Macquarie Radio Network

Macquarie Radio Network Limited ACN 063 906 927

Proposal to merge with the Fairfax Radio Network

Notice of Meeting
Explanatory Memorandum
Independent Expert's Report

Notice is given that an Extraordinary General Meeting of Shareholders will be held at the offices of Macquarie Radio Network Limited, Level 1, Building C, 33-35 Saunders Street, Pyrmont, Sydney, New South Wales on 25 March 2015, commencing at 11.00am (Sydney time)

Financial adviser:

M.H. CARNEGIE & CO.

Legal adviser:

MinterEllison LAWYERS

Important notices

This Explanatory Memorandum is important and requires immediate attention. It should be read in its entirety before making a decision on how to vote on the Resolutions. In particular, it is important that you consider the disadvantages and potential risks of the Proposed Transaction and Constitution Amendment set out in section 1.6 and section 7 and the views of the Independent Expert set out in the Independent Expert's Report contained in Appendix A.

Purpose of this Explanatory Memorandum

This Explanatory Memorandum has been prepared for MRN Shareholders in connection with the Extraordinary General Meeting to be held on 25 March 2015. The purpose of this Explanatory Memorandum is to provide MRN Shareholders with information that the Directors believe to be material to deciding whether or not to approve the Resolutions detailed in the Notice of Meeting set out in Appendix B.

No investment advice

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

Responsibility for information

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

Fairfax Media Limited ACN 008 663 161 has prepared, consented to the inclusion of, and is responsible for, the FRN Information. To the maximum extent permitted by law, none of MRN nor its Directors, officers, employees or advisers assume any responsibility for the accuracy or completeness of the FRN Information.

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

Grant Thornton Corporate Finance Pty Ltd has provided and is responsible for the information contained in the Independent Expert's Report. No member of the MRN Group, the Fairfax Group nor any of their respective directors, officers, employees or advisers assumes any responsibility for the accuracy or completeness of the information contained in the Independent Expert's Report.

Future performance and forward-looking statements

Certain statements in this Explanatory Memorandum relate to the future. Forward-looking statements in the Explanatory Memorandum are not based on historical fact but rather reflect the current expectations of MRN or Fairfax (as the case may be) in relation to future results and events. These statements may be identified by the use of forward looking words or phrases such as 'believe', 'aim', 'expect', 'anticipate', 'intend', 'foresee', 'likely', 'should', 'plan', 'estimate', 'potential' or other similar words and phrases. These forward-looking statements are not guarantees of future performance. You should be aware that known and unknown risks, uncertainties and other important factors could cause the actual results, performance or achievements to be materially different from the future results, performance or achievements expressed or implied by such statements.

Such risks, uncertainties and other important factors include, among other things, the risks associated with the Proposed Transaction as set out in section 7. Shareholders are cautioned not to place undue reliance on such forward looking statements. Deviations as to future results, performance and achievement are both normal and expected.

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

Financial information

Readers should be aware that certain financial data included in this Explanatory Memorandum is 'non-IFRS' under ASIC Regulatory Guide 230 'Disclosing non-IFRS financial information' published by ASIC. MRN and Fairfax believe this non-IFRS financial information provides useful information to readers in measuring the financial performance and condition of MRN, FRN and the Combined Group. The non-IFRS financial information does not have standardised meanings prescribed by Australian Accounting Standards and, therefore, may not be comparable to similarly titled measures presented by other entities, nor should they be construed as an alternative to other financial information determined in accordance with Australian Accounting Standards. Readers are cautioned, therefore, not to place undue reliance on any non-IFRS financial information or ratio included in this Explanatory Memorandum.

Financial and non-financial data is as at 31 December 2014, unless otherwise stated or implied.

Not an offer document

This document is not intended to be an offer for subscription, invitation, recommendation or sale with respect to any MRN securities in any jurisdiction.

Neither ASIC, ASX nor any of their respective officers takes any responsibility for the contents of this Explanatory Memorandum.

Defined words and expressions

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

Enquiries

If you have any questions in relation to the subject matter of this Explanatory Memorandum, please contact your stockbroker, accountant, lawyer or investment, taxation or other professional adviser. If you have questions in relation to how to vote, please call the Share Registry on a phone number set out below:

Within Australia (toll-free): 1300 850 505

Outside Australia: +61 3 9415 4000.

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Key dates

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

Date of this Explanatory Memorandum	23 February 2015
Last time and date by which the proxy form for the Extraordinary General Meeting can be lodged	11.00am (Sydney time) on 23 March 2015
Time and date for determining eligibility to vote at the Extraordinary General Meeting	7.00pm (Sydney time) on 23 March 2015
Extraordinary General Meeting to vote on the Proposed Resolutions to implement the Proposed Transaction	11.00am (Sydney time) on 25 March 2015

If Resolution 1, which relates to the Constitution Amendment, is approved by MRN Shareholders it will take effect at 12.00pm on the day after Completion of the Proposed Transaction, unless Fairfax has provided notice of its objection to the resolution prior to Completion. If Resolution 2, which relates to the Proposed Transaction, is approved by MRN Shareholders, and all other conditions precedent to the Merger Implementation Agreement are satisfied or waived, then Completion of the Proposed Transaction is scheduled to occur by 31 March 2015.

Chairman's letter

Dear Shareholder,

On 22 December 2014, Macquarie Radio Network Limited ACN 063 906 927 (ASX: MRN), together with Fairfax Media Limited ACN 008 663 161 (ASX: FXJ), announced that they had agreed to enter into the Merger Implementation Agreement to unite their respective radio businesses.

The Proposed Transaction involves MRN acquiring 100% of the share capital of Fairfax Radio Network Pty Limited ACN 006 806 088 in exchange for the issuance of new MRN Shares to Fairfax and an equalising cash payment to Fairfax of approximately $18 million based on the net debt positions of FRN and MRN. On Completion, existing MRN Shareholders will hold 45.5%, and Fairfax will hold the remaining 54.5%, of the MRN Shares on issue.

The proposed 'merger of equals' brings together Australia's leading news-talk radio operations which currently occupy number one overall ratings positions in Sydney (MRN's 2GB) and Melbourne (Fairfax's 3AW). The Combined Group will also consolidate the operations of an additional five radio stations across Australia: 2UE (Sydney), Magic 1278 (Melbourne), 4BC (Brisbane), Magic 882 (Brisbane) and 6PR (Perth). As part of the Proposed Transaction and due to regulatory requirements, MRN will seek to divest 2CH and Macquarie Regional Radio network. The Proposed Transaction does not include FRN's 96FM (Perth) station which was sold by FRN in a transaction that completed on 30 January 2015.

Approval of the Proposed Transaction by MRN Shareholders is required under the Corporations Act and ASX Listing Rules. The Proposed Transaction is subject to a number of other conditions precedent, including certain regulatory approvals, which are detailed in this Explanatory Memorandum. If Resolution 2 is approved by MRN Shareholders, and all other conditions precedent to the Merger Implementation Agreement are satisfied or waived, then Completion of the Proposed Transaction is scheduled to occur by 31 March 2015.

Proposed Board and management

Russell Tate, currently Executive Chairman and CEO of MRN, will head the merged operations as Executive Chairman for an interim 12 months supported by Adam Lang, currently FRN's Managing Director, who will be appointed Chief Operating Officer. In addition to Tate, the Board will comprise a second MRN nominee, two Fairfax nominees, and one independent Director.

MRN also proposes to amend its Constitution to provide its major shareholder, John Singleton Promotions Pty Limited ACN 001 608 546, with the right to appoint one nominee director to the Board, so long as it holds in excess of 20% of the Shares on issue. This right will expire on the third anniversary of the passage of Resolution 1. This Constitution Amendment is subject to the approval of MRN Shareholders, which is also being sought at the EGM pursuant to Resolution 1.[1]**The directors unanimously recommend the Proposed Transaction**

The Directors unanimously recommend that MRN Shareholders vote in favour of Resolution 2, subject to no Superior Proposal being received. The Directors believe that significant benefits will be delivered from the Proposed Transaction, including:

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[1] As described at section 8.3, it is condition precedent of the MIA that MRN not alter the Constitution (provided that it may do so with the approval of Fairfax or if Fairfax Completes the Proposed Transaction despite the failure to satisfy this condition precedent). The Board has informed Fairfax of its intention to put Resolution 1 to Shareholders, but is presently unaware of whether Fairfax objects to the Constitution Amendment. However, it is noted that, if passed, Resolution 1 will only take effect after Completion of the Proposed Transaction and subject to Fairfax not having provided MRN with notice of its objection to the Constitution Amendment before Completion.

- bringing together the greatest mix of talkback talent ever assembled in a single radio network. The Combined Group boasts leading presenters who engage listeners with an unprecedented quality and diversity of commentary, entertainment and sport coverage;
- unlocking significant cost and revenue synergies from enhanced network and sales opportunities that will create a more efficient and effective network for news, talk and sports radio along with music stations;
- providing national advertisers with ease of access to the increasingly important 45 – 69 year demographic which all seven stations in the combined group attract;
- economies of scale associated with programming and talent costs derived from broader distribution of appropriate content and improvements in quality of content; and
- mitigating the market and talent risk to which MRN is exposed by geography.

Each Director who holds or controls MRN Shares intends to vote those shares, or cause those controlled entities to vote, in favour of the Resolutions, subject to no Superior Proposal being received.

MRN's major shareholders support the Proposed Transaction

Each of John Singleton and the Carnegie family has indicated that, as the major and substantial Shareholders of MRN, they will support the Proposed Transaction and Constitution Amendment and vote in favour of them at the EGM, assuming the various conditions in the MIA are satisfied and no Superior Proposal is received.

Independent Expert

The Directors have engaged Grant Thornton to provide an Independent Expert's Report to assist MRN Shareholders in deciding whether or not to approve the Resolution relating to the Proposed Transaction. In that report, the Independent Expert has concluded that the Proposed Transaction is fair and reasonable to MRN Shareholders. The Independent Expert's Report is set out in Appendix A, which you should read in full.

Further information

This Explanatory Memorandum sets out further details of the Proposed Transaction and Constitution Amendment. While the Directors unanimously recommend that you vote in favour of the Proposed Transaction and Constitution Amendment, there are a number of potential disadvantages and risks associated with them set out in detail in section 7. Please read this Explanatory Memorandum in full before making your decision and voting on the Resolutions at the EGM.

The Directors encourage your participation in the vote. You can vote in person at the EGM on 25 March 2015 or if you cannot attend in person, you can vote by proxy or by an assigned power of attorney or corporate representative using the proxy form included with this Explanatory Memorandum.

If you have any questions about the Proposed Transaction or Constitution Amendment you should consult your independent financial advisor. If you have any questions in respect of the Proposed Transaction or Constitution Amendment, the EGM or voting, please contact the Share Registry on 1300 850 505 (toll-free within Australia) or +61 3 9415 4000 (outside Australia) between 8.30am and 5.00pm Monday to Friday (Melbourne time).

Your Directors consider that the Proposed Transaction represents an attractive opportunity to transform MRN into a leading national radio network, and encourage you to support the Proposed Transaction. If you wish the Proposed Transaction to proceed, it is important that you vote in favour of the relevant Resolution.

Yours faithfully,

Russell Tate
Executive Chairman
On behalf of the directors of Macquarie Radio Network Limited

Questions and answers

Answers to key questions about the Proposed Transaction

Question	Answer	Section
The Proposed Transaction		
What is the Proposed Transaction?	The Proposed Transaction is the merger of MRN's radio network with the Fairfax radio network. To give effect to the Proposed Transaction, MRN will acquire 100% of the share capital of FRN in exchange for the issuance of 93,196,512 new MRN Shares to Fairfax and an equalising cash payment to Fairfax of approximately $18 million (subject to standard working capital and net debt-related post-completion adjustments).	2
What will Fairfax's shareholding be after the Proposed Transaction?	On Completion, existing MRN shareholders will hold 45.5%, and Fairfax will hold the remaining 54.5%, of the MRN Shares on issue.	2.2 and 8.4
Who is FRN?	Fairfax Radio Network Pty Limited ACN 006 806 088 is a wholly-owned subsidiary of Fairfax Media Limited (an ASX-listed media organisation operating print, digital and radio businesses across Australia) which holds Fairfax's radio network assets. Those assets comprise six metropolitan radio stations as well as two additional radio businesses, Satellite Music Australia and Fairfax Radio Syndication. The radio stations owned by FRN are: • in Sydney, 2UE; • in Melbourne, 3AW and Magic 1278; • in Brisbane, 4BC and Magic 882; and • in Perth, 6PR and 96FM.	5
What will the Combined Group consist of?	The Combined Group will include operations which currently occupy number one overall ratings positions in Sydney (MRN's 2GB) and Melbourne (Fairfax's 3AW), as well as an additional five radio stations across Australia: 2UE (Sydney), Magic 1278 (Melbourne), 4BC (Brisbane), Magic 882 (Brisbane) and 6PR (Perth). As part of the Proposed Transaction and due to regulatory requirements, MRN will seek to divest its 2CH (Sydney) station and Macquarie Regional Radio network (which operates in regional Queensland). As was announced by Fairfax on 22 December 2014, the Proposed Transaction does not include FRN's 96FM (Perth) station, which was sold by FRN in a transaction that completed on 30 January 2015.	6
What is the Merger Implementation Agreement?	The MIA is the merger implementation agreement between Fairfax and MRN that sets out the terms and conditions upon which the parties will merge their respective radio businesses pursuant to the Proposed Transaction. A description of the	8.3

Question	Answer	Section
	material terms and conditions of the MIA is set out at section 8.3.	
Why is the Proposed Transaction being put forward?	The Directors consider that the Proposed Transaction will deliver significant benefits for MRN and that the Proposed Transaction represents an attractive opportunity to unlock significant cost and revenue synergies from enhanced networking and sales opportunities, and provide national advertisers with ease of access to the increasingly important 45 – 69 year demographic which all seven stations in the Combined Group attract.	1.1
When is the Proposed Transaction expected to be implemented?	If Resolution 2 is approved by MRN Shareholders, and all other conditions precedent to the Merger Implementation Agreement are satisfied or waived, then Completion of the Proposed Transaction is scheduled to occur by 31 March 2015.	8.1 and 8.3
What are the conditions to the Proposed Transaction Proceeding?	There are a number of conditions that are required to be satisfied or waived in order for the Proposed Transaction to proceed, including: • approval from the Australian Communications and Media Authority and no objection or action from the Australian Competition and Consumer Commission; • approval by MRN Shareholders pursuant to section 611, item 7 of the Corporations Act of the acquisition by Fairfax of MRN Shares as part of the scrip consideration for the Proposed Transaction; • no material adverse change to the business, assets, liabilities, financial or trading position, profitability or prospects of either MRN Group or FRN Group, each taken as a whole, occurs, or is reasonably likely to occur prior to the Completion date under the MIA; • no 'prescribed occurrence' in relation to MRN Group (except Macquarie Regional Radio and Radio 2CH) or FRN Group prior to the Completion date under the MIA; • no temporary restraining order, preliminary or permanent injunction or other order is issued by any court or government agency preventing or delaying the transaction; • completion of the sale of 100% of the shares in Radio 96FM to an entity that is not an FRN subsidiary; and • the businesses of MRN and FRN (and their respective subsidiaries) are conducted materially in the ordinary course, and in particular, MRN and FRN (and their respective subsidiaries) do not agree or commit to do certain specified actions. The Proposed Transaction is also subject to a number of termination events as set out in the MIA. A summary of the key terms of the MIA is set out at section 8.3.	8.3

Question	Answer	Section
	The conditions in relation to the approval from the Australian Communications and Media Authority and completion of the sale of 100% of the shares in Radio 96FM have been satisfied.	
How will MRN fund the cash consideration component of the purchase price for the Proposed Transaction?	The Merger Implementation Agreement expressly contemplates that the payment of the cash component of the purchase price for the Proposed Transaction is to be funded by way of a new debt facility to be established, or an existing debt facility to be refinanced, by MRN. Accordingly, MRN expects to enter into an amendment and restatement of the Facility Agreement.	2.2
Assessment of the Proposed Transaction		
What is the recommendation of the Directors?	The Directors unanimously recommend that MRN Shareholders vote in favour of Resolution 2, which relates to the Proposed Transaction.	1.5
What is the opinion of the Independent Expert?	The Independent Expert has concluded that the Proposed Transaction is fair and reasonable to MRN Shareholders. Please read the full Independent Expert's Report in Appendix A.	App A
Are there any risks or potential disadvantages associated with the Proposed Transaction?	While the Directors unanimously recommend that you vote in favour of the Proposed Transaction, there are potential risks and disadvantages associated with the Proposed Transaction. These are set out in sections 1.3 and 7 and include: • current MRN shareholders will own less than 100% of the Combined Group; • the Proposed Transaction may make MRN a less attractive takeover target; and • unforseen additional integration costs may arise as MRN's and FRN's operations are combined.	1.3 and 7
Impact of the Proposed Transaction on MRN		
Where can I find information in relation to the Combined Group?	If the Proposed Transaction proceeds, it will be a 'merger of equals' which brings together Australia's leading news-talk radio operations which occupy number one overall ratings' positions in Sydney (MRN's 2GB) and Melbourne (Fairfax's 3AW). The Proposed Transaction will also consolidate the operations of an additional five radio stations across Australia: 2UE (Sydney), Magic 1278 (Melbourne), 4BC (Brisbane), Magic 882 (Brisbane) and 6PR (Perth). Full details of the Combined Group are set out in section 6 and financial details are set out in section 6.8.	6

MRN Shareholder approval of the Proposed Transaction		
What am I being asked to vote on?	You are being asked to vote on Resolution 2 in relation to the Proposed Transaction. It is an ordinary resolution to approve the acquisition of relevant interests in the MRN Shares to be acquired by Fairfax under the Proposed Transaction for the purposes of Chapter 6 of the Corporations Act.	App C

Answers to key questions about the Constitution Amendment

Question	Answer	Section
The Constitution Amendment		
What is the Constitution Amendment?	MRN proposes to amend its Constitution to provide its major shareholder, Singleton, with the right to appoint one nominee director to the Board, so long as it holds in excess of 20% of the Shares on issue. This right will expire on the third anniversary of the passage of Resolution 1.[2] The nominee director will be subject to removal by the Shareholders in general meeting under section 203D of the *Corporations Act*, the provisions of the Listing Rules and the Constitution that require directors to retire by rotation.	1.6 and 2.5
Why is the Constitution Amendment being put forward?	The Directors consider that the Constitution Amendment is in the best interests of MRN Shareholders having regard to the contribution of Singleton as a strategic partner of and stakeholder in MRN over the long term.	1.6
Assessment of the Constitution Amendment		
What is the recommendation of the Directors?	The Directors unanimously recommend that MRN Shareholders vote in favour of Resolution 1.	1.6
Are there any risks or potential disadvantages associated with the Proposed Transaction?	While the Directors unanimously recommend that you vote in favour of the Constitution Amendment, there are potential risks and disadvantages associated with the Constitution Amendment. These are set out in section 1.6 and include that: • the Constitution Amendment gives Singleton influence over the Combined Group's financial and operating policies; and • Singleton may exert that influence in ways that are not consistent with the preferences of other MRN shareholders.	1.6

[2] As described at section 8.3, it is condition precedent of the MIA that MRN not alter the Constitution (provided that it may do so with the approval of Fairfax or if Fairfax Completes the Proposed Transaction despite the failure to satisfy this condition precedent). The Board has informed Fairfax of its intention to put Resolution 1 to Shareholders, but is presently unaware of whether Fairfax objects to the Constitution Amendment. However, it is noted that, if passed, Resolution 1 will only take effect after Completion of the Proposed Transaction and subject to Fairfax not having provided MRN with notice of its objection to the Constitution Amendment before Completion.

MRN Shareholder approval of the Constitution Amendment		
What am I being asked to vote on?	You are being asked to vote on Resolution 1 in relation to the Constitution Amendment. It is a special resolution to amend the Constitution to provide Singleton with the right to appoint one nominee director to the Board as described in this Explanatory Memorandum. This right will expire on the third anniversary of the passage of Resolution 1.	App B and C

Answers to key questions about the Extraordinary General Meeting

Question	Answer	Section
The Extraordinary General Meeting		
What resolutions will be put to Shareholders?	Two resolutions will be put to Shareholders at the EGM, namely: • Resolution 1, being a special resolution to amend the Constitution to provide Singleton with the right to appoint one nominee director to the Board as described in this Explanatory Memorandum; and • Resolution 2, being an ordinary resolution to approve the acquisition of relevant interests in the MRN Shares to be acquired by Fairfax under the Proposed Transaction for the purposes of Chapter 6 of the Corporations Act.	App B
Where and when will the EGM be held?	The EGM will be held at the offices of Macquarie Radio Network Limited, Level 1, Building C, 33-35 Saunders Street, Pyrmont, Sydney, New South Wales on 25 March 2015, commencing at 11.00am (Sydney time).	App B
Voting entitlement and how to vote		
Who is entitled to vote?	A person's entitlement to vote at the EGM will be taken to be the entitlement of that person shown on the Register at 7.00pm on 23 March 2015, unless in respect of a Resolution, a voting exclusion applies to them.	App D
If I wish to vote on the Resolutions, how do I vote?	You can vote on Resolutions: • in person at the EGM; • by sending the proxy form accompanying this Explanatory Memorandum, in accordance with the instructions stated on that form; • by attorney; or • for bodies corporate, through a corporate representative.	App D
What will happen if the Resolutions are not approved or the Proposed Transaction does not otherwise proceed?	If Resolution 1 is not approved, the Constitution Amendment will not proceed and the Constitution will not include any right for Singleton to appoint nominee directors to the Board. If Resolution 2 is not approved or the Proposed Transaction does not otherwise proceed: • MRN will not acquire the share capital in FRN and the	App D

Question	Answer	Section
	radio businesses of MRN and FRN will not be combined; • MRN will not issue any new MRN Shares to Fairfax; • MRN will not make any cash payment to Fairfax; and • none of the changes to the Board, ownership, operations or management of MRN set out in this Explanatory Memorandum will take effect, and MRN would be expected to operate in the same manner as it previously did before MRN Shareholders voted on the Resolutions. Resolution 1 and Resolution 2 are not inter-conditional. Therefore, it is possible that: • both the Proposed Transaction and the Constitutional Amendment proceed; • the Proposed Transaction may proceed while the Constitutional Amendment does not; • the Constitutional Amendment may proceed while the Proposed Transaction does not; or • neither the Proposed Transaction and the Constitutional Amendment proceed.	

1. Advantages, disadvantages and other relevant considerations

1.1 Advantages of the Proposed Transaction

The Directors anticipate that the Proposed Transaction will deliver significant benefits to MRN. These include:

- material financial benefit through unlocking significant cost and revenue synergies derived from enhanced networking and sales opportunities;
- creation of a national network with leading market positions;
- providing national advertisers with ease of access to the increasingly important 45 – 69 year demographic;
- additional top-rated talent and management expertise; and
- diversifying the market and talent risk to which MRN is exposed by geography.

Material financial benefit

The Proposed Transaction is expected to result in significant cost and revenue synergies from enhanced network and sales opportunities that will create a more efficient and effective network for news, talk and sports radio along with music stations.

MRN has estimated the total synergy benefits of merging the MRN and FRN radio businesses of approximately $10 million to $15 million can be achieved by 30 June 2016 on an annualised basis. The one-off costs of implementation to achieve these annual cost savings are expected to be approximately $5 million to $7 million. These estimates are based on an initial review of potential cost savings and a preliminary risk assessment as to the achievement of those identified cost savings. The Independent Expert has assumed that cost saving benefits are expected to be materially lower and between approximately $5 million and $6 million. For further information, see Annexure A.

National network with leading market positions in the target demographic

The Proposed Transaction creates a national network and brings together the greatest mix of talkback talent ever assembled in a single radio network in Australia. The ability to place advertisements in four key markets presents a compelling proposition for advertisers.

The Combined Group will include operations that occupy number one overall ratings positions in Sydney (MRN's 2GB) and Melbourne (Fairfax's 3AW), as well as an additional five radio stations across Australia: 2UE (Sydney), Magic 1278 (Melbourne), 4BC (Brisbane), Magic 882 (Brisbane) and 6PR (Perth).

Table 1: Combined Group national AM Talkback network

Sydney	Melbourne	Brisbane	Perth
2GB 873AM	3AW 693 News Talk	4BC 1116 News Talk	6PR 882 News Talk
2UE 954 News Talk	Magic 1278	Magic 882	

Source: MRN

Access to the 45 – 69 year demographic

The Combined Group's line up of prominent presenters and diversity of commentary, entertainment and sport coverage is expected to translate into a leading market position in the 45+ age bracket in Sydney and Melbourne. This age group remains one of Australia's most lucrative and important consumer demographics.

Almost 40% of the adults in Australia are in the 45 – 69 age range, making it one of the largest markets for advertisers. The 'boomer' generation also retains most of Australia's wealth, with average gross income, disposable income and household net worth all reaching their highest points within this age group.

Table 2: Household net worth

Age bracket	*15-24*	*25-34*	*35-44*	*45-54*	*55-64*	*65-74*
Population						
Persons	3,106,214	3,382,965	3,214,917	3,077,893	2,635,463	3,337,502
Proportion	13.4%	14.6%	13.9%	13.3%	11.4%	14.4%
Household net worth						
Mean net worth	$115,568	$247,153	$572,097	$872,805	$1,086,365	$1,007,645
Median net worth	$40,316	$136,638	$357,995	$566,661	$723,623	$638,509
Income per week						
Disposable household income (individual)	$765	$853	$797	$871	$876	$557

Source: Australian Bureau of Statistics reference 6523.0, 6530.0 and 3101.0

Additional top-rated talent and management expertise

The Combined Group will have access to an unrivalled mix of talkback talent. In addition to MRN's stellar line up, which includes Alan Jones, Ray Hadley, Ben Fordham and Chris Smith in Sydney, the Combined Group will feature presenters such as Neil Mitchell, Ross Stevenson and John Burns. In addition, the Combined Group can take advantage of the skills and radio industry experience (including experience in operating a national network) of FRN's management team. This team will include Adam Lang, currently FRN's Managing Director, who will be appointed Chief Operating Officer of the Combined Group.

Diversifying the market and talent risk to which MRN is exposed by geography

MRN currently only has stations that broadcast in metropolitan Sydney (excluding MRR). Radio 2CH will be divested following Completion. The Combined Group will allow MRN to access a broader range of talent across FRN stations, in a number of cities. The broader geographical spread of stations is also expected to facilitate increased revenue resilience in the event of softening of revenue in a particular location.

1.2 Independent Expert's Report

MRN commissioned Grant Thornton prepare a report in respect of the Proposed Transaction. A copy of the Independent Expert's Report is included at Appendix A.

THE INDEPENDENT EXPERT HAS CONCLUDED THAT THE PROPOSED TRANSACTION IS FAIR AND REASONABLE.

In assessing whether the Proposed Transaction is fair, the Independent Expert has compared the fair market value of MRN Shares before the Proposed Transaction with the fair market value of MRN Shares after the Proposed Transaction.

The Independent Expert has valued each MRN Share at between $0.811 and $1.081before the Proposed Transaction and between $0.944 and $1.210 after the Proposed Transaction, implying a 10.7% to 14.1% increase in their value as a result of the Proposed Transaction.

In its analysis the Independent Expert has assessed the Proposed Transaction on a 'merger of equals' basis. More information on the Independent Expert's choice of valuation methodologies is contained in section 7 of the Independent Expert's Report.

The Independent Expert has made a number of assumptions in its valuation of the two companies, in particular an estimate of future maintainable earnings of each company and selection of earnings capitalisation multiples appropriate to each company. More information on the Independent Expert's valuation assumptions is contained in section 7 of the Independent Expert's Report.

In assessing whether the Proposed Transaction is reasonable, the Independent Expert has considered whether the advantages to MRN Shareholders of the Proposed Transaction outweigh the disadvantages. The Independent Expert's discussion of the advantages and disadvantages of the Proposed Transaction is contained in section 1 of the Independent Expert's Report.

The Independent Expert's Report is an important document which you should read in full. It contains important qualifications and assumptions relevant to the opinions expressed. The Independent Expert's Report is contained in Appendix A of this Explanatory Memorandum.

1.3 Disadvantages of the Proposed Transaction

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

Current MRN Shareholders will own less than 100% of the Combined Group

The aggregate percentage holding of an existing MRN Shareholder will be diluted by the issue of MRN Shares to Fairfax under the Proposed Transaction. If the Proposed Transaction proceeds, then existing MRN Shareholders will be diluted down from 100% of MRN Shares on issue to 45.5% of the Combined Group.

Fairfax will be the majority shareholder of MRN post Completion

Fairfax does not currently hold any MRN Shares. Immediately following Completion, Fairfax will hold 54.5% of the total MRN Shares on issue. Fairfax's holding of MRN Shares will give Fairfax substantial control over MRN, including substantial influence over the Combined Group's financial and operating policies and the composition of the Board. Fairfax may exert that influence in ways that are not consistent with the preferences of other MRN Shareholders.

MRN may become a less attractive takeover target

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

Integration risks

The Proposed Transaction involves bringing together two radio businesses. A number of cost efficiencies are expected to arise from combining elements of these businesses, including sales staff, newsroom, administrative systems, IT systems, advertising materials and, in some areas, talent and personnel. There are risks associated with this proposed integration and achieving the expected operational and financial cost savings. The integration process may take longer than anticipated or may result in less cost savings than expected.

Share price uncertainty

The price at which MRN Shares trade on ASX after the Proposed Transaction is Completed will be influenced by a range of factors, including the liquidity of MRN Shares. There is no guarantee that MRN Shares will trade at or above current trading prices.

Fairfax's holding in MRN will represent a significant proportion of the Shares to be on issue on Completion and may reduce liquidity in the Shares unless Fairfax were to decide to sell Shares that it will hold at Completion. Conversely, any decision by Fairfax to sell may cause a decline in the price at which the Shares trade on ASX.

Refinanced debt facility

In order to pay the cash consideration for the Proposed Transaction, MRN has entered into an amendment and restatement of the Facility Agreement. As a result of implementation of the Proposed Transaction, the Combined Group will have a moderate amount of debt which increases the financial risk of the Combined Group (and may affect its ability to declare and pay future dividends) relative to MRN on a stand alone basis.

Exposure to new markets

While the Directors believe this to be an advantage, certain MRN Shareholders may take the view that diversification of MRN's network into the national market may be a disadvantage because MRN would no longer be mainly focussed on the Sydney market. Further, this diversification will expose MRN to new challenges and risks.

Risks in relation to the Proposed Transaction and the Combined Group

In addition to the potential disadvantages of the Proposed Transaction outlined above, MRN Shareholders should be aware of the following risk factors in relation to implementation of the Proposed Transaction (which are set out in greater detail in section 7):

- **General risks** – changes in economic conditions, general market risks and changes in the regulatory and legal environment; and
- **Specific risks associated with the Combined Group** – demand risk, commercial and operational risks, including the separation of Radio 96FM, Radio 2CH and Macquarie Regional Radio, industry competition, reliance on key talent personnel, technology risks, new technology, loss of reputation, brand risk, litigation and legal risk, integration risk, interest rate risk and risks relating to the existence of significant shareholders.

1.4 Other relevant considerations relating to the Proposed Transaction

2CH and Macquarie Regional Radio

By virtue of section 54 of the *Broadcasting Services Act 1992* (Cth), a person must not be in a position to exercise control of more than two commercial radio broadcasting licences in the same licence area. Separately, the BSA also regulates diversity of voices across media in local areas.

Absent prior approval by the ACMA and / or any divestiture, the Proposed Transaction would potentially result in BSA breaches:

- in relation to MRN's control of three licences in the Sydney radio licence area (RA1) (2GB, 2CH and 2UE); and
- arising from an unacceptable media diversity situation in Mt Isa (as a result of Radio 4LM and a local newspaper owned by Fairfax, for a brief period, being under common control within the meaning of the BSA).

MRN has undertaken to the ACMA to divest Radio 2CH or the Radio 2CH Licence and Macquarie Regional Radio (which holds the Radio 4LM Licence) to ensure compliance with the BSA.

Radio 96FM

On 22 December 2014, Fairfax announced that it had entered into an agreement to sell Radio 96FM to APN News & Media Limited and, completed that sale on 30 January 2015. Accordingly, the Proposed Transaction does not include FRN's 96FM (Perth) station.

Implications if the Proposed Transaction does not proceed

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

- MRN will continue to exist as an independent, standalone entity listed on ASX;
- MRN will continue to focus on its current businesses and investments, and will continue to implement its strategy as previously announced;
- MRN will continue to operate under the existing corporate structure with its Directors and management in place;
- MRN Shareholders will continue to be exposed to the risks in respect of MRN, its businesses and its investments, set out in section 7;
- the benefits of the Proposed Transaction will not be realised;
- MRN will not issue any MRN Shares to Fairfax in connection with the Proposed Transaction; and
- MRN will incur transaction costs of approximately $2.5 million (exclusive of GST) in connection with the Proposed Transaction, which cannot be recovered.

The Proposed Transaction is conditional

The Proposed Transaction is subject to various conditions set out in the MIA. A summary of the MIA is set out in section 8.3. Conditions to the Proposed Transaction include that MRN Shareholders approve the Proposed Transaction at the EGM, the ACMA pre-approving temporary breaches of the BSA (which pre-approval has been received) and the ACCC having no objections or not proposing to take any action.

Other options for MRN

MRN has considered several alternative investment opportunities, including acquisition opportunities in related media sectors. However, none of these has been sufficiently attractive to warrant investment by MRN. The Directors consider that there are limited acquisition opportunities for MRN in the Australian media sector.

1.5 Recommendation of Directors

The Directors voted unanimously to recommend that MRN Shareholders vote in favour of the Resolution relating to the Proposed Transaction in the absence of a Superior Proposal. Each Director that holds or controls MRN Shares intends to vote those shares, or cause those shares to be voted, in favour of Resolution 2, subject to no Superior Proposal being received.

In recommending Resolution 2, the Directors gave consideration to the advantages and disadvantages set out above, the opinion of the Independent Expert as set out in Annexure A and the risk factors set out in section 7.

1.6 Constitution Amendment – advantages, disadvantages, other relevant considerations and recommendation of Directors

- **Advantages** – the Constitution Amendment confers on Singleton the right to appoint a nominee to the Board. This right will expire on the third anniversary of the passage of Resolution 1. This strengthens the long-standing and valuable relationship of MRN with Singleton, which is a strategic partner of MRN.

- **Disadvantages** – the Constitution Amendment gives Singleton influence over the Combined Group's financial and operating policies. Singleton may exert that influence in ways that are not consistent with the preferences of other MRN Shareholders.
- **Other relevant considerations** – Resolution 1 and Resolution 2 are not inter-conditional. Therefore, it is possible that (i) that both the Proposed Transaction and the Constitutional Amendment proceed; (ii) the Proposed Transaction may proceed while the Constitutional Amendment does not; (iii) the Constitutional Amendment may proceed while the Proposed Transaction does not; or (iv) that neither the Proposed Transaction and the Constitutional Amendment proceed. The nominee director will be subject to removal by the Shareholders in general meeting under section 203D of the *Corporations Act,* the provisions of the Listing Rules and the Constitution that require directors to retire by rotation.
- **Recommendation of Directors –** the Directors voted unanimously to recommend that MRN Shareholders vote in favour of the Resolution relating to the Constitutional Amendment. Each Director that holds or controls MRN Shares intends to vote those shares, or cause those shares to be voted, in favour of Resolution 1. In recommending Resolution 2, the Directors gave consideration to the advantages and disadvantages set out above and the risk factors set out in section 7.

As described at section 8.3, it is condition precedent of the MIA that MRN not alter the Constitution (provided that it may do so with the approval of Fairfax or if Fairfax Completes the Proposed Transaction despite the failure to satisfy this condition precedent). The Board has informed Fairfax of its intention to put Resolution 1 to Shareholders, but is presently unaware of whether Fairfax objects to the Constitution Amendment. However, it is noted that, if passed, Resolution 1 will only take effect after Completion of the Proposed Transaction and subject to Fairfax not having provided MRN with notice of its objection to the Constitution Amendment before Completion.

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

2. Summary of the Proposed Transaction

2.1 Overview

The Proposed Transaction is the combination of MRN's radio network with the Fairfax radio network, pursuant to the Merger Implementation Agreement, to form the Combined Group.

The Combined Group will include operations which occupy number one overall ratings positions in Sydney (MRN's 2GB) and Melbourne (Fairfax's 3AW), as well as an additional five radio stations across Australia: 2UE (Sydney), Magic 1278 (Melbourne), 4BC (Brisbane), Magic 882 (Brisbane) and 6PR (Perth).

As part of the Proposed Transaction and due to regulatory requirements, MRN will seek to divest its 2CH (Sydney) station and Macquarie Regional Radio network.

As was announced by Fairfax on 22 December 2014, the Proposed Transaction does not include FRN's 96FM (Perth) station which was sold by FRN in a transaction that completed on 30 January 2015.

2.2 The acquisition of FRN

The Proposed Transaction involves MRN:

- acquiring 100% of the share capital of FRN in exchange for the issuance of 93,196,512 new MRN Shares to Fairfax; and
- paying an equalising cash payment of approximately $18 million based on the net debt positions of FRN and MRN.

Information regarding the expected net debt positions of MRN and FRN at Completion is set out in section 6.

The Merger Implementation Agreement expressly contemplates that the payment of the cash component of the purchase price for the Proposed Transaction is to be funded by way of a new debt facility to be established, or an existing debt facility to be refinanced, by MRN. Accordingly, MRN expects to enter into an amendment and restatement of the Facility Agreement.

There are a number of conditions that are required to be satisfied or waived in order for the Proposed Transaction to proceed, including:

- approval from the ACMA and no objection or action from the ACCC;
- approval by MRN Shareholders pursuant to section 611, item 7 of the Corporations Act of the acquisition by Fairfax of MRN Shares as part of the scrip consideration for the Proposed Transaction (i.e. if Resolution 2 is passed);
- no material adverse change to the business, assets, liabilities, financial or trading position, profitability or prospects of either MRN Group or FRN Group, each taken as a whole, occurs, or is reasonably likely to occur prior to the Completion date under the MIA;
- no 'prescribed occurrence' in relation to MRN Group (except Macquarie Regional Radio and Radio 2CH) or FRN Group prior to the Completion date under the MIA;
- no temporary restraining order, preliminary or permanent injunction or other order is issued by any court or government agency preventing or delaying the transaction;
- completion of the sale of 100% of the shares in Radio 96FM to an entity that is not an FRN subsidiary; and
- the businesses of MRN and FRN (and their respective subsidiaries) are conducted materially in the ordinary course, and in particular, MRN and FRN (and their respective subsidiaries) do not agree or commit to do certain specified actions.

As at the date of this Explanatory Memorandum, the conditions in relation to ACMA pre-approval and the sale of Radio 96FM have been satisfied. MRN is not aware of any circumstance to cause the conditions not to be satisfied or waived.

The Proposed Transaction is also subject to a number of termination events as set out in the MIA.

A summary of the key terms of the MIA is set out at section 8.3.

The MRN Shares to be issued pursuant to the Merger Implementation Agreement will rank equally with all other MRN Shares on issue.

2.3 2CH and Macquarie Regional Radio

The ACMA-related condition to the Proposed Transaction required that the ACMA provide MRN and Fairfax with prior approval of temporary breaches of Part 5 of the BSA arising from the Proposed Transaction. These temporary breaches arise from the fact that the Proposed Transaction:

- will put MRN (and others) in a position to control 3 commercial broadcasting licences in the Sydney RA1 licence area, in breach of section 54 of the BSA; and
- because of Fairfax's ownership of the North West Star newspaper, will result in a registrable media group being formed in the Mt Isa RA1 licence area, causing a temporary unacceptable media diversity situation in the Mt Isa RA1 licence area, in breach of sections 61AG and 61AH of the BSA.

MRN applied to the ACMA for prior approval of these temporary breaches of the BSA and on 3 February 2015 the ACMA granted these approvals on the basis that MRN enter into the Enforceable Undertakings. The Enforceable Undertakings require MRN to:

- divest its shareholding in, and thereby cease to be in a position to exercise control of, Radio 2CH and/or the Radio 2CH Licence (thereby curing the breach of section 54 of the BSA in relation to that licence);
- divest (or procure the divestment of) its shareholding in Radio 4LM and / or, the 4LM Licence (thereby curing the breaches of sections 61AG and 61AH of the BSA in Mt Isa RA1); and
- immediately appoint an independent manager to Radio 2CH and Radio 4LM and, if and when required, the appointment of a divestiture agent.

Summaries of the key terms of the Enforceable Undertakings are set out at section 8.3. MRN proposes to comply with the Enforceable Undertakings by divesting Macquarie Regional Radio rather than divesting only Radio 4LM.

The Merger Implementation Agreement requires MRN to, following Completion but within the period specified by the ACMA and if required by the ACMA, take all reasonable, necessary and appropriate steps to divest MRN's ownership interest in Radio 2CH and Macquarie Regional Radio or effect such other transaction or take such other actions as the ACMA otherwise requires.

2.4 Radio 96FM

As noted above, completion of the sale of 100% of the shares in Radio 96FM to an entity that is not an FRN subsidiary is a condition to the Proposed Transaction.

On 22 December 2014, Fairfax announced that it had entered into an agreement to sell Radio 96FM to APN News & Media Limited and, completed that sale on 30 January 2015. Accordingly, the Proposed Transaction does not include FRN's 96FM (Perth) station.

The Merger Implementation Agreement contains provisions which permit FRN to distribute the proceeds of the sale of Radio 96FM out of the FRN Group. Accordingly, the Combined Group will not receive the proceeds of the sale.

2.5 Board and management

Russell Tate, currently Executive Chairman and CEO of MRN, will head the Combined Group as Executive Chairman for an interim 12 months supported by Adam Lang, currently FRN's Managing Director, who will be appointed Chief Operating Officer. In addition to Tate, the Board will comprise a second MRN nominee, two Fairfax nominees, and one independent Director.

Separately and independently, MRN also proposes to amend its Constitution to provide its major shareholder, John Singleton Promotions Pty Limited ACN 001 608 546, with the right to appoint one nominee director to the Board, so long as it holds in excess of 20% of the Shares on issue. This right will expire on the third anniversary of the passage of Resolution 1. This Constitution Amendment is subject to the approval of MRN Shareholders, which is also being sought at the EGM.[3] Should Resolution 1 be passed, Jack Singleton shall be deemed to be Singleton's initial nominee pursuant to the right provided by the Constitution Amendment.

[3] As described at section 8.3, it is condition precedent of the MIA that MRN not alter the Constitution (provided that it may do so with the approval of Fairfax or if Fairfax Completes the Proposed Transaction despite the failure to satisfy this condition precedent). The Board has informed Fairfax of its intention to put Resolution 1 to Shareholders, but is presently unaware of whether Fairfax objects to the Constitution Amendment. However, it is noted that, if passed, Resolution 1 will only take effect after Completion of the Proposed Transaction and subject to Fairfax not having provided MRN with notice of its objection to the Constitution Amendment before Completion.

3. Overview of Australian commercial radio industry

Background

The commercial radio industry in Australia consists of metropolitan and regional commercial radio stations. MRN operates two commercial radio stations in Sydney, 2GB 873 and 2CH 1170, and also in Queensland regional areas through the Macquarie regional radio network. FRN operates mainly across the metropolitan areas of capital cities throughout Australia via 2UE (Sydney), 3AW and Magic 1278 (Melbourne), 4BC and Magic 882 (Brisbane) and 6PR (Perth).

There are over 250 commercial radio stations operating in Australia[4]. The majority of these are operating in regional markets with approximately 41 commercial radio stations operating in the metropolitan areas of Sydney, Melbourne, Brisbane and Perth.

Commercial radio and the Australian advertising industry

Advertising is the principal source of revenue for commercial radio broadcasters. Advertising revenue is sourced from local direct sales and from advertising agencies and media buyers. Advertising revenue is a function of the number of available "spots" and the pricing for those spots. Except in limited circumstances, the number of advertising spots is not regulated, but commercial and ratings pressures limit the number of spots which operators make available.

Commercial radio competes for advertising revenue with other forms of media including newspapers, magazines, print media, television, outdoor, cinema, direct mail and the internet as media users consume, switch between and treat each medium as substitutable. Radio broadcasters face vigorous competition not only from other radio broadcasters, but also from other media for advertiser spend as advertisers consider demographics and reach, not necessarily media type.

There is overlap between radio and other media platforms with popular radio presenters, for instance, often appearing as panellists on television programs, writing columns for newspapers and contributing to online services.

According to the metropolitan commercial radio advertising revenue, sourced by Deloitte and released by industry body Commercial Radio Australia, advertising revenue for metropolitan commercial radio stations showed growth for the fourth month in a row and increased by 2.64% in December 2014 to $55.4 million. The six month financial year 2014–2015 metropolitan commercial radio advertising revenue figures show that advertising revenue increased by 5.03% to $373.6 million for the five capital city markets.[5]

Total revenue of metropolitan and regional radio sourced from Commercial Economic Advisory Service of Australia indicated that for the financial year ended June 2014, total radio revenue increased by 1.14% to $1.03 billion.[6]

Market revenue share against competitors is significantly driven by ratings. Ratings are primarily categorised according to different age groups of commercial radio listeners. In 2013, Commercial Radio Australia announced that radio audience measurement would be conducted by GfK from 1 January 2014.

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[4] Commercial Radio Australia (http://www.commercialradio.com.au/CR/media/CommercialRadio/Find%20a%20Station/Find-a-station-2014.PNG)

[5] Commercial Radio Australia, Figures show a strong year in commercial radio, available from http://www.commercialradio.com.au/content/mediareleases/2015/2015-01-23-figures-show-a-strong-year-in-commercia

[6] Commercial Radio Australia, Figures show a strong year in commercial radio, available from http://www.commercialradio.com.au/content/mediareleases/2015/2015-01-23-figures-show-a-strong-year-in-commercia

There are 8 metropolitan surveys released each year with regional surveys also conducted throughout the year.

Regulation

The Australian Government regulates the ownership of radio broadcasting media in Australia (including cross media and foreign ownership restrictions) through the Broadcasting Services Act, the FATA and the CCA.

The ACMA administers the BSA, which is the principal legislation regulating the provision of broadcasting services in Australia. The BSA contains the regulatory scheme for the planning and allocation of commercial radio broadcasting licences, and the rules that apply to the ownership and control of such licences. The content of commercial radio broadcasting services is also regulated under the BSA through licence conditions and standards determined by the ACMA and codes of practice (developed by the commercial radio industry and registered by the ACMA).

Commercial radio licences are renewed by the ACMA every five years. The scheme in the BSA requires the ACMA to renew licences unless it is aware of special new circumstances that would give rise to issues of "suitability".

Table 3: Combined Group stations and ACMA licence expiry dates

Station	Expiry date
2GB	16 May 2015
2UE	22 August 2016
3AW	15 March 2018
Magic1278	3 October 2017
4BC	16 June 2018
Magic882	17 September 2019
6PR	5 May 2016

The BSA places no restrictions on transferring a commercial radio broadcasting licensee provided that the transfer complies with the ownership and control rules of the BSA as referred to below.

In summary, the 'two to a market' rule and related director restrictions provide that a person must not:

- be in a position to exercise control of more than two commercial radio broadcasting licences within the same licence area;
- be a director of a company that is, or of two or more companies that are, between them, in a position to exercise control of more than two commercial radio broadcasting licences in the same licence area;
- be a director of a company that is, or of two or more companies that are, between them, in a position to exercise control of two commercial radio broadcasting licences in a licence area and in a position to exercise control of another commercial radio broadcasting licence in the same licence area; or
- be in a position to exercise control of two commercial radio broadcasting licences in a licence area and also be a director of a company that is in a position to exercise control of another commercial radio broadcasting licence in the same licence area.

The BSA also prohibits transactions that result in an "unacceptable 3-way control situation" where one person is, in a radio licence area, in a position to exercise control of:

- commercial television licence, where more than 50% of the licence area population of the radio licence area is attributable to the licence area of the commercial television licence; and
- the commercial television licence; and
- a commercial radio licence; and
- a newspaper that is associated with the radio licence area.

Finally, the transfer of the licensee must not result in an “unacceptable media diversity situation”, which will arise if, as a result of the transfer of a licensee in:

- a metropolitan radio licence area, the consequences of the transfer is that the number of “voices” in that licence area drops below 5 “voices”; or
- a regional radio licence area, the consequences of the transfer is that the number of “voices” in that licence area drops below 4 “voices”.

The ACMA has responsibility for planning and allocating all parts of the radio frequency spectrum utilised for free-to-air broadcasting services in Australia. Under the BSA, the ACMA is responsible for determining licence plan areas for all of the radio licence areas in Australia after wide public consultation. In preparing a licence area plan, the ACMA is required to promote the objects of the BSA, including the economic and efficient use of the spectrum and to consider factors such as:

- demographic characteristics;
- social and economic characteristics within a licence area, within neighbouring licence areas and within Australia generally;
- the number of existing broadcasting services and demand for new broadcasting services within the licence area, within neighbouring licence areas and within Australia generally;
- developments in technology; and
- technical restraints relating to the delivery or reception of broadcasting services.

Industry developments

Digital broadcasting

In May 2009, the Australian commercial radio industry launched digital broadcasting in Sydney, Melbourne, Brisbane, Adelaide and Perth and digital services became available in Darwin and Canberra in 2010. The first Commercial Radio Australia digital ratings report, released in 2010, indicated that 449,000 people listened to digital radio each week.[7] The most recent November 2014 report indicates that over 3 million listeners now listen to digital radio each week.[8] Sales of digital radio devices have been

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[7] The Australian, Half a million Australians tune into Digital Radio, available from <http://www.theaustralian.com.au/business/news/half-a-million-australians-tune-in-to-digital-radio/story-e6frg906-1225843883738>

[8] Commercial Radio Australia, 3 million people now listening to digital radio, available from <http://www.commercialradio.com.au/content/mediareleases/2014/2014-11-17-3-million-people-now-listening-to-digit#.VHUoX4uUfHU>

increasing and twenty vehicle manufacturers in Australia are now including digital and more than 125,000 (125,181) vehicles with DAB+ have been sold.[9]

Online services

In the current environment where portable computing and increased internet accessibility are influencing entertainment choices, radio broadcasting is also faced with competition from online media.

The prevalence of portable music players, mobile phones and tablets have enabled not only the well-recognised means of distribution of music content, but has also prompted growth in podcasts, which provide consumers with the ability to filter current affairs content by topic and to expand news resources. Radio broadcasting competes against these products, as well as audio streaming through online cloud based media platforms such as Spotify and Pandora. These platforms enable users to access more personalised content and have grown in popularity in recent years.

[9] Commercial Radio Australia, 3 million people now listening to digital radio, available from <http://www.commercialradio.com.au/content/mediareleases/2014/2014-11-17-3-million-people-now-listening-to-digit#.VHUoX4uUfHU>

4. Information on MRN's existing business

4.1 Overview

MRN was listed on ASX on 18 April 2005. MRN owns and operates two Sydney metropolitan radio commercial AM radio stations – talk radio station 2GB and easy listening 2CH – as well as eight stations based in regional Queensland (Macquarie Regional Radio).

MRN also owns a public relations and marketing communications agency, Map and Page, and produces digital and online media through its websites.

4.2 Stations and presenters

2GB profile

2GB is a Sydney talk radio station that provides its listeners with a program of news, informed and opinionated comment, "talk back", entertainment, sport and promotions through a strong line-up of talented radio personalities and a dedicated newsroom, Macquarie National News.

Talk radio (such as 2GB) focuses on social, economic and political issues of current relevance to the community and offers listeners the ability to interact with the on-air personalities and to have their opinions broadcast.

2GB listeners are provided with comprehensive up-to-date coverage of sport through a combination of dedicated sports reporters and experienced sports broadcasters as well as expert contributors. 2GB listeners are able to benefit from the sporting expertise of personalities such as Alan Jones and Ray Hadley. 2GB holds radio broadcasting rights for the NRL and has also been historically involved in Olympic and Commonwealth Games radio coverage.

2GB programming also includes special interest programs such as health, gardening, cooking, motoring and real estate shows hosted by industry experts.

2GB ratings wins

In 2014, MRN celebrated 10 straight years of ratings success in the Sydney market when 2GB recorded its 80th consecutive survey win. This achievement was contributed to by results from presenters such as Alan Jones and Ray Hadley who for their own programs recorded impressive ratings wins.

2GB key presenters

2GB has a long established panel of presenters that are well known and respected broadcasters.

Alan Jones, AO joined 2GB in 2002 hosting the breakfast program. Alan has been a speechwriter and senior advisor to the then Prime Minister, the Right Honourable Malcolm Fraser and was one of Australia's most successful Australian rugby union coaches. In 2004, Alan received a Queen's Birthday Honour – an Officer of the Order of Australia (AO) partly for his service to the media and sports administration, but also for helping many charities. In November 2014, Alan celebrated his 100th survey win at 2GB and in December 2014 signed on with 2GB for a further 3 year term.

Ray Hadley, OAM joined 2GB in 2002 hosting both the weekday mornings and weekend NRL programs. Ray's morning program has been the number one rating morning program for the last 85 Media Research Surveys. Ray is the host of the Continuous Call Team and has covered more than 63 State of Origin series, 22 Rugby League Grand Finals, six Olympic Games and the Rugby World Cup. In 2002, Ray was awarded a Medal of the Order of Australia (OAM) in the Queen's Birthday Honours List for service to rugby league as a broadcaster, and to the community, particularly through fundraising for charitable organisations. Ray has been named Australia's Best Radio Sports Broadcaster for 10 of the past 14 years and has won 23 ACRA awards.

Chris Smith joined 2GB in 2000 initially as Program Director. Chris has built a career both in Australia and abroad covering news and current affairs in radio and television. He has won a number of journalistic awards including a MBF National Health award and a State Government award for excellence in environmental reporting. Chris' program continued to maintain the number one position for afternoons in Survey 8 2014.

Ben Fordham joined 2GB in January 2011 to present 'Sydney Live' and is currently the drive (3pm – 6pm) presenter on 2GB. Ben commenced his journalism career in radio before joining Sky News Australia as a reporter and presenter in 1998, winning a Walkley Award. After less than a year at Sky News Australia, Ben moved to the Nine network where he presented news and current affairs programs. Away from his media career, Ben volunteers for several charities in the areas of fundraising, lobbying, strategy and as a Master of Ceremonies. In 2014, Ben won an ACRA award for best metropolitan talk presenter.

2CH profile

2CH broadcasts an easy listening format on the AM band. 2CH is a music station providing its adult audience with an entertaining mix of songs from the 1950s through to today's latest releases. The station also broadcasts a range of segments featuring celebrity interviews, regular news updates from Macquarie National News, finance reports and major station promotions and giveaways.

Macquarie Regional Radio

Macquarie Regional Radio is comprised of radio licences and assets based in regional Queensland. The business was acquired from the Smart Radio Network in September 2011.

MRN sales structure

MRN has two distinct sales teams – one team is focussed on clients who are not represented by media agencies (direct sales) and the other on clients who are represented by media buying agencies (agency sales). According to PricewaterhouseCoopers, the Sydney commercial radio industry's independent advertising statistician, for the year ending 31 December 2014, 2GB continues to achieve the greatest amount of advertising revenue from direct sales of any commercial radio station in the Sydney metropolitan area.

Advertising revenue from direct sales for the year ending 31 December 2004 accounted for approximately 49% of Macquarie Radio Network's total advertising revenue, with agency sales accounting for the remainder.

4.3 MRN financial information

Introduction

This section contains pro forma stand - alone historical financial information relating to MRN.

The MRN Financial Information comprises:

- pro forma stand - alone consolidated historical income statements for the financial years ending 30 June 2013 (FY13), 30 June 2014 (FY14), and the six month period ending 31 December 2014 (H1 FY15), presented as if MRN's interests in Radio 2CH and Macquarie Regional Radio had not been owned by MRN for the period from 1 July 2012; and

- a pro forma stand - alone consolidated historical balance sheet as at 31 December 2014, presented as if MRN’s interests in Radio 2CH and Macquarie Regional Radio had not been owned by MRN at that date.

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 7 and the Independent Expert’s Report at Appendix A.

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

Basis of preparation

The MRN 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 MRN Financial Information for FY13 and FY14 has been extracted from the audited financial statements for of MRN for FY14 which were lodged with ASX on 18 September 2014. The MRN Financial Information for H1 FY15 and as at 31 December 2014 has been extracted from the reviewed interim financial statements for H1 FY15 which were lodged with ASX on February 19 2015.

The MRN Financial Information contains certain pro forma adjustments detailed further in this section. It has been prepared for illustrative purposes only on the assumption that MRN’s interests in Radio 2CH and Macquarie Regional Radio had not been owned by MRN for the period from 1 July 2012. This is not intended to reflect the financial performance or the financial position that would have actually resulted had MRN not owned Radio 2CH and Macquarie Regional Radio from that date, or the results that may be obtained in the future. If the interests had not been owned, MRN’s financial performance and financial position would likely have been different from that presented in the MRN Financial Information. Due to the nature of pro forma information, it may not give a true picture of MRN's actual financial performance or financial position.

MRN pro forma stand - alone historical consolidated income statements

Set out below are the MRN pro forma stand - alone historical consolidated income statements for FY13, FY14 and H1 FY15:

$'000	FY13 (Pro forma)	FY14 (Pro forma)	H1 FY15 (Pro forma)
Revenue	50,862	50,348	27,344
Other income	3,315	460	28
Total Income	**54,177**	**50,808**	**27,372**
Employee benefits	(25,443)	(26,586)	(16,881)
Employee options expense	(12)	(82)	0
Depreciation and amortisation	(731)	(792)	(424)
Legal, professional and consulting	(1,374)	(1,159)	(883)
Rent	(1,345)	(1,364)	(769)
Royalties, licences and commissions	(3,881)	(3,744)	(2,165)
Programming content	(2,268)	(1,369)	(913)
Utilities and telephone	(1,032)	(983)	(477)
Marketing and promotions	2	(23)	(23)
Insurances	(552)	(597)	(325)
Other	(3,995)	(4,282)	(2,085)
Finance costs	(1,007)	(993)	(440)
Profit before tax	**12,539**	**8,834**	**1,987**
Income tax expense	(3,223)	(2,885)	(570)
Profit for the period	**9,316**	**5,949**	**1,417**

The table below shows the reconciliation of pro forma profit for the period to statutory profit for the period:

$'000	FY13	FY14	H1 FY15
Pro forma profit for the period (as above)	9,316	5,949	1,417
Removal of Radio 2CH and Macquarie Regional Radio	(195)	(25)	(553)
Profit for the period as per statutory accounts	**9,121**	**5,924**	**864**

Pro forma adjustments have been made to the audited/reviewed financial statements of MRN to illustrate the pro forma historical financial performance of MRN as if MRN's interests in Radio 2CH and Macquarie Regional Radio had not been owned for the period from 1 July 2012.

The MIA requires that, after Completion, MRN must take all reasonable, necessary and appropriate steps to divest its ownership interest in Radio 2CH and Macquarie Regional Radio. In addition, MRN has undertaken to the ACMA to dispose of Radio 2CH and Radio 4LM. It intends to comply with the undertaking to divest Radio 4LM by selling Macquarie Regional Radio. The pro forma adjustments to the historical consolidated income statements have been applied to exclude all the financial results relating to both Radio 2CH and Macquarie Regional Radio.

MRN pro forma stand - alone historical consolidated balance sheet

Set out below is the MRN pro forma standalone historical consolidated balance sheet as at 31 December 2014:

$'000	As at 31 Dec 2014	Removal of Radio 96FM	As at 31 Dec 2014 (Pro forma)
Assets			
Cash and cash equivalents	344	-	344
Trade and other receivables	18,718	(3,679)	15,039
Other assets	1,520	73	1,593
Total current assets	**20,582**	**(3,606)**	**16,976**
Other receivables	6,317	(6,317)	-
Property, plant and equipment	20,068	(443)	19,625
Deferred tax assets	1,285	-	1,285
Intangible assets	114,037	(38,400)	75,637
Other assets	3,375	(120)	3,255
Total non-current assets	**145,082**	**(45,280)**	**99,802**
Total assets	**165,664**	**(48,886)**	**116,778**
Liabilities			
Trade and other payables	11,012	(1,646)	9,366
Current tax liabilities	351	-	351
Provisions	6,658	(453)	6,205
Total current liabilities	**18,021**	**(2,099)**	**15,922**
Borrowings	-	-	-
Provisions	717	(135)	582
Total non-current liabilities	**717**	**(135)**	**582**
Total liabilities	**18,738**	**(2,234)**	**16,504**
Net assets	**146,926**	**(46,652)**	**100,274**
Equity			
Issued capital	1	-	1
Reserves	653	-	653
Retained earnings	146,272	(46,652)	99,620
Total equity	**146,926**	**(46,652)**	**100,274**

Pro forma adjustments have been made to the statutory financial statements of MRN to illustrate the pro forma financial position of MRN had its interests in Radio 2CH and Macquarie Regional Radio not been owned at balance date.

5. Information on FRN

5.1 Overview

FRN owns and operates a network of six metropolitan AM radio stations across Australia: 2UE (Sydney), 3AW and Magic 1278 (Melbourne), 4BC and Magic 882 (Brisbane) and 6PR (Perth). The network's content spans across talkback/news and easy listening music genres.

On 22 December 2014, Fairfax entered into an agreement to sell Radio 96FM to APN News & Media Limited and this sale was completed on 30 January 2015. Accordingly, the Proposed Transaction does not include FRN's Radio 96FM (Perth) station.

Figure 1: Fairfax Radio Network station locations

In addition to the stations shown above, the FRN business also includes Satellite Music Australia (SMA) and Fairfax Radio Syndication. These two businesses offer a diverse range of business-to-business services to the Australian commercial radio industry and retail, hospitality and other associated industries in Australia and New Zealand, including satellite distribution of both internally and third party produced content, digital courier and radio monitoring.

FRN is a wholly owned division of Fairfax Media Limited, a leading multi-platform media company in Australasia. Further information regarding Fairfax in outlined in Section 8.4.

5.2 Station profiles

2UE profile

2UE is a Sydney radio station that broadcasts content focused on talkback, news and sport. The station is Australia's oldest commercial radio station, commencing broadcasting in 1925. Key on-air talent in 2014 included Gary Linell, John Stanley, Angela Catterns and Justin Smith. The station's target demographic is the over 40 age category, with the majority of listeners in the over 65 age category.

3AW profile

3AW is the leading commercial talkback radio station in Melbourne that broadcasts content focused on talkback, news and sport (including broadcast rights for the AFL). Key on-air talent in 2014 included Neil Mitchell, Ross Stevenson and John Burns, and Tom Elliott. The station's target demographic is the over 40 age category.

Magic 1278 profile

Magic1278 is a Melbourne easy listening radio station. Key on-air talent in 2014 included Kevin John, Jane Holmes and Peter O'Callaghan. The station's target demographic is the over 55 age category.

4BC profile

4BC is a Brisbane talkback radio station with content focused on news and current affairs, sport and lifestyle. Key on-air talent in 2014 included Ian Skippen, Loretta Ryan, Patrick Condren and Ben Davis. The station targets the over 40 age category, with the majority of listeners in the over 65 age category.

Magic 882 profile

Magic 882 is a Brisbane easy listening radio station. Key on-air talent in 2014 included Ian Keenan, Donna Lynch, Greg Victor and Joey Henderson. The station's target audience is the over 55 age category.

6PR profile

6PR is a Perth radio station that broadcasts content focused on talkback, news and sport (including broadcast rights for the AFL). Key on-air talent in 2014 included Steve Mills, Basil Zempilas, Gary Adshead and Adam Shand. The station's target demographic is the over 40 age category.

Table 4: Key demographic audience share by station (Commercial Radio Australia, Survey 8, December 2014)

Station	Ages 45-54	Ages 55-64	Ages 65+	Total (Ages 10+)
2UE	4.1%	9.6%	14.4%	5.6%
3AW	8.2%	18.6%	31.3%	12.8%
Magic 1278	1.4%	7.1%	16.3%	5.1%
4BC	2.6%	8.0%	18.2%	5.1%
Magic 882	3.2%	5.4%	15.9%	4.6%
6PR	5.1%	12.5%	17.4%	7.3%

(Source: Survey 8, Dec 2014, Commercial Radio Australia)

5.3 FRN financial information

Introduction

This Section contains pro forma stand - alone historical financial information relating to FRN.

The FRN Financial Information comprises:

- pro forma stand - alone consolidated historical income statements for FY13, FY14, and H1 FY15, presented as if FRN's interests in Radio 96FM had not been owned by FRN for the period from 1 July 2012; and
- a pro forma stand - alone consolidated historical balance sheet as at 31 December 2014 (H1 FY15), presented as if FRN's interest in Radio 96FM had not been owned by FRN at that date.

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 7 and the Independent Expert's Report at Appendix A.

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

Basis of preparation

The FRN 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 FRN Financial Information for FY13 and FY14 has been extracted from the unaudited financial statements of FRN for FY13, FY14 and H1 FY15.

The FRN Financial Information contains certain pro forma adjustments detailed further in this section. It has been prepared for illustrative purposes only on the assumption that FRN's interests in Radio 96FM had not been owned by FRN for the period from 1 July 2012. This is not intended to reflect the financial performance or the financial position that would have actually resulted had FRN not owned Radio 96FM from that date, or the results that may be obtained in the future. If the interests had not been owned, FRN's financial performance and financial position would likely have been different from that presented in the FRN Financial Information. Due to the nature of pro forma information, it may not give a true picture of FRN actual financial performance or financial position.

FRN pro forma stand - alone historical consolidated income statement

Set out below are the FRN pro forma stand - alone historical consolidated income statements for FY13, FY14 and H1 FY15:

$'000	FY13 (Pro forma)	FY14 (Pro forma)	H1 FY15 (Pro forma)
Revenue	94,476	85,084	44,266
Other Income	7	9	3
Total Income	**94,483**	**85,093**	**44,269**
Production	0	(2,273)	(1,192)
Technical	(5,104)	(6,066)	(3,056)
Programming	(30,491)	(31,055)	(15,135)
News	(4,746)	(4,728)	(2,212)
Advertising	(16,619)	(13,909)	(7,225)
Sales	(3,706)	(3,486)	(1,965)
Promotion	(2,988)	(3,195)	(1,807)
Administration	(19,956)	(17,238)	(8,115)
Accounting	(1,354)	(833)	(542)
Profit before tax	**9,519**	**2,310**	**3,020**
Income tax expense	(2,257)	(770)	(351)
Profit for the period	**7,262**	**1,540**	**2,669**

The table below shows the reconciliation of pro forma profit for the year to unaudited profit for the year:

$'000	FY13	FY14	H1 FY15
Pro forma profit for the period (as above)	7,262	1,540	2,669
Removal of Radio 96FM	4,617	5,708	3,132
Profit for the period as per unaudited accounts	**11,879**	**7,248**	**5,801**

Pro forma adjustments have been made to the unaudited financial statements of FRN to illustrate the pro forma financial performance of FRN as if FRN's interests in Radio 96FM had not been owned for the period from 1 July 2012.

A condition of the Proposed Transaction is that FRN dispose of its ownership interest in Radio 96FM before Completion. On 22 December 2014, FRN entered into an agreement to sell Radio 96FM to APN News & Media Limited and this sale was completed on 30 January 2015. Accordingly, the pro forma adjustments to profit after tax have been applied to exclude all the financial results relating to Radio 96FM.

FRN pro forma stand - alone historical consolidated balance sheet

Set out below is FRN's pro forma stand - alone historical consolidated balance sheet as at 31 December 2014:

$'000	As at 31 Dec 2014	Removal of Radio 96FM	As at 31 Dec 2014 (Pro forma)
Assets			
Cash and cash equivalents	344	-	344
Trade and other receivables	18,718	(3,679)	15,039
Other assets	1,520	73	1,593
Total current assets	**20,582**	**(3,606)**	**16,976**
Other receivables	6,317	(6,317)	-
Property, plant and equipment	20,068	(443)	19,625
Deferred tax assets	1,285	-	1,285
Intangible assets	114,037	(38,400)	75,637
Other assets	3,375	(120)	3,255
Total non-current assets	**145,082**	**(45,280)**	**99,802**
Total assets	**165,664**	**(48,886)**	**116,778**
Liabilities			
Trade and other payables	11,012	(1,646)	9,366
Current tax liabilities	351	-	351
Provisions	6,658	(453)	6,205
Total current liabilities	**18,021**	**(2,099)**	**15,922**
Borrowings	-	-	-
Provisions	717	(135)	582
Total non-current liabilities	**717**	**(135)**	**582**
Total liabilities	**18,738**	**(2,234)**	**16,504**
Net assets	**146,926**	**(46,652)**	**100,274**
Equity			
Issued capital	1	-	1
Reserves	653	-	653
Retained earnings	146,272	(46,652)	99,620
Total equity	**146,926**	**(46,652)**	**100,274**

Pro forma adjustments have been made to the unaudited financial statements of FRN to illustrate the pro forma financial position of FRN had it not owned Radio 96FM at balance date.

6. Information on the Combined Group

6.1 Overview

The combination of MRN and FRN will produce Australia's leading news-talk radio operations with a range of market leading presenters and programs. The Proposed Transaction combines the key Sydney (MRN's 2GB) and Melbourne (FRN's 3AW) metropolitan markets as well as an additional five radio stations across Australia: 2UE (Sydney), Magic 1278 (Melbourne), 4BC (Brisbane), Magic 882 (Brisbane) and 6PR (Perth) creating the only national commercial news-talk network in Australia.

** Note: 2CH and Macquarie Regional Radio will be divested to comply with media regulations*

6.2 Rationale for Proposed Transaction

The Proposed Transaction has compelling commercial logic due to the highly complementary nature of MRN and FRN. Rationale for the transaction is as follows:

- creation of a national radio network with market leading talkback, news and sports coverage which is expected to facilitate audience growth;
- provide advertisers and program sponsors access to the lucrative 45 — 69 year demographic on a national scale;
- unlock revenue synergies derived from enhanced network and sales opportunities through a national network and a broader audience;
- rationalise the inefficient cost structures of the separate businesses;
- geographically diversify radio assets owned by MRN; and
- provide an opportunity to maximise shareholder value.

6.3 Strategic intentions of the Combined Group

This section sets out the intentions of the Combined Group in relation to:

- any major changes to the MRN and FRN businesses and any redeployment of the fixed assets of the businesses; and
- the future employment of the present employees of these businesses.

These statements of intention are based on preliminary discussions that have been informed by the information concerning each business as at the date of this Explanatory Memorandum, which is limited to publicly available information and a due diligence review of certain non-public information provided by each party to the other.

Final decisions in relation to the ongoing prospects for the Combined Group will only be reached after its management has had an opportunity to undertake a detailed review of the Combined Group's operations. Accordingly, the statements set out in this section are statements of current intention only, which may change as new information becomes available or circumstances change.

- **Continuing the Combined Group, its business and fixed assets**

  A detailed functional review of the Combined Group will be undertaken shortly following Completion, which may identify fixed assets of the business that are able to be redeployed, but no definite course of action will be determined prior to the conduct of that review. It is MRN's current intention to continue the business of the Combined Group substantially in the same manner as at the date of this Explanatory Memorandum (including in respect of its fixed assets).

- **Employees**

  MRN believes that the Proposed Transaction presents a significant opportunity to combine the strengths of the MRN and FRN businesses. A detailed functional review of the Combined Group will be undertaken following Completion.

- **Programming strategy**

  As part of any functional review, the Combined Group will examine programming across various stations, with a view to generating greater value for shareholders through strategies that may include the syndication / networking of leading content across various markets.

6.4 Capital structure of Combined Group

Following Completion of the Proposed Transaction, the Combined Group will have access to a $50 million revolving credit facility. MRN will be required to fund the cash component of the Proposed Transaction which is anticipated to equate to approximately $18 million (subject to the working capital and net debt-related post-completion adjustments described in section 8.3). Immediately following Completion, the Combined Group is expected to have $37.4 million of net debt.

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

The shareholding structure of the Combined Group upon Completion will be as follows:

Shareholder	No. of shares outstanding	% of total shares outstanding
Existing MRN Shareholders	77,806,262	45.5%
Fairfax	93,196,512	54.5%
Total MRN shares outstanding	**171,002,774**	**100.0%**

6.5 Dividend policy of Combined Group

Following Completion, the directors anticipate that the dividend policy of the Combined Group will remain consistent with the previous policy adopted by MRN. The payment and amount of any future dividends will depend upon the financial condition, earnings, financing arrangements and future financing arrangements for growth of the Combined Group and any other factors that the directors of the Combined Group consider relevant.

6.6 Combined Group board of directors

Russell Tate

Russell Tate has been Executive Chairman and Chief Executive Officer of Macquarie Radio Network Limited since November 21 2008 and March 28 2014, respectively. Russell has over 30 years' experience in senior executive and consulting roles in marketing and media. He was CEO of ASX listed STW Communications Group Limited, Australia's largest marketing communications group, from 1997 to 2006, Executive Chairman from 2006 to 2008 and Deputy Chairman (non-executive) from 2008 to 2011. He is currently Chairman of Collins Foods Limited which operates the food service outlets Sizzler in Australia and KFC in Queensland. During the past three years, Russell has held directorships at Collins Food Limited (since 2011), One Big Switch Pty Ltd (since 2012). Russell holds a Bachelor of Commerce (Econ) from the University of New South Wales.

Jack Singleton

Jack Singleton has 25 years' experience in advertising and marketing. Jack has experience working as a copywriter at Singleton Ogilvy & Mather in Sydney followed by J. Walter Thompson in New York. Jack returned to Sydney in 1998 and founded his own advertising agency - Jack Watts Currie. Jack remains a director and shareholder of his own advertising agency. Jack has also founded three other successful businesses in the online marketing, telecommunications and online retail categories including majority ownership in the largest flower delivery company in Australia.

Other directors

Following Completion, Fairfax will hold 54.5% of the total MRN Shares on issue. Pursuant to the MIA, Fairfax will be entitled to nominate two directors to the Combined Group board of directors. Additionally, one independent nominee director will be appointed following nominations by the chairman of each of Fairfax and MRN. Additional disclosure on these individuals, once they are known, will be provided to Shareholders.

6.7 Combined Group management team

Russell Tate (Interim CEO and Executive Chairman)

See section 6.6

Adam Lang (Chief Operating Officer)

Adam Lang was appointed Managing Director of Fairfax Radio Network in January 2012 and has been the Chief Executive Officer of Fairfax Radio Syndication Pty Limited since March 2012. Adam was previously the General Manager of Sydney and National Director of Operations at Metropolitan Radio (Southern Cross Austereo). Adam began his career in the music industry with various management roles at Bertelsmann Music Group, Warner Music and Festival Music. In 2002, Adam was appointed Managing Director of Warner/Chappell Music. Adam then joined Network Ten in 2005 as Commercial Airtime Manager, a position which he held up to 2007. Adam was appointed National Inventory Manager at Austereo Pty Ltd and was then appointed in 2010 as National Director of Operations and General Manager, Sydney.

6.8 Combined Group financial information

Introduction

This Section contains pro-forma historical financial information relating to the Combined Group.

The Combined Group Financial Information comprises pro forma historical consolidated balance sheet for the Combined Group as at 31 December 2014 consisting of:

- MRN pro forma stand - alone historical consolidated balance sheet as at 31 December 2014 (as illustrated below);
- FRN pro forma stand - alone historical consolidated balance sheet as at 31 December 2014 (as illustrated below);
- relevant consolidation and pro forma adjustments to present the Combined Group following Completion of the Proposed Transaction.

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 7 and the Independent Expert's Report at Appendix A.

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

Basis of preparation

The Combined Group Financial Information has been prepared in accordance with recognition and measurement principles of Australian Accounting Standards, although it is presented in an abbreviated form insofar as it does not include all of the disclosures, statements or comparative information as required by Australian Accounting Standards applicable to annual financial reports prepared in accordance with the Corporations Act 2001.

As discussed in further detail below, the Proposed Transaction is expected to be treated as a reverse acquisition in accordance with Australian Accounting Standards. Accordingly, the Combined Group Financial Information has been prepared on the basis of FRN being the acquirer for accounting purposes.

The Combined Group Financial Information has been prepared for illustrative purposes only on the assumption that the Proposed Transaction and proposed funding structure was in place as at 31 December 2014. This is not intended to reflect the financial position that would have actually resulted had the Proposed Transaction been implemented on that date, or that may be reflected in the future. If the Proposed Transaction has occurred in the past, the Combined Group financial position would likely to 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 Combined Group actual financial position.

The Combined Group Financial Information does not reflect the financial impact of:

- any potential changes in revenues, costs or other changes arising from the Proposed Transaction;
- the impact of finalising the carrying value of intangible assets or determining other fair value adjustments that may arise from the application of business combinations which may affect future depreciation and/or amortisation charges (see significant policies and notes applicable to Combined Group Financial Information); or
- any associated taxation implications or the impact of changes in the tax profile of the Combined Group arising from the transaction.

Combined Group pro forma historical consolidated balance sheet

Set out below is the Combined Group's historical pro forma consolidated balance sheet as at 31 December 2014:

$'000	FRN 31 Dec 2014 (Pro forma)	Adjustment for deemed acquisition of MRN	Pro forma transaction adjustments	Combined Group 31 Dec 2014 (Pro forma)
Assets				
Cash and cash equivalents	344	845	(441)	748
Trade and other receivables	15,039	10,775	-	25,814
Other assets	1,593	581	(200)	1,974
Total current assets	**16,976**	**12,201**	**(641)**	**28,536**
Other receivables	-	603	-	603
Property, plant and equipment	19,625	2,920	-	22,545
Deferred tax assets	1,285	1,523	-	2,808
Intangible assets	75,637	15,715	90,916	182,268
Other assets	3,255	201	-	3,456
Total non-current assets	**99,802**	**20,962**	**90,916**	**211,680**
Total assets	**116,778**	**33,163**	**90,274**	**240,215**
Liabilities				
Trade and other payables	9,366	4,303	-	13,669
Current tax liabilities	351	(153)	-	198
Provisions	6,205	2,628	-	8,833
Total current liabilities	**15,922**	**6,778**	**-**	**22,700**
Borrowings	-	18,250	20,000	38,250
Provisions	582	214	-	796
Total non-current liabilities	**582**	**18,464**	**20,000**	**39,046**
Total liabilities	**16,504**	**25,242**	**20,000**	**61,746**
Net assets	**100,274**	**7,921**	**70,274**	**178,469**
Equity				
Issued capital	1	4,827	73,368	78,196
Reserves	653	(5,737)	5,737	653
Retained earnings	99,620	8,831	(8,831)	99,620
Total equity	**100,274**	**7,921**	**70,274**	**178,469**

Under the principles of Australian Accounting Standard AASB 3 Business Combinations, the Proposed Transaction is expected to be treated as a reverse acquisition. Accordingly, FRN is considered to be the accounting acquirer and MRN is considered to be the accounting acquiree.

The pro forma adjustments required to reflect the Combined Group pro forma historical consolidated balance sheet as at 31 December 2014 represent:

Adjustment for deemed acquisition of MRN

This adjustment represents the deemed acquisition of all of the issued share capital of MRN (the accounting acquiree) by FRN (the accounting acquirer) based on the MRN pro forma historical consolidated balance sheet as at 31 December 2014.

Pro forma transaction adjustments

This adjustment includes the following:

- An increase in share capital of $73.4 million calculated with reference to the fair value of the number of shares the accounting acquirer (FRN) would have issued to the shareholders of the accounting acquiree (MRN) to obtain their ownership interest in the Combined Group. The fair value of these shares has been determined with reference to the market value of MRN determined with reference to its closing share price as quoted on the ASX on 20 February 2015. Note that the actual deemed increase in share capital will be dependent on the quoted price of MRN shares at Completion date and accordingly may be different.
- A reduction in cash and cash equivalents of $0.4 million as a result of the following transactions:
    - MRN paying cash consideration of approximately $18.1 million to Fairfax;
    - MRN incurring transaction costs of approximately $2.3 million; and
    - drawdown of additional interest bearing facilities of $20.0 million.
- A preliminary fair value adjustment to increase the carrying value of intangible assets acquired by $90.9 million at acquisition. This adjustment is based on the difference between the identified net assets of the accounting acquiree (MRN) and the fair value of the deemed consideration. The actual adjustment is likely to be different at the Completion date.

Significant policies applicable to Combined Group Financial Information

Combined Group Financial information has been prepared on the same basis as the accounting policies disclosed in MRN's and Fairfax's audited FY14 financial statements. However to reflect the impact of the Proposed Transaction, the following additional policies have also been used:

Reverse acquisition

As noted above, the Proposed Transaction is expected to be treated as a reverse acquisition and accordingly FRN will be considered the accounting acquirer and MRN will be considered the accounting acquiree.

As a result, the assets and liabilities of the accounting acquirer (FRN) are measured at their pre-combination carrying amounts. The assets and liabilities of the accounting acquiree (MRN) are measured at their fair values on the date of acquisition.

The consideration in a reverse acquisition is deemed to have been incurred by the accounting acquirer (FRN) in the form of equity instruments issued to the shareholders of the accounting acquiree (MRN). The acquisition date fair value of the consideration transferred has been determined by reference to the fair value of the number of shares the accounting acquirer (FRN) would have issued to the shareholders of the accounting acquiree (MRN) to obtain the same ownership interest in the Combined Group.

In accordance with Australian Accounting Standard AASB 3 Business Combinations, MRN is required to allocate deemed consideration of the reverse acquisition by recognising its identifiable assets, liabilities and contingent liabilities at their fair values at completion date. Any difference between the deemed consideration of the reverse acquisition and the net fair value of the identifiable assets (including identifiable intangible assets such as radio licences, customer relationships and contracts, and intellectual property) and liabilities is allocated to goodwill. Goodwill will be subject to periodic impairment testing.

The pro forma adjustments included in the Combined Group Financial Information include a preliminary increase in the carrying value of intangible assets deemed to have been acquired based on the market value of MRN determined with reference to its closing share price as quoted on ASX on 20 February 2015.

Australian Accounting Standards allow a period of 12 months from completion date to finalise the purchase price allocation. It is likely that the final purchase price allocation, together with any related deferred tax balances, will be different to the preliminary purchase price allocation and could be materially different.

It should be noted that the purchase price allocation may result in a material change to the fair value of the depreciable and amortisable assets of the Combined Group and consequently a material change in the amortisation charge for the Combined Group in future financial reporting periods. Any amortisation will be reflected in the Combined Group consolidated income statement and there will be no impact on the forecast cash flows of the Combined Group.

7. Risk factors associated with the Proposed Transaction

7.1 Overview

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

Before voting at the EGM, MRN Shareholders should carefully consider the risks described in this section 7. These risk factors do not take into account the investment objectives, financial situation, taxation position or particular needs of any MRN Shareholder. Additional risks and uncertainties are currently not known to MRN, or which MRN believes to be immaterial, may also have an adverse effect on the value of MRN Shares.

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

7.2 Proposed Transaction risks

Risk of reliance on information provided to MRN by or on behalf of Fairfax

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

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

Management of FRN before Completion

During the period between signing the MIA and Completion, FRN will remain subject to its current corporate governance and management arrangements. While the MIA includes a condition requiring Fairfax to continue to manage the FRN business in the ordinary course during that period, MRN will not have any ability to direct the management of FRN during that period.

Assumption of FRN

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

Divestments

MRN will be required to divest Radio 2CH and Macquarie Regional Radio as a result of the Proposed Transaction in order to comply with the BSA. There can be no assurance in relation to the value that the

Combined Group will receive for these divested assets. A divestment of an asset at below book value may lead to a write down of the Combined Group's assets.

Separation of Radio 96FM

Fairfax completed the sale of Radio 96FM to APN News and Media on 30 January 2015. As part of the sale, arrangements were entered into that govern transitional and shared services between Radio 96FM, related APN entities and the Fairfax Radio Network/6PR. The rights and obligations of FRN under the shared services agreements will transfer to MRN under the Proposed Transaction. Unforeseen circumstances arising from the terms of these agreements could disrupt the operational and financial performance of FRN, and in particular of 6PR in Perth.

Other risks associated with the Proposed Transaction

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

7.3 Combined Group risk factors

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

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

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

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

Reliance on key presenters and other personnel

The Combined Group's operating and financial success will depend partly upon the performance, efforts and expertise of its key presenters and other personnel. The Proposed Transaction may lead to a loss of key presenters and other personnel following implementation due to various factors. The loss of key presenters and other personnel could have an adverse impact on the performance of the Combined Group.

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

The Australian advertising market

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

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

Competition

The media industry can be highly competitive, with a number of operators competing for market share through similar, the same or substitute products. The competitive landscape can be affected by a number of external factors such as the impact of government policies, changes in technology and the emergence of competitive platforms. The Combined Group will face competition from both traditional media groups, other media companies and content providers utilising technologies, including cable, satellite, online, mobile and other distributable platforms. The actions of an existing competitor, the entry of new competitors or the issue of new broadcasting licences in either a media sector in which the Combined Group participates or generally may have an adverse effect on the Combined Group's financial and operating performance.

Radio licence risks

Existing licences

MRN and FRN operate in the broadcasting industry within Australia. This industry is closely regulated and new broadcasting licences can only be issued by the ACMA following an extensive public consultation process.

A loss of one or more radio broadcasting licences may have a material adverse effect on the Combined Group, its business and prospects. MRN currently has no reason to expect and does not expect the suspension or cancellation or non-renewal of any of its or the Combined Group's commercial broadcasting licences. MRN is not aware of any instance of the ACMA or its predecessor the Australian Broadcasting Authority suspending, cancelling or failing to renew a commercial broadcasting licence. The renewal process is discussed in more detail below.

Australian commercial radio licences (other than licences where services are provided by use of a satellite) are valid for five years and are renewed by the ACMA upon application and payment of renewal fees. If the application is made and the renewal fees are paid within the time period specified by the ACMA, the ACMA may renew the licence. The ACMA does have power to conduct a suitability investigation at the time an application for renewal is received, but neither the ACMA nor its predecessor the ABA has exercised that power to date. MRN has no reason to believe that any of the Combined Group's licences will not be renewed (so long as the administrative requirements of the licence renewal process are met).

New licences

It is for the ACMA to determine whether any new commercial radio broadcasting licences should be made available in accordance with the BSA. In September 2003, the ABA (a predecessor to the ACMA) announced that there would be a five year moratorium on the allocation of any new analogue commercial radio licences. The ACMA has made no comment on the issue since that time.

In addition, in the BSA there is a six year moratorium on the allocation of digital radio licences (this applies on a per Licence Area basis, commencing from the relevant digital start up date in the Licence Area). Digital radio has not yet commenced in any regional Licence Area. In many of the Licence Areas where the MRN and the FRN operate, current media ownership restrictions would prevent the MRN and the Combined Group from bidding for any additional licences, thereby resulting in increased competition in those Licence Areas, reducing revenues.

Digital radio

While digital radio services have commenced in the capital cities, there is currently no timetable for the introduction of digital radio across regional Australia. The commencement of digital radio broadcasting in regional Australia will be determined by the ACMA and by Government funding decisions. In this context, there is a risk that the introduction of digital radio into regional markets will cause substantial change and may result in commercial radio operators being required to incur substantial capital expenditure to invest in the infrastructure necessary for digital radio broadcasting. There is a risk that the introduction of digital radio could impact the capital expenditure commitments and operating expense profile of the Combined Group if not offset by an appropriate subsidy from the Australian Government and therefore have a material adverse effect on the financial performance and position of the Combined Group. There is also the risk that the introduction of digital radio could lead to audience fragmentation.

Maintaining ratings

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

Online

Growth in online advertising is underpinned by a range of factors including growth in internet penetration in Australia and migration from more traditional forms of media. Internet penetration in the Australian market has been growing at a steady rate, however there can be no guarantee that this will continue in the future, which may have an adverse effect on the growth of the Combined Group’s online businesses.

Migration has been driven by a number of factors affecting both buyers and sellers including increased Internet penetration and broadband speeds. Whilst the migration online has occurred over recent years, there can be no guarantee that this will continue in the future, which may have an adverse effect on the growth of the Combined Group's online businesses (though any such adverse effect may be partly offset by a corresponding benefit to the Combined Group’s traditional radio business if consumers remain with that form of media).

Litigation

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

Changes in the nature of the media industry

The Combined Group's business may be affected by changes in the nature of the media industry, such as changes to demand for different media products and services.

Technology risk

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

Risks associated with Fairfax's holding in the Combined Group

Fairfax's holding of MRN Shares following Completion will give it substantial control over MRN, including substantial influence over the Combined Group's financial and operating policies, and the composition of the Board. Fairfax may exert that influence in ways that are not consistent with the preferences of other MRN Shareholders.

Combined Group refinancing risk

The Combined Group will be exposed to more risks relating to any refinancing of its debt facilities. It may be difficult for the Combined Group to refinance all or some of these debt facilities. An inability to secure new debt facilities at a similar quantum and cost to existing debt facilities may adversely affect the financial performance of the Combined Group.

Access to capital is not guaranteed

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

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

Change in Government policy and regulation

Media assets in most jurisdictions are subject to regulatory regimes including, for some media assets, licensing requirements. There is a risk that the Combined Group's returns from investments in media assets may be adversely affected by failure to comply with, or changes to, such regulatory regimes. Where applicable, MRN seeks to ensure that it has appropriate systems in place to minimise risks from non-compliance.

The BSA contains stringent rules in respect of the ownership and control of commercial radio licences. The BSA also imposes restrictions on media concentration, by mandating levels of 'media diversity' in both metropolitan and regional radio licence areas. The Combined Group's ability to make further acquisitions in the Australian media sector will be subject to these provisions. Overall, changes in regulation in the media sector may have a material adverse effect on the financial performance and position of the Combined Group.

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

There has been a high level of public discussion about media regulatory reform over the past four years, with significant policy analysis commissioned by the Commonwealth and authored by the Convergence Review Committee, by the Hon R Finkelstein QC (both in 2012). The current Federal government has not committed to any of the recommendations of these reviews, and the more substantial legislation introduced following the release of these reports were not passed by the Parliament.

There remains a high level of public commentary surrounding the need to adapt the regulatory framework to adapt to new media such as digital television and radio, over-the-top television and radio (broadcast over an internet connection), user-published platforms (such as Tumblr and YouTube) and social media.

Any changes to legislation and the operations of the ACMA or any successor may have substantial impacts on the Combined Group's investments, financial and operating performance.

Change in macroeconomic conditions

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

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

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

7.4 General risk factors

Investment in capital markets

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

General regulatory risks

MRN is exposed to any changes in the regulatory conditions under which it operates in Australia. Such regulatory changes include:

- taxation laws and policies;
- accounting laws, policies, standards and practices;
- broadcasting laws and regulations that may impact upon the operations and processes; and
- employment laws and regulations, including laws and regulations relating to occupational health and safety.

General commercial risks

MRN faces a number of other general commercial risks that could adversely affect the Combined Group's business, results of operations or financial condition and performance. These include the risks of industrial disruption, loss of key suppliers and litigation and other causes of interruption that could adversely affect the Combined Group's business, results of operations or financial condition and performance.

Other risks

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

8. Additional information

8.1 Regulatory approvals

ACMA

By virtue of section 54 of the BSA, a person must not be in a position to exercise control of more than two commercial radio broadcasting licences in the same licence area. Separately, the BSA also regulates diversity of voices across media in local areas.

Absent prior approval by the ACMA and / or any divestiture, the Proposed Transaction would potentially result in BSA breaches:

- in relation to MRN's control of three licences in the Sydney radio licence area (RA1) (2GB, 2CH and 2UE); and
- arising from an unacceptable media diversity situation in Mt Isa (as a result of the MRN Mount Isa radio station (4LM) and a local newspaper owned by Fairfax, for a brief period, being under common control within the meaning of the BSA).

MRN, however, applied to ACMA for prior approval for temporary breaches of BSA on the basis that it undertakes to the ACMA to divest Radio 2CH or the Radio 2CH Licence and Macquarie Regional Radio (which holds the Radio 4LM Licence). The ACMA announced on 3 February 2015 that the application for prior approval of temporary breaches in relation to Radio 2CH and Radio 4LM had been approved by the ACMA, and the Enforceable Undertakings accepted on the terms proposed and as outlined in section 2.3.

ACCC

MRN has notified the ACCC of the Proposed Transaction. The ACCC commenced a review of the Proposed Transaction on 13 January 2015. On 16 January 2015 the ACCC announced that it would conduct market inquiries and requested submissions from interested parties on whether:

- the Proposed Transaction will affect the quality of content provided on radio stations in Sydney; and
- the effect of the Proposed Transaction on the price of advertising on radio in Sydney.

The closing date for submissions was 3 February 2015 and the ACCC has stated that the provisional date for an announcement of the ACCC's decision is 5 March 2015.

8.2 Interests of Directors

The relevant interests in MRN Shares held by the current Directors as at the date of this Explanatory Memorandum are as set out below:

Name	Position	Shares
Russell Tate	Executive Director (Chairman)	552,628
Max Donnelly	Non-executive Director	214,382
Maureen Plavsic	Non-executive Director	25,000
Jack Singleton	Non-executive Director	nil
Kate Thompson	Non-executive Director	10,000

8.3 Material contracts

Merger Implementation Agreement

Under the Merger Implementation Agreement, which was entered into on 21 December 2014, MRN agrees to acquire, and Fairfax agrees to sell, 100% of the share capital of FRN in exchange for the issuance of 93,196,512 new MRN Shares to Fairfax and an equalising cash payment to Fairfax of approximately $18 million (subject to the working capital and net debt-related post-completion adjustments described below).

Conditions precedent

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

- prior approval for temporary breaches of BSA from the ACMA and no objection or action from the ACCC;
- approval by MRN Shareholders pursuant to section 611, item 7 of the Corporations Act of the acquisition by Fairfax of MRN Shares as the scrip consideration for the Proposed Transaction;
- no MRN Material Adverse Change occurs or is reasonably likely to occur or is discovered, announced, disclosed or otherwise becomes known to Fairfax between (and including) the date of the MIA and 9:00am on the Completion date;
- no FRN Material Adverse Change occurs or is reasonably likely to occur or is discovered, announced, disclosed or otherwise becomes known to MRN between (and including) the date of the MIA and 9:00am on the Completion date;
- no MRN Prescribed Occurrence occurs between (and including) the date of the MIA and 9:00am on the Completion date;
- no FRN Prescribed Occurrence occurs between (and including) the date of the MIA and 9:00am on the Completion date;
- no temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction or governmental agency, or other material legal restraint or prohibition, preventing or delaying the Transaction is in effect at 9:00am on the Completion date;
- completion of the sale of 100% of the shares in Radio 96FM to an entity that is not an FRN subsidiary;
- the business of the FRN Group is conducted materially in the ordinary course and, in particular, no FRN Group Member does, or agrees or commits to do, any of the following matters:
  - distribute or returns any capital to its members;
  - buy back any of its shares;
  - declare, make or pay any dividends or any other distributions, other than certain agreed dividends and repayments of intra-company loans to the Fairfax Group;
  - issue any shares, options or securities that are convertible into shares in an FRN Group member;
  - enter into any contract or commitment requiring it to pay more than $100,000 per annum for more than three years other than in the ordinary course of business;
  - acquire or dispose of any assets, whose aggregate value exceeds $50,000, other than in the ordinary course of business;
  - engage any new permanent employee with a total annual remuneration in excess of $100,000 except in accordance with current personnel practices or in the ordinary course of business;
  - terminate or encourage the resignation of any FRN employee, except in accordance with current personnel practices or for good cause;

- increase the remuneration of or pays any bonus, termination or retention payments to (other than in the ordinary course of business) FRN employee in excess of agreed amounts;
- defer any capital expenditure or undertake any capital expenditure that is in excess of $250,000;
- materially vary, terminate or fail to renew any of its material contracts or authorisations, except in the ordinary course of business; or
- alters its constitution,

provided that each of the following matters are deemed not to render this condition incapable of satisfaction:

- any matter that is contemplated in the MIA;
- actions to reasonably and prudently respond to an emergency or disaster (including a situation giving rise to a risk of personal injury or damage to property);
- matters necessary for an FRN Group member to meet its legal or contractual obligations, provided that the contracts pursuant to which such contractual obligations arise were in existence or under contemplation (provided that they were disclosed to MRN prior to the date of the MIA) prior to the date of the MIA;
- matters in the ordinary and usual course of carrying out its business;
- matters disclosed in writing to MRN prior to the date of the MIA;
- the transfer all of the shares on issue in Radio 96FM to an entity outside of the FRN Group, the entry into any transitional or other services agreements or ancillary documentation which Fairfax considers necessary or desirable in relation to such transfer and the distribution to Fairfax of the net sale proceeds of the transfer of Radio 96FM;
- the sale of real estate at St Leonards, New South Wales, owned by FRN and the distribution to Fairfax of the first $3 million of the proceeds of that sale; and
- any matter approved by MRN, such approval not to be unreasonably withheld or delayed.

- the business of the MRN Group is conducted materially in the ordinary course and, in particular, no MRN Group Member does, or agrees or commits to do, any matters similar to those listed above in respect of FRN, subject to a similar list of matters deemed not to render this condition incapable of satisfaction (provided that the list relating to MRN does not include the matters relating to Radio 96FM and the sale of the real estate at St Leonards, but does include the sales of Radio 2CH and Macquarie Radio Network).

Payment of cash consideration

The Merger Implementation Agreement expressly contemplates that the payment of the cash component of the purchase price for the Proposed Transaction is to be funded by way of a new debt facility to be established, or an existing debt facility to be refinanced, by MRN.

Completion

If Resolution 2 is approved by MRN Shareholders, and all other conditions precedent to the Merger Implementation Agreement are satisfied or waived, then Completion of the Proposed Transaction is scheduled to occur by 31 March 2015.

Purchase price adjustments

Following Completion, Fairfax and MRN must procure that the statement setting out the working capital and net debt of each of MRN and FRN is prepared and finalised in accordance with the MIA.

Following the completion of that statement:

- if the FRN Actual Completion Working Capital:
  - is greater than the FRN Estimated Working Capital, MRN must pay the difference as an adjustment to the purchase price in favour of Fairfax; or
  - is less than the FRN Estimated Working Capital, Fairfax must pay the difference as an adjustment to the purchase price in favour of MRN,

  and the converse applies in respect of differences between MRN Actual Completion Working Capital and MRN Estimated Working Capital; and
- if the FRN Net Debt as at Completion:
  - exceeds the FRN Target Net Debt, then Fairfax must pay to MRN an amount equal to the FRN Target Net Debt Adjustment Amount; or
  - is less than the FRN Target Net Debt, then MRN must pay to Fairfax the FRN Target Net Debt Adjustment Amount,

  and the converse applies in respect of differences between MRN Net Debt and MRN Target Net Debt and payments of the MRN Target Net Debt Adjustment Amount,

provided that each of the above payments are added together and/or set off (as applicable) so that there is one adjustment.

Exclusivity

<u>No shop</u>: MRN and its related persons must not, during the Exclusivity Period, solicit any Competing Proposal from any other person. A Competing Proposal is a competing offer or proposal to:

- directly or indirectly acquire a relevant interest in or have a right to acquire a legal, beneficial or economic interest in, or control of, 15% or more of MRN Shares;
- acquire control of MRN;
- directly or indirectly acquire a relevant interest in or have a right to acquire a legal, beneficial or economic interest in, or control of, all or a material part of MRN's business or assets or the business or assets of MRN and its related bodies corporate;
- otherwise directly or indirectly acquire or merge with MRN; or
- require MRN to abandon, or otherwise fail to proceed with the transaction.

<u>No talk</u>: MRN must not, during the Exclusivity Period:

- consider, participate in or continue any negotiation with respect to any inquiry, offer or proposal to make, or that would lead to the making of a Competing Proposal; or
- disclose any non-public information about the business or affairs of the MRN Group to a third party (other than a government agency) with a view to obtaining, or which would reasonably be expected to lead to the receipt of a Competing Proposal.

<u>Fiduciary exception</u>: The 'no talk' restrictions outlined above do not prohibit any action or inaction by MRN or any of its related persons in relation to an actual, proposed or potential Competing Proposal if compliance would, in the opinion of the Board formed in good faith after receiving written advice from its legal advisors, constitute or would be likely to constitute a breach of any of the fiduciary or statutory

duties of the Directors, provided that the Competing Proposal was not brought about by a breach of the 'no shop' restriction.

Notification of approaches: During the Exclusivity Period, MRN must as soon as possible (but within two business days) notify Fairfax:

- if it becomes aware of any negotiations or approaches or expressions of interest in relation to a Competing Proposal; or
- of the provision by MRN of any non-public information about the business or affairs of the MRN Group to a third party (other than a government agency) in connection with a Competing Proposal.

Matching right and Superior Proposal: During the Exclusivity Period, MRN must not enter into any legally binding agreement, arrangement or understanding pursuant to which MRN, a third party or both proposes to give effect to a Competing Proposal and must use its best endeavours to procure that none of its Directors change their recommendation in favour of the transaction to publicly recommend a Competing Proposal or against the transaction, unless:

- if the Board, acting in good faith and in order to satisfy what the members of the Board consider to be their statutory or fiduciary duties, determines that the Competing Proposal would be or would be likely to be a Superior Proposal;
- MRN has provided Fairfax with the material terms and conditions of the Competing Proposal (including price); and
- MRN has given Fairfax at least four business days after the provision of such information to provide a matching or Superior Proposal and Fairfax has not announced a matching or Superior Proposal by the expiry of the four business days.

Divestment of Radio 2CH and Macquarie Regional Radio

Following completion under the MIA but within the period specified by the ACMA, MRN must, if required by the ACMA, take all reasonable, necessary and appropriate steps to divest MRN's ownership interest in Radio 2CH and Macquarie Regional Radio or effect such other transaction or take such other actions as the ACMA otherwise requires.

Warranties and indemnities

Prior to execution of the Merger Implementation Agreement, both MRN and Fairfax were provided with an opportunity to undertake a comprehensive legal, tax and financial due diligence investigation in relation to the business and operations of FRN and MRN, respectively. MRN engaged external advisers to assist it with these investigations, and carefully considered the various findings of those due diligence investigations before finalising the terms of the Merger Implementation Agreement.

Fairfax has given MRN warranties in relation to title to all the share capital in FRN and capacity, and MRN has given Fairfax warranties in relation to due issuance and ranking of MRN Shares and capacity, in each case as at the date of the Merger Implementation Agreement (21 December 2014) and the Completion date. In addition, each of MRN and Fairfax have given various warranties in relation to the MRN Group and FRN Group businesses and tax matters, respectively, as at the date of the Merger Implementation Agreement and as at the Completion date.

The warranties (other than those relating to tax) provided under the Merger Implementation Agreement by MRN and Fairfax are subject to customary qualifications for disclosure, knowledge and reliance.

Claims made under the Merger Implementation Agreement (including with respect to a breach of warranty) are subject to certain financial thresholds and time limits, with the effect that a claim may not be made by MRN or Fairfax, unless:

- the amount of the claim is at least $423,482, and until the aggregate of all claims exceeds $1,693,927 (in which event the relevant party is liable only for so much of the amount which exceeds $1,693,927);
- it notifies the other party of the claim in accordance with the MIA within:
  - four years and 30 days after the lodgement of the income tax return of Fairfax's head company for the period that includes Completion in the case of a tax-related claim, other than in cases where a revenue authority issues a negative assessment to an FRN Group member for tax fraud or evasion (in compliance with Part IVA of the *Income Tax Assessment Act 1936* (Cth)), for which claims there will be no time limitation on Fairfax's liability;
  - four years and 30 days after lodgement of the GST return or other indirect tax return of Fairfax's representative member for the period that includes Completion in the case of a GST-related tax claim; or
  - 18 months after Completion in all other cases; and
- within 6 months of the date MRN is required to notify Fairfax of the claim under the MIA:
  - the claim has been agreed, compromised or settled; or
  - MRN has issued and served legal proceedings against Fairfax in respect of the claim.

The maximum liability of MRN and Fairfax is also subject to financial limitations. The maximum aggregate amount that either of them is required to pay in respect of:

- claims for breach of a title or capacity warranty is limited to $141,160,605;
- tax claims is limited to $70,580,302; and
- all other claims (whenever made) is an amount equal to $42,348,181.

Neither party is required to pay more than $141,160,605 in respect of any and all claims (including tax claims) whenever made.

Termination

Either party may terminate the MIA if the conditions precedent are not satisfied or waived by the party or parties entitled to the benefit of the relevant condition by 30 April 2015.

Fairfax may terminate the MIA at any time before Completion if:

- any member of the Board fails to recommend the transaction or any member of the Board withdraws, adversely revises or adversely modifies his or her recommendation that MRN shareholders vote in favour of Resolution 2; or
- any member of the Board makes a public statement indicating that they no longer recommend the Proposed Transaction or recommending, supporting or endorsing another transaction,

(including any Competing Proposal).

Transitional Services Agreement

The parties must negotiate in good faith and use all reasonable endeavours to agree the terms and conditions under which Fairfax and its related bodies corporate (other than FRN Group) and the FRN Group will provide shared support to each other commencing on Completion on an ongoing basis until such time as the Transitional Services Agreement is terminated. Consistent with the following principles:

- Fairfax will provide certain IT, human resources, finance and accounting services in the same manner, and to at least the same standard, as those services were previously provided to the FRN Group in the 12 months prior to Completion;
- the fees charged are to be consistent with the level of recharges that Fairfax currently charges to FRN Group for the services;
- MRN or its nominee may terminate the agreement or any one or more services or separation activities for convenience, subject to the payment of Fairfax's sunk costs but only to the extent those sunk costs would have been recovered from the fees payable by MRN had the termination not occurred (and are no greater than those fees);
- either party may terminate the agreement for material breach of the agreement, or insolvency of the other party; and
- Fairfax and MRN must negotiate in good faith and use their reasonable endeavours to agree upon a separation plan within 60 days of Completion.

Trade Mark Licence

Fairfax must grant MRN, MRN Group and FRN and its subsidiaries, a licence to use certain Fairfax trade marks for a period of 6 months after Completion. The licence to use these trademarks is on a royalty and fee free, non-transferable basis, unless terminated in writing by Fairfax at its sole discretion. On expiration or termination of the trademark licence, MRN will procure that each of MRN and FRN and their respective subsidiaries, will cease to use those trademarks.

Enforceable Undertakings

Under the Enforceable Undertakings described in section 2.3, MRN has undertaken to divest, to one or more purchasers approved by the ACMA, its ownership interests in Radio 2CH and Radio 4LM within a confidential period of time.

The Enforceable Undertakings provide for the appointment, on Completion, of an independent manager to oversee the operation of Radio 2CH and Radio 4LM in a manner operationally separate from MRN and to ensure compliance with the Enforceable Undertakings. MRN also undertakes to use its best endeavours to maintain the status quo of Radio 2CH and Radio 4LM such that each business will continue to operate in the ordinary course as a viable going concern pending their divestiture.

If Radio 2CH or Radio 4LM are not sold within a confidential period of time following Completion, MRN has undertaken to appoint a divestiture agent to each business to effect the divestiture.

8.4 Information about Fairfax

About Fairfax Media Limited

Fairfax Media Limited is a leading multi-platform media company in Australasia that is listed on ASX (ASX:FXJ). The group comprises metropolitan, rural, regional and community mastheads and serves its audiences through high-quality, independent journalism and offers dynamic venues for commerce and information.

Fairfax has a portfolio of leading websites, tablet and smartphone apps, including the online news sites smh.com.au and theage.com.au in Australia and stuff.co.nz in New Zealand. The group also has leading classified and transaction websites in Australia including Domain.

Fairfax publishes metropolitan, agricultural, regional and community newspapers, financial and consumer magazines. The company utilises a network of printing presses at start-of-the-art facilities throughout Australia and New Zealand.

As at the close of trade on 18 February 2015, Fairfax's market capitalisation (based on 2,351,955,725 shares outstanding and a trading price of $0.89) was approximately A$2.09 billion.

Fairfax is organised into five reportable segments based on aggregated operating segments determined by similar product and services provided, economic characteristics and geographical considerations.

Table 5: Overview of Fairfax Media Limited

Division	Description	FY14 Segment revenue	FY14 Segment EBITDA
Australian Metro Media	• Metropolitan news, sport, lifestyle and business media across various platforms including print, online, tablet and mobile • Classifieds for metropolitan publications and transactional businesses including Domain • Key mastheads include The Australian Financial Review, The Sydney Morning Herald and The Age	$803m	$121m
Australian Community Media	• Newspaper publishing and online for all Australian regional, community and agricultural media • More than 150 newspapers and websites in hundreds of local and regional communities across Australia	$587m	$152m
New Zealand Media	• Newspaper, magazine and general publishing and online for New Zealand assets • Portfolio includes The Dominion Post, The Press, The Sunday Star-Times, TV Guide, NZ House and Garden, New Zealand Fishing News and Cuisine	$363m	$73m
Fairfax Radio Network	• Metropolitan radio stations in Australia. • FRN Group (excluding Radio 96FM) is described further in section 5	$104	$14m
Other	• Corporate and other entities not included in the segments above	$10m	($47m)
Total		**$1,866m**	**$313m**

Source: Fairfax reports (FY14 results presentation). EBITDA is a non-IFRS measure commonly used by management, and reflects earnings before interest, tax, depreciation and amortisation

Fairfax Media Limited to acquire the MRN Shares

Under the terms of the Merger Implementation Agreement, Fairfax will acquire the MRN Shares.

Voting power of Fairfax and Associates resulting from implementation of the Proposed Transactions

If the Proposed Transaction Completes, Fairfax and its Associates will have voting power of 54.5% in MRN Shares.

8.5 Fairfax's intentions about the future of MRN and limitations on those intentions

This section sets out the intentions of Fairfax in regarding the future of MRN.

Limitations on intentions

The statements of Fairfax's intention are based on the information concerning MRN, its business and the general business environment that is known to Fairfax as at the date of this Explanatory Memorandum, which is limited to publicly available information and a due diligence review of certain non-public information provided by MRN.

Final decisions in relation to the ongoing prospects for MRN will only be reached after Fairfax has had an opportunity to undertake a detailed review of MRN's operations and in light of all material facts and circumstances at the relevant time. Accordingly, the statements set out in this section are statements of current intention only, which may change as new information becomes available or circumstances change.

The implementation of any of Fairfax's intentions will be subject to the requirements of the Corporations Act and the ASX Listing Rules (including in particular requirements relating to conflicts of interest and related party transactions) and any other applicable laws or regulations, including the legal obligations of the Directors to act in the best interests of MRN and for proper purposes, and to have regard to the interests of MRN Shareholders as a whole.

Fairfax's intentions about the future of MRN

Fairfax will hold 54.5% of MRN upon Completion of the Proposed Transaction and two of the five Directors will be nominees of Fairfax. Fairfax's intention is to support the actions and future direction of MRN set out in section 6 of this Explanatory Memorandum, and Fairfax does not currently have any intentions as to changes to the business of MRN, injections of further capital, future employment of MRN employees, asset transfers or fixed asset redeployment, changes to financial or distribution policies of MRN other than those disclosed in section 6 of this Explanatory Memorandum.

Ongoing ownership of MRN Shares

At this stage, Fairfax intends to maintain its ownership of MRN Shares to be issued as part of the Proposed Transaction, and to maintain MRN as a stand-alone, publicly listed company.

8.6 Specific disclosures under item 7 of section 611 and RG 74

Item 7 of section 611 of the Corporations Act allows shareholders to approve an acquisition of relevant interests in voting shares that would otherwise contravene the prohibitions in section 606 of the Corporations Act. Item 7 contains disclosure requirements to ensure that shareholders are able to make an informed decision about whether or not to approve the acquisition. The voting restrictions ensure that only shareholders that are not associated with the parties to the transaction are able to vote in favour of the proposal.

Item 7 of section 611 of the Corporations Act

Item 7 requires the following information to be provided to MRN Shareholders in connection with Resolution 2:

- *the identity of the person proposing to make the acquisition and their associates:*

  Under the terms of the Merger Implementation Agreement, Fairfax will acquire MRN Shares.

- *the maximum extent of the increase in that person's voting power in the company that would result from the acquisition:*

  The voting power of Fairfax and its Associates in MRN Shares will increase from zero to 54.5% as a result of, and on Completion of, the Proposed Transaction.

- *the voting power that person would have as a result of the acquisition:*

  Fairfax and its Associates will have voting power of 54.5% in MRN Shares as a result of, and on Completion of, the Proposed Transaction.

- *the maximum extent of the increase in the voting power of each of the acquirer's associates that would result from the acquisition:*

  Fairfax and its Associates will increase voting power by 54.5% in MRN Shares as a result of, and on Completion of, the Proposed Transaction.

- *the voting power that each of the acquirer's associates would have as a result of the acquisition:*

  Fairfax and its Associates will have voting power of 54.5% in MRN Shares as a result of, and on Completion of, the Proposed Transaction.

ASIC Regulatory Guide 74

Additionally, ASIC Regulatory Guide 74 requires that shareholders should also be given the following information:

- *an explanation of the reasons for the proposed acquisition:*

  Refer to Section 1, which details the advantages, disadvantages and other relevant considerations, and section 6.2, which details the rationale for the Proposed Transaction.

- *when the proposed acquisition is to occur:*

  If Resolution 2 is approved by MRN Shareholders, and all other conditions precedent to the Merger Implementation Agreement are satisfied or waived, then Completion of the Proposed Transaction is scheduled to occur by 31 March 2015. See also sections 8.1 and 8.3.

- *the material terms of the proposed acquisition:*

  Refer to section 8.3 for details of the Merger Implementation Agreement.

- *details of the terms of any other relevant agreement between the acquirer and the target entity or vendor (or any of their associates) that is conditional on (or directly or indirectly depends on) shareholders' approval of the proposed acquisition:*

  Refer to section 8.3 for details of the Transition Services Agreement and Trademark Licence.

- *a statement of the acquirer's intentions regarding the future of the target entity if shareholders approve the acquisition and, in particular:*

  - *any intention to change the business of the entity;*
  - *any intention to inject further capital into the entity;*
  - *future employment of present employees of the entity;*
  - *any proposal where assets will be transferred between the entity and the acquirer or vendor and their associates; and*
  - *any intention to otherwise deploy the fixed assets of the entity;*

  Refer to section 8.4 for statements regarding the future intentions of the Combined Group.

- *any intention of the acquirer to significantly change the financial or dividend policies of the entity;*

  Refer to section 6.5 for a statement regarding the future dividend policy of the Combined Group.

- *the interests that any director has in the acquisition or any relevant agreement disclosed under RG74.25(d); and*

  No Director, or proposed Director has any interests in the Proposed Transaction nor any relevant agreement disclosed under RG74.25(d).

- *the following details about any person who is intended to become a director if shareholders approve the acquisition:*

  - *name;*
  - *qualifications and relevant professional or commercial experience;*
  - *any associations that the proposed director has with the acquirer, vendor or any of their associates; and*
  - *any interest that the proposed director has in the acquisition or any relevant agreement disclosed under RG74.25(d);*

  Refer to section 6.6 for details of the directors of the Combined Group.

Appendix A

Independent Expert's Report

Appendix to Explanatory Memorandum

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Macquarie Radio Network Limited

Independent Expert's Report and Financial Services Guide

19 February 2015

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The Directors
Macquarie Radio Network Limited
PO Box 4290
Sydney NSW 2000

Attn: Russell Tate

19 February 2015

Dear Sirs

Independent Expert's Report and Financial Services Guide

Introduction

Macquarie Radio Network Limited ("MRN" or "the Company") is listed on the Australian Securities Exchange ("ASX") and owns and operates two Sydney commercial radio stations, 2GB and 2CH. 2GB is a leading Sydney radio station. MRN also owns a number of radio stations based in regional Queensland and a public relations agency. As at the date of our report, MRN had a market capitalisation of approximately $83 million.

Fairfax Radio Network Pty Limited ("FRN") is a national talk-back and easy listening radio network owning 3AW and Magic 1278 in Melbourne, 2UE in Sydney, 4BC and Magic 882 in Brisbane and 6PR in Perth[1]. FRN is a wholly owned subsidiary of Fairfax Media Limited ("Fairfax").

On 22 December 2014, MRN and Fairfax announced that they had entered into a Merger Implementation Agreement ("MIA") to merge MRN and FRN ("Proposed Merger").

Set out below are the key terms of the Proposed Merger:

- MRN will acquire 100% of the issued capital in FRN for:

[1] On 22 December 2014, Fairfax announced that it had reached an agreement for FRN to sell 96FM radio station in Perth to APN News and Media Limited for $78 million. The transaction completed on 30 January 2015.

- 93,196,512 ("Scrip Consideration") fully paid ordinary MRN shares ("MRN Shares") equivalent to 54.5% of the enlarged fully diluted share capital of MRN after the Proposed Merger ("Merged Group").

- Cash payment of $18,141,209 ("Cash Payment").

- The existing shareholders of MRN ("MRN Shareholders") will hold a 45.5% interest in the Merged Group.

- The directors of the Merged Group will comprise two nominees each from MRN and FRN and one Independent Director.

- Mr. Russell Tate, the current Executive Chairman and Chief Executive Officer ("CEO") of MRN, will remain in his position for an interim twelve month period. Mr Adam Lang, currently FRN's Managing Director, will be appointed Chief Operational Officer ("COO") of the Merged Group.

The Proposed Merger is subject to a number of conditions precedent including approval from the Australian Communications and Media Authority ("the ACMA"), no objection or action from the Australian Competition and Consumer Commission ("the ACCC") and completion of the sale of 96FM to APN News and Media Limited. Refer to Section 1.2 for more details on the conditions precedent to the Proposed Merger.

Following completion of the Proposed Merger, but within the period specified by the ACMA, MRN must take all reasonably, necessary and appropriate steps to divest MRN's ownership interest in radio 2CH in Sydney and radio 4LM held by Macquarie Regional Radio ("MRR")[2]. This is required under the *Broadcasting Services Act 1992* ("BSA"). Refer to Section 3.4 for details. We understand that MRN intends to sell all the regional Queensland radio stations held by MRR including 4LM.

Each of the directors of MRN ("MRN Directors") has recommended that MRN Shareholders vote in favour of the Proposed Merger in the absence of a superior proposal.

Mr. John Singleton, who indirectly owns circa 71.15% of MRN Shares, and the Carnegie family, who indirectly owns circa 15.62% of MRN Shares, have indicated that they intend to vote in favour of the Proposed Merger subject to no superior proposal being received and the Independent Expert opining that the Proposed Merger is in the interests of all MRN Shareholders.

Purpose of the report

The MRN Directors have engaged Grant Thornton Corporate Finance Pty Limited ("Grant Thornton Corporate Finance") to prepare an independent expert's report to state whether the issue of the Scrip Consideration to Fairfax in conjunction with the Proposed Merger is fair and reasonable to the MRN Shareholders for the purposes of Item 7 of Section 611 of the Corporations Act, 2001 ("the Corporations Act").

[2] MRR is a wholly owned subsidiary of MRN.

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Basis of assessment

ASIC Regulatory Guide 111 *Content of expert reports* ("RG111") requires the expert to assess whether a scrip takeover is in effect a "merger of entities of equivalent value (merger of equals) when control of the merged entity will be shared equally between the 'bidder' and the 'target'. If the takeover bid is assessed to be a merger of equals, the expert may use an equivalent approach to valuing the securities of the 'bidder' and the 'target'.

In our assessment of whether the Proposed Merger is a takeover of MRN by Fairfax or a merger of equals, we have considered the following factors:

- *Intentions of the board and management of MRN and Fairfax*: The Proposed Merger is intended to be structured as a merger of equals by MRN and Fairfax.

- *Post-merger shareholding*: The existing MRN Shareholders will collectively hold approximately 45.5% of the shares in the Merged Group.

- *Whether any shareholders will be able to control or significantly influence the Merged Group:* Whilst Fairfax will hold a controlling interest in the issued capital of the Merged Group of 54.5%, the aggregated interest of Mr. Singleton and Mr. Carnegie (MRN's current largest shareholders) will be approximately 40% of the Merged Group and accordingly the existing MRN controlling shareholders will collectively be able to exert significant influence over the Merged Group. In addition, Fairfax is a large publicly listed company with a large shareholder base. Fairfax's largest shareholder owns approximately 17% of the issued capital which is equivalent to an indirect interest in the Merged Group of 9.2%[3].

- *Board Representation*: Following the implementation of the Proposed Merger, the board of the Merged Group will comprise of five directors, two from each company and one Independent Director providing equal representation and control of the Merged Group.

- *Management Team*: Mr. Russell Tate, the current Executive Chairman and CEO of MRN, will remain in his position for an interim twelve month period. Mr Adam Lang, currently, FRN's Managing Director, will be appointed COO of the Merged Group.

- *Similarity and size of businesses*: The normalised EBITDA of the two businesses on an ongoing basis is consistent with the relative shareholdings post the Proposed Merger.

Having regard to the above factors and in particular the composition of the Management Team and Board of Directors and the shareholders structure, we consider the Proposed Merger should be evaluated as a merger of equals rather than a change in control transaction. As such, the value of MRN Shares has been assessed on an equivalent basis before and after the Proposed Merger.

[3] Based on indirect 17% interest in the 54.5% interest in the Merged Group

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Summary of opinion

Grant Thornton Corporate Finance has concluded that the Proposed Merger is fair and reasonable for MRN Shareholders.

Fairness assessment of the Proposed Merger

In forming our opinion in relation to the fairness of the Proposed Merger to MRN Shareholders, we have compared the fair market value per MRN Share before the Proposed Merger with the fair market value per MRN Share after the Proposed Merger on an equivalent basis.

Fairness assessment

Fairness assessment	*Section Reference*	Low $	High $
Fair market value per MRN share before the Proposed Merger ($/share)	*8.1*	0.811	1.081
Fair market value per MRN share after the Proposed Merger ($/share)	*9.1*	0.944	1.210
Increase / (Decrease) in value per MRN share ($)		0.133	0.129
Increase / (Decrease) in value per MRN share (%)		*14.1%*	*10.7%*

Source: GTCF calculations

The value per share of MRN after the Proposed Merger is greater than the value per share of MRN before the Proposed Merger. Accordingly, we conclude that the Proposed Merger is fair.

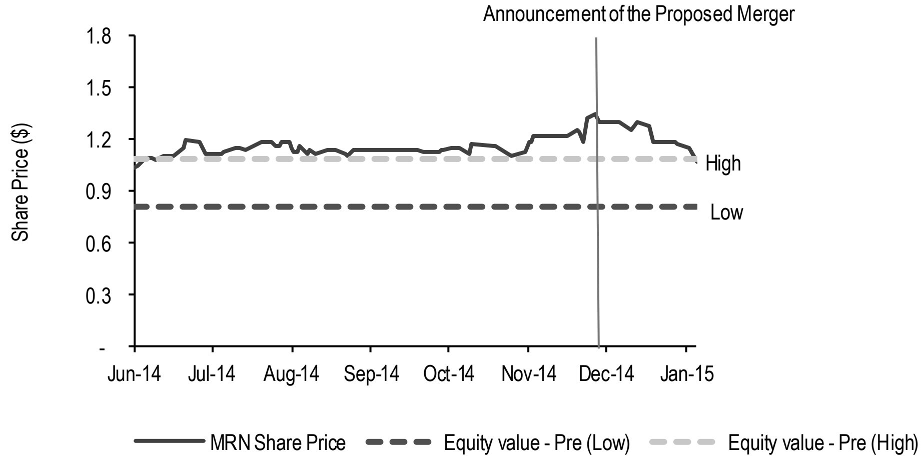
MRN Shareholders should be aware that our assessment of the value per MRN Share does not reflect the price at which MRN Shares will trade if the Proposed Merger is completed. The price at which MRN Shares will ultimately trade depends on a range of factors including the liquidity of MRN Shares, macro-economic conditions, talent retention and the underlying performance of the MRN business.

Comparison with the trading prices

We note that our assessment of the fair market value of MRN before the Proposed Merger between $0.811 and $1.081 on a control basis is lower than the share trading prices of MRN before the announcement of the Proposed Merger on a minority basis.

Set out below is a graphical representation of our valuation assessment compared with historical trading prices before and after the announcement of the Proposed Merger.

Historical share price and value



Source: Capital IQ and GTCF calculations

In our opinion, this pricing differential is due to the following:

- The depth and liquidity of MRN's share trading is limited and accordingly the share trading prices may not reflect the underlying fair market value of the Company.

- A transaction between MRN and FRN has been discussed/speculated for a number of years, most recently at the beginning of 2014. Given this, MRN's share price may already incorporate an element of the market's expectations in relation to a potential transaction with FRN.

- The market holding a more optimistic view in relation to the future prospects and profitability of MRN. Specifically, we note that at the time of the announcement of the Proposed Merger, the market was not aware of MRN's subdued YTD financial performance compared with the previous corresponding period announced to the ASX on 30 January 2015.

Reasonableness assessment

ASIC Regulatory Statement 111 *Content of expert reports* ("RG111") establishes that an offer is reasonable if it is fair. It might also be reasonable if, despite being not fair, there are sufficient reasons for the security holders to accept the offer in the absence of any higher bid before the offer closes. In assessing the reasonableness of the Proposed Merger, we have also considered the following advantages, disadvantages and other factors.

Advantages

Creation of a national radio network

The Proposed Merger is expected to create a unique opportunity for the Merged Group to attract a greater share of advertisement revenues due to the following:

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- 2GB's advertisement revenue is likely to be boosted by the ability to sell to its clients (both direct and agencies) national revenue campaigns also featuring Melbourne's leading radio station.

- Whilst FRN owns a national radio network, its historically low ratings in the Sydney market have limited its share of the Sydney advertisement market and potentially affected/reduced the potential revenue from large national accounts.

- The Merged Group will have the opportunity to broadcast key talent/shows on multiple radio stations in their network with minimal cost increments which should assist in driving increased margins. In anticipation of what it is expected to become a key trend in the Merged Group in relation to sharing key talent, Alan Jones was aired in January 2015 on a special program on FRN's 4BC for a two-week period leading up to the Queensland state election.

We note that whilst the above opportunties are one of the key rationales supporting the Proposed Merger, they are difficult to quantify and further assessment and analysis will need to be conducted by the Management team before a clear target is determined. Accordingly we have not included them in our valuation assessment.

Reduced risk associated with the loss of key talent

The success of 2GB in the Sydney market is mainly driven by its key talent and presenters led by Alan Jones and Ray Hadley who have recorded their 88th and 85th consecutive ratings wins respectively. The ratings and financial performance of 2GB was materially improved when in 2002 Alan Jones and Ray Hadley moved from 2UE to 2GB. Until then, 2UE was a leading radio station in the Sydney metropolitan market with a rating of approximately 12%.

If the Proposed Merger is implemented, the expected opportunities are likely to also result in a reduced risk of talent loss.

Cost savings

Based on discussions with the management of MRN and FRN and a review of the information available, we understand that the following cost savings and efficiencies are expected to be achieved by the Merged Group:

- *Sydney market:* Based on discussions with FRN and MRN, we understand that there are large efficiencies and economies of scale to be achieved by combining the operations of 2GB and 2UE. This is supported by the combined financial performance of 2GB and 2CH for MRN in the Sydney market and 3AW and Magic 1278 for FRN in the Melbourne market. Whilst a large component of these cost synergies has already been captured in our valuation assessment of MRN after the Proposed Merger, the Management Team of the Merged Group is confident that additional value can be extracted for the shareholders of the Merged Group from the integration of 2GB and 2UE.

- *Corporate overheads*: We note that both MRN and FRN currently incur overhead and back office expenses. In the case of FRN, these services are provided by Fairfax and they are recharged to FRN. Based on the terms of the MIA, Fairfax will continue to provide these services to the Merged Group under a Transitional Services Agreement ("TSA") for a period of six months in order to ensure an orderly separation of FRN from Fairfax. Once the TSA has expired[4], Management expects that additional synergies and cost savings can be achieved in this area by removing cost duplications.

Creation of a geographically diversified Australian leading radio business

The Proposed Merger will enable MRN shareholders to benefit from being part of a larger and more geographically diversified Australian leading radio business. Currently, MRN's revenue is generated in the Sydney advertisement market and its revenue is highly dependent on Alan Jones and Ray Hadley maintaining their respective ratings.

As noted in MRN's FY13 annual report, the Company suffered a significant decrease in its revenue at the end 2012 after comments made at a private function by Alan Jones resulted in a massive social media campaign against Alan Jones and 2GB, directed at forcing advertisers to withdraw their support for the radio station. MRN was forced to suspend all advertising on Alan Jones' Breakfast Show for a period of time with an estimated revenue impact between $3 million and $4 million.

If the Proposed Merger is implemented the revenue concentration will materially diminish which should improve the quality of the underlying earnings and financial performance of MRN.

Combined expertise and skills of the boards and management teams

The Merged Group will enable MRN and FRN to combine the expertise and skills of both sets of boards, management teams and general workforce, and enable the deployment of the most qualified personnel and skills across the two companies' radio stations.

Disadvantages

Increased level of debt

Following completion of the Proposed Merger and largely due to the Cash Payment of $18.1 million to Fairfax at completion, the net debt balance of MRN will increase to $37.5 million from $17.1 million as at 30 December 2014.

Normalised financial performance of 2UE

The historical financial performance of FRN has been adversely affected by the significant losses incurred by 2UE in Sydney as a result of poor ratings. However, the terms of the Proposed Merger reflects a normalised breakeven position for 2UE compared to its losses in excess of $5 million in FY14. Whilst this assumption is not unreasonable from a fair market value perspective given that it is not sustainable for a commercial business to continue to generate losses in the medium term (FRN could potentially shut-down 2UE and eliminate the recurring losses), MRN Shareholders share the risk of the Merged Group not being able to at least deliver the synergies and efficiencies

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[4] MRN has the ability to terminate the TSA for convenience, subject to the payment of certain sunk costs (if any) by Fairfax (or any of its Group members).

incorporated into the terms of the Proposed Merger.

Based on discussions with the future Management Team of the Merged Group, they believe that this risk is limited and it is materially mitigated by the collaborative and pro-active steps undertaken by all the stakeholders involved to ensure a smooth integration process upon completion of the Proposed Merger.

In addition, as set out in the Notice of Meeting and Explanatory Memorandum, MRN and FRN believe that significant additional synergies and cost savings can be achieved over and above the cost savings incorporated into the terms and the Proposed Merger.

However, in our opinion, there is an inherent risk that the integration of the two businesses and the expected synergies may not be realised within the anticipated timeframe or to their full extent. A failure to achieve targeted synergies may have an adverse impact on the operations and financial performance and position of the Merged Group and the value of its shares.

Sale of 2CH and MRR

As discussed in Section 1, following completion of the Proposed Merger, but within the period specified by the ACMA, MRN must take all reasonably, necessary and appropriate steps to divest its ownership interest in radio 2CH and MRR.

If the sale processes for 2CH and MRR fail to attract more than one interested party, the mandatory requirement to sell these two businesses may potentially impair the ability of the Merged Group to obtain full fair market value.

Potential disruption to 6PR from the sale of 96FM

Fairfax announced on 22 December 2014, the sale of 96FM to APN and completed the transaction on 30 January 2015. 96FM is a Perth radio station and it shares office, back office and certain operating functions with 6PR. The sale of 96FM and consequential separation from 6PR may potentially create some dis-synergies and additional costs.

Whilst the terms of the sale of 96FM to APN include provisions to ensure protection of 6PR's historical margins (all other things being equal), there is no guarantee that some disruption and additional costs may not arise in the operations of 6PR.

Other factors

Synergies sensitivities

As discussed in Section 9.2.3, in our valuation assessment of the Merged Group, we have incorporated cost savings and synergies between \$5 million and \$6 million in relation to the aggregation of 2GB and 2UE only.

As set out in Section 1.1 of the Explanatory Memorandum, MRN has estimated that total cost savings between \$10 million and \$15 million can be achieved by 30 June 2016. Given further work and analysis need to be undertaken to firm-up the full extent of these additional cost savings, we have only incorporated cost savings between $5 million and 6 million in our valuation assessment[5]. This is also consistent with the fair market value concept as it is unlikely that a potential purchaser would be prepared to pay away all the cost savings. However, we have shown in the sensitivity analysis below, the potential impact on our valuation assessment of the Merged Group (mid-point value) if, all other things being equal, MRN achieve a higher level of synergies and cost savings than the level incorporated in our valuation assessment.

Sensitivity analysis - Value of the Merged Group (mid-point)

$ per share		Synergies ($m)					
		3.0	5.5	6.0	9.0	12.0	15.0
Implementation costs ($m)	(4.0)	0.960	1.071	1.127	1.293	1.460	1.627
	(5.0)	0.954	1.065	1.121	1.287	1.454	1.621
	(6.0)	0.948	1.059	1.115	1.282	1.448	1.615
	(7.0)	0.942	1.054	1.109	1.276	1.442	1.609
	(8.0)	0.937	1.048	1.103	1.270	1.437	1.603

Source: GTCF calculations

Relative contribution from MRN and FRN to the Merged Group

If the Proposed Merger is implemented, existing MRN Shareholders will hold approximately 45.5% interest in the Merged Group. Set out below, we have considered the relative contribution to the Merged Group in relation to certain key items including revenue, reported EBITDA, and net assets as at 31 December 2014.

Relative contribution

Relative contribution FY14	MRN $m	FRN $m	MRN 's contribution	FRN 's contribution
Interest in the Merged Group			45.5%	54.5%
Revenue	56.9	85.0	40.1%	59.9%
Reported EBITDA	10.4	5.1	66.9%	33.1%
Net assets as at 31 December 2014	15.8	156.5	9.2%	90.8%

Source: GTCF calculations

As set out in the table above, FRN contributes substantially more revenue and net assets to the Merged Group compared with Fairfax shareholding of 54.5%. Conversely, FRN's reported EBITDA is materially below MRN's EBITDA. However, we note that the normalised EBITDA of MRN and FRN discussed in Section 8 and 9 is not inconsistent with the Proposed Merger's shareholdings.

MRN Share price in the absence of the Proposed Merger

MRN share price increased from approximately $1.18 per share on 17 December 2014[6] to $1.30 per share following announcement of the Proposed Merger on 22 December 2014.

Recently, the share trading prices of MRN have reverted back to the level achieved before a potential merger was rumoured to the market on 17 December 2014. In addition, on 30 January

[5] We note that we have also assumed that the Brisbane radio stations will at least break-even
[6] On 18 December 2014, after market speculation, Fairfax announced that it was in ongoing discussions with MRN.

2015, after MRN provided a market update in relation to its financial performance, the trading price closed at $1.07.

It is not feasible to understand and estimate if the reduction in the share price of MRN to levels before announcement of the Proposed Merger is driven by investors dissatisfied with the terms of the Proposed Merger, the lack of depth and liquidity in MRN trading prices, or market expectations on the current and future financial performance of MRN and FRN.

Whilst we are not in a position to predict or anticipate the performance of MRN's share price in the absence of the Proposed Merger, the trading prices may not necessarily fall materially from current levels.

Prospect of a superior offer or alternative transaction

Whilst MRN has agreed not to solicit any competing proposals or to participate in discussions or negotiations in relation to any competing proposals during the exclusivity period, there are no impediments to an alternative proposal being submitted by potential interested parties. The transaction process should act as a catalyst for potential interested parties and it will provide significant additional information in the Notice of Meeting and Explanatory Memorandum and Independent Expert's Report to assess the merits of potential alternative transactions.

If an alternative proposal on better terms were to emerge, it is expected that this would occur prior to the shareholders meetings convened to consider the Proposed Merger. We note that there will be a significant time-lag between the dispatching of the documentations to MRN Shareholders and the shareholders meeting. In the event that an alternative offer on better terms emerges, shareholders will be entitled to vote against the Proposed Merger or the shareholders meeting will be adjourned.

In our opinion, given the level of complementarity in the MRN and FRN businesses, and the strategic value of the Proposed Merger for both parties, it is unlikely that a superior proposal will emerge.

Implications if the Proposed Merger is not implemented

If the Proposed Merger is not implemented, it would be the current Directors' intention to continue operating MRN in line with its objectives. MRN Shareholders who retain their shares would continue to share in any benefits and risks in relation to MRN's ongoing business.

Directors' recommendations and intentions

In the absence of a superior proposal, the Directors of MRN unanimously recommend that MRN Shareholders vote for the Proposed Merger.

Transaction expenses

Even if the Proposed Merger is not implemented, MRN expects to incur transaction expenses of approximately $2.5 million. Based on the financial performance and financial position of MRN, this potential funding requirement is not immaterial.

Reasonableness conclusion

Based on the qualitative factors identified above, it is our opinion that the Proposed Merger is **REASONABLE** to MRN Shareholders.

Overall conclusion

After considering the abovementioned quantitative and qualitative factors relevant to MRN Shareholders, we have formed our opinion that the Proposed Merger is **FAIR AND REASONABLE** to MRN Shareholders.

Other matters

Grant Thornton Corporate Finance has prepared a Financial Services Guide in accordance with the Corporations Act. The Financial Services Guide is set out in the following section.

The decision as to whether or not to approve the Proposed Merger is a matter for each shareholder of MRN based on their own views of value of MRN, and expectations about future market conditions, MRN's performance, risk profile and investment strategy. If the shareholders are in doubt about the action they should take in relation to the Proposed Merger, they should seek their own professional advice.

Yours faithfully
GRANT THORNTON CORPORATE FINANCE PTY LTD

ANDREA DE CIAN	PHILLIP RUNDLE
Director	Director

19 February 2015

Financial Services Guide

1 Grant Thornton Corporate Finance Pty Ltd

Grant Thornton Corporate Finance Pty Ltd ("**Grant Thornton Corporate Finance**") carries on a business, and has a registered office, at Level 17, 383 Kent Street, Sydney NSW 2000. Grant Thornton Corporate Finance holds Australian Financial Services Licence No 247140 authorising it to provide financial product advice in relation to securities and superannuation funds to wholesale and retail clients.

Grant Thornton Corporate Finance has been engaged by Macquarie Radio Network Limited ("**MRN**") to provide general financial product advice in the form of an independent expert's report in relation to the Proposed Merger of MRN and Fairfax Radio Network Pty Limited ("**FRN**"). This report is included in the Notice of Meeting and Explanatory Memorandum outlining the Proposed Merger.

2 Financial Services Guide

This Financial Services Guide ("**FSG**") has been prepared in accordance with the Corporations Act, 2001 and provides important information to help retail clients make a decision as to their use of general financial product advice in a report, the services we offer, information about us, our dispute resolution process and how we are remunerated.

3 General financial product advice

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

Grant Thornton Corporate Finance does not accept instructions from retail clients. Grant Thornton Corporate Finance provides no financial services directly to retail clients and receives no remuneration from retail clients for financial services. Grant Thornton Corporate Finance does not provide any personal retail financial product advice directly to retail investors nor does it provide market-related advice directly to retail investors.

4 Remuneration

When providing the Report, Grant Thornton Corporate Finance's client is MRN. Grant Thornton Corporate Finance receives its remuneration from MRN. In respect of the Report, Grant Thornton Corporate Finance will receive from MRN a fee of $90,000 which is based on commercial rates plus reimbursement of out-of-pocket expenses in relation to the preparation of the report. Our directors and employees providing financial services receive an annual salary, a performance bonus or profit share depending on their level of seniority.

Except for the fees referred to above, no related body corporate of Grant Thornton Corporate Finance, or any of the directors or employees of Grant Thornton Corporate

Finance or any of those related bodies or any associate receives any other remuneration or other benefit attributable to the preparation of and provision of this report.

5 Independence

Grant Thornton Corporate Finance is required to be independent of MRN and FRN in order to provide this report. The guidelines for independence in the preparation of an independent expert's report are set out in Regulatory Guide 112 *Independence of expert* issued by the Australian Securities and Investments Commission ("**ASIC**"). The following information in relation to the independence of Grant Thornton Corporate Finance is stated below.

"Grant Thornton Corporate Finance and its related entities do not have at the date of this report, and have not had within the previous two years, any shareholding in or other relationship with MRN and FRN (and associated entities) that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation the Proposed Merger.

Grant Thornton Corporate Finance has no involvement with, or interest in the outcome of the Proposed Merger, other than the preparation of this report.

Grant Thornton Corporate Finance will receive a fee based on commercial rates for the preparation of this report. This fee is not contingent on the outcome of the Proposed Merger. Grant Thornton Corporate Finance's out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Thornton Corporate Finance will receive no other benefit for the preparation of this report.

Grant Thornton Corporate Finance considers itself to be independent in terms of Regulatory Guide 112 "Independence of expert" issued by the ASIC.

6 Complaints process

Grant Thornton Corporate Finance has an internal complaint handling mechanism and is a member of the Financial Industry Complaints Services Complaints Handling Tribunal, No F-3986. All complaints must be in writing and addressed to the Chief Executive Officer at Grant Thornton Corporate Finance. We will endeavour to resolve all complaints within 30 days of receiving the complaint. If the complaint has not been satisfactorily dealt with, the complaint can be referred to the Financial Ombudsman Service who can be contacted at:

PO Box 579 – Collins Street West
Melbourne, VIC 8007
Telephone: 1800 335 405

Grant Thornton Corporate Finance is only responsible for this report and this FSG. Complaints or questions about the Target Statement should not be directed to Grant Thornton Corporate Finance. Grant Thornton Corporate Finance will not respond in any way that might involve any provision of financial product advice to any retail investor.

7 Compensation arrangements

Grant Thornton Corporate Finance has professional indemnity insurance cover under its professional indemnity insurance policy. This policy meets the compensation arrangement requirements of Section 912B of the Corporations Act, 2001.

Contents

1 Outline of the Proposed Merger

1.1 Background

On 22 December 2014, MRN and Fairfax announced that they had entered into a MIA to merge MRN and FRN. Simultaneously, Fairfax also announced the sale of Radio 96FM to APN News & Media Limited ("APN") for $78 million.

The Proposed Merger will be implemented by way of MRN acquiring 100% of the issued shares of FRN for a consideration comprising of the issuance of 93,196,512 new fully paid ordinary MRN Shares and a cash payment of $18,141,209 to Fairfax. Following completion, there will be a $ for $ adjustment (positive or negative) if the working capital and/or the net debt at completion of the Proposed Merger are different from the agreed positions as at the time of execution of the MIA.

The Scrip Consideration to be issued to Fairfax will be equivalent to 54.5% of the enlarged fully diluted share capital of MRN after the Proposed Merger (i.e. the Merged Group). The Directors of the Merged Group will comprise two nominees each from MRN and FRN plus one Independent Director.

Mr. Russell Tate, the current Executive Chairman and CEO of MRN, will remain in his position for an interim twelve month period. Mr Adam Lang, currently, FRN's Managing Director, will be appointed COO of the Merged Group.

As part of the MIA, MRN and FRN have entered into an exclusivity arrangement which applies from the date of the MIA until the earlier of the termination of the MIA or 30 April 2015. During the exclusivity period MRN is bound by the typical no-talk, no-shop and no-due diligence provisions. FRN has a matching right if during the exclusivity period MRN receives a superior proposal.

MRN and Fairfax may terminate the MIA if the conditions precedent are not satisfied or waived by 30 April 2015. Fairfax may also terminate the agreement if MRN's Board fails to recommend the Proposed Merger or any member of the MRN Board withdraws or adversely revises or modifies his/her recommendation.

1.2 Key conditions of the Proposed Merger

The Proposed Merger is subject to a number of conditions, including:

- Approval from ACMA and no objection or action from ACCC given that 2CH and 4LM will be divested within a confidential period after completion of the Proposed Merger.
- MRN Shareholders approval under section 611, Item 7 of the *Corporations Act*.
- Completion of the sale of 100% of the shares in 96FM.[7]

[7] This condition was satisfied on 30 January 2015

- Other conditions precedents customary for a transaction like the Proposed Merger (refer to Section8.4 of the Explanatory Memorandum for details).

1.3 Transitional Services Agreement

FRN is currently a part of Fairfax where corporate overheads and back office functions are centralised and recharged to the various businesses. As part of the MIA, MRN and Fairfax have agreed certain key principles in relation to Fairfax continuing to provide shared services function for a period of time after the Proposed Merger is completed. A summary of the key terms of the TSA are outlined below:

- The purpose of the TSA is to allow an orderly separation of FRN from Fairfax and to provide continuity of services to FRN until full separation is completed.

- The TSA is for a period of 6 months and comprises the provision of IT, finance, accounting and human resource services.

- If the parties identify certain services that should be continued to be provided by Fairfax following expiry of the TSA, MRN and Fairfax will negotiate terms in good faith.

- MRN has the ability to terminate the TSA for convenience, subject to the payment of certain sunk costs (if any) to Fairfax (or any of its Group members).

1.4 Effects of the Proposed Merger

If implemented, the Proposed Merger will have the following effects:

- MRN will acquire 100% of FRN Shares.

- Fairfax will hold a 54.5% interest in the Merged Group and it will receive the Cash Payment.

- Existing MRN Shareholders will hold collectively a 45.5% interest in the Merged Group.

- The Merged Group will become an integrated national radio network with dominant positions in the talk back radio markets in Sydney and Melbourne.

- After completion of the Proposed Merger, MRN will be required to seek disposal of 2CH and 4LM within the confidential time frame determined by ACMA.

- There will be equal board representation in the Merged Group from MRN and FRN (two nominees each) plus one Independent Director. MRN's current Chairman and CEO, Russell Tate, will continue as Chairman and CEO of the Merged Group for an interim period of twelve months.

2 Purpose and scope of the report

2.1 Purpose

Section 606 of the *Corporations Act* prohibits the acquisition of a relevant interest in the issued voting shares of a company if the acquisition results in the person's voting power in the company to increase from either below 20% to more than 20%, or from a starting point between 20% and 90%, without making an offer to all shareholders of the company.

Item 7 of Section 611 of the Corporations Act allows the shareholders not associated with the acquiring company to waive this prohibition by passing a resolution at a general meeting. Regulatory Guide 74 *Acquisitions agreed to by shareholders* ("RG 74") and Regulatory Guide 111 *Content of expert reports* ("RG 111") issued by ASIC set out the view of ASIC on the operation of Item 7 of Section 611 of the Corporations Act.

RG 74 requires that shareholders approving a resolution pursuant to Section 623 of the Corporations Act (the predecessor to Item 7 of Section 611 of the Corporations Act) be provided with a comprehensive analysis of the proposal, including whether or not the proposal is fair and reasonable to the Non-Associated Shareholders ("MRN Shareholders"). The MRN Directors may satisfy their obligations to provide such an analysis by either:

- Commissioning an independent expert's report; or
- Undertaking a detailed examination of the proposal themselves and preparing a report for the non-associated shareholders.

If the Proposed Merger is completed and upon issue of the Scrip Consideration, FRN will hold a 54.5% interest in MRN. Accordingly, the MRN Directors have engaged Grant Thornton Corporate Finance to prepare an independent expert's report stating whether, in its opinion, the issue of the Scrip Consideration to FRN in the context of the Proposed Merger is fair and reasonable to MRN Shareholders for the purposes of Item 7 of Section 611 of the Corporations Act.

2.2 Basis of assessment

In preparing our report, Grant Thornton Corporate Finance has had regard to the Regulatory Guides issued by ASIC, particularly RG 111, which states that an issue of shares requiring approval under Item 7 of Section 611 of the Corporations Act should be analysed as if it were a takeover bid. Accordingly, we have assessed the Proposed Merger with reference to Section 640 of the Corporations Act.

RG 111 states that:

- An offer is considered fair if the value of the offer price or consideration is equal to or greater than the value of the securities that are the subject of the offer. The comparison should be made assuming 100% ownership of the target company and irrespective of whether the consideration offered is scrip or cash and without consideration of the percentage holding of the offeror or its associates in the target company;

- An offer is considered reasonable if it is fair. If the offer is not fair it may still be reasonable after considering other significant factors which justify the acceptance of the offer in the absence of a higher bid. ASIC has identified the following factors which an expert might consider when determining whether an offer is reasonable:

  - The offeror's pre-existing entitlement, if any, in the shares of the target company.

  - Other significant shareholding blocks in the target company.

  - The liquidity of the market in the target company's securities.

  - Taxation losses, cash flow or other benefits through achieving 100% ownership of the target company.

  - Any special value of the target company to the offeror, such as particular technology and the potential to write off outstanding loans from the target company.

  - The likely market price if the offer is unsuccessful.

  - The value to an alternative offeror and likelihood of an alternative offer being made.

RG111 requires the expert to assess whether a scrip takeover is in effect a "merger of entities of equivalent value (merger of equals) when control of the merged entity will be shared equally between the 'bidder' and the 'target'". If the takeover bid is assessed to be a merger of equals, the expert may use an equivalent approach to valuing the securities of the 'bidder' and the 'target'. As discussed in the executive summary, we consider the Proposed Merger should be evaluated as a merger of equals rather than a control transaction. As such, the consideration offered and the securities given up have been assessed on an equivalent basis.

In considering whether the Proposed Merger is fair to the MRN Shareholders we have compared the fair market value of a MRN share (on a control basis) before the Proposed Merger to the fair market value of a share in the Merged Group (on an equivalent basis) after the Proposed Merger.

In considering whether the Proposed Merger is reasonable to MRN Shareholders, we have considered a number of factors, including:

- Whether the Proposed Merger is fair.

- The implications of FRN holdings a 54.5% interest in the total issued capital of MRN.

- The implications to MRN and MRN Shareholders if the Proposed Merger is not approved.

- Other likely advantages and disadvantages associated with the Proposed Merger as required by RG111.

- Other costs and risks associated with the Proposed Merger that could potentially affect the MRN Shareholders.

2.3 Independence

Prior to accepting this engagement, Grant Thornton Corporate Finance considered its independence with respect to the Proposed Merger with reference to the ASIC Regulatory Guide 112 *Independence of Experts* ("RG112").

Grant Thornton Corporate Finance has no involvement with, or interest in, the outcome of the approval of the Proposed Merger other than that of independent expert. Grant Thornton Corporate Finance is entitled to receive a fee based on commercial rates and including reimbursement of out-of-pocket expenses for the preparation of this report.

Except for these fees, Grant Thornton Corporate Finance will not be entitled to any other pecuniary or other benefit, whether direct or indirect, in connection with the issuing of this report. The payment of this fee is in no way contingent upon the success or failure of the Proposed Merger.

2.4 Consent and other matters

Our report is to be read in conjunction with the Notice of Meeting and Explanatory Memorandum dated on or around 18 February 2015 in which this report is included, and is prepared for the exclusive purpose of assisting the MRN Shareholders in their consideration of the Proposed Merger. This report should not be used for any other purpose.

Grant Thornton Corporate Finance consents to the issue of this report in its form and context and consents to its inclusion in the Notice of Meeting and Explanatory Memorandum.

This report constitutes general financial product advice only and in undertaking our assessment, we have considered the likely impact of the Proposed Merger to MRN Shareholders as a whole. We have not considered the potential impact of the Proposed Merger on individual shareholders. Individual shareholders have different financial circumstances and it is neither practicable nor possible to consider the implications of the Proposed Merger on individual shareholders.

The decision of whether or not to approve the Proposed Merger is a matter for each MRN Shareholder based on their own views of value of MRN and expectations about future market conditions, MRN' s performance, risk profile and investment strategy. If MRN Shareholders are in doubt about the action they should take in relation to the Proposed Merger, they should seek their own professional advice.

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3 Profile of the industry

3.1 Overview

The Australian radio broadcasting industry is one of the oldest (with history going back to the early 1900s) segments within the media and communication industry in Australia. Radio network operators provide programs and entertainment to listeners including music, talkback shows, personality radio services and advertising.

The radio broadcasting industry in Australia comprises of three forms of radio stations namely commercial radio (including both metropolitan and regional radio), public radio[8] and community radio aired on both AM[9] and FM[10] frequency bands.

The AM frequency band allows radio broadcasting to be transmitted across longer distances at a more cost-effective manner, whilst the FM[11] frequency band results in better sound quality. Therefore, music radio stations (which play contemporary music) are mostly transmitted using an FM band where sound quality is relatively more critical whilst talkback radio stations are generally aired on the AM band. The majority of music radio stations that air on the AM band play classic and retro music which is aimed at listeners in the 40+ age group.

The following table sets out the top three AM and FM commercial radio stations in each of the five main capital cities in Australia based on the latest rating figures in Survey 8, 2014[12]:

Top radio stations' ratings - Average 2014 Survey Results

Top radio stations	Top AM stations			Top FM stations		
	Name	Rating[1]	Owner(s)	Name	Rating[1]	Owner(s)
Sydney	2GB	12.8%	MRN	WSFM	7.2%	ARN[2]
	2CH	5.3%	MRN	NOVA96.1	7.0%	Nova[3]
	2UE	4.9%	FRN	KIIS106.5	5.1%	ARN[2]
Melbourne	3AW	12.6%	FRN	GOLD 104.3	7.9%	ARN[2]
	MAGIC 1278	5.2%	FRN	FOXFM	7.8%	SCA[4]
	3RN	2.5%	ABC	NOVA 100	7.3%	Nova[3]
Brisbane	4KQ	7.6%	ARN[2]	97.3FM	13.4%	ARN[2]
	4BC	5.1%	FRN	NOVA106.9	12.3%	Nova[3]
	MAGIC 882	4.9%	FRN	B105	9.8%	SCA[4]
Adelaide	FIVEaa	11.5%	Nova[3]	MIX102.3	15.3%	ARN[2]
	5RN	2.1%	ABC	NOVA91.9	11.4%	Nova[3]
	NEWSR	1.7%	ABC	5MMM	8.6%	SCA[4]
Perth	6PR	8.3%	FRN	MIX94.5	14.4%	SCA[4]
	6iX	5.5%	CRN[6]	NOVA93.7	12.4%	Nova[3]
	6RN	1.8%	ABC	6JJJ	10.9%	ABC[5]

Note (1): Ratings are based on the average ratings (of the 8 surveys conducted throughout 2014 by GfK)
Note (2): ARN is the Australian Radio Network Limited which is owned by APN News and Media Ltd

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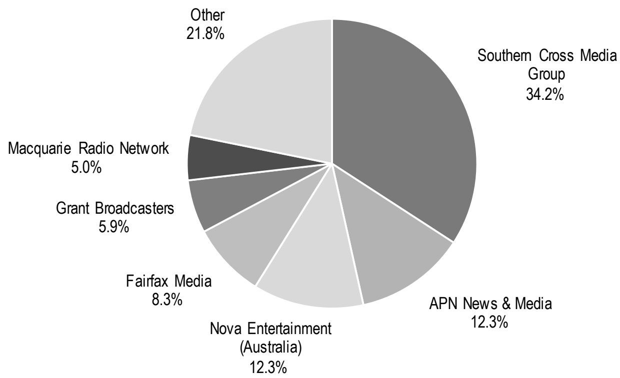
8 Public broadcasting includes radio, television and other electronic media outlets whose primary goal is public service. Public broadcasters receive funding from diverse sources including license fees, individual contributions, public financing and commercial financing.
9 Amplitude Modulation
10 Frequency Modulation
11 The FM band was invented after the AM band (1930s compared to 1870s), and carries with it technical advantages including being less prone to interference, better sound quality and more reliable compared to the AM band.
12 GfK commissioned by Commercial Radio Australia ("CRA") conducts eight surveys per year (started from 2014, Nielsen conducted previous years' surveys) publishing the ratings of radio stations across Australia.

Note (3): Nova Entertainment Pty Ltd
Note (4): Southern Cross Austereo Ltd
Note (5): Australian Broadcasting Corporation
Note (6): Capital Radio Network Pty Ltd owns radio stations in Canberra, Goulburn, Cooma, the Snowy Mountains and Perth)
Source: Australian Communications and Media Authority ("the ACMA"), CRA, GfK and GTCF analysis

The radio broadcasting industry is highly concentrated with the top two players deriving nearly half the industry market share by advertising revenue in FY14 as outlined in the graph below.

FY14's market share by revenue[1]



Note (1): We note that we have removed the ABC as they only receive government subsidies
Source: IBISWorld

3.2 Commercial versus non-commercial radio

Commercial radio

Commercial radio is the most popular form of radio in Australia. Statistics from Commercial Radio Australia ("CRA") suggest that radio reaches 82.8% of the Australian population aged over 10[13], indicating that radio is a highly effective advertising medium. Also supporting this is a recent brand campaign undertaken by CRA[14]: indicates that 68% of audience respond actively after exposure to a brand on radio[15].

To attract target audiences, entertainment on commercial radio includes popular music as well as talkback programs. The audience for commercial radio is diverse in terms of age; According to a survey conducted by CRA, out of 10.2 million radio listeners each week, commercial radio reached 86% of 10-17 years old, 82% of 40-54 years old and 80% of 25-39 years old.

CRA and the Australia Communications and Media Authority ("ACMA")[16] statistics indicate that there are currently more than 260 commercial radio stations allocated across metropolitan and regional areas in Australia. The following table summarises the distribution of commercial radio stations across the states and territories in Australia:

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[13] CRA is the national industry body representing Australia's commercial radio broadcasters
[14] 2014 Brand Campaign: "Radio. It's a Love Thing"
[15] Source: CRA
[16] The ACMA is a government agency responsible for the regulation of broadcasting, the internet, radiocommunications and telecommunications.

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Number of commercial radio stations across Australia

Cities	Metropolitan	Regional	Total
New South Wales	12	70	82
Victoria	11	30	41
Queensland	8	55	63
Western Australia	6	31	37
South Australia	6	11	17
Other[1]	-	21	21
Total	**43**	**218**	**261**

Note (1): Other represent the number of commercial radio stations in Canberra, Hobart and Darwin and other regional areas in Australia
Source: CRA, the ACMA and GTCF analysis

The distribution of commercial radio stations is consistent with the population distribution of these states and territories. Further, despite the greater number of commercial radio stations located in regional areas, circa 70% of the commercial radio's advertisement revenue are derived from commercial radio stations located in metropolitan areas.

Public radio

Public radio broadcasters include the Australian Broadcasting Corporation ("ABC") and Special Broadcasting Service ("SBS") as briefly described below:

- ABC was first launched in July 1932 and is amongst the oldest radio stations in Australia owned and funded by the Australian Government.
- SBS was established in January 1978 with the aim of providing multilingual radio services in order to enhance and embrace the cultural diversity in Australia's population. SBS is allowed to seek sponsorships and entitled to air limited advertising.

Over the past few years up to 2013, the Australian Government has been increasing its funding to assist public radio stations in transitioning to digital broadcasting which provides higher sound quality compared to the current analogue broadcasting methods (via AM and FM bands). In particular, the Howard Government allocated $10.5 million (distributed over a four-year period) in the 2007 Budget in order to assist in building infrastructure for the new digital radio platform[17]. However, the budget cuts in 2014 by the current government led to the termination of a number of infrastructure programs.

Community radio

Community radio stations are broadcast to a relatively small audience compared to commercial radio and public radio. These radio stations serve specific communities, social or political groups. For example, Yolngu Radio (for Aboriginal communities), Joy FM (for diversity audiences), and Vision Australia Radio (for disabled – mostly blind, vision-impaired and print-handicapped listeners). Community radio stations aim to promote democracy, to exercise freedom of expression, and to provide diversity of broadcast content and ownership in Australian society.

[17] Source: Australian Parliament House, *Media of the people: broadcasting community media in Australia,* 2 April 2014

Community radio stations are primarily self-funded via membership contributions, audience subscriptions, donations from commercial and charitable organisations as well as government funding. Over the last few years, due to the funding reduction in conjunction with the weak Australian economy as well as the availability of similar content being accessible online[18], community radio has experienced loss of market share to commercial and public radio.

3.3 Demographic segmentation

The Australian radio industry can also be segmented based on the demographic profile of the radio stations' target audience. The target audience determines the radio stations' show content as well as the products and brand names that these radio stations need to attract in order to generate advertising revenue.

The following table sets out the ratings of each demographic group for a number of major radio stations in Australia:

Ratings by Demographic

			Ratings %					
Stations	Market	Ownership	Aged 10 to 17	Aged 18 to 24	Aged 25 to 39	Aged 40 to 54	Aged 55 to 64	Aged 65+
2GB	Sydney	MRN	1.4%	0.9%	3.4%	9.6%	18.5%	26.0%
ABC702	Sydney	ABC	2.1%	1.6%	3.2%	7.2%	14.7%	14.8%
WSFM	Sydney	ARN	6.4%	5.6%	6.9%	14.7%	14.0%	3.0%
2UE	Sydney	FRN	0.0%	0.0%	1.5%	4.1%	5.9%	14.4%
2CH	Sydney	MRN	0.7%	1.5%	0.5%	0.8%	8.2%	11.5%
KIIS1065	Sydney	ARN	22.8%	21.3%	12.6%	8.3%	3.6%	0.2%
NOVA96.9	Sydney	Nova	22.1%	15.9%	12.1%	5.8%	3.8%	0.2%
2DAY	Sydney	SCA	6.8%	7.6%	5.4%	4.1%	1.2%	0.4%
2MMM	Sydney	SCA	3.4%	4.1%	11.0%	7.9%	2.2%	0.3%
2JJJ	Sydney	ABC	3.5%	9.9%	14.5%	7.8%	1.0%	0.7%
3AW	Melbourne	FRN	2.2%	1.4%	3.2%	8.2%	18.6%	31.3%
MAGIC1278	Melbourne	FRN	0.1%	0.2%	0.3%	1.4%	7.1%	16.3%
FOXFM	Melbourne	SCA	20.6%	21.5%	11.8%	9.8%	1.9%	0.3%
GOLD	Melbourne	ARN	4.4%	4.6%	7.8%	11.5%	12.4%	2.9%
MIX101.1	Melbourne	ARN	12.3%	12.8%	7.2%	8.8%	3.2%	0.4%
NOVA 100	Melbourne	Nova	23.8%	16.1%	13.3%	6.6%	1.9%	0.3%
ABC774	Melbourne	ABC	2.7%	1.3%	2.9%	10.4%	12.9%	20.1%
4BC	Brisbane	FRN	0.2%	0.5%	0.3%	2.6%	8.0%	18.2%
Magic 882	Brisbane	FRN	0.8%	0.2%	0.5%	3.2%	5.4%	15.9%
ABCFM	Brisbane	ABC	0.3%	0.4%	1.0%	1.3%	6.0%	5.9%
6PR	Perth	FRN	1.6%	n/a	2.9%	5.1%	12.5%	17.4%
6iX	Perth	CRN	3.4%	0.6%	0.9%	5.0%	16.2%	8.9%
MIX 94.5	Perth	SCA	10.7%	12.3%	11.4%	22.3%	13.0%	5.9%

Source: GfK Ratings Survey 8, 2014

There are a number of radio stations in Australia that focus on the 40+ age group. According to strategic research commissioned by MRN, over half of Australia's population is above 45 years old. Among these, the 45-to-69 group (known as "Boomer Generation[19]") is regarded as the most

[18] Which is believed to be more cost effective and more easily accessible with smart devices and strong internet connection (3G and 4G technologies)
[19] Also known as the "Baby Boomer Generation"

market-friendly consumer group as well as the "marketing most valuable generation" based on market research company, Nielsen.

In addition, the Boomer Generation is also believed to be the group holding the majority of Australia's wealth. Approximately 60% of high-income Australians[20] fall into the Boomer Generation group based on the same strategic research commissioned by MRN.

Radio audiences are typically loyal and only movements of key presenters between radio stations tend to shift large audiences and market share. According to AudienScope Survey in quarter 2, 2014 commissioned by CRA, four out of five listeners have been listening to the same radio station for more than two years[21].

3.4 Regulation

Radio broadcasting is a highly regulated industry. The ACMA is the Australian government body that forms, monitors, and enforces legislation, regulations, standards and codes of conduct in relation to telecommunications and media industry. All new issuance of radio broadcast licenses are provided by the ACMA in accordance with Section 36 of *Broadcasting Services Act 1992("BSA")*. All radio licence holders are required to pay the ACMA an annual licence fee by 31 December each year under *Radio Licence Fees Act 1964* depending on their revenue earned.

Commercial radio licences are automatically renewed by the ACMA every 5 years, unless the ACMA is aware of special new circumstances that would threaten the sustainability of the radio station.

Over the past few years, the industry and its participants have been going through a number of changes and restructuring in order to adapt to the new regulations affecting the competitive environment introduced by the Federal and State Governments.

In early 2007, new media laws were released which allowed cross-media ownership (television, radio etc.) subject to the "5/4" rule. In other words, a cross-media transaction can proceed if after the transaction, the affected areas still have at least five media groups for metropolitan areas and/or four media groups for regional areas. As a result of the changes to cross-media ownership laws, a number of mergers and acquisitions have taken place, e.g. Southern Cross Broadcasting purchased Austereo in May 2011 for approximately $700 million, and Regional Grant Broadcasters acquired Fairfax Media's regional assets for an undisclosed amount.

In addition, the BSA does not provide any restrictions on transferring commercial radio licences provided that as a result of the transaction a company or a person is not in the position to exercise control of more than two commercial radio broadcasting licences within the same licence area. Pursuant to this rule, if the Proposed Merger is completed, MRN will be required to divest 2CH.

[20] Defined as individuals with income higher than $200,000
[21] Source: CRA

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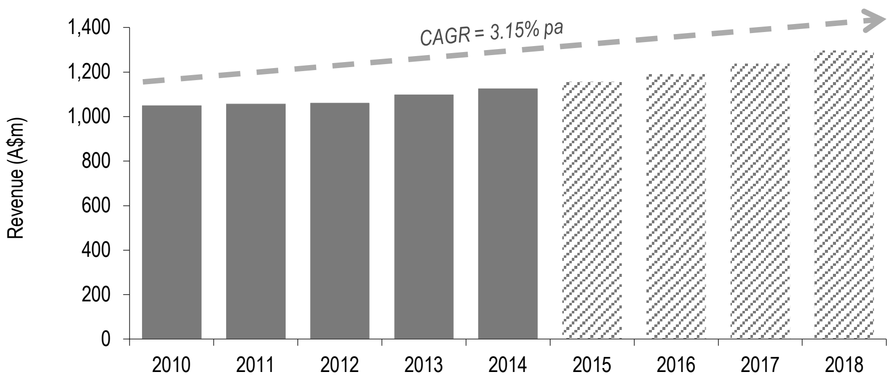
3.5 Historical performance and outlook

Advertising is the primary revenue source for the radio industry (over 90% of total revenue) with estimated advertisement revenue of $1.1 billion in FY13[22].

There are a number of ways that advertisements can be incorporated into radio broadcasting including pre-recorded advertisements, promotional advertisements that run throughout the programs, live reads and radio station sponsorship.

The following chart depicts the historical advertising revenue of the radio industry in Australia between 2010 and 2014, as well as its outlook through to 2018:



Source: PWC 'Outlook – Australian Entertainment and Media 2014-2018' and GTCF analysis

The radio advertising industry in Australia has historically had a relatively stable performance due to the steady recovery of business confidence and market sentiment after the negative impacts of the global financial crisis. Advertising revenue is susceptible to prevailing economic conditions. Over the next few years, the industry is forecast to maintain stable growth with a slightly upward trend, implying a compound annual growth rate ("CAGR") of 3.15% per annum between 2010 and 2018.

This stable outlook is expected to be supported by the continuing improvement of the Australian economy as well as the increased utilisation of non-radio alternative platforms including internet radio and podcasts (non-time specific radio programming) in order to meet new demand and requirements from a new generation of audience.

[22] Source: The ACMA. Note that FY14 numbers are not available until later in 2015 according to the ACMA.

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4 Profile of MRN

4.1 Overview

MRN is a radio broadcaster operating two radio stations in the Sydney metropolitan area namely 2GB and 2CH. 2GB is a high rating radio station in Sydney. In addition, MRN owns eight radio stations in various Queensland regional areas in Australia. MRN's radio stations provide a wide range of programs covering talkback shows, current affairs, weather reports, sports, health, lifestyle, promotional programmes and music.

In addition to radio broadcasting services, MRN owns a public relations agency business, Map and Page, and produces digital and online media through its website. MRN has also recently entered into a joint venture ("50 Up Club") with One Big Switch Pty Ltd that promotes discount packages for various products and services including health care and insurance aimed at its 40+ focused demographic group.

The following table sets out a brief overview of MRN's radio stations:

Radio Station Name	Market	Format	Ratings[1]
2GB 873AM	Sydney	Talkback radio News, Sport, Lifestyle, Entertainment	12.8%
Happy Days 2CH 1170	Sydney	Easy listening Music and Entertainment	4.3%
Macquarie Regional Radio	Regional Queensland	Various formats	N/A

Note (1): Based on rating figures published in Survey 8, December 2014 by GfK commissioned by CRA
Source: FRN's radio stations website, GfK, Commercial Radio Australia, KPMG Due Diligence Report and GTCF analysis

4.2 History and current operations

MRN was established in 1938 as a commercial radio network with radio stations across capital cities in Australia. On 18 April 2005, MRN listed on the ASX.

In December 2009, in order to expand its market to Melbourne, MRN signed a heads of agreement with Pacific Star Network Ltd to form a radio broadcasting joint venture. The joint venture radio station, MTR 1377 (also known as 3MP), commenced broadcasting on 19 April 2010. Subsequently, in March 2012, due to poor ratings, MRN appointed an administrator to MTR 1377 resulting in the radio station being shut down with incurred losses of approximately $5.5 million.

In 2011, MRN acquired Smart Radio Network together with its radio stations and assets based in regional Queensland (currently known as Macquarie Regional Radio) for a total purchase price of $6 million in cash.

A transaction between MRN and FRN has been on the cards and speculated in the media for a number of years and more recently at the beginning of 2014.

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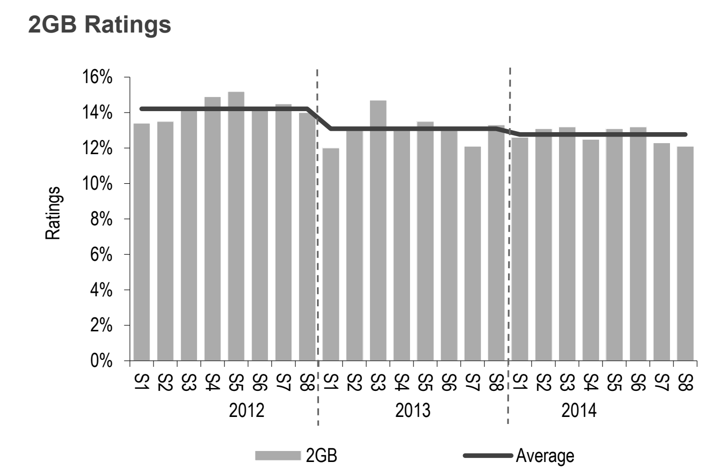
4.2.1 2GB Radio Station

2GB is the leading talkback radio station in metropolitan Sydney providing listeners with a program of news, informed and opinionated commentary, entertainment and promotions mostly delivered through a dedicated line up of radio personalities. 2GB also holds radio broadcasting rights for the National Rugby League ("NRL") which will expire in 2018. 2GB has the rights to broadcast some specific games live.

Based on Survey 8, conducted by GfK in December 2014[23], 2GB ranks #1 (overall 10+ rating of 12.1%) amongst all Sydney radio stations based on ratings. Its closest rival radio station on the AM band is ABC with a rating of 8.56%. The majority of 2GB's audience fall into the 40+ age group (26% for the 65+ age group, 18.5% for the 55-64 age group and 9.6% for the 40-54 age group).

The following chart illustrates 2GB's historical ratings between 2012 and 2014:



Key shows and talent

Source: GfK, Nielsen, CRA and GTCF analysis

2GB's rating decreased from approximately 14.2% in 2012 to approximately 12.8% in 2014 mainly due to controversial comments made at a private function by presenter Alan Jones in late 2012, resulting in an extensive social media campaign against Alan Jones and 2GB, as well as increasing competition from government-owned radio station (ABC) and competition from other types of broadcasting such as podcasts and internet radio.

2GB's radio presenters are very well known and long-standing. Amongst the more notable presenters are Alan Jones and Ray Hadley. Alan Jones joined 2GB in 2002 as the Breakfast Show presenter and in November 2014, celebrated his 100th survey win[24] at 2GB. In December 2014 Alan Jones renewed his contract with 2GB until June 2017.

Ray Hadley also joined 2GB in 2002 and presents the Morning Show and hosts a variety of sports-related programs covering NRL related events. The Morning Show has been the number one morning program for the last 85 surveys. Ray Hadley's contract with 2GB expires in 2020.

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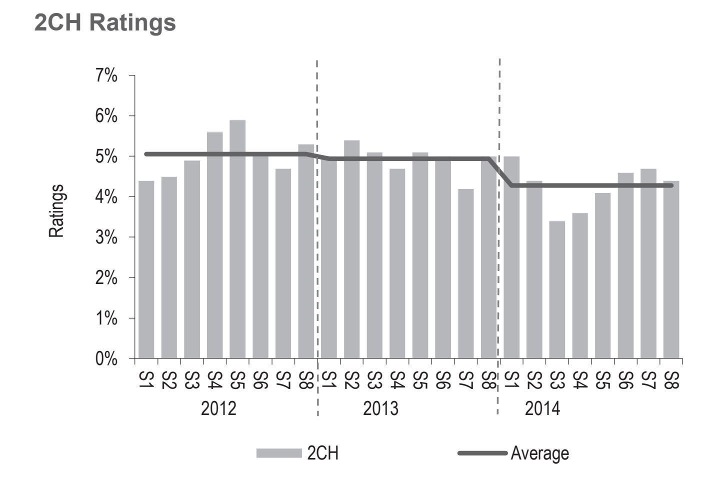
[23] GfK is currently commissioned by CRA to conduct Audience Measurement Surveys in relation to ratings for radio stations across Australia. It conducts eight surveys each calendar year.
[24] 88 survey wins on a consecutive basis

As Breakfast and Morning Shows are the most valuable time slots of the day and due to the tendency of listeners not to switch radio stations, 2GB's dominance of the Breakfast and Morning Shows have helped the radio station achieve and maintain its leading position in Sydney in terms of ratings.

4.2.2 2CH Radio Station

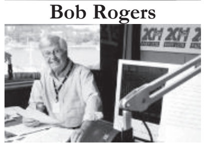
2CH is an easy listening radio station providing a mix of music from the 1950's onwards as well as providing listeners with broadcasts covering news, finance, celebrity interviews, and promotions and giveaways. 2CH currently ranks #10 in Sydney based on ratings[25]. Similarly to 2GB, 2CH's target audience is the middle-age demographic group with the majority of its audience over 65 years old. The following chart illustrates 2CH's historical ratings between 2012 and 2014:



Key shows and talent

Gareth McCray

Bob Rogers



Source: GfK, Nielsen, CRA and GTCF analysis

2CH's ratings decreased from approximately 5.1% in 2012 to 4.3% in 2014 with a noticeable drop in ratings at the beginning of 2014 due to 2CH's unsuccessful attempt to reach a younger audience group. Ratings have recently recovered after 2CH switched focus back to its original market segmentation.

As part of regulatory requirements in relation to concerns around media ownership concentration associated with the Proposed Merger, 2CH will be required to be divested within a confidential period after the completion of the Proposed Merger. 2CH and 2GB are currently sharing a number of facilities and services. MRN Management have indicated that a sale of 2CH will involve an agreement with the potential purchaser to share services. This will ensure that there is minimal disruption to the services that are currently shared between 2GB and 2CH and will ensure no dis-synergies as a result of the divestment of 2CH.

[25] According to GFK's Survey 8, 2014

4.2.3 Regional radio stations in Queensland

MRN's eight regional radio stations operate through a subsidiary called Macquarie Regional Radio Pty Limited. The regional radio stations were acquired on 1 September 2011, from Smart Radio Network for $6 million. The acquisition included the following radio licences:

- **4LM** in Mt Isa and Cloncurry,
- **4HI** in Emerald with services throughout the Central Highlands and Coalfields,
- **4ZR** in Roma, Mitchell and St George,
- **4SB in** Kingaroy and Tarong Mine,
- **4VL** and **Triple CCC FM** in Charleville, Morven, Augathella, Tambo, Wyandra, Quilpie and Cunnamulla.

As part of regulatory requirements concerning media diversity associated with the Proposed Merger, 4LM is required to be divested within a confidential period after completion of the Proposed Merger. MRN intends to divest MRR as a whole (which includes 4LM) and 2CH. According to MRN Management, as MRR operates as independent regional radio stations in Queensland, there are no intercompany cost allocations or recharges nor are there any dis-synergies that would arise due to the divestment.

4.3 Financial information

4.3.1 Financial performance

The audited consolidated income statement of MRN for the year ended 30 June 2012 ("FY12"), 30 June 2013 ("FY13"), 30 June 2014 ("FY14"), and year-to-date results for the six months ended 31 December 2014 ("YTDFY15") are set out in the table below:

Macquarie Radio Network Consolidated financial performance for the period	FY12 $m	FY13 $m	FY14 $m	YTDFY15 $m
Revenues				
Advertising revenue	55.7	52.1	51.3	
Programming and cost recoveries	4.7	5.3	4.7	
Other revenue	3.4	3.3	0.8	
Total revenue	**63.8**	**60.7**	**56.9**	**30.0**
Revenue growth %		*(4.9)%*	*(6.2)%*	
Expenses				
Employee benefits and option expenses	(30.6)	(29.4)	(30.4)	(18.9)
Legal, professional and consulting	(3.6)	(1.6)	(1.3)	(1.0)
Rent	(1.7)	(1.7)	(1.8)	(1.0)
Royalties, licences and commissions	(4.9)	(4.6)	(4.5)	(2.5)
Programming content	(2.1)	(2.5)	(1.5)	(1.0)
Utilities and telephone	(1.4)	(1.4)	(1.3)	(0.6)
Marketing and promotions	(0.2)	(0.2)	(0.2)	(0.2)
Insurances	(0.5)	(0.6)	(0.6)	(0.3)
Jointly controlled entity costs	(8.3)	-	-	-
Other	(3.8)	(4.6)	(4.8)	(2.4)
Total operating expenses	**(57.0)**	**(46.5)**	**(46.5)**	**(27.9)**
Reported EBITDA	**6.7**	**14.2**	**10.4**	**2.1**
Reported EBITDA margin %	*10.6%*	*23.4%*	*18.2%*	*7.1%*
Total nomalisation adjustments	8.5	(2.8)	1.1	2.0
Normalised EBITDA	**15.2**	**11.3**	**11.5**	**4.1**
Normalised EBITDA margin %	*23.8%*	*18.7%*	*20.2%*	*13.7%*

Source: MRN Annual Reports for FY13 and FY14 and GTCF analysis

We note the following in regards to the above financial information.

FY12

- Revenue in FY12 was supported by the relatively strong performance of 2GB and 2CH despite a declining Sydney radio market as well as one-off revenue contribution associated with the London Olympics events[26].

- EBITDA was lower than expected and was impacted by a number of key factors including:

[26] 2GB gained the exclusive London Olympic radio rights in FY12 and was the official commercial radio broadcaster for the event.

- The continued underperformance and final exit by MRN from Melbourne radio station MTR (a Joint Venture with Pacific Star Network Limited). MRN's share of losses as well as costs related to its exit was approximately $5.5 million[27].

- Transaction costs incurred in conjunction with an unsuccessful bid for FRN totalling $903,000.

- Net acquisition costs totalling $379,000 in relation to the acquisition of MRR from Smart Radio Network in September 2011.

- Non-recurring expense of circa $1.2 million in relation to employee options.

- A net loss of $0.5 million associated with the London Olympic events.

FY13

- Revenue decreased by approximately 4.9% compared to FY12 primarily due to MRN Management's decision in October 2012 to suspend all advertising in their top rating Breakfast Show (hosted by Alan Jones) for one week following an adverse mainstream and social media response to comments made by Alan Jones.

- FY13 financial results included a number of items that MRN Management considered to be non-recurring including:

  - $1.8 million gain from a reversal of a contingent consideration in relation to the acquisition of Smart Radio Network.

  - A one-off $1.3 million net royalty payment from the Australian Government.

FY14

- Revenue in FY14 decreased by 6.2% from FY13 predominantly as a result of the following:

  - Deteriorating ratings for 2GB and 2CH during 2014.

  - The growing importance of national advertising campaigns and the limited ability of MRN Management to attract clients with this growing interest.

  - A decline in MRN's ability to obtain revenue by syndicating content across other distribution channels.

- EBITDA reduction was a direct consequence of the drop in revenue as operating expenses remained stable throughout the period.

[27] On 2 March 2012, administrators were appointed to MTR and on 17 May 2012 a deed of company arrangement was entered into which resulted in the transfer of all MRN shares in MTR to Pacific Star Network Limited for nil consideration. As at 30 June 2012, MRN no longer held an interest in MTR.

- FY14 included the following significant non-recurring items:
  - Revenue of approximately $460,000 being a one-off gain associated with the sale of shares in Fairfax.
  - A non-recurring administrative expense totalling $426,000 in relation to a sales conference conducted by MRN for their clients.

YTDFY15

- YTDFY15 revenue is below budget but above the previous corresponding period by circa $0.6 million due to stronger agency revenue partly offset by lower MRR revenue.
- YTDFY15 reported EBITDA is materially behind budget and the previous corresponding period mainly due to the following:
  - Talent contract renewals.
  - Increased ongoing programming costs.
  - Non-recurring increase in administration expenses mainly in relation to the Proposed Merger.
- YTDFY15 normalised EBITDA has been assessed at $4.1 million which is circa $2.4 million behind budget and the previous corresponding period.

FY15

- As part of our procedures, we have been provided with and we have reviewed the FY15 Budget. However, the FY15 Budget has not been disclosed in our report as the information is commercially sensitive. Furthermore, some of the assumptions underlying the FY15 Budget are hypothetical rather than best estimates and accordingly, do not meet the requirements for presentation of prospective financial information as set out in RG170.
- In accordance with the requirements of RG111, we have made enquires with MRN Management to understand the basis upon which the FY15 Budget has been prepared and we note the following:
  - The FY15 Budget has been prepared based on the historical financial performance, historical radio sales channel mix, historical ratings and historical operational expenditure as well as competitor analysis, market trend analysis, and strategic plans for MRN.
  - The FY15 Budget assumes minimal growth of the Australian radio market in FY15.
  - The FY15 Budget has been approved by the Board of Directors of MRN.

- MRN's revenue growth is expected to be substantial and achieved from the acquisition of new clients, improvements in syndication of content across different networks, advertising pricing, and ratings enhancements.

- The operating expenses for FY15 are budgeted to increase slightly, primarily driven by higher talent costs, administration costs, and advertising/promotion costs.

Based on the YTD financial performance, we are of the opinion that the FY15 Budget is overly optimistic.

4.3.2 Financial position

The consolidated balance sheet of MRN as at 30 June 2014 and 31 December 2014 are set out in the table below:

Macquarie Radio Network Consolidated financial position as at	30-Jun-14 $m	31-Dec-14 $m
Current assets		
Cash and cash equivalents	3.5	1.1
Trade and other receivables	10.2	11.3
Current tax asset receivable	-	0.0
Other assets	0.1	0.6
Total current assets	**13.7**	**13.0**
Non-current assets		
Other receivables	0.7	0.6
Available for sale financial assets	0.1	0.1
Property, plant and equipment	5.6	5.3
Deferred tax assets	1.5	1.6
Radio licences	20.1	20.1
Other intangible assets	0.5	0.5
Other assets	0.3	0.3
Total non-current assets	**28.7**	**28.6**
Total assets	**42.5**	**41.6**
Current liabilities		
Trade and other payables	4.5	4.7
Current tax liabilities	1.9	-
Provisions	2.3	2.6
Total current liabilities	**8.7**	**7.3**
Non-current liabilities		
Borrowings	14.8	18.3
Provisions	0.2	0.3
Total non-current liabilities	**14.9**	**18.5**
Total liabilities	**23.7**	**25.8**
Net assets	**18.8**	**15.8**

Source: MRN's Annual Report for the period ended 30 June 2014 and Management Account for the month ended 31 December 2014

We note the following in relation to the consolidated balance sheet:

- 'Cash and cash equivalent' balance decreased by $2.4 million between 30 June 2014 and 31 December 2014 as a result of the late receipt of revenue which resulted in a broadly equivalent increase in 'Trade and other receivables'.

- 'Other receivables' balance comprises of interest-bearing loan advances to MRN's employees.

- 'Available for sale financial assets' balance relates to listed and unlisted investments held by MRN.

- 'Deferred tax assets' and 'deferred tax liabilities' relate to the temporary timing differences in tax income and expenses.

- 'Property plant and equipment' mainly includes leasehold improvements and technical production and programming equipment.

- 'Non-current borrowings' balance increased by $3.5 million primarily as a result of talent contract renewals, the payment of the ACMA fee and additional expenditure in relation to the new transmitter.

4.4 Capital Structure

As at the date of our report, MRN has 77,806,260 fully paid listed ordinary shares ("MRN Shares") on issue.

In addition, we note that, based on MRN's 2014 Annual Report and ASX announcements, MRN has 1,400,000 unlisted options ("MRN Options") outstanding. MRN Management has advised that the MRN Options which related to Mr Alan Jones have since been terminated as part of the renewal of his contract in December 2014.

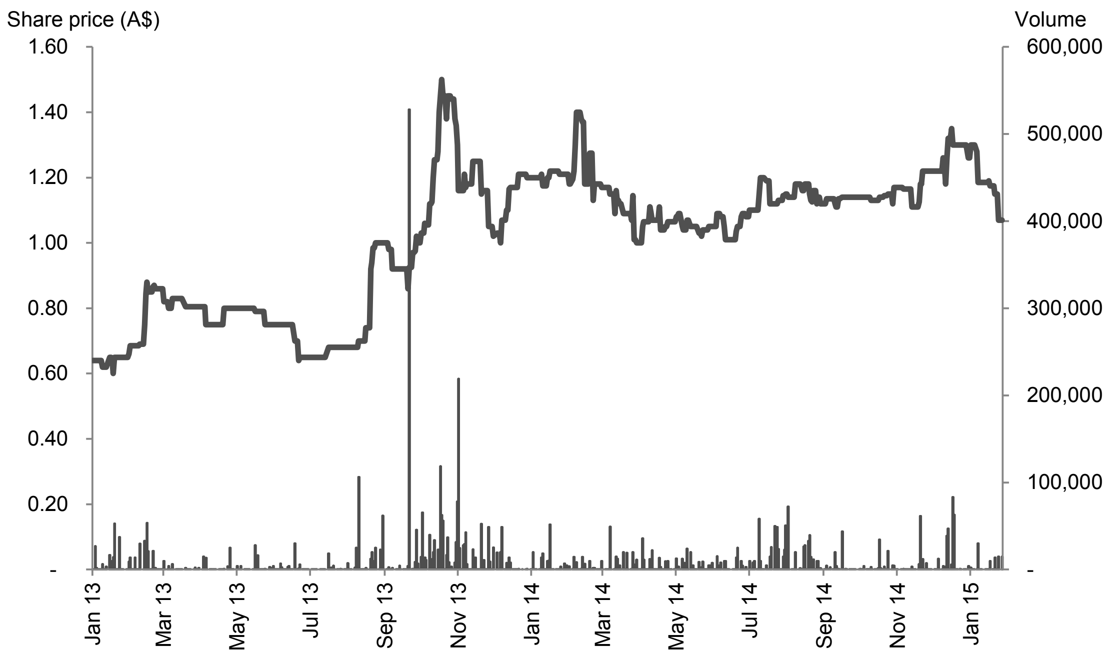
The top ten shareholders of MRN as at 12 January 2015 are set out below.

Top shareholders Macquarie Radio Network Limited	Number of shares	%
John Singleton Promotions Proprietary Limited	55,356,705	71.1%
PEC Nominees Pty Ltd	12,151,485	15.6%
Jones, Alan	2,166,668	2.8%
Tate, Russell Keith	457,628	0.6%
Lozotu Pty Limited	441,000	0.6%
Dixson Trust Pty Ltd.	433,652	0.6%
Mews, Richard Ewan	333,742	0.4%
Mews, Wee Khoon	333,742	0.4%
Caskey, Charles Randolph	255,000	0.3%
Donnelly, Max Christopher	214,382	0.3%
Total top 10 shareholders	**72,144,004**	**92.7%**
Other shareholders	5,662,256	7.3%
Total	**77,806,260**	**100.0%**

Source: Capital IQ

We note that more than 71% of MRN's total shares outstanding are indirectly held by John Singleton.

The daily movements in MRN's share price and volumes for the period from January 2013 to January 2015 are set out below:



Source: Capital IQ

During the period from January 2013 to January 2014, MRN's share price traded in a range between $0.60 (January 2013) and $1.550 (October 2013). MRN's monthly trading volume is approximately 45,000 shares on average with substantially higher trading volume during September 2013 and November 2013.

We note the following with regard to the share price history since December 2012.

Date	Comments
8 October 2013	MRN released an announcement stating that no decisions have been made in relation to a potential merger between MRN and FRN. Share price closed at $1.03 per share.
17 March 2014	MRN's Managing Director at the time, Mr. Rob Loewenthal, resigned from his position as well as resigned as a member of the Board of Directors. Share price closed at $1.09 per share.
4 December 2014	MRN was successful in extending its contract with the Breakfast Show's host, Mr. Alan Jones, until June 2017. Mr. Jones has hosted the Breakfast Show since 2002 and has been the highest rating breakfast show for the last 13 years. Share price closed at $1.22 per share.
18 December 2014	MRN announced its transmission site works in Homebush to facilitate the transmission of 2GB radio station. The transmission site works are estimated to be in the range of $3.5 million to $4 million and are expected to be finished in the next 10-12 months. At the same date, MRN confirmed that the negotiation of the potential merger between MRN and FRN is ongoing. Share price closed at $1.26 per share.
22 December 2014	MRN, together with Fairfax, announced the Proposed Merger. Share price closed at $1.35 per share.
30 January 2015	MRN announced that its underlying half-year results for FY15 are approximately 25% lower in EBITDA and 28% lower in NPAT compared to that of the previous corresponding period. Share price closed at $1.07 per share.

Source: MRN's ASX announcements

The following table summarises the monthly trading volume of MRN since January 2013:

Month end	Volume traded ('000)	Monthly VWAP ($)	Total value of shares traded ($'000)	Volume traded as % of total shares
Jan 2013	173	0.6432	111	0.2%
Feb 2013	201	0.7875	158	0.2%
Mar 2013	22	0.8151	18	0.0%
Apr 2013	37	0.7845	29	0.0%
May 2013	82	0.7926	65	0.1%
Jun 2013	63	0.7149	45	0.1%
Jul 2013	26	0.6733	17	0.0%
Aug 2013	212	0.7807	166	0.3%
Sep 2013	627	0.9145	573	0.8%
Oct 2013	616	1.2831	790	0.8%
Nov 2013	580	1.2272	712	0.7%
Dec 2013	203	1.0670	216	0.3%
Jan 2014	129	1.1972	154	0.2%
Feb 2014	89	1.2697	114	0.1%
Mar 2014	133	1.1317	151	0.2%
Apr 2014	159	1.0567	168	0.2%
May 2014	108	1.0497	114	0.1%
Jun 2014	119	1.0488	124	0.2%
Jul 2014	300	1.1249	337	0.4%
Aug 2014	349	1.1566	403	0.4%
Sep 2014	99	1.1325	112	0.1%
Oct 2014	72	1.1330	82	0.1%
Nov 2014	98	1.1683	114	0.1%
Dec 2014	268	1.2926	346	0.3%
Jan 2015	76	1.1870	91	0.1%
Min				**0.03%**
Max				**0.81%**
Average				**0.25%**
Median				**0.17%**

Source: Capital IQ and GTCF analysis

As illustrated by the monthly trading analysis set out in the table above, MRN shares are illiquid with only 0.25% of total number of shares outstanding traded per month on average.

4.5 Historical dividend policy

Historically, MRN has paid dividends in March and September. Set out below is the historical dividend paid over the last few financial years:

MRN's Dividend policy Period	Dividend Paid (cents)
FY08	3.0
FY09	-
FY10	8.0
FY11	7.0
FY12	4.0
FY13	10.0
FY14	10.0

Source: ASX announcements and Morningstar

MRN's dividend payments have historically fluctuated with only the last two years demonstrating a consistent dividend payment of 10 cents per share. As advertising revenues are susceptible to underlying economic conditions, the Global Financial Crisis had a negative impact on MRN's dividends during FY08 and FY09.

MRN Management has advised that they do not have a current intention to make an interim dividend payment in March 2015.

5 Profile of FRN

5.1 Overview

FRN is a radio broadcaster operating six radio stations located in the metropolitan areas of Sydney, Melbourne, Brisbane and Perth. FRN's radio stations' key focus is on audiences aged 40+, broadcasting over both AM and FM frequencies. FRN's radio stations portfolio includes 3AW which is the leading radio station in the Melbourne market.

FRN was formed in 2007 after Fairfax acquired Southern Cross Broadcasting Limited's radio assets. FRN announced simultaneously to the Proposed Merger, the disposal of one of its radio stations, 96FM, to APN News & Media Limited for $78 million cash. The Cash Payment will be retained by Fairfax.

Set out below is a brief overview of FRN's radio stations:

Radio Station Name	Market	Format	Ratings[1]
2UE 954 News Talk	Sydney	Talkback radio News, Sport, Lifestyle	4.9%
3AW 693 News Talk	Melbourne	Talkback radio News, Sport, Lifestyle	12.6%
Magic 1278	Melbourne	Easy listening Music and Entertainment	5.2%
4BC 1116 News Talk	Brisbane	Talkback radio News, Sport, Politics, Lifestyle	5.1%
Magic 882	Brisbane	Easy listening Music	4.9%[2]
6PR 882 News Talk	Perth	Talkback radio News, Sport, Lifestyle	8.3%

Note (1): Based on 2014 average rating figures for people in age group 10+ published in 2014 by GfK
Note (2): In 2014, ratings of Magic 882 dropped substantially to 4.9% on average compared to an average of approximately 6% in the previous year
Source: FRN's radio stations website, GfK, CRA, KPMG Due Diligence Report and GTCF analysis

In addition to the radio stations portfolio, FRN owns Satellite Music Australia ("SMA") and Fairfax Radio Syndication which provide audio, video and marketing content for the retail, hospitality and other associated industry.

5.2 Current operations

5.2.1 2UE radio station

Broadcasting since 1925, 2UE is Australia's oldest commercial radio station. In 2002, 2UE's ratings decreased substantially as a result of Alan Jones and Ray Hadley moving across to rival 2GB.

2UE is currently a talkback radio station that ranked #8 among all Sydney radio stations and ranked #3 among talkback radio stations in Sydney based on ratings. In FY14, 2UE contributed approximately 10% to FRN's total revenue. 2UE's target audience demographic is aged 40 years +, with the majority of its listeners in the over 65 age category.

The following graph illustrates 2UE's historical ratings for the period between 2012 and 2014:

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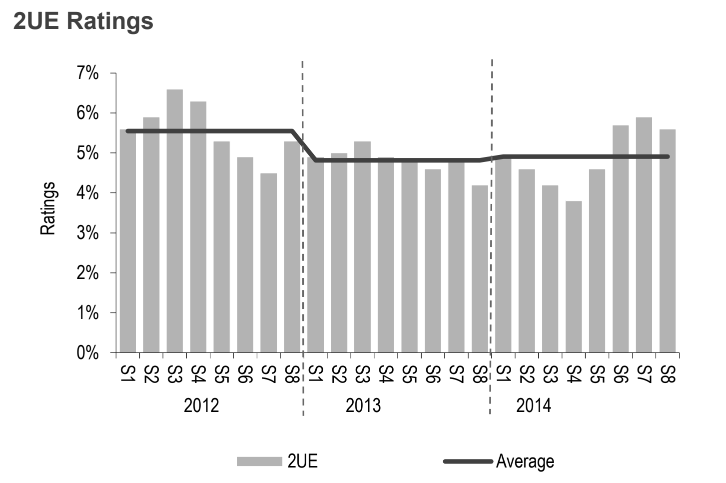

Key shows and talent

John & Garry - Breakfast

Stuart Bocking – Mornings and Your Business Day

Justin Smith - Drive

George & Paul – Weekends

Source: GfK, Nielsen, CRA and GTCF analysis

2UE's average annual ratings have experienced a downward trend from an average of 5.6% in 2012 to an average of 4.9% in 2014. The drop in ratings has been a result of the fierce competition from rival radio stations 2GB and ABC and an ongoing change of presenters.

As set out in the graph above, ratings have recently recovered mainly due to improved audience traction achieved by the Morning Program hosted by Stuart Bocking (since June 2014) as well as the improvement of weekend programs' ratings hosted by George Moore and Paul Kidd.

The financial performance of 2UE is currently adversely impacted by the low ratings experienced during FY14 and the fact that it is the only radio station that FRN owns in the Sydney market. This represents an impediment in realising the same economy of scale achieved in other metropolitan areas where two radio stations are owned. In addition, the recent recovery in ratings has yet to translate into increased advertising revenues as typically there is a time-lag of circa three to six months.

5.2.2 3AW radio station

3AW is the #1 radio station in Melbourne focused on talkback and an audience aged 40+. 3AW is FRN's leading radio station in terms of revenue contribution and ratings. In FY14, 3AW contributed approximately 41% to FRN's total revenue. The following graph illustrates 3AW's historical ratings from 2012 to 2014:

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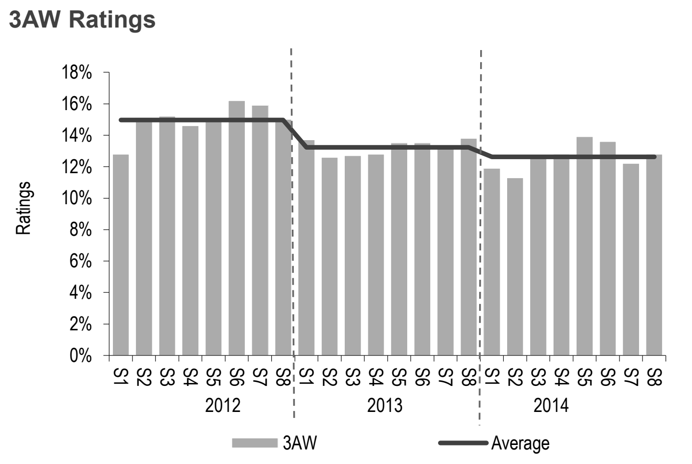

Key shows and talent

Ross & John – Breakfast

Neil Mitchell – 3AW Mornings

Gerald & Dwayne – Sports Today

Tom Elliott – 3AW Drive

Source: GfK, Nielsen, CRA and GTCF analysis

Despite being the #1 radio station in Melbourne, 3AW's ratings have trended down over the last couple of years from an average annual rating of approximately 15% in 2012 to 12.6% in 2014. The decline in ratings is primarily explained by Derryn Hinch's departure in December 2012 from the Drive Show as well as the increasing competition from ABC faced by all commercial radio stations.

In addition to talkback, 3AW provides listeners with a program of news, entertainment and promotions mostly delivered through a dedicated line up of radio personalities. 3AW also holds radio broadcasting rights for AFL.

3AW's key presenters include Ross Stevenson and John Burns who co-present the Breakfast Show. The Breakfast Show has achieved more than 100 consecutive ratings wins. Other notable presenters at 3AW include Neil Mitchell who presents Mornings and Tom Elliott who presents the Drive Show.

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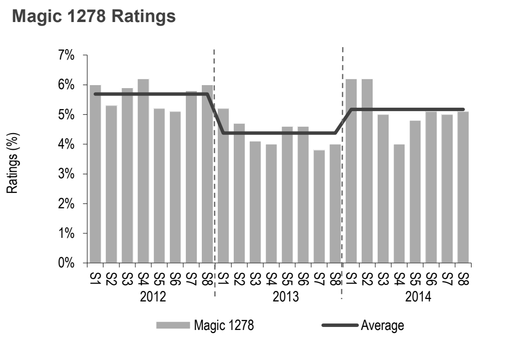
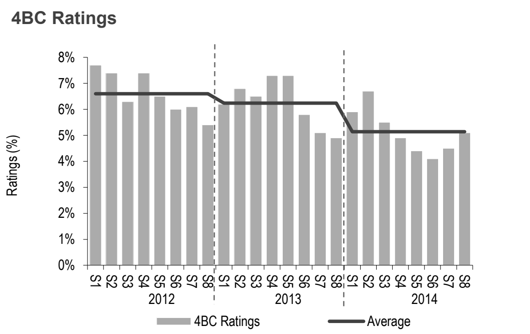
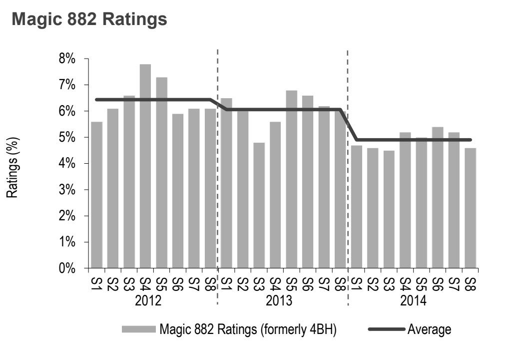
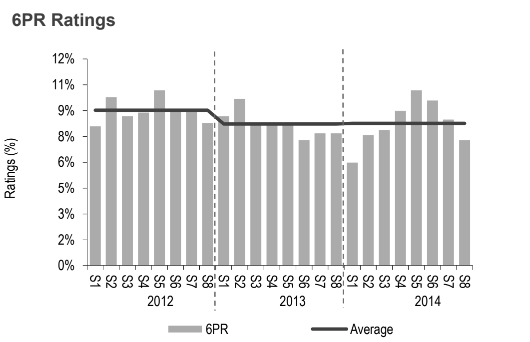
5.2.3 Other radio stations

An overview of FRN's other radio stations is set out below:

Radio Station	Ratings	Comments
Magic 1278		Magic 1278 is ranked #9 amongst all radio stations in Melbourne. The radio station's target audience is concentrated around people aged 55+ and it focuses on easy-listening music. On average, annual ratings decreased from approximately 5.7% in 2012 to 5.2% in 2014. The strong recovery in 2014 from 2013's poor ratings was attributed to the re-launch of Magic 1278 as well as a number of popular on-air promotions.
4BC		4BC is a talkback radio station that ranked #7 amongst Brisbane radio stations and ranked #2 among talkback radio stations. The target audience for 4BC is 55+ year olds. 4BC's ratings experienced a downward trend throughout the period with a decrease from 6.6% in 2012 to 5.1% in 2014 primarily driven by the decrease in 4BC's marketing and advertising expenses.
Magic 882		Music radio station Magic 882 is ranked #8 amongst all Brisbane radio stations. People aged 65+ are the radio station's target audience. Ratings throughout the period followed an unfavourable trend with a decrease from 6.4% in 2012 to approximately 5% in 2014 when a restructure/reformat of the radio station occurred with talent line-up and content.
6PR		6PR is a talkback radio station that ranked #6 in Perth among all radio stations and #2 among talkback radio stations. 6PR's rating has been substantially consistent throughout the period. 6PR's revenue and earnings between 2012 and 2014 were relatively stable. 6PR and 96FM shared and will be expected to continue to share a number of facilities and services.

Source: GfK, Nielsen, CRA and GTCF analysis

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5.3 Financial information

5.3.1 Financial performance

Set out below are FRN's historical pro-forma results excluding 96FM:

Fairfax Radio Network Consolidated income statements for the period - Excluding 96FM	FY13 ($m)	FY14 ($m)	YTDFY15 ($m)
Revenues			
National	32.3	28.5	15.5
Local	51.9	47.4	25.2
Discount and commissions	(3.9)	(3.3)	(1.8)
Other revenues	14.2	12.4	5.4
Total revenue	94.6	85.0	44.3
Revenue growth %		*(10.2)%*	
Expenses			
Production	-	(2.3)	(1.2)
Technical	(5.1)	(6.1)	(3.1)
Programming	(30.5)	(31.1)	(15.1)
News	(4.7)	(4.7)	(2.2)
Advertising	(16.6)	(13.9)	(7.2)
Sales	(3.7)	(3.5)	(2.0)
Editorial	-	(0.0)	-
Promotion	(3.0)	(3.2)	(1.8)
Administration	(17.4)	(14.3)	(6.8)
Accounting	(1.4)	(0.8)	(0.5)
Total operating expenses	(82.4)	(79.8)	(39.9)
Reported EBITDA	**12.1**	**5.1**	**4.3**
EBITDA margin %	*12.8%*	*6.0%*	*9.8%*
Normalisations			
Normalisations adjustments	(0.6)	-	(0.2)
Normalised reported EBITDA	**11.6**	**5.1**	**4.2**

Rounding differences may exist.
Source: FRN's Management and GTCF calculations

We note the following in relation to the above income statements:

FY13 and FY14

- Revenue in FY14 decreased by approximately 10.2% compared to the previous period. This is largely due to the following:
  - The drop in ratings of FRN's major radio stations as a result of increasing competition from FM radio stations.
  - A decline in agency revenues. The proportion of agency revenues as a percentage of total revenue has been materially below market average. FRN Management has indicated that this is mainly driven by the lack of a strong presence in the key metropolitan Sydney market.
- Given FRN's relatively fixed cost structure, at least in the short term, a decline in revenue translates largely to an equivalent reduction in earnings as reflected in the decrease in EBITDA margin from 12.8% in FY13 to 6.0% in FY14.

- In respect of operating expenses as presented in the table above, we note the following:
  - A $2.3 million increase in production expenses and an approximately $2.6 million decrease in advertising expenses are partly due to reallocation of salary and wages.
  - A 14% decrease in administration expenses from $20 million in FY13 to $17.2 million in FY14 is driven by a decrease in salary and wages, licence fees and intercompany transactions with the wider Fairfax Group.
- FY13 included the following one-off items:
  - An approximately $0.3 million in relation to one-off screen right royalties paid by the Australian Government for FRN content during 2008 and 2009.
  - A $0.3 million adjustment in order to maintain consistency across periods in conjunction with changes in accounting treatment on inter-company advertising revenue recognition.

YTDFY15

- YTDFY15 results are unfavourable compared to the budget due to lower advertising revenue and higher than expected programming expenses as well as promotion and direct sales expenses.
- YTDFY15 revenue is below previous corresponding period by circa $0.5 million due to lower local direct sales and other non-advertising revenue.
- YTDFY15 reported EBITDA is behind budget and below the previous corresponding period by circa $0.9 million and $0.2 million respectively, largely due to lower revenue as outlined above
- YTDFY15 normalised EBITDA has been assessed at $4.2 million (including the losses associated with 2UE and the Brisbane radio stations and a one-off royalty payment of $0.2 million) which is circa $0.6 million behind budget and the previous corresponding period.

FY15

- Consistent with the disclosure concerning MRN's prospective information as set out in Section 4.3.1 of this Report, the FY15 Budget has not been disclosed in our report.
- FRN Management expects FRN's performance to recover to a broadly similar level to FY13, however based on the YTD results, it is unlikely that FRN can meet its FY15 Budget.

5.3.2 Financial position

The financial position of FRN (excluding 96 FM) as at 31 December 2014 are set out below:

Fairfax Radio Network (Exclude 96FM) Consolidated financial position as at	31-Dec-14 $m
Current assets	
Cash and cash equivalents	0.3
Trade and other receivables	15.0
Inventories	1.6
Total current assets	**17.0**
Non-current assets	
Non-current receivables	-
Property, plant and equipment	19.6
Intangible assets	131.8
Deferred tax asset	1.3
Other assets	3.3
Total non-current assets	**156.0**
Total assets	**173.0**
Current liabilities	
Trade and other payables	9.4
Current tax liability	0.4
Provisions	6.2
Total current liabilities	**15.9**
Non-current liabilities	
Deferred tax liability	-
Provisions	0.6
Total non-current liabilities	**0.6**
Total liabilities	**16.5**
Net assets	**156.5**

Rounding differences may exist
Source: FRN's Management

We note the following in relation to the balance sheet of FRN above:

- FRN's fixed assets include the following:
  - Property, plant and equipment includes the freehold of 2UE's premises (carrying value of approximately $7 million), buildings, fixtures and motor vehicles.
  - Intangible assets balance of $132 million includes software, radio licences, mastheads and other intangibles.

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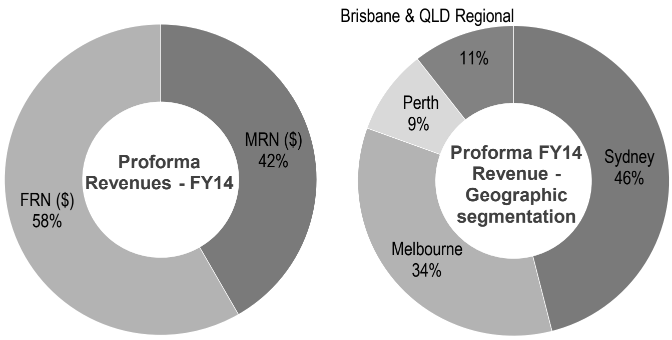
6 Overview of the Merged Group after the Proposed Merger

6.1 Introduction

The charts below provide an illustration of the Merged Group after the Proposed Merger:



Source: Management and calculations

If the Proposed Merger is completed, the Merged Group will have the following characteristics:

- A radio broadcaster with seven radio stations across capital cities in Australia focusing on the 40+ age group audience with dominant positions in Sydney and Melbourne.
- Combined revenue will be over $141 million (based on pro forma FY14 results).
- The Merged Group will own a national network with access and market presence in almost all major capital cities in Australia.

6.2 Management and Board composition

Under the terms of the MIA, the Board of Directors of the Merged Group will comprise two MRN nominees, two FRN nominees and one independent director.

Key members of the Management Team include:

- Mr Russell Tate, MRN's current Executive Chairman and Chief Executive Office with more than thirty years of experience in the radio broadcasting industry, marketing and media, will be appointed the Merged Entity's Executive Chairman for an interim period of twelve months.
- Mr Adam Lang, FRN's current Managing Director with over seven years of experience in the radio broadcasting and media industry, will be appointed the Merged Group's Chief Operating Officer.

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6.3 Pro forma balance sheet

As set out in the Notice of Meeting and Explanatory Memorandum, MRN has prepared the pro forma balance sheet after the Proposed Merger, having regard to the unaudited balance sheets as at 31 December 2014. A summary is set out below. Refer to Section 5.7.3 of the Notice of Meeting and Explanatory Memorandum for details.

Consolidated statements of financial position Merged Group	MRN Pro-forma 31 Dec 2014 $m	Adjustment for acquisition of FRN $m	Pro-forma transaction adjustments $m	Merged Group $m
Current assets				
Cash and cash equivalents	0.8	0.3	(0.8)	0.3
Trade and other receivables	10.8	15.0	-	25.8
Other assets	0.6	1.6	(0.3)	1.9
Total current assets	**12.2**	**17.0**	**(1.1)**	**28.0**
Non-current assets				
Other receivables	0.6	-	-	0.6
Property, plant and equipment	2.9	19.6	-	22.5
Deferred tax assets	1.5	1.3	-	2.8
Intangible assets	15.7	131.8	(49.8)	97.8
Other assets	0.2	3.3	-	3.5
Total non-current assets	**21.0**	**156.0**	**(49.8)**	**127.2**
Total assets	**33.2**	**173.0**	**(50.9)**	**155.2**
Current liabilities				
Trade and other payables	4.3	9.4	-	13.7
Current tax liabilities	(0.2)	0.4	-	0.2
Provisions	2.6	6.2	-	8.8
Total current liabilities	**6.8**	**15.9**	**-**	**22.7**
Non-current liabilities				
Borrowings	18.3	-	19.5	37.8
Provisions	0.2	0.6	-	0.8
Total non-current liabilities	**18.5**	**0.6**	**19.5**	**38.5**
Total liabilities	**25.2**	**16.5**	**19.5**	**61.2**
Net assets	**7.9**	**156.5**	**(70.4)**	**94.0**

Note (1): GTCF has not reviewed the assumptions adopted by MRN in the preparation of the pro form balance sheet
Source: Notice of Meeting and Explanatory Memorandum

7 Valuation methodologies

7.1 Introduction

We have assessed whether or not the Proposed Merger is fair to MRN Shareholders by comparing:

- The value of a MRN share before the Proposed Merger on a control basis.
- The implied value of a MRN shareholder's interest in the Merged Group after the Proposed Merger on an equivalent basis.

In each case, Grant Thornton Corporate Finance has assessed value using the concept of fair market value. Fair market value is commonly defined as:

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

Fair market value excludes any special value. Special value is the value that may accrue to a particular purchaser. In a competitive bidding situation, potential purchasers may be prepared to pay part, or all, of the special value that they expect to realise from the acquisition to the seller.

We note, RG111 requires the fairness assessment to be made assuming 100% ownership of the target company and irrespective of whether the consideration offered is script or cash and without consideration of the percentage holding of the offeror or its associates in the target company.

7.2 Valuation methodologies

RG 111 outlines the appropriate methodologies that a valuer should generally consider when valuing assets or securities for the purposes of, amongst other things, approval of an issue of shares using item 7 of s611 of the Corporations Act, share buy-backs, selective capital reductions, schemes of arrangement, takeovers and prospectuses. These include:

- Discounted cash flow ("DCF") method and the estimated realisable value of any surplus assets.
- Application of earnings multiples to the estimated future maintainable earnings or cash flows of the entity, added to the estimated realisable value of any surplus assets.
- Amount available for distribution to security holders on an orderly realisation of assets.
- Quoted price for listed securities, when there is a liquid and active market.
- Any recent genuine offers received by the target for any business units or assets as a basis for valuation of those business units or assets.

Further details on these methodologies are set out in Appendix A to this report. Each of these methodologies is appropriate in certain circumstances.

RG111 does not prescribe the above methodologies as the method(s) that an expert should use in preparing their report. The decision as to which methodology to use lies with the expert based on the expert's skill and judgement and after considering the unique circumstances of the entity or asset being valued. In general, an expert would have regard to valuation theory, the accepted and most common market practice in valuing the entity or asset in question and the availability of relevant information.

7.3 Selected valuation methods

7.3.1 Valuation methodology for MRN before the Proposed Merger

In our assessment of the fair market value of MRN, Grant Thornton Corporate Finance has relied on the capitalisation of maintainable earnings approach due to the following:

- This methodology is particularly suitable for businesses like MRN that have been trading profitably for a number of years, have stable operations and predictable earnings.

- Most commonly adopted approach for companies in the media industry.

Our valuation assessment involves:

- Selecting an appropriate level of earnings before interest, tax, depreciation and amortisation ("EBITDA") (generally referred to as maintainable EBITDA), having regard to the historical and budgeted operating results after adjusting for non-recurring items of income and expenditure and other known factors likely to affect the future operating performance of the business. We consider EBITDA to be the most appropriate earnings measure to assess the market value of MRN as the radio business is not asset intensive and the level of capital expenditure required is limited.

- Determining an appropriate EBITDA multiple having regard to the trading multiples of comparable companies and comparable transaction evidence and the specific circumstances of the company to be valued such as market positioning, quality of earnings, future growth prospects and investment risk.

We have adopted a cross-check based on a desk-top indicative DCF methodology. We have placed limited reliance on MRN trading prices as the trading in MRN shares is thin and approximately 87% of the issued capital of the Company is held by the two major shareholders. Accordingly, the trading prices may not fully reflect the underlying fair market value of the Company.

7.3.2 Valuation methodology for the Merged Group

Similar to our assessment of the fair market value of MRN, Grant Thornton Corporate Finance has relied on the capitalisation of maintainable earnings approach to value the Merged Group. Our valuation assessment involves:

- Selecting an appropriate level of maintainable EBITDA, having regard to the expected earnings for the Merged Group after adjusting for known factors likely to affect the future operating performance of the combined businesses, including synergies and cost savings.

- Adopting an EBITDA multiple consistent with the risks, prospects and quality of earnings of the Merged Group.

As stated earlier in this report, having regard to various factors analysed in the executive summary, we consider that the Proposed Merger should be evaluated as a merger of equals rather than a control transaction. As such, the value of MRN shares before the Proposed Merger and the value of MRN's shareholder's interest in the Merged Group have been assessed on an equivalent basis (i.e. assuming control).

8 Valuation assessment of MRN before the Proposed Merger

As discussed in Section 7.3, we have adopted the capitalisation of earnings approach as the primary valuation methodology to value MRN before the Proposed Merger. We have cross checked our valuation assessment having regard to an indicative DCF approach.

8.1 Valuation summary

Set out below is our valuation assessment of MRN on a control basis before the Proposed Merger.

MRN before Proposed Merger

Macquarie Radio Network Before the Proposed Merger	*Section* *Reference*	Low $Am	High A$m
Maintainable earnings	*8.2*	9.0	10.0
EBITDA multiples adopted on a control basis (x)	*8.3*	9.0x	10.0x
Enterprise value on a control basis		**81.0**	**100.0**
Less: net debt and other adjustments	*8.5*	(15.4)	(13.4)
Less: Transaction costs	*8.6*	(2.5)	(2.5)
Equity value of MRN on a control basis		**63.1**	**84.1**
Number of MRN shares before the Proposed Merger (millions)	*4.4*	77.8	77.8
Equity value per share of MRN on a control basis		**0.811**	**1.081**

Source: GTCF Calculations

8.2 Maintainable EBITDA of MRN

When considering the future maintainable EBITDA of MRN, we have taken into account the following:

- Historical performance for FY12, FY13, FY14 and YTDDec14.
- Budget for FY15 as prepared by MRN Management and approved by the MRN Board.
- Rolling forecast for FY15 having regard to the mathematical aggregation of the year to date financial performance and the FY15 Budget for the remaining year.
- Normalisation adjustments both in respect of non-recurring items of revenue and expense as well as other adjustments appropriate for the assessment of future maintainable EBITDA.

Whilst we have considered the budget for FY15 in our assessment of the future maintainable performance, as stated earlier in this report, MRN Management consider this information commercially sensitive and based on hypothetical assumptions. Accordingly, we have not disclosed the FY15 Budget in our report.

The following table summarises the historical reported EBITDA and the underlying normalised EBITDA of MRN. We note that the results presented in the table below are different from the pro-forma MRN's results included in Section 4.3 of the Explanatory Memorandum as where the financial performance of 2CH and MRR has been excluded from the pro-forma.

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Macquarie Radio Network Consolidated financial performance for the period	FY12 $m	FY13 $m	FY14 $m	YTDFY15 $m
Revenues				
Total revenue	63.8	60.7	56.9	29.5
Revenue growth %		*(4.9)%*	*(6.2)%*	
Expenses				
Total operating expenses	(57.0)	(46.5)	(46.5)	(26.7)
Reported EBITDA	**6.7**	**14.2**	**10.4**	**2.9**
Normalisations	8.5	(2.8)	0.1	2.0
Normalised reported EBITDA	**15.2**	**11.3**	**10.5**	**4.8**

Source: Annual reports and Management

We note the following in relation to the normalisation adjustments:

- FY12 – Mostly relates to losses associated with the continued underperformance and final shut-down of MRN's Melbourne joint venture radio station MTR 1377[28]. On 2 March 2012, administrators were appointed and the radio station was closed down. MRN's share of operating losses in FY12 plus additional one-off expenses was $5.5 million. In addition, MRN incurred one-off expenses related to their unsuccessful bid for FRN and the acquisition of Smart Radio Network in regional Queensland.

- FY13 – Relate to one-off net-revenues of $3.1 million derived from government royalties received as well as the reversal of a provision in respect of contingent consideration for the acquisition of Smart Radio Network. MRN also incurred additional one-off expenses of circa $0.3 million in relation to the shut-down of MTR 1377.

- FY14 – Relate to a one-off gain associated with the sale by MRN of shares in Fairfax and one-off administration costs that are expected not to reoccur.

- YTDFY15 – Relate to talent contract renewals, 2CH relaunch costs[29] and expenses related to coverage of the 2014 Commonwealth Games.

As evident from the above table, MRN has experienced a declining trend in normalised financial performance over the last three years. Given MRN is largely a fixed cost business, in the short-term, a revenue reduction has typically a material impact on the underlying EBITDA.

As a significantly large proportion of MRN's advertising revenues are attributable to 2GB, we have compared the ratings of 2GB with MRN's advertising revenues as illustrated below:

[28] MTR 1377 was a joint venture with Pacific Star Network, launched in April 2010.
[29] In late 2014, 2CH relaunched its image from "Easy Listening" to "Happy Days" which involved a change in branding as well as slight changes in programming content

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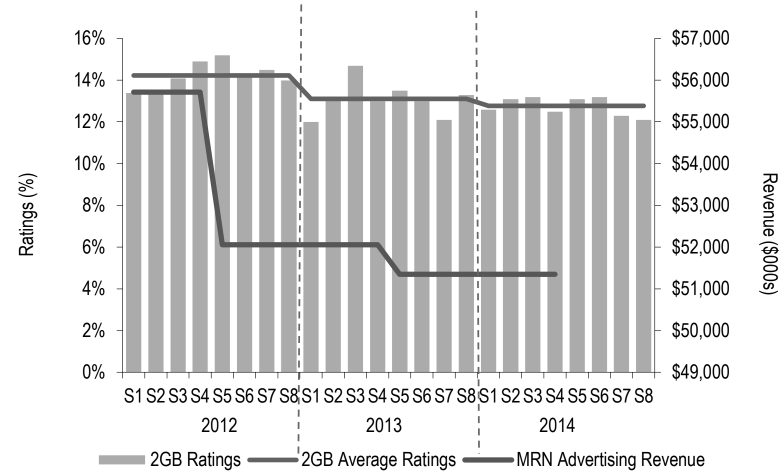
2GB's Historical Ratings and Revenue



Source: GfK, Nielsen, CRA, MRN's Annual Report for FY12, FY13 and FY14, and GTCF calculations

As set out in the graph above, 2GB's ratings have declined over the years from 14.2% in 2012 to 12.8% in FY14. Consistent with this decline, MRN's advertising revenues have also declined. We note that during this period, advertising revenues in the Sydney market decreased by approximately 3% in 2012, increased by almost 4% in 2013 and then by an additional 1.5% in 2014[30].

Based on discussions with MRN Management, we understand that the drop in revenues over the last couple of years is largely attributed to the following:

- A reduction in the ratings of 2GB.
- Growing trend of advertisers preferring national advertising campaigns and agreements which cannot be offered by MRN given it is largely a Sydney only radio network.
- Comments made during late 2012 by Alan Jones, at a private function, that resulted in a social media campaign against Alan Jones and 2GB, forcing 2GB to suspend all advertising in Alan Jones' Breakfast Show. In addition to suspending all advertising, MRN Management have advised that there was a resulting detriment to relationships with certain advertisers.

In our assessment of the future maintainable EBITDA of MRN, we have also considered the following:

- YTD Revenue is circa 2% higher than the previous corresponding period. Management has indicated that they are of the opinion that this increase is sustainable and it is driven by stable ratings and advertisers returning to Alan Jones' show after the late 2012 fallout.
- FY14 programming costs do not reflect the ongoing cost structure of MRN's pool of presenters due to recent renegotiations and relative increases of salaries and packages of key talent..

[30] ACMA Broadcasting Financial Results for 2011-2012, 2012-2013 and 2013-2014

- Normalised reported YTD EBITDA is circa 25% lower than the previous corresponding period mainly due to the abovementioned revised talent cost structure, distraction arising from the Proposed Merger, and an increase in administration costs.

- Traditionally December and January are the lowest performing months given the Australian holiday season.

- Historically more than 50% of the EBITDA for the year has been achieved in the first half of the financial year.

- Notwithstanding the subdued YTD performance, MRN expects an improvement in revenue and earnings in the last six months to FY15.

- In our assessment of the maintainable EBITDA, we have also normalised-out the financial performance of 2CH and MRR as we have considered their fair market value separately, and based on the price that MRN is expecting to realise upon disposal following completion of the Proposed Merger. Whilst, MRN does not plan to sell 2CH and MRR if the Proposed Merger does not complete, we have considered it appropriate to make an adjustment to ensure that the fair market value of 2CH and MRR before and after the Proposed Merger is consistent. As set out in Section 4.3 of the Explanatory Memorandum, 2CH and MRR incurred a loss between FY12 and YTD15.

Based on the historic decline in earnings, the continued pressure for MRN to retain key talent via salary increases, the YTD actual performance and the overall outlook for the radio market, Grant Thornton Corporate Finance has assessed future maintainable EBITDA in a range of $9 to $10 million for valuation purposes.

8.3 EBITDA multiple

The selection of an appropriate EBITDA multiple is a matter of judgement and involves consideration of a number of factors including:

- The stability and quality of earnings.

- The nature and size of the business.

- The quality of the management team.

- Comparable company trading multiples which have been attributed by share market investors.

- The implied multiples of recent acquisitions of businesses involved in similar activities.

- Future prospects of the business.

For the purpose of assessing an appropriate EBITDA multiple range to value MRN, we have had regard to:

- The trading multiples of listed media companies.

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- The EBITDA multiples implied by recent transactions involving media companies.

As discussed more extensively in the following sections, in our valuation assessment we have relied more on the comparable transaction multiples as the level of comparability of listed companies is relatively limited.

8.3.1 Trading multiples of listed media companies

Summarised below are the trading multiples of the selected companies having regard to the trading prices:

Company	Country	Market Capital (A$m)	LTM EV/EBITDA Actual	FY15 EV/EBITDA Projected	FY16 EV/EBITDA Projected	FY17 EV/EBITDA Projected	FY18 EV/EBITDA Projected
Tier 1 - Australian radio broadcasters							
Macquarie Radio Network Limited	Australia	83	9.5x	7.3x	6.5x	NA	NA
Fairfax Media Limited	Australia	2,093	7.5x	6.9x	6.9x	6.9x	6.9x
Southern Cross Media Group Limited	Australia	732	7.4x	8.1x	7.7x	7.4x	6.9x
APN News & Media Ltd.	Australia	844	9.6x	8.9x	9.0x	8.9x	9.1x
Pacific Star Network Ltd.	Australia	21	9.1x	NA	NA	NA	NA
Tier 2 - Domestic television broadcasters							
Seven West Media Limited	Australia	1,279	6.2x	6.7x	6.7x	6.9x	6.4x
Prime Media Group Limited	Australia	295	6.5x	6.3x	6.4x	6.4x	NA
Low (Tier 1)			**7.4x**	**6.9x**	**6.5x**	**6.9x**	**6.9x**
Average (Tier 1)			**8.6x**	**7.8x**	**7.5x**	**7.7x**	**7.6x**
Median (Tier 1)			**9.1x**	**7.7x**	**7.3x**	**7.4x**	**6.9x**
High (Tier 1)			**9.6x**	**8.9x**	**9.0x**	**8.9x**	**9.1x**
Low (All)			**6.2x**	**6.3x**	**6.4x**	**6.4x**	**6.4x**
Average (All)			**8.0x**	**7.4x**	**7.2x**	**7.3x**	**7.3x**
Median (All)			**7.5x**	**7.1x**	**6.8x**	**6.9x**	**6.9x**
High (All)			**9.6x**	**8.9x**	**9.0x**	**8.9x**	**9.1x**

Source: Capital IQ and GTCF calculations

A brief description of the companies listed in the table above is set out in Appendix C.

We note the following in relation to the comparable companies:

- The EBITDA multiples presented above reflect the value of the underlying companies on a minority basis and do not include a premium for control.
- The market capitalisation of all companies presented above, excluding Pacific Star Network Limited ("Pacific Star"), is significantly larger than the market capitalisation of MRN.
- We have categorised as tier one companies, those companies that own Australian radio stations. However, amongst them, there are some large corporations with diverse businesses. In relation to the tier one companies, we note the following:
  - Fairfax's operations include newspapers, magazines, and digital media in addition to the business of FRN. In FY14, revenue and EBITDA from radio operations comprised approximately 6% and 5% of the total revenues and EBITDA respectively. Fairfax's core operations are predominantly built around paper and magazines publications in Australia and New Zealand via different forms of media and the performance of the Domain Group. The media business is now driven by a fast-paced change in information technology and it presents

unique challenges, new forms of competitions and risk profiles compared with the more traditional radio operations.

- Southern Cross Media Group Limited ("Southern Cross") provides media content around Australia via its radio and TV brands and digital platform. Southern Cross owns a network of FM radio stations across Australia (metro and regional areas) including Triple M, 2DayFM, Mix 94.5, Hit 929. Southern Cross' television services cover most of regional Australia through affiliation arrangements with all metropolitan commercial networks to provide programming content. A clear advantage that Southern Cross has is the ability to leverage against its TV offering to provide multimedia markets.

- Radio comprises approximately 30% of APN's revenue with the balance comprising newspaper and on-line publishing. The radio stations owned by APN operate in Sydney, Melbourne and New Zealand. The radio network generated circa 50% of the EBITDA before corporate costs for the half year ending 30 June 2014. Amongst the Sydney radio stations are two premier ratings stations, WSFM and KIIS 106.5, which ranked second and third, after 2GB, with ratings of 8.9% and 8.6% respectively in the last survey results for 2014.

- Pacific Star owns two Melbourne AM radio stations, operates two digital only radio stations and a magazine and it has recently completed the acquisition of Morrison Media Services, an Australian publisher of consumer sports and lifestyles related titles both in print and digital formats. Pacific Star is a smaller business than MRN with FY14 pro-forma revenue and EBITDA[31] of $25 million and $4 million respectively. Circa 50% of Pacific Star's revenues are generated from radio broadcasting. The radio stations owned by Pacific Star are not amongst those reported in ratings surveys.

- Tier two companies are predominantly Australian television broadcasters. In our opinion, television operators face different risks, competitive environments and structural changes compared to radio broadcasters. However, as they are still part of the media industry that arguably compete for advertising revenues, we have included them in our basket of comparable companies, however we have placed limited reliance on their multiples.

In summary, whilst the level of comparability of the listed peers companies is limited, we consider Southern Cross and APN as the relatively most comparable companies.

8.3.2 Control premium

The trading multiples have been calculated based on the market price for minority or portfolio shareholdings and do not include a premium for control. A premium for control is applicable when the acquisition of control of a company or business would give rise to benefits such as:

- The ability to realise basic synergistic benefits.
- Access to cash flows.
- Access to tax benefits.

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[31] Following completion of the acquisition of Morrison Media.

- Control of the board of directors of the company.

Evidence from studies indicates that premiums for control on successful takeovers have frequently been in the range of 20% to 40% and that the premiums vary significantly from transaction to transaction.

We have incorporated a premium for control in our assessment of the EBITDA multiple of listed comparable companies.

8.3.3 Multiples of comparable transactions

We have further considered multiples implied by historical transactions involving companies comparable to MRN that occurred in the Australian market. The following table summarises the EBITDA multiples implied by these historical transactions:

Date	Target Company	Country	Bidder Company	Stake (%)	Deal Value ($'m)	EBITDA Multiple (Times)	Status
Dec-14	Radio 96FM Perth Pty Ltd	Australia	APN News & Media Ltd.	100%	78	8x - 10x	Closed
Dec-14	Eagle Waves Radio	Australia	My Business Pty Ltd.	100%	NA	NA	Closed
Feb-14	50% Stake In Australian Radio Network Pty Limited and The Radio Network	Australia	APN News & Media Ltd.	100%	247	6.9x	Closed
Mar-13	Sunshine Coast Broadcasters Pty Ltd.	Australia	Eon Broadcasting Pty. Ltd.	100%	18	NA	Closed
Sep-12	dmg Radio Australia Pty Ltd (nka:NOVA Entertainment Pty Ltd)	Australia	Illyria Pty, Ltd.	50%	86	15.8x	Closed
Oct-11	Fairfax Media Limited, Regional Radio Assets	Australia	Grant Broadcasters Pty. Ltd.	100%	NA	NA	Closed
Jul-11	Smart Radio Group Network	Australia	Macquarie Radio Network Limited	100%	8	NA	Closed
Jan-11	Austereo Group Ltd.	Australia	Southern Cross National Network Pty Limited	100%	919	10.0x	Closed
Dec-09	Stripe Radio	Australia	miRoamer Pty Ltd. (nka:Connexion Media Limited)	100%	NA	NA	Closed
Nov-09	dmg Radio Australia Pty Ltd (nka:NOVA Entertainment Pty Ltd)	Australia	Illyria Pty, Ltd.	50%	113	NA	Closed
Average (All)						**10.4x**	
Median (All)						**9.5x**	

Source: Capital IQ and calculations

In relation to the EBITDA multiple implied by the above transactions, we note that:

- The level of publicly available information on certain comparable transactions is limited, representing an impediment to an assessment of the transaction multiple.
- The implied transaction multiples may incorporate various levels of control premium and special values paid for by the acquirers.
- The transactions observed took place during the period between November 2009 and December 2014. Economic factors, consumer confidence may be materially different from those current as at the valuation date. These factors may influence the amounts paid by the acquirers for these businesses.

- The transaction multiples are calculated based on the historical EBITDA of the acquired companies which typically tends to provide higher multiples due to the growth expectations typically included in forecast financial performance.

In our opinion, the most comparable transactions are:

- The recent acquisition of 96FM by APN News. We note that we are not able to disclose the actual EBITDA multiple for confidentiality reasons and accordingly we have only indicated an EBITDA multiple range. We are of the opinion that this transaction is relatively comparable to MRN due to the following:
  - 96FM had 2014 average ratings of 10.6% which makes the third-ranked commercial radio station in the Perth market.
  - The transaction involved one premier radio station in a metropolitan area which is similar to the circumstances of MRN.
  - The financial performance of 96FM was positively affected by sharing corporate and other back-office functions with 6PR which is consistent with the organisation model adopted in Sydney between 2GB and 2CH.
  - The historical and forecast EBITDA generated by 96FM is not inconsistent with the EBITDA generated by MRN.
- The acquisition of the Australian Radio Network by APN which involved the acquisition of just radio stations, albeit of a smaller nature and not including any radio stations that featured in the ratings surveys.
- The acquisition of Austereo Group Limited by Southern Cross which involved radio stations including premier rating radio stations, at that time, such as 2Day FM although with a greater national presence than MRN.

8.3.4 EBITDA multiple – Conclusion

Based on the analysis of listed comparable companies and comparable transactions, Grant Thornton Corporate Finance has assessed an EBITDA multiple for the valuation of MRN between 9 and 10 times on a control basis.

8.4 Enterprise value of MRN

The following table summarises our assessment of the enterprise value of MRN:

MRN before Proposed Merger

Macquarie Radio Network Before the Proposed Merger	*Section Reference*	Low $m	High $m
Maintainable earnings	*8.2*	9.0	10.0
EBITDA multiples adopted on a control basis (x)	*8.3*	9.0x	10.0x
Enterprise value on a control basis		**81.0**	**100.0**

Source: GTCF Calculations

8.5 Net debt and other adjustments

For the purpose of our valuation assessment, we have assessed net debt and other adjustments as shown in the table below:

MRN's net debt and other adjustments

Macquarie Radio Network	Note	Low $m	High $m
Net debt and other adjustments			
Borrowings		18.3	18.3
Less: cash and cash equivalents		(1.1)	(1.1)
Total net debt		**17.1**	**17.1**
Add: transmitter capex	*Note 1*	3.5	3.5
Other	*Note 2*	(5.2)	(7.2)
Total net debt and other adjustments		**15.4**	**13.4**

Source: Management and GTCF calculations

The net debt is based on the balance sheet as at 31 December 2014. The other adjustments relate to cash outflows that are expected to be incurred in the short term and are outside the ordinary course of the business or not captured in maintainable EBITDA. These are further explained below:

Note 1: Transmitter CAPEX –MRN are in the process of commencing construction of a new transmitter for 2GB and 2CH at Homebush. The total expected cost is between $3.5 million and $4.0 million. We have calculated the net present value of the future cash flows associated with this capital expenditure item.

Note 2: Other – It includes the costs associated with various other adjustments that for commercial sensitivity reasons we have not been able to show separately. They include:

- The costs associated with onerous talent contracts in particular in relation to the shut-down of MTR. The costs of these contracts have not been included in our assessment of the future maintainable EBITDA as they will not be renewed following expiry around mid-2015.
- The fair market value of non-core listed and unlisted securities on the balance sheet as at 31 December 2014.
- One-off payments associated with new contracts and other arrangements with presenters and staff not included in the future maintainable EBITDA.
- Based on the terms of the MIA, MRN will be required to sell 2CH and 4LM following completion of the Proposed Merger. We understand that MRN intends to sell all the regional Queensland radio stations held by MRR, including 4LM. As discussed in Section 8.2, in our assessment of the maintainable EBITDA, we have normalised-out the financial performance of 2CH and MRR, accordingly we have separately considered their fair market value based on the price that MRN is expecting to realise upon disposal. Whilst, MRN does not plan to sell 2CH and MRR if the Proposed Merger does not complete, we have allowed for the fair market value of 2CH and MRR (based on an approximate sale value) before and after the Proposed Merger to ensure consistency. MRN has already received an indicative non-binding offer for MRR which provides a relevant value reference point for the purpose of our valuation assessment. The sale

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process for 2CH is yet to be commenced, however, the price range expected by MRN Management does not seem unreasonable considering the ratings of 2CH, the value of the license in the Sydney metropolitan area and the normalised financial performance[32].

- Based on discussions with MRN Management, we have been instructed that MRN does not currently plan to distribute any dividends before completion of the Proposed Merger and accordingly we have not made any adjustment to the net debt as at 31 December 2014.

8.6 Transaction costs

MRN Management has advised that the estimated transaction costs are approximately $2.5 million.

8.7 Sensitivity analysis

Set out below, we have prepared a sensitivity analysis based on the low-end of our valuation assessment to highlight the impact on the fair market value of MRN on control basis caused by movements in the maintainable EBITDA and EBITDA multiple.

MRN sensitivity analysis - Low end value

$ per share		Future maintainable earnings (EBITDA) ($m)					
		7.0	8.0	9.0	10.0	11.0	12.0
EBITDAx	8.0x	0.489	0.592	0.695	0.798	0.901	1.003
	8.5x	0.534	0.644	0.753	0.862	0.971	1.081
	9.0x	0.579	0.695	0.811	0.926	1.042	1.158
	9.5x	0.624	0.746	0.868	0.991	1.113	1.235
	10.0x	0.669	0.798	0.926	1.055	1.183	1.312
	10.5x	0.714	0.849	0.984	1.119	1.254	1.389
	11.0x	0.759	0.901	1.042	1.183	1.325	1.466

Source: GTCF Calculations

These sensitivities do not represent a range of potential values of MRN, but they intend to show to MRN Shareholders the sensitivity of our valuation assessment to changes in certain variables.

8.8 Valuation cross check – Indicative DCF

Prior to reaching our valuation conclusion, we have also considered the DCF methodology as a cross check to our valuation of the enterprise value of MRN (on a control basis) derived using the capitalisation of maintainable earnings approach. Specifically, based on the normalised EBITDA assessed in Section 8.2, we have estimated the future maintainable free cash flows and capitalised them in perpetuity having regard to a discount rate based on the WACC.

8.8.1 Key valuation assumptions

The key valuation assumptions underlying the indicative DCF are summarised below:

- EBIT – Given MRN does not prepare long term forecasts and MRN is a mature business, in our application of the indicative DCF approach we have relied on our assessment of the future

[32] MRN intends to offer to the potential purchaser that MRN continues to provide shared services to 2CH

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maintainable EBITDA as set out in Section 8.2 and adjusted for a normalised level of depreciation and amortisation, to derive a future maintainable free cash flow ("FCFF") for MRN. We note that MRN is a relatively fixed cost business which is not asset intensive. MRN has historically incurred average depreciation of approximately $1 million per annum.

- **Capital expenditure –** It is assumed to be equal to depreciation, which is not inconsistent with MRN's historical levels of capital expenditure, excluding one-off non-recurring capital expenditure.

- **Changes in working capital –** Historically, the movement in working capital was approximately only 1% from FY12 to FY13. Given we have assessed a perpetual growth rate in line with inflation, we have estimated that changes in working capital are negligible.

- **Tax rate –** Income tax has been calculated by applying the Australian statutory company tax rate of 30% to the notional taxable income.

- **Long term growth rate –** For the purpose of our valuation, we have assumed the long term growth rate of 2.5% in line inflation. We note that it is the RBA's policy to maintain long term inflation rate between 2% and 3%.

- **Discount rate** – Grant Thornton Corporate Finance has applied a nominal, post-tax WACC in the range of 9.5% and 11.4% to value MRN. Refer to Appendix B for further details.

We note the assumptions adopted by Grant Thornton Corporate Finance do not represent projections by Grant Thornton Corporate Finance but are intended to reflect the assumptions that could reasonably be adopted by industry participants in their pricing of a similar business. We note that the assumptions used in the DCF valuations are inherently subject to considerable uncertainty. It should be noted that the value of MRN could vary materially based on changes in certain key assumptions.

8.8.2 Enterprise value of MRN – indicative DCF methodology

The following table summarises our valuation assessment of the enterprise value of MRN (on a control basis) using the DCF methodology:

MRN valuation cross-check (DCF) - before the Proposed Merger

Macquarie Radio Network DCF cross check	Low $m	High $m
EBITDA	9.0	10.0
Less: Depreciation & Amortisation	(1.0)	(1.0)
EBIT	8.0	9.0
Less: Tax	(2.4)	(2.7)
After-tax earnings (before interest)	**5.6**	**6.3**
Add back: Depreciation & Amortisation	1.0	1.0
Less: Capex	(1.0)	(1.0)
Less: Changes in net working capital	-	-
Estimated free cash flow	**5.6**	**6.3**
Long term growth	2.5%	2.5%
Discount rate	11.4%	9.5%
Enterprise value of MRN	**64.2**	**91.7**

Source: Management and GTCF Calculations

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Based on the analysis above, we have assessed the enterprise value of MRN between $64 million and $92 million on a control basis which is relatively consistent, albeit towards the low end, with our assessed enterprise value of MRN under the primary EBITDA multiple approach. Accordingly, we conclude that our valuation based on the capitalisation of EBITDA is reasonable.

8.9 Valuation cross check – Trading prices

Prior to reaching our valuation conclusion, we have also considered the quoted security price. In accordance with the requirements of RG111, we have considered the listed securities' depth, liquidity, and whether or not the trading prices are likely to represent the market value of MRN.

The following table summarises the monthly trading volume of MRN since January 2013:

Month end	Volume traded ('000)	Monthly VWAP ($)	Total value of shares traded ($'000)	Volume traded as % of total shares
Jan 2013	173	0.6432	111	0.2%
Feb 2013	201	0.7875	158	0.2%
Mar 2013	22	0.8151	18	0.0%
Apr 2013	37	0.7845	29	0.0%
May 2013	82	0.7926	65	0.1%
Jun 2013	63	0.7149	45	0.1%
Jul 2013	26	0.6733	17	0.0%
Aug 2013	212	0.7807	166	0.3%
Sep 2013	627	0.9145	573	0.8%
Oct 2013	616	1.2831	790	0.8%
Nov 2013	580	1.2272	712	0.7%
Dec 2013	203	1.0670	216	0.3%
Jan 2014	129	1.1972	154	0.2%
Feb 2014	89	1.2697	114	0.1%
Mar 2014	133	1.1317	151	0.2%
Apr 2014	159	1.0567	168	0.2%
May 2014	108	1.0497	114	0.1%
Jun 2014	119	1.0488	124	0.2%
Jul 2014	300	1.1249	337	0.4%
Aug 2014	349	1.1566	403	0.4%
Sep 2014	99	1.1325	112	0.1%
Oct 2014	72	1.1330	82	0.1%
Nov 2014	98	1.1683	114	0.1%
Dec 2014	268	1.2926	346	0.3%
Jan 2015	76	1.1870	91	0.1%
Min				**0.03%**
Max				**0.81%**
Average				**0.25%**
Median				**0.17%**

Source: Capital IQ and GTCF calculations

We note from the table above the historical liquidity in MRN shares is low with only 0.20% of the share capital traded on average per month over the last 6 months. This is a reflection of MRN capital structure with the two largest shareholders holding in excess of 85% of the issued capital.

Given the limited level of depth and liquidity in the market for MRN Shares, we have not relied on this valuation methodology for the purposes of our valuation assessment.

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9 Valuation assessment of MRN after the Proposed Merger

In this section of the report, we have estimated the fair market value of the shares in MRN after the Proposed Merger on a control basis.

Our assessment of the fair market value of MRN after the Proposed Merger is based on the following:

- The future maintainable EBITDA of MRN and FRN.
- The assessment of synergies and relative implementation costs expected to be realised as a result of the Proposed Merger.
- Net debt and other adjustments to be incurred by MRN in accordance with the terms of the Proposed Merger.

9.1 Valuation summary

Set out below is a summary of our valuation assessment of the Merged Group and the relative value of MRN shares after the Proposed Merger.

MRN (Merged Group) after Proposed Merger

Macquarie Radio Network (Merged Group) After the Proposed Merger	*Section Reference*	Low $m	High $m
Maintainable EBITDA	*9.2*	22.0	24.0
EBITDA multiples adopted on a control basis (x)	*9.3*	9.0x	10.0x
Enterprise value on a control basis		**198.0**	**240.0**
Less: Net debt and other adjustments	*9.5*	(30.1)	(27.6)
Less: Implementation costs	*9.6*	(4.0)	(3.0)
Less: Transaction costs	*9.6*	(2.5)	(2.5)
Equity value of Merged Entity on a control basis		**161.4**	**206.9**
Number of MRN shares after the Proposed Merger (millions)	*9.7*	171.0	171.0
Equity value per share of Merged Entity on a control basis		**0.944**	**1.210**

Source: GTCF Calculations

9.2 Maintainable EBITDA of the Merged Group

When considering the future maintainable EBITDA of the Merged Group, we have taken into account the following:

- Assessed future maintainable EBITDA for MRN as set out in Section 8.2.
- Assessed future maintainable EBITDA for FRN post the Proposed Merger assessed in Section 9.2.2.
- Synergies and cost savings as set out in Section 9.2.3.

9.2.1 Maintainable EBITDA of MRN

As discussed in Section 8.2, we have assessed the future maintainable EBITDA of MRN between $9 million and $10 million.

9.2.2 Maintainable EBITDA for FRN

When considering the future maintainable EBITDA of FRN after the Proposed Merger we have taken into account the following:

- Historical performance for FY12, FY13, FY14 and YTDDec14.
- Budget for FY15 prepared by FRN Management and approved by the FRN Board.
- FY15 rolling forecast having regard to the mathematical aggregation of the year to date financial performance and the FY15 Budget for the remaining year.
- Normalisation adjustments in respect of non-recurring items of revenue and expense as well as other adjustments appropriate for an assessment of FME.

Similar to MRN, whilst we have considered the FY15 Budget for FRN in our assessment of the future maintainable performance, we have not disclosed it given it is commercially sensitive in nature and it is based on hypothetical assumptions.

The following table summarises the pro-forma reported and normalised historical EBITDA of FRN excluding 96FM:

Fairfax Radio Network Consolidated income statements for the period - Excluding 96FM	FY13 ($m)	FY14 ($m)	YTDFY15 ($m)
Total revenue	94.6	85.0	44.3
Total operating expenses	(82.4)	(79.8)	(39.9)
Reported EBITDA	**12.1**	**5.1**	**4.3**
Normalisations adjustments	(0.6)	-	(0.2)
Normalised reported EBITDA	**11.6**	**5.1**	**4.2**

Source: Annual reports and Management

We note the following in relation to the normalisation adjustments:

- FY13 normalisation adjustments are mostly in relation to expenses incurred in FY13 that related to prior years (i.e. back payments) as well as one-off royalty receipts.
- Normalisation adjustments for YTDFY15 relate to an FBT refund as well as one-off royalty income receipt.

The above table illustrates a considerable decline in the normalised EBITDA. This decline is mainly driven by a decline in revenue during this period that, given the relatively fixed cost nature of FRN, has translated into an almost equivalent decline in EBITDA.

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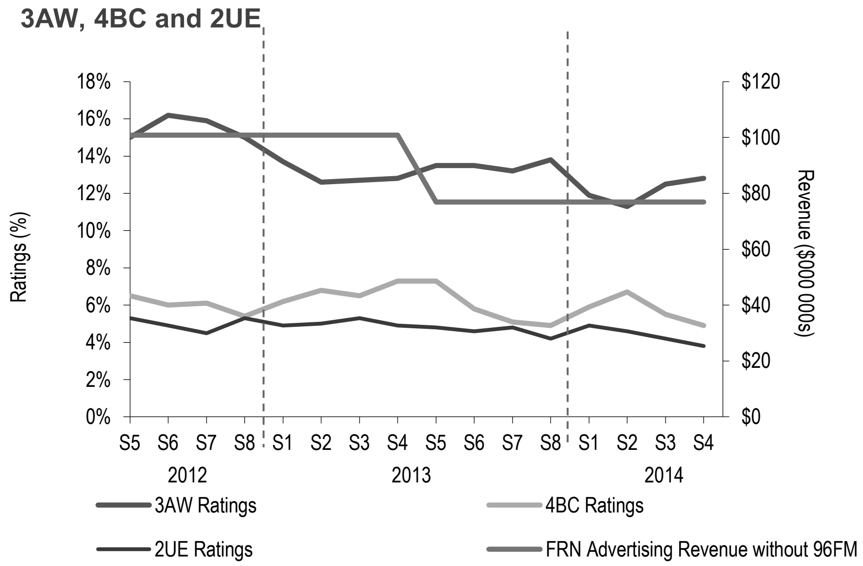
FRN Management attributes the decline in revenue to deteriorating ratings across all key radio stations which has had an adverse impact on advertising revenues. The key radio stations where revenues fell during 2014 were 3AW (circa 9%), 2UE (circa 20%) and 4BC (circa 14%). The diagram below shows the historical ratings of 3AW, 2UE and 4BC between 2012 and 2014 as well as FRN's historical advertising revenue (excluding 96FM) during the same period.



Source: GfK, Nielsen, CRA, FRN's Financials for FY12, FY13 and FY14, and GTCF calculations

The revenue deterioration for 2UE and 4BC has continued in the rolling last twelve month period to October 2014, although at a slower rate, whereas the financial performance of 3AW has remained stable. However, we note that recent ratings for 2UE have improved from 3.8% in survey 4 of 2014 to 5.6% in survey 8 of 2014. Given there is typically a time-lag of a few months between improved ratings and improved market share of advertisement revenues, FRN Management expect the financial performance of 2UE to improve going forward.

FRN Management has explained the ratings decline and subdued financial performance by the following:

- Programming issues with some radio stations (e.g. 2UE).
- The departure of presenter Derryn Hinch in December 2012 from 3AW.
- FRN's weak ratings in Sydney represent a limitation in attracting advertisers with national advertising campaigns.
- Increasing competition from FM radio stations that are broadcasting a greater mix of talkback and music. Examples of this include Austereo's Triple M's breakfast show.
- Increased competition from other AM radio stations like ABC and digital radio, whose audience is growing exponentially.

FRN Management are budgeting in FY15 a considerable increase in revenues and flat operating expenses resulting in a considerable increase in EBITDA. The key assumptions underlying the budgeted FY15 performance are outlined below:

- Expected improvements in ratings through programming changes.
- Changes to sales and marketing strategies to win new direct customers and agencies.
- Improved syndication of existing as well as new content.

The actual revenue and EBITDA for the six months to December 2014 is behind budget by approximately 1% and 17% respectively. Compared to the corresponding six month period to December 2013, YTD revenue and EBITDA for the six months to December 2014 is approximately 1% and 5% lower respectively. However, we note that the financial performance of 2UE has improved compared with the previous corresponding period on the back of better ratings results.

In light of the actual results to December 2014, the FY15 Budget appears challenging to achieve.

9.2.3 Synergies and cost savings of the Merged Group

The historical financial performance of MRN has been negatively affected by the losses incurred by 2UE and the Brisbane radio stations. Whilst the latter have historically oscillated between a breakeven position and losses of just over $1 million, 2UE EBITDA losses have historically ranged between approximately $4 million and $6 million.

Based on discussions with the FRN Management, we understand that 2UE's negative financial performance is driven by the following:

- Its poor ratings in the Sydney market which has limited the ability of this radio station to attract significant advertisement revenue.
- The lack of economies of scale and cost savings achievable by running two radio stations in the same metropolitan areas like 3AW and Magic in Melbourne or 2GB and 2CH in Sydney.

If the Proposed Merger is implemented, 2UE will become a second radio station for MRN in the Sydney metropolitan market and accordingly, the Management teams of both MRN and FRN believe that large economies of scale and cost savings can be achieved.

In addition, we are of the opinion that it is not sustainable for a commercial business to continue to generate material losses in the medium term. Accordingly even on a stand-alone basis, and under the fair market value concept, it is likely that FRN Management would either relaunch 2UE to deliver at least a break-even position or discontinue its operations. This is consistent with MRN's experience and actions in the Melbourne market where it decided to shut-down MTR 1377 after it incurred large losses while competing against the dominant position of 3AW.

For the purpose of our assessment of the FME of the Merged Group, we have considered the synergies and cost savings that may be achievable by a pool of potential purchasers as summarised below:

- Upon integration of 2UE and 2GB in Sydney, the following cost savings are expected to be achieved:
  - **News –** Minimal incremental costs are expected in providing news to a second radio station.
  - **Sales team –** Significant cost savings should be achieved by combining the sales team of the two radio stations.
  - **Technical and production costs –** Significant duplication of the cost structures exists.
  - **Administration and corporate costs –** Both MRN and FRN currently incur overhead and back office expenses. In the case of FRN, these services are provided by Fairfax and they are recharged internally. Based on the terms of the MIA, FRN will continue to provide these services to the Merged Group under the TSA for a period of six months. The Merged Group as a nimble and focussed organisation should be able to streamline and rationalise the combined overheads and back office expenses of both companies to realise national cost savings after integration and expiry of the TSA.
- In relation to the Brisbane radio stations, FRN and MRN Management believe that the performance of these radio stations will improve to at least a break-even position compared with FY14 due to the following:
  - 4BC ratings have improved in recent surveys from a rating of 4.9% in survey 4 of 2014 to a rating of 5.1% in survey 8 of 2014. The flow-on effect on advertisement revenue is yet to be realised.
  - Broadcasting key talent/shows on multiple radio stations in the network. In anticipation of what is expected to become a key trend in the Merged Group, we note that in January 2015 Alan Jones aired on a special program on FRN's 4BC, commenting on the lead up to the Queensland state election.
  - As a result of the Proposed Merger, 4BC will have greater certainty around the broadcasting rights of NRL for which it used to compete with MRN. This will provide the sales team with a greater ability to sell advertisement spots in a timely manner.

Based on the above discussion and a review of the information available, we have included in our valuation assessment of the Merged Group cost savings between $5 million and $6 million in relation to the aggregation of 2GB and 2UE and assuming that the Brisbane radio stations will be able to at least break-even going forward.

We note that as set out in Section 1.1 of the Explanatory Memorandum, MRN has estimated total cost savings between $10 million and $15 million can be achieved by 30 June 2016. Given further required work and analysis need to be undertaken to firm up the full extent of these cost savings, we have only included in our valuation assessment cost savings between $5 million and $6 million[33].

In addition to the above, whilst both MRN and FRN Management have identified potential revenue synergies derived from enhanced network and sales opportunities, further assessment and analysis will need to be conducted before a clear target is determined.

9.2.4 Conclusion on the assessment of maintainable EBITDA

We have assessed the future maintainable EBITDA of the Merged Group between $22 million and $24 million which is based on a maintainable EBITDA on a stand-alone basis for MRN between $9 million and $10 million and a future maintainable EBITDA for FRN including synergies between $13 million and $14 million.

9.3 EBITDA multiple

In our assessment of the EBITDA multiple, we have referred to the same peer group of listed companies and comparable transactions analysed in Section 8.3.

We have assessed the EBITDA multiple for the Merged Group between 9 and 10 times which is consistent with the multiple for MRN before the Proposed Merger as set out in Section 8.3.4. Whilst arguably a higher multiple could be adopted to reflect the benefits of the Merged Group compared to MRN as a stand-alone (especially through the combination of two premier ratings radio stations in Sydney and Melbourne and improved national presence), we have not allowed for an uplift in the multiple on account of the risk attached to the achievement of the cost savings included in our valuation assessment.

9.4 Enterprise value of the Merged Group

The following table summarises our assessment of the enterprise value of the Merged Group:

Macquarie Radio Network (Merged Group) After the Proposed Merger	*Section Reference*	Low $m	High $m
Maintainable EBITDA	*9.2*	22.0	24.0
EBITDA multiples adopted on a control basis (x)	*9.3*	9.0x	10.0x
Enterprise value on a control basis		**198.0**	**240.0**

Source: GTCF Calculations

9.5 Net debt and other adjustments

For the purpose of our valuation assessment, we have assessed net debt and other adjustments as shown in the table below:

[33] We have also assumed that the Brisbane radio stations will break-even.

Merged Group's net debt

Macquarie Radio Network (Merged Group)	Note	Low $m	High $m
Net debt and other adjustments			
MRN Pre Proposed Merger's net debt balance	*Note 1*	15.4	13.4
Add: Cash payment to FRN's seller	*Note 2*	18.1	18.1
Net debt balance		**33.6**	**31.6**
Other	*Note 3*	(3.5)	(4.0)
Total net debt and other adjustments		**30.1**	**27.6**

Source: Management and calculations

Note 1: MRN net debt – Refer to Section 8.5 for details.

Note 2: Cash payment – This represents the Cash Payment to Fairfax.

Note 3: Other adjustments – This includes the following:

- The market value of the 2UE's freehold property in Sydney which is considered a surplus asset as the property is in the process of being sold. The market value is based on an independent valuation undertaken by a real estate valuer.

- We have assumed that the Management Team of the Merged Group will take approximately six months to realise the synergies included in our valuation assessment. Accordingly, we have included a cost allowance to take into account this timing difference.

- The Merged Group will be required to build a new broadcasting studio in Sydney. We have included in our valuation assessment the relative one-off capex estimated by management.

9.6 Implementation and transaction costs

According to our discussion with MRN Management, implementation costs have been estimated to be in the range of $3 million and $4 million.

MRN Management has advised that the estimated transaction costs still to be incurred by MRN will be approximately $2.5 million. Any transaction costs incurred by FRN will be funded by Fairfax.

The implementation costs included in our valuation assessment are lower than those estimated in Section 1.1 of the Explanatory Memorandum. Our assessment of implementation costs have been discussed with MRN Management and it is consistent with the lower level of cost savings included in our valuation assessment[34]

[34] In Section1.1 of the Explanatory Memorandum, MRN have estimated that cost savings between $10 million and $15 million can be realised by FY16

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9.7 Number of MRN Shares on issue after the Proposed Merger

A summary of the MRN Shares on issue after the Proposed Merger is set out below:

Number of MRN Shares after the Proposed Merger

Number of MRN Shares After the Proposed Merger	Number of shares
Number of MRN Shares before the Proposed Merger	77,806,262
Number of MRN Shares issued to FRN Shareholders	93,196,512
Total number of MRN Shares after the Proposed Merger	**171,002,774**
Pro-forma MRN Ownership in the Merged Group	*45.5%*
Pro-forma FRN Ownership in Merged Group	*54.5%*

Source: SPA and calculations

9.8 Sensitivity analysis

We have conducted a sensitivity analysis below to highlight the impact on the low-end of our valuation assessment of the Merged Group caused by movements in the maintainable EBITDA and EBITDA multiple.

Merged Group sensitivity analysis - Low end value

$ per share		Future maintainable earnings (EBITDA) ($m)					
		20.0	21.0	22.0	23.0	24.0	25.0
EBITDAx	8.0x	0.722	0.768	0.815	0.862	0.909	0.956
	8.5x	0.780	0.830	0.880	0.929	0.979	1.029
	9.0x	0.839	0.891	0.944	0.997	1.049	1.102
	9.5x	0.897	0.953	1.008	1.064	1.119	1.175
	10.0x	0.956	1.014	1.073	1.131	1.190	1.248
	10.5x	1.014	1.076	1.137	1.198	1.260	1.321
	11.0x	1.073	1.137	1.201	1.266	1.330	1.394

Source: GTCF Calculations

These sensitivities do not represent a range of potential values of the Merged Group, but they intend to show to MRN Shareholders the sensitivity of our valuation assessment to changes in certain variables.

9.9 Valuation cross check for the Merged Group – indicative DCF methodology

Similar to our valuation assessment of MRN before the Proposed Merger, we have also considered the DCF methodology as a cross check of the value of the Merged Group.

9.9.1 Key valuation assumptions

The key valuation assumptions underlying the indicative DCF are summarised below:

- **EBIT –** In our application of the indicative DCF approach we have relied on our assessment of the future maintainable EBITDA for the Merged Group as set out in Section 9.2.4 and adjusted for a normalised level of depreciation and amortisation, to derive the FCFF for the Merged Group. We have assessed the normalised depreciation to be approximately $2 million.

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- **Capital expenditure –** Is assumed to be equal to depreciation, which is not inconsistent with both MRN's and FRN's historical levels of capital expenditure, excluding one-off non-recurring capital expenditure.

- **Changes in working capital –** Historically, the movement in working capital was approximately only 1% from FY12 to FY13. Given we have assessed a perpetual growth rate in line with inflation we have estimated that changes in working capital are negligible.

- **Tax rate –** Income tax has been calculated by applying the Australian statutory company tax rate of 30% to the notional taxable income.

- **Long term growth rate –** for the purpose of our valuation, we have assumed the long term growth rate of 2.5% in line inflation. We note that it is the RBA's policy to maintain long term inflation rate between 2% and 3%.

- **Discount rate –** Grant Thornton Corporate Finance has applied a nominal, post-tax WACC in the range of 9.5% and 11.4% which is consistent with the discount rate used to value MRN before the Proposed Merger. Refer to Section 8.9 for further details.

We note the assumptions adopted by Grant Thornton Corporate Finance do not represent projections by Grant Thornton Corporate Finance but are intended to reflect the assumptions that could reasonably be adopted by industry participants in their pricing of a similar business. We note that the assumptions used in the DCF valuations are inherently subject to considerable uncertainty. It should be noted that the value of the Merged Group could vary materially based on changes in certain key assumptions. Accordingly, we have conducted certain sensitivity analysis in Section 9.8 to highlight the impact on the value of the Merged Group caused by movements in certain key assumptions.

9.9.2 Enterprise value of the Merged Group – indicative DCF methodology

The following table summarises our valuation assessment of the enterprise value of the Merged Group (on a control basis) using a DCF methodology:

Macquarie Radio Network (Merged Group) DCF cross check	Low $m	High $m
EBITDA	22.0	24.0
Less: Depreciation & Amortisation	(2.0)	(2.0)
EBIT	20.0	22.0
Less: Tax	(6.0)	(6.6)
After-tax earnings (before interest)	**14.0**	**15.4**
Add back: Depreciation & Amortisation	2.0	2.0
Less: Capex	(2.0)	(2.0)
Less: Change in net working capital	-	-
Estimated free cash flow	**14.0**	**15.4**
Long term growth	2.5%	2.5%
Discount rate	11.4%	9.5%
Enterprise value of MRN	**160.4**	**224.1**

Source: Management and GTCF Calculations

Based on the analysis above, we have assessed the enterprise value of the Merged Group between $160 million and $224 million on a control basis which is relatively consistent, albeit at the low end, with our assessed enterprise value of the Merged Group under the primary EBITDA multiple approach. Accordingly, we conclude that our valuation based on the capitalisation of EBITDA is reasonable.

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10 Source of information, disclaimer and consents

10.1 Source of information

In preparing this report Grant Thornton Corporate Finance has used various sources of information, including:

- Draft Scheme Booklet between MRN and FRN regarding the Proposed Merger;
- Draft Notice of Meeting and Explanatory Memorandum of MRN regarding the Proposed Merger;
- MRN's ASX announcements;
- Board Packs of MRN and FRN;
- Annual reports of MRN for FY12, FY13 and FY14;
- Management Accounts of MRN for YTDDec14;
- 2015 Budget of MRN for FY15;
- Annual reports of FRN for FY13 and FY14;
- Management Accounts of FRN for YTDDec14;
- 2015 Budget of FRN for FY15;
- Other information provided for by MRN;
- Australian Media and Communications Authority;
- Commercial Radio Australia;
- GfK;
- Nielsen;
- IBISWorld;
- MergerMarket;
- Capital IQ;
- Discussions with MRN and FRN management; and
- Other publicly available information.

10.2 Limitations and reliance on information

Grant Thornton Corporate Finance, a wholly owned subsidiary of Grant Thornton Australia Limited, provides advice in relation to all aspects of valuations and has extensive experience in the valuation of public and private companies.

This report has been prepared solely for the purpose set out in Section 2 of this report.

Neither the whole of this report or any part thereof or any reference thereto may be published in any document, statement or circular nor in any communication with third parties without our prior written approval of the form and context in which it will appear.

Grant Thornton Corporate Finance has consented to the inclusion of this report in the Notice of Meeting and Explanatory Memorandum. This report is not intended for general circulation or publication, nor are they to be reproduced for any other purposes other than those outlined above without the prior written consent of Grant Thornton Corporate Finance in each specific instance. We will not assume responsibility for losses occasioned to Macquarie Radio Network or to any

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other party as a result of the circulation, reproduction or use of our reports contrary to its intended purpose.

The statements and opinions given in this report are given in good faith and in the belief that such statements and opinions are not false or misleading.

Our conclusions are based on the assumptions stated and on information provided by Management. Neither Grant Thornton Corporate Finance, Grant Thornton Australia Limited nor any member or employee thereof undertakes responsibility in any way whatsoever to any person in respect of errors in this report arising from incorrect information provided by Management.

Macquarie Radio Network has provided an indemnity to us for any claims arising out of any mis-statement or omission in any material or information provided to us in the preparation of this report.

In the preparation of this report we have relied upon and considered information believed after due enquiry to be reliable and accurate. We have no reason to believe that any information supplied to us was false or that any material information has been withheld from us.

We do not imply and it should not be construed that we have verified any of the information provided to us, or that our enquiries could have identified any matter which a more extensive examination might disclose. We have however evaluated the information provided to us by Management as well as other parties through enquiry and analysis in order to consider whether anything comes to our attention to indicate the information provided was materially mis-stated or would not afford reasonable grounds upon which to base our report.

We have made enquiries with the partners, directors and managers of Grant Thornton and Grant Thornton Corporate Finance and confirm we are independent of the Company. We have also considered the requirements of APES 110 *Code of Ethics for Professional Accountants* issued by the Accounting Professional and Ethical Standards Board ("APES Board") and confirm that neither Grant Thornton nor Grant Thornton Corporate Finance are aware of any circumstances which compromise our independence to undertake this assignment.

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Appendix A – Valuation methodology

Discounted cash flow

An analysis of the net present value of projected cash flows or DCF is a valuation technique based on the premise that the value of the business is the present value of its future cash flows. This technique is particularly suited to a business with a finite life. In applying this method, the expected level of future cash flows are discounted by an appropriate discount rate based on the WACC. The cost of equity capital, being a component of the WACC, is estimated using the Capital Asset Pricing Model.

Predicting future cash flows is a complex exercise requiring assumptions as to the future direction of the company, growth rates, operating and capital expenditure and numerous other factors. An application of this method generally requires cash flow forecasts for a minimum of five years.

Capitalisation of future maintainable earnings

The capitalisation of future maintainable earnings is a suitable valuation method for businesses that are expected to trade profitably into the foreseeable future. Maintainable earnings are the assessed sustainable profits that can be derived by a company's business and excludes any abnormal or "one off" profits or losses.

This approach involves a review of the multiples at which shares in listed companies in the same industry sector trade on the share market. These multiples give an indication of the price payable by portfolio investors for the acquisition of a parcel shareholding in the company.

Net asset backing/orderly realisation of assets

The amount that would be distributed to shareholders on an orderly realisation of assets is based on the assumption that a company is liquidated with the funds realised from the sale of its assets, after payment of all liabilities, including realisation costs and taxation charges that arise, being distributed to shareholders.

Market value of listed securities

Market value is the price per issued share as quoted on the ASX or other recognised securities exchange. The share market price would, prima facie, constitute the market value of the shares of a publicly traded company, although such market price usually reflects the price paid for a minority holding or small parcel of shares, and does not reflect the market value offering control to the acquirer.

Comparable transactions

The comparable transactions method is the value of similar assets established through comparative transactions to which is added the realisable value of surplus assets. The comparable transactions method uses similar or comparative transactions and/or listed trading companies to establish a value for the current transaction.

The comparable transactions methodology involves applying multiples extracted from the market transaction price of similar assets to the equivalent assets and earnings of the company.

The risk attached to this valuation methodology is that in many cases, the relevant transactions contain features that are unique to that transaction and it is often difficult to establish sufficient detail of all the material factors that contributed to the transaction price.

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Appendix B – Discount Rate

Introduction

The discount rate was determined using the WACC formula. The WACC represents the average of the rates of return required by providers of debt and equity capital to compensate for the time value of money and the perceived risk or uncertainty of the cash flows, weighted in proportion to the market value of the debt and equity capital provided. However, we note that the selection of an appropriate discount rate is ultimately a matter of professional judgment.

Under a classical tax system, the WACC is calculated as follows:

$$\text{WACC} = R_d \times \frac{D}{D+E} \times (1-t) + R_e \times \frac{E}{D+E}$$

Where:

- R_e = the required rate of return on equity capital;
- E = the market value of equity capital;
- D = the market value of debt capital;
- R_d = the required rate of return on debt capital; and
- t = the statutory corporate tax rate.

WACC Inputs

Required rate of return on equity capital

We have used the Capital Asset Pricing Model ("CAPM"), which is commonly used by practitioners, to calculate the required return on equity capital.

The CAPM assumes that an investor holds a large portfolio comprising risk-free and risky investments. The total risk of an investment comprises systematic risk and unsystematic risk. Systematic risk is the variability in an investment's expected return that relates to general movements in capital markets (such as the share market) while unsystematic risk is the variability that relates to matters that are unsystematic to the investment being valued.

The CAPM assumes that unsystematic risk can be avoided by holding investments as part of a large and well-diversified portfolio and that the investor will only require a rate of return sufficient to compensate for the additional, non-diversifiable systematic risk that the investment brings to the portfolio. Diversification cannot eliminate the systematic risk due to economy-wide factors that are assumed to affect all securities in a similar fashion. Accordingly, whilst investors can eliminate unsystematic risk by diversifying their portfolio, they will seek to be compensated for the non-diversifiable systematic risk by way of a risk premium on the expected return. The extent of this compensation depends on the extent to which the company's returns are correlated with the market as a whole. The greater the systematic risk faced by investors, the larger the required return on capital will be demanded by investors.

The systematic risk is measured by the investment's beta. The beta is a measure of the co-variance of the expected returns of the investment with the expected returns on a hypothetical portfolio comprising all investments in the market – it is a measure of the investment's relative risk.

A risk-free investment has a beta of zero and the market portfolio has a beta of one. The greater the systematic risk of an investment the higher the beta of the investment.

The CAPM assumes that the return required by an investor in respect of an investment will be a combination of the risk-free rate of return and a premium for systematic risk, which is measured by multiplying the beta of the investment by the return earned on the market portfolio in excess of the risk-free rate.

Under the CAPM, the required nominal rate of return on equity (R_e) is estimated as follows:

$$R_e = R_f + \beta_e (R_m - R_f)$$

Where:

- R_f = risk free rate
- β_e = expected equity beta of the investment
- $(R_m - R_f)$ = market risk premium

Risk free rate

We have adopted a risk free rate of:

- MRN on a standalone basis - 4.31% based on the previous 5 year trading of the 10 year Australia Government Bonds' yield.

We selected the 5 year trading rate due to high volatility in global equity markets over the past several years and subsequently, the potential distortion possible with recent quantitative easing.

Market risk premium

The market risk premium represents the additional return an investor expects to receive to compensate for additional risk associated with investing in equities as opposed to assets on which a risk free rate of return is earned.

In our assessment of the market risk premium we have taken into consideration:

- Empirical studies of the historical risk premium in Australia over periods of up to 100 years suggest the premium is between 6% and 8%.
- The adjusted long horizon equity risk premium in the US based on a historical study during the period 1926-2013 of mean actual returns as published in Stocks, Bonds, Bills and Inflation® Valuation Edition 2013 Yearbook, (Morningstar, Inc., 2013) of 5.75%.

For the purpose of the valuation, Grant Thornton Corporate Finance has adopted a market risk premium of 6%.

Beta

The beta measures the expected relative risk of the equity in a company. The choice of the beta requires judgement and necessarily involves subjective assessment as it is subject to measurement issues and a high degree of variation.

An equity beta includes the effect of gearing on equity returns and reflects the riskiness of returns to equity holders. However, an asset beta excludes the impact of gearing and reflects the riskiness of returns on the asset, rather than returns to equity holders. Asset betas can be compared across asset classes independent of the impact of the financial structure adopted by the owners of the business.

Equity betas are typically calculated from historical data. These are then used as a proxy for the future which assumes that the relative risk of the past will continue into the future. Therefore, there is no right equity beta and it is important not to simply apply historical equity betas when calculating the cost of equity.

For the purpose of this report, we have had regard to the observed betas (equity and regeared betas) of listed television and radio broadcasting with significant Australian operations. The following table sets out the summary of our beta analysis:

Company Beta analysis	Country	Market Cap $'million	Equity Beta[1]	R squared	Gearing Ratio[1]	Ungeared Beta	Regeared Beta
Macquarie Radio Network Limited	Australia	89	0.83	0.45	18.8%	0.74	0.86
Fairfax Media Limited	Australia	2,081	1.47	0.00	22.0%	1.28	1.50
Southern Cross Media Group Limited	Australia	776	1.87	0.00	63.5%	1.29	1.52
APN News & Media Ltd.	Australia	823	1.54	0.05	128.1%	0.81	0.95
Pacific Star Network Ltd.	Australia	21	NM	0.01	0.0%	NM	NM
Seven West Media Limited	Australia	1,249	2.04	0.09	60.4%	1.43	1.69
Ten Network Holdings Limited	Australia	529	0.46	0.21	18.9%	0.41	0.48
Prime Media Group Limited	Australia	310	0.72	0.61	43.9%	0.55	0.65
Average			**1.41**	**0.26**	**88%**	**0.84**	**0.99**
Median			**1.54**	**0.09**	**52%**	**0.81**	**0.95**

Source: CapitalIQ and GTCF calculations

Note (1): Equity betas are calculated using data provided by CapitalIQ. The betas are based on a five-year period with monthly obervations and have been degeared based on the average gearing ratio over five years.

It should be noted that the above betas are drawn from the actual and observed historical relationship between risk and returns. From these actual results, the expected relationship is estimated generally on the basis of extrapolating past results. Despite the arbitrary nature of the calculations it is important to assess their commercial reasonableness. That is, to assess how closely the observed relationship is likely to deviate from the expected relationship.

Consequently, while measured equity betas of the listed comparable companies provide useful benchmarks against which the equity beta used in estimating the cost of equity for the pre-development assets, the selection of an unsystematic equity beta requires a level of judgement.

The ungeared betas are calculated by adjusting the equity betas for the effect of gearing to obtain an estimate of the business risk of the comparables, a process commonly referred as de-gearing. We used the following formula to undertake the de-gearing exercise:

$$\beta_e = \beta_a\left[1 + \frac{D}{E} \times (1 - t)\right]$$

Where:

β_e = Equity beta
β_a = Ungeared beta
t = Corporate tax rate

The betas are de-geared using the average gearing[35] level over the period in which the betas were observed.

In selecting the appropriate beta for MRN and the Merged Group, we have considered the following:

- Except for Pacific Star Network, the remaining comparable companies are relatively larger in size and are more diversified in terms of business operations.

- Fairfax's operations include newspapers, magazines, and digital media Fairfax's core operations are predominantly built around paper and magazines publications in Australia and New Zealand via different forms of media and the performance of the Domain Group. The media business is now driven by a fast-paced change in information technology and it presents unique challenges, new forms of competitions and risk profiles compared with the more traditional radio operations.

- Southern Cross provides media content around Australia via its radio and TV brands and digital platform. Southern Cross owns a network of FM radio stations across Australia (metro and regional areas) including Triple M, 2DayFM, Mix 94.5, Hit 929. Southern Cross' television services cover most of regional Australia through affiliation arrangements with all metropolitan commercial networks to provide programming content. However, Southern Cross has recently faced a number of issues in relation to its investment in troubled Channel 10.

- Radio comprises approximately 30% of APN revenue with the balance comprising newspaper and on-line publishing. The radio network generated circa 50% of the EBITDA before corporate costs for the half year ending 30 June 2014. Amongst the Sydney radio stations are two premier ratings stations, WSFM and KIIS 106.5, which ranked second and third, after 2GB, with ratings of 8.9% and 8.6% in the last survey results for 2014.

Based on the analysis above, we have selected a beta between 0.90 and 1.10 for the Merged Group and MRN.

[35] Gearing ratio represents Net debt/Market capitalisation.

Specific risk premium

Given that MRN is relatively smaller than all comparable companies mentioned above and to take into account the specific circumstances of MRN and the Merged Group, we have adopted a specific risk premium in the range of 1.0% and 2.0%.

Cost of debt

For the purpose of estimating the cost of debt, Grant Thornton Corporate Finance has considered:

- The weighted average interest rate on credit outstanding for large businesses over the last twelve months as published by the Reserve Bank of Australia, which represents the all up interest cost of business loans (including risk margins) across all banks.
- Current cost of debt for MRN.
- The debt-to-equity ratio adopted for the purpose of the WACC.

Based on the above, Grant Thornton Corporate Finance has adopted the rounded cost of debt in the range of 7.0% to 8.0%.

Tax rate

We have adopted a notional tax rate for MRN on a standalone basis based on the Australian statutory corporate tax rate of 30%.

Capital structure

Grant Thornton Corporate Finance has considered the gearing ratio which a hypothetical purchaser of the business would adopt in order to generate a balanced return given the inherent risks associated with debt financing. Factors which a hypothetical purchaser may consider include the shareholders' return after interest payments, and the business' ability to raise external debt.

The appropriate level of gearing that is utilised in determining the WACC for a particular company should be the "target" gearing ratio, rather than the actual level of gearing, which may fluctuate over the life of a company. The target or optimal gearing level can therefore be derived based on the trade-off theory which stipulates that the target level of gearing for a project is one at which the present value of the tax benefits from the deductibility of interest are offset by present value of costs of financial distress. In practice, the target level of gearing is evaluated based on the quality and variability of cash flows. These are determined by:

- The quality and life cycle of a company.
- The quality and variability of earnings and cash flows.
- Working capital.
- Level of capital expenditure.

- The risk profile of the assets.

For the purpose of the valuation, Grant Thornton Corporate Finance has adopted a debt to equity ratio in the range of 20% debt and 80% equity.

WACC calculation

The discount rate is determined using the WACC formula is set out below:

WACC calculation	Low	High
Cost of equity		
Risk free rate	4.3%	4.3%
Beta	0.90	1.10
Market risk premium	6.0%	6.0%
Specific risk premium	1.0%	2.0%
Cost of equity	**10.7%**	**12.9%**
Cost of debt		
Cost of debt (pre tax)	7.0%	8.0%
Tax	30%	30%
Cost of debt (post tax)	**4.9%**	**5.6%**
Capital structure		
Proportion of debt	20%	20%
Proportion of equity	80%	80%
	100%	100%
WACC (post tax)	**9.5%**	**11.4%**

Source: Capital IQ, RBA statistics and GTCF calculations

Based on the above analysis, we adopted a post-tax WACC in the range of 9.5% to 11.4% for MRN.

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Appendix C – Comparable company descriptions

Television and Radio Broadcasting Companies – Macquarie Radio Network

The following section sets out a brief overview about Australian radio and television broadcasters companies in Australia:

Company	Description
Tier 1 – Australian radio broadcasters	
Macquarie Radio Network Limited	Macquarie Radio engages in the radio and associated media activities in Australia. The company owns and operates 2GB and 2CH commercial radio stations in Sydney; and eight radio stations based in regional Queensland. It also owns Map and Page, a public relations and marketing communications agency; and media Websites comprising 2GB.com, 2CH.com, and rugbyleaguelive.com.au.
Fairfax Media Limited	Fairfax Media operates as a multi-platform media company in Australasia. It publishes news, information, and entertainment. The company publishes metropolitan, agricultural, regional, and community newspapers, as well as financial and consumer magazines; and has a portfolio of Websites, including the online news sites smh.com.au and theage.com.au in Australia, and stuff.co.nz in New Zealand, as well as tablet and smartphone apps. It has metropolitan, rural, regional, and community mastheads. The company is also involved in advertising sales in print and digital formats. In addition, it holds radio licenses in various metropolitan locations in Australia, including 2UE in Sydney, 3AW and Magic 1278 Melbourne, 4BC and 4BH Brisbane, and 6PR and 96fm in Perth.
Southern Cross Media Group Limited	Southern Cross Media is engaged in the creation and broadcasting of content on free to air FM and digital commercial radio, TV, and online media platforms in Australia. The company's radio networks deliver entertainment, music, sport, comedy, and big events; and TV radio stations offer various markets local news updates and community announcements. Southern Cross Media owns 78 radio stations; and owns 19 regional free to air television licenses that cover 30 regional sub markets. It also owns approximately 85 Websites; and social media stations, as well as develops mobile applications and m-sites for its radio station brands. In addition, the company rents a transmission facility.
APN News & Media Limited	APN publishes newspapers and magazines in Australia and New Zealand. It operates in six segments: Australian Regional Media, New Zealand Media, Australian Radio Network, The Radio Network, Outdoor, and Digital. Further, it provides street furniture advertising; exterior, interior plus Webus platforms, and services for commuters and advertisers; billboard and transit advertising solutions; and operates commercial printing businesses in Australia and New Zealand. Additionally, the company owns two radio networks, such as Australian Radio Network and The Radio Network in New Zealand. The company operates NZ Herald Online; GrabOne, a group buying site; and iNC Digital Media that delivers results through various devices.
Pacific Star Network Limited	Pacific Star operates in the media industry in Australia. The company operates through two segments, Radio and Print. It owns two Melbourne AM commercial broadcasting licenses and broadcasts 24/7 on 1377 MyMP and 1116 SEN Sports Entertainment Network. The company also operates two digital radio stations, AUSSIE, an all Australian all the time radio station; and KOOOL, which plays songs from the 70s and 80s. In addition, it prints Inside Football magazine; and holds interests in other applications, including SportSENtral through sen.com.au.
Tier 2 – Domestic television broadcaster	
Seven West Media Limited	Seven West Media operates as a multi-platform media company in Australia. The company operates through Television, Newspapers, Magazines, and Other segments. It operates free to air commercial television stations; and publishes The West Australian newspaper and insert magazines. In addition, it is involved in radio stations broadcasting in regional areas of Western Australia; commercial printing operation; digital publishing; operation of Yahoo!7, a platform for online television, newspaper, and magazine content; and community newspapers publishing activities.
Prime Media Group Limited	Prime Media provides commercial television broadcasting services in Australia and New Zealand. The company offers free to air television broadcasting services through PRIME7 and the Golden West Network (GWN7) to the regional locations of Australia. It also delivers localized content in the categories of news, weather, sport, TV shows, jobs, and community events through the Websites integrated with the PRIME7 and GWN7 broadcast footprint.

Note (1): Based on the latest annual results
Source: S&P Capital IQ and GTCF analysis

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Appendix D – Comparable target company descriptions

Target company description - Television and Radio Broadcasting Companies

The following section sets out a brief overview about television and radio broadcasting companies in Australia:

Company	Description
Radio 96FM Perth Pty Ltd	96FM is one of FRN's largest radio stations. 96FM's format is easy listening in Perth. Its main audience is younger generation compared to other stations in FRN before it was sold to APN News & Media Ltd. The annual average rating reduced from approximately 11.4% in 2012 to 10.6% in 2014 (after experiencing a big drop from 12.1% during 20113) primarily due to the underperformance of 96fm Breakfast Show.
Eagle Waves Radio	Eagle Waves Radio operates as a radio station in Australia. The company offers program content to small business owners and entrepreneurs, government, and communities.
50% Stake in Australia Radio Network Pty Limited and The Radio Network	As of February 19, 2014, 50% Stake In Australian Radio Network Pty Limited and The Radio Network was acquired by APN News & Media Ltd. Australian Radio Network Pty Limited owns and operates commercial radio stations. The Radio Network owns and operates radio stations. Australian Radio Network Pty Limited is based in Sydney, Australia and The Radio Network is based in Auckland, New Zealand.
Sunshine Coast Broadcasters Pty Ltd	Sunshine Coast owns FM radio stations. As of March 15, 2013, Sunshine Coast Broadcasters Pty Ltd. operates as a subsidiary of Eon Broadcasting Pty. Ltd.
dmg Radio Australia Pty Ltd	NOVA Entertainment Pty Ltd. owns and operates a network of radio stations around Australia covering in Brisbane, Sydney, Melbourne, Adelaide, and Perth. The company also owns and operates smoothfm 95.3 in Sydney, smoothfm 91.5 in Melbourne, Radio FIVEaa in Adelaide, Star 104.5 in Gosford. In addition, it offers advertising services via its radio stations. NOVA Entertainment Pty Ltd. was formerly known as dmg Radio Australia Pty Ltd.
Fairfax Media Limited, Regional Radio Assets	As of October 31, 2011, Regional radio assets of Fairfax Media Limited were acquired by Grant Broadcasters Pty. Ltd. Fairfax Media Limited, Regional Radio Assets comprise eight radio stations namely 5CC, 5AU, 5CS, 5RM, Magic FM, 4BU, Hitz Fm, and Kix FM respectively.
Smart Radio Group Network	Smart Radio Group Network owns and operates radio stations in Queensland. The company also enables its customers to tune into its radio stations online. It provides coverage in Cloncurry, Mount Isa, Goondiwindi, Charleville, Kingaroy, Dalby, Roma, St George, Rollestone, Moranbah, Goonyella, Alpha, and Dingo.
Austereo Group Limited	Austereo Group engages in commercial radio broadcasting operations in Australia. It operates three radio networks, including Today that features hit songs, entertaining shows, promotions and events, and celebrity gossip; Triple M, which provides music; and Radar Radio, a digital radio that plays new music from established artists and up coming musicians, as well as operates Barry, a digital comedy channel. Austereo Group also provides marketing solutions, campaign implementation, creative services, and post campaign reporting to consumers and advertisers.
Stripe Radio	Stripe Radio offers radio services. As of December 21, 2009, Stripe Radio operates as a subsidiary of miRoamer.

Source: S&P Capital IQ and GTCF analysis

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Appendix E – Glossary

$	Australian Dollar
ABC	Australian Broadcasting Corporation
ACCC	Australian Competition and Consumer Commission
ACMA	Australian Communications and Media Authority
APES Board	Accounting Professional and Ethical Standards Board
APES Board	Accounting Professional and Ethical Standards Board
APES110	Code of ethics for Professional Accounting
APN	APN News and Media Limited
ARN	Australian Radio Network Limited
ASIC	Australian Securities Investment Commission
ASX	Australian Stock Exchange
BSA	Section 36 of Broadcasting Services Act 1992
CAGR	Compound Annual Growth Rate
CAPM	Capital Asset Pricing Model
Cash Payment	Cash payment of $18,141,209 as part of considerations for the Proposed Merger
CEO	Chief Executive Officer
CFO	Chief Financial Officer
COO	Chief Operational Officer
Corporations Act	Corporations Act 2001
CRA	Commercial Radio Australia
CRN	Capital Radio Network Pty Ltd
DCF	Discounted Cash Flow
EBIT	Earnings Before Interest and Tax
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
FCFF	Free Cash Flow to Firm
FRN	Fairfax Radio Network Pty Ltd
FSG	Financial Services Guide
FY	Financial year
GFC	Global Financial Crisis
Grant Thornton Corporate Finance	Grant Thornton Corporate Finance Pty Ltd
HY	Half year
MIA	Merger Implementation Agreement

MRN	Macquarie Radio Network Ltd
MRR	Macquarie Regional Radio
Nova	Nova Entertainment Pty Ltd
Pacific Star	Pacific Star Network Limited
Proposed Merger	The Proposed merger between MRN and FRN
RBA	Reserve Bank of Australia
RG	Regulatory Guide
RG111	ASIC Regulatory Guide 111 “Contents of expert reports”
RG112	ASIC Regulatory Guide 112 “Independence of Experts”
RG74	ASIC Regulatory Guide 74 “Acquisitions agreed to by shareholders”
SBS	Special Broadcasting Service
SCA	Southern Cross Austereo Ltd
Scrip Consideration	93,196,512 fully-paid ordinary MRN shares as part of considerations for the Proposed Merger
Southern Cross	Southern Cross Media Group Limited
TSA	Transitional Services Agreement
VWAP	Value Weighted Average Price
WACC	Weighted Average Cost of Capital
YTDFY15	Six-month period up to 31 December 2014

Appendix B

Notice of Extraordinary General Meeting

Appendix to Explanatory Memorandum

Notice of Extraordinary General Meeting

Macquarie Radio Network Limited ACN 063 906 927

Notice is hereby given that an Extraordinary General Meeting of shareholders of Macquarie Radio Network Limited ACN 063 906 927 will be held at the offices of Macquarie Radio Network Limited, Level 1, Building C, 33-35 Saunders Street, Pyrmont New South Wales on 25 March 2015, commencing at 11.00am (Sydney time).

Important

- The resolutions should be read in conjunction with the Explanatory Memorandum which sets out a detailed explanation of the background and reasons for the proposed resolutions.
- Certain terms used below are defined in the Glossary of the Explanatory Memorandum.

Resolution 1 – Amendment of the Constitution of MRN

MRN Shareholders are asked to consider, and, if thought fit, to pass the following resolution as a special resolution.

> *That, subject to Fairfax not having provided MRN with notice of its objection to this Constitution Amendment before Completion, approval is granted for the amendment to the Constitution as set out in Appendix C in the Explanatory Memorandum accompanying this Notice of Meeting for the purposes of section 136 of the Corporations Act and for all other purposes with such amendment to take effect from 12.00pm on the day after Completion.*

Resolution 2 – Approval of acquisition by Fairfax of relevant interests in MRN Shares under the Proposed Transaction

MRN Shareholders are asked to consider and, if thought fit, pass the following resolution as an ordinary resolution:

> *That, for the purpose of item 7 of section 611 of the Corporations Act, and as outlined in the Explanatory Memorandum accompanying this Notice of Meeting, approval is given for the acquisition by Fairfax of a relevant interest in the MRN Shares to be issued by MRN on Completion of the Proposed Transaction, on the basis that Fairfax's voting power in MRN immediately following Completion of the Proposed Transaction will not exceed 54.5%.*

Voting exclusion

MRN will disregard any votes cast by Fairfax or any of its Associates in favour of Resolution 2.

By order of the Board

Lisa Young
Chief Financial Officer and Company Secretary
23 February 2015

Appendix C

Explanation of resolutions

Appendix to Explanatory Memorandum

Explanation of resolutions

There are two resolutions to be considered at the EGM:

- **Resolution 1**, being a special resolution to amend the Constitution to provide Singleton with the right to appoint one nominee director to the Board as described in this Explanatory Memorandum; and
- **Resolution 2**, being an ordinary resolution to approve the acquisition of relevant interests in the MRN Shares to be acquired by Fairfax in the Proposed Transaction for the purposes of Chapter 6 of the Corporations Act.

The Resolutions are **not** inter-conditional. Therefore, it is possible that:

- that both the Proposed Transaction and the Constitutional Amendment proceed;
- the Proposed Transaction may proceed while the Constitutional Amendment does not;
- the Constitutional Amendment may proceed while the Proposed Transaction does not; or
- that neither the Proposed Transaction and the Constitutional Amendment proceed.

Resolution 1 is a special resolution. In order for a special resolution to be passed, more than 75% of the votes cast on the resolution by MRN Shareholders entitled to vote on the resolution must be in favour of the resolution.

Resolution 2 is an ordinary resolution. In order for an ordinary resolution to be passed, more than 50% of the votes cast on the resolution by MRN Shareholders entitled to vote on the resolution must be in favour of the resolution.

The Directors recommend that MRN Shareholders vote in favour of all of the Resolutions.

Resolution 1 – Amendment of the Constitution

MRN is currently governed by its existing Constitution that has been in effect since the Company was listed on 18 April 2005. Pursuant to section 136(2) of the Corporations Act, it is proposed to amend the Constitution by a special resolution of MRN Shareholders.

The MRN Board currently comprises 5 directors, including the Chairman. There are two non-executive directors that are independent. Two non-executive directors and the Chairman are considered non-independent in accordance with ASX's Corporate Governance Principles and Recommendations (3rd ed. 2014) as they are appointed by Singleton.

Singleton currently holds 71.15% of MRN Shares. Pursuant to the terms of the Proposed Transaction, Fairfax will hold 54.5% of MRN Shares upon Completion and will hold control of MRN. Singleton will no longer hold control and will hold 32.4% of MRN Shares upon Completion.

It is therefore proposed that the Constitution be amended so that Singleton has the right to appoint one nominee director to the Board, so long as it holds in excess of 20% of the Shares on issue. This right will expire on the third anniversary of the passage of Resolution 1.[10] The nominee director will be subject to removal by the Shareholders in general meeting under section 203D of the *Corporations Act,* the

[10] As described at section 8.3, it is condition precedent of the MIA that MRN not alter the Constitution (provided that it may do so with the approval of Fairfax or if Fairfax Completes the Proposed Transaction despite the failure to satisfy this condition precedent). The Board has informed Fairfax of its intention to put Resolution 1 to Shareholders, but is presently unaware of whether Fairfax objects to the Constitution Amendment. However, it is noted that, if passed, Resolution 1 will only take effect after Completion of the Proposed Transaction and subject to Fairfax not having provided MRN with notice of its objection to the Constitution Amendment before Completion.

provisions of the Listing Rules and the Constitution that require directors to retire by rotation.
The language of the proposed Constitution Amendment is set out below.

1. *Clause 6.1(c) of the Constitution is amended to insert the words 'and clause 6.1A' after the word '(m)'.*

2. *Clause 6.1(d) of the Constitution is amended to insert the words 'and clause 6.1A' after the word '(a)'.*

3. *Clause 6.1(e) of the Constitution is amended to insert the words 'or clause 6.1A' after the words 'paragraph (d)'.*

4. *Clause 6.1(h) of the Constitution is amended to insert the words 'and clause 6.1A' after the word '(m)'.*

5. *Clause 6.1(k)(ii) of the Constitution is amended to insert the words 'and clause 6.1A' after the word '(m)'.*

6. *Clause 6.1(l) of the Constitution is amended to delete the word '(k)(k)(i)' and replace it with word '(k)(i)'.*

7. *Clause 6.1(m) of the Constitution is amended by:*

   (a) deleting the word 'or' in paragraph (iii);

   (b) deleting the full stop in paragraph (iv) and replacing it with the words '; or'; and

   (c) inserting a new paragraph (v) as follows:

   *'**Nomination by Singleton**: that person is nominated by, and appointed at the direction of, Singleton under clause 6.1A.'*

8. *The Constitution is amended to add a new clause 6.1A as follows:*

6.1A Singleton right to appoint directors

(a) Subject to clause 6.1A(g), from the inclusion of this clause 6.1A in this constitution and for such time as Singleton owns, or beneficially owns, not less than 20% of all fully paid ordinary shares of the Company then on issue, Singleton has, subject to clause 6.1(a), the right to appoint one nominee as director of the Company from time to time and may (and the Company must, subject to the Corporations Act, the Listing Rules and other applicable laws, if so requested by Singleton) replace its nominee director at any such time, including by appointing another nominee to replace a nominee which is removed or resigns as director at any such time, in each case, in accordance with this clause 6.1A.

(b) The initial Singleton Director is deemed to be Mr Jack Singleton.

(c) The replacement of the initial Singleton Director or any subsequent Singleton Director appointed in accordance with this clause 6.1A, in each case, following their removal (in accordance with clause 6.1A(a) or 6.1), resignation, death or other vacation of the office of director in accordance with clause 6.2 must occur as follows:

(i) within ten Business Days of such vacation, Singleton must give notice in writing to the Company of the identity of the replacement Singleton Director, together with a consent to act signed by that person; and

(ii) the Company must procure that the other directors resolve (subject to their fiduciary duties) to appoint (on the same terms as the other non-executive directors of the Company) such replacement Singleton Director under clause 6.1(d) within five Business Days of receipt of such notice and signed consent to act from the directors in accordance with clause 6.1A(b).

(d) After the appointment of the Singleton Director (including a replacement Singleton Director), the Company must procure that the directors:

(i) ensure that the Singleton Director is proposed for re-election as a director at the next general meeting of the Company convened after the appointment and at any general meeting at which the Singleton Director is required to retire under clause 6.1(f) or the Listing Rules; and

(ii) supports the re-election of the director at the next general meeting of the Company convened after the appointment of the director, and, subject to each director's fiduciary duties (taking into account the Company's usual director review process), at all subsequent general meetings of the Company at which the director is due for re-election,

and, for the avoidance of doubt, if the members do not approve such resolution to re-elect the director, Singleton may nominate a replacement Singleton Director under clause 6.1A(c) who shall be appointed in accordance with clause 6.1A(c).

(e) For the avoidance of doubt, clauses 6.1(e) to (g), inclusive, (i), (j), (k) and (l) apply to the Singleton Director (subject, where stated, to this clause 6.1A).

(f) If Singleton legally or beneficially holds less than 20% of the Company's shares, Singleton will procure the resignation of the Singleton Director appointed in accordance with this clause 6.1A.

(g) This clause 6.1A shall cease to have effect three years after the date on which the resolution approving the inclusion of this clause in this constitution is passed by members in general meeting.

9. Attachment A of the Constitution is amended by inserting the following definitions in alphabetical order:

***Singleton** means John Singleton Promotions Pty Limited ABN 33 001 608 546 or any of its related bodies corporate (as defined under the Corporations Act).*

***Singleton Director** means, initially, the person referred to in clause 6.1A(b) and, thereafter, a person Singleton nominates as a director in accordance with clause 6.1A(c).*

The Directors recommend that MRN Shareholders vote in favour of Resolution 1.

Resolution 2 – Approval of acquisition by Fairfax of relevant interests in MRN Shares under the Proposed Transaction

Section 606 of the Corporations Act prohibits the acquisition of a relevant interest (as that term is defined in the Corporations Act) in voting shares of a listed company if the acquisition would increase a person's voting power (as that term is defined in the Corporations Act) in the company from 20% or below to more than 20%, or from a starting point that is above 20% and below 90%. Item 7 of section 611 of the Corporations Act permits the acquisition of a relevant interest in voting shares in a listed company that would otherwise contravene section 606 of the Corporations Act if it has previously been approved by a resolution of members where no votes are cast in favour of the resolution by a person acquiring the relevant interest and its associates.

The acquisition by Fairfax of a relevant interest in MRN Shares to be issued to as part of the consideration for selling the share capital of FRN to MRN under the Proposed Transaction would, without shareholder approval pursuant to item 7 of section 611 of the Corporations Act, be prohibited under section 606 of the Corporations Act.

Resolution 2 approves, for the purposes of item 7 of section 611 of the Corporations Act, the acquisition by Fairfax of a relevant interest in the MRN Shares to be issued to Fairfax on Completion, on the basis that Fairfax's voting power in MRN immediately following Completion of the Proposed Transaction will not exceed 54.5%.

The Directors recommend that MRN Shareholders vote in favour of Resolution 2, subject to no Superior Proposal being received.

Appendix D

Meeting and notes on voting

Appendix to Explanatory Memorandum

Meeting and notes on voting

Venue and time

The EGM will be held at the offices of Macquarie Radio Network Limited, Level 1, Building C, 33-35 Saunders Street, Pyrmont, New South Wales on 25 March 2015, commencing at 11.00am (Sydney time).

Voting entitlement

A person's entitlement to vote at the EGM will be taken to be the entitlement of that person shown on the Register at 7.00pm on 23 March 2015, unless in respect of a Resolution, a voting exclusion applies to them.

How to vote

You may vote by attending the EGM in person or by proxy. Shareholders attending in person must register their attendance on arrival at the EGM. A body corporate may vote by appointing a corporate representative. A corporate representative must produce a certificate of appointment (including authority under which it is signed) before entering the EGM. A form of certificate may be obtained by MRN's Share Registry.

Voting by proxy

You may appoint any person to attend and vote as your proxy, including the Chairman of the EGM. A proxy is not required to be an MRN Shareholder. To appoint a proxy, please complete and lodge the enclosed form in accordance with the instructions below.

If you are entitled to cast 2 or more votes, you may appoint up to two proxies. Neither proxy is entitled to vote on a show of hands. If you appoint 2 proxies, each proxy is only entitled to vote on a poll in the proportion or number of votes specified in the appointment. If no proportion or number of votes is specified, each proxy may vote half of your votes on any poll.

To vote by proxy, please lodge your proxy form:

- lodged on-line at www.investorvote.com.au in accordance with the instructions there (however, this method cannot be used to appoint 2 proxies); or
- mailed in the reply paid envelope to Computershare Investor Services Pty Limited at GPO Box 242 Melbourne, Victoria 3001; or
- faxed to the Computershare Investor Services Pty Limited on facsimile number 1800 783 447 (International +61 3 9473 2555).

If the proxy is signed by an attorney, the power of attorney or a certified copy of it, must be sent with the proxy form.

The proxy form must be received by 11.00am on 23 March 2015.

Chairman's intention

It is expected that Mr Russell Tate will chair the EGM and vote undirected proxies in favour of the Resolutions.

Glossary

The following terms used in this Explanatory Memorandum (including the Notice of Meeting in this document) have the meaning given to them below, unless the context otherwise requires.

Term	Meaning
ACCC	Australian Competition and Consumer Commission
ACMA	Australian Communications and Media Authority
AFL	Australian Football League
ANZ	Australia and New Zealand Banking Group Limited
Associate	has the meaning given to it in section 9 of the Corporations Act
ASX	ASX Limited ACN 008 624 691 or, as the context requires, the financial market operated by it
ASX Listing Rules	the official listing rules of ASX
Board	the board of Directors of MRN
BSA	*Broadcasting Services Act 1992* (Cth)
Capital Expenditure Shortfall	the amount (if any) of the budgeted capital expenditure of $1.4 million for the construction of the transmitter site in Homebush, NSW under the construction contract entered into in December 2014 with Kordia Solutions Pty Limited that has not, as at Completion, been spent by MRN before Completion
CCA	*Competition and Consumer Act 2010* (Cth)
Combined Group	MRN following Completion of the Proposed Transaction
Combined Group Financial Information	the pro forma historical financial information relating to the Combined Group described under the heading 'Introduction' in section 6.8
Competing Proposal	any proposal, agreement, arrangement or transaction, which, if entered into or completed, would mean a third party (either alone or together with any Associate) may: • directly or indirectly acquire a relevant interest (within the meaning of section 608 of the Corporations Act) in, or have a right to acquire, a legal, beneficial or economic interest in, or control of, 15% or more of MRN Shares; • acquire control (within the meaning of section 50AA of the Corporations Act) of MRN; • directly or indirectly acquire or become the holder of, or otherwise acquire or have a right to acquire, a legal, beneficial or economic interest in, or control of, all or a material part of MRN's business or assets or the business or assets of the MRN Group; • otherwise directly or indirectly acquire or merge with MRN; or • require MRN to abandon, or otherwise fail to proceed with, the

Term	Meaning
	Proposed Transaction, whether by way of takeover bid, members' or creditors' scheme of arrangement, shareholder approved acquisition, capital reduction, buy back, sale or purchase of shares, other securities or assets, assignment of assets and liabilities, incorporated or unincorporated joint venture, dual-listed company (or other synthetic merger), deed of company arrangement, any debt for equity arrangement or other transaction or arrangement
Completion	completion of the Proposed Transaction, as contemplated in the MIA
Constitution	the constitution of MRN, as amended from time to time
Constitution Amendment	the amendment to the Constitution described in this Explanatory Memorandum
Corporations Act	*Corporations Act 2001* (Cth)
Director	a member of the Board of directors of MRN
Dollar, $, A$ or AUD	the currency of the Commonwealth of Australia
EBITDA	Earnings before interest, tax, depreciation and amortisation
Enforceable Undertakings	the enforceable undertakings given to the ACMA on 13 January 2015 by MRN in connection with the prior approval of temporary breaches of Part 5 and Part 14D of the BSA arising from the Proposed Transaction and described in section 2.3, and summarised at section 8.3, of this Explanatory Memorandum
Exclusivity Period	the period from and including the date of the MIA to the earlier of: • the date of termination of the MIA; • 30 April 2015; or • Completion
Explanatory Memorandum	this document
Extraordinary General Meeting or EGM	the extraordinary general meeting of MRN Shareholders convened by the Notice of Meeting included in this Explanatory Memorandum
Facility Agreement	MRN's current debt facility provided by ANZ, comprising a $25 million revolving cash advance facility
Fairfax	Fairfax Media Limited ACN 008 663 161
Fairfax Group	Fairfax and its related bodies corporate (as that term is defined in the Corporations Act) (other than the FRN Group)
FATA	*Foreign Acquisitions and Takeovers Act 1975* (Cth)
FRN	Fairfax Radio Network Pty Limited ACN 006 806 088
FRN Actual Completion Working Capital	an amount equal to the working capital of the FRN Group as set out in the final completion working capital statement prepared in accordance with the MIA
FRN Estimated Working	the estimated amount of working capital of the FRN Group as at

Term	Meaning
Capital	Completion, being $6,924,204
FRN Financial Information	the pro forma stand – alone historical financial information relating to FRN described under the heading 'Introduction' in section5.3
FRN Information	The factual and historical information regarding FRN contained in section 5 of this Explanatory Memorandum and relating to matters, events and circumstances in existence on or before the date on which Fairfax gave its consent to the form and context in which that information appears in this Explanatory Memorandum
FRN Group	FRN and each of its subsidiaries (excluding Radio 96FM)
FRN Material Adverse Change	an event, change, condition, matter, circumstance or thing before, on or after the date of the MIA which, whether individually or when aggregated with all such events, changes, conditions, matters, circumstances or things of a like kind that occur on or after the date of the MIA or are reasonably likely to occur, has or would be considered reasonably likely to have a material adverse effect on the business, assets, liabilities, financial or trading position, profitability or prospects of the FRN Group taken as a whole
FRN Net Debt	the amount, as at a given time, of all financial indebtedness of the FRN Group, including any: • borrowings from any bank, other financial institution or other entity (including, but, not limited to, any liabilities of FRN Group members to Fairfax Group members); • accrued net interest payable, finance or administration charges; • any dividends declared by any FRN Group member in favour of any Fairfax Group member, but not yet settled (excluding any dividend that is permitted or contemplated in connection with the distribution of the sale proceeds of either Radio 96FM or the real estate at St Leonards, New South Wales); and • any net liabilities of the FRN Group in respect of defined benefit superannuation plans, less the aggregate amount of cash and cash equivalents of the FRN Group.
FRN Prescribed Occurrence	other than as: • required or permitted by the MIA, the Proposed Transaction or the transactions contemplated by either; • agreed to in writing by MRN; or • fairly disclosed by Fairfax in an announcement made by Fairfax to ASX within the six months prior to the date of the MIA, the occurrence of any of the following: • FRN converting all or any of its shares into a larger or smaller number of shares;

Term	Meaning
	• a FRN Group member resolving to reduce its share capital in any way; • a FRN Group Member: – entering into a buy-back agreement; or – resolving to approve the terms of a buy-back agreement under the Corporations Act; • a FRN Group member issuing shares, or granting an option over its shares, or agreeing to make such an issue or grant such an option, other than: – to a directly or indirectly wholly-owned subsidiary of FRN; or – the issue of shares under an option plan or other plan relating to convertible securities; • a FRN Group member issuing or agreeing to issue securities convertible into shares; • a FRN Group member disposing, or agreeing to dispose, of the whole, or a substantial part, of its business or property (other than the sale of Radio 96FM); • a FRN Group member granting a security interest, or agreeing to grant a security interest, in the whole, or a substantial part, of its business or property; • an insolvency event occurs in relation to an FRN Group member; • the employment, consulting, services or other similar arrangement of any key FRN employee is materially amended or such employment, consulting, services or other similar arrangement with a key FRN employee is terminated or materially adversely affected for any reason; and • any material variation to the terms of any broadcasting licence or any broadcasting licence becomes the subject of any material enforceable undertaking
FRN Target Net Debt	$0
FRN Target Net Debt Adjustment Amount	the dollar amount which is equal to FRN Net Debt immediately before Completion less the FRN Target Net Debt
Independent Expert or Grant Thornton	Grant Thornton Corporate Finance Pty Ltd
Macquarie Regional Radio	Macquarie Regional Radio Pty Limited ACN 152 894 043
Merger Implementation Agreement or MIA	the merger implementation agreement, dated 21 December 2014, between MRN and Fairfax and summarised at section 8.3 of this Explanatory Memorandum
MRN	Macquarie Radio Network Limited ACN 063 906 927

Term	Meaning
MRN Actual Completion Working Capital	an amount equal to the working capital of the MRN Group as set out in the final completion working capital statement prepared in accordance with the MIA
MRN Estimated Working Capital	the estimated amount of working capital of the MRN Group as at Completion, being $4,897,181
MRN Financial Information	the pro forma stand – alone historical financial information relating to MRN described under the heading 'Introduction' in section 4.3
MRN Group	MRN and its related bodies corporate (as that term is defined in the Corporations Act) (other than the FRN Group), provided that in the definition of MRN Prescribed Occurrence, MRN Group member excludes Macquarie Regional Radio and Radio 2CH
MRN Material Adverse Change	an event, change, condition, matter, circumstance or thing occurring, on or after the date of the MIA which, whether individually or when aggregated with all such events, changes, conditions, matters, circumstances or things of a like kind that occur on or after the date of the MIA or are reasonably likely to occur, has or would be considered reasonably likely to have a material adverse effect on the business, assets, liabilities, financial or trading position, profitability or prospects of the MRN Group taken as a whole
MRN Net Debt	the amount, as at a given time, of all financial indebtedness of the MRN Group, including any: • borrowings from any bank, other financial institution or other entity; • accrued net interest payable, finance or administration charges; • any dividends declared by the MRN Group but not yet paid; less the aggregate amount of cash and cash equivalents of the MRN Group
MRN Prescribed Occurrence	other than as: • required or permitted by the MIA, the Proposed Transaction or the transactions contemplated by either; • agreed to in writing by Fairfax; or • fairly disclosed by MRN in an announcement made by MRN to ASX within the six months prior to the date of the MIA, the occurrence of any of the following: • MRN converting all or any of its Shares into a larger or smaller number of Shares; • an MRN Group member resolving to reduce its share capital in any way; • an MRN Group member: – • entering into a buy-back agreement; or – • resolving to approve the terms of a buy-back

Term	Meaning
	agreement under the Corporations Act; • an MRN Group member issuing shares, or granting an option over its shares, or agreeing to make such an issue or grant such an option, other than: – to a directly or indirectly wholly-owned subsidiary of MRN; or – the issue of shares under an option plan or other plan relating to convertible securities; • an MRN Group member issuing or agreeing to issue securities convertible into shares; • an MRN Group member disposing, or agreeing to dispose, of the whole, or a substantial part, of its business or property; • an MRN Group member granting a security interest, or agreeing to grant a security interest, in the whole, or a substantial part, of its business or property; • an insolvency event occurs in relation to an MRN Group member; • the employment, consulting, services or other similar arrangement of any key MRN employee is materially amended or such employment, consulting, services or other similar arrangement with a key MRN employee is terminated or materially adversely affected for any reason; and • any material variation to the terms of any broadcasting licence or any broadcasting licence becomes the subject of any material enforceable undertaking
MRN Target Net Debt	$17,650,000, being the target MRN Net Debt amount immediately before Completion. For the avoidance of doubt, this target is before the drawdown of the cash consideration for the Proposed Transaction under the Facility Agreement
MRN Target Net Debt Adjustment Amount	the dollar amount which is equal to: (54.5% / 45.5%) x (MRN Net Debt immediately before Completion + the Capital Expenditure Shortfall (if any) - MRN Target Net Debt)
Notice of Meeting	the notice for the General Meeting dated 23 February 2015, as set out in this document
NRL	National Rugby League
Proposed Transaction	The transactions described in section 2, including MRN's acquisition of 100% of the share capital of FRN in exchange for the issuance of 93,196,512 new MRN Shares to Fairfax and an equalising cash payment to Fairfax of approximately $18 million based on the net debt positions of FRN and MRN, in each case, pursuant to the Merger Implementation Agreement. The Proposed Transaction does not include FRN's Radio 96FM and contemplates the divestment by MRN of Radio 2CH and Macquarie Regional Radio

Term	Meaning
Radio 2CH	Radio 2CH Pty Limited ACN 000 749 753, the direct owner of MRN's 2CH (Sydney) radio station
Radio 2CH Licence	Commercial Radio Licence number 4098 in Sydney RA1
Radio 4LM	the radio station operated under the Radio 4LM Licence
Radio 4LM Licence	Commercial Radio Licence number 10224 in Mt Isa RA1
Radio 96FM	Radio 96FM Perth Pty Ltd ACN 007 082 680, the direct owner of FRN's 96FM (Perth) radio station
Resolution 1	a special resolution being put to Shareholders at the EGM to amend the Constitution to provide Singleton with the right to appoint one nominee director to the Board as described in this Explanatory Memorandum
Resolution 2	an ordinary resolution being put to Shareholders at the EGM to approve the acquisition of relevant interests in the MRN Shares to be acquired by Fairfax in the Proposed Transaction for the purposes of Chapter 6 of the Corporations Act
Resolutions	each of Resolution 1 and Resolution 2
Share or MRN Share	a fully paid ordinary share in MRN
Shareholder or MRN Shareholder	the holder of one or more Shares, being a person registered in the Share Register as a member of MRN
Share Register	the register of members of MRN maintained by or on behalf of MRN in accordance with section 168(1) of the Corporations Act
Share Registry	Computershare Investor Services Pty Limited of Level 4, 60 Carrington Street, Sydney, NSW, Australia, 2000
Singleton	John Singleton Promotions Pty Limited
Substantial Shareholder	a substantial holder as defined in the ASX Listing Rules
Superior Proposal	a bona fide Competing Proposal (and not resulting from a breach by MRN of any of its no shop and no talk obligations under the MIA) which the Board, acting in good faith, and after receiving written legal advice from its legal advisor and written advice from its financial advisor, determines: • is reasonably capable of being valued and completed in a timely fashion taking into account all aspects of the Competing Proposal including any timing considerations, any conditions precedent and the identity of the proponent; and • could reasonably be considered, if completed substantially in accordance with its terms, to be more favourable to MRN and the MRN Shareholders (as a whole) than the Proposed Transaction (as the Proposed Transaction may be amended or varied following application of the matching right set out in the MIA), taking into account all terms and conditions of the Competing Proposal.
Transitional Services Agreement	the agreement to be entered into by Fairfax or its nominee and MRN or its nominee in respect of certain services to be provided by Fairfax following

Term	Meaning
	Completion
Voting Exclusion	certain persons that are not entitled to vote on the Resolutions as specified in the 'voting exclusion statement' note under each Resolution in the Notice of Meeting

Corporate directory

Macquarie Radio Network Limited
ACN 063 906 927

Registered Office
Level 1
33-35 Saunders Street
Pyrmont, NSW 2009

Financial Adviser
M.H. Carnegie & Co.
120b Underwood Street
Paddington, NSW 2021

Legal Adviser
Minter Ellison
Level 19 Aurora Place
88 Phillip Street
Sydney, NSW 2000

Accountant
KPMG
10 Shelley Street
Sydney, NSW 2000

Independent Expert
Grant Thornton Corporate Finance Pty Ltd
Level 17
383 Kent Street
Sydney, NSW 2000

Share Registry
Computershare Investor Services Pty Limited
Level 4
60 Carrington Street
Sydney, NSW 2000

Macquarie Radio Network