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ASX Release
Sydney, 2 March 2016

STW COMMUNICATIONS GROUP LIMITED – DESPATCH OF SHAREHOLDER DOCUMENTS IN RELATION TO THE MERGER WITH WPP'S AUSTRALIAN AND NEW ZEALAND BUSINESSES

Explanatory Memorandum

STW Communications Group Limited ("STW Group" ASX:SGN) today announces the details of an Extraordinary General Meeting of STW Group shareholders to consider its proposed merger with the Australian and New Zealand businesses of WPP plc ("WPP"), which was announced on 14 December 2015 (the "Merger").

A copy of the Notice of Meeting and the Explanatory Memorandum is attached to this announcement and will be sent to STW Group shareholders.

Independent Expert's Report

The Explanatory Memorandum includes an independent expert's report from KPMG Corporate Finance, which concludes that the Merger is fair and reasonable to STW Group shareholders other than WPP ("Non-associated STW Group Shareholders"), in the absence of a superior proposal.

Non-associated STW Group Shareholders are encouraged to read the Independent Expert's report, together with the Explanatory Memorandum, in its entirety before deciding how to vote at the Extraordinary General Meeting.

Board recommendation

The Directors of STW Group[1] have considered the advantages, disadvantages and risks of the Merger, as well as alternatives for STW Group, and unanimously recommend that eligible STW Group shareholders vote in favour of the Resolutions set out in the Notice of Meeting (other than Resolution 4, on which the Directors of STW Group make no recommendation due to a potential conflict of interest), in the absence of a superior proposal.

Each of the Directors of STW Group[1] intend to vote all STW Group shares held or controlled by them in favour of the Resolutions (other than Resolution 4, on which the Directors of STW Group will abstain from voting) to be considered at the Extraordinary General Meeting, in the absence of a superior proposal.

[1] Each Director of STW Group as at the date of the Explanatory Memorandum, other than Paul Richardson, who is associated with WPP

Extraordinary General Meeting

The Extraordinary General Meeting will be held at 9:00am (Sydney time) on Monday, 4 April 2016 at 72 Christie Street, St Leonards, NSW 2065.

All eligible STW Group shareholders are encouraged to vote either by attending the Extraordinary General Meeting in person, or by lodging a proxy vote by no later than 9:00am (Sydney time) on Saturday, 2 April 2016.

Details of how to lodge a proxy vote are included on the proxy form and in the Explanatory Memorandum.

STW Group shareholder information

STW Group shareholders who require assistance with matters regarding the Merger, the Resolutions set out in the Notice of Meeting, the Extraordinary General Meeting or the voting process, should email info@stwgroup.com.au or contact STW Group on +61 2 9373 6333 between 9:00am and 5:00pm (Sydney time) Monday to Friday.

For further information contact:

Michael Connaghan
Chief Executive Officer
STW Communications Group Limited
(02) 9373 6463

Lukas Aviani
Chief Financial Officer
STW Communications Group Limited
(02) 9373 6463

STW COMMUNICATIONS GROUP LIMITED

ACN 001 657 370

EXPLANATORY MEMORANDUM

1 MARCH 2016

THIS IS AN IMPORTANT DOCUMENT AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in any doubt about how to deal with this document, you should contact your broker or financial, taxation, legal or other professional adviser immediately.

FINANCIAL ADVISER

LEGAL ADVISER

FINANCIAL DUE DILIGENCE ADVISER

UBS

HERBERT SMITH FREEHILLS

pwc

THIS EXPLANATORY MEMORANDUM HAS BEEN PREPARED IN RELATION TO THE PROPOSED ACQUISITION BY STW COMMUNICATIONS GROUP LIMITED (**STW**) OF SUBSTANTIALLY ALL OF WPP PLC'S AUSTRALIAN AND NEW ZEALAND BUSINESSES IN RETURN FOR THE ISSUE OF STW SHARES TO CAVENDISH SQUARE HOLDING B.V. (**WPP**).

THIS EXPLANATORY MEMORANDUM INCLUDES A NOTICE OF MEETING AS ATTACHMENT 1, AND A PROXY FORM FOR THE EXTRAORDINARY GENERAL MEETING. A FULL COPY OF AN INDEPENDENT EXPERT'S REPORT PREPARED BY KPMG CORPORATE FINANCE ON THE FAIRNESS AND REASONABLENESS OF RESOLUTIONS 1 AND 2 IS INCLUDED AS ATTACHMENT 2.

THE STW DIRECTORS UNANIMOUSLY RECOMMEND THAT YOU VOTE IN FAVOUR OF THE MERGER RESOLUTIONS, IN THE ABSENCE OF A SUPERIOR PROPOSAL.

THE EXTRAORDINARY GENERAL MEETING WILL BE HELD AT 9:00AM (SYDNEY TIME) ON 4 APRIL 2016 AT 72 CHRISTIE STREET, ST LEONARDS NSW 2065.

IF, AFTER READING THIS EXPLANATORY MEMORANDUM, YOU HAVE ANY QUESTIONS ABOUT THE RESOLUTIONS, PLEASE EMAIL INFO@STWGROUP.COM.AU OR CONTACT STW ON + 61 2 9373 6333 BETWEEN 9:00AM AND 5:00PM (SYDNEY TIME) MONDAY TO FRIDAY.

DISCLAIMER AND IMPORTANT NOTICE

GENERAL

You should read this Explanatory Memorandum in full before making any decision as to how to vote at the Extraordinary General Meeting.

PURPOSE OF THIS DOCUMENT

This Explanatory Memorandum has been prepared for STW Communications Group Limited (**STW**) shareholders (**STW Shareholders**) in connection with the Extraordinary General Meeting to be held at 9:00 am (Sydney time) on 4 April 2016. The purpose of this Explanatory Memorandum is to provide STW Shareholders with information that the STW Directors believe to be material to deciding whether or not to approve the Resolutions detailed in the Notice of Meeting.

This Explanatory Memorandum does not constitute or contain an offer to STW Shareholders or a solicitation of an offer from STW Shareholders in any jurisdiction.

A copy of this Explanatory Memorandum has been provided to ASIC and ASX. None of ASIC or ASX, or their officers, take any responsibility for the contents of this Explanatory Memorandum.

DEFINED TERMS, TIMES AND DATES

Capitalised terms used in this Explanatory Memorandum are defined in section 13.1 of this Explanatory Memorandum.

Section 13.2 also sets out some rules of interpretation which apply to this Explanatory Memorandum.

All times and dates referred to in this Explanatory Memorandum are times and dates in Sydney, Australia, unless otherwise indicated.

DISCLAIMER

This Explanatory Memorandum has been prepared by STW based on the information available to it. The historical information is derived from sources believed to be accurate at the date of this Explanatory Memorandum. However, no representation or warranty, express or implied, is made as to the fairness, accuracy, completeness or correctness of any information, opinions and conclusions contained in this Explanatory Memorandum.

The historical information in this Explanatory Memorandum is, or is based upon, information that has been released to the market. It should be read in conjunction with STW's other periodic and continuous disclosure announcements including STW's results for the year ended 31 December 2015 lodged with the ASX on 19 February 2016 and announcements to the ASX available at www.asx.com.au.

The pro forma financial information provided in this Explanatory Memorandum is for illustrative purposes only and is not represented as being indicative of STW's views on its future financial condition or performance.

NO INVESTMENT ADVICE

This Explanatory Memorandum has been prepared without reference to the investment objectives, financial and taxation situation or particular needs of any STW Shareholder or any other person or entity. The information and recommendations contained in this Explanatory Memorandum do not constitute, and should not be taken as, financial product advice. The STW Board encourages you to seek independent financial and taxation advice before making any investment decision and any decision as to whether or not to vote in favour of the Resolutions.

This Explanatory Memorandum is important and requires your immediate attention. It should be read in its entirety before making a decision on whether or not to vote in favour of the Resolutions. In particular, it is important that you consider the potential risks of the proposed Merger, as set out in section 10, and the views of the Independent Expert set out in the Independent Expert's Report.

If you are in doubt as to the course you should follow, you should consult an independent and appropriately licensed and authorised professional adviser.

FORWARD LOOKING STATEMENTS

Some of the statements appearing in this Explanatory Memorandum may be in the nature of forward looking statements. Forward looking statements or statements of intent in relation to future events in this Explanatory Memorandum (including the Independent Expert's Report) should not be taken to be forecasts or predictions that those events will occur. Forward looking statements generally may be identified by the use of forward looking words such as 'guidance', 'believe', 'aim', 'expect', 'anticipate', 'intending', 'foreseeing', 'likely', 'should', 'planned', 'may', 'estimate', 'potential', or other similar words.

Similarly, statements that describe the objectives, plans, goals or expectations of the STW Group or the WPP Group are or may be forward looking statements. You should be aware that such statements are only opinions and are subject to inherent risks and uncertainties. Those risks and uncertainties include factors and risks specific to the industries in which the STW Group and the WPP Group operate, as well as general economic conditions, prevailing exchange rates and interest rates and conditions in financial markets. Actual events or results may differ materially from the events or results expressed or implied in any forward looking statement and deviations are both normal and to be expected. None of the STW Group or the WPP Group or their respective officers, directors, employees or advisers or any person named in this Explanatory Memorandum or involved in the preparation of this Explanatory Memorandum makes any representation or warranty (either express or implied) as to the accuracy or likelihood of fulfilment of any forward looking statement, or any events or results expressed or implied in any forward looking statement. Accordingly, you are cautioned not to place undue reliance on those statements.

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 the ASX Listing Rules or the Corporations Act, the STW Group and the WPP Group and their respective officers, directors, employees and advisers disclaim any obligation or undertaking to distribute or publish 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 such statements or any change in events, conditions, or circumstances on which any such statement is based.

RESPONSIBILITY STATEMENT

Except as outlined below, the information contained in this Explanatory Memorandum has been prepared by STW and is its responsibility. Except as outlined below, neither WPP plc nor any of its subsidiaries, directors, officers, employees or advisers assume any responsibility for the accuracy or completeness of such information.

WPP plc has prepared and provided all information related to the WPP Group and the WPP Businesses set out in sections 7 and 8 of this document and is responsible for that information. STW does not assume any responsibility for the accuracy or completeness of such information.

KPMG Corporate Finance has prepared the Independent Expert's Report and takes responsibility for that report. None of STW, WPP plc nor any of their respective subsidiaries, directors, officers, employees or advisers assume any responsibility for the accuracy or completeness of the information contained in the Independent Expert's Report, except, in the case of STW, in relation to the information which it has provided to the Independent Expert. STW Shareholders should read the Independent Expert's Report carefully to understand the scope of the report, the methodology of the assessment, the sources of information and the assumptions made.

No consenting party has withdrawn their consent to be named before the date of this Explanatory Memorandum.

SUPPLEMENTARY INFORMATION

STW may issue a supplementary document to this Explanatory Memorandum if, between the date of this Explanatory Memorandum and the date of the Extraordinary General Meeting, it becomes aware that:

- a material statement in this Explanatory Memorandum is false or misleading;
- there is a material omission from this Explanatory Memorandum;
- there is a significant change affecting a matter in this Explanatory Memorandum; or
- a significant new matter has arisen and it would have been required to be included in this Explanatory Memorandum if known at the time of publication.

Depending on the nature of the timing of the changed circumstances and subject to obtaining any relevant approvals, STW may circulate and publish any supplementary document by:

- placing an advertisement in a prominently placed newspaper which is circulated generally throughout Australia;
- releasing the supplementary document on ASX and posting it on STW's website, www.stwgroup.com.au; or
- posting the supplementary document to all STW Shareholders.

FOREIGN JURISDICTIONS

The release, publication or distribution of this Explanatory Memorandum in jurisdictions other than Australia may be restricted by law or regulation in such other jurisdictions and persons outside Australia who come into possession of this Explanatory Memorandum should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable laws or regulations.

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

FINANCIAL AMOUNTS

All financial amounts in this Explanatory Memorandum are expressed in Australian currency unless otherwise stated.

Any discrepancies between totals in tables or financial statements, or in calculations, graphs or charts are due to rounding.

All financial and operational information set out in this Explanatory Memorandum is current as at the date of this Explanatory Memorandum, unless otherwise stated.

CHARTS, MAPS AND DIAGRAMS

Any diagrams, charts, maps, graphs or tables appearing in this Explanatory Memorandum are illustrative only and may not be drawn to scale. Unless stated otherwise, all data contained in diagrams, charts, maps, graphs and tables are based on information available as at the date of this Explanatory Memorandum.

PRIVACY

STW may collect personal information in the process of implementing the proposed Merger, should it proceed. The type of information that it may collect about you includes your name, contact details and information on your shareholding in STW and the names of persons appointed by you to act as a proxy, attorney or corporate representative at the Extraordinary General Meeting as relevant to you. The collection of some of this information is required or authorised by the Corporations Act.

The primary purpose of the collection of personal information is to assist STW to conduct the Extraordinary General Meeting and implement the Merger. Without this information, STW may be hindered in its ability to issue this Explanatory Memorandum and implement the Merger. Personal information of the type described above may be disclosed to the STW Share Registry, third party service providers (including print and mail service providers and parties otherwise involved in the conduct of the Extraordinary General Meeting), authorised securities brokers, professional advisers, related bodies corporate of STW Group, regulatory authorities, and also where disclosure is otherwise required or allowed by law.

STW Shareholders who are individuals and the other individuals in respect of whom personal information is collected as outlined above have certain rights to access the personal information collected in relation to them. If you would like to obtain details of information about you held by the STW Share Registry in connection with STW Shares, please contact the STW Share Registry.

STW Shareholders who appoint an individual as their proxy, corporate representative or attorney to vote at the Extraordinary General Meeting should ensure that they inform such an individual of the matters outlined above.

DATE OF EXPLANATORY MEMORANDUM

This Explanatory Memorandum is dated 1 March 2016.

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LETTER FROM THE CHAIRMAN OF STW

Dear STW Shareholder

On 14 December 2015, we were pleased to announce that STW Communications Group Limited had entered into an exciting and landmark agreement to merge with substantially all of the Australian and New Zealand businesses of WPP plc.

Summary of the Merger

The Merger involves STW acquiring the WPP Businesses from the WPP Group for an enterprise value of approximately $512 million in return for the issue of 422,961,825 STW Shares to WPP, and STW assuming net debt of approximately $125 million. The basis of the agreement was that the WPP Businesses would be valued on a multiple that was comparable to the STW forecast 2015 normalised trading multiple and that the STW Shares would be issued at a 30% premium to the 10-day volume weighted average STW Share price to 10 December 2015.

On completion of the Merger, WPP will become the majority shareholder of STW, increasing its current shareholding of 23.55% to 61.5%. Other STW Shareholders will continue to hold their existing STW Shares. Following the Merger, STW will change its name to align it with WPP and we expect to seek STW Shareholder approval for the new name at our Annual General Meeting in May.

The Merger is subject to approval by STW Shareholders at an Extraordinary General Meeting to be held on 4 April 2016 and a number of other conditions precedent which are detailed in this Explanatory Memorandum. If the Merger Resolutions are approved, and all other conditions precedent to the Merger are either satisfied or waived, then formal completion of the Merger is expected to occur on or before 11 April 2016.

Proposed STW Board and management and governance

Following completion of the Merger, the STW Board will include four continuing Independent Directors, including myself as the Chairman, and Mr Graham Cubbin, Mr Peter Cullinane and Ms Kim Anderson. Michael Connaghan, the STW Chief Executive Officer, will also continue to be an Executive Director of STW. WPP Nominees will comprise the remainder of the STW Board and, consistent with WPP's majority shareholding, will have a majority representation.

Michael Connaghan and Lukas Aviani, the Chief Executive Officer and Chief Financial Officer of STW will continue as the senior management of the Combined Group.

As detailed in this Explanatory Memorandum, WPP will provide various undertakings to protect the continuing interests of STW Shareholders. These include commitments to maintain at least four Independent Directors (one of whom will be selected by the Independent Directors to be the chairperson), ensure that material related party transactions are approved by the Independent Directors and to not increase its shareholding above 61.5% except in limited circumstances, such as following approval of STW Shareholders, participation in a dividend reinvestment plan other than as underwriter or by way of a takeover offer.

The STW Directors unanimously recommend the Merger

The consideration and negotiation of the Merger and the Resolutions has been under the control and supervision of the Independent Directors (Mr Robert Mactier, Mr Graham Cubbin, Mr Ian Tsicalas, Mr Peter Cullinane and Ms Kim Anderson). Paul Richardson, a Director of STW nominated by WPP, has not been involved in the consideration or determination of any issues associated with the Merger.

The STW Directors have assessed the merits, advantages, disadvantages and risks of the Merger as well as alternatives available to STW and unanimously recommend that eligible STW Shareholders vote in favour of the Merger Resolutions, in the absence of a superior proposal.

The STW Directors consider that the Merger will deliver substantial benefits, including:

- enhanced scale, with the Combined Group generating pro forma normalised net sales of $834.7 million and normalised earnings before interest and taxes of $148.7 million in the financial year ending 31 December 2015;
- a more diversified and strengthened STW portfolio through the combination of complementary businesses;
- an improved offering for STW's clients, with the combination of local market knowledge and access to international partners with iconic brands, global experience, technology and analytics tools and insights;
- material earnings per share accretion as a result of the issue of shares at a price representing a 30% premium to the 10-day volume weighted average STW Share price to 10 December 2015 and with the future realisation of anticipated revenue and operating cost synergies – refer to section 9.4(c) for further information regarding earnings per share accretion;
- a strengthened balance sheet with reduced leverage metrics to address stated investor concerns with the prior leverage of STW;
- the benefit of seamless access for STW to WPP's global support, operating expertise and global experience of new industry technologies and trends;
- a simplified operating structure through consolidation to deliver uniform 100% ownership and alignment of the businesses which the STW Group and the WPP Group currently jointly own or own separately; and
- an enhanced ability to develop the best talent across the STW Group and the WPP Businesses and provide broader opportunities for employees to further develop their careers.

The STW Directors are confident that the proposed Merger creates a much stronger and more powerful group that is better equipped to tackle the challenges of the industry and provide an enhanced service to our clients leading to better financial performance for STW Shareholders.

Each STW Director who holds or controls STW Shares intends to vote those STW Shares, or cause those controlled entities to vote, in favour of the Merger Resolutions, in the absence of a superior proposal.

Independent Expert

The Independent Directors appointed KPMG Corporate Finance to provide an Independent Expert Report to assist STW Shareholders in determining whether or not to approve Resolutions 1 and 2. In that report, the Independent Expert has concluded that Resolutions 1 and 2 are fair and reasonable. The Independent Expert's Report (which you should read in full) is set out in Attachment 2 to this Explanatory Memorandum.

Additional Resolutions

In addition to the Merger Resolutions, the STW Board has also proposed Resolutions 4 to 9 which are associated with the implementation of the Merger. The implementation of the Merger is not conditional on STW Shareholders approving any or all of these Additional Resolutions.

Each STW Director who holds or controls STW Shares intends to vote those STW Shares, or cause those controlled entities to vote, in favour of these Additional Resolutions, other than Resolution 4 which the STW Directors will abstain from voting due to a potential conflict of interest.

Other than Resolution 4, the STW Directors unanimously recommend that eligible STW Shareholders vote in favour of each of the Additional Resolutions. As the Non-executive Directors have a potential interest in the outcome of Resolution 4, the STW Directors do not believe it is appropriate to make a recommendation to STW Shareholders as to how to vote in relation to that Resolution.

Further information

This Explanatory Memorandum sets out further details of the Merger and the Resolutions. While the STW Directors unanimously recommend that you vote in favour of the Merger Resolutions, there are a number of potential disadvantages and risks associated the Merger, which are set out in detail in sections 4.2 and 10. Please read this Explanatory Memorandum in full before making your decision and voting on the Resolutions at the Extraordinary General Meeting.

The STW Directors encourage all eligible STW Shareholders to participate in the vote. You can vote in person at the Extraordinary General Meeting on 4 April 2016 or, if you cannot attend in person, you can vote by proxy or through an assigned power of attorney or corporate representative using the Proxy Form included with this Explanatory Memorandum.

If you have any questions about the Merger or the Resolutions, you should consult your independent financial adviser. For assistance with matters regarding the Merger, the Resolutions, the Extraordinary General Meeting or the voting process, please email info@stwgroup.com.au or contact STW on + 61 2 9373 6333 between 9:00am and 5:00pm (Sydney time) Monday to Friday.

Your STW Directors consider that the Merger represents a compelling opportunity, and encourage you to support the Merger. If you support the Merger, it is important that you vote in favour of all of the Resolutions.

As Chairman of STW, I intend to vote all undirected proxies over which I have control in favour of the Resolutions.

Yours faithfully,

Robert Mactier
Independent Non-executive Chairman
On behalf of the STW Directors

WHAT ACTIONS ARE REQUIRED?

STEP 1: READ THIS EXPLANATORY MEMORANDUM AND SEEK ADVICE AS APPROPRIATE

This is an important document. You should read this Explanatory Memorandum, the accompanying Notice of Meeting and the Independent Expert's Report in full before deciding how to vote at the Extraordinary General Meeting.

If you are in any doubt as to what action you should take, you should seek financial, tax or other professional advice before making any decision on how to vote at the Extraordinary General Meeting.

STEP 2: VOTE ON THE RESOLUTIONS AT THE EXTRAORDINARY GENERAL MEETING

You may vote on the Resolutions to be considered at the Extraordinary General Meeting if you are registered on the STW share register at 7:00pm (Sydney time) on 2 April 2016.

You may vote in person or by proxy.

If you wish to vote in person at the Extraordinary General Meeting, you should attend the Extraordinary General Meeting at 72 Christie Street, St Leonards NSW 2065 to be held at 9:00am (Sydney time) on 4 April 2016.

If you wish to appoint a proxy for the Extraordinary General Meeting, you must complete and lodge the enclosed applicable Proxy Form so that it is received by the STW Share Registry no later than 9:00am (Sydney time) on 2 April 2016. Do not send Proxy Forms to STW directly, but only to the STW Share Registry as set out below.

Completed Proxy Forms may be lodged by:

- **By mail:** sent to the STW Share Registry (using the reply paid envelope enclosed with this Explanatory Memorandum), addressed to Computershare Investor Services Pty Limited, GPO Box 242, Melbourne VIC 3001;
- **By fax:** sent to 1800 783 447 (within Australia) or +61 3 9473 2555 (outside of Australia); or
- **Hand Delivery:** delivered during business hours to the STW Share Registry at Computershare Investor Services, Level 4, 60 Carrington St, Sydney, NSW 2000.

Refer to the enclosed applicable Proxy Form and the Notice of Meeting contained in Attachment 1 of this Explanatory Memorandum for more information on how to complete and lodge the applicable Proxy Form.

ENQUIRIES

If you have any questions about the proposed Merger or the content of this Explanatory Memorandum, please email info@stwgroup.com.au or call STW on +61 2 9373 6333 between 9:00am and 5:00pm (Sydney time) Monday to Friday.

1. KEY DATES FOR THE EXTRAORDINARY GENERAL MEETING AND PROPOSED MERGER

EVENT	KEY DATES
Date of this Explanatory Memorandum	1 March 2016
Time and date for determining eligibility to vote at the Extraordinary General Meeting	7:00pm (Sydney time), 2 April 2016
Latest time and date for receipt of Proxy Forms or powers of attorney by the STW Share Registry for the Extraordinary General Meeting	9:00am (Sydney time), 2 April 2016
Time and date of the Extraordinary General Meeting	9:00am (Sydney time), 4 April 2016
If the Merger Resolutions are approved by STW Shareholders and the other conditions precedent to the Merger are satisfied or waived: • target completion of Merger, including issue of the Consideration Shares to WPP and transfer of the WPP Businesses to STW; • commencement of the Governance Deed Poll and Majority Shareholder Deed; • the appointment of WPP Nominees to the STW Board.	On or before 11 April 2016

All dates in the above timetable are indicative only and are subject to change. The parties to the Transaction Agreements may vary any or all of these dates and times and STW will provide reasonable notice of any such variation. Any changes will be announced by STW to ASX and published on STW's website at www.stwgroup.com.au.

Please refer to the Notice of Meeting for further information on voting procedures and details of the Resolutions to be voted on at the Extraordinary General Meeting (including who is excluded from voting on each Resolution).

2. STW DIRECTORS' RECOMMENDATION AND INDEPENDENT EXPERT'S OPINION

2.1 STW DIRECTORS' RECOMMENDATION

The STW Directors consider that the proposed Merger is in the best interests of STW Shareholders and unanimously recommend that eligible STW Shareholders vote in favour of the Merger Resolutions and Additional Resolutions (other than Resolution 4, which the STW Directors make no recommendation due to a potential conflict of interest), in the absence of a superior proposal.

In making this recommendation, the STW Directors have considered:

- the advantages and disadvantages of the proposed Merger;
- the risks associated with implementation of the proposed Merger;
- alternatives to the proposed Merger; and
- the findings of the Independent Expert, as set out in the Independent Expert Report.

The STW Directors as at the date of this Explanatory Memorandum are Robert Mactier, Michael Connaghan, Kim Anderson, Graham Cubbin, Peter Cullinane and Ian Tsicalas.

All of the STW Directors intend to vote all STW Shares held or controlled by them in favour of the Resolutions (other than Resolution 4, which the STW Directors will abstain from voting) to be considered at the Extraordinary General Meeting, in the absence of a superior proposal.

Paul Richardson, a Director of STW associated with WPP, is not independent for the purpose of the proposed Merger. Due to this relationship, Paul Richardson has abstained from making any recommendation in relation to the proposed Merger or any of the Resolutions.

2.2 INDEPENDENT EXPERT'S OPINION

The Independent Expert has concluded that Resolutions 1 and 2 are fair and reasonable.

The Independent Directors appointed KPMG Corporate Finance as the Independent Expert to prepare an independent assessment of Resolutions 1 and 2 and provide an opinion as to whether Resolutions 1 and 2 are fair and reasonable. KPMG Corporate Finance is independent of STW and WPP and has no interest in the outcome of the proposed Merger other than the preparation of the Independent Expert Report.

The Independent Expert has concluded that Resolutions 1 and 2 are fair and reasonable to the non-associated STW Shareholders, in the absence of a superior proposal. In forming this opinion, the Independent Expert assessed whether the proposal is "fair" by comparing the value of the consideration (including the Consideration Shares) and the value of the equity of the WPP Businesses, on a controlling interest basis, and the value of an STW Share (calculated on a controlling basis) before the proposed Merger, against the value of a share in the Combined Group following completion of the proposed Merger (on a minority (portfolio) basis).

The Independent Expert assessed whether the proposal was "reasonable" for the non-associated STW Shareholders by assessing the implications of the proposed Merger, any available alternatives and the consequences if the Merger was not approved.

Eligible STW Shareholders should read the Independent Expert's Report in its entirety before making a decision as to whether or not to vote in favour of Resolutions 1 and 2.

3. RESOLUTIONS THE SUBJECT OF EXTRAORDINARY GENERAL MEETING

The Extraordinary General Meeting is being held to consider and, if thought fit, approve the following Resolutions.

The Merger will not proceed unless each of the Merger Resolutions (being Resolutions 1, 2 and 3) are passed.

The Merger is not conditional on Resolutions 4 to 9 (the **Additional Resolutions**) and will proceed even if any or all of those Additional Resolutions are not passed. However, each of the Additional Resolutions is conditional on completion of the Merger.

Further information in relation to the Resolutions is set out in the Notice of Meeting as Attachment 1.

(a) **Resolution 1:** an ordinary resolution, for the purpose of item 7 of section 611 of the Corporations Act and for all other purposes, to approve the issue of 422,961,825 fully paid ordinary shares to WPP, which will increase WPP's voting power in STW from 23.55% to 61.5%;

(b) **Resolution 2:** an ordinary resolution, for the purpose of ASX Listing Rule 10.1 and for all other purposes, to approve STW's acquisition of the WPP Businesses and to acquire or dispose of such other assets as contemplated by the Transaction Agreements;

(c) **Resolution 3:** an ordinary resolution to increase the maximum number of directors of STW from 10 to 11 pursuant to the STW Constitution;

(d) **Resolution 4:** an ordinary resolution, for the purpose of ASX Listing Rule 10.17 and clause 61 of the STW Constitution, to approve an increase in the maximum aggregate annual remuneration that may be paid by STW as remuneration for the services of STW's Non-executive Directors to $1,000,000;

(e) **Resolution 5:** an ordinary resolution that Mr Geoffrey Wild be elected as a Director of STW with effect from the completion of the Merger.

(f) **Resolution 6:** an ordinary resolution that Mr Paul Heath be elected as a Director of STW with effect from the completion of the Merger.

(g) **Resolution 7:** an ordinary resolution that Ms Ranjana Singh be elected as a Director of STW with effect from the completion of the Merger.

(h) **Resolution 8:** an ordinary resolution that Mr John Steedman be elected as a Director of STW with effect from the completion of the Merger.

(i) **Resolution 9:** an ordinary resolution that Mr Jon Steel be elected as a Director of STW with effect from the completion of the Merger.

4. REASONS TO VOTE FOR OR AGAINST THE MERGER RESOLUTIONS

This section sets out reasons that you should consider in determining whether or not to vote in favour of the Merger Resolutions. It is not intended to address all relevant considerations for STW Shareholders. This section should be read in conjunction with all other parts of this Explanatory Memorandum.

4.1 THE BENEFITS OF THE MERGER AND WHY YOU MIGHT WANT TO VOTE IN FAVOUR OF THE MERGER RESOLUTIONS

The STW Directors consider that there are a number of advantages associated with the proposed Merger. Some of the key advantages and reasons why eligible STW Shareholders may wish to vote in favour of the Merger Resolutions include:

(a) Creation of a leading communications and marketing services group combining strong local market knowledge with access to international partners with iconic brands, technology and analytics tools, global reach and insights. The Merger enhances the scale of operations and offers clients a more diversified portfolio of services and capabilities, and a simplified operating structure

The Merger will complement STW's existing strategy of delivering 100% of its clients' customer experience budget and is anticipated to deliver substantial benefits for clients, employees and STW Shareholders.

(1) Combined strong local market knowledge with access to international partners with iconic brands, technology and analytics tools, global reach and insights

Following the Merger, STW will become the primary vehicle for the WPP Group in Australia and New Zealand. The WPP Businesses include many of the WPP Group's iconic global brands which are aligned with international networks with global experience, technology and analytics tools and insights to enhance the product offering for STW's clients.

Global brands which form part of the WPP Businesses include:

- advertising agencies GPY&R and Grey;
- media agencies MEC, Mediacom, Xaxis and GroupM;
- data and insights specialists TNS and Millward Brown;
- public relations agencies Hill & Knowlton Strategies and Burson Marsteller;
- specialist and digital agencies Wunderman, VML, Landor, Sudler & Hennessey and Grey Healthcare; and
- shopper and production agency Geometry.

The WPP Businesses also include the WPP Group's interest in Australian and New Zealand WPP global brands businesses which are jointly owned with STW, including Ogilvy, Ogilvy PR, J. Walter Thompson, Mindshare, Maxus and Added Value.

4. REASONS TO VOTE FOR OR AGAINST THE MERGER RESOLUTIONS (CONTINUED)

4.1 THE BENEFITS OF THE MERGER AND WHY YOU MIGHT WANT TO VOTE IN FAVOUR OF THE MERGER RESOLUTIONS (CONTINUED)

(2) Enhanced scale of operations

The Merger will significantly increase the scale of STW's operations.

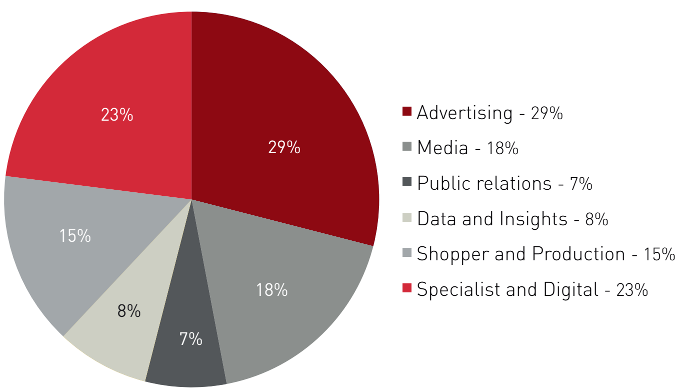
For the financial year ended 31 December 2015, STW's normalised net sales increase from \$416.0 million to \$834.7 million (on a Combined Group pro forma, normalised basis) and normalised earnings before interest and tax increase from \$76.8 million to \$148.7 million (on a Combined Group pro forma, normalised basis).

(3) Diversified and balanced portfolio

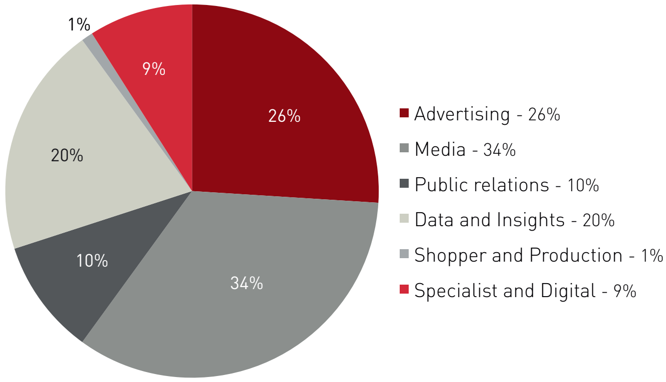
The WPP Businesses are highly complementary to the STW Group, and the Merger is expected to create a Combined Group of significant scale across key marketing and communications services disciplines.

The acquisition of the WPP Businesses will enhance STW service offerings in particular in media buying and data insights services.

STW REVENUE SPLIT



WPP REVENUE SPLIT



(4) Simplification of operating structure

The WPP Businesses include WPP Group's interest in companies in which the WPP Group and the STW Group currently have joint ownership, including Ogilvy, Ogilvy PR, J. Walter Thompson, Mindshare, Maxus and Added Value. The Merger will consolidate the ownership and management reporting structure of these business units.

(b) A combination of STW and the WPP Businesses is expected to generate synergies

Total pre-tax cost synergies resulting from the proposed Merger are estimated to reach at least $15 million per annum within three years of the Merger. One-off costs to achieve these synergies are estimated to be approximately $10 million.

Additional benefits from integration and enhanced co-operation across the Combined Group, and from the WPP Group's global capabilities, are expected to deliver incremental cost and revenue synergies over time, but these have not been included in the above synergy estimates.

(c) Compelling financial benefits for STW Shareholders

The realisation of synergies through the combination of the STW Group and the WPP Businesses, as outlined in section 4.1(b), and the issue of the Consideration Shares to WPP at a 30% premium to the 10-day volume weighted average STW Share price to 10 December 2015, is expected to result in material earnings per share accretion for STW Shareholders who retain their shares compared to a STW standalone position. Further information in relation to earnings per share accretion is set out in section 9.4(c).

(d) Strengthened balance sheet with improved leverage metrics

The Merger will strengthen STW's balance sheet as a result of lower leverage. STW's gearing ratio as at 31 December 2015 reduces from 2.6x to 2.0x on a pro forma basis.[1]

(e) No superior proposal

Since the announcement of the Merger on 14 December 2015, and up to the date of this Explanatory Memorandum, no superior proposal has emerged. The STW Directors are not aware of any superior proposal, or any alternative proposal, that is likely to emerge.

4.2 DISADVANTAGES OF THE MERGER AND WHY YOU MIGHT VOTE AGAINST THE MERGER RESOLUTIONS

The STW Directors consider that there are possible disadvantages associated with, and reasons why STW Shareholders may wish to vote against, the proposed Merger, including:

(a) You may not agree with the recommendation by the STW Directors and the Independent Expert

Notwithstanding the unanimous recommendation of the STW Directors and the Independent Expert's opinion that the Merger is fair and reasonable, you may believe the Merger is not fair and reasonable, or otherwise not in your best interest or in the best interests of STW Shareholders.

(b) Dilution of shareholding and voting power

The aggregate percentage shareholding of an existing STW Shareholder (other than WPP) will be diluted by the issue of the Consideration Shares to WPP.

Following the Merger, STW Shareholders other than WPP will be diluted from approximately 76.44% to approximately 38.5% of issued STW Shares, with a commensurate dilution of voting power. However, STW Shareholders will retain all of their existing shares in STW.

(c) WPP will have control of STW

On completion of the Merger, WPP will have a 61.5% shareholding in STW and, consequently, the ability to pass ordinary resolutions (other than those in which it is precluded from voting). WPP may also be able to block resolutions (other than those in which it is precluded from voting).

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1. The gearing ratio is calculated as net debt at 31 December 2015 divided by the earnings before interest, taxes, depreciation and amortisation for the year ended 31 December 2015.

4. REASONS TO VOTE FOR OR AGAINST THE MERGER RESOLUTIONS (CONTINUED)

4.2 DISADVANTAGES OF THE MERGER AND WHY YOU MIGHT VOTE AGAINST THE MERGER RESOLUTIONS (CONTINUED)

(c) WPP will have control of STW (continued)

Additionally, WPP Nominees will have the capacity to determine the outcome of STW Board decisions (except those requiring Independent Director approval). However, WPP has committed to a number of corporate governance arrangements which are intended to ensure that STW Board decisions are made having regard to the interests of STW Shareholders as a whole. These are described in section 12.

(d) STW may be less attractive as a takeover target

Any bidder for the Combined Group under a takeover proposal would require WPP to support their bid in order to be successful. This may be a deterrent to future bidders.

However, the STW Directors note that WPP's existing 23.55% shareholding is sufficient to block a takeover bid seeking 100% of STW and for all practical purposes may already be sufficient to prevent a bidder from acquiring 100% of STW by way of a scheme of arrangement. In addition, the existing joint shareholdings of STW and WPP in certain operating subsidiaries would make a control offer for STW unlikely without WPP support.

(e) Change in the nature of your investment

You may want to maintain your current investment profile. While STW and the WPP's Businesses are all involved in media and advertising, the profile, capital structure and size of the Combined Group will be different from that of the STW Group as it currently stands. Some STW Shareholders may prefer that the Merger not occur because they are seeking an investment in a listed company with the specific characteristics, investment focus and scale of STW as it currently stands.

(f) Risks in relation to the Merger and the Combined Group

In addition to the reasons set out above, there are a number of risks associated with the Merger and the Combined Group. Key risks include the following:

- risks associated with the proposed integration and the achievement of the anticipated cost savings and revenue synergies;
- additional regulatory risk and the risk of additional compliance related costs due to the potential application of certain foreign laws to the STW Group as a result of becoming a subsidiary of WPP plc;
- annual management fees payable to WPP for the provision of brand services, which are calculated on the basis of "net sales" (excluding most operating expenses) and therefore not referable to underlying profitability;
- as the WPP Businesses do not trade as a standalone corporate group there are no audited financial statements for the specific group to be acquired by STW, additionally only limited warranties have been provided by WPP in relation to the WPP Businesses;
- transaction costs for which STW will be liable if the Merger is approved and completes (in the event that the Merger is not approved, STW will still be liable for certain costs); and
- general risks which affect STW as a standalone business and the WPP Businesses, and so will affect the Combined Group, including economic risks, downturn and change in the media industry, competition in the media sector, operational risks, regulatory and litigation risks, financial and credit risks and the risks of certain acquisition and divestment activities.

Further information on these risks is set out in section 10 of this Explanatory Memorandum.

5. FREQUENTLY ASKED QUESTIONS

This section answers some frequently asked questions about the Merger and Resolutions. It is not intended to address all relevant issues for STW Shareholders. This section should be read together with all other parts of this Explanatory Memorandum.

OVERVIEW OF THE MERGER

QUESTION	ANSWER	MORE INFORMATION
Why have I received this Explanatory Memorandum?	The information set out in this Explanatory Memorandum will assist you, as an STW Shareholder, to decide how you wish to vote on the Merger Resolutions and the Additional Resolutions at the Extraordinary General Meeting to be held on 4 April 2016.	Please see section 4 of this Explanatory Memorandum for further information as to reasons to vote for or against the Resolutions.
What is the Merger?	The Merger involves STW acquiring the WPP Businesses for an enterprise value of approximately $512 million and: • STW issuing 422,961,825 STW Shares to WPP at an implied price of $0.915 per STW Share (of total value of approximately $387 million); and • STW assuming debt of approximately $252 million (or $125 million of net debt).	Please see sections 4, 5 and 9 of this Explanatory Memorandum for further information regarding the Merger.
What will WPP's voting power be in STW after completion of the Merger?	If the Merger proceeds, WPP's shareholding and voting power in STW will increase from 23.55% to 61.5%.	Please see sections 4, 5 and 9 of this Explanatory Memo-randum for further information regarding the Merger.
Who is WPP plc?	WPP plc is a multinational advertising and public relations company that is limited by shares and listed in London (LSE) and New York (NASDAQ). It is a holding company for a significant number of subsidiaries operating in advertising services, public relations and public affairs, media investment management and specialist communications.	Please see section 7.1 of this Explanatory Memorandum for further information regarding WPP plc.
Who is WPP?	WPP is a wholly owned subsidiary of WPP plc. WPP is an existing shareholder of STW and holds 23.55% of STW Shares prior to the proposed Merger.	Please see section 7.2 of this Explanatory Memorandum for further information regarding WPP.

5. FREQUENTLY ASKED QUESTIONS (CONTINUED)

OVERVIEW OF THE MERGER (CONTINUED)

QUESTION	ANSWER	MORE INFORMATION
What are the conditions to the Merger proceeding?	The conditions precedent to the Merger proceeding are: • approval of the Merger by FIRB and ACCC; • ASX agreeing to waive and/or confirm compliance with ASX Listing Rules 10.11, 11.1 and 12.5; • approval by STW Shareholders (that are entitled to vote at the Extraordinary General Meeting) of each of the Merger Resolutions; • the WPP Group completing an internal reorganisation of the WPP Businesses to facilitate their acquisition by STW; and • no temporary restraining order, preliminary or permanent injunction or other order is issued by a court or government agency preventing or delaying the Merger.	Please see section 11 of this Explanatory Memorandum for further information regarding the conditions to the Merger.
Have any conditions precedent to the Merger already been satisfied?	Yes. WPP and STW have obtained the necessary approvals and/or confirmations from FIRB, ACCC and ASX for the Merger to proceed. Accordingly, the FIRB, ACCC and ASX conditions precedent to the Merger have been satisfied.	Please see section 11 of this Explanatory Memorandum for further information regarding the conditions to the Merger.
If approved, when will the Merger be completed and implemented?	If approved, STW currently expects that completion of the Merger will occur on or before 11 April 2016, subject to satisfaction or waiver of the conditions precedent to the Merger.	Please see section 1 of this Explanatory Memorandum for the key dates that are relevant to the Merger and section 12 of this Explanatory Memorandum for further information regarding the key terms of the Merger.
How will STW refinance the WPP Debt?	On completion of the Merger, STW will assume approximately $252 million of debt (or $125 million of net debt). STW intends to refinance the WPP Debt, and STW's existing bank facilities, on completion of the Merger with new external bank finance. If a refinancing does not occur on completion of the Merger, WPP will refinance the WPP Debt on the terms of the Shareholder Loan Agreement which will remain in place for up to 3 years following the Merger until the WPP Debt is refinanced.	Please see section 12.6 of this Explanatory Memorandum for further information regarding the terms of the Shareholder Loan Agreement.

QUESTION	ANSWER	MORE INFORMATION
How will STW refinance the WPP Debt? (continued)	If the Shareholder Loan Agreement is required, STW will be restricted from undertaking certain transactions, such as certain asset disposals or incurring further borrowings, without the prior consent of the lender under the facility (being a WPP entity). The lender will also be entitled to be granted second ranking security over certain assets of the Combined Group to secure repayment of the facility.	
Has STW received any alternative proposals to the Merger?	As at the date of this Explanatory Memorandum, STW has not received any alternative proposals to the Merger. STW has granted certain exclusivity rights to WPP in the Share Sale Agreement including 'no shop' and 'no talk' restrictions, notification rights and matching rights relating to a Competing Proposal.	Please see section 12.1 of this Explanatory Memorandum for further information regarding the exclusivity arrangements contained in the Share Sale Agreement.
Will I still receive the 2016 final dividend if the Merger does not proceed?	Yes. STW intends to pay a final dividend of 3.6 cents per share in respect of the financial year ended 31 December 2015.	N/A

WHAT ARE THE RECOMMENDATIONS OF THE STW BOARD AND THE INDEPENDENT EXPERT?

QUESTION	ANSWER	MORE INFORMATION
Do the STW Directors recommend the Merger?	Each STW Director recommends that STW Shareholders entitled to vote approve the Merger Resolutions, in the absence of a superior proposal. Each STW Direcztor intends to vote, the STW Shares that he or she owns or controls in favour of the Merger Resolutions.	Please see section 2 of this Explanatory Memorandum for further information regarding the recommendation of the STW Directors.
What is the intention of the Chairman?	The STW Chairman intends to vote all undirected proxies over which he has control in favour of the Resolutions. He recommends that STW Shareholders entitled to vote, approve the Merger and the Merger Resolutions, in the absence of a superior proposal.	Please see section 9.7(b) of this Explanatory Memorandum and the Chairman's Letter for further information regarding the intention of the STW Chairman.
What has the Independent Expert said?	The Independent Expert has concluded that Resolutions 1 and 2 are fair and reasonable.	Please see Attachment 2 of this Explanatory Memorandum and Chairman's Letter for a full copy of the Independent Expert's Report.

5. FREQUENTLY ASKED QUESTIONS (CONTINUED)

RATIONALE FOR THE MERGER

QUESTION	ANSWER	MORE INFORMATION
What is the rationale for the Merger and what are the possible benefits of the Merger?	The Merger is expected to complement STW's existing strategy of delivering 100% of its clients' customer experience budget and create significant STW Shareholder value, with the potential to deliver a range of operational and financial benefits including: • an improved offering for clients, with the combination of local market knowledge and access to international partners with iconic brands, technology and analytics tools, global reach and insights; • enhanced scale of operations; • a more diversified and balanced portfolio; • simplification of the operating structure; • cost benefits of at least $15 million per annum to be realised within three years of the Merger; • reduction in leverage metrics; and • ability to develop the best talent across STW and the WPP Businesses and provide broader opportunities for employees to further develop their careers.	Please see section 4.1 of this Explanatory Memorandum for further information regarding the rationale for the Merger and reasons to vote in favour of the Merger.

POTENTIAL DISADVANTAGES AND RISKS OF THE MERGER

QUESTION	ANSWER	MORE INFORMATION
What are the potential disadvantages of the Merger?	The potential disadvantages of the Merger include: • the voting power of STW Shareholders (other than WPP) will be diluted; • WPP will control STW and the WPP Nominees will have the capacity to determine the outcome of STW Board voting; and • STW may be less attractive as a takeover target.	Please see section 4.2 of this Explanatory Memorandum for further information regarding the potential disadvantages of the Merger.
What are the potential risks of the Merger?	The potential risks of the Merger include: • integration risks associated with the proposed integration and the achievement of the anticipated cost savings and revenue synergies;	Please see section 10 of this Explanatory Memorandum for further information regarding the potential risks in relation to the Merger.

QUESTION	ANSWER	MORE INFORMATION
What are the potential risks of the Merger? (continued)	• additional regulatory risk and the risk of additional compliance related costs due to the STW Group becoming a subsidiary of WPP plc; • the potential triggering of change of control clauses in contracts as a result of WPP acquiring control of STW under the Merger; • transaction costs for which STW will be liable if the Merger is approved and completes (in the event that the Merger is not approved, STW will still be liable for certain costs); • general risks which affect STW as a standalone business and the WPP Businesses, and so will affect the Combined Group, include economic risks, downturn and change in the media industry, competition in the media sector, operational risks, regulatory and litigation risks, financial and credit risks and the risks of certain acquisition and divestment activities.	Please see section 10 of this Explanatory Memorandum for further information regarding the potential risks in relation to the Merger.

WHAT WILL THE CORPORATE GOVERNANCE ARRANGEMENTS BE FOLLOWING THE MERGER?

QUESTION	ANSWER	MORE INFORMATION
What will be the composition of the STW Board if the Merger completes?	Following completion of the Merger and while WPP's voting power in STW equals or exceeds 50%, the STW Board will consist of at least **four** Independent Directors (**one** of whom will be the STW Independent Chairperson) and the STW Chief Executive Officer. In addition, and while WPP's voting power in STW equals or exceeds 50%, WPP will be entitled to nominate **six** directors (or such number of WPP Nominees so that the votes that may be cast by the WPP Nominees make up the majority of the votes that may be cast on a resolution of the STW Board). If Resolutions 5 to 9 appointing the WPP Nominees are not passed, STW will appoint the WPP Nominees or other persons nominated by WPP as casual vacancies to the STW Board in accordance with the STW Constitution on completion of the Merger.	Please see section 9.7 of this Explanatory Memorandum for information regarding the identity of WPP's Nominees to the STW Board.

5. FREQUENTLY ASKED QUESTIONS (CONTINUED)

WHAT WILL THE CORPORATE GOVERNANCE ARRANGEMENTS BE FOLLOWING THE MERGER? (CONTINUED)

QUESTION	ANSWER	MORE INFORMATION
What other corporate governance arrangements will be put in place if the Merger completes?	WPP and STW will, on completion of the Merger, enter into the Majority Shareholder Deed and a Governance Deed Poll which will set out certain corporate arrangements of the Combined Group. Key aspects of these corporate governance arrangements include: • the STW Board will consist of at least four Independent Directors (including the STW Chairperson) and the STW Chief Executive Officer; • standstill provisions which preclude WPP from acquiring more than 61.5% voting power in STW, except in limited circumstances; and • information sharing, access and procurement arrangements between the WPP Group and the Combined Group.	Please see sections 12.2 and 12.3 of this Explanatory Memorandum for further information regarding the corporate governance arrangements set out in the Majority Shareholder Deed and the Governance Deed Poll.

WHAT WILL HAPPEN IF THE MERGER DOES NOT OCCUR?

QUESTION	ANSWER	MORE INFORMATION
What happens if the Merger Resolutions are not approved?	If any of the Merger Resolutions are not approved, the Merger will not proceed. The consequences of this would include: • STW Shareholders will retain their current interest in STW and no STW Shares will be issued to WPP pursuant to the Merger; • there will be no change in control of STW and the STW Board will remain unchanged; and • STW will have incurred adviser and other transaction related costs, without having acquired the WPP Businesses. If any of the Additional Resolutions are not approved, but the Merger Resolutions are approved, the Merger will still proceed, subject to the satisfaction and/or waiver of the conditions precedent.	Please see section 10.2 of this Explanatory Memorandum for further information regarding what happens if the Merger Resolutions are not approved.
Has STW agreed to pay a break fee?	STW has not agreed to pay a break fee in relation to the Merger.	N/A

QUESTION	ANSWER	MORE INFORMATION
Transaction Costs	STW expects to incur transaction costs of $6 million if the Merger completes. Approximately $1.3 million of these costs had been incurred as at 31 December 2015.	N/A

WHAT IS MY ROLE AS A STW SHAREHOLDER?

QUESTION	ANSWER	MORE INFORMATION
If I wish to support the Merger, what should I do?	If you wish to support the Merger, you should vote in favour of all Resolutions by one of the following methods: • voting in person at the Extraordinary General Meeting to be held on 4 April 2016; • completing a personalised Proxy Form (enclosed with this Explanatory Memorandum); or • appointing a representative with power of attorney to vote for you.	Please see the Notice of Meeting for further information regarding instructions on how to vote.
What if I cannot or do not wish to attend the Extraordinary General Meeting?	STW Shareholders entitled to vote who cannot or do not wish to attend the Extraordinary General Meeting may complete a personalised Proxy Form (enclosed with this Explanatory Memorandum) or alternatively appoint a representative with power of attorney.	Please see the Notice of Meeting for further information regarding instructions on how to vote.
Is voting compulsory?	Voting is not compulsory. However, your vote is important in deciding whether the Merger proceeds.	N/A
Are there any voting exclusions?	Yes, certain voting exclusions will apply.	Please see the Notice of Meeting at Attachment 1 for further details of voting exclusions.
When will the results of the Extraordinary General Meeting be known?	Results of the Resolutions are expected to be known shortly after the close of the Extraordinary General Meeting to be held on 4 April 2016. Results will be released to the ASX and uploaded to STW's website once they are known.	N/A

6. PROFILE OF STW

6.1 OVERVIEW OF STW

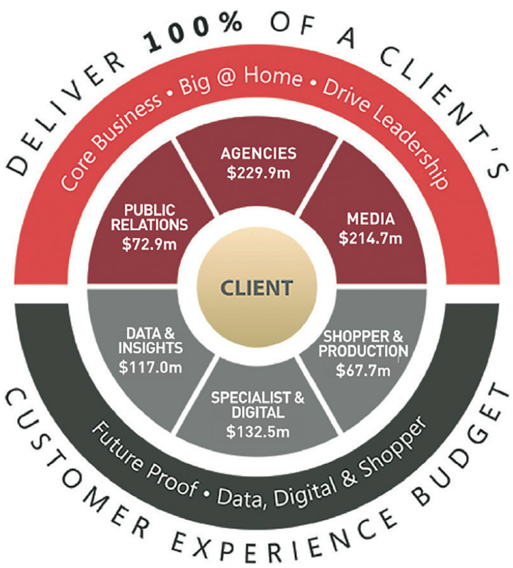
STW is a leading marketing and communications services company limited by shares, incorporated in Australia and listed on the ASX.

STW acts as a holding company with approximately 50 subsidiaries and joint ventures providing services in advertising, media planning, data insights, public relations, production and shopper, and specialist and digital marketing services. Through its business units, the STW Group operates predominantly within Australia and New Zealand, but also conducts operations in Hong Kong, Singapore, Indonesia, Malaysia, Canada, the United Kingdom, Thailand and Vietnam.

In the financial year ending 31 December 2015, STW had normalised net sales of $416.0 million and normalised earnings before interest and taxes of $76.8 million.

6.2 STW'S STRATEGY

STW's strategy is to deliver 100% of a client's customer experience budget. STW delivers this strategy by providing exceptional client experiences through a balanced portfolio of companies who offer a diverse range of marketing services and capabilities.



STW has four key strategic goals:

1. **Maintain our leadership position in the Australian and New Zealand markets in our core service offerings of media, advertising, and public relations.**

   STW has a strong competitive position in these home markets with recognised brands, extensive knowledge of the local market, enduring client relationships and a diversified service offering across the entire communications services value chain.

2. **Future-proof the business by growing and diversifying our capabilities in shopper and production, data and insights and specialist and digital communications.**

   STW operates in a dynamic and changing external environment. Clients' marketing spend will continue to evolve to enable them to engage with their customers and achieve their business objectives. STW will continue to evolve its service offerings and capabilities to meet the changing needs of our clients.

3. **Drive Horizontality – better together.**

   The marketing environment has never been more complex, and this complexity plays to STW's strength. Each of STW's businesses is a leader in their field, with their own established brand and team of talented people who are committed to delivering value to clients in their area of expertise, and creating enduring client relationships. While individual agencies do brilliant and innovative work on their own for clients, the real value of STW as a group comes when these businesses work together to create client value that's well beyond the capacity of one business working alone.

4. **Leverage the power of the world's leading business in communications services**

   STW blends the best of local agency brands with their strong local market knowledge and relationships and international partners with their iconic brands, technology and analytics tools, global reach and insights. STW will leverage its key partner in WPP, the world's leading business in communications services.

6.3 STW'S DIRECTORS

Brief profiles of the Directors of STW as at the date of this Explanatory Memorandum are as follows.

Other than their interest in STW securities, no current Director has any interest in the Merger nor any agreement to be entered into by the parties in relation to the Merger.

(a) Robert Mactier
Independent Non-executive Chairman

Mr Mactier was appointed as a Director of STW in December 2006 and Chairman with effect from 1 July 2008.

Mr Mactier is a consultant to the Investment Banking division of UBS AG in Australia, a role he has held since June 2007.

He has extensive investment banking experience in Australia, having previously worked for Citigroup, E.L. & C. Baillieu and Ord Minnett Securities between 1990 and 2006.

During this time, he was primarily focused on the media and entertainment and private equity sectors and initial public offerings generally.

Prior to these roles, he worked with KPMG from 1986 to 1990 during which time he qualified as a Chartered Accountant.

Mr Mactier is also a Non-executive Director of Melco Crown Entertainment Limited (from 2006) which is publicly listed on NASDAQ, where he is a member of their Compensation Committee and Nominating and Corporate Governance Committee.

Rob is a member of the Audit and Risk Committee.

6. PROFILE OF STW (CONTINUED)

6.3 STW'S DIRECTORS (CONTINUED)

(b) Michael Connaghan
Chief Executive Officer and Executive Director

Mr Connaghan was appointed as a Director of STW in July 2008.

After graduating from Charles Sturt University in 1987, Mr Connaghan commenced his advertising career winning an Australian Federation and Advertising Graduate Scholarship.

After spending his first four years as a copywriter at Clemenger BBDO Sydney, Mr Connaghan travelled the world.

He joined John Singleton Advertising in 1993 to guide the Telecom Australia account through the country's telecommunication deregulation.

In 2001, Mr Connaghan moved to STW, as Managing Director of Diversified Companies.

He represented STW's interests and oversaw acquisitions, expansion and growth of the Diversified Companies.

Mr Connaghan joined STW Group company JWT in January 2004 as Managing Director of Australia and New Zealand, until his move back to STW and his appointment as Chief Executive Officer in January 2006.

Michael is a Director of the Australian Association of National Advertisers and Chairman of the Board for the charity 'R U OK? Day'.

(c) Kim Anderson
Non-executive Director

Ms Anderson was appointed as a Director of STW in November 2010.

Ms Anderson is a director of carsales.com Limited (from 2010), Chief Executive of Reading Room (thereadingroom.com), a curated book discovery site for readers, a former Fellow of the Sydney University Senate, and a former Director of The Sax Institute.

Ms Anderson has more than 25 years' experience in various advertising and media executive positions within companies such as Southern Star Entertainment, Publishing and Broadcasting Limited and ninemsn.

Kim is a member of the Remuneration and Nominations Committee.

(d) Graham Cubbin
Independent Non-executive Director

Mr Cubbin was appointed as a Director of STW in May 2008.

Mr Cubbin was a senior executive with Consolidated Press Holdings ("CPH") from 1990 until September 2005, including holding the position of Chief Financial Officer for 13 years.

Prior to joining CPH, Mr Cubbin held senior finance positions with a number of major financial companies including Capita Finance Group and Ford Motor Company.

Graham has over 20 years' experience as a director and audit committee member of public companies in Australia and the US.

He is a Director of Challenger Limited (from 2004), Bell Financial Group Limited (from 2007), White Energy Company Limited (from 2010) and McPherson's Limited (from 2010). Mr Cubbin was appointed Chairman of McPherson's Limited in July 2015.

Graham is Chairman of the Audit and Risk Committee and a member of the Remuneration Committee.

(e) Peter Cullinane
Executive Director

Mr Cullinane was appointed as a Director of STW in June 2010.

Mr Cullinane is founder and Chief Executive of Lewis Road Creamery, one of New Zealand's fastest growing food businesses.

His previous business experience includes his role with Saatchi & Saatchi as Worldwide COO and, upon his return to New Zealand, the founder of Assignment Group where he was responsible for the development of some of New Zealand's most iconic brands, applying strategic and creative thinking both locally and internationally.

He is a Non-executive director of APN News & Media Limited (from 2013) where he is Chairman of the Remuneration Committee and also a director for the charity Kiwis for kiwi. He is a former Non-executive Director of SKY CITY Entertainment Group Limited (from 2008 to November 2015).

He holds Masters degrees in Business Administration and Management.

(f) Paul Richardson
Non-executive Director

Mr Richardson was appointed as a Director of STW in 1999.

Mr Richardson is currently a director of WPP plc.

Mr Richardson joined WPP plc in 1992 as Director of Treasury and has been Group Finance Director since 1996 (responsible for the group's worldwide finance function).

He is a former Non-executive Director of CEVA Group plc and Chime Communications plc and previously served on the British Airways Global Travel Advisory Board.

(g) Ian Tsicalas
Independent Non-executive Director

Mr Tsicalas was appointed as a Director of STW in November 2007.

Mr Tsicalas has extensive business operational experience, having managed both public and private companies throughout his career.

Ian is a former Managing Director of Howard Smith Limited and Commander Communications Limited and Chief Executive Officer of The Warehouse Group Australia.

Mr Tsicalas was formerly the independent Non-executive Chairman of Oceania Capital Partners Limited and a former Non-executive Director of Warehouse Group Limited and iSOFT Group Limited.

Ian is Chairman of the Remuneration and Nominations Committee and a member of the Audit and Risk Committee.

6.4 STW'S SENIOR MANAGEMENT

Brief profiles of the senior management team of STW as at the date of this Explanatory Memorandum are as follows.

(a) Michael Connaghan
Chief Executive Officer

See section 6.3(b).

6. PROFILE OF STW (CONTINUED)

6.4 STW'S SENIOR MANAGEMENT (CONTINUED)

(b) Lukas Aviani
Chief Financial Officer

Mr Aviani was appointed as the Chief Financial Officer of STW in December 2009 and has full responsibility of the finance function. Mr Aviani joined STW in 2006 as the Group Finance Director. Prior to joining STW, Mr Aviani worked with Ernst & Young and was subsequently Chief Financial Officer of Pacific Travel Holdings, an ASX listed company.

Mr Aviani is a chartered accountant.

6.5 DIRECTOR INTERESTS IN STW SECURITIES

The number of securities in which each Director of STW has a relevant interest as at the date of this Explanatory Memorandum is as follows:

DIRECTOR	ORDINARY SHARES	STW PERFORMANCE RIGHTS
Robert Mactier	577,964	-
Paul Richardson	-	-
Ian Tsicalas	65,463	-
Graham Cubbin	100,000	-
Michael Connaghan	505,218	673,547
Peter Cullinane	34,500	-
Kim Anderson	-	-

6.6 STW PERFORMANCE RIGHTS

No Directors, other than Michael Connaghan, hold STW performance rights.

Details of the performance rights held by Michael Connaghan as at the date of this Explanatory Memorandum are set out below:

						VESTED		LAPSED		
	PLAN	GRANT DATE	MAX. NUMBER GRANTED	MAX. VALUE AT GRANT DATE	VESTING DATE	NUMBER	VALUE $	NUMBER	VALUE $	UNVESTED NUMBER (MAX.)
Michael Connaghan	2014-2016	MAY 2014	266,620	291,457	FEB 2017	—	—	—	—	266,620
	2015-2017	MAY 2015	360,855	166,895	FEB 2018	—	—	—	—	360,855
TOTAL			**1,039,475**	**787,518**		**—**	**—**	**—**	**—**	**627,475**

Consistent with his contractual entitlements, Mike Connaghan will receive a pro-rata entitlement to his performance shares from the commencement date of the 2014 Plan and 2015 Plan to the date that the change in control occurs. Assuming the change in control occurs on or before 11 April 2016, Michael Connaghan will be granted 350,321 STW Shares

No other shares will vest as a result of the change in control triggered by the Merger.

6.7 HISTORICAL FINANCIAL INFORMATION

(a) Overview

This section contains a summary of the pro forma historical financial information for STW as a standalone business (the **STW Financial Information**), excluding the impact of the Merger.

The STW Financial Information comprises:

- **STW Statutory Income Statement** - summary consolidated pro forma income statements prepared on a statutory basis for the financial years ending 31 December 2014 and 31 December 2015. The statutory income statement has been extracted from the audited financial statements of STW for the financial year ending 31 December 2015 which were lodged with ASX on 19 February 2016;
- **STW Proportional Income Statement** - summary consolidated pro forma income statements prepared on a proportional basis for the financial years ending 31 December 2014 and 31 December 2015. The proportional income statement has been prepared by aggregating on a percentage basis STW's economic interest in its companies, their revenues and expenses; and
- **STW Balance Sheet** - consolidated balance sheets as at 31 December 2014 and 31 December 2015. The statutory balance sheets have been extracted from the audited financial statements of STW for the financial year ending 31 December 2015 which were lodged with ASX on 19 February 2016.

The information in this section should be read in conjunction with other information set out elsewhere in this Explanatory Memorandum, including information on the risk factors set out in section 10 and the Independent Expert's Report.

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

(b) Basis of preparation

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

(c) Explanation of certain non-IFRS financial measures

STW uses certain measures to manage and report on its business that are not recognised under AAS. The principal non-IFRS financial measures are as follows:

- **EBITDA** is earnings before interest, tax, depreciation and amortisation.

  Management uses EBITDA to evaluate the operating performance of the business without the non-cash impact of depreciation and amortisation and before interest and tax charges, which are affected by the capital structure and historical tax position of STW.

  Because it does not include the non-cash charges for depreciation and amortisation, EBITDA can be useful to help understand the cash generation potential of the business. However, management believes that it should not be considered as an alternative to net free cash flow from operations and investors should not consider EBITDA in isolation from, or as a substitute for, an analysis of STW's results of operations.

- **Net debt** is interest-bearing loans, borrowings and earn-out obligations, net of cash and cash equivalents.

6. PROFILE OF STW (CONTINUED)

6.7 HISTORICAL FINANCIAL INFORMATION (CONTINUED)

(c) Explanation of certain non-IFRS financial measures (continued)

- **Proportional consolidation** – STW owns both controlling and non-controlling interests in a number of operating companies. In order to better reflect STW's underlying financial performance, items of income and expense were prepared in proportion to STW's percentage of participation in the operating companies.

Although the Directors believe that these measures provide useful information about the financial performance and position of STW, they should be considered as supplements to the income statement measures that have been presented in accordance with AAS and not as a replacement for them. Readers should therefore not place undue reliance on these non-IFRS financial measures.

(d) STW income statements

Set out below are the STW Income Statements for the financial years ending 31 December 2014 and 31 December 2015.

Table 1: STW Statutory Income Statements

FOR THE PERIOD ENDING $MILLIONS	FY14	FY15 (AUDITED)
Total revenue	**471.2**	**492.5**
Cost of goods sold	(45.9)	(77.5)
Net Revenue	**425.3**	**415.0**
Operating expenses	(331.6)	(349.8)
EBITDA	**93.7**	**65.2**
Depreciation and amortisation	(10.0)	(10.9)
EBIT	**83.7**	**54.3**
Finance costs	(13.5)	(13.2)
Profit/(loss) before impairment costs and tax	**70.2**	**41.1**
Impairment costs	0.0	(78.6)
Profit/(loss) before tax	**70.2**	**(37.5)**
Income tax benefit/(expense)	(12.8)	(6.8)
Net profit/(loss) after tax	**57.4**	**(44.3)**
Non-controlling interest	(12.8)	(8.3)
Net profit/(loss) attributable to members of STW	**44.6**	**(52.6)**
Non-recurring items (refer Table 3)	1.0	92.2
Underlying profit attributable to members of STW	**45.6**	**39.6**

Management discussion and analysis

Net revenue (gross revenue less cost of goods sold expense) for the year ended 31 December 2015 was $415.0 million, down 2% on the prior period (2014: $425.3 million).

The statutory loss for the year ended 31 December 2015 was $52.6 million compared to a profit in 2014 of $44.6 million. The 2015 results were delivered in the context of the STW Group undertaking and implementing a strategic and structural review of its businesses, resulting in a number of one-off costs and leading to the reported loss for the year.

After adjusting for non-recurring significant items, the underlying profit for the year ended 31 December 2015 was $39.6 million, down 13% on the prior period (2014: $45.6 million).

2015 was a challenging year for the STW Group with a decline in revenue and underlying earnings. STW made a number of difficult decisions during the course of 2015 to restructure the business and has implemented a number of initiatives designed to drive deeper engagement with each of its businesses, coupled with stronger management oversight and financial discipline. The changes enable the STW Group to drive efficiencies, take advantage of its scale, and leverage the resources and talent the STW Group has at its disposal. STW enters 2016 with a clear strategy and path to return to sustainable growth.

STW's Income Statements for the year ended 31 December 2015 includes transaction costs of $1.3 million. STW will incur additional transaction costs estimated to be $4.7 million in relation to the Merger should the transaction complete.

Table 2: STW Proportional Income Statement

STW owns both controlling and non-controlling interests in a number of operating companies. In order to better reflect STW's underlying financial performance, pro forma income statements have been prepared reflecting STW's economic interest in its companies, their revenues and expenses.

The table below summarises the financial performance of STW on a proportionally consolidated basis. The figures in the table below also exclude one-off non-recurring items, which are discussed below for 2015.

FOR THE PERIOD ENDING $MILLIONS	FY14	FY15 (AUDITED)
Net Revenue	**409.6**	**416.0**
Operating expenses	(326.3)	(339.2)
EBITDA	**83.3**	**76.8**
Depreciation and amortisation	(9.4)	(9.6)
EBIT	**73.9**	**67.2**
Net interest	(12.2)	(12.0)
Operating profit before tax	**61.7**	**55.2**
Income tax	(16.1)	(15.6)
NPAT	**45.6**	**39.6**

The table below outlines the significant, non-recurring items incurred by STW and have been adjusted to arrive at normalised NPAT for the year ended 31 December 2015.

Table 3: STW reconciliation of statutory net profit after tax to pro forma underlying net profit after tax

$MILLIONS	31-DEC-14	31-DEC-15
NPAT per statutory reporting	44.6	(52.6)
Impairment of non-current assets and other non-cash items	0.4	81.8
Strategic review costs and other one-off costs	0.6	10.4
Pro forma underlying NPAT	**45.6**	**39.6**

6. PROFILE OF STW (CONTINUED)

6.7 HISTORICAL FINANCIAL INFORMATION (CONTINUED)

(d) STW income statements (continued)

STW incurred a number of one-off costs in 2015 comprising:

- impairment of non-current assets and other non-cash items of $81.8 million;
- strategic review costs of $4.5 million; and
- business closure and other one-off costs of $5.9 million.

1. **Impairment of non-current assets and other non-cash items** – these represent impairment charges relating to the carrying value of non-current assets, investments accounted for using the equity method and plant and equipment. The impairment charges arose primarily as a result of weaker than forecast trading performance of entities within the mass communications, brand development, and management and specialist communications cash generating units.
2. **Strategic review costs** – these comprise redundancy and staff salary costs incurred in achieving operational restructure and efficiency initiatives within corporate head office and operating businesses. Included within these costs are $3.7 million of employee termination costs within business units impacted by the strategic and structural review.
3. **Business close down and other one-off costs** – these comprise costs associated with closing down and merging selected business units.

(e) STW Balance Sheet

Set out below are the STW consolidated balance sheets as at 31 December 2014 and 31 December 2015.

Table 4: STW Balance Sheet

AS AT $MILLIONS	FY14	FY15 (AUDITED)
Cash and cash equivalents	19.9	26.9
Trade and other receivables	171.3	166.1
Inventories	4.9	5.6
Current tax assets	—	2.3
Other	7.1	7.0
Current assets	**203.2**	**207.9**
Other receivables	13.1	12.0
Investments in joint ventures and associates	121.6	90.1
Other financial assets	0.7	0.6
Plant and equipment	40.8	31.8
Deferred tax assets	14.4	15.7
Intangible assets	555.6	522.7
Other	2.2	2.3
Total assets	**951.6**	**883.1**
Trade and other payables	162.9	158.3
Borrowings	100.8	70.9
Current tax liabilities	4.2	—
Provisions	11.1	7.7
Current liabilities	**279.0**	**236.9**
Other payables	28.0	20.5
Borrowings	111.8	160.9
Deferred tax liabilities	4.0	4.5
Provisions	3.1	5.6
Total liabilities	**425.9**	**428.4**
Issued capital	322.5	334.5
Reserves	31.3	29.3
Retained earnings	116.8	41.0
Non-controlling interests	55.1	49.9
Total equity	**525.7**	**454.7**

7. PROFILE OF WPP GROUP

7.1 PROFILE OF WPP PLC

WPP plc, and the WPP Group is one of the largest communications services businesses in the world. As at 31 December 2015, the WPP Group had approximately 179,000 employees. The WPP Group provides communications services on a national, multinational and global basis and operates from over 3,000 offices in 112 countries. The WPP Group organises its businesses in the following areas: advertising and media investment management; data investment management; public relations and public affairs; and branding and identity, healthcare and specialist communications (including direct, digital, promotion and relationship marketing).

WPP plc's shares are admitted to the premium segment of the Official List of the UK Listing Authority and trade on the London Stock Exchange's main market for listed securities and its American depositary shares are quoted on the NASDAQ Global Select Market. WPP plc has its executive office at 27 Farm Street, London, UK, W1J5RJ.

7.2 PROFILE OF WPP

WPP is a wholly owned subsidiary of WPP plc which is incorporated in The Netherlands and is an investment holding company for WPP plc in multiple jurisdictions. WPP has its registered address at Laan op Zuid 167, 3072 DB Rotterdam, The Netherlands.

8. WPP BUSINESSES

8.1 PROFILE OF THE WPP BUSINESSES

The WPP Businesses include the Australian and New Zealand businesses of many of WPP Group's global brands such as advertising agencies Y&R and Grey; media investment management agencies MEC, Mediacom and Xaxis; data investment management specialists Millward Brown and TNS; public relations and public affairs agencies Hill + Knowlton Strategies, Burson-Marsteller and PPR; direct, digital, promotion and relationship marketing agencies Wunderman and VML; specialist branding and identity agency Landor Associates, and healthcare agencies Sudler & Hennessey and Grey Healthcare.

The Merger also includes the contribution of WPP Group's interest in companies in which the WPP Group and the STW Group currently have joint ownership, including Ogilvy, Ogilvy PR, J. Walter Thompson, Mindshare, Maxus and Added Value.

(a) Advertising and media investment management

Advertising

The principal functions of an advertising agency are the planning and creation of marketing and branding campaigns and the design and production of advertisements for all types of media such as television, cable, the internet, radio, magazines, newspapers and outdoor locations such as billboards. The WPP Group advertising businesses involved in the transaction include the Australian and New Zealand operations of the following brands: Ogilvy & Mather, J. Walter Thompson, Y&R and Grey.

Ogilvy & Mather is one of the largest marketing communications companies in the world. Ogilvy & Mather was formed in 1948 and is headquartered in New York. The company is comprised of industry leading units in all of the following disciplines: advertising; public relations and public affairs; branding and identity; shopper and retail marketing; healthcare communications; direct, digital, promotion and relationship marketing; consulting, research and analytics capabilities; branded content and entertainment; and specialist communications. Ogilvy & Mather services Fortune Global 500 companies as well as local businesses through its network of more than 450 offices.

J. Walter Thompson was one of the world's first advertising agencies. It was founded in 1864 and is a full-service multinational advertising agency headquartered in New York. The J. Walter Thompson network has more than 200 offices in over 90 countries employing nearly 10,000 marketing professionals. J. Walter Thompson's relationships with a number of its major clients have been in existence for many years, exhibiting an ability to adapt to meet the clients' and market's new demands.

Y&R, a full-service multinational advertising agency network headquartered in New York, was formed in 1923 and is now part of the Young & Rubicam Group. The Y&R Network has more than 185 offices in over 90 countries and employs nearly 6,500 people.

Grey commenced operations in 1917 and was incorporated in 1925 as Grey Advertising Inc. Grey provides creative services including brand ideas and strategies, brand planning, creative development and production. Grey has offices in 96 countries and was acquired by WPP in March 2005.

(b) Media investment management

The WPP media investment management businesses involved in the Merger include the Australian and New Zealand operations of the following brands: Maxus, MEC, MediaCom, Mindshare and Xaxis.

Maxus is a global media planning and buying agency. Its services include communications strategy, media planning and buying, digital marketing, social media strategy, direct response, search engine marketing, search engine optimisation, pay per click and marketing return on investment evaluation and has a team of over 2,700 people in 55 markets worldwide.

8. WPP BUSINESSES (CONTINUED)

8.1 PROFILE OF THE WPP BUSINESSES (CONTINUED)

(b) Media investment management (continued)

MEC was formed following the WPP Group's acquisition of Tempus in 2001 with the merger of its core brand CIA with The MediaEdge. MEC is a media agency and employs almost 5,000 people in more than 150 offices across 84 countries. MEC's services include: Media planning and buying, Digital, Search, Social, Mobile, Performance marketing, Analytics and Insight, Sport, Entertainment, Cause & Content, Multi-cultural, Retail, and Integrated planning.

MediaCom is one of the worlds' leading media communications agencies. The MediaCom network comprises over 6,000 people working in 112 offices in 97 countries.

Mindshare was originally formed from the merger of the media departments of JWT and Ogilvy & Mather. Mindshare is a marketing and media network and consists of 116 offices in 82 countries throughout the USA, Latin America, Europe, Middle East, and Asia Pacific.

Xaxis is one of the world's largest audience buying companies. Through its proprietary platform, Xaxis offers advertisers a single, comprehensive resource from which to reach and engage with global audiences across the universe of digital media. Xaxis does this for its GroupM agency partners, Maxus, MEC, MediaCom, and Mindshare. Xaxis has a presence in over 30 countries across North America, Europe and Asia.

(c) Data investment management

To help optimise its worldwide research offering to clients, the WPP Group's separate global research and strategic marketing consultancy businesses are managed on a centralised basis under the umbrella of the Kantar Group. The Kantar Group offering includes: custom research in a wide range of business sectors and areas of marketplace information including strategic market studies; brand positioning; equity research; customer satisfaction surveys; product development; international research; advanced modelling; advertising research; pre-testing, tracking and sales modelling; and trends and futures research and consultancy.

The WPP Group data investment management businesses involved in the transaction include the Australian and New Zealand operations of the following brands: Added Value, Millward Brown and TNS.

Added Value offers brand development and marketing insights and has 19 offices in 13 countries across five continents.

Millward Brown is one of the world's leading companies in advertising research, including pre-testing, tracking and sales modelling, and offers a full range of services to help clients market their brands more effectively.

TNS advises clients on specific growth strategies around new market entry, innovation, brand switching and stakeholder management, based on long-established expertise and market-leading solutions. TNS has a presence in over 80 countries.

(d) Public relations and public affairs

Public relations and public affairs companies advise clients who are seeking to communicate with consumers, governments and/or the business and financial communities. Public relations and public affairs activities include national and international corporate, financial and marketing communications, crisis management, reputation management, public affairs and government lobbying. The WPP Group public relations and public affairs businesses involved in the transaction include the Australian and New Zealand operations of the following brands: Hill+Knowlton Strategies, Ogilvy Public Relations, Burson-Marsteller and PPR.

Hill+Knowlton Strategies offers counsel, research and strategic communications planning to corporate clients throughout the world. It has 90 offices in 52 countries.

Ogilvy Public Relations is a global, multi-disciplinary communications leader operating in 85 offices across six continents.

Burson-Marsteller, established in 1953, is a leading global public relations and communications firm. It provides clients with strategic thinking and program execution across a full range of public relations, public affairs, reputation and crisis management, advertising and digital strategies. The firm's network consists of 73 offices and 85 affiliate offices, together operating in 110 countries across six continents.

PPR, originally founded in 1970 in Australia, operates across 15 offices in the Americas, EMEA and Asia-Pacific staffed by more than 220 communications professionals. PPR is a global public relations and communications firm, utilising a variety of communication channel, to help clients build relationships with their stakeholders.

(e) Branding and identity, healthcare and specialist communications

The WPP Group's activities in this business area include branding and identity; healthcare communications; direct digital, promotional and interactive marketing; and other specialist communications services including custom media, demographic and sector marketing, sports marketing, and media and film production services.

Branding and identity

This activity includes consumer, corporate and employee branding and design services, covering identity, packaging, literature, events, training and architecture. The WPP Group branding and identity business involved in the transaction is the Australian operations of Landor Associates.

Landor Associates in Australia provides its clients with branding and design solutions.

Healthcare communications

This activity constitutes the provision of integrated healthcare marketing solutions from advertising to medical education and online marketing. The WPP Group healthcare communications businesses involved in the Merger include the Australian and New Zealand operations of the following brands: ghg, Ogilvy CommonHealth Worldwide and Sudler & Hennessey.

ghg (grey health group) is a global healthcare communications company, headquartered in New York, with offices in North America, Latin America, Europe and Asia. It works with companies to build world-class healthcare and pharmaceutical brands among medical professionals and consumers, with a transmedia storytelling approach that covers print, digital and television broadcast media, medical education, sales force presentations and managed access strategies.

Ogilvy CommonHealth Worldwide has 63 offices across 33 countries and provides marketing services including brand identity and development, clinical trial recruitment, digital/interactive services, direct-to-consumer, direct-to-patient, global integration, managed care marketing, market research and analytics, media planning and buying, medical advertising and promotion, medical education, relationship marketing, and strategic consulting. The network also offers scientific communications and publications services through a wholly owned separate legal entity. The organisation houses and maintains individual Ogilvy CommonHealth and Ogilvy Healthworld brand identities within the marketplace.

Sudler & Hennessey is a global healthcare marketing and communications organisation with offices around the world. The network includes two global communications agencies – Sudler & Hennessey and Sentrix Global Health Communications with U.S. headquarters in New York City. Sudler & Hennessey also has specialised divisions in medical education (IntraMed Educational Group, Precept Medical Communications, and Current Medical Directions), as well as in market research and strategic planning, branding, publication strategies, sales training (HealthAnswers and Transart) and digital solutions (Sudler Digital).

8. WPP BUSINESSES (CONTINUED)

8.1 PROFILE OF THE WPP BUSINESSES (CONTINUED)

(f) Direct, digital, promotion and relationship marketing

This activity includes a full range of general and specialist customer, channel, direct, field, retail, promotional and point-of-sale marketing services. The WPP Group businesses involved in the Merger include the Australian and New Zealand operations of the following brands: OgilvyOne Worldwide, VML and Wunderman.

OgilvyOne Worldwide is part of the Ogilvy & Mather Worldwide network, which is a direct marketing group, offering online marketing consulting and also traditional direct marketing communications such as direct response advertising techniques.

VML is headquartered in Kansas City and is part of Young & Rubicam Brands. It specialises in digital and interactive services.

Wunderman is part of Young & Rubicam Brands, and is an integrated marketing solutions company that delivers customer relationship management services to its clients. Since 2005, Wunderman has acquired several digital companies, including Aqua Online, AGENDA, Blast Radius and ZAAZ.

8.2 HISTORICAL FINANCIAL INFORMATION

(a) Overview

This section contains a summary of the unaudited pro forma historical financial information for the WPP Businesses (the **WPP Businesses Financial Information**). These were prepared for the purposes of the Merger and are presented on a pro forma basis, aggregating the WPP Businesses to be acquired by STW pursuant to the Merger. No historical consolidated financial information exists for the WPP Businesses.

The WPP Businesses Financial Information comprises:

(1) **WPP Proportional Income Statements** - summary aggregated pro forma income statements prepared on a proportional basis for the financial years ending 31 December 2014 and 31 December 2015. The unaudited proportional income statement has been prepared by aggregating, on a percentage basis, WPP Group's economic interest in the WPP Businesses, their revenues and expenses; and; and

(2) **WPP Balance Sheets** – summary aggregated proportional balance sheet as at 31 December 2014 and 31 December 2015. The unaudited proportional balance sheet has been prepared by aggregating on a percentage basis the WPP Group's economic interest in the WPP Businesses assets, liabilities and equity balances.

The information in this section 8.2 should be read in conjunction with other information set out elsewhere in this Explanatory Memorandum, including information on the risk factors set out in section 10 and the Independent Expert's Report.

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

(b) Basis of preparation

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

(c) Explanation of certain non-IFRS financial measures

WPP uses certain measures to manage and report on its business that are not recognised under AAS. The principal non-IFRS financial measures are as follows:

- **EBITDA** is earnings before interest, tax, depreciation and amortisation.

  Management uses EBITDA to evaluate the operating performance of the business without the non-cash impact of depreciation and amortisation and before interest and tax charges, which are affected by the capital structure and historical tax position of WPP.

  Because it does not include the non-cash charges for depreciation and amortisation, EBITDA can be useful to help understand the cash generation potential of the business. However, management believes that it should not be considered as an alternative to net free cash flow from operations and investors should not consider EBITDA in isolation from, or as a substitute for, an analysis of WPP's results of operations.

- **Net debt** is interest-bearing loans, borrowings and earn-out obligations, net of cash and cash equivalents.
- **Proportional consolidation** – WPP owns both controlling and non-controlling interests in a number of operating companies. In order to better reflect WPP's underlying financial performance, items of income and expense were prepared in proportion to WPP's percentage of participation in the operating companies.

Although the Directors believe that these measures provide useful information about the financial performance and position of WPP, they should be considered as supplements to the income statement measures that have been presented in accordance with AAS and not as a replacement for them. Readers should therefore not place undue reliance on these non-IFRS financial measures.

(d) WPP Businesses Proportional Income Statements

The WPP Businesses comprise both controlling and non-controlling interests in a number of operating companies. In order to better reflect the underlying financial performance of the WPP Businesses, pro forma income statements have been prepared reflecting WPP's economic interest in its companies, their revenues and expenses.

Set out below at Table 5, are the WPP Proportional Income Statements aggregated for the WPP Businesses for the years ending 31 December 2014 and 31 December 2015.

Table 5: WPP Proportional Aggregated Income Statements

FOR THE PERIOD ENDING $MILLIONS	31-DEC-14	31-DEC-15 (UNAUDITED)
Total revenue	480.0	492.6
EBITDA	80.4	71.9
EBIT	74.3	66.1

Management discussion and analysis

Revenue increased by 2.6% in 2015. EBITDA and EBIT however both declined by more than 10%, resulting in margins falling from the previous year.

Overall, 2015 performance was affected by the wider macroeconomic pressures facing the Australian economy which had a knock-on impact on client media spend. Some advertising agencies faced continued challenges caused by project delays and cancellations, which had a short term adverse impact on profitability. Accordingly, restructuring measures were implemented in 2015 and these agencies are well positioned for growth in 2016.

8. WPP BUSINESSES (CONTINUED)

8.2 HISTORICAL FINANCIAL INFORMATION (CONTINUED)

(e) WPP Businesses Balance Sheet

Set out below is the WPP Businesses Balance Sheet as at 31 December 2014 and 31 December 2015 on an unaudited proportionally aggregated basis.

Table 6: WPP Businesses Balance Sheet

AS AT $MILLIONS	31-DEC-14	31-DEC-15
Cash and cash equivalents	312.8	283.4
Trade and other receivables	321.1	318.6
Other current assets	39.7	66.2
Current assets	**673.6**	**668.2**
Intangible assets	134.6	135.2
Investments	659.2	666.4
Property and equipment	13.5	12.3
Total assets	**1,480.9**	**1,482.1**
Borrowings	185.9	163.8
Trade and other payables	422.4	416.2
Current tax liabilities	7.4	5.0
Other current liabilities	32.2	43.4
Current liabilities	**647.9**	**628.4**
Borrowings	235.8	225.1
Other non-current liabilities	—	13.1
Total liabilities	**883.7**	**866.6**
Net assets	**597.2**	**615.5**

Source: WPP management

9. EFFECT OF THE MERGER

9.1 OVERVIEW

The Merger involves combining substantially all of the Australian and New Zealand businesses of STW and WPP to create a unified communications and marketing services group.

STW will become the primary vehicle for the WPP Group in Australia and New Zealand. The WPP Group will contribute many of its iconic global brands and its interests in companies which WPP and STW currently jointly own.

As a result of the Merger, WPP will become the majority shareholder of STW, with a shareholding of 61.5%.

Following the Merger, STW intends to change its name to align it with WPP, subject to shareholder approval.

9.2 STRATEGY

(a) Overview

This section sets out the intentions of the Combined Group in relation to its strategy, structure and operations.

Final decisions regarding the operations of the Combined Group will be made by the STW Board (including the WPP Nominees) in light of all information and material that is available at the relevant time. The statements set out in this section are therefore current statements of intention only, and are subject to change as new information or material becomes available.

(b) Continuation of the Combined Group's operations and integration process

Following completion of the Merger, the Combined Group intends to conduct a review of the Combined Group's operations to determine how to further develop and optimise performance of the businesses, and facilitate cooperation across the Combined Group. It is intended that STW and the WPP Businesses will substantially continue in their current form. There is currently no intention to transfer any current businesses or material assets.

STW and the WPP Businesses share common operating requirements, and it is anticipated that as part of the integration process, cost savings may be achieved in relation to items such as IT and financial shared services, consolidation of office space, corporate and administrative functions, and operating efficiencies achieved through enhanced local management oversight.

(c) Employees

Current cost savings identified as achievable through the integration of STW and the WPP Businesses include estimates realised through optimising the efficiency of operations within the Combined Group, involving adjustments to employment structures and arrangements.

During the integration period, the Combined Group will focus on retaining the talent, skills and knowledge of employees to drive the Combined Group's future success. The cost savings identified through realising scale efficiencies and reducing duplication represent a small percentage of the total estimated cost savings.

The Combined Group will further consider the future operational and management requirements of the businesses as part of its strategic review.

9.3 FINANCIAL IMPACT

(a) Earnings

The proposed Merger will increase the earnings base of STW. The Combined Group generated pro forma normalised net sales of $834.7 million and normalised earnings before interest and tax of $148.7 million for the financial year ending 31 December 2015.

Further information on the financial profile of the Combined Group is set out in section 9.10 of this Explanatory Memorandum.

9.3 FINANCIAL IMPACT (CONTINUED)

(b) Cost Synergies

Total pre-tax cost synergies resulting from the Merger are estimated to reach at least $15 million per annum within three years of the Merger. One-off costs to achieve these synergies are estimated at approximately $10 million.

The synergy estimates does not include the benefit of incremental revenue synergies, although these are expected over time.

A summary of the synergies expected from the Merger is set out below.

SYNERGY	DESCRIPTION	TOTAL COST TO IMPLEMENT ($MILLIONS)	TOTAL ESTIMATED COST SAVINGS PER ANNUM ($MILLIONS)
Corporate and administration	Cost reductions in relation to corporate and administrative costs such as audit and insurance		1.8
Property rationalisation	Consolidation of property footprint, better space planning and co-location of selected business units into campuses		2.5
IT and shared services	Consolidation of duplicated operating infrastructure, operating costs and restructure of back office support functions		2.8
Operating efficiencies	Local management oversight with margin focus and driving integration of services across the Combined Group (further described below)		7.9
Total		**10.0**	**15.0**

In consultation with WPP, STW has identified cost synergies from operational efficiencies based on initiatives impacting specific cost categories. Operational efficiencies comprise the benefit that the Combined Group will receive from enhanced scale (arising from increased purchasing power driving better procurement outcomes) and a reduction in duplication of services and roles across the Combined Group. STW has identified cost savings in: accommodation and travel; media research services; and employee recruitment and training.

Furthermore, a key strategic pillar of the Combined Group is Horizontality - the group working better together. Operational efficiencies also include the benefit derived from better utilisation of resources, services and capabilities within the Combined Group rather than sourcing external suppliers. STW has identified cost savings in this area of digital, TV and print production services.

The extent to which cost synergies are realised will depend on the timely and effective integration of the Combined Group. There is a risk that unforeseen issues or difficulties may arise that may result in integration benefits and/or synergies for the Combined Group being delayed, or being achieved only in part, or not at all. Further details are outlined in section 10.1(a).

(c) Pro forma Combined Group Balance sheet

On completion of the Merger, STW will assume net debt of approximately $125 million, resulting in pro forma net debt for the Combined Group as at 31 December 2015 of $311.5 million.

The Merger will result in a reduction in the gearing ratio at 31 December 2015 from 2.6x on a standalone basis to 2.0x on a pro forma basis. The gearing ratio is calculated as net debt at 31 December 2015 divided by the earnings before interest, taxes, depreciation and amortisation for the year ended 31 December 2015.

$MILLIONS	STW AT DEC 2015	COMBINED GROUP PRO FORMA AT 31 DEC 2015
Cash	26.9	201.3
Gross borrowings and earnout liabilities	246.9	512.8
Net debt – statutory basis	220.0	311.5
EBITDA – statutory basis	85.6	153.9
Net debt / EBITDA	2.6x	2.0x

Note (i) – For the purposes of assessing the Combined Group gearing levels, Net Debt comprises gross bank borrowings and estimated earn out liabilities, less cash and cash equivalents.

9.4 CAPITAL STRUCTURE

(a) Ownership

As part of the Merger, STW will issue 422,961,825 new STW Shares to WPP. Total STW Shares on issue will increase from 429,190,045 to 852,151,870 and WPP's shareholding will increase from 23.55% to 61.5%. The share capital structure of STW will otherwise remain unchanged.

The table below sets out the current share capital structure of STW, and the share capital structure of the Combined Group immediately following completion of the Merger.

	CURRENT STW SHARE CAPITAL STRUCTURE	CURRENT STW SHARE CAPITAL STRUCTURE (%)	PRO FORMA SHARE CAPITAL STRUCTURE ON COMPLETION OF THE MERGER	PRO FORMA SHARE CAPITAL STRUCTURE (%)
Shares held by WPP	101,080,298	23.55%	524,042,123	61.50%
Shares held by non-WPP associated shareholders	328,109,747	76.45%	328,109,747	38.50%
Total shares outstanding	429,190,045	100%	852,151,870	100%

(b) Borrowings

On completion of the Merger, STW will assume approximately $252 million of debt (or $125 million of net debt) owing by the WPP Businesses to the WPP Group (**WPP Debt**).

STW intends to refinance the WPP Debt, and STW's existing facilities with Westpac and HSBC, on completion of the Merger with new external bank finance (**Refinancing**).

If a Refinancing does not occur on completion of the Merger, WPP will refinance the WPP Debt on the terms of the Shareholder Loan Agreement (see section 12.6) which will remain in place for up to 3 years following the Merger until the WPP Debt is refinanced.

The Shareholder Loan Agreement is intended to be a temporary alternative while a Refinancing is being pursued. STW anticipates that the Refinancing will be unsecured and will be priced at a lower cost and margin than the facility provided by WPP under the Shareholder Loan Agreement.

9. EFFECT OF THE MERGER (CONTINUED)

9.4 CAPITAL STRUCTURE (CONTINUED)

(b) Borrowings (continued)

The Shareholder Loan Agreement will include certain customary restrictions on the Combined Group's ability to raise additional debt and dispose of assets. STW believes that the Combined Group will have sufficient debt facilities to fund its operations as contemplated by its business plan and that no additional debt should be required while the Shareholder Loan Agreement remains in place.

A summary of the debt facilities of the Combined Group is set out below.

$MILLIONS	STW AT 31 DEC 2015	WPP LOAN	COMBINED GROUP PRO FORMA AT 31 DEC 2015
Bank loans	270.0	-	270.0
Shareholder Loan		252.0	252.0
Finance leases	4.7	-	4.7
Total debt facilities	**274.7**	**252.0**	**526.7**
Drawn Debt			**493.8**

(c) Earnings per share

STW expects that the Merger will result in a slight increase in earnings per share, before synergies.

As noted in section 9.3(b), total pre-tax cost synergies resulting from the Merger are estimated to reach at least $15 million per annum within three years of the Merger. Earnings per share accretion is expected to be material going forward as these synergies are realised. On a 31 December 2015 pro forma basis, inclusion of pre-tax cost synergies of $15 million would result in earnings per share accretion in excess of 10%.

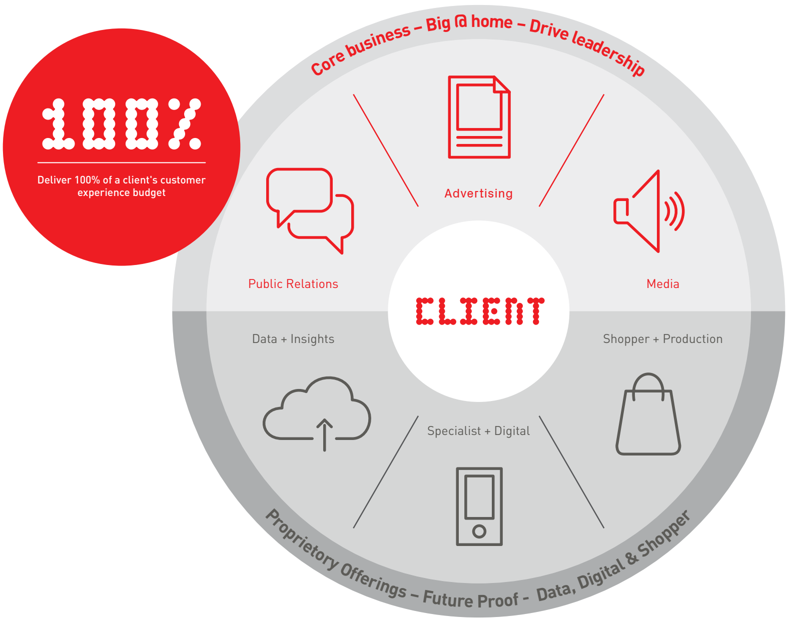
9.5 DIVIDEND POLICY

There is no expectation that the dividend policy of STW will change as a result of the Merger. It is expected that, consistent with the existing STW policy, dividends will be determined by the STW Board at the relevant time, and that the payment and amount of any dividends will depend on the financial status, earnings and capital requirements of the Combined Group, as well as any other factors that the STW Board considers relevant.

9.6 STRATEGY AND OPERATIONS IMPACT

The Merger of the WPP Businesses and STW will create a Combined Group that is a leading marketing content and communications services provider in Australia and New Zealand. The Combined Group will comprise more than 65 operating companies, and employ over 5,500 people across 12 countries.

The strategy of the Combined Group will remain the same - to deliver 100% of a client's customer experience budget. The Combined Group will deliver this strategy by providing exceptional client experiences through a balanced portfolio of companies who offer a diverse range of marketing services and capabilities.



The Combined Group will have four key strategic goals:

1. **Maintain leadership positions in core service offerings of media, advertising and public relations.**
2. **"Future-proof" the business by growing our capabilities in: shopper and production; data and insights; and specialist digital communications.**
3. **Drive Horizontality – better together.**
4. **Leverage the power of the world's leading business in communications services.**

9.7 BOARD COMPOSITION

(a) STW Board Composition

Following completion of the Merger, the STW Board will comprise eleven directors consisting of:

- six WPP Nominees;
- four Independent Directors (including the STW Chairperson); and
- the Chief Executive Officer of STW.

(b) Independent Directors

On completion of the Merger, the Independent Directors will comprise Robert Mactier (who will continue as the STW Chairperson), along with existing Independent Directors Graham Cubbin, Kim Anderson and Peter Cullinane. Ian Tsicalas will, as previously foreshadowed, retire upon completion of the Merger.

Brief profiles of these Independent Directors can be found at section 6.3.

9. EFFECT OF THE MERGER (CONTINUED)

9.7 BOARD COMPOSITION (CONTINUED)

(c) WPP Nominees

Paul Richardson will continue as a Director and WPP Nominee following completion of the Merger.

Brief profiles of the five additional WPP Nominees to be appointed on completion of the Merger are as follows:

Geoff Wild AM

Geoff Wild has been Chairman and Country Manager of WPP Australia and New Zealand since 1998.

Geoff was with Clemenger/ BBDO until 1990 as Deputy Chairman, a member of the BBDO Worldwide Board and Chairman of BBDO Asia/ Pacific, when he retired from the advertising industry for a period of time following which he was appointed as Chairman of the New South Wales Tourism Commission and a Vice-President of the 2000 Olympics Bid Company.

Geoff has been Chairman of the Advertising Federation of Australia and Chairman of the Australian Advertising Industry Council, the former tripartite body linking advertisers, media and agencies.

Geoff has held and currently holds a number of Board seats on listed and unlisted entities in Australia and is a Fellow of the Institute of Company Directors, a Fellow of the Advertising Institute (by examination) and a Fellow of the Royal Society of Arts.

He was made a Member of the Order of Australia in the Queen's Birthday Honour List in 2000.

Paul Heath

Paul joined Ogilvy & Mather (O&M) London as a graduate trainee in 1987. Since that time, he has held a variety of roles within the WPP group, principally in Asia and South America, including leadership roles on key global accounts.

From January 2006, Paul led the advertising discipline in Asia Pacific, achieving record growth and winning Media Magazine's Network of the Year for three consecutive years.

In January 2009, Paul was promoted to CEO of O&M Asia Pacific and in May 2012, Paul was appointed O&M Asia Pacific Chairman.

Ranjana Singh

Ranjana Singh started her career in media at JWT India (Hindustan Thompson Associates) in 1982.

In March of 1993 she moved to JWT, Indonesia to stabilise and grow its media function. Subsequently, she moved to client servicing and became the General Manager in 1998.

Ranjana joined the newly launched Mindshare in 2000. As managing director and then CEO she built GroupM to be the leading media agency with a leading market share.

Ranjana currently serves as the WPP Chairperson for Indonesia and Vietnam.

She sits on the advisory board for APMF – Asia Pacific Media Forum and the McKinsey YLI Young Leaders Indonesia initiative.

John Steedman

John Steedman has been in the advertising business for over 40 years having joined McCann Erickson in 1971. In 1973 he transferred to Adelaide as Media Manager.

John joined JWT in 1976 and held a number of leadership roles across Australia and regionally over a 20 year period.

In 1997, he was appointed the CEO of MindShare Asia Pacific and relocated to Hong Kong. John went on to be instrumental in setting-up 17 MindShare offices in 12 markets around the Asia Pacific region.

In 2005 John was promoted to Chairman/CEO of GroupM Asia Pacific, the largest media investment management group in Asia Pacific and, after a short break, John re-joined WPP in 2008 as Chairman /CEO of GroupM Australia, a role he occupied until stepping down in January 2016.

In 2013 at the Media Federation of Australia Awards 2013 John was inducted into its Hall Of Fame.

Jon Steel

A graduate of Nottingham University, Jon began his advertising career at London agency Boase Massimi Pollitt in 1984, and was appointed to the agency's board at the age of 26. In 1989 he moved to affiliate agency Goodby, Silverstein & Partners in San Francisco, as that agency's first Head of Planning. In ten years he helped grow GS&P from $40 million in billings to almost $1 billion, becoming a Partner and Vice-Chairman along the way.

In 2002, having returned to the UK, Jon accepted the role of Group Planning Director for WPP. In this role he provides strategic and creative counsel to WPP agencies and clients alike. He also directs the WPP Fellowship, an elite graduate recruitment and training program, designed to create future generations of leaders for WPP companies. Since 2009, he has been based in Australia, where he has combined his WPP responsibilities with those of Chief Strategy Officer and Vice-Chairman of George Patterson Y&R.

9.8 SENIOR MANAGEMENT

Michael Connaghan and Lukas Aviani will continue in their respective roles of Chief Executive Officer and Chief Financial Officer following the completion of the Merger.

9.9 CORPORATE GOVERNANCE FRAMEWORK

A legally binding governance framework will be established on completion of the Merger which includes the following elements:

(a) while the WPP voting power equals or exceeds 50%:

- the STW Board will consist of at least four Independent Directors (one of whom will be the STW Chairperson) and the STW Chief Executive Officer;
- the STW Chairperson must be an Independent Director elected by a majority of Independent Directors; and
- the appointment of any new Independent Directors must be approved by a majority of the existing Independent Directors and by a majority of the STW Board.

If the WPP voting power is greater than 40% (but less than 50%), WPP must use reasonable endeavours to procure the outcomes above.

(b) while the WPP voting power equals or exceeds 50%, WPP will be entitled to nominate for appointment sufficient number of directors of STW so that the votes cast by the WPP Nominees make up the majority of votes that may be cast on STW Board resolutions. This would mean that, immediately following the Merger, WPP would be entitled to nominate six directors out of eleven directors;

(c) up to two WPP Nominees (who are not full-time officers or employees of the WPP Group) will be entitled to be paid directors' fees. No other WPP Nominee will be entitled to be paid any remuneration in respect of his or her appointment as a Director;

(d) WPP must ensure that its shareholding does not increase above 61.5%, except in limited circumstances (such as pursuant to a takeover bid, scheme of arrangement or shareholder approved acquisition) (see section 12.2(d));

9. EFFECT OF THE MERGER (CONTINUED)

9.9 CORPORATE GOVERNANCE FRAMEWORK (CONTINUED)

(e) WPP will be entitled to receive from the STW Group such financial, operational or other information that it requires to ensure that the WPP Group is able to comply with WPP Group compliance obligations and corporate governance policies;

(f) STW will seek to adopt and implement corporate governance policies which are consistent with WPP Group policies to the extent applicable to STW and consistent with applicable laws;

(g) STW has agreed to use WPP procurement arrangements within the STW Group where the use and implementation of those WPP procurement arrangements is consistent with applicable laws and the statutory and fiduciary obligations of the directors of STW; and

(h) a committee of Independent Directors will consider and, if appropriate, approve certain agreements, transactions or other dealings between the WPP Group and the Combined Group.

The above arrangements will be enshrined in the Governance Deed Poll and the Majority Shareholder Deed, to be executed by STW and WPP on completion of the Merger. These documents are described in further detail in sections 12.2 and 12.3.

9.10 PRO FORMA COMBINED GROUP FINANCIAL INFORMATION

(a) Overview

This section contains a summary of the pro forma historical financial information for the Combined Group (the **Combined Group Financial Information**), assuming the Merger is completed.

The Combined Group Financial Information comprises:

- **Combined Group Income Statement** - summary consolidated pro forma income statements of the Combined Group for the financial year ended 31 December 2015, comprising:
  - STW standalone pro forma proportional income statements for the financial year ended 31 December 2015;
  - WPP Businesses' standalone proportional pro forma income statements for the financial year ended 31 December 2015; and
  - relevant pro forma adjustments to represent the consolidated statutory income statement of Combined Group following completion of the Merger; and
- **Combined Group Balance Sheet** – consolidated pro forma balance sheet of the Combined Group, comprising:
  - STW Balance Sheet as at 31 December 2015;
  - WPP Businesses' Balance Sheet as at 30 September 2015; and
  - relevant pro forma adjustments to represent the consolidated statutory income statement of Combined Group following completion of the Merger;

The information in this section should be read in conjunction with other information set out elsewhere in this Explanatory Memorandum, including information on the risk factors set out in section 10, the Independent Expert's Report, and the financial information of STW and the WPP Businesses set out in section 6.7 and section 8.1.

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

(b) Basis of preparation

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

The Combined Group Financial Information has been prepared for illustrative purposes only on the assumption that the Merger and proposed funding structure was in place as at 31 December 2015. This is not intended to reflect the financial position or the financial performance that would have actually resulted had the Merger been implemented on that date, or the results that may be obtained in the future. If the Merger had occurred in the past, the financial position and financial performance of the Combined Group would likely have been different from that presented in the Combined Group Financial Information.

Due to the nature of pro forma information it may not give a true picture of the Combined Group's actual financial position and financial performance.

The Combined Group Financial Information does not reflect the impact of any potential changes in revenues, costs or other changes as a result of the Merger, including cost synergies and transaction costs.

(c) Combined Group pro forma income statements

The table below outlines the Combined Group's Income Statements for the financial year ending 31 December 2015. The figures in the table below exclude one-off non-recurring items.

Table 5: Combined Group Income Statement

FOR THE PERIOD ENDING $MILLIONS	PROPORTIONAL			ADJUSTMENTS	STATUTORY
	STW 2015	WPP BUSINESSES 2015	TOTAL		2015 CONSOLIDATED
Net Revenue	416.0	418.7	834.7	10.6	845.3
Associates income	-	-	-	4.1	4.1
Net Revenue (Total revenue less cost of goods sold, including associates income)	**416.0**	**418.7**	**834.7**	**14.7**	**849.4**
Operating expenses	(339.2)	(346.8)	(686.0)	(9.5)	(695.5)
Normalised EBITDA	**76.8**	**71.9**	**148.7**	**5.2**	**153.9**
Depreciation and amortisation	(9.6)	(5.8)	(15.4)	(0.1)	(15.5)
Normalised EBIT	**67.2**	**66.1**	**133.3**	**5.1**	**138.4**
Net interest	(12.0)	(10.0)	(22.0)	(0.2)	(22.2)
Normalised operating profit before tax	**55.2**	**56.1**	**111.3**	**4.9**	**116.2**
Income tax	(15.6)	(16.8)	(32.4)	0.3	(32.1)
Normalised NPAT	**39.6**	**39.3**	**78.9**	**5.2**	**84.1**
Non-controlling interests	-	-	-	(5.2)	(5.2)
Net profit/(loss) attributable to members	**39.6**	**39.3**	**78.9**	**-**	**78.9**

9. EFFECT OF THE MERGER (CONTINUED)

9.10 PRO FORMA COMBINED GROUP FINANCIAL INFORMATION (CONTINUED)

The adjustments set out above comprise adjustments required to transition from a proportional income statement to a statutory income statement for the Combined Group. While the net profit after tax attributable to member of the Combined Group is identical under the two methods (2015: $78.9 million), there are differences in the individual revenue and expense line items due to the different method of reporting the results.

The Combined Group owns both controlling and non-controlling interests in a number of operating companies.

The proportional income statement has been prepared by aggregating on a percentage basis the economic interest in its companies, their revenues and expenses. A proportional income statement is prepared in order to better reflect the Combined Group's underlying financial performance.

The statutory income statement has been prepared on a statutory basis, applying accounting policies consistent to those applied to the financial statements of the Combined Group. The statutory income statement is prepared by consolidating 100% of the revenue and expenses of entities controlled by the Combined Group. Where the Combined Group has an equity interest in a controlled entity of less than 100%, the difference is reflected in the non-controlling interests line items in the income statements.

Where the Combined Group does not control an entity, but it has significant influence over the entity (in general, this is where its equity interest is less than or equity to 50% of equity), the entity is accounted for as an associate. In the statutory income statement, the associates income is the Combined Group's economic share of the entities net profit or loss after tax.

(d) Combined Group Balance Sheet

Set out on the right is a pro forma consolidated balance sheet for the Combined Group.

Table 4: Combined Group Balance Sheet

AS AT $MILLIONS	CONSOLIDATED STW 31-DEC-2015	PROPORTIONAL WPP BUSINESSES 30-SEP-2015	ADJUSTMENTS	COMBINED GROUP
Cash and cash equivalents	26.9	102.4	72.0	201.3
Trade and other receivables	166.1	327.7	61.9	555.7
Inventories	5.6	5.2	12.6	23.4
Current tax assets	2.3	-	6.9	9.2
Other	7.0	68.9	(15.1)	60.8
Current assets	**207.9**	**504.2**	**138.3**	**850.4**
Other receivables	12.0	-	(11.0)	1.0
Investments	90.1	667.1	(737.7)	19.5
Other financial assets	0.6	5.8	(5.8)	0.6
Plant and equipment	31.8	11.5	-	43.3
Deferred tax assets	15.7	-	11.4	27.1
Intangible assets	522.7	128.9	431.6	1,083.2
Other	2.3	-	-	2.3
Total assets	**883.1**	**1,317.5**	**(173.2)**	**2,027.4**
Trade and other payables	158.3	306.4	242.1	706.8
Interest bearing liabilities	70.9	-	-	70.9
Current tax liabilities	0.0	1.3	1.8	3.1
Provisions	7.7	179.0	(169.3)	17.4
Current liabilities	**236.9**	**486.7**	**74.6**	**798.2**
Other payables	20.5	235.4	(227.6)	28.3
Interest bearing liabilities	160.9	-	262.0	422.9
Deferred tax liabilities	4.5	-	1.8	6.3
Provisions	5.6	3.8	(2.4)	7.0
Total liabilities	**428.4**	**725.9**	**108.4**	**1,262.7**
Net assets	**454.7**	**591.6**	**(281.6)**	**764.7**

(e) Significant accounting policies and notes to the financial information

The Combined Group Financial Information has been prepared on the same basis as the STW Financial Information.

10. KEY RISKS ASSOCIATED WITH THE MERGER

There are a number of risks and uncertainties, which are both specific to the proposed Merger and of a general nature, that may affect the future operating and financial performance of STW and the value of STW Shares. You should carefully consider the following risk factors, as well as the other information provided by STW in connection with the Merger and the Resolutions, and consult your financial, legal and professional advisers before deciding whether to vote in favour of or against the Resolutions.

10.1 KEY RISKS IF THE MERGER IS APPROVED

STW Shareholders are currently exposed to various risks as a result of their investment in STW. If the Merger proceeds, the WPP Businesses will be merged with the STW Group. As a consequence, STW Shareholders will be exposed to risks relating to the WPP Businesses and to certain additional risks arising from the Merger.

This section 10.1 sets out key risks that may arise if the Merger is implemented. These risks include:

- specific risks relating the Merger and the WPP Businesses; and
- risks relating to both the STW Group and the WPP Businesses.

The risks described below:

- are not, and should not be considered to be or relied on as, an exhaustive list of the risks that may arise if the Merger is implemented; and
- are general in nature and regard has not been had to the investment objectives, financial situation, tax position or particular needs of any individual STW Shareholder.

No assurances or guarantees of future performance of, or profitability of, the Combined Group are given. Additional risks and uncertainties that STW is unaware of, or that it currently considers to be immaterial or that it has not otherwise outlined below for various reasons, may also become important factors that can adversely affect the Combined Group's operating and financial performance.

(a) Risks specific to the Merger

Integration risks

The success of the Merger will substantially depend on the extent to which STW is able to realise costs synergies and revenue synergies as a result of the Merger. As referred to in section 4.1(b), STW has identified $15 million of pre-tax per annum cost savings that it will seek to realise by the end of the first three years. STW also intends to realise incremental revenue synergies from the Merger, which have not been included in synergy estimates.

The extent to which cost and revenue synergies are realised will depend on, among other things, the STW Group and the WPP Businesses being integrated effectively, without material interruption and in a timely manner, and the extent to which the STW Group is able to realise benefits from being part of the WPP Group.

There is a risk that unforeseen issues or difficulties may arise that may result in integration benefits and/or synergies for the Combined Group being delayed, or being achieved only in part, or not at all. Areas of particular risk include:

- difficulties or unexpected costs in reducing corporate and administration costs, property rationalisation and rationalising duplicated operating infrastructure and corporate support services;
- difficulties or unexpected costs relating to integration of management and technology systems and platforms;
- unexpected losses of key personnel during or following integration and possible reduction in employee morale caused by uncertainty arising from the Merger;

- higher than expected levels of client attrition arising as a result of the Merger, and anticipated benefits of the Merger, in terms of clients spending more of their advertising and marketing budgets with the Combined Group, not occurring to the extent anticipated; and
- the extent to which cost savings are offset by any incremental compliance or operating costs that arise as a result of the STW Group becoming a subsidiary of WPP plc and implementing the WPP Group governance policies and procurement arrangements.

In addition, the process of realising costs and revenue synergies from the Merger may require senior management of STW to devote significant time to this task, which may decrease the time they have to manage the Combined Group's businesses.

Becoming a subsidiary of WPP

On completion of the Merger, WPP plc will acquire control of STW and STW will become a subsidiary of WPP plc. In light of this, STW will become directly or indirectly affected by foreign laws and other compliance obligations which apply to WPP plc and its subsidiaries, including, for example, the Foreign Corrupt Practices Act (US) and the Bribery Act 2010 (UK) (which apply in relation to corrupt practices) and the Sarbanes-Oxley Act (US) (which imposes governance, accounting and reporting standards).

STW has agreed to adopt and implement corporate governance policies which are consistent with WPP Group policies, provide certain compliance and other information to WPP and to use WPP Group procurement arrangements (such as IT systems and financial and management reporting systems). These arrangements are intended to allow the STW Group to integrate within the WPP Group's systems and assist in managing compliance related risks.

For further information on these arrangements see section 12.3 of this Explanatory Memorandum.

However, despite integration with the WPP Group, it remains possible that STW may be exposed to additional regulatory risk and/or may incur additional operating and compliance costs in some areas, compared to what would have been the case had the Merger not occurred.

Other change of control risks

Entities in the STW Group are party to contracts containing change of control provisions that, in the absence of counterparty consent, may be triggered by implementation of the Merger. If a counterparty's consent is not obtained, STW may lose the benefit of that contract. This may potentially adversely impact the STW Group's operations and performance.

STW believe none of these contracts are individually material and that these contracts could be replaced, if required, on terms that are not materially worse than the current terms.

Management Fee

On implementation of the Merger, STW will pay the WPP Group an annual fee equal to 3.55% of net sales of the businesses of the Combined Group which trade as part of WPP international brand networks (refer to the Management Fee Framework Agreement see section 12.4).

Net sales is calculated as revenue less certain third party costs and excludes most operating expenses. Accordingly, the fee is not referable to the underlying profitability of the Combined Group or the brand networks businesses at the time the fee is calculated and may be payable even if those businesses are loss-making.

Nature of the WPP Businesses

The WPP Businesses are not currently trading as a standalone corporate group and there are no audited financial statements for the specific group to be acquired by STW. Although STW has undertaken due diligence on the WPP Businesses (including financial due diligence), it has relied on the information provided by WPP as part of that process and the financial information provided has not been independently reviewed to an audit standard.

10.1 KEY RISKS IF THE MERGER IS APPROVED (CONTINUED)

(a) Risks specific to the Merger (continued)

In addition, only limited warranties have been provided by WPP in relation to the WPP Businesses. The warranties which have been provided by WPP are subject to certain financial claim thresholds and other limitations, meaning that the capacity of STW to make a claim is accordingly circumscribed. For more information on the warranty regime under the Share Sale Agreement please see section 12.1(i).

Transaction costs

If the Merger is approved, transaction costs such as legal and advisory fees will be payable by STW. In the event that the Merger is not approved, STW will still be liable for certain costs.

(b) General risk factors that may affect the Combined Group

The following risks are relevant to the STW Group and the WPP Businesses as standalone businesses. Accordingly, they will also be relevant to the Combined Group.

Economic risks

The performance of the Combined Group's businesses may be influenced by changes in various general economic factors in Australia, New Zealand and South East Asia including the level of economic growth and the resulting impact on advertising market conditions, unemployment levels and the amount of consumer discretionary spending, consumer and business sentiment, interest rates, inflation and currency exchange rates and labour costs.

The spending patterns of international clients of the Combined Group are driven by offshore economic conditions and accordingly the performance of the Combined Group may also be influenced by changes in various general economic factors outside of Australia, New Zealand and South East Asia.

Media industry downturn and change

The media industry in which the Combined Group operates is driven by a number of factors, including economic growth, population growth, technological changes and regulatory changes. Each of these factors is in turn influenced by a number of different factors, most of which are outside the control of the Combined Group. Changes in any of, or the expectations relating to, these factors or other factors which affect the media industry may have a material adverse effect on the Combined Group's financial performance and position.

Competition in the media sector

The Combined Group operates in the highly competitive media sector, with a number of operators competing for market share through similar, the same or substitute products. The Combined Group's businesses face competition from large international advertising and marketing communication companies and regional and national specialist firms, as well as the potential entry of new competitors which may result in client loss and have an adverse effect on the Combined Group's market share. The competitive landscape can also be affected by a number of external factors such as the impact of government policies, technological change and the emergence of competitive platforms.

Operational risks

The Combined Group's businesses generally experience seasonality in earnings with historically stronger revenue generation in the six months ending 31 December compared to the six months ending 30 June. There is no guarantee that the seasonality trends displayed historically will continue in the future.

Service agreements with clients are generally terminable by the client upon short notice, typically three months or less, and many clients put their advertising and communications contracts up for competitive review from time to time. Clients are also generally able to reduce their advertising and marketing expenditure at any time for any reason. A significant reduction in spending by the Combined Group's key clients or switching of client expenditure to non-traditional media services or loss of key clients could adversely affect the Combined Group's performance and operations.

The advertising and marketing services industries are highly dependent on the talent, creative abilities and technical skills of the personnel of the service providers and their relationships with clients. The STW Group and the WPP Businesses, and consequently the Combined Group, has an established reputation in the media industry that attracts talented personnel. However like all service providers, this reputation is vulnerable to adverse consequences from the loss of key employees due to competition.

Regulatory and litigation risks

The Combined Group may be affected by changes in government policy or legislation applicable to companies in the media sector including cross-media ownership laws. This could include those policies and legislations which directly or indirectly affect the form, content and scheduling of advertising, public relations and public affairs, regulate ownership or control of interests in media organisations, or regulate the scope of activities of clients.

Changes in taxation law in the jurisdictions which the Combined Group operates, including changes in the interpretation or application of the law by the courts or taxation authorities, may impact the Combined Group's future tax liabilities.

Legal and other claims or disputes may arise from time to time with respect to the Combined Group's businesses. There can be no assurance that any such dispute or claim will be covered by insurance cover held by the Combined Group. Legal risks include, but are not limited to, customer claims, defamation claims, environmental claims, personal injury claims, employment disputes, regulatory or government action. Any legal dispute or claim may have a material adverse effect on the financial performance and position of the Combined Group.

Financial and credit risks

The Combined Group's reporting currency is the Australian dollar. Given the Combined Group's international operations, fluctuations in foreign exchange rates could adversely affect the Combined Group's consolidated performance. The Combined Group's foreign exchange risk primarily arises from currency exchange fluctuations with respect to the New Zealand dollar, United States Dollar, Great British Pound, Euro, Chinese Yuan, Hong Kong Dollar, South African Rand and Indian Rupee.

The Combined Group is exposed to movements in interest rates arising from its portfolio of interest rate sensitive assets and liabilities in a number of currencies, predominantly in the Australian Dollar and New Zealand Dollar.

Credit market conditions and the operating performance of the Combined Group will affect borrowing costs as well as the Combined Group's capacity to repay, refinance and increase its debt.

Acquisition and divestment activities

From time to time, the Combined Group may evaluate acquisition and divestment opportunities. Any acquisition or divestment would lead to a change in the sources of the Combined Group's earnings and could increase the volatility of its earnings. Acquisitions involve a number of risks beyond the Combined Group's control, including failure of the acquired business to achieve expected results, failure to identify material risks or liabilities associated with the acquired business prior to its acquisition, diversion of management's attention and the failure to retain key personnel of the acquired business, some or all of which could have a material adverse effect on the Combined Group's businesses.

10. KEY RISKS ASSOCIATED WITH THE MERGER (CONTINUED)

10.2 KEY IMPLICATIONS IF THE MERGER DOES NOT PROCEED

If the Merger does not proceed:

- **STW Shareholders**
  STW Shareholders will retain their current interest in STW and no STW Shares will be issued to WPP. There will be no immediate change in the STW Board, other than any retirement and re-election of Directors pursuant to the STW Constitution and applicable laws;

- **Relationship with WPP**
  STW does not anticipate any immediate impact on STW's existing business relationships with the WPP Group. The STW Group's existing joint ventures with the WPP Group will continue in accordance with their current terms.

  In addition, STW anticipates that WPP will continue to hold its 23.55% shareholding in STW (although it is possible that WPP may elect to sell some or all of its STW Shares) and STW's current intention is that WPP will continue to have one nominee director on the STW Board for so long as it retains that shareholding;

- **Standstill**
  STW and WPP 2005 Limited (a wholly-owned subsidiary of WPP plc) entered into a standstill arrangement on 23 September 2015. WPP 2005 Limited has undertaken to STW that it (and its related bodies corporate and associates) will not, for a period of 12 months after termination of the Share Sale Agreement:
  - acquire any securities or assets of the STW Group;
  - enter into any agreement or arrangement that confers rights the economic effect of which is equivalent to holding or acquiring securities or assets of the STW Group;
  - seek to influence or control the management or policies of STW;
  - enter into any arrangement in relation STW with any person who has a relevant interest in STW shares; or
  - aid, abet, counsel or induce any other person to do any of the things above.

The above restrictions do not prevent the WPP Group from:

- privately proposing a business transaction to STW, taking any action which has been approved by the Independent Directors, or proceeding with a mutually agreed business transaction;
- acquiring shares under a dividend reinvestment plan or taking up an entitlement under a pro-rata issue; or
- making a full takeover bid or other 100% control proposal for STW if (i) a third party has made a full takeover bid or other 100% control proposal for STW that is publicly announced or (ii) STW notifies it that it is constructively engaging with a party in relation to a change of control transaction.

STW is required to advise WPP 2005 Limited if STW is constructively engaging with any external third party that has submitted a change of control transaction to STW; and

- **Transaction costs**
  As at 31 December 2015, STW had incurred transaction costs of $1.3 million in relation to the Merger. STW will incur additional transaction costs in respect of work undertaken on the Merger since 1 January 2016.

11. ADDITIONAL INFORMATION

11.1 TERMS OF CONSIDERATION SHARES

The Consideration Shares will be issued to WPP fully-paid and STW will apply for quotation of the Consideration Shares on the ASX following completion of the Merger.

11.2 REGULATORY APPROVALS

(a) FIRB approval

Completion of the Merger is conditional on approval being provided under the FATA in relation to the issue of the Consideration Shares to WPP and the acquisition of the WPP Business by STW (see further section 12.1(a)(1) below).

WPP and STW have already received these approvals.

(b) ACCC approval

Completion of the Merger is conditional on the ACCC not proposing to intervene or seek to prevent the Merger (see further section 12.1(a)(2)).

On 15 January 2015, the ACCC notified WPP that it does not intend to conduct a public review of the Merger pursuant to section 50 of the *Competition and Consumer Act 2010* (Cth). Accordingly, the ACCC condition precedent to the Merger has been satisfied.

(c) ASX approval

Completion of the Merger is conditional on STW obtaining certain confirmations and/or waivers in relation to compliance with ASX Listing Rules 10.11, 11.1 and 12.5 (see further section 12.1(a)(3)).

STW received approval from the ASX on 19 February 2016.

11.3 CONSENTS

The following persons have given, and have not, before the date of issue of this Explanatory Memorandum, withdrawn their consent to be named in this Explanatory Memorandum in the form and context in which they are named:

(a) WPP plc and WPP;

(b) Herbert Smith Freehills as STW's legal adviser;

(c) UBS AG, Australia Branch as STW's financial adviser;

(d) PricewaterhouseCoopers Securities Limited as STW's financial due diligence adviser;

(e) KPMG Corporate Finance as the Independent Expert; and

(f) Computershare as STW's Share Registry.

WPP plc and WPP have each given, and have not, before the date of issue of this Explanatory Memorandum, withdrawn their written consent to the inclusion of the WPP information set out in sections 8 and 9 of this document including, for the avoidance of doubt, the financial information about WPP Businesses that has been prepared by WPP and provided to STW to assist it with the preparation of the pro forma financial information set out in section 9.10, and the references to that information in the form and context in which they are included in this Explanatory Memorandum.

KPMG Corporate Finance as Independent Expert has given, and has not, before the date of issue of this Explanatory Memorandum, withdrawn its written consent to the inclusion of the Independent Expert's Report and references to that report in the form and context in which they are included in this Explanatory Memorandum.

Other than as specifically outlined above, each party referred to in this section 11.3 has not caused or authorised the issue of this Explanatory Memorandum and does not make or purport to make any statement in this Explanatory Memorandum or any statement on which a statement in this Explanatory Memorandum is based and takes no responsibility for any part of this Explanatory Memorandum other than any reference to its name.

12. KEY TRANSACTION AGREEMENTS

12.1 SHARE SALE AGREEMENT

STW, STW Media Services Pty Ltd (**STW Media Services**), WPP Jubilee Ltd (**WPP Jubilee**) and WPP entered into the Share Sale Agreement (**SSA**) on 14 December 2015. The SSA sets out the obligations of the parties in connection with the proposed Merger, including conditions precedent to completion and certain other contemplated arrangements if the Merger is approved and completed.

(a) Conditions precedent

Completion under the SSA is subject to the following conditions precedent:

(1) (**FIRB**): pursuant to FATA the Treasurer of the Commonwealth of Australia (Treasurer) advises:

- WPP that the Commonwealth Government has no objection to WPP subscribing for, and being issued, the Consideration Shares and any conditions imposed by the Treasurer are acceptable to WPP (acting reasonably); and
- STW that the Commonwealth Government has no objection to STW acquiring the WPP Businesses and any conditions imposed by the Treasurer are acceptable to STW (acting reasonably),

or, following lodgement of such applications, the period in which the Treasurer is empowered to make orders under Part 3 of the *Foreign Acquisitions and Takeovers Act 1975* (Cth) has elapsed without the Treasurer having made such an order;

(2) (**ACCC**): either:

- the ACCC notifies the parties to the effect that the ACCC does not propose to intervene or seek to prevent the Merger under section 50 of the *Competition and Consumer Act 2010* (Cth) and any conditions imposed by the ACCC are acceptable to STW and WPP Jubilee (each acting reasonably); or
- the ACCC or the Australian Competition Tribunal grants to the parties formal clearance under Part VII of the *Competition and Consumer Act 2010* (Cth), no application for review of the clearance or authorisation is made within the period prescribed by the *Competition and Consumer Act 2010* (Cth) and any conditions imposed in connection with the authorisation are acceptable to STW and WPP Jubilee (each acting reasonably);

(3) (**ASX**): ASX confirms to STW that the following ASX Listing Rules do not apply to the Merger (or, to the extent those ASX Listing Rules do apply, ASX either waives them or confirms that STW will comply with them in respect of the Merger): ASX Listing Rule 10.11, ASX Listing Rule 11.1 and ASX Listing Rule 12.5;

(4) (**Shareholder approval**): approval by STW Shareholders of the following shareholder resolutions (referred to in this Explanatory Memorandum as the Merger Resolutions) by the requisite majorities:

- an ordinary resolution for the purpose of section 611 item 7 of the Corporations Act approving the issue of the Considerations Shares to WPP;
- an ordinary resolution for the purpose of ASX Listing Rule 10.1 approving the acquisition of the WPP Businesses by STW and other transactions between the STW Group and the WPP Group as contemplated by the Transaction Agreements; and
- an ordinary resolution for the purpose of clause 54 of the STW Constitution approving an increase in the maximum number of directors of STW to eleven,

(the **Merger Resolutions**);

(5) (**internal reorganisation**): WPP completes the reorganisation of the WPP Businesses in accordance with agreed documents and steps; and

(6) (**no legal impediments**): no temporary restraining order, preliminary or permanent injunction or other order is issued by a court of competent jurisdiction or government agency or other material legal restraint or prohibition, preventing or delaying completion of the Merger is in effect.

Any party may, by not less than 2 business days' notice, terminate the SSA if the above conditions have not been satisfied or waived by 30 June 2016 (or such later date as the agreed by the parties) or if any condition becomes incapable of satisfaction by such date.

(b) Other termination rights

In addition to termination for non-fulfilment of conditions precedent (as described above), the SSA may be terminated in a number of other circumstances.

A party may terminate the SSA if:

(1) the other party (or its group members) fails to complete when required to do so and cannot complete within a further 5 business days;

(2) certain insolvency events occur in relation to the other party or, in the case of WPP, entities to be acquired by STW under the Merger, or, in the case of STW, another member of the STW Group; or

(3) a STW Group Member or WPP Group Member, between 14 December 2015 and completion of the Merger does, or agrees to do, any of the following:

(A) reduce its share capital or allot or issue shares or securities (including convertible loans);

(B) dispose of the whole or a substantial part of its business or property;

(C) grant a security interest (including any interest in any asset under a security agreement, a bill of sale, mortgage, charge, lien, pledge, trust or power) in the whole or a substantial part of its business or property (subject to limited exceptions); or

(D) wind up or dissolve; and

following written notice of the breach, the defaulting party fails to remedy that breach within 5 business days following receipt of written notice of the breach.

In addition, STW may terminate the SSA if the STW Directors change, withdraw or modify their recommendation that STW Shareholders vote in favour of the Merger Resolutions in circumstances where the STW Directors are permitted to change their recommendation (see section 12.1(c)).

(c) STW Directors' recommendation

STW must procure that each STW Director recommends that STW Shareholders entitled to vote at the Extraordinary General Meeting vote in favour of the Merger Resolutions, and does not change, withdraw or modify their recommendation unless:

- the Independent Expert's Report concludes that Resolutions 1 and 2 are not fair or not reasonable (or, if the Independent Expert's Report concludes that Resolutions 1 and 2 are fair and reasonable, the Independent Expert subsequently revokes, withdraws or adversely modifies those conclusions);
- the STW Board recommends a superior Competing Proposal which WPP has failed to match (see section 12.1(d) on the next page);

12. KEY TRANSACTION AGREEMENTS (CONTINUED)

12.1 SHARE SALE AGREEMENT (CONTINUED)

(c) STW Directors' recommendation (continued)

- the STW Board has determined, after receiving written legal advice, that the STW Board, by virtue of its directors' duties, is required to change, withdraw or modify its recommendation.

(d) Exclusivity

No talk – STW and its representatives must not, during the period from execution of the SSA until the earlier of the termination of the SSA or completion under the SSA (**Exclusivity Period**):

- directly or indirectly participate in any negotiations or discussions or provide any information to any person with respect to any inquiry, expression of interest, offer or proposal by any person in relation to a Competing Proposal;
- accept or enter into, or offer to accept or enter into, any agreement, arrangement or understanding regarding a Competing Proposal;
- disclose any non-public information about the business or affairs of the STW Group to a third party with a view to obtaining, or which may reasonably be expected to lead to receipt of, a Competing Proposal, other than as required by law; or
- communicate an intention to do any of the above activities.

Fiduciary carve-out – the 'no talk' restrictions outlined above do not apply to the extent they require STW or its representatives to take, or omit to take, any action in relation to an unsolicited Competing Proposal where the STW Board, in good faith and acting reasonably, determines that the Competing Proposal is a superior proposal to the Merger and determines that taking or omitting to take such an action would be reasonably likely to constitute a breach of the directors' fiduciary or statutory obligations, or would otherwise be unlawful.

No shop – STW and its representatives must not, during the Exclusivity Period:

- directly or indirectly solicit, facilitate, encourage, invite or initiate steps with the objective of receiving, or in circumstances where such actions might reasonably lead to, an offer or proposal by any person in relation to a Competing Proposal; or
- communicate any intention to do any of the above things in respect of or in response to any expression of interest, offer or proposal by any person in relation to a Competing Proposal.

Notification of approaches – during the Exclusivity Period, STW must notify the WPP Jubilee if:

- any approach, enquiry or proposal is made, directly or indirectly, to STW or its representatives with respect to a Competing Proposal, whether solicited or unsolicited; or
- any request is made to STW or any of its representatives for any information relating to the STW Group in connection with a current or future Competing Proposal,

within two business days of such an event occurring.

The notification must contain the material terms of the Competing Proposal, including, if known, the identity of the rival acquirer.

The above obligations do not apply if the STW Board determines in good faith that the giving of such notice to WPP Jubilee would be reasonably likely to constitute a breach of the directors' fiduciary or statutory obligations, or would otherwise be unlawful.

Matching right – if the STW Board determines that the Competing Proposal is a superior proposal, the STW Board must not enter into any agreement in relation to the Competing Proposal or announce its intention to do so publicly, or change or withdraw its recommendation that non-associated STW Shareholders vote in favour of the Merger Resolutions, unless it provides WPP Jubilee with a notice setting out the material terms of the Competing Proposal, and gives WPP Jubilee 10 business days (**Matching Right Period**) to provide a counter-proposal.

The STW Board must consider any WPP counter-proposal and, if it determines that the counter-proposal is superior to, or no less favourable than, the Competing Proposal, all parties must negotiate in good faith to implement the WPP counter-proposal and the STW Board must recommend the WPP counter-proposal to its shareholders.

If the Matching Right Period passes without the STW Board receiving a WPP counter-proposal, or the STW Board receives a WPP counter-proposal but does not consider it to be superior, or no less favourable than, the Competing Proposal, the STW Board may recommend the Competing Proposal to STW Shareholders.

(e) Period before completion under the Share Sale Agreement

The WPP Businesses and STW Group businesses must be conducted materially in the ordinary course and, in particular, WPP and any member of the WPP Group, and STW and any member of the STW Group must not agree or commit to do certain specified actions, except as expressly permitted by the SSA or as consented to by the other party (which may not be unreasonably withheld or delayed).

(f) Locked Box

The financial terms of the Merger have been determined on the basis of the financial position of the WPP Businesses and STW Group as at 30 September 2015. Except for limited permitted payments, WPP has undertaken not to transfer any value out of the WPP Businesses to the WPP Group, and STW has agreed not to make any payments to its shareholders, during the period from 30 September 2015 to completion (known as 'leakage'). If any leakage occurs, a cash adjustment will be calculated and paid following completion of the Merger to compensate the other party for the leakage.

STW intends to pay a final dividend of 3.6 cents per share in respect of the financial year ended 31 December 2015. This payment will be treated as STW leakage for the purposes of the cash adjustment calculation.

(g) Non-compete undertakings

WPP undertaking

WPP Jubilee has undertaken to STW that WPP Group members will not:

- directly or indirectly carry on a 'Restricted Business' other than through the STW Group; and
- pursue or implement an acquisition of (including establishing a new business comprising) a 'Restricted Business'.

A 'Restricted Business' is a business or entity which is:

- in the advertising or marketing services business within Australia or New Zealand; or
- in direct competition with a business carried on by the STW Group in Australia or New Zealand.

The above undertaking applies during any period in which WPP Jubilee's voting power in STW is more than 50%.

12. KEY TRANSACTION AGREEMENTS (CONTINUED)

12.1 SHARE SALE AGREEMENT (CONTINUED)

(g) Non-compete undertakings (continued)

The undertaking does not apply in relation to:

- owning or holding less than 5% of issued capital or interest in an entity or business;
- owning, holding or acquiring additional interest in oOh!Media and oOh!Media carrying on its own business (including undertaking acquisitions), for so long as WPP Jubilee's voting power in oOh!Media is less than 50%;
- carrying on the business of, or acquiring additional interests in, certain specific excluded businesses that do not form part of the WPP Businesses; and
- the acquisition, or carry on, of the business of any business or entity acquired by the WPP Group after the date of the SSA in respect of which less than 25% of its consolidated revenue comprises revenue of a 'Restricted Business' (provided that, except in certain circumstances, WPP Jubilee must offer the 'Restricted Business' to STW at fair market value).

STW undertaking

STW has undertaken that the STW Group will not pursue or implement an acquisition of a 'STW Restricted Business', or establish any new brand outside of Australia and New Zealand, unless permitted and done in accordance with WPP group policies.

An 'STW Restricted Business' is a business or entity which is:

- in the advertising or marketing services business outside of Australia and New Zealand; or
- in direct competition with a business carried on by the WPP Group outside of Australia and New Zealand existing at the time of completion.

The above undertaking applies during any period in which WPP Jubilee's voting power in STW is more than 50%.

The STW Group may allow its businesses existing as at the date of the SSA to grow organically outside of Australia and New Zealand, including by expanding those businesses and brands into new countries, provided that:

- the expansion does not involve an acquisition of an STW Restricted Business (in breach of the above undertaking); and
- where the expansion results in the existing business competing with the WPP Group in a jurisdiction outside of Austral and New Zealand, the STW Group will use, wherever reasonably practicable, existing businesses, marketing channels, facilities and resources of the WPP Group in the relevant jurisdiction.

(h) WPP Reorganisation

WPP has undertaken to complete a reorganisation of WPP's businesses and entities in Australia and New Zealand in order to ready the WPP Businesses for acquisition by STW. The reorganisation must be completed prior to completion of the Merger in accordance with agreed reorganisation steps and is to be undertaken at WPP's sole expense. WPP indemnifies STW for any claim or loss associated with the reorganisation or its implementation.

(i) Warranties and indemnities

WPP has provided various warranties to STW in relation to the sale of the WPP Businesses. These include warranties in relation to title, group structure, power and authority, solvency, financial information, indebtedness, breaches of contract, litigation and investigations, tax and information disclosed to STW. WPP also provided an indemnity for income tax liabilities relating to the period to 30 September 2015.

Broadly reciprocal warranties, and a reciprocal tax indemnity, were provided by STW in relation to the STW Group.

WPP is not liable under a warranty claim unless the claim is notified within 18 months of completion of the Merger (or 7 years in relation to tax claims) and within 6 months the claim has either been settled or legal proceedings have commenced.

WPP will not be liable under a warranty claim unless the amount finally agreed or adjudicated to be payable in respect of that warranty claim exceeds $3 million and, either alone or together with the amount finally agreed or adjudicated to be payable in respect of all other warranty claims that exceed $3 million, exceeds $15 million.

WPP's aggregate liability for all warranty claims shall not exceed $500 million, provided that its aggregate liability for all warranty claims (excluding title claims) shall not exceed $100 million.

Reciprocal limitations apply in relation to claims made by WPP in relation to the warranties provided by STW.

(j) Foreign corruption laws

STW agrees and acknowledges that if the Merger completes the Combined Group will become subject to various foreign corruption laws, including the Foreign Corrupt Practices Act (US) and the Bribery Act 2010 (UK).

STW undertakes to procure that no STW Group company or its officers, employees, agents, intermediaries or third parties engaged to carry out a service on behalf of a STW Group company will directly or indirectly:

(1) offer any financial or other benefit to a person, entity or government body for the purpose of influencing the acts or decisions of that person, entity or body in violation of that person or entity's lawful duties;

(2) request or agree to receive any financial or other advantage in violation of a lawful duty or as an inducement to exercise influence in an improper way; and

(3) take any action which would place a STW Group company in breach of a foreign corruption or sanctions regime.

If STW becomes aware of any such breach or possible breach it will give WPP Jubilee immediate notice and use its best endeavours to assist the WPP Group with any associated inquiry or investigation.

Additionally, STW undertakes to ensure that each STW Group company's staff undertake annual WPP code of conduct, data code of conduct and anti-bribery training, and that copies of the WPP codes of conduct are distributed to all staff.

(k) Astus and Lightspeed

(1) Astus

The parties acknowledge that it is their intention that the WPP Group's interest in Astus will be wholly owned by the STW Group with effect from completion of the Merger and WPP must use its best endeavours to obtain all necessary consents from any third party who has an interest in Astus whose consent may be required to transfer Astus to the STW Group.

The WPP Group must consult with STW in relation to the terms of any shareholders agreements or other arrangements that may need to be established with that third party in relation to Astus. WPP is responsible for all costs or payments required to be made to obtain necessary third party consents.

12. KEY TRANSACTION AGREEMENTS (CONTINUED)

12.1 SHARE SALE AGREEMENT (CONTINUED)

(k) Astus and Lightspeed (continued)

(1) Astus (continued)

The parties agree and acknowledge that the purchase price already includes the consideration payable by the STW Group for the interest in Astus, and no further consideration (or only a nominal consideration) is payable by STW Media Services to transfer Astus to the STW Group.

If, for whatever reason, the parties are unable to transfer Astus to the STW Group with effect on and from completion, WPP must pay STW Media Services, as an adjustment to the purchase price, being an amount equal to $6.5 million.

(2) Lightspeed

Prior to completion, the parties have agreed to engage in good faith negotiations to determine whether the parties can reach agreement on mutually acceptable terms for the purchase by the STW Group of the WPP Group's interest in Lightspeed. As at the date of this Explanatory Memorandum agreement has not been reached on the acquisition of Lightspeed by the STW Group. If a transaction is agreed, the purchase price payable by STW would be a cash amount and no additional Consideration Shares would be issued to WPP as result of that transaction.

12.2 GOVERNANCE DEED POLL

The Governance Deed Poll will be executed on completion of the Merger by STW and WPP. It contains commitments from WPP in favour of STW Shareholders in relation to the composition of the STW Board. WPP also undertakes not to make further acquisitions of STW Shares (except in limited circumstances) (**Standstill**).

The STW Board composition and Standstill commitments will operate for so long as WPP's voting power in STW is not less than 40%, or until the Governance Deed Poll is otherwise terminated (see below).

(a) Board composition

While WPP voting power equals or exceeds 50%, WPP agrees to procure that:

(1) the STW Board consists of at least four independent directors and the STW Chief Executive Officer;

(2) the STW Chairperson is an Independent Director elected by a majority of the Independent Directors; and

(3) any person appointed to the STW Board as an Independent Director is: (i) approved by a majority of existing Independent Directors; and (ii) a majority of the STW Board who vote on that resolution, such approval not to be unreasonably withheld or delayed.

While the WPP voting power is not less than 40% but is less than 50%, WPP must use its reasonable endeavours to procure the occurrence of the items above.

(b) WPP Designees

While the WPP voting power equals or exceeds 50%, WPP will be entitled to designate such number of directors (**WPP Designee**) so that the votes that may be cast by the WPP Designees constitute a majority of votes that may be cast on a resolution of the STW Board.

STW and WPP must procure that the STW Board appoints the designated person as a Director to fill a casual vacancy and that a resolution is included in the notice of meeting for the next annual general meeting of STW to elect that person to the STW Board.

A WPP Designee can be removed at any time by written notice signed by an authorised officer of WPP.

(c) Director's fees and expenses

Up to two WPP Designees (who are not full-time officers or employees of a WPP Group member) will be entitled to be paid directors' fees. No other WPP Designee will be entitled to be paid any directors fees in respect of his or her appointment as a Director.

Each WPP Designee will be entitled to reimbursement by STW for out-of-pocket expenses incurred in the performance of his or her responsibilities as Director. This excludes any international travel costs to the extent they relate to travel required to attend STW Board meetings held in Australia (unless such cost is approved by the remuneration committee consisting of a majority of Independent Directors).

(d) Standstill

WPP must ensure that the WPP voting power does not exceed 61.496% except to the extent that it occurs pursuant to:

(1) a transaction approved by an ordinary resolution passed at a general meeting of STW where no votes are cast by WPP or any of its associates;

(2) the taking up of entitlements under any pro-rata rights issue of STW Shares;

(3) an off-market bid or market bid made under Chapter 6 of the Corporations Act;

(4) a scheme of arrangement made under Part 5.1 of the Corporations Act;

(5) participation by WPP in any dividend reinvestment or bonus share scheme of STW (but not underwriting the same); or

(6) following a cancellation of capital or a share buy-back by STW, provided that, if the WPP voting power exceeds 61.496%, WPP must, within 12 months of the buy-back, take all requisite steps to reduce the WPP voting power to, or below, 61.496%.

WPP can sell or otherwise dispose of STW Shares to any person.

(e) Enforcing the Governance Deed Poll

STW Shareholders who, individually or collectively, hold at least 5% of STW Shares may enforce the Governance Deed Poll against WPP and STW.

The Governance Deed Poll may only be enforced against WPP for and on behalf of STW by a committee of Independent Directors.

(f) Termination of the Governance Deed Poll

The Governance Deed Poll will terminate if:

(1) STW is delisted from the ASX and, at that time, the WPP voting power is at least 90%; or

(2) (i) approved by an ordinary resolution at a general meeting of STW (with no votes being cast in favour of the resolution by WPP or any of its associates); and (ii) agreed to in writing by the Independent Directors and WPP.

12.3 MAJORITY SHAREHOLDER DEED

The Majority Shareholder Deed will be executed by STW and WPP on completion of the Merger. The Majority Shareholder Deed is intended to regulate certain corporate governance and related matters that will arise by reason of STW becoming a subsidiary of WPP.

The information sharing and group procurement arrangements (as described below) only apply during periods in which the WPP voting power in STW is not less than 40%.

12. KEY TRANSACTION AGREEMENTS (CONTINUED)

12.3 MAJORITY SHAREHOLDER DEED (CONTINUED)

(a) Information sharing

WPP will be entitled to receive from STW Group Members such financial, operational or other information that it requires to ensure that the WPP Group is able comply with WPP Group compliance obligations and corporate governance policies. This may include information which is necessary:

- for the management or reporting requirements of the WPP Group;
- to prepare financial statements, periodic financial reporting, budgets and pro forma or forward looking financial information;
- to prepare reports and filings (including tax returns) required by regulatory authorities, under stock exchange rules or applicable laws;
- to comply with WPP Group corporate governance policies; and
- to identify any matter required to be notified under compliance obligations or corporate governance policies.

STW will seek to adopt and implement corporate governance policies which are consistent with WPP Group policies to the extent applicable to STW and consistent with applicable laws.

WPP undertakes to comply with applicable laws that may apply in relation to dealing with STW Group securities while in possession of inside information provided by STW.

The parties agree that they will treat each other's confidential information as if it was their own and, as such, will use reasonable endeavours to safeguard that confidential information from inappropriate disclosure in accordance with applicable confidentiality polices.

To the extent reasonably practicable, the parties must co-ordinate public disclosure of filings and public announcements containing confidential information of the STW Group so as to ensure that both parties are able to comply with their respective listing obligations.

(b) Group procurement

Recognising that there will be benefits available to the STW Group through integration with the WPP Group, STW and WPP intend that STW will:

(1) adopt consistent IT systems, including financial and management reporting systems;

(2) optimise treasury management functions and processes and banking relationships;

(3) use the audit firm approved by the WPP Group and participate in the global audit firm retainer;

(4) be insured under the WPP global insurance policies; and

(5) procure goods, services and technology for the STW Group under WPP Group procurement agreements with third parties,

(**WPP Procurement Arrangements**).

WPP has agreed to use all reasonable endeavours to make WPP Procurement Arrangements available to the STW Group as may be requested by STW.

STW has agreed to use WPP Procurement Arrangements within the STW Group where the use and implementation of those WPP Procurement Arrangements is consistent with applicable laws and the statutory and fiduciary obligations of the Directors.

Any WPP Procurement Arrangements and other related party dealings used in the STW Group will be made available by the WPP Group on arm's length terms and at a cost to the STW Group not exceeding a fair and reasonable allocation of the total cost of the WPP Procurement Arrangements to the WPP Group having regard to the extent to which the STW Group uses those WPP Procurement Arrangements and the manner in which those costs are allocated to other WPP Group Members.

STW may elect not to use or implement a WPP Procurement Arrangement if that decision is approved by both a majority of Independent Directors at that time and a majority of all directors of STW at that time (including Directors who are not Independent Directors).

(c) Related Party Transactions

A committee of Independent Directors (**IBC**) will consider and, if appropriate, approve any agreement, transaction or other dealing between the WPP Group and STW Group (**Related Party Transaction**) that is either:

(1) not on arm's length terms;

(2) a financing transaction, including the provision of debt finance or guarantees and the issue of securities;

(3) is an acquisition or disposal of a business or a transaction which would result in WPP acquiring additional voting power in STW pursuant to an off-market bid, market bid, scheme of arrangement or shareholder approved acquisition;

(4) a transaction which will require either the STW Group or the WPP Group to make a financial commitment of more than $1 million in any 12 month period or a transaction which, if aggregated with all Related Party Transactions of the same kind as that transaction, would require either the STW Group or the WPP Group to make a financial commitment of more than $5 million in aggregate in any 12 month period; or

(5) is otherwise determined by the STW Board to be delegated to an IBC for approval.

The IBC may, in its discretion, request that a relevant Related Party Transaction described in paragraphs (1) – (4) of this section 12.3(c) (above) be approved by the STW Board or STW Group management.

Unless the STW Board otherwise determines, an IBC approval process described above will not apply to a Related Party Transaction:

- arising in the ordinary course of business which is approved by STW management in accordance with delegations of authority approved by the STW Board from time to time; or
- approved by STW Group management in accordance with a Related Party Transactions policy approved by the STW Board and an IBC from time to time.

(d) Nomination of directors

In selecting candidates for appointment as directors, both parties must have regard to the gender diversity of the STW Board and the recommendations set out in the ASX Corporate Governance Principles and Recommendations (3rd Edition) and only select candidates who have an appropriate level of skill and experience to perform their duties as a director of STW.

12. KEY TRANSACTION AGREEMENTS (CONTINUED)

12.4 MANAGEMENT FEE FRAMEWORK AGREEMENT

STW and WPP 2005 Limited (a wholly-owned subsidiary of WPP plc) will enter into a Management Fee Framework Agreement at completion of the Merger. The primary purpose of this agreement is to determine the fee which will be paid by the STW Group for services provided by the WPP Group to Combined Group businesses which trade under, or as part of, WPP Group global brands (**Brand Networks**).

Most of the WPP Businesses to be acquired by STW operate as part of Brand Networks. STW also has a number of existing businesses which operate as part of Brand Networks.

Brand Network services (**Brand Services**) are business and support services provided by the WPP Group to businesses that operate as part of a Brand Network. These services vary between Brand Networks, but may include marketing and media agency support services, business development and client management services, market research services, personnel management services, public affairs services, planning and financial analysis services and use of proprietary intellectual property rights (such as know-how, software and technology) which are owned or developed by the WPP Group and made available for use within a Brand Network.

The terms on which Brand Services are provided to STW Group businesses operating within a Brand Network, including applicable service fees, will continue to be governed by existing contracts in place between those businesses and relevant WPP entities within the Brand Network.

However, the Management Fee Framework Agreement requires that:

- the Combined Group be offered any new or enhanced Brand Services that the WPP Group may offer or make available from time to time to other businesses within the Brand Network; and
- the WPP Group not withdraw or suspend any Brand Services that are made available to the Combined Group unless those Brand Services are also withdrawn or suspended for other businesses within the Brand Network.

(a) Aggregate services fee

The Management Fee Framework Agreement sets an aggregate fee that will be paid by the Combined Group for all Brand Services provided to members during each financial year (**Annual Fee**).

The Annual Fee payable is 3.55% of the net sales of the Brand Network businesses. Net sales is calculated as the revenue of those businesses reduced by:

(1) any third party sales commissions incurred with respect to such revenue; and

(2) any pass-through costs, third-party revenue share obligations or other third party costs directly related to the generation of such revenue or billings (but which other third party costs do not include overhead, wages, payroll, freelancer costs and other operating and administrative expenses).

The Annual Fee will be calculated and paid on an annual basis after the end of each financial year, following reconciliation of all service fees paid by Combined Group businesses for Brand Services in respect of the financial year. If the total service fees paid by Combined Group businesses for Brand Services exceed the Annual Fee, STW will receive a refund to the extent that the aggregate of those fees exceed the Annual Fee. If the aggregate service fees paid by Combined Group businesses for Brand Services is less than the Annual Fee, STW will pay the difference to WPP 2005 Limited.

(b) Fee review

The parties have agreed that the Brand Services fee arrangements between the WPP Group and the Combined Group should reflect a fair and reasonable allocation of the costs to the WPP Group of providing the Brand Services, having regard to the extent of usage of those Brand Services by the STW Group and the sums payable by the Combined Group as compared to other jurisdictions or businesses within the Brand Network on a like for like basis.

If any party believes that the Annual Fee or one or more service fees do not reflect the above principle in a material respect, the parties must each use reasonable endeavours to review and consider changes to the terms of the fee arrangements for Brand Service to reflect the principle.

If there is a:

- material change in the scope of the Brand Services provided by the WPP Group; or
- corporate restructure, merger, divestment, demerger or other transaction undertaken by the WPP Group which is likely to significantly affect the Brand Networks, the Brand Services or the WPP Group's capacity to supply the Brand Services,

either party may request that the parties negotiate in good faith an appropriate adjustment to the Annual Fee, having regard to the relevant event and the pricing principle above.

If the Combined Group merges or re-brands a business into a business which operates as part of a Brand Network, an adjustment will be made to the Annual Fee to reflect the additional net sales of the business which will form part of the Brand Network.

(c) Term and termination

The agreement will continue to operate until STW ceases to own any businesses within a Brand Network or the parties mutually agree to terminate the agreement.

12.5 TRADE MARK LICENCE AGREEMENT

The WPP Group will enter into separate trade mark licence agreements with each relevant WPP Business (each a licensee) licensing it to use relevant WPP Group trade marks in Australia and New Zealand.

The licences will be royalty free and, except within the Combined Group and WPP Group, exclusive within Australia and New Zealand.

The WPP Group (licensor) may terminate the Trade Mark Licence Agreement at any time by written notice if:

- the licensee commits or allows to be committed a material breach of any provision of the Trade Mark Licence Agreement and fails to rectify the breach within 14 days after receiving written notice of the breach by the other party;
- an insolvency event occurs in relation to the licensee;
- a change of control event occurs in respect of the licensee. This will occur if:
  - the licensee ceases to be a subsidiary of STW pursuant to a transaction which results in it becoming a subsidiary of a 'Competitor'; or
  - a 'Competitor' acquires control of STW pursuant to a transaction which is: (i) approved by STW Shareholders (excluding or not counting any votes cast by or behalf of the WPP Group, the Competitor or their respective associates); and (ii) recommended by the majority of the Independent Directors).

12.5 TRADE MARK LICENCE AGREEMENT (CONTINUED)

A 'Competitor' means any of Publicis, Omnicom, Interpublic, DentsuAegis, Havas, Google, Facebook and their respective successors, but only if it is a broad based direct competitor of the WPP Group at the time of the change of control event.

- if the licensee is convicted of a criminal offence relating to or affecting the performance of the agreement or which would significantly affect the reputation of services provided; or
- the licensee sells or otherwise disposes of the business providing the relevant services in relation to which the trade marks are being used.

The licensee indemnifies the licensor against losses and liabilities arising as a result of or in connection with any breach by the licensee of the Trade Mark Licence Agreement or any claim against licensor arising in connection with the unauthorised use by the licensee of the trade marks.

12.6 SHAREHOLDER LOAN AGREEMENT

As noted in section 9.4(b), STW will assume the WPP Debt (as defined in section 9.4(b)) on completion of the Merger.

If a Refinancing (as defined in section 9.4(b)) of the WPP Debt does not occur on completion, WPP will procure that WPP Luxembourg Europe Two Sarl, a wholly-owned subsidiary of WPP plc, refinances the WPP Debt under a 3 year bullet term loan facility agreement, as described below (the **Debt Facility**).

(a) Key features

The Debt Facility will be provided under one tranche the key features of which are as follows:

(1) **Lender:** WPP Luxembourg Europe Two Sarl (the **Lender**);

(2) **Borrower:** Possible Australia Pty Ltd (**Borrower**);

(3) **Type of facility:** Australian dollar term loan facility;

(4) **Amount:** $252,070,212;

(5) **Term:** 3 years;

(6) **Repayment:** Interest only with a lump sum payment of all amounts outstanding at the end of the term; and

(7) **Purpose:** To assist with refinancing of existing indebtedness of the Borrower and each of its subsidiaries for the time being and for any other purpose expressly permitted under the SSA.

(b) Security and guarantees

The Debt Facility will initially be unsecured and not supported by guarantees.

If the loans under the Debt Facility have not been repaid in full by the earlier of:

(1) 90 days after completion occurs under the SSA; and

(2) the date on which the Target Obligors (as defined below) are required to accede to the common terms deed between STW and its existing lenders, Westpac Banking Corporation (**Westpac**), HSBC Bank Australia Limited and The Hongkong and Shanghai Banking Corporation Limited (**HSBC**) (**the STW Common Terms Deed**),

the Borrower will ensure that each Target Obligor (as defined on the right):

(3) accedes to the Debt Facility as a guarantor; and

(4) provides a general security deed (in form and substance satisfactory to the Lender (acting reasonably) over all its assets and undertakings in favour of the Lender (the WPP Security).

The WPP Security will be second ranking behind the existing security provided in connection with the STW Common Terms Deed.

Target Obligor means the Borrower and each of its wholly owned Australian subsidiaries and Marketing Communications Holdings Australia Pty Ltd and each of its wholly-owned Australian subsidiaries.

(c) Interest rate and payments

The Debt Facility will attract a variable rate of interest, comprising:

- the applicable base rate for borrowings in Australian dollars (BBSY); plus
- a margin (which is calculated as 2.00% per annum, increasing to 3.50% after 6 months, 4.00% after 9 months and 4.50% after 12 months and, in each case plus the highest margin applicable under the existing facilities agreements with Westpac and HSBC);

Interest will be payable on the last day of each interest period (and if an interest period is longer than 6 months, at six-monthly intervals). Interest periods must not be less than one and not more than six months, as selected by the Borrower or any other period agreed between the Borrower and the Lender. A default interest rate will be payable on overdue amounts.

Interest will be capitalised if (and for so long as) the debt to EBITDA ratio under the STW Common Terms Deed exceeds a certain level or an Event of Default (as defined in and for the purposes of the STW Common Terms Deed) is continuing.

(d) Facility Fees

No establishment or commitment fees are payable under the Debt Facility.

(e) Representations and warranties

The Debt Facility includes representations and warranties including, without limitation, relating to status and capacity of the obligors and their power to enter into and perform their obligations under the Debt Facilities, information provided to the Lender and any proceedings against an obligor.

(f) Financial covenant

The Debt Facility includes a debt to EBITDA ratio. The ratio will be tested on 30 June and 31 December in each year.

A breach of this ratio will be an event of default under the Debt Facility.

(g) Other covenants and representations and warranties

The Debt Facility includes affirmative and negative covenants including, without limitation:

- provision of financial statements to the Lender;
- negative pledge restricting the obligors from creating an encumbrance over its assets or allowing an encumbrance to subsist (subject to certain permitted encumbrances described in the Debt Facility);
- a restriction on incurring financial indebtedness other than as permitted under the Debt Facility;

12.6 SHAREHOLDER LOAN AGREEMENT (CONTINUED)

(g) Other covenants and representations and warranties (continued)

- restrictions on making disposals other than as permitted under the Debt Facility;
- requirement that 100% of the Borrower's and Marketing Communications Holdings Pty Ltd's wholly-owned Australian subsidiaries be guarantors;
- a restriction on changing the existing nature of the business;
- a restriction on entering into a merger or corporate reconstruction; and
- requirement to maintain insurance.

(h) Events of Default

The Debt Facility contains events of default including, without limitation:

- breach of its obligations under the Debt Facilities;
- cross default to any other financial indebtedness of the Borrower or its wholly-owned subsidiaries or Marketing Communications Holdings Pty Ltd or one of its wholly-owned subsitiaries (subject to a $5,000,000 threshold);
- insolvency and insolvency process with respect to the Borrower or one of its wholly-owned subsidiaries or Marketing Communications Holdings Pty Ltd or one of its wholly-owned subsitiaries;
- an obligor (other than the Borrower) ceasing to be a subsidiary of the Borrower or the Borrower ceasing to be a subsidiary of STW; and
- an event occurring which is likely to have a material adverse effect.

If an Event of Default occurs which is continuing:

- the Lender may declare than the principal and any accrued and unpaid interest and other amounts payable are immediately due and payable or on demand; and
- the security will become enforceable.

(i) Optional prepayment

Subject to certain consent requirements under the STW Common Terms Deed, a permanent voluntary prepayment of the Debt Facility in whole or in part will be permitted on five business days' notice (but if in part in a minimum amount and in multiples of $500,000).

(j) Letters of credit

The Lender must ensure that any bank guarantees or letters of credit which have been issued in favour of or to the benefit of the Borrower or one of its subsidiaries at the time of completion of the Merger remain on issue and are not cancelled or withdrawn. The Borrower must pay the Lender a letter of credit fee equal to 1.00% per annum calculated on the daily balances of outstanding amount of each issued bank guarantee or letter of credit. The fee is payable quarterly in arrears.

13. GLOSSARY AND INTERPRETATION

13.1 DEFINITIONS

In this Explanatory Memorandum unless the context otherwise appears, the following terms have the meanings shown below:

TERM	MEANING
ACCC	Australian Competition and Consumer Commission
Additional Resolutions	Resolutions 4 to 9 (inclusive), as described in the Notice of Meeting
ASIC	The Australian Securities and Investments Commission
Astus	the Australian and New Zealand operations of Astus APAC Australia Pty Ltd (ACN 160 316 521)
ASX	ASX Limited (ABN 98 008 624 691) and, where the context requires, the financial market that it operates
ASX Listing Rules	The official listing rules of the ASX
Combined Group	The WPP Businesses and the STW Group following completion of the Merger
Combined Group Financial Information	As described in section 9.10
Competing Proposal	Any proposal, agreement, transaction or offer by any person under which if the proposal, agreement, transaction or offer is completed, a Third Party would (directly or indirectly): 1. acquire voting power of more than 20% in STW; 2. acquire any interest (including legal, equitable or economic) in all or a material part of the business or assets (on a consolidated basis) of STW; 3. otherwise merge or amalgamate with STW; or 4. acquire control (as determined in accordance with section 50AA of the Corporations Act) of STW, and, for the purposes of paragraph (2), the acquisition of an interest in a part of the business or assets (on a consolidated basis) of a party will be material if: • the relevant business or businesses contribute 20% or more of the consolidated net profit after tax of STW Group; or • the assets represent 20% or more of the total consolidated assets of the STW Group
Competitor	Any of Publicis, Omnicom, Interpublic, DentusAegis, Havas, Google, Facebook and their respective successors, but only if it is a broad based competitor of the WPP Group at the time of the change of control event
Consideration Shares	422,961,825 fully paid ordinary shares in STW
Corporate Governance Deed Poll	The Corporate Governance Deed Poll to be entered into on implementation of the Merger
Corporations Act	The Corporations Act 2001 (Cth)
Director	A director of STW from time to time
EPS	'Earnings per share'
Exclusivity Period	The period between 14 December 2015 and the first to occur of: • completion of the Merger; or • termination of the Share Sale Agreement
Explanatory Memorandum	This explanatory memorandum

13. GLOSSARY AND INTERPRETATION (CONTINUED

13.1 DEFINITIONS (CONTINUED)

TERM	MEANING
Extraordinary General Meeting	The extraordinary general meeting of STW Shareholders convened by the Notice of Meeting
FATA	The *Foreign Acquisitions and Takeovers Act 1975* (Cth)
FIRB	The Foreign Investment Review Board
Independent Director	A director of STW who: • is not an officer, employee or consultant of any WPP Group Member; • is not, or has not been, employed in an executive capacity by any STW Group Member, unless there has been a period of at least three years between ceasing such employment and serving as a STW Director; and • the STW Board considers to be independent in accordance with the definition of independent director and the factors relevant to assessing the independence of a director set out in the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations
Independent Expert	The independent expert appointed by STW to opine on Resolutions 1 and 2, being KPMG Financial Advisory Services (Australia) Pty Ltd (of which KPMG Corporate Finance is a division)
Independent Expert's Report	The report issued by the Independent Expert in relation to Resolutions 1 and 2, as attached to this Explanatory Memorandum as Attachment 2.
KPMG Corporate Finance	KPMG Financial Advisory Services (Australia) Pty Ltd (of which KPMG Corporate Finance is a division)
Lightspeed	Lightspeed means the Australian and New Zealand businesses of Lightspeed Research Australia Pty Limited
Majority Shareholder Deed	The Majority Shareholder Deed to be entered into on implementation of the Merger
Management Fee Framework Agreement	The Management Fee Framework Agreement to be entered into on implementation of the Merger
Merger	• the issue of the Consideration Shares to WPP; and • the acquisition of the WPP Business by STW, on the terms contemplated by the Share Sale Agreement
Merger Resolutions	Resolution 1, Resolution 2 and Resolution 3, as described in the Notice of Meeting
Notice of Meeting	The notice set out in Attachment 1 in relation to the Extraordinary General Meeting to be held on 4 April 2016 at 9.00am.
Possible	Possible Australia Pty Ltd, ABN 78 152 195 492, a WPP subsidiary
Proxy Form	The proxy form for the Extraordinary General Meeting accompanying this Explanatory Memorandum
Refinancing	As described in section 9.4(b)
Related Bodies Corporate	That term in the Corporations Act, and Related Bodies Corporate has a corresponding meaning
Related Party Transaction	As described in section 12.3(c)
Relevant Interest	That term in the Corporations Act, and Relevant Interests has a corresponding meaning
Resolutions	The Resolutions as described in the Notice of Meeting

TERM	MEANING
Share Sale Agreement	The Share Sale Agreement between WPP Jubilee, WPP, STW and STW Media Services dated 14 December 2015.
Shareholder Loan Agreement	The facility agreement agreed between the parties, as summarised in section 12.6
STW	STW Communications Group Limited ACN 001 657 370
STW Board	The board of directors of STW from time to time
STW Constitution	The constitution of STW
STW Directors	Each director of STW as at the date of this Explanatory Memorandum (other than Paul Richardson)
STW Financial Information	As described in section 6.7
STW Group	STW and each of its Related Bodies Corporate (other than the WPP Businesses and the WPP Group) and STW Group Member means any member of the STW Group. If the Merger completes, STW Group also means, as the context requires, the WPP Businesses
STW Media Services	STW Media Services Pty Ltd ACN 090 848 801, a subsidiary of STW
STW Shares	Issued ordinary shares in STW
STW Shareholders	The shareholders of STW from time to time
STW Share Registry	The WPP Businesses and the STW Group following completion of the Merger
Trade Mark Licence Agreement	The Trade Mark Licence Agreement to be entered into on implementation of the Merger
Transaction Agreements	The following agreements: 1. Share Sale Agreement; 2. Corporate Governance Deed Poll; 3. Majority Shareholder Deed; 4. Trade Mark Licence Agreement; 5. Management Fee Framework Agreement; and 6. Shareholder Loan Agreement (if applicable).
WPP	Cavendish Square Holding B.V., a subsidiary of WPP plc.
WPP Businesses	The WPP businesses to be acquired by STW pursuant to the Merger, being the Australian and New Zealand businesses described in section 8.1. The WPP Businesses do not include Verticurl Marketing Services Pty Ltd, Salmon Asia Pacific Pty Limited, oOh!media, and NeedScope International Limited. The businesses of Astus and Lightspeed are the subject of specific provisions in the Share Sale Agreement, summarised in section 12.1(k) of this Explanatory Memorandum.
WPP Businesses Financial Information	As described in section 8.2
WPP Group	WPP and each of its Related Bodies Corporate (other than the WPP Businesses and the STW Group) and WPP Group Member means any member of the WPP Group.
WPP Jubilee	WPP Jubilee Ltd (Company Number 08286875), a subsidiary of WPP
WPP Nominee	A director appointed to the STW Board nominated by WPP
WPP plc	WPP plc (Company Number 111714)
WPP Reorganisation	The reorganisation of the WPP Group as described in section 12.1(h)

13.2 INTERPRETATION

In this Explanatory Memorandum, unless the context otherwise appears:

(a) words and phrases have the same meaning (if any) given to them in the Corporations Act;

(b) words importing a gender include any gender;

(c) words importing the singular include the plural and vice versa;

(d) an expression importing a natural person includes any company, partnership, joint venture, association, corporation or other body corporate and vice versa;

(e) a reference to a clause, attachment or schedule is a reference to a clause of and an attachment and schedule to this Explanatory Memorandum as relevant;

(f) a reference to any statute, regulation, proclamation, ordinance or by law includes all statutes, regulations, proclamations, ordinances, or by laws amending, varying, consolidating or replacing it and a reference to a statute includes all regulations, proclamations, ordinances and by laws issued under that statute;

(g) headings and bold type are for convenience only and do not affect the interpretation of this Explanatory Memorandum;

(h) a reference to time is a reference to time in Sydney, Australia;

(i) a reference to writing includes facsimile transmissions; and

(j) a reference to dollars, $, cents, ¢ and currency is a reference to the lawful currency of the Commonwealth of Australia.

ATTACHMENT 1

NOTICE OF MEETING

STW Communications Group Limited ABN 84 001 657 370

Notice is given to STW Shareholders that an Extraordinary General Meeting of the members of STW will be held at 72 Christie Street, St Leonards, NSW 2065 on 4 April 2016 at 9:00am (Sydney time).

Important:

- Capitalised terms used in this Notice of Meeting that are not defined have the meaning given to them in the Glossary of the Explanatory Memorandum (section 13).
- This Notice of Meeting should be read in conjunction with the Explanatory Memorandum and Explanatory Notes which set out a detailed explanation of the background and reasons for the Resolutions.

BUSINESS

The Extraordinary General Meeting is being held for the purpose of transacting the following business.

1. Issue of Consideration Shares to WPP

To consider, and if thought fit, to pass the following resolution as an ordinary resolution:

'That, for the purpose of item 7 of section 611 of the Corporations Act and for all other purposes, approval is given for STW to issue 422,961,825 fully paid ordinary shares in STW to WPP, which will increase WPP's voting power in STW from 23.55% to a maximum of 61.5%, on the terms and conditions set out in the Transaction Agreements and referred to in the Explanatory Memorandum accompanying this Notice of Meeting.'

Note: a voting exclusion, as set out in the Explanatory Notes section of this Notice of Meeting, applies to this resolution.

2. Acquisition of WPP Businesses

To consider, and if thought fit, to pass the following resolution as an ordinary resolution:

'That, for the purpose of ASX Listing Rule 10.1 and for all other purposes, approval is given for STW to acquire the WPP Businesses and to acquire or dispose of such other assets as contemplated by, and take all steps reasonably necessary to implement, the Transaction Agreements, in each case on the terms and conditions set out in the Transaction Agreements and referred to in the Explanatory Memorandum accompanying this Notice of Meeting.'

Note: a voting exclusion, as set out in the Explanatory Notes section of this Notice of Meeting, applies to this resolution.

3. Increase maximum number of Directors

To consider, and if thought fit, to pass the following resolution as an ordinary resolution:

'That the maximum number of Directors of STW is increased to 11.'

4. Increase the Directors' fee pool

To consider, and if thought fit, to pass the following resolution as an ordinary resolution:

'That, subject to completion of the Merger, for the purpose of ASX Listing Rule 10.17, clause 61 of the STW Constitution and for all other purposes, the maximum aggregate annual remuneration that may be paid by STW as remuneration for the services of STW's Non-executive Directors be increased to $1,000,000 with effect on and from completion of the Merger.'

BUSINESS (CONTINUED)

Note: a voting exclusion, as set out in the Explanatory Notes section of this Notice of Meeting, applies to this resolution.

5. Election of Director – Mr Geoffrey Wild

To consider, and if thought fit, to pass the following resolution as an ordinary resolution:

'That, subject to completion of the Merger, Mr Geoffrey Wild be elected as a Director with effect from the completion of the Merger.'

6. Election of Director – Mr Paul Heath

To consider, and if thought fit, to pass the following resolution as an ordinary resolution:

'That, subject to completion of the Merger, Mr Paul Heath be elected as a Director with effect from the completion of the Merger.'

7. Election of Director – Ms Ranjana Singh

To consider, and if thought fit, to pass the following resolution as an ordinary resolution:

'That, subject to completion of the Merger, Ms Ranjana Singh be elected as a Director with effect from the completion of the Merger.'

8. Election of Director – Mr John Steedman

To consider, if thought fit, to pass the following resolution as an ordinary resolution:

'That, subject to completion of the Merger, Mr John Steedman be elected as a Director with effect from the completion of the Merger.'

9. Election of Director – Mr Jon Steel

To consider, if thought fit, to pass the following resolution as an ordinary resolution:

'That, subject to completion of the Merger, Mr Jon Steel be elected as a Director with effect from the completion of the Merger.'

By order of the Board

Chris Rollinson
Company Secretary

1 March 2016

INFORMATION FOR SHAREHOLDERS

VOTING ENTITLEMENTS

The STW Directors have determined that, for the purposes of the Extraordinary General Meeting, STW Shares will be taken to be held by the persons who are the registered holders at 7:00pm (Sydney time) on 2 April 2016. Accordingly, transfers of STW Shares registered after that time will be disregarded in determining entitlements to attend and vote at the Extraordinary General Meeting.

VOTING EXCLUSION STATEMENTS

Resolution 1

In accordance with the Corporations Act, STW will disregard any votes cast on Resolution 1 by:

- WPP; or
- an associate of WPP.

Resolution 2

In accordance with the ASX Listing Rules, STW will disregard any votes cast on Resolution 2 by:

- WPP; or
- an associate of WPP,

unless the vote is cast as proxy for a person who is entitled to vote on Resolution 2:

- in accordance with a direction on the Proxy Form; or
- by the Chairman of the Extraordinary General Meeting pursuant to an express authorisation to exercise the proxy.

Please read the information under the heading 'Appointing the Chairman of the Extraordinary General Meeting as proxy' below.

Resolution 4

In accordance with the ASX Listing Rules and the Corporations Act, STW will disregard any votes cast on Resolution 4:

- by or on behalf of each STW director and any of their associates; and
- as a proxy by a member of key management personnel at the date of the Meeting or a closely related party of such a member,

unless the vote is cast as proxy for a person who is entitled to vote on Resolution 4:

- in accordance with a direction on the Proxy Form; or
- by the Chairman of the Extraordinary General Meeting pursuant to an express authorisation to exercise the proxy.

Key management personnel (KMP) are those persons having authority and responsibility for planning, directing and controlling the activities of STW, whether directly or indirectly. Members of the KMP comprise Directors (both executive and non-executive) and certain executives.

A closely related party of a member of key management personnel is:

- a company the member controls;
- the member's spouse, child or dependant (or a child or dependant of the member's spouse); or
- anyone else who is one of the member's family and may be expected to influence, or be influenced by, the member in the member's dealings with STW.

INFORMATION FOR SHAREHOLDERS (CONTINUED)

Please read the information under the heading 'Appointing the Chairman of the Extraordinary General Meeting as proxy' below.

PROXIES

An STW Shareholder, who is unable to attend and vote at the Extraordinary General Meeting on 4 April 2016, is entitled to appoint a proxy to attend and vote for the STW Shareholder at the Extraordinary General Meeting. A proxy need not be an STW Shareholder and may be an individual or a body corporate.

If an STW Shareholder is entitled to cast two or more votes, they may appoint up to two proxies and may specify the percentage or number of votes each proxy is appointed to exercise. If an STW Shareholder does not specify the percentage or number of votes each proxy may exercise, then each proxy may exercise half the STW Shareholder's votes.

If an STW Shareholder wishes to appoint an individual or body corporate as a proxy, please complete and return the Proxy Form distributed with this Notice of Meeting. For an appointment of a proxy to be effective, STW must receive the Proxy Form, duly completed and signed, by no later than 9:00am (Sydney time) on 2 April 2016; and if signed by the appointer's attorney or other authority, the authority under which the appointment was signed or a certified copy of the authority.

There are a number of ways Proxy Forms may be submitted:

By mail: sent to the STW Share Registry (using the reply paid envelope enclosed with the Explanatory Memorandum), addressed to Computershare Investor Services Pty Limited, GPO Box 242, Melbourne VIC 3001;

By fax: sent to 1800 783 447 (within Australia) OR +61 3 9473 2555 (outside of Australia); or

Hand Delivery: delivered during business hours to the STW Share Registry at Computershare Investor Services, Level 4, 60 Carrington St, Sydney, NSW 2000.

A Proxy Form is attached to this Notice of Meeting.

CORPORATE SHAREHOLDERS

A body corporate which is an STW Shareholder, or which has been appointed as a proxy, may appoint an individual to act as its representative at the Extraordinary General Meeting. The appointment must comply with section 250D of the Corporations Act.

The representative should bring to the Extraordinary General Meeting evidence of their appointment, including any authority under which it is signed, unless previously given to STW.

APPOINTING THE CHAIRMAN OF THE MEETING AS PROXY

You may appoint the Chairman of the Extraordinary General Meeting as your proxy. If you lodge a Proxy Form but you do not appoint any particular person as your proxy, the Chairman of the Extraordinary General Meeting will be appointed as your proxy by default.

If a member directs the Chairman of the Extraordinary General Meeting how to vote on a resolution, the Chairman of the Extraordinary General Meeting must vote in accordance with the direction.

For proxies without voting instructions that are exercisable by the Chairman of the Extraordinary General Meeting, the Chairman of the Extraordinary General Meeting intends to vote all available proxies in favour of each of the resolution. In relation to Resolutions 2 and 4, if the Chairman of the Extraordinary General Meeting is appointed as your proxy, or becomes your proxy by default, and you have not directed your proxy how to vote on the relevant resolution, please note that by completing and submitting the Proxy Form you will be expressly authorising the Chairman of the Extraordinary General Meeting to exercise your undirected proxy on these resolutions in accordance with his discretion.

STW recommends that all STW Shareholders who submit proxies direct their proxy how to vote on each resolution.

ATTENDANCE AT THE EXTRAORDINARY GENERAL MEETING

If you are attending the Extraordinary General Meeting in person, please bring with you the Proxy Form enclosed with this Notice of Meeting as the bar code at the top of the Proxy Form will facilitate registration.

Registration will be open from 8.30am (Sydney time) on the day of the Extraordinary General Meeting.

EXPLANATORY NOTES

These Explanatory Notes, along with the Explanatory Memorandum, have been prepared to provide STW Shareholders with material information to enable them to make an informed decision on the business to be conducted at the Extraordinary General Meeting to be held on 4 April 2016. All STW Shareholders should read these Explanatory Notes and the Explanatory Memorandum carefully and in their entirety. STW Shareholders who are in doubt regarding any part of the business of the Extraordinary General Meeting should consult their financial or legal adviser for assistance.

The Merger will not proceed unless each of the Merger Resolutions (being Resolutions 1, 2 and 3) are passed.

The Merger is not conditional on the Additional Resolutions (being Resolutions 4 to 9) and will proceed if any or all of those Additional Resolutions are not passed (subject to the Merger Resolutions being passed). Each Additional Resolution is conditional on completion of the Merger.

RESOLUTION 1 – ISSUE OF THE CONSIDERATION SHARES TO WPP

Background

In accordance with the Board's intention to achieve the Merger, STW is seeking shareholder approval under item 7 of section 611 of the Corporations Act for the issue of the Consideration Shares to WPP.

Section 606 of the Corporations Act prohibits a person acquiring a 'relevant interest' in STW Shares if, because of the acquisition:

- 20% or below to more than 20%; or
- a starting point that is above 20% to a point below 90%.

Section 611 of the Corporations Act includes exceptions to the prohibition in section 606. Item 7 of section 611 provides a mechanism by which STW Shareholders may approve an issue of shares to a person that results in that person acquiring a relevant interest in the issued shares of STW that would otherwise contravene section 606.

At the date of this Notice of Meeting, WPP holds 101,080,298 STW Shares.

As part of the Merger, STW seeks to issue a further 422,961,825 STW Shares to WPP, which would increase WPP's voting power in STW from 23.55% to a maximum of 61.5%. The issue of Consideration Shares to WPP would give WPP a relevant interest in an aggregate of more than 20% of the voting shares in STW. Without STW Shareholder approval in accordance with item 7 of section 611 of the Corporations Act, WPP would be precluded by section 606 of the Corporations Act from acquiring the Consideration Shares as part of the Merger.

Accordingly, approval of the issue of the Consideration Shares to WPP is being sought from STW Shareholders.

Material information

The information set out below is required to be provided to STW Shareholders under the Corporations Act, or is recommended to be provided to STW Shareholders under ASIC Regulatory Guide 74.

(a) *Identity of the person who proposes to acquire the Consideration Shares*

WPP proposes to acquire the Consideration Shares. Background information on WPP can be found in section 7.2 of the Explanatory Memorandum accompanying this Notice of Meeting.

(b) *Change in voting power of the person who proposes to acquire the Consideration Shares*

The issue of Consideration Shares will cause WPP's voting power in STW to increase from 23.55% to a maximum of 61.5%.

(c) *Reasons for the Merger*

The reasons for the Merger can be found in section 6 of the Explanatory Memorandum accompanying this Notice of Meeting.

(d) *When completion of the Merger will occur*

If the Merger is approved by STW Shareholders, and all other conditions precedent to the Merger are either satisfied or waived (as applicable), STW currently expects that completion of the Merger will occur on or around 11 April 2016.

An indicative transaction timetable can be found in section 1 of the Explanatory Memorandum accompanying this Notice of Meeting.

(e) *Material terms of the Merger*

The terms of the Merger, and other relevant agreements that are conditional on the Merger, are set out in the Transaction Agreements.

The material terms of the Transaction Agreements can be found in section 12 of the Explanatory Memorandum accompanying this Notice of Meeting.

(f) *Effect of the Merger*

The effects of the Merger on STW, including WPP's intentions regarding the future of the STW Group, can be found in section 9 of the Explanatory Memorandum accompanying this Notice of Meeting.

(g) *WPP's intentions regarding the future of STW's dividend distribution policy*

WPP's current intentions regarding the future of STW Group's dividend distribution policy can be found in section 9.5 of the Explanatory Memorandum accompanying this Notice of Meeting.

(h) *Interests of Directors*

The interests of Directors in WPP's acquisition of STW securities can be found in sections 6.3 and 9.7 of the Explanatory Memorandum accompanying this Notice of Meeting.

Paul Richardson, a director of STW nominated by WPP, has not been involved in the consideration or determination of any issues associated with the Merger. Paul Richardson has abstained from making any recommendation in relation to the Resolutions set out in this Notice of Meeting.

Other than their interest in STW securities, no Director has any interest in the Merger nor any agreement to be entered into by the parties in relation to the Merger.

(i) *Details about proposed Directors of the Combined Group*

Details of the persons proposed to be Directors of the Combined Group upon completion of the Merger can be found in sections 6.3 and 9.7 of the Explanatory Memorandum accompanying this Notice of Meeting.

The STW Directors appointed KPMG Corporate Finance to provide an Independent Expert's Report to assist STW Shareholders in determining whether or not to approve Resolutions 1 and 2. In that report, the Independent Expert has concluded that Resolutions 1 and 2 are fair and reasonable. The Independent Expert's Report is attached to the Explanatory Memorandum accompanying this Notice of Meeting.

EXPLANATORY NOTES (CONTINUED)

Material information (continued)

Resolution 1 is an ordinary resolution.

Board recommendation

The STW Directors (excluding Paul Richardson) recommend that STW Shareholders vote in favour of this resolution in absence of a superior proposal.

RESOLUTION 2 – ACQUISITION OF WPP BUSINESSES

Background

In accordance with the Board's intention to achieve the Merger, STW is seeking shareholder approval under ASX Listing Rule 10.1 to acquire the WPP Businesses and to acquire and dispose of such other assets as contemplated in the Transaction Agreements, in each case on the terms and conditions set out in the Transaction Agreements.

The nature of the assets that STW proposes to acquire is described in more detail in section 8.1 of the Explanatory Memorandum accompanying this Notice of Meeting.

ASX Listing Rule 10.1 requires STW to obtain shareholder approval for the acquisition of a 'substantial asset' from a substantial holder of STW, and the disposal of a 'substantial asset' by STW to a substantial holder, where the substantial holder and its associates have a 'relevant interest' in at least 10% of the total votes attached to the voting securities in STW. As WPP has a 23.55% shareholding in STW, transactions between the STW Group and the WPP Group involving the acquisition or disposal of 'substantial assets' will be subject to ASX Listing Rule 10.1. For the purposes of ASX Listing Rule 10.1, a 'disposal' of a substantial asset by the STW Group includes using the substantial asset as collateral.

Under ASX Listing Rule 10.2, an asset is a 'substantial asset' if its value, or the value of the consideration for it, is 5% or more of the equity interests of STW as set out in the latest accounts given to ASX under the ASX Listing Rules. The WPP Businesses are a 'substantial asset' for this purpose.

Accordingly, approval of the acquisition of the WPP Businesses, on the terms and conditions set out in the Transaction Agreements, is being sought from STW Shareholders. In addition, as:

- other ancillary transactions are contemplated in the Transaction Agreements (e.g. the adoption of WPP Group policies, the implementation by the STW Group of WPP Group procurement arrangements, and the supply by WPP Group of Brand Services to the STW Group); and
- if the Refinancing does not occur on completion of the Merger, STW Group will be required to grant security over certain of its assets to the WPP Group as contemplated by the Shareholder Loan Agreement;

approval is also being sought for these transactions on the terms and conditions set out in the Transaction Agreements, in order to ensure that STW is able to achieve the Merger without the need for additional shareholder approval under ASX Listing Rule 10.1.

The STW Directors appointed KPMG Corporate Finance to provide an Independent Expert's Report to assist STW Shareholders in determining whether or not to approve Resolutions 1 and 2. In that report, the Independent Expert has concluded that Resolutions 1 and 2 are fair and reasonable.

The Independent Expert's Report is attached to the Explanatory Memorandum accompanying this Notice of Meeting.

Resolution 2 is an ordinary resolution.

Board recommendation

The STW Directors (excluding Paul Richardson) recommend that STW Shareholders vote in favour of this resolution in absence of a superior proposal.

RESOLUTION 3 – MAXIMUM NUMBER OF DIRECTORS

Resolution 3 seeks STW Shareholders' approval for the purpose of clause 54 of the STW Constitution to increase the maximum number of directors of STW to 11.

Clause 54 of the STW Constitution currently limits the maximum number of Directors at 10 Directors. However, STW may, by ordinary resolution of STW Shareholders, increase the maximum number of Directors.

WPP and STW have entered into a Governance Deed and a Majority Shareholder Deed which set out the arrangements for the governance of the Combined Group following completion of the Merger.

These arrangements contemplate that WPP may appoint six WPP Nominees to the STW Board (or such number of WPP Nominees so that the votes that may be cast by the WPP Nominees make up the majority of the votes that may be cast on a resolution of the STW Board). This would create a Board of 11 Directors, including the Independent Directors and the STW Chief Executive Officer. In light of this, approval is sought for the maximum number of Directors permitted under clause 54 to be increased from 10 to 11 Directors.

Resolution 3 is an ordinary resolution.

Board recommendation

The STW Directors (excluding Paul Richardson) recommend that STW Shareholders vote in favour of this resolution.

RESOLUTION 4 – INCREASE THE DIRECTORS' FEE POOL

Resolution 4 seeks STW Shareholders' approval to increase the total aggregate amount of Directors' fees payable to all Non-executive Directors from $750,000 to $1,000,000 per annum. This comprises an increase in the Non-executive Directors' fee pool (**NED Fee Pool**) of $250,000 per annum. The current cap of $750,000 was approved by STW Shareholders at the Annual General Meeting held in May 2010.

In accordance with ASX Listing Rule 10.17, the NED Fee Pool is inclusive of superannuation contributions made by STW for the benefit of Non-executive Directors and any fees which a Non-executive Director agrees to sacrifice for other benefits.

This approval is sought in accordance with ASX Listing Rule 10.17 and clause 61.1 of the STW Constitution.

The STW Directors are seeking STW Shareholders' approval to increase the NED Fee Pool for the following reasons:

- to ensure the NED Fee Pool can accommodate payment of fees to any additional Non-executive Directors appointed if necessary as part of the STW Board's succession planning strategy to ensure that the STW Board continues to have the right balance of skills, experience and expertise;
- the possibility that the number of Non-executive Directors will increase, as discussed above under Resolution 3;
- to ensure that STW has the ability to set fees at a competitive level so that it can attract and retain the services of Non-executive Directors of the highest calibre;
- to accommodate for the expansion in STW's operations occurring as a result of the Merger and the associated increases in the scope and complexity of STW's business operations; and

EXPLANATORY NOTES (CONTINUED)

RESOLUTION 4 – INCREASE THE DIRECTORS' FEE POOL (CONTINUED)

- to allow for some growth in Non-executive Directors' fees in the future to reflect market competitiveness for Non-executive Directors with the skills and experience that are appropriate for STW's business.

Details of Non-executive Director remuneration for the financial year ended 31 December 2015 are included in the STW 2015 Remuneration Report.

For the purposes of ASX Listing Rule 10.17, no securities have been issued to Non-executive directors of STW under ASX Listing Rules 10.11 or 10.14.

Resolution 4 is an ordinary resolution.

Board recommendation

As the Non-executive Directors have an interest in the outcome of Resolution 4, the STW Directors do not believe it is appropriate to make a recommendation to STW Shareholders as to how to vote in relation to this resolution.

RESOLUTION 5 – ELECTION OF DIRECTOR (MR GEOFFREY WILD)

The Governance Deed Poll gives WPP the right to nominate persons to act as Directors of STW from completion of the Merger. WPP has nominated Mr Geoffrey Wild as one of those Directors.

Mr Wild offers himself for election as a Director at the Meeting. If Resolution 5 is passed, Mr Wild's appointment as a Director will take effect on completion of the Merger.

Please see section 9.7(c) of the Explanatory Memorandum accompanying this Notice of Meeting for a biography of Mr Wild.

As Mr Wild will represent the interests of WPP, the STW Board does not consider that he will be an independent director if elected.

If the Merger is implemented and Resolution 5 is not approved by the STW Shareholders, WPP has the right under the Transaction Agreements to nominate one or more persons to act as Directors to fill in casual vacancies on the STW Board, as may be required to ensure that WPP Nominees comprise the majority of the STW Board with effect from completion. In accordance with the ASX Listing Rules, any such Directors will be hold office until, and must seek re-election from the STW Shareholders at, the next annual general meeting of STW.

Resolution 5 is an ordinary resolution.

Board recommendation

The STW Directors (excluding Paul Richardson) support the election of Mr Wild and recommend that STW Shareholders vote in favour of this resolution.

RESOLUTION 6 – ELECTION OF DIRECTOR (MR PAUL HEATH)

The Governance Deed Poll gives WPP the right to nominate persons to act as Directors of STW from completion of the Merger. WPP has nominated Mr Paul Heath as one of those Directors.

Mr Heath offers himself for election as a Director at the Meeting. If Resolution 6 is passed, Mr Heath's appointment as a Director will take effect on completion of the Merger.

Please see section 9.7(c) of the Explanatory Memorandum accompanying this Notice of Meeting for a biography of Mr Heath.

As Mr Heath will represent the interests of WPP, the STW Board does not consider that he will be an independent director if elected.

If the Merger is implemented and Resolution 6 is not approved by the STW Shareholders, WPP has the right under the Transaction Agreements to nominate one or more persons to act as Directors to fill in casual vacancies on the STW Board, as may be required to ensure that WPP Nominees comprise the majority of the STW Board with effect from completion. In accordance with the ASX Listing Rules, any such Directors will be hold office until, and must seek re-election from the STW Shareholders at, the next annual general meeting of STW.

Resolution 6 is an ordinary resolution.

Board recommendation

The STW Directors (excluding Paul Richardson) support the election of Mr Heath and recommend that STW Shareholders vote in favour of this resolution.

RESOLUTION 7 – ELECTION OF DIRECTOR (MS RANJANA SINGH)

The Governance Deed Poll gives WPP the right to nominate persons to act as Directors of STW from completion of the Merger. WPP has nominated Ms Ranjana Singh as one of those Directors.

Ms Singh offers herself for election as a Director at the Meeting. If Resolution 7 is passed, Ms Singh's appointment as a Director will take effect on completion of the Merger.

Please see section 9.7(c) of the Explanatory Memorandum accompanying this Notice of Meeting for a biography of Ms Singh.

As Ms Singh will represent the interests of WPP, the STW Board does not consider that she will be an independent director if elected.

If the Merger is implemented and Resolution 7 is not approved by the STW Shareholders, WPP has the right under the Transaction Agreements to nominate one or more persons to act as Directors to fill in casual vacancies on the STW Board, as may be required to ensure that WPP Nominees comprise the majority of the STW Board with effect from completion. In accordance with the ASX Listing Rules, any such Directors will be hold office until, and must seek re-election from the STW Shareholders at, the next annual general meeting of STW.

Resolution 7 is an ordinary resolution.

Board recommendation

The STW Directors (excluding Paul Richardson) support the election of Ms Singh and recommend that STW Shareholders vote in favour of this resolution.

RESOLUTION 8 – ELECTION OF DIRECTOR (MR JOHN STEEDMAN)

The Governance Deed Poll gives WPP the right to nominate persons to act as Directors of STW from completion of the Merger. WPP has nominated Mr John Steedman as one of those Directors.

Mr Steedman offers himself for election as a Director at the Meeting. If Resolution 8 is passed, Mr Steedman's appointment as a Director will take effect on completion of the Merger.

Please see section 9.7(c) of the Explanatory Memorandum accompanying this Notice of Meeting for a biography of Mr Steedman.

As Mr Steedman will represent the interests of WPP, the STW Board does not consider that he will be an independent director if elected.

EXPLANATORY NOTES (CONTINUED)

RESOLUTION 8 – ELECTION OF DIRECTOR (MR JOHN STEEDMAN) (CONTINUED)

If the Merger is implemented and Resolution 8 is not approved by the STW Shareholders, WPP has the right under the Transaction Agreements to nominate one or more persons to act as Directors to fill in casual vacancies on the STW Board, as may be required to ensure that WPP Nominees comprise the majority of the STW Board with effect from completion. In accordance with the ASX Listing Rules, any such Directors will be hold office until, and must seek re-election from the STW Shareholders at, the next annual general meeting of STW.

Resolution 8 is an ordinary resolution.

Board recommendation

The STW Directors (excluding Paul Richardson) support the election of Mr Steedman and recommend that STW Shareholders vote in favour of this resolution.

RESOLUTION 9 – ELECTION OF DIRECTOR (MR JON STEEL)

The Governance Deed Poll gives WPP the right to nominate persons to act as Directors of STW from completion of the Merger. WPP has nominated Jon Steel as one of those Directors.

Mr Steel offers himself for election as a Director at the Meeting. If Resolution 9 is passed, Mr Steel's appointment as a Director will take effect on completion of the Merger.

Please see section 9.7(c) of the Explanatory Memorandum accompanying this Notice of Meeting for a biography of Mr Steel.

As Mr Steel will represent the interests of WPP, the Board does not consider that he will be an independent director if elected.

If the Merger is implemented and Resolution 9 is not approved by the STW Shareholders, WPP has the right under the Transaction Agreements to nominate one or more persons to act as Directors to fill in casual vacancies on the STW Board, as may be required to ensure that WPP Nominees comprise the majority of the STW Board with effect from completion. In accordance with the ASX Listing Rules, any such Directors will be hold office until, and must seek re-election from the STW Shareholders at, the next annual general meeting of STW.

Resolution 9 is an ordinary resolution.

Board recommendation

The STW Directors (excluding Paul Richardson) support the election of Mr Steel and recommend that STW Shareholders vote in favour of this resolution.

ATTACHMENT 2

KPMG Corporate Finance
A division of KPMG Financial Advisory Services (Australia) Pty Ltd
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The Independent Directors
STW Communications Group Limited
Level 6, 72 Christie Street
St Leonards NSW 2065

29 February 2016

Dear Independent Directors

Independent Expert Report and Financial Services Guide

Part One – Independent Expert's Report

1 Introduction

On 14 December 2015, STW Communications Limited (STW) announced it had entered into an agreement to merge with the Australian and New Zealand businesses (WPP ANZ) of WPP plc (Proposed Merger).

The Proposed Merger will be effected through the acquisition by STW Media Services Pty Limited, a wholly owned subsidiary of STW, of the share capital of WPP ANZ[1]. STW will issue approximately 423 million new STW shares (Consideration) to Cavendish Square Holding B.V. (WPP) (a wholly owned subsidiary of WPP plc). As a result WPP's interest in STW will increase from 23.55% to 61.50%.

STW will also assume debt of approximately $252 million (net debt of approximately $125 million) that WPP ANZ owes to the WPP Group (WPP Debt). STW intends to refinance the WPP Debt and the existing STW facilities on completion of the Proposed Merger using external bank finance (Refinancing). However, if the Refinancing does not occur by completion of the Proposed Merger, WPP will procure that WPP Luxembourg Europe Two Sarl (Lender) refinances the $252 million debt on the terms of the WPP Shareholder Loan. The WPP Shareholder Loan will remain in place for three years or until the Refinancing is completed. In that case, the Combined Group will be required to grant security over certain assets of WPP ANZ to the Lender (Granting of Security). The assumption of the WPP Debt and, if

[1] The holding companies of WPP ANZ include Possible Australia Pty Ltd and WPP Holdings (New Zealand) Limited. The two holdings companies hold 100% of WPP ANZ and no other unrelated assets/liabilities

the Refinancing does not occur, the WPP Shareholder Loan and the Granting of Security, form part of the terms of the Proposed Merger.

The Proposed Merger includes the contribution of WPP plc's interest in companies in which WPP plc and STW currently have joint ownership, including Ogilvy, Ogilvy PR, J. Walter Thompson, Mindshare, Maxus and Added Value (Joint Ventures). The Proposed Merger excludes investments in oOh!media Limited and certain other WPP businesses[2].

Further details in relation to the Proposed Merger are provided in Section 5.1 of this report.

STW is an advertising, marketing and communications services company that is listed on the Australian Securities Exchange (ASX). STW employs around 3,500 people and operates predominantly in Australia, New Zealand and South East Asia. Immediately prior to the announcement of the Proposed Merger on 10 December 2015, STW had a market capitalisation of $311 million[3].

WPP plc is a world-leading media, marketing, and communications company listed on the London Stock Exchange and NASDAQ in New York. WPP plc reported revenues of US$ 11.5 billion as at December 2014. Prior to the Proposed Merger on 10 December 2015, WPP plc had a market capitalisation of US$ 29.5 billion[4]. WPP ANZ includes the following businesses: advertising; media and data investment management; public relations and public affairs; direct, digital, promotion & relationship marketing; specialist branding and identity and healthcare advertising agencies.

The Independent Directors of STW have requested that KPMG Financial Advisory Services (Australia) Pty Ltd (of which KPMG Corporate Finance is a division) (KPMG Corporate Finance) prepare an independent expert's report setting out whether the Proposed Merger and the Granting of Security are fair and reasonable to the shareholders of STW that are not associated with the Proposed Merger (Non-associated Shareholders).

This report outlines KPMG Corporate Finance's opinion as to the merits or otherwise of the Proposed Merger having regard to the terms of the Proposed Merger, including the Granting of Security. This report should be considered in conjunction with and not independently of the information set out in the notice of meeting and explanatory memorandum.

KPMG Corporate Finance's Financial Services Guide is contained in Part Two of this report.

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[2] Verticurl Marketing Services Pty Limited, Salmon Asia Pacific Pty Limited, NeedScope International Limited, and Lightspeed

[3] On 10 December 2015, STW had 429,190,045 shares outstanding with the closing price of $0.725 per share

[4] Source: S&P Capital IQ

2 Requirement for our report

The completion of the Proposed Merger is subject to, *inter alia*, the approval by the Non-associated Shareholders of the following shareholder resolutions:

- an ordinary resolution pursuant to Section 611, item 7 of the Corporations Act 2001 (the Act), approving the issue of STW ordinary shares to WPP (Resolution 1), and
- an ordinary resolution for the purpose of Listing Rule 10.1 of the ASX Listing Rules, approving the acquisition of the shares in WPP ANZ by STW and other associated transactions, including the Granting of Security (Resolution 2).

2.1 Requirement under Section 611 of the Act

STW requires an IER pursuant to Section 611 of the Act as, if approved, WPP, as a 23.55% shareholder of STW, will acquire further shares in STW without making a full takeover offer for all the shares in STW. In such cases, the Australian Securities and Investments Commission (ASIC) requires that shareholders be supplied with sufficient information to enable them to assess the merits of the proposal. In such circumstances, the Independent Directors are required to provide shareholders with a detailed analysis of whether the proposed transaction is fair and reasonable. The Independent Directors may undertake such an analysis or, as in this case, the Independent Directors may engage an independent expert to report on the proposal.

2.2 Related party transactions

A transaction with a person in a position of influence that requires member approval under ASX Listing Rule 10 must include an IER in the notice of meeting which states whether the transaction is fair and reasonable.

For the Proposed Merger, WPP is a substantial holder of STW and WPP ANZ is a substantial asset.

In addition, the Granting of Security is considered to be a disposal of a substantial asset to WPP (a substantial holder).

Further details regarding the basis of assessment of the IER are set out in Section 6.2 of this report.

3 Opinion for the Non-associated Shareholders

In our opinion, we consider the Proposed Merger **to be fair and reasonable to the Non-associated Shareholders**, under Item 7 of Section 611 and ASX Listing Rule 10.1, in the absence of a superior proposal.

In arriving at this opinion, we have considered the terms of the Proposed Merger, including the Granting of Security. We have assessed whether the Proposed Merger is:

- *fair*, by comparing:
  - our assessed value of the Consideration to our assessed value of the equity of WPP ANZ, on a controlling interest basis, and

  - the value of a share in STW on a controlling basis before the Proposed Merger, to the value of a share in WPP ANZ and STW following completion of the Proposed Merger (Combined Group), on a minority (portfolio) basis

- *reasonable*, by assessing for the Non-associated Shareholders:
  - implications of the Proposed Merger
  - available alternatives to the Proposed Merger and,
  - the consequences of not approving the Proposed Merger.

The value of the Consideration is based on the value of the shares in STW. In forming our view on the value of STW, we have considered a series of factors including STW's earnings profile, size and market position, growth prospects and operating structure. As required by RG 111, "Content of expert reports", we have valued STW on a controlling interest basis.

We have valued the equity in WPP ANZ based on similar factors to that of STW and also on a controlling basis.

We have assessed the value of an STW share to be in the range of \$0.94 to \$1.12, on a controlling basis. The value of the Consideration, being approximately 423 million new STW shares, is between \$397.0 million and \$472.9 million. We have compared the value of the Consideration to our assessment of the equity value in WPP ANZ on a controlling basis, of between \$431.9 and \$503.9 million.

In addition, we have assessed the value of a share in the Combined Group (on a portfolio basis) to be in the range of \$0.80 to \$0.95.

Therefore, on the basis that:

- our value range of the Consideration overlaps the value range of the equity in WPP ANZ, and
- our value range of a share in the Combined Group (on a portfolio basis) overlaps, albeit marginally, the value range of a share in STW before the Proposed Merger, on a controlling basis

we consider the Proposed Merger to be fair.

Our analysis of the fairness of the Proposed Merger is detailed further in Section 3.1 below.

In accordance with RG 111, an offer is reasonable if it is fair. As we have assessed the Proposed Merger to be fair, this means that the Proposed Merger is reasonable. However, we have also considered a range of other factors that are relevant to assessing the reasonableness of the Proposed Merger and which on balance, support a reasonableness conclusion.

These include:

- the value of a share in the Combined Group (on a portfolio basis) represents a premium to the trading price of STW shares before the announcement of the Proposed Merger. We are of the view that this premium "received" by the Non-associated Shareholders is appropriate

- the relative contribution to, and ownership of, the Combined Group slightly favours the Non-associated Shareholders, as their contribution to the Combined Group is slightly lower than their relative ownership of the Combined Group
- on balance, we are of the view that the Granting of Security is reasonable as the WPP Shareholder Loan is a temporary measure until the Refinancing is achieved and ranks second to the existing security provided to the current senior lenders of STW. In addition, the consequences of not approving the Granting of Security would be an uncertain refinancing process and potential immediate repayment of the assumed debt in certain circumstances
- the Combined Group is expected to become one of the leading participants in its industry in Australia, with pro-forma statutory annual net revenue of $849.4 million and normalised earnings before interest, tax, depreciation and amortisation (EBITDA) of $153.9 million. This increase in scale should provide the Combined Group with a significantly better negotiating position in the industry than STW on a stand-alone basis. In addition, the Combined Group will have a more diversified portfolio of services and clients and is expected to benefit from a simplified organisational structure, as the Joint Ventures' ownership and management will be consolidated into the Combined Group
- the Combined Group is expected to realise pre-tax operating cost synergies of $15 million per annum (pa) over three years arising from a reduction in administrative costs, property rationalisation, consolidation of duplicated shared services infrastructure and operating efficiencies. The total one-off cost to implement these synergies is estimated at $10 million. The Combined Group is also expected to benefit from the extended geographical reach, brand recognition and third party procurement agreements associated with WPP plc and to eventually realise incremental cost and revenue synergies beyond the initial $15 million pa estimate. The amount of incremental synergies has not been quantified
- the Combined Group will have a more favourable gearing position to that of STW prior to the Proposed Merger. STW's leverage, expressed as the ratio of net debt to EBITDA (Leverage) carries a maximum covenant of 3.0 times. STW's Leverage is expected to reduce from 2.6 times as at 31 December 2015 to a Combined Group pro-forma Leverage of 2.0 times. The reduction in Leverage should allow the Combined Group to negotiate more favourable borrowing terms, and fund growth opportunities as they arise. As such STW has commenced refinancing of the WPP Shareholder Loan used to fund the Proposed Merger, which is at an advanced stage
- earnings per share (EPS) are expected to slightly improve as a result of the Proposed Merger. STW EPS of 9.23 cents as at 31 December 2015 compares to pro-forma EPS of the Combined Group of 9.25 cents, before synergies. EPS accretion is expected to be significant going forward as synergies are realised. STW expects that on a 31 December 2015 pro forma basis, inclusion of pre-tax cost synergies of $15 million would result in EPS accretion in excess of 10%.
- in relation to corporate governance, WPP undertakes not to acquire further STW shares, except in limited circumstances. This provision limits the interest that WPP can hold in the Combined Group to at, or below, 61.496%. The circumstances where WPP can increase its holding include takeover bids, schemes of arrangement or shareholder approved acquisitions. As a result WPP cannot progressively increase its holding in the Combined Group

- no alternative proposal has emerged since the announcement of the Proposed Merger. STW is not aware of any alternative proposals, current or likely.

Our analysis of the reasonableness of the Proposed Merger is detailed further in Section 3.2 below.

The decision to approve the Proposed Merger or not is a matter for individual shareholders based on their views as to value, expectations about future market conditions and their particular circumstances including investment strategy and portfolio, risk profile and tax position. Non-associated Shareholders should consult their own professional adviser, if in doubt, regarding the action they should take in relation to the Proposed Merger.

3.1 The Proposed Merger is fair

Comparison of our assessed value of the Consideration to the equity value of WPP ANZ

We have assessed the value of the Consideration by multiplying the value of an STW share, on a controlling basis, by 423 million shares, being the number of new STW shares to be issued to WPP. We have compared the value of the Consideration to our assessed value of the equity in WPP ANZ on a controlling basis.

Our value range of the Consideration overlaps the value range of the equity in WPP ANZ.

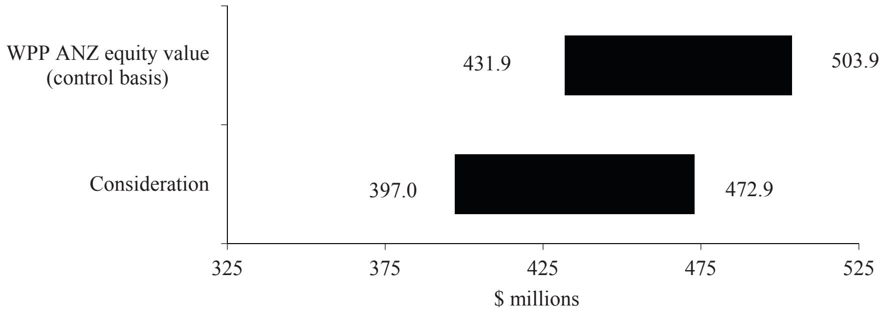
Table 1: Assessment of fairness – comparison of Consideration and WPP ANZ equity value

		Value range	
$ million (unless otherwise stated)	**Section reference**	**Low**	**High**
Equity value of STW on a control basis	10.3.1	402.8	479.8
Fully diluted shares on issue (millions)	10.3.7	429.2	429.2
Value per STW share ($) (on a control basis)	**10.3.1**	**0.94**	**1.12**
Number of shares issued to WPP (millions)	1	422.9	422.9
Value of Consideration		**397.0**	**472.9**
Equity value of WPP ANZ (on a control basis)	**10.4.1**	**431.9**	**503.9**

Source: KPMG Corporate Finance analysis
Note: Table may not sum due to rounding

The results of the table above are represented in the following figure.

Figure 1: Comparison of Consideration and WPP ANZ equity value



Source: KPMG Corporate Finance analysis

Our valuations of the shares in STW and the equity in WPP ANZ are based on the capitalisation of maintainable earnings methodology, and take into consideration:

- our assessment of the maintainable earnings of STW and of WPP ANZ on a stand-alone basis. The maintainable earnings do not reflect the unique benefits and synergies of the Proposed Merger. They reflect however normalisations for significant, non-recurring items, and other normalisation adjustments as detailed in Section 7.5
- our assessment of appropriate multiples to be applied to the selected maintainable earnings. The same multiples range has been applied to both STW and WPP ANZ taking into consideration the nature of their businesses, size, exposure to economic environment and outlook
- the net debt of each of STW and WPP ANZ as at 31 December 2015, as detailed in Sections 10.3.4 and 10.4.4
- several adjustments and other deductions, including working capital, earn-outs and other assets/liabilities. These adjustments are detailed in Sections 10.3.1 and 10.4.1.

We have cross-checked our valuations of STW and WPP ANZ by comparing them to share trading and high level discounted cash flow (DCF) analysis, respectively. In this regard we note:

- our range of value per share of STW on a control basis of $0.94 to $1.12 represents a premium of 34% to 60% to the 10 day value weighted average price (VWAP) of STW up to the announcement of the Proposed Merger, of $0.70. We consider this level of premium to be reasonable
- the high level DCF analysis overlaps our valuation of WPP ANZ determined based on capitalisation of maintainable earnings and therefore supports the valuation range of WPP ANZ.

Additional details on our cross-checks analysis can be found in Sections 10.3.8, 10.4.7.

Comparison of the value of a share in STW on a control basis before the Proposed Merger to the value of a share in the Combined Group on a portfolio basis

The Non-associated Shareholders hold 76.45% of STW before the Proposed Merger, and will hold 38.50% after the Proposed Merger given that they will not be issued any new STW shares. Therefore

WPP is increasing control over STW, and STW Non-associated Shareholders will be retaining a minority interest in the Combined Group. It is therefore necessary, per ASIC guidance, to compare the value of a share in STW on a control basis before the Proposed Merger to the value of a share in the Combined Group on a portfolio basis.

Our value range of a share in the Combined Group (on a portfolio basis) overlaps the value range of a share in STW before the Proposed Merger, on a control basis.

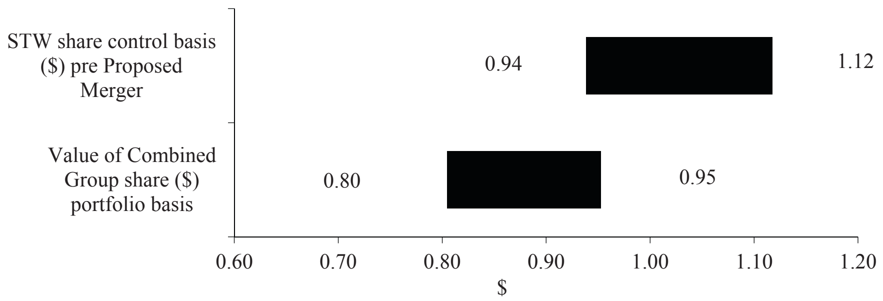
Table 2: Assessment of fairness – comparison of STW shares and Combined Group shares

		Value range	
$ million (unless otherwise stated)	**Section reference**	**Low**	**High**
Value per STW share ($) (control basis)	**10.3.1**	**0.94**	**1.12**
Equity value of Combined Group (control basis)	10.5.1	891.2	1,055.2
Less minority discount	10.5.1	(205.7)	(243.5)
Equity value of Combined Group (portfolio basis)	**10.5.1**	**685.5**	**811.7**
Fully diluted shares after the Proposed Merger (millions)	10.5.6	852.2	852.2
Value per Combined Group share ($) (portfolio basis)	**10.5.1**	**0.80**	**0.95**

Source: KPMG Corporate Finance analysis

The results of the table above are represented in the following figure.

Figure 2: Comparison of STW shares and Combined Group shares



Source: KPMG Corporate Finance analysis

The value of a share in the Combined Group on a portfolio basis overlaps, albeit marginally, the value of a share in STW on a control basis before the Proposed Merger. In our view, the high end of the range of $0.95 is fully supported due to the conservative treatment of synergies, in that we have included the low end of the range of estimated cost synergies and have applied a lower earnings multiple than that applied to the business. In addition, post announcement share trading of STW shares has been as high as $0.97.

The value of a share in the Combined Group includes a minority discount of 23.1% (associated with a 30% control premium). Even at this relatively generous level of discount there is overlap of the value ranges. If a lower minority discount is applied then the overlap would be greater. For example a minority discount of 20% (associated with a 25% control premium) results in a range of $0.84 to $0.99, and a minority discount of 16.7% (associated with a 20% control premium) results in a range of $0.87 to $1.03.

There are portions of the range of value of the Combined Group on a portfolio basis that do not overlap the value of STW before the Proposed Merger (on a controlling basis). If any Non-associated

Shareholders formed the view that the Combined Group value on a portfolio basis fell well below $0.94, then they may not consider the Proposed Merger to be fair.

Our valuation of a share in the Combined Group takes into consideration the following:

- our assessment of a maintainable earnings level, which is based on the aggregation of the individual levels of maintainable earnings of STW and WPP ANZ on a standalone basis
- our assessment of an appropriate EBITDA multiple. We have considered it reasonable, as a starting point, to apply the same multiple as that used for the valuation of STW and WPP ANZ on a standalone basis (of 7.5 times to 8.5 times). To obtain the equity value of the Combined Group on a portfolio basis we have applied a minority discount of 23.1%, which is associated with a 30% control premium. The resulting implied minority EBITDA multiple range is approximately 6.2 times to 7.0 times. This range is considered reasonable based on our analysis of the comparable companies and comparable transactions, the size of the Combined Group, the assumed leverage and its growth prospects
- the inclusion of expected pre-tax operating cost synergies of $15 million pa. We have however capitalised the synergies using a lower multiple range of 5.5 times to 6.5 times to recognise a degree of execution risk and implementation time
- we have crosschecked our value range of $0.80 to $0.95 by comparing it to the trading prices of STW shares after the Proposed Merger. The VWAP of STW shares from the announcement of the Proposed Merger to 26 February 2016 is $0.78 and the price of STW shares has been as high as $0.97. We are of the view that this share trading evidence is supportive of our value range.

Additional details of our assessment of the value of a share in the Combined Group is found in Section 10.5.

Conclusion on fairness

In summary, we have found that:

- our value range of the Consideration overlaps the value range of the equity in WPP, and
- our value range of a share in the Combined Group (on a portfolio basis) overlaps, albeit marginally, the value range of a share in STW before the Proposed Merger, on a controlling basis.

Therefore, we consider the Proposed Merger to be fair.

3.2 The Proposed Merger is reasonable

In accordance with RG 111, an offer is reasonable if it is fair. As we have assessed the Proposed Merger to be fair, this means that the Proposed Merger is reasonable. However, we have also considered a range of factors as set out below that on balance support a reasonableness conclusion.

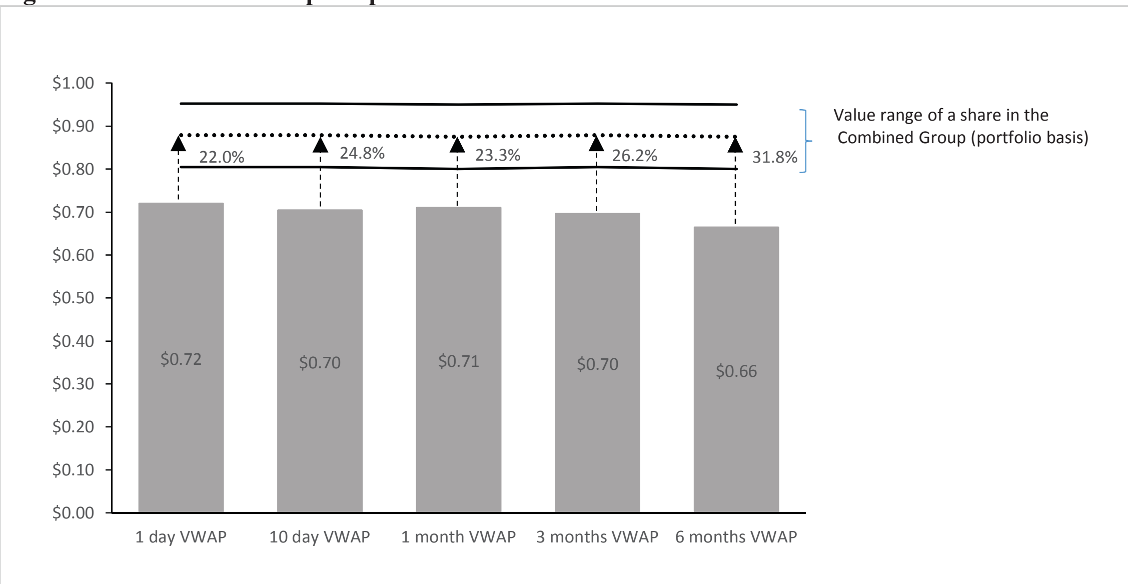
Assessment of the level of control premium

Our assessed value of a share in the Combined Group on a portfolio basis is $0.80 to $0.95. The midpoint value of this range represents a premium of 24.8% to the 10 day VWAP of STW shares of $0.70 before the announcement of the Proposed Merger. This represents the control premium that the Non-associated

Shareholders are "receiving" for foregoing control in the Combined Group. By foregoing control the Non-associated Shareholders share in the benefits of the Combined Group and the associated synergies generated by the Combined Group. In this regard, our valuation of the Combined Group includes the value of these synergies.

The figure below illustrates the premium implied by the midpoint of our valuation range of a share in the Combined Group (on a portfolio basis), being $0.88, to the historical share price of STW.

Figure 3: Assessment of implied premium



Source: S&P Capital IQ, KPMG Corporate Finance analysis

We note that WPP already owns a significant interest in STW (23.55%). Therefore, while it is expected that WPP should pay a premium for obtaining control of the Combined Group, such a premium will be influenced by WPP's existing holding and the extent of synergies to be realised (by any market participant of similar size and scale) as a result of the Proposed Merger.

In this regard, observations from transaction evidence indicate that takeover premiums generally range from 20% to 35%[5] for completed takeovers depending on the individual circumstances. In transactions where it was estimated that the bidder would be able to achieve significant synergies, the takeover premium was frequently estimated to be at the high end of this range or greater.

On this basis, we are of the view that the premium received by the Non-associated Shareholders is appropriate.

[5] Based on analysis of transactions between 2000 and 2015 sourced from Connect4

Contribution to the merger and ownership in the Combined Group after the Proposed Merger

The relative contribution to, and ownership of, the Combined Group slightly favours the Non-associated Shareholders, as their contribution to the Combined Group is slightly lower than their relative ownership of the Combined Group.

As part of the Proposed Merger, STW will acquire WPP ANZ in exchange for new STW shares. WPP's interest of 23.55% in STW will increase to approximately 61.50%. The Non-associated Shareholders' interest will reduce from approximately 76.45% to approximately 38.50%.

Therefore, in order to make a consistent comparison of contribution by shareholders before the Proposed Merger and ownership in the Combined Group thereafter, we have compared the relative contributions made by the Non-associated Shareholders (as a group) with their relative ownership of the Combined Group after the Proposed Merger has been effected. This comparison has been undertaken based on the assessed underlying values of each entity (on a controlling basis).

This analysis is set out in the table below:

Table 3: Relative contribution and ownership interests based on underlying values

Relativity of contribution and ownership (mid point)				
Ownership ('000)	**NA STW Shareholders**	**Percentage**	**WPP**	**Percentage**
Number of shares before Proposed Merger	328,110	76.45%	101,080	23.55%
Number of shares issued	-		422,962	
Number of shares after Proposed Merger	328,110	38.50%	524,042	61.50%
Contribution ($' million)				
Standalone equity value (control basis)	441.3		467.9	
Contribution	337.4	37.11%	571.9	62.89%

Source: KPMG Corporate Finance analysis
Note 1: The contribution of the Non-associated Shareholders is calculated as 76.45% of the underlying value of STW (i.e. excluding WPP's direct holding of 23.55%)
Note 2: The contribution of WPP is calculated as the underlying value of WPP plus the 23.55% interest in STW prior to the Proposed Merger

The above analysis indicates that, based on underlying midpoint values, the contribution made by the respective security holders is consistent and slightly lower than their relative ownership of the Combined Group.

Granting of Security

In assessing the merits of the Granting of Security, we have considered in particular the following:

- any advantages and disadvantages of the Granting of Security, and
- the consequences of not approving the Granting of Security.

The WPP Shareholder Loan is only meant to be a temporary alternative while the Refinancing is being completed. In this regard, we understand that the Refinancing is to be unsecured and will be priced at a significantly lower cost and margin than the WPP Shareholder Loan. Therefore, there are no advantages in relation to the terms of the WPP Shareholder Loan relative to the Refinancing. Consequently, in that context, there are no financial advantages pertaining to the Granting of Security.

In relation to disadvantages, we note the following:

- the Granting of Security is likely to reduce the ability of the Combined Group to raise additional debt. STW management has indicated that the debt assumed by the Combined Group as a result of the Proposed Merger is sufficient to fund the operations contemplated in STW's business plan and that no additional debt should be required. However, should acquisition opportunities arise that require debt funding, they may be hindered depending on the size of the opportunity
- it is likely that the ability to dispose of assets would be limited. In this regard, STW management has indicated that the ability to dispose of assets would have been limited regardless of the Granting of Security as STW's arrangement with its current senior lenders already requires their consent.

The consequence of not approving the Granting of Security is that this would result in a default event under the terms of the WPP Shareholder Loan. In these circumstances, the debt assumed would become immediately due and payable. STW would then seek alternative funding to comply with the terms of the WPP Shareholder Loan, the outcome of which would be uncertain.

The WPP Shareholder Loan is a temporary measure until the Refinancing is achieved and ranks second to the existing security provided to the current senior lenders of STW. We understand however that the Refinancing is at an advanced stage of negotiation, even though it may not be finalised at the time of the completion of the Proposed Merger. In addition, the consequences of not approving the Granting of Security would be an uncertain refinancing process and potential immediate repayment of the assumed debt in certain circumstances.

Accordingly, in our view the Granting of Security is reasonable.

The scale of operations of the Combined Group will increase considerably, and will offer a more diversified product mix, in a highly competitive industry

The Combined Group's pro-forma statutory net sales and normalised EBITDA are $849.4 million and $153.9 million, respectively. Combined Group net sales are more than double the net sales of STW on a stand-alone basis as at 31 December 2015, and approximately double the corresponding normalised EBITDA. The following operational benefits are expected of the Proposed Merger:

- the Combined Group will be a subsidiary of WPP plc. As such, a Majority Shareholder Deed will be entered into between STW and WPP with the purpose of regulating matters such as information sharing and group procurement. In relation to information sharing, WPP will be entitled to receive information related to financial and operational matters, for group compliance purposes. Integration benefits related to IT systems, treasury functions, procurement of goods and services and technology are expected to be achieved through WPP plc's procurement agreements with third parties
- WPP ANZ's Media and Advertising divisions represent 35% and 31% respectively, of its net sales as at 31 December 2015. STW has indicated that these business divisions will be complementary to those of STW. This is likely to result in a more diversified revenue mix and client portfolio for the Combined Group. While some client attrition may arise, generally, increased diversification should allow the Combined Group to capitalise on an enlarged service offering.

The media and advertising industry in Australia is fragmented and highly competitive. In this context, an overall doubling of market share, the realisation of cost synergies related to the optimisation of operations and the access to the specific expertise and international market recognition of WPP plc through WPP ANZ, are factors that should enhance the competitive position of the Combined Group significantly when compared to other participants. In addition, in an industry where client spending is uncertain from one period to the next, these benefits would be difficult for STW to achieve stand alone in the short term, either through organic growth, or smaller acquisitions.

The Proposed Merger may result in financial benefits for the Combined Group

The Combined Group is expected to have improved EPS and Leverage metrics compared to that of STW on a stand-alone basis. The table below summarises the EPS calculation for STW and the pro-forma Combined Group at 31 December 2015.

Table 4: EPS

FY15 $'millions (unless stated otherwise)	Report Section	STW	WPP ANZ	Combined Group
EBIT	9.5	67.2	66.1	138.2
NPAT attributable to ordinary equity holders[1]	9.5	39.6	39.3	78.9
Share on issue (in millions)[2]	7.8	429.2	n/a	852.2
Pro-forma EPS (in cents)		**9.23**	**n/a**	**9.25**
Target dividend payout ratio	7.5.1	60%-70%	n/a	60%-70%
Dividends (in cents)		**5.54-6.46**	**n/a**	**5.55-6.48**

Source: KPMG Corporate Finance analysis, STW management
Note 1: NPAT calculated before any amortisation of intangibles relating to fair value adjustments
Note 2: STW's total number of shares of 429.2 million includes shares in its Executive Share Plan
Note 3: n/a refers to not applicable

We note that pro-forma EPS of the Combined Group do not include the pre-tax cost synergies estimate of $15 million pa.

The following table sets out the calculation of the pro-forma Leverage of the Combined Group.

Table 5: Leverage

31 December 2015 $'million	STW	Combined Group
Net debt - covenant basis	220.0	311.5
EBITDA - covenant basis	85.6	153.9
Net debt / EBITDA	**2.6x**	**2.0x**

Source: Explanatory Memorandum
Note: Leverage metrics based on STW covenant definitions. EBITDA calculated as statutory EBITDA adjusted for the impact of dividends from associated entities and one-off gains/losses

STW's current maximum Leverage is 3.0 times, and therefore Leverage of 2.0 times will be an improvement in gearing headroom, based on current bank covenants. In addition to slightly higher EPS metrics, reduced Leverage should allow the Combined Group enhanced access to funding, compared to STW on a stand-alone basis, should it seek to fund opportunistic acquisitions. Further, the strengthened balance sheet should allow greater capacity to raise equity and also attract better borrowing terms. In this regard, we understand that the Refinancing is at an advanced stage of negotiation, although it might not be finalised at the time of the completion of the Proposed Merger.

A further reduction in Leverage from the current assumed pro-forma levels may arise from realisation of the expected pre-tax cost synergies of $15 million pa.

The financial benefits that the Combined Group aim to achieve are underpinned by the operations scale, capital structure and cost synergies expected from the Proposed Merger. Equivalent financial benefits, and the associated opportunities that may result from a strengthened balance sheet, may be unavailable to STW in the absence of the Proposed Merger.

Corporate Governance framework

If the Proposed Merger is approved a binding governance framework will be entered into between STW and WPP which includes a Governance Deed Poll. This agreement relates to the composition of the Board of the Combined Group and WPP undertaking not to acquire further STW shares (Standstill) except in limited circumstances discussed below. This undertaking will be in place for as long as WPP's voting power in the Combined Group is not less than 40%.

The Governance Deed Poll seeks to limit the further dilution of shareholders in the Combined Group that are not associated with WPP after the Proposed Merger. These measures may allay concerns of minority shareholders that the existence of majority shareholder may negatively impact market prices and liquidity; and that WPP might increase its holding (with further minority dilution) in the absence of circumstances that afford them similar opportunities, or require shareholder approval.

Accordingly, in relation to the Standstill agreement, WPP must ensure that its voting power does not exceed 61.496%, except in limited circumstances, which include:

- a transaction approved by an ordinary resolution passed at a general meeting of STW where no votes are cast by WPP or any of its associates
- the taking up of entitlements under any pro-rata rights issue of STW shares
- pursuant to an off-market bid or market bid made under Chapter 6 of the Corporations Act
- pursuant to a scheme of arrangement made under Part 5.1 of the Corporations Act
- pursuant to participation by WPP in any dividend reinvestment or bonus share scheme of STW (but not underwriting the same); or
- following a cancellation of capital or a share buy-back by STW, provided that, if WPP's voting power exceeds 61.496%, WPP must, within 12 months of the buy-back, take all requisite steps to reduce it to, or below, 61.496%.

Likelihood of a superior alternative proposal

STW and WPP plc have joint ownership of the Joint Ventures and WPP has a 23.55% interest in STW. Given these relationships, it is unlikely that a third party would seek to merge/acquire STW without the support of WPP and WPP plc. In a highly competitive industry, the alignment of commercial interests between STW, WPP and a hypothetical third party bidder of similar size is likely to be difficult to negotiate and eventually implement.

An alternative for a third party would be to seek 100% control through an all cash offer to the shareholders of STW. Again, it is likely that WPP's 23.55% interest in STW would deter any potential bidders as they risk not achieving full control without the support of WPP.

STW has confirmed that STW has not received an all cash offer (or approach) nor is aware of any alternative proposals, current or likely.

In this regard, on 5 June 2015 STW shares traded at $0.53 per share, their lowest price in the period from January 2014 to the day before the Proposed Merger was announced. Given that no opportunistic bids for STW emerged at that low share price, and based on the previous comments, we are of the view that it is unlikely that a superior alternative proposal will arise.

Consequences of not approving the Proposed Merger

In the event the Proposed Merger does not proceed, no new STW shares will be issued to WPP and Non-associated Shareholders will retain their current interest in STW. Similarly, there will be no changes to the Board. Other key implications are:

- the business relationship with WPP, including the Joint Ventures, will continue unchanged
- WPP plc will not be prevented from privately proposing a business transaction to STW, taking any actions approved by the Independent Directors of STW, or acquiring shares pursuant to dividend reinvestment plans or taking up an entitlement under a pro-rata issue. Further, WPP plc will not be restricted from making a full takeover bid or other 100% control proposal for STW if either a third party has publicly announced a full takeover bid or other 100% control proposal that is publicly announced, or STW notifies WPP plc that it is constructively engaging with any external party in relation to a change of control transaction.

A consequence of the Proposed Merger not proceeding is that STW will continue to execute the strategy outlined prior to the Proposed Merger, which focuses on revenue growth, rationalisation of non-core businesses, capital management and achieving cost savings. In this regard, Non-associated Shareholders will continue to be exposed to the risk of the strategy not eventuating in one or several of the areas of focus. In particular, we note that shareholder concern over the leverage levels of STW has been present for some time and may have been reflected in share prices.

We note that the Proposed Merger is expected to deliver some of these key strategic initiatives, namely revenue growth, achieving a better capital position and significant costs savings.

If the Proposed Merger does not proceed, the Non-associated Shareholders may forego the opportunity to achieve these key strategic outcomes and potential improvements in EPS. In addition, shareholder concern over STW leverage levels may remain. As a consequence, the price in STW shares may fall, given that currently it likely incorporates some of the expected benefits of the Proposed Merger.

3.3 Other considerations

In forming our opinion, we have also considered a number of other factors as outlined below. Although we do not necessarily consider these will impact our assessment of the reasonableness of the Proposed Merger, we consider it necessary to address these considerations in arriving at our opinion.

- the Governance Deed Poll limits the shareholding of WPP to 61.496%. The presence of a large controlling shareholder may reduce the liquidity in the trading of the shares in the Combined Group. However the Combined Group will continue to be included in the S&P/ASX All Ordinaries, 300 and Small Ordinaries Indices and covered by brokers
- the Combined Group will become a subsidiary of WPP plc and therefore may become affected by foreign laws and compliance obligations that apply to WPP plc, in particular related to corporate governance and taxation.
- STW will incur transaction costs relating to adviser, legal, accounting, expert fees and other costs associated with the Proposed Merger, irrespective of whether the Proposed Merger is implemented. We note however that STW has not agreed to pay a break fee in relation to the Proposed Merger.
- the Proposed Merger proceeding is subject to a number of conditions, including approval from the Foreign Investment Review Board (FIRB), the Australian Competition and Consumer Commission (ACCC), and waiver or confirmation from the ASX in respect of compliance with ASX Listing Rules 10.11, 11.1 and 12.5. Other conditions include WPP plc completing an internal reorganisation of WPP ANZ to facilitate the transaction. As at the date of this report, approval had been received from FIRB and the ACCC, however the other conditions are yet to be satisfied.

4 Other matters

In forming our opinion, we have considered the interests of the Non-associated Shareholders as a whole. This advice therefore does not consider the financial situation, objectives or needs of individual STW shareholders. It is not practical or possible to assess the implications of the Proposed Merger on individual STW shareholders as their financial circumstances are not known. The decision of Non-associated Shareholders as to whether or not to approve the Proposed Merger is a matter for individuals based on, amongst other things, their risk profile, liquidity preference, investment strategy and tax position. Individual Non-associated Shareholders should therefore consider the appropriateness of our opinion to their specific circumstances before acting on it. As an individual's decision to vote for or against the proposed resolutions may be influenced by his or her particular circumstances, we recommend that individual Non-associated Shareholders including residents of foreign jurisdictions seek their own independent professional advice.

Our report has also been prepared in accordance with the relevant provisions of the Act and other applicable Australian regulatory requirements. This report has been prepared solely for the purpose of assisting Non-associated Shareholders in considering the Proposed Merger. We do not assume any responsibility or liability to any other party as a result of reliance on this report for any other purpose.

Neither the whole nor any part of this report or its attachments or any reference thereto may be included in or attached to any document, other than the Notice of Meeting and Explanatory Memorandum to be sent to STW Shareholders in relation to the Proposed Merger, without the prior written consent of KPMG Corporate Finance as to the form and context in which it appears. KPMG Corporate Finance consents to the inclusion of this report in the form and context in which it appears in the Notice of Meeting and Explanatory Memorandum.

Our opinion is based solely on information available as at the date of this report as set out in Appendix 2 of the report. We note that we have not undertaken to update our report for events or circumstances arising after the date of this report other than those of a material nature which would impact upon our opinion. We refer readers to the limitations and reliance on information section as set out in Section 6.3 of our report.

All currency amounts in this report are denominated in Australian dollars unless otherwise stated.

The above opinion should be considered in conjunction with and not independently of the information set out in the remainder of this report, including the appendices.

Yours faithfully

Adele Thomas	Ian Jedlin
Authorised Representative	Authorised Representative

Contents

5 The Proposed Merger

5.1 Background and overview

On 14 December 2015, STW announced it had entered into an agreement to merge with WPP ANZ, the Australian and New Zealand businesses of WPP plc (Proposed Merger).

The Proposed Merger will be effected through the acquisition by STW Media Services Pty Limited, a wholly owned subsidiary of STW, of the share capital of WPP ANZ. STW will issue approximately 423 million new STW shares (Consideration) to WPP and as a result WPP's interest in STW will increase from 23.55% to 61.50%.

STW and WPP agreed that the basis of transaction would be that WPP ANZ would be valued on a multiple that was comparable to the STW forecast 2015 normalised trading multiple and that the new STW shares would be issued at a 30% premium to the 10-day volume weighted average STW share price to 10 December 2015.

STW will also assume debt of approximately $252 million (net debt of approximately $125 million) which WPP ANZ owes to the WPP Group (WPP Debt). STW intends to refinance the WPP Debt, together with STW's existing bank facilities, with external bank finance on completion of the Proposed Merger (Refinancing). However, if the Refinancing does not occur, WPP will procure that WPP Luxembourg Europe Two Sarl (Lender) refinances the WPP Debt on the terms of the WPP Shareholder Loan, which contemplates the Granting of Security within a specified period following completion. Final security documents will be prepared only if it becomes apparent that the Refinancing will not occur within the stipulated time period after completion. In this regard, STW has commenced a refinancing process for its debt facilities and the WPP Debt.

The Proposed Merger includes the contribution of WPP plc's interest in the Joint Ventures. The Proposed Merger excludes investments in oOh!media Limited and certain other WPP businesses.

The businesses of STW and WPP ANZ are expected to continue in their current form as there is currently no intention to divest any business or material assets. Following the merger, STW intends to change its name to align it with WPP, subject to STW Shareholder approval.

The Proposed Merger is expected to be EPS accretive, and to achieve cost synergies of at least $15 million pa, within three years of the merger, on a pre-tax basis. One-off costs to achieve these synergies are estimated at $10 million.

Chief Executive Officer Mike Connaghan and Chief Financial Officer Lukas Aviani will continue in their respective roles following the completion of the Proposed Merger.

If the Proposed Merger is approved a binding governance framework will be entered into between STW and WPP which includes:

- a Governance Deed Poll. This agreement relates to the composition of the Board of the Combined Group and the Standstill. These commitments will be in place for so long as WPP's voting power in the Combined Group is not less than 40%.

- in relation to Board Composition (and while WPP has more than 50% voting power): the Board is to include four Independent Directors (including the Chairperson, who shall be elected by a majority of Independent Directors). WPP will be entitled to nominate a majority of Directors (WPP Nominees). The current STW Chief Executive Officer will continue to be a Director
- in relation to the Standstill, WPP must ensure that its voting power does not exceed 61.496%, except in limited circumstances (such as in the case of a takeover bid, scheme or arrangement or shareholder approved acquisition)

- a Majority Shareholder Deed. The purpose of this agreement is to govern certain matters arising out of the Combined Group becoming a subsidiary of WPP. The agreement relates to information sharing and group procurement arrangements, for so long as WPP's voting power is not less than 40%.
  - in relation to information sharing, this arrangement entitles WPP plc to receive information, such as financial and operational data from STW, in order to comply with WPP plc group obligations. WPP plc undertakes to comply with any applicable laws in relation to access to inside information provided by the Combined Group
  - in relation to group procurement, the arrangement aims at obtaining integration benefits such as adopting consistent IT systems, optimising treasury functions, and procuring goods, services and technology for the Combined Group under WPP plc procurement agreements with third parties.

In addition to the Governance Deed Poll and the Majority Shareholder Deed, STW will enter into a Management Fee Framework Agreement. The primary purpose of this agreement is to determine the fee which will be paid by STW for services provided by the WPP Group to STW which trade under, or as part of certain brands of the WPP Group.

Furthermore, a Trademark Licence Agreement will be entered into by WPP Group and some of the businesses included in WPP ANZ, to govern the use of certain trademarks of the WPP Group in Australia and New Zealand.

In the absence of a superior proposal, and subject to the Proposed Merger being fair and reasonable, the Directors of STW (other than those who are also directors of WPP) intend to recommend that the Non-associated Shareholders approve the Proposed Merger.

5.2 Conditions of the Proposed Merger

The Proposed Merger is subject to a number of conditions which are set out in full in the Explanatory Memorandum. The key conditions are:

- approval by the Non-associated Shareholders of the following shareholder resolutions:
  - an ordinary resolution for the purpose of section 611 item 7 of the Corporations Act approving the issue of the Consideration Shares to WPP (Resolution 1)
  - an ordinary resolution for the purpose of Listing Rule 10.1 of the ASX Listing Rules approving the acquisition of WPP ANZ by STW and implementation of the certain transaction-related agreements between WPP plc and STW (Resolution 2)

  - an ordinary resolution for the purpose of clause 54 of the constitution of STW approving an increase in the maximum number of directors of STW to eleven (Resolution 3).

- approval from the Foreign Investment Review Board (FIRB) (satisfied on 3 February 2016)
- approval from Australian Competition and Consumer Commission (ACCC) (satisfied on 18 January 2016)
- approval from the Australian Securities Exchange (ASX) agreeing to waive and/or confirm compliance with ASX Listing Rules 10.11, 11.1 and 12.5 (satisfied on 19 February 2016)
- the completion of an internal reorganisation of the businesses of WPP ANZ, to facilitate their acquisition by STW
- no temporary restraining order, preliminary or permanent injunction or other order is issued by a court of competent jurisdiction or government agency or other material legal restraint or prohibition, preventing or delaying completion of the Proposed Merger is in effect.

5.3 Costs of the Proposed Merger

STW will incur transaction costs relating to adviser, legal, accounting, expert fees and other costs associated with the Proposed Merger of approximately $6 million. STW has not agreed to pay a break fee in relation to the Proposed Merger.

6 Scope of the report

6.1 Purpose

As mentioned in Section 2 STW requires an IER pursuant to Section 611 of the Act, and to ASX Listing Rule 10.1.

Section 611 of the Act

If the Proposed Merger is approved, WPP, a 23.55% shareholder in STW, will acquire additional shares in STW without making a full takeover offer for all the shares in STW. The Act, by virtue of Section 606, expressly prohibits an individual (or corporation), who already has voting power above 20% in a widely-held Australian public company from increasing its voting power unless a full takeover offer is made. An exemption to this rule is contained in Section 611, item 7 of the Act, which allows the target company shareholders the opportunity to vote to approve the acquisition.

Section 611 allows for an acquisition previously approved by a resolution passed at a general meeting of the company in which the said acquisition is proposed to be made. In passing the resolution, no votes may be cast by the potential acquirer or their associates or by the persons from whom the acquisition is to be made or their associates.

In the case of a resolution pursuant to Section 611, item 7 of the Act, the Australian Securities and Investments Commission (ASIC) requires that shareholders be supplied with sufficient information to enable them to assess the merits of the proposal. In such circumstances, the Independent Directors are required to provide shareholders with a detailed analysis of whether the proposed transaction is fair and reasonable. The Independent Directors may undertake such an analysis or, as in this case, the Independent Directors may engage an independent expert to report on the proposal.

ASX Listing Rule 10.1

Listing Rule 10.1 "Transactions with persons in a position of influence" indicates that an entity must ensure that neither it, nor any of its child entities acquires a substantial asset from, or disposes of a substantial asset to certain related parties, without the approval of holders of the entity's ordinary securities. A transaction with a person in a position of influence that requires member approval under ASX Listing Rule 10.1 must include an IER in the notice of meeting which states whether the transaction is fair and reasonable.

The Proposed Merger falls within the requirements of Listing Rule 10.1 as WPP is a substantial holder and WPP ANZ is a substantial asset.

In addition the Granting of Security is considered to be a disposal of a substantial asset to WPP (a substantial holder).

6.2 Basis of assessment

Requirement under Section 611 of the Act

ASIC's Regulatory Guide (RG) 74 "Acquisitions approved by members" indicates that the IER should comply with RG 111 "Content of expert reports", which requires an expert to focus on the purpose and outcome of the transaction rather than the legal mechanism to effect the transaction. Recent correspondence from ASIC indicates that in a transaction where shareholders will be left with a diluted interest in an expanded entity and forego the possibility of receiving a control premium in the future, and where the transaction consists of shares being issued in exchange for vending in a business, the transaction should be analysed as if it were a scrip takeover bid. In regards to takeover bids, RG 111 indicates:

- that the criteria to analyse a control transaction is to consider if the offer is "fair" and if it is "reasonable". "Fair and reasonable" is not regarded as a compound phrase
- an offer is "fair" if the value of the consideration is equal to or greater than the value of the securities subject to the offer
- the comparison should be made assuming 100% ownership of the 'target' and irrespective of whether the consideration is scrip or cash
- the expert should not consider the percentage holding of the 'bidder' or its associates in the target when making this comparison
- an offer is "reasonable" if it is "fair"
- an offer might also be "reasonable" if, despite being "not fair", the expert believes that there are sufficient reasons for shareholders to accept the offer in the absence of any higher bid before the close of the offer.

In addition, in relation to assessing non-cash considerations in control transactions, RG 111 indicates that the comparison should be made between the value of the securities being offered (allowing for a minority discount) and the value of the target entity's securities, assuming 100% of the securities are available for sale. Adapting this test to an Item 7 of Section 611 transaction involves a comparison of the control value of the share prior to the transaction with the portfolio value of the shares that will be "received" by the shareholder post the transaction i.e. comparing the control value of an STW share before the Proposed Merger with a portfolio value of an STW share in the Combined Group after the Proposed Merger.

Related Party Transactions

Under ASX Listing Rule 10.1, where a publicly listed company proposes to acquire a "substantial asset" from a related party or "substantial holder", the company must obtain the prior approval of its non-associated shareholders.

ASX Listing Rule 10.1 describes a "substantial asset" as an asset that has a value, in the ASX's opinion, of 5.0% or more of the shareholders' funds in the entity as set out in the latest accounts of the company.

For the purposes of ASX Listing Rule 10.1, a "substantial holder" is a party that has a relevant interest, or had a relevant interest at any time in the six months before the transaction, in at least 10% of the total votes attached to voting securities of the company.

We understand that ASX has determined that the approval of the Non-associated Shareholders is required pursuant to Listing Rule 10.1 in respect of both the Proposed Merger and the Granting of Security, on the basis that the Granting of Security constitutes an asset disposal.

RG 111 indicates the principles and matters which it expects a person preparing an independent expert report to consider in providing an opinion on whether a related party transaction is 'fair and reasonable' from the perspective of non-associated members. RG 111 notes:

- in assessing whether a related party transaction is 'fair and reasonable' the assessment should not be applied as a composite test
- a proposed related party transaction is 'fair' if the value of the financial benefit to be provided by the entity to the related party is equal to or less than the valuation of the consideration being provided to the entity
- in relation to an asset acquisition by the entity, it is 'fair' if the value of the financial benefit being offered by the entity to the related party is equal to or less than the value of the assets being acquired. Where the financial benefit given by the entity is securities in the entity and the consideration is securities in another entity held by a related party, the value of the entity's securities should be compared to the value of the securities it is purchasing
- in valuing the financial benefit given and the consideration received by the entity, an expert should take into account all material terms of the Proposed Merger
- a proposed related party transaction is 'reasonable' if it is 'fair'
- an offer might also be 'reasonable' if, despite being 'not fair', the expert believes that there are sufficient reasons for members to vote for the proposal. In such cases, in accordance with RG 111.61, the expert must clearly explain the meaning of this opinion.

6.3 Limitations and reliance on information

In preparing this report and arriving at our opinion, we have considered the information detailed in Appendix 2 of this report. In forming our opinion, we have relied upon the truth, accuracy and completeness of any information provided or made available to us without independently verifying it. Nothing in this report should be taken to imply that KPMG Corporate Finance has in any way carried out an audit of the books of account or other records of WPP plc, WPP, WPP ANZ or STW for the purposes of this report.

Further, we note that an important part of the information base used in forming our opinion is comprised of the opinions and judgements of management. In addition, we have also had discussions with WPP and STW's management in relation to the nature of WPP ANZ and STW business operations, their specific risks and opportunities, their historical results and prospects for the foreseeable future. This type of information has been evaluated through analysis, enquiry and review to the extent practical. However, such information is often not capable of external verification or validation.

WPP and STW have been responsible for ensuring that information provided by it or its representatives is not false or misleading or incomplete. Complete information is deemed to be information which at the time of completing this report should have been made available to KPMG Corporate Finance and would have reasonably been expected to have been made available to KPMG Corporate Finance to enable us to form our opinion.

We have no reason to believe that any material facts have been withheld from us but do not warrant that our inquiries have revealed all of the matters which an audit or extensive examination might disclose. The statements and opinions included in this report are given in good faith, and in the belief that such statements and opinions are not false or misleading.

The information provided to KPMG Corporate Finance included forecasts/projections and other statements and assumptions about future matters (forward-looking financial information) prepared by the management of STW and WPP. Whilst KPMG Corporate Finance has relied upon this forward-looking financial information in preparing this report, STW and WPP remain responsible for all aspects of this forward-looking financial information. The forecasts and projections as supplied to us are based upon assumptions about events and circumstances which have not yet transpired. We have not tested individual assumptions or attempted to substantiate the veracity or integrity of such assumptions in relation to any forward-looking financial information, however we have made sufficient enquiries to satisfy ourselves that such information has been prepared on a reasonable basis.

Notwithstanding the above, KPMG Corporate Finance cannot provide any assurance that the forward-looking financial information will be representative of the results which will actually be achieved during the forecast period. Any variations in the forward looking financial information may affect our valuation and opinion.

It is not the role of the independent expert to undertake the commercial and legal due diligence that a company and its advisers may undertake. The Independent Directors of STW, together with the Company's legal advisers, are responsible for conducting due diligence in relation to WPP ANZ. KPMG Corporate Finance provides no warranty as to the adequacy, effectiveness or completeness of the due diligence process, which is outside our control and beyond the scope of this report. We have assumed that the due diligence process has been and is being conducted in an adequate and appropriate manner.

The opinion of KPMG Corporate Finance is based on prevailing market, economic and other conditions at the date of this report. Conditions can change over relatively short periods of time. Any subsequent changes in these conditions could impact upon our opinion. We note that we have not undertaken to update our report for events or circumstances arising after the date of this report other than those of a material nature which would impact upon our opinion.

6.4 Disclosure of information

In preparing this report, KPMG Corporate Finance has had access to all financial information considered necessary in order to provide the required opinion. STW and WPP has requested KPMG Corporate Finance limit the disclosure of some commercially sensitive information relating to forward looking financial information. This request has been made on the basis of the commercially sensitive and confidential nature of the forward looking financial information of STW and WPP ANZ. As such the information in this report has been limited to the type of information that is regularly placed into the public domain by STW and WPP plc.

7 Profile of STW

7.1 Background

STW is an advertising, marketing and communications services company that is listed on the ASX. Information on the Australian media, marketing and communications industry is contained in Appendix 3.

STW was formed in 1985 in New South Wales, Australia as John Singleton Advertising and listed on the ASX in 1994. Following a number of acquisitions partnering with WPP (including Singleton Ogilvy & Mather, Mindshare, Ogilvy PR and J. Walter Thompson), in 2002 the company adopted its current name, STW, and in the following year officially joined the ASX 200 Index.

Since listing in 1994, STW has grown its business and developed capability through a number of acquisitions which are discussed in Section 7.2. Since 2011, STW has expanded into South East Asia and established seven businesses across key target markets including Singapore, Malaysia, Indonesia Thailand and Vietnam.

Today, STW comprises over 75 operating companies, some of which operate through joint venture arrangements with WPP plc. The Joint Ventures include Ogilvy, Added Value, J. Walter Thompson, Mindshare, Maxus and DT Digital. STW employs around 3,500 people and operates predominately in Australia, New Zealand and South East Asia.

Immediately prior to the announcement of the Proposed Merger on 10 December 2015, STW had a market capitalisation of $311 million and WPP owned approximately 23.55% of STW.

7.2 Acquisitions

STW has made a number of acquisitions over the past two decades. Through acquisition, STW has developed its capability in various markets (such as media, marketing and advertising, digital marketing, communications, market research and design) and grown to be a leading media and communications company in Australasia. Key acquisitions since 2000 are detailed in the table below.

Table 6: Key acquisitions since 2000

Year	Acquisitions / Investments	Principal Activity
Media		
November 2006	Ikon Communications	Media planning and buying
November 2006	New Dialogue	Media planning
March 2001	Mindshare	Media planning and buying
Marketing and advertising		
July 2012	Maverick	Experiential marketing and public relations
March 2012	Buchanan Group	Social marketing
December 2011	Edge Marketing	Marketing
September 2005	Assignment NZ	Advertising
September 2004	Advertising Works (Ogilvy New Zealand)	Advertising
December 2003	Badiar	Advertising
Digital Marketing		
May 2013	CPR Vision	Direct, digital and CRM
September 2012	Switched on Media	Digital marketing
August 2012	Aleph	Digital marketing
December 2011	Bullseye	Digital marketing
Communications		
January 2007	Hawker Britton	Public relations
December 2003	Canning Corporate Communications	Corporate communications
November 2003	The Brand Agency	Marketing communications
November 2000	Impact Employee Communications	Employee communications
May 2002	Ogilvy PR Group formed	Public relations
Market Research		
September 2013	Colmar Brunton	Market research
February 2006	AMR Interactive Group	Market research
August 2003	Added Value	Strategy and insights
Design		
July 2014	Active Display Group	Display and signage design
November 2006	Moon Design	Design
December 2003	Designworks	Design and branding
December 2003	Cornwell	Design
December 2003	EKH Branding (Designworks Sydney)	Design
Other		
July 2012	Markitforce	Marketing logistics
January 2009	Subnine	Sports sponsorship
July 2007	Alpha Salmon	Web development and data coding
May 2006	Phuel	Training

Source: STW management, STW Annual Reports

7.3 Strategy

STW introduced a three-pillared strategy in 2011 which focuses on:

- maintaining its leading position within Australia and New Zealand
- growing and leading in the evolving areas of services, including digital and data
- exporting its businesses into new markets, with a particular focus on South East Asia.

Following the disappointing performance in the year ended 31 December 2014 (FY14), during the following year, STW undertook a strategic review of the business which identified the following initiatives to improve performance going forward:

- create a new Executive Council (EXCO) to enable deeper and more direct engagement with each business segment
- create fewer, bigger, better businesses through optimising product portfolios, divesting non-core assets, and consolidating South East Asia businesses
- improve operational efficiencies through implementing cost out initiatives, extracting economies of scale from the business, and leveraging low cost offshore functions
- enhance financial strength and flexibility through revising debt terms, deleveraging and optimising capital structure
- grow shareholder value through maintaining the current dividend policy[6] and dividend reinvestment plan (DRP).

[6] STW's current dividend policy is to distribute 60% to 70% of underlying earnings

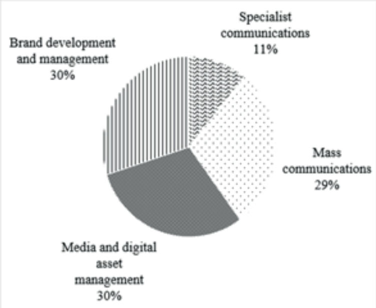
7.4 Business operations

STW provides marketing and communications services for clients through various channels including television, radio, print, outdoor and electronic forms. STW operates through two major segments[7]: Advertising, Production and Media (38% of FY15 revenue); and Diversified Communications (62% of FY15 revenue).

STW operates four cash generating units including Mass communications; Media and digital asset management; Brand development and management; and Specialist communications. The figure below outlines the revenue contribution of each division for FY15 and the individual brands underlying each division.

Figure 4: STW revenue contribution by division and brands

FY15 Revenue by Division



Brands

Mass communications	Media and digital asset management	Brand development and management	Specialist communications
Ogilvy NZ	Aleph Group	Active Display Group	Added Value
Badjar Group	Bohemia	Public relations	AMR/ORU
One20 Sydney	DT Group	Cornwell	Colmar Brunton
JWT	Fusion	Designworks NZ	Markitforce
Maverick	Ikon Group	Ogilvy PR Group	Phuel
One20 Melbourne	The White Agency/Tongue	Houston	Smollan
Ogilvy and Mather		Cannings Purple	
The Brand Agency			
Group M Media			

Source: STW management

In addition, STW has joint venture arrangements with WPP plc. Individual brands involved in the Joint Ventures have been detailed in Section 7.1. Following the completion of the Proposed Merger, the Joint Ventures will become 100% owned subsidiaries of the Combined Group.

[7] Source: STW Annual Report for the financial year ending 31 December 2014

7.5 Financial performance analysis

The table below summarises the financial performance of STW for the years ended 31 December 2013, 2014, 2015 (FY13, FY14, FY15) prepared on a statutory basis.

Table 7: Financial performance of STW (Statutory)

For the period ending $'millions	FY13	FY14	FY15 (audited)
Total revenue	**423.0**	**471.2**	**492.5**
Operating expenses	(327.5)	(377.6)	(427.3)
EBITDA	**95.5**	**93.7**	**65.2**
Depreciation and amortisation	(8.4)	(10.0)	(10.9)
EBIT	**87.1**	**83.7**	**54.3**
Finance costs	(11.9)	(13.5)	(13.2)
Profit/(loss) before impairment costs and tax	**75.2**	**70.2**	**41.1**
Impairment costs	0.0	0.0	(78.6)
Profit/(loss) before tax	**75.2**	**70.2**	**(37.5)**
Income tax benefit/(expense)	(13.5)	(12.8)	(6.8)
Net profit/(loss) after tax	**61.7**	**57.4**	**(44.3)**
Non-controlling interest	(12.2)	(12.8)	(8.3)
Net profit/(loss) attributable to members of STW	**49.5**	**44.6**	**(52.6)**
Non-recurring items	-	1.0	92.2
Underlying profit attributable to members of STW	**49.5**	**45.6**	**39.6**
Metrics			
Revenue growth (%)	*16.7%*	*11.4%*	*4.5%*
EBITDA growth (%)	*6.8%*	*(1.9)%*	*(30.4)%*
EBIT growth (%)	*7.7%*	*(3.9)%*	*(35.1)%*
NPAT growth (%)	*13.2%*	*(6.9)%*	*(177.2)%*
EBITDA margin (%)	*22.6%*	*19.9%*	*13.2%*
EBIT margin (%)	*20.6%*	*17.8%*	*11.0%*
NPAT margin (%)	*14.6%*	*12.2%*	*(9.0)%*

Source: STW Annual Reports, STW management, KPMG Corporate Finance analysis

FY13

FY13 performance was in line with forecast. During FY13, revenue grew by a total of 16.7% and included net growth from acquisitions/disposals and organic revenue growth of 2.4%. FY13 investments included a new partnership with leading insights business Colmar Brunton and investments in data consulting specialist Beyond Analysis and in digital specialists Cru Digital, which added directly to top line revenue and earnings for the year. In fact, total digital revenue grew 30% in FY13, contributing $185 million to group revenue in that year.

Revenue from South East Asia contributed to $40 million of STW's revenue.

EBITDA margin slightly decreased to 22.6% from the prior year's 24.7% due to a greater focus on research and field marketing services, which generate lower margins than the group average given higher staff requirements.

FY14

The acquisition of Active Display Group (ADG), Australia's largest provider of retail marketing solutions increased revenue significantly during FY14 (by approximately $43.3 million). Revenue growth for FY14 was lower than that achieved in the previous two years. This was primarily due to a number of key client losses and client spending constraints in a challenging economic environment.

Additionally, FY14 was a disappointing year given the decline in margins. The acquisition of ADG reduced reported margins given the change in the business mix. Moreover, throughout the year STW continued to place greater focus on its lower margin research and field marketing services.

FY15

FY15 was a challenging year for STW with declines in revenue growth and underlying margins. Revenue grew by a total of 4.5% in FY15, which was lower than the 11.4% growth achieved in FY14. The increase in revenue was primarily driven by the acquisition of ADG during the second half of FY14. Organically, revenue declined due to account losses incurred in FY14. While there have been material new business wins and growth from the existing client base in FY15, they have not been able to offset the prior year client losses.

EBITDA and EBIT decreased by 30.4% and 35.1%, respectively, primarily due to the change in business mix after the ADG acquisition. EBITDA margin also compressed to 13.2% from 19.9% in the previous year.

Following the disappointing performance in FY14, management undertook a strategic review in FY15 to streamline the business. Total costs associated with the review amounted to approximately $4.5 million (STW's share, net of tax). Initiatives were devised to improve operational efficiencies and drive organic growth. Such initiatives include:

- creating a new management structure to drive deeper engagement with each of the businesses
- reorganising the business to create fewer, but bigger and better businesses
- centralising costs to deliver annualised cost savings such as reducing head count within various operating businesses.

STW incurred business close down costs of $5.9 million which relate to property rationalisation, transaction costs and losses on closed and merged business.

The strategic review costs and business close down costs are itemised in Table 9 below.

Moreover, STW incurred a $78.6 million impairment charge of non-current assets in FY15. Impairment of non-current assets include goodwill and intangible assets ($42.9 million), investments ($30.4 million), and plant and equipment ($5.2 million). This was due to the weaker than forecast trading performance in FY15.

Financial performance on a proportional consolidated basis

STW owns both controlling and non-controlling interests in a number of operating companies. In order to better reflect STW's underlying financial performance, items of income and expense were prepared in proportion to STW's percentage of participation in the operating companies.

The table below summarises the financial performance of STW on a proportional consolidated basis. The figures in the table below exclude one-off non-recurring items, which are discussed in Table 9 below for FY15.

Table 8: Financial performance of STW (proportional consolidated)

For the period ending $'millions	FY13	FY14	FY15 (audited)
Total Revenue	**405.0**	**409.6**	**416.0**
Operating expenses	(320.3)	(325.4)	(339.2)
Normalised EBITDA	**84.8**	**83.3**	**76.8**
Depreciation and amortisation	(8.2)	(9.5)	(9.6)
Normalised EBIT	**76.6**	**73.9**	**67.2**
Net interest	(10.7)	(12.2)	(12.0)
Normalised operating profit before tax	**65.9**	**61.7**	**55.2**
Income tax	(16.4)	(16.1)	(15.6)
Normalised NPAT	**49.5**	**45.6**	**39.6**
Metrics			
Revenue growth (%)	*11.3%*	*1.1%*	*1.6%*
EBITDA growth (%)	*7.9%*	*(1.7)%*	*(7.8)%*
EBIT growth (%)	*9.6%*	*(3.7)%*	*(8.9)%*
NPAT growth (%)	*12.5%*	*(7.8)%*	*(13.2)%*
EBITDA margin (%)	*20.9%*	*20.3%*	*18.5%*
EBIT margin (%)	*18.9%*	*18.0%*	*16.2%*
NPAT margin (%)	*12.2%*	*11.1%*	*9.5%*

Source: STW management, KPMG Corporate Finance analysis

The table below outlines the significant, non-recurring items incurred by STW in FY15 and have been adjusted to arrive at normalised NPAT of $39.6 million for FY15.

Table 9: Normalisation of STW's share of NPAT (proportional consolidated)

For the period ending $'millions	FY15
Significant, non-recurring items - STW share, net of tax:	
Impairment of non-current assets and other non-cash items	81.8
Strategic review costs	4.5
Business close down costs	5.9
Significant, non-recurring items	**92.2**

Source: STW management, KPMG Corporate Finance analysis

7.5.1 Distributions

The following table outlines the dividend metrics of STW from FY13 through to FY15.

Table 10: Dividend metrics

For the period ending	FY13	FY14	FY15 (unaudited)
Weighted average number of STW shares ('000)	400,527	403,070	417,871
Basic EPS (cents)	12.35	11.06	9.48
Dividends per share (cents)[1]	8.60	6.80	5.70
Dividend payout ratio (%)	70%	61%	60%
Proportion of dividend franked (%)	100%	100%	100%

Source: STW Annual Reports, STW management
Note 1: Dividends per share represent the total dividends in respect of the year, including both interim and final dividends

The number of shares on issue has increased due to the issue of shares under STW's Executive Share Plan (ESP) and the DRP.

STW's current target dividend payout ratio is 60% to 70% of underlying profit. During FY13, STW increased both the absolute dividend amount and the dividend payout ratio to the top of the target range, reflecting the strong financial performance during the year.

During FY14, STW introduced the DRP allowing eligible shareholders to reinvest their dividend in the company's shares, issued at a 2.5% discount to the trading price. In support of the capital structure, STW issued 5,870,488 shares under the DRP in respect of the interim dividend in FY14. Subsequently, STW issued 12,157,545 shares under the DRP in respect of the final dividend in FY14. While maintaining the dividend payout ratio in the target range, STW reduced the absolute dividend amount from 8.6 cents in the prior year to 6.8 cents in FY14.

FY15 dividends totalled 5.7 cents per share. This represents a dividend payout ratio of circa 60% of underlying net profit after tax, which was at the bottom of the target payout ratio. In support of the capital structure, STW issued 7,333,500 shares under the DRP in respect of the interim dividend in FY15. The final dividend of 3.6 cents per share will be paid on 26 April 2016 to shareholders registered at 24 March 2016. The DRP will not operate in respect of this final dividend.

7.6 Financial position analysis

The table below summarises the financial position of STW as at 31 December from FY13 through FY15.

Table 11: Financial position of STW (Statutory)

As at $'millions	FY13	FY14	FY15 (audited)
Cash and cash equivalents	43.3	19.9	26.9
Trade and other receivables	169.5	171.3	166.1
Inventories	0.0	4.9	5.6
Current tax assets	0.0	0.0	2.3
Other	5.3	7.1	7.0
Current assets	**218.1**	**203.2**	**207.9**
Other receivables	16.5	13.1	12.0
Investments in joint ventures and associates	116.8	121.6	90.1
Other financial assets	0.6	0.7	0.6
Plant and equipment	33.7	40.8	31.8
Deferred tax assets	11.1	14.4	15.7
Intangible assets	505.2	555.6	522.7
Other	0.8	2.2	2.3
Total assets	**902.7**	**951.6**	**883.1**
Trade and other payables	172.1	162.9	158.3
Borrowings	0.2	100.8	70.9
Current tax liabilities	6.1	4.2	0.0
Provisions	8.2	11.1	7.7
Current liabilities	**186.7**	**279.0**	**236.9**
Other payables	42.3	28.0	20.5
Borrowings	172.2	111.8	160.9
Deferred tax liabilities	2.6	4.0	4.5
Provisions	3.1	3.1	5.6
Total liabilities	**406.8**	**425.9**	**428.4**
Issued capital	315.2	322.5	334.5
Reserves	27.2	31.3	29.3
Retained earnings	106.8	116.8	41.0
Non-controlling interests	46.7	55.1	49.9
Total equity	**495.9**	**525.7**	**454.7**
Metrics			
Total STW shares on issue (millions)	*403.8*	*409.7*	*429.2*

Source: STW Annual Reports, STW management

Current assets and liabilities primarily comprise cash, trade receivables and trade payables. Cash fluctuates over time depending on working capital requirements, acquisition-related payments (including cash consideration and earn-out payments) and debt facility arrangements. The cash balance for FY14 decreased from $43 million in the prior year to $20 million, primarily due to the ADG acquisition, timing of media payments and deterioration in the working capital position at 31 December 2014. Cash slightly increased as at 31 December 2015 as a result of an improved net working capital position.

Trade receivables and payables make up the majority of STW's current assets and current liabilities. Current borrowings increased to $101 million during FY14 as a $100 million bank loan came due in 2015. However subsequently STW refinanced the loan with a maturity date of January 2018. Accordingly, the current borrowing balance dropped to $71 million in FY15.

Non-current assets primarily comprise $523 million in intangible assets and $90 million in investments as at 31 December 2015. STW's intangible assets arise from acquisitions and consist of goodwill ($448 million), brand names ($57 million), intellectual property ($10 million), and customer relationships ($7 million) as at 31 December 2015. Investments relate to STW's ownership of between 20 to 50% in its operating companies.

Other payables primarily include payables to joint ventures and associates and deferred or contingent consideration arising from STW's prior acquisitions. The earn-out balance (including current and non-current) amounted to approximately $32 million in FY14 and reduced to $15.1 million in FY15. Other payables also include interest rate hedge liabilities, deferred income, payables to related parties, and sundry and other payables.

Capital structure is monitored by STW management using the net debt-to-EBITDA and net debt-to-net debt plus equity ratios. Net-debt-to-EBITDA ratio, calculated in accordance with STW's bank covenant definitions, has increased from 2.5 times at 31 December 2014 to 2.6 times at 31 December 2015.

Total borrowing increased from $172.4 million in FY13 to $212.6 million in FY14. Accordingly, as noted in Section 7.5.1, in order to balance shareholder returns in the form of dividends and maintain an appropriate capital structure, STW introduced the DRP in FY14.

Furthermore, STW reduced the dividend payout ratio to 60% of underlying earnings in FY15, which is at the bottom of its target dividend payout ratio of 60% to 70%.

7.6.1 Debt

As at 31 December 2015, STW had access to debt facilities totalling $270 million, of which $227 million was drawn. Debt has been increasing each year since FY13. In addition, STW extended a $100 million debt maturing in 2015 to January 2018.

Table 12: Debt facilities as at 31 December 2015

Interest bearing liabilities	Total facilities ($'million)	Amount drawn ($'million)	Available facility ($'million)
Bank loans	270.0	227.1	42.9
Finance lease		4.7	
Total interest bearing liabilities		**231.8**	

Source: STW management

7.7 Cash flow analysis

The table below summarises the cash flow statement of STW from FY13 through FY15 on a statutory basis.

Table 13: Cash flow of STW (Statutory)

For the period ended $' millions	FY13	FY14	FY15 (audited)
Receipts from customers	1,035.5	1,107.3	1,012.6
Payments to suppliers and employees	(976.7)	(1052.6)	(950.3)
Interest paid (net)	(10.1)	(11.7)	(12.3)
Dividends from joint ventures and associates	6.7	8.3	10.9
Income taxes paid	(20.0)	(18.3)	(13.9)
Net cash flows from operating activities	**35.4**	**33.0**	**47.0**
Payments for purchase of newly controlled entities, net of cash acquired	(6.0)	(28.8)	(0.5)
Payments for purchase of joint ventures and associates	(3.5)	(0.7)	-
Payments for purchase of plant and equipment	(15.9)	(9.1)	(5.5)
Proceeds from sale of controlled entities and associates	2.8	1.6	3.1
Earn-out payments and intangible assets acquired	(17.7)	(10.4)	(27.9)
Loan (to)/from joint ventures and associates	9.0	(3.5)	(2.5)
Net cash flows used in investing activities	**(31.3)**	**(51.0)**	**(33.3)**
Proceeds from borrowings	231.5	274.6	292.6
Repayments of borrowings	(195.4)	(252.3)	(272.6)
Proceeds from issue of shares	0.0	6.8	11.6
Equity holder dividends paid	(33.3)	(34.5)	(23.2)
Dividends paid to non-controlling interests	(8.5)	(5.5)	(14.5)
Proceeds from sale and leaseback	0.0	6.0	-
Payments on finance leases	0.0	(0.9)	(0.8)
Net cash flows used in financing activities	**(5.7)**	**(5.8)**	**(6.9)**
Net decrease in cash held	**(1.6)**	**(23.8)**	**6.8**
Effects of exchange rate changes on cash and cash equivalents	1.3	0.5	0.2
Cash and cash equivalents at the beginning of the year	43.6	43.3	19.9
Cash and cash equivalents at the end of the year	**43.3**	**19.9**	**26.9**

Source: STW Annual Reports

In relation to STW's cash flows as presented in the table above, we note:

- the cash balance significantly decreased from $43 million in FY13 to $20 million in FY14. This was primarily due to payments made for the acquisition of ADG and the timing of media payments
- operating cash flows in FY14 slightly decreased from the previous year due to the timing of media payment and a deterioration in the working capital position
- operating cash inflows increased from the previous year's $33.0 million to $47.0 million in FY15. This was primarily due to the more favourable timing of media payments and no significant change in the working capital balance at 31 December 2015. In addition, this was in line with STW's operating cash flow targets and represented an improvement on the prior year result.

7.8 Equity capital

As at 25 January 2016, STW had 429,190,045 ordinary shares on issue. STW ordinary shareholders are entitled to receive dividends and distributions and have voting rights. The following table outlines the top ten shareholders of STW as at 25 January 2016. Whilst the top ten shareholders collectively hold 72.3%, no single shareholder has control over STW.

Table 14: Top 10 STW shareholders as at 25 January 2016

Shareholder	Number of STW shares	% of issued capital
WPP[1]	101,080,298	23.6%
HSBC Custody Nominees (Australia) Limited	79,817,075	18.6%
J.P. Morgan Nominees Australia Limited	53,717,104	12.5%
Citicorp Nominees Pty Limited	27,752,743	6.5%
National Nominees Limited	23,057,580	5.4%
BNP Paribas Noms Pty Ltd	7,120,429	1.7%
HSBC Custody Nominees (Australia) Limited	5,713,866	1.3%
ABN Amro Clearing Sydney Nominees Pty Ltd	4,247,611	1.0%
RBC Investor Services Australia Nominees Pty Limited	3,853,005	0.9%
RBC Investor Services Australia Pty Limited	3,839,686	0.9%
Total STW shares held by top 10 shareholders	**310,199,397**	**72.3%**
Other STW shares	118,990,648	27.7%
Total STW shares on issue	**429,190,045**	**100.0%**

Source: STW management
Note 1: WPP owns 23.55% in STW

7.9 Directors' interests

As at 31 December 2015, the Directors of STW held a combined relevant interest of 0.30% in STW. STW Directors' interest in STW shares as at 31 December 2015 is detailed in the table below.

Table 15: Directors' interest at 31 December 2015

Director	Executive/non-executive director	Shares held	% of issued capital
Robert Mactier	Non-executive	577,964	0.13%
Ian Tsicalas	Non-executive	65,643	0.02%
Graham Cubbin	Non-executive	100,000	0.02%
Michael Connaghan[1]	Executive	505,218	0.12%
Peter Cullinane	Executive	34,500	0.01%
Paul Richardson	Non-executive	n/a	n/a
Kim Anderson	Non-executive	n/a	n/a
Total		**1,283,325**	**0.30%**

Source: STW management
Note 1: includes the 71,928 shares arising from post year end acquisitions
Note 2: n/a represents not applicable

7.10 Trading performance

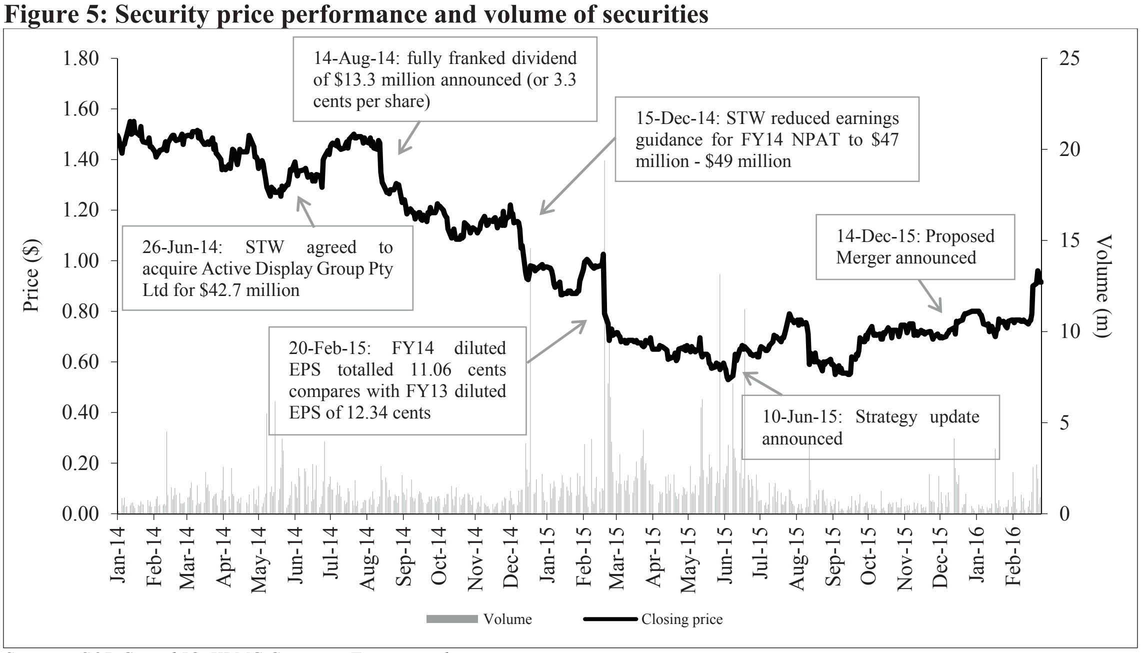
In assessing STW's security price performance, we have:

- analysed price and volume performance since 1 January 2014
- compared STW's security price movement to the S&P/ASX 300 Media Index and S&P/ASX 300 Index (which both count STW as a constituent) over the period from 1 January 2014 to 26 February 2016
- assessed the volume weighted average price (VWAP) and trading liquidity of STW securities for the period pre and post the announcement of the Proposed Merger.

7.10.1 Security price and volume performance

STW's security price performance and the volume of securities traded over the period from 1 January 2014 to 26 February 2016 is illustrated below.

Figure 5: Security price performance and volume of securities



Source: S&P Capital IQ, KPMG Corporate Finance analysis

Since 1 January 2014, the price of STW has ranged from a high of $1.55 (13 January 2014) to a low of $0.53 (5 June 2015). While the share price has had brief periods of upward momentum and support, such as after the announcement of the ADG acquisition in July 2014, it steadily declined from this point until June 2015.

On 14 August 2014 after the positive response to the acquisition of ADG, STW released its half year 2014 results. The results showed a 5.3% increase in top-line revenue over the period and an increase in statutory net profit after tax of 1.2% ($19.0 million). The release however highlighted a number of perceived challenges within the industry relating to the Australian economy, declining media market and pressure on client spend. The market responded unfavourably to the news with the securities closing down 7.8% on that day.

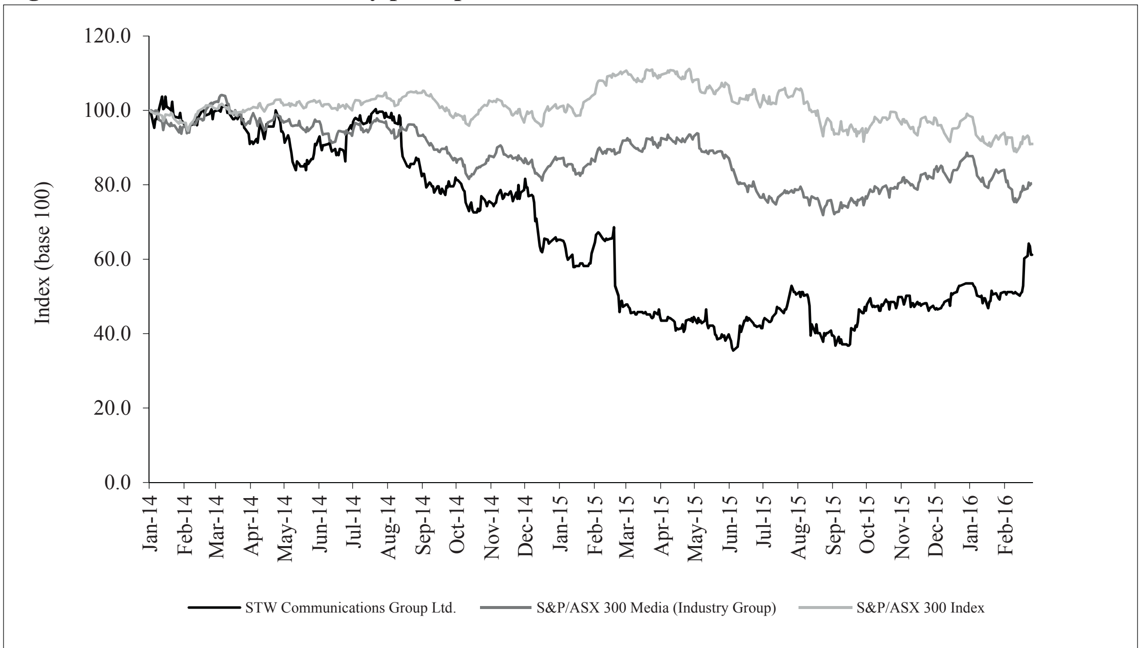
The downward trend continued as STW announced earnings guidance of $47 million to $49 million for FY14 on 15 December 2014 which was lower than the $49.5 million earnings for FY13. STW then missed the previous guidance in its earnings release on 20 February 2015 reporting net profits of $44.6 million, triggering a share price decrease of 22.9%. The strategy update released on 10 June 2015 (discussed in Section 7.3) provided some share price support into the latter stages of 2015.

On 14 December 2015 STW announced the Proposed Merger and the share price increased over 10%.

7.10.2 Relative performance

The figure below illustrates STW's security price trading performance relative to the S&P/ASX 300 Media and S&P/ASX 300 Indices between 1 January 2014 and 26 February 2016.

Figure 6: STW's relative security price performance



Source: S&P Capital IQ, KPMG Corporate Finance analysis

During the period reviewed, STW has underperformed the broader indexes in which it is a constituent. The S&P/ASX Media and S&P/ASX 300 Indices closed down 20% and 9% respectively, over the period analysed. STW by comparison fell 39% over the same period.

7.10.3 Liquidity

The table below summarises the liquidity of STW securities pre and post the announcement of the Proposed Merger.

Table 16: VWAP and liquidity analysis

Period	Price (low) $	Price (high) $	Price VWAP $	Cumulative value $m	Cumulative volume m	% of issued capital
Period ended 10 December 2015 (pre-announcement)						
1 day	0.71	0.73	0.72	0.5	0.7	0.2
5 day	0.70	0.73	0.71	2.3	3.3	0.8
10 day	0.69	0.73	0.70	5.1	7.3	1.7
1 month	0.67	0.74	0.71	11.0	15.5	3.6
3 months	0.55	0.76	0.70	24.2	34.8	8.2
6 months	0.53	0.79	0.66	76.2	114.7	27.2
12 months	0.51	1.10	0.72	288.5	401.4	97.0
Period ended 26 February 2016 (post-announcement)						
Since announcement	0.65	0.97	0.78	36.1	46.2	10.8

Source: S&P Capital IQ, KPMG Corporate Finance analysis

Trading in STW has been high over the previous 12 months, which is indicated by the fact that volume over this period is equivalent to 97% of the share capital. There was large turnover in shares due to unfavourable earnings results in February 2015 and further share turnover associated with the strategy update provided in June 2015. Since June following the strategy update, turnover has been lower with share turnover for the last 1 and 3 months amounting to 3.6% and 8.2% of total share capital respectively.

8 Profile of WPP ANZ

8.1 Business overview

8.1.1 *WPP plc*

WPP plc is a world-leading media, marketing and communications company listed on the London Stock Exchange and NASDAQ in New York. Established in the United Kingdom in 1985, WPP plc has expanded through a large number of acquisitions. As of 2014, WPP plc operated more than 155 distinctive brands across a wide range of businesses including advertising, media investment management, data investment management, public relations, branding and healthcare communications. Some key brands, which generated more than US$ 1 billion revenue to WPP plc in FY14 include MindShare, Mediacom, MEC, Ogilvy, Y&R, Millward Brown, TNS, Wunderman and J. Walter Thompson Worldwide. As of 2015, WPP plc employs around 180,000 people across over 3,000 offices in 112 countries (including associates). Immediately prior to the announcement of the Proposed Merger on 10 December 2015, WPP plc had a market capitalisation of US$ 29.5 billion.

WPP has been an investor in and represented on the board of STW since 1998 and prior to the Proposed Merger, held 23.55% of the equity in STW.

8.1.2 *WPP ANZ*

WPP ANZ operates in Australia and New Zealand and generated gross revenues of $480 million[8] in FY15. Australia and New Zealand is currently the fifth largest market for WPP plc after the US, the UK, Greater China and Germany.

WPP ANZ includes many of WPP plc's global brands as detailed in Section 8.2. WPP ANZ and STW Joint Ventures comprise six of the brands as detailed in Section 7.1, which will become 100% owned subsidiaries in of the Combined Group post the Proposed Merger.

[8] Source: WPP management

8.2 Corporate structure

WPP ANZ operates six business divisions, including Media, Advertising, Data and Insights, Public Relations, Specialist ad Digital, and Shopper and Production. The table below summarises the key global brands that fall under each market segment of WPP ANZ.

Table 17: WPP ANZ market segments and brands

Market segment	Brands
Advertising & Media	Y&R, Grey, Ogilvy & Mather, J. Walter Thompson, Maxus, MEC, MediaCom, MindShare, Xaxis
Data	Added Value, Millward Brown, TNS
Public Relations & Public Affairs	Hill+Knowlton, Ogilvy PR, Burson- Marsteller, PPR
Branding, Identity & Healthcare	Landor Associates, , Ogilvy CommonHealth, Sudler & Hennessey

Source: Explanatory Memorandum, WPP management
Note: the Proposed Merger excludes investments in oOh!media Limited and certain other WPP businesses as detailed in Section 1

8.3 Strategy

WPP plc focuses on the following four core strategies[9]:

- increase presence in fast-growing markets, including Asia Pacific, Latin America, Africa & Middle East and Central & Eastern Europe
- increase revenue from new media to 40% to 45% of total revenues
- maintain the share of more measurable marketing services (i.e. data investment management and direct, digital and interactive) at 50% of revenues, with a focus on the application of new technology, big data and content
- advance ‘horizontality’ by ensuring our people work together for the benefit of clients

The Proposed Merger continues WPP plc’s strategy of investing in important geographic markets and advancing “horizontality”. Through the Proposed Merger, WPP plc aims to:

- double the size of its Australian and New Zealand business and continue to capitalise on the benefit of scale in the market
- align interests in the two companies and achieve an integrated platform with broader capabilities, greater operational efficiency and a better talent pool
- retain STW local management and their knowledge of the market
- export its global brand, intellectual property, technology and international client network to the Australia and New Zealand region more effectively.

[9] Source: WPP plc Annual Report for the financial year ending 31 December 2014

8.4 Financial performance analysis

The table below summarises the normalised financial performance of WPP ANZ from FY13 through FY15 on a proportional consolidated basis.

Table 18: Normalised financial performance of WPP ANZ (proportional consolidated)

For the period ending $ in millions	FY13	FY14	FY15 (unaudited)
Total revenue	448.7	480.0	492.6
EBITDA	75.3	80.4	71.9
EBIT	68.7	74.3	66.1
Metrics			
Revenue growth (%)	*6.6%*	*7.0%*	*2.6%*
EBITDA growth (%)	*15.4%*	*6.8%*	*-10.6%*
EBIT growth (%)	*18.7%*	*8.2%*	*-11.0%*
EBITDA margin (%)	*16.8%*	*16.8%*	*14.6%*
EBIT margin (%)	*15.3%*	*15.5%*	*13.4%*

Source: WPP management

FY14

Revenue increased by 7.0% in FY14, slightly higher than the top line growth experienced in FY13. EBITDA and EBIT growth declined from the previous year and margins remained broadly flat. This was primarily due to a few advertising client losses and the struggling PR businesses, despite the continuously performing media businesses.

FY15

Revenue increased by 2.6% in FY15. EBITDA and EBIT however both declined by more than 10%, resulting in margins falling from the previous year.

Overall, FY15 performance was affected by the wider macroeconomic pressures facing the Australian economy which had a knock-on impact on client media spend. Some advertising agencies faced continued challenges caused by project delays and cancellations, which had a short term adverse impact on profitability. Accordingly, restructuring measures were implemented in FY15 and these agencies are well positioned for growth in FY16. In addition, there was significant disruption to the business until new leadership was appointed in the fourth quarter of FY15.

8.5 Financial position analysis

The table below summarises the financial position of WPP ANZ as at 31 December for FY13 through FY15 prepared on a proportional consolidated basis.

Table 19: Financial position of WPP ANZ (proportional consolidated)

As at $ in millions	FY13	FY14	FY15 (unaudited)
Cash and cash equivalents	244.6	280.8	283.4
Trade and other receivables	321.9	320.5	318.6
Other current assets	27.9	37.9	66.2
Current assets	**594.5**	**639.2**	**668.2**
Intangible assets	135.4	134.4	135.2
Investments	681.6	678.7	666.4
Property and equipment	14.4	13.3	12.3
Total assets	**1,425.8**	**1,465.6**	**1,482.1**
Borrowings	161.7	190.7	163.8
Trade and other payables	392.1	384.7	416.2
Current tax liabilities	5.5	3.5	5.0
Other current liabilities	21.4	35.9	43.4
Current Liabilities	**580.7**	**614.8**	**628.4**
Borrowings	226.3	226.2	225.1
Other non-current liabilities	23.9	20.3	13.1
Total liabilities	**830.9**	**861.3**	**866.6**
Net assets	**594.9**	**604.3**	**615.5**

Source: WPP management

The balance sheet presented above represents the proportional aggregated result of WPP ANZ, including pro-forma adjustments. These adjustments are required to reach a balance sheet which comprises only the entities included in the deal perimeter, and includes assets and liabilities which relate to WPP ANZ's operations but are recorded outside WPP ANZ for management reporting purposes.

In relation to the balances as at 31 December 2015, we note:

- current assets primarily consist of cash ($283.4 million) and trade and other receivables ($318.6 million). Other current assets primarily include accrued revenue, other debtors and deferred tax assets
- non-current assets predominantly comprise investments in subsidiaries ($610.3 million) and intangible assets ($135.2 million). Also included in the Investments line are Investments in associated companies (in which WPP ANZ has ownership of between 20 to 50%) and other investments (in which WPP ANZ has less than 20% ownership). These relate to the business operations of WPP ANZ
- current liabilities primarily consists of bank overdraft ($163.8 million) and trade and other payables ($416.2 million). Other current liabilities primarily include other creditors and accruals, holiday pay accruals, value-added tax or sales tax payable and long-service leave accruals
- non-current liabilities primarily comprise group balances which relate to related party payables. Other non-current liabilities include related company payables, earn-out liabilities, holiday pay accruals and other accruals and allowances.

9 The Combined Group

9.1 Business overview

Following the Proposed Merger, STW and WPP ANZ will combine to form a unified media, advertising, and communications group. The Combined Group will comprise over 65 operating companies, 5,500 people across 12 countries. WPP will become the majority shareholder of STW with a shareholding of 61.50%. STW will become the primary operating vehicle for WPP plc in Australia and New Zealand.

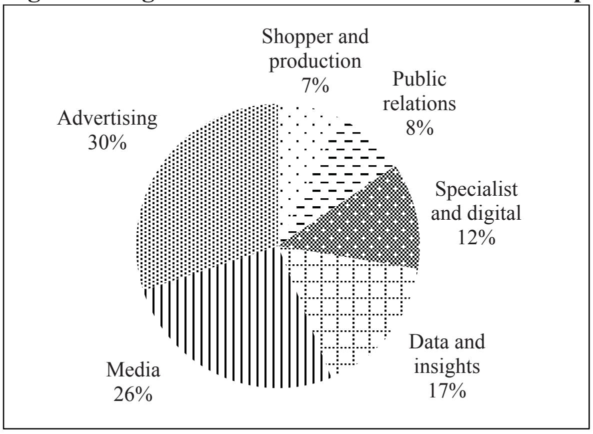
Following the Proposed Merger, STW and WPP ANZ have no intention to transfer any businesses or material assets. An operational review will be conducted for the Combined Group to streamline post-merger operations and facilitate cooperation across the Combined Group. The Joint Venture interests will be consolidated. STW also intends to change its name to align it with WPP, subject to shareholder approval.

Moreover, STW will maintain its current dividend policy following the Proposed Merger, which is to distribute 60% to 70% of underlying earnings.

9.2 Business operations

The Combined Group will operate through six segments: Advertising; Media; Data and insights; Specialist and digital; Public relations; and Shopper and production. Pro-forma normalised net revenue specific to each segment for the 12 months ended 30 September 2015 is detailed in the figure below.

Figure 7: Segment revenue of the Combined Group



Source: STW management

9.3 Strategy

The Combined Group will continue to focus on delivering 100% of a client's customer experience budget. It will deliver this goal by implementing the following strategies:

- maintain leading positions in Australia and New Zealand markets in the core service offerings of media, advertising, and public relations
- future proof the business by growing and diversifying capabilities in shopper and production, data and insights, and specialist and digital communications
- drive horizontality to ensure that clients benefit from the comprehensive and diverse service offerings of the Combined Group
- leverage the power of the Combined Group which blends STW's premier local brands, extensive knowledge of the local market and enduring client relationships, with WPP's iconic brands, international client base, and global reach and insights.

9.4 Synergies

As STW and WPP ANZ share common operating requirements, cost synergies are anticipated to arise from the Proposed Merger, which are estimated to be at least $15 million pa to be realised within three years of the Proposed Merger. These synergies relate to cost savings associated with the following functions:

- corporate and administrative, relating to cost reductions in audit, insurance and other administrative and compliance functions
- property rationalisation, relating to cost savings from consolidation of property footprint, better office space planning and co-location of selected business units into campuses
- IT and shared services, relating to cost savings from consolidating duplicate operating infrastructure / operating costs, and restructuring of back office support functions
- operating efficiencies, relating to cost savings from retaining local management oversight which focuses on margin control and service integration across the Combined Group.

Approximately $10 million one-off costs are expected to be incurred in order to achieve the above synergies. Additionally, the transaction costs of approximately $6 million have been included in the total costs to realise synergies as detailed in Section 10.5.2. Further cost and revenue synergies are expected to be realised over time, but have not been included in management's estimate.

9.5 Financial performance analysis

The table below summarises the pro-forma financial performance of the Combined Group for FY15 on a statutory basis.

Table 20: Pro-forma financial performance of the Combined Group (Statutory)

FY15 $'millions	STW proportional (unaudited)	WPP ANZ proportional (unaudited)	Adjustments	Combined Statutory
Net Revenue	416.0	418.7	10.6	845.3
Associates income	-	-	4.1	4.1
Net Revenue (Total revenue less cost of goods sold)	**416.0**	**418.7**	**14.7**	**849.4**
Operating expenses	(339.2)	(346.8)	(9.5)	(695.5)
Normalised EBITDA	**76.8**	**71.9**	**5.2**	**153.9**
Depreciation and amortisation	(9.6)	(5.8)	(0.1)	(15.5)
Normalised EBIT	**67.2**	**66.1**	**5.1**	**138.4**
Net interest	(12.0)	(10.0)	(0.2)	(22.2)
Normalised operating profit before tax	**55.2**	**56.1**	**4.9**	**116.2**
Income tax	(15.6)	(16.8)	0.3	(32.1)
Normalised NPAT	**39.6**	**39.3**	**5.2**	**84.1**
Non-controlling interest	-	-	(5.2)	(5.2)
Profit attributable to members of the Combined Group	**39.6**	**39.3**	**-**	**78.9**

Source: Explanatory Memorandum

In relation to the consolidated financial results presented in the table above, we note:

- the pro-forma financial performance consolidated STW and WPP ANZ's unaudited financial results for FY15, which were then overlaid with consolidation adjustments. For basis of preparation, please refer to the Explanatory Memorandum for further detail
- consolidation adjustments were made to reflect merger ownership and to present a consolidated financial result in accordance with accounting standards
- the pro-forma financial performance excludes any revenue or cost synergies resulting from the Proposed Merger, including the $15 million cost savings pa as discussed in Section 9.4 and transaction costs
- the consolidation of STW and WPP ANZ will double the size of the business.

9.6 Financial position analysis

The table below summarises the pro-forma balance sheet of the Combined Group as at 31 December 2015.

Table 21: Pro-forma financial position of the Combined Group (Statutory)

$ in millions	STW Statutory 31-Dec-15 (audited)	WPP ANZ Proportional 30-Sep-15 (unaudited)	Adjustments	Combined Statutory
Cash and cash equivalents	26.9	102.4	72.0	201.3
Trade and other receivables	166.1	327.7	61.9	555.7
Inventories	5.6	5.2	12.6	23.4
Current tax assets	2.3	-	6.9	9.2
Other	7.0	68.9	(15.1)	60.8
Current assets	**207.9**	**504.2**	**138.3**	**850.4**
Other receivables	12.0	-	(11.0)	1.0
Investments	90.1	667.1	(737.7)	19.5
Other financial assets	0.6	5.8	(5.8)	0.6
Plant and equipment	31.8	11.5	-	43.3
Deferred tax assets	15.7	-	11.4	27.1
Intangible assets	522.7	128.9	431.6	1,083.2
Other	2.3	-	-	2.3
Total assets	**883.1**	**1,317.5**	**(173.2)**	**2,027.4**
Trade and other payables	158.3	306.4	242.1	706.8
Interest bearing liabilities	70.9	-	-	70.9
Current tax liabilities	0.0	1.3	1.8	3.1
Provisions	7.7	179.0	(169.3)	17.4
Current liabilities	**236.9**	**486.7**	**74.6**	**798.2**
Other payables	20.5	235.4	(227.6)	28.3
Interest bearing liabilities	160.9	-	262.0	422.9
Deferred tax liabilities	4.5	-	1.8	6.3
Provisions	5.6	3.8	(2.4)	7.0
Total liabilities	**428.4**	**725.9**	**108.4**	**1,262.7**
Net assets	**454.7**	**591.6**	**(281.6)**	**764.7**
Metrics				
Net debt	*220.0*	*n/a*	*n/a*	*311.5*
Net debt / EBITDA	*2.6x*	*n/a*	*n/a*	*2.0x*

Source: Explanatory Memorandum
Note 1: Net debt includes current and non-current debt, earn-out liabilities less cash at bank. This is consistent with bank covenant definitions
Note 2: n/a refers to not applicable

In relation to the pro-forma financial position of the Combined Group as presented above, we note:

- the pro-forma balance sheet represents a consolidation of STW's statutory balance sheet at 31 December 2015 and WPP ANZ's proportional balance sheet acquired at 30 September 2015. For basis of preparation, please refer to the Explanatory Memorandum for further detail
- consolidation adjustments were made to reflect the impact of ownership interest of all businesses of the Combined Group and cash profits for the WPP target entities for the period from 1 October 2015 to 31 December 2015
- the leverage position of the Combined Group will be 2.0 times net debt-to-EBITDA.

9.7 Impact on earnings and distributions

The table below outlines the pro-forma EPS and dividend of the Combined Group for FY15.

Table 22: Pro-forma EPS and dividend of the Combined Group

FY15 $'millions (unless stated otherwise)	Report Section	STW	WPP ANZ	Combined Group
EBIT	9.5	67.2	66.1	138.2
NPAT attributable to ordinary equity holders	9.5	39.6	39.3	78.9
Share on issue (in millions)[1]	7.8	429.2	n/a	852.2
Pro-forma EPS (in cents)		**9.23**	**n/a**	**9.25**
Target dividend payout ratio	7.5.1	60%-70%	n/a	60%-70%
Dividends (in cents)		**5.54-6.46**	**n/a**	**5.55-6.48**

Source: KPMG Corporate Finance analysis, STW management
Note 1: Total number of shares of 852.2 million is the sum of STW's share on issue (429.2 million) and the newly issued shares (423.0 million)
Note 2: n/a refers to not applicable

In relation to the table above, we note:

- the Proposed Merger will double the underlying earnings of the business. The pro-forma EPS of the Combined Group does not include the pre-tax cost synergies estimate of at least $15 million pa as discussed in Section 9.4
- the Proposed Merger is expected to be slightly EPS accretive based on pro-forma 2015 earnings before synergies. Significant EPS accretion is expected going forward with the realisation of synergies. STW expects that on a 31 December 2015 pro forma basis, inclusion of pre-tax cost synergies of $15 million would result in EPS accretion in excess of 10%.
- the quantum of dividends is expected to slightly increase given that the Proposed Merger is EPS accretive and there is no expectation that the target dividend payout ratio will change after the Proposed Merger.

9.8 Change in risk profile

STW shareholders are currently subject to a set of risks associated with STW's underlying business operations. The Proposed Merger is expected to change the risk profile of STW such that STW shareholders are expected to:

- benefit from the enlarged asset and earnings base of the business and increased market presence in the Australian and New Zealand market
- benefit from the reduced Leverage from 2.6 times net debt-to-EBITDA (based on bank covenant) to 2.0 times following the Proposed Merger. The reduced Leverage will alleviate one of the biggest market concerns for STW prior to the Proposed Merger, and likely allow STW to secure bank facilities on more favourable terms going forward, reducing its financing risk
- benefit from the consolidation of the Joint Ventures and the aligned interest between STW and WPP following the Proposed Merger
- benefit from the cost synergies arising from the consolidation of the two businesses. Potential revenue synergies are also anticipated to be realised but have not been included in the synergy analysis
- be able to leverage WPP's global tools, intellectual property, technology, client base, and global reach and insights, reducing STW's operational risk.

As such, STW shareholders will benefit from the anticipated lower risk of the Combined Group owing to its larger scale, aligned interests, more efficient operational structure, and stronger ability to access the capital market following the Proposed Merger.

10 Evaluation of Proposed Merger

10.1 Valuation methodology

10.1.1 Overview

Our valuations of STW and WPP ANZ (on a standalone basis) has been prepared on the basis of market value. The generally accepted definition of market value (and that applied by us in forming our opinion) is the value agreed in a hypothetical transaction between a knowledgeable, willing, but not anxious buyer and a knowledgeable, willing, but not anxious seller, acting at arm's length.

Market value excludes 'special value', which is the value over and above market value that a particular buyer, who can achieve synergistic or other benefits from the Proposed Merger, may be prepared to pay.

Our valuation has had regard to the additional value resulting from estimated corporate cost savings that would generally be available to a pool of purchasers, both financial and trade. It does not include any other strategic or operational synergies that may be unique to STW or WPP ANZ. Accordingly, our range of values has been prepared independent of the specific circumstances of any potential bidder.

Market value is commonly derived by applying one or more of the following valuation methodologies:

- the capitalisation of a sustainable level of earnings (capitalised earnings)
- the discounting of expected future cash flows to present value (discounted cash flow)
- the estimation of the net proceeds from an orderly realisation of assets (net assets)
- trading prices for the company's shares on ASX.

These methodologies are discussed in greater detail in Appendix 6. Ultimately, the methodology adopted is dependent on the nature of the underlying business and the availability of suitably robust information. A secondary methodology is typically adopted as a cross-check to ensure reasonableness of outcome, with the valuation conclusion ultimately being a judgement derived through an iterative process.

For profitable businesses, methodologies such as capitalised earnings and discounted cash flow are commonly used as they reflect 'going concern' values which typically incorporate some element of goodwill over and above the value of the underlying assets. For businesses that are either non-profitable, non-tradable or asset rich, a net assets approach is typically adopted as there tends to be minimal goodwill, if any.

10.2 Selection of methodology

10.2.1 Selection of valuation methodology for STW and WPP ANZ

We have assessed the value for each of STW and WPP ANZ (on a standalone basis) by aggregating the estimated market value of their business operations with the realisable value of any other separately valued assets and liabilities, and deducting net debt.

For the valuation of each of STW and WPP ANZ business operations, we adopted capitalised earnings as our primary methodology. This was based on the following considerations:

- a capitalised earnings methodology is a commonly used method for the valuation of media, advertising and communications businesses. STW and WPP ANZ each have a long operating history and a consistent earnings trend that is sufficiently stable to be indicative of ongoing earnings potential. Further, there is sufficient market evidence available from which a meaningful earnings multiple can be derived
- a discounted cash flow (DCF) methodology is also widely used in the valuation of established media, advertising and communications businesses. Despite this, we believe it is difficult to prepare reliable cash flow projections for STW and WPP ANZ given the project-driven nature and cyclicality of their operations, acquisition strategy and lumpy movements in working capital. In this regard, we note that KPMG Corporate Finance was provided with one year budgets (FY16) for the preparation of the valuation. As such, we have not utilised a DCF methodology as a primary valuation methodology (but as a cross-check as discussed below)
- a net assets approach is not considered appropriate as this method would not capture the growth potential and goodwill associated with both businesses

In order to cross check the results of our primary valuation methodology for reasonableness, we have had regard to the following considerations:

- trading prices for STW shares were impacted by 1H15 performance, nevertheless the share price rebounded post 2H15 earnings guidance and had two months of solid trading prior to the announcement of the Proposed Merger. Accordingly, we have had regard to trading prices for STW shares as a cross-check to support the robustness of the value derived from our primary capitalised earnings methodology
- in the absence of a trading reference point, we have cross checked our primary capitalised earnings methodology valuation of WPP ANZ to high level DCF analysis

10.2.2 Selection of earnings metric

The capitalised earnings approach involves capitalising an estimate of maintainable earnings at a multiple which encapsulates the growth prospects and risks attributable to future earnings. A capitalised earnings methodology can be applied to a number of different earnings or cash flow measures, including, but not limited to, EBITDA, EBIT and net profit after tax. EBITDA and EBIT multiples are commonly used in the context of control transactions where the capital structure is in the hands of the acquirer. In this regard, we have selected EBITDA as an appropriate measure of earnings for STW and WPP ANZ as earnings multiples based on EBITDA are less sensitive to different financing structures, depreciation and amortisation, accounting policies and effective tax rates than multiples based on EBIT or NPAT.

10.2.3 Control premium considerations

Multiples applied in a capitalised earnings methodology are generally based on data from listed companies and recent transactions in a comparable sector, with appropriate adjustment after consideration has been given to the specific characteristics of the business being valued.

The multiples derived for listed comparable companies are generally based on share prices reflective of the trades of small parcels of shares. As such, they generally reflect prices at which portfolio interests change hands. That is, there is no premium for control incorporated within such pricing. They may also be impacted by the level of liquidity in trading of the particular stock. Accordingly, when valuing a business en bloc (i.e. 100%) it is appropriate to also reference the multiples achieved in recent transactions, where a control premium and breadth of purchaser interest are more fully reflected.

Consistent with the requirements of RG 111, in valuing each of STW and WPP ANZ (on a standalone basis) we have assumed 100% ownership, and therefore included a premium for control when assessing the multiples implied by the trading prices for listed comparable companies.

Observations from transaction evidence indicate that takeover premiums generally range from 20 to 35% for completed takeovers depending on the individual circumstances. In transactions where it was estimated that the combined entity would be able to achieve significant synergies, the takeover premium was frequently estimated to be towards the high end of this range or greater. Takeover premiums can vary significantly between individual transactions as the final price paid will reflect to varying degrees:

- any pure control premium in respect of the acquirer's ability to utilise full control over the strategy and cash flows of the target entity
- the level of synergies available to all acquirers, such as the removal of costs associated with the target being a listed entity and/or costs related to duplicated head office functions
- the expected costs to integrate and the uncertainties associated with timing of realising the expected synergies
- synergistic or special value that may be unique to a specific acquirer
- the nature of the bidder i.e. financial investor vs trade participant
- the stake acquired in the transaction and the bidder's pre-existing shareholding in the target
- the stage of the market cycle and the prevailing conditions of the economy and capital markets at the time of the transaction
- desire (or anxiety) for the acquirer to complete the transaction
- whether the acquisition is competitive
- the extent the target company's share price already reflects a degree of takeover speculation.

10.2.4 Selection of valuation methodology for the Combined Group

As discussed in Section 6.2 the Proposed Merger is to be evaluated as a control transaction where non-associated STW shareholders will ultimately continue to hold STW shares, but in a Combined Group. Accordingly, whilst we have determined the value of an STW share before the Proposed Merger stand alone, on a control basis, we have determined the value of an STW share after the Proposed Merger in the Combined Group on a minority basis. As such, we have deducted a minority discount from the controlling valuation outcome to reflect a minority (portfolio) interest.

We have assessed the value of the Combined Group adopting a capitalisation of maintainable earnings methodology described in Section 10.2.1.

Adopting this approach, we have determined the value of the Combined Group by aggregating:

- the estimated market value of STW and WPP ANZ business operations
- the realisable value of any other separately valued assets and liabilities
- including the estimated synergies and cost savings which may arise specifically from the Proposed Merger
- and then deducting net debt.

In order to cross check the results of our primary valuation methodology, we have had regard to the trading prices of STW shares post announcement of the Proposed Merger. It is arguable that the share trading price of STW post announcement may reflect the market value of the shares in the Combined Group, having regard to the public release of the terms of the Proposed Merger and subsequent approval by the ACCC of the transaction.

10.3 Valuation of STW

10.3.1 Summary

We have valued 100% the operating business of STW to be in the range of $402.8 million to $479.8 million ($0.94 to $1.12 per share) (on a control basis).

Table 23: Valuation of business operations

	Report	Value range	
$ millions (unless stated otherwise)	**Section**	**Low**	**High**
Maintainable earnings (EBITDA)	10.3.2	77.0	77.0
EBITDA multiple (on a control basis)	10.3.3	7.5	8.5
Enterprise value of business operations		**577.5**	**654.5**
Less: Net debt	10.3.4	(175.0)	(175.0)
Add: Working capital adjustment	10.3.5	7.8	7.8
Add: non operating assets / (liabilities)	10.3.6	(7.4)	(7.4)
Equity value (control basis)		**402.8**	**479.8**
Fully diluted shares on issue (millions)	10.3.7	429.2	429.2
STW share ($) control basis		**0.94**	**1.12**

Source: KPMG Corporate Finance analysis
Note: Table may not sum due to rounding

The valuation of STW's business operations was determined using a capitalised earnings methodology, based on maintainable EBITDA and a capitalisation multiple of 7.5 times to 8.5 times. The basis for each of these assumptions is discussed in the sections below.

10.3.2 Maintainable earnings

Maintainable earnings represents the level of earnings that the business can sustainably generate in the future. We have selected a maintainable EBITDA for STW of $77.0 million. In making this assessment, we have had regard to the following:

- **acquisitions**: during FY14, STW completed a number of acquisitions, the largest being ADG. Given the partial year acquisition of ADG, its earnings were only partially reflected in FY14. FY15 represented a full of year of earnings factoring revenue and costs for all major acquisitions and disposals by STW to date
- **non-recurring items**: underlying EBITDA in historical periods excludes the impact of one-off significant items such as acquisition, restructuring and impairment costs. Further detail in relation to STW's significant items is included in Section 7.5 of this report
- **organic growth**: over the last few years, the majority of revenue growth has resulted from acquisitions, with organic growth contributing approximately 2.0% of annual growth in revenue

We have held discussions with STW management regarding the FY16 budget, performance to date and earnings expectations. Although STW has provided earnings guidance for FY15, it has not released FY16 earnings guidance to the market. As there has been variability in STW's historical earnings, we have placed more weight on actual normalised FY15 EBITDA of $76.8 million when selecting our maintainable earnings.

There are a number of factors that indicate potential upside, including further acquisition opportunities, the higher growth potential of digital media and growth in new markets (e.g. South East Asia). Accordingly, these factors, as well as any potential downside risks to future profitability, such as competition and margin compression, have been captured in our selection of the appropriate multiple by reference to the growth profile expected for comparable companies.

We have not adjusted maintainable earnings for cost savings available to any acquirer of 100% of a company that has operations in Australia, as these types of general synergies are commonly subsumed within a premium for control that is reflected in our selection of the appropriate multiple.

10.3.3 EBITDA multiple

The multiple applied in a capitalised earnings methodology should reflect the return expected by an investor in the business. Returns are dependent on various factors including a business' operational risks, growth profile, profitability, size and external environment, amongst others.

In selecting the multiple range to be applied, consideration is generally given to market evidence derived from listed comparable companies and recent transactions involving comparable businesses/assets, with an appropriate adjustment to reflect the specific characteristics of the business being valued.

Share market evidence

Given the lack of listed comparable advertising, media and communications companies in Australia, we referred to listed international comparable companies operating in developed markets as a reference point. These companies tend to be larger, more diversified and operate across a number of geographic regions.

Generally speaking, larger companies tend to have stronger market presence. Typically, large advertising, media and communications companies go to market with a broader range of services and operate across a number of markets and geographies. Given their diversified nature, larger companies have greater capacity to absorb losses on specific projects and therefore reduce their earnings volatility. Larger companies are better able to benefit from efficiencies that can be gained from achieving economies of scale, as well as achieve advantageous financing terms.

The multiples derived for listed comparable companies are generally based on share prices reflective of the trades of small parcels of shares. As such, they generally reflect prices at which portfolio interests change hands. That is, there is no premium for control incorporated within such pricing.

The implied EBITDA multiples of the identified listed comparable companies are summarised in the table below:

Table 24: Share market evidence

Company name	Market capitalisation AUDm	Enterprise value AUDm	Revenue growth FY14	Revenue growth FY15	EBITDA growth FY14	EBITDA growth FY15	EBITDA margin FY14	EBITDA margin FY15	EBITDA multiple FY14	EBITDA multiple FY15
WPP plc	36,709	45,500	4.6%	6.6%	8.4%	6.6%	18.9%	16.6%	11.7	11.1
Omnicom Group Inc.	24,784	28,893	-1.2%	2.4%	-1.2%	4.3%	15.3%	14.9%	9.1	8.9
The Interpublic Group of Companies	11,690	13,888	5.8%	2.5%	16.8%	7.5%	13.4%	14.3%	9.8	8.9
MDC Partners Inc.	1,222	2,991	15.2%	7.9%	23.4%	10.2%	13.9%	14.9%	13.5	10.7
Publicis Groupe SA	19,487	24,119	4.3%	4.5%	2.4%	7.4%	19.3%	17.6%	11.6	8.7
Havas SA	4,435	4,931	5.2%	15.7%	9.1%	19.3%	16.1%	16.6%	10.0	8.7
Dentsu Inc.	18,471	20,326	10.4%	0.2%	22.4%	-13.9%	24.0%	20.8%	10.7	11.4
Hakuhodo DY Holdings Inc	5,386	4,174	3.2%	4.2%	12.5%	7.1%	3.8%	3.7%	7.9	7.6
Mean									**10.5**	**9.5**
Median									**10.3**	**8.9**

Source: S&P Capital IQ (downloaded on 15 February 2016, data as at 13 February 2016), KPMG Corporate Finance Analysis

Note 1: EBITDA multiples defined as Enterprise Value (the gross capitalisation comprising the sum of the market capitalisation adjusted for outside equity interests, preferred equity, plus borrowings less cash) divided by EBITDA

Note 2: Enterprise value adjusted to include present value of deferred or contingent consideration based on company's annual reports

Note 3: FY14 EBITDA adjsuted to exclude non-recurring items, i.e. restructuring costs, impairment costs, gain/loss on disposal of assets, foreign exchange gain/loss, etc. based on company's annual reports

Note 4: Omnicom released its FY15 financial information in February 2016. Accordingly, historical data represents FY15 and forecast data represents FY16 for Omnicom

Note 5: Dentsu FY14 revenue and EBITDA based on annual reports in accordance with IFRS

Note 6: Currency conversions based on foreign exchange rates as at 13 February 2016

A detailed analysis of these comparable companies is set out in Appendix 4. In assessing the comparability of the companies detailed above, we made the following observations:

- companies forecast to trade on a double digit FY15 EBITDA multiple are represented by WPP, MDC Partners and Dentsu. These companies are expected to achieve an FY15 EBITDA margin of between 14.9% and 20.8%. With the exception of Dentsu, all the companies are forecast to experience growth at the revenue and EBITDA line during FY15. We understand the following regarding these companies:
  - WPP is the largest advertising, media and communications company by market capitalisation. WPP's GroupM agencies are collectively the largest media buyers in the world and its Kantar division is the world's number two by sales in market research. In addition to these businesses, WPP's diversified asset base include investments and partnerships in data and technology which is anticipated to be a critical driver in operations as well as earnings growth going forward. WPP is trading on an FY15 EBITDA multiple of 11.1 times
  - MDC Partners is a leading provider of marketing, communications and consulting solutions to customers globally with operating units throughout the world. It offers a wide range of advertising and consumer communication services and media, market research, data analytics and other related services. The company has been rapidly growing with EBITDA growing at double digits for the past two years. Specifically in FY14, MDC achieved organic revenue growth of 10.8%. MDC Partners is trading on an FY15 EBITDA multiple of 10.7 times
  - Dentsu offers media, advertising, marketing, public relations, contents and many other related services. It operates 380 offices with 43,000 employees in 140 countries around the world. Dentsu ranks as the No. 1 brand agency globally, the third largest media agency group in the world and the world's largest sports marketing agency. In addition, Dentsu has established a leading position in the digital domain with many market-leading digital brands including isobar, iProspect and amnet. Dentsu's EBITDA margin has been around 20% for the previous two years and is currently trading on an FY15 EBITDA multiple of 11.4 times

- Publicis Groupe and Havas are forecast to trade on a single digit FY15 EBITDA multiple. The two companies are forecast to achieve EBITDA growth during FY15 of 7.4% and 19.3%, respectively. As a result of the growth expectations, the EBITDA multiple is expected to decline significantly between FY14 and FY15
  - the growth for Publicis was achieved via the acquisition of Sapient Corporation during FY14 for $3.7 billion. The acquisition of Sapient initiated the Publicis-Sapient platform, a world's largest digitally centred platform focused exclusively on digital transformation. Historically, Publicis' organic growth has lagged other global players
  - the outperformance of Havas can be attributed to the Telefonica brand, its strong healthcare pipeline and acquisitions made which increases its digital and data expertise
- The Interpublic Group of Companies (IPG) has consistently being trading at around 9.0 times EBITDA multiple and has achieved relatively lower EBITDA margin (13% to 14%) compared with other global players. IPG specializes in consumer advertising, digital marketing, communications planning and media buying, public relations and specialized communications. In FY14, IPG delivered a successful year with organic revenue growth of 5.5%, at the top end of the industry
- Omnicom has consistently been trading at around 9.0 times EBITDA multiple. Compared to other listed companies, historically Omnicom has delivered stable earnings due to the contractual nature of its revenue base. Omnicom's exposure to the US market (approximately 60% of FY15 revenue) will ensure the company takes advantage of the incremental advertising spend from the US presidential elections. Recent announced acquisition of Groupe ABC, the largest independent advertising agency in Brazil will help the company capitalise on the upcoming Olympics. Due to its investment in Annalect, (its data-driven marketing division) EBITDA margin has been flat in the last few years (at around 15%)
- Hakuhodo have consistently traded on single digit EBITDA multiple. The business has a much higher cost structure compared with other global companies, with EBITDA margin of below 4.0%.

Transaction evidence

The price paid in transactions is widely considered to represent the market value of a controlling interest in the target company. The difference between the value of a controlling interest and a minority interest (as implied by the share price) is referred to as a premium for control. The quantum of this premium will vary dependent on the specific circumstances of each transaction, including the equity share acquired, the negotiating position of the parties, competitive tension in the sales process, the availability of synergies and the extent to which a buyer would pay away these synergies to gain control of the target.

The table below sets out the historical and forecast EBITDA multiples implied by recent transactions involving companies operating in the international media, marketing and communications sector for which sufficient financial data is available.

Table 25: Transaction evidence

Announcement Date	Target	Target Country	Percent sought	Enterprise Value (AUDm)	EBITDA multiple LTM	EBITDA multiple NTM
7/29/2015	Chime Communications plc	United Kingdom	80.0%	922	14.4	10.3
10/17/2014	Havas SA	France	63.8%	3,908	9.5	8.5
9/11/2014	Conversant LLC	United States	100.0%	2,854	10.6	9.5
6/09/2014	The Communications Agency Limited	United Kingdom	100.0%	13	16.1	n/a
3/03/2014	Realise Holdings Limited	United Kingdom	100.0%	75	14.8	n/a
2/14/2014	mktg, inc.	United States	100.0%	48	11.0	8.7
10/01/2012	e-machi town Co.,Ltd.	Japan	25.6%	25	1.6	n/a
7/12/2012	Aegis Group plc (nka:Dentsu Aegis Network Ltd.)	United Kingdom	100.0%	4,546	16.9	11.9
4/03/2012	Havas SA	France	11.7%	n/a	n/a	n/a
7/29/2010	Mitchell Communication Group Limited	Australia	100.0%	328	10.9	9.1
7/02/2008	Taylor Nelson Sofres plc (nka:TNS Group Holdings Limited)	United Kingdom	100.0%	3,384	10.3	9.4
Mean					**11.6**	**9.6**
Median					**10.9**	**9.4**

Source: S&P Capital IQ, KPMG Corporate Finance Analysis

Each of the above transactions is described in Appendix 4.

Whilst the services provided by the target companies are broadly comparable to STW's business operations, in assessing the comparability of the implied multiples it is necessary to consider the particular attributes of the target companies and the specific circumstances surrounding each transaction, including:

- a number of target companies are substantially larger and more geographically diversified than STW (Chime Communications, Conversant, Aegis Group and Taylor Nelson Sofres) and therefore were purchased on higher multiples
- although large, acquisition of Havas occurred on relatively low historical and forecast EBITDA multiples of 9.5 times and 8.5 times respectively. This may have been the result of limited synergies identified for the transaction
- although a number of target companies that transacted during 2014 were substantially smaller than STW (including the Communications Agency, Realise Holdings and mktg.), their multiples were high (historical EBITDA multiples of between 11 times and 16.1 times). We understand these targets provide services in digital or online media. As the industry faces further digital deflation (because digital media on average is cheaper than traditional media on a cost per thousand impressions (CPM) basis) industry players are paying high multiples to acquire additional or expand their digital footprint
- Mitchell Communication Group's acquisition by Aegis Group occurred on historical EBITDA multiple of 10.9 times. Similar to STW in size, Mitchell Communication Group also services primarily Australian and New Zealand markets. Mitchell Communication Group operates three divisions, comprising media (28% of EBITDA), digital (57% of EBITDA) and diversified services such as branding, marketing analytics and marketing services (15% of EBITDA). The company's historical EBITDA margin was around 13% just prior to the acquisition, compared with STW's margin of 14%. We considered Mitchell Communication Group to be most comparable to STW, although arguably, the transaction occurred in a more favourable economic environment.

Control premium considerations

When valuing STW on a controlling basis using market information, it is necessary to consider an appropriate control premium to apply. We consider an appropriate control premium to be within the 20%

to 35% range (on an equity value basis) typically observed in successful takeovers in Australia. This level of control premium is justified having regard to STW's relatively high cost structure and the cost savings that could likely be achieved by an acquirer of STW.

STW estimates that over time the business stand alone (and therefore a typical acquirer) could achieve up to $5 million of cost synergies (before implementation costs).

There are risks associated with fully realising the cost synergies, the timing thereof and implementation costs (e.g. redundancy). Furthermore, achieving substantial cost savings may have a negative impact on sales (e.g. loss of customers if relationships and level of service are impacted). In addition, it is common practice not to ascribe the full value of estimated synergies in the valuation as, in a competitive bidding situation, a potential acquirer may not pay away the full benefit of synergies due to the risks associated with fully realising such benefits. Accordingly, we have reflected the risk adjusted potential future benefit of these cost savings and synergies available to a typical acquirer in the control premium when selecting the multiple.

Selected multiple range

Based on our analysis of the implied multiples of comparable companies and transactions as outlined above, we have selected a multiple range of 7.5 times to 8.5 times historical FY15 EBITDA having regard to the following considerations:

- STW's historical growth predominantly reflected acquisitions. FY15 EBITDA reflects the full earnings generating ability of the business. Compared to larger global companies, STW may not experience the same high level of growth as it does not have operations in the US market which is likely to benefit from the incremental spend of the US elections and Olympics
- comparable listed companies comprise much larger global media, advertising and communications companies with diversified operations in multiple markets and geographies. The comparable companies have a median historical EBITDA margin and multiple of 15.7% and 8.9 times, respectively
- assuming a control premium in the range 25%-35% and gearing in the range of 20%-30%, the selected EBITDA multiple of 7.5 times to 8.5 times is equivalent to a multiple of approximately 6.3 times to 6.8 times EBITDA on a minority basis. This multiple range is lower than the FY15 EBITDA multiples of the share market evidence of the comparable companies, but in our view is justified based on STW's size and expected growth prospects
- a number of the comparable transactions are substantially larger than STW which justifies the higher multiple. Transactions in 2014 involving a number of smaller companies implied relatively high multiples due to the digital media offerings of the underlying targets
- the Mitchell Communication Group transaction is considered the most comparable, but the multiple achieved may be considered high in the current economic environment
- the selected EBITDA multiple of 7.5 times to 8.5 times is lower than the control transaction involving Mitchell Communication Group discussed above as the result of lower synergies and the presence of WPP, a large non-controlling shareholder. The selected multiple captures the opportunities for cost savings standalone and those arising from overlapping activities with potential

acquirers that have operations in Australia. In incorporating an appropriate premium for control in accordance with RG 111, we have only considered those synergies and benefits which would be available to more than one potential purchaser (or a pool of potential purchasers) of STW. As such, we have not included the value of special benefits that may be unique to WPP ANZ and the WPP Proposed Merger. Accordingly, our valuation of STW has been determined without regard to the specific bidder.

10.3.4 Net debt

KPMG Corporate Finance has deducted proportionate net debt as at 31 December 2015 of $175 million (excluding earn-outs).

10.3.5 Working capital

STW's working capital fluctuates throughout the year. For the purpose of the valuation we have calculated working capital at 31 December 2015 and compared it to the annual average working capital requirement. The difference of $7.8 million has been included in the valuation.

10.3.6 Non operating liabilities

Surplus assets and liabilities are those assets and liabilities not required to sustain the adopted level of maintainable earnings. Non-operating liabilities have been assessed at negative $7.4 million and comprise:

- earn-out payments resulting from prior acquisitions, which are reflected at fair value on the statement of financial position as at 31 December 2015
- net accounts receivable from related parties within the STW group
- minority share of dividends receivable from brand agencies.

10.3.7 Number of shares on issue

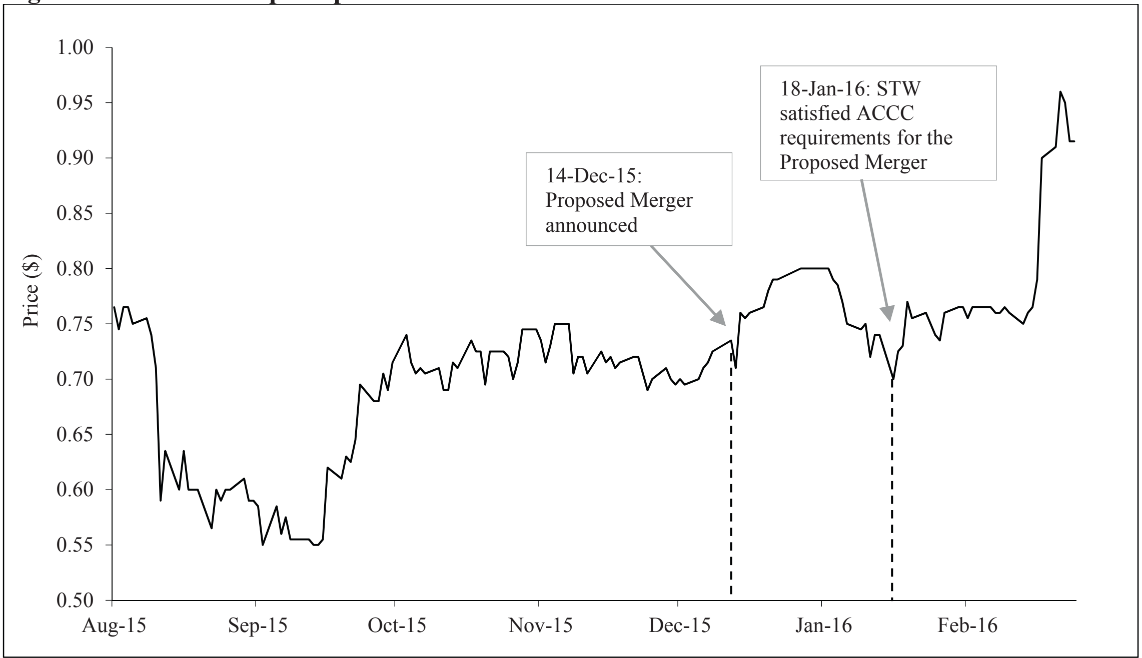
STW had 429,190,045 ordinary shares on issue as at 31 December 2015.

10.3.8 Valuation cross checks

10.3.9 Analysis of trading price of STW shares cross check

We have cross checked the primary valuation methodology by analysing recent trading prices of STW shares. The chart below illustrates the STW's share price from August 2015:

Figure 8: STW's share price performance



Source: S&P Capital IQ, KPMG Corporate Finance analysis

In assessing the share price at which an STW share may trade in the absence of the Proposed Merger, we have considered the following:

- trading prices for shares in STW were negatively impacted by the release of the half year results post July 2015, reaching a low of $0.55 per share during mid September 2015. Subsequently, STW shares traded above $0.70 after the announcement of the interim dividend and positive guidance on full year FY15 earnings. STW shares traded at around $0.70 leading up to the announcement of the Proposed Merger
- the VWAP of a STW share calculated over 1, 5, 10, 60 and 120 day periods prior to the announcement of the Proposed Merger (10 December 2015) was around $0.70 and $0.72 per share, with adequate liquidity of trading in the shares

Table 26: VWAP

Period (trading days)	VWAP to 10 December 2015 ($)	% of issued capital
1 day	0.72	0.2
5 day	0.71	0.8
10 day	0.70	1.7
1 month	0.71	3.6
3 months	0.70	8.2

Source: S&P Capital IQ, KPMG Corporate Finance analysis

- the median of the brokers' price target for an STW share was $0.73. We note brokers' target price do not incorporate the impacts of the Proposed Merger

Table 27: Broker price target for STW

Broker (target STW share price)	Target share price
Broker 1	0.75
Broker 2	0.79
Broker 3	0.70
Broker 4	0.64
Broker consensus (median)	**0.73**

Source: S&P Capital IQ, KPMG Corporate Finance analysis

Share prices of listed companies typically reflect the value of portfolio interests in the underlying company and are commonly assumed to exclude a premium for control. Therefore, as a high-level cross-check, we calculated the implied control premium by comparing our control value to the 10 day VWAP of an STW share leading up to the Announcement Date.

Table 28: High level valuation cross check based on share price analysis

Share price cross check	Report	Value range	
	Section	Low	High
Value per STW share ($) control basis	10.3.1	0.94	1.12
10 day VWAP ($) minority basis	10.3.8	0.70	0.70
Premium to 10 day VWAP		34%	60%

Source: *S&P Capital IQ, KPMG Corporate Finance analysis*

The resultant value range implies a control premium of 34% to 60% compared to the 10 day VWAP of an STW share. The implied control premium at the low end falls within the range of observed premiums paid within the Australian market of 20% to 35%. The high end exceeds the observed control premium range. This may be due to cautiousness in share trading following the disappointing FY14 and outlook for FY15. On the other hand, our valuation of STW shares includes a level of synergies that may not be fully reflected in share prices.

Overall, the analysis supports our assessed valuation of STW derived from our primary capitalised earnings methodology and, therefore, we consider our valuation of STW to be appropriate.

10.4 Valuation of WPP ANZ

10.4.1 Summary

We have valued 100% the operating business of WPP ANZ to be in the range of $431.9 million to $503.9 million (on a control basis).

Table 29: Valuation of business operations

$ millions (unless stated otherwise)	Report Section	Value range Low	High
Maintainable earnings (EBITDA)	10.4.2	72.0	72.0
EBITDA multiple (on a control basis)	10.4.3	7.5	8.5
Enterprise value of business operations		**540.0**	**612.0**
Less: Net debt	10.4.4	(105.5)	(105.5)
Add: Working capital adjustment	10.4.5	5.5	5.5
Add: non operating assets	10.4.6	(8.1)	(8.1)
Equity value (control basis)		**431.9**	**503.9**

Source: KPMG Corporate Finance analysis
Note: Table may not sum due to rounding

The valuation of WPP ANZ's business operations was determined using a capitalised earnings methodology, based on maintainable EBITDA and a capitalisation multiple of 7.5 times to 8.5 times. The basis for each of these assumptions is discussed in the sections below.

10.4.2 Maintainable earnings

Maintainable earnings represents the level of earnings that the business can sustainably generate in the future. We have selected a maintainable EBITDA for WPP ANZ of $72.0 million. In making this assessment, we have had regard to the following:

- **earnings volatility**: although FY15 performance was affected by wider macroeconomic pressures within the Australian market, as detailed in Section 8.4, the full performance also captured various business specific challenges faced within its media and advertising agency businesses
- **non-recurring items**: underlying EBITDA in historical periods excludes the impact of one-off significant items such as settlement and restructuring costs

We have held discussions with WPP ANZ management regarding the FY16 budget, performance to date and earnings expectations. Whilst WPP ANZ has provided earnings guidance for FY16, as there has been variability in historical earnings of WPP ANZ, we have placed more weight on actual normalised FY15 EBITDA of $71.9 million when selecting maintainable earnings.

There are a number of factors that indicate potential upside for WPP ANZ, including a turnaround of the media and advertising businesses post the restructuring and leadership changes that occurred during FY15. Accordingly, these factors, as well as any potential downside risks to future profitability, such as competition and margin compression, have been captured in our selection of the appropriate multiple by reference to the growth profile expected for comparable companies.

We note that we have not adjusted maintainable earnings for cost savings available to any acquirer of 100% of a company that has operations in Australia, as these types of general synergies are commonly subsumed within a premium for control that is reflected in our selection of the appropriate multiple.

10.4.3 *EBITDA multiple*

The multiple applied in a capitalised earnings methodology should reflect the return expected by an investor in the business. Returns are dependent on various factors including a business' operational risks, growth profile, profitability, size and external environment, amongst others.

In selecting the multiple range to be applied, consideration is generally given to market evidence derived from listed comparable companies and recent transactions involving comparable businesses/assets, with an appropriate adjustment to reflect the specific characteristics of the business being valued.

Given the similarities between the business operations of STW and WPP ANZ, we believe it is appropriate to utilise a consistent list of comparable companies and transactions in the selection of an appropriate multiple range. Discussions of the listed companies and transactions are detailed in Appendix 4.

Selected multiple range

Based on our analysis of the implied multiples of comparable companies and transactions as outlined in Section 10.3.3, we have selected a multiple range of 7.5 times to 8.5 times historical FY15 EBITDA. In selecting a consistent multiple range to our valuation of STW, we have had regard to the following considerations:

- WPP ANZ and STW largely provide a similar range of services to its customers, albeit WPP ANZ has a bigger exposure to media revenue. Both companies operate predominately within the Australian market and therefore are subject to broadly the same macroeconomic as well as industry wide pressures. In the absence of acquisitions and specific initiatives, growth expectations would be similar between the two companies
- WPP ANZ and STW are similar in size and achieved similar levels of EBITDA and EBITDA margin in FY15, being $71.9 million (14.6% margin) and $76.8 million (15.9% margin), respectively.

10.4.4 Net debt

KPMG Corporate Finance has deducted proportionate net debt as at 31 December 2015 of $105.5 million (excluding earn-outs).

10.4.5 Working capital

STW's working capital fluctuates throughout the year. For the purpose of the valuation we have calculated working capital at 31 December 2015 and compared it to the annual average working capital requirement. The difference of $5.5 million has been included in the valuation.

10.4.6 Non operating liabilities

Surplus assets and liabilities are those assets and liabilities not required to sustain the adopted level of maintainable earnings. Non-operating liabilities have been assessed at negative $8.1 million and comprise:

- earn-out payments resulting from prior acquisitions, which are reflected at fair value on the statement of financial position as at 31 December 2015
- net accounts receivable from related parties within WPP ANZ.

10.4.7 Valuation cross checks

10.4.8 High level DCF analysis

In the absence of a trading reference point, we have cross checked our primary capitalised earning methodology valuation of WPP ANZ to high level DCF analysis. The DCF methodology assumes that the underlying investors in a business have full control over the company and therefore over the distribution of its future cash flows. As a result, the value of WPP ANZ using the DCF method reflects a controlling value.

Our high level DCF analysis indicated an enterprise value for WPP ANZ in the range of $558.8 million to $633.3 million (on a control basis). This range overlaps and therefore supports our valuation of WPP ANZ on a capitalisation of earnings basis. Further information on assumptions is discussed below.

Table 30: High level valuation cross check based on DCF analysis

$ millions (unless stated otherwise)	Report Section	Value range Low	High
Assumptions			
EBITDA	10.4.2		72.0
Depreciation/capex	10.4.9		5.8
Tax	10.4.9		30.0%
Growth	10.4.9	2.5%	2.5%
Discount rate	10.4.9	11.0%	10.0%
Enterprise value of WPP (control basis)		**558.8**	**633.3**

Source: KPMG Corporate Finance analysis

10.4.9 Assumptions

We note the assumptions adopted by KPMG Corporate Finance do not represent forecasts/projections by KPMG Corporate Finance but are intended to reflect the assumptions that could reasonably be adopted by industry participants in their pricing of a similar business. The assumptions adopted are inherently uncertain and valuation outcomes will vary based on changes in certain key assumptions. The key assumptions are:

- **EBITDA** – Given WPP ANZ does not prepare long term forecasts and the business is considered a mature one, in our application of the high level DCF analysis we have relied on our assessment of the future maintainable EBITDA calculated in Section 10.4.2 of $72.0 million. We have adjusted

EBITDA for normalised depreciation and amortisation to derive a future maintainable free cash flow ("FCFF") for the business

- **capital expenditure** – is assumed to be equal to depreciation, which is not inconsistent with WPP ANZ's historical levels of capital expenditure, excluding one-off non-recurring capital expenditure
- **tax rate** – Income tax has been calculated by applying the Australian statutory company tax rate of 30% to the notional taxable income
- **changes in working capital** – assumed zero movement in working capital investment as WPP ANZ trades with negative working capital. We have not included the associated cash that is generated through revenue growth
- **long term growth rate** – For the purpose of our valuation, we have assumed a long term growth rate of 2.5% broadly in line with Australian inflation expectations and Australian GDP estimates
- **discount rate** – KPMG Corporate Finance has applied a discount rate based on weighted average cost of capital principles of 10% to 11% (details contained in Appendix 5).

The DCF analysis assumes that the business operates "as is", with no major changes to competition within the Australian landscape.

The resultant value under our high-level DCF analysis supports our assessed valuation of WPP ANZ derived from the capitalised earnings methodology and therefore we consider our valuation of WPP ANZ to be appropriate.

10.5 Valuation of the Combined Group

10.5.1 Summary

By approving the Proposed Merger, the non-associated shareholders will ultimately hold a non-controlling stake in the Combined Group. Accordingly we have valued the shares of the Combined Group on a minority basis. Based on our assessment, the Combined Group value range is between $685.5 million to $811.7 million ($0.80 to $0.95 per share).

Table 31: Valuation of business operations

$ millions (unless stated otherwise)		Report Section	Value range Low	High
Maintainable earnings (combined EBITDA)		10.5.1	149.0	149.0
EBITDA multiple (control basis)		10.5.1	7.5	8.5
Enterprise value of Merged Entity (control basis)			1,117.5	1,266.5
Add: Cost Synergies		10.5.2	82.5	97.5
Less: Cost to realise cost synergies		10.5.2	(16.0)	(16.0)
Enterprise value of Merged Entity (control basis)			**1,184.0**	**1,348.0**
Less: Net debt		10.5.3	(290.4)	(290.4)
Add: Working capital adjustment		10.5.4	13.3	13.3
Add: non operating assets / (liabilities)		10.5.5	(15.8)	(15.8)
Equity value (control basis)			**891.1**	**1,055.1**
Less: minority discount (30% control)	-23.1%		(205.6)	(243.5)
Equity value (minority basis)			**685.4**	**811.6**
Fully diluted shares post Proposed Merged (millions)		10.5.6	852.2	852.2
STW share post Proposed Merger ($) minority basis			**0.80**	**0.95**

Source: KPMG Corporate Finance analysis
Note: Table may not sum due to rounding
Minority discount calculated as 1-1/(1+30%)

Consistent with the standalone valuations of STW and WPP ANZ (detailed in Section 10.3 and Section 10.4), the valuation of the Combined Group was determined using a capitalised earnings methodology, based on FY15 maintainable EBITDA (being the sum of the standalone STW and WPP ANZ EBITDA) and a capitalisation multiple of 7.5 times to 8.5 times (consistent with the standalone valuations).

To obtain the equity value of the Combined Group on a portfolio basis we have applied a minority discount of 23.1%, which is associated with a 30% control premium. The resulting implied minority EBITDA multiple range is approximately 6.2 times to 7.0 times. This range is considered reasonable based on our analysis of the comparable companies and comparable transactions, the size of the Combined Group, the assumed leverage and its growth prospects.

This value was determined on a "going concern" basis, assuming control. The basis of the assumptions is described below.

10.5.2 Cost synergies

Throughout the due diligence process undertaken by STW and WPP ANZ, the companies have undertaken extensive analysis of the potential synergies expected to be realised from the Proposed Merger.

In assessing the value of the synergies, we have had regard to the type of synergies identified by management as well as the timing of the realisation of the synergies. As described and itemised in Section 9.4, the synergies identified relate to cost synergies totalling at least $15 million pa, expected to be realised within three years of the Proposed Merger.

Included in the synergies is the benefit the Combined Group will receive from its increased purchasing power and the reduction in duplication of services. In addition, the following cost savings have been identified: accommodation and travel; media research services; and employee recruitment and training. Included in operational efficiencies is the benefit derived from better utilisation of resources, services and capabilities within the Combined Group rather than sourcing external suppliers. The Combined Group has also targeted cost savings in the area of digital, TV and print production services.

In valuing the cost synergies, we have capitalised the $15 million at an appropriate EBITDA multiple of 5.5 times to 6.5 times. The selected EBITDA multiple range is lower than the multiple utilised to value the STW and WPP ANZ businesses. This reflects the type of synergies, which have been specifically identified and relate to cost categories. These synergies are arguably more readily achievable than revenue synergies. In addition, the $15 million estimate reflects the low end of the range of cost synergies identified.

Nevertheless, there is a risk that not all synergies will be achieved and there may be a delay in achieving them. Accordingly, a multiple range of 5.5 times to 6.5 times is risk adjusted to approximately 75% of the control multiple range of 7.5 times to 8.5 times. Management has advised that $16.0 million in one-off costs (including $6.0 million in transaction costs) are required to achieve the synergies which have been deducted in our assessment of the value of the synergies. We have estimated the value of the synergies (net of costs) to be in the range of $66.5 million to $81.5 million (on a control basis).

Table 32: Valuation of synergies

$ millions (unless stated otherwise)	Report Section	Value range Low	High
Cost synergies	9.4	15.0	15.0
EBITDA multiple (control basis)		5.5	6.5
Enterprise value of synergies		82.5	97.5
Less: cost to realise synergies	9.4	(16.0)	(16.0)
Enterprise value of synergies		**66.5**	**81.5**

Source: STW management, KPMG Corporate Finance analysis

Our assessed range is based on our judgement having regard to the risk profile of the identified synergies. Our valuation implies a value attributable to synergies of less than 8% of the Combined Group (at the midpoint), which we consider to be reasonable.

It is possible that additional incremental cost synergies and revenue synergies may be identified through further work by management post merger and achieved over time. We have however made no allowance, given their uncertainty, in the valuation.

10.5.3 Net debt

KPMG Corporate Finance has deducted the expected net debt position of the Combined Group as the result of the effecting the Proposed Merger of $290.4 million (excluding earn-outs).

10.5.4 Working capital

The Combined Group working capital is likely to fluctuate throughout the year. For the purpose of the valuation of the Combined Group we have calculated working capital at 31 December 2015 and compared it to the annual average working capital requirement. The difference of $13.3 million has been included in the valuation.

10.5.5 Non operating liabilities

Surplus assets and liabilities are those assets and liabilities not required to sustain the adopted level of maintainable earnings. Non-operating liabilities have been assessed at negative $15.8 million and comprise:

- earn-out payments resulting from prior acquisitions, which are reflected at fair value on the statement of financial position as at 31 December 2015, and
- net accounts receivable from related parties within the STW and WPP ANZ group
- dividends receivable from brand agencies.

10.5.6 Number of shares on issue

As a result of the Proposed Merger, STW non associated shareholders will continue to own 328,109,747 shares and WPP will be issued 422,961,825 new STW shares. Together with their existing 101,080,298 shares, WPP will own 524,042,123 shares. On a fully diluted basis, the number of shares on issue will be 852,151,870.

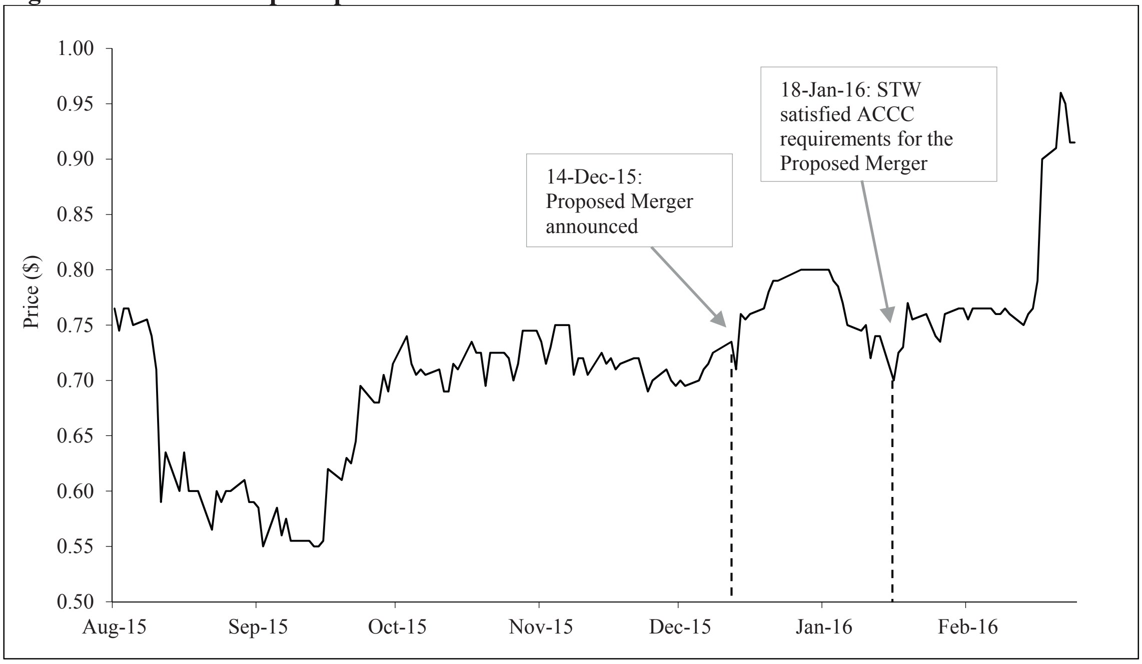
10.5.7 Valuation cross checks

10.5.8 Analysis of post announcement trading price of STW shares cross check

We have cross checked the primary valuation methodology of the Combined Group by analysing trading prices of STW shares post announcement of the Proposed Merger. The trading price of STW shares subsequent to the Announcement Date may provide reasonable guidance on the value of the Combined Group, as STW shares would reflect the impact of the terms of the Proposed Merger post announcement.

The figure below illustrates the share trading of STW subsequent to the Announcement Date and we make the comparison with our assessed valuation range of the Combined Group on a minority basis.

Figure 9: STW's share price performance



Source: S&P Capital IQ, KPMG Corporate Finance analysis

When considering share trading of an STW share post the announcement of the Proposed Merger, we note the following:

- two months prior to the announcement of the Proposed Merger, STW shares traded between $0.69 and $0.75 per share. As detailed in Section 10.3.8, the median of brokers' price target for STW shares was $0.73, which does not contain the impact of the Proposed Merger
- STW shares briefly traded around $0.80 post the announcement of the Proposed Merger in late December 2015, with a high point of $0.81, before declining to $0.70 mid January 2016. The ACCC approval on 18 January 2016 of the Proposed Merger provided further support for STW shares, and it increased above $0.70 per share. The VWAP over the post announcement period (between 10 December 2015 and 26 February 2016) was $0.78 per STW share, and the price has been as high as $0.97.

Table 33: VWAP

Period (trading days)	VWAP	% of issued capital
14 December 2015 to 26 February 2016	0.78	10.8

Source: S&P Capital IQ, KPMG Corporate Finance analysis

In order to cross check our assessment of the value of the Combined Group, we have calculated the premium of our assessed value and that of the post announcement share price of STW. We detail our analysis below.

Table 34: High level valuation cross check based on share price analysis

Share price cross check	Report Section	Value range Low	High
Value per Combined Group ($) minority basis	10.5.1	0.80	0.95
VWAP post announcement ($) minority basis	10.5.7	0.78	0.78
Premium to post announcement VWAP		3%	22%

Source: S&P Capital IQ, KPMG Corporate Finance analysis

As our assessment of a share in the Combined Group on a minority (portfolio) basis represents a 3 to 22% premium to the VWAP of the STW share price (post announcement of the Proposed Merger). The premium may be attributed to a range of factors, including the cautiousness of the market to fully reflect completion of the deal and perceived execution risk of the expected synergies of the Proposed Merger.

Having regard to this, the post announcement STW share price analysis supports our assessed valuation of the Combined Group and therefore our valuation is considered to be appropriate.

Appendix 1 – KPMG Corporate Finance Disclosures

Qualifications

The individuals responsible for preparing this report on behalf of KPMG Corporate Finance are Ian Jedlin and Adele Thomas. Adele is a member of the Institute of Chartered Accountants in Australia and holds Bachelor of Commerce and Bachelor of Accounting degrees. Ian is an Associate of the Institute of Chartered Accountants in Australia and a Senior Fellow of the Financial Securities Institute of Australasia and holds a Master of Commerce from the University of New South Wales. Each has a significant number of years of experience in the provision of corporate financial advice, including specific advice on valuations, mergers and acquisitions, as well as the preparation of independent expert reports.

Disclaimers

It is not intended that this report should be used or relied upon for any purpose other than KPMG Corporate Finance's opinion as to whether the Proposed Merger is fair and reasonable to Non-associated Shareholders. KPMG Corporate Finance expressly disclaims any liability to any Non-associated Shareholders who rely or purport to rely on the report for any other purpose and to any other party who relies or purports to rely on the report for any purpose whatsoever.

Other than this report, neither KPMG Corporate Finance nor the KPMG Partnership has been involved in the preparation of the Explanatory Memorandum or any other document prepared in respect of the Proposed Merger. Accordingly, we take no responsibility for the content of the Explanatory Memorandum as a whole or other documents prepared in respect of the Proposed Merger.

We note that the forward-looking financial information prepared by the Company does not include estimates as to the potential impact of any future changes in taxation legislation.

Independence

In addition to the disclosures in our Financial Services Guide, it is relevant to a consideration of our independence that, during the course of this engagement, KPMG Corporate Finance provided draft copies of this report to management of STW and WPP for comment as to factual accuracy, as opposed to opinions which are the responsibility of KPMG Corporate Finance alone. Changes made to this report as a result of those reviews have not altered the opinions of KPMG Corporate Finance as stated in this report.

Consent

KPMG Corporate Finance consents to the inclusion of this report in the form and context in which it is included with the Explanatory Memorandum to be issued to the shareholders of STW. Neither the whole nor the any part of this report nor any reference thereto may be included in any other document without the prior written consent of KPMG Corporate Finance as to the form and context in which it appears.

Appendix 2 – Sources of information

In preparing this report we have been provided with and considered the following sources of information:

Publicly available information:

- various ASX company announcements
- various broker and analyst reports
- various press and media articles
- various reports published by IBISWorld Pty Ltd
- financial information from Bloomberg, Thompson Financial Securities, Aspect Huntley and Connect 4.

Non-public information:

- unaudited financial reports for STW and WPP ANZ for the financial year ended 31 December 2015
- Explanatory Memorandum, term sheet and share sale agreement in relation to the Proposed Merger
- other confidential documents, presentations and work papers.

In addition, we have had discussions with, and obtained information from, senior management of STW and WPP plc, its advisors, and UBS.

Appendix 3 – Industry overview

The Australian media, marketing and communications industry

Overview

STW and WPP ANZ provide media buying, marketing and communications, and market research services. Activities specific to each market segment are outlined below:

- **media buying services**, provide media planning, strategic advice and media buying services
- **marketing and communications services**, provide marketing, advertising and communications management services, including public relations services
- **market research services**, provide services related to market research, data analysis and consumer analytics.

Each market segment is further explained in the sections below.

Overall the industry is highly competitive and driven by rapidly-evolving technology and advertising expenditure.

The media and communications industry is highly competitive and fragmented with a large number of competitors and low barriers to entry. Given the low switching costs for clients and short contract duration (typically two to three years), market participants are constantly exposed to contract renewal risk and direct competition from other agencies. Large one-stop marketing and communications agencies, although providing larger scale projects and broader service offerings, still face effective competition from smaller agencies with niche expertise in specific areas and superior agility. Moreover, agencies face intragroup competition as contracts are typically awarded to individual operating companies rather than at group level. This intense competition requires market participants to constantly evolve and adapt to client's fast-changing needs.

At present, technology has been reshaping the industry landscape. The emergence of new media[10] has led to increasingly diversified and fragmented media consumption across various channels. This has opened up new avenues to reach targeted audiences and offered new areas of growth such as programmatic media buying and big data analytics. Programmatic media buying, through the use of internet, data and technology, improves efficiency of the advertisement (ad) exchange, enhances consumer targeting effectiveness and maximizes value for each dollar spent on advertising. Big data analytics (the process of analysing large volumes of data to uncover trends and patterns useful to business decision-making) also arose to consolidate data across multiple channels, deliver robust data analysis, and enable better

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[10] Most commonly refers to content available on-demand through the internet, accessible on digital devices, usually containing interactive user feedback and creative participation. Examples include social media such as Facebook, Twitter and Instagram as well as online newspapers and blogs. A defining characteristic of new media is direct dialogue with users. Source: "Submission in support of request for confidential pre-assessment to the Australia Competition & Consumer Commission", December 2015 (satisfied in January 2016)

understanding of consumer behaviours. In general, these growth areas present opportunities for companies who are able to quickly adopt the technology and deliver value to clients.

Advertising expenditure drives demand in the industry and is influenced by cyclical and structural factors. Businesses tend to increase their advertising budget during periods of stronger economic growth and business confidence. Advertising spending is also linked to trends in consumer expenditure. Consumer items such as generic everyday products, motor vehicles and housing typically require significant advertising and promotional activities to stimulate consumer interest. On the contrary, public relations (PR) expenditure tends to be less volatile and not as sensitive to economic conditions and business confidence when compared with other activities. During periods of economic downturn and lower business profitability, more companies engage with PR agencies to issue PR releases and stakeholder communication, thus upholding PR spending.

Media buying services

Media agencies offer media planning, strategic advice and media buying services which assist clients with the development of advertising strategies, and purchase of advertising time and/or space from various media vendors. Most media buying agencies offer a full range of media services to provide coherent media strategies as well as optimised cost. Most media plans use various channels including TV, radio, internet, billboard, etc. in order to target a fragmented audience base.

The media buying market is highly fragmented within the Australian landscape, with the five largest companies contributing to just over 30% of total market share[11]. The five largest companies include WPP Holdings (Australia) Pty Ltd, Interpublic Australia Holdings Pty Ltd, Omnicom Media Group Australia Pty Ltd, Publicis Communications Pty Limited, and Dentsu Aegis Network Australia Holdings Pty Ltd. The competition in this industry is high with low barriers to entry and high likelihood of further market entry[12].

The media buying market has seen several trends in recent years. Automatic purchases of web based advertisements either directly or via an auction system have been implemented by media buying agencies. This so called programmatic media buying (PMB) system has become increasingly prevalent in the market. Leveraging technology and data, PMB automates the ad purchase process and allows for enhanced consumer targeting capabilities, increased advertising spending efficiencies, and increased control over campaign performance. According to eMarketer, a market research company focusing on digital marketing, media and commerce, global programmatic ad spend is forecast to grow exponentially and is projected to reach US$ 33 billion in 2017 with real-time bidding (RTB) being a major contributor to growth. As technology improves, less human labour is required in the media buying process. Accordingly, some advertisers have started to build in-house media buying departments and directly purchase media time and/or space from media vendors, effectively by-passing the media buying agencies. In Australia, directly purchased advertisements make up a significant portion of overall spend on media[13].

[11] Source: IBIS World, Media Buying Agencies in Australia, July 2015
[12] Source: "Submission in support of request for confidential pre-assessment to the Australia Competition & Consumer Commission", December 2015 (satisfied in January 2016)
[13] Source: "Submission in support of request for confidential pre-assessment to the Australia Competition & Consumer Commission", December 2015 (satisfied in January 2016)

The increased use of programmatic technology and direct media buying may present a threat of disintermediation to individual media buying agencies but overall represents progress in the industry as a whole through improvements in business efficiency, cost-effectiveness and quality of service. Advertising companies who can effectively implement the latest technology and deliver value and efficiency to clients will be expected to experience superior growth.

The Australian media buying market is estimated to generate approximately $1.2 billion revenue in 2015-16 and is expected to grow at an annual rate of 2.3% over the next five years[14].

Marketing and communications services

The marketing and communications services encompass marketing, advertising, and public relations services. In many cases, marketing and communications campaigns are run across a number of channels, using a range of service types, simultaneously. Generally speaking, marketing and communications services are often referred to as:

- **above-the-line**, uses mass media advertising such as broadcast (i.e. television, radio), billboard (i.e. public transport, sporting events), and internet (i.e. specialised website campaigns, search engine optimization). Growth in online communications is expected to continue in the near to medium term

- **below-the-line**, uses direct means of communication such as direct mail or email, promotional activities, and public relations. This media channel has grown in recent years as brands attempt to reach targeted audiences, instead of the general public, in a more cost-effective manner

- **through-the-line**, involves both above and below-the-line communications such as print advertising. Print advertising has declined due to increasing internet advertising levels.

The communications market is highly competitive with a large number of competitors and low barriers to entry. The top five companies within the Australian advertising market contribute to approximately 35% of market share[15]. The five largest companies include Omnicom Media Group Australia Pty Ltd, STW Communications Group Limited, Interpublic Australia Holdings Pty Ltd, Publicis Communications Pty Limited, and WPP Holdings (Australia) Pty Ltd. In contrast, the Australian public relations market is further fragmented as each market participant contributes less than 7% of the overall market[16].

The marketing communications market is primarily driven by creativity, technology and specialist knowledge. As such, there has been a shift to smaller, niche advertising agencies, particularly where the internet or data is involved. In addition, the focus in recent years has been on below the line services, directly targeting individuals or a specific group of audiences.

The Australian advertising market is estimated to generate approximately $2.1 billion revenue in 2015-16 and is expected to grow at an annual rate of 2.6% over the next five years [17]. The Australian PR market is

[14] Source: IBIS World, Media Buying Agencies in Australia, July 2015
[15] Source: IBIS World, Advertising Agencies in Australia, November 2015
[16] Source: IBIS World, Public Relations Services in Australia, December 2015
[17] Source: IBIS World, Advertising Agencies in Australia, November 2015

estimated to generate approximately $515 million revenue in 2015-16 and is expected to grow at an annual rate of 2.9% over the next five years.

Market research services

Market research services are conducted on behalf of commercial and government clients. These services provide clients with information to develop new products and advertising strategies, make strategic decisions and gather demographic information.

The market research market is also highly competitive with a significant number of competitors and low barriers to entry. The Australian Bureau of Statistics (ABS) is the largest supplier of market research services within Australia and solely services the requirements of government bodies. Besides the ABS, the market is fragmented across a large number of small companies. Additionally, the industry is shifting from a product-driven path to a more solution-based one. Given this phenomenon, market research services will continue to face increased external competition from other industries.

Big data analytics, as a major trend in the industry, will continue to change the landscape of the market and challenge existing participants. As technological advances reduce the amount of labour required for data analysis, larger advertising companies have transitioned to performing research functions in-house, rather than engaging third party research agencies. Accordingly, revenue is expected to decline for this market segment. This structural change may pose challenges to small research agencies, but overall is expected to improve the market efficiency and cost-effectiveness.

The Australian market research market is estimated to generate approximately $2.1 billion[18] revenue in 2015-16 and is expected to grow at an annual rate of 0.3% over the next five years[19].

[18] Source: IBIS World, Market Research and Statistical Services in Australia, November 2015; includes revenue of ABS

[19] Source: IBIS World, Market Research and Statistical Services in Australia, November 2015

Appendix 4 – Market evidence

Description of comparable companies

A brief description of the selected comparable companies is provided below:

WPP plc

WPP plc (WPP) is an LSE listed advertising company with a market capitalisation of $38,102 million at 25 January 2016. WPP provides communication services worldwide and operates through four segments. Firstly, the Advertising and Media Investment Management segment plans and creates marketing and branding campaigns; and designs and produces advertisements. This segment also engages in media investment management operations. Secondly, the Data Investment Management segment offers custom research services in various sectors. Thirdly, the Public Relations & Public Affairs segment includes offering corporate, financial and marketing communications. Lastly, there is a Branding & Identity, Healthcare and Specialist Communications segment. The company was founded in 1985 and is based in London, the United Kingdom.

Omnicom Group Inc.

Omnicom Group Inc. (Omnicom) is a NYSE listed advertising company with a market capitalisation of $24,373 million at 25 January 2016. The company operates as an advertising, marketing and corporate communications services company in the Americas, Europe, the Middle East, Africa and the Asia pacific. Omnicom offers services in advertising, customer relationship management, public relations and specialty communication areas. The company was founded in 1944 and is based in New York, New York.

The Interpublic Group of Companies Inc.

The Interpublic Group of Companies Inc. (Interpublic Group) is a NYSE listed advertising company with a market capitalisation of $12,819 million at 25 January 2016. Interpublic Group provides advertising and marketing services. The company operates through two segments, Integrated Agency Networks and Constituency Management Group. It primarily offers consumer advertising, digital marketing, communications planning and media buying, public relations and specialized communications disciplines. Interpublic Group was founded in 1902 and is headquartered in New York, New York.

MDC Partners Inc.

MDC Partners Inc (MDC) is a NasadaqGS listed advertising company with a market capitalisation of $1,397 million at 25 January 2016. MDC provides marketing, activation and communications and consulting solutions and services worldwide. It operates through two segments, Strategic Marketing Services and Performance Marketing Services. The Strategic Marketing Services segment offers marketing, activation and consulting services and marketing communication services. The Performance Marketing Services segment provides services, such as the design, development, research and implementation of consumer service, media planning and buying and direct marketing initiatives. MDC was founded in 1980 and is headquartered in New York, New York.

Publicis Groupe SA

Publicis Groupe SA (Publicis Groupe) is an ENXTPA listed advertising company with a market capitalisation of $16,926 million at 25 January 2016. MDC provides a range of marketing, communication and business transformation services worldwide. The company's specialized agencies and marketing services include interactive communication services, direct marketing, customer relationship management services, sales promotion, point-of-sale marketing services, healthcare communication services, public relations, corporate and financial communication and multicultural or ethnic communication. In addition, it provides media planning and media buying services. Publicis Groupe was founded in 1926 and is based in Paris, France.

Havas SA

Havas SA (Havas) is an ENXTPA listed advertising company with a market capitalisation of $4,549 million at 25 January 2016. Havas provides a range of advertising and communication services worldwide. It offers brand strategy, consulting, advertising and brand content; media planning and buying; corporate, financial and human resources communications; direct, relational, promotional and interactive marketing; content creation; design; sports marketing and healthcare communication services. The company was founded in 1835 and is based in Puteaux, France.

Dentsu Inc.

Dentsu Inc. (Dentsu) is a TSE listed advertising company with a market capitalisation of $20,611 million at 25 January 2016. Dentsu provides advertising services in Japan and internationally. The company offers advertising through various forms of media, event marketing and public relations. It was founded in 1901 and is headquartered in Tokyo, Japan.

Hakuhodo DY Holdings Inc

Hakuhodo DY Holdings Inc (Hakuhodo) is a TSE listed advertising company with a market capitalisation of $5,320 million at 25 January 2016. The company provides marketing and communications services in Japan and internationally. It was founded in 2003 and is headquartered in Tokyo, Japan.

Description of comparable transactions

A brief description of the selected comparable transactions is provided below:

- On 29 July 2015, WPP plc offered to acquire an 80% interest in Chime Communications plc (Chime) for approximately £290 million in cash at £3.65 per share. Chime provides sports marketing, public relations, advertising, market research, direct marketing, design, and event management consultancy services. It operates in four segments including Sport & Entertainment, Advertising and Marketing Services, Insight & Engagement and Healthcare.

- On 17 October 2014, Bollore, La Société Industrielle et Financière de l'Artois and Compagnie du Cambodge entered into an agreement to acquire an additional 37% interest in Havas SA (Havas) for €2.6 billion in stock. This raised Bollore's interest in Havas to 73% as of 14 January 2015. Havas provides a range of advertising and communications services worldwide. It offers brand strategy, consulting, advertising, and brand content; media planning and buying; corporate, financial, and human resources communications; direct, relational, promotional, and interactive marketing; and design services.

- On 11 September 2014, Alliance Data Systems Corporation entered into an agreement to acquire Conversant, Inc. (Conversant) for approximately US$ 2.4 billion at total consideration per share of US$ 35. The consideration consists of cash plus one Conversant common share in exchange for approximately 0.07 shares of Alliance Data common stock. Conversant offers various digital marketing solutions, including customer relationship management, online video marketing, mobile marketing, and display marketing solutions. The company recognizes and reaches consumers, makes various real-time decisions about interactions, and offers measurement and consumer insights.

- On 9 June 2014, Communisis plc (Communisis) acquired The Communications Agency Limited for £8.6 million. Communisis paid £6 million in cash and issued 2.4 million shares. The acquisition is expected to be earnings enhancing in its first full year of ownership by Communisis. The Communications Agency Limited provides direct and digital advertising and promotion services.

- On 3 March 2014, St Ives plc (St Ives) acquired Realise Holdings Limited (Realise) for a total of £40 million. The total consideration consists of £18.4 million cash, 1.7 million St Ives shares, and up to £18.3 million payables dependent on Realise's incremental financial performance for the years ending September 30, 2014, and 2015. The acquisition will be earnings enhancing in the current financial year. Realise offers digital marketing agency services in Britain.

- On 27 May 2014, Dentsu Aegis Network Ltd. entered into an agreement to acquire mktg, inc. for US$ 23.3 million in cash at US$ 2.8 per share. mktg, inc. operates as a service marketing agency in the United States. The company develops, manages, and executes sales promotion programs using online and offline media channels. Its services include experiential and face-to-face marketing, event and interactive marketing, ethnic marketing, and various elements of consumer and trade promotions.

- On 1 October 2012, Hikari-Tsushin Inc. (Hikari-Tsushin) entered into an agreement to acquire a 25.6% interest in e-machi town Co. Ltd. (e-machi town) for approximately ¥1.2 billion in stock. Under the terms of the deal, 50 shares of Hikari-Tsushin will be issued for 1 share of e-machi town. e-machi town operates in the media advertising business in Japan. Its media advertising business assists users in advertising through internet media and other media-networks with search-related advertisements, banner advertisements, e-mail advertisements, and affiliate advertising. Additionally, the company's mobile advertising business works with customers to plan and develop sales promotions through internet and mobile.

- On 12 July 2012, Dentsu Inc. entered into an agreement to acquire 1.17 billion shares of Aegis Group plc (now known as Dentsu Aegis Network Ltd.) at £2.4 per share with a total consideration of £2.8 billion in cash. Aegis Group plc provides brandings, media and marketing services to customers worldwide. Its services include branding solutions, media planning and buying, integrated cross media solutions, marketing and creative solutions, online and direct marketing, marketing consulting and public relations.

- On 3 April 2012, Parvus Asset Management (UK) LLP (Parvus) acquired an 11.7% interest in Havas SA (Havas). Following the transaction, Parvus raised its stake in Havas to 16.6%. Havas provides a range of advertising and communications services worldwide. It offers brand strategy, consulting, advertising, and brand content; media planning and buying; corporate, financial, and human resources communications; direct, relational, promotional, and interactive marketing; and design services.

- On 29 July 2010, Aegis Group plc (Aegis) signed an agreement to acquire Mitchell Communication Group Limited (Mitchell) for AUD 370 million. Upon completion of the transaction, Mitchell will become a wholly owned subsidiary of Aegis and all new Aegis shares issued will be quoted on the London Stock Exchange. Mitchell provides various communication services primarily in Australia and New Zealand. The company offers media communications strategy, media planning and buying, consumer insights research, specialist strategic advice, and branded content solutions, search engine marketing, and creative services.

- On 2 July 2008, WPP Group plc offered to acquire Taylor Nelson Sofres plc (Taylor Nelson Sofres) for £1.09 billion. WPP Group plc offered £1.73 per share in cash and approximately 0.19 WPP share in exchange for each Taylor Nelson Sofres share. Taylor Nelson Sofres provides market research services worldwide in the areas of brand and communication, customer strategies and employee engagement.

Appendix 5 – Selection of discount rate

Our assessed discount rate for WPP ANZ (applied in our high level DCF cross-check) is outlined in the table below.

Table 35: Discount rate

	WACC		
Inputs	**Low**	**High**	**Notes**
Risk free rate	4.4%	4.4%	Blended risk free rate (of the spot Australian government bond rate and long term forecast rate)
Unlevered beta	0.8	0.9	Based on our analysis of the comparable companies
Tax rate	30%	30%	Australian corporate tax rate
Relevered beta	1.0	1.1	Relevered beta based on the unlevered beta, tax rate and gearing assumptions
Market risk premium	6.0%	6.0%	Appropriate market risk premium for investments in Australia
Company specific risk premium	1.5%	2.0%	Forecasting and size risk premium
Cost of equity (post-tax)	**11.8%**	**13.1%**	
Cost of debt (pre-tax)	6.4%	6.9%	2.0% to 2.5% margin on the base risk free rate to reflect an investment grade corporate borrower
Equity to enterprise value	75%	75%	
Debt to enterprise value	25%	25%	Having regard to gearing range of the comparable companies
WACC (post-tax)	**10.0%**	**11.0%**	
Selected WACC	**10.0%**	**11.0%**	

Source: KPMG Corporate Finance analysis

The discount rate represents an estimate of the WACC which is applied to forecast nominal unlevered after-tax cash flows. In relation to the assessed WACC rates outlined above, we note:

- the assessed WACC is applicable to WPP ANZ as a standalone entity
- a degree of subjectivity is involved in estimating some of the inputs outlined above. These limitations mean that any estimate of the WACC must necessarily be regarded as indicative rather than as an absolute measure. Furthermore, because the WACC is a market-determined measure, changes in market conditions over time will affect its calculation
- the individual variables should not be considered in isolation but rather be viewed as components appropriate for the construction of a discount rate as a whole, applicable to WPP ANZ as a standalone entity. Consideration of these components in isolation may result in an inappropriate discount rate being determined.

The table below outlines the beta analysis of the selected comparable companies.

Table 36: Beta analysis of comparable companies

Beta analysis								
Company name	**Levered beta 2-year weekly**	**Unlevered beta 2-year weekly**	**Debt to equity 2-year avg**	**Debt to value 2-year avg**	**Levered beta 5-year monthly**	**Unlevered beta 5-year monthly**	**Debt to equity 5-year avg**	**Debt to value 5-year avg**
STW Communications Group Ltd.	0.86	0.70	35%	26%	0.71	0.60	26%	21%
WPP plc	1.04	0.92	17%	15%	1.12	0.96	21%	18%
Omnicom Group Inc.	1.02	0.96	10%	9%	1.30	1.22	12%	10%
The Interpublic Group of Companies	1.16	1.09	9%	9%	1.66	1.60	7%	6%
MDC Partners Inc.	1.07	0.82	50%	33%	1.34	1.02	53%	35%
Publicis Groupe SA	0.93	0.88	9%	8%	0.91	0.87	8%	7%
Havas SA	0.83	0.78	10%	9%	0.97	0.90	11%	10%
Dentsu Inc.	1.12	1.05	11%	10%	1.03	1.00	6%	5%
Hakuhodo DY Holdings Inc	1.03	1.03	0%	0%	0.94	0.94	0%	0%
Mean	1.01	0.91	17%	13%	1.11	1.01	16%	12%
Median	1.03	0.92	10%	9%	1.03	0.96	11%	10%
Mean (excl. outliers)	1.01	0.91	17%	13%	1.11	1.01	16%	12%
Median (excl. outliers)	1.03	0.92	10%	9%	1.03	0.96	11%	10%

Source: S&P Capital IQ (downloaded on 17 February 2016, data as at 15 February 2016), KPMG Corporate Finance Analysis

Appendix 6 – Valuation methodology

Capitalisation of earnings

An earnings based approach estimates a sustainable level of future earnings for a business ('maintainable earnings') and applies an appropriate multiple to those earnings, capitalising them into a value for the business. The earnings bases to which a multiple is commonly applied include Revenue, EBITDA, EBIT and NPAT.

In considering the maintainable earnings of the business being valued, factors to be taken into account include whether the historical performance of the business reflects the expected level of future operating performance, particularly in cases of development, or when significant changes occur in the operating environment, or the underlying business is cyclical.

With regard to the multiples applied in an earnings based valuation, they are generally based on data from listed companies and recent transactions in a comparable sector, but with appropriate adjustment after consideration has been given to the specific characteristics of the business being valued. The multiples derived for comparable quoted companies are generally based on security prices reflective of the trades of small parcels of shares. As such, multiples are generally reflective of the prices at which portfolio interests change hands. That is there is no premium for control incorporated within such pricing. They may also be impacted by illiquidity in trading of the particular stock. Accordingly, when valuing a business en bloc (100%) we would also reference the multiples achieved in recent mergers and acquisitions, where a control premium and breadth of purchaser interest are reflected.

An earnings approach is typically used to provide a market cross-check to the conclusions reached under a theoretical discounted cash flow methodology or where the entity subject to valuation operates a mature business in a mature industry or where there is insufficient forecast data to utilise the discounted cash flow methodology.

Discounted cash flow

Under a discounted cash flow methodology, forecast cash flows are discounted back to the Valuation Date, generating a net present value for the cash flow stream of the business. A terminal value at the end of the explicit forecast period is then determined and that value is also discounted back to the Valuation Date to give an overall value for the business.

In a discounted cash flow analysis, the forecast period should be of such a length to enable the business to achieve a stabilised level of earnings, or to be reflective of an entire operation cycle for more cyclical industries. Typically a forecast period of at least five years is required, although this can vary by industry and by sector within a given industry.

The rate at which the future cash flows are discounted (the Discount Rate) should reflect not only the time value of money, but also the risk associated with the business' future operations. This means that in order for a discounted cash flow to produce a sensible valuation figure, the importance of the quality of the underlying cash flow forecasts is fundamental.

The Discount Rate most generally employed is the Weighted Average Cost of Capital (WACC), reflecting an optimal (as opposed to actual) financing structure, which is applied to unleveraged cash flows and results in an Enterprise Value for the business. Alternatively, for some sectors it is more appropriate to apply an equity approach instead, applying a cost of equity to leveraged cash flows to determine equity value.

In calculating the terminal value, regard must be had to the business' potential for further growth beyond the explicit forecast period. This can be calculated using either a capitalisation of earnings methodology or the 'constant growth model', which applies an expected constant level of growth to the cash flow forecast in the last year of the forecast period and assumes such growth is achieved in perpetuity.

Net assets or cost based

Under a net assets or cost based approach, total value is based on the sum of the net asset value or the costs incurred in developing a business to date, plus, if appropriate, a premium to reflect the value of intangible assets not recorded on the balance sheet.

Net asset value is determined by marking every asset and liability on (and off) the company's balance sheet to current market values. A premium is added, if appropriate, to the marked-to-market net asset value, reflecting the profitability, market position and the overall attractiveness of the business. The net asset value, including any premium, can be matched to the 'book' net asset value, to give a price to net assets, which can then be compared to that of similar transactions or quoted companies.

A net asset or cost based methodology is most appropriate for businesses where the value lies in the underlying assets and not the ongoing operations of the business (e.g. real estate holding companies). A net asset approach is also useful as a cross check to assess the relative riskiness of the business (e.g. through measures such as levels of tangible asset backing).

Enterprise or equity value

Depending on the valuation approach selected and the treatment of the business' existing debt position, the valuation range calculated will result in either an enterprise value or an equity value being determined.

An enterprise value reflects the value of the whole of the business (i.e. the total assets of the business including fixed assets, working capital and goodwill/intangibles) that accrues to the providers of both debt and equity. An enterprise value will be calculated if a multiple is applied to unleveraged earnings (i.e. revenue, EBITDA, EBITA or EBIT) or unleveraged free cash flow.

An equity value reflects the value that accrues to the equity holders. To compare an enterprise value to an equity value, the level of net debt must be deducted from the enterprise value. An equity value will be calculated if a multiple is applied to leveraged earnings (i.e. NPAT) or free cash flow, post debt servicing.

Appendix 7 – Glossary

Abbreviation	Description
ABS	Australian Bureau of Statistics
ACCC	Australian Competition and Consumer Commission
ADG	Active Display Group
Announcement Date	Transaction was announced on 14 December 2015
APESB	Accounting Professional & Ethical Standards Board
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
Combined Group	The combined entity resulting from the Proposed Merger
Consideration	The issue of approximately 423 million new STW shares to Cavendish Square Holding B.V. (WPP)
Corporations Act or the Act	Corporations Act 2001 (Cth)
DCF	Discounted Cash Flow
DRP	Dividend Reinvestment Plan
EBIT	Earnings Before Interest and Tax
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
EPS	Earnings Per Share
ESP	Executive Share Plan
FIRB	Foreign Investment Review Board
Granting of Security	The granting of securities over certain of the assets of WPP ANZ to WPP Luxembourg Europe Two Sarl
IER	Independent Expert Report
Joint Ventures	The joint venture arrangements between STW and WPP plc
KPMG Corporate Finance	A division of KPMG Financial Advisory Services (Australia) Pty Ltd ABN 43 007 363 215, Australian Financial Services License Number 246901
Lender	WPP Luxembourg Europe Two Sarl
Leverage	The ratio of net debt to EBITDA on a covenant basis
Non-associated Shareholders	Shareholders of STW that are not associated with the Proposed Merger
NPAT	Net Profit After Tax
NWC	Net Working Capital
pa	Per Annum
Proposed Merger	The proposal for STW to merge with WPP ANZ as announced on 14 December 2015
Refinancing	The refinancing of the WPP Debt of approximately $252 million and STW's existing bank facilities on completion of the Proposed Merger
Resolution 1	The resolution of approving the issue of STW ordinary shares to WPP
Resolution 2	The resolution of approving the acquisition of the shares in WPP ANZ by STW and other associated transactions, including the Granting of Security
RG	ASIC's Regulatory Guide
STW	STW Communications Limited
the Act	the Corporations Act 2001
USD	U.S. Dollar
VWAP	Volume Weighted Average Price
WACC	Weighted Average Cost of Capital
WPP	Cavendish Square Holding B.V.
WPP ANZ	The Australian and New Zealand businesses of WPP plc
WPP Debt	The debt of approximately $252 million which WPP ANZ owes to the WPP Group
WPP Nominees	The Directors nominated by WPP

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Part Two – Financial Services Guide

Dated 29 February 2016

What is a Financial Services Guide (FSG)?

This FSG is designed to help you to decide whether to use any of the general financial product advice provided by KPMG Financial Advisory Services (Australia) Pty Ltd **ABN 43 007 363 215**, Australian Financial Services Licence Number 246901 (of which KPMG Corporate Finance is a division) **(KPMG Corporate Finance)** and Adele Thomas as an authorised representative of KPMG Corporate Finance, authorised representative number 404180 and Ian Jedlin as an authorised representative of KPMG Corporate Finance, authorised representative number 404177 **(Authorised Representative)**.

This FSG includes information about:

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- the services KPMG Corporate Finance and its Authorised Representative are authorised to provide
- how KPMG Corporate Finance and its Authorised Representative are paid
- any relevant associations or relationships of KPMG Corporate Finance and its Authorised Representative
- how complaints are dealt with as well as information about internal and external dispute resolution systems and how you can access them; and the compensation arrangements that KPMG Corporate Finance has in place.

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- securities;
- superannuation;
- carbon units;
- Australian carbon credit units; and
- eligible international emissions units,

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Associations and relationships

Through a variety of corporate and trust structures KPMG Corporate Finance is controlled by and operates as part of the KPMG Partnership. KPMG Corporate Finance's directors and Authorised Representatives may be partners in the KPMG Partnership. The Authorised Representative is a partner in the KPMG Partnership. The financial product advice in the Report is provided by KPMG Corporate Finance and the Authorised Representative and not by the KPMG Partnership.
From time to time KPMG Corporate Finance, the KPMG Partnership and related entities (KPMG entities) may provide professional services, including audit, tax and financial advisory services, to companies and issuers of financial products in the ordinary course of their businesses.
KPMG entities have provided, and continue to provide, a range of audit, tax and advisory services to the Client and WPP Group plc for which professional fees are received. Over the past two years professional fees of $9,715.5 have been received by KPMG Australia from WPP Group plc. None of those services have related to the Proposed Merger or alternatives to the Proposed Merger.
No individual involved in the preparation of this Report holds a substantial interest in, or is a substantial creditor of, the Client or has other material financial interests in the Proposed Merger.

Complaints resolution

Internal complaints resolution process

If you have a complaint, please let either KPMG Corporate Finance or the Authorised Representative know. Formal complaints should be sent in writing to The Complaints Officer, KPMG, PO Box H67, Australia Square, Sydney NSW 1213. If you have difficulty in putting your complaint in writing, please telephone the Complaints Officer on 02 9335 7000 and they will assist you in documenting your complaint.
Written complaints are recorded, acknowledged within 5 days and investigated. As soon as practical, and not more than 45 days after receiving the written complaint, the response to your complaint will be advised in writing.

External complaints resolution process

If KPMG Corporate Finance or the Authorised Representative cannot resolve your complaint to your satisfaction within 45 days, you can refer the matter to the Financial Ombudsman Service (FOS). FOS is an independent company that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial services industry.
Further details about FOS are available at the FOS website www.fos.org.au or by contacting them directly at:

Address:	Financial Ombudsman Service Limited, GPO Box 3, Melbourne Victoria 3001
Telephone:	1300 78 08 08
Facsimile:	(03) 9613 6399 Email: info@fos.org.au.

The Australian Securities and Investments Commission also has a freecall infoline on 1300 300 630 which you may use to obtain information about your rights.

Compensation arrangements

KPMG Corporate Finance has professional indemnity insurance cover as required by the Corporations Act 2001(Cth).

Contact Details

You may contact KPMG Corporate Finance or the Authorised Representative using the contact details:
KPMG Corporate Finance
A division of KPMG Financial Advisory Services (Australia) Pty Ltd
10 Shelley St
Sydney NSW 2000

PO Box H67
Australia Square
NSW 1213
Telephone: (02) 9335 7000
Facsimile: (02) 9335 7200

Ian Jedlin
Adele Thomas
C/O KPMG
PO Box H67
Australia Square
NSW 1213
Telephone: (02) 9335 7000
Facsimile: (02) 9335 7000