least 12 months before the disposal. The time of acquisition of NZME Shares will be determined as set out above.

Alternatively, Participating Australian Shareholders who acquired, or are deemed to have acquired, APN Shares and NZME Shares prior to 21 September 1999 may choose to adjust the cost base of their shares to include indexation (by reference to changes in the Consumer Price Index) from the calendar quarter in which the shares were acquired until the quarter ended 30 September 1999 (instead of applying the CGT discount).

Although trustees of trusts may be entitled to the above CGT discount, special rules apply in respect of beneficiaries of such trusts. Participating Australian Shareholders that are trustees should consult with their own independent tax advisers regarding the income tax implications of distributions attributable to discount capital gains.

Participating Australian Shareholders that are companies (not acting as trustees) will not be entitled to the CGT discount but may be required to reduce their gain or loss where they hold a direct voting percentage of 10% or more in NZME for a certain period.

Such entities should consult their own independent tax advisers if they may fall into this category.

iii. Goods and services tax (GST)

The receipt of a dividend in respect of NZME shares or sale of NZME shares should not be subject to GST in Australia.

iv. Stamp duty

The receipt of a dividend in respect of NZME shares or sale of NZME shares should not be subject to stamp duty in any Australian State or Territory.

v. Sale Facility

The Australian income tax implications of selling NZME Shares received under the Demerger via the Sale Facility will depend on whether Demerger tax relief is available. The Australian income tax, GST and stamp duty implications will generally be the same as those set out above.

Australian Tax Consequences for APN Shareholders that are residents of New Zealand for income tax purposes

The following is a general outline of the main Australian taxation implications in relation to the Demerger and Share Consolidation for APN Shareholders who (i) are residents of New Zealand for income tax purposes (and are not tax residents of any other country), (ii) hold their APN Shares on capital account for income tax purposes, (iii) acquired, or were deemed to have acquired their APN Shares, on or after 20 September 1985 (Post-CGT APN Shares), (iv) are not subject to the rules concerning the taxation of financial arrangements contained in Division 230 of the Income Tax Assessment Act 1997 (Cth) in respect of their APN Shares and (v) participate in the APN Distribution.

A. Share Consolidation

No capital gains tax event should occur as a result of the Share Consolidation because there will be no change to the proportionate beneficial interests held by each Shareholder.

The consolidated shares will have the same acquisition date as the original shares for the purposes of determining any capital gains tax discount.

The APN Shareholders should not be subject to GST in Australia or stamp duty in any State or Territory as a result of the Share Consolidation

B. Demerger

Any capital gain or loss for APN Shareholders who receive NZME shares should be disregarded on the basis that the shares in APN should not be "taxable Australian property".

Unfranked dividends are subject to dividend withholding tax at the rate of 30% (unless reduced under a relevant double tax treaty).

To the extent the Commissioner indicates to APN in a draft Class Ruling or APN forms a view, based on communications with the Commissioner, that some or all of the APN Distribution is a demerger dividend and not deemed to be a dividend under a specific anti-avoidance provision, APN will not deduct any dividend withholding tax in respect of that portion of the APN Distribution.

The APN Shareholders should not be subject to GST in Australia or stamp duty in any State or Territory as a result of the APN Distribution.

New Zealand tax consequences for APN Shareholders that are residents of New Zealand for income tax purposes

Scope

The following is a general outline of the main New Zealand taxation implications in relation to the Demerger and Share Consolidation for APN Shareholders who are (i) residents of New Zealand for income tax purposes (and are not tax residents of any other country), (ii) hold their APN Shares on capital account for income tax purposes, and (iii) are distributed NZME Shares under the Demerger, referred to in this document as the APN Distribution (Participating New Zealand Shareholders).

A. Share Consolidation

On the basis that (i) shareholders are provided no consideration for the Share Consolidation transaction, (ii) there is no change to the proportionate beneficial interests held by each Shareholder, (iii) from a corporate law perspective the Share Consolidation does not involve shares being cancelled or new shares being issued, and (iv) the value of the aggregated shares owned by each shareholder remains unchanged, there should be no adverse New Zealand tax consequences for New Zealand resident Shareholders as a result of the Share Consolidation.

B. Demerger

a) Outline of New Zealand taxation implications of the APN Distribution

APN Distribution

For Participating New Zealand Shareholders, the receipt of NZME Shares will be a dividend for New Zealand tax purposes, because the capital reduction of APN will not be effected by way of a share cancellation of any APN Shares held by Participating Shareholders and the New Zealand share cancellation tax rules will not apply (which exclude certain share cancellations from being dividends).

Participating New Zealand Shareholders will need to include the APN Distribution in a tax return as assessable income for the income year in which the APN Distribution is received.

For New Zealand tax purposes, the value of a Participating New Zealand Shareholder's taxable dividend will be equal to the market value on the APN Distribution Date of the NZME Shares received by that Participating New Zealand Shareholder. Participating New Zealand Shareholders will need to convert that market value figure into New Zealand dollars in accordance with a prescribed method for the purposes of inclusion in their income tax returns.

The New Zealand income tax implications of the APN Distribution for Participating New Zealand Shareholders having their NZME Shares sold via the Sale Facility will generally be the same as those set out above.

Goods and services tax (GST)

The transfer of the NZME Shares to Participating New Zealand Shareholders as a result of the APN Distribution will not be subject to GST in New Zealand.

b) Outline of New Zealand taxation implications of holding NZME Shares after the Demerger

i. Dividends

Dividends received by Participating New Zealand Shareholders in relation to their NZME Shares will be taxable income for New Zealand tax purposes and will need to be included in a tax return as assessable income for the income year in which the dividend is received.

Any New Zealand imputation credits attached to the dividends received on their NZME Shares under New Zealand's imputation credit system should be available for use by Participating New Zealand Shareholders for the purposes of a credit against their New Zealand income tax liability.

ii. Sale of shares

New Zealand does not have a generic capital gains tax. However, Participating New Zealand Shareholders may be subject to New Zealand income tax on gains made on the sale or other disposal of NZME Shares or allowed a deduction for a loss sustained, in certain circumstances.

Generally, a Participating New Zealand Shareholder will be subject to income tax on a gain (or allowed a deduction for a loss) arising from the sale or disposal of NZME Shares if the Participating New Zealand Shareholder is in the business of dealing in shares, or disposes of the NZME Shares as part of a profit-making undertaking or scheme, or acquires the NZME Shares with the dominant purpose of selling them. Previously, the New Zealand Inland Revenue has accepted in relation to similar demerger transactions that where the shares in the head company are held on capital (non-taxable) account by a shareholder, the new shares received by that shareholder by way of a demerger dividend paid by that head company should, generally speaking, also be held on capital (non-taxable) account, assuming no change in the circumstances of the shareholder. However, Participating New Zealand Shareholders will need to consider their individual circumstances and tax status at the relevant time to determine whether any gain on the sale or disposal of NZME Shares will be taxable to them, or loss deductible, for tax purposes.

If any gain on disposal of NZME Shares is taxable (or loss deductible) to a Participating New Zealand Shareholder, the taxable gain (or deductible loss) will be the difference between the cost base for that Participating New Zealand Shareholder in the NZME Shares and amount received for their disposal. The cost base for the NZME Shares will be their market value on the APN Distribution Date.

iii. Goods and services tax (GST)

The sale or other disposal by Participating New Zealand Shareholders of NZME Shares after the Demerger will not be subject to GST in New Zealand.

New Zealand Tax Consequences for APN Shareholders that are residents of Australia for income tax purposes

The following is a general outline of the main New Zealand taxation implications in relation to the Demerger and Share Consolidation for APN Shareholders who (i) are residents of Australia for income tax purposes (and are not tax residents of any other country), (ii) hold their APN Shares on capital account for income tax purposes, (iii) participate in the APN Distribution (Participating Australian Shareholders).

A. Share Consolidation

There should be no adverse New Zealand tax implications as a result of the Share Consolidation of APN Shares for Participating Australian Shareholders.

B. Demerger

a) APN Distribution

For participating Australian Shareholders, the APN Distribution should not attract any New Zealand dividend withholding tax on the basis that the distribution does not constitute a dividend sourced in New Zealand.

b) Outline of New Zealand tax implications of Australian resident Shareholders holding NZME Shares after the Demerger

i. Dividends

Dividends received by Participating Australian Shareholders in relation to their NZME Shares will be subject to New Zealand withholding tax (assuming they own less than 10% of NZME Shares). New Zealand non-resident withholding tax ("NRWT") of 15% (reduced from a 30% NRWT rate) will apply to taxable dividends paid on NZME Shares to the extent the dividend is fully imputed, or under the Australian/New Zealand double tax agreement. If NZME pays a fully imputed dividend, then NZME may use the Foreign Investor Tax Credit ("FITC") regime to pay an additional supplementary dividend which effectively offsets the NRWT on the dividend for Participating Australian Shareholder (and if less than a fully imputed dividend, then a portion of the NRWT can effectively be offset).

ii. Sale of Shares

The New Zealand income tax implications for Participating Australian Shareholders on the sale of NZME Shares will generally be the same as those New Zealand tax implications set out above for Participating New Zealand Shareholders, subject to the following comments.

If an Australian Participating Shareholder is prima facie subject to New Zealand tax on sale, is a resident of Australia and does not have a permanent establishment in New Zealand, the Australia/New Zealand double tax agreement should prevent New Zealand from imposing tax to the extent that the sale proceeds are considered to be business profits of the Australian Participating Shareholder.

If the Australian Participating Shareholder derives a taxable gain on the sale or disposal of NZME Shares and the New Zealand tax liability is not relieved under the double tax agreement, the Australian Participating Shareholder will be required to include that gain in a New Zealand tax return for the tax year in which the sale occurs and pay tax in New Zealand at the applicable tax rate.

iii. Goods and services tax (GST)

The sale or other disposal by Participating Australian Shareholders of NZME Shares after the Demerger will not be subject to GST in New Zealand.

12 INVESTIGATING ACCOUNTANT'S REPORT

The Directors
APN News & Media Limited
Level 4
100 William Street
Sydney NSW 2011

11 May 2016

Dear Directors

Investigating Accountant's Report

Independent Limited Assurance Report on historical and pro forma historical financial information and Financial Services Guide

We have been engaged by APN News & Media Limited (APN or the **Company**) to report on historical financial information and the pro forma historical financial information for the years ended 31 December 2013, 31 December 2014 and 31 December 2015 for inclusion in the explanatory memorandum and notice of meetings (together, the **Demerger Document**) dated on or about 11 May 2016 and relating to the proposed demerger of the Company's New Zealand operations (**NZME**) (the **Demerger**) and listing of NZME on the New Zealand Exchange and Australian Securities Exchange.

Expressions and terms defined in the Demerger Document have the same meaning in this report.

The nature of this report is such that it can only be issued 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 under the Corporations Act 2001. 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.

Scope

Historical Financial Information

You have requested PricewaterhouseCoopers Securities Ltd to review the following historical financial information included in the Demerger Document (the **Historical Financial Information**):

- the APN statutory historical Balance Sheet as at 31 December 2015;
- the APN statutory historical Income Statement for the years ended 31 December 2013, 31 December 2014 and 31 December 2015; and
- the APN statutory historical net operating Cash Flow Statements for the years ended 31 December 2013, 31 December 2014 and 31 December 2015;

The Historical Financial Information has been prepared in accordance with the stated basis of preparation, being the recognition and measurement principles contained in Australian Accounting Standards and the Company's adopted accounting policies. The Historical Financial Information has been extracted from the financial reports of the Company for the years ended 31 December 2013, 31 December 2014 and 31 December 2015, which were audited by PricewaterhouseCoopers in accordance with the Australian Auditing Standards. PricewaterhouseCoopers issued an unmodified audit opinion on each of the financial reports. The Historical Financial Information is presented in the Demerger Document in an abbreviated form, insofar as it does not include all of the presentation and disclosures required by Australian Accounting Standards and other mandatory professional reporting requirements applicable to general purpose financial reports prepared in accordance with the *C*orporations Act 2001.

Pro Forma historical financial information

You have requested PricewaterhouseCoopers Securities Ltd to review the following pro forma historical financial information included in the Demerger Document (the **Pro forma Historical Financial Information** and together with the Historical Financial Information, the **Financial Information**):

- the pro forma APN (after Entitlement Offer) historical Balance Sheet as at 31 December 2015;, which assumes completion of the Offer,

  (the **pro forma APN historical financial information**)

- the pro forma APN (after the Demerger) historical Balance Sheet as at 31 December 2015;
- the pro forma APN (after the Demerger) historical Income Statements for the years ended 31 December 2013, 31 December 2014 and 31 December 2015; and
- the pro forma (APN (after the Demerger) historical net operating Cash Flow Statements for the years ended 31 December 2013, 31 December 2014 and 31 December 2015;

  in each case, which assumes completion of the Demerger and the Offer (the **pro forma APN (after the Demerger) historical financial information**); and

- pro forma NZME historical Balance Sheet as at 31 December 2015;
- pro forma NZME historical Income Statements for the years ended 31 December 2013, 31 December 2014 and 31 December 2015; and
- pro forma NZME historical net operating Cash Flow Statements for the years ended 31 December 2013, 31 December 2014 and 31 December 2015;

  in each case, which assumes completion of the Demerger and the Offer (the **pro forma NZME historical financial information**).

The Pro forma Historical Financial Information has been derived from the Historical Financial Information of the Company, after adjusting for the effects of pro forma adjustments described in sections 7 and 9 of the Demerger Document. The stated basis of preparation is the recognition and measurement principles contained in Australian Accounting Standards and the Company's adopted accounting policies applied to the Historical Financial Information and the events or transactions to which the pro forma adjustments relate, as described in sections 7 and 9 of the Demerger Document, as if those events or transactions had occurred as at the date of the Historical Financial Information. Due to its nature, the Pro forma Historical Financial Information does not represent the Company's or NZME's actual or prospective financial position, financial performance, and/or cash flows.

Directors' responsibility

The directors are responsible for the preparation of the Historical Financial Information and Pro forma Historical Financial Information, including its basis of preparation and the selection and determination of pro forma adjustments made to the Historical Financial Information and included in the Pro forma Historical Financial Information. This includes responsibility for its compliance with applicable laws and regulations and for such internal controls as the directors determine are necessary to enable the preparation of historical financial information and pro forma historical financial information that are free from material misstatement.

Our responsibility

Our responsibility is to express a limited assurance conclusion on the financial information based on the procedures performed and the evidence we have obtained. We have conducted our engagement in accordance with the Standard on Assurance Engagement ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*.

A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain reasonable assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Our engagement did not involve updating or re-issuing any previously issued audit or review report on any financial information used as a source of the financial information.

Conclusions

Historical financial information

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the Historical Financial Information as described in sections 7 and 9 of the Demerger Document is not presented fairly, in all material respects, in accordance with the stated basis of preparation, as described in sections 7.2 and 9.2 of the Demerger Document being the recognition and measurement principles contained in Australian Accounting Standards and the Company's adopted accounting policies.

Pro Forma historical financial information

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the Pro forma Historical Financial Information as described in sections 7 and 9 of the Demerger Document is not presented fairly, in all material respects, in accordance with the stated basis of preparation, as described in sections 7.2 and 9.2 of the Demerger Document being the recognition and measurement principles contained in Australian Accounting Standards and the Company's adopted accounting policies applied to the Historical Financial Information and the events or transactions to which the pro forma adjustments relate, as described in sections 7 and 9 of the Demerger Document, as if those events or transactions had occurred as at the date of the Historical Financial Information.

Notice to investors outside Australia

Under the terms of our engagement this report has been prepared solely to comply with Australian Auditing Standards applicable to review engagements.

This report does not constitute an offer to sell, or a solicitation of an offer to buy, any securities. We do not hold any financial services licence or other licence outside Australia. We are not recommending or making any representation as to suitability of any investment to any person.

Restriction on Use

Without modifying our conclusions, we draw attention to sections 7 and 9 of the Demerger Document, which describes the purpose of the Financial Information, being for inclusion in the Demerger Document. As a result, the Financial Information may not be suitable for use for another purpose.

Consent

PricewaterhouseCoopers Securities Ltd has consented to the inclusion of this assurance report in the Demerger Document in the form and context in which it is included.

Liability

The liability of PricewaterhouseCoopers Securities Ltd is limited to the inclusion of this report in the Demerger Document. PricewaterhouseCoopers Securities Ltd makes no representation regarding, and has no liability for, any other statements or other material in, or omissions from the Demerger Document.

Independence or Disclosure of Interest

PricewaterhouseCoopers Securities Ltd does not have any interest in the outcome of this transaction other than the preparation of this report and participation in due diligence procedures for which normal professional fees will be received.

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

Glen Hadlow
Authorised Representative
PricewaterhouseCoopers Securities Ltd

PRICEWATERHOUSECOOPERS SECURITIES LTD

FINANCIAL SERVICES GUIDE

This Financial Services Guide is dated 11 May 2016

1. About us

PricewaterhouseCoopers Securities Ltd (ABN 54 003 311 617, Australian Financial Services Licence no 244572) (**PwC Securities**) has been engaged by APN News & Media Limited (**APN**) to provide a report in the form of an Investigating Accountant's Report in relation to the historical financial information and the pro forma historical financial information for inclusion in the Demerger Document dated 11 May 2016.

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 the date of this Report amount to $700,000 (excl. GST).

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. In relation to APN, PricewaterhouseCoopers is the auditor.

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.

8. Contact Details

PwC Securities can be contacted by sending a letter to the following address:

Glen Hadlow
Tower 2 Darling Park
201 Sussex Street, Sydney NSW 2000

13 INDEPENDENT EXPERT'S REPORT

APN News & Media Limited

Independent expert's report and Financial Services Guide

11 May 2016

Deloitte.

Financial Services Guide

What is a Financial Services Guide?

This Financial Services Guide (FSG) provides important information to assist you in deciding whether to use our services. This FSG includes details of how we are remunerated and deal with complaints.

Where you have engaged us, we act on your behalf when providing financial services. Where you have not engaged us, we act on behalf of our client when providing these financial services, and are required to give you an FSG because you have received a report or other financial services from us. The person who provides the advice is an Authorised Representative (AR) of Deloitte Corporate Finance Pty Limited (DCF), which authorises the AR to distribute this FSG. Their AR number is included in the report which accompanies this FSG.

What financial services are we licensed to provide?

We are authorised to provide financial product advice and to arrange for another person to deal in financial products in relation to securities, interests in managed investment schemes, government debentures, stocks or bonds to retail and wholesale clients. We are also authorised to provide personal and general financial product advice and deal by arranging in derivatives and regulated emissions units to wholesale clients, and general financial product advice relating to derivatives to retail clients.

Our general financial product advice

Where we have issued a report, our report contains only general advice. This advice does not take into account your personal objectives, financial situation or needs. You should consider whether our advice is appropriate for you, having regard to your own personal objectives, financial situation or needs.

If our advice is provided to you in connection with the acquisition of a financial product you should read the relevant offer document carefully before making any decision about whether to acquire that product.

How are we and all employees remunerated?

We will receive a fee of approximately $125,000 exclusive of GST in relation to the preparation of this report. This fee is not contingent upon the success or otherwise of the proposed demerger of APN News & Media's New Zealand operations (the Proposed Demerger).

Other than our fees, we, our directors and officers, any related bodies corporate, affiliates or associates and their directors and officers, do not receive any commissions or other benefits.

All employees receive a salary and while eligible for annual salary increases and bonuses based on overall performance they do not receive any commissions or other benefits as a result of the services provided to you. The remuneration paid to our directors reflects their individual contribution to the organisation and covers all aspects of performance.

We do not pay commissions or provide other benefits to anyone who refers prospective clients to us.

Associations and relationships

We are ultimately controlled by the Deloitte member firm in Australia (Deloitte Touche Tohmatsu). Please see www.deloitte.com/au/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu.

What should you do if you have a complaint?

If you have any concerns regarding our report or service, please contact us. Our complaint handling process is designed to respond to your concerns promptly and equitably. All complaints must be in writing to the address below.

If you are not satisfied with how we respond to your complaint, you may contact the Financial Ombudsman Service (FOS). FOS provides free advice and assistance to consumers to help them resolve complaints relating to the financial services industry. FOS' contact details are also set out below.

The Complaints Officer PO Box N250 Grosvenor Place Sydney NSW 1220 complaints@deloitte.com.au Fax: +61 2 9255 8434	Financial Ombudsman Services GPO Box 3 Melbourne VIC 3001 info@fos.org.au www.fos.org.au Tel: 1300 780 808 Fax: +61 3 9613 6399

What compensation arrangements do we have?

Deloitte Australia holds professional indemnity insurance that covers the financial services provided by us. This insurance satisfies the compensation requirements of the Corporations Act 2001 (Cth).

11 May 2016

Deloitte.

Deloitte Corporate Finance Pty Limited
A.B.N. 19 003 833 127
AFSL 241457

Grosvenor Place
225 George Street
Sydney NSW 2000
PO Box N250 Grosvenor Place
Sydney NSW 1220 Australia

DX 10307SSE
Tel: +61 (0) 2 9322 7000
Fax: +61 (0) 2 9322 7001
www.deloitte.com.au

The Directors
APN News & Media Limited
Level 4
100 William Street
Sydney NSW 2011

11 May 2016

Dear Directors

Independent expert's report

Introduction

On 11 May 2016, APN News & Media Limited (APN News & Media or the Company) announced a demerger of the business unit which conducts its New Zealand operations, NZME (the Proposed Demerger). Under the terms of the Proposed Demerger, NZME would be demerged from APN News & Media and will have a listing on the main board of the New Zealand Exchange (NZX) and a foreign exempt listing on the Australian Securities Exchange (ASX), with shareholders in APN News & Media (Shareholders) receiving one share in Wilson & Horton Limited (Wilson & Horton), the holding company for the newly demerged NZME entity, for each share held in APN News & Media, whilst retaining their existing shareholding in APN News & Media. Wilson & Horton will be renamed to NZME Limited (NZME).

The full details of the Proposed Demerger are included in an explanatory memorandum issued by APN News & Media on 11 May 2016 (the Explanatory Memorandum).

Purpose of the report

Whilst an independent expert's report in respect of the Proposed Demerger is not required to meet any statutory obligations, the directors of APN News & Media (the Directors) have requested that Deloitte Corporate Finance Pty Limited (Deloitte Corporate Finance) provide an independent expert's report advising whether, in our opinion, the Proposed Demerger is in the best interests of Shareholders and whether the capital reduction associated with the Proposed Demerger would materially prejudice APN News & Media's ability to pay its creditors.

This independent expert's report has been prepared in a manner consistent with Australian Securities and Investments Commission (ASIC) Regulatory Guide 111 and ASIC Regulatory Guide 112 to assist Shareholders in their consideration of the Proposed Demerger.

This report is to be included in the Explanatory Memorandum to be sent to Shareholders and has been prepared for the exclusive purpose of assisting Shareholders in their consideration of the Proposed Demerger. Neither Deloitte Corporate Finance, Deloitte Touche Tohmatsu, nor any member or employee thereof, undertakes responsibility to any person, other than the Shareholders and APN News & Media, in respect of this report, including any errors or omissions however caused.

Basis of evaluation

Guidance

In undertaking the work associated with this report, we have had regard to common market practice and to ASIC Regulatory Guide 111 in relation to the content of expert's report and ASIC Regulatory Guide 112 in respect of the independence of experts. ASIC Regulatory Guide 111 provides guidance in relation to the content of independent expert's reports prepared for a range of transactions under Chapters 5, 6 and 6A of the Corporations

Act 2001 (Cth) (Corporations Act). The basis of evaluation selected by the expert must be appropriate for the nature of each specific transaction.

RG 111 specifically addresses the basis under which an expert should form an opinion in relation to demergers and demutualisations. In particular, RG 111.35 and 111.36 state that the issue of 'value' may be of secondary importance in the absence of the following effects resulting from the implementation of the demerger:

- a change in the underlying economic interests of security holders
- a change of control
- selective treatment of different security holders.

In addition, RG 111.37 states that "*If the demerger or demutualisation involves a scheme of arrangement and the expert concludes that the advantages of the transaction outweigh the disadvantages, the expert should say that the scheme is in the best interests of the members.*" Whilst the Proposed Demerger will not be effected via a scheme of arrangement, we have adopted a basis of evaluation consistent with the wording of RG 111.37 noted above.

If the Proposed Demerger proceeds, it would not result in a change of control or selective treatment among Shareholders. In addition, Shareholders will retain the same underlying economic interest in APN News & Media but will hold shares in two entities (APN News & Media and NZME) in place of holding shares in a single entity (APN News & Media). Accordingly, in forming our opinion as to whether the Proposed Demerger is in the best interests of Shareholders we have assessed the advantages and disadvantages of the Proposed Demerger and considered factors such as the following:

- the impact on the operations, financial performance and financial structure of APN News & Media and NZME if the Proposed Demerger proceeds
- the rationale and basis for the Proposed Demerger, including the rationale for demergers in general and the experience of demergers in Australia and overseas
- the likely impact on the share price of APN News & Media and NZME following the Proposed Demerger
- other advantages and benefits arising from the Proposed Demerger
- the costs, disadvantages and risks of the Proposed Demerger
- the implications of owning shares in an entity domiciled in New Zealand
- the implications if the Proposed Demerger is not implemented.

In conducting our analysis we have not specifically quantified the impact of each advantage and disadvantage because they are largely qualitative in nature for which a value cannot be reliably estimated.

Rationale for the Proposed Demerger

The general rationale for a listed company to demerge part of its business is to increase shareholder value by improving operational and management focus, increasing flexibility and freedom to pursue growth opportunities, reducing information asymmetry and improving the ability of market participants to assess the value of the company through enhanced transparency of its operations and financial performance.

Whilst all of the above can be achieved through various means, a demerger also allows existing shareholders to retain control over the demerged entity. As a smaller and more focused company could be more attractive to potential buyers, the company's pool of potential buyers increases and therefore shareholders may have an increased likelihood of receiving a control premium for one or more of their demerged investments. This argument is further supported by the theory that investors do not reward corporate diversification as they can achieve diversification within their investment portfolio themselves. In addition, a demerger also provides the investor with the choice to invest in the parent or the subsidiary, or both.

Risks associated with a demerger include the loss of economies of scale and of scope, increased financing costs and a vulnerability to external factors due to a reduced size and diversification. In addition, a listed company demerging a subsidiary would diminish its size in the relevant securities exchange indices and it may therefore consequently suffer from a reduction in demand for its shares from investors.

The APN News & Media Directors and management consider there is a sound basis for the Proposed Demerger. The key factors considered by the Directors of APN News & Media in their consideration of the Proposed Demerger have included:

- the ability of Shareholders to retain their ownership in both APN News & Media and NZME

- the implications of the Proposed Demerger relative to other alternatives
- the scope for an independent and tailored approach to business strategy and capital allocation afforded by the Proposed Demerger.

Other transactions

In addition to the Proposed Demerger, APN News & Media have announced a series of other transactions, namely:

- a pro-rata accelerated renounceable entitlement offer, with retail rights trading, to raise $180 million (the Entitlement Offer). Under the terms of the Entitlement Offer, eligible Shareholders may purchase one new share in APN News & Media for every three shares held. The Entitlement Offer is fully underwritten and expected to result in the issue of approximately 343 million new shares in APN News & Media being issued
- a 1 for 7 share consolidation of APN News & Media shares (the Share Consolidation). The Share Consolidation would reduce the number of APN News & Media shares on issue to approximately 196 million and is subject to a Shareholder vote expected to take place on the same day as the vote on the Proposed Demerger

The Entitlement Offer and Proposed Demerger are not inter-related and the Entitlement Offer is expected to be completed prior to the Shareholder vote of the Proposed Demerger. Consequently, for the purpose of our evaluation of the Proposed Demerger, we have assumed that the Entitlement Offer will be completed as planned.

The Share Consolidation and the Proposed Demerger are not inter-conditional and the Proposed Demerger ratio is unaffected by the outcome of the Share Consolidation. Consequently, we do not consider the Share Consolidation will have any impact on our consideration of the Proposed Demerger.

On 11 May 2016, APN News & Media and Fairfax Media Limited (Fairfax) jointly announced the potential merger of NZME and the New Zealand operations of Fairfax (the Potential Fairfax NZ Merger). The terms of the Potential Fairfax NZ Merger are currently being negotiated and the transaction is subject to approval from the New Zealand Commerce Commission, the boards of each company and any necessary shareholder approvals.

The Potential Fairfax NZ Merger and Proposed Demerger are unrelated transactions. APN News & Media management have entered into exclusive discussions with Fairfax independently of the Proposed Demerger and is expected to pursue the Potential Fairfax NZ Merger if the Proposed Demerger does not proceed. Similarly, NZME is expected to pursue the Potential Fairfax NZ Merger if the Proposed Demerger proceeds. Consequently, we do not consider the Potential Fairfax NZ Merger will have any impact on our consideration of the Proposed Demerger (other than to note that the ability of Shareholders to benefit from such a transaction is enhanced if NZME is demerged).

Alternatives considered

APN News & Media has considered a number of alternatives for the NZME business, including a divestment, an initial public offering or retaining the status quo. After considering the advantages and disadvantages of these alternatives, and in the absence or otherwise of the Proposed Fairfax NZ Merger, the Directors of APN News & Media consider the Proposed Demerger to be the most attractive alternative.

Evaluation of the Proposed Demerger

In assessing whether the Proposed Demerger is in the best interests of Shareholders, we have considered the advantages and disadvantages of the Proposed Demerger and the implications for Shareholders if the Proposed Demerger does not proceed. Our analysis is set out below.

Advantages of the Proposed Demerger

Greater strategic focus

APN News & Media's existing board and management team currently oversees two businesses operating media assets in two different jurisdictions with limited operational connectivity. Due to the outlook for radio and outdoor segments in Australia and the growth opportunities afforded to the Shareholders by those segments, APN News & Media's management focus is likely to be concentrated on those subsectors with the New Zealand operations likely assuming a secondary focus. In addition, from a capital deployment perspective, the New Zealand operations are also likely to receive a secondary focus given the larger size of the Australian market and the growth opportunity afforded to the radio and outdoor segments.

Following the Proposed Demerger, however, APN News & Media and NZME will each have a separate board and senior management team focused on their respective businesses. The benefits of dedicated strategic focus following the Proposed Demerger are likely to be most profound for NZME and may be expected to include:

- greater flexibility to continue to pursue opportunities specific to it, including its current transformation initiative, as well as potential acquisitions, partnerships or other transactions that may not fit under the current group structure
- more focused corporate governance and increasing the transparency of NZME's operating performance.

On the basis that equity markets generally support the view that a more focused board and management will be beneficial to NZME, it is not unreasonable to expect that this will ultimately be reflected in the share prices of both APN News & Media and NZME.

Greater Shareholder flexibility

Immediately following the Proposed Demerger, Shareholders will hold approximately the same total ownership interest that they currently hold in APN News & Media through separate shareholdings in APN News & Media and NZME[1]. Accordingly, the Proposed Demerger will provide Shareholders with the flexibility to sell or otherwise alter the composition of their portfolio based on their desired risk profile.

Given the contrasting strategies for APN News & Media and NZME, it is likely that, over time, each entity will attract a different set of shareholders with different risk profiles. APN News & Media will be focused on its Australian radio and outdoor operations, whereas NZME will pursue its integrated radio, print media and digital operations in the smaller New Zealand market, with each entity subject to different risk profiles. The Proposed Demerger will provide Shareholders the flexibility to consider whether NZME is an appropriate investment given their preferred risk/return profile. It is also anticipated that NZME will attract a new set of investors who would not choose to invest in APN News & Media in its current form.

The Proposed Demerger will also provide Shareholders with the opportunity to participate in any upside associated with the transformation initiative of NZME.

Greater financial flexibility

APN News & Media has announced its intention to focus on its Australian radio and outdoor assets. In the absence of the Proposed Demerger, the funding requirements of these opportunities may result in NZME's growth opportunities assuming a secondary position in terms of access to capital.

The Proposed Demerger will afford NZME the ability to independently manage its funding requirements, albeit subject to some risk (such as potentially higher borrowing costs, as discussed below), and will provide NZME with enhanced financial flexibility to execute its strategies (including the transformation initiative) as a standalone business.

Greater transparency of market valuations

Generally speaking, one of the principal motivations for a demerger is the potential for market value enhancement.

There is an opportunity for improved market valuations of APN News & Media's Australian assets and the NZME assets as a result of the Proposed Demerger, through the removal of potential information asymmetries caused by the prevailing corporate structure of APN News & Media. In particular, if the Proposed Demerger is completed, APN News & Media and NZME will each have its own board of directors and management team and will be responsible for making its own market disclosures. Consequently, the Proposed Demerger will provide greater transparency of the individual operations and strategies of APN News & Media and NZME so that investors and market analysts will be able to separately analyse the underlying performance, risks and growth prospects of each entity. The Proposed Demerger, therefore, should generate more appropriate market valuations for each business.

Greater transactional potential

Given their different focus and jurisdictions of their respective operations, following the Proposed Demerger, APN News & Media and NZME may attract a different range of potential acquirers.

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[1] With the exception of ineligible overseas shareholders

Following the Proposed Demerger, potential acquirers of APN News & Media would be bidding for a more focused Australian media company, rather than a cross-jurisdictional entity. As such, under the current structure, any takeover offer for APN News & Media may incorporate a discount to allow for the subsequent divestment of the NZME business.

Likewise, NZME will likely attract a different range of potential acquirers to APN News & Media given its different strategy and New Zealand based operations. It is not feasible to expect that an acquirer would bid for APN News & Media as a means of obtaining the NZME assets in the current structure. However, as a standalone listed entity, NZME will be significantly more attractive and accessible to potential acquirers along with having the increased potential to participate in a merger like the Potential Fairfax NZ Merger.

In addition, and as noted above, the value of NZME may not be fully appreciated by the market in the current structure. Separation of NZME into a standalone company will allow a more transparent view of NZME's strategy and operations, which will assist investors in assessing the market value of the company. This will increase the potential for Shareholders to realise full value for the NZME assets.

Alignment of management incentives

APN News & Media's current executive and management remuneration incentives are linked to both the Company's performance and individual performance, such that remuneration is partly affected by business performance beyond an individual manager's control. The Proposed Demerger will enable each demerged entity to implement an incentive scheme directly linked to the performance of the business over which its management has control. By incentivising management in this way, business performance may be maximised for the benefit of Shareholders.

Disadvantages of the Proposed Demerger

Investor acceptance and liquidity risk

The impact of the Proposed Demerger on the liquidity of shares in APN News & Media and NZME is difficult to estimate.

Following the Proposed Demerger, NZME will be one of only two media companies with a primary listing on the NZX and access to Australian equity capital markets by virtue of its secondary listing on the ASX.

The liquidity of ASX listed media companies may provide some indication of the potential liquidity of, and market for, NZME shares. Over the past year, the average volume of trading in ASX listed media companies was in the range of 0.19% to 0.30% of the total issued shares per day. We note that over the same period, the average volume of trading in APN News & Media shares was 0.20% per day. This analysis indicates that there may be potential for reasonable liquidity of NZME shares.

Unless an appropriate shareholder base of APN News & Media and NZME is established, a risk exists that a lack of liquidity in the shares of NZME will result in the combined market capitalisation of APN News & Media and NZME being lower than the current market capitalisation of APN News & Media and that NZME may not be able to raise sufficient additional equity to meet its objectives. Furthermore, to the extent that Shareholders seek to reweight their portfolios and dispose their shareholding in NZME following the Proposed Demerger, there could be downward pressure on the NZME share price.

On the basis, however, that the underlying value of NZME may not be fully appreciated by the market in its current structure, we consider that the opportunities for value enhancement presented by the Proposed Demerger through increased transparency and market awareness of NZME mitigate this potential risk. In addition, its potential inclusion in the S&P/ASX 300 index should further assist in establishing a new and liquid investor base for NZME[2].

Diminution of company size and loss of diversification

Following the Proposed Demerger, Shareholders will hold shares in two listed companies, each of which are substantially smaller (in terms of revenue, earnings and asset bases) and have less diverse operations than APN News & Media.

[2] Our analysis suggests that APN News & Media should also be able to maintain its inclusion in the S&P/ASX 200 index

The smaller company size of the demerged entities relative to APN News & Media before the Proposed Demerger could have implications for the continued inclusion of APN News & Media in market indices such as the S&P/ASX 200 index, though it appears likely that the Company will remain in the index group, particularly in light of the equity that will be raised pursuant to the Entitlement Offer.

Whilst the demerged entities themselves face a reduction in diversification of their respective operations, Shareholders will be able to achieve diversification by holding shares in a broad portfolio of companies. The enhanced ability to choose the degree of diversification that they prefer is a benefit of the Proposed Demerger.

One-off transaction and implementation costs

APN News & Media has estimated the total transaction costs directly attributable to the Proposed Demerger will be approximately $8.3 million. These are one-off costs related to professional adviser fees, legal fees and printing and other costs incurred to implement the Proposed Demerger.

Approximately $7.9 million of the total transaction costs are attributable to APN News & Media and approximately $0.4 million attributable to NZME. If the Proposed Demerger does not proceed, APN News & Media is expected to incur total transaction costs of approximately $5.1 million.

Additional ongoing corporate costs

As separate listed companies, APN News & Media and NZME will require duplication of corporate costs that were previously shared. This is expected to reduce costs for APN News & Media through the transfer of costs to NZME.

APN News & Media has estimated the incremental corporate and operating costs to be incurred by NZME to be approximately NZD 5.1 million p.a., including the costs of maintaining a separate listing for NZME on the NZX and ASX, the incremental costs of maintaining a separate board and executive management team and other corporate functions.

Other considerations

Ownership of shares in a company domiciled in a different jurisdiction

If the Proposed Demerger proceeds, eligible Shareholders will receive a share in NZME for every share held in APN News & Media, resulting in Shareholders assuming a shareholding in a New Zealand domiciled company. As a dual listed New Zealand incorporated company, NZME will be subject to New Zealand law. The rights and liabilities attaching to NZME shares arise from a combination of the NZME constitution, statute (including the Companies Act in New Zealand), NZX and ASX listing rules, and general New Zealand law.

These issues and their implications for Shareholders are discussed in further detail in Section 14 of the Explanatory Memorandum.

Dividend policy

Following the Proposed Demerger, APN News & Media has proposed to adopt a dividend policy which targets a dividend payout ratio in the range of 40% to 60% of NPAT (subject to various conditions), while NZME will target a dividend payout ratio in the range of 60% to 80% of NPAT (subject to various conditions). A Shareholder's preference for a higher or lower dividend payout ratio will depend on their individual risk tolerances.

Further details of the proposed dividend policies of APN News & Media and NZME are set out in Section 6.11 and Section 8.12 of the Explanatory Memorandum.

Tax implications

APN News & Media has sought legal and tax advice in relation to the Proposed Demerger and has also lodged an application with the Australian Taxation Office (ATO) for a class ruling and private ruling to confirm the Australian taxation implications of the Proposed Demerger. At the date of this report, the class ruling and private ruling have not been issued.

The taxation implications of the Proposed Demerger for Shareholders who are Australian residents for income tax purposes, hold their shares as capital assets and whose shares were not acquired under an employee share scheme are set out in Section 11 of the Explanatory Memorandum. We understand that these shareholders account for the vast majority of APN News & Media's issued capital and the vast majority by number of Shareholders.

Corporate taxation

On the basis that demerger rollover relief is allowed by the ATO, we understand that the Proposed Demerger is not expected to result in any capital gains tax (CGT) or other tax related liability for APN News & Media or NZME.

Should the ATO not issue the private ruling as expected and instead determine that demerger rollover relief will not be available for the Proposed Demerger, APN News & Media may be subject to CGT on the disposal of its interest in NZME.

We understand that no adverse tax implications are expected for NZME if demerger rollover relief is not available.

Tax consequences for Shareholders

Should a class ruling be issued as expected, the Proposed Demerger is not expected to give rise to any adverse tax consequences for Shareholders who are Australian residents for income tax purposes, hold their shares as capital assets and whose shares were not acquired under an employee share scheme. In summary, the dividend component of the Proposed Demerger allocation[3] should not be assessable income for these Shareholders and they will also be eligible to elect for demerger rollover relief to defer the CGT consequences of the CGT event which will arise as a result of the capital reduction component of the Proposed Demerger allocation. In addition, if demerger rollover relief is chosen, these Shareholders will be taken to have acquired their NZME shares on the same date they acquired their APN News & Media shares for the purposes of determining their eligibility for the CGT discount, if applicable.

Shareholders who do not elect to obtain rollover relief may realise a capital gain that will be required to be included in calculating the Shareholder’s taxable income to the extent that the capital reduction component of the Proposed Demerger allocation is greater than the cost base of the APN News & Media shares held by the Shareholder.

Should the ATO not issue the class ruling as expected and determine that demerger rollover relief will not be available for the Proposed Demerger, then the dividend component of the Proposed Demerger allocation will be assessable for income tax purposes and a capital gain may arise for Shareholders as a result of the capital reduction component of the Proposed Demerger allocation. In addition, Shareholders will be taken to have acquired their NZME shares on the date that the Proposed Demerger is implemented for CGT purposes.

The Australian tax consequences for Shareholders who are Australian residents but hold their shares on revenue account, acquired their shares in connection with an employee share plan or who are non-residents of Australia for tax purposes depend on numerous factors and are not covered by Section 11 of the Explanatory Memorandum. The non-Australian taxation implications for non-Australian resident Shareholders will depend on the country of domicile of the Shareholder. We understand, however, that the vast majority of Shareholders will be covered by the class ruling and the tax implications discussed above.

We do not consider the nature of any taxation consequences that may be incurred is sufficient to affect our opinion of the Proposed Demerger on the basis that Australian resident Shareholders who hold their shares as capital assets and whose shares were not acquired under an employee share scheme account for the vast majority of Shareholders and subject to the ATO issuing the class ruling confirming that demerger rollover relief will apply to this class of Shareholders.

However, as the taxation implications of the Proposed Demerger will vary depending on the individual circumstances of the Shareholder, we recommend that Shareholders consider the taxation information set out in the Explanatory Memorandum and seek their own independent professional advice.

Ineligible overseas shareholders

Shareholders with registered addresses outside Australia, New Zealand and certain other specified jurisdictions[4] will not be entitled to receive NZME shares issued as part of the Proposed Demerger. The treatment of the shares in NZME in respect of these Shareholders is set out in Section 10.3 of the Explanatory Memorandum.

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[3] The Proposed Demerger will be effected by way of a capital reduction and declaration of an in-specie distribution by APN News & Media in the form of shares in NZME.

[4] Hong Kong, Singapore, United Kingdom, Switzerland, Norway, France, Italy, Ireland or Germany

Empirical studies on demergers

Recent empirical evidence of demergers in the Australian and New Zealand markets is limited and subject to significant limitations. Set out in Appendix B is high level recent empirical evidence for Australian and New Zealand markets together with less recent historical academic studies from US and European markets. Whilst the evidence from the less recent historical academic studies would seem to support the assertion that share prices outperform market indices following a demerger, the results of the recent empirical evidence for Australian and New Zealand markets is inconclusive.

Conclusion on the Proposed Demerger

The key advantages of the Proposed Demerger are the potential for increased management focus and financial flexibility of each of the demerged businesses, greater Shareholder flexibility in relation to their investments, the potential for enhanced market valuations of each of the businesses and greater takeover potential.

The key disadvantages of the Proposed Demerger include potential for poor investor acceptance, liquidity risk and implications for operational matters caused by a diminution of asset, revenue and earnings bases, including increased costs for each of the demerged business. In our opinion, these disadvantages are, to a degree, mitigated by the specific circumstances of APN News & Media and NZME, as discussed above.

Based on our consideration of the foregoing, we are of the opinion that the advantages of the Proposed Demerger outweigh the disadvantages of the Proposed Demerger. On this basis, we are of the opinion that the Proposed Demerger is in the best interests of Shareholders.

Implications if the Proposed Demerger does not proceed

If the Proposed Demerger does not proceed, there will be no change in APN News & Media and it will remain listed on the ASX and NZX in its current form. Accordingly Shareholders will retain a single shareholding in APN News & Media, which will continue to own the NZME assets.

APN News & Media will continue to operate in its current form and will continue with its existing strategies, the principal of which is to pursue growth in the Australian radio and outdoor sectors.

Implications for Shareholders should the Proposed Demerger not be implemented include:

- the advantages, the disadvantages and risks of the Proposed Demerger will not be realised
- transaction costs of approximately $3.2 million relating to the Proposed Demerger may not be incurred by APN News & Media.

Should the Proposed Demerger not be implemented, APN News & Media will likely continue pursuing the Potential Fairfax NZ Merger and may continue with its previously indicated strategy to demerge its NZME assets either by way of an IPO or divestment to a strategic investor.

Consideration of the gearing and ability to service debt

Basis of evaluation

In assessing APN News & Media's ability to repay its creditors, we have had regard to historical earnings to debt ratios of APN News & Media compared to those implied by pro-forma financial statements for APN News & Media following the Proposed Demerger. In particular, we have considered the net debt to EBITDA ratios and interest coverage ratios of APN News & Media before and after the Proposed Demerger.

Evaluation

The Proposed Demerger will result in a substantial diminution of the assets, revenue and earnings base of APN News & Media.

As set out in Section 4.2.1, the pro-forma FY15 operating revenue base of APN News & Media (post the Proposed Demerger) is approximately 47% lower than under the status quo. Similarly, the pro-forma FY15 EBITDA of APN News & Media is 41% lower under the Proposed Demerger.

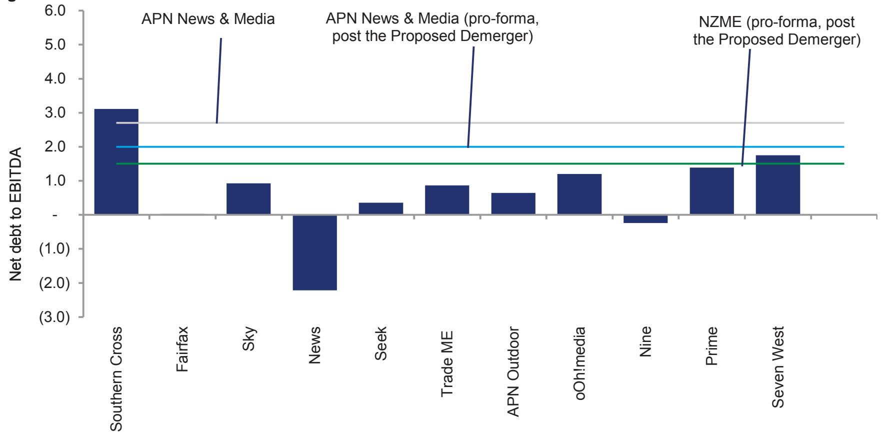
Notwithstanding the smaller size of the two entities, based on the pro-forma financial information set out in Section 4.2.1, the FY15 revenue for APN News & Media and NZME was AUD 447.5 million and NZD 433.0 million, respectively, with FY15 EBITDA of AUD 98.8 million and NZD 67.5 million, respectively. Furthermore, as set out in Section 4.2.2, APN News & Media and NZME each had a positive net asset balance as at 31 December 2015.

The Entitlement Offer, which will be completed prior to the Shareholder vote on the Proposed Demerger, will have a substantial impact on the gearing level of APN News & Media. Whilst the Entitlement Offer and Proposed Demerger are not interdependent, we understand that one of the objectives of the Entitlement Offer is to improve the capital structure of APN News & Media ahead of the Proposed Demerger.

Following the Proposed Demerger, APN News & Media will have a total debt facility limit of $360 million, of which $208 million will be drawn down, while NZME will have a total debt facility limit of NZD 160 million, of which NZD 109 million will be drawn down.

We set out below the net debt to EBITDA ratios and interest cover ratios for selected listed Australian and New Zealand companies operating in the media sector.

Figure 1: Net debt to EBITDA

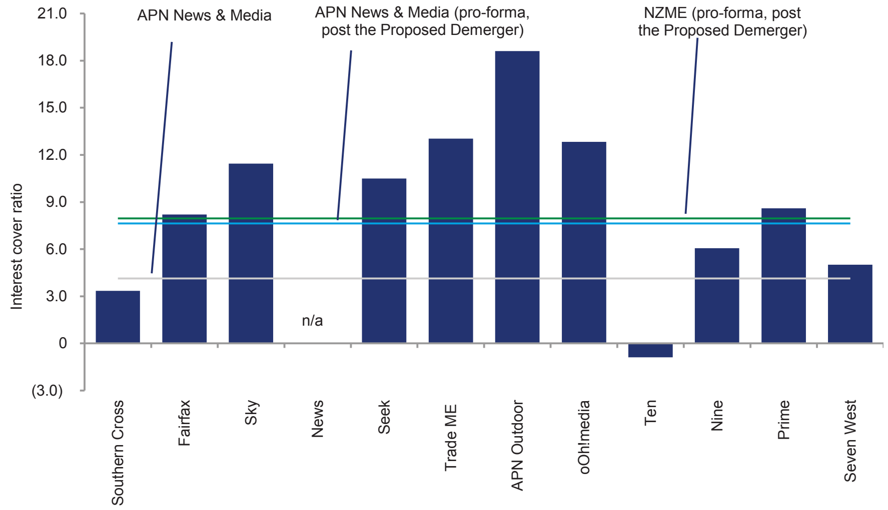


Source: Capital IQ, Deloitte analysis
Note:
1. *Net debt is based on last the reported balance sheet*
2. *The net debt to EBITDA ratio for Ten is 11.0 times and has been excluded as an outlier.*
3. *On 1 Fe7bruary 2016, Southern Cross entered into a long term contract with Australian Traffic Network (ATN), pursuant to which Southern Cross received a payment of $100 million from ATN, thereby potentially reducing its net debt position as at February 2016.*

The net debt to EBITDA ratio after the Proposed Demerger (and Entitlement Offer) for APN News & Media and NZME is 2.0 times and 1.5 times, respectively. Notwithstanding that the pro-forma APN News & Media net debt to EBITDA ratio is higher than those of the majority of the listed comparable companies, the ratio is significantly lower than the net debt to EBITDA ratio exhibited by APN News & Media prior to the Proposed Demerger (and the Entitlement Offer).

The interest cover ratio for APN News & Media before and after the Proposed Demerger is 4.1 times and 7.6 times, respectively. For NZME, after the Proposed Demerger, the interest cover ratio is 8.0 times.

Figure 2: Interest cover ratio[1]



Source: Capital IQ, Deloitte analysis
Note:
1. *Interest cover ratio is calculated as earnings before interest and taxes divided by interest charges, and is based on the most recent available earnings.*

The net debt to EBITDA ratio following the Proposed Demerger for APN News & Media is greater than for NZME. This difference reflects the different level of gearing that is able to be supported by the two different business by virtue of the markets and segments in which they operate and their relative profitability.

Consequently, we are of the opinion that, notwithstanding the diminution in the assets, revenue and earnings base of APN News & Media, since each of the demerged entities generates significant revenue, is profitable and has an asset position exceeding its liabilities (on a pro-forma basis) and has a debt position commensurate with its profitability and growth prospects and significant headroom relative to their respective facility, the Proposed Demerger is unlikely to prejudice the ability of the Company to pay its creditors.

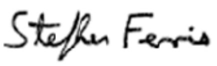
Opinion

Based on our consideration of the foregoing, the advantages of the Proposed Demerger outweigh the disadvantages of the Proposed Demerger. Consequently, we are of the opinion that the Proposed Demerger is in the best interests of the Shareholders. Furthermore, we are of the opinion that the capital reduction associated with the Proposed Demerger does not materially prejudice the ability of APN News & Media to repay its creditors.

An individual Shareholder's decision in relation to the Proposed Demerger may be influenced by his or her particular circumstances. If in doubt the Shareholder should consult an independent adviser, who should have regard to their individual circumstances.

This opinion should be read in conjunction with our detailed report which sets out our scope and findings.

Yours faithfully



Stephen Ferris
Authorised Representative 460999

Tapan Parekh
Authorised Representative 461009

Glossary

Reference	Definition
$	Australian dollars
Ad	Advertising
AFSL	Australian Financial Services Licence
ARN	Australian Radio Network
ARM	Australian Regional Media
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange Limited
AUD	Australian dollars
AUASB	Auditing and Assurance Standards Board
ASA	Advertising Standards Authority
AR	Authorised Representative
ATO	Australian Taxation Office
bps	Basis points
BSA	Broadcasting Services Act 1992
CAGR	Compound annual growth rate
CBD	Central business district
CEASA	Commercial Economic Advisory Service of Australia
CEO	Chief executive officer
CFO	Chief financial officer
Company	APN News & Media Limited
COO	Chief Operating Officer
Corporations Act	Corporations Act 2001
CGT	Capital gains tax
Deloitte Corporate Finance	Deloitte Corporate Finance Pty Limited
Directors	Directors of APN News & Media
DOOH	Digital out-of-home
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
Entitlement Offer	The pro-rata accelerated renounceable entitlement offer to raise $180 million announced by the Company on 11 May 2016
Explanatory Memorandum	The explanatory memorandum issued by APN News & Media on 11 May 2016
FOS	Financial Ombudsman Service
FSG	Financial Services Guide
FY	Financial year
IBIS	IBIS World Pty Ltd
IPO	Initial public offer
Management	Management of APN News & Media
NPAT	Net profit after tax
NTA	Net tangible assets
NZ	New Zealand
NZD	New Zealand dollars
NZME	New Zealand Media & Entertainment (previously) or NZME Limited (post the Proposed Demerger)
NZX	New Zealand Exchange
PBT	Profit before tax
Proposed Demerger	The proposed demerger of APN News & Media's New Zealand operations
RG	Regulatory guide
S&P	Standard & Poor's
Shareholders	Shareholders of APN News & Media
Transaction	the Proposed Demerger
Wilson & Horton	Wilson & Horton Limited

Contents

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1 Overview of the Proposed Demerger

1.1 Summary

On 11 May 2016, APN News & Media announced a demerger of the business unit which conducts its New Zealand operations, NZME. Under the terms of the Proposed Demerger, NZME would be demerged from APN News & Media and would have a listing on the main board of the NZX and a foreign exempt listing on the ASX, with Shareholders receiving one share in NZME for each share held in APN News & Media, whilst retaining their existing shareholding in APN News & Media.

If the Proposed Demerger is approved by Shareholders, it will be effected through a proportional capital reduction and in-specie distribution to Shareholders in the form of a share in NZME. APN News & Media will retain its primary listing on the ASX and a secondary listing on the NZX.

The full details of the Proposed Demerger are included in an explanatory memorandum issued by APN News & Media on 11 May 2016 (the Explanatory Memorandum).

1.2 The Entitlement Offer

On 11 May 2016, the Company also announced a pro-rata accelerated renounceable entitlement offer to raise $180 million (the Entitlement Offer). Under the terms of the Entitlement Offer, eligible Shareholders may purchase one new share in APN News & Media for every three shares held. The Entitlement Offer is fully underwritten and expected to result in the issue of approximately 343 million new shares in APN News & Media being issued.

The Entitlement Offer is expected to be completed prior to the Shareholder vote on the Proposed Demerger. Consequently, for the purpose of our evaluation of the Proposed Demerger, we have assumed that the Entitlement Offer will be completed as planned.

1.3 The Share Consolidation

On 11 May 2016, the Company also proposed a 1 for 7 share consolidation of APN News & Media shares (the Share Consolidation). The Share Consolidation would reduce the number of APN News & Media shares on issue to approximately 196 million and is subject to a Shareholder vote expected to take place on the same day as the vote on the Proposed Demerger.

The Share Consolidation and the Proposed Demerger are not inter-conditional and the Proposed Demerger ratio is unaffected by the outcome of the Share Consolidation.

1.4 The Potential Fairfax NZ Merger

On 11 May 2016, APN News & Media and Fairfax jointly announced the Potential Fairfax NZ Merger.

The terms of the Potential Fairfax NZ Merger are currently being negotiated and the transaction is subject to approval from the New Zealand Commerce Commission.

The Potential Fairfax NZ Merger and Proposed Demerger are unrelated transactions and APN News & Media management have indicated that the Potential Fairfax NZ Merger would be pursued regardless of the outcome of the Proposed Demerger. Consequently, we do not consider the likelihood or otherwise of the Potential Fairfax NZ Merger proceeding has any impact on our consideration of the relative merits of the Proposed Demerger (other than to note that the ability of Shareholders to benefit from such a transaction is enhanced if NZME is demerged).

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2 Overview of the Media Industry

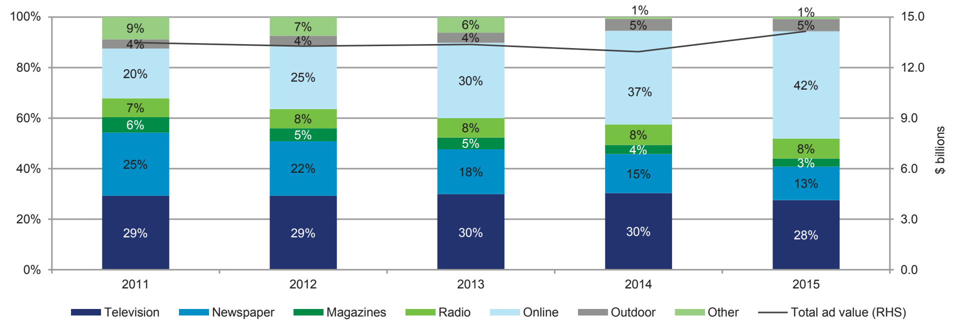
In this section, we provide an overview of the Australian and New Zealand media industries, with a particular focus on the radio broadcasting, publishing, digital and outdoor advertising industry segments.

2.1 Advertising and economic trends in Australia and NZ

Advertising expenditure is the key driver for the media industry in Australia and New Zealand, contributing to the vast majority of revenues for the newspaper publishing, radio broadcasting and internet/online industry segments.

Key trends pertaining to the advertising expenditure in Australia and New Zealand are summarised below.

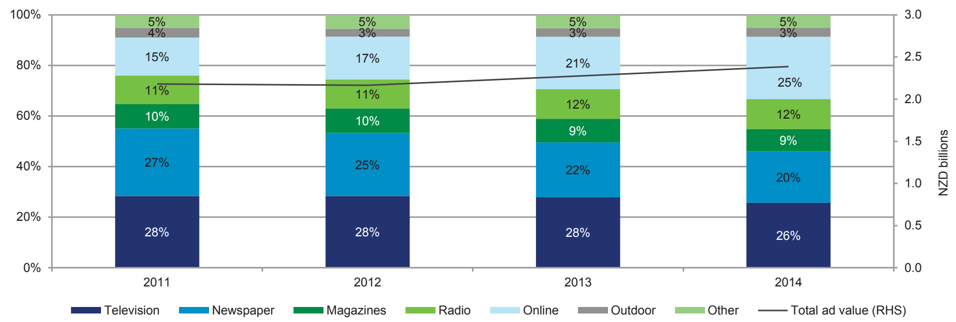
Figure 3: Australian advertising share by advertising medium



Source: Commercial Economic Advisory Service of Australia (CEASA)

In Australia, advertising growth has been subdued in recent years as a result of lower business and consumer confidence and weakness in industries such as retail, automotive and fast moving consumer goods which are critical to the quantum of adspend. This relatively moderate growth profile is expected to persist in the near term. While publishing, television, digital and radio all compete against each other for advertising revenue, the adshare of print media has suffered the most from the rise in the adshare of digital media. The adshare of radio broadcasting has been relatively stable over the period. The adspend for outdoor advertising has expanded in recent years as advertising companies have increased their use of this medium to supplement the more expensive mass advertising mediums.

Figure 4: New Zealand advertising share by advertising medium



Source: Advertising Standards Authority (ASA) for New Zealand.

In New Zealand, advertising expenditure for newspaper publishing has also seen a steady rate of decline, consistent with Australia and other developed countries. Expenditure on radio advertising has increased steadily over the period between 2011 and 2014, at an average annual rate of 4.3% p.a. Advertising expenditure on the internet/online segment has increased at a rapid rate over this same period, constituting almost 25% of total advertising expenditure in 2014 compared to 15% in 2011, at a CAGR of 21.6%. Growth in online advertising has largely been driven by search engines and directories, followed by classifieds and then by display advertising.

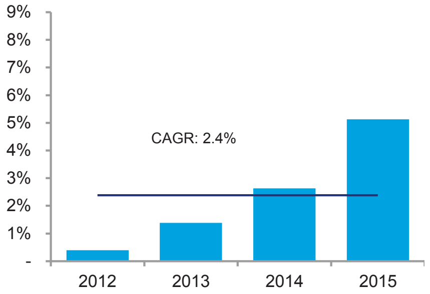
2.2 Major structural trends in Australia and NZ

In this section, we discuss the key trends in the subsectors of the media industry in which APN News & Media operates.

2.2.1 Radio broadcasting trends

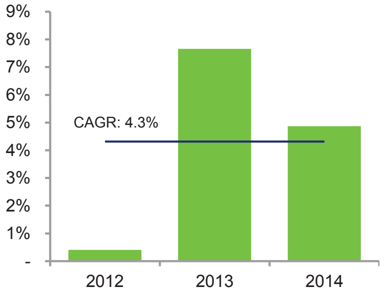
The radio broadcasting industry in Australia has seen a period of moderate growth at a CAGR of 2.4% for the period between FY12 and FY15. The moderate revenue growth in the radio broadcasting segment is due to significant competition from alternate media platforms such as websites and portals primarily for online music and news. The increasing penetration of mobile networks and the use of smartphones has supported the adoption of online media platforms, further affecting the radio segment. Correspondingly, advertising revenues are expected to be partly diverted from the radio broadcasting segment by these other media platforms. IBISWorld forecasts the growth in the radio broadcasting industry in Australia to be almost flat at 0.5% between FY16 and FY20.

Figure 5: Australia – Radio broadcasting revenue growth rates



Source: CEASA

Figure 6: New Zealand – Radio broadcasting revenue growth rates



Source: ASA for New Zealand

In New Zealand, the radio broadcasting industry segment has increased at a CAGR of 4.3% between FY12 and FY14. Revenue is expected to grow at a moderate rate in future.

2.2.2 Newspaper publishing trends

The Australian newspaper publishing industry segment has undergone significant structural change in recent years. With the introduction of internet enabled smartphones and tablets, consumers are able to obtain news, footage and information on demand and often free of charge. Print media is now being forced to compete on a global basis with online publications.

The newspaper publishing industry segment has recently performed poorly with revenue declining at a CAGR of 13.7% for the period between FY12 and FY15. This is mainly attributable to the relatively subdued growth in adspend for the whole media industry along with intense pressure from online media.

IBISWorld forecasts the newspaper industry segment in Australia to decline at a CAGR of 4.1% from FY16 to FY20. Overall, readers appear likely to continue their shift to digital media, with advertisers also demonstrating a preference for using digital media over traditional print media, due to its capacity to reach a greater number of consumers in a more targeted manner. This structural change will continue to cause a decrease in circulation levels of print media, likely causing further reductions in advertising revenue.

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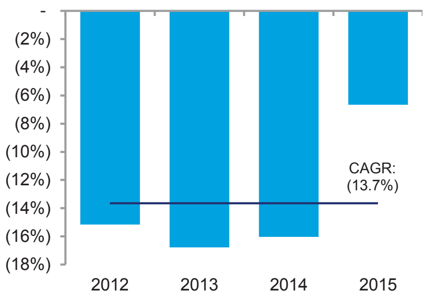
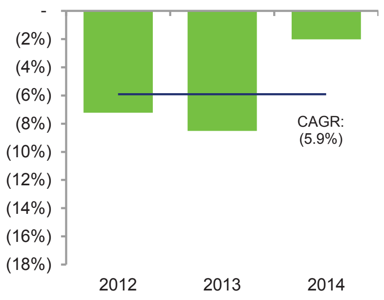
However, with strong brand presence, and in response to the structural changes in the print industry, many participants are expected to continue to improve their online and mobile presence, increase digital subscriptions, promote more targeted advertising and, through paywalls, charge for reading their online content. Newspapers are also predicted to increase their focus on lifestyle, personal and emotive articles, which will generate discussion among readers, increase reader page comments and generate repeat visits. This could benefit newspaper publishing companies having existing presence in the online segment as well.

Figure 7: Australia - Newspaper publishing revenue growth rates



Source: CEASA

Figure 8: New Zealand - Newspaper publishing revenue growth rates



Source: ASA for New Zealand

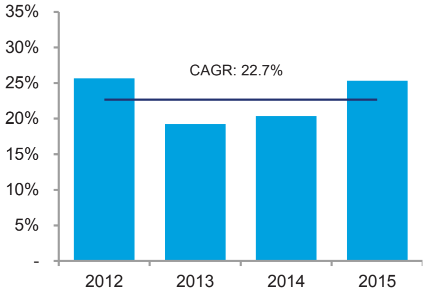
The Australian experience has been somewhat mirrored in the New Zealand print media sector, albeit to a lesser degree, with revenue declining at a CAGR of 5.9% between FY12 and FY14. Revenue is expected to continue its decline in the face of continued competition from digital and online alternatives.

2.2.3 Internet/online publishing and other digital media trends

The internet/online publishing segment comprises digital media portals, search portals, government web portals, corporate web portals and domain-specific portals. These derive revenues primarily from selling advertising space on their pages. Online revenue in Australia has increased at a CAGR of 22.7% for the period between FY12 and FY15.

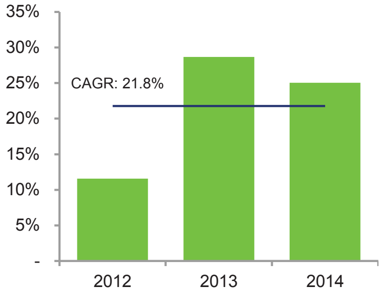
Businesses buy advertising based on the internet traffic to the site. The number of businesses in the internet/online segment has increased at a rapid pace in the past five years and is expected to continue growth over the next few years as well.

Figure 9: Australia – Online revenue growth rates



Source: CEASA

Figure 10: New Zealand – Online revenue growth rates



Source: ASA for New Zealand

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Internet usage, and accordingly online advertising, is expected to continue to grow as the population becomes increasingly connected online through new devices ranging from phones and watches to household appliances such as fridges. Similarly, online advertising is becoming increasingly sophisticated with advertisers having the ability to target specific demographics at reduced costs through innovations which include rich media[5].

Almost 62% of Australians now own electronic tablets, 81% own smartphones and 37% connect their TV sets to the internet to receive media and other content. Using the internet on these devices for personal reasons is fast approaching television as the preferred source of entertainment in Australia. Data also indicates 85% of people watching TV use their smartphone to text or surf the internet at the same time[6].

As a result of new platforms for media consumption and a greater number of entertainment options available to consumers, companies have now had to alter their approach to advertising. While television appears to remain the best form of mass media advertising, the use of online and digital advertising through rich media and banners facilitates stronger target market reach. Further, as a result of their increased audience share, newer digital platforms such as Facebook, Twitter and Instagram are taking advertising share from older platforms such as Google, Yahoo and MSN.

Similar to Australia, the internet/online publishing industry segment in New Zealand has expanded significantly, growing at a CAGR of 21.8% between FY12 and FY14, with further growth expected in the future.

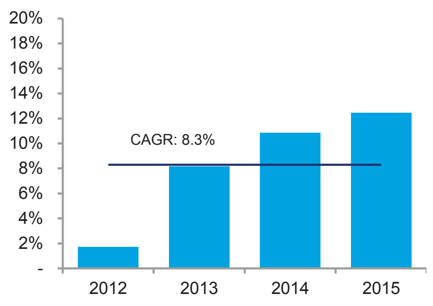
2.2.4 Outdoor advertising trends

The outdoor advertising industry segment primarily refers to billboards, roadside and outdoor panels and other products that can commonly be used for outdoor mass advertising.

Outdoor advertising has typically been used to supplement traditional mass media such as television and radio. In the face of diminishing revenues in these traditional media segments, advertisers have sought to expand to the more cost effective outdoor alternatives. This, coupled with technology improvements such as digital billboard and outdoor display panels, has seen the outdoor sector substantially outpace the traditional mass media platforms, albeit from a smaller revenue base.

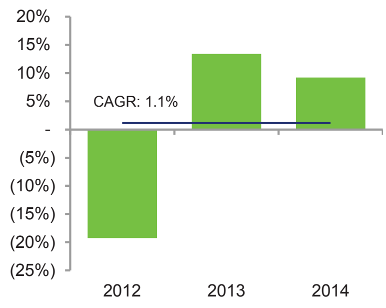
As illustrated below, the outdoor advertising industry segment in Australia has grown at a CAGR of 8.3% over the period between FY12 and FY15. IBISWorld forecasts this segment to continue growing at a CAGR of 3.5% from FY16 to FY20.

Figure 11: Australia – Outdoor revenue growth rates



Source: CEASA

Figure 12: New Zealand – Outdoor revenue growth rates



Source: ASA for New Zealand

In New Zealand, the outdoor advertising industry segment has experiencing volatile growth, at a CAGR of 1.1% over the period between FY12 and FY14, though the growth in 2013 and 2014 has been significant. However, advertising companies are increasingly incorporating digital technology into their outdoor offerings in order to provide greater flexibility to customers as well as offer an enhanced audience experience.

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5 Rich media is an internet advertising term for web page advertisements that use advanced technology such as streaming video or download applets that interact instantly with the user and advertisements that change when the user's mouse passes over them.

6 Based on surveyed participants from Deloitte Media Consumer Survey 2015.

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2.3 Regulatory environment in Australia and NZ

The Australian media landscape has undergone a period of significant structural change over the past decade. Advances in communications technology, including the internet, are redefining how media is produced and consumed. Almost all media companies have a digital presence, with television programs becoming available online after they have been aired on free-to-air television and traditional print media now available on the internet.

The Australian media industry is primarily regulated by the Broadcasting Services Act 1992 (BSA) and its amendment, the Broadcast Services Amendment (Media Ownership) Act 2006.

The current structural changes in the media sector are likely to further evolve as a result of proposed legislation that would relax media ownership laws. On 2 March 2016, the Federal Government introduced the Broadcasting Legislation Amendment (Media Reform) Bill 2016, which includes amendments which seek to abolish the so-called 'two out of three' rule and the '75% audience reach' rule. Under the BSA, the 'two out of three' rule prohibits owning more than two out of three types of media business, being a commercial television licence, radio licence or newspaper, in the same market. The '75% audience reach' rule effectively prevents the creation of national television networks by disallowing networks from broadcasting to more than 75% of the population. If Broadcasting Legislation Amendment (Media Reform) Bill 2016 is passed, it is expected to trigger significant consolidation within the Australian media sector. However, given the likelihood of a Federal election being held in Australia in July 2016, it is unlikely that any significant media reforms will be enacted during 2016.

Other legislation affecting the media industry currently is anti-siphoning provisions contained in the BSA, that list events (currently not limited to sporting events, however, only sporting events have been listed to date) of national and cultural importance that should be available on free-to-air television, to maximise viewing by the general public.

Under the anti-siphoning provisions, pay-television licensees are prevented from acquiring a right to televise a listed event until, either: a right is first offered to free-to-air television broadcasters reaching more than 50% of the Australian population; or the rights have not been acquired 12 weeks before the start of the event. In March 2015, then Communications Minister, Malcolm Turnbull, reiterated the government's position on maintaining broadcast access free of charge to the public in relation to sporting events.

As part of the 2016 Federal Budget, the Government announced a 25% reduction in commercial radio licence fees for the 2015-2016 financial year, which is expected to provide some benefit to radio broadcasting companies in Australia.

The New Zealand media sector is principally regulated by the Broadcasting Act 1989 together with separate oversight for the major media subsectors, including the Radio Code of Broadcasting Practice administered by the Broadcasting Standards Authority for radio and the New Zealand Press Council for print and digital media.

Unlike Australia, New Zealand does not have any specific legislation aimed at moderating the concentration of media ownership, with such matters dealt with under the country's general competition regulations.

The principles of media regulation in both Australia and New Zealand have been underpinned by the notion that access to media platforms is controllable and scarce. The digital age has challenged this paradigm significantly and media regulation in Australia and New Zealand, and indeed globally, will need to evolve in order to remain relevant and appropriate in the future.

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3 Profile of APN News & Media

3.1 Introduction and Company history

APN News & Media is an ASX listed company and a NZX Dual Listed Issuer with a market capitalisation of approximately $601 million[7] and is a member of the S&P/ASX 200 Index. The Company has business operations in radio broadcasting, publishing (print and online) and outdoor advertising in Australia and New Zealand. The Company also has outdoor advertising operations in Hong Kong.

3.1.1 Company history

An overview of the Company's history is provided in Figure 13 below.

Figure 13: Corporate history

1968	• Provincial Newspapers formed as a consequence of consolidation of various family-owned printing interests
1988	• Provincial Newspapers was acquired by Independent News & Media (INM) of Ireland
1992	• The company was listed on the ASX as Australian Provincial Newspaper Holdings Limited and later changed its name to APN News & Media Limited
1995	• APN News & Media formed Australia Radio Network (ARN) as a joint venture with Clear Channel of the United States • APN News & Media started outdoor advertising with Buspak and Cody acquisitions
1997	• APN News & Media acquired a 33% stake in The Radio Network (TRN), New Zealand's largest radio operator
2001	• APN News & Media acquired the New Zealand media group, Wilson & Horton, from INM. This transaction increased APN News & Media's interest in TRN to 67%
2002	• APN News & Media and Clear Channel equalised their interests in TRN to 50% each
2004	• APN News & Media was listed on the NZX, making it a dual listed entity
2012	• APN News & Media formed a joint venture with Quadrant Private Equity to expand the outdoor advertising business across Australia, New Zealand and Asia • APN News & Media acquired an 82% stake in an online shopping club, brandsExclusive • APN News & Media increased its equity interest in GrabOne to 100% by acquiring the remaining 25% interest from ideaHQ
2014	• The Company sold its remaining interest in APN Outdoor to Quadrant Private Equity • APN News & Media acquired the remaining 50% interest in ARN and TRN from its joint venture partner, Clear Channel. The acquisition was funded from funds received partly through an entitlement offer and partly from the sale of the APN Outdoor business • The Company sold brandsExclusive to Aussie Commerce Group • APN News & Media announced a strategic review in relation to New Zealand Media & Entertainment (NZME), including the integration of the three New Zealand businesses and consideration of an IPO and NZX listing for NZME
2015	• APN News & Media completed the acquisition of Perth radio station 96FM from Fairfax Media • News Corporation acquired a 14.99% equity interest in APN News & Media • INM completes the sale of its remaining substantial shareholding in APN News & Media • NZME co-located with the launch of a new office in Auckland
2016	• APN News & Media announced its intent to divest Australian Regional Media (ARM) • APN News & Media announced the Entitlement Offer, the Share Consolidation, the Potential Fairfax NZ Merger and the Proposed Demerger

Source: Company announcements, Deloitte Corporate Finance analysis

[7] As at 3 May 2016

3.2 Overview of APN News & Media

APN News & Media predominantly operates in Australia and New Zealand. In Australia, the Company's operations include radio broadcasting through ARN, print and online publishing through ARM and outdoor advertising (through the Adshel JV which also has presence in New Zealand). The Company has a significant presence in all major metropolitan areas, as well as in the regional areas of northern New South Wales and Queensland.

In New Zealand, APN News & Media operates the NZME business, which includes publishing, radio and digital platforms.

APN News & Media also operates an outdoor advertising business in Hong Kong through a 100% interest in Cody Outdoor International (Hong Kong) Ltd.

A summary of the Company's key business segments is provided below.

3.2.1 Australian operations

ARN

APN News & Media operates the Pure Gold network which has metropolitan presence in Sydney, Melbourne, Brisbane and Adelaide; and the KIIS network which has a national metropolitan presence in Sydney, Melbourne, Brisbane, Adelaide and Perth. The KIIS and Pure Gold networks target different audience demographics, with KIIS focussing on the 25-44 year old age group and Pure Gold targeting the 40-54 year old age group. In Australia, ARN operates a youth radio network, The Edge, as well as a content marketing agency Emotive, which was launched in February 2015 with APN News & Media as a founding investor. ARN's assets also include the 96FM and Nova 93.7 radio stations in Perth, Western Australia.

In February 2014, APN acquired the remaining 50% ownership of ARN from the former JV partner, Clear Channel. At that time, APN also secured an exclusive 10 year agreement with Clear Channel to operate and broadcast the iHeartRadio digital radio platform in Australia and New Zealand and act as the implementation partner for iHeartRadio into certain parts of Asia. iHeartRadio is a free streaming, digital entertainment and live events brand in Australia and New Zealand.

ARM

ARM, APN News & Media's publishing division, operates a range of print, online and mobile media assets in regional Queensland and northern New South Wales. With a weekly audience in excess of 1.6 million, ARM's assets include 12 regional daily newspapers, over 60 non-daily and community publication titles and 30 regional news websites.

ARM's revenues and earnings have decreased in the past two years, in the face of a challenging macro-environment faced by all print media outlets which are subject to intense competition for advertising revenue. Recently, ARM launched Australia's first regional digital subscription program offering its audiences unlimited access to its digital products, as well as access to FOX SPORTS online, The Washington Post, Presto and a digital metropolitan news title. However, APN News & Media recently indicated its commitment to pursuing growth primarily in the radio and outdoor segments. Consequently, APN News & Media announced its intention to divest the ARM business.

Outdoor

APN News & Media's Outdoor businesses comprise of street furniture, billboards, transit and other outdoor advertising. These operations are primarily conducted through the Adshel and Cody businesses.

Adshel is a joint venture[8] between APN News & Media and Clear Channel International, and provides outdoor and digital-out-of-home (DOOH) roadside, rail and petro-convenience advertising solutions across almost 20,000 panels in Australia and New Zealand.

Cody is an outdoor advertising business in Hong Kong. It currently provides billboard advertising to over 600 outdoor panels across Hong Kong. In addition, Cody also offers in-bus multimedia advertising solutions across a network of 1,200 buses in Hong Kong.

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[8] APN News & Media interest in Adshel is 50%

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3.2.2 New Zealand operations

NZME is a leading media operator in New Zealand, primarily providing radio broadcasting, publishing (print and online) and digital media services. In September 2014, APN News & Media integrated its Publishing, Radio and GrabOne operations into a single operating structure – NZME – focussing on three content-based audience segments, News, Sport and Entertainment. The integration has enabled NZME to provide a unified cross-platform approach to delivering content and advertising solutions, with access to audiences across all its platforms, totalling over 3 million people. The transformation initiative was also aimed at delivering cost savings and improved profitability, through improved operational integration of the three former business units. The transformation initiative included the co-location of NZME's operations in Auckland and will continue to be expanded into the regions in which NZME operates over the next year.

NZME's service offerings include newspapers, radio brands, video content, digital platforms, e-commerce, activations and events. NZME's portfolio includes The New Zealand Herald, New Zealand's largest metropolitan daily news brand by audience, 6 regional daily papers and 23 community newspapers. In addition, NZME operates over 20 websites, mobile sites and applications, including the GrabOne business which is a daily 'deals' website in New Zealand.

NZME's radio assets include radio stations across New Zealand, including the leading talk (Newstalk ZB), sports (Radio Sport) and entertainment (Coast) stations in the country. With a reach of over 1.4 million customers nation-wide, NZME holds an audience share of approximately 40%. NZME's radio assets also include the digital radio service, iHeartRadio, which it operates under a sub-licence from APN News & Media.

NZME's other services include NZME Experiential and NZME Events.

In September 2014, APN News & Media announced that it was considering strategic options for the NZME business, which included listing the business on the NZX through an IPO. In November 2014, APN News & Media announced a strategic review relating to the NZME business, which reiterated the focus of NZME onto the transformation initiative which had commenced earlier in the year.

Having made significant progress in meeting its transformation goals to date, NZME is expected to continue its focus on the transformation initiative through FY16. After achieving its cost savings program of $20 million in FY15, ahead of the $15 million to $18 million target announced by the Company earlier, NZME has identified a further $10 million for implementation in FY16.

In FY16, the Company expects NZME to complete the integration of its regional offices and management structure. In addition to the regional integration, NZME also expects to make further investments in upgrading technology systems and centralisation of key support functions across all its locations. APN News & Media expects these efforts to result in improved cross-selling ability and reduced costs.

3.3 Capital structure and shareholders

As at 3 May 2016, APN News & Media had 1,029.0 million outstanding shares on issue. The major Shareholders are set out in the table overleaf.

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Table 1: Top ten shareholder groups of APN News & Media as at 3 May 2016

Shareholder	Number of shares held	% of issued shares
Allan Gray Investment Management	166,461,741	16.2%
News Group[1]	104,859,000	10.2%
IOOF Holdings	59,523,108	5.8%
Citigroup Global Markets	49,393,985	4.8%
Novaport Capital	45,996,742	4.5%
Regal Funds Management	45,952,986	4.5%
Perpetual Investments	45,833,870	4.5%
BT Investment Management	45,090,656	4.4%
Dimensional Fund Advisors	40,691,516	4.0%
Vanguard Group	28,248,191	2.7%
Subtotal	**632,051,795**	**61.4%**
Others	**395,922,261**	**38.6%**
Total shares outstanding	**1,029,041,356**	**100.0%**

Source: APN News & Media

Note:
1. *This excludes the portion held via institutions. News Corporations total interest in APN News & Media is 14.99%.*

3.4 Share price performance

In the 12 months ended 31 March 2016, 758.1 million APN News & Media shares were traded on the ASX, representing 74% of average shares outstanding for the period.

APN News & Media's share price movement over the past few years is illustrated in the figure below, along with trading volumes.

Figure 14: APN News & Media's share price movements and volume traded

Source: S&P Capital IQ
Note:
1. *LHS and RHS refers to left hand side and right hand side of the figure respectively*

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The table below summarises key events and announcements for APN News & Media with reference to movements in the Company's share price as illustrated in the chart above.

Table 2: Key events

Reference	Date	Note
1	30-Apr-2012	Quadrant Private Equity acquired 50% stake in APN Outdoor from APN News & Media
2	02-May-2012	APN News & Media acquired remaining 25% stake in GrabOne
3	21-Jun-2012	APN News & Media acquired 82% stake in brandsExclusive
4	19-Nov-2012	APN News & Media put up some of its publishing interests in New Zealand for sale
5	24-Jan-2014	APN News & Media sold off its remaining 50% interest in APN Outdoor to Quadrant Private Equity
6	12-Feb-2014	APN News & Media sold off brandsExclusive to AussieCommerce
7	19-Feb-2014	APN News & Media acquired the remaining 50% stake in ARN from Clear Channel
8	18-Jul-2014	APN News & Media acquired the remaining 50% stake in Buspak from Clear Channel
9	22-Dec-2014	APN News & Media announced the acquisition of Perth radio station 96FM from Fairfax Media and subsequently completed the acquisition on 30 January 2015
10	19-Mar-2015	INM and Baycliffe Limited sold part of its shares in APN News & Media
11	20-Mar-2015	News Corporation becomes a substantial shareholder in APN News & Media with a 14.99% stake
12	22-May-2015	INM completed the sale of its remaining substantial shareholding in APN News & Media
13	19-Jun-2015	APN News & Media announces the resignation of Chief Executive Officer Michael Miller and appointment of Ciaran Davis as the new Chief Executive Officer of the Company
14	25-Feb-2016	APN News & Media signals its plans to sell-off the ARM business

Source: ASX Announcements, Capital IQ, Deloitte analysis

We note the following in relation to the share price movements presented above.

- the APN News & Media share price declined sharply and underperformed the ASX during the period between March 2012 and December 2012. However, this decline was in line with other Australian media companies given weak market conditions and corresponding subdued growth in the Australian media industry
- the APN News & Media share price increased in February 2014, which coincided with the acquisition of the remaining 50% stake in ARN and TRN (NZME Radio)
- the APN News & Media share price recovered to a three year high in March 2015 before declining sharply between April 2015 and August 2015. Whilst this decline may be partially attributed to market sentiment towards stocks with publishing exposure, it also coincides with the resignation of the previous Chief Executive Officer of APN News & Media, Michael Miller.

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3.5 Financial performance

The historical financial performance of APN News & Media is presented below[9].

Table 3: Historical financial performance of APN News & Media

$ million (unless otherwise stated)	Audited FY14	Audited FY15
Operating revenue	843.2	850.0
Other revenue[1]	6.7	8.0
Share of profit of associates[2]	11.3	11.9
Total revenue	**861.1**	**869.9**
Operating Expenses[3]	(697.1)	(703.7)
EBITDA[4]	**164.1**	**166.2**
Depreciation and amortisation	(33.3)	(35.3)
EBIT[4]	**130.8**	**130.9**
Net interest expense	(36.1)	(31.7)
PBT	**94.7**	**99.2**
Tax	(11.7)	(23.2)
Profit/(loss) from continuing operations	82.9	76.0
Profit/(loss) from discontinued operations	(0.6)	0
NPAT[4] (before exceptional items)	**82.3**	**76.0**
Exceptional items[5]	(63.2)	(80.4)
NPAT (after exceptional items)	**19.1**	**(4.4)**
Profit/(loss) attributable to Shareholders	**11.5**	**(10.2)**
Non-controlling interests	**7.6**	**5.8**
Operating revenue growth	-	*0.8%*
Operating expenses growth	-	*0.9%*
EBITDA margin (% of operating revenue)	*19.5%*	*19.6%*
EBIT margin (% of operating revenue)	*15.5%*	*15.4%*

Source: Company financials, Deloitte Corporate Finance analysis

Notes:
1. *Other revenue includes dividends, rent, gain on financial assets held and other income.*
2. *Associates include Adshel Street Furniture Pty Ltd and Soprano Design Pty Ltd of which APN owns 50% and 25%, respectively*
3. *Expenses from continuing operations prior to impairment, depreciation & amortisation, and finance costs*
4. *Before any exceptional items, and includes share of profits from associates*
5. *Includes a non-cash exceptional impairment loss of $50.8 million recognised on the ARM assets for FY15 and $49.7 million recognised on the NZME Publishing assets for FY14*

We note the following in relation to the financial results presented above.

- APN News & Media's total operating revenues increased by 0.8% to $850.0 million for FY15, primarily driven by a 3.4% increase in the non-NZME operations[10] (comprising of ARN, ARM and Outdoor) and constituted approximately 53% of total revenues for FY15
  - ARN led the growth for the Company with revenues increasing by 22% over the previous period. EBITDA for ARN also increased 25% over the same period, contributing to 50% of APN News & Media's total EBITDA for FY15. ARN's strong performance in FY15 could be attributed to a focus on

[9] The analysis is on an Australian dollar basis, unless explicitly mentioned otherwise

[10] Refers to ARN and ARM which are 100% APN owned businesses, and Outdoor business which includes Adshel (50% owned) and Cody

quality content and talent and growth-related activities such as the 96FM acquisition in Perth and its efforts towards increasing its digital presence in Australia

  - revenues of the ARM business declined by 7% over FY15. Profitability was also affected with EBITDA for ARM decreasing by 27% over the previous year and making up only 11% of total FY15 EBITDA. During the year, ARM also incurred an exceptional impairment loss of $50.8 million attributed to its identifiable intangible assets
  - Outdoor advertising revenues in FY15 decreased by 24% over the previous year, partly due to the loss of the bus body contract in Hong Kong which expired on 30 June 2015. However, Adshel's individual business performance was strong. Adshel revenues increased by 8% in FY15 to $159.5 million (on a 100% basis) driven primarily by the digitisation of 35 key advertising panels in the Auckland CBD in June 2015 and 270 panels across Australia from October 2015.
- in FY15, NZME revenue constituted 47% of the Company's total revenue. The NZME business was affected by a decline in the publishing and radio channels in NZ and a slowdown in the e-Commerce space. While revenue was relatively flat, EBITDA declined by 7% in FY15 over the previous year. NZME has made significant efforts and investment to integrate all the NZME business operations into a single, unified cross-platform business. This is intended to benefit the NZME operations through improved customer and audience connection. Further, integration of regional offices and the centralisation of all support function are expected to result in a higher return on investment. We note that as a result of this integration, NZME was able to generate improved revenue from digital and new growth channels, as well as deliver on internal targets of cost savings and improved profitability in FY15. The Company expects these benefits to continue going forward.

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3.6 Financial position

APN News & Media's historical financial position is presented below[11].

Table 4: Historical financial position of APN News & Media

$m (unless otherwise stated)	Audited 31-Dec-14	Audited 31-Dec-15
Cash and cash equivalents	39.0	21.7
Trade and other receivables	129.5	127.2
Inventories	7.6	6.3
Other current assets	8.9	6.8
Total current assets	**185.0**	**162.1**
Shares and investments	79.3	85.9
Property, plant and equipment	133.5	136.8
Intangible assets (including goodwill)	690.6	712.1
Deferred tax assets	40.7	37.4
Total non-current assets	**944.2**	**972.1**
Total assets	**1,129.2**	**1,134.1**
Trade payables	(107.5)	(115.9)
Interest bearing liabilities	(1.6)	(1.2)
Current tax liabilities	(1.6)	(1.5)
Provisions	(21.3)	(25.6)
Total current liabilities	**(132.0)**	**(144.2)**
Trade payables	(10.9)	(19.9)
Interest bearing liabilities	(487.7)	(470.2)
Deferred tax liabilities	(23.5)	(30.2)
Provisions and other liabilities	(6.5)	(8.1)
Total non-current liabilities	**(528.5)**	**(528.4)**
Total liabilities	**(660.5)**	**(672.6)**
Net assets	**468.7**	**461.5**
Total Borrowings[1]	496.8	477.2
Net debt	**457.8**	**455.5**

Source: Company financials, Deloitte Corporate Finance analysis

Note:
1. Borrowings primarily comprise of secured bank loans of $476.1 million and $493.9 million as at 31 December 2015 and 31 December 2014, respectively

We note the following in relation to the balance sheet presented above.

- shares and investments include the Company's interest in Adshel Street Furniture Pty Ltd, Soprano Design Pty Ltd and an interest in Nova 93.7, an FM radio station in Perth, Western Australia
- intangible assets primarily comprise of radio licences, mastheads, brands and software in Australia and New Zealand and increased as on 31 December 2015 primarily on account of the acquisition of 96FM in Perth, Western Australia
- APN News & Media's borrowings as at 31 December 2015 include $301.0 million relating to its Australian operations, $173.9 million relating to its New Zealand operations and the balance of $2.3 million relating to its Hong Kong operations.

[11] The analysis is on an Australian dollar basis, unless explicitly mentioned otherwise

3.7 Strategy and outlook

3.7.1 Australia

APN News & Media has indicated that its key focus areas for future investment are its radio and outdoor assets, with the Company identifying these market segments as the most likely to deliver revenue growth.

In February 2016, APN News & Media announced its intention to divest its ARM business. This process is currently ongoing and if completed, will result in APN News & Media's Australian operations comprising its radio and outdoor properties only, meaning the Company's sole focus in Australia will be aligned with the growth strategy described above.

3.7.2 New Zealand

APN News & Media's strategy in respect of its New Zealand business is one of growth through integration. This is in sharp contrast to the strategy being pursued in respect of its Australian operations, which is one of focused investment in growth sectors.

NZME's transformation initiative has already transitioned the business from one of function-based vertical segments to an integrated content-based operation. The transformation initiative, which is in progress, is expected to continue to deliver operational efficiencies and enhanced customer offerings through the NZME suite of media assets.

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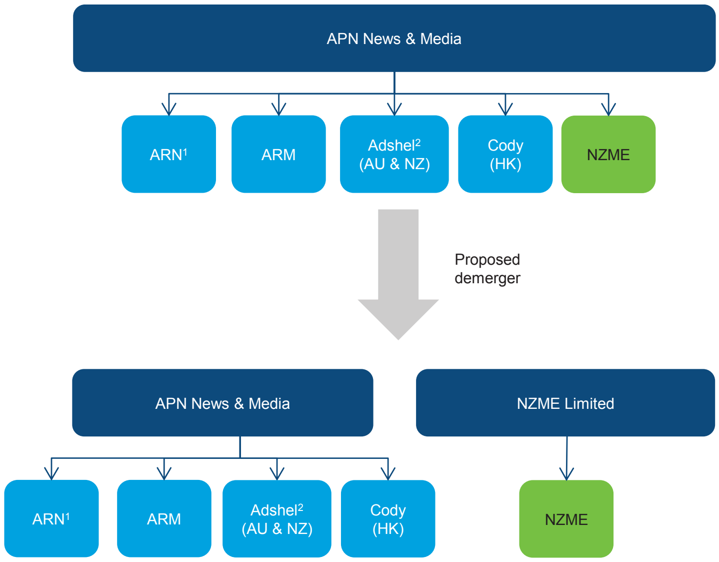
4 Impact of the Proposed Demerger

In this section we discuss the broad impact of the Proposed Demerger on APN News & Media and NZME. In particular, we consider the likely outcomes for the operations and financial performance of each entity.

4.1 Operating and ownership structure

The operating and ownership structure of APN News & Media and NZME following the Proposed Demerger is depicted in the figure below.

Figure 15: Proposed Demerger



Source: APN News & Media
Notes:
1. *ARN also includes iHeartRadio and Emotive assets of the Company*
2. *Refers to the 50% interest of APN News & Media in Adshel*

We make the following comments in relation to the post-demerger operations of APN News & Media and NZME:

- APN News & Media will retain the Australian and Hong Kong based operations of the Company along with the ownership interests in Adshel Street Furniture Pty Ltd and Soprano Design Pty Ltd
- all New Zealand based operations (with exception of those connected with Adshel) will be demerged as part of NZME, with shares in NZME issued to Shareholders
- NZME will take ownership of the back office support function that is based in Whangarei, New Zealand and continue to provide certain support services, such as finance and other related back-office functions, to APN News & Media for a period of up to three years, with an option to extend
- certain members of the current board of directors of APN News & Media along with the current management team of NZME business will assume roles with the demerged entity – NZME.

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4.2 Pro-forma financial statements

4.2.1 Pro-forma financial performance

The pro-forma financial performance of the APN News & Media and NZME entities (post the Proposed Demerger) for FY14 and FY15 are presented below[12].

Table 5: Pro-forma financial performance

	APN News & Media (in $ million)		NZME (in NZD million)	
	Pro-forma FY14	Pro-forma FY15	Pro-forma FY14	Pro-forma FY15
Operating revenue	**432.9**	**447.5**	**445.8**	**433.0**
EBITDA	**91.6**	**98.8**	**73.8**	**67.5**
EBITDA margin (% of operating revenues)	*21.2%*	*22.1%*	*16.6%*	*15.6%*
Depreciation and amortisation		(13.3)		(23.7)
Finance costs		(11.2)		(5.5)
PBT		**74.3**		**38.3**
Tax		(18.7)		(10.7)
Profit/(loss) from continuing operations		55.6		27.5
Profit/(loss) from discontinued operations		-		-
NPAT (before exceptional items)		**55.6**		**27.5**
Capital expenditure	7.0	13.6	14.6	18.5

Source: APN News & Media

We make the following observations on the pro-forma financial performance of APN News & Media and NZME:

- pro-forma revenue for APN News & Media increased in FY15 primarily due to the strong growth in ARN. The corresponding pro-forma revenue for NZME in FY15 decreased over the previous year, due to decreased print and radio adspend, despite the new revenue growth realised as part of the ongoing integration and transformation initiative
- pro-forma EBITDA margins for APN News & Media in FY14 and FY15 were 21.2% and 22.1%, respectively, while the corresponding pro-forma EBITDA margins of NZME in FY14 and FY15 were 16.6% and 15.6%, respectively.
- significant capital expenditure was incurred by NZME (on a pro-forma basis) in FY14 and FY15, primarily towards the integration and transformation of the New Zealand operations. The quantum of capital expenditure incurred for APN News & Media (post the Proposed Demerger) was lower in FY14 and FY15. However, this capital expenditure was primarily targeting growth opportunities in ARN, with some incurred for the launch of a new digital platform within ARM.

[12] The analysis is on an Australian dollar basis, unless explicitly mentioned otherwise

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4.2.2 Pro-forma financial position

The Shareholder vote on the Proposed Demerger is expected to take place after the completion of the Entitlement Offer. Consequently, the pro-forma financial position set out below reflects the expected balance sheet post the Entitlement Offer.

Table 6: Pro-forma financial position of APN News & Media and NZME

$m (unless otherwise stated)	APN News & Media Audited 31-Dec-2015	APN News & Media Pro-forma after Entitlement Offer	APN News & Media Pro-forma after Demerger	NZME (in NZDm) Pro-forma after Demerger
Cash and cash equivalents	21.7	21.7	14.5	7.7
Receivables	127.2	127.2	72.4	58.5
Inventories	6.3	6.3	3.8	2.7
Other assets	6.8	6.8	4.1	2.9
Total current assets	**162.1**	**162.1**	**94.8**	**71.8**
Other financial assets	32.1	32.1	31.7	0.4
Investments	53.8	53.8	53.8	-
Property plant & equipment	136.6	136.6	60.6	81.4
Intangible assets	712.2	712.2	400.1	333.1
Other assets	37.4	37.4	20.7	-
Total non-current assets	**972.2**	**972.2**	**566.9**	**414.8**
Total assets	**1,134.2**	**1,134.2**	**661.8**	**486.6**
Payables	115.9	115.9	57.0	62.9
Interest bearing liabilities	1.2	1.2	-	1.3
Current tax liabilities	1.5	1.5	1.5	-
Provisions	25.6	25.6	19.0	7.1
Total current liabilities	**144.2**	**144.2**	**77.5**	**71.3**
Payables	19.9	19.9	7.8	12.9
Borrowing costs	(5.8)	(5.8)	(2.6)	(0.4)
Interest bearing liabilities	476.1	301.1[1]	207.7	108.6
Provisions	6.4	6.4	6.4	-
Deferred tax liabilities	30.2	30.2	39.7	13.9
Other liabilities	1.7	1.7	1.7	-
Total non-current liabilities	**528.4**	**353.4**	**260.7**	**135.0**
Total liabilities	**672.6**	**497.6**	**338.3**	**206.4**
Net assets	**461.6**	**636.6**	**323.3**	**280.2**
Net debt	455.5	280.6	193.2	101.8
EBITDA[2]	166.2	166.2	98.8	67.5
Net debt/EBITDA	**2.7x**	**1.7x**	**2.0x**	**1.5x**

Source: APN News & Media

Notes:
1. *Assumes proceeds from the entitlement offer of approximately $180 million based on the offer price less assumed transaction costs of approximately $5 million*
2. *Before any exceptional items*

We make the following observations on the pro-forma financial position of APN News & Media and NZME:

- following the Entitlement Offer and Proposed Demerger, the capital structure of both entities will change substantially:
  - net debt/EBITDA ratio for APN News & Media (prior to the Proposed Demerger and the Entitlement Offer) as at 31 December 2015 was 2.7 times
  - the proceeds of the Entitlement Offer are proposed to be utilised towards establishing an appropriate capital structure for the entities post the Proposed Demerger through repayment of part of the existing corporate debt of APN News & Media. As a result, the net debt/EBITDA ratio for APN News & Media (prior to the Proposed Demerger) is expected to reduce to 1.7 times
  - on a pro-forma basis, the net debt/EBITDA ratio for APN News & Media (post the Proposed Demerger) is expected to be 2.0 times.

A detailed analysis of the pro-forma adjustments made to the balance sheets above is set out in Section 7.6 and Section 9.6 of the Explanatory Memorandum.

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Appendix A: Context to the Report

Individual circumstances

We have evaluated the Proposed Demerger for Shareholders as a whole and have not considered the effect of the Proposed Demerger on the particular circumstances of individual investors. Due to their particular circumstances, individual investors may place a different emphasis on various aspects of the Proposed Demerger from the one adopted in this report. Accordingly, individuals may reach different conclusions to ours on whether the Proposed Demerger is in the best interests of Shareholders. If in doubt investors should consult an independent adviser, who should have regard to their individual circumstances.

Limitations, qualifications, declarations and consents

The report has been prepared at the request of the Directors of APN News & Media and is to be included in the Explanatory Memorandum to be given to Shareholders to assist in their consideration of the Proposed Demerger. Accordingly, it has been prepared only for the benefit of the Directors and those persons entitled to receive the Explanatory Memorandum in their assessment of the Proposed Demerger outlined in the report and should not be used for any other purpose. Neither Deloitte Corporate Finance, Deloitte Touche Tohmatsu, nor any member or employee thereof, undertakes responsibility to any person, other than the Shareholders and APN News & Media, in respect of this report, including any errors or omissions however caused. Further, recipients of this report should be aware that it has been prepared without taking account of their individual objectives, financial situation or needs. Accordingly, each recipient should consider these factors before acting on the Proposed Demerger. This engagement has been conducted in accordance with professional standard APES 225 Valuation Services issued by the Accounting Professional and Ethical Standards Board Limited.

Statements and opinions contained in this report are given in good faith but, in the preparation of this report, Deloitte Corporate Finance has relied upon the completeness of the information provided by APN News & Media and its officers, employees, agents or advisors which Deloitte Corporate Finance believes, on reasonable grounds, to be reliable, complete and not misleading. Deloitte Corporate Finance does not imply, nor should it be construed, that it has carried out any form of audit or verification on the information and records supplied to us. Drafts of our report were issued to APN News & Media management for confirmation of factual accuracy.

In recognition that Deloitte Corporate Finance may rely on information provided by APN News & Media and its officers, employees, agents or advisors, APN News & Media has agreed that it will not make any claim against Deloitte Corporate Finance to recover any loss or damage which APN News & Media may suffer as a result of that reliance and that it will indemnify Deloitte Corporate Finance against any liability that arises out of either Deloitte Corporate Finance's reliance on the information provided by APN News & Media and its officers, employees, agents or advisors or the failure by APN News & Media and its officers, employees, agents or advisors to provide Deloitte Corporate Finance with any material information relating to the Proposed Demerger.

Deloitte Corporate Finance holds the appropriate Australian Financial Services Licence to issue this report and is owned by the Australian Partnership Deloitte Touche Tohmatsu. The employees of Deloitte Corporate Finance principally involved in the preparation of this report were Stephen Ferris, B.Ec, CA, F.Fin and Tapan Parekh, B.Bus, M.Com, CA (BV Specialist), F.Fin. Each has many years of experience in the provision of corporate financial advice, including specific advice on valuations, mergers and acquisitions, as well as the preparation of expert reports.

Consent to being named in disclosure document

Deloitte Corporate Finance Pty Limited (ACN 003 833 127) of 225 George Street, Sydney, NSW, 2000 acknowledges that:

- APN News & Media proposes to issue an explanatory memorandum in respect of the proposed demerger of APN News & Media's New Zealand operations (the Explanatory Memorandum)
- the Explanatory Memorandum will be issued in hard copy and be available in electronic format
- it has previously received a copy of the draft Explanatory Memorandum (draft Explanatory Memorandum) for review

- it is named in the Explanatory Memorandum as the 'independent expert' and the Explanatory Memorandum includes its independent expert's report in Section 13 of the Explanatory Memorandum.

On the basis that the Explanatory Memorandum is consistent in all material respects with the draft Explanatory Memorandum received, Deloitte Corporate Finance Pty Limited consents to it being named in the Explanatory Memorandum in the form and context in which it is so named, to the inclusion of its independent expert's report in Section 13 of the Explanatory Memorandum and to all references to its independent expert's report in the form and context in which they are included, whether the Explanatory Memorandum is issued in hard copy or electronic format or both.

Deloitte Corporate Finance Pty Limited has not authorised or caused the issue of the Explanatory Memorandum and takes no responsibility for any part of the Explanatory Memorandum, other than any references to its name and the independent expert's report as included in Section 13.

Sources of information

In preparing this report we have had access to the following principal sources of information:

- annual report for APN News & Media for the year ended 31 December 2015
- Proposed Demerger and Entitlement Offer draft presentation for APN News & Media
- draft Explanatory Memorandum for the Proposed Demerger
- NZME background information presentation
- Share register for APN News & Media as at 3 May 2016
- company websites for APN News & Media
- publicly available information on comparable companies and market transactions published by ASIC, Thompson research, Capital IQ, and Mergermarket
- IBIS company and industry reports
- other publicly available information, media releases and brokers reports on APN News & Media, comparable companies and the Media and Advertising industry/sectors in Australia and New Zealand.

In addition, we have had discussions and correspondence with certain directors and executives, including Ciaran Davis, Chief Executive Officer – APN News & Media; Jeff Howard, Chief Financial Officer – APN News & Media; Yvette Lamont, Group General Counsel and Company Secretary – APN News & Media and Michael Boggs, Chief Executive Officer – NZME; in relation to the above information and to current operations and prospects.

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Appendix B: Studies on Demergers

Market evidence

Over time, there have been varying trends in the structure and focus of large corporations. Up until the 1970s, corporate focus was characterised by companies looking to build and form large diversified conglomerates. Risk diversification and economies of scale were the primary drivers of this trend. This contrasts to the latter part of the twentieth and early twenty-first centuries, where companies trended away from diversification toward operational and industry focus. This shift was driven by the increasing recognition that capital markets are more efficient in allocating resources to businesses with attractive investment opportunities. It is not uncommon for the market to allocate a ‘diversification discount’ to large conglomerates[13].

As a result of this trend away from diversification, demerger activity has progressively grown, especially in the US, where regulatory and tax treatment is relatively favourable for this type of divestiture. Australia and the United Kingdom are also considered favourable jurisdictions for demergers. Below we list the most recent demergers in Australia, including the rationale for the demerger.

Table 7: Recent demergers in Australia (from most recent to oldest)

Demerger completion date	Parent	Demerged entity	Parent's activities post demerger	Rationale for demerger
3-Feb-16	National Australia Bank Limited	CYB Investments Limited	Banking and financial services	Spin-off certain international assets
18-Mar-15	BHP Billiton Ltd	South32	Mining	Spin-off certain international assets
18-Dec-13	Amcor Limited	Orora Limited	Packaging solutions	Spin off Australasia and Packaging Distribution business
10-Dec-13	Brambles Limited	Recall Holdings Limited	Cleaning and industrial support services	Spin-off the information management business and focus on growth opportunities in core business
26-Nov-12	Woolworths Limited	Shopping Centres Australasia Property Group	Retail supermarket operator	Spin-off sub-regional shopping centres and freestanding retail assets
01-Dec-11	Spark (previously Telecom Corporation of New Zealand Limited)	Chorus	Telecommunications	Separation of retail and network operations
06-Jun-11	Tabcorp Holdings Limited	Echo Entertainment	Media and entertainment	Spin-off the casinos business
10-May-11	Foster's Group Limited	Treasury Wine Estates Limited	Brewing	Spin-off the company's wine business

Source: Mergermarket, company websites

The stated rationales for undertaking these demergers included the following:

- spinning off business units that operated in jurisdictions with different growth prospects, regulatory regimes and risk outlook (such as the BHP Billiton/South 32 demerger)
- spinning off subsidiaries having business operations in areas not falling directly under the core business of the parent company (such as Brambles/Recall Holdings, Tabcorp/Echo Entertainment and Foster’s/Treasury Wine Estates demergers).

[13] Berger and Ofek (1995) found, based on a sample from 1986 to 1995, that the sum of the stand-alone values to the firm’s actual value implies on average a 13% to 15% value loss from diversification.

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Analysis of value creation

Academic studies

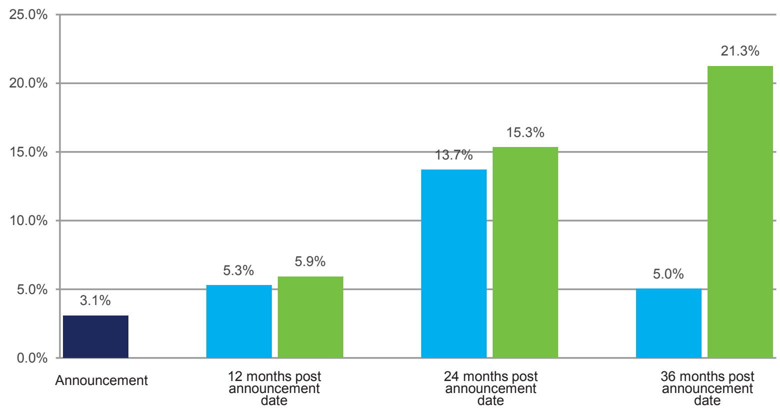
There is little objective evidence as to whether or not demergers have actually enhanced shareholder value, principally because it is not possible to observe or reliably measure what returns would have been had the demerger not occurred.

There are many documented studies on the impact of demergers on shareholder value. The large majority of these studies assess value creation by observing abnormal returns of listed companies attributed to the demerger event. Abnormal return is usually measured as excess share return compared to a benchmark of listed companies considered comparable to the original business.

The studies mostly focus on the analysis of abnormal returns observed within immediate proximity to the announcement date of the transaction. However, more recently there has been an increasing focus on observing long term returns over a period of up to three years after the effective date of the demerger. Conceptually, a better long term abnormal return compared with a return over the short term may be explained by the ability of management to deliver returns in excess of market participants' expectations at the announcement date.

The academic studies[14] observed focus on the US and European markets where there is an extensive observable history of demergers, however, given the variety of calculation methodologies applied, not all studies are directly comparable. The results collated and summarised in the figure below generally indicate that demergers generate, on average, positive abnormal returns.

Figure 16: Observed demerger abnormal returns (average)



*Source: Refer footnote below*15

We note the following regarding the above:

- the studies unanimously observed that the initial announcement of a demerger to the marketplace resulted in a positive movement in the company's share price in the range of 0.5% to 5.4%

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[14]Roger Rüdisüli, Value Creation of Spin-offs and Carve-outs (2005); Chris Veld and Yulia V. Veld-Merkoulova, Value Creation Through Spin-offs: a Review of the Empirical Evidence (2008)

[15] Source: Miles and Rosenfeld (1983); Schipper and Smith (1983); Hite and Owens (1983); Vijh (1994); Allen et al (1995); Michaley and Shaw (1995); Daley, Mehrotra and Sivakumar (1997); Desai and Jain (1999); Krishnaswami and Subramaniam (1999); Gertner, Powers, and Scharfstein (2000); Blanton, Perrett, and Taino (2000); Mulherin and Boone (2000); Chemmanur and Paeglis (2000); Buhner (1998); Buhner (2000); Janssens de Vroom and Van Frederikslust (2000); Veld and Veld-Merkoulova (2004); Kirchmaier (2003); Cusatis, Miles and Woolridge (1993 and 1994); Michaely and Shaw (1995); McConnell, Ozbilgin, and Wahal (2001); Powers (2001); Anslinger, Klepper, and Subramaniam (1999); Anslinger, Bonini, and Patsalos-Fox (2000); Cusatis, Miles and Woolridge (1993 and 1994); McConnell, Ozbilgin, and Wahal (2001).

- the US studies, covering the period from 1965 to 1998, observed that the company's parent abnormal returns ranged from 2.5% to 12.5% over a twelve month period and the demerged entity's returns ranged from -6.4% to 15.7% over the same period. Over a three year period parent returns ranged from -1.8% to 18.1% whilst demerged entity returns ranged from 7.9% to 33.6%
- the European studies covered the period from 1989 to 2000 and found that over a twelve month period, parent firms experienced abnormal returns of -0.7% and demerged entities 12.6%.

Other hypotheses tested in the US and European studies observed the following:

- subsidiary firms' returns over the long term are greater than that of their parent firms over the same period post demerger
- parent firms generally undertake spin-offs in bull markets. This is based on the theory that management prefer a positive market environment in which to list demerged subsidiaries
- spin-off firms (both parent and subsidiary) do not experience a significant decline (if any) in returns in the period post demerger
- size, operational diversification and geography are less important in assessing the value created by a demerger.

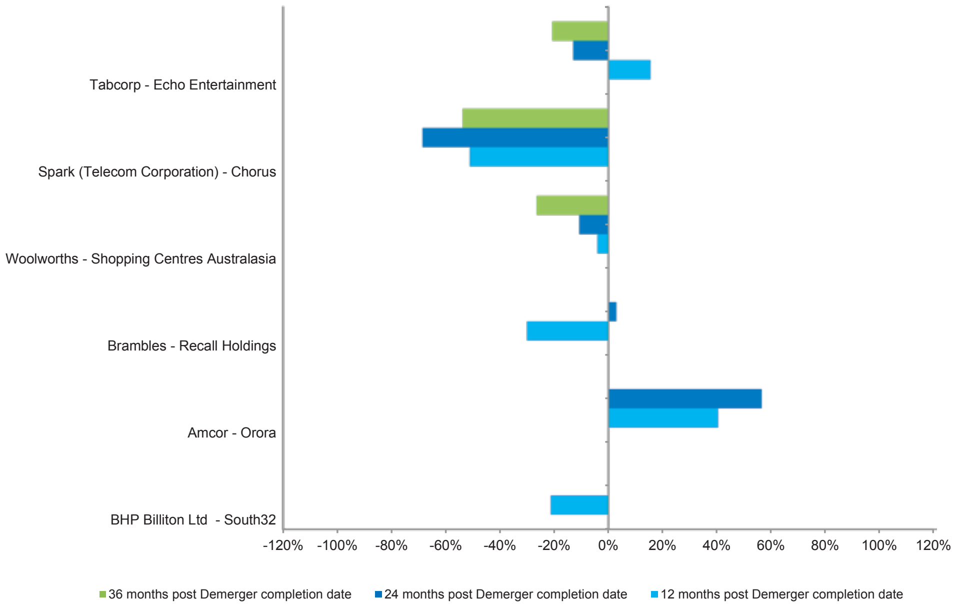
Empirical analysis

We have attempted to estimate the abnormal returns from selected recent demergers in the Australian market. This is a high level analysis which incorporates significant limitations, not least the statistical significance of the results.

The figure below depicts the observed excess return of the hypothetical combined share price of both the parent and the subsidiary over a period of one, two and three years post demerger[16]. The return of the hypothetical security has been measured in relation to a selected index of which either the parent or demerged entity is a member.

[16] The hypothetical combined share price is calculated by adding together the share price of the subsidiary (on a pro-rata basis as per the demerger terms) and the parent after the demerger.

Figure 17: Selected Australian and New Zealand demerger analysis



Source: Capital IQ, Mergermarket, Company announcements, Deloitte Corporate Finance analysis
Notes:
1. *The BHP Billiton/South32, Amcor/Orora and Brambles/Recall Holdings demergers occurred in 2013 and later. Therefore, returns over a 36 month period are not available.*
2. *The Foster's/TWE data has been excluded because Foster's Group received a takeover offer shortly after the demerger and was subsequently delisted*
3. *The National Australia Bank/CYB Investments demerger has been excluded as the transaction was completed less than 12 months ago*

The above analysis indicates that the demergers which occurred during the period under review had mixed success in creating shareholder value.

In particular, we note that entities that have been demerged for 12 months exhibited excess returns in the range of -51% and 40%. When considered over a period of 24 months from the demerger, the excess returns for the above selected companies ranged from -7% and 57%, while all company for which trading information is available for three years after the demerger exhibited returns below the market index.

It is difficult to determine whether demergers in themselves add value. The results of the above analysis of recent demergers in the Australian and New Zealand markets are inconclusive. Notwithstanding this, the evidence from the numerous academic studies presented above would seem to indicate that market observations broadly support the theory that demergers create value for shareholders, although the range of outcomes and the rationale behind the demergers indicate that there is no ideal business structure that all companies should target. The success of demergers, in their ability to create shareholder value, depends on the specific circumstances of each case.

14 ADDITIONAL INFORMATION

14.1 INTENTION OF APN DIRECTORS CONCERNING THE BUSINESSES OF APN (AFTER THE DEMERGER) AND NZME

Other than as disclosed in this Explanatory Memorandum, it is the present intention of the current APN Board following implementation of the Demerger that:

- The core APN businesses and the NZME business will continue and be conducted as set out in Sections 6 and 8;
- No major changes will be made to the APN businesses (including redeployment of the fixed assets of APN), except as contemplated within this Explanatory Memorandum; and
- The present policies of APN relating to the employment of its employees will continue.

However, the present intention of the current APN Board may change if circumstances require. Following the Demerger, the businesses of APN (after the Demerger) and of NZME will be the responsibility of their respective directors, and therefore the business of NZME will be beyond the control of the current APN Board.

14.2 PRO-FORMA SUBSTANTIAL HOLDERS OF APN SHARES

Based on substantial holder notice disclosure, as at 10 May 2016, the following shareholders had a relevant interest of more than 5% in APN shares:

Name	No. of NZME Shares if Share Consolidation approved	No. of APN Shares if share consolidation not approved	Percentage of issued NZME shares[1]
Allan Gray Investment Management	23,290,960	163,036,719	15.84%
News Corporation	22,036,141	154,252,985	14.99%
Perpetual Ltd	9,248,463	64,739,240	6.29%
Perennial Value Management	9,202,441	64,417,085	6.256%

1. Percentage ownership of total issued APN shares will not change due to Share Consolidation, except for rounding

14.3 INTERESTS OF APN DIRECTORS

a) APN Directors' interests in APN marketable securities

No marketable securities of APN are held by or on behalf of APN Directors and no APN Directors are otherwise entitled to marketable securities of APN as at the date of this Explanatory Memorandum other than the following interests (which are held either directly or indirectly):

APN director interests as at 10 May 2016

Director[17]	Position name	Direct	Indirect
Peter Cosgrove	Non-Executive Director, Non-Executive Chairman	0	388,662
Ted Harris	Non-Executive Deputy Chairman	376,121	261,334
Paul Connolly	Non-Executive Director	0	250,000
Anne Templeman-Jones	Non-Executive Director	0	6,122
Peter Cullinane	Non-Executive Director	79,000	0
Sir John Anderson	Non-Executive Director	0	100,000
Christine Holman	Non-Executive Director	0	100,000

No APN Directors held any options over APN Shares as at the date of this document.

No marketable securities of NZME are held by or on behalf of APN Directors (other than any indirect interests as a holder of APN Shares) as at the date of this Explanatory Memorandum.

APN Directors who hold APN Shares will be entitled to vote at the General Meeting and receive NZME Shares under the Demerger on the same terms as all other APN Shareholders.

17. Ted Harris will retire as a Director at the conclusion of the annual general meeting

b) Agreements or arrangements with APN Directors in connection with the Demerger

There are no agreements or arrangements made between any APN Director and any other person in connection with or conditional upon the outcome of the Demerger.

Other than as set out elsewhere in this document, no APN Director or proposed director of NZME, and no firm in which an APN Director or proposed director of NZME is a partner or was a partner in the last two years, holds, or held at any time during the last two years before the date of this Explanatory Memorandum, any interest in:

- the formation or promotion of NZME;
- any property acquired or proposed to be acquired by NZME in connection with its formation or promotion or the Demerger; or
- the Demerger,

and no amounts (whether in cash or securities or otherwise) other than the normal remuneration have been paid or agreed to be paid, and no one has given or agreed to give a benefit, to any APN Director or proposed director of NZME either to induce them to become, or to qualify them as, a director of NZME, or otherwise for services rendered by them in connection with the formation or promotion of NZME or the Demerger.

c) Payments and other benefits to APN directors, secretaries or executive officers

Other than as set out elsewhere in this Explanatory Memorandum, it is not proposed that any payment or benefit will be made or given to any director, secretary or executive officer of APN or any body corporate related to APN, as compensation for loss of, or as consideration for or in connection with their loss, of office or retirement from office, either:

- as a consequence of, or in connection with, the Demerger; or
- where the amount of any payment or benefit which may be made to that person upon their loss of office or retirement from office may be materially affected by the Demerger.

14.4 REGULATORY OVERVIEW OF NZME

a) Company regulation

NZME Limited is a New Zealand incorporated company subject to the Companies Act. The Companies Act regulates the incorporation and registration of bodies corporate. As a listed issuer, company accounting and auditing will be regulated by the Financial markets Conduct Act. Once NZME is a foreign company registered in Australia and listed on the ASX as a Foreign Exempt Listing, NZME will also be subject to certain provisions of the Corporations Act.

b) Listing regulation

Since NZME will be listed on both the NZX Main Board and the ASX as a Foreign Exempt Listing it will be subject to both the NZX Main Board Listing Rules and certain procedural and administrative requirements under the ASX Listing Rules, as well as the Financial Markets Conduct Act and Australian Securities and Investments Commission Act.

NZME's listing will be implemented as a "compliance" listing as no capital is being raised by NZME concurrently with its listing. An applicant for compliance listing is required by NZX Main Board Listing Rule 7.1 to prepare a Profile. This Profile must comply with the requirements of the Financial Markets Conduct Act and regulations, as if the Demerger were an offer of securities by NZME made to the APN Shareholders except as may be otherwise approved by NZX. This Explanatory Memorandum satisfies the majority of NZX's requirements for a Profile, although NZME will release a supplementary document prior to commencement of its listing on the NZX Main Board containing the further information required to be included in a Profile by NZX at the time of its listing.

As an ASX Foreign exempt listing, NZME would be exempt from complying with most of ASX's Listing Rules. However, it will need to comply with certain requirements, including the following:

- it must immediately provide to ASX all information it provides to NZX that is, or is to be, made public;
- it must continue to comply with the NZX listing rules and, by no later than the lodgement of its full year accounts with ASX in each year, give ASX a statement that it continues to comply with those rules for release to the market;
- it must promptly inform ASX if it is granted a waiver of all or part of any NZX listing rule and, if ASX requires, the entity must release details of any such waiver to the market;
- it must immediately request a trading halt in respect of its securities or a class of them if trading in those securities or that class is halted on NZX;
- it must immediately request a suspension in respect of its securities or a class of them if those securities or that class have been suspended from quotation on NZX;
- it must comply with some ASX Listing Rules relating to transfers and registers of securities;
- it must comply with some ASX Listing Rules relating to certain procedural and administrative matters, including the way announcements are lodged, trading halts, suspension and removal; and
- it must pay ASX's prescribed fees (as set out under Chapter 16 of the ASX Listing Rules).

c) Deferred settlement trading

Subject to the implementation of the Demerger, it is expected that NZME Shares will commence trading under the code NZM, on ASX and NZX on a deferred settlement basis (on a post consolidation basis) on Monday, 27 June 2016. Trading of NZME Shares on ASX and NZX on a normal settlement basis is expected to commence on Friday, 1 July 2016.

It is the responsibility of each APN Shareholder to determine their entitlement to NZME Shares before trading those shares to avoid the risk of selling NZME Shares they do not own. If an APN Shareholder sells NZME Shares without receiving confirmation of their entitlement, they do so at their own risk.

14.5 RIGHTS ATTACHING TO NZME SHARES

a) Shares in dual listed company

NZME will be listed on the NZX Main Board and will have a Foreign Exempt Listing on the ASX.

b) Applicable law

As a dual listed New Zealand incorporated company, NZME is subject to New Zealand and Australian law, as described above. The rights and liabilities attaching to NZME Shares arise from a combination of the NZME constitution, statute (including the Companies Act), NZX and ASX listing rules, and general New Zealand and Australian law.

Similarly, APN is subject to the APN constitution, statute, the ASX and NZX listing rules and general Australian and New Zealand law.

The rights that are attached to the Shares include:

- The right to one vote on a poll at a meeting of shareholders on any resolution, including any resolution to:
  - Appoint or remove a director;
  - Adopt or alter the constitution;
  - Approve a major transaction;
  - Approve an amalgamation under the companies Act 1993; and
  - Put the company into liquidation,
- The right to an equal share in any dividends; and
- The right to an equal share in the distribution of the company's surplus assets.

The only material difference between the rights of shareholders under the APN constitution immediately prior to the Demerger and the rights of shareholders under the NZME Constitution immediately following the implementation of the Demerger is that the NZME Constitution will provide for the compulsory sale of less than a minimum holding of Shares after a three month notice period has expired whereas the APN constitution has no similar provision.

14.6 OVERVIEW OF NZME CONSTITUTION

The NZME Constitution incorporates by reference the requirements of the NZX Listing Rules and requires NZME to comply with the NZX Listing Rules for so long as the Shares are quoted on the NZX Main Board. The principal restrictions on the powers of the Board imposed by the NZME Constitution (including the requirements of the NZX Listing Rules incorporated into the NZME Constitution) are that the NZME Board may not allow or cause NZME to:

- issue or acquire any equity securities except in accordance with the provisions of the Companies Act, the NZME Constitution and the NZX Listing Rules;
- give financial assistance for the purpose of, or in connection with, the acquisition of equity securities issued or to be issued by NZME, except in limited circumstances and in accordance with the provisions of the Companies Act, the NZME Constitution and the NZX Listing Rules;
- enter into any transaction or series of linked or related transactions to acquire, sell, lease, exchange or otherwise dispose of (otherwise than by way of charge) assets of NZME which would change the essential nature of the business of the NZME and its subsidiaries, or in respect of which the gross value is in excess of 50% of the average market capitalisation of NZME, without the prior approval of an ordinary resolution of NZME shareholders; and
- enter into certain material transactions with related parties if that related party is, or is likely to become, a direct or indirect party to the material transaction without the prior approval of an ordinary resolution of NZME shareholders.

In addition, a director of NZME may not vote on any matter in which he or she is interested, unless permitted by the Companies Act and the NZX Listing Rules, where he or she has complied with the relevant provisions.

14.7 REGULATORY CONFIRMATIONS AND WAIVERS

a) ASIC waivers

APN has applied for relief from ASIC from the requirement to prepare a prospectus in relation to the invitation to APN Shareholders to vote on the Demerger and in relation to any secondary trading in NZME Shares.

b) Financial Markets Conduct exemption

The FMA has approved an exemption application exempting APN and NZME from Part 3 (Disclosure of Offers of Financial Products) of the Financial Markets Conduct Act 2013 subject to various conditions. The exemption notice is called the Financial Markets Conduct (APN News & Media Limited) Exemption Notice 2016.

14.8 CONSENTS AND DISCLAIMERS

Each of the parties named below as consenting parties:

- has given and has not, before the date of this Explanatory Memorandum, withdrawn its written consent to be named in this document in the form and context in which it is named;
- has given and has not, before the date of this Explanatory Memorandum, withdrawn its written consent to the inclusion of their respective statements and reports (where applicable) noted next to their names in Sections 12 and 13, and the references to those statements and reports in the form and context in which they are included in this Explanatory Memorandum;
- does not make, or purport to make, any statement in this Explanatory Memorandum other than those statements referred to in Sections 12 and 13 in respect of that person's name (and as consented to by that person);
- has not caused or authorised the issue of this Explanatory Memorandum; and
- to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any other statements in or omissions from this Explanatory Memorandum.

Role	Consenting party
Financial advisor	Grant Samuel
Auditor	PricewaterhouseCoopers
Independent Expert	Deloitte
Investigating Accountant	PricewaterhouseCoopers Securities Ltd
Australian legal advisor	Baker & McKenzie
New Zealand legal advisor	Quigg Partners
APN Share Registry and NZME Share Registry	Link Market Services Limited

14.9 SALE OF NZME SHARES

No securities of NZME have been sold in the three months immediately before the date of this Explanatory Memorandum

14.10 FOREIGN EXCHANGE CONTROLS

There are currently Australian exchange controls which restrict the remittances of dividends, interest or other payments by APN or NZME to non-resident holders of APN Shares or NZME Shares outside of Australia, if they are:

- supporters of the former government of the Federal Republic of Yugoslavia;
- Ministers or senior officials of the Government of Zimbabwe;
- certain entities associated with the Democratic People's Republic of Korea (North Korea);
- certain individuals associated with the Burmese regime;
- certain Iranian entities and persons who contribute to Iran's proliferation activities; or
- certain individuals associated with the Libyan regime.

The Australian Government has also implemented certain financial sanctions made by the United Nations Security Council (which prevent dealing with financial resources owned by or giving financial resources to designated persons), in relation to: Al-Qaeda, the Taliban, Côte d'Ivoire, the Democratic People's Republic of Korea, the Democratic Republic of the Congo, Eritrea, Iran, Iraq, Lebanon, Libya, Liberia, Somalia, Sudan, and terrorism.

14.11 RESTRICTIONS ON FOREIGN OWNERSHIP

a) Australia

There are no limitations under Australian law on the right of non-residents to hold or vote NZME Shares other than as set out below.

The Foreign Acquisitions and Takeovers Act 1975 (Cth) (FATA) and the Australian Government's foreign investment policy may affect the right of certain persons to hold or control NZME Shares. Acquisitions of shares in Australian companies by foreign interests are subject to review and approval by the Treasurer of the Commonwealth of Australia under the FATA or the Government's policy. The FATA applies to any acquisitions by a foreign person (and its associates) which would result in a holding of 20% or more of the issued shares of, or control of 20% or more of the voting power in, an Australian company. Further, it applies to any acquisition by two or more non-associated foreign persons (and their associates) which would result in a holding by those persons of 40% or more of the issued shares of, or control of 40% or more of the voting power in, an Australian company. Stricter rules apply to foreign governments or governmental entities.

b) New Zealand

Subject to certain exceptions, the Overseas Investment Act 2005 (New Zealand) ("OIA") requires consent to be obtained before an overseas person (which includes a body corporate incorporated outside of New Zealand and its New Zealand incorporated subsidiaries) acquires an interest in "sensitive land" (as defined in the OIA) or significant business assets in New Zealand. The OIA sets out the situations in which consent is required. Generally, consent is required where an overseas person acquires an interest in sensitive land, a holding of 25% or more of the securities in a person who owns or controls an interest in sensitive land, or a holding of 25% or more of the securities in a person where the value of the securities, or the consideration provided, or the value of the gross assets of the person (and its 25% or more subsidiaries) exceeds NZ$100 million.

For the purpose of this 25% threshold, the rights or interests of the overseas person must be aggregated with the rights and interests of all "associates" of that overseas person. The OIA defines "associates" broadly to include a person that acts jointly or in concert with the overseas person in relation to an investment or other matter or who acts subject to or as a consequence of any arrangement or understanding with the overseas person.

14.12 FOREIGN SELLING RESTRICTIONS

The distribution of this Explanatory Memorandum outside of Australia or New Zealand may be restricted by law and persons who come into possession of it should seek advice and observe these restrictions. Any failure to comply with these restrictions may contravene applicable securities laws. APN disclaims all liabilities to such persons. If you are an APN Shareholder who is a nominee, trustee or custodian, you are advised to seek independent advice as to how you should proceed.

No action has been taken to register or qualify this Explanatory Memorandum, the Demerger or the NZME Shares, or otherwise permit a public offering of NZME Shares, in any jurisdiction outside of Australia or New Zealand.

14.13 DEMERGER COSTS

Total cash transaction and implementation costs in relation to the Demerger are estimated to be approximately $8.3 million (on a pre-tax basis). These costs include debt restructuring costs, advisers' fees, restructuring costs, IT costs, fees associated with the NZX and ASX listing of NZME and other costs. Some of these costs are capital in nature.

It is expected that approximately $7.9 million of the total pre-tax cash costs will be incurred and paid by APN and a further approximately $0.4 million of the total pre-tax cash costs will be incurred and paid by NZME following the Demerger. Approximately $5.1 million of these costs will have been incurred or paid prior to the General Meeting when APN Shareholders will vote on the Demerger. If the Demerger is approved at the General Meeting, the remaining costs are expected to be paid prior to 31 July 2016.

APN has estimated cash transaction and implementation costs that arise as a result of the Demerger as outlined above. The actual cash costs incurred may be different to these estimated costs. In particular, should the timing of the Demerger be delayed, transaction and implementation costs could be higher than estimated.

The Demerger would also require NZME to write off NZ$56 million of its deferred tax assets for accounting purposes due to it not meeting shareholder continuity tests to carry forward tax losses. Although such denied tax losses can no longer be utilised to shelter future income, they may still be available to shelter historic tax risks.

14.14 OTHER INFORMATION MATERIAL TO THE MAKING OF A DECISION IN RELATION TO THE DEMERGER

Except as set out in this Explanatory Memorandum, there is no other information material to the making of a decision in relation to the Demerger being information that is within the knowledge of any APN Director which has not previously been disclosed to APN Shareholders.

14.15 SUPPLEMENTARY INFORMATION

APN will issue a supplementary document to this Explanatory Memorandum if it becomes aware of any of the following between the date of this Explanatory Memorandum and the Demerger Date:

- A material statement in this Explanatory Memorandum is misleading or deceptive;
- A material omission from this Explanatory Memorandum;
- A significant change affecting a matter included in this Explanatory Memorandum; or
- A significant new matter has arisen that would have been required to be included in this Explanatory Memorandum if it had arisen before the date of this Explanatory Memorandum.

Depending on the nature and timing of the changed circumstances and subject to obtaining any relevant approvals, APN may circulate and publish any supplementary document by:

- Placing an advertisement in a prominently published newspaper which is circulated generally throughout Australia;
- Posting the supplementary document on APN's website; or
- Making an announcement to ASX and NZX.

Any updated information about the Demerger which is not materially adverse to investors is likely to be made available by announcement to ASX and NZX and on APN's website at APN's website at www.apn.com.

Where updated information about the Demerger is materially adverse to investors, a supplementary document will be issued and made available in accordance with regulatory requirements.

Prior to the General Meeting, APN will provide a copy of the updated information free of charge, to any person who requests a copy by calling the APN Shareholder Information Line on 1300 365 969 (within Australia) or +61 1300 365 969 (outside Australia) between 8:30am and 5:30pm (Sydney time) Monday to Friday, or 0800 729 276 (within New Zealand) between 8.30am and 5.30pm (Sydney time), Monday to Friday, or from APN's website at www.apn.com.

15 GLOSSARY

Defined term	Meaning
A$	Australian dollars.
AASB	the Australian Accounting Standards Board.
ACMA	Australian Communications and Media Authority.
AEDT	Australian Eastern Daylight Time.
AEST	Australian Eastern Standard Time.
APN	APN News & Media Limited (ABN 95 008 637 643).
APN Board	the board of directors of APN.
APN Distribution	the in specie distribution of NZME Shares as consideration for the Capital Reduction.
APN Group	means APN and its Subsidiaries (including NZME).
APN Share	a fully paid ordinary share in the capital of APN.
APN Shareholder	a registered holder of an APN Share.
APN Shareholder Information Line	the information line set up for the purpose of answering enquiries from APN Shareholders in relation to the Demerger and the Share Reduction, the details of which are set out in Section 3 and also in the Corporate Directory.
APN Share Register	the register of APN.
APN Share Registry	Link Market Services Limited.
APRA	Australian Prudential Regulatory Authority.
ASIC	Australian Securities and Investments Commission.
ASX	ASX Limited or the market conducted by it, as the context requires.
ASX Listing Date	the date NZME Shares first commence trading on the ASX, on a deferred settlement basis.
ASX Listing Rules	the rules, as amended from time to time, that govern the admission, quotation, suspension and removal of entities from the ASX Official List.
ASX Official List	the official list of listed entities on the ASX.
ASX Settlement Operating Rules	the operating rules for settlement on the ASX Official List.
ATO	Australian Taxation Office.
Auditor	PricewaterhouseCoopers.
Capital Reduction	means the capital reduction by way of in specie distribution of NZME shares as consideration, to effect the Demerger, as explained in Section 1.9.
Capital Reduction Aggregate Amount	The aggregate amount of the capital of APN that is to be reduced in accordance with the Capital Reduction Resolution, which amount will be determined by reference to the tax allocation which will be supported by an ATO ruling, but will be no more than the amount calculated by multiplying the number of NZME Shares on issue at the Demerger Record Date by the average VWAP of NZME Shares as traded on the NZX and ASX over the first five trading days following the Demerger Date. For reference purposes only, the pro forma book value of NZME net assets at 31 December 2015 are $262.7 million (or NZ$280.6 million).
Companies Act	The Companies Act 1993 of New Zealand
Condition Precedent	means each condition precedent as described in Section 10.2(d).
Corporations Act	the Corporations Act 2001 (Cth) of Australia.
Debt Documents	– Common Terms Deed; and – Bilateral Facility Agreement.
Demerger	the proposed demerger of NZME from APN.
Demerger Date	means the date the Demerger takes effect.
Demerger Implementation Deed	the Demerger Implementation Deed entered into on or around the date of this document between APN and NZME, as referred to in Section 10.5.
Demerger Principle	the fundamental underlying principle of the Demerger, as set out in Section 10.5.
Demerger Record Date	the date for determining entitlements to NZME Shares of APN Shareholders under the Demerger.
Demerger Resolution	the ordinary resolution to be voted on by APN Shareholders to approve the Demerger, as set out in the Notice of Meeting which accompanies the Explanatory Memorandum.
EBIT	earnings before interest and tax.
EBITDA	earnings before interest, tax, depreciation and amortisation.
Eligible Shareholder	an APN Shareholder as at the applicable Record Date whose registered address on the APN Share Register is in Australia, New Zealand, Hong Kong, Singapore, United Kingdom, Switzerland, Norway, France, Italy, Ireland or Germany or any other jurisdiction in which APN reasonably believes that it is not prohibited or unduly onerous or impractical to issue NZME Shares to the APN Shareholder.
EST	Eastern Standard Time.
Financial Markets Conduct Act	the Financial Markets Conduct Act 2013 of New Zealand.

Defined term	Meaning
FMA	Financial Markets Authority, New Zealand.
General Meeting	means the general meeting of APN Shareholders to consider the Demerger and the Share Consolidation.
IFRS	– Australian Accounting Standards, being Australian equivalents to International Financial Reporting Standards and interpretations as issued by the Australian Accounting Standards Board; – International Financial Reporting Standards and interpretations as adopted by the European Union; and – International Financial Reporting Standards and interpretations as issued by the IASB, collectively referred to as IFRS.
Independent Expert	Deloitte Corporate Finance Pty Limited.
Independent Expert's Report	the report prepared by the Independent Expert and included in Section 13.
Ineligible Overseas Shareholder	an APN Shareholder that is not an Eligible Shareholder.
Internal Restructure	the restructuring of the APN Group prior to, and in order to effect, the Demerger, as described in Section 10.2.
Investigating Accountant	PricewaterhouseCoopers Securities Ltd.
Investigating Accountant's Report	the report prepared by the Investigating Accountant and included in Section 12.
IRD	Inland Revenue Department, New Zealand.
NPAT	net profit after tax.
NZ Sublicence	has the meaning given in Section 10.5(d).
NZME	NZME Limited or the business conducted by NZME Limited and its subsidiaries, as the context requires
NZME Bilateral Facilities	has the meaning given in Section 9.7.
NZME Board	the board of directors of NZME following the Demerger.
NZME Constitution	the constitution that will apply to NZME at the time it lists on the NZX Main Board
NZME Limited	Wilson & Horton Limited, a company registered in New Zealand, registration number 1181195, to be renamed as NZME Limited prior to the implementation of the Demerger.
NZME Share	a fully paid ordinary share in the capital of NZME.
NZME Share Register	the register of NZME.
NZME Share Registry	Link Market Services Limited.
NZX	NZX Limited.
NZX Main Board	the main board equity security marked operated by NZX.
NZ$	New Zealand dollars.
OIO	The Overseas Investment Office, New Zealand.
Regulatory Approval	means such approvals, consents, waivers or other acts from or by any Regulatory Authorities as are required for or, in the reasonable opinion of APN, desirable to implement the Demerger being obtained (either unconditionally or on conditions reasonably satisfactory to APN).
Regulatory Authority	Regulatory Authority: includes: – APRA, the ASX, ASIC, and ATO; – NZX, OIO, and FMA; – any other government or governmental, semi-governmental or judicial entity or authority; – a minister, department, office, commission, delegate, instrumentality, agency, board, authority or organisation of any government; and – any regulatory organisation established under statute.
Sale Agent	the nominee appointed by APN to sell or facilitate the sale of the NZME Shares under the Sale Facility and NZME Shares to which Ineligible Overseas Shareholders would otherwise have been entitled.
Sale Facility	the sale facility available to certain APN Shareholders as, described in Section 10.3(e).
Selling Shareholders	APN Shareholders who validly elect to have their NZME Shares sold pursuant to the Sale Facility.
Share Consolidation	the proposed consolidation by APN of its share capital, as further explained in Section 1.8
Share Consolidation Resolution	the ordinary resolution to be voted on by APN Shareholders to approve the Share Consolidation, as set out in the Notice of Meeting which accompanies the Explanatory Memorandum.
Subsidiary	has the meaning given in the Corporations Act.
Underlying NPAT	will be calculated based on statutory NPAT adjusted for material one-off items, particularly those with a non cash impact.
VWAP	volume weighted average share price.

16 ANNEXURES A: AUSTRALIAN MEDIA INDUSTRY OVERVIEW

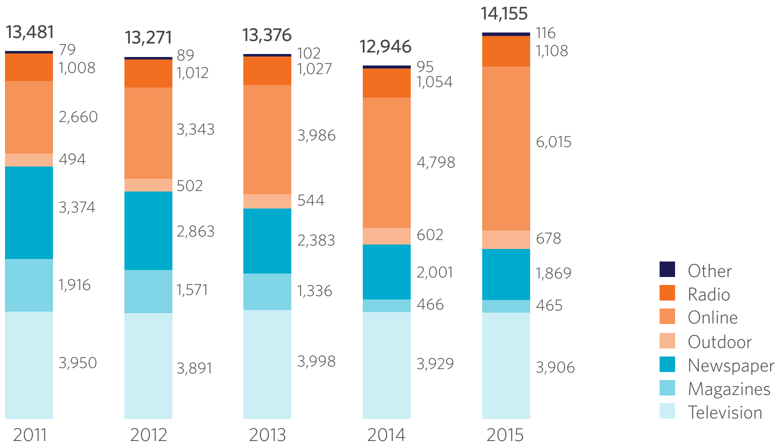
16.1 AUSTRALIAN MEDIA INDUSTRY OVERVIEW

a) Australian Media Sector

APN after Demerger will primarily operate in the Australian radio broadcasting, outdoor, and news media publishing industries, as well as the Hong Kong outdoor advertising industry.

The Australian media industry generated approximately $14.2 billion in advertising revenue in 2015, according to Commercial Economic Advisory Service of Australia ("CEASA"). In 2015, the segments that APN after Demerger participates in represented approximately 68.3% or $9.7 billion of the overall Australian media advertising revenue.

Advertising Spend in Australian by channel ($m)[1]



Source: CEASA 2011 – 2015 Advertising Expenditure in Main Media reports

1. Other includes advertising spend from Cinema

b) Australian Newspaper Advertising Industry

In 2015, approximately $1.9 billion in advertising revenue was generated through Australian newspaper advertising, representing 13.2% of total advertising revenue in the Australian media industry, and declining at 14% CAGR between 2011 and 2015. The decline in newspaper advertising revenue in Australia has occurred as a result of structural change within the industry, including the switch from print readership to digital consumption. Major metropolitan titles in Australia are using alternative digital subscription and paid models in order to find a balance between circulation revenues and advertising yields.

In many of the regional areas in which ARM operates, it publishes the only newspaper in the region. In the regions where ARM holds the #2 position, it has sought to tailor its offering to improve profitability with initiatives which take advantage of a lower cost digital platform without significantly reducing the circulation rates of these publications.

As a regional newspaper business, ARM's revenue is more heavily weighted to local advertising channels (~80% of advertising revenues in 2015) and is therefore often dependent on local factors and economic conditions.

Regional newspapers are also valuable from an agency perspective given their strong local connection with audiences.

c) Australian Radio Media Industry

In 2015, $1.1 billion in advertising revenue was generated from Australian radio advertising, representing 7.8% of total advertising revenue in the Australian media industry, and 2.4% CAGR between 2011 and 2015.

Radio advertising revenue share has continued to grow in Australia since 2011 for a number of reasons, including the continued strength in audience numbers, high level of reach, cost effectiveness and strong listener connection.

The commercial radio broadcasting industry consists of metropolitan and regional broadcasters. ARN, Southern Cross Media Group Limited ("SCA"), Nova Entertainment Australia Pty Ltd ("Nova") and Fairfax Media Limited ("Fairfax") own the majority of metropolitan commercial radio broadcasting licenses. Metropolitan radio represented approximately 67.7% of total advertising revenue in the Australian radio industry for 2015, according to CEASA.

Commercial radio broadcasters compete for share of audience as higher levels of audience share allows broadcasters to attract more advertisers and sell advertising slots at premium rates. The level of audience share a commercial radio broadcaster can achieve is dependent on the appeal of its format, content and commercial announcers and presenters to the relevant audience.

The competitive landscape for radio has evolved in recent years with the introduction of digital audio platforms in Australia which provide a user with the benefit of greater choice and customised stations. Commercial networks are increasing their investment in music streaming to meet this change in preference.

d) Australian Outdoor Media Industry

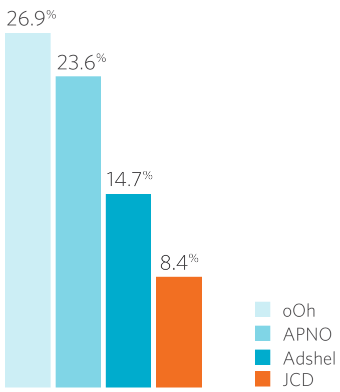
In 2015, Australian outdoor advertising generated approximately $677.8 million in advertising revenue, representing 4.8% of total advertising revenue in the Australian media industry, and 8.3% CAGR between 2011 and 2015.

Outdoor advertising provides advertisers with the ability to broadcast widely and capture a large audience. Outdoor advertising formats include static, scrolling and digital advertising panels, which are located in roadside, transport and retail environments.

Growth in outdoor advertising has been driven by advances in technology, which are allowing advertisers to more accurately measure the effectiveness of a campaign, engage customers and create deeper connections with a brand, as well as the ability of the format to reach a target audience. This flexibility has enabled better targeting and consequently is attracting more advertisers.

The outdoor industry in Australia consists of four major operators, oOh!media Limited ("oOh"), APN Outdoor Group Limited Ltd ("APNO"), Adshel and JCDecaux Street Furniture Pty Limited ("JCD") accounting for an estimated 73.6% of outdoor advertising industry revenue in 2015, according to SMI. Adshel is the 3rd largest outdoor operator in Australia based on revenue and the largest small format outdoor operator.

Outdoor Advertising Revenue Share in Australia



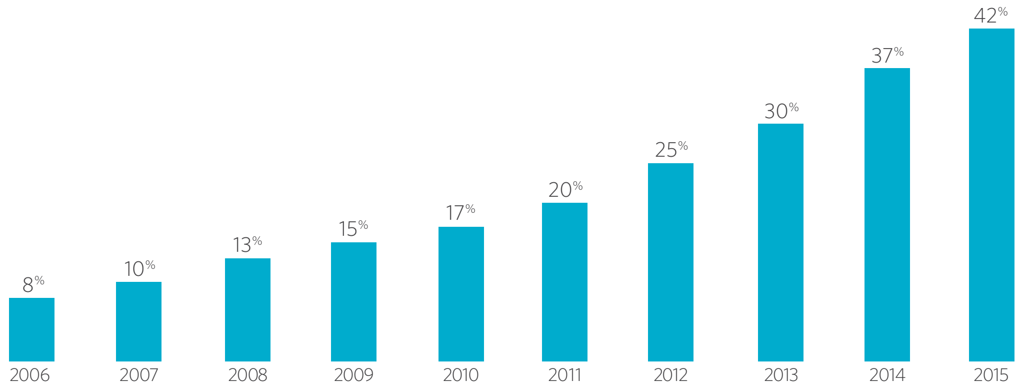
Source: SMI

e) Australian Digital Media Industry

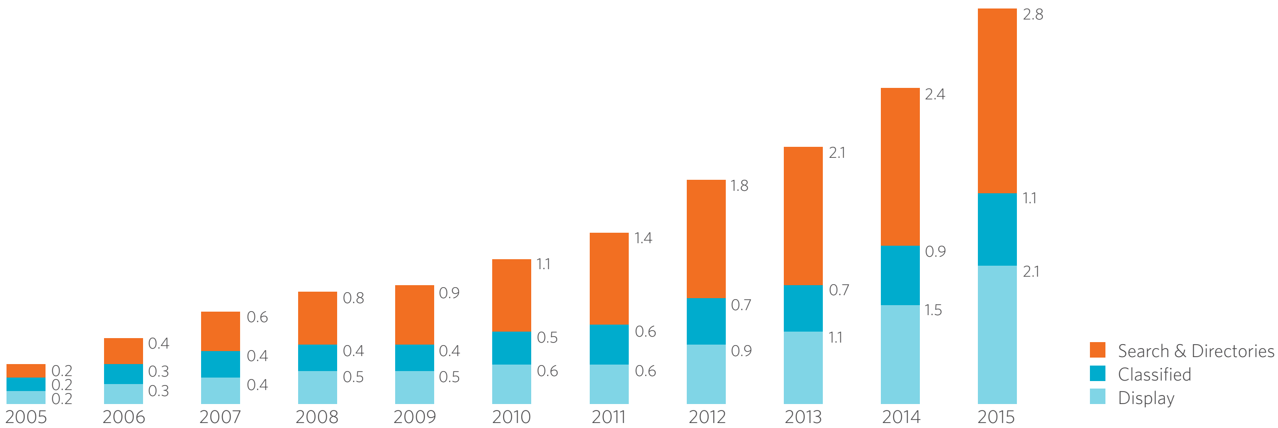
The digital media industry has experienced strong historical growth over the last 10 years as advertising has shifted online away from other media such as newspapers and magazines and now attracts more than $6.0 billion in advertising revenue in 2015, or 42.5% of total media advertising revenue.

Advertising revenue across the digital media industry is sourced from three main segments: search and directories, online display and classifieds. APN after Demerger will operate in the Australian online media industry, through its digital assets.

Digital Advertising Expenditure as a % of total advertising expenditure



Digital advertising expenditure breakdown by segment



17 ANNEXURE B: NEW ZEALAND MEDIA INDUSTRY OVERVIEW

17.1 NEW ZEALAND INDUSTRY OVERVIEW

a) New Zealand Media Sector[18]

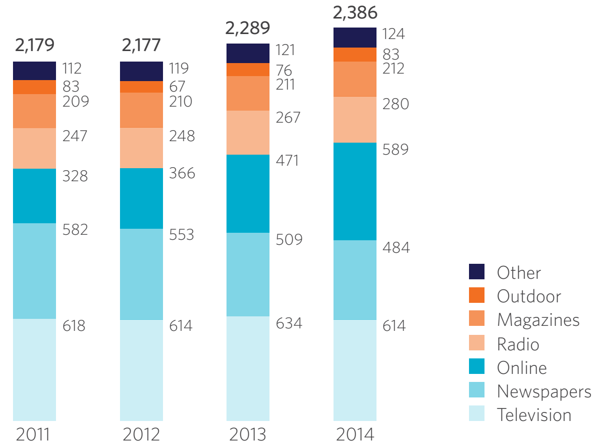
The advertising industry focuses on six primary media channels: radio, outdoor, newspapers, online, magazines and television. NZME provides advertising solutions across radio, newpapers and online. NZME also has operations in the events, activation and e-commerce sectors.

Revenue in the media industry is predominantly derived from advertising sales and audience revenues. The performance of the advertising industry is generally driven by broad macroeconomic conditions locally, as well as globally, including business confidence, consumer sentiment, political stability and consumer expenditure.

The development of new advertising media such as digital advertising, experiential and events has also had a significant influence on how businesses advertise and this will continue to evolve as audience behaviour adapts to the advertising media available. Despite the growth in online advertising, traditional media (television, publishing and radio) continues to contribute a large proportion of total advertising expenditure.

The New Zealand media industry generated approximately NZ$2.4 billion in advertising revenue in 2014, according to Advertising Standards Authority ("ASA"). In 2014, the segments that NZME participates in represented approximately 56.7% or NZ$1.4 billion of the overall New Zealand media advertising revenue

Advertising spend in New Zealand by channel 2009-2014 (NZ$m)[1]



Source: Advertising Standards Authority

1. Other includes addressed mail, unaddressed mail and cinema

18. Advertising Standards Authority ("ASA") publishes data on advertising spend in New Zealand. No data has been released for 2015 and as such may not be reflected in this section.

b) New Zealand Publishing Media Industry

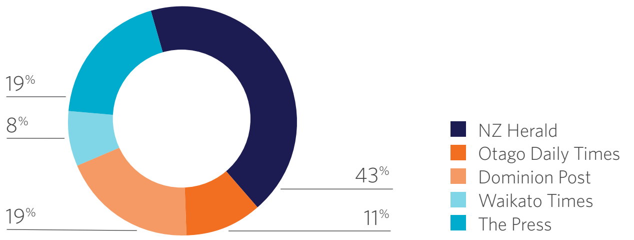
In 2014, NZ$484 million in advertising revenue was generated from New Zealand newspaper advertising, representing 20.3% of total advertising revenue in the New Zealand media industry, and declining at 6.0% CAGR between 2011 and 2014. Similarly, metropolitan circulation volumes in New Zealand have contracted at a CAGR of 6.6% between 2011 to 2015 as the readership base shifts to digital formats. Despite this, NZ Herald's share of newspaper circulation has increased from 42% to 43% over the same period[19].

In New Zealand the major metropolitan titles are published by NZME, Fairfax New Zealand and Allied Press. NZME publishes the *New Zealand Herald*, the number one metropolitan title by circulation[20] and the only major daily title in Auckland. Fairfax publishes daily titles in Christchurch, Hamilton and Wellington, and Allied Press publishes the major daily title in Otago. NZME and Fairfax also publish *Sunday* newspapers.

In addition to metropolitan daily titles, a further 16 daily regional titles and 99 weekly titles are published across New Zealand. NZME publishes six of the daily regional titles, and 23 of the weekly titles, all in the North Island.

Publishers including NZME also maintain digital versions of the major titles.

New Zealand Metropolitan Publishing Circulation Share by Average Daily circulation (Dec 2014 – Dec 2015)



Source: New Zealand Audit Bureau of Circulation

c) New Zealand Radio Media Industry

In 2014, radio generated NZ$280 million in advertising revenue, representing 11.7% of total advertising revenue in the New Zealand media industry, and 4.3% CAGR between 2011 and 2014.

Radio has been relatively stable, contributing an average of 11.6% of total advertising expenditure in the New Zealand media industry over the last 10 years. Radio offers advertisers the opportunity to attract different listeners across different radio brands. Advertising can therefore be targeted to specific audiences.

In radio, NZME and MediaWorks Holdings Limited ("Mediaworks") are the major commercial broadcasters. There are also a number of small independent and not-for-profit broadcasters and Radio New Zealand, a government owned broadcaster.

The competitive landscape for radio has evolved in recent years with the introduction of digital audio platforms which provide a user with the benefit of greater choice and customised playlists. Major digital audio platforms available include iHeartRadio, Spotify, Apple Music and Pandora.

19. New Zealand Audit Bureau of Circulation
20. New Zealand Audit Bureau of Circulation (based on the average daily circulation for the 12 months to 30 December 2015).

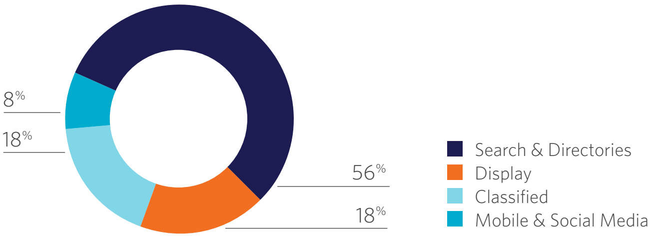
d) Online Advertising Media Industry

In line with global trends, New Zealand's online advertising expenditure has grown at a rapid rate over the last 10 years as advertising has shifted online away from other media such as newspapers and magazines, Online advertising attracted NZ$589 million in advertising revenue in 2014, or 24.7% of total media advertising revenue.

Online advertising includes social media, display advertising, mobile, email, classifieds and search and directories. NZME's online advertising offering is primarily comprised of classifieds and display advertising.

Search engines and directories account for the largest share of online advertising expenditure in New Zealand.

New Zealand Online advertising expenditure by channel (2015)



Source: IAB/PWC Q4 2015

e) E-commerce Industry

E-commerce includes online auctions and online retail. Online purchases by New Zealanders are growing at a faster rate than traditional retail and totalled approximately $3.3 billion in the year to 31 December 2015[21] or 6.8% of total retail sales in New Zealand. Approximately 56% of online purchases are from New Zealand's domestic retailers with the balance of purchases from international e-commence sites such as Amazon and eBay. NZME's e-commerce revenue is primarily derived from GrabOne, which is a daily deals website in New Zealand.

f) Events and Experiential Industry

The events industry in New Zealand includes conferences and conventions, exhibitions and trade shows, business events, music, sports, mass participation and festivals and cultural events. Experiential services include campaigns that encourage direct interaction between customers and an advertiser's brand or product (such as brand sampling, user generated content and use of talent to validate a product). Both industries are highly fragmented, with a large number of traditional advertising agencies, public relations agencies, media companies, ticket agencies, creative agencies and specialist activation agencies involved in event and activation strategy and execution.

21. Source: BNZ Online Retail Sales Institutional Research, December 2015

17.2 REGULATORY OVERVIEW

The following is a brief summary of the New Zealand media regulatory environment. This summary does not cover all current and proposed laws and policies, and reference should be made to specific legislation and policies for further detail. There is an ongoing possibility that courts will interpret these laws in different ways, and developments in case law could further alter the current regulatory position.

a) Radio Regulation

Commercial radio broadcasting licences are issued and managed in New Zealand through the Radio Spectrum Management group of the Ministry of Business, Innovation and Employment ("MBIE"). The Crown holds management licences for commercial radio and other spectrums in order to manage frequency allocation. Spectrum licences for commercial radio spectrums have generally been allocated by way of auction and are typically granted for the period of the management licence.

Spectrum licences may be granted for a period of up to 20 years, or such lesser time as agreed between the management right holder and the licensee. There are no ownership restrictions in relation to spectrum licensees. The Commerce Act 1986 applies to the acquisition of spectrum licences as to any business asset. Accordingly, the merger control provisions of the Commerce Act may apply to any future acquisition or divestment of spectrum licences by NZME

In 2011, the New Zealand spectrum radio licences operated by NZME, together with the majority of other commercial licences, were renewed until 2031, except for a number of temporary licences which were subsequently auctioned in December 2014, with NZME Radio successfully acquiring a number of those licences, including the key frequency in Christchurch used by *NewsTalk ZB*. Those auctioned licences will also expire in 2031. MBIE's current policy requires a minimum six year consultation period with spectrum licensees prior to 2031 to determine whether the Crown will extend any licences beyond 2031.

The Broadcasting Act 1989 and the Radio Code of Broadcasting Practice require every radio broadcaster to be responsible for maintaining standards of programming. The Radio Code aims to ensure compliance with the law, prevention of misleading or deceptive practices, and social responsibility. The Broadcasting Standards Authority is responsible for administering the Radio Code, and other broadcasting codes, determining formal complaints and encouraging broadcasters to develop and observe appropriate codes of broadcasting practice.

NZME Radio Limited is also a member of the Online Media Standards Authority, a self-regulatory body which handles complaints about news and current affairs published online by any of its members.

b) Publishing and Editorial Content Regulation

There is no independent regulator of editorial or print publication content in New Zealand. NZME is a member of the Press Council, an industry self-regulatory body which hears and resolves press complaints (including those relating to digital content). The Press Council hears complaints relating to newspaper, magazine and editorial website content.

New Zealand's media industry is also subject to content regulation under various Acts and common law. Content regulation includes the law of defamation, copyright law, contempt of court, suppression laws, privacy laws and laws in relation to protection of journalistic sources, consumer protection laws (including in relation to misleading or deceptive advertising), restricted product advertising and classification of publications. Advertising content is subject to a self-regulatory body, the Advertising Standards Authority.

NZME's operations are also subject to regulations relating to consumer protection, information security, data protection and privacy.

18 ANNEXURE C: NOTICE OF GENERAL MEETING

NOTICE OF GENERAL MEETING

Notice is given that a general meeting of the holders of ordinary shares in the capital of APN News & Media Limited (**APN**) will be held at the office of Baker & McKenzie, Level 27, AMP Building, 50 Bridge Street, Sydney New South Wales on Thursday, 16 June 2016 at 9.00am (AEST).

PURPOSE OF THE GENERAL MEETING

The purpose of the General Meeting is to consider and if thought fit, to pass the resolutions set out below in relation to the Share Consolidation and the Demerger.

The Share Consolidation Resolution and the Demerger Resolution are not conditional on each other. If either is passed by the requisite majority, it will be implemented regardless of whether the other has passed.

Information on the Share Consolidation Resolution and the Demerger Resolution is set out below and in the Explanatory Memorandum (of which this Notice of General Meeting forms a part).

DEFINED TERMS

Unless otherwise defined in this Notice of General Meeting, capitalised terms used in this Notice of General Meeting have the same meanings as set out in the glossary to the Explanatory Memorandum (of which this Notice of General Meeting forms a part).

1. Share Consolidation Resolution

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

"That, with effect from 7:00pm (AEST) on Tuesday, 21 June 2016.

(a) the share capital of APN be consolidated by converting every 7 APN Shares on issue at that time into one APN Share; and

(b) where the consolidation of APN's share capital results in a shareholder having a fractional entitlement to an APN Share, APN shall round up any such fractional entitlement to the next whole number."

2. Demerger Resolution

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

"That, subject to the satisfaction or waiver of the Conditions Precedent (as described in the Explanatory Memorandum), the Demerger of NZME from APN be implemented by way of a capital reduction and payment of an in specie distribution pursuant to and in accordance with Section 256C(1) of the Corporations Act, pursuant to which the share capital of APN will be reduced by the Capital Reduction Aggregate Amount (as defined in the Explanatory Memorandum) with the reduction being effected and satisfied by applying such amount equally against each APN Share on issue at the Demerger Record Date to be implemented in the manner more fully described in the Explanatory Memorandum which accompanies and forms part of this Notice of General Meeting."

REQUIRED VOTING MAJORITY

The Share Consolidation Resolution must be approved by a majority of votes cast (more than 50%) by APN Shareholders on the resolution.

In accordance with Section 256C(1) of the Corporations Act, the Demerger Resolution must be approved by a majority of votes cast (more than 50%) by APN Shareholders on the resolution.

By order of the Board

Yvette Lamont
Company Secretary
APN News & Media Limited

11 May 2016

NOTES ON VOTING

a) APN Shareholders who are entitled to vote

Only those APN Shareholders who are registered as holders of APN Shares at 7.00pm on Tuesday, 14 June 2016 are entitled to vote at the General Meeting.

b) How to Vote

You can vote in either of two ways:

- by attending the General Meeting and voting in person or by attorney, or in the case of corporate Shareholders, by corporate representative; or
- by appointing a proxy to attend and vote at the General Meeting on your behalf, either by using the proxy form accompanying the Explanatory Memorandum (of which this notice forms part) or electronically by visiting vote.linkmarketservices.com/APN.

c) Voting in person, by attorney or by corporate representative

If possible, you should arrive at the meeting venue by 8.30am, so that your shareholding can be checked against the APN Share Register and your attendance noted. You must register your attendance on arrival.

If you wish to attend the General Meeting by attorney, evidence of the appointment and non-revocation of such attorney must be received by the APN Share Registry by no later than 9.00am (AEST) on Tuesday, 14 June 2016. Attorneys should be bring with them original or certified copies of the power of attorney under which they have been authorised to attend and vote at the General Meeting.

A representative of a company attending the meeting should bring to the General Meeting a letter or certificate evidencing their appointment, unless previously given to the APN Share Registry. A form of certificate may be obtained from the APN Share Registry at www.linkmarketservices.com.au or from Link Market Services Limited, Level 12, 680 George Street, Sydney NSW 2000.

d) Voting by proxy

- APN Shareholders are entitled to appoint a proxy to attend the General Meeting and vote on their behalf. If a shareholder is entitled to attend and cast two or more votes at the General Meeting, the shareholder may appoint two proxies and may specify the proportion or the number of votes that the proxy may exercise. If no such proportion or number is specified, each proxy may exercise half of the shareholder's votes. Fractions of votes will be disregarded.
- A proxy does not need to be a APN Shareholder.
- If a proxy is not directed how to vote on the Demerger Resolution or the Share Consolidation Resolution, the proxy may vote, or abstain from voting, as that person thinks fit.
- If a proxy is instructed to abstain from voting on the Demerger Resolution or Share Consolidation Resolution, that person is directed not to vote on the Shareholder's behalf on the Demerger Resolution or Share Consolidation Resolution and the shares the subject of the proxy appointment will not be counted in determining the required majority.
- APN Shareholders who return their General Meeting Proxy Form with a direction how to vote but do not nominate the identity of their proxy will be taken to have appointed the chairman of the General Meeting as their proxy to vote on their behalf. If a proxy form is returned but the nominated proxy does not attend the General Meeting, the chairman of the General Meeting will act in place of the nominated proxy and vote in accordance with any instructions. Proxy appointments in favour of the chairman of the General Meeting, the company secretary or any other officer of APN will be used to support the Demerger Resolution or the Share Consolidation Resolution.
- Completed proxy forms should be sent to the APN Share Registry:
  - By hand-delivery to Link Market Services Limited, Level 12, 680 George Street, Sydney NSW 2000 or by using the enclosed reply paid pre-addressed envelope; or
  - By fax to +61 2 9287 0309.

  To be effective, proxy forms must be received by no later than 9am, Tuesday, 14 June 2016 (AEST). Proxy forms received after this time will be invalid.
- The General Meeting Proxy Form must be signed by the Shareholder or the Shareholder's attorney. Proxies given by corporations must be executed in accordance with the Corporations Act. Where the appointment of a proxy is signed by the appointer's attorney, a certified copy of the power of attorney or the power itself must be received by 9.00am (AEST) on Tuesday, 14 June 2016. If sent by fax, the power of attorney must be certified.
- In the case of joint APN Shareholders, the name of any one of the joint APN Shareholders may be shown on the General Meeting Proxy Form and any one of the joint APN Shareholders may sign the General Meeting Proxy Form. If more than one of the joint APN Shareholders are present personally or by duly authorised representative, proxy or attorney, only the vote of the holder whose name appears first in the APN Share Register counts.

e) Voting by Corporate Representative

- A Shareholder, or proxy, that is a corporation and entitled to attend and vote at the General Meeting may appoint an individual to act as its corporate representative.
- Evidence of the appointment of a corporate representative must be in accordance with Section 250D of the Corporations Act 2001 (Cth) and be lodged with APN before the General Meeting or at the registration desk on the day of the General Meeting.
- If the appointment of a corporate representative is signed under power of attorney, the power of attorney under which the appointment is signed, or a certified copy of that power of attorney, must accompany the appointment unless the power of attorney has previously been noted by APN's Share Registry.

f) Voting by Attorney

- A Shareholder entitled to attend and vote at the General Meeting is entitled to appoint an attorney to attend and vote at the General Meeting on the Shareholder's behalf.
- An attorney need not be a Shareholder of APN.
- The power of attorney appointing the attorney must be duly signed and specify the name of each of the Shareholder, APN and the attorney, and also specify the meetings at which the appointment may be used. The appointment may be a standing one.
- To be effective, the power of attorney must also be returned in the same manner, and by the same time, as outlined above for proxy forms.

EXPLANATORY NOTES

Resolution 1: Share Consolidation

The Share Consolidation Resolution is being put to the APN Shareholders to obtain approval to a consolidation of APN's share capital, by converting every 7 APN Shares held into one APN Share with effect on and from 7:00pm on the Demerger Date, in accordance with Section 254H of the Corporations Act. If this resolution is passed by the requisite majority and the consolidation becomes effective, it will result in each APN Shareholder holding one APN Share for 7 APN Shares previously held.

If the Share Consolidation Resolution is passed by the requisite majority of APN Shareholders present and voting at the meeting (whether in person or by proxy), it will not become effective until 7:00pm on Tuesday, 21 June 2016.

Each APN Director recommend that APN Shareholders vote in favour of the Share Consolidation Resolution and intends to vote all APN Shares held or controlled by them in favour of the Share Consolidation Resolution.

Resolution 2: Demerger

The Demerger Resolution is being put to APN Shareholders at the General Meeting to obtain approval under Section 256C of the Corporations Act to an equal capital reduction in APN's ordinary share capital, under Section 256B of the Corporations Act by the Capital Reduction Aggregate Amount (as defined in the Explanatory Memorandum)..

The effect on APN and APN Shareholders if the Demerger Resolution is passed, together with all other factors that are material to the making of a decision by APN Shareholders whether to approve the Demerger Resolution are set out in the Explanatory Memorandum (of which this Notice of General Meeting forms part).

If the Demerger Resolution is passed by the required majority of APN Shareholders at the General Meeting, it will take effect on the Demerger Date, provided all other conditions relating to the Demerger are satisfied (or waived).

The APN Directors are of the view that, taking into account all relevant matters, the Capital Reduction, which is to be effected as part of the Demerger, is in the best interests of APN Shareholders as a whole, and will not materially prejudice APN's ability to pay its creditors.

Each APN Director recommends that APN Shareholders vote in favour of the Demerger Resolution and intends to vote all APN Shares held or controlled by them in favour of the Demerger Resolution.

CORPORATE DIRECTORY

APN News & Media Limited
Level 4, 100 William Street
Sydney NSW 2011
Australia

NZME
2 Graham Street
Auckland
New Zealand

Financial Adviser
Grant Samuel
Level 19, Governor Macquarie Tower
1 Farrer place
Sydney NSW 2000
Australia

Accountant
PricewaterhouseCoopers Securities Ltd
201 Sussex Street
Sydney NSW 2000
Australia

Auditor
PricewaterhouseCoopers
201 Sussex Street
Sydney NSW 2000
Australia

Independent Expert
Deloitte Corporate Finance Pty Limited
Grosvenor Place
225 George Street
Sydney NSW 2000

Legal Adviser – Australia
Baker & McKenzie
Level 27, 50 Bridge Street
Sydney NSW 2000
Australia

Legal Adviser – New Zealand
Quigg Partners
Level 7, Bayleys Building
36 Brandon Street
Wellington 6140
New Zealand

Australian Tax Adviser
PricewaterhouseCoopers
201 Sussex Street
Sydney NSW 2000
Australia

APN Share Registry – Australia
Link Market Services Limited
Level 12, 680 George Street
Sydney NSW 2000

APN Share Registry – New Zealand
Link Market Services Limited
Level 11, Deloitte Centre
80 Queen Street
Auckland
New Zealand

APN Shareholder Information Line
If you have any additional questions in relation to this document or the Demerger, please call the **APN Shareholder Information Line on 1300 365 969 (within Australia) or +61 1300 365 969 (outside Australia) between 8:30am and 5:30pm (Sydney time) Monday to Friday, or 0800 729 276 (within New Zealand) between 8.30am and 5.30pm (Sydney time), Monday to Friday**.

Accessing information on APN
All up-to-date shareholder information is available online at: www.apn.com.au.

APN NEWS & MEDIA

APN NEWS & MEDIA LIMITED
ABN 95 008 637 643

LODGE YOUR VOTE

ONLINE
vote.linkmarketservices.com/APN

BY MAIL
APN News & Media Limited
C/- Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235 Australia

BY FAX
+61 2 9287 0309

BY HAND
Link Market Services Limited
1A Homebush Bay Drive, Rhodes NSW 2138; or
Level 12, 680 George Street, Sydney NSW 2000

ALL ENQUIRIES TO
Telephone: 1300 365 969 Overseas: +61 1300 365 969

X99999999999

PROXY FORM

I/We being a member(s) of APN News & Media Limited (the **Company** or **APN**) and entitled to attend and vote hereby appoint:

STEP 1

APPOINT A PROXY

☐ **the Chair of the Meeting** ***(mark box)***

OR if you are **NOT** appointing the Chair of the Meeting as your proxy, please write the name of the person or body corporate you are appointing as your proxy

or failing the person or body corporate named, or if no person or body corporate is named, the Chair of the Meeting, as my/our proxy to act on my/our behalf (including to vote in accordance with the following directions or, if no directions have been given and to the extent permitted by the law, as the proxy sees fit) at the Extraordinary General Meeting of the Company to be held at **9:00am (AEST) on Thursday, 16 June 2016 at Baker & Mckenzie, Level 27, AMP Building, 50 Bridge Street, Sydney, New South Wales** (the **Meeting**) and at any postponement or adjournment of the Meeting.

The Chair of the Meeting intends to vote undirected proxies in favour of each item of business.

STEP 2

VOTING DIRECTIONS

Proxies will only be valid and accepted by the Company if they are signed and received no later than 48 hours before the Meeting.

Please read the voting instructions overleaf before marking any boxes with an ☒

Resolutions

Resolution		For	Against	Abstain*
1(a)	That, with effect from 7:00pm (AEST) on Tuesday, 21 June 2016, the share capital of the Company be consolidated by converting every 7 APN Shares on issue at that time into one APN Share	☐	☐	☐
1(b)	That, with effect from 7:00pm (AEST) on Tuesday, 21 June 2016, where the consolidation of the Company's share capital results in a shareholder having a fractional entitlement to an APN Share, the Company shall round up any such fractional entitlement to the next whole number	☐	☐	☐
2	That, subject to the satisfaction or waiver of the Conditions Precedent (as described in the Explanatory Memorandum), the Demerger of NZME from the Company be implemented by way of a capital reduction and payment of an in specie distribution pursuant to and in accordance with section 256C(1) of the Corporations Act, pursuant to which the share capital of the Company will be reduced by the Capital Reduction Aggregate Amount (as defined in the Explanatory Memorandum) with the reduction being effected and satisfied by applying such amount equally against each APN Share on issue at the APN Record Date to be implemented in the manner more fully described in the Explanatory Memorandum which accompanies and forms part of the Notice of General Meeting	☐	☐	☐

ⓘ * If you mark the Abstain box for a particular Item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

STEP 3

SIGNATURE OF SHAREHOLDERS – THIS MUST BE COMPLETED

Shareholder (Individual)	Joint Shareholder 1 (Individual)	Joint Shareholder 2 (Individual)
Sole Director and Sole Company Secretary	Director/Company Secretary (Delete one)	Director

This form should be signed by the shareholder. If a joint holding, either shareholder may sign. If signed by the shareholder's attorney, the power of attorney must have been previously noted by the Company's share registry or a certified copy attached to this form. If executed by a company, the form must be executed in accordance with the company's constitution and the *Corporations Act 2001* (Cth).

HOW TO COMPLETE THIS SHAREHOLDER PROXY FORM

YOUR NAME AND ADDRESS

This is your name and address as it appears on the Company's share register. If this information is incorrect, please make the correction on the form. Shareholders sponsored by a broker should advise their broker of any changes. **Please note: you cannot change ownership of your shares using this form.**

APPOINTMENT OF PROXY

If you wish to appoint the Chair of the Meeting as your proxy, mark the box in Step 1. If you wish to appoint someone other than the Chair of the Meeting as your proxy, please write the name of that individual or body corporate in Step 1. A proxy need not be a shareholder of the Company.

DEFAULT TO CHAIR OF THE MEETING

Any directed proxies that are not voted at the Meeting will default to the Chair of the Meeting, who is required to vote those proxies as directed. Any undirected proxies that default to the Chair of the Meeting will be voted according to the instructions set out in this Proxy Form.

VOTES ON ITEMS OF BUSINESS – PROXY APPOINTMENT

You may direct your proxy how to vote by placing a mark in one of the boxes opposite each item of business. All your shares will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any item by inserting the percentage or number of shares you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on the items of business, your proxy may vote as he or she chooses. If you mark more than one box on an item your vote on that item will be invalid.

APPOINTMENT OF A SECOND PROXY

You are entitled to appoint up to two persons as proxies to attend the Meeting and vote on a poll. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by telephoning the Company's share registry or you may copy this form and return them both together.

To appoint a second proxy you must:

(a) on each of the first Proxy Form and the second Proxy Form state the percentage of your voting rights or number of shares applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded; and

(b) return both forms together.

SIGNING INSTRUCTIONS

You must sign this form as follows in the spaces provided:

Individual: where the holding is in one name, the holder must sign.

Joint Holding: where the holding is in more than one name, either shareholder may sign.

Power of Attorney: to sign under Power of Attorney, you must lodge the Power of Attorney with the Company's share registry. If you have not previously lodged this document for notation, 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 indicate the office held by signing in the appropriate place.

CORPORATE REPRESENTATIVES

If a representative of a corporation is to attend the Meeting the appropriate "Certificate of Appointment of Corporate Representative" should be produced prior to admission in accordance with the Notice of Meeting. A form of the certificate may be obtained from the Company's share registry or online at www.linkmarketservices.com.au.

LODGEMENT OF A PROXY FORM

This Proxy Form (and any Power of Attorney under which it is signed) must be received at an address given below by **9:00am (AEST) on Tuesday, 14 June 2016,** being not later than 48 hours before the commencement of the Meeting. Any Proxy Form received after that time will not be valid for the scheduled Meeting.

Proxy Forms may be lodged using the reply paid envelope or:

ONLINE
vote.linkmarketservices.com/APN

Login to the Link website using the holding details as shown on the Proxy Form. Select 'Voting' and follow the prompts to lodge your vote. To use the online lodgement facility, shareholders will need their "Holder Identifier" (Securityholder Reference Number (SRN) or Holder Identification Number (HIN) as shown on the front of the Proxy Form).

BY MOBILE DEVICE

QR Code

Our voting website is designed specifically for voting online. You can now lodge your proxy by scanning the QR code adjacent or enter the voting link **vote.linkmarketservices.com/APN** into your mobile device. Log in using the Holder Identifier and postcode for your shareholding.

To scan the code you will need a QR code reader application which can be downloaded for free on your mobile device.

BY MAIL
APN News & Media Limited
C/- Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235
Australia

BY FAX
+61 2 9287 0309

BY HAND
delivering it to Link Market Services Limited*
1A Homebush Bay Drive
Rhodes NSW 2138

or

Level 12
680 George Street
Sydney NSW 2000

* During business hours (Monday to Friday, 9:00am–5:00pm (AEST))

IF YOU WOULD LIKE TO ATTEND AND VOTE AT THE EXTRAORDINARY GENERAL MEETING, PLEASE BRING THIS PROXY FORM WITH YOU. THIS WILL ASSIST IN REGISTERING YOUR ATTENDANCE.