

ASX Release

Sydney, 14 December 2015

STW ANNOUNCES MERGER WITH WPP'S AUSTRALIAN AND NEW ZEALAND BUSINESSES

STW Communications Group Limited ("STW", ASX: SGN), Australasia's leading marketing content and communications group, today announced it has entered into an agreement to merge with the Australian and New Zealand businesses ("WPP Australia and New Zealand") of WPP plc ("WPP"), (the "Transaction").

As a result of the Transaction, WPP will become the majority shareholder of STW with a shareholding of c.61%. The merged group will have pro-forma normalised net sales of c.A\$847 million and normalised EBIT of c.A\$142 million.¹

Key features of the Transaction:

- STW will become the primary vehicle for WPP in Australia and New Zealand.
- Transaction accelerates STW's strategy of delivering 100% of its clients' customer experience budgets.
- Clients will benefit from the combination of strong local market knowledge and access to international partners with iconic brands, tools, global reach and insights.
- Wide range of synergies including cost benefits of at least A\$15 million per annum through savings in corporate and admin, property rationalisation, IT and shared services functions and operating efficiencies, anticipated to be fully realised over three years. Incremental revenue synergies are also expected but have not been included in estimates.
- Enhanced career opportunities for the c.5,500 employees of the combined group.
- Michael Connaghan and Lukas Aviani will continue to lead the merged business following the completion of the Transaction. Robert Mactier will continue as Independent Chairman.

Key financial highlights:

- Transaction structured via a contribution of WPP's Australian and New Zealand businesses for an enterprise value of c.A\$512 million.
- New STW Shares will be issued to WPP at A\$0.915 per share, a 30% premium to the 10-day volume weighted average price ("VWAP") to 10 December 2015.
- STW leverage reduces from $2.6x^2$ to $2.1x^3$ net debt / LTM EBITDA on a pro-forma basis.

1. For the 12 months ended 30 September 2015
2. Leverage based on STW bank covenant definitions. Net debt as at 30 June 2015 and LTM EBITDA for the 12 months ended 30 June 2015
3. Leverage based on STW bank covenant definitions. Net debt as at September 2015 and LTM EBITDA for the 12 months ended 30 September 2015 on a pro forma basis

- Transaction expected to be slightly EPS accretive⁴ based on pro-forma 2015 earnings before synergies but reflecting the impact of reduced leverage with material EPS accretion going forward with the realisation of synergies.

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

WPP Australia and New Zealand

For the 12 months ending 30 September 2015, WPP Australia and New Zealand generated normalised net sales of c.A\$429 million and normalised EBIT of c.A\$69 million. The WPP businesses operating in Australia and New Zealand include many of WPP's global brands such as Advertising agencies GPY&R and Grey; Media Investment Management agencies MEC, Mediacom, Xaxis and Group M; Data Investment Management specialists TNS and Millward Brown; Public Relations and Public Affairs agencies Hill + Knowlton Strategies and Burson Marsteller; Direct, Digital, Promotion & Relationship Marketing agencies Geometry, Wunderman and VML; Specialist Branding and Identity agency Landor and Healthcare agencies Sudler & Hennessey and Grey Healthcare.

The Transaction also includes the contribution of WPP's interest in companies in which WPP and STW currently have joint ownership, including Ogilvy, Ogilvy PR, J. Walter Thompson, Mindshare, Maxus and Added Value. The Transaction simplifies the ownership structure of the businesses and aligns the interests of both parties.

Strategic Rationale for the Transaction

The Transaction will significantly increase the scale of STW's operations with the merged group generating pro-forma normalised net sales of c.A\$847 million and normalised EBIT of c.A\$142 million for the 12 months ended 30 September 2015.

The Transaction will blend excellent local businesses with iconic international brands offering clients an agile local solution, with the benefit of WPP's global experience, tools and insight.

STW's strategy of delivering 100% of a client's customer experience is greatly enhanced by increased depth of the portfolio. STW and WPP Australia and New Zealand have complementary capabilities and combined, the capabilities are world class, with scale across all key marketing and communication services disciplines.

STW's Chairman, Robert Mactier, said:

"Bringing together the respective iconic brands and wonderfully talented people of STW and WPP Australia and New Zealand under a single common ownership will unlock tremendous local and global capability, experience and efficiencies for our clients as well as establishing a fantastic platform for our people to prosper. The Transaction is EPS accretive⁵ as a result of the issue of new STW Shares at a premium to market and also delivers a material reduction in STW's leverage and the opportunity to unlock a range of synergies thereby creating significant value for our shareholders. Importantly, binding governance protocols and shareholder protections have been agreed for the

4. Excluding one-off transaction and integration costs and acquisition related amortisation of intangibles

5. Excluding one-off transaction and integration costs and acquisition related amortisation of intangibles and before synergies

benefit of the continuing minority shareholders. I consider this a genuine win-win transaction for all our stakeholders. Post completion, we look forward to working seamlessly with WPP as our major shareholder and strategic partner as we embark on the exciting journey that is in front of us."

STW's Chief Executive Officer, Michael Connaghan, said:

"WPP has been a fantastic partner since we came together to create Singleton Ogilvy and Mather in 1998. Since then we have had great success in Australia and New Zealand partnering in J Walter Thompson, Added Value, Mindshare and Maxus. I believe this deal makes great sense. To finally align our shareholdings in those existing partnerships and now to expand our relationship across the full STW and WPP Australia and New Zealand portfolio of companies is an amazing opportunity."

"WPP is the leading player on the global stage in our industry. We have the potential to create a group unparalleled in this part of the world, totally focused on our home markets, but allowing our clients and people open access to best thinking on a global level."

WPP's Chief Executive Officer, Sir Martin Sorrell, said:

"Australia and New Zealand is our fifth largest market after the United States, the United Kingdom, Greater China and Germany. The merger of our Australian and New Zealand operations with STW, will give us a unique opportunity to offer our local and international clients a comprehensive set of services and to make sure we can offer the best talent through country management. It will also enable STW to focus on the Australian and New Zealand markets, which it knows best, with a structure that will strongly incentivise its people."

Transaction Summary

i) Consideration and Funding

The Transaction will be structured via a contribution of WPP's Australian and New Zealand businesses into STW for an enterprise value of c.A\$512 million, with consideration consisting of c.423 million new STW Shares issued to WPP to the value of c.A\$387 million with STW to assume additional net debt of c.A\$125 million. The transaction value implies a multiple of 7.4x EV/EBIT⁶, in line with STW's current trading multiple.

New STW Shares will be issued to WPP as consideration for WPP Australia and New Zealand at A\$0.915 per share, representing a premium of 30% to the 10 day VWAP to 10 December 2015. WPP will move from its existing 23.6% interest in STW to become the majority shareholder with a c.61% equity interest.

STW will assume additional debt in the Transaction resulting in pro-forma net debt of A\$338 million as at 30 September 2015.

The debt funding will be provided through existing STW facilities and initially a shareholder loan from WPP. STW intends to commence a refinancing process for its debt facilities and WPP loan funding with a view to having in place external financing going forward.

6. Based on transaction value of c.\$512m and normalised proportional EBIT for 12 months ended 30 September 2015

STW's leverage metrics will improve as a result of the Transaction. The Group's leverage ratio reduces from 2.6x⁷ to 2.1x⁸ net debt / LTM EBITDA on a pro forma basis.

ii) Key Financial Impacts

The Transaction is expected to be slightly EPS accretive⁹ on a pro-forma FY2015 earnings basis before synergies but reflecting the impact of reduced leverage with material EPS accretion going forward with the realisation of synergies.

The synergies from the Transaction include cost savings in corporate and admin, property rationalisation, IT and shared services functions and operating efficiencies. Total pre-tax cost synergies resulting from the Transaction are estimated to be at least A\$15 million per annum which are anticipated to be fully realised progressively over three years.

Additional benefits from integration and enhanced co-operation across the businesses and with WPP global capabilities are expected to deliver additional cost and revenue synergies over time but these have not been included in the above estimate.

iii) Governance and Management

If the Transaction is approved by STW shareholders and all other conditions are satisfied, WPP will become the majority shareholder in STW on completion of the Transaction with a shareholding of c.61%.

On completion, the Board of STW is expected to be comprised of eleven Directors with WPP to have six nominees. There will be four Independent Directors including the Chairman and the CEO will continue to be a Director. The Independent Directors will comprise Rob Mactier (who will continue as the Chairman), along with existing Independent Directors, Graham Cubbin, Kim Anderson and Peter Cullinane. Ian Tsicalas will retire upon completion of the Transaction, further to the previous announcement regarding his intention to retire at an appropriate time. WPP and STW intend to explore methods by which the board size can be reduced without affecting the majority voting position of WPP.

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

A governance framework has been agreed with WPP which will be legally binding and will include the following elements:

- While WPP's voting power in STW equals or exceeds 50%, WPP will ensure that the STW Board includes four independent directors (including an independent Chair) and WPP will be entitled to nominate a majority of directors on the STW Board;
- WPP will not increase its shareholding in STW above c.61% (except in certain limited circumstances); and

7. Leverage based on STW bank covenant definitions. Net debt as at 30 June 2015 and LTM EBITDA for the 12 months ended 30 June 2015

8. Leverage based on STW bank covenant definitions. Net debt as at September 2015 and LTM EBITDA for the 12 months ended 30 September 2015

9. Excluding one-off transaction and integration costs and acquisition related amortisation of intangibles

- WPP and STW will enter into a majority shareholder deed which will enable STW to access WPP procurement arrangements, enshrine the use of independent director committees to assess material related party transactions and enable WPP to access the information it requires to meet compliance and other corporate governance requirements.

iv) Shareholder and Regulatory Approvals

The Transaction is subject to STW shareholder (excluding WPP) approval, regulatory approvals (including ACCC and FIRB) and certain other conditions precedent.

A summary of the key terms of the Transaction, including the conditions precedent and STW exclusivity undertakings, is attached.

An independent expert will be appointed by STW to opine on whether the Transaction is fair and reasonable to STW shareholders (other than WPP).

A shareholders meeting to consider the Transaction is expected to be held in March 2016. The notice of meeting will be accompanied by an explanatory memorandum and the independent expert's report.

The Directors of STW (other than Paul Richardson, who is also a Director of WPP) intend to recommend that STW shareholders vote in favour of all resolutions to approve the Transaction, in the absence of a superior proposal and subject to the independent expert opining that the Transaction is fair and reasonable to STW shareholders (other than WPP).

If all conditions precedent to the Transaction are satisfied, the Transaction is expected to be completed late in the first quarter of 2016.

An investor presentation providing additional details regarding the Transaction has been lodged with the ASX.

STW 2015 Outlook

STW reaffirms its guidance to deliver underlying net profit after tax of c.A\$40 million for the year ended 31 December 2015. Underlying profit excludes the impact of one-off costs related to this proposed Transaction and previously announced impairment, business close down and restructuring costs.

As the Transaction is expected to be completed late in the first quarter of calendar 2016, there is no impact on the timing, amount or payment of the final dividend that would ordinarily be considered and declared by the Board at the Company's full year results in February 2016. There is no expectation for the dividend policy of STW to change as a result of the Transaction and going forward, dividends will continue to be determined by the Board of STW at the time.

STW intends to provide a further update on the outlook of the merged business in February 2016 coinciding with the release of its full year results and expected timing of despatch of the explanatory memorandum.

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Attachment – Key Terms of the Share Sale Agreement

STW Communications Group Limited (“**STW**”), STW Media Services Pty Ltd (“**Buyer**”), WPP Jubilee Ltd (“**Seller Parent**”) and Cavendish Square Holding B.V. (“**Seller**”) (subsidiaries of WPP plc “**WPP**”) entered into the Share Sale Agreement (**SSA**) on 14 December 2015. The SSA sets out the obligations of the parties in connection with the proposed transaction, including conditions precedent to completion and certain other contemplated arrangements if the transaction is approved and completed.

The table below summarises certain key terms of the SSA. A more detailed summary will be included in the Explanatory Memorandum accompanying the notice of meeting that will be sent to STW shareholders in due course.

Topic	Summary
Outline of proposed transaction	The Buyer will acquire the share capital in WPP’s Australian and New Zealand businesses ¹⁰ (“ WPP Australia and New Zealand Businesses ”). STW will issue c.423 million shares and assume WPP net debt of c.A\$125 million.
Conditions precedent	<p>Completion of the transaction is subject to the following conditions precedent:</p> <ul style="list-style-type: none"> (a) approval by the Foreign Investment Review Board, and Australian Competition and Consumer Commission; (b) ASX agreeing to waive and/or confirm compliance with Listing Rules 10.11, 11.1 and 12.5; (c) approval by STW shareholders of the following shareholder resolutions: <ul style="list-style-type: none"> (i) an ordinary resolution of non-associated shareholders pursuant to section 611, item 7 of the Corporations Act approving the issue of STW ordinary shares to the Seller; (ii) an ordinary resolution of non-associated shareholders for the purpose of Listing Rule 10.1 of the ASX Listing Rules approving the acquisition of the shares in the WPP Australia and New Zealand Businesses by the Buyer and the other transactions between STW and WPP Group as contemplated by the transaction documents; and (iii) an ordinary resolution for the purpose of clause 54 of STW’s Constitution approving an increase in the maximum number of Directors of STW to eleven. (d) the Seller completing an internal re-organisation of the WPP Australia and New Zealand Businesses to facilitate their acquisition by the Buyer; (e) no temporary restraining order, preliminary of permanent injunction or other order is issued by a court or government agency preventing or delaying the transaction. <p>Unless otherwise agreed by the parties, the cut-off date for satisfaction or waiver of the above conditions precedent is 30 June 2016. If the conditions precedent are not satisfied or waived by this date, either party may terminate the SSA.</p>
STW Board recommendation	Each member of the STW Board (other than a director who is a nominee of WPP) must recommend that STW shareholders vote in favour of the shareholder resolutions described above and not change, withdraw or modify that

¹⁰ The transaction excludes the WPP Group’s investment in oOh!media Limited and certain other businesses.

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	<p>recommendation unless:</p> <ol style="list-style-type: none"> a) the Independent Expert issues an Independent Expert's Report which concludes that the transaction is not 'fair' or not 'reasonable'; b) a superior proposal is made which WPP fails to match (see under 'Exclusivity' below); or c) STW Board has determined, after receiving written legal advice, that by virtue of the directors' duties of the members of the STW Board, is required to change, withdraw or modify its recommendation. <p>If the STW Board changes its recommendation in the circumstances set out above, STW has the right to terminate the transaction.</p>
<p>Period before Completion</p>	<p>The businesses of the Seller and its related bodies corporate (other than the target companies and the Buyer) ("Group") and the Buyer and its related bodies corporate (other than the Seller and the target companies) ("STW Group") must be conducted materially in the ordinary course, and, in particular, the Seller and any member of the Group, and the Buyer and any member of the Buyer Group must not agree or commit to do certain specified actions, except as expressly permitted by the SSA or as consented to by the other party (which may not be unreasonably withheld or delayed).</p>
<p>Other termination rights</p>	<p>In addition to the termination rights described above, the SSA may be terminated in a number of other circumstances.</p> <p>A party may terminate the SSA if:</p> <ol style="list-style-type: none"> a) the other party (or its group members) fails to complete when required to do so and does not complete within a further 5 business days; b) certain insolvency events occur in relation to the other party or, in the case of WPP, the target group, or, in the case of STW, STW group members; c) the other party adjusts, or agrees to adjust, its share structure; disposes, or agrees to dispose, of the whole or a substantial part of its business or property; grants, or agrees to grant, a security interest over the whole or a substantial part of its business or property; or winds up a group member and, following written notice of the breach, the other party fails to remedy that breach within 5 business days.
<p>Exclusivity – no shop and no talk</p>	<p>'No talk'</p> <p>STW and its representatives must not, during the period from signing until the earlier of the termination of the SSA or completion of the proposed transaction ("Exclusivity Period"):</p> <ul style="list-style-type: none"> • directly or indirectly participate in any negotiations or discussions or provide any information to any person with respect to any inquiry, expression of interest, offer or proposal by any person in relation to a proposal competing with the proposed transaction ("Competing Proposal"); • accept or enter into, or offer to accept or enter into, any agreement, arrangement or understanding regarding a Competing Proposal; • disclose any non-public information about the business or affairs of the Buyer Group to a third party with a view to obtaining, or which may reasonably be expected to lead to receipt of, a Competing Proposal, other than as required by law; or

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	<ul style="list-style-type: none"> communicate an intention to do any of the above activities. <p>Fiduciary carve-out</p> <p>The ‘no-talk’ restrictions outlined above do not prohibit any action or inaction by STW or its directors and officers in relation to an unsolicited Competing Proposal where the STW Board, in good faith and acting reasonably, determines that the Competing Proposal is a superior proposal to the proposed transaction and, in receipt of advice from external lawyers, that taking or not taking such an action would be reasonably likely to constitute a breach of the directors’ fiduciary or statutory obligations, or would otherwise be unlawful.</p> <p>‘No shop’</p> <p>STW and its representatives must not, during the Exclusivity Period:</p> <ul style="list-style-type: none"> directly or indirectly solicit, facilitate, encourage, invite or initiate steps with the objective of receiving, or in circumstances where such actions might reasonably lead to, an offer or proposal by any person in relation to a Competing Proposal; or communicate any intention to do any of the above things in respect of or in response to any expression of interest, offer or proposal by any person in relation to a Competing Proposal. <p>Notification of approaches</p> <p>During the Exclusivity Period, STW must, subject to its fiduciary obligations, notify the Seller Parent if:</p> <ul style="list-style-type: none"> any approach, enquiry or proposal is made, directly or indirectly, to STW or its representatives with respect to a Competing Proposal, whether solicited or unsolicited; or any request is made to STW or any its representatives for any information relating to the STW Group in connection with a current or future Competing Proposal, <p>within two business days of such an event occurring.</p> <p>The notification must contain the material terms of the Competing Proposal, including, if known, the identity of the rival acquirer.</p> <p>Matching right</p> <p>If the STW Board determines that the Competing Proposal is a superior proposal, the Buyer Board must not enter into any agreement in relation to the Competing Proposal or announce its intention to do so or publicly, or change or withdraw its recommendation that non-associated shareholders vote in favour of the Buyer Shareholder Resolutions, unless it provides the Seller Parent with a notice setting out the material terms of the Competing Proposal, and gives the Seller Parent 10 business days (“Matching Right Period”) to provide a counter-proposal.</p> <p>The STW Board must consider any Seller counter-proposal and, if it determines that the counter-proposal is superior to, or no less favourable than, the</p>

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	<p>Competing Proposal, all parties must negotiate in good faith to implement the Seller counter-proposal and the STW Board must recommend the Seller counter-proposal to its shareholders.</p> <p>If the Matching Right Period passes without the STW Board receiving a Seller counter-proposal, or the STW Board receives a Seller counter-proposal but does not consider it to be superior, or no less favourable than, the Competing Proposal, the STW Board may recommend the Competing Proposal to shareholders.</p>