

6 May 2015

II NET BOARD UNANIMOUSLY RECOMMENDS TPG TELECOM LIMITED'S IMPROVED PROPOSAL TO ACQUIRE iiNET LIMITED

TPG Telecom Limited (**TPG**) is pleased to announce that the directors of iiNet Limited (**iiNet**) have unanimously recommended an improved proposal made by TPG to acquire 100% of the shares in iiNet Limited that it does not already own¹ by way of a Scheme of Arrangement (**Improved Proposal**), and that iiNet and TPG have entered into an amended Scheme Implementation Agreement (**Amended SIA**).

Under the recommended Improved Proposal, iiNet Shareholders can receive value of at least \$9.55 per iiNet share.

Under the Improved Proposal each iiNet shareholder can elect to receive either:

- **Cash Alternative:** \$8.80 in cash per iiNet share; **or**
- **Share Alternative:** 0.969 TPG shares per iiNet share (subject to scale back);

plus

- **Special Dividend:** \$0.75 per iiNet share in cash, in the form of a special dividend which will be franked to the maximum extent possible². TPG will provide a cash top-up payment to iiNet shareholders of up to \$0.75 to the extent that iiNet does not have sufficient retained earnings as at the Scheme Implementation Date to declare and pay a Special Dividend of \$0.75.

The Share Alternative is subject to an aggregate cap of 27,523,946 TPG shares being issued. If the cap is exceeded, there will be a proportional scale back and iiNet shareholders will receive the balance (up to \$8.80 cash per iiNet share) in cash.

Significantly improved value

TPG has significantly increased the value of its cash proposal by more than 11% to \$9.55 per iiNet share. In addition, TPG is pleased to provide iiNet shareholders with the flexibility to select between the certainty of value which the Cash Alternative provides, or the benefits of the Share Alternative, which include the opportunity for continued exposure to an investment in the telecommunications industry by holding TPG shares and the potential to access capital gains tax rollover relief.

For those iiNet shareholders who elect to receive the Cash Alternative, the consideration under the Improved Proposal represents \$9.55 value per iiNet share, comprising:

- \$8.80 in cash; **plus**
- the Special Dividend of \$0.75 in cash.

For those iiNet shareholders who elect to receive the Share Alternative, the consideration under the Improved Proposal represents \$9.55 value per iiNet share as at 4 May 2015 (being the last trading day before the Improved Proposal was tabled), comprising:

- \$8.80 worth of TPG shares (based on 0.969 TPG shares for each iiNet share, and the 10 day volume weighted average price (**VWAP**) of TPG shares to 4 May 2015 of \$9.083); **plus**
- the Special Dividend of \$0.75 in cash.

¹ TPG currently owns 6.25% of iiNet

² The scheme consideration will **not** be reduced by the amount of the Special Dividend. The Special Dividend will only be paid if the Scheme becomes effective, and subject to iiNet obtaining a favourable ruling from the Australian Taxation Office

In addition, an Australian tax resident iiNet shareholder whose personal taxation circumstances allow them to capture some benefit from the franking credits attached to the Special Dividend will receive an additional benefit up to the value of those franking credits in that Australian tax resident Scheme Shareholder's hands. For illustrative purposes, the franking credits attached to a dividend of \$0.75 per iiNet share would be equivalent to \$0.321 per iiNet share.³

iiNet Directors unanimously recommend TPG's Improved Proposal

The Directors of iiNet have unanimously recommended the Improved Proposal and intend to vote iiNet Shares in their control in favour of the proposed transaction, in the absence of a Superior Proposal and subject to the independent expert concluding that the proposed transaction is in the best interests of iiNet shareholders.

The Improved Proposal represents compelling value for iiNet shareholders for the following reasons:

- **Significant premium:** The 'Total Value'⁴ of TPG's Improved Proposal of \$9.655 represents an attractive premium compared to the following measures of the value of iiNet shares:

	TPG Total Value ⁴
5 Day VWAP to 11 March 2015, being the last day iiNet traded 'cum' the 1H15 Interim Dividend ⁵ , of \$6.54	47.6%
VWAP of \$6.45 for the period 19 February 2015 (the day of iiNet's 1H15 results announcement) to 11 March 2015, which TPG has identified as the most relevant period in determining the portfolio value of iiNet Shares ⁶	49.7%
1 Month VWAP to 11 March 2015 of \$6.54	47.6%
3 Month VWAP to 11 March 2015 of \$6.94	39.1%
Average broker price target for iiNet Shares to 12 March 2015 of \$7.13 ⁷	35.4%

- **Highest share price ever:** The cash value under TPG's Improved Proposal of \$9.55 is higher than iiNet had ever traded in its history up until 12 March 2015, the day before TPG announced its original proposal for iiNet;
- **Attractive multiple:** The cash value under TPG's Improved Proposal of \$9.55 represents a CY14 EV/ EBITDA multiple of 10.0x⁸ and CY14 PE Multiple of 23.8x⁹. This is a significant premium to the valuations paid in precedent consumer fixed line telecommunications acquisitions;
- **Cash certainty:** The Improved Proposal is the only certain cash proposal for iiNet shares; and

³ The value of franking credits is not the same for all iiNet Shareholders. The use of franking credits and the exact post-tax value realised by an iiNet shareholder will depend on their individual tax circumstances

⁴ The cash value under TPG's Improved Offer of \$9.55 together with the 1H15 iiNet Interim Dividend of \$0.105 for comparison purposes totals \$9.655, and is used as the basis of the premia calculations given that TPG's original proposal was tabled at a time when iiNet shares were trading 'cum' the 1H15 iiNet Interim Dividend of \$0.105

⁵ In using a VWAP benchmark, TPG considers it is best to use a period where iiNet's share price consistently traded on either a 'cum' dividend or 'ex' dividend basis. The most meaningful period during which this consistently occurred prior to announcement of TPG's original proposal on 13 March 2015 is the 5 day period ending on 11 March 2015, being the last day on which iiNet shares traded 'cum' the 1H15 Interim Dividend. In order to achieve a like-for-like comparison with 'cum' dividend trading over this 5 day VWAP period, the premium has been determined by comparing the VWAP over this period against the aggregate of the 1H15 Interim Dividend of \$0.105 per iiNet Share and the \$9.55 Improved Proposal price.

⁶ Significant trading in iiNet shares occurred during this period (some \$252 million by value), which indicates (prima facie) that the share trading range during this period was likely to be a reasonably reliable indicator of the portfolio value of iiNet shares prior to the announcement of the Scheme on 13 March 2015

⁷ Calculated using the average broker price targets published between 19 February 2015 and 11 March 2015 which range from \$5.67 to \$9.05 per iiNet Share

⁸ Includes iiNet net debt of \$400 million (1H15 net debt of \$383 million, which includes the Indefeasible Right of Use liability, and an adjustment for the payment of the iiNet 1H15 Interim Dividend), pre-synergies and the underlying CY14 EBITDA of \$197 million

⁹ Pre-synergies underlying CY14 NPAT of \$66 million

- **Flexibility of value:** The alternative consideration structure provides each individual iiNet shareholder the flexibility to select between the certainty of value which the Cash Alternative provides, or the benefits of the Share Alternative (which include the opportunity for continued exposure to the telecommunications industry by holding TPG Shares and the potential to access capital gains tax rollover relief).

The transaction is expected to be immediately EPS accretive for TPG shareholders¹⁰.

The amended Scheme Implementation Agreement

Pursuant to their obligations under clause 10.6 of the Scheme Implementation Agreement, iiNet and TPG have agreed amendments to the Scheme Implementation Agreement to reflect the Improved Proposal. The exclusivity provisions of the Scheme Implementation Agreement remain in place.

Amended indicative timetable

iiNet and TPG have agreed an amended timetable for implementation of the Improved Proposal as set out below.

Event	Expected date
Lodge Scheme Booklet with ASIC for Review	Late May 2015
First Court Hearing Date	Early June 2015
Dispatch of Scheme Booklet	Mid June 2015
Scheme Meeting	Late July 2015
Second Court Hearing Date	Early August 2015
Effective Date	Early August 2015
Record Date	Early August 2015
Implementation Date	Mid August 2015

Note: this is an indicative timetable only and is subject to change, including following any regulatory consultation and as may be required by the Court.

TPG intentions

TPG confirms that it intends to maintain the iiNet brand as part of a dual brand strategy. TPG recognises that the value of the iiNet brand is a product of the high levels of customer service provided by iiNet staff and intends to preserve and foster that key strength of the business.

Advisers

TPG is being advised by Macquarie Capital (Australia) Limited, as financial adviser, and Minter Ellison as legal counsel.

Further announcement(s) will be made by TPG, if and when appropriate.

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¹⁰ Excluding amortisation of intangibles on acquisition