

Fairfax Media separation of Domain

Sydney, 22 September 2017: Fairfax Media Limited [ASX:FXJ] ("**Fairfax**" or "**Company**") today announced that the Federal Court of Australia in Sydney has ordered a meeting of Fairfax shareholders (the **Scheme Meeting**) to be convened to vote on a scheme of arrangement to effect the proposed separation of Domain Holdings Australia Ltd ("**Domain**") from Fairfax (the **Separation**).

The Scheme Meeting will be followed by an Annual General Meeting of Fairfax shareholders (together, the **Meetings**) which will include a vote on the proposed capital reduction of Fairfax required to implement the Separation.

If the Separation is effected, eligible Fairfax shareholders will receive one Domain share for every 10 Fairfax shares held on the scheme record date (currently expected to be 7.00pm (Sydney time) on 17 November 2017).

The Fairfax Board of Directors unanimously recommend that Fairfax shareholders vote in favour of the resolutions at the Meetings required to effect the Separation. The independent expert, Grant Samuel & Associates, has concluded that the Separation is in the best interests of Fairfax shareholders.

The Scheme Meeting and Annual General Meeting will be held on 2 November 2017 from 10:00am (AEST) at the Pitt Street Room, Ground Floor, Domain Offices, 55 Pyrmont Street, Pyrmont NSW 2009.

The scheme booklet, which describes the Separation in detail and is attached to this release, will be posted to the Fairfax website on 22 September 2017. The scheme booklet will also be dispatched to Fairfax shareholders in due course.

For further information, please contact the Fairfax Shareholder Information Line on 1300 888 062.

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SEPARATION SCHEME BOOKLET

FOR THE SEPARATION OF DOMAIN FROM FAIRFAX MEDIA

This is an important document and requires your immediate attention.

VOTE IN FAVOUR

You should read this Booklet carefully and in its entirety before deciding whether or not to vote in favour of the resolutions approving the Separation.

If you are in any doubt as to what you should do, you should seek independent legal, financial, taxation or other professional advice before voting on the Separation.

The Fairfax Media Directors unanimously recommend that you vote in favour of the resolutions approving the Separation.

The Independent Expert has concluded that the Separation is in the best interests of Fairfax Media Shareholders.



Financial Advisor



Legal Advisor

IMPORTANT NOTICES

PURPOSE OF THIS BOOKLET

This Booklet is important. Fairfax Media Shareholders should carefully read this Booklet in its entirety before deciding whether or not to vote in favour of the resolutions to approve the Separation. Fairfax Media Shareholders who are in any doubt as to what they should do should seek independent legal, financial, taxation or other professional advice before voting on the Separation.

This Booklet sets out the effects of the Separation, certain information required by law and all other information known to the Fairfax Media Directors which is material to the decision of Fairfax Media Shareholders to vote in favour of, or against, the resolutions to effect the Separation (other than information previously disclosed to Fairfax Media Shareholders) and includes:

- the explanatory statement, as required by Part 5.1 of the Corporations Act, in relation to the Scheme; and
- a statement of all the information known to Fairfax Media that is material to Fairfax Media Shareholders in deciding how to vote on the Capital Reduction Resolution, as required by section 256C(4) of the Corporations Act.

RESPONSIBILITY FOR INFORMATION

This Booklet (other than the Independent Limited Assurance Report and the Independent Expert's Report) has been prepared by Fairfax Media and the Fairfax Media Board as at the date of this Booklet and Fairfax Media is responsible for the contents of this Booklet.

Ernst & Young Transaction Advisory Services Limited has prepared the Independent Limited Assurance Report and takes responsibility for that report. A copy of that report is set out in Annexure A.

Grant Samuel has prepared the Independent Expert's Report and takes responsibility for that report. A copy of that report is set out in Annexure B.

LODGEMENT AND LISTING

A copy of this Booklet has been lodged with ASIC in accordance with section 256C(5) of the Corporations Act and registered by ASIC pursuant to section 412(6) of the Corporations Act. ASIC has been requested to provide a statement in accordance with section 411(17)(b) of the Corporations Act, that ASIC has no objection to the Scheme. If ASIC provides that statement, it will be produced to the Court at the time of the Second Court Hearing. Neither ASIC nor any of its officers takes any responsibility for the contents of this Booklet.

Domain will apply for admission to the Official List and for official quotation of all Domain Shares on ASX on or about the date of lodgement of this Booklet with ASIC, conditional on approval of the Separation. A copy of this Booklet has been lodged with ASX. Neither ASX nor any of its officers takes any responsibility for the contents of this Booklet.

THE CONVERSION OF DOMAIN FROM A PROPRIETARY COMPANY TO A PUBLIC COMPANY

As at the date of lodgement of this Booklet with ASIC, Domain is a proprietary company. Domain must be a public company at the time of implementation of the Separation and admission to the Official List and for official quotation of all Domain Shares on ASX. Domain will make an application to ASIC to be converted to a public company. Upon conversion to a public company, Domain will be named "Domain Holdings Australia Limited".

IMPORTANT NOTICE ASSOCIATED WITH COURT ORDER UNDER SECTION 411(1) OF THE CORPORATIONS ACT 2001 (CTH)

The fact that under section 411(1) of the Corporations Act the Court has ordered that a meeting be convened and has approved the explanatory statement required to accompany the notices of the meeting does not mean that the Court:

- has formed any view as to the merits of the proposed scheme or as to how members should vote (on this matter, members must reach their own decision); or
- has prepared, or is responsible for, the content of the explanatory statement.

IMPORTANT NOTICES

INVESTMENT DECISIONS

This Booklet does not take into account the individual investment objectives, financial situation or needs of Fairfax Media Shareholders. The information in this Booklet should not be relied upon as the sole basis for any investment decision. Fairfax Media Shareholders should seek independent legal, financial, taxation and other professional advice before making any investment decision.

NOTICE OF SCHEME MEETING

The Notice of Scheme Meeting is set out in Annexure E.

NOTICE OF ANNUAL GENERAL MEETING

The Notice of Annual General Meeting is set out in Annexure F.

NOTICE OF SECOND COURT HEARING

At the Second Court Hearing, the Court will consider whether to approve the Scheme following the vote at the Scheme Meeting.

Any Fairfax Media Shareholder may appear at the Second Court Hearing, expected to be held at 10:15am on 6 November 2017 at the Federal Court of Australia, Law Courts Building, 184 Phillip Street, Sydney NSW 2000.

Any Fairfax Media Shareholder who wishes to oppose approval of the Scheme at the Second Court Hearing may do so by filing with the Court and serving on Fairfax Media a notice of appearance in the prescribed form together with any affidavit that the Fairfax Media Shareholder proposes to rely on.

FORWARD-LOOKING STATEMENTS

Certain statements in this Booklet are about the future. Fairfax Media Shareholders should be aware that there are risks (both known and unknown), uncertainties, assumptions and other important factors that could cause the actual conduct, results, performance or achievements of Fairfax Media, Fairfax Media (post Separation) or Domain to be materially different from the future conduct, results, performance or achievements expressed or implied by such statements or that could cause the future conduct to be materially different from historical conduct. Such risks, uncertainties, assumptions and other important factors include, among other things, the risks described in Section 4.4. Deviations as to future conduct, results, performance and achievements are both normal and to be expected.

None of Fairfax Media, the Fairfax Media Directors, the officers and advisors of Fairfax Media or any other person gives any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward-looking statements in this Booklet will actually occur. Fairfax Media Shareholders are cautioned about relying on any such forward-looking statements.

The forward-looking statements in this Booklet reflect views held only as at the date of this Booklet. Additionally, statements of the intentions of the Fairfax Media Board or the Domain Board reflect the present intentions of the Fairfax Media Directors and Domain Directors respectively as at the date of this Booklet and may be subject to change as the composition of the Fairfax Media Board and Domain Board alters, or as circumstances require. Subject to the Corporations Act and any other applicable laws or regulations, Fairfax Media and Domain do not propose to update any forward-looking statements in this Booklet other than with respect to information that they become aware of prior to the Scheme Meeting which is material to the making of a decision regarding whether or not to vote in favour of the Scheme.

STATUS OF THIS BOOKLET

This Booklet is not a prospectus lodged under Chapter 6D of the Corporations Act. Section 708(17) of the Corporations Act provides that disclosure to investors under Part 6D.2 of the Corporations Act is not required for any offer of securities if it is made under a compromise or arrangement under Part 5.1 of the Corporations Act, approved at a meeting held as a result of an order made by the court under section 411(1) or (1A) of the Corporations Act.

IMPORTANT NOTICES

NOTICE TO FAIRFAX MEDIA SHAREHOLDERS IN JURISDICTIONS OUTSIDE AUSTRALIA

Fairfax Media Shareholders who are Ineligible Foreign Shareholders will not receive Domain Shares under the Scheme. Domain Shares that would otherwise be issued to these shareholders under the Scheme will be issued to the Sale Agent to be sold on ASX, with the proceeds of such sale to be paid to Ineligible Foreign Shareholders, free of any brokerage costs or stamp duty. See Section 8.4.4 for further information.

Fairfax Media Shareholders resident outside Australia for tax purposes should seek specific tax advice in relation to the Australian and overseas tax implications of the Separation.

This Booklet does not in any way constitute an offer of securities in any place in which, or to any person to whom, it would be unlawful to make such an offer.

FINANCIAL INFORMATION

The Fairfax Media Historical Financial Information within this Booklet has been derived from the financial reports of Fairfax Media Limited for the years ended 28 June 2015, 26 June 2016 and 25 June 2017, which were audited by Ernst & Young in accordance with Australian Auditing Standards. Ernst & Young issued unqualified audit opinions on these financial statements. The financial statements for these periods are available from Fairfax Media's website (www.fairfaxmedia.com.au) or the ASX website (www.asx.com.au). The Domain historical financial information, which forms the basis of the Domain Pro Forma Historical Financial Information within this Booklet, has not historically been subject to a separate audit.

The Fairfax Media Historical Financial Information has been prepared in accordance with the recognition and measurement principles contained in Australian Accounting Standards (AAS), which are consistent to International Financial Reporting Standards (IFRS).

The Fairfax Media (post Separation) Pro Forma Historical Financial Information and Domain Pro Forma Historical Financial Information within this Booklet has been prepared in accordance with the recognition and measurement principles contained in AAS, which are consistent to IFRS, other than that it includes adjustments which have been prepared in a manner consistent with AAS, that reflect (i) the recognition of certain items in periods different from the applicable period under AAS, (ii) the exclusion of certain transactions that occurred in the relevant periods, and (iii) the impact of certain transactions as if they occurred as at 25 June 2017 in the pro forma historical balance sheets and from 30 June 2014 in the pro forma historical income statements and cash flow statements.

The Fairfax Media (post Separation) Pro Forma Historical Financial Information and Domain Pro Forma Historical Financial Information has been prepared in accordance with the accounting policies set out in Fairfax Media's financial statements for the years ended 28 June 2015, 26 June 2016 and 25 June 2017.

In preparing the Fairfax Media (post Separation) Pro Forma Historical Financial Information and Domain Pro Forma Historical Financial Information, certain adjustments were made to the historical financial information of Fairfax Media and Domain that Fairfax Media and Domain considered appropriate to reflect the effect of the Separation, as described in this Booklet. The financial information contained in this Booklet is historical only. Past financial performance is not necessarily a guide to future financial performance.

PRIVACY AND PERSONAL INFORMATION

Fairfax Media may need to collect personal information to effect the Scheme. The personal information may include the names, contact details and details of holdings of Fairfax Media Shareholders, together with contact details of individuals appointed as proxies, attorneys or corporate representatives for the Meetings. The collection of some of this information is required or authorised by the Corporations Act.

Fairfax Media Shareholders who are individuals, and other individuals in respect of whom personal information is collected, have certain rights to access the personal information collected about them. Fairfax Media Shareholders may contact the Fairfax Media Share Registry if they wish to exercise these rights.

The information may be disclosed to Fairfax Media and Domain and their respective Related Bodies Corporate and advisors, print and mail service providers, share registries, securities brokers and any other service provider to the extent necessary to effect the Scheme.

If the information outlined above is not collected, Fairfax Media may be hindered in, or prevented from, conducting the Meetings or effecting the Scheme.

Fairfax Media Shareholders who appoint an individual as their proxy, attorney or corporate representative to vote at the Meetings should inform that individual of the matters outlined above.

TAX IMPLICATIONS OF THE SCHEME

If the Scheme becomes Effective, there will be tax consequences for Scheme Shareholders which may include tax being payable. For further detail regarding general Australian tax consequences of the Separation for certain Fairfax Media Shareholders, refer to Section 8.8. The tax treatment may vary depending on the nature and characteristics of the Fairfax Media Shareholders and their specific circumstances. Accordingly, Fairfax Media Shareholders should seek professional tax advice in relation to their particular circumstances.

ENTITLEMENT TO INSPECT THE FAIRFAX MEDIA SHARE REGISTER

Under section 173 of the Corporations Act, persons are entitled to inspect and copy the Fairfax Media Share Register. The Fairfax Media Share Register contains personal information about Fairfax Media Shareholders.

INTERPRETATION

Capitalised terms used in this Booklet are defined in the Glossary in Section 10.

In this Booklet, the term "Fairfax Media (post Separation)" is used to describe Fairfax Media as it will exist after the Scheme to effect the Separation has become Effective. The term "Fairfax Media (post Separation)" is used in this Booklet for simplicity of explanation only, to distinguish between that entity during the period prior to, and the period after, the Effective Date. However, Fairfax Media and Fairfax Media (post Separation) are and will remain the same legal entity and corporate group, which is Fairfax Media Limited and, where the context requires, its subsidiaries from time to time.

The Domain business has historically been operated out of Domain Holdings Australia Pty Limited (DHA), as well as various other entities within Fairfax Media. The Separation involves the Domain business and the remaining Fairfax Media businesses being restructured into two separate corporate groups. The term "Domain" used in this Booklet reflects the Separation principles outlined in Section 8, with references to Domain in the historic period inclusive of any businesses that will constitute Domain as it will exist after the Scheme to effect the Separation has become Effective. The term "standalone" is used to describe Domain as it will exist after the Separation, with a separate board and management team from Fairfax Media (post Separation).

Figures, amounts, percentages, estimates, calculations of value and fractions in this Booklet are subject to the effect of rounding. Accordingly, the actual calculation of these figures may differ from the figures set out in this Booklet.

All references to times in this Booklet are references to the time in Sydney, Australia. All dates following the date of the Scheme Meeting are indicative only and are subject to Court approval, Fairfax Media Shareholder approval, ASX approval and the satisfaction or, where applicable, waiver of the other conditions precedent to the implementation of the Separation.

All references to A\$, dollars, \$, cents, ¢ and currency is a reference to the lawful currency of the Commonwealth of Australia, unless otherwise stated.

SUPPLEMENTARY INFORMATION

Refer to Section 9.14 for information about the steps Fairfax Media will take if information about the Scheme needs to be updated.

DATE OF THIS BOOKLET

This Booklet is dated 22 September 2017.

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1. LETTER FROM THE CHAIRMAN

22 September 2017

Dear Fairfax Media Shareholders,

On behalf of the Fairfax Media Board, I am pleased to present you with this Booklet and invite you to support the Separation of Domain from Fairfax Media to form a separately listed company on ASX.

Domain is a real estate media and technology services business, offering services across digital and print platforms. The business, which delivered FY17 revenue from operations of \$320 million, has a strong track record of growth, with total revenue increasing at a 28% compound annual growth rate over the past three years. Domain has a subscriber base of approximately 12,000 agencies and the large majority of all property listings in every state on its site, providing a strong platform to drive national expansion and depth revenue in the future.

Under the Separation, Eligible Shareholders will receive one Domain Share for every 10 Fairfax Media Shares held, allowing you to own a direct interest in one of Australia's leading real estate media and technology services businesses. Fairfax Media will continue to own 60% of the Domain Shares immediately post Separation. You will also retain your existing Fairfax Media Shares, allowing you to continue to participate in the future of one of Australia and New Zealand's leading multi-platform media companies.

The Fairfax Media and Domain businesses have significant differences in terms of markets, customers, growth and risk profiles, business strategies and operations. The Fairfax Media Board believes that the Separation will enhance the overall value of Fairfax Media Shareholders' investment over time by:

- establishing a direct market valuation for Domain, in which Fairfax Media will retain a 60% interest upon implementation of the Separation;
- increasing focus on each business' distinct growth agendas and strategic priorities through the support of a dedicated board and management team;
- adopting a capital structure appropriate to each business' size, operations and strategic objectives;
- providing shareholders with greater investment choice in the future, allowing them to hold shares in one or both of Domain and Fairfax Media based on their individual investment objectives, risk tolerances and desired sector exposures. However, I would encourage shareholders to continue to support both entities, post Separation; and
- providing Fairfax Media with greater future flexibility regarding its retained shareholding in Domain.

If the Separation proceeds, it will be implemented via a capital reduction and subscription, which will involve each Eligible Shareholder receiving one Domain Share for every 10 Fairfax Media Shares owned. If, as a result of this calculation, the number of Domain Shares is not a whole number, the number will be rounded up to the nearest whole number of Domain Shares.

The Fairfax Media Board has considered a range of potential options such as retaining the current operational structure, pursuing a full demerger and selling shares directly in an initial public offering of Domain. After considering the advantages, disadvantages and risks of the Separation, the Fairfax Media Board has concluded the Separation is in the best interests of Fairfax Media Shareholders and will, over time, deliver greater value to Fairfax Media Shareholders than the current structure. The Fairfax Media Directors unanimously recommend you to vote in favour of the resolutions to approve the Separation. Each Fairfax Media Director intends to use the voting rights attached to any Fairfax Media Shares held or controlled by him or her to vote in favour of the Separation Resolutions.

Grant Samuel, the Independent Expert appointed by Fairfax Media to assess the merits of the Separation, has concluded that the Separation is in the best interests of Fairfax Media Shareholders. A copy of the Independent Expert's Report is contained in Annexure B.

I, and the other Fairfax Media Directors, recommend you vote on the Separation Resolutions (in person, by proxy, by attorney or, in the case of a corporation, by corporate representative) at the Meetings to be held at 10:00am (for the Scheme Meeting) and 10:30am (for the Annual General Meeting) (or as soon after that time as the Scheme Meeting has concluded) on 2 November 2017 at the Pitt Street Room, Ground Floor, Domain Offices, 55 Pyrmont Street, Pyrmont NSW 2009. Your vote is important and I encourage you to read this Booklet carefully in its entirety as it contains important information to assist you to make an informed decision about how to vote on the Separation Resolutions.

If you have any questions in relation to this Booklet or the Separation, please call the Fairfax Media Shareholder Line on +61 1300 888 062, visit the Fairfax Media website at www.fairfaxmedia.com.au or seek independent legal, financial, taxation or other professional advice.

I would like to take this opportunity to thank you for your continued support of Fairfax Media and on behalf of the Fairfax Media Board, I encourage you to support this important proposal and I look forward to your continued involvement in both Domain and Fairfax Media.

Yours faithfully,



Nick Falloon
Chairman
Fairfax Media

2. KEY DATES RELATING TO THE SEPARATION

EVENT	INDICATIVE DATE
BEFORE FAIRFAX MEDIA SHAREHOLDER APPROVAL OF THE SEPARATION	
Date of the First Court Hearing on which the Court convened the Scheme Meeting	22 September 2017
Last time and date by which the Scheme Meeting Proxy Forms must be received by the Fairfax Media Share Registry	10:00am on 31 October 2017
Last time and date by which the Annual General Meeting Proxy Forms must be received by the Fairfax Media Share Registry	10:30am on 31 October 2017
Last time and date for determining eligibility to vote at the Scheme Meeting and the Annual General Meeting	7:00pm on 31 October 2017
Scheme Meeting	10:00am on 2 November 2017
Annual General Meeting	10:30am on 2 November 2017
FOLLOWING FAIRFAX MEDIA SHAREHOLDER APPROVAL OF THE SEPARATION	
Court hearing for approval of the Scheme (the Second Court Hearing)	6 November 2017
Effective Date	7 November 2017
Last date that Fairfax Media Shares trade on ASX cum-entitlements under the Scheme	15 November 2017
ASX listing of Domain; Domain Shares commence trading on ASX on a deferred settlement basis	16 November 2017
Date of which Fairfax Media Shares trade on ASX on an ex-Scheme entitlements basis	16 November 2017
Time and date for determining entitlements to Domain Shares (the Scheme Record Date)	7:00pm on 17 November 2017
Implementation Date and issue of Domain Shares to Eligible Shareholders	22 November 2017
Dispatch of holding statements to Eligible Shareholders	23 November 2017
Domain Shares commence trading on a normal settlement basis	23 November 2017

All dates and times following the date of the Scheme Meeting and the Annual General Meeting are indicative only and, among other things, are subject to all necessary approvals from the Court and other regulatory authorities. Any changes to the timetable (which may include an earlier or later date for the Second Court Hearing) will be announced through ASX and notified on Fairfax Media's website at www.fairfaxmedia.com.au.

The exact number of Domain Shares to be issued to you will not be confirmed until you receive your holding statement following the Implementation Date. It is your responsibility to confirm your holding of Domain Shares before you trade them to avoid the risk of committing to sell more than will be issued to you.

3. QUESTIONS AND ANSWERS

QUESTION	ANSWER	SECTION(S)
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BACKGROUND AND OVERVIEW

What is the Separation?

The Separation is the proposed restructure of Fairfax Media to effect the Separation of Domain as a standalone, separate ASX-listed entity.

Section 8

This will involve the Separation of Domain from Fairfax Media's other businesses. Fairfax Media will retain businesses including Australian Metro Media, Australian Community Media, Stuff (formerly New Zealand Media) and investments in Stan, Macquarie Media Limited and other digital businesses.

Domain will become a standalone, listed entity on ASX (ASX: DHA) and the remaining assets held by Fairfax Media will continue to operate within the existing ASX-listed Fairfax Media entity.

Upon implementation of the Separation, Fairfax Media will retain a 60% controlling interest in the newly-listed Domain. Fairfax Media Shareholders will retain their Fairfax Media Shares and Eligible Shareholders will be entitled to receive one Domain Share for every 10 Fairfax Media Shares held at the Scheme Record Date.

The capital return on your Fairfax Media Shares will be automatically applied on your behalf under the Scheme to pay for your Domain Shares. The Separation does not require any Fairfax Media Shareholder to pay any additional cash for Domain Shares.

Why has the Separation been proposed by the Fairfax Media Board?

The Fairfax Media Board believes that the Separation will enable Fairfax Media and Domain to deliver long term value for Fairfax Media Shareholders by allowing Domain to achieve a direct market valuation. The benefits of a direct market valuation will flow through to Fairfax Media Shareholders through Fairfax Media's retained majority ownership following the implementation of the Separation.

Section 4.2

The Separation will allow the board and management of each of Domain and Fairfax Media to focus on the distinct growth strategies of that business as well as the flexibility to choose a capital structure appropriate to the relevant company.

The Separation also provides shareholders with greater investment choice in the future, allowing them to hold shares in one or both of Domain and Fairfax Media based on their individual investment objectives, risk tolerances and desired sector exposures.

In addition, the Separation may attract new investors to Domain who would not otherwise invest in Fairfax Media Shares due to the company's diversified mix of assets.

QUESTION	ANSWER	SECTION(S)
<p>What alternatives did the Fairfax Media Board consider?</p>	<p>The Fairfax Media Directors are of the view that the Separation is more likely to enhance Fairfax Media Shareholder value in the long term than the other currently available alternatives, including maintaining the status quo, pursuing a full demerger or undertaking an initial public offering of Domain.</p> <p>Having regard to the alternatives available that were considered, the advantages, disadvantages and risks as set out in Section 4, and the opportunity for both Fairfax Media and its shareholders to realise the future growth of Domain, the Fairfax Media Board concluded that the Separation of Domain is in the best interests of Fairfax Media Shareholders.</p>	<p>Section 1</p>
<p>What is Domain?</p>	<p>Domain is a real estate media and technology services business focussed on the Australian property market. Its product suite includes digital listings portals, print magazines, real estate agent services and transactional services.</p> <p>Domain's key features include:</p> <ul style="list-style-type: none"> • track record of strong total revenue performance, growing at a 3 year CAGR of 28%; • a leading property app and social media presence driving high quality audience engagement and leads; • growing subscriber base of approximately 12,000 agencies and the large majority of all property listings in every state on its site, providing a platform to drive national expansion and depth revenue; • benefits from ongoing investment in brand, technology and strategic acquisitions to expand Domain's core listings business and extend across the property lifecycle; • strategic initiatives with the real estate industry, accelerating revenue growth and providing additional funds for investment in product development and marketing; and • experienced senior management team. 	<p>Section 6</p>
<p>What is Domain's growth strategy?</p>	<p>Domain's growth strategy is underpinned by five key commercial objectives:</p> <ul style="list-style-type: none"> • expand agents and listings coverage; • create a mobile-centric platform at the centre of the property ecosystem; • grow premium audiences and quality leads; • grow depth product, media and agent services revenues; and • grow new transactional revenues. 	<p>Section 6.4</p>

3. QUESTIONS AND ANSWERS

QUESTION	ANSWER	SECTION(S)
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RECOMMENDATIONS

What is the recommendation of the Fairfax Media Directors?

Each Fairfax Media Director recommends that you vote in favour of the Separation Resolutions to be considered at the Scheme Meeting and the Annual General Meeting.

Each Fairfax Media Director intends to use the voting rights attached to any Fairfax Media Shares held or controlled by him or her to vote in favour of the Separation Resolutions.

Section 4.1

What is the Independent Expert's opinion of the Separation?

Grant Samuel, the Independent Expert, has concluded that the Separation is in the best interests of Fairfax Media Shareholders.

A copy of the Independent Expert's Report is contained in Annexure B.

Annexure B

ADVANTAGES, DISADVANTAGES AND RISKS OF THE SEPARATION

What are the advantages of the Separation?

The key advantages of the Separation include:

- establishes a direct market valuation for each of Domain and Fairfax Media;
- establishes a separate board and management team for Fairfax Media and Domain, allowing greater focus and alignment in respect of each business;
- enables each company to pursue its own growth agenda and strategic priorities;
- enables each company to adopt a capital structure appropriate for each business' scale, operations and strategic objectives;
- directly aligns management compensation and employee incentive plans to shareholder value creation;
- provides flexibility for Fairfax Media investors to choose in the future whether to hold Fairfax Media Shares and/or Domain Shares after the Separation;
- provides flexibility for Fairfax Media to reduce its exposure to Domain in the future; and
- increases the potential to attract new investors whose investment profiles are aligned to each business' underlying operations.

These advantages, together with other advantages of the Separation, are discussed in Section 4.2.

Section 4.2

QUESTION	ANSWER	SECTION(S)
<p>What are the disadvantages of the Separation?</p>	<p>The key disadvantages of the Separation include:</p> <ul style="list-style-type: none"> • Fairfax Media currently has control of all of the cash flows generated by Domain. Post Separation, Fairfax Media will only have access to Domain's cash flows through potential dividends; • Domain corporate and operating costs will be approximately \$10 million higher in FY17 as a consequence of the Separation; • there will be approximately \$14 million (pre-tax) in one-off transaction costs associated with the Separation; • the value of Domain Shares will depend on the prices at which Domain Shares trade on ASX after the Implementation Date; and • given the expected smaller market capitalisation of Fairfax Media following the Separation, Fairfax Media is likely to have a lower individual ASX index weighting than Fairfax Media prior to Separation. This may result in less institutional investor interest in Fairfax Media. <p>These disadvantages, together with other disadvantages of the Separation, are discussed in Section 4.3.</p>	<p>Section 4.3</p>
<p>What are the potential risks associated with the Separation?</p>	<p>The potential risks of the Separation include:</p> <ul style="list-style-type: none"> • advantages of the Separation may not materialise; • uncertainty about the combined market value and trading of Domain Shares and Fairfax Media Shares post Separation; • Domain's Pro Forma Historical Financial Information may not necessarily reflect the results of a standalone, ASX-listed company; • potential inability to obtain third party consents for certain contracts and guarantees; • potential for delays, unexpected costs or other issues in establishing Domain as a standalone legal entity; • as a separately listed business with a separate board and management team, Domain may not perform as well as it has as a wholly-owned business of Fairfax Media; • potential adverse tax consequences; and • Fairfax Media's 60% interest in Domain on Separation potentially limiting liquidity in the market for Domain Shares. <p>These risks are discussed in Sections 4.4 and 4.5. You should review this Section carefully before deciding whether or not to vote in favour of the Separation Resolutions.</p>	<p>Sections 4.4 and 4.5</p>

3. QUESTIONS AND ANSWERS

QUESTION	ANSWER	SECTION(S)
What are the risks with respect to investment in Domain?	<p>The key risks with respect to investment in Domain going forward include:</p> <ul style="list-style-type: none">• potential for declines in property market conditions;• greater competition from existing or new competitors, or disruption from new business models in the real estate advertising and technology services markets in the future;• potential for further print revenue declines;• unavailability of website and mobile application services;• systems security failures;• ongoing employee attraction and retention;• underperformance of Domain's investments; and• Fairfax Media's interest in Domain. <p>These risks are discussed further in Section 4.5. You should review this Section carefully before deciding whether or not to vote in favour of the Separation Resolutions.</p>	Section 4.5

OVERVIEW OF DOMAIN POST SEPARATION

When will Domain Shares trade separately?	<p>It is expected that Domain Shares will commence trading on ASX on 16 November 2017, initially on a deferred settlement basis.</p> <p>It is the responsibility of Eligible Shareholders to confirm their holding before trading in Domain Shares. Trading on ASX of Domain Shares on a normal settlement basis is expected to commence on 23 November 2017.</p>	Section 2
What will Domain's share price be?	<p>There is no certainty as to the price of Domain Shares after Separation.</p>	Section 4.3.4
Which index will Domain be eligible to be included into?	<p>Upon implementation of the Separation, it is anticipated that Domain will enter the S&P/ASX 200 index. However, this will depend on a number of factors and no assurances can be made that Domain will enter or continue to remain in the S&P/ASX 200 index in the future.</p>	Section 4.3.5
Will Domain have debt?	<p>At the time of the Separation, Domain will have a \$250 million syndicated bank loan facility and is expected to have \$154 million of net debt (on a pro forma basis).</p>	Section 6.6.7

QUESTION	ANSWER	SECTION(S)
<p>Who will be on the Domain Board?</p>	<p>If the Separation is implemented, the Domain Board is intended to comprise of three Non-Executive Directors appointed by Fairfax Media (including the Chairman), three independent Non-Executive Directors and one Managing Director, being:</p> <ul style="list-style-type: none"> • Nick Falloon, Chairman and Non-Executive Director; • Greg Ellis, Independent Non-Executive Director; • Geoff Kleemann, Independent Non-Executive Director; • Diana Eilert, Independent Non-Executive Director; • Patrick Allaway, Non-Executive Director; • Gail Hambly, Non-Executive Director; and • Antony Catalano, Chief Executive Officer and Managing Director. <p>If a director is appointed to the Domain Board after the date of this Booklet, then Fairfax Media will announce that appointment through ASX.</p>	<p>Section 6.5.1</p>
<p>Who will be Domain's key management personnel and senior leadership?</p>	<p>Following the Separation, Domain's key management personnel and senior leadership team will comprise of:</p> <ul style="list-style-type: none"> • Antony Catalano, Chief Executive Officer and Managing Director; • Robert Doyle, Chief Financial Officer; • Graeme Plowman, Chief Operating Officer; • Melina Cruickshank, Chief Editorial and Marketing Officer; • Simon Kent, Group Director (Domain Media and Developers); • Tony Blamey, Chief Commercial Officer; • Mark Cohen, Chief Technology Officer; and • Trent Casson, Managing Director, Domain Victoria. 	<p>Section 6.5.2</p>

3. QUESTIONS AND ANSWERS

QUESTION	ANSWER	SECTION(S)
What commercial arrangements will Domain and Fairfax Media have with each other following the Separation?	<p>Fairfax Media and Domain will enter into a Separation Deed to facilitate the orderly Separation of Domain from Fairfax Media and the transition and emergence of Domain as a separate corporate group.</p> <p>Fairfax Media and Domain will enter into a Transitional Services Agreement to formalise the terms upon which Fairfax Media will provide, or procure the provision of, certain information technology, finance and other services to Domain for a transitional period following the Separation, pending migration of those services to or the replication of those services by Domain.</p> <p>Fairfax Media and Domain will also enter into ongoing commercial arrangements for the provision of services that the parties have provided to each other prior to Separation including, among others, marketing and promotional support, printing and distribution, sales representation and content and data sharing. Certain services which may have been provided to Domain at nil cost in the past will incur a charge in the future.</p> <p>For the year ended 25 June 2017, the total costs to Domain for all services charged by Fairfax Media to Domain (including items that will be covered by the Transitional Services Agreement) was approximately \$21 million, the majority of which relates to printing, distribution and editorial content. This amount does not include the incremental costs associated with the Transitional Services Agreement which have been included within the pro forma adjustments. This amount also does not include any incremental costs associated with the ongoing commercial agreements to be entered into between Fairfax Media and Domain, which have not been included within the pro forma adjustments. Based on preliminary estimates, the incremental cost to Domain for these commercial agreements is expected to be approximately \$2 million per annum initially, increasing to \$4 million per annum over the next three years.</p> <p>For the year ended 25 June 2017, Fairfax also paid Domain approximately \$9 million in commissions pursuant to the sales agency agreements described in Section 8.7.3.3.</p>	Sections 8.7.2 and 8.7.3
What will be the approach to dividends for Domain after the Separation?	<p>The Domain dividend policy will operate on the basis that the Domain Directors will make a determination as to the level of dividends to be paid for each reporting period, taking into account Domain's financial performance, funding position and a range of forward-looking factors.</p>	Section 6.6.12

QUESTION	ANSWER	SECTION(S)
<p>What other additional corporate costs and operating costs will Domain have as a standalone listed company?</p>	<p>Post Separation, Domain will incur a range of costs and adjustments attributable to being a standalone, ASX-listed company. These adjustments have been reflected in the Domain Pro Forma Historical Financial Information set out in Section 6.6.</p> <p>The total pro forma standalone cost adjustments are \$10 million in FY17 and FY15 and \$12 million in FY16, consisting of:</p> <ul style="list-style-type: none"> • \$2 million for Domain Board costs, listing and other costs associated with Domain becoming a standalone entity; • \$6 million for additional corporate functions; and • \$2 million in FY17 and FY15 and \$4 million in FY16, reflecting corporate costs attributable to Domain which were previously unallocated to Domain for the purpose of Fairfax Media segment reporting. <p>The amounts above include charges paid by Domain to Fairfax Media. Following the Separation, Domain will continue to be consolidated by Fairfax Media and therefore the incremental costs for Fairfax Media (post Separation) will be \$5 million, as opposed to \$10-12 million for Domain.</p> <p>Fairfax Media and Domain will also enter into a number of agreements for services that the parties will provide to each other post Separation. Certain services covered by these agreements may have been provided at no cost prior to Separation but will incur a charge in the future. Further information can be found in Section 4.3.2.</p>	<p>Sections 4.3.2 and 6.6</p>
<p>When will Domain release its first results as a standalone company?</p>	<p>Half year results to 24 December 2017 will be reported in February 2018, with first full year results as at 24 June 2018 to be reported in August 2018.</p>	

3. QUESTIONS AND ANSWERS

QUESTION	ANSWER	SECTION(S)
OVERVIEW OF FAIRFAX MEDIA (POST SEPARATION)		
Will Fairfax Media own any Domain Shares after the Separation?	Yes. Fairfax Media will continue to own a shareholding of 60% in Domain after Separation.	Section 7.1.1.1
What will be the Fairfax Media Share price after the Separation?	<p>There is no certainty as to the price of Fairfax Media Shares after the Separation.</p> <p>The price of Fairfax Media Shares is expected to decrease on the date on which they commence trading without an entitlement to participate in the Separation, given that Eligible Shareholders will be receiving one Domain Share for every 10 Fairfax Media Shares held at the Scheme Record Date. If, as a result of this calculation, the number of Domain Shares is not a whole number, the number will be rounded up to the nearest whole number of Domain Shares.</p>	Section 4.3.4
Which index will Fairfax Media be eligible to be included into?	Upon implementation of the Separation, it is anticipated that Fairfax Media will remain in the S&P/ASX 100 index. However, this will depend on a number of factors and no assurances can be made that Fairfax Media will remain in the S&P/ASX 100 index on Separation, or continue to remain in that index in the future.	Section 4.3.5
What will be Fairfax Media's strategy after the Separation?	<p>Fairfax Media will continue to operate and manage a portfolio of print media, digital media, radio, events and other businesses across Australia and New Zealand.</p> <p>In addition, upon implementation of the Separation, Fairfax Media will retain a controlling 60% stake in Domain, which will enable it to influence Domain's strategic direction and continue to benefit from growth in Domain.</p>	Section 7.3

QUESTION	ANSWER	SECTION(S)
<p>Who will be on the Fairfax Media Board after the Separation?</p>	<p>The Fairfax Media Board will not change as a result of the Separation. Please refer to Section 7.4.1 for further details regarding the composition of the Fairfax Media Board.</p> <p>As at the date of this Booklet, the Fairfax Media Board comprises of the following Directors:</p> <ul style="list-style-type: none"> • Nick Falloon, Chairman and Non-Executive Director; • Patrick Allaway, Non-Executive Director; • Jack Cowin, Non-Executive Director; • Gregory Hywood, Chief Executive Officer and Managing Director; • Sandra McPhee, AM, Non-Executive Director; • James Millar, AM, Non-Executive Director; • Linda Nicholls, AO, Non-Executive Director; • Mickie Rosen, Non-Executive Director; and • Todd Sampson, Non-Executive Director. 	<p>Section 7.4.1</p>
<p>Who will be on the senior management team of Fairfax Media?</p>	<p>Following the Separation, the Fairfax Media senior management will be comprised of the following members:</p> <ul style="list-style-type: none"> • Gregory Hywood, Chief Executive Officer and Managing Director; • David Housego, Chief Financial Officer; • Gail Hambly, Group General Counsel and Company Secretary; • Allen Williams, Managing Director (Publishing Transition); • Brad Hatch, Director of Communications; • Chris Janz, Managing Director (Australian Metro Publishing); • Dhruv Gupta, Group Director (Strategy and Corporate Development); • Michelle Williams, Group Director (Human Resources); • Robyn Elliot, Chief Information Officer; and • Sinead Boucher, Managing Director (Stuff). 	<p>Section 7.4.2</p>
<p>What will be the approach to dividends for Fairfax Media after the Separation?</p>	<p>Fairfax Media's dividend policy will not change as a result of the Separation. The policy will continue to operate on the basis that the Fairfax Media Directors will make a determination as to the level of dividends to be paid for each reporting period, taking into account Fairfax Media's financial performance, funding position and a range of forward-looking factors.</p>	<p>Section 7.5.10</p>

3. QUESTIONS AND ANSWERS

QUESTION	ANSWER	SECTION(S)
What impact will the Separation have on Fairfax Media's existing debt facilities?	As part of the Separation arrangements, Fairfax Media has procured new debt facilities from a syndicate of banks which will be used to refinance any existing indebtedness at the time the Separation is implemented and to fund operations on a continuing basis.	Section 7.5.7.2

IMPLEMENTATION AND PROCESS

What is the Capital Reduction?	<p>Fairfax Media has proposed the Capital Reduction to permit Fairfax Media to reduce its share capital on the Implementation Date. The proceeds of the Capital Reduction will not be paid in cash to Fairfax Media Shareholders. They will be applied on behalf of Fairfax Media Shareholders as consideration for the issue of Domain Shares under the Scheme.</p> <p>The Capital Reduction is conditional on the Scheme becoming Effective. This means that Fairfax Media will not undertake the Capital Reduction unless the Scheme becomes Effective.</p> <p>The Capital Reduction must be approved by a simple majority (more than 50%) of votes cast by Fairfax Media Shareholders on the Capital Reduction Resolution.</p> <p>Fairfax Media is of the view that, taking into account all relevant matters, the Capital Reduction is fair and reasonable to Fairfax Media Shareholders as a whole and will not materially prejudice the ability of Fairfax Media to pay its creditors.</p>	Section 8.3.2
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What are the mechanics of the Separation?	<p>To implement the Separation, Fairfax Media will undertake the Capital Reduction, the proceeds of which will be automatically applied to the subscription of Domain Shares for Fairfax Media Shareholders. Following this subscription, Eligible Shareholders will receive one Domain Share for every 10 Fairfax Media Shares held at the Scheme Record Date. If, as a result of this calculation, the number of Domain Shares is not a whole number, the number will be rounded up to the nearest whole number of Domain Shares.</p> <p>Following this Separation transaction, Fairfax Media Shareholders at the Scheme Record Date will hold 40% of the Domain Shares on issue, with the remaining 60% of the Domain Shares to be held by Fairfax Media.</p> <p>The two interdependent Fairfax Media Shareholder approvals required to effect the Separation are:</p> <ul style="list-style-type: none">• the Scheme Resolution, which requires the approval of a majority in number (more than 50%) of Fairfax Media Shareholders present and voting at the Scheme Meeting (whether in person or by proxy), and at least 75% of the total number of votes cast on the Scheme Resolution by Fairfax Media Shareholders present and voting at the Scheme Meeting; and• the Capital Reduction must be approved by a simple majority (more than 50%) of votes cast by Fairfax Media Shareholders on the Capital Reduction Resolution.	Section 8
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QUESTION	ANSWER	SECTION(S)
<p>What are the key steps involved in the Separation?</p>	<p>At the First Court Hearing on 22 September 2017, Fairfax Media obtained an order from the Court to convene the Scheme Meeting. The key remaining steps before the Separation can be implemented are:</p> <ul style="list-style-type: none"> • approval of the Scheme by Fairfax Media Shareholders at the Scheme Meeting; • approval of the Capital Reduction by Fairfax Media Shareholders at the Annual General Meeting; • the satisfaction or waiver of all conditions to the Separation prior to the Second Court Hearing; • Court approval of the Scheme at the Second Court Hearing; and • approval of admission of Domain to the Official List and the official quotation of Domain Shares by ASX. <p>Following lodgement of the Court order with ASIC, the Scheme will become Effective and will be implemented. This will involve the Capital Reduction Amount being applied by Fairfax Media, on behalf of Fairfax Media Shareholders, as consideration for the issue to those shareholders of one Domain Share for every 10 Fairfax Media Shares held on the Scheme Record Date. The Domain Shares to which Ineligible Foreign Shareholders would otherwise be entitled will be issued to the Sale Agent and sold as explained in Section 8.4.3. No amount of cash will be paid to Fairfax Media Shareholders as a result of the Capital Reduction.</p> <p>If the Court approves the Scheme, Domain Shares are expected to trade on ASX from 16 November 2017 (initially on a deferred settlement basis).</p> <p>Section 8 contains further details of the Separation, including a description of the approval thresholds and the other conditions that must be satisfied or waived for the Separation to proceed.</p>	Section 8.3
<p>Is the Separation subject to any other conditions?</p>	<p>The Separation is subject to the satisfaction or waiver of certain conditions.</p> <p>The principal conditions are outlined in the previous answer and are also described in Section 8.3.3.</p>	Section 8.3.3

3. QUESTIONS AND ANSWERS

QUESTION	ANSWER	SECTION(S)
Which Fairfax Media Shareholders are eligible to participate in the Separation?	<p>Fairfax Media Shareholders registered on the Fairfax Media Share Register as the holders of Fairfax Media Shares at the Scheme Record Date may be eligible to receive Domain Shares depending on the location of their Registered Address.</p> <p>Fairfax Media Shareholders whose Registered Address at the Scheme Record Date is in Australia, New Zealand, Singapore, Hong Kong, the United Kingdom or the other countries referred to in Section 8.4.2 are Eligible Shareholders.</p> <p>Ineligible Foreign Shareholders, being Fairfax Media Shareholders whose Registered Address on the Fairfax Media Share Register at the Scheme Record Date is outside Australia, New Zealand, Singapore, Hong Kong, the United Kingdom or the other countries referred to in Section 8.4.2, may not receive Domain Shares and should refer to Section 8.4.3 for further information.</p>	Section 8.4
Will I need to make any payments to participate in the Separation?	<p>No. Under the Capital Reduction, the capital return on your Fairfax Media Shares will be automatically applied on your behalf under the Scheme to pay for your Domain Shares. You do not need to make any separate payment.</p>	Section 8.3.2
Can I choose to receive cash instead of Domain Shares?	<p>No. Under the Separation, you may not elect to receive cash instead of Domain Shares.</p> <p>However, if you are an Ineligible Foreign Shareholder, the Domain Shares to which you would have been otherwise entitled under the Scheme will automatically be sold on ASX by the Sale Agent with the proceeds remitted to you, free of any brokerage costs or stamp duty.</p>	Section 8.4.3
What will Fairfax Media Shareholders receive if the Separation proceeds?	<p>Eligible Shareholders will receive one Domain Share for every 10 Fairfax Media Shares they hold at the Scheme Record Date, which is expected to be at 7:00pm on 17 November 2017. If, as a result of this calculation, the number of Domain Shares is not a whole number, the number will be rounded up to the nearest whole number of Domain Shares.</p> <p>Ineligible Foreign Shareholders will not receive Domain Shares.</p>	Section 8.5
What is the impact of the Separation on my Fairfax Media shares?	<p>The number of Fairfax Media Shares will not change as a result of the Separation.</p> <p>If you are an Eligible Shareholder, you will hold one Domain Share for every 10 Fairfax Media Shares held if the Separation proceeds.</p>	Section 8.6

QUESTION	ANSWER	SECTION(S)
What are the costs of the Separation?	Estimated transaction costs of the Separation are approximately \$14 million on a pre-tax basis. Approximately \$5 million of these costs will have been committed prior to the Meetings when Fairfax Media Shareholders will vote on the Separation.	Section 9.10
What happens if the Separation does not proceed?	<p>If the Separation does not proceed:</p> <ul style="list-style-type: none"> • Fairfax Media will continue to own 100% of Domain; • Eligible Shareholders will not receive Domain Shares; • Fairfax Media Shareholders will retain their holding in Fairfax Media Shares; • Fairfax Media will incur committed transaction costs of approximately \$5 million on a pre-tax basis; • the advantages of the Separation described in Section 4.2 will not be realised; and • the disadvantages and risks of the Separation described in Sections 4.3 and 4.4 will not arise. 	Section 8.7.5

VOTING ON THE SEPARATION

What are the voting thresholds?	<p>Scheme</p> <p>For the Scheme to proceed, it must be approved by:</p> <ul style="list-style-type: none"> • a majority in number (more than 50%) of Fairfax Media Shareholders present and voting at the Scheme Meeting (whether in person or by proxy); and • at least 75% of the total number of votes cast on the Scheme Resolution by Fairfax Media Shareholders present and voting at the Scheme Meeting. <p>Capital Reduction</p> <p>The Capital Reduction must be approved by a simple majority (more than 50%) of votes cast by Fairfax Media Shareholders on the Capital Reduction Resolution.</p>	Annexures E and F
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3. QUESTIONS AND ANSWERS

QUESTION	ANSWER	SECTION(S)
Who can vote at the Meetings?	<p>Voting on the Scheme at the Scheme Meeting</p> <p>Fairfax Media Shareholders who are registered on the Fairfax Media Share Register at 7:00pm on 31 October 2017 may vote on the Scheme Resolution at the Scheme Meeting.</p> <p>Voting on the Capital Reduction Resolution at the Annual General Meeting</p> <p>Fairfax Media Shareholders who are registered on the Fairfax Media Share Register at 7:00pm on 31 October 2017 may vote on the Capital Reduction Resolution at the Annual General Meeting.</p>	Annexures E and F
When are the Meetings?	<p>Scheme Meeting</p> <p>The Scheme Meeting will be held at 10:00am on 2 November 2017 at the Pitt Street Room, Ground Floor, Domain Offices, 55 Pyrmont Street, Pyrmont NSW 2009.</p> <p>Annual General Meeting</p> <p>The Annual General Meeting will be held at 10:30am on 2 November 2017 (or as soon after that time as the Scheme Meeting has concluded) at the Pitt Street Room, Ground Floor, Domain Offices, 55 Pyrmont Street, Pyrmont NSW 2009.</p>	Annexures E and F
What is the procedure to vote at the Meetings?	<p>How to vote in person</p> <p>If you are entitled to vote and wish to do so in person, you should attend the Scheme Meeting and the Annual General Meeting.</p> <p>If you are attending as an attorney, you should bring a copy of the authority under which the proxy forms were signed (unless you have already provided a copy of the authority to the Fairfax Media Share Registry). If you are attending as a corporate representative, bring evidence of your authority.</p> <p>How to vote by proxy</p> <p>If you are unable to attend the Scheme Meeting and the Annual General Meeting in person, you can lodge your proxy forms on line at the Fairfax Media Share Registry's website, www.linkmarketservices.com.au. Alternatively, complete and return the yellow Scheme Meeting Proxy Form and the white Annual General Meeting Proxy Form accompanying this Booklet by using the enclosed reply paid envelope, or by fax. Proxy forms can also be hand delivered to the Fairfax Media Share Registry at Link Market Services Limited, Level 12, 680 George Street, Sydney NSW 2000 or 1A Homebush Bay Drive, Rhodes NSW 2138. All proxy forms must be received by the Fairfax Media Share Registry by 10:00am on 31 October 2017 for the Scheme Meeting Proxy Form and by 10:30am on 31 October 2017 for the Annual General Meeting Proxy Form.</p>	Section 5.3

QUESTION	ANSWER	SECTION(S)
<p>What is the procedure to vote at the Meetings? (cont'd)</p>	<p>If an attorney signs a proxy form on your behalf, a copy of the authority under which the proxy form was signed must be received by the Fairfax Media Share Registry at the same time as the proxy form (unless you have already provided a copy of the authority to the Fairfax Media Share Registry).</p> <p>If you complete and return a proxy form, you may still attend a Meeting in person.</p>	<p>Section 5.3</p>
<p>What if I do not vote at the Meetings or do not vote in favour of the Separation Resolutions?</p>	<p>If you do not vote or vote against the Separation Resolutions, but these resolutions are approved by the requisite majorities of Fairfax Media Shareholders, then, subject to the other conditions to the Separation being satisfied or waived, and Court approval, the Separation will be implemented and binding on all Fairfax Media Shareholders, including those who did not vote or voted against the Separation Resolutions.</p>	

TAXATION IMPLICATIONS

<p>What are the Fairfax Media Shareholder taxation implications of the Separation?</p>	<p>The tax implications of the Separation will depend on your personal circumstances.</p> <p>An outline of the general Australian tax implications for certain Fairfax Media Shareholders is set out in Section 8.8. In broad terms, your Capital Reduction Entitlement should not be treated as a dividend for Australian income tax purposes. Rather, your Capital Reduction Entitlement should reduce the cost base of your Fairfax Media Shares and become the first element of cost base in your new Domain Shares.</p> <p>The outline in Section 8.8 is general in nature. Accordingly, you should consult with your tax advisor for specific tax advice regarding the Australian and, if applicable, foreign tax implications of participating in the Separation in your particular circumstances before deciding whether or not to vote in favour of the resolutions approving the Separation.</p>	<p>Section 8.8</p>
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3. QUESTIONS AND ANSWERS

QUESTION	ANSWER	SECTION(S)
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FURTHER INFORMATION

What if I am an Ineligible Foreign Shareholder?

Ineligible Foreign Shareholders will have the Domain Shares that they would be entitled to receive under the Separation automatically issued to the Sale Agent, with the proceeds of the sale remitted to them, free of any brokerage costs or stamp duty.

Ineligible Foreign Shareholders do not need to take any steps to participate in the sale of their entitled shares.

Fairfax Media Shareholders who are not Ineligible Foreign Shareholders have no right to elect to have their shares sold.

Section 8.4.4

Who can I contact if I have further questions in relation to this Booklet or the Separation?

If you have any further questions, you should:

- seek independent legal, financial, taxation or other professional advice; or
- contact the Fairfax Media Shareholder Information Line on +61 1300 888 062 between the hours of 8:30am and 5:30pm, Monday to Friday.

Fairfax Media is a listed disclosing entity for the purpose of the Corporations Act and as such is subject to regular reporting and disclosure obligations. Information disclosed to ASX by Fairfax Media is available on ASX's website at www.asx.com.au or on Fairfax Media's website at www.fairfaxmedia.com.au.

Section 5.1

4. ADVANTAGES, DISADVANTAGES AND RISKS OF THE SEPARATION

4.1 INTRODUCTION

This Section 4 outlines material advantages, disadvantages and risks Fairfax Media Shareholders should consider when deciding whether or not to vote in favour of the Separation Resolutions.

For the reasons described in this Section 4, the Fairfax Media Directors are of the view that the advantages of the Separation outweigh the disadvantages and risks associated with the Separation.

The Fairfax Media Directors also consider that the Separation will enable both Fairfax Media and Domain to focus on their individual strategies, growth objectives and core competencies to a greater extent and create long term value for Fairfax Media Shareholders.

For these reasons, each Fairfax Media Director recommends that Fairfax Media Shareholders vote in favour of the Separation Resolutions at the Scheme Meeting and at the Annual General Meeting. Each Fairfax Media Director intends to vote any Fairfax Media Shares held or controlled by that Fairfax Media Director in favour of the Separation Resolutions.

Fairfax Media Shareholders should carefully consider the following advantages, disadvantages and risks of the Separation and other relevant considerations, as well as the other information contained in this Booklet (including the risks associated with owning Domain Shares), and the Independent Expert's Report in Annexure B, when deciding whether or not to vote in favour of the Separation Resolutions required to implement the Separation.

4.2 ADVANTAGES OF THE SEPARATION

4.2.1 Establishes a direct market valuation for each of Domain and Fairfax Media

The Separation will establish a direct market valuation for each of Domain and Fairfax Media. Through separate ASX listings, investors will be able to separately evaluate the individual financial performance, strategies and other business characteristics of Domain and Fairfax Media. This is expected to increase the likelihood that both Domain and Fairfax Media will each achieve an appropriate market valuation.

Post Separation, Fairfax Media will own a 60% stake in Domain and the value attributed to its shareholding in Domain may be reflected in the value of Fairfax Media.

4.2.2 Establishes a separate board and management team for Fairfax Media and Domain, allowing greater focus and alignment in respect of each business

The Separation will enable the management teams of Domain and Fairfax Media to focus on their respective business operations and priorities and to respond with greater flexibility to challenges and opportunities as they arise.

Domain will have a separate board of directors which is intended to comprise three Non-Executive Directors appointed by Fairfax Media (including the Chairman), three independent Non-Executive Directors and one Managing Director.

4.2.3 Enables each company to pursue its own growth agenda and strategic priorities

The Domain and Fairfax Media businesses face different industry dynamics and have different business characteristics, financial profiles and strategic priorities. Following the Separation, each company will be able to focus on its own business and its own strategic objectives.

The Domain Board and management will have the opportunity to focus on growing the real estate media and technology services business while the Fairfax Media Board and management will be able to focus on the remaining assets and businesses held in the Fairfax Media portfolio.

4.2.4 Enables each company to adopt a capital structure appropriate for each business' scale, operations and strategic objectives

Following the Separation, both Fairfax Media and Domain will have separate debt facilities and a greater ability to pursue a capital structure and financial policies appropriate for their specific operational and strategic objectives.

Domain will be able to operate with a capital structure appropriate for a business in the online property services market, while Fairfax Media will be able to adopt an appropriate capital structure for a business with exposure to traditional publishing assets.

Details of the proposed capital structures of Fairfax Media and Domain following the Separation are set out in Sections 6.6.7 and 7.5.7.2. The capital structures of Fairfax Media and Domain will be at the discretion of their respective boards and are subject to change as circumstances require.

4. ADVANTAGES, DISADVANTAGES AND RISKS OF THE SEPARATION

4.2.5 Directly aligns management compensation and employee incentive plans to shareholder value creation

The Separation will provide Fairfax Media and Domain with increased flexibility to determine their respective compensation and incentive plans for employees and management, enabling closer alignment between such plans and the business performance and shareholder value generation of each company.

4.2.6 Provides flexibility for Fairfax Media investors to choose in the future whether to hold Fairfax Media Shares and/or Domain Shares after the Separation

Once Domain and Fairfax Media are separately listed, existing investors will have greater investment choice in the future and the flexibility to manage their exposure to Domain and Fairfax Media. Shareholders will be free to increase, decrease or maintain their exposure to Fairfax Media and Domain after the Separation completes.

Fairfax Media and Domain are exposed to significantly different industry dynamics and have different operating models, financial profiles and sector focuses. The combination of Fairfax Media and Domain within a single listed business does not provide choice for those investors who may seek an investment in only the Domain business.

4.2.7 Provides flexibility for Fairfax Media to reduce its exposure to Domain in the future

As Fairfax Media will hold a controlling stake of 60% in Domain on Separation, it will have the opportunity to reduce its exposure in the future as its business needs evolve. The Separation will allow Fairfax Media to realise its investment in what is expected to be a liquid market with an established market value for Domain Shares.

4.2.8 Increases the potential to attract new investors whose investment profiles are aligned to each business' underlying operations

Fairfax Media and Domain operate in industries with different characteristics and the Separation will therefore provide potential new investors with greater investment choice and flexibility.

As separately-listed entities, Fairfax Media and Domain will be better positioned to attract new shareholders who have differing desires with regard to asset sector exposure, risk tolerance and other investment preferences.

4.3 DISADVANTAGES OF THE SEPARATION

4.3.1 Fairfax Media currently has control of all of the cash flows generated by Domain. Post Separation, Fairfax Media will only have access to Domain's cash flows through potential dividends

At present, Domain is wholly-owned by Fairfax Media and as such Fairfax Media has control and access to 100% of the cash flows generated by the Domain business. However, upon implementation of the Separation, Fairfax Media will own 60% of Domain and will only have access to the business' cash flows through any potential dividends paid by Domain, as determined by the Domain Directors. In the future, this may limit the financial flexibility of Fairfax Media as it may have lower cash flows for use as compared to when Domain was a wholly-owned subsidiary.

4.3.2 There will be additional corporate and operating costs as a consequence of the Separation

Following the Separation, Domain will be separately listed on ASX and will incur additional costs compared to its position as a wholly-owned subsidiary of Fairfax Media. These include costs associated with its ASX listing, share registry, maintaining a separate board of directors and executive team, information technology and other corporate functions. There will also be a transfer of corporate costs from Fairfax Media to Domain.

As a result, the annual corporate costs for Domain will be approximately \$10 million higher in FY17 and FY15 and \$12 million higher in FY16 than prior to Separation. The standalone costs consist of \$2 million for Domain Board costs, listing and other costs associated with Domain becoming a standalone entity; \$6 million for additional corporate functions; and \$2 million in FY17 and FY15 and \$4 million in FY16, reflecting corporate costs attributable to Domain which were previously unallocated to Domain for the purpose of Fairfax Media segment reporting.

Fairfax Media and Domain will also enter into a number of agreements for services that the parties will provide to each other post Separation. Certain services covered by these agreements may have been provided at no cost prior to Separation but will incur a charge in the future. Further information can be found in Section 8.7.3.

4.3.3 There will be one-off transaction costs associated with the Separation

Total transaction costs of the Separation are approximately \$14 million on a pre-tax basis. Approximately \$5 million of these costs will have been committed to prior to the Meetings when Fairfax Media shareholders will vote on the Separation. Further information regarding transaction costs can be found in Section 9.10.

4.3.4 The value of Domain Shares will depend on the prices at which Domain Shares trade on ASX after the Implementation Date

If the Scheme and the Separation are implemented, Eligible Shareholders will be entitled to receive one Domain Share for every 10 Fairfax Media Shares they hold at the Scheme Record Date.¹

Following implementation of the Separation, the price of Domain Shares and Fairfax Shares may rise or fall based on market conditions, perceptions, and Domain and Fairfax's financial and operational performance.

Accordingly, there is no guarantee as to the future value of the Fairfax Media Shares or of the Domain Shares to be received as part of the Separation.

4.3.5 Given the expected smaller market capitalisation of Fairfax Media following the Separation, Fairfax Media is likely to have a lower individual ASX index weighting than Fairfax Media prior to Separation. This may result in less institutional investor interest in Fairfax Media

Following the Separation, both Fairfax Media and Domain are likely to each have a smaller market capitalisation than Fairfax Media prior to Separation.

It is anticipated that Fairfax Media is will remain in the S&P/ASX 100 index and Domain will be included in the S&P/ASX 200 index. However, this will depend on a number of factors and no assurances can be made regarding either Fairfax or Domain's potential index inclusion following the Separation, or potential index inclusion in the future.

Each is likely to have a lower individual index weighting than Fairfax Media's weighting prior to Separation, which may result in less institutional investor interest in Fairfax Media and Domain.

1. The number of Domain Shares to be received by Eligible Shareholders is subject to rounding for fractional entitlements. Ineligible Foreign Shareholders will have all of their Domain Shares transferred to the Sale Agent and sold on their behalf. See Section 8.4.4 for further information about how those cash proceeds will be distributed to Ineligible Foreign Shareholders.

4.4 POTENTIAL RISKS OF THE SEPARATION

4.4.1 Advantages of the Separation may not materialise

After the Separation, Fairfax Media and Domain may not be able to achieve some or all of the expected potential advantages of the Separation as outlined in Section 4.2. If Fairfax Media and Domain fail to achieve some or all of these benefits, their respective business and financial conditions have the potential to be materially adversely affected. If that occurs, Fairfax Media Shareholders may consequently also be materially adversely affected through their holdings of Fairfax Media and/or Domain Shares.

4.4.2 Uncertainty about the combined market value and trading of Domain Shares and Fairfax Media Shares post Separation

The Fairfax Media Directors consider that the Separation will enhance long term value for Fairfax Media Shareholders. However, it is not possible to predict the market value of Domain Shares and Fairfax Media Shares post Separation.

There can be no assurance that Domain Shares will trade at any particular price after listing. Following the Separation, some shareholders may adjust their holdings in Domain or Fairfax Media. There is a risk that the combined market value of Domain and Fairfax Media (post Separation) may be less than the market value of Fairfax Media prior to Separation.

Fairfax Media Shareholders should also note that if the Separation does not proceed, there is no assurance that Fairfax Media Shares will continue to trade at prices in line with recent levels.

4. ADVANTAGES, DISADVANTAGES AND RISKS OF THE SEPARATION

4.4.3 Domain's Pro Forma Historical Financial Information may not necessarily reflect the results of a standalone, ASX-listed company

Domain does not have an operating history as a standalone, ASX-listed company. The Domain Pro Forma Historical Financial Information included in Section 6.6 may not necessarily reflect the results of operations, financial condition and cash flows that Domain would have achieved as a standalone, publicly-listed company during the periods presented or those that it will achieve in the future, due to the following factors:

- the Domain business has been operated by Fairfax Media as part of its broader corporate organisation and is supported by Fairfax Media's corporate infrastructure including group accounting, treasury, taxation, superannuation, legal, insurance administration, investor relations and general human resources. Domain's pro forma financial statements reflect allocations of corporate expenses from Fairfax Media for these and similar functions. These allocations may be more or less than the comparable expenses Domain would have incurred had it operated as a standalone, publicly-listed company; and
- Domain has benefited from Fairfax Media's operating diversity, size and purchasing power and may lose some of these benefits as a standalone company.

4.4.4 Potential inability to obtain third party consents for certain contracts and guarantees

The consent or agreement of third parties may be required in connection with the Restructure for certain contracts or guarantees to which Domain and Fairfax Media are party. There is a risk that the consent or agreement of the third parties is not obtained or unwilling to be provided or, in the case of guarantees, to release the relevant member of Fairfax Media from their obligations under those guarantees following the Separation.

The relevant entity within Domain or Fairfax Media seeking to have the benefit of the contract will also rely on the contracting entity being able to pass through that benefit. Under the Separation Deed, Domain and Fairfax Media will be obliged to observe these requirements and will cross indemnify each other for any claims made or payments to be made under the contracts or guarantees which relate to their respective businesses.

4.4.5 Potential for delays, unexpected costs or other issues in establishing Domain as a standalone legal entity

As part of the implementation of the Separation, Domain is replacing corporate infrastructure and support services provided by Fairfax Media with internal capability and third party contracts. A Transitional Services Agreement with Fairfax Media supporting Domain will be implemented at the time of the Separation. Domain may also enter into contracts with third party service providers following the Separation. Details of the proposed Transitional Services Agreement are set out Section 8.7.2. During Domain's transition to being a standalone entity, it may incur some one-off costs to implement these processes. There is a risk that the establishment of these capabilities may take longer than expected or may involve a greater cost than anticipated.

4.4.6 As a separately listed business with a separate board and management team, Domain may not perform as well as it has as a wholly-owned business of Fairfax Media

As a wholly-owned business of Fairfax Media, Domain has grown into the second largest online real estate marketing and services business in Australia. While Fairfax Media and Domain will attempt to select board and management who have been deemed to be the most qualified for their role to deliver the greatest value to Domain Shareholders, as a standalone, separately-listed company with its own board and management team, there lies a risk that Domain does not perform as well as it did under Fairfax Media.

4.4.7 Potential adverse tax consequences

If the Scheme becomes Effective, there will be tax consequences for Scheme Shareholders which may include tax being payable. For further detail regarding the general Australian tax consequences of the Separation, refer to Section 8.8. The tax treatment may vary depending on the nature and characteristics of the Fairfax Media Shareholders and their specific circumstances. Accordingly, Fairfax Media Shareholders should seek professional tax advice in relation to their particular circumstances.

Fairfax Media has received advice from the ATO confirming that the ATO will not make a determination that any part of the Capital Reduction Amount is taken to be a dividend for tax purposes under Section 45B of the Tax Act.

The ATO advice is subject to a number of conditions about the Separation which Fairfax Media considers should be satisfied. Further, the ATO has advised that it will withdraw the advice in certain circumstances as outlined in Section 8.8.

These circumstances include where a Fairfax Media Shareholder involved in the management of Fairfax Media or Domain or otherwise involved in the structuring or undertaking of the Separation (or their associate) disposes of their Domain Shares within 45 days of listing. Fairfax Media will take all steps within its reasonable control to ensure that no such trading in Domain Shares occurs. The Fairfax Media Board has a strict securities trading policy in place, including the use of trading blackouts (no trading periods) to manage this circumstance. Similar trading restrictions apply to Fairfax Media's advisors on the Separation including Macquarie Capital and Herbert Smith Freehills.

If, despite Fairfax Media taking these steps, such trading in Domain Shares does occur and as a result the ATO withdraws its advice, the ATO will consider the taxation implications for shareholders of receipt of the Capital Reduction Amount in light of all of the facts and circumstances at that time. This may confirm the capital treatment of the Capital Reduction Amount. However, there is a risk that the ATO could determine that some or all of the Capital Reduction Amount is taken to be an unfranked dividend. In this event, the Separation would likely result in a tax liability for Fairfax Media Shareholders unless the ATO determination was successfully challenged.

4.5 RISKS WITH RESPECT TO INVESTMENT IN DOMAIN

While Fairfax Media Shareholders currently have an exposure to Domain, and will continue to have that exposure with respect to the 60% interest in Domain which Fairfax Media will retain upon implementation of the Separation, they will also have a direct shareholding in Domain following the Separation. These circumstances may result in the following risks.

4.5.1 Potential for declines in property market conditions

Domain's business is focussed on the Australian property market, which is subject to changing conditions due to macroeconomic factors including interest rates, unemployment and consumer confidence. A significant change in one or more of these factors can affect conditions in the property market, impacting listing and transaction levels, which has the potential to reduce the demand for Domain's services.

4.5.2 Greater competition from existing or new competitors, or disruption from new business models in the real estate advertising and technology services markets in the future

The markets for real estate advertising and technology services are highly competitive. Increased competition from existing businesses in the market, or the emergence of new entrants or disruptive business models into these markets, has the potential to adversely affect Domain's growth prospects and financial performance. Continuing to improve Domain's products and services, in particular the user experience and value delivered to customers, is also key to ensuring the business remains competitive. There can be no guarantee the strategies undertaken by Domain will ensure that its growth prospects, competitiveness and financial performance are not affected by competitors.

4.5.3 Potential for further print revenue declines

In FY17, 28% of Domain's revenues came from print advertising. Real estate advertising in print is undergoing a structural decline, as consumers increasingly shift online to search for property. There is a risk that the decline in print revenues may continue or accelerate in the future and print advertising may become economically unviable, which may adversely affect Domain's financial performance.

4.5.4 Unavailability of website and mobile application services

Domain operates many online products and services and the ongoing availability of websites and mobile applications is critical to business operations. While Domain invests in developing technology architectures, performance monitoring and disaster recovery plans to minimise the risk of any website or mobile application unavailability, there can be no guarantee that these will be sufficient to ensure that its website or mobile applications will not become unavailable in the future. Any significant downtime could adversely affect Domain's reputation and financial position.

4.5.5 Systems security failures

Systems security and protecting customer data are critical for a web-based business like Domain. While Domain invests significantly in its technology and infrastructure and has implemented policies and procedures to address security and data risks, there can be no guarantee that these will be sufficient to ensure data security. Any loss of data security could adversely affect Domain's reputation and financial position.

4. ADVANTAGES, DISADVANTAGES AND RISKS OF THE SEPARATION

4.5.6 Ongoing employee attraction and retention

Attraction and retention of talented employees is a key focus for the business and Domain has implemented a range of measures to ensure that it remains an attractive place to work. Despite this, there can be no guarantee that Domain can continue to attract and retain employees. Any inability to attract, develop and retain key team members could adversely affect Domain's operations, financial position or growth prospects.

4.5.7 Underperformance of Domain's investments

Domain has invested in companies that typically operate outside the markets for digital property listings as part of the strategy to expand across the entire property lifecycle. Like any new investment, there is a risk that their respective business models will not be successful. There can be no guarantee that Domain will be able to successfully grow and integrate any or all of these investments and a failure to properly grow or integrate these investments has the potential to adversely affect Domain's growth prospects and financial performance.

4.5.8 Fairfax Media's interest in Domain

Fairfax Media's holding of Domain Shares following the Separation will give it substantial control over Domain, including substantial influence over Domain's financial and operating policies, and the composition of the Domain Board. Fairfax Media may exert that influence in ways that are not consistent with the preferences of other Domain Shareholders. Fairfax Media will own a 60% interest in Domain on Separation, potentially limiting liquidity in the market for Domain Shares.

5. ACTIONS FOR FAIRFAX MEDIA SHAREHOLDERS

Enclosed with this Booklet is:

- a yellow Scheme Meeting Proxy Form; and
- a white Annual General Meeting Proxy Form.

If you are unable to attend the Scheme Meeting and the Annual General Meeting in person, you can appoint a proxy to attend and vote on your behalf.

To appoint a proxy, complete the Scheme Meeting Proxy Form and the Annual General Meeting Proxy Form. You can lodge your proxy forms online at the Fairfax Media Share Registry's website, www.linkmarketservices.com.au, by going to the "Vote Online" section and following the prompts and instructions. Alternatively, complete and return these forms using the enclosed reply paid envelope, or by fax. All forms must be received by the Fairfax Media Share Registry by 10:00am on 31 October 2017 for the Scheme Meeting Proxy Form and by 10:30am on 31 October 2017 for the Annual General Meeting Proxy Form. Proxy forms can also be returned to Fairfax Media's registered office or hand delivered to the Fairfax Media Share Registry at Link Market Services Limited, Level 12, 680 George Street, Sydney NSW 2000 or 1A Homebush Bay Drive, Rhodes NSW 2138.

If you have any additional questions in relation to this document or the Separation, call the Fairfax Media Shareholder Information Line on +61 1300 888 062 between the hours of 8:30am and 5:30pm, Monday to Friday.

5.1 CAREFULLY READ THIS BOOKLET

You should read this Booklet in full, including the advantages, disadvantages and risks of the Separation and an investment in Domain as set out in Section 4, before making any decision on how to vote on the Separation Resolutions. There are answers to questions you may have about the Separation in Section 3.

If you have any additional questions in relation to this document or the Separation, call the Fairfax Media Shareholder Information Line on +61 1300 888 062 between the hours of 8:30am and 5:30pm, Monday to Friday.

If you are in any doubt as to what you should do, you should seek independent legal, financial, taxation or other professional advice before voting on the Separation.

5.2 SCHEME MEETING AND ANNUAL GENERAL MEETING DETAILS

5.2.1 Scheme Meeting

The Scheme Meeting is scheduled to be held at 10:00am on 2 November 2017 at the Pitt Street Room, Ground Floor, Domain Offices, 55 Pyrmont Street, Pyrmont NSW 2009.

In order to proceed, the Scheme Resolution must be approved at the Scheme Meeting by:

- a majority in number (more than 50%) of Fairfax Media Shareholders present and voting at the Scheme Meeting (whether in person or by proxy); and
- at least 75% of the total number of votes cast on the Scheme Resolution by Fairfax Media Shareholders present and voting at the Scheme Meeting.

5.2.2 Annual General Meeting

The Annual General Meeting is scheduled to be held at 10:30am on 2 November 2017 at the Pitt Street Room, Ground Floor, Domain Offices, 55 Pyrmont Street, Pyrmont NSW 2009, or as soon after that time as the Scheme Meeting has concluded. At the Annual General Meeting, the Capital Reduction Resolution will be considered together with other Annual General Meeting business. The Capital Reduction Resolution is the resolution to approve the reduction of Fairfax Media's share capital on the Implementation Date by the Capital Reduction Amount which will be applied by Fairfax Media on behalf of Scheme Participants as consideration for the issue of Domain Shares under the Separation.

The Capital Reduction must be approved by a simple majority (more than 50%) of votes cast by Fairfax Media Shareholders on the Capital Reduction Resolution.

The Capital Reduction is subject to and conditional on the Scheme becoming Effective. Further, the Scheme is conditional on the Scheme Resolution being approved at the Scheme Meeting and the Capital Reduction Resolution being approved at the Annual General Meeting, Court approval and satisfaction or waiver of the other conditions precedent to the Scheme. If all the conditions precedent to the Scheme are not satisfied or waived by the End Date, then the Scheme will lapse and be of no effect and the Separation will not proceed.

5. ACTIONS FOR FAIRFAX MEDIA SHAREHOLDERS

5.3 VOTING

5.3.1 Voting by poll

Voting at both the Scheme Meeting and the Annual General Meeting will be conducted by way of a poll. Fairfax Media Shareholders will have one vote for every Fairfax Media Share held (subject to the restrictions on voting rights set out in the Notice of Annual General Meeting).

5.3.2 Entitlement to vote

Each Fairfax Media Shareholder who is registered on the Fairfax Media Share Register as the holder of a Fairfax Media Share at 7:00pm on 31 October 2017 may vote at both the Scheme Meeting and the Annual General Meeting in person, by proxy, by attorney or, in the case of a corporation, by corporate representative (subject to the restrictions on voting rights referred to in the Notice of Annual General Meeting).

5.3.3 How to vote

Each Fairfax Media Shareholder who is entitled to vote can vote at either or both the Scheme Meeting and the Annual General Meeting:

- in person, by attending the Scheme Meeting and the Annual General Meeting. If you plan to attend the Scheme Meeting and the Annual General Meeting, arrive at the Pitt Street Room, Ground Floor, Domain Offices, 55 Pyrmont Street, Pyrmont NSW 2009, by one hour earlier than 10:00am if possible, so that your shareholding may be checked against the Fairfax Media Share Register and your attendance noted. You must register your attendance on arrival;
- by appointing a proxy to attend and vote on your behalf (see the start of Section 5 for further details); or
- by attorney or corporate representative. You are entitled to appoint an attorney or, in the case of a corporate shareholder, a corporate representative to attend and vote at the Scheme Meeting and the Annual General Meeting on your behalf.

Appointing an attorney

If voting by attorney, the power of attorney appointing the attorney must be duly signed and specify the name of each of the Fairfax Media Shareholder, Fairfax Media and the attorney, and also specify the meetings at which the appointment may be used. The power of attorney must be returned in the same manner, and by the same time, as outlined for the proxy forms.

Appointing a corporate representative

A corporate shareholder, or body corporate appointed as a proxy, may appoint an individual as its representative to attend the Meetings and vote on its behalf. Corporate shareholders or proxies who appoint a representative must provide the representative with a properly executed notice of appointment, which the representative must bring to the Meetings for the purpose of registration.

A form of corporate representative appointment may be obtained from the Fairfax Media Share Registry at www.linkmarketservices.com.au (see the "Resources", "Forms" section under the "Holding Management" heading) or from Link Market Services Limited, Level 12, 680 George Street, Sydney NSW 2000.

Voting by proxy

If you are unable to attend the Scheme Meeting and the Annual General Meeting in person, you can appoint a proxy to attend and vote on your behalf.

To appoint a proxy, complete the Scheme Meeting Proxy Form and the Annual General Meeting Proxy Form. You can appoint a proxy by:

- lodging your appointment online at www.linkmarketservices.com.au;
- mailing the accompanying Scheme Meeting Proxy Form and the Annual General Meeting Proxy Form using the enclosed reply paid pre-addressed envelope;
- faxing the accompanying Scheme Meeting Proxy Form and the Annual General Meeting Proxy Form to +61 2 9287 0309; or
- hand-delivering the accompanying Scheme Meeting Proxy Form and the Annual General Meeting Proxy Form to the Fairfax Media Share Registry at Link Market Services Limited, Level 12, 680 George Street, Sydney NSW 2000 or 1A Homebush Bay Drive, Rhodes NSW 2138.

Alternatively, you may send or fax your proxy forms to Fairfax Media's registered office at 1 Darling Island Road, Pyrmont NSW 2009, fax +61 2 9282 1633. For additional proxy forms, contact Link Market Services Limited on +61 1300 888 062 (or from outside Australia, +61 2 8280 7670).

To be valid, your proxy form(s) must be received by the Fairfax Media Share Registry by 10:00am on 31 October 2017 (for the Scheme Meeting Proxy Form) or by 10:30am on 31 October 2017 (for the Annual General Meeting Proxy Form).

For further information on proxy voting, refer to the detailed instructions contained on the Scheme Meeting Proxy Form and the Annual General Meeting Proxy Form.

6. OVERVIEW OF DOMAIN

6.1 IMPACT OF THE SEPARATION

The Domain business has historically been operated out of DHA as well as various other entities within Fairfax Media. The Separation involves the Domain business and the remaining Fairfax Media businesses being restructured into two separate corporate groups. Following the Separation, Domain will be operationally separated from Fairfax Media other than in respect of certain transitional and commercial arrangements outlined in Section 8.7. Fairfax Media will also retain a 60% shareholding in Domain and will appoint three Non-Executive Directors (including the Chairman) and one Managing Director to the Domain Board.

The Domain overview below reflects the Separation Principle outlined in Section 8, with references to Domain in the historic period inclusive of any businesses that will constitute Domain post Separation.

Domain also provides media and lead-generation solutions for advertisers looking to promote their products and services to consumers. Domain creates property market content to engage consumers and support audience growth.

In addition to operating residential and commercial real estate portals, Domain provides data and technology services to real estate agencies through customer relationship management (CRM) software, property data subscriptions and research, and property inspection management tools.

Through a series of investments in recent years, Domain has expanded its offerings to include other transactional services available to consumers at different points in the property lifecycle, including home loan brokerage, residential and commercial utilities product comparison and connection, and home improvement and local trade services.

Domain reaches a monthly audience of approximately five million people across online and print.

The customer base of the business is diverse, including residential and commercial real estate agencies and professionals, property developers, financial services companies, retailers, utilities companies, media, government and consumers.

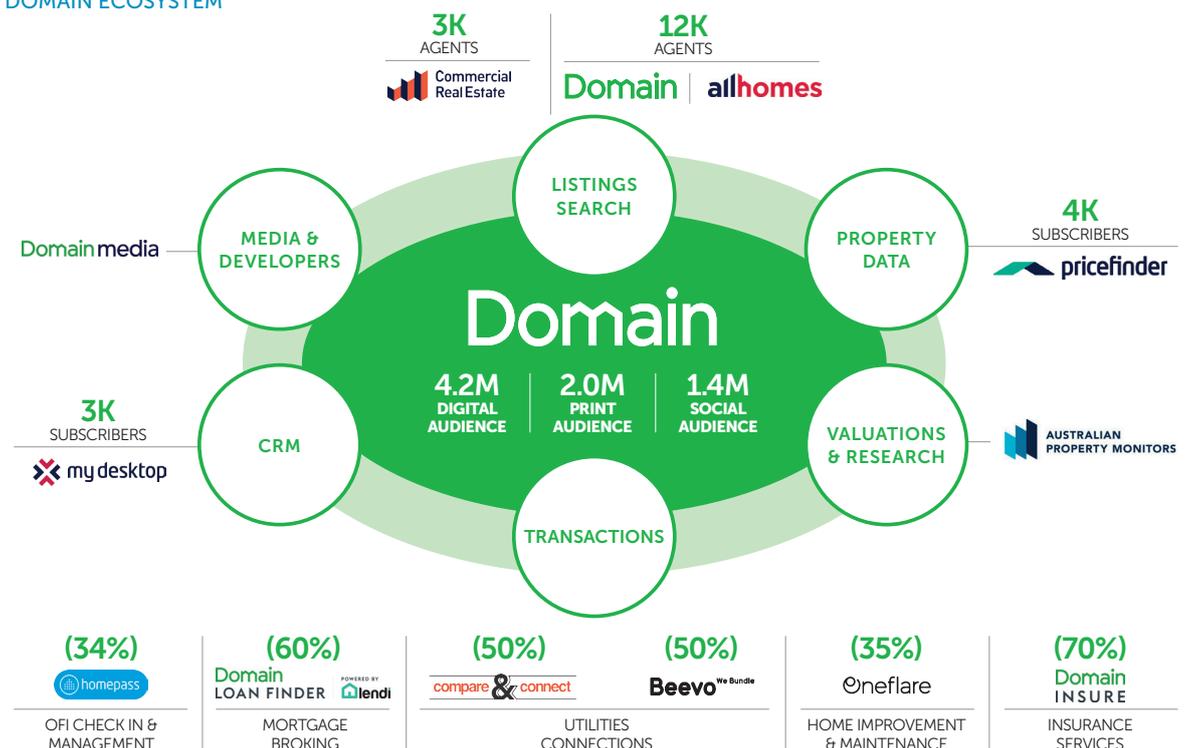
6.2 BUSINESS OVERVIEW

6.2.1 Overview of the Domain business

Domain is a real estate media and technology services business focussed on the Australian property market.

The business offers residential and commercial property marketing services via its listings portals on desktop and mobile, and via social media and print magazines.

DOMAIN ECOSYSTEM



6. OVERVIEW OF DOMAIN

6.2.1.1 Domain

Domain has its roots in the print real estate classifieds sections of *The Sydney Morning Herald* and *The Age* newspapers of Sydney and Melbourne, respectively. The formal branding of Fairfax Media's real estate classifieds business with the Domain brand began in 1996. From these beginnings, Domain has grown to become Australia's second largest real estate marketing business, reaching approximately four million consumers every month via digital platforms, and around two million consumers each month in print.

In recent years, Fairfax Media has invested to expand Domain's service offering. This has included the acquisitions of Allhomes, Metro Media Publishing (MMP) and Property Data Solutions (PDS), as well as investments in Homepass, Residential Connections, Beevo and Oneflare.

6.2.1.2 Allhomes

Allhomes is a real estate listings portal in the ACT, with high market penetration of agents and listings, and high brand awareness among consumers in the ACT. Allhomes was acquired by Domain in 2014.

6.2.1.3 The Weekly Review and Review Property

In 2010, MMP launched *The Weekly Review*, a glossy lifestyle and property listings magazine focussed on a number of affluent suburbs in Melbourne. MMP subsequently launched Review Property, a digital listings website. Fairfax Media acquired an initial 50% interest in MMP during 2012 and the remaining 50% interest in 2015.

In 2014, MMP's newspapers in Melbourne's western and northern suburbs were merged with the Star News Group to create *The Star Weekly*, which publishes six print titles and associated websites.

Domain publishes eight *The Weekly Review* branded magazines in Melbourne, as well as *The Weekly Review online*, *Domain Geelong* and the *Review Property* digital listings business.

6.2.1.4 Commercial Real Estate

Commercial Real Estate (CRE) operates commercial property portal, commercialrealestate.com.au, containing Australia-wide listings for sale or lease, including commercial office space, retail, industrial, warehouses, hotels, agricultural properties, and land. CRE also lists businesses for sale and franchise opportunities. CRE was acquired by Domain in 2006.

6.2.1.5 APM PriceFinder

APM PriceFinder is an Australian property data platform, providing real estate professionals with comprehensive data, insights and reporting tools. It caters primarily to the real estate sector, but also provides automated valuation models to financial institutions, and property research to many sectors including financial services, property, media and government.

APM PriceFinder has expanded its subscriber base across the real estate and non-real estate categories in recent years, which have grown by 18% and 34% respectively between June 2014 and June 2017.

APM PriceFinder was formed through the acquisition of PDS in 2013, complementing the existing Australian Property Monitors (APM) business.

6.2.1.6 MyDesktop

MyDesktop is a real estate CRM platform which integrates with over 300 third party businesses that provide software and back-end services to real estate agencies. It is estimated that approximately 30% of real estate agencies use MyDesktop as their CRM system. In 2010, Domain acquired full ownership of Commerce Australia Pty Limited (Commerce Australia), the operator of MyDesktop.

6.2.1.7 Homepass

Domain has a 34% shareholding in Homepass, a business that operates a service which allows agents to register and manage their database of property inspection attendees. Homepass currently has more than 2,000 real estate agencies using the service each month.

Through its partnership with Domain, Homepass also integrates with MyDesktop and also third party CRM providers. This provides synchronisation of customer data into the agent's CRM system.

6.2.1.8 Compare & Connect

Compare & Connect provides an independent product comparison service for utilities including energy and telecommunications. It also provides a utilities connection service for people when they are moving home. Compare & Connect receives leads from consumer-facing partner sites and also from real estate agencies under a referral model.

In 2016, Domain acquired a 50% shareholding in Residential Connections, which owns the Compare & Connect business.

6.2.1.9 Beevo

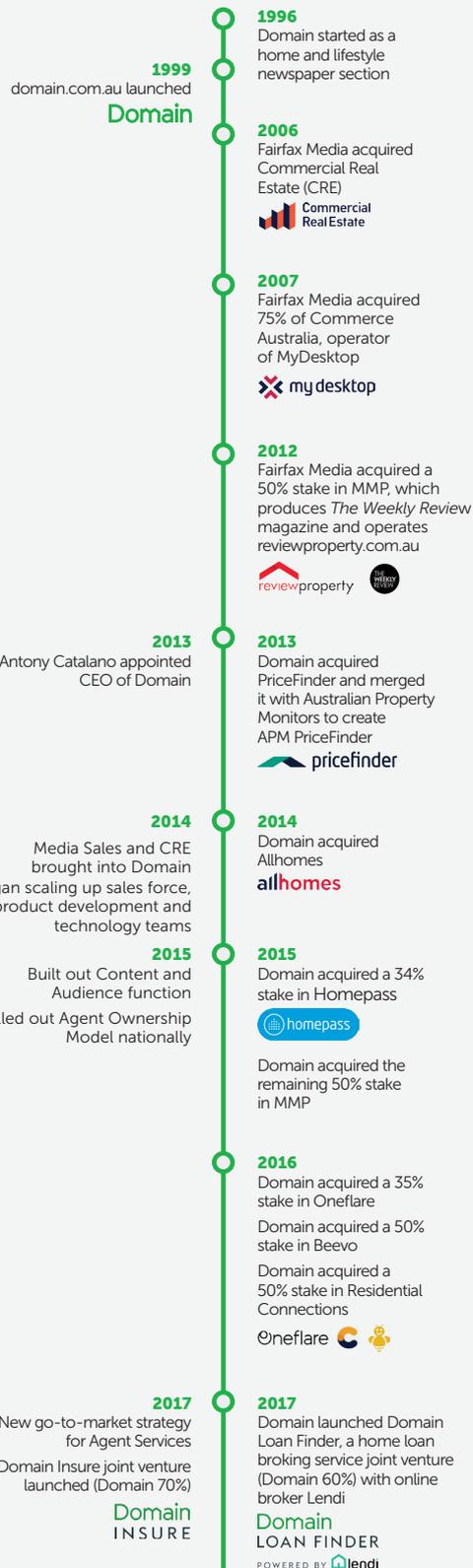
In 2016, Domain acquired a 50% shareholding in Beevo, a personalised procurement service business for small and medium-sized businesses to connect their essential services (e.g. energy, internet, gas, waste management) when moving premises or when seeking better terms on existing contracts. Customers can buy services as a bundle at a discounted price through the platform, while saving time with a single point of contact when arranging the connection of essential services.

6.2.1.10 Oneflare

In 2016, Domain acquired a 35% shareholding in Oneflare, an online marketplace for home improvement and local trade services. Founded in 2011, it now receives around 1.2 million visitors a month across its sites and has more than 110,000 registered businesses across 150 service categories.

The investment in Oneflare expands Domain's presence beyond property search and transactions into the occupation phase and categories like home improvement and local trade services.

TIMELINE OF KEY EVENTS



6.2.1.11 Domain Loan Finder

In 2017, Domain expanded its offering with a home loan broking service operated through an incorporated joint venture with online broker Lendi. The platform allows home buyers and home owners looking to refinance or obtain a new mortgage to compare products from more than 30 lenders including the big four Australian banks.

Domain holds a 60% interest in this joint venture, with the remaining 40% owned by Lendi's parent company, Auscred Pty Ltd.

6.2.1.12 Domain Insure

In August 2017, Domain invested in an incorporated joint venture with Envest to enter the insurance category. Envest is a sister company of The Hollard Insurance Company Pty Ltd and majority owned by Hollard Investments B.V. The joint venture will become an underwriting agency with delegated authority to sell insurance products on behalf of multiple insurers.

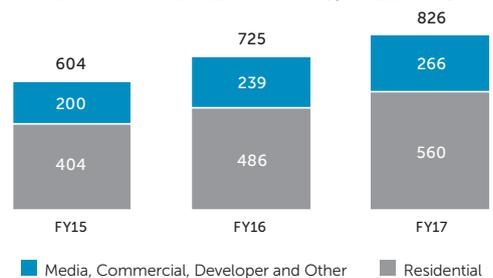
Domain holds a 70% interest in this joint venture, with the remaining 30% owned by Envest and the joint venture's key management.

6.2.2 Market overview

Domain operates in the market for digital property advertising and its main competitor in this market is REA Group (publisher of realestate.com.au, property.com.au and realcommercial.com.au). There are a number of smaller operators, including the local real estate institutes in some states.

Based on Domain and REA Group's combined revenues, the digital property advertising market was worth approximately \$826 million in FY17 (excluding smaller operators for which revenue data is not available). This is comprised of subscription fees, listings fees and media revenues for residential and commercial property, including new developments. Between FY15 and FY17, the market grew at a CAGR of 17%.

DIGITAL PROPERTY ADVERTISING REVENUE - DOMAIN AND REA GROUP (\$ MILLIONS)¹



1. Based on financial reports for Fairfax Media and REA Group.

6. OVERVIEW OF DOMAIN

Domain estimates the markets for property data and CRM software, in which APM PriceFinder and MyDesktop compete, to be worth collectively around \$100 million in potential addressable revenue per annum. CoreLogic (previously RP Data) is APM PriceFinder's main competitor in the property data market, while the market for CRM services is highly fragmented.

As described in Section 6.4, Domain is also focussed on growing transactional revenues across the property lifecycle. These initiatives include investments in home loans, insurance and utilities connections, as well as home improvement and local trade services.

The market opportunity in transactional revenues is substantial, particularly in home loans and insurance where Domain estimates its addressable revenue opportunity to be approximately \$2.0 billion per annum in each market.

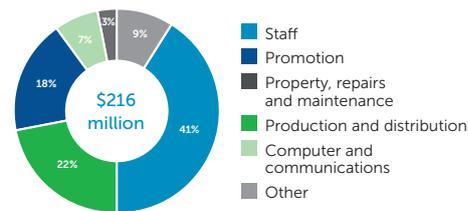
6.2.3 Domain pro forma historical financial performance for the year ended 25 June 2017

Domain's pro forma historical financial performance for the year ended 25 June 2017 includes \$8 million of additional standalone costs and \$2 million of corporate costs currently borne by Fairfax Media but attributable to Domain. Further information on the Domain Pro Forma Historical Financial Information can be found in Section 6.6.

Domain's revenue from operations and pro forma historical EBITDA for the year ended 25 June 2017 are as follows:

Domain's pro forma historical expenses for the year ended 25 June 2017 were as follows:

FY17 PRO FORMA HISTORICAL EXPENSES



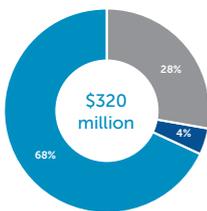
6.2.4 Operating model and revenue breakdown

Domain's main revenue sources are:

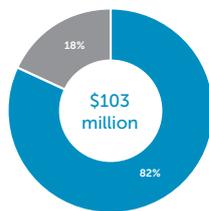
- property listing fees, both digital and print;
- subscriptions for websites, property data and CRM software;
- media revenues including display advertising, sponsorships and content marketing; and
- transaction-driven revenues including home loans and utilities connections.

There is downward pressure on print advertising revenues given the trend for consumers to search for property online. In contrast, digital revenues have been increasing due to growth in agents, listings, consumer audiences, leads, price increases and increased take up of depth products. Digital revenues, comprising Core Digital, and Transactions and Other, contributed 72% of Domain's revenue from operations in FY17.

FY17 REVENUE FROM OPERATIONS



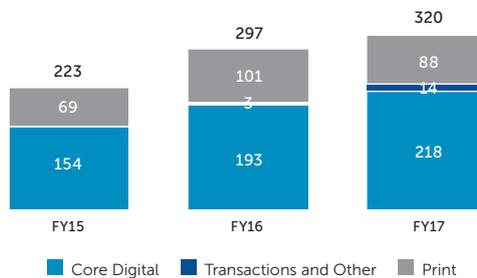
FY17 PRO FORMA HISTORICAL EBITDA¹



■ Core Digital ■ Transactions and Other ■ Print

1. Segment contributions are before corporate unallocated expenses and exclude \$1 million loss from Transactions and Other segment. The pro forma historical EBITDA of \$103 million includes these items as well as a share of net loss of associates and joint ventures of \$1 million.

REVENUE FROM OPERATIONS (\$ MILLIONS)



■ Core Digital ■ Transactions and Other ■ Print

6.2.5 Sales and marketing initiatives in different operational regions

Domain has dedicated local sales teams in each state and territory in Australia. The sales teams are organised around selling specific products or services; however, there is a degree of cross selling between residential and commercial property advertising, and advertising subscriptions and data subscriptions.

Certain elements of Domain's marketing strategy are consistent nationally. For instance, the marketing campaign to 'Download Australia's Best Property App' was run nationwide. Consumer and trade marketing strategies are also customised by region, depending on Domain's market position and the local competitive dynamics, but with a view to supporting the national strategy wherever possible. For example, Domain acquired the naming rights to Domain Stadium in Perth and became a sponsor of the Australian Football League team, the Adelaide Crows, to support growth in those states. These sponsorships increased Domain's exposure due to television coverage of sport and events.

6.2.6 Agent Ownership Model

6.2.6.1 Overview

The Agent Ownership Model (AOM) is a strategic initiative between Domain and the real estate industry which provides participating real estate agencies with the opportunity to share in the value they create through the property marketing process. The AOM has helped Domain accelerate revenue growth, allowing reinvestment in marketing and product development to further enhance Domain's competitive position.

The AOM provides benefits to a range of stakeholders in the real estate industry, including property vendors through increased competition among listings portals. It also provides a means for Domain to collaborate with the real estate industry, consulting with it on product development and opportunities to innovate within property advertising and services.

Industry participants benefit from having greater input into the development of consumer and agent products. There are approximately 1,600 participating real estate agencies across the ownership models currently in operation, which are outlined in the table "Structure of AOM" below.

6.2.6.2 Structure and operation

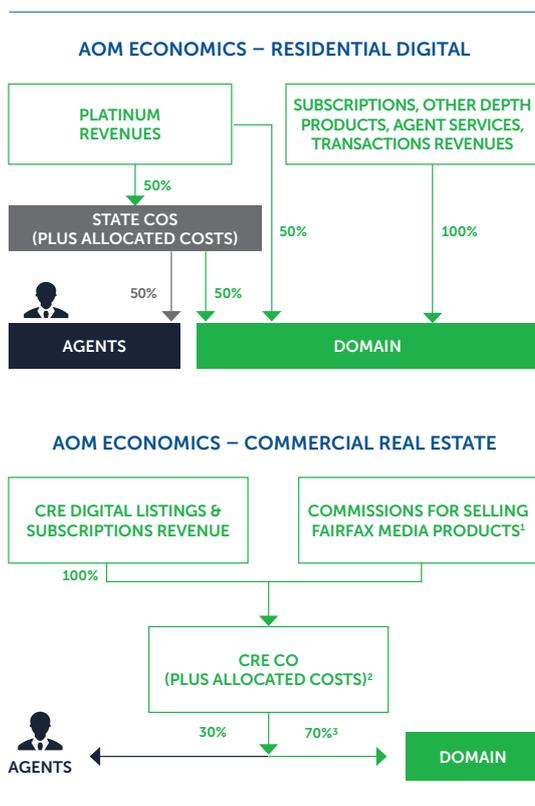
The AOM provides participating agencies with the opportunity to acquire a shareholding in a private company and the potential to receive dividends, should that company be profitable and declare a dividend. Share capital in the Residential Digital and CRE entities include performance shares. Allocation of performance shares in the relevant AOM entity is determined based on a participating agency's spend on relevant products during the allocation period. Shares in Residential Print entities have already been fully allocated to participating agencies, while the allocation period for the remaining Residential Digital entities and for CRE will be completed at the end of FY18.

The AOM only applies to specific products within Domain's portfolio and only a proportion of revenue from those products is allocated to the AOM entity. As a result, Domain retains a direct share of the revenue for products included in the AOM, as well as an additional indirect share through its shareholding in the AOM entity. In addition to costs directly attributable to an entity, each AOM entity is allocated costs related to the operation of the entity. After accounting for tax, profits generated by the AOM entity may be paid out as dividends to Domain and the real estate agency shareholders.

STRUCTURE OF AOM

	RESIDENTIAL DIGITAL	RESIDENTIAL PRINT	COMMERCIAL
Location	NSW, NT, QLD, SA, TAS, VIC (Review Property), WA	VIC	National
Participating agencies	1,370	86	240
Products included within AOM	50% of revenue from Platinum listings product (previously called Premium Plus), from participating agencies (other than VIC which includes participating and non-participating agencies)	Six <i>The Weekly Review</i> lifestyle and property magazines with a local footprint in Victorian suburbs	Digital subscriptions, listings and display advertising on commercialrealestate.com.au; and a share of commissions received from print and digital display advertising in <i>The Age</i> , <i>The Sydney Morning Herald</i> and <i>The Australian Financial Review</i>

6. OVERVIEW OF DOMAIN



1. A sales commission for the sale of CRE print advertising in Fairfax Media newspapers, and for digital advertising on the Fairfax Media network, is allocated to Commercial Real Estate Media Pty Ltd (CRE Co).
2. In addition to costs directly attributable to CRE Co, the company is allocated support for sales, product development, marketing, customer support and overheads that relate to the operation of commercialrealestate.com.au and to support the sale of CRE print advertising in Fairfax Media newspapers and digital advertising on the Fairfax Media network.
3. There is the potential for participating agencies to earn up to a further 10% of CRE Co based on FY18 revenue performance, which would dilute Domain's shareholding to between 60% and 70%.

The AOM results in a proportion of Domain's earnings being attributable, on a look-through basis, to participating agencies. The agent proportional share of pro forma historical EBITDA for FY17 was \$10 million, including \$2 million attributable to print products. The agent proportional share will vary in future years, depending on a range of factors including the relative earnings of Domain and each AOM entity.

6.2.6.3 Review Property Co acquisition overview

Domain has proposed to acquire (through a wholly-owned subsidiary of Domain) the outstanding 50% of issued shares in Review Property Pty Ltd (Review Property Co), an entity associated with the Residential Digital AOM in Victoria. Domain has agreed the material commercial terms with key Review Property Co shareholders in relation to this transaction. If the proposed transaction proceeds, Domain will hold all the issued shares in Review Property Co.

The expected consideration for the proposed transaction is \$36 million in Domain Shares, based on projected performance and a valuation of Review Property Co of \$72 million (equivalent to nine times FY17 EBITDA of \$8 million).

Part of the consideration is contingent on the future financial performance of Review Property Co, and will be paid in three tranches:

- a completion payment of \$18 million of Domain Shares (completion is targeted to occur approximately 90 to 120 days after Domain is listed on ASX);
- a second payment early in 2019, in the range of \$0 million to \$11 million of Domain Shares, subject to the EBITDA result of Review Property Co in calendar year 2018; and
- a third payment early in 2020, in the range of \$0 million to \$11 million of Domain Shares, subject to the EBITDA result of Review Property Co in calendar year 2019.

The maximum consideration for the proposed transaction is \$40 million worth of Domain shares.

Each tranche of Domain Shares will be subject to a holding lock period of maximum 4.5 years from the time of issue, where shares may be released from the holding lock sooner subject to the holder meeting certain criteria including ongoing advertising commitments.

Review Property Co is currently a controlled entity and its earnings are fully consolidated by Domain. As outlined in Section 6.2.6.2, the agent proportional share of Domain's FY17 pro forma historical EBITDA was \$10 million. For illustrative purposes, if the Review Property Co transaction outlined above had occurred prior to the commencement of FY17, then the agent proportional share of Domain's FY17 pro forma historical EBITDA would have reduced from \$10 million to \$6 million.

The non-binding transaction terms are agreed in principle with key shareholders and are subject to change. The transaction is subject to final board approval and negotiation of acceptable long-form legal documentation.

6.2.7 Employees

Domain has approximately 720 full-time, part-time and casual employees, with a presence in every state and territory in Australia. This excludes employees in non-wholly-owned subsidiaries and minority investments.

The majority of Domain employees are in sales, technology, product development, marketing, editorial and customer experience. Domain also has in-house corporate functions, including finance, strategy and employee experience. A small number of additional corporate staff will be required for Domain to operate on a standalone basis.

6.3 RECENT TRADING HIGHLIGHTS

On 21 September 2017, Fairfax Media provided the following trading update, based upon unaudited management information, in relation to Domain's FY18 year-to-date performance:

Domain digital revenue growth is 22% and total revenue growth is 13%. For FY18, Domain's costs are expected to increase approximately 13% from FY17's \$206 million (10% like for like excluding acquisitions), excluding any separation-related costs and adjustments.

On 16 August 2017, Fairfax Media provided the disclosures, based upon unaudited management information, in relation to Domain:

Domain's FY18 depreciation and amortisation expense is expected to amount to \$26 million to \$29 million. This includes the accelerated investment over the past two to three years in five new offices across Australia. FY18 capex is expected to be around \$20 million and largely relates to product development.

These updates were provided on a pre-Separation basis and do not take into account any pro forma standalone adjustments outlined in Section 6.6.2.

Further information is included in Fairfax Media's ASX releases, available on Fairfax Media's website (www.fairfaxmedia.com.au).

6.4 BUSINESS STRATEGY AND INITIATIVES

Domain's ambition is to grow market share in the core listings and media business across residential and commercial property, while expanding across the property lifecycle to grow new revenues related to the property category.

The strategy of the business is founded on five key commercial objectives:

Expand agents and listings coverage

The foundation of Domain's strategy is to expand its coverage of agents, developers and listings in the property market on its digital platforms. Domain has pursued aggressive agent customer growth campaigns in the past three years. Domain and Allhomes have approximately 12,000 agency subscribers on their sites and the majority of property listings in every state and territory.

CRE has over 3,500 agency subscribers on its site, which is close to full market penetration.

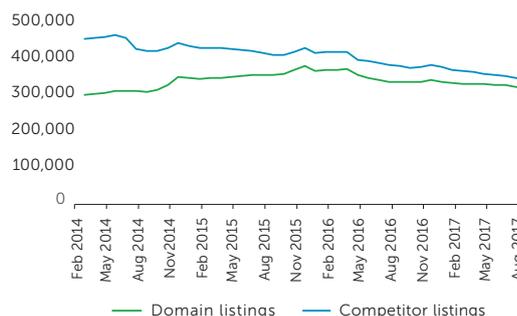
Having near full penetration of listings is the foundation of consumer experience for property sites.

Once real estate agencies have been registered on the sites for a period of time, Domain encourages them to upgrade to premium subscriptions and depth products which provide greater visibility and leads than standard products.

DOMAIN RESIDENTIAL AGENT PENETRATION¹



RESIDENTIAL LISTINGS¹



1. Source: Domain and APM PriceFinder data.

6. OVERVIEW OF DOMAIN

Create a mobile-centric platform at the centre of the property ecosystem

Domain is positioning itself as a platform operating across the property lifecycle.

By creating a platform that is accessible via Application Program Interfaces (APIs), Domain can connect its wholly-owned, partially-owned and third-party businesses for the benefit of its various customer groups, offering services across the property lifecycle (from consideration and research of the market to the search for property, the process of completing the transaction and then finally the occupation of the property).

Domain is focussed on offering mobile-centric products and services, integrating relevant content and data to help customers make informed decisions. Domain's mobile apps are well regarded by consumers, based on consumer ratings in the App Store and Google Play. They also contain useful data including school catchment zones and property data (sales history and current price estimate).

Grow premium audiences and quality leads

Domain has enjoyed rapid growth in consumer audiences over the past three years, from previously delivering approximately 250,000 average daily unique browsers² three years ago, to over 500,000 today. Domain app downloads were less than 3 million three years ago and have now exceeded 5.7 million.

Audience growth has been achieved through multiple channels, including digital marketing, search (organic and paid), outdoor marketing and cross promotion via the Fairfax Media network of print and digital publications. Domain and CRE have targeted and engaged new audiences through the creation and distribution of relevant content via Fairfax Media publications and leading social media sites.

Many marketing channels, particularly outdoor, have been focussed on increasing downloads of the mobile app.

Grow depth product, media and agent services revenues

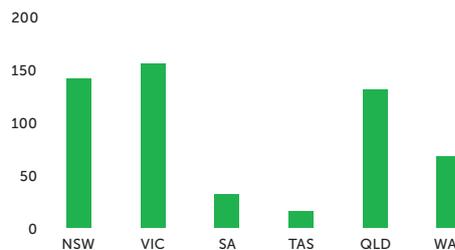
The core of Domain's digital business is in listings, media and agent services. Domain is growing listing revenues through depth products. There is an opportunity to grow depth revenues further through geographic expansion, particularly in Queensland.

Media includes display advertising, sponsorships and content marketing. The growth strategy is based on commercialising quality audiences, data and content. Agent services include MyDesktop, APM PriceFinder and Homepass. A significant opportunity remains in these markets to grow additional subscribers.

DOMAIN RESIDENTIAL DEPTH PRODUCT RELATIVE PENETRATION BY STATE/TERRITORY (%)¹



FY17 TOTAL MARKET NEW LISTINGS FOR SALE BY STATE (000'S)²



1. Source: Domain internal data.
2. Source: APM PriceFinder.

Grow new transactional revenues

Domain is also focussed on growing new revenues from transactional services, by expanding across the property lifecycle. At present, this includes home loans, utilities, insurance and home improvement and local trade services.

Given the broad range and size of the markets for services related to the property buying and selling process, Domain is continuing to explore other options to launch new transactional services.

2. Unique browser ranking metric that reports the average of daily browsers from all devices and locations that visited a site within the selected reporting period.

6.5 BOARD AND SENIOR MANAGEMENT

6.5.1 Board

If the Separation is implemented, the Domain Board is intended to comprise three Non-Executive Directors appointed by Fairfax Media (including the Chairman), three independent Non-Executive Directors and one Managing Director as set out below.

If a director is appointed to the Domain Board after the date of this Booklet, then Fairfax Media will announce that appointment through ASX.



NICK FALLOON

CHAIRMAN AND NON-EXECUTIVE DIRECTOR

Mr Falloon is the current Chairman of the Fairfax Media Board, and has had 30 years' experience in the media industry, 19 years working for the Packer owned media interests from 1982 until 2001.

Mr Falloon served as Chief Executive Officer of Publishing and Broadcasting Limited from 1998 to 2001 and before that as Chief Executive Officer of Enterprises and Group Financial Director. This experience provided a strong background in television, pay TV, magazines, radio and the internet. From 2002, Mr Falloon spent nine years as Executive Chairman and CEO of Ten Network Holdings.

Mr Falloon holds a Bachelor of Management Studies (BMS) from Waikato University in New Zealand.



GREG ELLIS

INDEPENDENT NON-EXECUTIVE DIRECTOR

Mr Ellis has been involved in the digital sector for the past 15 years. During that time he has held a variety of senior executive roles in Australia and overseas.

Mostly recently in Australia he was the Chief Executive Officer and Managing Director of REA Group from 2008 to 2014. He is currently the Chief Executive Officer of Scout24, a Frankfurt Stock Exchange-listed online classifieds business. He was previously a non-executive director of Sportsbet Pty Ltd.

Mr Ellis holds a Bachelor of Business Management from Queensland University of Technology.



GEOFF KLEEMANN

INDEPENDENT NON-EXECUTIVE DIRECTOR

Mr Kleemann commenced his career at Deloitte, and subsequently completed approximately twenty years as a senior executive in a listed environment, as Chief Financial Officer for Crown Limited, Publishing and Broadcasting Limited, Woolworths Limited and Pioneer International Limited. He is currently a non-executive director of Investa Listed Funds Management Limited, the responsible entity for Investa Office Fund.

Mr Kleemann was previously non-executive director and chair of the Audit Committee of Asciano Limited from 2009 to 2016, and non-executive director and chair of the Audit Committee of Broadspectrum Limited from 2014 to 2016.

Mr Kleemann is a member of the Institute of Chartered Accountants.



DIANA EILERT

INDEPENDENT NON-EXECUTIVE DIRECTOR

Ms Eilert is currently a non-executive director of ASX-listed companies Super Retail Group Limited and Navitas Limited, and has previously been a director of REA Group Ltd, Veda Group Limited, Onthehouse Holdings Ltd and OurDeal Pty Ltd.

Ms Eilert's senior executive career includes roles as Head of Strategy and Corporate Development for News Limited and Group Executive for Suncorp's entire insurance business and subsequently Group Executive for Technology, People and Marketing. She spent 10 years with Citibank, and held roles including Head of Credit Risk Policy, running the Mortgage business and also Lending Operations for Australia and New Zealand. Ms Eilert was also a Partner with IBM.

Ms Eilert holds a Bachelor of Science (Pure Mathematics) from The University of Sydney and a Master of Commerce from The University of New South Wales.

6. OVERVIEW OF DOMAIN



PATRICK ALLAWAY

NON-EXECUTIVE
DIRECTOR

Mr Allaway has 30 years' experience in the global finance industry across capital markets, corporate advisory, derivatives, risk management, mergers and acquisitions, corporate and project finance, private equity and funds management. Mr Allaway commenced his career in investment banking with Citibank in New York, Sydney and London and with Swiss Bank Corporation in Zurich and London. Since 2006, he has been Chairman and co-founder of Saltbush Capital Markets, a privately-owned corporate advisory and funds management business. Mr Allaway is also presently a non-executive director of Metcash Limited, Woolworths South Africa, David Jones and the Country Road Group.

Mr Allaway holds a Bachelor of Arts/Law from The University of Sydney. Mr Allaway is a former non-executive director of Macquarie Goodman Group.



GAIL HAMBLY

NON-EXECUTIVE
DIRECTOR

Ms Hambly is Group General Counsel and Company Secretary of Fairfax Media. She has over 20 years' experience as a senior media executive including responsibility for legal services, government and corporate relations, internal audit and risk. She has been deeply involved in the growth and development of Domain. From 2011 to 2016, she was a director of Trade Me Limited, a dual ASX and New Zealand Exchange-listed company whose businesses include one of the major real estate listing sites in New Zealand as well as other online businesses.

Ms Hambly holds a degree in Law from The University of New South Wales and degrees in Economics and Science from The University of Sydney.



ANTONY CATALANO

CHIEF EXECUTIVE
OFFICER AND
MANAGING DIRECTOR

Mr Catalano was appointed Chief Executive Officer of Domain in November 2013 and has overseen a period of rapid growth. He first joined Fairfax Media in 1990 and has held a number of senior positions including Director of Real Estate at The Age and General Manager of Melbourne Property Guide. In 2004, he was appointed Classified Director Real Estate, Motoring and General Classifieds, before being appointed Director Newspaper Sales and Marketing and Product Development for Fairfax Media in Victoria. Mr Catalano established MMP in 2010 and developed the Agent Ownership Model, which underpinned MMP's growth in digital and print publishing. This model has been rolled out nationally by Domain.

6.5.2 Key management personnel and other senior management



ANTONY CATALANO

CHIEF EXECUTIVE
OFFICER AND
MANAGING DIRECTOR

Refer to Section 6.5.1.



ROBERT DOYLE

CHIEF FINANCIAL
OFFICER

Mr Doyle joined Fairfax Media in April 2013 and was appointed CFO of Domain in 2017. While the Group General Manager of Finance for Fairfax Media, he was responsible for group planning and analysis, business analytics, finance systems, process excellence and group procurement activities. Prior to joining Fairfax Media, Mr Doyle had 15 years of experience at Vodafone Group in the UK and Vodafone Hutchison Australia, and prior to that was an auditor at Kingston Smith in London.

Mr Doyle holds a BA (Hons) from the University of Southampton and is a Fellow of the Institute of Chartered Accountants in England and Wales.



GRAEME PLOWMAN

CHIEF OPERATING
OFFICER

Mr Plowman, who joined Fairfax Media in October 2010, leads strategy, corporate development and business planning for Domain. He has played a leading role in defining Domain's growth strategy during the past four years, as well as overseeing acquisitions and investments. Mr Plowman has 18 years' experience in strategic and commercial roles, primarily within the media and telecommunications sectors. Before moving to Sydney in 2010, he was a strategy consultant for Deloitte in London. Prior to this, he performed a range of strategy and commercial roles at BT Group in the UK.

Mr Plowman holds an MBA from London Business School and a BA (Hons) in Economics with French from the University of Durham.



**MELINA
CRUICKSHANK**

CHIEF EDITORIAL AND
MARKETING OFFICER

Ms Cruickshank, who joined Fairfax Media in 2005, has over 20 years' experience, 17 of which are in digital media. She leads the national marketing and editorial divisions where she is responsible for growing consumer and trade audiences as well as driving the content, social and mobile marketing programs. Ms Cruickshank's background covers a broad set of digital businesses in both London and Sydney, including roles in e-commerce and media agencies. She was part of the division within Fairfax Media that drove digital product and audience growth via Fairfax Digital. Most recently, Ms Cruickshank was Group Director at Fairfax Media leading the commercial content arm including the brands Traveller, Daily Life, Executive Style and Essential Baby.

Ms Cruickshank holds a BA (Hons) from Monash University and Graduate Diploma from Birkbeck, University of London.

6. OVERVIEW OF DOMAIN



SIMON KENT

GROUP DIRECTOR
(DOMAIN MEDIA AND
DEVELOPERS)

Mr Kent joined Domain in January 2014 as Group Director, Domain Media & Developers. He leads the media and property developer sales teams, as well as transaction services across Domain.

He has 15 years' experience in senior sales management roles across leading media organisations. Mr Kent was most recently Managing Director, APAC for innovative data technology start-up Standard Media Index. As well as rapidly growing the Australian business, he led their expansion into the New Zealand market partnering with media agencies and publishers to create the first industry-led data pool.

Prior to that, he spent eight years in various senior roles at Southern Cross Austereo in Melbourne before relocating to Sydney.



TONY BLAMEY

CHIEF COMMERCIAL
OFFICER

Mr Blamey joined Fairfax Media in 2003 and was appointed Chief Commercial Officer of Domain in March 2015. He has responsibility for sales and customer experience in residential, commercial real estate and agent services.

Before this, Mr Blamey held a number of senior roles within the Fairfax Media and Domain businesses, including General Manager of Domain, General Manager of MyCareer, Sales Director of MyCareer and National Manager of AdOnline. At Domain, he was instrumental in leading the Domain business through digital transformation having played a pivotal role in bringing together the first integrated online and print teams.

Prior to joining Fairfax Media, Mr Blamey previously held senior sales management roles at Lawlex – an online regulatory publisher and compliance management business. His media career commenced at Yellow Pages where he was involved with many of the early internet directory and search engine products.

Mr Blamey holds a BSc (Agricultural Science) from The University of Melbourne.



MARK COHEN

CHIEF TECHNOLOGY
OFFICER

Mr Cohen joined first Fairfax Media in 2003 and in March 2015 was appointed Chief Technology Officer of Domain. In his role, he works with the executive leadership team to develop products and services and manages technology across the group. He is responsible for maintaining and improving Domain's technology and systems, driving agile delivery, cloud adoption and evolving microservice architectures.

Prior to this, Mr Cohen was General Manager of Product Solutions at Fairfax Media, where he headed up a team of approximately 200 with technical responsibility for Fairfax Media's Australian and New Zealand digital product delivery, and ownership of shared products such as membership, digital subscription platforms and custom advertising solutions.

Mr Cohen holds a BS (Computer Science and Applied Mathematics) from the University of the Witwatersrand.



TRENT CASSON

MANAGING DIRECTOR,
DOMAIN VICTORIA

Mr Casson joined MMP in 2010 as a founding member of the business in the role of Sales & Marketing Director, and was made General Manager, Editorial, Sales & Marketing in 2012, overseeing the growth of *The Weekly Review* network and Review Property, and associated agent ownership models. Following Mr Catalano's appointment as Domain CEO in November 2013, Mr Casson was made Chief Operating Officer of MMP and oversaw all operations. Mr Casson became Managing Director, Domain Victoria in 2015, steering the Victorian-based business units.

Mr Casson's early career was in media agencies. Prior to joining MMP, Mr Casson held national sales roles for the radio networks of Southern Cross Austereo for seven years.

Mr Casson holds a double degree in Media and Tourism from Monash University and an Associate Diploma in Marketing.

6.5.3 Remuneration and incentive plans

6.5.3.1 Director remuneration and interests

In accordance with the Domain Constitution, the remuneration of the non-executive Domain Directors in each financial year will not exceed the maximum aggregate amount determined by Domain Shareholders in general meetings from time to time. The annual maximum aggregate amount will be \$1.5 million, inclusive of superannuation and exclusive of reimbursement of expenses. This remuneration may be divided among the non-executive Domain Directors in such proportions as they decide. The maximum aggregate remuneration amount has been set so as to enable the appointment of additional Domain Directors if required. Executive Domain Directors will be remunerated outside the maximum aggregate fee 'cap'.

6.5.3.2 Senior executive remuneration

Chief Executive Officer: Antony Catalano

The remuneration and other terms of employment for the Chief Executive Officer of Domain are set out in a written service agreement (New ESA) which will take effect from Domain listing on the ASX. The key terms of the New ESA are set out below. Under the New ESA Mr Catalano will be employed by Domain directly.

Key Terms of Chief Executive Officer's New ESA

- **Fixed Remuneration**

\$1.2 million per annum, reviewed annually. This amount is inclusive of superannuation and other non-monetary benefits.
- **Termination**

26 weeks notice of termination by either party, or by Domain providing payment in lieu of notice. Mr Catalano's employment may also be terminated without notice in certain circumstances, such as serious misconduct.

All payments on termination will be subject to the termination benefits cap under the Corporations Act. Shareholder approval will be sought from the shareholders of Domain and Fairfax Media for the provision of benefits on cessation of employment to Mr Catalano as set out in the Fairfax Media 2017 Notice of Meeting.
- **Post-Employment Restraint**
 - 12 months no solicitation of employees or clients; and
 - 12 months no work for a competitor of Domain

- **Short Term Incentive**

Annual incentive opportunity based on the achievement of targets set at the beginning of each year. On target performance opportunity is 60% of Fixed Remuneration and maximum performance opportunity is 80% of Fixed Remuneration. Awards under the STI will be paid in cash following testing of the applicable targets.

On termination other than for cause, resignation or redundancy, Mr Catalano will be entitled to a pro rata STI award based on the time during the performance period served.

- **Long Term Incentive**

Options: Shortly after listing of Domain and, in any case, before 2 November 2018, Mr Catalano will receive a one off allocation of Options to the value of 120% of 3.5 times the value of his Fixed Remuneration. The value of each option for the purpose of allocation will be 33.3% of the 30 day volume weighted average price of Domain Shares over a 30 day trading period beginning on the date on which Domain Shares are first traded on the ASX (Opening Date).

Each Option entitles Mr Catalano to one ordinary Domain share subject to the achievement of the vesting criteria described below and payment of the exercise price. As the Options form part of Mr Catalano's remuneration, they are issued to him at no cost.

Eligibility: Mr Catalano is the only director who will receive Options.

Exercise Price: The exercise price of each Option will be the VWAP Domain Shares over the 30 trading day period beginning on the date on which Domain Shares are first traded on the ASX.

Performance Period: The performance period for the testing of whether the Options will vest is between the Opening Date and 30 June 2021 (Performance Period).

Vesting Criteria: The percentage of Options that vest and become exercisable, (if any), will be determined by the Domain Board with reference to the vesting schedule below.

6. OVERVIEW OF DOMAIN

ABSOLUTE TSR OVER THE PERFORMANCE PERIOD	% OF OPTIONS THAT BECOME EXERCISABLE
Less than 12.5% CAGR	Nil
12.5% CAGR (threshold performance)	25%
Between 12.5% and 15% CAGR	Straight line pro rata vesting between 25% and 35%
15% CAGR	35%
Between 15% and 20% CAGR	Straight line pro rata vesting between 35% and 70%
20% CAGR	70%
Between 20% CAGR and 25% CAGR	Straight line pro rata vesting between 70% and 100%
25% CAGR	100%

Unless the Domain Board determines otherwise, the TSR for the Performance Period will be calculated adopting the following determination of the relevant opening and closing share prices and will include dividends paid during the Performance Period:

- the VWAP of Domain Shares over the 30 day period beginning on the date on which Domain Shares are first traded on the ASX (Opening Share Price); and
- the VWAP of Domain Shares over the 30 day period up to and including 30 June 2021 (Closing Share Price).

If Domain undertakes any capital reorganisation during the Performance Period, appropriate adjustments will be made to the calculation of the TSR to take into account the relevant capital reorganisation.

The Domain Board retains the discretion to deem the vesting criteria as met or not met if vesting outcomes are a result of extraneous factors which are not, in the reasonable opinion of the Domain Board, reflective of Domain's performance. If any Options vest, subject to Mr Catalano complying with the Domain Securities Trading Policy in effect at the time, Mr Catalano may exercise such Options (in whole or part) at any time after vesting up until the fifth anniversary of the Option issue date.

Subject to vesting and Mr Catalano providing an exercise notice for the exercise of any Options, Domain may (at the Domain Board's discretion), in lieu of issuing Mr Catalano one ordinary share in Domain per Option exercised, make a cash payment equal to the closing price of Domain Shares on the date of the exercise notice minus the exercise price, multiplied by the number of Options being exercised.

Dividend and voting rights: Options do not carry dividend or voting rights prior to vesting. Shares allocated on vesting and exercise of Options will carry the same dividend and voting rights as other Shares.

Termination of Employment: If Mr Catalano's employment is terminated for cause or as a result of Mr Catalano's resignation then all Options which are unvested at the termination date will lapse, unless the Board exercises its discretion to determine otherwise. Mr Catalano will retain any vested Options.

If Mr Catalano's employment is terminated by Domain on or after 30 June 2020 by giving notice of termination without cause or due to redundancy, but before the end of the Performance Period then, Mr Catalano will retain all Options held by him at the termination date.

If Mr Catalano's employment is terminated by Domain before 30 June 2020 by giving notice of termination without cause or due to redundancy then Mr Catalano will retain that proportion of Options equivalent to the proportion of the Performance Period that has elapsed at the termination date. The proportion of Options which are not retained by Mr Catalano will automatically lapse.

Any Options retained by Mr Catalano after the termination date in accordance with the above will be tested at the end of the Performance Period as if he had continued in employment up to the end of the Performance Period and will then vest or lapse in accordance with the vesting criteria.

Rights issues and bonus issues: Participants are not entitled to participate in new issues of securities by Domain prior to the vesting and exercise of Options. If shares in Domain are issued pro rata to Domain's shareholders (except a bonus issue) after the Option issue date, the exercise price shall be reduced in accordance with the formula set out in the ASX Listing Rules. If shares in Domain are issued pro rata to Domain's shareholders by way of a bonus issue after the Option issue date, then the number of shares over which each Option is exercisable must be increased by the Domain Board in accordance with the ASX Listing Rules.

Other Proposed Senior Executive Remuneration

If the Separation is implemented the Domain Board will be responsible for setting the remuneration structure for senior executives.

The remuneration structure will comprise a mix of fixed remuneration, and performance based short term and long term incentive opportunities.

The incentive plans for other senior executives will be determined post Separation.

At Separation Domain senior executives will receive a one off allocation of Domain Shares. The total value of Domain Shares to be allocated is expected to be up to \$3 million. The number of Domain Shares allocated will be determined by the 5 day VWAP of Domain Shares following the release of Domain's FY18 half year results in February 2018. The funding for the purchase of these Domain Shares will be provided by Fairfax Media. The shares will only be released to the executive two years after the Domain listing date if the executive is still employed by Domain at that date. If the executive resigns or is terminated for misconduct before that date the Domain Shares will be forfeited.

These share allocations are designed to create a retention tool to encourage the relevant executives to remain with Domain and provide management stability post Separation, and to align with shareholder value.

As noted above Domain also intends to establish a long term equity incentive plan (EIP) to assist in the motivation, reward and retention of senior management and other Domain employees from time to time. The EIP will be designed to align the interests of senior management and other employees with the interests of shareholders by providing an opportunity for employees to receive an equity interest in Domain.

The EIP rules will provide flexibility for Domain to grant performance rights, options and/or restricted shares subject to the terms of individual offers.

The key features of the EIP rules will be as set out in the table below:

TERM	DESCRIPTION
Eligibility	Offers may be made at the Domain Board's discretion to employees of Domain (including the Domain CEO) or any other person that the Domain Board determines to be eligible to receive a grant under the EIP.
Types of securities	Domain may grant performance rights, options and/or restricted shares as incentives, subject to the terms of individual offers. Unless otherwise specified in an offer document, the Domain Board has the discretion to settle performance rights or options with a cash equivalent payment.
Offers under the EIP	The Domain Board may make offers at its discretion, subject to any requirements for approval from Domain's shareholders. The Domain Board has the discretion to set the terms and conditions on which it will offer incentives in individual offer documents. An offer must be accepted by the participant and can be made on an opt-in or opt-out basis.
Issue price	Unless the Domain Board determines otherwise, no payment is required for a grant of a performance right, option or restricted share under the EIP.
Vesting	Vesting of the incentives is subject to any vesting or performance conditions determined by the Domain Board and specified in the offer document. Subject to the EIP rules and the terms of the specific offer document, incentives will either lapse or be forfeited if the relevant vesting and performance conditions are not satisfied. Options must be exercised by the employee and the employee is required to pay any exercise price applicable to the allocated shares.
Cessation of employment	Under the EIP rules, the Domain Board has a broad discretion in relation to the treatment of entitlements on cessation of employment. It is intended that individual offer documents will provide more specific information on how the entitlements will be treated if the participating employee ceases employment.
Clawback and preventing inappropriate benefits	The EIP rules provide the Domain Board with broad clawback powers if, for example, the participant has acted fraudulently or dishonestly or there is a material financial misstatement.

6. OVERVIEW OF DOMAIN

TERM	DESCRIPTION
Change of control	The Domain Board may determine that all or a specified number of a participant's incentives will vest or cease to be subject to restrictions where there is a change of control event in accordance with the EIP rules.
Reconstructions, corporate action, rights issues, bonus issues etc	The EIP rules include specific provisions dealing with rights issues, bonus issues, and corporate actions and other capital reconstructions. These provisions are intended to ensure that there is no material advantage or disadvantage to the participant in respect of their incentives as a result of such corporate actions.
Restrictions on dealing	Prior to vesting, the EIP rules provide that participants must not sell, transfer, encumber, hedge or otherwise deal with their incentives. After vesting, participants will be free to deal with their incentives, subject to Domain's securities trading policy.
Other terms	The EIP contains customary and usual terms for dealing with administration, variation, suspension and termination of the EIP.

6.6 DOMAIN PRO FORMA HISTORICAL FINANCIAL INFORMATION

This Section 6.6 contains pro forma historical financial information in relation to Domain (hereafter the Domain Pro Forma Historical Financial Information) being:

- the Domain pro forma historical income statements for the years ended 28 June 2015, 26 June 2016 and 25 June 2017;
- the Domain pro forma historical balance sheet as at 25 June 2017; and
- the Domain pro forma historical cash flow statements for the years ended 28 June 2015, 26 June 2016 and 25 June 2017.

6.6.1 Basis of preparation

The Domain Pro Forma Historical Financial Information has been prepared for illustrative purposes, to assist Fairfax Media Shareholders to understand the historical financial performance, financial position and cash flows of Domain. By its nature, pro forma historical financial information is illustrative only. Consequently, the pro forma historical financial information does not purport to reflect the actual financial performance, financial position and cash flows that would have occurred if Domain had operated as a standalone entity for the relevant periods.

The Domain Pro Forma Historical Financial Information has been derived from the financial information directly related to Domain in Fairfax Media's accounting records and adjusted for the effects of the pro forma adjustments described below. These accounting records were used to generate the Fairfax Media financial statements for the years ended 28 June 2015, 26 June 2016 and 25 June 2017. The Fairfax Media financial statements for these periods are available from Fairfax Media's website (www.fairfaxmedia.com.au) or the ASX website (www.asx.com.au).

The Domain historical financial information, which forms the basis of the Domain Pro Forma Historical Financial Information within this Booklet, has not historically been subject to a separate audit.

The Fairfax Media financial statements for the years ended 28 June 2015, 26 June 2016 and 25 June 2017 have been audited by Ernst & Young in accordance with Australian Auditing Standards. Ernst & Young issued unqualified audit opinions on these financial statements.

The Domain Pro Forma Historical Financial Information has been prepared in accordance with the recognition and measurement principles contained in AAS, which are consistent to IFRS, other than that it includes adjustments which have been prepared in a manner consistent with AAS, that reflect (i) the recognition of certain items in periods different from the applicable period under AAS, (ii) the exclusion of certain transactions that occurred in the relevant periods and (iii) the impact of certain transactions as if they occurred as at 25 June 2017 in the pro forma historical balance sheet and from 30 June 2014 in the pro forma historical income statements and pro forma historical cash flow statements.

The accounting policies used in the preparation of the Domain Pro Forma Historical Financial Information are in accordance with those set out in Fairfax Media's annual reports for the years ended 28 June 2015, 26 June 2016 and 25 June 2017.

The Fairfax Media Directors do not believe that the financing arrangements and tax structure under which Domain operated during the periods presented reflect the anticipated financing arrangements and tax structure following the Separation. Therefore, the pro forma historical income statements have been presented before net financing costs and income tax and the pro forma historical cash flow statements have been presented before financing activities and taxation and after investing activities. Refer to Section 6.6.7 for information regarding the Domain financing facilities and Section 6.6.11 for tax arrangements following the Separation.

Pro forma adjustments have been made to the Domain pro forma historical income statements to reflect the additional standalone corporate costs of Domain. These include a combination of ASX listing and Domain Board costs, and corporate function costs. No adjustments have been made to the income statements to reflect the impact of estimated amortisation of intangible assets recognised as part of the provisional purchase price adjustments associated with the acquisition of the Domain businesses from Fairfax Media (refer below).

Pro forma adjustments have been made in the Domain pro forma historical balance sheet to reflect certain financing arrangements and capital items and the accounting for the Separation. As part of the internal restructure in preparation for the Separation, Domain will acquire certain businesses from Fairfax Media subsidiaries for consideration of \$1,279 million. This has been identified as a common control transaction as Fairfax Media continues to control the related businesses following the acquisition by Domain. Management has elected to apply the acquisition method of accounting under AASB 3 Business Combinations and therefore Domain has recognised the net assets acquired at their fair value. The purchase price adjustments shown in Section 6.6.5 therefore reflect the provisional fair values of the net assets acquired.

Pro forma adjustments have been made in the Domain pro forma historical balance sheet to reflect \$9 million of transaction costs, and associated taxation impact, related to the Separation and expected to be incurred by Domain. As \$7 million of these costs are directly related to the issue of equity, they have been presented within contributed equity, net of taxation. The remaining \$2 million is reflected within retained profits.

Pro forma adjustments have been made to reflect the part repayment of the above noted consideration due to Fairfax Media through the drawdown of \$150 million in external debt and utilisation of \$54 million of cash in Domain. The residual Fairfax Media loan of \$1,248 million is then settled via issue of Domain Shares to Fairfax Media and Fairfax Media Shareholders.

The financial information in this Section 6.6 is presented in an abbreviated form and does not contain all presentation and disclosures that are usually provided in an annual financial report prepared in accordance with the Corporations Act.

The Investigating Accountant has prepared an Independent Limited Assurance Report in respect of the Domain Pro Forma Historical Financial Information, a copy of which is included in Annexure A.

The financial information in this Section 6.6 should be read in conjunction with the risk factors set out in Section 4.4.

6.6.1.1 Explanation of certain non-IFRS financial measures

Domain uses certain measures to manage and report on its businesses that are not recognised under AAS or IFRS. These measures are collectively referred to in this Section 6.6 as non-IFRS financial measures pursuant to Regulatory Guide 230 'Disclosing non-IFRS financial information' published by ASIC. Management used these non-IFRS financial measures to evaluate the performance and profitability of the overall business. The principal non-IFRS financial measures referred to in this Section 6.6 are as follows:

- **EBIT** is reported earnings before the following:
 - interest revenue or expense; and
 - income taxation expense;
- **EBITDA** is reported earnings before the following:
 - interest revenue or expense;
 - depreciation and amortisation; and
 - income taxation expense.

6. OVERVIEW OF DOMAIN

6.6.2 Domain pro forma historical income statements

Set out below are the Domain pro forma historical income statements before net financing costs and tax for the years ended 28 June 2015, 26 June 2016 and 25 June 2017:

TABLE 1: DOMAIN PRO FORMA HISTORICAL INCOME STATEMENTS^{1,2}

\$M	YEAR ENDED 28 JUNE 2015	YEAR ENDED 26 JUNE 2016	YEAR ENDED 25 JUNE 2017
Core Digital	154	193	218
Transactions and Other	-	3	14
Digital	154	196	232
Print	69	101	88
Revenue from operations	223	297	320
Share of net profit/(loss) of associates and joint ventures	3	(1)	(1)
Expenses	(150)	(188)	(216)
Pro forma historical EBITDA	76	108	103
Depreciation and amortisation	(5)	(12)	(17)
Pro forma historical EBIT	71	96	86

1. No adjustments have been made to the Domain pro forma historical income statements to reflect the potential impact of the amortisation of intangible assets recognised as part of the provisional purchase price adjustments associated with the acquisition of the businesses of Domain from Fairfax Media.
2. As the Domain pro forma historical income statements are presented to the EBIT level, they do not include the share of results attributable to agent shareholders within the Agent Ownership Models (refer to Section 6.2.6.2 for further information). These indicative amounts were \$2 million of EBIT in 2015, \$5 million of EBIT in 2016 and \$10 million of EBIT in 2017.

Following the Separation, Domain will be separately listed on ASX. This will result in additional standalone corporate costs (included above within the pro forma historical income statements) including company secretarial costs, ASX listing fees, share registry costs, audit fees, insurance and the costs of maintaining the Domain Board. Domain will also incur transferred corporate costs currently borne by Fairfax Media but attributable to Domain. The amount of these additional standalone costs has been assumed to be the same in each of the years covered in Table 1 above. These costs have been outlined below.

TABLE 2: DOMAIN ADDITIONAL STANDALONE COSTS^{1,2}

\$M	YEAR ENDED 28 JUNE 2015	YEAR ENDED 26 JUNE 2016	YEAR ENDED 25 JUNE 2017
ASX listing and Domain Board costs	(2)	(2)	(2)
Corporate function costs ³	(6)	(6)	(6)
Additional standalone costs	(8)	(8)	(8)
Other pro forma cost adjustments ⁴	(2)	(4)	(2)
Total Domain pro forma incremental costs	(10)	(12)	(10)

1. Fairfax Media and Domain will enter into a number of commercial agreements for services that the parties will provide to each other post Separation. Certain services covered by these commercial agreements may have been provided at no cost prior to Separation but will incur a charge in the future. No adjustments have been made to the Domain Pro Forma Historical Financial Information to reflect the incremental costs associated with these future charges; however, based on preliminary estimates the total incremental cost to Domain is expected to be approximately \$2 million per annum initially, increasing to approximately \$4 million per annum over the next three years. Further information can be found in Section 8.7.
2. Fairfax Media and Domain will also enter into a Transitional Services Agreement as outlined in Section 8.7.2. Any increases in the cost of services under the Transitional Services Agreement compared to the charges made in the historical period have been reflected as part of the additional standalone costs.
3. Adjustments include the incremental remuneration for the Chief Executive Officer of Domain as set out in Section 6.5.3.2. As the fair value on grant date cannot be determined, no other adjustments have been made for any potential incremental share based payment charges for other employees, following commencement of a separate Domain share based payment scheme on Separation.
4. Adjustments reflect corporate costs, including share based payments and bonuses, previously unallocated to Domain for the purpose of Fairfax Media segment reporting disclosures. For the purpose of the Domain Pro Forma Historical Financial Information, these costs have been allocated to Domain.

6.6.3 Reconciliation of Domain pro forma historical income statements to Fairfax Media's financial statements

TABLE 3: RECONCILIATION OF REPORTED DOMAIN SEGMENT IN FAIRFAX MEDIA HISTORICAL INCOME STATEMENTS TO DOMAIN PRO FORMA HISTORICAL INCOME STATEMENTS

\$M	YEAR ENDED 28 JUNE 2015	YEAR ENDED 26 JUNE 2016	YEAR ENDED 25 JUNE 2017
Reported underlying segment EBIT – Domain	81	108	96
Pro forma adjustment for additional standalone costs ¹	(8)	(8)	(8)
Other pro forma cost adjustments ¹	(2)	(4)	(2)
Pro forma EBIT	71	96	86

1. Refer Table 2.

6.6.4 Management's commentary on Domain's pro forma historical financial performance and cash flows

Commentary on Domain's pro forma historical financial performance is outlined below. More information is available from Fairfax Media's annual financial statements for the years ended 28 June 2015, 26 June 2016 and 25 June 2017, which can be found on Fairfax Media's website (www.fairfaxmedia.com.au).

Year ended 25 June 2017

Pro forma historical EBIT of \$86 million was 10% below the previous financial year.

Revenue from operations of \$320 million increased 8%, with Core Digital revenue increasing by 13%, notwithstanding a difficult listings environment in the first half of the year. Residential digital revenue grew 11% due to increased depth product penetration and yield growth, offset by a 6% decline in Domain new sale listings in the key Sydney and Melbourne markets. Media, Developers and Commercial revenue increased 23%, reflecting market share gains. Agent Services revenue increased by 9%.

Total digital revenue grew by 18% with acquisitions in Transactions and Other (Residential Connections and Beevo) contributing to the growth. Structural industry challenges continued to weigh on print revenue, which declined by 13%.

Total expenses increased 15% compared to the previous financial year. This reflected continued investment in the digital side of the business, in particular staff and technology, partially offset by a reduction in print related expenses. Excluding acquisitions and one-offs, total expenses increased by 7%.

Cash flows for the year included capital expenditure of \$38 million, largely relating to property and labour capitalisation.

Year ended 26 June 2016

Pro forma historical EBIT of \$96 million was 36% above the previous financial year.

Revenue from operations of \$297 million increased 33% on the previous financial year, with Residential digital revenue up 27% supported by depth revenue growth of 40%. Media, Developers and Commercial revenue increased 33% while Agent Services revenue was up 3%.

Total digital revenue grew by 27% while print revenue increased 46%, reflecting the full consolidation of MMP from January 2015.

Total expenses increased 25%, reflecting continued investment in sales, product development and marketing, together with the impact of acquisitions and the full consolidation of MMP from January 2015.

Cash flows for the year included capital expenditure, largely relating to property and labour capitalisation, of \$19 million and acquisitions of \$31 million including Domain's investments in Oneflare and Homepass and an earn out payment for Allhomes.

Year ended 28 June 2015

Pro forma historical EBIT was \$71 million.

Revenue from operations of \$223 million was 45% higher than the previous financial year, with total digital revenue growing 36%. Strong momentum continued with agent subscribers up 20%, listings up 16%, and depth revenue growth of 47%. Growth in digital revenue was also supported by the acquisition of Allhomes in October 2014.

Print revenue of \$69 million was up 69% on the previous financial year, with the increase due to the full consolidation of MMP from January 2015.

Domain continued to invest in the cost base to support future growth, particularly in sales and digital product development.

Cash flows for the year included capital expenditure of \$4 million and acquisitions of \$48 million comprising payments for Allhomes and MMP.

6. OVERVIEW OF DOMAIN

6.6.5 Domain pro forma historical balance sheet

Set out below is the Domain pro forma historical balance sheet as at 25 June 2017. For the purpose of presenting the Domain pro forma historical balance sheet, it has been assumed that the Separation was effected and completed on 25 June 2017.

The Domain pro forma historical balance sheet has been prepared in order to give Fairfax Media Shareholders an indication of Domain's pro forma historical balance sheet in the circumstances noted in this Section 6.6, and does not reflect the actual financial position of Domain at the time of the Separation. No adjustments have been made to reflect the trading of the Domain business since 25 June 2017 or to reflect the potential Review Property transaction discussed in Section 6.2.6.3.

The adjustments to the Domain pro forma historical balance sheet include:

1. The DHA historical balance sheet represents the assets and liabilities held in DHA as at 25 June 2017 prior to any restructure or Separation occurring, as derived from the financial information directly related to DHA from the accounting records of Fairfax Media;
2. The provisional purchase price accounting adjustments reflect the fair value of the net assets acquired resulting from Domain acquiring certain businesses from Fairfax Media subsidiaries following an internal restructure in preparation for the Separation. Consideration for the acquisition was \$1,279 million. In accordance with AASB 3 Business Combinations, there is a twelve month fair value measurement window in which to finalise the purchase price accounting;
3. Domain draws down \$165 million of interest bearing liabilities. Of this amount, \$150 million is applied to intergroup balances as partial settlement of the consideration due for the transfer of Domain's businesses (as noted in adjustment 2). The remainder of the drawdown is retained by Domain for general working capital purposes. In addition, \$54 million of cash held by Domain is transferred to Fairfax Media as part repayment of the outstanding intergroup balances with Fairfax Media. Therefore, the total cash repayment to Fairfax Media is \$204 million;
4. Capitalisation of intercompany debt of \$1,248 million to Fairfax Media. Issue of \$536 million of Domain Shares to existing Fairfax Media Shareholders through the Scheme and repayment of \$712 million of Fairfax Media loans through issue of shares; and
5. Adjustment to reflect \$9 million of transaction costs (including related taxation) incurred in relation to the Separation. \$7 million of these costs are directly related to issuing equity and therefore presented within contributed equity (net of taxation). \$2 million are expensed and therefore presented within retained profits.

TABLE 4: DOMAIN PRO FORMA HISTORICAL BALANCE SHEET AS AT 25 JUNE 2017

\$M	1 DHA AS AT 25 JUNE 2017	2 PURCHASE PRICE ACCOUNTING ADJUSTMENTS	3 EXTERNAL DEBT, CASH AND PAYMENT TO FAIRFAX MEDIA	4 CAPITALISATION OF INTERGROUP DEBT, ISSUE OF DOMAIN SHARES AND SCHEME SUBSCRIPTION	5 TRANSACTION COSTS	DOMAIN PRO FORMA HISTORICAL AS AT 25 JUNE 2017
CURRENT ASSETS						
Cash and cash equivalents	58	-	(39)	-	(9)	10
Trade and other receivables	25	43	-	-	-	68
Other	-	2	-	-	-	2
Total current assets	83	45	(39)	-	(9)	80
NON-CURRENT ASSETS						
Receivables	1	1	-	-	-	2
Investments accounted for using the equity method	17	-	-	-	-	17

\$M	1. DHA AS AT 25 JUNE 2017	2. PURCHASE PRICE ACCOUNTING ADJUSTMENTS	3. EXTERNAL DEBT, CASH AND PAYMENT TO FAIRFAX MEDIA	4. CAPITALISATION OF INTERGROUP DEBT, ISSUE OF DOMAIN SHARES AND SCHEME SUBSCRIPTION	5. TRANSACTION COSTS	DOMAIN PRO FORMA HISTORICAL AS AT 25 JUNE 2017
Intangible assets	227	1,311	-	-	-	1,538
Property, plant and equipment	1	27	-	-	-	28
Deferred tax assets	3	7	-	-	3	13
Total non-current assets	249	1,346	-	-	3	1,598
Total assets	332	1,391	(39)	-	(6)	1,678
CURRENT LIABILITIES						
Intergroup balances	173	1,279	(204)	(1,248)	-	-
Payables	23	20	-	-	-	43
Provisions	1	8	-	-	-	9
Current tax liabilities	4	-	-	-	-	4
Total current liabilities	201	1,307	(204)	(1,248)	-	56
NON-CURRENT LIABILITIES						
Interest bearing liabilities	-	-	165	-	-	165
Provisions	-	4	-	-	-	4
Deferred tax liabilities	22	80	-	-	-	102
Total non-current liabilities	22	84	165	-	-	271
Total liabilities	223	1,391	(39)	(1,248)	-	327
Net assets	109	-	-	1,248	(6)	1,351
EQUITY						
Contributed equity	1	-	-	1,248	(4)	1,245
Reserves	(9)	-	-	-	-	(9)
Retained profits	107	-	-	-	(2)	105
Total parent entity interest	99	-	-	1,248	(6)	1,341
Non-controlling interest	10	-	-	-	-	10
Total equity	109	-	-	1,248	(6)	1,351

6. OVERVIEW OF DOMAIN

6.6.6 Domain pro forma historical cash flow statements

Set out below are the Domain pro forma historical net cash flows after investing activities and before net financing costs and tax for the years ended 28 June 2015, 26 June 2016 and 25 June 2017:

TABLE 5: DOMAIN PRO FORMA HISTORICAL CASH FLOW STATEMENTS

\$M	YEAR ENDED 28 JUNE 2015	YEAR ENDED 26 JUNE 2016	YEAR ENDED 25 JUNE 2017
Pro forma historical EBIT	71	96	86
Depreciation and amortisation	5	12	17
Pro forma historical EBITDA	76	108	103
Change in working capital	(9)	(15)	3
Dividends received from equity accounted investments	5	-	-
Other non-cash items	(2)	1	-
Pro forma historical net cash flows, before net financing costs and tax	70	94	106
Acquisition of businesses, controlled entities, associates and joint ventures	(48)	(31)	(3)
Capital expenditure	(4)	(19)	(38)
Pro forma historical net cash flows after investing activities, before net financing costs and tax	18	44	65

The operating segment note within the Fairfax Media financial statements, does not separately present segment cash flows. Therefore no reconciliation to the Fairfax Media operating segment note has been provided.

Pro forma adjustments have not been made in the Domain pro forma historical cash flow statements to reflect the one off transaction costs associated with the Separation.

As a standalone entity, following the Separation, Domain will have additional net cash outflows relating to financing activities (refer to Section 6.6.7), taxation (refer to Section 6.6.11) and dividends (refer to Section 6.6.12). Pro forma adjustments have not been made for these items for the periods presented as Domain's financing activities, tax arrangements and capital structure will change following the Separation.

6.6.7 Debt facilities and cash

Domain has historically been funded through a combination of cash flows generated by Domain and Fairfax Media's other businesses, as well as external financing facilities held by Fairfax Media.

Following the Separation, funding for Domain will be sourced from a combination of its own cash reserves, internally generated cash flows and a \$250 million syndicated bank loan facility (Domain Syndicated Facility).

The Domain Board considers that the Domain Syndicated Facility, combined with the cash flow expected to be generated by Domain, will be sufficient to allow Domain to carry out its business and stated objectives immediately following the Separation, and is appropriate having regard to the financial and investment profile of Domain following the Separation.

The Domain Syndicated Facility contains market standard terms and conditions for a facility of this nature, including as outlined below:

TABLE 6: KEY TERMS OF THE DOMAIN SYNDICATED FACILITY

Facility type	Syndicated bank facility		
Borrower	Domain Group Finance Pty Limited		
Currency	A\$		
Tranches	Tranche	Commitment	Maturity
	A	\$10 million	3 years
	B	\$140 million	3 years
	C	\$100 million	4 years
Interest rate	BBSY plus a margin agreed at commercial rates.		
Conditions precedent to initial drawdown	The Domain Syndicated Facility contains conditions precedent to drawing that are customary for a facility of this nature, including a condition precedent that the Scheme is approved by order of the Court made under section 411(4)(b) of the Corporations Act, and that order being lodged with ASIC.		
Security	None		
Guarantee	The Domain Syndicated Facility is guaranteed by Domain and such of Domain's wholly-owned subsidiaries that account for not less than 90% of the total assets and EBITDA of the Domain Group (excluding non-wholly-owned subsidiaries) for the relevant 12 month period.		
Representations, undertakings and events of default	The Domain Syndicated Facility contains representations, undertakings and events of default that are customary for a facility of this nature.		
Review events	The Domain Syndicated Facility contains review events that are customary for a facility of this nature including, if a person not in control of Domain on the date of the Domain Syndicated Facility agreement thereafter acquires Control of Domain (with Control having the meaning given to it in section 50AA of the Corporations Act).		

At the date of this Booklet, a binding commitment letter has been signed by the borrower under the Domain Syndicated Facility and each of the banks providing the Domain Syndicated Facility, under which the banks have agreed to enter into formal agreements to provide the Domain Syndicated Facility (subject to various conditions being satisfied, including those summarised in the table above in 'Conditions precedent to initial drawdown'). It is expected that Domain will have signed the facility agreement prior to the Scheme Meeting.

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6.6.8 Commitments

Domain pro forma historical operating lease commitments as at 25 June 2017 were as follows:

TABLE 7: DOMAIN PRO FORMA HISTORICAL OPERATING LEASE COMMITMENTS AS AT 25 JUNE 2017

\$M	PRO FORMA HISTORICAL AS AT 25 JUNE 2017
Within one year	3
Later than one year, not later than five years	30
Later than five years	28
Total	61

Operating lease commitments include commitments on commercial leases on offices and office equipment.

6.6.9 Shareholders' equity

Subject to the issue of Domain Shares as described in Section 9.7, at the time of the Separation, Domain is expected to have approximately 575 million Domain Shares on issue.

Further potential issuances of Domain Shares include:

- shares to be issued under employee incentive plans for senior executives (discussed further in Section 6.5.3.2); and
- should the transaction complete, shares to be issued under the Review Property acquisition (discussed further in Section 6.2.6.3).

6.6.10 Intangible assets

Domain's pro forma historical intangible assets, other than indefinite life intangible assets, are amortised on a straight line basis over their useful economic lives.

The purchase price accounting for the restructure remains provisional (refer to Note 2 of Table 4 in Section 6.6.5). Under AASB 3 Business Combinations, there is a twelve month fair value measurement window. Any modification to the purchase price accounting, which may potentially result in additional definite life intangible assets being recognised separate from goodwill, could result in a change in the amortisation charge on a go forward basis.

Intangibles are tested for impairment where there is an indication that the asset may be impaired. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Goodwill and other indefinite life assets are further tested at least annually in June each year by assessing the recoverable amount of the cash generating unit to which the indefinite life asset relates.

TABLE 8: DOMAIN PRO FORMA HISTORICAL INTANGIBLE ASSETS AS AT 25 JUNE 2017

\$M	PRO FORMA HISTORICAL AS AT 25 JUNE 2017
Goodwill	1,468
Software, websites and databases	21
Customer relationships	49
Total	1,538

6.6.11 Taxation

Tax is currently paid in relation to Domain as part of Fairfax Media's group taxation arrangements. At the time of the Separation, Domain will exit Fairfax Media's Australian tax consolidated group and will form its own new Australian tax consolidation group. The effective tax rate of Domain may vary from what it would have been if it remained part of Fairfax Media.

6.6.12 Dividend policy

The Domain dividend policy will operate on the basis that the Domain Directors will make a determination as to the level of dividends to be paid for each reporting period, taking into account Domain's financial performance, funding position and a range of forward-looking factors.

6.7 CORPORATE GOVERNANCE

6.7.1 Accounting policies

The Domain Pro Forma Historical Financial Information has been prepared with consistent accounting policies disclosed in the audited Fairfax Media financial statements for the years ended 28 June 2015, 26 June 2016 and 25 June 2017. The financial statements for these periods are available from Fairfax Media's website (www.fairfaxmedia.com.au).

Domain has determined three operating segments under the principles of AASB 8 Operating Segments. Operating segments are defined as a component of an entity "whose operating results are regularly reviewed by the entity's chief operating decision makers to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available".

The three segments are Core Digital (comprising Residential, Commercial, Media, Developer and Agent Services), Transactions and Other (Digital), and Print.

6.7.2 The Domain Board

The Domain Board's responsibilities following the Separation will be detailed in a formal charter that will be published on the company's website (www.domain.com.au). The charter will be reviewed annually to determine whether any changes are necessary or desirable.

The primary role of the Domain Board will be the protection and enhancement of company performance and long term shareholder value.

The Domain Board will be responsible for the overall corporate governance of the company and will provide oversight of the management and affairs of Domain on behalf of Domain Shareholders.

To assist in the execution of its responsibilities, the Domain Board intends to establish the committees and policies described below, following the Separation.

6.7.3 ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (3rd Edition)

Domain is seeking a listing on ASX. The ASX Corporate Governance Council has developed Corporate Governance Principles and Recommendations (3rd Edition) (ASX Recommendations), which set out recommended corporate governance practices for entities listed on ASX in order to promote investor confidence and to assist companies meet stakeholder expectations.

The ASX Recommendations are not prescriptive, but guidelines against which entities report on an "if not, why not" basis. Under the ASX Listing Rules, Domain must prepare a corporate governance statement that discloses the extent to which Domain has followed the ASX Recommendations during each reporting period. Where Domain does not follow a recommendation in the ASX Recommendations for any part of the reporting period, it must identify that recommendation and the period during which it was not followed and give reasons for not following it. Domain must also explain what (if any) alternative governance practices it adopted in lieu of the recommendation during that period. Domain intends to comply with all of the ASX Recommendations from the time of listing, with the exception of the following matters:

- ASX Recommendation 2.5 provides that the Chairman of the company should be an independent director. The Non-Executive Chairman, Nick Falloon, is not considered by the Domain Board to be an independent director because he is Chairman of Fairfax Media, which is a substantial shareholder of Domain. Despite this, the Domain Board believes that he is the most appropriate person to lead the Domain Board as its Non-Executive Chairman given his expertise and experience. The Domain Board is also comfortable that he endeavours to bring an objective and independent mind to all of the Domain Board's deliberations; and
- ASX Recommendation 2.4 provides that the Domain Board should be comprised of a majority of independent directors. The Domain Board is intended to comprise seven Directors. Three Directors are considered to be independent Non-Executive Directors, three Directors are Non-Executive (non-independent) Directors (on the basis of their association with Fairfax Media) and one Managing Director.

6. OVERVIEW OF DOMAIN

The Domain Board considers its proposed composition appropriate in light of Fairfax Media's substantial shareholding and the non-independent Directors' knowledge and expertise in relation to the Domain business. The Domain Board believes that each Director will be able to, individually and collectively, analyse the issues before them objectively in the best interests of shareholders and in accordance with their duties as Directors.

6.7.4 Audit and Risk Committee

Prior to Separation, the Domain Board will establish an Audit and Risk Committee and adopt an Audit and Risk Committee charter that will be on substantially the same terms as Fairfax Media's Audit and Risk Committee charter.

The Audit and Risk Committee will be comprised of at least three members, all of whom are Non-Executive Directors and a majority of whom are independent Directors and will be chaired by an independent Director who is not the chair of the Domain Board.

6.7.5 Nomination Committee

Prior to Separation, the Domain Board will establish a Nomination Committee and adopt a Nomination Committee charter that will be on substantially the same terms as Fairfax Media's Nomination Committee charter.

The Nomination Committee will be comprised of at least three members, a majority of whom are independent Directors and will be chaired by an independent Director.

6.7.6 Remuneration Committee

Prior to Separation, the Domain Board will establish a Remuneration Committee and adopt a Remuneration Committee charter that will be on substantially the same terms as Fairfax Media's People and Culture Committee charter.

The Remuneration Committee will be comprised of at least three members, all of whom are Non-Executive Directors and a majority of whom are independent directors and will be chaired by an independent Director.

6.7.7 Corporate governance policies

Prior to Separation, the Domain Board intends to adopt corporate governance policies (including a securities dealings policy) that are on substantially the same terms as the Fairfax Media corporate governance policies.

7. OVERVIEW OF FAIRFAX MEDIA (POST SEPARATION)

7.1 BUSINESS OVERVIEW

Upon implementation of the Separation, Fairfax Media will operate and hold a portfolio of businesses across information, marketplace and entertainment assets. As a leading multi-platform media company in Australia and New Zealand, Fairfax Media engages audiences and communities via print media, digital media, radio stations, events and other businesses.

7.1.1 Overview of business groups

Fairfax Media's portfolio is comprised of six businesses across Australia and New Zealand.

7.1.1.1 Domain

Fairfax Media will own a shareholding of 60% in Domain after Separation. Refer to Section 6.2 for further information on the Domain business.

7.1.1.2 Australian Metro Media

Australian Metro Media includes metropolitan newspapers, digital media assets and events.

Publishing assets including *The Sydney Morning Herald*, *The Age*, *The Australian Financial Review*, *BrisbaneTimes.com.au* and *WAToday.com.au*. Combined, the publishing platform has a national audience of over six million people.

Lifestyle brands and publications include *Good Food*, *Essential Baby*, *Essential Kids* and *Traveller*.

Transactional businesses include *Find a Babysitter* and a 50% interest in 112 Pty Ltd, an automotive joint venture which operates the *Drive.com.au* business.

Fairfax Media also hold a portfolio of early and growth stage digital-focussed businesses. The portfolio includes investments in digital publishing (Allure Media, Over60, HuffPo Australia and Kin Community), online dating (RSVP Oasis), weather services (Weatherzone), e-health (Healthshare), online education (Skoolbo) and employment (Adzuna).

Fairfax Events has over four decades of experience delivering mass participation experiences across Australia. Fairfax Events consist of lifestyle-orientated experiences focussed on sports, food and wine and business.

7.1.1.3 Australian Community Media

Australian Community Media (ACM) is a leading rural, regional and agricultural newspaper and digital media business reaching more than five million people per month. ACM's more than 160 regional publications and community-based websites include *The Canberra Times*, *Newcastle Herald*, *The Examiner*, *The Border Mail*, *The Courier* and *Illawarra Mercury* along with approximately 130 community-based websites. ACM's portfolio of agricultural publications includes *The Land*, *Queensland Country Life*, and *Stock and Land*.

Events run by ACM's Fairfax Rural Events team include *AgQuip* and *CRT Farmfest Field Days*.

7.1.1.4 Stuff (formerly New Zealand Media)

Stuff (formerly New Zealand Media) is an innovative, integrated multi-media business with a range of brands across multiple platforms including newspapers, magazines, events, websites *stuff.co.nz* and *neighbourly.co.nz* and mobile. Stuff reaches approximately 3.5 million New Zealanders every month (approximately 88% of the country's population) via its digital and print brands.

Stuff's primary online offering *stuff.co.nz* is a leading digital destination, ranked as the #1 domestic website in New Zealand by audience. The publishing business includes *The Dominion Post*, *The Press*, *The Sunday Star-Times*, *TV Guide*, *NZ House and Garden* and *Cuisine* in a portfolio of regional and community newspapers, magazines and agricultural publications. Stuff also holds a 70% shareholding in Neighbourly Limited, which operates the hyper-local social network *neighbourly.co.nz*, reaching 470,000 members, and a 51% shareholding in NZ Fibre Communications Limited, which operates the internet service provider *stuff-fibre.co.nz*. In addition, Stuff is a joint venture partner in the Kiwi Premium Advertising Exchange (KPEX), a programmatic ad exchange to buy advertising across NZ premium publishers.

7.1.1.5 Stan

Fairfax Media holds a 50% interest in subscription video-on-demand (SVOD) platform Stan, a joint venture with Nine Entertainment Co. Since launching in 2015, Stan has grown to have more than 750,000 active subscribers and has engaged in exclusive content distribution partnerships with local and international content providers.

7.1.1.6 Macquarie Media Limited

Following the 2015 merger between Fairfax Radio Network and Macquarie Radio Network, Fairfax Media holds a 54.5% shareholding in the ASX-listed Macquarie Media Limited (ASX:MRN), which operates the #1 rated commercial radio station in Sydney (2GB) and Melbourne (3AW) as well as other news, talk and sports radio stations across Australia.

Macquarie Media Limited operates a nationwide network of stations comprising 3AW and Talking Lifestyle 1278 in Melbourne; 2GB and Talking Lifestyle 954 in Sydney; 4BC and Talking Lifestyle 882 in Brisbane; and 6PR in Perth.

7. OVERVIEW OF FAIRFAX MEDIA (POST SEPARATION)

7.1.2 Business history

Fairfax Media's origins date back more than 150 years, beginning with the Fairfax family's acquisition of *The Sydney Morning Herald* in 1841. Fairfax Media began expanding its publishing assets in the 1950s, founding *The Australian Financial Review* and acquiring *The Age*, *Newcastle Herald* and *Illawarra Mercury* among others. In its current form, the company was listed on ASX in May 1992.

In 2003, Fairfax Media acquired certain publishing assets in New Zealand from Independent Newspapers Limited, forming the Stuff (formerly New Zealand Media) business. In 2007, Fairfax Media merged with the ASX-listed Rural Press Limited, which brought *The Canberra Times* and a large number of regional newspapers, radio stations, websites and agricultural publications into the portfolio. Also in 2007, Fairfax Media acquired certain radio assets from Southern Cross Broadcasting. These radio assets would later be merged with the ASX-listed Macquarie Radio Network Limited in 2015 (later renamed Macquarie Media Limited), resulting in Fairfax Media's 54.5% shareholding.

7.1.3 Market overview

Fairfax Media is a diversified media business with exposure to advertising expenditure across print, digital and radio formats, as well as exposure to direct consumer spending through print and online news subscriptions and circulation. Geographically, the majority of revenue is generated in Australia and New Zealand. Key statistics for Fairfax Media's primary markets are summarised in the table below.

AUSTRALIA KEY MARKET STATISTICS

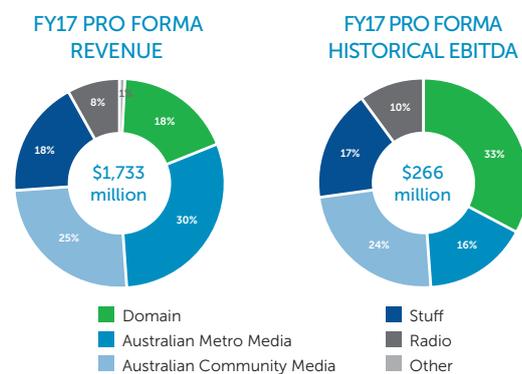
	ADVERTISING			NEWSPAPER CIRCULATION	
	Newspapers ²	Digital ³	Radio ⁴	Print	Digital
2016 revenue	1.8	4.0	1.2	1.0	0.2
2017-21 CAGR ¹	(15%)	15%	2%	(6%)	21%

Source: PwC Australian Entertainment and Media Outlook 2017-2021.

- Compound annual growth rate, calculated based on the four year forecast from 2017 to 2021.
- Print only.
- Digital is 'Internet advertising' excluding Search.
- Terrestrial only.

7.1.4 Fairfax Media (post Separation) pro forma historical financial performance for the year ended 25 June 2017

The pro forma revenue and pro forma historical EBITDA by reporting segment for Fairfax Media (post Separation) for the year ended 25 June 2017 are as follows:

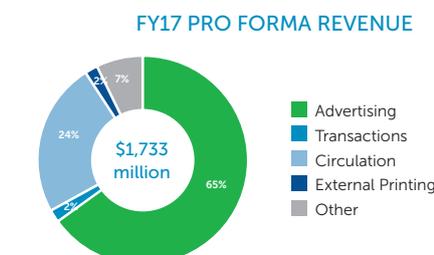


7.1.5 Operating model and revenue breakdown

Fairfax Media produces and distributes media content to consumers across a range of print and digital platforms. According to Enhanced Media Metrics Australia, the news industry audience measuring standard, the aggregated audience reach of Fairfax Media's Australian print and digital publishing assets is approximately 13 million per month. The primary means for generating revenue from this large-scale audience reach are:

- advertising and sponsorship sales; and
- circulation revenue including subscriptions.

The pro forma revenue by category for Fairfax Media (post Separation) for the year ended 25 June 2017 is as follows:



Digital revenue has continued to increase both in absolute and percentage terms in the past five years, growing from 13% of total group revenue in FY12 to 25% of total group revenue in FY17.

7.2 RECENT TRADING HIGHLIGHTS

On 21 September 2017, Fairfax Media provided the following trading update based upon unaudited management information:

FY18 year-to-date overall group revenues are 4% to 5% below last year. Across our reporting segments:

- Domain digital revenue growth is 22% and total revenue growth is 13%.
- Metro Media is down around 11%.
- Australian Community Media is down around 10%.
- Stuff (New Zealand Media) is down around 10% including currency impact (down around 7% in local currency NZ\$).
- Macquarie Media is down around 4% (down 1% on a continuing business basis excluding the impact of disposals).

For FY18, Domain's costs are expected to increase approximately 13% from FY17's \$206 million (10% like for like excluding acquisitions), excluding any separation-related costs and adjustments.

Across the Fairfax Group we continue to implement cost savings measures.

This update was provided on a pre-Separation basis and does not take into account any pro forma Separation adjustments.

Further information is included in Fairfax Media's FY17 full year results presentation, available on Fairfax Media's website (www.fairfaxmedia.com.au).

7.3 BUSINESS STRATEGY AND INITIATIVES

Fairfax Media's strategy to build shareholder value across its portfolio of businesses is based on three strategic pillars:



GROWING

By building on core strengths and maximising opportunities



TRANSFORMING

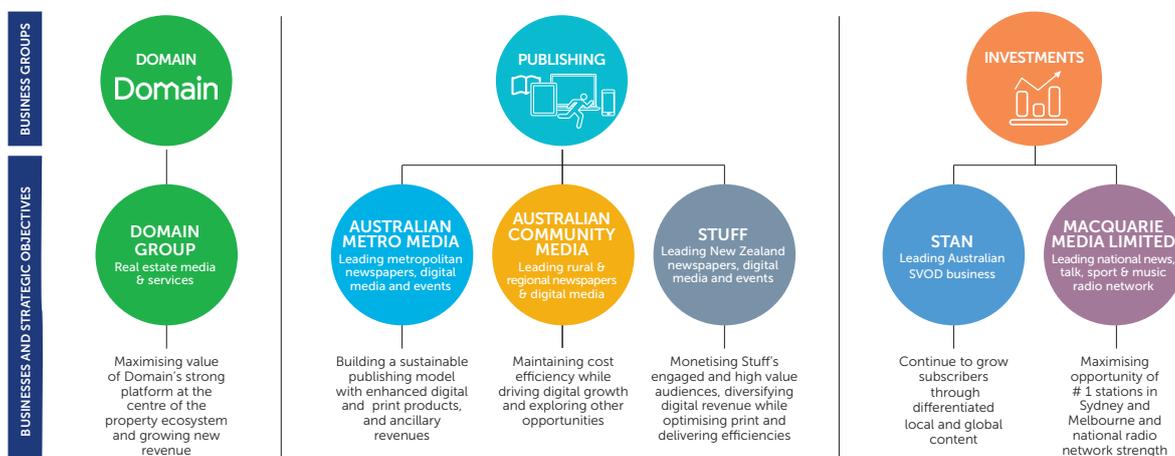
Through cost efficiency and business model innovation



BUILDING VALUE

Through strategic decision-making and portfolio management

This strategy is applied across businesses spanning a diversified portfolio of media assets with focused objectives:



7. OVERVIEW OF FAIRFAX MEDIA (POST SEPARATION)

BUSINESS GROUP	OBJECTIVE
Domain	<ul style="list-style-type: none"> • Growing the value of Domain within the Australian real estate ecosystem <p>For more information on Domain's strategy, refer to Section 6.4</p>
Australian Metro Media	<ul style="list-style-type: none"> • Leverage quality content and trusted brands to build and maintain engaged audiences • Enhance digital products to grow subscription and advertising, while reducing legacy systems costs to drive efficiencies • Leverage audiences to support growth of other businesses such as Domain and Stan • Events – opportunity to benefit from brands and audiences from publishing and improve operational delivery
Australian Community Media	<ul style="list-style-type: none"> • Continue maximising operational excellence and efficiencies through managing ongoing cost effectiveness • Explore new digital revenue opportunities to build audience reach and engagement while developing new revenue streams (e.g. subscriptions and digital marketing services)
Stuff	<ul style="list-style-type: none"> • Leverage Stuff audience to develop non-publishing revenue sources • Continue the transformation of print to deliver further efficiencies
Stan	<ul style="list-style-type: none"> • Continue growing Stan as a leading Australian SVOD business through strategic content acquisition and partnerships, and investment in subscriber acquisition

7.4 BOARD AND SENIOR MANAGEMENT

7.4.1 Board

The Fairfax Media Board will not change as a result of the Separation. However, after over seven years' service as a Fairfax Media Director, Sandra McPhee, AM will retire at Fairfax Media's scheduled Annual General Meeting on 2 November 2017.

In accordance with Fairfax Media's constitution, Mr Todd Sampson will retire at Fairfax Media's Annual General Meeting and will be eligible for re-election by Fairfax Media Shareholders, and Ms Mickie Rosen is standing for election at Fairfax Media's Annual General Meeting following her appointment to the Fairfax Media Board on 1 March 2017.

As at the date of this Booklet, the Fairfax Media Board comprises the following directors:



NICK FALLOON

CHAIRMAN AND NON-EXECUTIVE DIRECTOR

*Appointed to the Board
1 May 2015.*

Mr Falloon was appointed Chairman of the Fairfax Media Board in September 2015. Mr Falloon has had 30 years' experience in the media industry, 19 years working for the Packer owned media interests from 1982 until 2001.

Mr Falloon served as Chief Executive Officer of Publishing and Broadcasting Limited (PBL) from 1998 to 2001 and before that as Chief Executive Officer of PBL Enterprises and Group Financial Director of PBL. The PBL experiences provided a strong background in television, pay TV, magazines, radio and the internet. From 2002, Mr Falloon spent nine years as Executive Chairman and CEO of Ten Network Holdings.

Mr Falloon holds a Bachelor of Management Studies (BMS) from Waikato University in New Zealand.



PATRICK ALLAWAY

NON-EXECUTIVE DIRECTOR

*Appointed to the Board
15 April 2016.*

Mr Allaway has 30 years' experience in the global finance industry across capital markets, corporate advisory, derivatives, risk management, mergers and acquisitions, corporate and project finance, private equity and funds management.

Mr Allaway commenced his career in investment banking with Citibank in New York, Sydney and London and with Swiss Bank Corporation in Zurich and London. Since 2006, he has been Chairman and co-founder of Saltbush Capital Markets, a privately-owned corporate advisory and funds management business. Mr Allaway is also presently a non-executive director of Metcash Limited, Woolworths South Africa, David Jones and the Country Road Group.

Mr Allaway holds a Bachelor of Arts/Law from The University of Sydney. Mr Allaway is a former non-executive director of Macquarie Goodman Group.



JACK COWIN

NON-EXECUTIVE DIRECTOR

*Appointed to the Board
19 July 2012.*

Mr Cowin is the founder and Executive Chairman of Competitive Foods Australia, a business that has grown from a single food service outlet to one that employs more than 16,000 staff throughout Australia. Mr Cowin moved to Australia from Canada to establish his business. In addition to operating 400 restaurants in Australia, the company operates five manufacturing facilities producing frozen value-added meat products as well as processing fresh vegetables. It exports to 29 countries.

Mr Cowin is also Chairman and largest shareholder of Domino's Pizza Enterprises Ltd, a listed public company, and director and the largest shareholder of BridgeClimb.

7. OVERVIEW OF FAIRFAX MEDIA (POST SEPARATION)



GREGORY HYWOOD

CHIEF EXECUTIVE OFFICER AND MANAGING DIRECTOR

Appointed to the Board (Non-Executive) 4 October 2010.

Appointed as Chief Executive Officer and Managing Director 7 February 2011.

Mr Hywood was appointed to the Fairfax Media Board in October 2010 and to the position of Chief Executive Officer and Managing Director on 7 February 2011. In March 2015, Mr Hywood was appointed to the Board of Macquarie Media Limited. Mr Hywood has enjoyed a long career in the media and government. A Walkley Award winning journalist, he has held a number of senior management positions at Fairfax Media including Publisher and Editor-in-Chief of each of *The Australian Financial Review*, *The Sydney Morning Herald/The Sun-Herald* and *The Age*. Mr Hywood was Executive Director in the Victorian Premier's Department between 2004 and 2006, Chief Executive of Tourism Victoria from 2006 to 2010 and a Director of The Victorian Major Events Company from 2006 until June 2016.



SANDRA MCPHEE, AM

NON-EXECUTIVE DIRECTOR

Appointed to the Board 26 February 2010.

Ms McPhee was appointed to the Fairfax Media Board on 26 February 2010. She is a director of Kathmandu Limited and The NSW Public Service Commission Advisory Board. Her previous directorships include AGL Energy Limited, Scentre Group (previously Westfield Retail Trust), Tourism Australia, Australia Post, Coles Group Limited, Perpetual Limited and South Australia Water. Prior to becoming a Non-Executive Director, Ms McPhee held senior executive positions in a range of consumer oriented industries including retail, tourism and aviation.



JAMES MILLAR, AM

NON-EXECUTIVE DIRECTOR

Appointed to the Board 1 July 2012.

Mr Millar is the former Chief Executive Officer of Ernst & Young (EY) in the Oceania Region and was a director on their Global Board. Mr Millar commenced his career in the Insolvency and Reconstruction practice at EY, conducting some of the largest corporate workouts of the early 1990s. He has qualifications in both business and accounting. Mr Millar is a non-executive director of Mirvac Limited, Slater & Gordon Limited and Macquarie Media Limited. He is Chairman of both the Export Finance and Insurance Corporation and Forestry Corporation of NSW. He is a former Chairman of Fantastic Holdings Limited and The Smith Family and a former director of Helloworld Limited.



LINDA NICHOLLS, AO

NON-EXECUTIVE DIRECTOR

*Appointed to the Board
26 February 2010.*

Mrs Nicholls has more than 30 years' experience as a senior executive and company director in Australia, New Zealand and the United States. She is currently the Chair of Japara Healthcare and a director of Medibank Private and Inghams Group Limited.

Mrs Nicholls holds a Bachelor of Arts in Economics from Cornell University and a Masters of Business Administration from Harvard Business School, where she was formerly Trustee and Vice President of The Harvard Business School Alumni Board.



MICKIE ROSEN

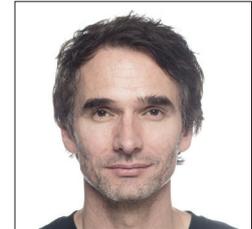
NON-EXECUTIVE DIRECTOR

*Appointed to the Board
1 March 2017.*

Ms Rosen has over 25 years of operational, strategic, and investment experience at the intersection of media and technology. She has worked for both large established companies and early stage start-ups. She currently advises a range of companies globally, is a Senior Advisor to Boston Consulting Group and is a director of Pandora Media in the USA.

In her most recent operational role, Ms Rosen served as Senior Vice-President of Yahoo!'s Global Media and Commerce division. Prior to Yahoo!, she was a partner with Fuse Capital, a digital media venture capital firm, and was the head of entertainment for Fox Interactive Media where she led strategic initiatives in digital, including serving as a lead on envisioning, structuring and negotiating the creation of Hulu. Ms Rosen has also held executive roles with The Walt Disney Company and leading movie information and ticketing company, Fandango.

Ms Rosen built the foundation of her career at McKinsey & Company and holds a Masters of Business Administration from Harvard Business School.



TODD SAMPSON

NON-EXECUTIVE DIRECTOR

*Appointed to the Board
29 May 2014.*

Mr Sampson is a non executive director on the board of Qantas Airways Limited. He has an MBA and has spent nearly 20 years working as a strategic advisor with a diverse range of expertise including marketing, communication, digital transformation, new media, reputational risk and corporate turnaround. Both News Limited and *The Australian Financial Review* ranked him as one of Australia's most influential executives. He is also a writer, producer and host on a number of TV shows including Gruen Planet, The Project and the award-winning documentary Redesign My Brain.

7. OVERVIEW OF FAIRFAX MEDIA (POST SEPARATION)

7.4.2 Senior management

Upon implementation of the Separation, Fairfax Media's senior management team will include the executives set out below.

Further information on Fairfax Media's senior management can be found on the company's website (www.fairfaxmedia.com.au).



GREGORY HYWOOD

CHIEF EXECUTIVE OFFICER
AND MANAGING DIRECTOR

Refer to Section 7.4.1.



DAVID HOUSEGO

CHIEF FINANCIAL OFFICER

Mr Housego was appointed as the Chief Financial Officer of Fairfax Media in December 2012 with responsibility for finance, group strategy, management of the transformation program, investor relations and workplace services. He also represents Fairfax Media on a number of boards across Fairfax Media's digital investments and is a director of Australian Associated Press. He was previously an Executive Director and Chief Financial Officer at WorleyParsons (ASX: WOR) from 1999 through 2010.



GAIL HAMBLY

GROUP GENERAL COUNSEL
AND COMPANY SECRETARY

Ms Hambly is Group General Counsel and Company Secretary of Fairfax Media. She is responsible for legal services and regulatory matters across the group as well as government relations, communications and internal audit functions. She is a member of the Media and Communications Committee and the Privacy Committee for the Law Council of Australia, and a member of the Advisory Board for the Centre of Media and Communications Law at the Melbourne Law School.

Ms Hambly holds a degree in Law from The University of New South Wales and degrees in Economics and Science from The University of Sydney.

7.4.3 Remuneration and incentive plans

7.4.3.1 Director remuneration and interests

Subject to the ASX waivers mentioned in Section 9.8, Fairfax Media Director and executive remuneration arrangements will not change as a result of the Separation. Details of the current arrangements are included in the Remuneration Report, which can be found in Fairfax Media's 2017 Annual Report.

7.4.3.2 Executive key management personnel incentive plans

FY16 was the final year of the Transformation Incentive Plan (TIP) which was implemented following shareholder approval of the Remuneration Report at the 2013 Annual General Meeting. Following a comprehensive review, the TIP was replaced in 2017 by a new short term incentive and long term incentive plan that continues to be heavily weighted towards achieving long term growth and shareholder value.

The STI component will continue to be assessed on an annual basis, and any payments to executive key management personnel will be made in deferred performance shares. Half of the shares will be deferred for one year and the other half for two years.

Allocations for the LTI will be made in performance rights. The allocation will be subject to three independent performance hurdles, two of which are performance against relative total shareholder return comparator groups and the third hurdle being a strategic measure.

7.5 FAIRFAX MEDIA HISTORICAL FINANCIAL INFORMATION AND FAIRFAX MEDIA (POST SEPARATION) PRO FORMA HISTORICAL FINANCIAL INFORMATION

This Section 7.5 contains the following historical financial information of Fairfax Media (hereafter the Fairfax Media Historical Financial Information), being:

- the Fairfax Media historical income statements for the years ended 28 June 2015, 26 June 2016 and 25 June 2017;
- the Fairfax Media historical balance sheet as at 25 June 2017; and
- the Fairfax Media historical cash flow statements for the years ended 28 June 2015, 26 June 2016 and 25 June 2017.

This Section 7.5 also contains the following pro forma historical financial information of Fairfax Media following the Separation (hereafter the Fairfax Media (post Separation) Pro Forma Historical Financial Information), being:

- the Fairfax Media (post Separation) pro forma historical income statements for the years ended 28 June 2015, 26 June 2016 and 25 June 2017;
- the Fairfax Media (post Separation) pro forma historical balance sheet as at 25 June 2017; and
- the Fairfax Media (post Separation) pro forma historical cash flow statements for the years ended 28 June 2015, 26 June 2016 and 25 June 2017.

7.5.1 Basis of preparation

Fairfax Media Historical Financial Information

The Fairfax Media Historical Financial Information has been derived from the financial reports of Fairfax Media for the years ended 28 June 2015, 26 June 2016 and 25 June 2017, which were audited by Ernst & Young in accordance with Australian Auditing Standards. Ernst & Young issued unqualified audit opinions on these financial reports. The financial statements for these periods are available from Fairfax Media's website (www.fairfaxmedia.com.au) or the ASX website (www.asx.com.au).

The Fairfax Media Historical Financial Information has been prepared in accordance with the recognition and measurement principles contained in AAS, which are consistent to IFRS.

Fairfax Media (post Separation) Pro Forma Historical Financial Information

The Fairfax Media (post Separation) Pro Forma Historical Financial Information has been prepared for illustrative purposes, to assist Fairfax Media Shareholders to understand the impact of the Separation and the financial performance, financial position and cash flows of Fairfax Media (post Separation).

By its nature, pro forma historical financial information is illustrative only. Consequently, the pro forma historical income statements, pro forma historical balance sheet and the pro forma historical cash flow statements for Fairfax Media (post Separation) do not purport to reflect its actual or prospective financial performance, financial position or cash flows.

The Fairfax Media (post Separation) Pro Forma Historical Financial Information has been derived from the Fairfax Media Historical Financial Information, and adjusted for the effects of pro forma adjustments described below.

7. OVERVIEW OF FAIRFAX MEDIA (POST SEPARATION)

The Fairfax Media (post Separation) Pro Forma Historical Financial Information has been prepared in accordance with the recognition and measurement principles contained in AAS, which are consistent to IFRS, other than that it includes adjustments which have been prepared in a manner consistent with AAS, that reflect (i) the recognition of certain items in periods different from the applicable period under AAS, (ii) the exclusion of certain transactions that occurred in the relevant period, and (iii) the impact of certain transactions as if they occurred as at 25 June 2017 in the pro forma historical balance sheet and from 30 June 2014 in the pro forma historical income statements and pro forma historical cash flow statements.

The Fairfax Media (post Separation) Pro Forma Historical Financial Information has been prepared in accordance with the accounting policies set out in Fairfax Media's annual reports for the years ended 28 June 2015, 26 June 2016 and 25 June 2017.

Fairfax Media (post Separation) will retain a 60% controlling interest in the newly-listed Domain and will therefore continue to consolidate Domain in future periods. Non-controlling interests in the earnings and equity of controlled entities will be shown separately in the income statement and balance sheet. Pro forma adjustments have been made to reflect the incremental standalone costs associated with Domain being an independent listed vehicle. As Domain continues to be consolidated, the pro forma standalone costs for Fairfax Media (post Separation) do not include those charges paid by Domain to Fairfax Media. Therefore, the incremental costs for Fairfax Media (post Separation) are \$5 million as opposed to \$10-12 million for Domain. Refer to Sections 8.7.2 and 8.7.3 for additional details on items recharged between Fairfax Media and Domain.

The Fairfax Media Directors do not believe that the financing arrangements and tax structure under which Fairfax Media operated during the periods presented are reflective of the anticipated financing arrangements and tax structure following the Separation. Therefore, the pro forma historical income statements have been presented before net financing costs and income tax and the pro forma historical cash flow statements have been presented before financing activities and taxation and after investing activities. Refer to Section 7.5.7.2 for information regarding Fairfax Media (post Separation) financing facilities and Section 7.5.9 for tax arrangements following the Separation.

Adjustments have been made to exclude items presented as significant within the Fairfax Media annual reports within the pro forma historical income statements and pro forma historical cash flow statements. These include charges associated with impairments, restructuring and redundancy charges and gains on disposal of businesses.

Pro forma adjustments have been made in the Fairfax Media (post Separation) pro forma historical balance sheet to reflect certain financing arrangements, capital items and the accounting of the Separation. These include a drawdown of debt by Domain of \$165 million (refer to Section 7.5.5), of which \$150 million together with cash of \$54 million (a total of \$204 million) is paid to Fairfax Media. It also includes the payment of \$12 million of transaction costs (\$3 million incurred by Fairfax Media and \$9 million incurred by Domain) associated with the Separation. The \$12 million adjustment excludes an additional \$2 million of transaction costs which were accrued and therefore reflected in the Fairfax Media historical balance sheet as at 25 June 2017 and income statement for the year ended 25 June 2017. The total transactions costs associated with the Separation are therefore \$14 million, as outlined in Section 9.10. The \$3 million of costs incurred by Fairfax Media (post Separation) have been treated as a transaction with a non-controlling interest where there is no loss of control, and therefore recognised within equity (net of taxation). Refer to Section 6.6.1 for discussion on the treatment of the Domain costs. A non-controlling interest in 40% of the net assets of Domain is recognised on Separation.

The financial information in this Section 7.5 is presented in an abbreviated form and does not contain all the presentation and disclosures that are usually provided in an annual financial report prepared in accordance with the Corporations Act.

The Investigating Accountant has prepared an Independent Limited Assurance Report in respect of the Fairfax Media Historical Financial Information and Fairfax Media (post Separation) Pro Forma Historical Financial Information, a copy of which is included in Annexure A.

The financial information in this Section 7.5 should be read in conjunction with the risk factors set out in Section 4.4.

7.5.1.1 Explanation of certain non-IFRS financial measures

Fairfax Media uses certain measures to manage and report on its businesses that are not recognised under AAS or IFRS. These measures are collectively referred to in this Section 7.5 as non-IFRS financial measures pursuant to Regulatory Guide 230 'Disclosing non-IFRS financial information' published by ASIC. Management uses these non-IFRS financial measures to evaluate the performance and profitability of the overall business. The principal non-IFRS financial measures referred to in this Section 7.5 are as follows:

- **EBIT** is reported earnings before the following:
 - interest revenue or expense; and
 - income taxation expense;
- **EBITDA** is reported earnings before the following:
 - interest revenue or expense;
 - depreciation and amortisation; and
 - income taxation expense;
- **Underlying historical EBIT** represents reported EBIT excluding significant items; and
- **Significant items** include those items presented as significant within the Fairfax Media financial statements. They relate to impairment charges, restructure and redundancy charges and gains on disposal of other entities. Refer to Table 12 in Section 7.5.3 for additional detail.

7.5.2 Fairfax Media historical income statements

Set out in Table 9 are the Fairfax Media historical income statements for the years ended 28 June 2015, 26 June 2016 and 25 June 2017.

7.5.3 Fairfax Media (post Separation) pro forma historical income statements

Set out in Table 10 are the Fairfax Media (post Separation) pro forma historical income statements for the years ended 28 June 2015, 26 June 2016 and 25 June 2017.

Following the Separation, Domain will operate as a standalone company and will be separately listed on ASX. This will result in additional corporate costs including corporate staff, company secretarial costs, ASX listing fees, share registry costs, audit fees, insurance and the costs of maintaining the Domain Board. Approximately \$5 million in FY17 and FY15 and \$7 million in FY16 of the additional standalone Domain costs are transfers of costs already borne by Fairfax Media. As Domain continues to be consolidated, the pro forma standalone costs for Fairfax Media (post Separation) do not include those charges paid by Domain to Fairfax Media. Therefore, the incremental costs for Fairfax Media (post Separation) are \$5 million per annum as opposed to \$10-12 million for Domain. The amount of these costs has been assumed to be the same in each of the years covered in the Fairfax Media (post Separation) pro forma historical income statements.

TABLE 9: FAIRFAX MEDIA HISTORICAL INCOME STATEMENTS

\$M	YEAR ENDED 28 JUNE 2015 ²	YEAR ENDED 26 JUNE 2016	YEAR ENDED 25 JUNE 2017
Total revenue ¹	1,867	1,831	1,743
Share of net profit/(loss) of associates and joint ventures	-	2	(1)
Expenses	(1,679)	(2,765)	(1,545)
EBITDA	188	(932)	197
Depreciation and amortisation	(65)	(70)	(41)
EBIT	123	(1,002)	156
Net finance costs ³	(16)	(11)	(10)
Net profit/(loss) before tax	107	(1,013)	146
Income tax (expense)/benefit	(34)	251	(49)
Net profit/(loss) after tax	73	(762)	97

1. Excludes interest income of \$11 million in FY15, \$7 million in FY16 and \$6 million in FY17 which was presented as revenue in the Fairfax Media historical financial statements and is presented within net finance costs above.

2. FY15 historical income statement presented above does not correspond to the FY15 Fairfax Media financial statements due to a change of accounting policy applied during FY17 in respect of deferred tax liabilities on indefinite life intangible assets. This accounting policy change was applied retrospectively in the FY17 Fairfax Media financial statements from the opening balance sheet date of 1 July 2015. The impact of this accounting policy change on the FY15 historical income statement is to increase goodwill impairment expense by \$14 million and reduce historical net profit after tax from \$87 million to \$73 million accordingly. Refer to note 1 of the Fairfax Media 2017 financial statements for further details on the basis of the accounting policy change.

3. Net finance costs include finance costs less interest income as noted in note 1 above.

7. OVERVIEW OF FAIRFAX MEDIA (POST SEPARATION)

TABLE 10: FAIRFAX MEDIA (POST SEPARATION) PRO FORMA HISTORICAL INCOME STATEMENTS

\$M	YEAR ENDED 28 JUNE 2015	YEAR ENDED 26 JUNE 2016	YEAR ENDED 25 JUNE 2017
Total revenue	1,853	1,831	1,733
Share of net profit/(loss) of associates and joint ventures	-	2	(1)
Expenses	(1,569)	(1,554)	(1,466)
Pro forma historical EBITDA	284	279	266
Depreciation and amortisation	(65)	(70)	(41)
Pro forma historical EBIT	219	209	225

TABLE 11: FAIRFAX MEDIA (POST SEPARATION) DOMAIN STANDALONE COSTS

\$M	YEAR ENDED 28 JUNE 2015	YEAR ENDED 26 JUNE 2016	YEAR ENDED 25 JUNE 2017
Pro forma ASX listing, Domain Board and corporate costs	(5)	(5)	(5)
Domain standalone costs	(5)	(5)	(5)

TABLE 12: RECONCILIATION OF FAIRFAX MEDIA HISTORICAL EBIT TO FAIRFAX MEDIA (POST SEPARATION) PRO FORMA HISTORICAL EBIT

\$M	YEAR ENDED 28 JUNE 2015	YEAR ENDED 26 JUNE 2016	YEAR ENDED 25 JUNE 2017
Historical EBIT	123	(1,002)	156
Impairment of software, investments and property, plant and equipment ¹	49	1,152	34
Restructure and redundancy recharges ¹	66	64	44
Gain on controlled entities and investments ¹	(14)	-	(2)
Other ¹	-	-	(2)
Underlying historical EBIT	224	214	230
Pro forma Domain standalone costs	(5)	(5)	(5)
Pro forma historical EBIT	219	209	225

1. Items presented as significant items within the Fairfax Media historical financial statements for the years ended 28 June 2015, 26 June 2016 and 25 June 2017.

7.5.3.1 Reconciliation of Fairfax Media (post Separation) pro forma historical income statements to Fairfax Media historical income statements

TABLE 13: RECONCILIATION OF FAIRFAX MEDIA (POST SEPARATION) PRO FORMA HISTORICAL INCOME STATEMENTS TO FAIRFAX MEDIA HISTORICAL INCOME STATEMENTS

\$M	YEAR ENDED 28 JUNE 2015	YEAR ENDED 26 JUNE 2016	YEAR ENDED 25 JUNE 2017
Pro forma historical EBIT	219	209	225
Significant items	(101)	(1,216)	(74)
Pro forma Domain standalone costs	5	5	5
Historical EBIT	123	(1,002)	156
Net financing costs	(16)	(11)	(10)
Income tax (expense)/benefit	(34)	251	(49)
Net profit/(loss) after tax	73	(762)	97
Non-controlling interest ¹	(4)	(10)	(13)
Net profit/(loss) attributable to owners of Fairfax Media	69	(772)	84

1. The non-controlling interests presented above reflect the historic non-controlling interests in the Fairfax Media financial statements. The above does not reflect any adjustment for the non-controlling interest associated with Domain following the Separation.

7.5.4 Management's commentary on Fairfax Media (post Separation) pro forma historical financial performance and cash flows

Commentary on Fairfax Media (post Separation) pro forma historical performance is outlined below. More information is available from Fairfax Media's annual financial statements for the years ended 28 June 2015, 26 June 2016 and 25 June 2017, which can be found on Fairfax Media's website (www.fairfaxmedia.com.au).

Year ended 25 June 2017

Fairfax Media (post Separation) pro forma historical EBIT of \$225 million increased 8% on the previous financial year.

Significant items incurred during the year included impairment of software, investments and property, plant and equipment of \$34 million and restructure and redundancy costs of \$44 million. The majority of these expenses relate to the publishing businesses, in particular Australian Metro Media and Australian Community Media.

Domain pro forma historical EBIT of \$86 million decreased 10% on the previous financial year. Revenue continued to grow with strong performance across print and digital, reflecting organic growth and the impact of acquisitions. Total digital revenue grew by 18%.

Australian Metro Media segment revenue declined 9% with advertising revenue down 16%. Circulation revenue was broadly stable, benefiting from strong growth in paid digital subscriptions. Other revenue declined 9% reflecting the sale of TenderLink and lower growth from Events. After three years of rapid expansion, Events is focussed on consolidating its portfolio and optimising for profitability.

Australian Community Media revenue declined 11%. Advertising revenue was down 12%, reflecting 2% growth in agriculture related advertising, offset by weakness in national and classifieds advertising. Costs improved by 9%, reflecting the achievement of the remaining transformation benefits and continued cost savings initiatives.

Stuff revenue was down 7%, with digital revenue growth of 29%. Print advertising was impacted by weakness in retail, motor and leisure categories. Circulation revenue declined 5% for the year with stabilisation in the second half reflecting improvements in yield. Stuff's ongoing cost management delivered a 6% reduction in operating expenses, notwithstanding further investment in digital, underpinning stable margins in the second half of the year.

Macquarie Media Limited, in which Fairfax Media has a 54.5% shareholding, made an EBITDA contribution of \$32 million. Revenue was down 1%, which was broadly consistent with the market. Cost and

operational synergies, together with licence fee relief in the second half of the year, delivered 26% uplift in EBITDA and improvement in EBITDA margin from 18% to 23%.

Cash flows for the year benefited from lower redundancy payments and income taxes paid than in the prior financial year. Cash outflows included capital expenditure of \$107 million and dividends of \$104 million.

Year ended 26 June 2016

Fairfax Media (post Separation) pro forma historical EBIT of \$209 million was 5% below the previous financial year.

Significant items incurred during the year included impairment of software, investments and property, plant and equipment of \$1,152 million and restructure and redundancy costs of \$64 million. The majority of these expenses relate to the publishing businesses, in particular Australian Metro Media and Australian Community Media.

Domain pro forma historical EBIT of \$96 million increased 36% on the previous financial year. Revenue continued to grow with strong performance across print and digital, reflecting organic growth and the impact of acquisitions. Total digital revenue grew by 27%.

Australian Metro Media results reflected ongoing structural shifts in advertising spend. Advertising revenue declined 13%, with publishing advertising revenue down 15%. Flat expenses reflected investment in digital investments and Events, with publishing expenses reducing by 4%.

Australian Community Media revenue declined by 11%, with advertising revenue down 12%. The transformation program annualised cost reduction target of \$60 million was achieved, which underpinned cost performance with expenses down 12%.

Stuff total revenue was down 9%, with advertising revenue down 11% in local currency. Digital revenue growth of 36% was driven by growth in mobile, video and native advertising. Costs reduced by 8%, notwithstanding continued investment in digital products.

Macquarie Media Limited, in which Fairfax Media has a 54.5% shareholding, made an EBITDA contribution of \$25 million, having achieved cost and operational synergies.

Cash flows for the year included capital expenditure of \$95 million, dividends of \$102 million, payment of financial liabilities of \$160 million and an on-market share buy-back of \$74 million..

7. OVERVIEW OF FAIRFAX MEDIA (POST SEPARATION)

Year ended 28 June 2015

Fairfax Media (post Separation) pro forma historical EBIT was \$219 million.

Significant items incurred during the year included impairment of software, investments and property, plant and equipment, as well as a gain primarily reflecting the sale of the 96FM radio station and the fair value uplift on the acquisition of MMP.

Domain delivered strong revenue performance across print and digital, reflecting organic growth and the impact of acquisitions. Total digital revenue increased 36%.

Australian Metro Media revenue was down by 7%, with advertising revenue declining 6%, while digital subscriptions revenue grew 36%. Costs were down 9% for the year.

Australian Community Media revenue declined 8%, with advertising revenue down 9%. The transformation program remained on track to achieve its \$60 million annualised cost reduction target by the end of FY16.

Stuff total revenue was down 4%, with advertising revenue down 6%, in local currency terms. Digital revenue growth of 38%, reflected strong momentum at *stuff.co.nz*.

Macquarie Media Limited, in which Fairfax Media has a 54.5% shareholding, made a stable EBITDA contribution of \$14 million. The merger of Fairfax Radio Network and Macquarie Radio Network was completed in March 2015.

Stan, the SVOD joint venture between Fairfax and Nine Entertainment Co., launched in January 2015.

Cash flows for the year included capital expenditure of \$62 million, dividends of \$96 million and payment of financial liabilities of \$152 million.

7.5.5 Fairfax Media historical and Fairfax Media (post Separation) pro forma historical balance sheet

Set out below are the Fairfax Media historical balance sheet as at 25 June 2017 and the Fairfax Media (post Separation) pro forma historical balance sheet as at 25 June 2017. For the purpose of presenting the Fairfax Media (post Separation) pro forma historical balance sheet, it has been assumed that the Separation was effected and completed on 25 June 2017.

TABLE 14: FAIRFAX MEDIA HISTORICAL BALANCE SHEET AND FAIRFAX MEDIA (POST SEPARATION) PRO FORMA HISTORICAL BALANCE SHEET

\$M	1. FAIRFAX MEDIA HISTORICAL BALANCE SHEET AS AT 25 JUNE 2017	2. EXTERNAL DEBT AND CASH	3. TRANSACTION COSTS	4. CAPITAL REDUCTION THROUGH ISSUANCE OF DOMAIN SHARES	5. NON- CONTROLLING INTERESTS	FAIRFAX MEDIA (POST SEPARATION) PRO FORMA HISTORICAL AS AT 25 JUNE 2017
CURRENT ASSETS						
Cash and cash equivalents	113	165	(12)	-	-	266
Trade and other receivables	299	-	-	-	-	299
Inventories	25	-	-	-	-	25
Derivative assets	9	-	-	-	-	9
Assets held for sale	8	-	-	-	-	8
Total current assets	454	165	(12)	-	-	607

\$M	1. FAIRFAX MEDIA HISTORICAL BALANCE SHEET AS AT 25 JUNE 2017	2. EXTERNAL DEBT AND CASH	3. TRANSACTION COSTS	4. CAPITAL REDUCTION THROUGH ISSUANCE OF DOMAIN SHARES	5. NON- CONTROLLING INTERESTS	FAIRFAX MEDIA (POST SEPARATION) PRO FORMA HISTORICAL AS AT 25 JUNE 2017
NON-CURRENT ASSETS						
Receivables	8	-	-	-	-	8
Investments accounted for using the equity method	49	-	-	-	-	49
Available for sale investments	2	-	-	-	-	2
Intangible assets	825	-	-	-	-	825
Property, plant and equipment	178	-	-	-	-	178
Deferred tax assets	47	-	4	-	-	51
Pension assets	1	-	-	-	-	1
Other financial assets	96	-	-	-	-	96
Total non-current assets	1,206	-	4	-	-	1,210
Total assets	1,660	165	(8)	-	-	1,817
CURRENT LIABILITIES						
Payables	233	-	-	-	-	233
Interest bearing liabilities	95	-	-	-	-	95
Provisions	104	-	-	-	-	104
Current tax liabilities	22	-	-	-	-	22
Total current liabilities	454	-	-	-	-	454

7. OVERVIEW OF FAIRFAX MEDIA (POST SEPARATION)

\$M	1. FAIRFAX MEDIA HISTORICAL BALANCE SHEET AS AT 25 JUNE 2017	2. EXTERNAL DEBT AND CASH	3. TRANSACTION COSTS	4. CAPITAL REDUCTION THROUGH ISSUANCE OF DOMAIN SHARES	5. NON- CONTROLLING INTERESTS	FAIRFAX MEDIA (POST SEPARATION) PRO FORMA HISTORICAL AS AT 25 JUNE 2017
NON-CURRENT LIABILITIES						
Interest bearing liabilities	145	165	-	-	-	310
Provisions	59	-	-	-	-	59
Deferred tax liabilities	24	-	-	-	-	24
Total non-current liabilities	228	165	-	-	-	393
Total liabilities	682	165	-	-	-	847
Net assets	978	-	(8)	-	-	970
EQUITY						
Contributed equity	4,605	-	-	(536)	-	4,069
Reserves	31	-	(6)	536	(57)	504
Accumulated losses	(3,792)	-	(2)	-	-	(3,794)
Total parent entity interest	844	-	(8)	-	(57)	779
Non-controlling interest	134	-	-	-	57	191
Total equity	978	-	(8)	-	-	970

The Fairfax Media (post Separation) pro forma historical balance sheet has been prepared in order to give Fairfax Media Shareholders an illustration of Fairfax Media (post Separation) balance sheet in the circumstances noted in this Section 7.5, and does not reflect the actual financial position of Fairfax Media at the time of the Separation.

No adjustments have been made to reflect the trading of Fairfax Media since 25 June 2017.

No adjustments have been made to reflect the modification of the Fairfax Media employee incentive scheme (refer Section 9.7 and 6.5.3.2), which will result in an acceleration of the share-based payments expense from future years. The fair value of the amended scheme cannot be determined until the point of Separation, however, the maximum charge is expected to be \$5.6 million.

The adjustments to the Fairfax Media (post Separation) pro forma historical balance sheet include:

1. Fairfax Media historical balance sheet as reported within the Fairfax Media financial statements for the year ended 25 June 2017;
2. an adjustment of \$165 million has been made to non-current interest bearing liabilities to reflect external debt to be drawn down by Domain at the time of the Separation;
3. adjustment to recognise transaction costs of \$12 million incurred in relation to the Separation and associated taxation. The adjustment excludes an additional \$2 million of transaction costs which were accrued as at 25 June 2017 and therefore reflected in the Fairfax Media historical balance sheet. The total transaction costs associated with the Separation are \$14 million, as outlined in Section 9.10;
4. adjustment of \$536 million has been made to contributed equity to reflect the Capital Reduction Amount; and

5. recognition of non-controlling interest in Domain, representing 40% of the net assets of Domain at the time of Separation. The non-controlling interest is calculated as:
- \$109 million of DHA net assets (refer column one of the Domain pro forma historical balance sheet at Section 6.6.5); plus
 - \$173 million intergroup balance with Fairfax Media (refer column one of the Domain pro forma historical balance sheet at Section 6.6.5); plus
 - \$69 million of net assets acquired associated with the Restructure, which together with the fair value uplift of \$1,210 million constitutes
- the consideration for the acquisition of \$1,279 million (refer column two of the Domain pro forma historical balance sheet at Section 6.6.5); less
- \$204 million of consideration paid to Fairfax Media (refer column three of the Domain pro forma historical balance sheet at Section 6.6.5); less
 - \$6 million of transaction costs incurred by Domain (refer column five of the Domain pro forma historical balance sheet at Section 6.6.5);
 - multiplied by the 40% non-controlling interest in Domain following the Separation

7.5.6 Fairfax Media historical cash flow statements

TABLE 15: FAIRFAX MEDIA HISTORICAL CASH FLOW STATEMENTS

\$M	YEAR ENDED 28 JUNE 2015	YEAR ENDED 26 JUNE 2016	YEAR ENDED 25 JUNE 2017
Historical EBIT	123	(1,002)	156
Depreciation and amortisation	65	70	41
Historical EBITDA	188	(932)	197
Change in operating assets and liabilities	7	(32)	(1)
Other non-cash items	42	1,158	39
Historical net cash flows, before investing and financing activities and tax	237	194	235
Acquisition of businesses, controlled entities, associates and joint ventures	(57)	(46)	(13)
Net loans advanced to other parties	(11)	(35)	(36)
Proceeds from sale of investments and property, plant and equipment	98	72	39
Capital expenditure	(62)	(95)	(107)
Historical net cash flows after investing activities, before financing activities and tax	205	90	118
Net financing costs	(13)	(14)	(13)
Payment of facility fees	(1)	-	-
Net income taxes paid	(19)	(51)	(28)
Proceeds/(repayment) of borrowings and other financial liabilities	(147)	(110)	61
Payment for on-market share buy-back	(38)	(74)	-
Payment for shares acquired by share trust	-	(2)	(2)
Dividends paid to shareholders	(95)	(94)	(92)
Dividends paid to non-controlling interest	(1)	(8)	(12)
Net increase/(decrease) in cash and cash equivalents held	(109)	(263)	32
Cash and cash equivalents at the beginning of year	453	343	81
Reclassification to assets held for sale	-	-	-
Foreign exchange movements	(1)	1	-
Cash and cash equivalents at the end of the year	343	81	113

7. OVERVIEW OF FAIRFAX MEDIA (POST SEPARATION)

7.5.7 Fairfax Media (post Separation) pro forma historical cash flow statements

TABLE 16: FAIRFAX MEDIA (POST SEPARATION) PRO FORMA HISTORICAL CASH FLOW STATEMENTS

\$M	YEAR ENDED 28 JUNE 2015	YEAR ENDED 26 JUNE 2016	YEAR ENDED 25 JUNE 2017
Pro forma historical EBIT	219	209	225
Depreciation and amortisation	65	70	41
Pro forma historical EBITDA	284	279	266
Change in operating assets and liabilities	(10)	(6)	1
Other non-cash items	8	6	8
Pro forma historical net cash flows, before net financing costs and tax	282	279	275
Acquisition of businesses, controlled entities, associates and joint ventures	(57)	(46)	(13)
Net loans advanced to other parties	(11)	(35)	(36)
Proceeds from sale of investments and property, plant and equipment	98	72	39
Capital expenditure	(62)	(95)	(107)
Pro forma historical net cash flows after investing activities, before net financing costs and tax	250	175	158

Pro forma adjustments have not been made in the Fairfax Media (post Separation) pro forma historical cash flow statements to reflect the one off transaction costs associated with the Separation.

The cash flows presented above are before net financing costs and tax. Post Separation, Fairfax Media would incur additional net cash outflows relating to:

- financing activities (see Section 7.5.7.2);
- taxation (see Section 7.5.9); and
- dividends (see Section 7.5.10).

Pro forma adjustments have not been made to Fairfax Media (post Separation) pro forma historical cash flow statements for these items for the periods presented as the financing facilities, tax consolidation status and capital structure will change following the Separation.

7.5.7.1 Reconciliation of Fairfax Media (post Separation) pro forma historical cash flow statements to Fairfax Media historical cash flow statements

TABLE 17: RECONCILIATION OF FAIRFAX MEDIA (POST SEPARATION) PRO FORMA HISTORICAL CASH FLOW STATEMENTS TO FAIRFAX MEDIA HISTORICAL CASH FLOW STATEMENTS

\$M	YEAR ENDED 28 JUNE 2015	YEAR ENDED 26 JUNE 2016	YEAR ENDED 25 JUNE 2017
Fairfax Media (post Separation) pro forma historical net operating cash flows after investing activities, before net financing costs and tax	250	175	158
Include: Restructure and redundancy payments	(50)	(90)	(45)
Exclude: Pro forma Domain standalone costs ¹	5	5	5
Historical net cash flow after investing activities, before net financing costs and tax	205	90	118

1. Domain standalone costs which are incremental to Fairfax Media (post Separation), as outlined in Section 7.5.3.

7.5.7.2 Debt facilities and cash

Fairfax Media is currently funded from a range of existing debt facilities including a \$325 million syndicated bank facility and a NZ\$40 million revolving cash advance facility.

Upon Separation, Fairfax Media's existing debt facilities will be fully repaid and replaced with a syndicated bank facility comprising A\$100 million and NZ\$25 million limits (Fairfax Syndicated Facility). In addition, Domain will have standalone debt facilities which will be consolidated in Fairfax Media's financial statements. Further information on the Domain facilities can be found in Section 6.6.7.

The Fairfax Syndicated Facility contains market standard terms and conditions for a facility of this nature, as outlined below.

TABLE 18: KEY TERMS OF THE FAIRFAX SYNDICATED FACILITY

Facility type	Syndicated bank facility		
Borrower	Fairfax Media Group Finance Pty Ltd and Fairfax New Zealand Limited		
Currency	A\$ and NZ\$		
Tranches	Tranche	Commitment	Maturity
	A	A\$50 million	3 years or 30 November 2020 (whichever is earlier)
	B	A\$50 million	4 years or 30 November 2021 (whichever is earlier)
	C	NZ\$12.5 million	3 years or 30 November 2020 (whichever is earlier)
	D	NZ\$12.5 million	4 years or 30 November 2021 (whichever is earlier)
Interest rate	Tranche A and B – BBSY plus a margin agreed at commercial rates Tranche C and D – BKBM plus a margin agreed at commercial rates		
Conditions precedent to initial drawdown	The Fairfax Syndicated Facility contains conditions precedent to drawing that are customary for a facility of this nature, including the repayment and cancellation of Fairfax Media's existing debt facilities. This facility will be available for working capital and investment purposes.		
Security	The Fairfax Syndicated Facility is secured by security over the number of shares in Domain which represents 15% of all issued shares in Domain and which is held by a member of the Fairfax Media Group on the date that the conditions precedent to drawdown are satisfied (which is expected to be the Implementation Date).		
Guarantee	The Fairfax Syndicated Facility is required to be guaranteed by Fairfax Media and such of Fairfax Media's wholly-owned subsidiaries that account for not less than 90% of the consolidated total assets and EBITDA of the Fairfax Media Group (excluding non-wholly-owned subsidiaries) for the relevant 12 month period.		
Representations, undertakings and events of default	The Fairfax Syndicated Facility contains representations, undertakings and events of default that are customary for a facility of this nature.		
Review events	The Fairfax Syndicated Facility contains review events that are customary for a facility of this nature, including if a person together with its Associates (as that term is defined in the Corporations Act) who is not in control of Fairfax Media at the date the conditions precedent to drawdown are satisfied, thereafter acquires Control of Fairfax Media (with Control having the meaning given to it in section 50AA of the Corporations Act).		

At the date of this Booklet, a binding commitment letter has been signed by Fairfax Media and each of the banks providing the Fairfax Syndicated Facility, under which the banks have agreed to enter into formal agreements to provide the Fairfax Syndicated Facility (subject to various conditions being satisfied, including those summarised in the table above in 'Conditions precedent to initial drawdown'). It is expected that Fairfax Media will have signed the facility agreement prior to the Scheme Meeting.

7. OVERVIEW OF FAIRFAX MEDIA (POST SEPARATION)

7.5.8 Commitments

Fairfax Media (post Separation) pro forma historical capital commitments as at 25 June 2017 were as follows:

TABLE 19: FAIRFAX MEDIA (POST SEPARATION) PRO FORMA HISTORICAL CAPITAL COMMITMENTS AS AT 25 JUNE 2017

\$M	PRO FORMA HISTORICAL AS AT 25 JUNE 2017
Within one year	1
Total	1

Fairfax Media (post Separation) pro forma historical operating lease commitments as at 25 June 2017 were as follows:

TABLE 20: FAIRFAX MEDIA (POST SEPARATION) PRO FORMA HISTORICAL OPERATING LEASE COMMITMENTS AS AT 25 JUNE 2017

\$M	PRO FORMA HISTORICAL AS AT 25 JUNE 2017
Within one year	55
Later than one year, not later than five years	206
Later than five years	284
Total	545

Operating lease commitments include commitments on commercial leases on office and warehouse premises, motor vehicles and office equipment.

7.5.9 Taxation

As a result of the Separation, Domain and its wholly-owned subsidiaries will exit the Fairfax Media Australian tax consolidated group, and the earnings from Domain will no longer be included in the calculations of taxable income for Fairfax Media.

7.5.10 Dividend policy

Fairfax Media's dividend policy will not change as a result of the Separation. The policy will continue to operate on the basis that the Fairfax Media Directors will make a determination as to the level of dividends to be paid for each reporting period, taking into account Fairfax Media's financial performance, funding position and a range of forward-looking factors.

7.5.11 Material changes to Fairfax Media's financial position since most recent balance date

The most recent published financial statements of Fairfax Media are included in its annual report for the year ended 25 June 2017, which was released to ASX on 16 August 2017. To the knowledge of the Fairfax Media Directors, as at the date of this Booklet there has not been a material change in the financial position of Fairfax Media since 25 June 2017, except as disclosed in this Booklet. Any material change in the financial position of Fairfax Media after the date of this Booklet and prior to the Second Court Hearing will be disclosed in announcements to ASX.

7.6 OTHER INFORMATION

7.6.1 Corporate governance

Fairfax Media (post Separation)'s policies, processes, resources, committee structure and general operation will be consistent with those existing prior to Separation.

8. DETAILS OF THE SEPARATION

8.1 BACKGROUND

Domain is currently wholly-owned by Fairfax Media.

The Separation involves the Domain business and the remaining Fairfax Media businesses being restructured into two separate corporate groups.

The result of the Separation will be that Domain will operate independently of Fairfax Media (other than in respect of certain arrangements outlined in Section 8.7.2 and 8.7.3) and as a newly-listed entity on ASX, Domain (ASX: DHA).

Fairfax Media (after the Separation) will continue to hold its interest in or operate (as the case may be) its existing other media businesses and remain listed on ASX (ASX: FXJ).

The steps associated with the implementation of the Separation include:

- before the Implementation Date, Fairfax Media will undertake the Restructure (as described in Section 8.2);
- Fairfax Media Shareholders will be asked to consider the Scheme Resolution at the Scheme Meeting;
- Fairfax Media Shareholders will be asked to consider the Capital Reduction Resolution at the Annual General Meeting; and
- if the Scheme Resolution and the Capital Reduction Resolution are passed by the requisite majorities of Fairfax Media Shareholders, the Court approves the Scheme and all other conditions precedent to the Scheme are satisfied or waived:
 - the Scheme will take effect;
 - Fairfax Media will undertake the Capital Reduction and apply the proceeds of the Capital Reduction in respect of each Scheme Participant in accordance with the terms of the Scheme;
 - Eligible Shareholders will receive one Domain Share for every 10 Fairfax Media Shares which they hold as at the Scheme Record Date (rounded up to the nearest whole Domain Share);
 - Ineligible Foreign Shareholders will receive the Sale Proceeds of the sale of their Domain Shares in accordance with the process described in Section 8.4.4; and
 - Domain will be established as an ASX-listed company which is separate from Fairfax Media.

8.2 RESTRUCTURE AND SEPARATION

8.2.1 Organisational restructure

Fairfax Media has initiated the Restructure, an internal restructure to separate and align the relevant businesses of Fairfax Media with the appropriate entity before the Separation.

The Separation Deed will provide for the Restructure to be completed so that:

- Domain is created as a separate corporate group, capable of operating on a standalone basis; and
- all subsidiaries, assets and liabilities which do not relate directly to the Domain business will continue to be held by Fairfax Media upon the Separation.

Broadly, in accordance with the Separation Principle described in Section 8.6.1, the Restructure contemplates that certain businesses relating to Domain will be aligned or transferred to Domain as part of the Separation.

To establish Domain as a standalone entity, a number of business transfers will be required. Principally:

- certain businesses relating to Domain which are currently owned or held by subsidiaries of Fairfax Media will be transferred to Domain; and
- various intercompany loans, receivables and payables will be settled or forgiven (other than ordinary trading receivables and payables which will be settled on normal commercial terms).

8.2.2 Capital structure

As part of the Separation, it is necessary to establish a capital structure for Domain, separate from that of Fairfax Media. As outlined in Section 6.6.7, Domain will have a \$250 million syndicated bank loan facility, which is expected to be drawn to approximately \$165 million upon implementation of the Separation.

8.2.3 Domain employees

The majority of the Australian-based employees working within the Domain business and certain employees working in with Fairfax Media will be offered employment with an entity within Domain. The terms of these offers of employment will take effect on or before the Effective Date, to enable Domain to operate separately from Fairfax Media from the Implementation Date.

8. DETAILS OF THE SEPARATION

8.2.4 Ownership of Domain Shares

Shortly after the Scheme Record Date, Domain will issue approximately 1 million Domain Shares to Fairfax Media and subdivide its ordinary share capital into such number of Domain Shares as are required to facilitate the issue of Domain Shares to Eligible Shareholders on the basis of one Domain Share for every 10 Fairfax Media Shares held at the Scheme Record Date. Upon implementation of the Separation, Fairfax Media will retain a 60% controlling interest in Domain, with the remaining 40% of the Domain Shares to be held by Eligible Shareholders.

8.2.5 Deed of cross guarantee

Fairfax Media and certain of its subsidiaries are parties to a Fairfax Media cross guarantee in accordance with ASIC Corporations (Wholly-owned Companies) Instrument 2016/785. Following the Second Court Hearing, Fairfax Media will lodge a revocation deed with ASIC and Domain will enter into a separate deed of cross guarantee in accordance with ASIC Corporations (Wholly-owned Companies) Instrument 2016/785.

8.3 THE SEPARATION PROCEDURE

8.3.1 Scheme Meeting

On 22 September 2017 at the First Court Hearing, the Court ordered that a meeting of Fairfax Media Shareholders be convened to consider and, if thought fit, approve the Scheme, with or without modification (Scheme Meeting). The Scheme Meeting is scheduled to be held at the Pitt Street Room, Ground Floor, Domain Offices, 55 Pyrmont Street, Pyrmont NSW 2009 at 10:00am on 2 November 2017.

The terms of the Scheme are contained in Annexure C and the Notice of Scheme Meeting is set out in Annexure E. The fact that the Court has ordered that the Scheme Meeting be convened is no indication that the Court has a view as to the merits of the Scheme or as to how Fairfax Media Shareholders should vote. On these matters, Fairfax Media Shareholders must reach their own decision.

Each Fairfax Media Shareholder who is registered on the Fairfax Media Share Register as the holder of a Fairfax Media Share at 7:00pm on 31 October 2017 is entitled to attend and vote at the Scheme Meeting. Voting at the Scheme Meeting will be by poll.

For the Separation to proceed, the Scheme Resolution must be approved by:

- a majority in number (more than 50%) of Fairfax Media Shareholders present and voting at the Scheme Meeting (whether in person or by proxy); and

- at least 75% of the total number of votes cast on the Scheme Resolution by Fairfax Media Shareholders present and voting at the Scheme Meeting.

If these thresholds are met, and all conditions precedent to the Scheme are satisfied or waived and the Court approves the Scheme, the Separation will be implemented and binding on all Fairfax Media Shareholders, including those who did not vote or voted against the Separation Resolutions.

The conditions precedent to the Scheme include that the Capital Reduction Resolution is approved by Fairfax Media Shareholders. This means that if the Capital Reduction Resolution is not passed, the Scheme will not become Effective and the Separation will not proceed.

8.3.2 Annual General Meeting

The Fairfax Media Board has convened the Annual General Meeting to consider and, if thought fit, approve the Capital Reduction Resolution. Details of this resolution are set out in the Notice of Annual General Meeting in Annexure F.

The Annual General Meeting is scheduled to be held at the Pitt Street Room, Ground Floor, Domain Offices, 55 Pyrmont Street, Pyrmont NSW 2009 on 2 November 2017 at 10:30am, or as soon after that time once the Scheme Meeting has concluded.

Each Fairfax Media Shareholder who is registered on the Fairfax Media Share Register at 7:00pm on 31 October 2017 is entitled to attend the Annual General Meeting and vote on the resolutions to be considered at that meeting. Voting at the Annual General Meeting will be by poll.

Capital Reduction Resolution

Fairfax Media has proposed the Capital Reduction Resolution to permit Fairfax Media to reduce its share capital on the Implementation Date. The proceeds of the Capital Reduction will not be paid in cash; rather, they will be applied on behalf of the Scheme Participants as consideration for the issue of Domain Shares under the Scheme.

The Capital Reduction is conditional on the Scheme becoming Effective. This means that Fairfax Media will not undertake the Capital Reduction unless the Scheme becomes Effective.

The Capital Reduction must be approved by a simple majority (more than 50%) of votes cast by Fairfax Media Shareholders on the Capital Reduction Resolution.

Fairfax Media is of the view that, taking into account all relevant matters, the Capital Reduction is fair and reasonable to Fairfax Media Shareholders as a whole and will not materially prejudice the ability of Fairfax Media to pay its creditors.

8.3.3 Conditions precedent to implementation of the Separation

The Scheme will become binding on Fairfax Media and Fairfax Media Shareholders, and the Separation will proceed, if all of the conditions precedent to the Scheme are satisfied or waived. The key conditions precedent are, in summary:

- **Fairfax Media Directors' recommendation** – between the date of this Booklet and the Scheme Meeting, a majority of Fairfax Media Directors recommend and do not change or withdraw their recommendation to Fairfax Media Shareholders to vote in favour of the Scheme Resolution and the Capital Reduction Resolution;
- **shareholder approval** – Fairfax Media Shareholders approve each of the Separation Resolutions by the requisite majorities;
- **regulatory approvals** – Fairfax Media obtains all regulatory approvals which are necessary or, in its reasonable opinion, desirable to implement the Separation, these approvals are not revoked, and any conditions of these approvals are reasonably satisfactory to the Fairfax Media Board;
- **ASX listing approval and quotation** – ASX approves the admission of Domain to the Official List and grants permission for official quotation of Domain Shares, subject to any conditions that ASX may reasonably require and may be acceptable to the Fairfax Media Board; and
- **Court approval** – the Court approves the Scheme and a copy of the Court order is lodged with ASIC.

If the conditions precedent are not satisfied or waived by the End Date, then the Scheme will lapse and be of no effect and the Separation will not proceed.

8.4 ENTITLEMENT TO PARTICIPATE IN THE SEPARATION

8.4.1 Fairfax Media Shareholders

Fairfax Media Shareholders as at the Scheme Record Date will participate in the Separation. The way in which an individual Fairfax Media Shareholder participates will depend on whether that shareholder is:

- an Ineligible Foreign Shareholder; or
- an Eligible Shareholder.

For the purpose of determining which Fairfax Media Shareholders are eligible to participate in the Scheme and receive the Capital Reduction Entitlement, dealings in Fairfax Media Shares will be recognised only if:

- in the case of dealings of the type to be effected using CHES, the transferee is registered on the Fairfax Media Share Register as the holder of the relevant Fairfax Media Shares as at the Scheme Record Date; and
- in all other cases, registrable transmission applications or transfers in respect of those dealings are received by the Fairfax Media Share Registry before the Scheme Record Date with sufficient time to allow for registration of the transferee on or before the Scheme Record Date (and the transferee remains registered as at the Scheme Record Date).

For the purpose of determining entitlements under the Scheme, Fairfax Media will not accept for registration or recognise any transfer or transmission application in respect of Fairfax Media Shares received after the Scheme Record Date.

The Capital Reduction Entitlement will be applied towards the issue of one Domain Share for every 10 Fairfax Media Shares held by a Fairfax Media Shareholder as at the Scheme Record Date. If, as a result of this calculation, the number of Domain Shares is not a whole number, the number will be rounded up to the nearest whole number of Domain Shares. If Fairfax Media is of the opinion that a Scheme Shareholder has been party to shareholding splitting or division in an attempt to obtain unfair advantage by reference to any rounding provided for in the calculation of each Scheme Shareholder's entitlement to Domain Shares, then Fairfax Media reserves the right to round the entitlement of such holdings so as to provide only the number of Domain Shares that would have been received but for the splitting or division.

If you are a Fairfax Media Shareholder as at the Scheme Record Date, the way in which you participate in the Scheme will depend on whether you are an Eligible Shareholder or an Ineligible Foreign Shareholder.

8.4.2 Eligible Shareholders

Fairfax Media Shareholders whose Registered Addresses as at the Scheme Record Date are in the following jurisdictions will be Eligible Shareholders and will be entitled to have Domain Shares issued to them if the Separation is implemented:

- Australia, Hong Kong, New Zealand, Singapore or the United Kingdom; or
- any other jurisdiction in relation to which Fairfax Media determines (acting reasonably) that the implementation of the Scheme and the issue of Domain Shares to the Scheme Participant in that jurisdiction is not prohibited and not unduly onerous or impractical.

8. DETAILS OF THE SEPARATION

8.4.3 Ineligible Foreign Shareholders

Ineligible Foreign Shareholders are Fairfax Media Shareholders whose Registered Address on the Scheme Record Date are in a jurisdiction outside Australia, New Zealand, Singapore, Hong Kong, the United Kingdom or the other countries referred to in Section 8.4.2.

Ineligible Foreign Shareholders will participate in the Capital Reduction on the same basis as all Eligible Shareholders. However, Domain Shares will not be issued to Ineligible Foreign Shareholders. Instead, Domain Shares to which the Ineligible Foreign Shareholders would otherwise have been otherwise entitled will be issued to the Sale Agent. The proceeds of the sale made by the Sale Agent will be remitted to the Ineligible Foreign Shareholder, free of any brokerage costs or stamp duty.

8.4.4 Sale of Domain Shares for Ineligible Foreign Shareholders

8.4.4.1 Ineligible Foreign Shareholders

Ineligible Foreign Shareholders are Fairfax Media Shareholders whose Registered Addresses on the Scheme Record Date are in a jurisdiction outside Australia, New Zealand, Singapore, Hong Kong, the United Kingdom or the other countries referred to in Section 8.4.2.

Ineligible Foreign Shareholders will continue to be entitled to hold their Fairfax Media Shares. However, the Domain Shares which they would otherwise have received will be issued to the Sale Agent and sold, with the proceeds remitted to them as soon as practicable following the sale of those shares (which is expected to be no more than 25 Business Days after the Implementation Date), free of any brokerage costs or stamp duty.

The payment of the proceeds to the Ineligible Foreign Shareholders from the sale of Domain Shares will be in full satisfaction of the rights of Ineligible Foreign Shareholders under the Scheme. Full details of this process are contained in clause 4 of the Scheme (which is set out in Annexure C).

8.4.4.2 Operation of the sale process

Ineligible Foreign Shareholders will have their entitled Domain Shares issued directly to the Sale Agent, with the proceeds of the sale remitted to them (free of any brokerage costs or stamp duty) by:

- direct credit to the nominated bank account as noted on the Fairfax Media Share Register on the Scheme Record Date; or
- where an account has not been provided, the Sale Proceeds will be remitted by dispatching by mail to the Ineligible Foreign Shareholder's Registered Address as at the Scheme Record Date by cheque.

Sale Proceeds will be paid to Ineligible Foreign Shareholders in Australian dollars.

Under the Scheme, each Ineligible Foreign Shareholder is taken to appoint Fairfax Media as its agent to receive on its behalf any financial services guide or other notices which may be issued by the Sale Agent to that Ineligible Foreign Shareholder.

8.5 IMPLEMENTATION OF THE SEPARATION

8.5.1 Entitlement to and issue of Domain Shares

If the Separation is implemented, Fairfax Media Shareholders on the Fairfax Media Share Register as at the Scheme Record Date will be credited with their Capital Reduction Entitlement.

Under the Scheme, instead of Fairfax Media Shareholders receiving their Capital Reduction Entitlements in cash, Fairfax Media will automatically apply these amounts on behalf of Fairfax Media Shareholders as payment for the Domain Shares to be issued to those shareholders. Upon receipt of these funds from Fairfax Media on behalf of Fairfax Media Shareholders, Domain will issue one Domain Share for every 10 Fairfax Media Shares held on the Scheme Record Date. If, as a result of this calculation, the number of Domain Shares is not a whole number, the number will be rounded up to the nearest whole number of Domain Shares. Domain's obligation to issue the Domain Shares to Fairfax Media Shareholders will be discharged by Domain by:

- issuing those Domain Shares as described above to all Eligible Shareholders or, in the case of Ineligible Foreign Shareholders, to the Sale Agent (as set out in Section 8.4.4);
- procuring the entry in the Domain Share Register of the names of the Eligible Shareholders in respect of the Domain Shares issued to them or, in the case of the Ineligible Foreign Shareholders, the name of the Sale Agent in respect of the Domain Shares that would otherwise have been issued to the Ineligible Foreign Shareholders; and
- on the Business Day following the Implementation Date, by sending or procuring the dispatch to each Eligible Shareholder by prepaid post to the person's address as shown in the Fairfax Media Share Register on the Scheme Record Date, holding statements for the Domain Shares issued to them under the Scheme. In the case of joint shareholders, holding statements for Domain Shares will be sent to the address of the Fairfax Media Shareholder whose name first appears in the Fairfax Media Share Register.

It is expected that Eligible Shareholders (other than those who are Ineligible Foreign Shareholders) will have their names entered on the Domain Share Register on the Implementation Date.

Except for Eligible Shareholders' tax file numbers, any binding instruction or notification between an Eligible Shareholder and Fairfax Media relating to Fairfax Media Shares as at the Scheme Record Date (including any instructions relating to payment of dividends or to communications from Fairfax Media) will, unless otherwise determined by Domain, be deemed to be a similarly binding instruction or notification to Domain in respect of relevant Domain Shares. Domain Shareholders may subsequently revoke or amend such instructions or notifications by written notice to Domain at its registered address or the Domain Share Registry.

8.5.2 Consequences of approving the Separation

If Fairfax Media Shareholders pass each of the Separation Resolutions, the Court approves the Scheme and all other conditions precedent to the Scheme are satisfied or waived, then Fairfax Media will lodge the Court order approving the Separation with ASIC. As a consequence:

- the Scheme will become Effective on the Effective Date (expected to be 7 November 2017). At the close of trading on ASX on the Effective Date, Fairfax Media Shares will cease trading cum-Capital Reduction Entitlement;
- on or about 16 November 2017:
 - Domain will be admitted to the Official List and Domain Shares will commence trading on ASX on a deferred settlement basis; and
 - Fairfax Media Shares will commence trading on ASX ex-Capital Reduction Entitlement; and
- on the Implementation Date (expected to be 22 November 2017):
 - Fairfax Media will undertake the Capital Reduction;
 - if you were a Fairfax Media Shareholder at the Scheme Record Date, Fairfax Media will apply your Capital Reduction Entitlement as consideration for the issue of Domain Shares under the Scheme either to you if you are an Eligible Shareholder or to the Sale Agent on your behalf if you are an Ineligible Foreign Shareholder (as applicable); and
 - Domain will draw down from the Domain Syndicated Facility and apply sufficient proceeds of that drawdown to repay the outstanding balance of any amounts owed by Domain to a member of Fairfax Media (post Separation).

Refer to Sections 8.4.2 and 8.4.3 to determine whether you are an Eligible Shareholder or an Ineligible Foreign Shareholder.

8.5.3 ASX listing of Domain

Domain will apply, on or about the date of lodgement of the Booklet with ASIC, to ASX for admission to the Official List, and for official quotation of all Domain Shares on ASX.

If the Scheme becomes Effective, Domain Shares will trade under the DHA code, and are expected to commence trading on ASX on a deferred settlement basis on or about 16 November 2017 and on a normal settlement basis on or about 23 November 2017.

If you are an Eligible Shareholder who will receive Domain Shares, it is your responsibility to determine your entitlement to Domain Shares before trading those shares, to avoid the risk of selling Domain Shares that you do not or will not own. If you sell Domain Shares without receiving confirmation of your entitlement, you do so at your own risk.

If you are an Eligible Shareholder who will receive Domain Shares, holding statements for Domain Shares are expected to be dispatched to you by 23 November 2017. A holding statement will be sent to you by prepaid post to your address on the Fairfax Media Share Register. If you are a joint shareholder, holding statements for Domain Shares will be sent to the address of the Eligible Shareholder whose name first appears on the Fairfax Media Share Register.

Whether or not the Separation proceeds, Fairfax Media will continue to be listed on ASX and Fairfax Media Shares will continue to be quoted on ASX under the FXJ code.

Consistent with Domain's digital business model and to maximise efficiency and minimise costs, Domain will endeavour to use electronic communication with Domain Shareholders wherever possible. Domain believes Domain Shareholders' interests will be best served if all Domain Shareholder communications, including the Notice of Annual General Meeting, are sent electronically to each Domain Shareholder's nominated email address. Electronic communication ensures more efficient communication and will allow Domain to reduce unnecessary costs, waste and its carbon footprint.

Further information will be included in the new shareholders' pack that will be sent to Domain Shareholders following the Separation.

8. DETAILS OF THE SEPARATION

8.6 EFFECT OF THE SEPARATION

8.6.1 Separation Principle

Under the Separation Deed, the parties intend that following the Separation, as a fundamental Separation Principle:

- Domain will have the entire economic benefit (including the profits of Domain on and from the Implementation Date) and risk of the Domain real estate business as if it had owned and operated that business at all times, and none of the economic benefit or risk of Fairfax Media (post Separation) businesses; and
- Fairfax Media will have the entire economic benefit (including the profits of Fairfax Media on and from the Implementation Date) and risk of the Fairfax Media businesses (post Separation) as if it had owned and operated those businesses at all times and none of the economic benefit or risk of the Domain business, other than as a result of its 60% shareholding in Domain.

Further details of the Separation Deed (and other key agreements relating to the Separation) are set out in Section 8.7.

8.6.2 Creditors

In the opinion of Fairfax Media, the Separation will not, if implemented, materially prejudice Fairfax Media's ability to pay its creditors.

8.7 AGREEMENTS RELATING TO THE SEPARATION

8.7.1 Separation Deed

The Separation Deed will set out the steps to be taken by Fairfax Media and Domain to give effect to the Capital Reduction and the Scheme and other steps necessary to give effect to the Separation, as described in this Booklet.

The key terms of the Separation Deed will be as follows:

- each of Fairfax Media and Domain agrees to implement the Separation as discussed in this Booklet;
- the parties agree to the Separation Principle described in Section 8.6.1 and to the releases and indemnities required to give effect to that principle;
- Domain and Fairfax Media indemnify each other against all claims and liabilities for which the indemnifying party is responsible under the Separation Principle;

- in accordance with the Separation Principle, the parties agree to ensure that the assets and corporate entities required for Domain to own or operate the Domain business are held by or transferred to the correct Domain Group member, and that all assets and corporate entities required for Fairfax Media to own or operate the Fairfax Media business (post Separation) are held by or transferred to the correct Fairfax Media Group member; and
- Fairfax Media and Domain agree, in accordance with the Separation Principle, to assign or novate each Domain contract that relates exclusively to Domain's business (including property leases) which has not already been assigned or novated to which a member of the Fairfax Media Group is a party to a member of Domain for a 12 month period with effect from the Implementation Date.

8.7.2 Transitional Services Agreement

The Transitional Services Agreement is to be entered into between Fairfax Media and Domain.

The purpose of the Transitional Services Agreement is to ensure that, where Fairfax Media was providing services to Domain prior to Separation which are essential to the operation of the Domain business, those services will continue to be provided for a transitional period pending migration of those services to or the replication of those services by Domain.

The services to be provided by Fairfax Media to Domain under the Transitional Services Agreement include:

- IT systems and services;
- accounting services (including general accounting, accounts payable and accounts receivable) and payroll services; and
- head office services (including company secretarial support).

Domain is required to pay Fairfax Media fees for the services, intended to cover Fairfax Media's costs in providing the services.

Any incremental costs incurred through the Transitional Services Agreement are reflected in the Domain Pro Forma Historical Financial Information as additional standalone costs within Table 2 in Section 6.6.2.

The Transitional Services Agreement will commence upon implementation of the Separation and will continue until terminated in accordance with its terms. The agreement can be terminated by each of Domain and Fairfax Media in a number of circumstances, including for:

- breach of a material term which is not rectified within a specified period;
- insolvency of the other party; or
- convenience, by written notice of six months in the case of Fairfax Media and three months in the case of Domain.

8.7.3 Other commercial agreements

Fairfax Media and Domain will also enter into commercial agreements to formalise services that the parties have provided to each other prior to Separation. A number of the services governed by these agreements were already charged by Fairfax Media to Domain in the historical period and are therefore already reflected in the Domain Pro Forma Historical Financial Information. In addition, certain services which may have been provided by Fairfax Media to Domain at no cost previously may incur a charge post Separation. Based on preliminary estimates, the total additional cost to Domain for these services that were previously provided at no cost is expected to be approximately \$2 million per annum initially, increasing to approximately \$4 million per annum over the next three years.

References to Fairfax Media or Domain in this Section 8.7.3 are to Fairfax Media, Domain or their subsidiaries which are a party to the relevant commercial agreement.

In general, each of the agreements will commence upon implementation of the Separation (save for the residential and commercial real estate agency agreements which have already commenced) and will continue until terminated in accordance with its terms. The agreements can be terminated by Domain and Fairfax Media in a number of circumstances, including for:

- breach of a material term which is not rectified within a specified period;
- insolvency of the other party; or
- convenience, by a party giving written notice of between two and six months to the other, noting that in some cases, the right to terminate for convenience only comes into effect after an initial period of up to 24 months.

The commercial agreements to be entered into between Fairfax Media and Domain include the agreements set out below.

8.7.3.1 Printing Agreement and Carriage Agreement

Under the Printing Agreement and the Carriage Agreement, Fairfax Media will be appointed to:

- print certain Domain publications and insert them into relevant Fairfax Media publications; and
- distribute such publications to the relevant distribution areas agreed between Fairfax Media and Domain.

The printing, insertion and distribution services will be provided to Domain at rates which have been calculated substantially on a consistent basis with the rates charged prior to Separation, and are largely in line with general market rates.

8.7.3.2 Marketing and Promotions Services Agreement (Metro)

Under the Marketing and Promotions Services Agreement, Fairfax Media will be appointed to provide:

- digital marketing and promotions services to Domain, including the placement of Domain-branded property sections and Domain advertisements in certain Fairfax Media metro digital publications, linking to, and referring traffic to, the Domain website; and
- print wrap services involving the provision by Fairfax Media to Domain of a certain number of print wraps on metro print mastheads for the promotion of the Domain business.

The services will be provided to Domain at a discount to standard market rates in the first two years following the Separation and at market rates from year three onwards.

8.7.3.3 Other commercial agreements

In addition, Fairfax Media and Domain will enter into a number of other commercial agreements including:

- **Online Lead Generation Agreement**, under which Fairfax Media will maintain on certain metro digital publications links to consumer product and service comparison services offered at the websites of Domain partners or at Domain websites for the purpose of Domain earning commission and other revenue on leads generated;
- **Print Wrap Sales Representation Agreement**, under which Domain is appointed as Fairfax Media's non-exclusive agent for the sale of print wraps on metro print mastheads to certain third parties;
- **Data Sharing Agreement**, under which each of Fairfax Media and Domain will provide the other with a non-exclusive licence to use certain of its data (or data which it has the right to license) for specified purposes;
- **Editorial Content Agreement**, under which each of Fairfax Media and Domain will provide the other with a non-exclusive license to use certain of its editorial content for specified purposes;
- **Commercial and Residential Real Estate Agency Agreements**, under which Domain is appointed as Fairfax Media's agent for the sale of real estate advertising by real estate agents in certain metro print and digital publications; and

8. DETAILS OF THE SEPARATION

- **Regional Marketing and Promotion Services and Domain Brand Licence Agreement**, under which Fairfax Media is appointed to advertise and promote Domain or the Domain website in Australian Community Media digital publications and print mastheads and Domain, in turn, grants to Fairfax Media a non-exclusive licence to use the Domain brand on those publications or mastheads in connection with property related content.

In general, the services under the agreements noted above will be provided largely consistent with market rates.

For FY17, the total costs to Domain for all services charged by Fairfax Media to Domain (including items to be covered by the Transitional Services Agreement) was approximately \$21 million, the majority of which relates to printing, distribution and editorial content. This amount will vary in future periods for a range of reasons, including due to charges for services which did not previously incur a charge (as outlined above), the period for which Domain continues to use services under the Transitional Services Agreement, as well as contractual terms such as volume-based pricing and price escalators. For FY17, Fairfax Media also paid Domain approximately \$9 million in commissions pursuant to the sales agency agreements described in this Section 8.7.3.3.

8.7.4 Deed Poll

Domain has entered into the deed poll in favour of Fairfax Media Shareholders as at the Scheme Record Date under which Domain has undertaken to take the steps to be performed by it under the Scheme, including applying for admission to the Official List and for official quotation of Domain Shares on ASX, and registering the issue of Domain Shares to Scheme Participants (or in the case of Ineligible Foreign Shareholders to the Sale Agent) as contemplated by the Scheme.

8.7.5 Implications if the Separation does not proceed

If Fairfax Media Shareholders do not approve the Separation, the Court does not approve the Scheme or any of the other conditions to the Separation are not satisfied or waived, the Separation will not proceed.

In that event:

- the Capital Reduction will not proceed;
- Fairfax Media Shareholders will not receive Domain Shares or Ineligible Foreign Shareholders will not receive the proceeds from the sale of Domain Shares;
- Fairfax Media Shareholders will retain their current holding of Fairfax Media Shares (unless they otherwise sell such shares);
- Fairfax Media will continue to own and manage the Domain business;

- the advantages of the Separation, as described in Section 4.2, will not be realised;
- the disadvantages and risks of the Separation described in Sections 4.3 and 4.4 will not arise; and
- Fairfax Media will incur committed transaction costs of approximately \$5 million on a pre-tax basis.

8.8 TAX IMPLICATIONS OF THE SEPARATION

The following is a general summary of the Australian income tax and GST implications arising for Fairfax Media Shareholders as a result of the Separation. As this summary is necessarily general in nature, Fairfax Media Shareholders should consult with their professional tax advisor regarding their particular circumstances.

This tax summary only addresses the position of Fairfax Media Shareholders who are residents of Australia for income tax purposes and hold their Fairfax Media Shares on capital account.

This tax summary does not address the Australian income consequences for Fairfax Media Shareholders who:

- are not residents of Australia for income tax purposes;
- hold their Fairfax Media Shares on revenue account or as trading stock;
- have elected for the Taxation of Financial Arrangement provisions (Division 230 of the Tax Act) to apply in respect of their Fairfax Media Shares; or
- acquired their Fairfax Media Shares under a Fairfax Media employee incentive plan.

This tax summary does not address any tax consequences of participating in the Scheme arising under the laws of jurisdictions other than Australia.

This tax summary is based on the provisions of the Tax Act as at the date of this Booklet.

8.8.1 Overview of the Separation

To implement the Separation, Fairfax Media will undertake the Capital Reduction and implement the Scheme. Under the Scheme, instead of Fairfax Media Shareholders receiving their Capital Reduction Entitlements in cash, Fairfax Media will apply these amounts to subscribe for Domain Shares on behalf of those Fairfax Media Shareholders. Domain will issue one Domain Share for every 10 Fairfax Media Shares held by Fairfax Media Shareholders on the Fairfax Media Share Register on the Scheme Record Date.

8.8.2 Capital Reduction Amount

The Capital Reduction Amount should not be a dividend for Fairfax Media Shareholders for Australian income tax purposes.

The ATO has advised Fairfax Media that it will not make a determination that any part of the Capital Reduction Amount is taken to be a dividend for tax purposes under section 45B of the Tax Act. The ATO advice is subject to certain conditions about the Separation which Fairfax Media considers should be satisfied.

The ATO will withdraw its advice if a Fairfax Media Shareholder involved in the management of Fairfax Media or Domain or otherwise involved in the structuring or undertaking of the Separation (or their associate) disposes of their Domain Shares within 45 days of listing. Fairfax Media will take all steps within its reasonable control to ensure that no such trading in Domain Shares occurs. The Fairfax Media Board has a strict securities trading policy in place, including the use of trading blackouts (no trading periods) to manage this circumstance. Similar trading restrictions apply to Fairfax Media's advisors on the Separation including Macquarie Capital and Herbert Smith Freehills.

If, despite Fairfax Media taking these steps, such trading in Domain Shares does occur and as a result the ATO withdraws its advice, the ATO will consider the taxation implications for shareholders of receipt of the Capital Reduction Amount in light of all of the facts and circumstances at that time. This may confirm the capital treatment of the Capital Reduction Amount. However, there is a risk that the ATO could determine that some or all of the Capital Reduction Amount is taken to be an unfranked dividend. In this event, the Separation would likely result in a tax liability for Fairfax Media Shareholders unless the ATO determination was successfully challenged.

The ATO advice will not be taken into account if the issue of any ruling is sought from the ATO in relation to the Separation. In this regard, the ATO will withdraw its advice for:

- all Fairfax Media Shareholders if a class ruling is sought – Fairfax Media will not be seeking a class ruling for Fairfax Media Shareholders; and
- a Fairfax Media Shareholder for whom a private ruling is sought.

On the basis that the Capital Reduction Amount is not a dividend for tax purposes, capital gains tax (CGT) event G1 will happen for Fairfax Media Shareholders in respect of their Capital Reduction Entitlement on the Implementation Date.

Under CGT event G1, the cost base and reduced cost base of each Fairfax Media Share will be reduced (but not below nil) by the Capital Reduction Entitlement in respect of that Fairfax Media Share and a capital gain will arise to the extent (if any) that the Capital Reduction Entitlement in respect of that Fairfax Media Share exceeds the cost base of that share.

Fairfax Media Shareholders who dispose of their Fairfax Media Shares after the Scheme Record Date and before the Implementation Date still have a right to their Capital Reduction Entitlement in respect of those shares. CGT event C2 happens for these Fairfax Media Shareholders when they receive their Domain Shares. A capital gain will arise to the extent that the Capital Reduction Entitlement exceeds the cost base of the right, which will likely be nil.

A capital gain made from CGT event G1 or C2 will be a discount capital gain for a Fairfax Media Shareholder that is an individual, trust or complying superannuation entity and acquired the Fairfax Media Shares at least 12 months before the Implementation Date. The discount factor will vary depending on the tax profile of the Fairfax Media Shareholder. Specifically, the discount factor for resident individuals and trusts is 1/2 and for complying superannuation entities is 1/3.

8.8.3 Acquisition of Domain Shares under the Scheme

The first element of the cost base and reduced cost base for a Domain Share acquired under the Scheme will be equal to the Capital Reduction Entitlement applied to subscribe for the Domain Share on the Implementation Date.

For CGT purposes (including eligibility for the CGT discount concession), Domain Shares should be treated as having been acquired on the Implementation Date.

8.8.4 Other matters

8.8.4.1 Australian tax file Number (TFN) and Australian Business Number (ABN)

Following the Separation, it is expected Fairfax Media Shareholders will be given the opportunity to quote their TFN, TFN exemption or ABN in respect of their Domain Shares.

Domain Shareholders need not quote a TFN, TFN exemption or ABN in respect of their Domain Shares. However, if they do not, then TFN withholding may be required to be deducted from any dividends in respect of Domain Shares at the highest marginal tax rate plus the Medicare levy (currently 47% in total). In this regard, on 17 August 2017, the Australian Federal Government introduced the Medicare Levy Amendment (National Disability Insurance Scheme Funding) Bill 2017 into the House of Representatives. If enacted in its current form, this Bill would increase the Medicare levy from 2% to 2.5%, which would increase the sum of the highest marginal rate plus the Medicare levy from 47% to 47.5%, for the 2019–20 income year and later income years.

8.8.4.2 GST

There is no GST payable by Fairfax Media Shareholders in respect of the Separation.

9. ADDITIONAL INFORMATION

9.1 FAIRFAX MEDIA DIRECTORS

The Fairfax Media Directors at the date of lodgement of this Booklet for registration by ASIC were:

- Nick Falloon, Chairman and Non-Executive Director;
- Patrick Allaway, Non-Executive Director;
- Jack Cowin, Non-Executive Director;
- Gregory Hywood, Chief Executive Officer and Managing Director;
- Sandra McPhee, AM, Non-Executive Director;
- James Millar, AM, Non-Executive Director;
- Linda Nicholls, AO, Non-Executive Director;
- Mickie Rosen, Non-Executive Director; and
- Todd Sampson, Non-Executive Director.

9.2 INTENTIONS OF DIRECTORS

9.2.1 Domain

Other than as described in this Booklet, the Domain Directors have indicated to the Fairfax Media Board that it is their present intention following the Separation to:

- continue the property services business of Domain, as set out in Section 6.2;
- not make any major changes to the business of Domain, except as contemplated within this Booklet; and
- continue the present policies of Domain relating to the employment of its employees.

9.2.2 Fairfax Media

Other than as described in this Booklet, it is the present intention of Fairfax Media following the Separation to:

- continue the diversified media businesses of Fairfax Media, as set out in Section 7.1.1;
- not make any major change to the business of Fairfax Media, except as contemplated within this Booklet; and
- continue the present policies of Fairfax Media relating to the employment of its employees.

9.3 INTERESTS OF FAIRFAX MEDIA DIRECTORS

9.3.1 Fairfax Media Directors interest in Fairfax Media marketable securities

No marketable securities of Fairfax Media are held by or on behalf of Fairfax Media Directors and no such persons are otherwise entitled to such securities as at the date of this Booklet other than the following interests.

FAIRFAX MEDIA SECURITIES HELD AS AT THE DATE OF THIS BOOKLET

	FAIRFAX MEDIA DIRECTOR	RIGHTS OVER SHARES HELD
Nick Falloon	477,649	-
Patrick Allaway	120,000	-
Jack Cowin	3,000,000	-
Gregory Hywood	770,578	12,729,909
Sandra McPhee	209,761	-
James Millar	200,000	-
Linda Nicholls	221,837	-
Mickie Rosen	-	-
Todd Sampson	61,083	-
Total	5,060,908	12,729,909

No marketable securities are held in Domain by or on behalf of Fairfax Media Directors as at the date of this Booklet.

Fairfax Media Directors who hold Fairfax Media Shares will be entitled to vote at the Scheme Meeting and the Annual General Meeting and will be entitled to receive Domain Shares under the Scheme on the same terms as all other Fairfax Media Shareholders.

9.3.2 Agreements or arrangements with any director of Fairfax Media in connection with the Separation

Other than as described below or elsewhere in this Booklet (including Section 6.5.1 and 6.5.3), there is no agreement or arrangement between a director of Fairfax Media and another person in connection with or conditional on the outcome of the Separation.

If the Separation proceeds, the Domain Board will include the following directors and secretary of Fairfax Media:

- Nick Falloon, the current Chairman and a Non-Executive Director of Fairfax Media, will be a Non-Executive Director of Domain and Chairman of Domain;
- Patrick Allaway, a Non-Executive Director of Fairfax Media, will be a Non-Executive Director of Domain;
- Gail Hambly, Group General Counsel and Company Secretary of Fairfax Media, will be a Non-Executive Director of Domain; and
- Antony Catalano, the current Chief Executive Officer of Domain, will be the Chief Executive Officer and Managing Director of Domain.

9.3.3 Payments and other benefits to Fairfax Media Directors, secretaries or executive officers

Other than as described elsewhere in this Booklet (including Sections 6.5.3, 8.2.3 and 9.7), it is not proposed that any payment or other benefit will be made or given to any director, secretary or executive officer of Fairfax Media or of any corporation related to Fairfax Media as compensation for loss of, or as consideration for or in connection with, his or her retirement from office as director, secretary or executive officer of Fairfax Media or any corporation related to Fairfax Media as a result of the Separation.

9.4 OVERVIEW OF THE DOMAIN CONSTITUTION

Prior to the Separation becoming effective, Domain will adopt a constitution suitable for a publicly-listed company in substitution for its existing constitution. Some important features of the proposed Domain Constitution are summarised in the following sub-sections.

9.4.1 Voting at a general meeting

At a general meeting of Domain, every Domain Shareholder present in person or by proxy, attorney or corporate representative has one vote on a show of hands and, on a poll, one vote for each Domain Share held (with adjusted voting rights for partly paid shares).

If the votes are equal on a proposed resolution, the chairperson of the meeting has a casting vote, in addition to any deliberative vote. The chairperson may determine that any question to be submitted to a general meeting will be determined by a poll without first submitting the question to a show of hands.

9.4.2 Meetings of Domain Shareholders

Each Domain Shareholder is entitled to receive notice of, attend and vote at general meetings of Domain and to receive all notices, accounts and other documents required to be sent to Domain Shareholders under the Domain Constitution, Corporations Act and ASX Listing Rules. Domain must give Domain Shareholders at least 28 days' written notice of a general meeting.

9.4.3 Dividends

The Domain Board may pay interim and final dividends that, in its judgement, the financial position of Domain justifies.

The Domain Board may also pay any dividend required to be paid under the terms of issue of a share, and fix a record date for a dividend and method of payment.

For further information in respect of Domain's proposed dividend policy, see Section 6.6.12.

9.4.4 Transfer of Domain Shares

Subject to the Domain Constitution and to any restrictions attached to a Domain Shareholder's Domain Shares, Domain Shares may be transferred by:

- a proper transfer executed in accordance with the ASX Settlement Operating Rules, Corporations Act and ASX Listing Rules; or
- a written transfer in any usual form or in any other form approved by the Domain Board and permitted by the relevant laws and ASX requirements.

The Domain Board may decline to register, or prevent registration of, a transfer of Domain Shares or apply a holding lock to prevent a transfer in accordance with the Corporations Act or the ASX Listing Rules.

9.4.5 Issue of further shares

The Domain Board may, subject to the Domain Constitution, Corporations Act and ASX Listing Rules, issue, allot or grant options for, or otherwise dispose of, Domain Shares on such terms as the Domain Board decides.

9.4.6 Winding up

If Domain is wound up, then subject to the Domain Constitution, the Corporations Act and any rights or restrictions attached to any Domain Shares or classes of Domain Shares, Domain Shareholders will be entitled to share in any surplus property of Domain in proportion to the number of Domain Shares held by them.

If Domain is wound up, the liquidator may, with the sanction of a special resolution of Domain Shareholders, divide the property of Domain among the Domain Shareholders and decide how the property will be divided between the Domain Shareholders.

9. ADDITIONAL INFORMATION

9.4.7 Unmarketable parcels

In accordance with the ASX Listing Rules, the Domain Board may sell Domain Shares that constitute less than a marketable parcel by following the procedure described in the Domain Constitution.

9.4.8 Variation of class rights

At present, Domain's only class of shares on issue is Domain Shares.

The procedure set out in the Domain Constitution must be followed for any variation of rights attached to the Domain Shares. Under the Domain Constitution, and subject to the Corporations Act and the terms of issue of a class of shares, the rights attached to any class of shares may, be varied:

- with the written consent of the holders of 75% of the shares of the class; or
- by a special resolution passed at a separate meeting of the holders of shares of the class.

9.5 NOTIFIABLE INTERESTS IN FAIRFAX MEDIA

As at 11 August 2017, the following Fairfax Media Shareholders had notified Fairfax Media that they had a relevant interest in more than 5% of Fairfax Media Shares:

SHAREHOLDER	NUMBER OF FAIRFAX MEDIA SHARES	PERCENTAGE OF ISSUED FAIRFAX MEDIA SHARES
Ausbil Investment Management	178,558,749	7.8%
Legg Mason Global Asset Management	139,560,053	6.1%
BlackRock Group	115,067,926	5.0%

Fairfax Media has relied on substantial holder notices provided to it before 11 August 2017, which are available on ASX's website, to compile the above table. Information in regard to substantial holdings arising, changing or ceasing after this date or in respect of which the relevant announcement is not available on ASX's website is not included above.

9.6 FAIRFAX MEDIA'S CAPITAL STRUCTURE

As of 25 June 2017, Fairfax Media had 2,299,475,546 ordinary shares authorised and fully paid; 2,073,765 unvested employee incentive shares; and 281 debentures.

9.7 IMPACT OF THE SEPARATION ON SENIOR MANAGEMENT AND OTHER EMPLOYEE INCENTIVE PLANS

9.7.1 2015 Options

As part of the Separation, Fairfax Media will provide optionholders with the choice to have the terms of any unexercised 2015 Options (i.e. the LTI awards in respect of FY15) amended so that on exercise, the optionholder will receive:

- one Fairfax Media Share (as is currently the case); and
- one Domain Share for every 10 2015 Options held that have not been exercised by the Scheme Record Date. The number of Domain Shares received when the optionholder exercises a number of 2015 Options will be subject to rounding on the same basis as applies for the Separation; and
- the exercise price of the 2015 Options will not be reduced as specified in ASX Listing Rule 7.22.3 (which would otherwise be required under the terms of the 2015 Options and the ASX Listing Rules).

This amendment is intended to place the optionholders in a similar position to Fairfax Media Shareholders that are able to participate in the Separation, ensuring that the optionholders are not disadvantaged as a result of the Separation.

This amendment would only be made for optionholders who agreed to the change. Any optionholder who did not agree to the change would retain his or her options, and their exercise price would be adjusted in accordance with Listing Rule 7.22.3.

9.7.2 2016 Options and 2017 Rights

Fairfax Media proposes to amend the terms of the 2016 Options and 2017 Rights (i.e. the LTI awards in respect of FY16 and FY17) as follows:

- The 2016 Options and 2017 Rights will vest on a pro-rata basis based on the respective proportions of the performance periods completed, and taking into account the targets in those plans. As a result, approximately 17% of the maximum value for the 2016 Options and approximately 23% of the maximum value of the 2017 Rights will be vested.
- The 2016 Options will be automatically exercised and employees will receive cash consideration to the value of their vested entitlement as set out above, minus the exercise price that would have been payable on exercise of the 2016 Options, and the 2017 Rights will vest and employees will receive cash consideration to the value of their vested entitlement as set out above (together the "Cash Consideration").

The Cash Consideration will be paid to employees in three tranches subject to the employee being employed by Fairfax Media or Domain on the payment dates (unless the Board determines a different treatment is appropriate in the circumstances). The payment dates are:

- Following Separation;
- September 2018; and
- September 2019.

To affect the amendments outlined above to the 2015 Options, 2016 Options and 2017 Rights, Fairfax Media is applying for ASX waivers where appropriate (refer Section 9.8.1 for further information).

9.7.3 STI plans

No change is proposed for the FY15 STI plan.

For the FY16 STI plan, the Domain Shares received under the Separation will not be subject to any disposal restrictions or forfeiture conditions under the STI plan rules.

There will be no change to the FY17 STI Plan or future plans for Fairfax Media Executives.

The new incentive plans for the Domain executives are outlined in Section 6.5.3.2.

9. ADDITIONAL INFORMATION

9.8 REGULATORY WAIVERS AND CONSENTS

9.8.1 ASX waivers

ASX has confirmed that for the purpose of Listing Rule 1.1, condition 3, Domain may issue an information memorandum if it complies with the information memorandum requirements of Listing Rule 1.4 and if the information memorandum incorporates this Booklet, rather than a prospectus for the purpose of its admission to ASX.

Fairfax Media is applying for an ASX waiver:

- from Listing Rule 10.14 and Listing Rule 10.15.2 to the extent necessary to permit Domain to issue Domain Options to Domain CEO, Antony Catalano, as his long term incentive, without obtaining Domain Shareholder approval;
- from Listing Rules 6.23.3 and 6.23.4 to the extent necessary to permit Fairfax Media to amend the terms of the 2015 Options so that on exercise, the optionholder will receive one Fairfax Media Share (as is currently the case) as well as a number of Domain Shares, set at the ratio on which Domain shares are being distributed in the Separation;
- from Listing Rules 6.23.4 and 7.22.3 so that the exercise price of the 2015 Options will not be reduced as specified in Listing Rule 7.22.3; and
- from Listing Rule 6.23.2 to the extent necessary to permit Fairfax Media to amend the terms of the 2016 Options and 2017 Rights as outlined in 9.7.2.

9.9 CONSENTS AND DISCLAIMERS

Each of the parties named in this Section 9.9 as consenting parties:

- has given and has not, before lodgement of this Booklet with ASIC, withdrawn its written consent to be named in this Booklet in the form and context in which it is named;
- has given and has not, before the lodgement of this Booklet with ASIC, withdrawn its written consent to the inclusion of its respective statements and reports (where applicable) noted next to its names in this Section 9.9, and the references to those statements and reports in the form and context in which they are included in this Booklet;
- does not make, or purport to make, any statement in this Booklet other than those statements referred to in this Section 9.9 in respect of that person's name (and as consented to by that person);
- has not caused or authorised the issue of this Booklet; and

- to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any statements in or omissions from this Booklet.

The term "consent", as used in this Booklet, is used solely in the context of this Booklet and as that term is used in Australia. It is different from, and therefore not to be used as that term is or would be used in the United States, including as defined under securities law in the United States, in particular the *Securities Act of 1933* (United States).

PARTY	CONSENTING PARTY
Fairfax Media Share Registry	Link Market Services Limited
Financial advisor	Macquarie Capital (Australia) Limited
Legal advisor	Herbert Smith Freehills
Investigating Accountant	Ernst & Young Transaction Advisory Services Limited
Taxation advisor	Greenwoods & Herbert Smith Freehills Pty Ltd
Auditor and provider of financial due diligence	Ernst & Young
Independent Expert	Grant Samuel & Associates Pty Limited, in relation to the Independent Expert's Report and any statement based on that report

9.10 SEPARATION COSTS

Total transaction costs of the Separation of approximately \$14 million (on a pre-tax basis) are expected to be incurred. Approximately \$5 million of these costs will have been committed prior to the Meetings when Fairfax Media Shareholders will vote on the Separation. The remaining Separation costs are expected to be incurred in FY18. Stamp duty comprises approximately 17% of total transaction costs.

Of the \$14 million (pre-tax) of Separation costs, it is expected that approximately \$5 million will be paid by Fairfax Media (post Separation) and approximately \$9 million will be paid by Domain.

9.11 REGULATORY AND LEGAL RESTRICTIONS

9.11.1 Australia

There are no limitations under Australian law on the right of non-residents to hold or vote Domain Shares other than as set out below.

Generally, the *Foreign Acquisitions and Takeovers Act 1975* (Cth) (FATA) applies to acquisitions of shares and voting power in a company of 20% or more by a single foreign person and its associates (Substantial Interest), or 40% or more by two or more unassociated foreign persons and their associates (Aggregate Substantial Interest). Where a foreign person holds a Substantial Interest in Domain or foreign persons hold an Aggregate Substantial Interest in Domain, Domain may itself be a 'foreign person' for the purpose of the FATA.

Where an acquisition of a Substantial Interest or an Aggregate Substantial Interest meets certain criteria, the acquisition may not occur unless notice of it has been given to the Federal Treasurer and the Federal Treasurer has either stated that there is no objection to the proposed acquisition in terms of the Australian Government's Foreign Investment Policy (Policy) or a statutory period has expired without the Federal Treasurer objecting. An acquisition of a Substantial Interest or an Aggregate Substantial Interest meeting certain criteria may also lead to divestment orders unless a process of notification, and either a statement of non-objection or expiry of a statutory period without objection, has occurred.

In addition, in accordance with the Policy, acquisitions of a direct investment in an Australian company by foreign governments and their related entities should be notified to the Foreign Investment Review Board for approval, irrespective of value. Under the Policy, a 'direct investment' will typically include any investment of 10% or more of the shares (or other securities or equivalent economic interest or voting power) in an Australian company but may also include investment of less than 10% where the investor is building a strategic stake in the target or obtains potential influence or control over the target investment.

9.11.2 New Zealand

The *Overseas Investment Act 2005* (NZ) (Overseas Investment Act) may require prior approval to be obtained from the Overseas Investment Office (NZ) or Ministers for any transaction in which an overseas person (which includes a body corporate that is incorporated outside New Zealand or is 25% or more held by overseas persons), or an associate of an overseas person, within the meaning of the Overseas Investment Act, acquires (either alone or together with its associates) a 25% or more ownership or control interest in Domain, or increases an existing 25% or more ownership or control interest in Domain.

Failure by an investor to obtain consent before acquiring interests in Domain where it is required by the Overseas Investment Act may result in penalties against the relevant overseas person, including monetary penalties and orders from a court to dispose of the investor's interests in Domain, or that the offending transaction be cancelled.

9.12 FOREIGN JURISDICTIONS AND SELLING RESTRICTIONS

The distribution of this Booklet outside Australia may be restricted by law and persons who come into possession of it should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may contravene applicable securities law. Fairfax Media disclaims all liabilities to such persons.

No action has been taken to register or qualify this Booklet, the Domain Shares or any aspect of the Scheme in any jurisdiction outside Australia. Nominees, custodians and other Fairfax Media Shareholders who hold Fairfax Media Shares on behalf of a beneficial owner resident outside Australia, Hong Kong, New Zealand, Singapore or the United Kingdom may not forward this Booklet (or accompanying documents) to anyone outside these countries without the consent of Fairfax Media.

Fairfax Media Shareholders who reside outside Australia should refer to the 'Notice to Fairfax Media Shareholders in jurisdictions outside Australia' section of the 'Important Notices' at the beginning of this Booklet.

9.12.1 Hong Kong

WARNING:

The contents of this Booklet have not been reviewed by any regulatory authority in Hong Kong. You are advised to exercise caution in relation to the offer. If you are in any doubt about any of the contents of this Booklet, you should obtain independent professional advice.

This Booklet does not constitute a prospectus (as defined in section 2(1) of the Companies Ordinance (Cap.32 of the Laws of Hong Kong)) or notice, circular, brochure or advertisement offering any securities to the public for subscription or purchase or calculated to invite such offers by the public to subscribe for or purchase any securities, nor is it an advertisement, invitation or document which is or contains an invitation falling within the meaning of section 103 of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong).

9. ADDITIONAL INFORMATION

Accordingly, unless permitted by the securities laws of Hong Kong, no person may issue or cause to be issued this Booklet in Hong Kong, other than to persons who are "professional investors" as defined in the Securities and Futures Ordinance and any rules made thereunder or in other circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance or which do not constitute an offer to the public within the meaning of the Companies Ordinance; and no person may issue or have in its possession for the purposes of issue, this Booklet or any advertisement, invitation or document relating to the offer under the Scheme, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than any such advertisement, invitation or document relating to the offer under the Scheme that are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made thereunder.

This Booklet is for the exclusive use of the shareholders of Fairfax in connection with the Scheme, and no steps have been taken to register or seek authorisation for the issue of this Booklet in Hong Kong. The offer under the Scheme is personal to the person to whom this Booklet is issued, and an acquisition or subscription for securities under the Scheme will only be accepted from such person.

This Booklet is confidential to the person to whom it is addressed and no person to whom a copy of this Booklet is issued may issue, circulate, distribute, publish, reproduce or disclose (in whole or in part) this Booklet to any other person in Hong Kong or used for any purpose in Hong Kong other than in connection with the consideration of the Scheme by the person to whom this Booklet is addressed.

9.12.2 Singapore

This Booklet and any other document or material in connection with the offer, sale or distribution, or invitation for subscription, purchase or receipt of the Shares have not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, statutory liabilities in connection with the contents of prospectus under the Securities and Futures Act, Cap 289 will not apply.

This Booklet and any other document or material in connection with the offer, sale or distribution, or invitation for subscription, purchase or receipt of the Shares may not be offered, sold or distributed, or be made the subject of an invitation for subscription, purchase or receipt, whether directly or indirectly, to persons in Singapore except pursuant to exemptions in Subdivision (4) Division 1, Part XIII of the Securities and Futures Act, Chapter 289 (the "SFA"), or otherwise pursuant to, and in accordance with the conditions of, any other applicable provisions of the SFA.

Any offer is not made to you with a view to the Shares being subsequently offered for sale to any other party. You are advised to acquaint yourself with the SFA provisions relating to on-sale restrictions in Singapore and comply accordingly.

Fairfax and Domain are not in the business of dealing in securities nor does it hold itself out or purport to hold itself out to be doing so. As such, Fairfax and Domain are not licensed nor exempted from dealing in securities or carrying out any other regulated activities under the SFA or any other applicable legislation in Singapore.

9.12.3 United Kingdom

Neither the information in this Booklet nor any other document relating to the offer has been delivered for approval to the Financial Conduct Authority in the United Kingdom and no prospectus (within the meaning of section 85 of the Financial Services and Markets Act 2000, as amended ("FSMA")) has been published or is intended to be published in respect of the Shares.

Any invitation or inducement to engage in investment activity (within the meaning of section 21 FSMA) received in connection with the issue of the Shares has only been communicated, and will only be communicated, in the United Kingdom in circumstances in which section 21(1) FSMA does not apply to Fairfax. In the United Kingdom, this Booklet is being distributed only to, and is directed at, persons to whom it may lawfully be distributed or directed within the circumstances described in Article 43 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 and/or any other persons to whom it may lawfully be communicated (all such persons being referred to as "Relevant Persons").

The investments to which this Booklet relates are available only to, and any invitation, offer or agreement to purchase will be engaged in only with, Relevant Persons. Any person who is not a Relevant Person should not act or rely on this Booklet or any of its contents.

9.13 NO OTHER MATERIAL INFORMATION

Except as disclosed elsewhere in this Booklet, so far as the Fairfax Media Directors are aware, there is no other information that is:

- material to the making of a decision by a Fairfax Media Shareholder whether or not to vote in favour of the Separation; and
- known to any Fairfax Media Director at the date of lodging this Booklet with ASIC for registration, which has not previously been disclosed to Fairfax Media Shareholders.

9.14 SUPPLEMENTARY INFORMATION

Fairfax Media will issue a supplementary document to this Booklet if it becomes aware of any of the following between the date of lodgement of this Booklet for registration by ASIC and the Effective Date a:

- statement in this Booklet is materially false or misleading;
- material omission from this Booklet; or
- significant new matter has arisen and it would have been required to be included in this Booklet if it had arisen before the date of lodgement of this Booklet for registration by ASIC.

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

- placing an advertisement in a prominently published newspaper which is circulated generally throughout Australia;
- posting the supplementary document on Fairfax Media's website, www.fairfaxmedia.com.au; or
- making an announcement to ASX,

as Fairfax Media, in its absolute discretion, considers appropriate.

10. GLOSSARY

10.1 GLOSSARY

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

TERM	MEANING
2015 Options	the Options that were granted as LTI awards in respect of FY15.
2016 Options	the Fairfax Media Options that were granted as LTI awards in respect of FY16.
2017 Rights	the Fairfax Media Rights that were granted as LTI awards in respect of FY17.
AAS	Australian Accounting Standards.
Agent Ownership Model or AOM	the agent ownership model described in Section 6.2.6.
Annual General Meeting	the annual general meeting of Fairfax Media Shareholders convened to consider, among other things, the Capital Reduction Resolution.
Annual General Meeting Proxy Form	the proxy form for the Annual General Meeting that accompanies this Booklet.
ASIC	Australian Securities and Investments Commission.
ASX	ASX Limited ABN 98 008 624 691 and, where the context requires, the financial market that it operates.
ASX Listing Rules	the official listing rules of ASX.
ASX Settlement Operating Rules	the operating rules for settlement on the official list of listed entities on ASX.
ASX Recommendations	the Corporate Governance Principles and Recommendations (3rd Edition) published by the ASX Corporate Governance Council and available on ASX's website at www.asx.com.au .
ATO	Australian Taxation Office.
Board or Fairfax Media Board	the board of directors of Fairfax Media Limited.
Booklet or Scheme Booklet	the scheme booklet, including the annexures to it.
Business Day	a business day as defined in the ASX Listing Rules.
CAGR	compound annual growth rate.
Capital Reduction	the reduction in the capital of Fairfax Media by the Capital Reduction Amount to be applied equally against each Fairfax Media Share on issue as at the Scheme Record Date in accordance with the terms of the Capital Reduction Resolution.
Capital Reduction Amount	the amount of the capital of Fairfax Media that is to be reduced in accordance with the Capital Reduction Resolution, being \$536 million.
Capital Reduction Entitlement	in relation to a Scheme Participant, the Capital Reduction Pro-Rata Amount multiplied by the number of Fairfax Media Shares held by that Scheme Participant on the Scheme Record Date.
Capital Reduction Pro-Rata Amount	the Capital Reduction Amount divided by the number of Fairfax Media Shares on issue on the Scheme Record Date.
Capital Reduction Resolution	the ordinary resolution concerning the Capital Reduction to be considered by Fairfax Media Shareholders at the Annual General Meeting in the form set out in the Notice of Annual General Meeting.
CHESS	Clearing House Electronic Subregister System, operated in accordance with the Corporations Act.
Control	has the meaning given in section 50AA of the Corporations Act.
Corporations Act	the Corporations Act 2001 (Cth).
Court	the Federal Court of Australia, New South Wales Registry, or such other court of competent jurisdiction under the Corporations Act.
Deed Poll	the deed poll executed by Domain attached as Annexure D.
DHA	Domain Holdings Australia Pty Limited.
Domain	DHA or the Domain business including any businesses that will be transferred from Fairfax Media to Domain as part of the Separation (as the context requires).

TERM	MEANING
Domain Board	the board of directors of Domain from time to time.
Domain Constitution	the constitution with effect from the Effective Date adopted by Domain, as described in Section 9.4.
Domain Director	a director of Domain.
Domain Group	DHA and each of its subsidiaries.
Domain Options	a right to receive a Domain Share on payment of a specified exercise price, subject to satisfaction of the specified performance and vesting conditions.
Domain Pro Forma Historical Financial Information	<ul style="list-style-type: none"> the Domain pro forma historical income statements for the years ended 28 June 2015, 26 June 2016 and 25 June 2017; the Domain pro forma historical balance sheet as at 25 June 2017; and the Domain pro forma historical cash flow statements for the years ended 28 June 2015, 26 June 2016 and 25 June 2017.
Domain Share	a fully paid ordinary share in Domain.
Domain Share Register	the register of members of Domain maintained by or on behalf of Domain in accordance with section 168(1) of the Corporations Act.
Domain Share Registry	Link Market Services Limited ACN 083 214 537.
Domain Shareholder	a registered holder of a Domain Share following implementation of the Separation.
Domain Syndicated Facility	has the meaning given in Section 6.6.7.
EBIT	reported earnings before interest revenue or expense and income taxation expense.
EBITDA	reported earnings before interest revenue or expense, depreciation and amortisation, and income taxation expense.
Effective	when used in relation to the Scheme, the coming into effect, under subsection 411(10) of the Corporations Act, of the order of the Court made under paragraph 411(4)(b) of the Corporations Act in relation to the Scheme.
Effective Date	the date on which the Scheme becomes Effective.
Eligible Shareholder	a Fairfax Media Shareholder whose Registered Address as at the Scheme Record Date is in Australia, Hong Kong, New Zealand, Singapore or the United Kingdom or any other place where Fairfax Media determines (acting reasonably) that it is not prohibited and not unduly onerous or impractical to implement the Scheme and to issue Domain Shares to a Scheme Participant in that place.
End Date	31 March 2018, or such other date as agreed in writing by Fairfax Media.
Fairfax Media	Fairfax Media Limited ACN 008 663 161 and, where the context requires, its subsidiaries from time to time.
Fairfax Media Director	a director of Fairfax Media.
Fairfax Media Group	Fairfax Media Limited and each of its subsidiaries.
Fairfax Media Historical Financial Information	<ul style="list-style-type: none"> the Fairfax Media historical income statements for the years ended 28 June 2015, 26 June 2016 and 25 June 2017; the Fairfax Media historical balance sheet as at 25 June 2017; and the Fairfax Media historical cash flow statements for the years ended 28 June 2015, 26 June 2016 and 25 June 2017.
Fairfax Media (post Separation)	Fairfax Media Limited and each of its subsidiaries following completion of the Separation.
Fairfax Media (post Separation) Pro Forma Historical Financial Information	<ul style="list-style-type: none"> the Fairfax Media (post Separation) pro forma historical income statements for the years ended 28 June 2015, 26 June 2016 and 25 June 2017; the Fairfax Media (post Separation) pro forma historical balance sheet as at 25 June 2017; and the Fairfax Media (post Separation) pro forma historical cash flow statements for the years ended 28 June 2015, 26 June 2016 and 25 June 2017.

10. GLOSSARY

TERM	MEANING
Fairfax Media Share	a fully paid ordinary share in Fairfax Media.
Fairfax Media Share Register	the register of members of Fairfax Media maintained by or on behalf of Fairfax Media in accordance with section 168(1) of the Corporations Act.
Fairfax Media Share Registry	Link Market Services Limited ACN 083 214 537.
Fairfax Media Shareholder	a person who is registered in the Fairfax Media Share Register as the holder of a Fairfax Media Share.
Fairfax Syndicated Facility	has the meaning given in Section 7.5.7.2.
First Court Hearing	the first day on which an application made to the Court for an order under subsection 411(1) of the Corporations Act convening the Scheme Meeting is heard or, if the application is adjourned or subject to appeal for any reason, the day on which the adjourned application is heard.
FY	financial year. For example, FY16 indicates the financial year ended 26 June 2016.
Grant Samuel	Grant Samuel & Associates Pty Limited ACN 050 036 372.
GST	Goods and Services Tax.
Herbert Smith Freehills	Herbert Smith Freehills ABN 98 773 882 646.
IFRS	International Financial Reporting Standards.
Implementation Date	22 November 2017, or such other date as determined by the Fairfax Media Board.
Independent Expert	the independent expert in respect of the Scheme appointed by Fairfax Media, being Grant Samuel.
Independent Expert's Report	the report issued by the Independent Expert in connection with the Scheme attached as Annexure B, setting out the Independent Expert's opinion whether or not the Separation is in the best interests of Fairfax Media Shareholders.
Independent Limited Assurance Report	the report by the Investigating Accountant in connection with the Scheme attached as Annexure A.
Ineligible Foreign Shareholder	a Scheme Shareholder whose Registered Address on the Scheme Record Date is a place outside Australia, New Zealand, Singapore, Hong Kong or the United Kingdom, unless Fairfax Media determines (acting reasonably) that it is lawful and not unduly onerous or impracticable to issue that Scheme Shareholder with Domain Shares when the Scheme becomes Effective.
Investigating Accountant	Ernst & Young Transaction Advisory Services Limited ABN 87003 599 844, AFSL No. 240585.
LTI	long term incentive.
Macquarie Capital	Macquarie Capital (Australia) Limited.
Meetings	the Scheme Meeting and the Annual General Meeting.
Net debt	total loans and borrowings and bank overdrafts, less cash and cash equivalents.
Notice of Annual General Meeting	the notice of meeting relating to the Annual General Meeting attached as Annexure F.
Notice of Scheme Meeting	the notice of meeting relating to the Scheme Meeting attached as Annexure E.
Official List	the official list of entities that ASX as admitted and not removed.
Option	a right to receive a Fairfax Media Share on payment of a specified exercise price, subject to satisfaction of the specified performance and vesting conditions.
Registered Address	in relation to a Fairfax Media Shareholder, the address shown in the Fairfax Media Share Register as at the Scheme Record Date.
Related Bodies Corporate	has the meaning in section 50 of the Corporations Act.
Related Person	<ul style="list-style-type: none"> in respect of a party or its Related Bodies Corporate, each director, officer, employee, advisor, agent or representative of that party or Related Body Corporate; and a Financial advisor, each director, officer, employee or contractor of that Financial advisor.
Relevant Interests	has the meaning given in sections 608 and 609 of the Corporations Act.

TERM	MEANING
Restructure	the internal restructure to be undertaken by Fairfax Media prior to the Implementation Date described in Section 8.2.
Right	a right to receive a Fairfax Media Share for no consideration, subject to satisfaction of the specified performance and vesting conditions.
Sale Agent	the person (or persons) to be appointed by Fairfax Media to sell or facilitate the transfer of the Domain Shares attributable to Ineligible Foreign Shareholders, as contemplated by clause 4 of the Scheme.
Sale Proceeds	the proceeds of sale of Domain Shares by the Sale Agent payable to each Ineligible Foreign Shareholder.
Scheme	the scheme of arrangement under Part 5.1 of the Corporations Act between Fairfax Media and the Scheme Shareholders, the form of which is attached as Annexure C subject to any alterations or conditions made or required by the Court under subsection 411(6) of the Corporations Act.
Scheme Meeting	the meeting of Fairfax Media Shareholders ordered by the Court to be convened under subsection 411(1) of the Corporations Act to consider and vote on the Scheme and includes any meeting convened following any adjournment or postponement of that meeting.
Scheme Meeting Proxy Form	the proxy form for the Scheme Meeting that accompanies this Booklet.
Scheme Participant	each person registered on the Fairfax Media Share Register as the holder of Fairfax Media Shares on the Scheme Record Date.
Scheme Record Date	the date for determining entitlements to Domain Shares, currently expected to be 7:00pm (Sydney time) on 17 November 2017.
Scheme Resolution	the resolution set out in the Notice of Scheme Meeting to agree to the terms of the Scheme.
Scheme Shares	all Fairfax Media Shares held by the Scheme Shareholders as at the Scheme Record Date.
Scheme Shareholder	a holder of Fairfax Media Shares recorded in the Fairfax Media Share Register as at the Scheme Record Date.
Second Court Date	the day of the Second Court Hearing.
Second Court Hearing	the first day on which an application made to the Court for an order under paragraph 411(4)(b) of the Corporations Act approving the Scheme is heard or, if the application is adjourned or subject to appeal for any reason, the day on which the adjourned application is heard.
Security Interest	has the meaning given in section 51A of the Corporations Act.
Separation	the proposed separation of Domain from Fairfax Media through the implementation of the Restructure, Scheme and Capital Reduction as described in the Scheme Booklet.
Separation Deed	the agreement to be entered into by Fairfax Media and Domain dealing with Separation arrangements between the parties arising in connection with the Separation, a summary of which is set out in Section 8.7.1
Separation Principle	the underlying principle of the Separation as described in the Separation Deed and Section 8.6.1.
Separation Resolutions	the Scheme Resolution and the Capital Reduction Resolution.
STI	short term incentive.
Subsidiary	has the meaning given in Division 6 of Part 1.2 of the Corporations Act.
Tax Act	collectively the Income Tax Assessment Act 1936 (Cth) and the Income Tax Assessment Act 1997 (Cth).
Transitional Services Agreement	an agreement to be entered into by Fairfax Media and Domain, under which Fairfax Media will provide certain services to Domain for a period following the Separation, a description of which is set out in Section 8.7.2.

10. GLOSSARY

10.2 INTERPRETATION

In this Booklet, unless the context otherwise appears:

- words and phrases have the same meaning (if any) given to them in the Corporations Act;
- words importing a gender include any gender;
- words importing the singular include the plural and vice versa;
- an expression importing a natural person includes any company, partnership, joint venture, association, corporation or other body corporate and vice versa;
- a reference to a section or annexure is a reference to a section of or an annexure to this Booklet as relevant;
- a reference to any statute, regulation, proclamation, ordinance or by law includes all statutes, regulations, proclamations, ordinances or by laws amending, varying, consolidating or replacing it and a reference to a statute includes all regulations, proclamations, ordinances and by laws issued under that statute;
- headings and bold type are for convenience only and do not affect the interpretation of this Booklet;
- a reference to time is a reference to time in Sydney, Australia;
- a reference to writing includes facsimile transmissions; and
- a reference to dollars, \$, cents, ¢ and currency is a reference to the lawful currency of the Commonwealth of Australia, unless otherwise stated.

ANNEXURE A

INDEPENDENT LIMITED ASSURANCE REPORT



Ernst & Young Transaction Advisory
Services Limited
200 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
ey.com/au

22 September 2017

Board of Directors
Fairfax Media Limited
1 Darling Island Road
Pyrmont NSW 2009

Board of Directors
Domain Holdings Australia Pty Limited
55 Harris Street
Pyrmont NSW 2009

Dear Directors

PART 1 - INDEPENDENT LIMITED ASSURANCE REPORT ON FAIRFAX MEDIA HISTORICAL FINANCIAL INFORMATION, FAIRFAX MEDIA (POST SEPARATION) PRO FORMA HISTORICAL FINANCIAL INFORMATION AND DOMAIN PRO FORMA HISTORICAL FINANCIAL INFORMATION

1. Introduction

We have been engaged by Fairfax Media Limited ("Fairfax Media" or the "Company") and Domain Holdings Australia Pty Limited ("Domain"), (together ("You")), to report on the historical financial information and pro forma historical financial information for inclusion in the Separation Scheme Booklet ("Scheme Booklet") to be dated on or about 22 September 2017, and to be issued by Fairfax Media, in respect of the demerger and listing (the "Proposed Transaction") of Domain.

Expressions and terms defined in the Scheme Booklet have the same meaning in this report.

The nature of this report is such that it can only be issued by an entity which holds an Australian Financial Services Licence under the Corporations Act 2001. Ernst & Young Transaction Advisory Services Limited ("Ernst & Young Transaction Advisory Services") holds an appropriate Australian Financial Services Licence (AFS Licence Number 240585). Bryan Zekulich is a Director and Representative of Ernst & Young Transaction Advisory Services. We have included our Financial Services Guide as Part 2 of this report.

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Ernst & Young Transaction Advisory Services Limited, ABN 87 003 599 844

ANNEXURE A

2. Scope

Fairfax Media Historical Financial Information

You have requested Ernst & Young Transaction Advisory Services to review the following historical financial information:

- ▶ the historical income statements of Fairfax Media for the years ended 28 June 2015, 26 June 2016 and 25 June 2017 as disclosed in Table 9 in Section 7.5.2 of the Scheme Booklet;
- ▶ the historical balance sheet of Fairfax Media as at 25 June 2017 as disclosed in Table 14 in Section 7.5.5 of the Scheme Booklet; and
- ▶ the historical cash flow statements of Fairfax Media for the years ended 28 June 2015, 26 June 2016 and 25 June 2017 as disclosed in Table 15 in Section 7.5.6 of the Scheme Booklet,

(Hereafter "the Fairfax Media Historical Financial Information").

The Fairfax Media Historical Financial Information has been derived from the financial reports of Fairfax Media for the years ended 28 June 2015, 26 June 2016 and 25 June 2017, which were audited by Ernst & Young in accordance with Australian Auditing Standards. Ernst & Young issued unqualified audit opinions on the financial reports.

The Fairfax Media Historical Financial Information has been prepared in accordance with the stated basis of preparation, being the recognition and measurement principles contained in Australian Accounting Standards ("AAS"), which are consistent to International Financial Reporting Standards ("IFRS").

Fairfax Media (post Separation) Pro Forma Historical Financial Information

You have requested Ernst & Young Transaction Advisory Services to review the following pro forma historical financial information of Fairfax Media post the Separation with Domain:

- ▶ the Fairfax Media (post Separation) pro forma historical income statements for the years ended 28 June 2015, 26 June 2016 and 25 June 2017 as disclosed in Table 10 in Section 7.5.3 of the Scheme Booklet;
- ▶ the Fairfax Media (post Separation) pro forma historical balance sheet as at 25 June 2017 as disclosed in Table 14 in Section 7.5.5 of the Scheme Booklet;
- ▶ the Fairfax Media (post Separation) pro forma historical cash flow statements for the years ended 28 June 2015, 26 June 2016 and 25 June 2017 as disclosed in Table 16 in Section 7.5.7 of the Scheme Booklet,

(Hereafter the "Fairfax Media (post Separation) Pro Forma Historical Financial Information").

The Fairfax Media (post Separation) Pro Forma Historical Financial Information has been derived from the Historical Financial Information of Fairfax Media, and adjusted for the effects of pro forma adjustments described in Sections 7.5.3, 7.5.5 and 7.5.7.1 of the Scheme Booklet.

The Fairfax Media (post Separation) Pro Forma Historical Financial Information has been prepared in accordance with the stated basis of preparation, being the recognition and measurement principles contained in AAS, which are consistent to IFRS, other than that it includes adjustments which have been prepared in a manner consistent with AAS, that reflect (i) the recognition of certain items in periods different from the applicable period under AAS, (ii) the exclusion of certain transactions that occurred in the relevant period, and (iii) the impact of certain transactions as if they occurred as at 25 June 2017 in the pro forma historical balance sheet and from 30 June 2014 in the pro forma historical income statements and pro forma historical cash flow statements.

Due to its nature, the Fairfax Media (post Separation) Pro Forma Historical Financial Information does not represent the Company's actual or prospective income statement, balance sheet and/or cash flows.

Domain Pro Forma Historical Financial Information

You have requested Ernst & Young Transaction Advisory Services to review the following pro forma historical financial information of Domain:

- ▶ the Domain pro forma historical income statements for the years ended 28 June 2015, 26 June 2016 and 25 June 2017 as disclosed in Table 1 in Section 6.6.2 of the Scheme Booklet;

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- ▶ the Domain pro forma historical balance sheet as at 25 June 2017 as disclosed in Table 4 in Section 6.6.5 of the Scheme Booklet;
- ▶ the Domain pro forma historical cash flow statements for the years ended 28 June 2015, 26 June 2016 and 25 June 2017 as disclosed in Table 5 in Section 6.6.6 of the Scheme Booklet,

(Hereafter the "Domain Pro Forma Historical Financial Information").

The Domain Pro Forma Historical Financial Information has been derived from the financial information directly related to Domain from Fairfax Media's accounting records, and adjusted for the effects of pro forma adjustments described in Sections 6.6.2, 6.6.3 and 6.6.5 of the Scheme Booklet.

The Domain Pro Forma Historical Financial Information has been prepared in accordance with the stated basis of preparation, being the recognition and measurement principles contained in AAS, which are consistent to IFRS, other than that it includes adjustments which have been prepared in a manner consistent with AAS, that reflect (i) the recognition of certain items in periods different from the applicable period under AAS, (ii) the exclusion of certain transactions that occurred in the relevant period, and (iii) the impact of certain transactions as if they occurred as at 25 June 2017 in the pro forma historical balance sheet and from 30 June 2014 in the pro forma historical income statements and pro forma historical cash flow statements.

Due to its nature, the Domain Pro Forma Historical Financial Information does not represent the Company's actual or prospective income statement, balance sheet and/or cash flows.

(Collectively, the Fairfax Media Historical Financial Information, the Fairfax Media (post Separation) Pro Forma Historical Financial Information and the Domain Pro Forma Historical Financial Information are referred to as the "Financial Information").

The Financial Information is presented in the Scheme Booklet in an abbreviated form, insofar as it does not include all of the presentation and disclosures required by Australian Accounting Standards and other mandatory professional reporting requirements applicable to general purpose financial reports prepared in accordance with the Corporations Act 2001.

3. Directors' Responsibility

The directors of Fairfax Media are responsible for the preparation and presentation of the Fairfax Media Historical Financial Information, Fairfax Media (post Separation) Pro Forma Historical Financial Information and Domain Pro Forma Historical Financial Information, including the basis of preparation, selection and determination of pro forma adjustments made to the Fairfax Media Historical Financial Information and included in the Fairfax Media (post Separation) Pro Forma Historical Financial Information and Domain Pro Forma Historical Financial Information. This includes responsibility for such internal controls as the directors determine are necessary to enable the preparation of Fairfax Media Historical Financial Information, Fairfax Media (post Separation) Pro Forma Historical Financial Information and Domain Pro Forma Historical Financial Information that are free from material misstatement, whether due to fraud or error.

4. Our Responsibility

Our responsibility is to express a limited assurance conclusion on the Fairfax Media Historical Financial Information, Fairfax Media (post Separation) Pro Forma Historical Financial Information and Domain Pro Forma Historical Financial Information based on the procedures performed and the evidence we have obtained.

We have conducted our engagement in accordance with the Australian Standard on Assurance Engagements ASAE 3450 Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information.

Our limited assurance procedures consisted of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other limited assurance procedures. A limited assurance engagement is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain reasonable assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express an audit opinion.

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ANNEXURE A

Our engagement did not involve updating or re-issuing any previously issued audit or limited assurance reports on any financial information used as a source of the Financial Information.

5. Conclusions

Fairfax Media Historical Financial Information

Based on our limited assurance engagement, which is not an audit, nothing has come to our attention that causes us to believe that the Fairfax Media Historical Financial Information comprising:

- ▶ the historical income statements of Fairfax Media for the years ended 28 June 2015, 26 June 2016 and 25 June 2017 as disclosed in Table 9 in Section 7.5.2 of the Scheme Booklet;
- ▶ the historical balance sheet of Fairfax Media as at 25 June 2017 as disclosed in Table 14 in Section 7.5.5 of the Scheme Booklet;
- ▶ the historical cash flow statements of Fairfax Media for the years ended 28 June 2015, 26 June 2016 and 25 June 2017 as disclosed in Table 15 in Section 7.5.6 of the Scheme Booklet,

is not presented fairly, in all material respects, in accordance with the stated basis of preparation, as described in Section 7.5.1 of the Scheme Booklet.

Fairfax Media (post Separation) Pro Forma Historical Financial Information

Based on our limited assurance engagement, which is not an audit, nothing has come to our attention that causes us to believe that the Fairfax Media (post Separation) Pro Forma Historical Financial Information comprising:

- ▶ the pro forma historical income statements for the years ended 28 June 2015, 26 June 2016 and 25 June 2017 as disclosed in Table 10 in Section 7.5.3 of the Scheme Booklet;
- ▶ the pro forma historical balance sheet as at 25 June 2017 as disclosed in Table 14 in Section 7.5.5 of the Scheme Booklet;
- ▶ the pro forma historical cash flow statements for the years ended 28 June 2015, 26 June 2016 and 25 June 2017 as disclosed in Table 16 in Section 7.5.7 of the Scheme Booklet,

is not presented fairly, in all material respects, in accordance with the stated basis of preparation, as described in Section 7.5.1 of the Scheme Booklet.

Domain Pro Forma Historical Financial Information

Based on our limited assurance engagement, which is not an audit, nothing has come to our attention that causes us to believe that the Domain Pro Forma Historical Financial Information comprising:

- ▶ the Domain pro forma historical income statements for the years ended 28 June 2015, 26 June 2016 and 25 June 2017 as disclosed in Table 1 in Section 6.6.2 of the Scheme Booklet;
- ▶ the Domain pro forma historical balance sheet as at 25 June 2017 as disclosed in Table 4 in Section 6.6.5 of the Scheme Booklet;
- ▶ the Domain pro forma historical cash flow statements for the years ended 28 June 2015, 26 June 2016 and 25 June 2017 as disclosed in Table 5 in Section 6.6.6 of the Scheme Booklet,

is not presented fairly, in all material respects, in accordance with the stated basis of preparation, as described in Section 6.6.1 of the Scheme Booklet.

6. Restriction on Use

Without modifying our conclusions, we draw attention to Section 6.6.1 and 7.5.1 of the Scheme Booklet, which describe the purpose of the Financial Information. As a result, the Financial Information may not be suitable for use for another purpose.

7. Consent

Ernst & Young Transaction Advisory Services has consented to the inclusion of this limited assurance report in the Scheme Booklet in the form and context in which it is included.

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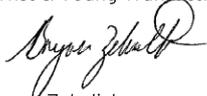
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8. Independence or Disclosure of Interest

Ernst & Young Transaction Advisory Services does not have any interests in the outcome of the Proposed Transaction other than in the preparation of this report for which normal professional fees will be received.

Yours faithfully

Ernst & Young Transaction Advisory Services Limited



Bryan Zekulich

Director and Representative

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ANNEXURE A

22 September 2017

**THIS FINANCIAL SERVICES GUIDE FORMS PART OF THE INDEPENDENT
LIMITED ASSURANCE REPORT**

PART 2 - FINANCIAL SERVICES GUIDE

1. Ernst & Young Transaction Advisory Services

Ernst & Young Transaction Advisory Services Limited ("Ernst & Young Transaction Advisory Services" or "we," or "us" or "our") has been engaged to provide general financial product advice in the form of an Independent Limited Assurance Report ("Report") in connection with a financial product of another person. The Report is to be included in documentation being sent to you by that person.

2. Financial Services Guide

This Financial Services Guide ("FSG") provides important information to help retail clients make a decision as to their use of the general financial product advice in a Report, information about us, the financial services we offer, our dispute resolution process and how we are remunerated.

3. Financial services we offer

We hold an Australian Financial Services Licence which authorises us to provide the following services:

- financial product advice in relation to securities, derivatives, general insurance, life insurance, managed investments, superannuation, and government debentures, stocks and bonds; and
- arranging to deal in securities.

4. 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.

You should consider the appropriateness of a Report having regard to your own objectives, financial situation and needs before you act on the advice in a Report. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain an offer document relating to the financial product and consider that document before making any decision about whether to acquire the financial product.

We have been engaged to issue a Report in connection with a financial product of another person. Our Report will include a description of the circumstances of our engagement and identify the person who has engaged us. Although you have not engaged us directly, a copy of the Report will be provided to you as a retail client because of your connection to the matters on which we have been engaged to report.

5. Remuneration for our services

We charge fees for providing Reports. These fees have been agreed with, and will be paid by, the person who engaged us to provide a Report. Our fees for Reports are based on a time cost or fixed fee basis. Our directors and employees providing financial services receive an annual salary, a performance bonus or profit share depending on their level of seniority. The estimated fee for this Report is \$110,000 (inclusive of GST).

Ernst & Young Transaction Advisory Services is ultimately owned by Ernst & Young, which is a professional advisory and accounting practice. Ernst & Young may provide professional services, including audit, tax and financial advisory services, to the person who engaged us and receive fees for those services.

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Except for the fees and benefits disclosed in the Scheme Booklet in section 9.10 Ernst & Young Transaction Advisory Services, including any of its directors, employees or associated entities, should not receive any fees or other benefits, directly or indirectly, for or in connection with the provision of a Report.

6. Associations with product issuers

Ernst & Young Transaction Advisory Services and any of its associated entities may at any time provide professional services to financial product issuers in the ordinary course of business.

7. Responsibility

The liability of Ernst & Young Transaction Advisory Services is limited to the contents of this Financial Services Guide and the Report.

8. Complaints process

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial services. All complaints must be in writing and addressed to the AFS Compliance Manager or the Chief Complaints Officer and sent to the address below. We will make every effort to resolve a complaint 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 Limited.

9. Compensation arrangements

The Company and its related entities hold Professional Indemnity insurance for the purpose of compensation should this become relevant. Representatives who have left the Company's employment are covered by our insurances in respect of events occurring during their employment. These arrangements and the level of cover held by the Company satisfy the requirements of section 912B of the Corporations Act 2001.

Contacting Ernst & Young Transaction Advisory Services: AFS Compliance Manager Ernst & Young 200 George Street Sydney NSW 2000 Telephone: (02) 9248 5555	Contacting the Independent Dispute Resolution Scheme: Financial Ombudsman Service Limited PO Box 3 Melbourne VIC 3001 Telephone: 1300 78 08 08
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This Financial Services Guide has been issued in accordance with ASIC Class Order CO 04/1572.

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ANNEXURE B

INDEPENDENT EXPERT'S REPORT

GRANT SAMUEL



GRANT SAMUEL & ASSOCIATES

22 September 2017

The Directors
Fairfax Media Limited
1 Darling Island Road
Pymont NSW 2009

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1 FARRER PLACE SYDNEY NSW 2000
GPO BOX 4301 SYDNEY NSW 2001
T: +61 2 9324 4211 / F: +61 2 9324 4301
www.grantsamuel.com.au

Dear Directors

Proposed Separation

1 Introduction

On 22 February 2017, Fairfax Media Limited ("Fairfax") announced a strategic review of its Domain Group business in preparation for its potential separation into a new Fairfax controlled company listed on the Australian Securities Exchange ("ASX") (the "Proposed Separation"). Following completion of the strategic review and a period of engagement with potential acquirers of Fairfax (that did not proceed), the board of Fairfax has resolved to proceed with the Proposed Separation.

The Proposed Separation is to be effected by a scheme of arrangement between Fairfax and its shareholders. The following steps are required to implement the Proposed Separation:

- Fairfax will undertake an internal restructure such that its wholly owned subsidiary, Domain Holdings Australia Pty Limited ("Domain"), will hold all the businesses, assets and liabilities of the Domain Group business such that it is capable of operating on a standalone basis;
- Domain will be converted into a public company;
- an independent capital structure with new debt facilities for Domain will be established;
- Fairfax will reduce its share capital by approximately \$536 million ("Capital Reduction Amount");
- the Capital Reduction Amount will be applied on behalf of Fairfax shareholders to subscribe for shares in Domain. Fairfax shareholders will receive one Domain share for every ten Fairfax share held¹; and
- application will be made for Domain to be separately listed on the ASX.

The effect of the Proposed Separation is that Fairfax shareholders (other than ineligible foreign shareholders²) will receive shares in Domain that represent, in aggregate, 40% of Domain's issued capital. Fairfax will hold the remaining 60% of Domain as well as its other business operations and will remain listed on the ASX (referred to in this report as "Fairfax Post Separation").

The Proposed Separation requires the approval of Fairfax shareholders in relation to the scheme of arrangement and the capital reduction. The resolutions to be voted on by Fairfax shareholders are interdependent. If either resolution is not approved, the Proposed Separation will not proceed.

The directors of Fairfax have engaged Grant Samuel & Associates Pty Limited ("Grant Samuel") to prepare an independent expert's report setting out whether, in its opinion, the Proposed Separation is in the best interests of Fairfax shareholders and to state reasons for that opinion. A copy of the report will accompany the Notices of Meeting and Explanatory Memorandum ("the Separation Booklet") to be sent to shareholders by Fairfax. This letter contains a summary of Grant Samuel's opinion and main conclusions.

¹ If, based on this ratio, the number of Domain shares is not a whole number, the number of shares issued will be rounded up.

² Fairfax shareholders with registered addresses outside Australia, New Zealand, Hong Kong, Singapore, the United Kingdom or any other jurisdiction to which Fairfax determines that the implementation of the scheme and the issue of Domain shares to the shareholder in that jurisdiction is not prohibited and not unduly onerous or impractical ("ineligible foreign shareholders") will not receive Domain shares. Such shareholders will receive in cash the proceeds of the sale of the Domain shares to which they would otherwise have been entitled, free of any brokerage costs or stamp duty.

GRANT SAMUEL



2 Opinion

In Grant Samuel's opinion, the Proposed Separation is in the best interests of Fairfax shareholders.

3 Summary of Key Conclusions

The impetus for the Proposed Separation stems from a number of different sources:

- a perception within Fairfax that its share price did not fully reflect the value of its businesses or the progress that has been made in transforming the company over the past five years;
- the evolution of the Domain business over the past five years (to the point where it is now able to operate as a standalone business); and
- the emerging organisational strains of having businesses on very different growth trajectories.

Fairfax directors considered a number of alternatives before resolving to pursue the Proposed Separation (including the status quo, a full demerger of Domain and selling shares in an initial public offering of Domain). These deliberations also included responding to unsolicited indicative offers for the whole of Fairfax which did not result in a binding proposal and are therefore not currently "on the table". The Fairfax board has therefore resolved to continue to pursue its standalone business plans including the Proposed Separation.

The primary benefits of the Proposed Separation are:

- it provides transparency as to the market value of Domain which is Fairfax's largest business (in terms of earnings contribution) and the one most critical to Fairfax's future shareholder returns. At present its value is uncertain and, arguably, obscured as part of a diversified business facing multiple challenges that affect overall market perceptions. A clear, unambiguous market value for Domain should help the Fairfax share price (it is already up around 10% from pre announcement levels) and, over time, the other longer term benefits of separation may enhance value;
- strategic, operational and financial flexibility for Domain. The board and management of Domain will (within certain limits) be able to pursue their own priorities. A separate listing will also provide a "currency" that may be valuable in attracting acquisition candidates. Domain can also establish a financial structure (and other elements such as dividend policy) that reflects its own attributes and needs;
- it dramatically enhances Fairfax's financial flexibility by providing it with a very substantial asset (the 60% residual interest in Domain) that has a clear market value and some degree of immediate liquidity (for at least a part of the interest). Apart from the liquidity buffer, it is a ready funding source to cover any major restructuring costs or to invest in existing or new growth businesses (harnessing the drawing power of the Fairfax digital and print publications in a similar manner to the path pursued with Domain);
- the increased information on Domain available to the market together with the pressure to perform from the greater focus and more intense scrutiny on the Domain board and management should, in the longer run, lead to better outcomes;
- flexibility for shareholders in managing their exposures to the different components of Fairfax's business; and
- Domain will be better placed to attract high quality staff because of its ability to offer equity incentives based solely on the performance of the Domain business.

At the same time, there are a number of disadvantages, risks and costs:

- the loss of absolute control over the Domain business by Fairfax and the loss of access to 100% of the free cash flow;
- the potential for the commercial relationship between Domain and Fairfax Post Separation (website access, printing etc.) to deteriorate post the initial terms of the agreements (failure to agree terms or suboptimal arrangements that fail to capture synergies);

ANNEXURE B

GRANT SAMUEL



- incremental operating costs as a result of operating two separate ASX listed companies (estimated to be approximately \$5 million per annum);
- the potential for weak liquidity in the trading of Domain shares and for a deterioration in the liquidity of trading in Fairfax Post Separation shares;
- the single sector focus of Domain if there is a sustained downturn in the real estate market across Australia;
- the untested nature of the working relationship within the new board of Domain or between the new board and the Domain management team;
- uncertainty as to the quantum of dividends from both companies and, in the short term, the extent to which dividends may be franked;
- the risks of the implementation of the Proposed Separation (i.e. the transition to a fully separated company); and
- transaction costs and implementation costs (approximately \$14 million (before tax), of which \$2 million was expensed by Fairfax in the year ended 25 June 2017).

The question is whether shareholders are likely to realise greater value over time if the Proposed Separation is implemented than if Fairfax's current structure is maintained. The evaluation is essentially subjective as the advantages and benefits are not quantifiable or verifiable. They are, at least to some extent, a matter of perception. None of the benefits are individually compelling but collectively are meaningful and likely to enhance shareholder value. The Fairfax share price has strengthened from pre announcement levels and, arguably, already reflects some of the benefits but many will only emerge over the medium to longer term. The disadvantages, risks and costs are not trivial but they are not major drawbacks. In short, in Grant Samuel's opinion the advantages of the Proposed Separation outweigh the disadvantages. While implementation of the Proposed Separation is not a guarantee of future performance, on balance, shareholders are likely to be better off if the Proposed Separation proceeds. In any event, it does not rule out the possibility of future transactions such as an offer for Fairfax Post Separation or the sale of Domain.

Accordingly, in Grant Samuel's opinion, the Proposed Separation is in the best interests of Fairfax shareholders.

4 Other Matters

This report is general financial product advice only and has been prepared without taking into account the objectives, financial situation or needs of individual Fairfax shareholders. Accordingly, before acting in relation to their investment, shareholders should consider the appropriateness of the advice having regard to their own objectives, financial situation or needs. Shareholders should read the Separation Booklet issued by Fairfax in relation to the Proposed Separation.

Grant Samuel has not been engaged to provide a recommendation to shareholders in relation to the Proposed Separation, the responsibility for which lies with the directors of Fairfax. In any event, the decision to vote for or against the Proposed Separation is a matter for individual shareholders, based on their own views as to value and strategy, their expectations about future market conditions and their particular circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. Shareholders who are in doubt as to the action they should take in relation to the Proposed Separation should consult their own professional adviser.

Similarly, it is a matter for individual shareholders as to whether to buy, hold or sell securities in Fairfax, Fairfax Post Separation or Domain. These are investment decisions upon which Grant Samuel does not offer an opinion and are independent of a decision on whether to vote for or against the Proposed Separation. Shareholders should consult their own professional adviser in this regard.

Grant Samuel has prepared a Financial Services Guide as required by the Corporations Act, 2001. The Financial Services Guide is included at the beginning of the full report.

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This letter is a summary of Grant Samuel's opinion. The full report from which this summary has been extracted is attached and should be read in conjunction with this summary.

The opinion is made as at the date of this letter and reflects circumstances and conditions as at that date.

Yours faithfully

GRANT SAMUEL & ASSOCIATES PTY LIMITED

Grant Samuel & Associates

ANNEXURE B



**Financial Services Guide
and
Independent Expert's Report
in relation to the Proposed Separation of
Domain Holdings Australia Pty Limited
by
Fairfax Media Limited**

Grant Samuel & Associates Pty Limited
(ABN 28 050 036 372)

22 September 2017

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Financial Services Guide

Grant Samuel & Associates Pty Limited ("Grant Samuel") holds Australian Financial Services Licence No. 240985 authorising it to provide financial product advice on securities and interests in managed investments schemes to wholesale and retail clients.

The Corporations Act, 2001 requires Grant Samuel to provide this Financial Services Guide ("FSG") in connection with its provision of an independent expert's report ("Report") which is included in a document ("Disclosure Document") provided to members by the company or other entity ("Entity") for which Grant Samuel prepares the Report.

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

When providing Reports, Grant Samuel's client is the Entity to which it provides the Report. Grant Samuel receives its remuneration from the Entity. In respect of the Report in relation to the proposed separation of Domain Group Limited ("Domain") by Fairfax Media Limited ("Fairfax") ("the Fairfax Report"), Grant Samuel will receive a fixed fee of \$265,000 plus reimbursement of out-of-pocket expenses for the preparation of the Report (as stated in Section 7.3 of the Fairfax Report).

No related body corporate of Grant Samuel, or any of the directors or employees of Grant Samuel or of any of those related bodies or any associate receives any remuneration or other benefit attributable to the preparation and provision of the Fairfax Report.

Grant Samuel is required to be independent of the Entity in order to provide a Report. The guidelines for independence in the preparation of Reports are set out in Regulatory Guide 112 issued by the Australian Securities & Investments Commission on 30 March 2011. The following information in relation to the independence of Grant Samuel is stated in Section 7.3 of the Fairfax Report:

"Grant Samuel and its related entities do not have at the date of this report, and have not had within the previous two years, any business or professional relationship with Fairfax or any financial or other interest that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Proposed Separation. Grant Samuel advises that Mr James Millar, a non executive director of Fairfax, is a member of the Grant Samuel Group Advisory Board (an informal panel of senior business people).

Grant Samuel had no part in the formulation of the Proposed Separation. Its only role has been the preparation of this report.

Grant Samuel will receive a fixed fee of \$265,000 for the preparation of this report. This fee is not contingent on the conclusions reached or the outcome of the Proposed Separation. Grant Samuel's out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Samuel will receive no other benefit for the preparation of this report.

Grant Samuel considers itself to be independent in terms of Regulatory Guide 112 issued by the ASIC on 30 March 2011."

Grant Samuel has internal complaints-handling mechanisms and is a member of the Financial Ombudsman Service, No. 11929. If you have any concerns regarding the Fairfax Report, please contact the Compliance Officer in writing at Level 19, Governor Macquarie Tower, 1 Farrer Place, Sydney NSW 2000. If you are not satisfied with how we respond, you may contact the Financial Ombudsman Service at GPO Box 3 Melbourne VIC 3001 or 1300 780 808. This service is provided free of charge.

Grant Samuel holds professional indemnity insurance which satisfies the compensation requirements of the Corporations Act, 2001.

Grant Samuel is only responsible for the Fairfax Report and this FSG. Complaints or questions about the Disclosure Document should not be directed to Grant Samuel which is not responsible for that document. Grant Samuel will not respond in any way that might involve any provision of financial product advice to any retail investor.

GRANT SAMUEL & ASSOCIATES PTY LIMITED
ABN 28 050 036 372 AFS LICENCE NO 240985

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1 Introduction

1.1 Details of the Proposed Separation

On 22 February 2017, Fairfax Media Limited (“Fairfax”) announced a strategic review of its Domain Group business in preparation for its potential separation into a new Fairfax controlled company listed on the Australian Securities Exchange (“ASX”) (the “Proposed Separation”).

The Proposed Separation is to be effected by a scheme of arrangement between Fairfax and its shareholders. The following steps are required to implement the Proposed Separation:

- Fairfax will undertake an internal restructure such that its wholly owned subsidiary, Domain Holdings Australia Pty Limited (“Domain”), will hold all the businesses, assets and liabilities of the Domain Group business and be capable of operating on a standalone basis;
- Domain will be converted into a public company;
- an independent capital structure with new debt facilities for Domain will be established;
- Fairfax will reduce its share capital by approximately \$536 million (“Capital Reduction Amount”);
- the Capital Reduction Amount will be applied on behalf of Fairfax shareholders to subscribe for shares in Domain. Fairfax shareholders will receive one Domain share for every ten Fairfax shares held¹; and
- an application will be made for Domain to be separately listed on the ASX.

The effect of the Proposed Separation is that Fairfax shareholders (other than ineligible foreign shareholders²) will receive shares in Domain that represent, in aggregate, 40% of Domain’s issued capital. Fairfax will hold the remaining 60% of Domain as well as its other business operations and will remain listed on the ASX. The ongoing company is referred to in this report as “Fairfax Post Separation”.

Holders of Fairfax shares or rights over Fairfax shares pursuant to employee incentive plans operated by Fairfax will participate in the Proposed Separation depending on the nature and status of each plan and whether the holder will be a Domain or Fairfax Post Separation employee following implementation of the Proposed Separation³.

The Proposed Separation requires the approval of Fairfax shareholders for the following resolutions:

- a members scheme of arrangement resolution under Section 411 of the Corporations Act, 2001 (“the Corporations Act”). Under Section 411, a scheme of arrangement must be approved by a majority in number (i.e. more than 50%) of shareholders present and voting (either in person or by proxy) at the meeting, representing at least 75% of the votes cast on the resolution. The scheme of arrangement is then subject to approval by the Federal Court of Australia; and
- an ordinary resolution to approve the capital reduction pursuant to Section 256C(1) of the Corporations Act.

The resolutions to be voted on by Fairfax shareholders are interdependent. If either resolution is not approved, the Proposed Separation will not proceed.

¹ If, based on this ratio, the number of Domain shares is not a whole number, the number of shares issued will be rounded up.

² Fairfax shareholders with registered addresses outside Australia, New Zealand, Hong Kong, Singapore, the United Kingdom or any other jurisdiction to which Fairfax determines that the implementation of the scheme and the issue of Domain shares to the shareholder in that jurisdiction is not prohibited and not unduly onerous or impractical (“ineligible foreign shareholders”) will not receive Domain shares. Such shareholders will receive in cash the proceeds of the sale of the Domain shares to which they would otherwise have been entitled, free of any brokerage costs or stamp duty.

³ See Section 9.7 of the Separation Booklet.

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If the Proposed Separation is approved, Fairfax Post Separation and Domain will operate independently of each other apart from certain transitional or commercial arrangements. In this regard:

- a Transitional Services Agreement will be entered into under which Fairfax Post Separation will provide Domain with certain services including information technology (“IT”) systems and services, accountings services (including general accounting, accounts payable and accounts receivable), payroll services and head office services (including company secretarial support) for a period post separation. The services will continue until terminated in accordance with its terms. The Transitional Services Agreement can be terminated by Fairfax Post Separation and Domain in a number of circumstances including for breach of material term (not rectified in a specified period), insolvency of the other or convenience (by written notice of six months in the case of Fairfax Post Separation and three months in the case of Domain);
- a number of commercial agreements will be entered into to formalise services already provided to each other by Fairfax Post Separation and Domain:

- a Marketing and Promotions Services Agreement under which Fairfax Post Separation is appointed to provide:
 - digital marketing and promotions services to Domain including the placement of Domain branded property sections and Domain advertisements on certain Fairfax Post Separation metropolitan digital publications, linking to, and referring traffic to, the Domain website; and
 - print wrap services involving the provision by Fairfax Post Separation to Domain of a certain number of print wraps on metropolitan print mastheads for the promotion of the Domain business.

These services are to be provided to Domain at a discount to standard market rates in the first two years following separation and market rates thereafter;

- a Printing Agreement and a Carriage Agreement under which Fairfax Post Separation is appointed to:
 - print certain Domain publications and insert them into relevant Fairfax Post Separation publications; and
 - distribute such publications to distribution areas agreed by the parties.

The services are to be provided at rates calculated substantially on a consistent basis with the rates charged prior to separation and are largely in line with market rates; and

- other commercial agreements including in relation to:
 - online lead generation;
 - print wrap sales representation;
 - data sharing;
 - editorial content;
 - the sale of commercial and residential real estate advertising; and
 - the provision of regional marketing and promotion services (in return for a non-exclusive licence to use the Domain brand on those publications or mastheads in connection with real estate related content).

These services are to be provided on a basis largely consistent with market rates.

These commercial agreements will be able to be terminated by Fairfax Post Separation and Domain in a number of circumstances including for breach of material term (not rectified in a specified period), insolvency of the other or convenience (by written notice of between two and six months to the other except that in some cases this termination right only comes into effect after an initial period of up to 24 months).

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1.2 Unsolicited Proposals

On 8 May 2017, Fairfax announced that it had received an unsolicited, preliminary, non-binding indication of interest from a consortium comprising TPG Group and Ontario Teachers' Pension Plan Board ("the TPG Consortium") to acquire 100% of Fairfax for cash and scrip consideration. While the directors of Fairfax were considering this proposal, the TPG Consortium submitted a revised indicative proposal under which Fairfax shareholders would receive \$1.20⁴ cash for each Fairfax share ("the TPG Proposal").

Subsequently, on 18 May 2017, Fairfax announced that:

- it had received an indicative, preliminary and non binding proposal from funds affiliated with Hellman & Friedman LLC (together, "Hellman & Friedman") to acquire 100% of Fairfax at a cash price of between \$1.225 to \$1.250 per Fairfax share⁵ ("the H&F Proposal"); and
- having considered both the TPG Proposal and the H&F Proposal, the Fairfax Board had determined that the TPG Consortium and Hellman & Friedman be invited to conduct due diligence in order to establish whether an acceptable binding transaction could be agreed.

On 3 July 2017, Fairfax announced that:

- it had not received a binding offer from either the TPG Consortium or Hellman & Friedman following conclusion of the due diligence process and, therefore, had ceased discussions with both parties; and
- the Fairfax Board had resolved to continue to pursue its standalone business plans including the Proposed Separation.

⁴ The cash amount to be reduced by the value of any dividends or other distributions declared, proposed or paid after 14 May 2017.

⁵ Assuming that no dividends are paid by Fairfax from the date of the proposal until completion.



2 Scope of the Report

2.1 Purpose of the Report

The Proposed Separation is subject to the approval of Fairfax shareholders in accordance with:

- Sections 256B and 256C of the Corporations Act (“Sections 256B and 256C”); and
- Section 411 of the Corporations Act (“Section 411”).

Sections 256B and 256C and Section 411 govern reductions of share capital and schemes of arrangement respectively. They require the prior approval of shareholders before a capital reduction or scheme of arrangement can be implemented. Sections 256B and 256C do not require an independent expert’s report to be prepared.

Part 3 of Schedule 8 to the Corporations Regulations prescribes the information to be sent to shareholders in relation to schemes of arrangement pursuant to Section 411. Part 3 of Schedule 8 requires an independent expert’s report in relation to a scheme of arrangement to be prepared when a party to a scheme of arrangement has a prescribed shareholding in the company subject to the scheme, or where any of its directors are also directors of the company subject to the scheme. In those circumstances, the independent expert’s report must state whether the scheme of arrangement is in the best interests of shareholders subject to the scheme and must state reasons for that opinion. As certain Fairfax directors will also be directors of Domain after implementation of the Proposed Separation, an independent expert’s report is required to be prepared for Fairfax shareholders for the purposes of Section 411.

The directors of Fairfax have engaged Grant Samuel & Associates Pty Limited (“Grant Samuel”) to prepare an independent expert’s report setting out whether, in its opinion, the Proposed Separation is in the best interests of Fairfax shareholders and to state reasons for that opinion. A copy of the report will accompany the Notice of Meeting and Explanatory Memorandum (“the Separation Booklet”) to be sent to shareholders by Fairfax.

This report is general financial product advice only and has been prepared without taking into account the objectives, financial situation or needs of individual Fairfax shareholders. Accordingly, before acting in relation to their investment, shareholders should consider the appropriateness of the advice having regard to their own objectives, financial situation or needs. Shareholders should read the Separation Booklet issued by Fairfax in relation to the Proposed Separation.

Voting for or against the Proposed Separation is a matter for individual shareholders based on their views as to value, their expectations about future market conditions and their particular circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. Shareholders who are in doubt as to the action they should take in relation to the Proposed Separation should consult their own professional adviser.

Similarly, it is a matter for individual shareholders as to whether to buy, hold or sell securities in Fairfax, Fairfax Post Separation or Domain. These are investment decisions upon which Grant Samuel does not offer an opinion and independent of a decision on whether to vote for or against the Proposed Separation. Shareholders should consult their own professional adviser in this regard.

2.2 Basis of Evaluation

There is no legal definition of the expression “in the best interests”. However, the Australian Securities & Investments Commission (“ASIC”) has issued Regulatory Guide 111 (“RG111”) which establishes guidelines in respect of independent expert’s reports. RG111 differentiates between the analysis required for control transactions and other transactions. In the context of control transactions (whether by takeover bid, by scheme of arrangement, by the issue of securities or by selective capital reduction or buyback), the expert is required to distinguish between “fair” and “reasonable”. A proposal that was “fair and reasonable” or “not fair but reasonable” would be in the best interests of shareholders (being the opinion required under Part 3 of Schedule 8).

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For most other transactions the expert is to weigh up the advantages and disadvantages of the proposal for shareholders. This involves a judgement on the part of the expert as to the overall commercial effect of the proposal, the circumstances that have led to the proposal and the alternatives available. If the advantages outweigh the disadvantages, the proposal would be in the best interests of shareholders.

RG111 also states that where a demerger or demutualisation involves one or more of a change in the underlying economic interests of shareholders, a change of control or selective treatment of different shareholders, an expert might need to consider whether using the “fair” and “reasonable” tests is appropriate.

The Proposed Separation is not a control transaction. Accordingly, Grant Samuel has evaluated the Proposed Separation by assessing the overall impact on the shareholders of Fairfax and formed a judgement as to whether the expected advantages and benefits outweigh any disadvantages, risks and costs that might result. By definition, if the advantages outweigh the disadvantages, shareholders are likely to be better off if the Proposed Separation is implemented than if it is not.

In forming its opinion as to whether the Proposed Separation is in the best interests of Fairfax shareholders, Grant Samuel has considered the following:

- the impact on business operations if the separation proceeds including any strategic implications;
- the impact on earnings and dividends attributable to existing shareholders;
- the effect on the separation on the financial position of each entity and their financial risk profiles;
- the implications of ongoing relationship between the two entities;
- the likely impact on the market value of shareholders’ interests and the market for shares in the demerged companies generally;
- any other advantages and benefits arising from the Proposed Separation; and
- any disadvantages, risks and costs of the Proposed Separation.

2.3 Sources of the Information

The following information was utilised and relied upon, without independent verification, in preparing this report:

- the Separation Booklet (including earlier drafts);
- annual reports of Fairfax for the six years ended 25 June 2017;
- press releases, public announcements, media and analyst presentation material and other public filings by Fairfax including information available on its website;
- brokers’ reports and recent press articles on Fairfax and the media and online advertising industries;
- sharemarket data and related information on Australian and international listed companies engaged in the media and online advertising industries; and
- other confidential documents, board papers, presentations and working papers provided by Fairfax.

In preparing this report, Grant Samuel:

- has held discussions with, and obtained information from, senior management of Fairfax and its advisers; and
- has had no access to forecast financial information for Fairfax, Fairfax Post Separation or Domain.



2.4 Limitations and Reliance on Information

Grant Samuel believes that its opinion must be considered as a whole and that selecting portions of the analysis or factors considered by it, without considering all factors and analyses together, could create a misleading view of the process employed and the conclusions reached. Any attempt to do so could lead to undue emphasis on a particular factor or analysis. The preparation of an opinion is a complex process and is not necessarily susceptible to partial analysis or summary.

Grant Samuel's opinion is based on economic, sharemarket, business trading, financial and other conditions and expectations prevailing at the date of this report. These conditions can change significantly over relatively short periods of time. If they did change materially, subsequent to the date of this report, the opinion could be different in these changed circumstances.

This report is also based upon financial and other information provided by Fairfax and its advisers. Grant Samuel has considered and relied upon this information. Fairfax has represented in writing to Grant Samuel that to its knowledge the information provided by it was then, and is now, complete and not incorrect or misleading in any material respect. Grant Samuel has no reason to believe that any material facts have been withheld.

The information provided to Grant Samuel has been evaluated through analysis, inquiry and review to the extent that it considers necessary or appropriate for the purposes of forming an opinion as to whether the Separation Proposal is in the best interests of Fairfax shareholders. However, Grant Samuel does not warrant that its inquiries have identified or verified all of the matters that an audit, extensive examination or "due diligence" investigation might disclose. While Grant Samuel has made what it considers to be appropriate inquiries for the purposes of forming its opinion, "due diligence" of the type undertaken by companies and their advisers in relation to, for example, prospectuses or profit forecasts, is beyond the scope of an independent expert.

Accordingly, this report and the opinions expressed in it should be considered more in the nature of an overall review of the anticipated commercial and financial implications rather than a comprehensive audit or investigation of detailed matters.

An important part of the information used in forming an opinion of the kind expressed in this report is comprised of the opinions and judgement of management. This type of information was also evaluated through analysis, inquiry and review to the extent practical. However, such information is often not capable of external verification or validation.

Preparation of this report does not imply that Grant Samuel has audited in any way the management accounts or other records of Fairfax. It is understood that the accounting information that was provided was prepared in accordance with generally accepted accounting principles and in a manner consistent with the method of accounting in previous years (except where noted).

The information provided to Grant Samuel included pro forma historical income statements and cash flow statements for FY15⁶, FY16 and FY17 and the pro forma statement of financial position as at 25 June 2017 for Fairfax Post Separation and Domain ("the pro forma financial information"). Fairfax is responsible for the pro forma financial information.

The pro forma financial information was subject to review by the Investigating Accountant, Ernst & Young Transaction Advisory Services Limited ("EY"). The Investigating Accountant's Independent Limited Assurance Report is set out in Annexure A to the Separation Booklet. On this basis, Grant Samuel considers that there are reasonable grounds to believe that the pro forma financial information as presented in the Separation Booklet has been prepared on a reasonable basis.

⁶ FYXX = financial year ended 30 June 20XX

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The directors of Fairfax have not included any forecast financial information in the Separation Booklet. Grant Samuel has not been given access to any forecast financial information. Given the nature of the transaction, forecast financial information is not fundamental to assessing the Proposed Separation. Rather, other factors such as strategic implications for the businesses and investors are more important.

In forming its opinion, Grant Samuel has also assumed that:

- matters such as title, compliance with laws and regulations and contracts in place are in good standing and will remain so and that there are no material legal proceedings, other than as publicly disclosed;
- the information set out in the Separation Booklet sent by Fairfax to its shareholders is complete, accurate and fairly presented in all material respects;
- the publicly available information relied on by Grant Samuel in its analysis was accurate and not misleading;
- the Proposed Separation will be implemented in accordance with its terms; and
- the legal mechanisms to implement the Proposed Separation are correct and will be effective.

To the extent that there are legal issues relating to assets, properties, or business interests or issues relating to compliance with applicable laws, regulations, and policies, Grant Samuel assumes no responsibility and offers no legal opinion or interpretation on any issue.



3 Profile of Fairfax

3.1 Background

Fairfax's origins can be traced to the acquisition of *The Sydney Herald* (subsequently renamed *The Sydney Morning Herald*) in 1841. Under the control of the Fairfax family for almost 150 years, the John Fairfax & Sons business grew to become a leading Australian media company with newspaper, magazine and television operations. In 1987, Warwick Fairfax Jr launched a leveraged privatisation bid for the company and, as a consequence, the remainder of the Fairfax family sold their interests. Following the stockmarket collapse in late 1987, the company struggled to service its high level of debt and in 1990 was placed in receivership. In May 1992, the company was relisted on the ASX as John Fairfax Holdings Limited.

From 1998, a new management team commenced a process to diversify the business away from Australian metropolitan broadsheet newspapers by acquiring suburban and regional titles, expanding into New Zealand and acquiring online assets such as *Stayz* (an Australian holiday rental website). In 2006, it acquired *Trade Me* (New Zealand's largest online classifieds business) and *The Border Mail* newspaper and changed its name to Fairfax Media Limited. Fairfax merged with ASX listed Rural Press Limited in 2007 (adding *The Canberra Times*, a number of regional newspapers, radio stations, websites and agricultural publications) and separately acquired a radio business.

Around this time, Fairfax's businesses came under considerable pressure from the audience fragmentation, changed advertiser behaviours and increased competition associated with rapid growth in internet penetration and the migration of consumers to digital platforms. In response, Fairfax undertook a detailed review and, in 2010, commenced a business transformation program.

During this period, the challenging market conditions also resulted in a period of board and share register instability. Nevertheless, management focussed on the development of a multi-platform business model. To assist in this process, Fairfax completed an initial public offering of 34% of Trade Me Group Limited ("Trade Me") in December 2011, raising \$264 million to reduce debt. Although it was successfully developing digital platforms, managing the accelerating migration of consumers to mobile digital platforms while operating a legacy print media cost base placed immense pressure on Fairfax's operating performance. As a result, in June 2012, Fairfax announced fundamental changes to its metropolitan print business (including a move to "compact" print formats, the introduction of digital subscriptions, the closure of two print facilities and the introduction of a digital first editorial model), acceleration of group wide cost reductions and the sell down of its interest in Trade Me (to 51%) raising \$158 million to strengthen its balance sheet.

Since then Fairfax has continued developing its business model by investing in digital businesses and leveraging its publications while at the same time reducing the cost base of its traditional print media business and managing its financial position. Key initiatives undertaken include:

- continuing to invest in the Domain Group business by providing marketing and promotional support (e.g. editorial content, traffic referrals from metropolitan websites to the Domain website, advertising placements across Fairfax print and digital networks) and by acquisition (e.g. Property Data Solutions, *Allhomes* and the remaining 49.99% of Metro Media Publishing);
- merging its radio network with the ASX listed Macquarie Radio Network Limited to form Macquarie Media;
- investing in digital businesses such as *Stan* (a subscription video on demand joint venture with ASX listed Nine Entertainment Co. Holdings Limited) and *HuffPost Australia* (a joint venture with The Huffington Post) and new revenue streams such as the events business (e.g. OpenAir Cinema);
- the sale of certain businesses (e.g. *Stayz* and the remaining 51% of Trade Me);
- the repayment of borrowings and an on-market share buyback; and
- the substantial restructuring of its business operations and financial reporting structure.

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Today, Fairfax is a leading Australian and New Zealand multi-platform media company publishing news, information and entertainment, selling advertising in print and digital formats and operating a radio broadcast network. It is a top 100 ASX listed company and, prior to the announcement of the Proposed Separation, had a market capitalisation of approximately \$2.0 billion.

3.2 Business Operations and Strategy

Fairfax operates a portfolio of businesses across information, marketplace and entertainment assets in Australia and New Zealand. It operates a multi-platform business model engaging with consumers via print media, digital media, events and other businesses. While operating a number of business units, Fairfax publicly reports its financial performance under six business segments. Detailed descriptions of Fairfax's businesses are set out in the Separation Booklet and summarised below:

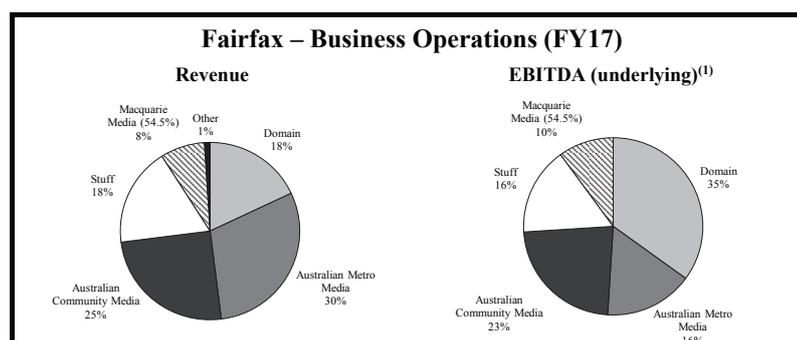
- **Domain Group:** which is a real estate media and services business providing residential and commercial property marketing solutions and search tools plus information and services for buyers, investors, sellers, renters and agents across Australia. The *Domain* brand is positioned as a platform at the centre of the Australian property ecosystem. Domain Group operates an agent ownership model which enables real estate agencies to own shares in certain Domain Group businesses. Revenue is derived from property listings (print and digital format), website subscriptions, media revenues (display advertising, sponsorships, content marketing) and transaction revenues (e.g. referrals for home loans);
- **Australian Metro Media:** which is a metropolitan news, sport, lifestyle and business publisher across print and digital platforms. Its assets include print and digital publications *The Sydney Morning Herald*, *The Age*, *The Australian Financial Review*, *Good Food and Traveller* and a portfolio of digital only businesses including *Weatherzone*, *HuffPost Australia*, *Shopstyle* and *Business Insider Australia*. It operates a range of mass participation lifestyle orientated experience events and owns interests in a number of transactional businesses;
- **Australian Community Media:** which is a regional, rural and agricultural print and digital media business. Its publications include *The Canberra Times*, *Newcastle Herald*, *The Border Mail*, *Illawarra Mercury*, *The Land* and *Queensland Country Life*. It also produces a range of rural events;
- **Stuff:** which is an integrated multi-platform media business in New Zealand. It owns and operates the top ranked domestic website *stuff.co.nz*, has a 70% interest in the hyper-local social network website *neighbourly.co.nz* and a 51% interest in internet service provider *stuff-fibre.co.nz*. Stuff's publications include metropolitan newspapers such as *The Dominion Post*, *The Press* and *The Sunday Star-Times*, regional and suburban newspapers and magazines such as *TV Guide*, *NZ House and Garden* and *Cuisine*. It also provides a range of consumer events in New Zealand⁷;
- **Radio:** Fairfax holds a 54.5% interest in ASX listed Macquarie Media which operates news, talk and sports radio stations across Australia; and
- **Other:** which includes Fairfax's corporate function and other entities not included in the other business segments (including *Stan*).

In FY17, approximately 18% of Fairfax's revenue but 35% of EBITDA (underlying)⁹ (before contribution of the Other segment) was derived from the Domain Group business:

⁷ Previously known as New Zealand Media.

⁸ On 7 September 2016, Fairfax announced that it had signed a merger implementation agreement with NZME Limited ("NZME") to effect the merger of NZME and Stuff. Under the merger, NZME would acquire all the shares in Fairfax New Zealand Limited from Fairfax in consideration for NZ\$55 million in cash and NZME shares equal to a 41% shareholding in NZME. On 3 May 2017, Fairfax was advised by the New Zealand Commerce Commission of its decision to decline to grant the authorisation to the proposed merger. On 26 May 2017, NZME and Fairfax announced that they had filed an appeal against this decision in the High Court of New Zealand.

⁹ EBITDA (underlying) is earnings before net interest, tax, depreciation and amortisation and significant and non-recurring items (i.e. it includes share of net profits of associates and other income).



Source: Fairfax

Note: (1) EBITDA (underlying) before contribution of Other segment.

Since 2010, Fairfax has focussed on transforming its business to meet the rapid structural change in the media sector. In doing so, it has focused on:

- growing by building on core strengths and maximising opportunities;
- transforming through cost efficiency and business model innovation; and
- creating value through strategic decision making and portfolio management.

Fairfax has restructured its publishing businesses to develop more sustainable business models. It has not only removed costs but rebuilt the technology, processes and teams supporting the businesses. Fairfax has also focussed on how and when it delivers its publications to audiences and on offering new more competitive advertising platforms and subscription models. It expects to complete its cost out program in Australian Metro Media over the medium term and has commenced the roll out of its publishing innovation with a product pilot in FY18. This pilot will be followed by the launch of new platforms and apps for *The Sydney Morning Herald* and *The Age* and new products for *The Australian Financial Review* and Fairfax's lifestyle magazines. Fairfax is continuing to focus on achieving cost efficiencies in Australian Community Media and Stuff while driving digital growth and exploring other opportunities.

Fairfax leverages the large scale, high quality audiences of its publishing businesses in developing growth businesses, of which Domain Group is the prime example. With its origins in the print real estate classifieds sections of *The Sydney Morning Herald* and *The Age*, the Domain Group business is now a leading real estate media and services platform across the Australian property sector. It has generated average annual growth in revenue and EBITDA (underlying) of 28% and 24% respectively in the period FY14-FY17. This has been achieved through organic growth, acquisitions and investment in digital technology and specialists. Fairfax is working to replicate this success in other media verticals and associated businesses (e.g. *Stan*).

While pursuing its objective of transforming into a sustainable media company, Fairfax is aware of the need for business flexibility to deal with future changes in the media sector.

3.3 Financial Performance

Set out below is a summary of the reported financial performance of Fairfax for the six years ended 25 June 2017. As part of rebalancing its portfolio and strengthening its balance sheet, Fairfax disposed of its interests in Trade Me through three separate transactions between December 2011 and December 2012. Trade Me was reported as a discontinued operation in FY13 and the FY12 results were restated on that basis.

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Fairfax - Financial Performance (\$ millions)						
	Year ended					
	24 June 2012 restated 52 weeks	30 June 2013 actual 53 weeks	29 June 2014 actual 52 weeks	28 June 2015 actual 52 weeks	26 June 2016 restated ¹⁰ 52 weeks	25 June 2017 actual 52 weeks
Revenue	2,214.5	2,014.0	1,866.2	1,853.1	1,830.5	1,732.6
Share of net profit of associates	1.3	(2.2)	8.0	0.3	1.6	(0.6)
Operating expenses	(1,795.8)	(1,690.5)	(1,561.5)	(1,564.1)	(1,548.8)	(1,460.9)
EBITDA (underlying)	420.0	321.3	312.7	289.4	283.3	271.1
Depreciation and amortisation	(103.5)	(100.8)	(93.5)	(65.0)	(70.1)	(40.7) ¹¹
EBIT (underlying)¹²	316.5	220.5	219.2	224.4	213.2	230.3
Net interest expense ¹³	(109.7)	(55.0)	(10.4)	(16.3)	(11.1)	(9.8)
Operating profit before tax	206.8	165.5	208.8	208.1	202.1	220.5
Income tax expense	(53.8)	(50.5)	(50.3)	(59.9)	(59.2)	(64.3)
Operating profit after tax	153.0	115.1	158.5	148.2	142.9	156.2
Significant items after tax	(2,937.8)	(427.9)	66.7	(61.0)	(905.2)	(59.0)
Profit from discontinued operations ¹⁴	59.0	311.9	-	-	-	-
Outside equity interests ¹⁵	(6.6)	(15.5)	(0.7)	(4.0)	(10.3)	(13.2)
NPAT¹⁶ attributable to Fairfax shareholders	(2,732.4)	(16.4)	224.4	83.2	(772.6)	83.9
Statistics						
Basic EPS ¹⁷	(116.2)¢	(0.7)¢	9.5¢	3.5¢	(33.3)¢	3.6¢
Basic EPS (underlying) ¹⁸	8.7¢	5.4¢	6.7¢	6.1¢	5.7¢	6.2¢
Dividends per share	3.0¢	2.0¢	4.0¢	4.0¢	4.0¢	4.0¢
Dividend payout ratio ¹⁹	34%	37%	60%	66%	70%	64%
Amount of dividend franked ²⁰	100%	100%	100%	100/50%	50/70%	70%/100%
Revenue growth	(6.6)%	(9.1)%	(7.3)%	(0.7)%	(1.2)%	(5.3)%
EBITDA (underlying) growth	(21.0)%	(23.5)%	(2.7)%	(7.5)%	(2.1)%	(4.3)%
EBIT (underlying) growth	(24.6)%	(30.3)%	(0.6)%	2.4%	(5.0)%	8.0%
EBITDA (underlying) margin	19.0%	16.0%	16.8%	15.6%	15.5%	15.6%
EBIT (underlying) margin	14.3%	10.9%	11.7%	12.1%	11.6%	13.3%
EBITDA interest cover ²¹	3.8x	5.8x	30.0x	17.8x	25.5x	27.6x

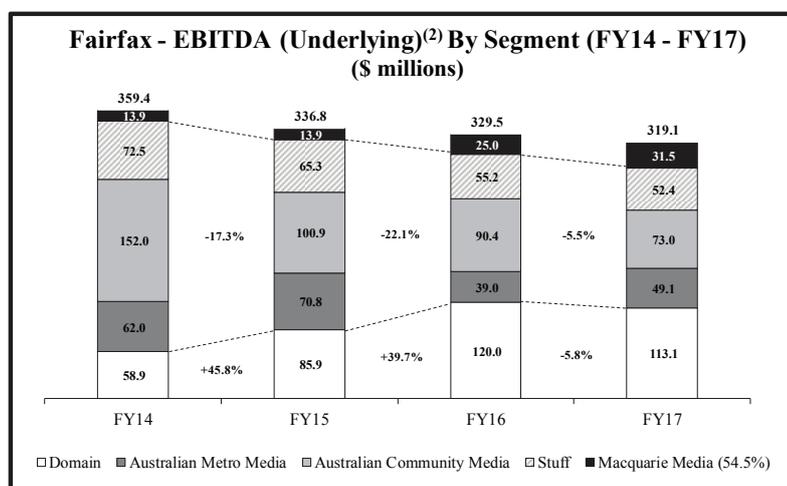
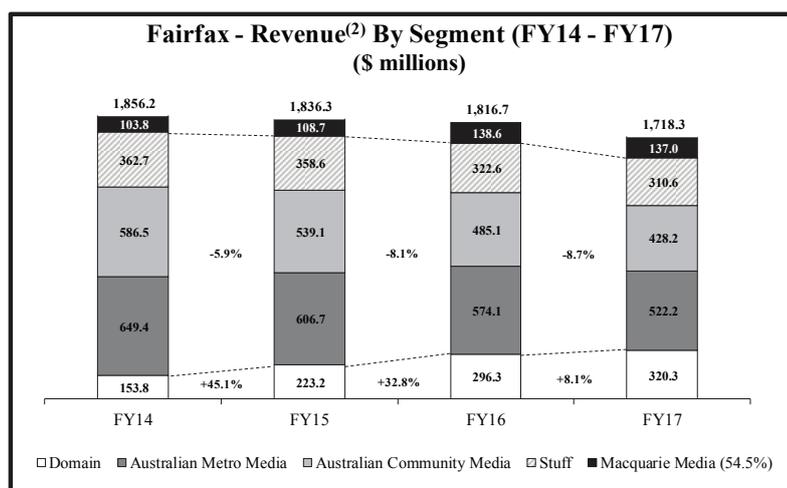
Source: Fairfax and Grant Samuel analysis

Fairfax's revenue and earnings have declined over the period reflecting its ongoing transition from a traditional media business to a multi-platform media business. On a consolidated basis, the rate of decline has slowed as Fairfax has reshaped and restructured its print media businesses with an increased focus on the monetisation of its digital platform and other growth businesses. Notwithstanding the overall decline in earnings, EBITDA margins have remained relatively stable as the removal of surplus print and other costs and organisational simplification have driven a substantial reduction in Fairfax's cost base.

While the consolidated results provide a perspective, the Fairfax transformation is better analysed by reviewing the performance of its business segments as illustrated graphically below for the period FY14 to FY17²²:

- ¹⁰ FY16 results restated in FY17 to reflect a change in accounting policy for the determination of deferred taxes on indefinite life assets.
- ¹¹ Depreciation and amortisation has decreased following the impairment of plant and equipment in FY16.
- ¹² EBIT (underlying) is earnings before net interest, tax and significant items and includes share of net profits of associates.
- ¹³ Net interest expense has reduced significantly over the period as Fairfax has paid down borrowings (primarily from the sale of businesses).
- ¹⁴ Profit from discontinued operations in FY12 and FY13 relates to Trade Me.
- ¹⁵ Outside equity interests primarily relate to Trade Me in FY12 and FY13 and Macquarie Media and the Domain agent ownership model in FY15 to FY17.
- ¹⁶ NPAT is net profit after tax.
- ¹⁷ EPS is earnings per share.
- ¹⁸ Basic EPS (underlying) is before significant items after tax and profit from discontinued operations but after outside equity interests.
- ¹⁹ Dividend payout ratio is based on basic EPS (underlying).
- ²⁰ Franking of interim/final dividend (where different).
- ²¹ EBITDA interest cover is EBITDA (underlying) divided by net interest.
- ²² Segment data for FY12 and FY13 is not available on the same basis.

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Source: Fairfax and Grant Samuel analysis

Notes: (1) Analysis based on segment results for FY14 and FY15 which were restated following Fairfax's decision to create Domain Group as a separate segment for FY16²³.

(2) Revenue and EBITDA (underlying) exclude the Other segment.

The underlying mix of Fairfax's earnings has changed substantially and the analysis reveals the importance of the Domain Group business. During the period, the combined revenue from Australian Metro Media, Australian Community Media and Staff decreased by 21% with the combined EBITDA (underlying) contribution declining by 39%. This deterioration has occurred notwithstanding the increasing contribution from non-print revenue streams (e.g. digital advertising, subscriptions, digital businesses and events) within these business segments. The contraction in these businesses has been partially offset by:

²³ Prior to January 2015, Fairfax owned a 50.01% interest in Metro Media Publishing which was recognised as an equity accounted associate. Metro Media Publishing has been fully consolidated as part of the Domain Group business since January 2015.

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- a material increase in the contribution of the Domain Group business with revenue increasing from 8% to 18% of Fairfax's total revenue and EBITDA (underlying) increasing from 16% to 35% of total EBITDA (underlying) (before contribution of Other segment). However, caution is warranted when considering the implied growth in this segment as Fairfax's 50.01% interest in Metro Media Publishing was recognised as an equity accounted associate prior to acquisition of the remainder of the business in January 2015. Therefore, Fairfax's proportionate share of revenue and EBITDA (underlying) are not included in the Domain Group segment prior to January 2015 (i.e. FY15 reflects only a half year contribution from Metro Media Publishing and FY16 is the first full year contribution of this business); and
- an increase in the contribution from the radio segment following the merger which formed Macquarie Media in March 2015. While a relatively small business, it should be noted that FY16 is the first full year contribution of the merged business and includes synergy benefits.

Nevertheless, it is important to note that the Domain Group business continued to grow in FY17 reporting revenue growth of 8.1% over FY16 (increasing Domain's share to 18% of total Fairfax revenue), although EBITDA (underlying) declined by 5.8% due to investment ahead of growth. Moreover, as the Domain Group business operates on higher margins (around 35-40%) compared to the other segments (around 10-25%), the transition has helped stabilise consolidated earnings.

Consistent with the implementation of major repositioning and restructuring initiatives, Fairfax has reported a range of significant items over the period:

Fairfax – Significant Items After Tax (\$ millions)						
	Year ended					
	24 June 2012 restated	30 June 2013 actual	29 June 2014 actual	28 June 2015 actual	26 June 2016 restated ¹⁰	25 June 2017 actual
Impairment	(2,797.5)	(444.6)	(16.8)	(28.5)	(860.8)	(28.9)
Restructuring and redundancy costs	(140.3)	(3.1)	(16.9)	(46.6)	(44.4)	(32.8)
Gains on controlled entities and investments	-	19.8	100.4	6.8	-	2.1
Gains on sale of investments	-	-	-	7.3	-	-
ACMA licence fee reduction	-	-	-	-	-	0.7
Total	(2,937.8)	(427.9)	66.7	(61.0)	(905.2)	(59.0)

Source: Fairfax

Fairfax's dividend policy is that directors determine the level of dividends to be paid for each reporting period taking into account the company's financial performance, funding position and a range of forward looking factors.

Outlook

Fairfax has not publicly released earnings forecasts for FY18 or beyond. However, on 16 August 2017, Fairfax advised that group revenue for the first six weeks of FY18 was around 4% lower than the prior corresponding period. Fairfax also advised that:

- Domain's digital growth for the first six weeks of FY18 was 26% and total revenue growth 16% but that this comparison was affected by the weak listings environment in July 2016 (due to the Federal election). As a result, FY18 trends for Domain are expected to be more in line with the second half of FY17 (digital revenue up 22%, print revenue decline 14%); and
- publishing trends for the first six weeks of FY18 were broadly in line with the second half of FY17.

Fairfax also provided additional information for Domain on a standalone basis including:

- details of the basis for the impact of the agent ownership model on Fairfax's FY17 results (i.e. agent share of EBITDA of \$10 million (comprising print EBITDA of \$2 million and digital EBITDA of \$8 million) and NPAT of \$7 million);
- expenses in FY18 are expected to be 13% higher than in FY17 (an increase of around \$27 million) (a 10% increase if acquisitions are excluded);

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- depreciation and amortisation in FY18 in the range \$26-29 million (due to investment in offices);
- capital expenditure in FY18 of around \$20 million (largely relating to product development).

3.4 Financial Position

The financial position of Fairfax as at 25 June 2017 is summarised below:

Fairfax - Financial Position (\$ millions)	
	As at 25 June 2017
Trade and other receivables	299.0
Inventories	25.1
Trade and other payables and provisions ²⁴	(359.2)
Net working capital	(35.1)
Property, plant and equipment (net)	177.7
Goodwill	375.0
Other intangible assets ²⁵	449.7
Deferred tax assets (net)	46.6
Equity accounted investments	25.2
Net assets held for sale ²⁶	8.2
Other financial assets	95.7
Non-current provisions ²⁷	(59.5)
Other non current assets and liabilities (net)	11.7
Total funds employed	1,095.2
Cash and cash equivalents	112.9
Interest bearing liabilities	(239.4)
Derivative financial instruments (net)	9.1
Net borrowings	(117.5)
Net assets	977.7
Outside equity interests	(134.3)
Equity attributable to Fairfax shareholders	843.4
<i>Statistics</i>	
Shares on issue at period end (million)	2,299.5
Net assets per share	\$0.43
NTA ²⁸ per share	\$0.07
Gearing (net borrowings/net assets plus net borrowings)	10.7%
Gearing (Fairfax definition: interest bearing debt/net assets)	24.5%

Source: Fairfax and Grant Samuel analysis

The following should be noted in relation to Fairfax's financial position:

- equity accounted investments primarily comprise Fairfax's interests in digital investments and joint ventures such as Australian Associated Press (47.0% interest), RSVP/Oasis (57.5% interest), *Stan* (50%) and *HuffPost Australia* (49%);
- other financial assets include shares in unlisted entities and a loan to the *Stan* joint venture;
- interest bearing liabilities comprise secured and unsecured borrowings. Secured borrowings include a \$325 million syndicated bank facility, a NZ\$40 million revolving facility and a \$50 million revolving facility available to Macquarie Media. Unsecured borrowings included senior notes issued in the US private placement market which were repaid on 10 July 2017;
- derivative financial instruments comprise interest rate and cross currency swaps used to hedge Fairfax's interest rate and currency exposures;

²⁴ Current provisions primarily reflect employee benefits but also include property, restructuring and redundancy and other provisions. Current payables include a put option obligation in relation to a consolidated entity recognised at fair value of \$7.8 million.

²⁵ Other intangible assets include mastheads and tradenames, radio licences and customer relationships.

²⁶ Including the Satellite Music Australia Pty Limited business and other property, plant and equipment.

²⁷ Non-current provisions include employee benefit and property provisions.

²⁸ NTA is net tangible assets, which is calculated as net assets less goodwill and other intangible assets.

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- outside equity interests relate to the 45.5% of Macquarie Media that Fairfax does not own, the minority interests under the Domain Group agent ownership business model and other outside equity interests including in the Stuff Fibre business in New Zealand; and
- at 25 June 2017 Fairfax disclosed operating lease commitments as lessee (\$544.9 million) and as lessor (\$55.5 million) and capital commitments of \$0.6 million. It did not disclose any contingencies not already recognised but noted obligations under a deed of cross guarantee and that it may be subject to defamation and other actions in the ordinary course of business.

Since year end, Fairfax has declared a 2 cent fully franked dividend which was paid on 12 September 2017.

3.5 Cash Flow

Fairfax's cash flow for the four years ended 25 June 2017 is summarised below²⁹:

Fairfax - Cash Flow (\$ millions)				
	Year ended			
	29 June 2014 actual	28 June 2015 actual	26 June 2016 restated ¹⁰	25 June 2017 actual
EBITDA (underlying)	312.7	289.4	283.3	271.1
Changes in working capital and other adjustments	(31.4)	(61.2)	(37.7)	(10.8)
Capital expenditure (net)	(72.3)	(61.8)	(95.0)	(106.6)
Proceeds on disposal of assets	12.3	20.2	68.5	10.1
Redundancy payments	(86.4)	(35.6)	(63.3)	(33.5)
Operating cash flow	134.9	150.9	155.9	130.3
Net interest paid	(18.2)	(12.6)	(13.9)	(13.2)
Tax paid	(13.1)	(18.7)	(51.0)	(28.4)
Dividends received	4.9	8.0	10.5	6.4
Dividends paid	(71.4)	(96.7)	(101.2)	(103.7)
Acquisitions of business, associates and joint ventures	(38.2)	(56.6)	(46.1)	(13.4)
Proceeds on disposal of businesses, associates and joint ventures	222.4	77.7	3.6	28.7
Loans repaid by/(advanced to) other parties (net)	5.0	(11.2)	(35.3)	(35.5)
Share buyback	-	(37.9)	(73.9)	-
Other	(1.5)	(1.1)	(1.5)	(1.6)
Net cash generated (used)	224.7	1.7	(152.8)	(30.4)
Opening net cash/(borrowings)	(160.8)	64.0	65.7	(87.1)
Closing net cash/(borrowings)	64.0	65.7	(87.1)	(117.5)

Source: Fairfax and Grant Samuel analysis

The phased disposal of Trade Me during FY12 and FY13 and the divestment of *Stayz* in December 2013 saw Fairfax reach a net cash position at the end of FY14 after having reported net debt of over \$1.4 billion only three years earlier. Notwithstanding the costs associated with the business restructuring during this period, Fairfax has continued to invest in growth opportunities. It has:

- incurred net capital expenditure totalling \$336 million of which more than 50% relates to product development and digital systems;
- spent around \$154 million in acquiring businesses and investing in other opportunities. The main focus of expenditure has been on Domain Group and its related businesses (e.g. the balance of Metro Media Publishing, Property Data Solutions and *Allhomes*); and
- extended a loan to the *Stan* joint venture (balance at 25 June 2017 of \$93 million).

Fairfax has also focussed on capital management and completed an \$111.8 million on-market share buyback over the twelve months to February 2016.

²⁹ Cash flow is not presented for FY12 and FY13 as they have not been restated to exclude discontinued operations (Trade Me).



3.6 Taxation Position

Under the Australian tax consolidation regime, Fairfax and its wholly owned Australian resident entities have elected to be taxed as a single entity. Fairfax has no Australian carried forward income tax losses but at 25 June 2017 had \$353 million in realised Australian carried forward capital losses which are not recognised on the balance sheet but are available indefinitely to offset against future capital gains (subject to continuing to meet statutory tests). Fairfax pays tax in New Zealand and has no New Zealand carried forward income tax losses.

Fairfax has a \$5.9 million Australian franking account balance after allowing for payment of the fully franked final dividend for FY17 of 2 cents per share.

3.7 Capital Structure and Ownership

At 11 August 2017, Fairfax has 2,299,475,546 ordinary shares on issue³⁰ and 24,926 registered shareholders. The top 20 registered shareholders accounted for approximately 88% of shares on issue and are principally institutional nominee or custodian companies. Around 84% of Fairfax's registered shareholders hold 10,000 shares or less but this represents only 2.4% of shares on issue. Fairfax has received substantial shareholder notices from the following investors:

Fairfax – Substantial Shareholders			
Shareholder	Date of Notice	Number of Shares	Percentage
Ausbil Investment Management Limited	24 August 2015	178,558,749	7.77%
Legg Mason Asset Management Australia Limited	28 April 2017	139,560,053	6.07%
BlackRock Group	10 July 2017	115,067,926	5.00%

Source: Fairfax

Fairfax also has 281 fully paid debentures on issue. These debentures were issued in the 1990s, are unsecured non-voting securities, have interest entitlements equivalent to ordinary dividends, rank equally with ordinary shares on winding up and are convertible into ordinary shares on one for one basis at the option of the holder (providing conversion does not breach certain conditions).

Fairfax operates three employee incentive plans:

- **Exempt Employee Share Plan:** eligible employees may salary sacrifice up to \$1,000 of pre tax salary per annum for the purchase of Fairfax shares at market price on the ASX;
- **Deferred Employee Share Plan:** eligible employees may salary sacrifice between \$1,000 and \$5,000 of pre tax salary per annum for the purchase of Fairfax shares at market price on the ASX. Participants must nominate a “lock” period of either three, five or seven years during which their shares must remain in the plan unless they leave Fairfax;
- **Long Term Equity Based Incentive Scheme:** during FY17 Fairfax introduced a new plan (Executive Incentive Plan) to replace the previous incentive plan (Transformation Incentive Plan). Under the:
 - **Executive Incentive Plan:** eligible executives are granted performance rights. Each right entitles the participant to receive one share in Fairfax for nil consideration. Rights vest at the end of a three year performance period subject to the achievement of performance hurdles; and
 - **Transformation Incentive Plan:** eligible executives were granted options. Each option entitles the participant to receive one share in Fairfax in return for the exercise price of each option. Options are subject to performance hurdles over a 3-4 period.

Performance rights and options do not have any voting rights or entitlement to dividends. In the event of a change of control, the Board may determine to vest some or all of the performance rights and options.

³⁰ Including 2,073,765 unvested employee incentive shares held by Fairfax's Executive Employee Share Plan Trust and 9,652,765 shares held in voluntary escrow until released (either in whole or part), at the earliest, on 1 January 2018. These shares were issued to the vendor shareholders of Metro Media Publishing upon Fairfax's acquisition of their 49.99% interest in January 2015.

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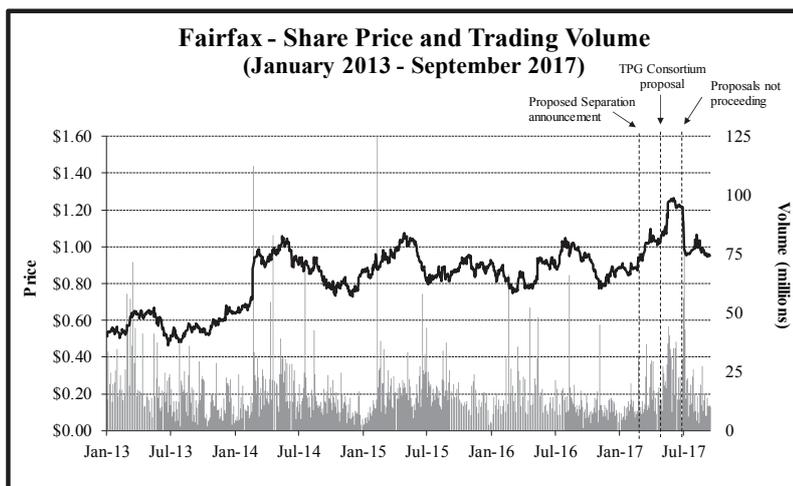
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3.8 Share Price Performance

The market instability of 2008 following the commencement of the global financial crisis resulted in the Fairfax share price declining from above \$4.00 to around at \$1.50 (adjusted) at year end. In March 2009 Fairfax undertook a deeply discounted non-renounceable entitlement offer (\$0.75 price) raising \$625 million to repay debt. While the share price recovered to around \$1.75 in January 2010, growing industry headwinds and concerns regarding gearing levels led to further share price weakness and it declined to around \$0.75 in August 2011. In response, Fairfax announced the sale of between 30-35% of Trade Me via an IPO with the proceeds to be used to repay debt and provide flexibility. This announcement was favourably received but the price uplift was temporary as the difficult trading conditions and outlook for Fairfax's publishing business worsened. The share price continued to decline reaching a record low of \$0.35 in late October 2012. It recovered to around \$0.50 in January 2013, six months after the announcement of Fairfax's major transformation plans.

The following graph illustrates the movement in the Fairfax share price and trading volumes since 1 January 2013:



Source: IRESS

Note: On 9 February 2015 more than 125 million Fairfax shares traded (being the sale by Hancock Prospecting Pty Limited of its 14.99% interest by way of an underwritten block trade) but the volume in excess of 125 million shares is not shown on this graph.

Fairfax's share price moved above \$0.60 in early 2013 reflecting broader market movements and Fairfax's progress in restructuring the business and achieving cost savings. However, ongoing softness in advertising markets and uncertainty regarding Fairfax's transformation process saw the share price fall back to around \$0.50 by late June 2013. The share price improved in the second half of 2013, amid speculation regarding the potential divestment of *Stayz* (sold in December 2013), signs of improvements in advertising markets and increasing visibility over the transformation. It continued to increase in early 2014 and rose sharply on 22 February 2014 following the release of Fairfax's half yearly results which included a strong performance from the Domain Group and accelerated delivery of its cost out programs.

From March 2014 to 20 February 2017 (the last trading day prior to announcement of the Proposed Separation), Fairfax shares traded in a broad range of \$0.80-\$1.00 (at a VWAP of \$0.90). Movements within that band generally reflected activity following corporate performance announcements. The share price closed at \$0.87 on 20 February 2017 and traded up 10% to around \$1.00 in the weeks following announcement.

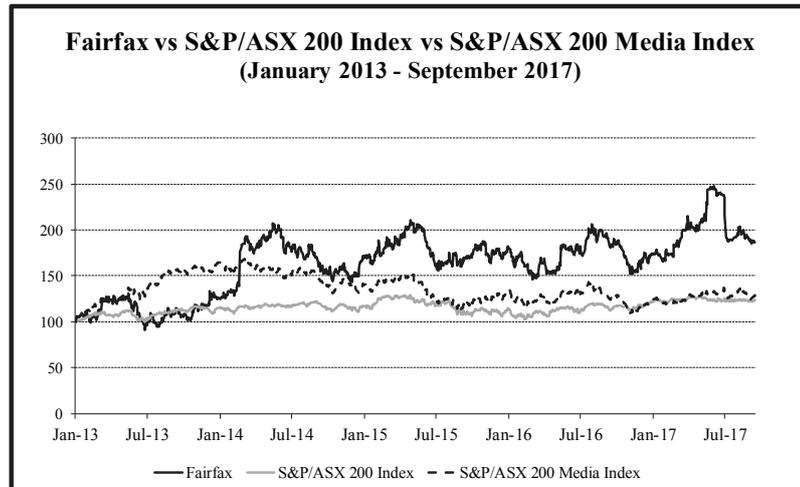
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Following announcement of the unsolicited TPG Proposal on 8 May 2017, the Fairfax share price jumped around 20% to trade in the range \$1.06-1.27 (VWAP of \$1.20). The announcement on 3 July 2017 that Fairfax had not received a binding offer from either the TPG Consortium or Hellman & Friedman, saw the share price drop back to just below \$1.00 (where it traded prior to momentum regarding changes to media ownership rules in late July 2017). Since it released its FY17 results on 16 August 2017, Fairfax shares have traded in the range of \$0.93-1.035 (at a VWAP of \$0.98). The Fairfax share price closed at \$0.95 on 15 September 2017.

Fairfax is a top 100 ASX listed company and a member of most major Australian stockmarket indices. It is a reasonably liquid stock with no restrictions on free float. Average weekly volume in the twelve months prior to announcement of the Proposed Separation represented 2.3% of shares on issue or annual turnover of around 118% of total issued capital.

The following graph illustrates the performance of Fairfax shares since 1 January 2013 relative to the S&P/ASX 200 Index and S&P/ASX 200 Media Index (in which Fairfax has a weighting of around 13.7%).



Source: IRESS

Although there have been some periods of over and under performance, trading in Fairfax shares since March 2014 prior to the announcement of the unsolicited TPG Proposal (on 8 May 2017) was generally consistent with the S&P/ASX 200 Index. Excluding a period of outperformance in April 2015, Fairfax shares have also traded broadly performed in line with the S&P/ASX 200 Media Index prior to May 2017.

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4 Background on Demergers and Spin-offs

A “demerger” or “spin-off” is generally understood to be a pro-rata transfer of shares in a wholly owned subsidiary to shareholders of the parent company. The broad principle underlying demergers is that sharemarkets do not reward corporate diversification unless there are substantial synergies available to a corporate holder of a diversified portfolio of assets or there is some other strategic rationale. Investors can achieve diversification themselves and it is generally accepted that investors prefer the investment flexibility resulting from the separation of assets into separate companies that have relatively focussed businesses. Consequently, demergers have typically been undertaken to create investment opportunities with a single geographic focus, a single industry focus or a single product focus. However, demergers may be undertaken for a variety of strategic reasons.

A pure demerger involves the transfer to existing shareholders of 100% of the shares in the subsidiary and there is no dilution of equity or transfer of ownership from the current shareholders. There are a number of variants that are also loosely referred to as demergers including:

- a partial demerger, where the parent distributes a portion of its interest in the subsidiary’s shares to existing shareholders and either retains the remaining shares for a period or sells them immediately through an initial public offering (“IPO”) or other sale process. The portion distributed could be a majority (>50%) or minority (<50%) interest. The carved-out subsidiary has its own board, management and financial statements while the parent company may provide strategic direction or central resources. The level of influence by the parent will reflect the interest retained and other factors;
- an equity carve-out, where the parent company sells a portion of a subsidiary’s shares (usually less than 50%) through an IPO. Similar to a partial demerger, the carved-out subsidiary will have its own board, management and financial statements while the parent company provides strategic direction and central resources; and
- a divestiture IPO, where 100% of the shares in the subsidiary are sold to the public, often with some kind of preferential right offered to the parent company shareholders.

The use of demergers as a method of divesting a subsidiary has become a common feature of equity markets in recent years. Demergers implemented in Australia since 2000 include:

Selected Recent Demergers in Australia ³¹					
Date ³²	Parent	Business/Market focus	Demerged entity	Business/Market focus	% Demerged
Aug 2017 ³³	Reckon Limited	Accounting software	GetBusy Plc	Document management software	100.0%
Dec 2016	Metals X Limited	Base metals	Westgold Resources Limited	Gold	100.0%
Jun 2016	APN News & Media Limited (renamed HT&E Limited)	Media and entertainment (Australia)	NZME Limited	Media and entertainment (New Zealand)	100.0%
Feb 2016	National Australia Bank Limited	Banking (Australia and New Zealand)	CYBG PLC	Banking (United Kingdom)	75.0%
May 2015	BHP Billiton	Resources	South32 Limited	Metals and mining	100.0%
Dec 2013	Ancor Limited	Flexible and rigid plastics packaging (global)	Orora Limited	Diversified packaging (Australasia) and packaging distribution (North America)	100.0%
Dec 2013	Brambles Limited	Pallet and container pooling solutions	Recall Holdings Limited	Document management	100.0%

³¹ The June 2013 demerger of the publishing business of News Corporation (now renamed Twenty-First Century Fox Inc.) as News Corporation has been excluded as both entities are United States companies although they have secondary listings on the ASX.

³² Implementation date (i.e. when trading commenced as separate entities).

³³ Reckon Limited demerged GetBusy Plc on the AIM Market of the London Stock Exchange and raised £3 million of working capital by way of a non renounceable rights issues.

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Selected Recent Demergers in Australia³¹

Date ³²	Parent	Business/ Market focus	Demerged entity	Business/ Market focus	% Demerged
Jun 2011	Tabcorp Holdings Limited	Wagering, gaming and keno	Echo Entertainment Group Limited	Casinos	100.0%
May 2011	Foster's Group Limited	Beer	Treasury Wine Estates Limited	Wine	100.0%
Jul 2010	Orica Limited	Mining services, chemicals	Dulux Group Limited	Coatings and home improvement products	100.0%
Jul 2010	Arrow Energy Limited	Coal seam gas (Australia)	Dart Energy Limited	Coal seam gas (international)	100.0%
Jan 2010	Macquarie Infrastructure Group (renamed Intoll Group)	Toll roads	Macquarie Atlas Roads Group	Toll roads	100.0%
Dec 2007	Publishing and Broadcasting Limited (renamed Consolidated Media)	Media	Crown Limited	Gaming	100.0%
Jun 2007	Toll Holdings Limited	Logistics	Asciano Limited	Ports and rail	100.0%
Nov 2006	Tower Limited	Multi-line insurance (New Zealand)	Tower Australia Group Limited	Life insurance (Australia)	100.0%
Jul 2006	Macquarie Infrastructure Group (renamed Intoll Group)	Toll roads (globally)	Sydney Roads Group	Toll roads (Sydney)	100.0%
Nov 2005	Mayne Group Limited (renamed Symbion Health Limited)	Healthcare	Mayne Pharma Limited	Pharmaceuticals	100.0%
Feb 2005	Tower Limited	Insurance (Australia/ New Zealand)	Australian Wealth Management Limited	Funds management (Australia)	100.0%
Oct 2003	AMP Limited	Life insurance, wealth management (Australia, New Zealand)	HHG plc	Life insurance, wealth management (United Kingdom, Europe)	85.0%
Mar 2003	CSR Limited	Building materials, aluminium, sugar	Rinker Group Limited	Heavy building materials	100.0%
Dec 2002	WMC Limited (renamed Alumina Limited)	Bauxite mining, alumina refining and aluminium smelting	WMC Resources Ltd	Resources	100.0%
Jul 2002	BHP Billiton Limited	Resources	BHP Steel Limited (renamed Bluescope Steel Limited)	Steel	94.0%
Oct 2000	The Broken Hill Proprietary Company Limited	Resources	OneSteel Limited (renamed Arrium Limited)	Steel	100.0%
Apr 2000	Amcor Limited	Packaging	PaperlinX Limited	Paper	82.0%
Feb 2000	Origin Energy Limited	Energy	Boral Limited	Building Materials	100.0%

Source: IRESS

Notably, most demergers in Australia have involved distributing 100% of the subsidiary entity and in the other cases the balance was a minority interest that was either sold through other means or retained for a limited period³⁴. However, partial demergers have occurred in other jurisdictions.

There has also been a number of high profile divestiture IPOs in Australia since 2000 including:

³⁴ In relation to the less than 100% Australian demergers:

- National Australia Bank sold the residual 25% interest in CYBG PLC via an IPO at the time of the demerger;
- AMP Limited sold its residual interest in HHG PLC in September 2005, almost as soon as it could under the arrangements put in place at the time of the demerger (October 2003);
- BHP Billiton Limited sold its residual 6% interest immediately following the demerger into a share sale facility and used the proceeds for general corporate purposes; and
- Amcor Limited offered its residual 18% interest in PaperlinX Limited for sale under retail and institution offers as part of the demerger transaction.

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Selected Recent Divestiture IPOs in Australia					
Date	Parent	Business/Market focus	Demerged entity	Business/Market focus	% Divested
Dec 2012	Woolworths Limited	Retail	Shopping Centres Australasia Property Group	Property ownership	100%
Dec 2011	Fairfax	Media	Trade Me Group Limited	Online classifieds in New Zealand	34%
Dec 2010	Westfield Group	Shopping centre development, management and ownership	Westfield Retail Trust	Property ownership	100%
Apr 2007	Transfield Services Limited	Infrastructure services	Transfield Services Infrastructure Fund	Energy and transport infrastructure	51.0%
Dec 2005	Burns, Philp & Company Limited	Food manufacture	Goodman Fielder Limited	Basic foods	80.0%
Oct 2005	Alinta Limited	Gas utilities	Alinta Infrastructure Holdings Limited	Gas pipelines and power stations	80.0%
Oct 2003	Foster's Group Limited	Alcoholic beverages	Australian Leisure & Hospitality Group	Hotels, liquor and gaming, property	100.0%
Aug 2001	Futuris Corporation Limited	Rural and automotive systems	Australian Agricultural Company Limited	Agriculture	60.0%
Mar 2001	Village Roadshow Limited	Media and entertainment	Austereo Limited	Radio	55.0%
Jun 2000	The Australian Gas Light Company	Energy	Australian Pipeline Trust	Gas pipelines	70.0%

Source: IRESS

The outcome is similar whether the transaction is undertaken by way of a distribution of shares or an IPO. For example, Fairfax's IPO of a 34% interest in TradeMe in December 2011 created a standalone company (albeit controlled by Fairfax until it sold its residual 51% interest in December 2012).

The benefits typically cited for demergers largely revolve around the differences in business focus or strategic direction between the parent company and the demerged entity. However, at the same time there are a number of disadvantages, potential risks and costs associated with demergers. The primary issues raised are listed below:

Issues associated with Demergers	
Advantages/Benefits	Disadvantages/Risks/Costs
<ul style="list-style-type: none"> ▪ transparency ▪ investor attraction and interest ▪ enhanced flexibility to shareholders ▪ clarity in capital allocation ▪ flexibility in raising capital ▪ independence and strategic flexibility to undertake growth initiatives ▪ better targeted incentives and management/board focus 	<ul style="list-style-type: none"> ▪ loss of synergies ▪ transaction costs ▪ duplication of corporate costs ▪ increased financing costs ▪ loss of diversification and scale ▪ reduced sharemarket liquidity and rating in key indices

There is little definitive evidence as to whether or not demergers have been successful in enhancing shareholder value, largely because it is not possible to measure what the share prices would have been had the demergers not occurred (i.e. there is no counterfactual). Some of the evidence and views that have emerged are summarised below:

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- several studies³⁵ have found that there was a positive impact on the share price (of around 3-6%) at the time of the announcement. A similar rise occurred where there was a targeted share or equity carve-out. One study has shown that, in some circumstances, there is no decline in share price even if the demerger is ultimately withdrawn³⁶;
- several studies³⁷ have also found significantly positive abnormal returns over an extended period (of up to three years) following the demerger for the demerged company, the parent and the demerged company/parent combination. On the other hand, one study³⁸ found that demergers only delivered long term value benefits for the demerged subsidiary (and not the parent) and another study³⁹ found significant evidence that spin-offs create more value than carve-outs. In particular, recent studies^{38,40} report weak evidence for long term wealth effects when using more refined measuring techniques;
- some of the reasons found to be associated with positive abnormal returns have included:
 - corporate restructuring activity⁴¹. Both the demerged subsidiary and the parent experience an unusually high incidence of takeovers in comparison to their control group comparable companies. The abnormal performance is limited to companies involved in takeover activity. The findings suggest that demergers provide a low-cost method of transferring control of corporate assets to bidders who are able to create greater value. This benefit will not apply in the case of partial spin offs where the parent company retains control of the spun out entity;
 - mitigation of information asymmetry⁴². The hypothesis was that value would be enhanced if the demerged subsidiary is able to convey more information about its operating efficiency and future prospects when it is a separate entity than when it is part of a larger combined unit. The findings were that firms that engage in demergers have higher levels of information asymmetry compared to their industry and size matched counterparts and the information problems decrease significantly after the demerger as analyst scrutiny increases. The relationship is more pronounced for those companies that demerge related subsidiaries;
 - increased management and board focus⁴³ translating into better operating and sharemarket performance. The abnormal returns for focus-increasing demergers are significantly larger than the corresponding abnormal returns for the non-focus-increasing demergers. A focus-increasing demerger reduces the diversity of assets under management and thereby increases the efficiency of management. However, an analysis of non-focus increasing demergers showed that companies are likely to undertake these demergers to separate underperforming subsidiaries from their parents with efficiency not being a major motivating factor. Indeed, positive returns after the demerger have been found to be due to pre-announcement sharemarket weakness;

³⁵ See for example: P.L. Anslinger, S.J. Klepper and S. Subramaniam, "Breaking up is good to do", The McKinsey Quarterly, 1999 Number 1; Thomas Kirchmaier, "The Performance Effects of European Restructures", Centre for Economic Performance, London School of Economics and Political Science, May 2003; UBS Investment Research, "Q-Series: Spin-offs and restructures", UBS Limited, 14 April 2005, Roger Rüdüstli, "Value Creation of Spin-offs and Carve-outs", Doctoral Dissertation, University of Basel (Switzerland), May 2005, CIMB Quantitative Research, "Spin-off Candidates", CIMB Securities (Australia) Ltd, September 2013, S. Zweiphenning, "Corporate Spin-Offs in the United Kingdom", Masters Thesis, Tilburg University, August 2014, D. Chai, K. Lin and C. Veld, "Value-creation through spin-offs: Australian evidence", Monash University, August 2016.

³⁶ K. Alli, G. Ramirez and K. Yung, "Withdrawn Spin-offs: An Empirical Analysis", The Journal of Financial Research, Winter 2001.

³⁷ See for example: J. Wyatt, "Why Spinoffs Work for Investors", Fortune, October 16 1995, p72; P.J. Cusatis, J.A. Miles and J.R. Woolridge, "Restructuring Through Spin-outs, The Stock Market Evidence", Journal of Financial Economics, Volume 33 No. 3, June 1993, T.A. John, "Optimality of Spin-outs and Allocation of Debt" Journal of Financial and Quantitative Analysis, 1993, B.J. Hollowell, "The Long-Term Performance of Parent Firms and their Spin-offs", The International Journal of Business and Finance Research, Volume 3, No.1, 2009 and Morgan Stanley Asia Insight, "BHP Billiton Limited: A Detailed Look at South32", Morgan Stanley, April 2015.

³⁸ Thomas Kirchmaier, "The Performance Effects of European Restructures", Centre for Economic Performance, London School of Economics and Political Science, May 2003.

³⁹ Roger Rüdüstli, "Value Creation of Spin-offs and Carve-outs", Doctoral Dissertation, University of Basel (Switzerland), May 2005.

⁴⁰ S. Zweiphenning, "Corporate Spin-Offs in the United Kingdom", Masters Thesis, Tilburg University, August 2014, N. Zakaria and G.C. Arnold, "Spin-off and Value Creation: The Case of Malaysia", 2014 and D. Boreiko and M. Murgia, "European Spin-offs: Origin, Value Creation, and Long-Term Performance", Draft Paper, Free University of Bolzano-Bozen, April 2013.

⁴¹ P.J. Cusatis, J.A. Miles and J.R. Woolridge, "Restructuring Through Spin-outs, The Stock Market Evidence", Journal of Financial Economics, Volume 33 No. 3, June 1993.

⁴² S. Krishnaswami and V. Subramaniam, "Information asymmetry, valuation and the corporate spin-out decision" Journal of Financial Economics, Volume 53, No. 1, July 1999.

⁴³ See for example: H. Desai and P.C. Jain, "Firm performance and focus: long-run stock market performance following spin-outs", Journal of Financial Economics, Volume 54, No. 1, October 1999 and L. Daley, V. Mehrotra and R. Sivarenmar, "Corporate Focus and Value Creation: Evidence from Spinoffs", Journal of Financial Economics, Volume 45, 1997.

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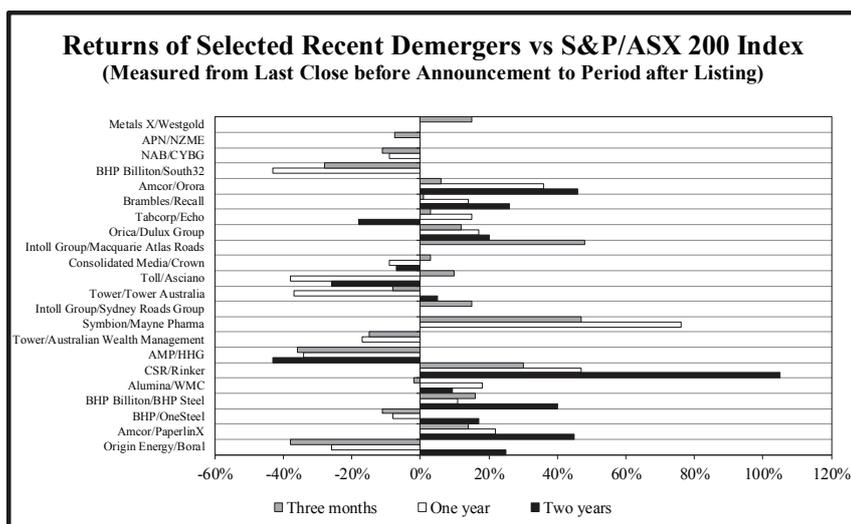
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- improved financing decisions⁴⁴. Conglomerates tend to divide resources evenly between divisions thus investing too little in strong industries and too much in weaker industries. The study showed that capital expenditure showed greater sensitivity to changes in growth opportunities after a division became independent; and
 - rebalancing of shareholdings by investors⁴⁵. The study indicates that the ratio of continuing investors who choose to only hold one of the entities after spin-off abnormal returns is a significant predictor of abnormal returns. Therefore, it is difference in opinions of shareholders about the relative prospects of the demerger entities which leads to excess returns rather than the business impacts of the transaction. This outcome is consistent with the thesis that separation will mean that each company will attract investors that are likely to value it the highest; and
- one analyst report⁴⁶ found that following a demerger, where the resulting entities are relatively similar in size, both entities generally underperform the market for a period of approximately six months. In the long term however, both stocks tend to outperform the market (implying that the market awaits a reporting period before committing to the new entities). In comparison, where the subsidiary is much smaller than the parent, the demerged entity is typically a strong outperformer while the parent moves with the market.

Most of the academic studies relate to demergers in the United States or in Europe. However, Grant Samuel has reviewed the relative performance of Australian companies that have undertaken demergers since 2000. While an admittedly imperfect basis of analysis and somewhat crude (given the wide range of factors that influence share prices), this review tends to support the thesis that demergers enhance shareholder value, particularly having regard to sharemarket performance one to two years after the demerger.

The following graph summarises the combined share price performance of the parent company and the demerged entity relative to the S&P/ASX 200 Index, from last close prior to announcement to three months, one year and two years after the date the demerged entity was listed on the ASX:



⁴⁴ R. Gertner, E. Powers and D. Scharfstein, "Learning About Internal Capital Markets From Corporate Spinoffs", November 2000.

⁴⁵ T. Bhandari, "Differences of Opinion and Stock Prices: Evidence from Spin-Offs and Mergers", Draft Doctoral Dissertation at MIT Sloan School of Management, November 2013.

⁴⁶ Macquarie Research Equities, "Australian Gas Light: Acquisitions, Restructures and Au Revoirs", 1 November 2005.

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- Notes: (1) The share price performance from last close before announcement to listing is for the parent company. The share price performance subsequent to listing is the aggregated performance of the parent company and the demerged entity.
- (2) No returns are shown in the chart for:
- Arrow Energy/Dart Energy as Arrow Energy was acquired by PetroChina Co. Ltd and Royal Dutch Shell plc upon implementation of the demerger; and
 - Foster's Group/Treasury Wine Estates as Foster's Group received a takeover offer from SABMiller plc within two months of the demerger.
- (3) No one and two year returns are shown in the chart for:
- Metals X/Westgold which commenced trading separately on 6 December 2016;
 - Intoll Group/Sydney Roads Group as Sydney Roads Group was acquired by Transurban Group within one year of the demerger;
 - Intoll Group/Macquarie Atlas Roads as Intoll Group was acquired by Canadian Pension Plan Investment Board within one year of the demerger.
- (4) No two year return is shown in the chart for:
- APN/NZME which commenced trading separately on 27 June 2016;
 - National Australia Bank/CYBG which commenced trading separately on 4 February 2016;
 - Tower/Australian Wealth Management as Tower demerged a second entity (Tower Australia) within two years of the demerger; and
 - Symbion/Mayne Pharma as Mayne Pharma was acquired by Hospira Inc within two years of the demerger.

The above analysis indicates that the combined performance of demerged entities from announcement to immediately following a demerger has been mixed, but that demerged entities have generally outperformed the market within two years of listing⁴⁷. However, this analysis must be treated with caution as, at best, it provides only a partial analysis of the market value consequences of demergers. In particular, it:

- does not fully reflect returns to shareholders following demerger as it either excludes entirely or only partially includes demergers where either the parent or demerged entity was acquired within two years of the demerger transaction (Arrow Energy/Dart Energy, Foster's Group/Treasury Wine Estates, Intoll Group/Sydney Roads Group, Intoll Group/Macquarie Atlas Roads and Symbion/Mayne Pharma). In these cases, shareholders also benefited from receipt of control premia;
- does not reflect that some of the entities were either acquired (Rinker and WMC Resources) or were involved in other corporate activity (Tower Australia, Australian Wealth Management) more than two years after, but within 3-4 years, of their demergers; and
- measures performance against an overall market index. The results may differ if performance is measured against a relevant sector index.

Furthermore, in many cases, significant underperformance or overperformance in the two years after listing reflects factors specific to the demerging companies or the industries in which they operate and may not be attributable to the demerger. For example:

- AMP/HHG was impacted by a substantial write down in certain assets and a capital raising at a significant discount which were announced in conjunction with the demerger. The returns from this demerger measured from listing (rather than announcement) are positive;
- Tower/Tower Australia was impacted by the underperformance of the insurance sector relative to the market during 2007;
- Consolidated Media/Crown was impacted by the underperformance of the media industry relative to the market following the global financial crisis in 2008/2009;
- Toll/Asciano was impacted by Asciano's need to reduce high gearing levels following the global financial crisis in 2008/2009;
- Tabcorp/Echo was impacted by various legal and regulatory decisions relating to gambling and casino operations as well as competitive concerns;
- the two year return for Brambles/Recall was impacted by the extended process of Recall's acquisition by Iron Mountain Incorporated which commenced in December 2014 but did not complete until April 2016;

⁴⁷ This is supported by analysis by Goldman Sachs & Partners Australia in "Equity Strategy: Reviewing Large Cap Demerger Strategies", 15 February 2011; Bank of America Merrill Lynch in "Delivering Returns in Tough Times", 29 May 2013, Macquarie Securities (Australia) Limited in "Demergers: Breaking Up is Hard to Do", 14 June 2013 and CIMB Securities (Australia) Ltd in "Spin-off Candidates", 3 September 2013.

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- BHP Billiton/South 32 was impacted by the significant correction in global equity markets in late August 2015 which, combined with a deterioration in commodity prices, had a greater impact on resources companies than industrial companies; and
- APN/NZME was impacted by the underperformance of the legacy media sector relative to the market as well as regulatory uncertainty regarding the proposed merger of NZME with Fairfax's Stuff business.

On the other hand, some studies have found that demergers may negatively impact value and that conglomerates have outperformed the market over some periods⁴⁸. Conglomerate structures do have benefits including financial size and strength, better liquidity and higher index rating, lower earnings volatility and risk (if business units are not correlated in terms of economic cyclicality), greater depth of management and lower cost of capital (depending on other factors).

While the balance of evidence does favour demergers as adding value, the alternate views underline the fact that there is no universal structure for businesses. While some demergers create substantial value, others do not. In the end, the success of demergers depends on the specific circumstances of each case.

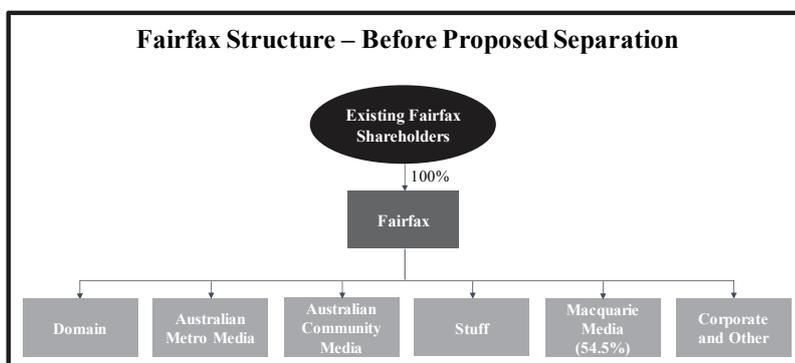
⁴⁸ Boston Consulting Group, "Conglomerates Reports", 2002.



5 Impact of the Proposed Separation

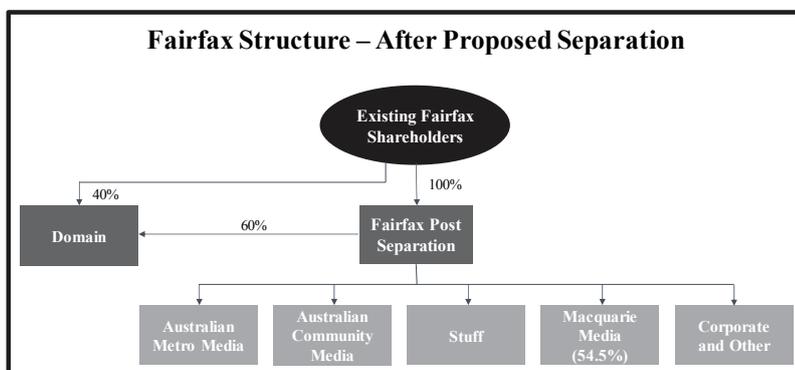
5.1 Structure and Ownership

The structure and ownership of Fairfax prior to the Proposed Separation is shown below:



Source: Grant Samuel

The effect of the Proposed Separation on Fairfax’s structure and ownership is shown below:



Source: Grant Samuel

Following the separation, the relative ownership interest held by each Fairfax shareholder (other than ineligible foreign shareholders) in Domain will be equal to their ownership interest in Fairfax immediately prior to implementation of the Proposed Separation. However, the ownership interest will be held 40% directly and 60% indirectly (via Fairfax).

Domain’s management will be standalone and the companies will operate at arm’s length. However:

- Fairfax will own 60% of the issued capital of Domain and appoint three non-executive directors to the Domain board (including the Chairman);
- there will be transitional arrangements in relation to certain services (including IT systems and services, accounting services, payroll services and head office services) for a period post separation; and
- there will be agreed ongoing commercial arrangements.

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5.2 Domain

5.2.1 Operations and Strategy

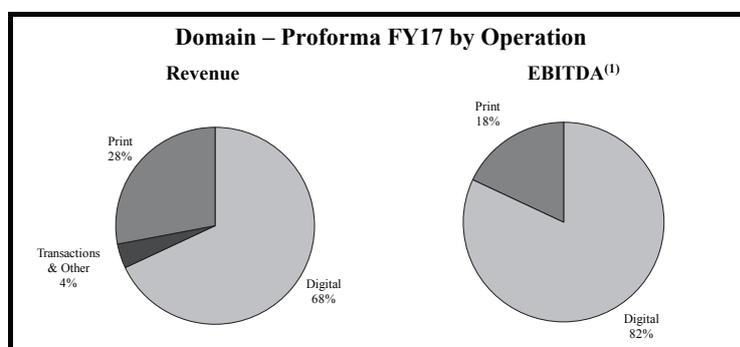
Domain will be an ASX listed media and technology services business focussed on the Australian real estate market. It will have around 720 employees (full-time, part-time and casual) with a presence in every state and territory in Australia.

The operations and strategy of Domain will be largely unchanged by the Proposed Separation. It will continue to:

- provide property marketing services;
- provide media and lead generation solutions for advertisers;
- create property market content;
- provide data and services to real estate agencies; and
- build on its transactional services offering to consumers.

However, Domain will need to expand its standalone corporate infrastructure and manage its capital structure independently of Fairfax Post Separation.

The contribution by segment and product to proforma FY17 revenue and EBITDA for Domain is as follows:



Source: Separation Booklet

Note: (1) Excluding Transactions & Other segment which contributed a \$1 million loss in FY17.

A detailed description of Domain is set out in Section 6 of the Separation Booklet.

5.2.2 Earnings and Dividends

The pro forma historical financial performance of Domain for the three years ended 25 June 2017 is summarised below:

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Domain – Pro Forma Historical Financial Performance (\$ millions)			
	Year ended		
	28 June 2015	26 June 2016	25 June 2017
Print	69	101	88
Digital	154	196	232
Total revenue	223	297	320
Share of profit of equity accounted associates	3	(1)	(1)
Expenses	(150)	(188)	(216)
EBITDA	76	108	103
Depreciation and amortisation	(5)	(12)	(17)
EBIT	71	96	86
<i>Statistics</i>			
Revenue growth	45.1%	32.8%	8.1%
EBITDA growth	42.1%	42.1%	(4.6%)
EBIT growth	35.2%	35.2%	(10.4%)
EBITDA margin	34.9%	36.4%	32.2%
EBIT margin	32.7%	32.3%	26.9%

Source: Separation Booklet and Grant Samuel analysis

The pro forma historical financial performance for Domain has been prepared by Fairfax on the following basis:

- assumes that the Separation was completed on 30 June 2014;
- has only been prepared to the EBIT level and therefore includes earnings attributable to agent shareholders within the agent ownership model operated by Domain (\$2 million in EBIT in FY15, \$5 million in FY16 and \$10 million in FY17);
- excludes significant items (as reported);
- includes an increase in corporate and operating costs of \$6 million to reflect the costs Domain is expected to incur operating as a standalone listed company (including incremental remuneration for the Chief Executive Officer (“CEO”) but not potential incremental share based charges for other employees);
- reflects the transfer of corporate costs borne by Fairfax historically but attributable to Domain; and
- excludes any adjustment to reflect:
 - the impact of estimated amortisation of intangible assets associated with the acquisition by Domain of businesses from Fairfax (i.e. as part of the internal restructure);
 - any future charges under the commercial agreements between Domain and Fairfax Post Separation for services previously provided at no cost. It is estimated that the total cost to Domain will be approximately \$2 million per annum initially, increasing to around \$4 million per annum over the next three years;
 - transaction costs associated with the Proposed Separation which are to be incurred by Domain. These costs are estimated at \$9 million (before tax), of which \$2 million are expected to be expensed. These costs are taken into account in the proforma financial position set out in Section 5.2.3 of this report. An additional \$5 million of transaction costs will be borne by Fairfax Post Separation (see Section 5.3.2 of this report); and
 - matters since 25 June 2017 including:
 - trading of the Domain business;
 - the additional information concerning FY18 for Domain provided by Fairfax on 16 August 2017 (see Section 3.3);

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- entry into the insurance category in August 2017 through the establishment of the Domain Insure joint venture in which Domain holds a 70% interest; and
- the potential acquisition by Domain of the remaining 50% of Review Property Pty Ltd (“Review Property Co”) for \$36 million in Domain shares (although Review Property Co is already controlled and consolidated by Domain).

Detailed pro forma historical financial performance for Domain (including a description of the assumptions and adjustments made) is set out in Sections 6.6.2-6.6.4 of the Separation Booklet. The historical pro forma financial performance has been prepared by Fairfax and reviewed by EY. EY’s Independent Limited Assurance Report is set out in Annexure A to the Separation Booklet.

As the Proposed Separation is expected to complete in November 2017, FY19 will be the first full year of Domain as a standalone listed company. Domain’s first financial results as a standalone company will be for the period from implementation to 24 December 2017 (to be reported in February 2018) and its FY18 results will be for the period from implementation to 24 June 2018 (to be reported in August 2018).

Following separation, Domain will become head company for a new consolidated tax group under the Australian tax consolidation regime. Domain will have no carried forward income tax losses or carried forward capital losses.

The level of future dividend payments is a matter for the board of Domain. Domain’s dividend policy will operate on the basis that the board will make a determination as to the level of dividends to be paid for each reporting period, taking into account Domain’s financial performance, funding position and a range of forward looking matters.

Domain intends to pay franked dividends. Following the separation Domain will have no franking credit balance and its ability to pay franked dividends will depend on the amount of Australian income tax paid in the future. In this regard, post separation until Domain lodges its FY18 income tax return, Domain will pay Australian income tax at the same instalment rate as the current Fairfax tax consolidated group.

5.2.3 Financial Position

The pro forma financial position of Domain at 25 June 2017 is summarised below:

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Domain – Pro Forma Financial Position (\$ millions)	
	At 25 June 2017
Trade and other receivables	70
Trade and other payables and provisions	(56)
Net working capital	14
Property, plant and equipment (net)	28
Intangible assets	1,538 ⁴⁹
Investment in equity accounted associates	17 ⁵⁰
Deferred tax liabilities (net)	(89)
Other non current assets and liabilities (net)	(2)
Total funds employed	1,506
Cash and cash equivalents	10
Interest bearing liabilities	(165)
Net borrowings	(155)
Net assets	1,351
Outside equity interests	(10) ⁵¹
Net assets attributable to Domain shareholders	1,341
Statistics	
<i>Shares on issue (million)</i>	575
<i>Net assets per share</i>	\$2.33
<i>NTA per share</i>	(\$0.31)
<i>Gearing (net borrowings/net assets plus net borrowings)</i>	10.3%
<i>Gearing (Fairfax definition: interest bearing debt/net assets)</i>	12.2%

Source: Separation Booklet and Grant Samuel analysis

Note: Grant Samuel has adjusted the presentation of the Proforma Financial Position for analytical purposes.

The pro forma financial position of Domain has been prepared by Fairfax on the basis that the Proposed Separation was effective on 25 June 2017. Specifically, it:

- reflects:
 - the internal restructuring steps to be undertaken prior to the separation (recorded on the basis of fair value);
 - the drawdown of \$165 million of borrowings under Domain’s new syndicated facility;
 - the settlement of intergroup loan balances with Fairfax; and
 - transaction costs totalling \$9 million (before tax) associated with the Proposed Separation (of which \$2 million are expected to be expensed and recognised as significant items); and
- does not reflect:
 - trading of the Domain business since 25 June 2017;
 - the Domain Loan Finder joint venture established in June 2017;
 - the Domain Insure joint venture established in August 2017; and
 - the proposed acquisition of the remaining 50% of Review Property Co for \$36 million in Domain shares.

In addition, at 25 June 2017 Domain had operating lease commitments (office leases, motor vehicles and office equipment) totalling \$61 million.

⁴⁹ Intangible assets include goodwill (\$1,468 million), software, websites and databases (\$21 million) and customer relationships (\$49 million).

⁵⁰ Investment in equity accounted associates includes Domain’s interests in Homepass (34%) and Oneflare (35%).

⁵¹ Outside equity interests include \$7.0 million reflecting the interests of agents under Domain’s agent ownership model (including the 50% of Review Property Co that Domain is proposing to acquire) and \$3.0 million reflecting a 50% interest in Compare & Connect and a 50% interest in Beevo.

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A detailed pro forma statement of financial position (including a description of the assumptions and adjustments made) is set out in Section 6.6.5 of the Separation Booklet. The pro forma financial position has been prepared by Fairfax and reviewed by EY. EY's Independent Limited Assurance Report is set out in Annexure A to the Separation Booklet.

A syndicate of financial institutions have signed a binding commitment letter to provide a \$250 million unsecured syndicated bank facility to Domain on implementation of the Proposed Separation. At the time of the separation, the total amount drawn under the facility is expected to be approximately \$165 million (i.e. undrawn commitments of approximately \$85 million).

The pro forma financial position shows Domain has net borrowings of \$155 million. Given its likely funding sources, Domain is not expected to seek a credit rating in the short term. The pro forma gearing (net borrowings/net assets plus net borrowings) for Domain at 25 June 2017 is 10.3%.

5.2.4 Directors and Management

Domain's board will comprise seven directors including:

- three non-executive directors appointed by Fairfax. One of these directors will be a current senior executive of Fairfax (Gail Hambly, Group General Counsel & Company Secretary) and two will be current non-executive directors of Fairfax including the Chairman (Nick Falloon) who will also be Chairman of Domain;
- three non-executive directors (independent of Fairfax); and
- one executive director (Managing Director).

The senior management of Domain will comprise Domain's existing senior management team. Antony Catalano will continue as CEO and be appointed Managing Director of Domain, Robert Doyle will continue as Chief Financial Officer ("CFO") and Graeme Plowman will continue as Chief Operating Officer ("COO"). The existing operational team is to remain in place and appointments for certain corporate positions (e.g. company secretary) are expected to be made from within Fairfax. Further details of the board and senior management of Domain are set out in Section 6.5 of the Separation Booklet.

Executives and employees who are participants in Fairfax's existing employee incentive plans who are to become Domain employees will have their entitlements dealt with as set out in Sections 6.5.3 and 9.7 of the Separation Booklet. In summary:

- if a holder of 2015 Options, they will have a choice to have the terms of the options amended so that they are in a similar position as Fairfax shareholders who are able to participate in the Proposed Separation; and
- if a holder of 2016 Options or 2017 Performance Rights, those options and performance rights will vest (based on the respective proportions of the performance periods completed) and employees will receive cash consideration to the value of their vested entitlement. The cash consideration will be paid to employees in three tranches (following separation, September 2018 and September 2019) subject to employees being employed by Domain on the payment dates unless the board determines a different treatment is appropriate.

In addition, at separation Domain senior executives will receive a one-off allocation of Domain shares⁵² which will only be released to the executive two years after the listing of Domain, if they are still employed by Domain at that date. This share allocation is designed to create a retention tool and to align with shareholder value.

⁵² The aggregate value of shares to be allocated is expected to be up to \$3 million with the number of shares allocated determined by the five day VWAP following the release of Domain's FY18 half year results in February 2018. The funding for these shares will be provided by Fairfax Post Separation.

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Following separation, Domain also intends to establish a long term equity incentive plan to assist in the motivation, reward and retention of senior management and other employees (see Section 6.5.3 of the Separation Booklet). The plan will be designed to align the interests of senior management and other employees with the interests of shareholders.

5.2.5 Capital Structure and Ownership

At implementation of the Proposed Separation, Domain will have approximately 575 million shares on issue. Fairfax shareholders will collectively hold 40% of the shares on issue and Fairfax Post Separation will hold 60%. No shareholder other than Fairfax Post Separation is expected to hold more than 5% of shares on issue at implementation.

Further potential issues of Domain shares include:

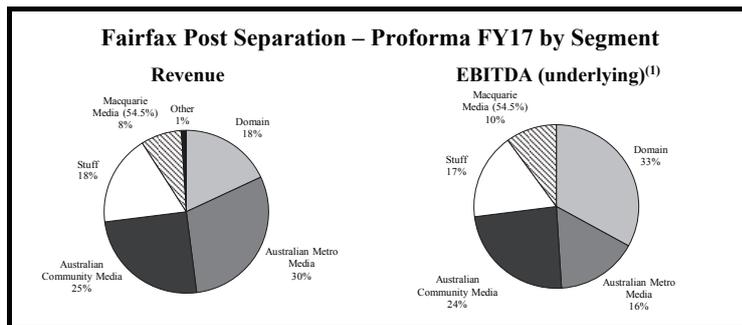
- under employee incentive plans including the one-off allocation of Domain shares (see Sections 9.7 and 6.5.3 of the Separation Booklet); and
- under the proposed acquisition of the remaining 50% of Review Property Co.

5.3 Fairfax Post Separation

5.3.1 Operations and Strategy

Fairfax Post Separation will operate and hold a portfolio of businesses across information, marketplace and entertainment assets in Australia and New Zealand. The key difference to Fairfax’s current operations will be that it will own a 60% interest in Domain rather than 100%.

Domain will continue to be consolidated by Fairfax Post Separation and be the largest contributor to earnings:



Source: Separation Booklet
 Note: (1) EBITDA (underlying) before contribution of Other segment (which includes corporate functions).

A detailed description of Fairfax Post Separation is set out in Section 7 of the Separation Booklet.

5.3.2 Earnings and Dividends

The pro forma historical financial performance of Fairfax Post Separation for the three years ended 25 June 2017 is summarised below:

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Fairfax Post Separation – Pro Forma Historical Financial Performance (\$ millions)			
	Year ended		
	28 June 2015	26 June 2016	25 June 2017
Revenue	1,853	1,831	1,733
Share of profit of equity accounted associates	-	2	(1)
Expenses	(1,569)	(1,554)	(1,466)
EBITDA	284	279	266
Depreciation and amortisation	(65)	(70)	(41)
EBIT	219	209	225
<i>Statistics</i>			
<i>Revenue growth</i>	(0.7%)	(1.2%)	(5.3%)
<i>EBITDA growth</i>		(1.8%)	(4.7%)
<i>EBIT growth</i>		(4.6%)	7.7%
<i>EBITDA margin</i>	15.3%	15.2%	15.4%
<i>EBIT margin</i>	11.8%	11.4%	13.0%

Source: Separation Booklet and Grant Samuel analysis

The proforma historical financial performance for Fairfax Post Separation has been prepared by Fairfax on the following basis:

- assumes the Proposed Separation was completed on 30 June 2014;
- includes Domain on a fully consolidated basis from 30 June 2014;
- has only been prepared to the EBIT level and therefore includes earnings attributable to outside shareholders (such as the agent shareholders in the agent ownership model operated by Domain);
- excludes significant items (as reported);
- allowance for a net increase in costs of \$5 million per annum (being the incremental costs associated with Domain operating as an independent listed company); and
- excludes any allowance for transaction costs which are estimated to total \$14 million (before tax) (of which \$2 million was expensed by Fairfax in FY17) although the pro forma financial position set out in Section 5.3.3 of this report takes these costs into account in net borrowings.

Detailed pro forma historical financial performance for Fairfax Post Separation (including a description of the assumptions and adjustments made) is set out in Sections 7.5.2-7.5.4 of the Separation Booklet. The historical pro forma financial performance has been prepared by Fairfax and reviewed by EY. EY's Independent Limited Assurance Report is set out in Annexure A to the Separation Booklet.

Fairfax Post Separation's financial results for FY18 will reflect Domain on a fully consolidated basis but will recognise an outside equity interest for 40% of Domain from the implementation date for separation (expected to be 22 November 2017). FY19 will be the first full year following separation of Domain.

Following separation, Fairfax will remain the head company of the Fairfax Post Separation consolidated tax group (from which Domain has exited) and the existing realised capital losses are expected to be preserved in Fairfax Post Separation.

The level of future dividend payments is a matter for the board of Fairfax Post Separation but it is intended that there will be no change to dividend policy as a result of the Proposed Separation. The policy will continue on the basis that the board will make a determination as to the level of dividends to be paid for each reporting period, taking into account the Fairfax Post Separation's financial performance, funding position and a range of forward looking factors.

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Fairfax Post Separation's first dividend is expected to be for the half year ended 24 December 2017 for which it will have access to 100% of Domain's earnings for the period from 26 June 2017 to implementation date (expected to be 22 November 2017). However, Fairfax Post Separation will not receive any dividends from Domain until Domain declares its first dividend post implementation.

Fairfax Post Separation expects to pay franked dividends. It currently has a relatively low franking credit balance (\$5.9 million) and its ability to pay franked dividends will depend on the amount of Australian income tax paid in the future. This will be impacted by:

- the reduction in tax instalment income as a result of Domain exiting the Fairfax Post Separation consolidated tax group;
- the quantum and timing of dividend payments by Domain and its other less than 100% owned businesses as well as the level of franking credits attaching to any such dividends (although Fairfax Post Separation will pay tax to the extent they are less than 100% franked); and
- the proportion of earnings represented by its business in New Zealand (Stuff)⁵³.

5.3.3 Financial Position

The pro forma financial position of Fairfax Post Separation at 25 June 2017 is summarised below:

Fairfax Post Separation – Pro forma Financial Position (\$ millions)	
As at 25 June 2017	
Trade and other receivables	299
Inventories	25
Trade and other payables and provisions	(359)
Net working capital	(35)
Property, plant and equipment (net)	178
Goodwill	375
Other intangible assets ⁵⁴	450
Deferred tax assets (net)	27
Investment in equity accounted associates	49
Other financial assets	96
Non-current provisions	(59)
Other non current assets and liabilities (net)	19
Total funds employed	1,100
Cash and cash equivalents	266
Interest bearing liabilities	(405)
Derivative financial instruments (net)	9
Net borrowings	(130)
Net assets	970
Outside equity interests	(191)
Equity attributable to Fairfax shareholders	779
Statistics	
<i>Shares on issue at period end (million)</i>	<i>2,299.5</i>
<i>Net assets per share</i>	<i>\$0.34</i>
<i>NTA per share</i>	<i>\$0.15</i>
<i>Gearing (net borrowings/net assets plus net borrowings)</i>	<i>11.8%</i>
<i>Gearing (Fairfax definition: interest bearing debt/net assets)</i>	<i>41.8%</i>

Source: Separation Booklet and Grant Samuel analysis

Note: Grant Samuel has adjusted the presentation of the Proforma Financial Position for analytical purposes.

⁵³ Stuff pays income tax at the corporate rate in New Zealand. Dividends received by Fairfax from this entity are exempt from income tax in Australia. As no Australian tax is paid on this income there are no franking credits created on the proportion of Fairfax's earnings sourced from New Zealand.

⁵⁴ Other intangible assets include mastheads and tradenames, radios licences and customer relationships.

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The pro forma financial position of Fairfax Post Separation has been prepared by Fairfax on the basis that the Proposed Separation was effective on 25 June 2017. Specifically, it:

- reflects:
 - the internal restructuring steps to be undertaken prior to the separation (recorded on the basis of fair value) including the \$536 million reduction in capital;
 - no profit on the distribution of shares in Domain;
 - the drawdown of \$165 million of borrowings under Domain's new syndicated facility; and
 - transaction costs totalling \$14 million (before tax) associated with the Proposed Separation (of which \$2 million was expensed in FY17);
 - an increase in outside equity interests relating to the 40% of Domain that it does not own; and
- does not reflect:
 - modification of the Fairfax long term equity based incentive scheme which will occur if the Proposed Separation is implemented;
 - trading of the business since 25 June 2017;
 - repayment of the unsecured senior noted on 10 July 2017; and
 - any other matters that have arisen since 25 June 2017.

A detailed pro forma statement of financial position (including a description of the assumptions and adjustments made) is set out in Section 7.5.5 of the Separation Booklet. The pro forma financial position has been prepared by Fairfax and reviewed by EY. EY's Independent Limited Assurance Report is set out in Annexure A to the Separation Booklet.

Upon separation, Fairfax Post Separation's existing debt facilities will be repaid and replaced with a syndicated bank facility comprising \$100 million and NZ\$25 million. This facility will be secured over the number of shares in Domain which represents 15% of all issued shares in Domain and which is held by Fairfax Post Separation on the date that all conditions precedent for drawdown are satisfied (expected to be implementation date for the Proposed Separation). A syndicate of financial institutions have signed a binding commitment letter to provide this syndicated facility to Fairfax Post Separation.

The pro forma financial position at 25 June 2017 shows Fairfax Post Separation has net borrowings of \$130 million. The pro forma gearing (net borrowings/net assets plus net borrowings) for Fairfax Post Separation at 25 June 2017 is 11.8%.

5.3.4 Directors and Management

Fairfax Post Separation's board will comprise the current directors of Fairfax. Nick Falloon will continue as Chairman, Greg Hywood will continue as CEO and Managing Director and David Housego will continue as CFO following completion of the Proposed Separation. Further details on the board and senior management of Fairfax Post Separation are set out in Section 7.4 of the Separation Booklet.

Executives and employees who are participants in Fairfax's existing employee incentive plan who remain with Fairfax Post Separation will have their entitlements dealt with as set out in Section 9.7 of the Separation Booklet. In summary:

- if a holder of 2015 Options, they will have a choice to have the terms of the options amended so that they are in a similar position as Fairfax shareholders who are able to participate in the Proposed Separation; and

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- if a holder of 2016 Options or 2017 Performance Rights, those options and performance rights will vest (based on the respective proportions of the performance periods completed) and employees will receive cash consideration to the value of their vested entitlement. The cash consideration will be paid to employees in three tranches (following separation, September 2018 and September 2019) subject to employees being employed by Fairfax Post Separation on the payment dates unless the board determines a different treatment is appropriate.

5.3.5 Capital Structure and Ownership

There will be no change to the ordinary shares (2,299,475,546) or debentures (281) on issue following implementation of the Proposed Separation. The number of options and performance rights on issue will decline as all 2016 Options and 2017 Performance Rights will vest and be converted into cash consideration but some unexercised 2015 Options may remain on issue.

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6 Evaluation of the Proposed Separation

6.1 Rationale for Separation

The impetus for the Proposed Separation stems from a number of different sources:

- a perception within Fairfax that its share price did not fully reflect the value of the various businesses within its portfolio or the progress that has been made in transforming the company over the past five years. In particular, there has been:
 - a significant reduction in the operating costs of the publishing businesses which has enabled them to remain EBITDA positive despite very substantial declines in revenue;
 - the sale of businesses such as *Trade Me* (across 2011/2012) and *Stayz* (in 2013) at attractive prices;
 - value enhancing transactions such as the acquisition of the remaining 49.99% of Metro Media Publishing in January 2017 and the merger of Fairfax's radio business with Macquarie Radio Network Limited in March 2015;
 - the emergence of Domain as a robust business that has seen earnings grow rapidly. EBITDA (underlying) has increased from less than \$50 million in FY13 to \$113 million in FY17 and the outlook remains strong;
 - investment in digital businesses such as *Stan* and *Weatherzone* and new revenue streams such as the events business; and
 - a dramatic reduction in net debt from around \$1.5 billion at the end of FY11 to around \$160 million by the end of FY13. Despite continued investment, net debt remains at around \$120 million.

However, this transformation had not been reflected in any material improvement in the share price (at least prior to the unsolicited approach by the TPG Consortium in May 2017). Since a jump from \$0.60 towards \$1.00 in early 2014, the share price has stayed within a band of \$0.80-1.00 and, in the months prior to announcement of the Proposed Separation, around \$0.80-0.90;

- the significant evolution of the Domain business over the past four years to the point where:
 - it is now the single largest contributor to Fairfax's EBITDA (underlying) (35% in FY17);
 - with FY17 revenue of approximately \$320 million, EBITDA (underlying) of \$113 million and around 720 employees, it is large enough to standalone and can support its own organisational infrastructure;
 - it now operates out of its own physically separate premises; and
 - the brand is beginning to be recognised in its own right rather than as an adjunct to, or part of, Fairfax's *The Sydney Morning Herald* and *The Age* publications.

The Domain business is still closely tied to the Fairfax digital and print publications which provide an important distribution channel (and which in turn benefit from the audience generation from Domain). However, Fairfax management believes that this relationship:

- can be maintained through commercial agreements; and
- may change over time, particularly in view of the dynamic and rapidly changing environment in which the Domain business operates. Over time, it is expected that the Fairfax publications will become a less important distribution channel for Domain.

In short, Fairfax management believes it is now time to allow the Domain business to start the process of "leaving home"; and

- the marked difference in the market environment and outlook for the Domain business compared to the traditional publishing business of Fairfax. Having business units on two

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very different growth trajectories creates a degree of misalignment within Fairfax in relation to:

- equity based incentives for staff;
- other remuneration and employment practices; and
- cultural differences (technology vs. publishing).

The Fairfax board considered a number of alternatives before resolving to pursue the Proposed Separation. The board took the view that it was in shareholders' interests to pursue options where the closing of the perceived value gap and the longer term upside from the business could be captured by existing shareholders.

The TPG Proposal and H&F Proposal (unsolicited potential offers for the whole of Fairfax) in May 2017 created a further alternative to be considered. The Fairfax board engaged with the TPG Consortium and Hellman & Friedman and allowed detailed due diligence. However, ultimately neither party put forward a firm offer. Accordingly, the board resolved to pursue its standalone business plans including the Proposed Separation.

Fairfax could undertake a full demerger but instead chose a structure where it retains a 60% controlling interest in Domain. This structure:

- allows Fairfax Post Separation to keep control of Domain and ensure that the synergistic benefits between its main digital and print publications and Domain are fully exploited;
- puts Fairfax Post Separation in a very strong financial position holding a 60% interest in an asset with a market established value (estimated based on current broker valuations at around \$1.0 billion⁵⁵). In a rapidly changing mainstream media environment, this financial flexibility has real strategic value; and
- provides Fairfax Post Separation with flexibility to reduce its interest (e.g. by sell down or distribution to shareholders) as circumstances change.

The 60% retained interest reflects a balancing between:

- a need to list a sufficiently high percentage to ensure liquidity and appropriate index inclusion for Domain; and
- a desire to retain control of Domain.

The model of a separately ASX listed online real estate business with a mainstream media controlling shareholder has already been established (REA Group Limited ("REA Group") in which News Corporation has a 61.6% interest) and has been accepted by equity markets.

⁵⁵ Based on broker estimates for the enterprise value of Domain. As far as Grant Samuel is aware, Fairfax is followed by 12 brokers. 11 of these brokers published research following the release of Fairfax's FY17 results on 16 August 2017, five of which included enterprise valuations for Domain. However, some of the brokers have not allowed for standalone corporate costs or the outside interest in EBITDA under the agent ownership business model in determining an enterprise value for Domain. In these cases, Grant Samuel has adjusted EBITDA used by the brokers to allow for \$9 million of additional costs and/or a \$10 million outside interest.

On this basis, the adjusted broker enterprise values for Domain range from \$1,590-2,257 million (median \$1,856 million). Based on the median adjusted broker enterprise value for Domain and assuming pro forma net borrowings of \$155 million (see Section 5.2.3), 100% of the equity in Domain would be \$1,701 million and Fairfax's 60% interest would be \$1,021 million.

This analysis is not, and does not purport to be, a valuation of Domain. The actual sharemarket value of Domain could be lower or higher and will depend, inter alia, on a range of factors including market conditions at the time (including the market ratings of peer group entities), actual operating performance of Domain and market responses to Fairfax's 60% interest. This analysis is provided for illustrative purposes only.

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6.2 Approach to Evaluation

Fairfax shareholders are being asked to split their current investment into two parts, a shareholding in Fairfax Post Separation and a separate shareholding in Domain.

The transaction is a “clean” split in so far as there is no change in the underlying economic interest of each shareholder (except for ineligible foreign shareholders²). They will, in aggregate, continue to own 100% of the Domain business, but in a different form, with 40% held directly and 60% owned indirectly through their ongoing shareholding in Fairfax Post Separation. There is:

- no purchase or sale of equity in either Domain or Fairfax Post Separation to third parties;
- no value leakage to third parties from either entity; and
- no adverse tax consequences for the separate entities and tax consequences for the vast majority of Fairfax shareholders will be minimal (refer to Section 6.7).

Accordingly, the Proposed Separation is definitionally fair as shareholders (except ineligible foreign shareholders) will hold exactly the same underlying economic interests in the Domain business before and after the separation is implemented. Evaluation of whether or not the Proposed Separation is in the best interests of shareholders therefore involves weighing up the advantages and disadvantages of the proposal for shareholders. This involves judgements about the advantages and benefits such as management focus, financial and shareholder flexibility and opportunities for value realisation weighed against the disadvantages, risks and costs such as transaction costs and tax consequences, rather than analysis of quantifiable financial or other verifiable factors.

6.3 Advantages and Benefits of the Proposed Separation

6.3.1 Transparency of Value Proposition

A primary benefit of the Proposed Separation is that it will establish a market value for Domain that should, in turn, be reflected in the Fairfax Post Separation share price. It needs to be recognised that:

- Fairfax is a diverse business with operations in different geographic markets, business units on different growth trajectories (ranging from the declining major print publications to nascent ventures such as *Stan*) and differing ownership levels. Accordingly, equity market valuation of Fairfax tends to focus on a “sum of the parts” approach attributing separate values to each business unit. Analysts (and investors) already assess a value for the Domain business that they factor into their overall assessments of appropriate values for Fairfax. Moreover:
 - since FY16, Fairfax has reported Domain as a separate segment (including comparative information for FY14 and FY15) and Fairfax released additional information on Domain (including in relation to FY18) when it released its FY17 results on 16 August 2017 (see Section 3.3). Accordingly, it is arguable that the market already has information on Domain that enables it to factor in a value for it into the assessments of Fairfax value (and it is clear from a review of broker reports that this is exactly what analysts generally do); and
 - there is a well established ASX listed comparable company (REA Group) that provides value parameters against which a valuation of Domain can be benchmarked (albeit REA Group has international operations and no print products). There are also a number of international listed comparable companies and ASX listed companies operating similar businesses in adjacent sectors; and
- over a long period of time the equity markets have demonstrated that even where there are clear market benchmarks for the value of subsidiary businesses or investments, holding companies that have indirect or multiple interests tend to trade at discounts to the identifiable or aggregated market value of these interests. The quantum of the

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discount and the reasons for it vary from case to case. However, typical reasons would include factors such as absence of unfettered management/board control over the assets, lack of direct access to cash flows, overhead costs and tax implications.

In other words, the value of Domain even if it is a clearly established market value will not automatically flow through into the Fairfax share price (at least not on a \$ for \$ basis).

At the same time:

- broker valuations for Fairfax at announcement of the Proposed Separation were generally well above the then trading range of \$0.80-0.90 as summarised below:

Fairfax – Broker Valuations (at announcement date)⁵⁶			
	Broker Valuations⁵⁷ (\$ millions)		
	Low	Median	High
Domain Group	1,683	2,124	2,050
Australian Metro Media	193	188	334
Australian Community Media	279	163	344
Stuff	196	136	192
Radio (54.5% interest)	128	108	159
Corporate	(262)	(318)	(320)
Enterprise value	2,217	2,401	2,759
Net borrowings	(116)	(117)	-
Equity value	2,101	2,284	2,759
Equity value per share	\$0.91	\$0.99	\$1.20

Source: Grant Samuel analysis

A discount from broker valuations (or target prices⁵⁸) is not uncommon, and certainly other listed media companies (particularly those with “old media” assets) trade at material discounts. Nevertheless, the analysis above does indicate that there was upside potential.

A review of the values attributed to the Domain Group in the seven “sum of the parts” valuations used in the above analysis indicates that brokers adopted multiples in the range of 14.8-19.8 times (median 18.2 times) to apply to their respective FY17 EBITDA forecasts. These multiples compare to the trading multiples of listed companies comparable to Domain at announcement date (22 February 2017) as set out below:

⁵⁶ 10 of the 11 brokers then following Fairfax published research at 22 February 2017, seven of which included “sum of the parts” valuations and have been used in the analysis. The valuations are not presented on a consistent basis as they reflect each broker’s approach to analysis of Fairfax’s operating performance. In this analysis, Grant Samuel has attempted to present the business units on a consistent basis, however, some inconsistencies may exist (e.g. the allocation of borrowings and digital businesses)

⁵⁷ Grant Samuel’s analysis of low, high and median broker valuations is based on enterprise value. As a result, depending on the values attributed by the broker, the values presented for each business unit may not also represent the low, high and median broker valuations for that business unit.

⁵⁸ Broker target prices for Fairfax generally reflect the equity values estimated using the “sum of the parts” approach. The target prices for the equity values per share shown in the table were \$0.90, \$1.00 and \$1.20, respectively.

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Comparable Company Value Parameters (at announcement date)				
Company ⁵⁹	Online Segment	Market Capitalisation ⁶⁰ (millions)	EBITDA Multiple ⁶¹ (times)	
			FY16 (historical)	FY17 (forecast)
Online Property				
REA Group	Real estate	A\$7,301	20.9	18.9
Zillow Group, Inc. ("Zillow") ⁶²	Real estate	US\$7,065	nmf ⁶³	32.6
ZPG Plc ("ZPG") ⁶⁴	Real estate	£1,725	25.0	21.6
Rightmove plc ("Rightmove")	Real estate	£4,277	25.5	23.3
Scout24 AG ("Scout24") ⁶⁵	Real estate/ Automotive	€3,621	20.6	16.6
Other Online (Australia)				
SEEK Limited ("SEEK")	Employment	A\$5,567	17.1	16.7
carsales.com Limited ("carsales")	Automotive	A\$2,686	15.4	14.8

Source: Grant Samuel analysis⁶⁶

While there may be valid reasons to discount the multiple for Domain relative to some of the comparable companies (e.g. REA Group), the multiples applied by brokers to Domain at announcement were not demanding relative to the market evidence, particularly for the pure real estate operators.

Looked at alternatively, if the values determined for the non Domain businesses by the median broker valuation (as shown in the previous table above) are assumed to be appropriate, the then trading range of \$0.80-0.90 implied multiples for Domain Group in the order of 14.5-16.5 times based on that broker's forecast for FY17 EBITDA;

- assuming the market for Domain shares is reasonably liquid, the Proposed Separation will provide a clear and unambiguous measure of market value instead of a spectrum of analyst estimates which:
 - can be quite diverse (as shown above); and
 - the market may discount for various reasons (including uncertainty).

It will provide a stronger, more supportable case for the value to be reflected in the Fairfax Post Separation share price;

⁵⁹ In line with Fairfax, the Australian companies (REA Group, SEEK, carsales) have 30 June year ends and FY17 represents the year ending 30 June 2017. Of the international companies, ZPG has a 30 September year end and FY17 represents the year ending 30 September 2017 while Zillow, Rightmove and Scout24 have 31 December year ends and FY17 represents the year ending 31 December 2017

⁶⁰ Based on sharemarket prices as at 22 February 2017.

⁶¹ Represents gross capitalisation (that is, the sum of the market capitalisation adjusted for minorities plus borrowings less cash as at the latest balance date) divided by EBITDA. EBITDA is earnings before net interest, tax, depreciation and amortisation, other income, significant and non-recurring items and share of net profits of associates. This definition is different to EBITDA (underlying) as reported by Fairfax.

⁶² During FY16, Zillow acquired two businesses and sold one and in early FY17 acquired another business. As a result, Zillow's historical multiple (44.7 times) is not meaningful for the purposes of this analysis. In addition, as non cash stock based compensation represents over 10% of Zillow's cost base, it has been added back in deriving EBITDA for the purposes of this analysis. If this adjustment is not made, FY16 and FY17 trading multiples for Zillow would be 159.8 times and 71.0 times, respectively.

⁶³ nmf = not meaningful

⁶⁴ Formerly known as Zoopla Property Group Plc.

⁶⁵ Scout24 AG derives approximately 65% of revenue from real estate and 35% from automotive.

⁶⁶ Based on data obtained from IRESS, S&P Capital IQ, company announcements and, in the absence of company published financial forecasts, brokers' reports. Where company financial forecasts are not available, the median of the financial forecasts prepared by a range of brokers has generally been used to derive relevant forecast value parameters. The source, date and number of broker reports utilised for each company depends on analyst coverage, availability and recent corporate activity.

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- the Proposed Separation should increase overall demand for shares across the two companies. It seems unlikely that Fairfax shareholders would have any particular reason to sell or reduce their holding in either Domain or Fairfax Post Separation simply as a result of the Proposed Separation. On the other hand, there is a significant number of institutional investors (including some focussed on the technology and media sectors) that invest in other listed Australian online classified businesses (such as REA Group, SEEK, carsales) but are not investors in Fairfax because either their mandates prevent them from investing in businesses with significant legacy print assets or they do not wish to be exposed to such assets. Fairfax management has also received feedback from other investors that they will not invest because of the publishing exposure. The separate listing of Domain will provide a vehicle for those investors to invest.

To the extent this change increases overall demand for shares, there should be, other things being equal, a positive impact on the share price of Domain (relative to what it otherwise would have been).

Notably, the increased demand from new investors will be directed to the 40% of Domain that is listed (i.e. on a relatively smaller pool of shares);

- while the market currently does have information on the separate performance of Domain that enables it to assess value, a separately listed Domain will inevitably provide more information (and with greater granularity) about the underlying performance of the business. In addition, there will be extensive communication with the market by Domain management that will be focussed solely on the Domain business. This increased transparency should lead to better understanding of the business and its prospects which, other things being equal, should enhance confidence and, in turn, the value attributed to the business; and
- to the extent that some of the other expected operational benefits (management flexibility, currency for transactions, staff incentives, financial flexibility – see below) deliver measurable improvements in earnings over the medium to longer term, there will be value creation relative to the status quo.

Accordingly, it is reasonable to expect that the Proposed Separation should result in an overall improvement in shareholder value over time. In this context, the Fairfax share price increased from around \$0.90 (the shares closed at \$0.87 on 20 February 2017) to over \$1.00 following the announcement of the Proposed Separation. Fairfax shares traded consistently at that level until the TPG Consortium announcement on 8 May 2017.

Following the announcement of 3 July 2017 that neither the TPG Proposal nor the H&F Proposal were proceeding, the Fairfax share price fell from above \$1.20 to just below \$1.00 (where it traded prior to momentum regarding changes to media ownership rules in late July 2017), a price around 10% above levels prior to announcement of the Proposed Separation. Since the release of its FY17 results on 16 August 2017, Fairfax shares have traded in the range of \$0.93-1.035 (VWAP of \$0.98) and closed at \$0.95 on 15 September 2017.

At current trading levels, the Fairfax share price arguably already reflects some of the net benefits of the Proposed Separation (as well as speculation regarding media law reform) and there is probably less scope for a material uplift in value immediately following implementation (although an increase in overall demand for shares across both companies should have a positive impact). However, in Grant Samuel's view, it does not necessarily follow that the Fairfax share price would decline to pre announcement levels if the Proposed Separation does not proceed. More than six months have passed since announcement of the separation during which Fairfax has responded to unsolicited corporate activity, released its FY17 results (to a generally positive market response) has released more information about Domain and proposed changes to media ownership laws have been passed by the Senate and are expected to become law in October 2017.

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6.3.2 Strategic, Operational and Financial Flexibility for Domain

At least initially, Fairfax will own 60% of Domain and, while it cannot direct the Domain board, it will have the capacity to control the composition of its board⁶⁷. In turn, this gives it ultimate control over the management of Domain. Fairfax will also consolidate Domain for accounting purposes (i.e. it will include 100% of Domain's assets, liabilities, revenues and expenses in its accounts with an outside equity interest to reflect the 40% owned by other shareholders). In this respect, Domain will not be "independent" and will not have the same freedom and flexibility as companies that are fully demerged from their parent company (i.e. where 100% is demerged).

However, as a separate listed entity it will have a significant degree of freedom to pursue its own strategic agenda and structure its affairs. The primary benefits include:

- a board and management team focussed solely on developing and optimising the performance of the Domain business with the ability to pursue their own strategic and operational priorities. At present, key strategic decisions are inevitably taken within a context of the impacts on, or needs of, the broader Fairfax group;
- less layers of senior management and a shorter "chain of command", potentially enabling faster decision making;
- a "currency" that can be used in transactions with potential acquisition targets or counterparties. In the past, Domain has used equity in local ventures (i.e. subsidiaries of Domain) as a key tool in attracting real estate agents to partner with Domain. If it chooses to continue to pursue this model, equity in Domain represents another currency option. Certainly, at present it can only offer equity in Fairfax which is likely to be far less attractive to agents (or others). Domain shares could also be able to be used in, for example, any larger scale acquisition or merger transactions although there would inevitably be some constraints relating to the potential dilution of Fairfax's interest (although it is reasonable to assume Fairfax would not stand in the way of a genuinely value adding transaction);
- Domain is being established with its own capital structure tailored to its situation, performance and outlook. New external borrowing facilities are to be entered into by Domain and Fairfax Post Separation upon separation as set out below:

External Borrowings			
	Fairfax (25 June 2017) ⁶⁸	Post Separation	
		Domain	Fairfax Post Separation
Syndicated bank facility	\$325 million	\$250 million	\$100 million NZ\$25 million
Security	None	None	15% of issued shares in Domain held at implementation

Source: Grant Samuel analysis

As can be seen from the table, Domain will have a lower overall level of borrowings than Fairfax does presently but a substantially higher level than Fairfax Post Separation (which also has to provide security to the lenders), reflecting Domain's greater debt servicing capacity. Fairfax's debt capacity is necessarily limited by the declining earnings of its publishing business and the potential for significant additional one-off restructuring costs or further investment in its other growth assets.

⁶⁷ The board of Domain will include three independent directors and an executive director and the three directors nominated by Fairfax will have fiduciary duties to Domain. However, Fairfax will be able to determine the fate of resolutions to appoint or remove individual directors.

⁶⁸ Excluding unsecured senior notes issued in the United States private placement market which were repaid on 10 July 2017 and Macquarie Media's \$50 million revolving facility.

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In contrast, despite the need for continued investment in growth initiatives, Domain produces strong cash flows and has limited publishing exposure. Accordingly, Domain is able to adopt a more efficient financing structure through judicious use of debt. In addition, it will be able to adjust that structure as needs and circumstances evolve.

At the same time, there will also be some constraints as Fairfax will be consolidating the Domain debt (for so long as it continues to control Domain). While Domain's debt will be non recourse to Fairfax, the overall impact on the consolidated group cannot be ignored; and

- Domain will set its own dividend policies reflecting its performance and funding requirements. It will not be impacted by the operating performance of Fairfax's other businesses or funding needs.

6.3.3 Flexibility for Fairfax Post Separation

The Proposed Separation also provides some increased flexibility for Fairfax.

The most important benefit is the financial flexibility that will result. On a proforma basis at 25 June 2017, Fairfax Post Separation has net cash if Domain's net borrowings are excluded (see Sections 5.2.3 and 5.3.3). A conservative financial structure is appropriate given the pressure on earnings of its publishing business, the potential for significant restructuring costs and further investment in growth assets. However, Fairfax Post Separation will also have an asset, the 60% of Domain, that:

- is estimated to be worth around \$1.0 billion⁵⁵ depending on where Domain shares trade;
- assuming a reasonable level of liquidity, has a clear, unambiguous market value; and
- can potentially be liquidated, at least partially, at short notice (e.g. a sell down of, say, 10% of Domain should be able to be organised relatively easily within a few days, if not overnight).

While Fairfax's current intention is to retain its 60% stake in Domain, the shareholding obviously provides a useful liquidity buffer but, more importantly, provides a ready funding source for Fairfax Post Separation to:

- cover any major unexpected restructuring costs; and
- invest in new growth businesses. A key element of the strategy for Fairfax Post Separation is to continue to harness the drawing power of its major publications in order to create and develop new businesses in a similar manner to the path that has been pursued with Domain.

Based on a value of \$1.7 billion⁵⁵ for 100% of Domain, Fairfax could realise up to \$170 million (before tax) before reducing its holding below 50% of Domain's issued capital.

It will also have the flexibility to reduce its stake to below 50%, if circumstances change. At present, a controlling shareholding is seen as important in maintaining the close relationship between Domain and Fairfax's major digital and print publications and ensuring both businesses have a clear incentive to continue to fully exploit the cross promotional value of both platforms for their mutual benefit.

However, in the rapidly changing world of media and technology, it is likely that the relationship may become less critical over time. As Domain establishes itself as a more independent market leading real estate media and services platform, the importance of the Fairfax publications may lessen as a distribution channel.

If and when such changes occur, Fairfax Post Separation will be free to sell down its interest in Domain if it chooses (and will have further choices as to whether it sells all or part or distributes all or part of the interest in Domain to its own shareholders).

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6.3.4 Increased Focus and Scrutiny

The board and management of Domain will be solely focussed on its business. Moreover, as a separate listed company Domain will come under a much greater level of scrutiny including:

- higher levels of financial disclosure (compared to being a business unit of Fairfax);
- a higher public profile;
- focussed research by analysts;
- regular interaction between management (and potentially board members) and analysts and institutional investors (e.g. during financial results roadshows); and
- annual general meetings.

While it is not possible to establish any direct or measurable link, it is not unreasonable to believe that this increased focus and scrutiny will put additional pressure on management to perform which should, in the longer run, lead to better outcomes.

In the case of Fairfax Post Separation, there is arguably little or no change. However, to the extent that close oversight of the Domain business is largely delegated to the Domain board, the board and management will be able to give greater attention to the remaining businesses.

6.3.5 Shareholder Flexibility

Immediately following the Proposed Separation, Fairfax shareholders (except ineligible foreign shareholders) will retain the same economic exposure to Fairfax's business but will hold it through two separate investments:

- shares in Domain, which provide direct ownership of, and a pure exposure to, the Domain business; and
- shares in Fairfax Post Separation, which provides exposure to 60% of the Domain business together with all of Fairfax's other businesses (Australian Metro Media, Australian Community Media, Stuff, Macquarie Media etc.). Shareholders' interests will not change (including the number of shares held) from their current interest except for the absence of 40% of Domain.

This arrangement will provide shareholders with increased flexibility to manage their exposures to the respective businesses as they see fit. They can increase their exposure to Domain (absolutely or offset by selling down their Fairfax Proposed Separation interests) if they wish. Alternatively, they could decrease their exposure to the Domain business (e.g. if they believed it was overvalued in absolute terms or relative to Fairfax) by selling Domain shares. The ability to make a more precise targeted investment into the Fairfax businesses (or adjust allocations between the various businesses) should be attractive to shareholders (certainly compared to the current structure where they are locked into the relativities implicitly set by 100% ownership).

6.3.6 Staff Incentives

To grow the business successfully, an imperative for Domain is to attract the highest quality staff. Domain competes for staff not just with direct competitors such as REA Group but also with:

- other comparable online businesses such as SEEK and carsales;
- other major consumer technology businesses (e.g. Facebook, Alphabet/Google); and
- the broader technology sector.

Providing attractive incentives is a key element for recruitment and retention of high quality staff and, typically, these involve some form of equity based incentive.

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As a result of the Proposed Separation, Domain will be able to offer equity in a pure Domain business. Equity in the broader Fairfax business, particularly with the issues faced by the publishing business, would be far less attractive to these staff members. It also means there will be much closer alignment between individual performance and the value created by the incentive scheme.

At least initially, the same will not be true of Fairfax Post Separation as equity incentives will still be heavily influenced by the performance of separate businesses (including Domain). However, in due course, if Domain and Fairfax Post Separation become less interdependent (i.e. Fairfax sells down its holding) then Fairfax's incentives will become more aligned with the performance of its underlying business operations.

6.4 Disadvantages, Risks and Costs

6.4.1 Loss of Control

Fairfax currently enjoys:

- complete and unfettered control over the Domain business including its strategy and investment program; and
- access to 100% of the free cash flows generated by Domain. It is free to use these cash flows for any purpose across the group.

Post separation, it will:

- have minimal direct operational control over Domain. As a separate listed entity, day to day control of the Domain business will vest in the board of Domain. Clearly, Fairfax Post Separation will have a degree of influence, in large part through the three non-executive directors appointed to the board (including the Chairman). However, the board of Domain will include independent directors and an executive director and the directors appointed by Fairfax will have fiduciary duties to Domain. Accordingly, Fairfax Post Separation's "control" will be limited to its 60% voting power which will determine the outcome of any resolutions to appoint or remove directors;
- only have "access" to Domain's cash flow through dividends paid by Domain (which is likely to be substantially less than the net operating cash flow it would have had access to if it owned 100% of Domain⁶⁹). As a result, Fairfax Post Separation will have less cash from operations to invest in other businesses. At the same time, it needs to be recognised that:
 - the retained cash flow in Domain will presumably be invested in developing the business (which Fairfax may have done in any event);
 - Fairfax Post Separation is likely to pay out lower dividends in absolute dollar terms (even if it maintains a similar dividend payout ratio)⁶⁹; and
 - there is a trade off insofar as Fairfax Post Separation will have a relatively liquid asset with a clear market value (the shareholding in a listed Domain).

6.4.2 Commercial Relationship

As part of the Proposed Separation, future commercial dealings between Domain and Fairfax Post Separation will be governed by a number of agreements the purpose of which is to formalise services already provided to each other (see Section 1.1).

Services provided under the agreements (including digital marketing and promotions services, print wrap services, printing and distribution services, online lead generation and data sharing and editorial content) will be provided on a basis largely consistent with

⁶⁹ Both because of only owning 60% and because of Domain potentially paying out less than 100% of free cash flow.

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market rates but in some instances rates will increase to market over two years. The agreements can be terminated by either party in a number of circumstances including for breach of material term, insolvency of the other or convenience (by written notice of varying periods except that in some cases this termination right only comes into effect after an initial period of up to 24 months).

The commercial agreements are designed to ensure that, at least over the next two to three years, Domain and Fairfax Post Separation will continue to be closely aligned and work together to maximise the available commercial opportunities to their mutual benefit.

Such arrangements give rise to a number of commercial risks that could adversely impact shareholders even if they retain their shareholdings in both entities:

- there could be disputes under the agreements or they may not cover situations that emerge over the period (quite possible given the rapidly evolving nature of the industry). Disputes involving two public listed companies will inevitably be more difficult to resolve than disputes between two wholly owned businesses; and
- extension of the relationship beyond the initial term is “up for grabs”. It is possible that:
 - any new terms agreed could favour one party or the other to a significant degree;
 - Domain could cease accessing Fairfax Post Separation’s publications and shift its focus to other distribution channels. This could disadvantage Fairfax Post Separation to the extent that Domain’s presence is a significant factor in drawing consumers to the publications (both print and digital) and its other digital platforms. It could also result in a loss of revenue; and
 - Fairfax Post Separation could cease Domain’s access to its print and digital publications or, more likely, limit its presence because, for example, it wanted to use the available space to push its own new “verticals” or other digital businesses (particularly if they develop real momentum in the marketplace) or if could generate a greater return from a third party. Such a move could deprive Domain of a valuable distribution channel.

More generally, the two companies as separate listed entities could fail to fully exploit the full synergistic potential of combining the two platforms (Domain and the publishing businesses).

All of these risks are real but:

- the agreements largely mirror existing internal arrangements rather than a whole set of “new” arrangements (albeit on a more formal and comprehensive basis);
- self interest normally drives parties to reach sensible commercial agreement on business relationships that are mutually beneficial;
- Fairfax Post Separation’s continuing 60% shareholding (and board appointees) should ensure that:
 - both companies continue to seek to maximise the value of the relationship; and
 - disputes are dealt with having regard to common goals;
- a longer term contract that locked both parties into pricing terms, volumes or other terms makes little sense in a market environment as dynamic and rapidly changing as online consumer services; and
- the relationship is already naturally becoming less dependent with most Domain online sessions coming direct (rather than via the Fairfax network) and a majority of leads to Domain now through its own apps. Domain’s strategy to develop its own distinct market presence and distribution capacity is likely to result in Fairfax’s digital and print publications becoming just one of a number of distribution channels in due course. Importantly, this evolution would occur even if Fairfax retained 100% of Domain.



6.4.3 Increased Operating Costs

The creation of two separately listed companies will create additional corporate costs compared to the status quo including share registry costs, ASX listing fees, audit fees, insurance, investor relations, board of directors and company secretarial costs. Fairfax estimates these incremental costs to be approximately \$5 million per annum. The impact of these incremental costs is reflected in the pro forma results for Domain and Fairfax Post Separation set out in Section 5 of this report.

There will also be a transfer of certain costs to Domain that are currently borne elsewhere in Fairfax as part of a full alignment of costs and activities. The impact of this change is reflected in the pro forma results for Domain and Fairfax Post Separation set out in Section 5 of this report. From a shareholder's perspective, this reallocation should have no impact as they currently own 100% of both businesses and their economic interests do not change as a result of the Proposed Separation.

In addition, under the commercial agreements there will be future charges to be borne by Domain for services previously provided at no cost. It is estimated that the total cost to Domain will be approximately \$2 million per annum initially, increasing to \$4 million over the next three years. The impact of these charges is not reflected in the pro forma results for Domain and Fairfax Post Separation set out in Section 5 of this report.

6.4.4 Market Liquidity Risks

a) Domain

While the total market value of Domain is estimated at around \$1.7 billion⁵⁵, the "free float" (i.e. the actively traded portion of the share register) will be only the 40% distributed to Fairfax shareholders (i.e. approximately \$680 million).

This is not particularly large by ASX standards and there is a risk that trading in Domain shares could be impacted by weak liquidity. However:

- index inclusion is a key driver of liquidity and it is anticipated that Domain will enter the S&P/ASX 200 Index (the primary index used by institutional investors);
- Domain will effectively "inherit" Fairfax's share register, starting its life as a listed entity with around 25,000 shareholders;
- media/technology companies tend to have a relatively high profile on securities exchanges; and
- REA Group, which only has a 38.4% free float (excluding News Corporation's 61.6% interest), is a liquid stock. Average weekly volume in the twelve months to 1 September 2017 represented 1.1% of average shares on issue and annual turnover of around 56.4% of average shares on issue (or 147% of free float). At the same time, REA Group is much larger with a free float value currently of approximately \$3.3 billion. In any event, having two listed competitors may well encourage trading activity in both companies (e.g. switching depending on relative performance).

b) Fairfax Post Separation

If the Proposed Separation is implemented, Fairfax Post Separation's market capitalisation is expected to reduce by approximately the value attributed to the 40% of Domain distributed to shareholders (estimated around \$680 million) to around \$1.5 billion compared to its existing market capitalisation of \$2.2 billion, a 30% decline. Nevertheless, Fairfax Post Separation is expected to remain in the S&P/ASX 100 Index (albeit at a low ranking) but be well within the S&P/ASX 200 Index.

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This reduced scale could reduce investor interest in Fairfax Post Separation and adversely affect liquidity (and its market rating). However, it:

- is expected to remain in the important S&P/ASX 200 Index; and
- will be the second largest diversified media company by market capitalisation listed on the ASX after News Corporation⁷⁰ (and the largest domiciled in Australia). As such, it should still be in a position to attract institutional and other investor interest.

6.4.5 Single Focus

Domain will be a highly focused company built around the Australian residential and commercial real estate sectors. Its strategy is to develop a robust business that has a broad range of revenue sources from a diversified set of “adjacencies” (e.g. related services such as mortgages) rather than being dependent on the volume of listings.

Nevertheless, there is a risk that a sustained downturn in the Australian real estate market could have a more adverse impact on the perception of the business and its market rating than it if was (part of) a more broadly based media business.

6.4.6 Lack of Track Record

Domain will be a new standalone company with a new board of directors including three recently appointed independent non-executive directors. The relationships between the new board and Domain management and relationships within the board itself are untested and, inevitably, there is a risk that it does not work as planned (as evidenced in some recent merger transactions such as the 2015 merger which formed Vocus Group). In addition, the CEO and Managing Director (Antony Catalano) and CFO (Robert Doyle) do not have previous experience in these roles in a public listed company.

However:

- the board will have continuity and experience with the business through the appointment as non-executive directors by Fairfax of two existing Fairfax non-executive directors (Nick Falloon and Patrick Allaway) and a current senior executive of Fairfax (Gail Hambly). In addition, Nick Falloon, the current Chairman of Fairfax, will also be the initial Chairman of Domain;
- Mr Catalano has been the CEO of the Domain business since January 2015 when Fairfax acquired the remaining 49.99% of Metro Media Publishing (a business he founded in 2010⁷¹). He has been a key participant in Fairfax’s interactions with investors and analysts over the past few years; and
- key members of the Domain senior management team have been in place for some time (at least three years).

6.4.7 Transition and Implementation Risks

Any separation of two organisations is a complicated exercise at an operational level. There are inevitably some risks of delays, cost overruns and system failures. However:

- Domain is already largely established as a separate business with its own premises. The operational separation largely relates to accounting services, IT systems and head office services (company secretarial, compliance etc.); and
- there is a detailed Transitional Services Agreement to facilitate the separation.

⁷⁰ News Corporation maintains a foreign listing on the ASX but its primary listing is on NASDAQ in the United States.

⁷¹ Mr Catalano established Metro Media Publishing in 2010. In December 2011, Fairfax merged Fairfax Community Newspapers in Victoria with Metro Media Publishing in return for a 50.01% interest in the enlarged business. Fairfax acquired the remaining 49.99% of Metro Media Publishing and merged it with the Domain business in January 2015.



6.4.8 One-Off Transaction and Implementation Costs

Fairfax estimates that costs of implementing the Proposed Separation will total \$14 million on a before tax basis (of which \$2 million was expensed in FY17). These costs include advisers' fees, restructure costs (including stamp duty and other taxes), fees associated with the ASX listing of Domain and other costs. Approximately \$5 million of the total cost will have been incurred prior to the Fairfax shareholders' meeting to approve the Proposed Separation. Therefore, additional costs to be incurred if the Proposed Separation proceeds are approximately \$9 million.

It is expected that approximately \$5 million of the total transaction costs will be incurred and paid for by Fairfax (including \$2 million expensed in FY17). The remaining \$9 million of costs will be incurred and paid for by Domain (of this amount \$2 million is expected to be expensed).

The total one-off transaction costs (before tax) of the Proposed Separation are not significant, representing around 0.6% of Fairfax's current market capitalisation.

There is a risk that total transaction and implementation costs could exceed the estimate of \$14 million (before tax). However, any excess is unlikely to be material.

6.4.9 Ineligible Overseas Shareholders

Ineligible overseas shareholders will not be entitled to receive Domain shares. The Domain shares that would otherwise have been distributed to them will be sold on the ASX on their behalf and they will receive the net proceeds (free of any brokerage or other costs). Ineligible overseas shareholders may also be required to pay tax on any profit on that disposal (in their country of residence). However:

- the Domain shares will be sold for market value;
- they can acquire Domain shares through the ASX following listing if they wish to retain (or increase) the level of interest in the Domain business; and
- shareholders representing less than 0.02% of Fairfax's issued capital are expected to be affected by these provisions.

6.5 Other Considerations

6.5.1 Dividends

Following implementation of the Proposed Separation, the level of dividends paid will be a matter for the boards of each company. In this context:

- there will be no change to Fairfax Post Separation's dividend policy as a result of the Proposed Separation. However:
 - the absolute level of profits available from which dividends can be paid will be reduced by owning only 60% of Domain and as Domain is unlikely to pay 100% of its profits as dividends; and
 - Fairfax Post Separation's ability to frank future dividends will be impacted by:
 - the reduction in tax instalment income as a result of Domain's exit from its consolidated tax group;
 - the quantum and timing of dividend payments by Domain and its other less than 100% owned businesses and the level of franking credits attaching thereto (although Fairfax Post Separation will pay tax on that dividend income if less than 100% franked); and
 - the proportion of earnings represented by Stuff³³; and

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- for Domain:
 - while providing no specific guidance as to the level of dividends that may be paid, its dividend policy will (at least initially) be consistent with that of Fairfax Post Separation (i.e. the board will make a determination as to the level of dividends to be paid for each reporting period, taking into account the Domain's financial performance, funding position and a range of forward looking factors); and
 - any dividend declared post implementation may be franked to the extent that Australian income tax has been paid.

6.5.2 Corporate Governance

The ASX Corporate Governance Council has developed Corporate Governance Principles and Recommendations which set out recommended corporate governance practices for ASX listed entities. Domain intends to comply with all recommendations except that:

- the Chairman will not be an independent director as he is also Chairman of Fairfax Post Separation; and
- the Domain board will not be comprised of a majority of independent directors.

6.5.3 Potential issues of Domain Shares

Upon separation, Domain will have approximately 575 million shares on issue. Fairfax shareholders will collectively hold 40% of the shares on issue and Fairfax Post Separation will hold 60%. Further near term potential issues of Domain shares have been identified in relation to employee incentive plans for executives and, if the transaction completes, under the proposed acquisition of the remaining 50% of Review Property Co. To the extent that these shares are issued, the interests of existing Domain shareholders (including Fairfax Post Separation) will be diluted.

6.5.4 Other

Sections 4.4 and 4.5 of the Separation Booklet details a number of other risks relating to the Proposed Separation and investment in Domain. Shareholders should consider these risks in making a decision on whether to vote for the Proposed Separation.

6.6 Alternatives

The Fairfax board considered both structural alternatives to the Proposed Separation and variations within the "demerger" approach before resolving to pursue the specific proposal adopted.

The status quo is a perfectly viable option and enables Fairfax to maintain absolute control of the Domain business and 100% access to the cash flows. However:

- the Fairfax share price may continue to reflect a discounted value for the Domain business; and
- some of the limitations (e.g. no "currency" for agents or merger partners) and the organisational strains may be detrimental to the long run performance of the business.

The outright sale of the Domain business (which was effectively the TPG Consortium's initial indicative proposal) could realise a substantial capital sum that could be reinvested in the Fairfax business and/or returned to shareholders. However:

- a sale price may well capture some of the long term growth potential of Domain but:
 - shareholders lose the opportunity to remain exposed to the full extent of longer term upside; and
 - there is arguably more value to be gained through common ownership (at least over the short to medium term) as it will help ensure the full potential of the interaction between Domain and the Fairfax digital and print publications is exploited; and
- a cash sale is likely to be far less tax efficient from a shareholder's perspective as Fairfax will pay capital gains tax on a large part of the proceeds and the franking credits which could be attached to any net distribution may not be fully recovered by all shareholders.

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Similarly, a full demerger of Domain would risk losing some of the synergies between Domain and the Fairfax publications over the next few years. In addition:

- Fairfax would lose the financial security and flexibility and potential funding sources provided by access to the value of residual interest in Domain; and
- the market value of Fairfax would reduce very substantially, probably to less than \$500 million. This would remove Fairfax from the major indices and would be likely to have significant adverse effects on liquidity and market rating.

A transaction involving a part demerger and part sale (e.g. through an IPO) may solve some of these drawbacks but:

- it is akin to an outright sale in that there is a risk of value transfer to third parties; and
- the transaction becomes dependent on factors outside Fairfax's control.

A sale of 100% of Fairfax is a much broader transaction than a partial listing of Domain but obviously became a "live" option as a result of the proposals from the TPG Consortium and Hellman & Friedman. However, despite access to undertake detailed due diligence, no binding offer emerged from either party. It is therefore reasonable to assume that such an alternative is not presently available to Fairfax shareholders.

In any event:

- there will continue to be an opportunity for third parties to put alternative proposals to Fairfax up to the date of the shareholders' meeting to consider the Proposed Separation; and
- the Proposed Separation does not necessarily rule out such transactions at some point in the future. Interested parties remain free to:
 - make an offer for Fairfax Post Separation in which case they would also inherit 60% of Domain (and could also make an offer to acquire the outstanding 40%); or
 - make an offer directly for Domain. While Fairfax Post Separation would control the outcome of such an offer the board would need to carefully consider any offer that was priced at (or close to) the full underlying value of Domain.

6.7 Taxation Issues

6.7.1 Corporate Taxation

The Proposed Separation is not expected to result in any capital gains tax ("CGT") or income tax liability for Fairfax⁷².

Fairfax has no Australian carried forward income tax losses but has Australian carried forward capital losses. These capital losses are expected to be preserved within Fairfax Post Separation. Domain will have no Australian carried forward income tax losses or Australian carried forward capital losses.

Following the Proposed Separation, Fairfax will remain the head company of the Fairfax Post Separation consolidated tax group and Domain will become head company for a new consolidated tax group under the Australian tax consolidation regime.

The effective tax rate of Domain may differ from the rate that would have applied to Fairfax in the absence of the Proposed Separation. From implementation date until it lodges its FY18 income tax return, Domain will pay Australian income tax at the same instalment rate as the current Fairfax tax consolidated group.

⁷² To the extent the internal restructuring prior to the separation results in stamp duty (or similar) liabilities, these amounts have been allowed for in the estimate of one-off transaction costs (see Section 6.4.8).

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6.7.2 Tax Consequences for Australian Resident Shareholders

The Proposed Separation is not expected to give rise to any adverse tax consequences for shareholders that are resident of Australia for income tax purposes and hold Fairfax shares on capital account.

Fairfax has received advice from the Australian Taxation Office (“ATO”) confirming that the ATO will not make a determination that any part of the Capital Reduction Amount is taken to be a dividend for tax purposes. This advice is subject to certain conditions about the Proposed Separation which Fairfax considers should be satisfied.

The ATO will withdraw its advice if:

- a Fairfax shareholder involved in the management of Fairfax or Domain or otherwise involved in the structuring or undertaking of the Proposed Separation (or their associate) disposes of their Domain shares within 45 days of its ASX listing. If such trading does occur and the ATO withdraws its advice, the ATO will consider the taxation implications for shareholders of receipt of the Capital Reduction Amount in light of all of the facts and circumstances at that time. This may confirm the capital treatment of the Capital Reduction Amount. However, there is a risk that the ATO could determine that some or all of the Capital Reduction Amount is taken to be an unfranked dividend; and
- the issue of any ruling is sought from the ATO in relation to the Proposed Separation. In this context, the ATO will withdraw its advice for all Fairfax shareholders if a class ruling is sought and for a Fairfax shareholder for whom a private ruling is sought.

On the basis that the Capital Reduction Amount is not a dividend for tax purposes:

- the cost base of each Fairfax share will be reduced (but not below nil) by the amount of the capital reduction and, to the extent that the capital reduction amount exceeds the cost base, a capital gain will arise; and
- a shareholder who disposes their Fairfax shares after the scheme record date (expected to be 17 November 2017) and before implementation date (expected to be 22 November 2017) will retain the right to the capital reduction amount in respect of those shares. When they receive their Domain shares, a capital gain will arise to the extent that the capital reduction amount exceeds the cost base of the right, which will likely be \$nil.

In these circumstances, a capital gain will be a discount capital gain for a Fairfax shareholder that is an individual, trust or complying superannuation entity and acquired the Fairfax shares at least 12 months before implementation date.

For CGT purposes, Domain shares will be treated as having been acquired on the implementation date (expected to be 22 November 2017) with a cost base equal to the capital reduction amount applied to subscribe for the share.

6.7.3 Disclaimer

The analysis set out above outlines the major tax consequences for Australian resident shareholders of the Proposed Separation and should be viewed as indicative only. It does not purport to represent formal tax advice regarding the taxation consequences of the Proposed Separation for shareholders. Further details on the taxation consequences of the Proposed Separation are set out in Section 8.8 of the Separation Booklet. In any event, the tax consequences for shareholders will depend upon their individual circumstances. If in any doubt, shareholders should consult their own professional adviser.

The non-Australian taxation implications for non-Australian resident Fairfax shareholders will depend on the country of domicile of the shareholder. Non-Australian residents should seek their own taxation advice in relation to the taxation consequences of the Proposed Separation.



6.8 Summary and Conclusion

The impetus for the Proposed Separation stems from a number of different sources:

- a perception within Fairfax that its share price did not fully reflect the value of its businesses or the progress that has been made in transforming the company over the past five years;
- the evolution of the Domain business over the past five years (to the point where it is now able to operate as a standalone business); and
- the emerging organisational strains of having businesses on very different growth trajectories.

Fairfax directors considered a number of alternatives before resolving to pursue the Proposed Separation (including the status quo, a full demerger of Domain and selling shares in an initial public offering of Domain). Their deliberations also included responding to unsolicited indicative offers for the whole of Fairfax which did not result in a binding proposal and are therefore not currently “on the table”. The Fairfax board has therefore resolved to continue to pursue its standalone business plans including the Proposed Separation.

The primary benefits of the Proposed Separation are:

- it provides transparency as to the market value of Domain which is Fairfax’s largest business (in terms of earnings contribution) and the one most critical to Fairfax’s future shareholder returns. At present its value is uncertain and, arguably, obscured as part of a diversified business facing multiple challenges that affect overall market perceptions. A clear, unambiguous market value for Domain should help the Fairfax share price (it is already up around 10% from pre announcement levels) and, over time, the other longer term benefits of separation may enhance value;
- strategic, operational and financial flexibility for Domain. The board and management of Domain will (within certain limits) be able to pursue their own priorities. A separate listing will also provide a “currency” that may be valuable in attracting acquisition candidates. Domain can also establish a financial structure (and other elements such as dividend policy) that reflects its own attributes and needs;
- it dramatically enhances Fairfax’s financial flexibility by providing it with a very substantial asset (the 60% residual interest in Domain) that has a clear market value and some degree of immediate liquidity (for at least a part of the interest). Apart from the liquidity buffer, it is a ready funding source to cover any major restructuring costs or to invest in existing or new growth businesses (harnessing the drawing power of the Fairfax digital and print publications in a similar manner to the path pursued with Domain);
- the increased information on Domain available to the market together with the pressure to perform from the greater focus and more intense scrutiny on the Domain board and management should, in the longer run, lead to better outcomes;
- flexibility for shareholders in managing their exposures to the different components of Fairfax’s business; and
- Domain will be better placed to attract high quality staff because of its ability to offer equity incentives based solely on the performance of the Domain business.

At the same time, there are a number of disadvantages, risks and costs:

- the loss of absolute control over the Domain business by Fairfax and the loss of access to 100% of the free cash flow;
- the potential for the commercial relationship between Domain and Fairfax Post Separation (website access, printing etc.) to deteriorate post the initial terms of the agreements (failure to agree terms or suboptimal arrangements that fail to capture synergies);
- incremental operating costs as a result of operating two separate ASX listed companies (estimated to be approximately \$5 million per annum);

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- the potential for weak liquidity in the trading of Domain shares and for a deterioration in the liquidity of trading in Fairfax Post Separation shares;
- the single sector focus of Domain if there is a sustained downturn in the real estate market across Australia;
- the untested nature of the working relationship within the new board of Domain or between the new board and the Domain management team;
- uncertainty as to the quantum of dividends from both companies and, in the short term, the extent to which dividends may be franked;
- the risks of the implementation of the Proposed Separation (i.e. the transition to a fully separated company); and
- transaction costs and implementation costs (approximately \$14 million (before tax), of which \$2 million was expensed by Fairfax in FY17).

The question is whether shareholders are likely to realise greater value over time if the Proposed Separation is implemented than if Fairfax's current structure is maintained. The evaluation is essentially subjective as the advantages and benefits are not quantifiable or verifiable. They are, at least to some extent, a matter of perception. None of the benefits are individually compelling but collectively are meaningful and likely to enhance shareholder value. The Fairfax share price has strengthened from pre announcement levels and, arguably, already reflects some of the benefits but many will only emerge over the medium to longer term. The disadvantages, risks and costs are not trivial but they are not major drawbacks. In short, in Grant Samuel's opinion the advantages of the Proposed Separation outweigh the disadvantages. While implementation of the Proposed Separation is not a guarantee of future performance, on balance, shareholders are likely to be better off if the Proposed Separation proceeds. In any event, it does not rule out the possibility of future transactions such as an offer for Fairfax Post Separation or the sale of Domain.

Accordingly, in Grant Samuel's opinion, the Proposed Separation is in the best interests of Fairfax shareholders.

6.9 Shareholder Decision

Grant Samuel has been engaged to prepare an independent expert's report setting out whether in its opinion the Proposed Separation is in the best interests of Fairfax shareholders and to state reasons for that opinion. Grant Samuel has not been engaged to provide a recommendation to shareholders in relation to the Proposed Separation, the responsibility for which lies with the directors of Fairfax.

In any event, voting for or against the Proposed Separation is a matter for individual shareholders based on their views as to value, their expectations about future market conditions and their particular circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. Shareholders who are in doubt as to the action they should take in relation to the Proposed Separation should consult their own professional adviser.

Similarly, it is a matter for individual shareholders as to whether to buy, hold or sell shares in Fairfax, Fairfax Post Separation or Domain. These are investment decisions upon which Grant Samuel does not offer an opinion and are independent of a decision on whether to vote for or against the Proposed Separation. Shareholders should consult their own professional adviser in this regard.

GRANT SAMUEL



7 Qualifications, Declarations and Consents

7.1 Qualifications

The Grant Samuel group of companies provide corporate advisory services (in relation to mergers and acquisitions, capital raisings, debt raisings, corporate restructurings and financial matters generally) and provides marketing and distribution services to fund managers. The primary activity of Grant Samuel & Associates Pty Limited is the preparation of corporate and business valuations and the provision of independent advice and expert's reports in connection with mergers and acquisitions, takeovers and capital reconstructions. Since inception in 1988, Grant Samuel and its related companies have prepared more than 530 public independent expert and appraisal reports.

The persons responsible for preparing this report on behalf of Grant Samuel are Stephen Wilson BCom MCom(Hons) CA SF Fin and Caleena Stilwell BBus FCA F Fin GAICD. Each has a significant number of years of experience in relevant corporate advisory matters. Lachlan Whittaker BCom(Liberal Studies)(Hons) CA assisted in the preparation of the report. Each of the above persons is a representative of Grant Samuel pursuant to its Australian Financial Services Licence under Part 7.6 of the Corporations Act.

7.2 Disclaimers

It is not intended that this report should be used or relied upon for any purpose other than as an expression of Grant Samuel's opinion as to whether the Proposed Separation is in the best interests of shareholders. Grant Samuel expressly disclaims any liability to any Fairfax shareholder who relies or purports to rely on the report for any other purpose and to any other party who relies or purports to rely on the report for any purpose whatsoever.

Grant Samuel has had no involvement in the preparation of the Separation Booklet issued by Fairfax and has not verified or approved any of the contents of the Separation Booklet. Grant Samuel does not accept any responsibility for the contents of the Separation Booklet (except for this report).

7.3 Independence

Grant Samuel and its related entities do not have at the date of this report, and have not had within the previous two years, any business or professional relationship with Fairfax or any financial or other interest that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Proposed Separation. Grant Samuel advises that Mr James Millar, a non executive director of Fairfax, is a member of the Grant Samuel Group Advisory Board (an informal panel of senior business people).

Grant Samuel had no part in the formulation of the Proposed Separation. Its only role has been the preparation of this report.

Grant Samuel will receive a fixed fee of \$265,000 for the preparation of this report. This fee is not contingent on the conclusions reached or the outcome of the Proposed Separation. Grant Samuel's out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Samuel will receive no other benefit for the preparation of this report.

Grant Samuel considers itself to be independent in terms of Regulatory Guide 112 issued by the ASIC on 30 March 2011.

7.4 Declarations

Fairfax has agreed that it will indemnify Grant Samuel and its employees and officers in respect of any liability suffered or incurred as a result of or in connection with the preparation of the report. This indemnity will not apply in respect of the proportion of any liability found by a court to be

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primarily caused by any conduct involving gross negligence or wilful misconduct by Grant Samuel. Fairfax has also agreed to indemnify Grant Samuel and its employees and officers for time spent and reasonable legal costs and expenses incurred in relation to any inquiry or proceeding initiated by any person. Any claims by Fairfax are limited to an amount equal to the fees paid to Grant Samuel. Where Grant Samuel or its employees and officers are found to have been grossly negligent or engaged in wilful misconduct Grant Samuel shall bear the proportion of such costs caused by its action.

Advance drafts of this report were provided to Fairfax and its advisers. Certain changes were made to the drafting of the report as a result of the circulation of the draft report. There was no alteration to the methodology, evaluation or conclusions as a result of issuing the drafts.

7.5 Consents

Grant Samuel consents to the issuing of this report in the form and context in which it is to be included in the Separation Booklet to be sent to shareholders of Fairfax. Neither the whole nor any part of this report nor any reference thereto may be included in any other document without the prior written consent of Grant Samuel as to the form and context in which it appears.

7.6 Other

The accompanying letter dated 22 September 2017 and the Appendices form part of this report.

Grant Samuel has prepared a Financial Services Guide as required by the Corporations Act. The Financial Services Guide is set out at the beginning of this report.

GRANT SAMUEL & ASSOCIATES PTY LIMITED

22 September 2017

Grant Samuel & Associates

ANNEXURE C

SCHEME OF ARRANGEMENT



Scheme of arrangement

Fairfax Media Limited

Fairfax Shareholders

ANZ Tower 161 Castlereagh Street Sydney NSW 2000 Australia
GPO Box 4227 Sydney NSW 2001 Australia

T +61 2 9225 5000 F +61 2 9322 4000
herbertsmithfreehills.com DX 361 Sydney

ANNEXURE C



Scheme of arrangement

This scheme of arrangement is made under section 411 of the *Corporations Act 2001* (Cth)

Between the parties

Fairfax Fairfax Media Limited (**Fairfax**) ACN 008 663 161 of 1 Darling Island Road, Pyrmont, NSW, Australia 2009

Fairfax Shareholders Holders of fully paid ordinary shares in Fairfax

1 Definitions, interpretation and scheme components

1.1 Definitions

Schedule 1 contains definitions used in this Scheme.

1.2 Interpretation

Schedule 1 contains interpretation rules for this Scheme.

1.3 Scheme components

This Scheme includes any schedule to it.

2 Conditions

2.1 Conditions precedent

This Scheme is conditional on and will have no force or effect until, the satisfaction of each of the following conditions precedent:

- (a) between the date of the Scheme Book and the Scheme Meeting, a majority of the Directors of Fairfax recommending and not changing or withdrawing their recommendation to Fairfax Shareholders to vote in favour of the Scheme and the Capital Reduction Resolution;
- (b) Fairfax Shareholders approving this Scheme by the required majorities at the meeting of Fairfax Shareholders convened by the Court pursuant to section 411 of the Corporations Act;



- (c) Fairfax Shareholders passing the Capital Reduction Resolution by the required majority under the Corporations Act at the General Meeting;
- (d) all Regulatory Approvals being obtained and not revoked before 8.00am on the Second Court Date either unconditionally or on conditions reasonably satisfactory to the Fairfax Board;
- (e) ASX approving the admission of Domain to the official list of ASX and the official quotation of the Domain Shares on ASX, subject only to this Scheme taking effect and any other conditions which are acceptable to the Fairfax Board; and
- (f) the Court approving this Scheme in accordance with section 411(4)(b) of the Corporations Act (with or without modification) and the lodgement with ASIC of an office copy of that Court order pursuant to section 411(10) of the Corporations Act.

2.2 Waiver of conditions precedent

Each of the conditions precedent in clause 2.1 of this Scheme is for the benefit of Fairfax. The condition precedent in 2.1(d) may be waived by Fairfax. Any such waiver must be in writing in order for the waiver to be effective.

2.3 Certificate

- (a) Fairfax will provide to the Court on the Second Court Date a certificate, or such other evidence as the Court requests, confirming (in respect of matters within their knowledge) whether or not all of the conditions precedent (other than the condition in clause 2.1(f)) have been satisfied or waived.
- (b) The certificate referred to in clause 2.3(a) constitutes conclusive evidence that such conditions precedent (other than the condition in clause 2.1(f)) were satisfied, waived or taken to be waived.

2.4 Effective Date

Subject to the satisfaction or waiver of the conditions precedent set out in clause 2.1 and subject to clause 2.5 of this Scheme, this Scheme will come into effect on and from the Effective Date.

2.5 End Date

This Scheme will lapse and be of no further force or effect if the Effective Date does not occur on or before the End Date.

3 Implementation of this Scheme

3.1 Lodgement of Court orders with ASIC

Fairfax must lodge with ASIC, in accordance with subsection 411(10) of the Corporations Act, an office copy of the Court order approving this Scheme as soon as possible after the Court approves this Scheme and in any event by 5.00pm on the first Business Day after the day on which the Court approves this Scheme.



3.2 Implementation of the Capital Reduction and Scheme

On the Implementation Date, without the need for any further act by any Scheme Participant:

- (a) Fairfax will reduce its share capital by the Capital Reduction Amount in accordance with the Capital Reduction Resolution; and
- (b) Fairfax will apply the Capital Reduction Entitlement of each Scheme Participant in accordance with clause 3.3.

3.3 Entitlements of Scheme Participants

The Capital Reduction Entitlement of each Scheme Participant, will, on the Implementation Date, be applied (without the need for any further act by a Scheme Participant) as follows:

- (a) for each Eligible Fairfax Shareholder, by Fairfax as consideration in full for the issue to that Eligible Fairfax Shareholder of that number of Domain Shares which is equal to one Domain Share for every 10 Fairfax Shares held by that Eligible Fairfax Shareholder on the Record Date (rounded up to the nearest whole number of Domain Shares); and
- (b) for each Ineligible Foreign Shareholder, by Fairfax as consideration in full for the issue to the Sale Agent of that number of Domain Shares which is equal to one Domain Share for every 10 Fairfax Shares held by that Ineligible Foreign Shareholder on the Record Date (rounded up to the nearest whole number of Domain Shares).

3.4 Issue of Domain Shares

The obligations of Fairfax under clause 3.3 will be discharged by Fairfax procuring:

- (a) the issue of all the Domain Shares to the Scheme Participants (or in the case of Ineligible Foreign Shareholders, to the Sale Agent) in the numbers determined in accordance with clause 3.3; and
- (b) the entry in the Domain Register:
 - (1) of the name of each Scheme Participant (other than Ineligible Foreign Shareholders) in respect of the Domain Shares issued to the relevant Scheme Participant; or
 - (2) of the name of the Sale Agent in respect of those Domain Shares that would otherwise be issued to each Scheme Participant who is an Ineligible Foreign Shareholder.

3.5 Dispatch of holding statements

As soon as practicable after the Implementation Date and in accordance with the Listing Rules, Fairfax will procure that Domain sends to each Scheme Participant (who is not an Ineligible Foreign Shareholder) or the Sale Agent (as applicable), holding statements for the Domain Shares issued in accordance with clause 3.3, by pre-paid post to their registered address at the Record Date, or as otherwise directed by the relevant Scheme Participant or Sale Agent.



3.6 Joint holders

In the case of Scheme Participants (who are not Ineligible Foreign Shareholders) who are joint holders of Fairfax Shares:

- (a) entry in the Domain Register must take place in the same order as the holders' names appear in the Fairfax Register; and
- (b) holding statements in relation to the Domain Shares will be forwarded to either, at the sole discretion of Fairfax, the holder whose name appears first in the Fairfax Register on the Record Date or the joint holders.

4 Sale Facility

4.1 The Sale Facility

Fairfax will procure in accordance with the terms of the Sale Facility that the Sale Agent or the Fairfax Registry (as applicable):

- (a) as soon as reasonably practicable (and in any event no later than the end of the Sale Period), sells on a Licensed Market for the benefit of each Ineligible Foreign Shareholder, all the Domain Shares issued to the Sale Agent under clause 3.4 in consideration for the application of the Capital Reduction Entitlement of that Ineligible Foreign Shareholder;
- (b) accounts to each Ineligible Foreign Shareholder for the proceeds of sale and any income attributable to those Domain Shares (on an averaged basis so that all Ineligible Foreign Shareholders receive the same price per Domain Share, subject to rounding up to the nearest whole cent); and
- (c) remits the proceeds of sale due to each Ineligible Foreign Shareholder under clause 4.1(b) to the Ineligible Foreign Shareholder no later than 5 Business Days after the end of the Sale Period, such amounts to be dispatched by:
 - (1) direct credit to each Ineligible Foreign Shareholder's nominated bank account as noted in the Fairfax Register at the Record Date; or
 - (2) where a bank account has not been nominated by an Ineligible Foreign Shareholder for the purpose of paragraph 4.1(c)(1), cheque to be mailed to that Ineligible Foreign Shareholder's address as shown in the Fairfax Register at the Record Date.

4.2 Satisfaction of obligations

Fairfax, by complying with the terms of clause 4.1 in respect of an Ineligible Foreign Shareholder will be taken to have satisfied and discharged its obligations to the relevant Ineligible Foreign Shareholder under the terms of the Capital Reduction Resolution and the Scheme. An Ineligible Foreign Shareholder will have no claim against Fairfax for any entitlement they would have had to Domain Shares but for the terms of this Scheme.

4.3 Acknowledgement

Under this Scheme, each Ineligible Foreign Shareholder agrees and acknowledges that the sale in respect of that person's Capital Reduction Entitlement under the Sale Facility or this Scheme by operation of clause 4.1 constitutes satisfaction of all that person's entitlements in and to that person's Capital Reduction Entitlement.



4.4 Appointment as agent

Each Ineligible Foreign Shareholder appoints Fairfax as its agent to receive on its behalf any financial services guide or other notices which may be given by the Sale Agent to that Ineligible Foreign Shareholder.

5 Dealings in Fairfax Shares

5.1 Fairfax Register

Subject to the Corporations Act, the Listing Rules and the Settlement Operating Rules, the establishment of who are Scheme Participants and their respective entitlements, will be determined solely on the basis of the Fairfax Register.

5.2 Determination of Scheme Participants

To establish the identity of the Scheme Participants, dealings in Fairfax Shares or other alterations to the Fairfax Register will only be recognised if:

- (a) in the case of dealings of the type to be effected using CHESS, the transferee is registered in the Fairfax Register as the holder of the relevant Fairfax Shares on or before the Record Date; and
- (b) in all other cases, registrable transfer or transmission applications in respect of those dealings, or valid requests in respect of other alterations, are received on or before the Record Date at the Fairfax Registry,

and Fairfax will not accept for registration, nor recognise for any purpose, any transfer or transmission application or other request received after such times, or received prior to such times but not in registrable or actionable form, as appropriate.

5.3 Shareholder splitting or division

If Fairfax is of the opinion that a Scheme Participant has been party to shareholding splitting or division in an attempt to obtain unfair advantage by reference to any rounding provided for in the calculation of each Scheme Participant's entitlement to Domain Shares, then Fairfax reserves the right to round the entitlement of such holdings so as to provide only the number of Domain Shares that would have been received but for the splitting or division.

6 General Scheme provisions

6.1 Agreement to become a member of Domain

Under this Scheme, each Scheme Participant (including those Scheme Participants who do not attend the meeting of Fairfax Shareholders to approve the Scheme, do not vote at that meeting or vote against the Scheme) who will receive Domain Shares:

- (a) agrees to become a member of Domain, to have their name entered in the Domain Register, accepts the Domain Shares issued to them and agrees to be bound by the Domain constitution; and

- (b) agrees and acknowledges that the issue of Domain Shares in accordance with clause 3.3 constitutes satisfaction of all that person's entitlements in and to that person's Capital Reduction Entitlement,

without the need for any further act by a Scheme Participant.

This clause 6.1 does not apply to Ineligible Foreign Shareholders.

6.2 Appointment of agent and attorney

- (a) Each Scheme Participant, without the need for any further act, irrevocably appoints Fairfax as its agent and attorney for the purpose of executing any document or doing any other act necessary or desirable to give effect to the terms of this Scheme, including without limitation:
- (1) the execution and delivery of any form or document required to effect the issue of Domain Shares to Eligible Fairfax Shareholders, the Sale Agent or any other person in accordance with the terms of this Scheme, and the delivery of any such form to Domain;
 - (2) executing any document or doing any other act necessary to give effect to the terms of this Scheme, including, without limitation, the communication of the Eligible Fairfax Shareholder's consent, agreement, notification or instructions under clauses 4, 6.1, 6.3, 6.4 or 6.5; and
 - (3) the enforcement of the Deed Poll against Domain,
- and Fairfax accepts such appointment.
- (b) Fairfax, as agent of each Scheme Participant, may sub-delegate its functions under clause 6.2(a) to all or any of its directors and secretaries (jointly and severally).

6.3 Instructions to Fairfax

Except for an Eligible Fairfax Shareholder's tax file number, binding instructions or notifications between an Eligible Fairfax Shareholder and Fairfax relating to Fairfax Shares or an Eligible Fairfax Shareholder's status as a Fairfax Shareholder (including, without limitation, any instructions relation to payment of dividends or communications from Fairfax) will (to the extent permitted by law), from the Record Date, be deemed by reason of this Scheme to be similarly binding instructions or notifications to, and accepted by, Domain in respect of the Domain Shares issued to Eligible Fairfax Shareholders until those instructions or notifications are, in each case, revoked or amended in writing addressed to Domain at its share registry.

6.4 Scheme Participants' consent

Each Scheme Participant irrevocably consents to Fairfax doing all things necessary, incidental or expedient to the implementation and performance of the Scheme and acknowledge that the Scheme binds Fairfax and all of the Scheme Participants from time to time (including those who do not attend the meeting of Fairfax Shareholders to approve the Scheme, do not vote at that meeting or vote against the Scheme).

6.5 Amendments to the Scheme

Fairfax may, by its counsel and with the consent of Domain, consent, on behalf of all persons concerned (including a Scheme Participant), to any alterations or conditions to this Scheme as the Court thinks just to impose.



6.6 Further steps

Fairfax will execute all documents and do all acts and things necessary or desirable for the implementation and performance of its obligations under this Scheme and will, on behalf of Scheme Participants, procure Domain to execute all documents and do all acts and things necessary or desirable for the implementation and performance of the steps attributed to Domain under this Scheme.

6.7 Scheme binding

To the extent of any inconsistency between this Scheme and the Constitution, this Scheme overrides the Constitution and binds Fairfax and all Scheme Participants.

6.8 Enforcement of Deed Poll

Fairfax undertakes in favour of each Scheme Participant that it will enforce the Deed Poll against Domain on behalf of and as agent and attorney for Scheme Participants.

7 General

7.1 Costs and stamp duty

Fairfax will pay any costs, and any stamp duty and any related fines or penalties, which are payable on or in respect of this Scheme or on any document referred to this Scheme, including, without limitation, all brokerage and stamp duty payable in connection with the issue of Domain Shares to Scheme Participants (or in the case of Ineligible Foreign Shareholders, to the Sale Agent) in accordance with this Scheme.

7.2 Notices

- (a) If a notice, transfer, transmission application, direction or other communication referred to in this Scheme is sent by post to Fairfax, it will not be taken to be received in the ordinary course of post or on a date and time other than the date and time (if any) on which it is actually received at Fairfax's registered office or at the office of the Fairfax Registry.
- (b) The accidental omission to give notice of the Scheme Meeting or the non-receipt of such notice by a Fairfax Shareholder will not, unless so ordered by the Court, invalidate the Scheme Meeting or the proceedings of the Scheme Meeting.

7.3 Governing law

- (a) This Scheme is governed by the laws in force in New South Wales, Australia.
- (b) The parties irrevocably submit to the non-exclusive jurisdiction of courts exercising jurisdiction in New South Wales and courts of appeal from them in respect of any proceedings arising out of or in connection with this Scheme. The parties irrevocably waive any objection to the venue of any legal process in these courts on the basis that the process has been brought in an inconvenient forum.



7.4 No liability when acting in good faith

Each Scheme Participant agrees that neither Fairfax nor Domain nor any director, officer, secretary or employee of either of those companies will be liable for anything done or omitted to be done in the performance of this Scheme or the Deed Poll in good faith.



HERBERT
SMITH
FREEHILLS

Schedule 1

Definitions and interpretation

1 Definitions

The meanings of the terms used in this Scheme are set out below.

Term	Meaning
ASIC	the Australian Securities and Investments Commission.
ASX	ASX Limited (ABN 98 008 624 691) or the market operated by it as the context requires.
ASX Operating Rules	the market operating rules of ASX as amended, varied or waived from time to time.
ASX Settlement	ASX Settlement Pty Limited (ABN 49 008 504 532) as the holder of a licence to operate a clearing and settlement facility.
Business Day	has the meaning given to that term in the Listing Rules.
Capital Reduction	the reduction in the capital of Fairfax by the Capital Reduction Amount to be applied equally against each Fairfax Share on issue as at the Record Date in accordance with the terms of the Capital Reduction Resolution.
Capital Reduction Amount	the amount of the capital of Fairfax that is to be reduced in accordance with the Capital Reduction Resolution, being \$536 million.
Capital Reduction Entitlement	in relation to a Scheme Participant, the Capital Reduction Pro-Rata Amount multiplied by the number of Fairfax Shares held by the Scheme Participant on the Record Date.
Capital Reduction Pro-Rata Amount	the Capital Reduction Amount divided by the number of Fairfax Shares on issue on the Record Date.

Capital Reduction Resolution	the ordinary resolution concerning the Capital Reduction to be considered by Fairfax Shareholders at the General Meeting in the form set out in the notice of general meeting contained in Annexure F of the Scheme Booklet.
CHESS	Clearing House Electronic Sub-register System, operated in accordance with the Corporations Act.
Constitution	the constitution of Fairfax as amended from time to time.
Corporations Act	the <i>Corporations Act 2001</i> (Cth) and the regulations made under that Act.
Court	the Federal Court of Australia.
Deed Poll	the deed poll by Domain in favour of Scheme Participants in the form of Annexure E of the Scheme Book (subject to any amendments permitted by its terms).
Domain	Domain Holdings Australia Pty Limited ACN 094 154 364.
Domain Constitution	the constitution of Domain from time to time.
Domain Register	the register of members of Domain.
Domain Share	a fully paid ordinary share in Domain.
Domain Shareholder	a person who is registered in the Domain Register as a holder of a Domain Share following implementation of the Separation.
Effective Date	the date on which the office copy of the Court order approving the Scheme is lodged with ASIC pursuant to section 411(10) of the Corporations Act.
Eligible Fairfax Shareholder	a Scheme Participant whose registered address on the Fairfax Register as at the Record Date is in: <ul style="list-style-type: none"> 1 Australia, New Zealand, Hong Kong, Singapore or the United Kingdom; or 2 any other place where Fairfax reasonably believes that it is not prohibited and not unduly onerous or impractical to implement the Scheme and to issue Domain Shares to Scheme

ANNEXURE C



Schedule 1 Definitions and interpretation

Participants in that place.

End Date	31 March 2018 or such later date as is specified by the Fairfax Board.
Fairfax Board	the board of directors of Fairfax from time to time.
Fairfax Register	the register of members of Fairfax.
Fairfax Registry	Link Market Services Limited (ABN 54 083 214 537) in its capacity as provider of registry services in respect of the Fairfax Register.
Fairfax Share	a fully paid ordinary share in Fairfax.
Fairfax Shareholder	a person who is registered in the Fairfax Register as the holder of a Fairfax Share.
General Meeting	the general meeting of Fairfax Shareholders convened to consider, among others, the Capital Reduction Resolution.
Implementation Date	22 November 2017, or such other date as determined by the Fairfax Board.
Ineligible Foreign Shareholder	a Scheme Participant who as at the Record Date is not an Eligible Fairfax Shareholder.
Licensed Market	a financial market the operation of which is authorised by an Australian market licence under section 795B of the Corporations Act.
Listing Rules	the official listing rules of ASX from time to time as modified by any express written waiver or exemption given by ASX.
Record Date	the date for determining entitlements to Domain Shares, being 7.00pm (Sydney time) on 17 November 2017 or such other date as determined by the Fairfax Board.
Regulatory Approvals	such approvals, consents, waivers or other acts from or by Regulatory Authorities as are necessary or, in the reasonable opinion of Fairfax, desirable in connection with or to implement the

Separation.

Regulatory Authority

includes:

- 1 ASX, ASIC and the Australian Competition and Consumer Commission;
- 2 a government or governmental, semi-governmental or judicial entity or authority;
- 3 a minister, department, office, commission, delegate, instrumentality, agency, board, authority or organisation of any government; and
- 4 any regulatory organisation established under statute.

Sale Agent

the person or persons to be appointed by Fairfax to sell or facilitate the transfer of the Domain Shares attributable to Ineligible Foreign Shareholders as contemplated by clause 4 of the Scheme and in accordance with the Sale Facility.

Sale Facility

the facility to be established and implemented by Fairfax under which Domain Shares may be sold, the terms of which are more fully described in section 8.4.4 of the Scheme Book.

Sale Period

the period on and from the Implementation Date to and including the 20th Business Day after that date (or, subject to obtaining any necessary ASIC exemptions or waivers, such longer period of time which Fairfax and the Sale Agent determine).

Scheme

the scheme of arrangement under Part 5.1 of the Corporations Act between Fairfax and the Fairfax Shareholders as set out in this document, subject to any modification made or required by the Court pursuant to section 411 of the Corporations Act.

Scheme Book

the scheme book explaining the Separation and containing, among other things, the Scheme, an explanatory statement in relation to the Scheme as required by Part 5.1 of the Corporations Act and the notices of meeting for the Scheme Meeting and the General Meeting.

Scheme Meeting

the meeting of Fairfax Shareholders ordered by the Court to be convened under section 411(1) of the Corporations Act to consider the resolution set out in the notice of meeting for the Scheme set out in Annexure E of the Scheme Book.

Scheme Participant

subject to clause 5.1, a Fairfax Shareholder as at the Record Date.

ANNEXURE C



Schedule 1 Definitions and interpretation

Second Court Date the date on which the application made to the Court for an order pursuant to section 411(4)(b) of the Corporations Act approving the Scheme is heard (or, if adjourned to a later date, that date).

Separation the proposed separation of Domain from Fairfax through the implementation of the Scheme and the Capital Reduction.

Settlement Operating Rules the operating rules of ASX Settlement.

2 Interpretation

In this Scheme:

- (a) headings and bold type are for convenience only and do not affect the interpretation of this Scheme;
- (b) the singular includes the plural and the plural includes the singular;
- (c) words of any gender include all genders;
- (d) other parts of speech and grammatical forms of a word or phrase defined in this Scheme have a corresponding meaning;
- (e) a reference to a person includes any company, partnership, joint venture, association, corporation or other body corporate and any Government Agency as well as an individual;
- (f) a reference to a clause, party, schedule, attachment or exhibit is a reference to a clause of, and a party, schedule, attachment or exhibit to, this Scheme;
- (g) a reference to any legislation includes all delegated legislation made under it and amendments, consolidations, replacements or reenactments of any of them (whether passed by the same or another Government Agency with legal power to do so);
- (h) a reference to a document (including this Scheme) includes all amendments or supplements to, or replacements or novations of, that document;
- (i) a reference to '\$', 'A\$' or 'dollar' is to Australian currency;
- (j) a reference to any time is, unless otherwise indicated, a reference to that time in Sydney;
- (k) a term defined in or for the purposes of the Corporations Act, and which is not defined in clause 1 of this Schedule 1, has the same meaning when used in this Scheme;
- (l) a reference to a party to a document includes that party's successors and permitted assignees;
- (m) no provision of this Scheme will be construed adversely to a party because that party was responsible for the preparation of this Scheme or that provision;

- (n) any agreement, representation, warranty or indemnity by two or more parties (including where two or more persons are included in the same defined term) binds them jointly and severally;
- (o) any agreement, representation, warranty or indemnity in favour of two or more parties (including where two or more persons are included in the same defined term) is for the benefit of them jointly and severally;
- (p) a reference to a body, other than a party to this Scheme (including an institute, association or authority), whether statutory or not:
 - (1) which ceases to exist; or
 - (2) whose powers or functions are transferred to another body,is a reference to the body which replaces it or which substantially succeeds to its powers or functions;
- (q) if a period of time is specified and dates from a given day or the day of an act or event, it is to be calculated exclusive of that day;
- (r) a reference to a day is to be interpreted as the period of time commencing at midnight and ending 24 hours later;
- (s) if an act prescribed under this Scheme to be done by a party on or by a given day is done after 5.00pm on that day, it is taken to be done on the next day; and
- (t) a reference to the Listing Rules and the Operating Rules includes any variation, consolidation or replacement of these rules and is to be taken to be subject to any waiver or exemption granted to the compliance of those rules by a party.

3 Interpretation of inclusive expressions

Specifying anything in this Scheme after the words 'include' or 'for example' or similar expressions does not limit what else is included.

4 Business Day

Where the day on or by which any thing is to be done is not a Business Day, that thing must be done on or by the next Business Day.

ANNEXURE C



HERBERT
SMITH
FREEHILLS

Attachment 1

Deed Poll

ANNEXURE D

DEED POLL



HERBERT
SMITH
FREEHILLS

Deed

Deed poll

Domain Holdings Australia Pty Limited

ANZ Tower 161 Castlereagh Street Sydney NSW 2000 Australia
GPO Box 4227 Sydney NSW 2001 Australia

T +61 2 9225 5000 F +61 2 9322 4000
herbertsmithfreehills.com DX 361 Sydney

ANNEXURE D



Deed poll

Date 19 September 2017

This deed poll is made

By **Domain Holdings Australia Pty Limited**
ACN 094 154 364 of 1 Darling Island Road, Pyrmont, NSW 2009
(Domain)

in favour of each registered holder of fully paid ordinary shares in Fairfax as at the Record Date.

Recitals Domain is making this deed poll for the purpose of covenanting in favour of the Scheme Participants to perform its obligations under the Scheme.

This deed poll provides as follows:

1 Definitions and interpretation

1.1 Definitions

(a) The meanings of the terms used in this deed poll are set out below.

Term	Meaning
First Court Date	the first day on which an application made to the Court for an order under subsection 411(1) of the Corporations Act convening the Scheme Meeting to consider the Scheme is heard or, if the application is adjourned or subject to appeal for any reason, the day on which the adjourned application is heard.
Scheme	the scheme of arrangement under Part 5.1 of the Corporations Act between Fairfax and the Fairfax Shareholders, the form of which is set out in Attachment 1, subject to any alterations or conditions made or required by the Court under subsection 411(6) of the Corporations Act and agreed to by Fairfax and Domain.

- (b) Unless the context otherwise requires, terms defined in the Scheme have the same meaning when used in this deed poll.

1.2 Interpretation

Sections 2, 3 and 4 of Schedule 1 of the Scheme apply to the interpretation of this deed poll, except that references to “this Scheme” are to be read as references to “this deed poll”.

1.3 Nature of deed poll

Domain acknowledges that:

- (a) this deed poll may be relied on and enforced by any Scheme Participant in accordance with its terms even though the Scheme Participants are not party to it; and
- (b) under the Scheme, each Scheme Participant irrevocably appoints Fairfax and each of its directors, officers and secretaries (jointly and each of them severally) as its agent and attorney to enforce this deed poll against Domain.

2 Conditions to obligations

2.1 Conditions

This deed poll and the obligations of Domain under this deed poll are subject to the Scheme becoming Effective.

2.2 Termination

The obligations of Domain under this deed poll to the Scheme Participants will automatically terminate and the terms of this deed poll will be of no force or effect if the Scheme is not Effective on or before the End Date, unless Domain otherwise agrees in writing.

2.3 Consequences of termination

If this deed poll terminates under clause 2.2, in addition and without prejudice to any other rights, powers or remedies available to it:

- (a) Domain is released from its obligations to further perform this deed poll; and
- (b) each Scheme Participant retains the rights they have against Domain in respect of any breach of this deed poll which occurred before it was terminated.

3 Issue of Domain Shares

3.1 Agreement to become members of Domain

Under clause 6.1(a) of the Scheme, each Scheme Participant who receives Domain Shares agrees to become a member of Domain, to have their name entered in the



Domain Register, to accept the Domain Shares issued to it and to be bound by the Domain Constitution.

3.2 Obligation to update Domain Register

On the Implementation Date, Domain must procure the entry into the Domain Register of:

- (a) each Scheme Participant (other than Ineligible Foreign Shareholders), in respect of the Domain Shares issued to the relevant Scheme Participant in accordance with the Scheme; and
- (b) the Sale Agent, in respect of the Domain Shares issued to the Sale Agent on behalf of the Ineligible Foreign Shareholders, in accordance with the Scheme.

3.3 Holding statements

In accordance with clause 3.5 of the Scheme, as soon as practicable after the Implementation Date and in accordance with the Listing Rules, Domain must dispatch or procure the dispatch to:

- (a) each Scheme Participant (other than Ineligible Foreign Shareholders), holding statements for the Domain Shares issued to the relevant Scheme Participant; and
- (b) the Sale Agent, holding statements for the Domain Shares issued to the Sale Agent on behalf of the Ineligible Foreign Shareholders,

by pre-paid post to their registered address at the Record Date, unless a Scheme Participant (other than an Ineligible Foreign Shareholder) or the Sale Agent has directed otherwise.

3.4 Joint holders

In the case of Scheme Participants (who are not Ineligible Foreign Shareholders) who are joint holders of Fairfax Shares:

- (a) entry in the Domain Register must take place in the same order as the holders' names appear in the Fairfax Register; and
- (b) holding statements in relation to the Domain Shares will be forwarded to the holder whose name appears first in the Fairfax Register on the Record Date.

4 Other obligations of Domain

Subject to clause 2, Domain covenants in favour of Scheme Participants:

- (a) to observe and perform the steps attributed to it under, and otherwise to comply with, the Scheme as if named as a party to the Scheme and do all acts and things necessary to give effect to the Scheme;
- (b) to issue the Domain Shares as contemplated in clauses 3.3 and 3.4 of the Scheme; and
- (c) to apply for admission of Domain to the official list of ASX and for official quotation of Domain Shares to be issued pursuant to the Scheme on the stock market conducted by ASX with effect on or before the Business Day after the Effective Date, subject only to the Scheme taking effect and any other conditions as are acceptable to the Fairfax Board.

5 Warranties

Domain represents and warrants in favour of each Scheme Participant, in respect of itself, that:

- (a) it is a corporation validly existing under the laws of its place of registration;
- (b) it has the corporate power to enter into and perform its obligations under this deed poll and to carry out the transactions contemplated by this deed poll;
- (c) it has taken all necessary corporate action to authorise its entry into this deed poll and has taken or will take all necessary corporate action to authorise the performance of this deed poll and to carry out the transactions contemplated by this deed poll;
- (d) this deed poll is valid and binding on it and enforceable against it in accordance with its terms; and
- (e) this deed poll does not conflict with, or result in the breach of or default under, any provision of its constitution, or any writ, order or injunction, judgment, law, rule or regulation to which it is a party or subject or by which it is bound.

6 Continuing obligations

This deed poll is irrevocable and, subject to clause 2, remains in full force and effect until:

- (a) Domain has fully performed its obligations under this deed poll; or
- (b) the earlier termination of this deed poll under clause 2.

7 Notices

7.1 Form of Notice

A notice or other communication in respect of this deed poll (**Notice**) must be:

- (a) in writing and in English and signed by or on behalf of the sending party; and
- (b) addressed to Domain in accordance with the details set out below (or any alternative details nominated by Domain by Notice).

Attention Chief Financial Officer

Address 1 Darling Island Road, Pyrmont NSW 2009 Australia

Email rob.doyle@fairfaxmedia.com.au



7.2 How Notice must be given and when Notice is received

- (a) A Notice must be given by one of the methods set out in the table below.
- (b) A Notice is regarded as given and received at the time set out in the table below.

However, if this means the Notice would be regarded as given and received outside the period between 9.00am and 5.00pm (addressee's time) on a Business Day (**business hours period**), then the Notice will instead be regarded as given and received at the start of the following business hours period.

Method of giving Notice	When Notice is regarded as given and received
By hand to the nominated address	When delivered to the nominated address
By pre-paid post to the nominated address	At 9.00am (addressee's time) on the second Business Day after the date of posting
By email to the nominated email address	When the email (including any attachment) comes to the attention of the recipient party or a person acting on its behalf.

7.3 Notice must not be given by electronic communication

A Notice must not be given by electronic means of communication (other than email as permitted in clause 7.2).

8 General

8.1 Governing law and jurisdiction

- (a) This deed poll is governed by the law in force in New South Wales, Australia.
- (b) Domain irrevocably submits to the non-exclusive jurisdiction of courts exercising jurisdiction in New South Wales and courts of appeal from them in respect of any proceedings arising out of or in connection with this deed poll. Domain irrevocably waives any objection to the venue of any legal process in these courts on the basis that the process has been brought in an inconvenient forum.

8.2 Waiver

- (a) Domain may not rely on the words or conduct of any Scheme Participant as a waiver of any right unless the waiver is in writing and signed by the Scheme Participant granting the waiver.
- (b) No Scheme Participant may rely on words or conduct of Domain as a waiver of any right unless the waiver is in writing and signed by Domain, as appropriate.
- (c) The meanings of the terms used in this clause 8.2 are set out below.

Term	Meaning
conduct	includes delay in the exercise of a right.
right	any right arising under or in connection with this deed poll and includes the right to rely on this clause.
waiver	includes an election between rights and remedies, and conduct which might otherwise give rise to an estoppel.

8.3 Variation

A provision of this deed poll may not be varied unless:

- (a) if before the First Court Date, the variation is agreed to by Fairfax and Domain;
or
- (b) if on or after the First Court Date, the variation is agreed to by Fairfax and Domain and the Court indicates that the variation would not of itself preclude approval of the Scheme,

in which event Domain will enter into a further deed poll in favour of the Scheme Participants giving effect to the variation.

8.4 Cumulative rights

The rights, powers and remedies of Domain and the Scheme Participants under this deed poll are cumulative and do not exclude any other rights, powers or remedies provided by law independently of this deed poll.

8.5 Assignment

- (a) The rights created by this deed poll are personal to Domain and each Scheme Participant and must not be dealt with at law or in equity.
- (b) Any purported dealing in contravention of clause 8.5(a) is invalid.

8.6 Further action

Domain must, at its own expense, do all things and execute all documents necessary to give full effect to this deed poll and the transactions contemplated by it.

ANNEXURE D



HERBERT
SMITH
FREEHILLS

Attachment 1

Scheme



HERBERT
SMITH
FREEHILLS

Signing page

Executed as a deed poll

Signed sealed and delivered by
**Domain Holdings Australia Pty
Limited**
by

sign here ► _____ *sign here* ► _____
Company Secretary/Director Director

print name _____ *print name* _____

ANNEXURE E

NOTICE OF SCHEME MEETING

Notice of Scheme Meeting

Fairfax Media Limited (ABN 15 008 663 161) (Fairfax Media or Company) hereby gives notice that by order of the Federal Court of Australia (Court) made on 22 September 2017 pursuant to section 411(1) of the *Corporations Act 2001* (Cth) (Corporations Act), a general meeting of the Fairfax Media's shareholders (Scheme Meeting) will be held at 10:00am (Sydney time) on Thursday 2 November 2017 in the Pitt Street Room, Ground Floor, Domain, 55 Pyrmont Street, Pyrmont NSW 2009.

INFORMATION ABOUT THE SCHEME

Information about the Scheme is set out in the Scheme Booklet, of which this Notice forms part. Terms used in this Notice have the same meaning as set out in the Glossary to the Scheme Booklet, unless indicated otherwise.

PURPOSE OF THE SCHEME MEETING

The purpose of the meeting is to consider and, if thought fit, to agree (with or without modification) to a scheme of arrangement proposed to be made between Fairfax Media Limited and the holders of its fully paid ordinary shares.

CHAIRMAN OF THE MEETING

The Court has directed that Nick Falloon, or failing him James Millar, be Chairman of the meeting and has directed the Chairman of the meeting to report the result of the meeting to the Court.

AGENDA

Scheme Resolution

To consider and, if thought fit, to agree (with or without amendment) the following resolution:

'That pursuant to, and in accordance with, section 411 of the Corporations Act 2001 (Cth), the scheme of arrangement proposed between Fairfax Media Limited and the holders of its fully paid ordinary shares as contained in and more precisely described in the Scheme Booklet of which the notice convening this meeting forms part, is approved (with or without modification as approved by the Federal Court of Australia).'

SCHEME BOOKLET

A copy of the Scheme and a copy of the explanatory statement required by section 412 of the Corporations Act in relation to the Scheme are contained in the Scheme Booklet, of which this Notice forms part.

COURT APPROVAL

In accordance with section 411(4)(b) of the Corporations Act, the Scheme (with or without modification) must be approved by an order of the Court. If the resolution put to the Scheme Meeting is passed by the required majorities and the other conditions to the Scheme are satisfied (including the Capital Reduction Resolution being passed at the Annual General Meeting that is scheduled to follow the Scheme Meeting), Fairfax Media intends to apply to the Court on 6 November 2017 for approval of the Scheme.

SCHEME MEETING ONLINE WEBCAST

Shareholders can view a live webcast of the Scheme Meeting online at <http://www.fairfaxmedia.com.au/Investors/webcasts>

Voting and Proxy Instructions

YOUR VOTE IS IMPORTANT

You are entitled to vote at the Scheme Meeting only if you are registered as a shareholder of the Company at 7:00 pm (Sydney time) on 31 October 2017

Voting procedure

The Company will be using electronic voting handheld devices at the Scheme Meeting.

The Chairman of the meeting intends to put the resolution set out in the agenda to a poll at the meeting. Voting results will be announced to the Australian Securities Exchange (ASX) as soon as practicable after the meeting.

The Chairman of the meeting intends to vote any undirected proxies in favour of Resolution 1.

Passing the Resolution

In accordance with section 411(4)(a)(ii) of the Corporations Act, Resolution 1 must be passed by:

- ▶ a majority in number (more than 50%) of Fairfax Media Shareholders present and voting at the meeting (in person or by representative or proxy); and
- ▶ Fairfax Media Shareholders holding at least 75% of the total number of votes cast by Fairfax Media Shareholders present and voting at the meeting (in person or by proxy).

Registration

You should arrive at the meeting venue 30 minutes before the time designated for the Scheme Meeting, if possible, so that your shareholding can be checked against Fairfax Media's share register and attendances noted. Attorneys should bring with them original or certified copies of the power of attorney under which they have been authorised to attend and vote at the Scheme Meeting.

Appointing a proxy

If you are unable to attend the meeting, you may appoint a proxy to attend and vote on your behalf. A proxy need not be a shareholder of the Company and may be an individual or a body corporate.

A shareholder entitled to attend and cast at least two votes at the meeting is entitled to appoint up to two proxies. If a shareholder appoints two proxies, the shareholder may specify the proportion or number of votes each proxy may exercise. If a shareholder appoints two proxies but does not specify the proportion or number of votes each proxy may exercise, each proxy may exercise half the votes. If a member appoints two proxies, neither may vote on a show of hands if they both attend the meeting; however, they will be entitled to vote on a poll.

The appointment of one or more duly appointed proxies will not preclude a member from attending the meeting and voting personally. The appointment of a proxy is not revoked by the member attending and taking part in the meeting; however, if the member votes on the resolution, the proxy/proxies will not be entitled to vote, and must not vote, as the member's proxy on the resolution.

For your vote to count, your proxy form must be received by the Company's share registry, Link Market Services Limited, no later than 48 hours prior to the commencement of the meeting i.e. by **10:00am (Sydney time) on Tuesday 31 October 2017**. To lodge your proxy, you may:

- ▶ mail it to Fairfax Media Limited, c/o Link Market Services Limited, Locked Bag A14, Sydney South NSW 1235;
- ▶ deliver it by hand to Link Market Services Limited at Level 12, 680 George Street, Sydney NSW 2000 or 1A Homebush Bay Drive, Rhodes NSW 2138;
- ▶ fax it to +61 2 9287 0309; or
- ▶ lodge it online at www.linkmarketservices.com.au (click the proxy icon and follow the prompts). For online proxy lodgement, you will need to enter your SRN or HIN shown at the top right hand side of your personalised proxy form with the notice of meeting. You will be taken to have signed your proxy form if you lodge it in accordance with the instructions on the website.

ANNEXURE E

Alternatively, you may send or fax your proxy form to the Company's registered office at 1 Darling Island Road, Pyrmont NSW 2009, fax (02) 9282 1633. For additional proxy forms, contact Link Market Services Limited on 1300 888 062 (or from outside Australia, +61 2 8280 7670).

Further instructions for appointing a proxy are included in the proxy form.

Default of proxy votes to Chairman in certain circumstances

If:

- ▶ a poll is duly demanded at the meeting in relation to the proposed resolution; and
- ▶ a member has appointed a proxy (other than the Chairman) and the appointment of the proxy specifies the way the proxy is to vote on the resolution; and
- ▶ that member's proxy is either not recorded as attending the meeting or does not vote on the resolution,

the Chairman of the meeting will, before voting on the resolution closes, be taken to have been appointed as the proxy for the member for the purpose of voting on that resolution and must vote in accordance with the written direction of that member.

Corporate representatives

A corporate shareholder, or body corporate appointed as a proxy, may appoint an individual as its representative to attend the meeting and vote on its behalf. Corporate shareholders or proxies who appoint a representative must provide the representative with a properly executed notice of appointment, which the representative must bring to the meeting for the purpose of registration. The appointment may be for this meeting only or for all meetings of the Company. Shareholders can download an Appointment of Corporate Representation form from www.linkmarketservices.com.au/public/forms/general.

Power of attorney

If the proxy form is signed by an attorney, the original power of attorney under which the proxy form was signed, or a certified copy, must be received by Link Market Services or the Company at least 48 hours before the meeting i.e. by 10:00am (Sydney time) on Tuesday 31 October 2017 (unless it has been previously provided).

Shareholder questions

If you have any additional questions in relation to this notice or the Scheme, call the Fairfax Media Shareholder Information Line on +61 1300 888 062 between the hours of 8:30am and 5:30pm Monday to Friday.

By order of the Board



Gail Hambly
Company Secretary

22 September 2017

Registered Office
Fairfax Media Limited
1 Darling Island Road
Pyrmont NSW 2009
Ph: +61 2 9282 2833
Fax: +61 2 9282 1633
Web: www.fairfaxmedia.com.au

ANNEXURE F

NOTICE OF ANNUAL GENERAL MEETING



Fairfax Media Limited
ABN 15 008 663 161
1 Darling Island Road
Pyrmont NSW 2009

Dear Shareholder,

I am pleased to enclose the Notice of Meeting and Proxy Form for the Fairfax Media Limited Annual General Meeting. The meeting will be held on **Thursday 2 November 2017, commencing at 10:30 am (or as soon thereafter following the conclusion of the Scheme Meeting of the Company) in the Pitt Street Room, Ground Floor, Domain, 55 Pyrmont Street, Pyrmont NSW 2009.**

Shareholders attending the AGM will be able to register from 9:30am (i.e. before the Scheme Meeting) at the venue.

The AGM will be webcast live at <http://www.fairfaxmedia.com.au/Investors/webcasts>.

The resolutions on the agenda this year are for:

- the approval of the capital reduction in connection with the scheme of arrangement;
- the election and re-election of Directors;
- the approval of the allocation of Performance Shares and Performance Rights to the Chief Executive Officer & Managing Director of Fairfax, Mr Gregory Hywood, under the Fairfax Executive Incentive Plan;
- adoption of the 2017 Remuneration Report; and
- the approval of termination benefits to the Chief Executive Officer & Managing Director of Domain, Mr Antony Catalano.

Resolutions to be put to the meeting are discussed in the Explanatory Notes attached to this Notice of Meeting.

The Board recommends that shareholders vote in favour of each resolution.

I also note that Ms Sandra McPhee will be retiring from the Board at the conclusion of the AGM. We thank her for her enormous contribution since her appointment in 2010 including her service as Chair of the People and Culture Committee of the Board. We wish her all the very best for her future endeavours.

The Board has determined that it will not fill Board vacancies at this time and so the Board will, after this meeting, consist of seven non-executive directors plus the managing director, a reduction from the present nine directors.

If you would like to submit questions for consideration by the Board before the meeting, please complete and return the shareholder question form that is included with the Notice of Meeting.

The Board hopes you are able to attend the Annual General Meeting and you will take the opportunity to meet with my fellow Directors and senior executives. I look forward to seeing you.

Yours faithfully

A handwritten signature in black ink, appearing to read "Nick Falloon".

Nick Falloon
Chairman

ANNEXURE F

Notice of Annual General Meeting

Fairfax Media Limited (ABN 15 008 663 161) (**Fairfax or the Company**) hereby gives notice that the Annual General Meeting (**AGM**) of shareholders will be held at 10:30 am (AEDT) (or as soon thereafter following the conclusion of the Scheme Meeting of the Company) on Thursday 2 November 2017 in the Pitt Street Room, Ground Floor, Domain, 55 Pyrmont Street, Pyrmont NSW 2009.

AGENDA

A. Chairman's address to shareholders

B. Chief Executive Officer & Managing Director's address to shareholders

C. Resolution 1: Capital reduction resolution

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

1. 'That, subject to and conditional on the scheme of arrangement set out in Annexure C of the Scheme Booklet of which the notice convening this meeting forms part (**Scheme**) becoming effective in accordance with section 411(10) of the *Corporations Act 2001* (Cth) (**Corporations Act**) and for the purpose of section 256C(1) of the *Corporations Act* and for all other purposes, the Company's share capital be reduced on the Implementation Date (as defined in the Scheme) by the Capital Reduction Amount (as defined in the Scheme), with the reduction to be effected and satisfied by applying the Capital Reduction Amount equally against each ordinary share of the Company on issue on the Scheme Record Date (as defined in the Scheme) in accordance with the Scheme.'

The Board recommends that shareholders vote in favour of Resolution 1.

D. Discussion of the Financial Report, Directors' Report and Auditors' Report

To receive and consider the Financial Report, Directors' Report and Auditor's Report for the financial year ended 25 June 2017.

E. Resolutions 2 – 3: Election and re-election of Directors

To consider and, if thought fit, pass the following resolutions as ordinary resolutions:

2. 'That Ms Mickie Rosen be elected as a Non-executive Director of the Company.'
3. 'That Mr Todd Sampson be re-elected as a Non-executive Director of the Company.'

The Board (other than the relevant Director for his/her own election/re-election) recommends that shareholders vote in favour of Resolutions 2-3.

F. Resolution 4: Grant of Performance Shares and Performance Rights to the Chief Executive Officer & Managing Director of Fairfax under the Fairfax Executive Incentive Plan for FY2018

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

'That approval be given for all purposes, including ASX Listing Rule 10.14 to grant to the Chief Executive Officer & Managing Director of the Company, Mr Gregory Hywood:

- a) Performance Shares; and
- b) Performance Rights,

on the terms and conditions described in the Explanatory Notes accompanying this Notice of Meeting and in accordance with the terms of the Fairfax Executive Incentive Plan.

The Board (Mr Hywood abstaining) recommends that shareholders vote in favour of Resolution 4.

Note: the voting exclusion set out below applies to Resolution 4.

G. Resolution 5: Adoption of Remuneration Report

To consider and, if thought fit, pass the following non-binding resolution as an ordinary resolution:

5. 'That the Company's Remuneration Report for the financial year ended 25 June 2017 be adopted.'

The vote on this resolution is advisory only and does not bind the Directors or the Company.

The Board recommends that shareholders vote in favour of Resolution 5.

Note: the voting exclusion set out below applies to Resolution 5.

H. Resolution 6: Approval of potential termination benefit entitlements of the Chief Executive Officer & Managing Director of Domain Holdings Australia Limited

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

6. 'That, subject to and conditional on the Scheme becoming effective in accordance with section 411(10) of the Corporations Act, for a period of three years commencing on the date this resolution is passed, approval be given for all purposes, including Part 2D.2 of the Corporations Act, for the giving of benefits to Antony Catalano in connection with him ceasing to hold a 'managerial or executive office' (as defined in section 200AA of the Corporations Act) in Domain Holdings Australia Limited or a related body corporate, on the terms set out in the Explanatory Notes attached to this Notice of Meeting.'

The Board recommends that shareholders vote in favour of Resolution 6.

Note: the voting exclusion set out below applies to Resolution 6.

AGM ONLINE WEBCAST

Shareholders can view a live webcast of the AGM online at <http://www.fairfaxmedia.com.au/Investors/webcasts>

ANNUAL REPORT

The 2017 Fairfax Media Annual Report is available on our investor website <http://www.fairfaxmedia.com.au/Investors/annual-reports>.

In line with our commitment to the environment and our focus on lowering costs, unless you elect otherwise, we will provide our Annual Report to you by making it available on our website. You will still have the option of receiving, free of charge, a printed copy of the Annual Report or alternatively receiving your shareholder communications by email. To arrange this, please update your details by contacting Link on 1300 888 062 (or from outside Australia, +61 2 8280 7670).

VOTING EXCLUSION STATEMENTS

Voting Exclusion Statement for Resolution 4

The Company will disregard any votes cast on Resolution 4:

- *by or on behalf of Mr Hywood or any of his associates, regardless of the capacity in which the vote is cast; and*
- *as a proxy by a member of the key management personnel (KMP) at the date of the AGM or their closely related parties,*

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

- *in accordance with the directions on the proxy form; or*

ANNEXURE F

- by the Chairman of the meeting pursuant to an express authorisation to exercise the proxy as the Chairman sees fit (even though the resolution is connected directly or indirectly with the remuneration of a member of the Company's KMP).

Voting Exclusion Statement for Resolution 5

The Company will **disregard** any votes cast on Resolution 5:

- by or on behalf of a member of the KMP named in the Company's Remuneration Report or their closely related parties, regardless of the capacity in which the vote is cast; or
- as a proxy by a member of the KMP on the date of the AGM or their closely related parties, unless the vote is cast as proxy for a person who is entitled to vote on Resolution 5:
- in accordance with the directions on the proxy form; or
- by the Chairman of the meeting as proxy pursuant to an express authorisation to exercise the proxy as the Chairman sees fit (even though the resolution is connected directly or indirectly with the remuneration of the Company's KMP).

Voting Exclusion Statement for Resolution 6

The Company will **disregard** any votes cast on Resolution 6 by or on behalf of Antony Catalano or any of his associates, unless the vote is cast as proxy for a person who is entitled to vote on Resolution 6 in accordance with the directions on the proxy form.

Voting and Proxy Instructions

YOUR VOTE IS IMPORTANT

You are entitled to vote at the AGM only if you are registered as a shareholder of the Company at 7:00 pm (AEDT) on 31 October 2017

Voting procedure

The Company will be using electronic voting hand held devices at the AGM again this year.

The Chairman of the meeting intends to put all Resolutions set out on the agenda to a poll at the meeting. Voting results will be announced to the Australian Securities Exchange (ASX) as soon as practicable after the meeting.

The Chairman of the meeting intends to vote any undirected proxies in favour of all resolutions.

Appointing a proxy

If you are unable to attend the meeting, you may appoint a proxy to attend and vote on your behalf. A proxy need not be a shareholder of the Company and may be an individual or a body corporate.

A shareholder entitled to attend and cast at least two votes at the meeting is entitled to appoint up to two proxies. If a shareholder appoints two proxies, the shareholder may specify the proportion or number of votes each proxy may exercise. If a shareholder appoints two proxies but does not specify the proportion or number of votes each proxy may exercise, each proxy may exercise half the votes. If a member appoints two proxies, neither may vote on a show of hands if they both attend the meeting, however, they will be entitled to vote on a poll.

The appointment of one or more duly appointed proxies will not preclude a member from attending the meeting and voting personally. The appointment of a proxy is not revoked by the member attending and taking part in the meeting, however, if the member votes on any resolution, the proxy/proxies will not be entitled to vote, and must not vote, as the member's proxy on the resolution.

For your vote to count, your proxy form must be received by the Company's share registry, Link Market Services (Link), no later than 48 hours prior to the commencement of the meeting i.e. by **10:30 am (AEDT) on Tuesday 31 October 2017**. To lodge your proxy, you may:

- mail it to Fairfax Media Limited, c/o Link Market Services Limited, Locked Bag A14, Sydney South, NSW, 1235;

- deliver it by hand to Link at Level 12, 680 George Street, Sydney 2000 or 1A Homebush Bay Drive, Rhodes NSW 2138;
- fax it to +61 2 9287 0309; or
- lodge it online at www.linkmarketservices.com.au (click the proxy icon and follow the prompts). For online proxy lodgement, you will need to enter your SRN or HIN shown at the top right hand side of your personalised proxy form with the notice of meeting. You will be taken to have signed your proxy form if you lodge it in accordance with the instructions on the website.

Alternatively, you may send or fax your proxy form to the Company's registered office at 1 Darling Island Road, Pyrmont NSW 2009, fax (02) 9282 1633. For additional proxy forms, contact Link on 1300 888 062.

Further instructions for appointing a proxy are included in the proxy form.

Default of proxy votes to Chairman in certain circumstances

If:

- a poll is duly demanded at the meeting in relation to a proposed resolution; and
- a member has appointed a proxy (other than the Chairman) and the appointment of the proxy specifies the way the proxy is to vote on the resolution; and
- that member's proxy is either not recorded as attending the meeting or does not vote on the resolution,

the Chairman of the meeting will, before voting on the resolution closes, be taken to have been appointed as the proxy for the member for the purposes of voting on that resolution and must vote in accordance with the written direction of that member.

Important information regarding appointing the Chairman of the meeting or another member of KMP (or their closely related parties) as your proxy in relation to Resolutions 4 and 5

Except in the case of the Chairman of the meeting, the members of the Company's KMP (which includes each of the Directors) and their closely related parties (which includes spouses, dependents, certain other family members and controlled companies) will not be able to vote your proxies on Resolutions 4 or 5, unless you direct them how to vote on the relevant resolution. If you intend to appoint a member of the KMP (such as one of the Directors) or one of their closely related parties as your proxy, please ensure that you direct them how to vote on Resolutions 4 and 5.

If you appoint the Chairman of the meeting as your proxy (or the Chairman of the meeting is appointed as your proxy by default), you can direct the Chairman how to vote by ticking the relevant boxes next to each resolution on the proxy form (i.e. 'for', 'against', 'abstain'). If no direction is provided, then by completing and submitting the proxy form, you will be expressly authorising the Chairman of the meeting to exercise your proxy as the Chairman thinks fit, even though those resolutions are connected with the remuneration of the Company's KMP.

The Chairman of the meeting intends to vote any undirected proxies in favour of Resolutions 4 and 5.

Important information regarding appointing Antony Catalano (or any of his associates) as your proxy in relation to Resolution 6

Antony Catalano and his associates (which includes his spouse, dependents, certain other family members and controlled companies) will not be able to vote your proxies on Resolution 6, unless you direct them how to vote on the relevant resolution. If you intend to appoint Antony Catalano or one of his associates as your proxy, please ensure that you direct them how to vote on Resolution 6.

Corporate representatives

A corporate shareholder, or body corporate appointed as a proxy, may appoint an individual as its representative to attend the meeting and vote on its behalf. Corporate shareholders or proxies who appoint a representative must provide the representative with a properly executed notice of appointment, which the representative must bring to the meeting for the purposes of registration. The appointment may be for this meeting only or for all meetings of the Company. Shareholders can download an Appointment of Corporate Representation form from www.linkmarketservices.com.au/public/forms/general.

Power of attorney

ANNEXURE F

If the proxy form is signed by an attorney, the original power of attorney under which the proxy form was signed, or a certified copy, must be received by Link or the Company at least 48 hours before the meeting i.e. by 10:30 am (AEDT) on Tuesday 31 October 2017 (unless it has been previously provided).

Shareholder questions

If you wish to submit a question prior to the meeting, please complete the shareholder question form at the back of this Notice of Meeting. Questions must be received by Link by 5:00pm (AEDT) Thursday 26 October 2017. You may post or fax questions to Link or lodge them online (see instructions on the question form). Shareholders who attend the meeting will have an opportunity at the meeting to ask relevant questions.

By order of the Board



Gail Hambly
Company Secretary

22 September 2017

EXPLANATORY NOTES

These Explanatory Notes have been prepared to help shareholders understand the business to be put to shareholders at the forthcoming AGM. They relate to the resolutions set out in the Notice of Meeting and should be read in conjunction with the Notice of Meeting. These Explanatory Notes form part of the Notice of Meeting.

AGENDA ITEM C

Financial Report, Directors' Report and Auditors' Report

The Financial Report, the Directors' Report and the Auditors' Report for the financial year ended 25 June 2017 will be tabled at the meeting.

The Financial Report, the Directors' Report and the Auditors' Report are contained in the 2017 Fairfax Annual Report ('Annual Report') which is available at www.fairfaxmedia.com.au.

At the meeting, shareholders will be given a reasonable opportunity to comment on or ask questions about the Group's management and financial performance. The Company's Auditor will be present at the meeting and shareholders will also be given the opportunity to ask the Auditor questions on the conduct of the audit, the preparation and content of the Auditors' report, the accounting policies adopted by the Company for the preparation of the financial statements and the independence of the Auditor.

AGENDA ITEM D

Capital reduction resolution

Resolution 1 is supported by the Board

The Capital Reduction Resolution is being put to Fairfax shareholders to obtain approval under section 256C of the Corporations Act, and for all other purposes, of an equal capital reduction in Fairfax Media's ordinary share capital under section 256B of the Corporations Act, by \$536 million. The capital reduction is a return of capital on Fairfax Media Shares which, under the Scheme, will be applied as consideration for the issue of Domain Shares to Eligible Shareholders (as defined in the Scheme and Ineligible Foreign Shareholders, to the Sale Agent) in accordance with the Scheme.

The Capital Reduction Resolution is being proposed in connection with the Scheme and is conditional on Fairfax Media Shareholders approving the Scheme. This means that the Capital Reduction will not occur unless the Scheme Resolution and the Capital Reduction Resolution are approved by Fairfax Media Shareholders and the Scheme becomes Effective.

The effects on Fairfax Media and Fairfax Media Shareholders if the Capital Reduction Resolution is passed, together with all other factors that are material to the making of a decision by Fairfax Media Shareholders whether to approve the Capital Reduction Resolution, are set out in the Scheme Booklet, of which this notice forms part, including these Explanatory Notes.

If the Capital Reduction Resolution is passed by the required majority (more than 50% of the total number of votes cast on the resolution), it will take effect on the Implementation Date provided the Scheme is approved by the required majorities of Fairfax Media Shareholders and by the Court and all other conditions to the Scheme are satisfied (or waived).

The Fairfax Media Directors are of the view that, taking into account all relevant matters, the Capital Reduction is fair and reasonable to Fairfax Media Shareholders as a whole and will not materially prejudice the ability of Fairfax Media to pay its creditors.

Note: Capitalised terms used in the Explanatory Notes for Resolution 1 have the meaning given in the Scheme Booklet.

The Board (unanimously recommends that shareholders approve Resolution 1.

ANNEXURE F

AGENDA ITEM E

Resolutions for the election and re-election of the Directors

Resolutions 2 and 3 are supported by the Board

Resolution 2

Ms Mickie Rosen

Independent Non-executive Director

Appointed: 1 March 2017

Board Committees: Member of the Audit and Risk Committee

On 1 March 2017, the Board appointed Ms Rosen as a new Director. In accordance with Rule 6.1(e) of the Company's Constitution and Listing Rule 14.4, any Director appointed by the Board to fill a casual vacancy only holds office until the annual general meeting following their appointment. Ms Rosen, being eligible, is standing for election at the Company's AGM.

Ms Rosen has over 25 years of operational, strategic, and investment experience at the intersection of media and technology. She has worked for both large established companies and early stage start-ups. She currently advises a range of companies globally, is a Senior Advisor to Boston Consulting Group, and is a Director of Pandora Media in the USA.

In her most recent operational role, Ms Rosen served as Senior Vice-President of Yahoo's Global Media and Commerce division. Prior to Yahoo!, she was a partner with Fuse Capital, a digital media venture capital firm, and was the head of entertainment for Fox Interactive Media where she led strategic initiatives in digital, including serving as a lead on envisioning, structuring, and negotiating the creation of Hulu. She has also held executive roles with The Walt Disney Company and leading movie information and ticketing company, Fandango. Ms Rosen built the foundation of her career at McKinsey & Company and holds a Masters of Business Administration from Harvard Business School.

The Board (Ms Rosen abstaining) unanimously recommends the election of Ms Rosen to the Board.

Resolution 3

Mr Todd Sampson

Independent Non-executive Director

Appointed: 29 May 2014

Last elected: 6 November 2014

Board Committees: Member of the People and Culture Committee

Mr Sampson is retiring by rotation and standing for re-election in accordance with Rule 6.1(e) of the Company's Constitution and Listing Rule 14.4, and being eligible, offers himself for re-election.

Mr Sampson is a Non-Executive Director on the Board of Qantas Airways Limited. He has an MBA and has spent nearly 20 years working as a strategic advisor with a diverse range of expertise including marketing, communication, digital transformation, new media, reputational risk and corporate turnaround. Both News Limited and the Australian Financial Review ranked him as one of Australia's most influential executives. He is also a writer, producer and host on a number of TV shows including Gruen Planet, The Project and the award winning documentary Redesign My Brain. Outside of work, he enjoys mountaineering and has climbed to the top of Mount Everest, unguided.

The Board (Mr Sampson abstaining) unanimously recommends the re-election of Mr Sampson to the Board.

AGENDA ITEM F

Grant of Performance Shares and Performance Rights to Chief Executive Officer & Managing Director under the Fairfax Executive Incentive Plan for FY18

Resolution 4 is supported by the Board

Resolution 4

Background

As communicated to Shareholders in 2016, the Transformation Incentive Plan (TIP) operated from FY14 through to FY16 following shareholder approval of the Remuneration Report at the 2013 Annual General Meeting. Following a comprehensive review, the Directors determined that it had achieved its goals and accordingly, the TIP was replaced in FY17 by a new Executive Incentive Plan (Plan) which includes a Short Term Incentive (STI) and Long Term Incentive (LTI) opportunity.

The STI component will continue to be assessed on an annual basis, and any awards will be made in deferred performance shares. Half of the shares will be deferred for one year and the other half for two years.

Allocations for the LTI will be made in performance rights. The allocation will be subject to three independent performance hurdles, two of which are performance against relative total shareholder return comparator groups and the third hurdle being a strategic measure.

The Executive Incentive Plan

The Plan is designed to drive the delivery of the next phase of the Company's strategy to continue to transform the publishing businesses, accelerate the growth in the existing businesses, and invest in new strategic opportunities for future growth.

The Plan continues to be heavily weighted toward achieving medium to long term growth, be based on objective measurable goals and to align with growth in shareholder value.

CEO's participation in the Plan for FY18

Resolution 4 seeks shareholder approval for the CEO to participate in the Fairfax Executive Incentive Plan and for the grant of Performance Shares and Performance Rights to Mr Hywood under the Plan. The key terms of the Plan for FY18 remain the same as they were in FY17 and are set out below.

The CEO's grant for FY18 has 2 components:

1. LTI: delivered in the form of Performance Rights following the 2017 AGM; and
2. STI: delivered in the form of Performance Shares following the end of FY18.

The Company is seeking approval for the equity grants under the Plan as a matter of good corporate governance and in accordance with ASX Listing Rule 10.14, to preserve flexibility for the Board to issue the Performance Shares or any shares in the Company allocated on vesting of Performance Rights under the Plan.

The Board will exercise its discretion in determining how to source any shares at the relevant time with the best interests of the Company's shareholders in mind.

The CEO's maximum incentive opportunity remains unchanged at 200% of his fixed remuneration (Plan Incentive). As in FY17, the CEO's fixed remuneration as at the date of this Notice is \$1.6 million per annum, and will not increase in FY18.

Seventy percent of the CEO's Plan Incentive opportunity will be delivered as LTI and the remaining 30% will be delivered as STI.

The performance hurdles for both the LTI and STI components of the Plan are heavily weighted to financial performance.

Details of the CEO's FY18 LTI grant

The CEO's FY18 LTI will be granted as exercisable Performance Rights. A Performance Right is a right to receive an ordinary share in the Company at no cost, subject to the satisfaction of performance conditions. However, the Company retains discretion to pay a cash equivalent payment instead of allocating shares (for example, this will often be appropriate where Performance Rights vest after cessation of employment).

The CEO's maximum opportunity is \$2,240,000. Due to the proposed separation of Domain, the

ANNEXURE F

maximum number of Performance Rights that he is eligible to receive will be determined by the volume weighted average price (VWAP) of Company shares traded on the ASX over the 60 trading days post the Domain separation implementation date. However, the Board may exercise its discretion to award a lower number of Performance Rights than the maximum if it believes it is appropriate due to market conditions. The Performance Rights do not have dividend or voting rights attached to them.

Performance hurdles for the LTI in FY18

The Performance Rights will only vest if the performance hurdles are met. Normally, performance is measured over three years but because of the required delay in allocating the options until after separation, it is proposed that for the FY18 LTI, the hurdles are tested at the end of the two and a half year performance period ending on 30 June 2020. There is no retest of the hurdles if they fail the test. Any Performance Rights that do not meet the vesting criteria at the test date will lapse. Any Performance Rights that vest will become exercisable (at no cost to the CEO) for a period of up to three years from the vesting date. Any Performance Rights that remain unexercised at the end of this period will lapse.

The three (3) independent performance hurdles remain unchanged from FY17 for FY18:

1. 35% of the allocation will have a Relative TSR performance hurdle with an S&P ASX 200 Index comparator group.
2. 35% of the allocation will have a Relative TSR performance hurdle with an S&P ASX300 Media Index comparator group.
3. 30% of the allocation will have a performance hurdle based on a strategic measure.

Due to the commercial sensitivity of the strategic measure, it will not be disclosed to the market at the current time, but will be disclosed after the test period has finished.

For each of the above Relative TSR hurdles, the percentage of Performance Rights that vest at the end of the performance period will be determined by reference to the following table:

Fairfax's Relative TSR rank	Percentage of Rights That Vest
Below 51st percentile	0%
At the 51st percentile	50%
Between the 51st - 75th percentile	Straight line pro rata vesting between 50% - 100%
At or above the 75th percentile	100%

The Board has chosen the two Relative TSR comparator groups as it believes these 2 measures together will be a reflection of the Company's performance against the market generally but also against its industry peers facing similar structural change.

The Board retains discretion to deem the performance hurdles not met if vesting would otherwise only occur as a result of extraneous factors that do not, in the reasonable opinion of the Board, reflect true Company performance.

Details of the CEO's FY18 STI grant

As per FY17, the CEO has an STI opportunity of \$960,000 and any STI award that the CEO becomes entitled to receive will be delivered in Performance Shares following the end of FY18 if annual targets based on Company strategy are met. The targets are set by the Board at the beginning of the financial year.

The FY18 targets are financially based to grow shareholder value over time. They reflect specific accountabilities for the CEO, including achieving the EBITDA targets, identified revenue growth, effective management of costs and other strategic goals including the continued review of the Company's portfolio of businesses to maximise value for shareholders. The specific targets for Mr Hywood for FY18 are commercially sensitive at this time. However, the Company will report on the targets and achievement against them in its 2018 Remuneration Report.

Any Performance Shares earned will not be immediately available to the executive. Fifty percent of the earned shares will be deferred for 1 year and the other 50% for 2 years post grant. This further aligns the value to the CEO of the Performance Shares with the Company's share price over the longer term.

The number of Performance Shares granted (if any) will depend on the value of Fairfax shares after the August 2018 results announcement, and will be determined by dividing the CEO's STI outcome by the

VWAP of Fairfax shares traded over the 5 trading days commencing on the day after the August 2018 results announcement (2018 VWAP).

Because the maximum number of Performance Shares that may be granted is based on the 2018 VWAP, it cannot be determined until after the FY18 results announcement. However, by way of example, if Mr Hywood met all of the set targets for FY18, \$960,000 would be deferred into equity. If the relevant VWAP over the 5 trading days commencing on the day after the August 2018 results announcement was \$1.00, Mr Hywood would receive 960,000 Performance Shares.

Cessation of employment

Invested Performance Shares and Performance Rights will generally be forfeited or will lapse if Mr Hywood resigns or his employment is terminated for cause. In other circumstances, the unvested awards remain on foot subject to the original performance hurdles (in the case of the Performance Rights) and the relevant deferral period (in the case of Performance Shares) and will be tested in the normal course.

However, the Board has the discretion to lapse or forfeit all or any of the unvested Performance Rights and Performance Shares.

Vested but unexercised Performance Rights will be forfeited if Mr Hywood's employment is terminated for cause, or will remain on foot in other circumstances of cessation of employment. Any vested Performance Rights that remain on foot will be exercisable up to the 1st anniversary of the date of cessation.

Other information provided under ASX Listing Rule 10.15

- If approval is given under ASX Listing Rule 10.14, approval will not be required under ASX Listing Rule 7.1. This means that the Performance Rights and Performance Shares granted to Mr Hywood and any shares issued pursuant to this approval will not use up part of the 15% available under ASX Listing Rule 7.1.
- Mr Hywood is the only Director (or associate of a Director) entitled to participate the Plan.
- In accordance with the approval of shareholders at the 2016 AGM of Mr Hywood's FY17 grant under the Plan, he was granted 2,583,919 Performance Rights under the LTI and will be allocated 193,189 Performance Shares relating to the 2017 short term incentive.
- Any Performance Rights and Performance Shares issued to Mr Hywood under the Plan with shareholder approval are issued at no cost to him as they form part of his remuneration.
- No loans will be made by the Company in relation to the acquisition of securities under the Plan.
- It is intended that the grant of Performance Rights for which shareholder approval is being requested will be granted to Mr Hywood shortly after the 2017 AGM and Performance Shares (if earned) would be allocated shortly after the August 2018 results announcement. In any event, the grant of Performance Rights and allocation of any earned Performance Shares will be no later than 12 months after the 2017 AGM.

The Board (Mr Hywood abstaining) unanimously recommends that shareholders approve Resolution 4.

AGENDA ITEM G

Resolution 5 - Adoption of Remuneration Report

Resolution 5 is supported by the Board

The Remuneration Report, which forms part of the Fairfax 2017 Annual Report (available at www.fairfaxmedia.com.au), sets out the Company's remuneration policies and practices together with details of the remuneration arrangements for the Directors, Chief Executive Officer & Managing Director, and Executive KMP.

At the AGM, shareholders will be given a reasonable opportunity to ask questions about or make comments on the Remuneration Report.

Under the Corporations Act, this vote is advisory only and does not bind the Directors or the Company.

A summary of our remuneration practices and incentive plans in place in FY17 is set out below.

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Executives and Board Remuneration in FY17

The areas of note in FY17 were:

- A new incentive plan for executives was introduced following overwhelming support by shareholders at the 2016 Annual General Meeting.
- Executive KMP continued to voluntarily invest 10% of their annual fixed remuneration into the purchase of Company shares.
- The only Executive KMP who received a fixed remuneration increase was the CFO.
- Director base pay remained unchanged in FY17

Executive Incentive Plan:

As noted above, following a review of the Transformation Incentive Plan (TIP), the Directors determined that it had achieved its goals and a new incentive plan was required. The new Fairfax Executive Incentive Plan (EIP) replaced the TIP from the 2017 financial year.

The EIP includes Short Term Incentive (STI) and Long Term Incentive (LTI). It is designed to drive the delivery of the next phase of the Company's strategy to continue to transform the publishing businesses, accelerate the growth businesses, and build value through strategic decision making and portfolio management.

To ensure alignment with shareholders, both the STI and LTI are awarded in equity using a face value methodology to make the equity allocations. The LTI is measured over a three-year period with no re-test. Any STI earned cannot be accessed for a period of 1 - 2 years.

The EIP is heavily weighted towards achieving medium to long term growth, is based on objective measurable goals, and aligns with growth in shareholder value.

Short term incentives: In FY17 the majority of Executive KMP STI opportunity was tied to the financial milestones of EBITDA and revenue targets and a smaller portion comprised of a non-financial milestone to drive performance of key business outcomes.

The outcomes of the FY17 STI awards are modest. This reflects decisions made by management during the year which prioritised longer term growth and sustainability.

Long term incentives: The 2015 allocation under the TIP is due to vest following the end of the performance period at 30 June 2017. The performance hurdle for this allocation was absolute total shareholder return (Absolute TSR). The compound annual growth rate (CAGR) for Absolute TSR over the four year period from 1 July 2013 to 30 June 2017 was 25.4%. This exceeded the growth targets and full vesting is due to occur in FY18.

Over the four year period from 1 July 2013 to 30 June 2017, the Company's market capitalisation increased by 119% and full vesting of the 2015 Options reflected managements achievements outlined in the plan.

The Board unanimously recommends that shareholders approve the adoption of the Remuneration Report.

AGENDA ITEM H

Resolution 6 - Approval of potential termination benefit entitlements of the Chief Executive Officer & Managing Director of Domain Holdings Australia Limited

Resolution 6 is supported by the Board

Why is shareholder approval being sought?

Approval is being sought in respect of Mr Antony Catalano, the Chief Executive Officer & Managing Director of Domain Holdings Australia Limited (Domain). There is no proposal that Mr Catalano will be ceasing employment with Domain, but as he will be a member of key management personnel of Domain, the Domain Board would like to be in a position to treat him fairly and appropriately if he does cease to hold office for any reason.

The Corporations Act restricts the benefits which can be given to personnel who hold a 'managerial or executive office' (as defined in the Corporations Act) on leaving employment or upon retirement with a company and its related body corporates. Under section 200B of the Corporations Act, a company may only give a person a 'benefit' in connection with their ceasing to hold a managerial or executive office in the company or a related body corporate if it is approved by the members of the company or an exemption applies.

Shareholder approval is also being sought from Domain's shareholder. As Domain is a subsidiary of Fairfax Media Limited, approval from the shareholders of Fairfax Media Limited is also required.

Termination benefits for which approval is sought

The Company is seeking shareholder approval for any potential 'termination benefits' that may be provided to Mr Catalano under his employment agreement as summarised in the Scheme Booklet, or in accordance with the Board's discretion where it considers it appropriate in circumstances as described in the table below, in addition to any other amounts required to be paid by law (such as statutory entitlements, including superannuation, annual leave and long service leave) and any minor incidental benefits that may be provided on termination.

The termination entitlements for which approval is sought are set out in the table below:

Description	Potential benefits
Employment agreements	
Termination by Domain or Mr Catalano (other than for cause) Domain or Mr Catalano may terminate the employment by providing 26 weeks' notice (as specified in Mr Catalano's employment agreement)	Payment in lieu of notice Domain may pay up to 26 weeks' of Mr Catalano's remuneration package in lieu of notice, depending on the proportion of the notice period (if any) required to be worked. Severance or redundancy payment In addition, Domain may pay a severance payment equivalent to up to 26 weeks' fixed remuneration, provided that if Mr Catalano would be entitled to a greater period of statutory notice, then Domain may pay Mr Catalano this greater period of notice.
Short-term incentive	
Termination for any reason other than for cause	The Board may exercise its discretion to: <ul style="list-style-type: none"> accelerate payment of, vest or accelerate vesting of, and leave on foot; some or all of Mr Catalano's STI award (including any deferred component if applicable), subject to the terms of the STI award or the plan rules (if applicable).
Long-term incentive	
Termination for any reason other than for cause	The Board may exercise its discretion to: <ul style="list-style-type: none"> vest or accelerate vesting of, and leave on foot; some or all of any securities held by Mr Catalano and may determine to settle an award in cash, subject to the terms of the LTI award or the plan rules (if applicable).
Other	
Other payments on termination Termination in any circumstances	Mr Catalano will receive any unpaid salary, fees and accrued and untaken annual leave and long service leave up to and including the date of cessation.

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Other amounts payable at law and incidental payments

Non-contractual entitlements

In addition to Mr Catalano's contractual entitlements on cessation, there may be additional benefits payable at law depending on the jurisdiction in which he is based at the time he ceases holding a managerial or executive office and any changes in law that occur prior to the cessation date. This approval is intended to cover any such payments.

In addition, circumstances may arise from time to time where it will be appropriate for the Company or Domain to make small incidental payments to Mr Catalano, including allowing him to retain certain property following cessation (such as phones or other electronic devices) or making reasonable retirement gifts to recognise the contribution he made to Domain, the Company or any member of the Group. Approval is sought to grant such incidental benefits provided that they are reasonable and not significant in all the circumstances (and have an aggregate value that is less than 10% of Mr Catalano's fees or base salary (as applicable) at the cessation date).

It is important to note that depending on the circumstances of cessation, Mr Catalano may not ultimately receive many of the benefits covered by this approval. Approval of these benefits does not guarantee that Mr Catalano will receive them, but rather preserves the discretion of the Board of the Company or the Board of Domain to determine the most appropriate termination package in accordance with the relevant employment agreement, terms of appointment, and STI and LTI arrangements.

The amount and value of the termination benefits for which the Company and Domain are seeking approval is the maximum potential benefit that could be provided under Mr Catalano's employment agreement, terms of appointment, and STI and LTI arrangements. In addition, Mr Catalano will be entitled to any benefits payable by law and other minor incidental benefits.

The actual amount and value of the termination benefits that may be provided cannot be ascertained in advance. This is because various matters, events and circumstances will or are likely to affect the calculation of the amount and value. The following matters, events and circumstances may affect the calculation of the amount or value of the benefits:

- the circumstances in which Mr Catalano ceases employment and whether he serves all or part of any applicable notice period;
- Mr Catalano's base salary or fees at the time of cessation;
- Mr Catalano's base salary at the time the relevant STI and LTI awards are made;
- Mr Catalano's length of service and the portion of any relevant performance periods that have expired at the time of cessation;
- the number of unvested equity entitlements that Mr Catalano holds at the time he ceases and the number that the Board determines to vest, lapse, release or leave on foot;
- Domain's share price when the value of any equity based termination entitlements is determined, and the terms of those entitlements (including performance conditions);
- any other factors that the Board considers relevant when exercising its discretions, including where appropriate its assessment of the performance of Mr Catalano up to the cessation date;
- the jurisdiction and location in which Mr Catalano is based at the time he ceases employment, and the applicable laws in that jurisdiction; and
- any changes in law between the date of the employment agreement with Mr Catalano and the date Mr Catalano ceases employment.

While the employment agreement, terms of appointment and STI and LTI arrangements may be subject to changes from time to time, it is intended that this approval will remain valid for as long as the employment agreement, terms of appointment and STI and LTI arrangements provide for the treatment on cessation set out above.

The Board unanimously recommends that shareholders approve Resolution 6.

The Voting Exclusion Statements for Resolutions 4, 5 and 6 are set out in the Notice of Meeting.

FAIRFAX MEDIA LIMITED NOTICE OF ANNUAL MEETING 2017

14

SHAREHOLDER QUESTION FORM

YOU MAY SUBMIT QUESTIONS TO THE AGM BEFORE THE MEETING DATE

Your questions regarding the Company that are relevant to the Annual General Meeting are important to us. We invite you to use this form to submit any questions that you may have on the:

- ⇒ financial statements or the business, operations or management of the Company;
- ⇒ conduct of the audit;
- ⇒ content of the Auditor's Report; or
- ⇒ other agenda items.

You may return this form in the reply paid envelope provided, or fax it to +61 2 9287 0309 or you can submit your questions online if you got to www.linkmarketservices.com.au, click on 'AGM Questions' and follow the prompts. All questions must be received by 5:00pm (AEDT) on Thursday 26 October 2017. We will attempt to respond to as many of the frequently asked questions as possible at the AGM.

The Chairman will also permit the Auditor to answer written questions submitted to the Auditor.

Shareholder's name <input type="text"/>
Shareholder's address <input type="text"/>
Shareholder's email address <input type="text"/>
Shareholder Reference Number or Holder Identification Number <input type="text"/> <input type="text"/>
Please tick the relevant box: My question/s is/are for the: <input type="checkbox"/> Chairman <input type="checkbox"/> Auditor
Question/s <input type="text"/>

Fairfax Media Limited collects this information in order to confirm that you are a shareholder. The information is also provided to Link Market Services who holds Fairfax's share registry. You may access the information about you by contacting Link whose contact details are set out above. If you do not provide the information we will be unable to submit your question to the Chairman or Auditor.



ANNEXURE F



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Telephone: 02 9282 2833

www.fairfaxmedia.com.au

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