



MARKET ANNOUNCEMENT

PROPOSED DEMERGER OF NZME

Summary

- Proposed Demerger of NZME to APN shareholders (**Demerger**)
- NZME to be listed on NZX (primary listing) and ASX (foreign exempt listing)
- Enables APN to focus on its Australian growth media assets of radio and outdoor
- NZME will be a leading integrated media and entertainment business in New Zealand
- Independent Board and management team for each business – Sir John Anderson appointed Chairman of NZME
- Eligible APN shareholders will receive one share in NZME for each existing APN share
- Prudent and sustainable capital structure for APN (post Demerger and Entitlement Offer) and NZME
- APN to also undertake a 1 for 7 share consolidation (**Share Consolidation**)
- Shareholder meeting to approve the Demerger and Share Consolidation to be held on 16 June 2016
- APN directors consider that the Demerger is in the best interests of APN shareholders and recommend that shareholders vote in favour of the Demerger
- Independent expert has concluded that the Demerger is in the best interests of APN shareholders
- APN to raise approximately \$180 million through a fully underwritten 1 for 3 accelerated renounceable entitlement offer with retail entitlements trading (**Entitlement Offer**) (see separate ASX & NZX release lodged today)
- APN and Fairfax Media Limited (**Fairfax**) separately announced entry into exclusive discussions regarding the potential merger of their respective New Zealand businesses (see separate joint ASX & NZX release lodged today)

Overview

Sydney, 11 May, 2016 – APN News & Media Limited [ASX, NZX: APN] today announced a proposal to demerge 100% of its New Zealand business, NZME, to APN shareholders and list NZME on the NZX with a secondary listing on the Australian Securities Exchange (**ASX**). As a result of the Demerger, eligible APN shareholders will receive one new share in NZME for each existing APN share they hold, while retaining their existing APN shareholding. APN will continue to be listed on the ASX and NZX.



The Demerger will create two independent media companies:

- APN – a growth oriented media and entertainment company consisting of: ARN, Australia’s leading metropolitan radio network¹; Adshel, the #1 street furniture advertising network in Australia and New Zealand²; Cody Outdoor, an outdoor advertising business in Hong Kong; and ARM, a leading regional media business in Australia
- NZME – a leading integrated media and entertainment business in New Zealand, operating some of the country’s most recognisable publishing, radio and digital brands

APN after the Demerger will remain focused on pursuing growth opportunities in radio and outdoor and NZME will continue to develop its integrated media platform to drive further growth.

APN Chairman Mr Peter Cosgrove said “The proposed Demerger represents a natural progression of NZME’s transformation over the past two years and the most effective method of separating NZME with high execution certainty. NZME currently operates as a discrete, independent media business in a separate geographic market with limited day-to-day connectivity with APN.

For APN, the Demerger ends our long and successful association with the New Zealand publishing and radio industry that first commenced by buying a stake in The Radio Network in 1997, followed by the acquisition of *The New Zealand Herald* and numerous other media publications in 2001. It also represents a big opportunity for APN, where for the first time we are able to really focus and capitalise on our high growth media assets across the Australian radio and outdoor sectors.

The APN Board believes that the Demerger will enhance shareholder value over time by enabling independent focus for each company to better pursue their own strategic priorities and growth opportunities, and adopt independent capital structures reflecting their operational requirements. It provides the opportunity for the market to recognise the independent value of both businesses over time, and enables investors to make separate investment decisions with respect to each company.”

APN Chief Executive Officer, Ciaran Davis said “The Demerger will allow APN to drive growth and investment across the two outperforming media sectors in Australia, radio and outdoor. It presents a significant opportunity for APN to capitalise on our leading media brands and

¹ GFK Metro Surveys 1-8 2015 average, people 10 years + Mon-Sun 5.30am-12am, Sydney/Brisbane/Melbourne/Perth/Adelaide

² Through Adshel 50:50 joint venture with Clear Channel International.



market positions, with radio and outdoor a strong natural fit for integrated advertising campaigns.

For NZME, the Demerger has been made possible due to the excellent progress achieved to integrate some of New Zealand's most recognisable media brands into one central newsroom. The transformation plan has delivered on financial and operational targets to date and has repositioned NZME as an audience centric, content driven media and entertainment business.”

NZME's Chief Executive Michael Boggs said “With our experienced management team in place, NZME is well positioned to continue its transition across to digital advertising and new revenue streams from transaction and experiential channels. We will be independently structured and funded to capitalise further on the changes we are making.”

Board and management

Following the Demerger, each company will have its own experienced management team and independent board. For NZME, Sir John Anderson will become Chairman and Mr Peter Cullinane will join the NZME Board. Carol Campbell will also join the NZME Board and further appointments are likely to follow. Sir John Anderson will retire from the APN Board upon implementation of the Demerger. The existing senior executive teams will remain in place for NZME and APN.

Capital structure and dividend policy

APN and NZME will have capital structures and dividend policies that reflect each independent business' profile and strategic direction.

Following the announced Entitlement Offer and implementation of the Demerger, APN will have pro forma net debt to FY15 EBITDA of 2.0x³ (1.8x on a proportional basis)⁴. The APN Board considers this to be a prudent and sustainable capital structure.

The APN Board intends to initially target a dividend payout ratio of 40%-60% of underlying NPAT⁵ following the Demerger, subject to maintaining leverage at or below 2.0x EBITDA and having regard to other strategic priorities⁶.

³ Based on pro forma earnings before interest, tax, depreciation and amortisation (**EBITDA**) of \$98.8 million in FY15 and pro forma net debt of \$193.2 million (before capitalised borrowing costs of \$2.6 million) at 31 December 2015. Pro forma EBITDA is before exceptional items. Refer to the Investor Presentation lodged with the ASX and NZX today for further details.

⁴ Based on APN's proportional share of net debt and EBITDA of its associate investment in Adshel. On a proportional basis, pro forma net debt is \$196.9 million at 31 December 2015 and proportional pro forma FY15 EBITDA is \$108.7 million.

⁵ Underlying net profit after tax (**NPAT**) will be calculated based on statutory NPAT adjusted for material one-off items, particularly those with a non cash impact.

⁶ The payment of dividends will be determined by the APN Board from time to time at its discretion, dependent on profitability, costs and leverage of the business and its financial position at the time.



NZME will have pro forma net debt to FY15 EBITDA of approximately 1.5x⁷, which provides flexibility to fund growth initiatives and other potential commitments. The NZME Board intends to initially target a dividend payout ratio of 60-80%⁸ underlying NPAT⁵, subject to appropriate leverage and strategic priorities. NZME's first dividend payment is expected to be for the six month period up to 30 June 2016⁸.

One-off cash transaction costs associated with the Demerger are expected to be approximately \$8.3 million on a pre-tax basis⁹.

Recommendation

The APN Board considered a number of potential alternatives for NZME including retaining the status quo, a divestment, demerger or an initial public offering of NZME. After careful consideration of the advantages and disadvantages of each option, the APN Directors unanimously consider the Demerger to be in the best interests of APN shareholders and represents the most effective method of separation with high execution certainty. The APN Board recommends that shareholders vote in favour of the resolution 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 resolution to approve the Demerger.

Deloitte, the Independent Expert appointed by APN to review the Demerger, has concluded that the Demerger is in the best interests of APN shareholders.

Demerger structure and indicative timing

The Demerger will be implemented by way of an equal capital reduction satisfied by an in specie distribution of shares in NZME. Existing APN shareholders will retain their shares in APN. If the Demerger is approved and implemented, eligible APN shareholders will be entitled to receive one NZME share for each APN share held on the record date for the Demerger.

The Demerger is subject to a number of conditions, including a ruling from the Australian Taxation Office (**ATO**) to confirm that Demerger tax relief will be available to Australian resident APN shareholders who hold their APN shares on capital account on the record date for the Demerger.

⁷ Based on pro forma EBITDA of NZ\$67.5 million in FY15 and pro forma net debt of NZ\$102.2 million (before capitalised borrowing costs of NZ\$0.4 million). Pro forma EBITDA is before exceptional items. Refer to the Investor Presentation lodged with the ASX and NZX today for further details.

⁸ 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 the business and its financial position at the time.

⁹ Prior to any income tax deductibility, and excluding GST. APN will incur approximately \$7.9 million of these costs and NZME will incur approximately \$0.4 million related to debt establishment costs. The costs do not include non-cash accounting adjustments that will arise on Demerger.



A share sale facility will be available for shareholders with small holdings and ineligible shareholders.

Shareholders will not need to take any action or pay any cash to receive NZME shares.

The Demerger is subject to shareholder approval by ordinary resolution at the General Meeting anticipated to be held on 16 June 2016.

Subject to the outcome of the shareholder vote and other regulatory approvals, the Demerger of NZME and listing will occur in late June or early July 2016. The timing of the Demerger may vary subject to regulatory approvals and exemptions including from the ATO for Demerger tax relief, the Overseas Investment Office (New Zealand) and Financial Markets Authority (New Zealand).

Event	Date (2016)
Demerger announcement	11 May
Dispatch of Explanatory Memorandum and Notice of Meeting	17 May
Last time and date on which Proxy Forms for the General Meeting must be received	9.00am, Tuesday, 14 June
Date and time for determining eligibility to vote at the General Meeting	7.00pm, Tuesday, 14 June
General Meeting on the Demerger and Share Consolidation	9.00am, Thursday, 16 June
Commencement of trading of NZME on NZX and ASX	late June/early July

Note: Dates and time are indicative only and are subject to change. APN reserves the right to amend any or all of these dates and times without notice, subject to the Corporations Act 2001 (Cth), the ASX Listing Rules and other applicable laws.

Share Consolidation

APN has proposed the Share Consolidation to consolidate every 7 APN shares into one APN share. This recognises that there are currently approximately 1 billion APN shares on issue and, following the Entitlement Offer, there will be approximately 1.4 billion APN shares on issue. Given the large number of shares on issue, the Share Consolidation will reduce the number of shares to approximately 200 million. The Share Consolidation will occur following the Entitlement Offer and any fractional entitlement to an APN share arising as a result of the Share Consolidation will be rounded up.

The Share Consolidation requires approval by APN shareholders by ordinary resolution at the General Meeting. If approved, the Share Consolidation will take effect prior to the Demerger. The resolutions to effect the Demerger and Share Consolidation are not



interdependent. The Demerger ratio of one NZME share for each APN share will be unaffected by the Share Consolidation.

Potential merger of NZME and Fairfax New Zealand

APN and Fairfax have 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.

Fairfax and APN/NZME have commenced preliminary discussions around a potential transaction structure. The transaction remains subject to agreement by the respective Boards of the businesses as well as all necessary regulatory consents, including New Zealand Commerce Commission, and any necessary shareholder approvals. The parties intend to work towards completion of the merger by the end of calendar 2016 subject to all approvals. The discussions are subject to exclusivity provisions with standard fiduciary and other carve-outs.

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

Trading Update

APN today provided a trading update. In Australia, the radio and outdoor sectors continue to outperform a relatively weak advertising market. ARN revenues were up in line with the strong market growth of 9% in Q1. In Outdoor, the strong performance of the Adshel LIVE digital panels has delivered overall revenue growth in line with the market at 17% year to date.

In ARM the revenue trend has been consistent with 2015, with local revenues in line with prior year and National revenues remaining weak. Digital subscriptions have helped to deliver total audience revenues in line with prior year. Cost savings have offset more than half the revenue decline.

In New Zealand, market conditions have been challenging and revenues were down 10% to the end of Q1. We have seen some improvement in April and bookings data suggests this will continue into May. The significant cost savings delivered as a result of the integration have offset most of the revenue shortfalls.

At the end of April, Group revenues are down 4% on prior year while cost savings have delivered a flat EBITDA.



Shareholder Enquiries

Shareholders who have questions relating to the Demerger should consult their financial, legal, taxation or other professional adviser or call the APN Shareholder Information Line on:

- 1300 365 969 (from within Australia);
- 0800 729 276 (from within New Zealand);or
- +61 1300 365 969 (from outside Australia and New Zealand),

between 8.30am to 5.30pm (Sydney time) Monday to Friday.

Further Information

APN is being advised by Grant Samuel and Baker & McKenzie.

Further details about the Demerger, Entitlement Offer and Share Consolidation are contained in a separate investor presentation (**Investor Presentation**), and Explanatory Memorandum and Notice of Meeting lodged with the ASX and NZX today.

For further information:

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Forward looking statements

This announcement contains certain “forward looking statements”. Forward looking statements can generally be identified by the use of forward looking words such as, “expect”, “anticipate”, “likely”, “intend”, “should”, “could”, “may”, “predict”, “plan”, “propose”, “will”, “believe”, “forecast”, “estimate”, “target” “outlook”, “guidance” and other similar expressions within the meaning of securities laws of applicable jurisdictions and include, but are not limited to, indications of, or guidance or outlook on, future earnings or financial position or performance of APN or the outcome and effects of the Entitlement Offer and the use of proceeds, or the Demerger. The forward looking statements contained in this announcement are not guarantees or predictions of future performance and involve known and unknown risks and uncertainties and other factors, many of which are beyond the control of APN, its directors and management and may involve significant elements of subjective judgement and assumptions as to future events which may or may not be correct. Refer to the key risks section of the Investor Presentation and Explanatory Memorandum for a summary of certain general and APN specific risk factors that may affect APN or an investment in APN.

There can be no assurance that actual outcomes will not differ materially from these forward looking statements. A number of important factors could cause actual results or performance to differ materially from the forward looking statements, including the risk factors set out in the Explanatory Memorandum. Investors should consider the forward looking statements contained in this announcement in light of those disclosures. The forward looking statements are based on information available to APN as at the date of this announcement.

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