



ASX statement

UPDATE ON PROPOSED PRIME SCHEME OF ARRANGEMENT – SUPPLEMENTARY DISCLOSURE DOCUMENT

10 December 2019: Prime Media Group Limited (ASX: PRT) refers to the Scheme Implementation Deed entered into by Prime and Seven West Media Limited (**Seven**) in relation to the proposed acquisition of Prime by Seven by way of a scheme of arrangement (the **Scheme**) (the **Scheme Implementation Deed**), as announced to the ASX on 18 October 2019.

Prime also refers to the announcement regarding the Prime Board's intention to determine that Prime will pay a fully franked dividend of \$0.03 per fully paid ordinary share in Prime, conditional on the Scheme becoming Effective (as that term is defined in the Scheme Implementation Deed), as announced to the ASX on 9 December 2019, and subsequent announcements related to the Scheme.

Prime advises that the Supreme Court of New South Wales has made orders today to approve despatch of a supplementary disclosure document, which includes a Supplementary Independent Expert's Report (the **Supplementary Disclosure Document**) to update shareholders on recent events that may be relevant to their vote on the Scheme.

A copy of the Supplementary Disclosure Document is attached to this announcement.

Printed copies of the Supplementary Disclosure Document will be sent to Prime shareholders who have nominated to receive notification by post. Prime shareholders who have nominated an electronic means of notification will receive an email notification on 11 December 2019.

Scheme Meeting

As announced on 15 November 2019, the Scheme Meeting will be held at 10.00am (Sydney time) on Thursday, 19 December 2019 at Conference Centre, Level 1, Rooms 5 & 6, Hilton Sydney, 488 George Street, Sydney NSW 2000.

All Prime shareholders are encouraged to vote either by attending the Scheme Meeting in person or by appointing a proxy, attorney or corporate representative to attend the Scheme Meeting and vote on their behalf.



Independent Expert's Conclusion

The Independent Expert, Lonergan Edwards & Associates, has issued a supplementary report to the Independent Expert's Report dated 14 November 2019 (the ***Supplementary Independent Expert's Report***). The Independent Expert's conclusion in the Supplementary Independent Expert's Report has not changed, and the Independent Expert continues to conclude that the Scheme is not fair but reasonable and, on that basis, in the best interests of Prime Shareholders, in the absence of a Superior Proposal.

Directors' recommendation

The Prime Board continues to unanimously recommend that Prime shareholders vote in favour of the Scheme, in the absence of a superior proposal and subject to the Independent Expert continuing to conclude that the Scheme is in the best interest of Prime shareholders.

Subject to those same qualifications, each Prime director has indicated that he or she intends to vote all Prime shares held or controlled by them in favour of the Scheme.

Media inquiries

Miche Paterson, Newgate Communications 0400 353 762

Investor Inquiries

John Palisi, Chief Financial Officer (02) 6242 3810

Scheme of Arrangement - Supplementary Disclosure

10 December 2019

Dear Prime Shareholders,

I refer to the proposed acquisition of Prime by Seven by way of a scheme of arrangement (the **Scheme**). Under the Scheme it is proposed that Prime shareholders will receive 0.4582 New Seven Shares for each Prime Share they hold. Prime Shareholders have been provided with a Scheme Booklet containing information in relation to the Scheme.

The purpose of this document is to provide information to Prime Shareholders which has arisen following despatch of the Scheme Booklet.

I write to inform you that the Prime Directors intend to determine that Prime will pay a fully franked dividend of \$0.03 per Prime Share to Prime Shareholders, conditional on the Scheme becoming Effective (the **Special Dividend**). Under the terms of the Scheme Implementation Deed, Seven has consented to payment of the Special Dividend.

Your Prime Directors consider that Prime's ability to pay the Special Dividend enhances the attractiveness of the Scheme for Prime Shareholders and continue to unanimously recommend Prime Shareholders vote in favour of the Scheme, in the absence of a Superior Proposal and provided that the Independent Expert continues to conclude that the Scheme is in the best interests of Prime Shareholders.

The Independent Expert has issued a supplementary report to the Independent Expert's Report dated 14 November 2019 (the **Supplementary Independent Expert's Report**). The Independent Expert's conclusion has not changed, and the Independent Expert continues to conclude that the Scheme is not fair but reasonable and, on that basis, in the best interests of Prime Shareholders, in the absence of a Superior Proposal.

Attached to this letter is:

- Appendix 1 - A copy of an ASX announcement in relation to the Special Dividend made by Prime on 9 December 2019, which sets out further information that you need to be aware of in relation to the Special Dividend.
- Appendix 2 - A general guide to the Australian tax implications of the Scheme and the Special Dividend for Scheme Shareholders. This guide is expressed in general terms and you should seek your own independent professional advice regarding tax consequences applicable to your own circumstances.
- Appendix 3 - The Supplementary Independent Expert's Report.

Prime notes recent press reports that Bruce Gordon and Antony Catalano do not support the Scheme. According to filings released to the ASX, Bruce Gordon has voting power in respect of 11.59% of all Prime shares and Antony Catalano has voting power in respect of 14.57% of all Prime shares. If the shares in respect of which Bruce Gordon and Antony Catalano have voting power were voted against the Scheme, the Scheme would not be approved. In accordance with its obligations under the Scheme

Implementation Deed, Prime is consulting with Seven in relation to the Scheme having regard to the press reports referred to above.

If you have any questions in relation to this document or the Scheme, please contact the Prime Shareholder Information Line on 1800 500 095 (within Australia) or +61 1800 500 095 (outside Australia), Monday to Friday (excluding national public holidays in Australia) between 9.00am and 5.00pm (Sydney time).

Information on how to vote is contained in section 5 of the Scheme Booklet. If you have already voted and would like to change your vote, you may do so by voting again in accordance with the instructions set out in section 5 of the Scheme Booklet. Please contact the Shareholder Information Line if you require further information.

This document must be read together with the Scheme Booklet. If there are any inconsistencies between this document and the Scheme Booklet, this document will prevail. Other than the changes set out herein, all details in relation to the Scheme set out in the Scheme Booklet remain unchanged.

If you are in any doubt as to what you should do, you should consult your financial, legal, taxation or other professional advisers.

Capitalised terms used in this document are defined in section 16.1 of the Scheme Booklet unless otherwise defined in this document.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'John Hartigan', with a long horizontal flourish extending to the right.

John Hartigan

Chairman

Prime Media Group Limited

1. Key Dates¹

Event	Time and date
Date of the Scheme Booklet	Friday, 15 November 2019
Date of this document	Tuesday, 10 December 2019
Latest time and date for receipt of proxy forms (including proxies lodged online) by the Prime Share Registry for the Scheme Meeting	10.00am (Sydney time) on Tuesday, 17 December 2019
Scheme Meeting Record Date Time and date for determining eligibility to vote at the Scheme Meeting	10.00am (Sydney time) on Tuesday, 17 December 2019
Scheme Meeting	10.00am (Sydney time) on Thursday, 19 December 2019
<i>If the Scheme is approved by the Requisite Majority of Prime Shareholders at the Scheme Meeting:</i>	
Second Court Date Court hearing for approval of the Scheme	12.00pm on Friday, 20 December 2019
Effective Date The date on which the Scheme becomes Effective and is binding on Prime Shareholders The date on which Court orders will be lodged with ASIC (at which point the Scheme becomes Effective) and announced on ASX Last day of trading in Prime Shares on ASX (Prime Shares will be suspended from trading on ASX from close of trading)	Friday, 20 December 2019
Commencement of trading of New Seven Shares on ASX on a deferred settlement basis	Monday, 23 December 2019
Special Dividend Record Date All Prime Shareholders who hold Prime Shares on the Special Dividend Record Date will be entitled to receive the Special Dividend if paid	7.00pm (Sydney time) on Tuesday, 24 December 2019
Scheme Record Date Time and date for determining entitlement to the Scheme Consideration	7.00pm (Sydney time) on Friday, 27 December 2019
Implementation Date and Special Dividend Payment Date Transfer of all Scheme Shares to Seven and issue of Scheme Consideration to Scheme Shareholders Intended payment of Special Dividend to Scheme Shareholders	Monday, 6 January 2020
Commencement of trading of New Seven Shares on ASX on a normal settlement basis	Tuesday, 7 January 2020

¹ All references to time in this document are references to the time in Sydney, New South Wales, Australia.

All dates following the date of the Scheme Meeting are indicative only and, amongst other things, are subject to all necessary approvals from the Court and any other Regulatory Authorities. Any changes to the above timetable will be announced to ASX and published on Prime's website.

Appendix 1 – ASX Announcement



ASX statement

UPDATE ON PROPOSED PRIME SCHEME OF ARRANGEMENT – SPECIAL DIVIDEND

9 December 2019: Prime Media Group Limited (ASX: PRT) (**Prime**) refers to the Scheme Implementation Deed entered into by Prime and Seven West Media Limited (**Seven**) in relation to the proposed acquisition of Prime by Seven by way of a scheme of arrangement (the **Scheme**) (the **Scheme Implementation Deed**), as announced to the ASX on 18 October 2019.

The Prime Board is pleased to inform Prime shareholders that it intends to determine that Prime will pay a fully franked dividend of \$0.03 per fully paid ordinary share in Prime (**Prime Share**) to Prime shareholders, conditional on the Scheme becoming Effective (as that term is defined in the Scheme Implementation Deed) (**Special Dividend**).

Seven has consented to the payment of the Special Dividend in accordance with the terms of the Scheme Implementation Deed.

In order to facilitate payment of the Special Dividend, Seven has agreed to defer payment of certain fees that have accrued, and will shortly be due for payment, by Prime under the Program Supply Agreement.

The Special Dividend, if paid, will be a separate payment from Prime and is in addition to the Scheme Consideration which Prime Shareholders will receive. Accordingly, if the Scheme is approved, the Scheme becomes Effective and the Special Dividend is paid, Prime Shareholders who are on the register on the Special Dividend record date and the Scheme record date will receive:

- the Scheme Consideration of 0.4582 new seven shares for each Prime Share they hold on the Scheme record date; and
- the Special Dividend of \$0.03 for each Prime Share they hold on the Special Dividend record date.

The Special Dividend will only be paid if the Scheme Resolution is approved at the Scheme Meeting, which is scheduled to occur on 19 December 2019, and the Scheme becomes Effective, after receiving the necessary approvals.

In the event the Special Dividend is paid, those Prime Shareholders who are entitled to the Special Dividend may be entitled to a franking credit of up to approximately \$0.013 per



Prime Share (subject to confirmation from the Australian Taxation Office via a class ruling, which Prime intends to submit). Whether a Prime Shareholder will be able to realise the full benefit of franking credits attached to any Special Dividend will depend on their tax status and specific circumstances. Prime Shareholders should seek independent taxation advice in respect of this matter.

Payment of the Special Dividend will be determined by the Prime Board at the appropriate time having regard to applicable law. The Prime Directors have no reason to believe that the Special Dividend will not be paid following shareholder approval of the Scheme.

With the exception of the Special Dividend, the Prime Board has no current intention to resume the payment of dividends.

The Prime Board continues to unanimously recommend that Prime shareholders vote in favour of the Scheme, in the absence of a superior proposal and subject to the Independent Expert continuing to conclude that the Scheme is in the best interest of Prime shareholders.

Media inquiries

Miche Paterson, Newgate Communications 0400 353 762

Investor Inquiries

John Palisi, Chief Financial Officer (02) 6242 3810

Appendix 2 - Tax Considerations

1.1 Introduction

The following is a general summary of the Australian income tax, goods and services tax (**GST**), and stamp duty implications for Prime Shareholders of the Special Dividend that will be paid by Prime prior to the implementation of the Scheme and their disposal of Prime Shares under the Scheme.

This summary is general in nature and does not purport to be a complete or particularised analysis of the tax consequences arising from the Scheme for each Prime Shareholder. Prime Shareholders are advised to seek professional tax advice in relation to their particular circumstances.

This summary is based on the provisions of the *Income Tax Assessment Act 1936 (ITAA 1936)* and the *Income Tax Assessment Act 1997 (ITAA 1997)* as at the date of this document. The laws are complex and subject to change periodically, as is their interpretation by the courts and the tax authorities.

The information provided below is not applicable to all Prime Shareholders. This tax summary applies to Australian tax resident and non-resident shareholders who hold their shares on capital account. This summary will not apply to Prime Shareholders who:

- hold their Prime Shares on 'revenue account' (such as share trading entities or entities who acquired their Prime Shares for the purposes of resale at a profit) or as 'trading stock';
- hold their Prime Shares under an employee share scheme offered by Prime where those shares remain subject to deferred taxation under Division 83A of the ITAA 1997 (other than where those Prime Shares are no longer subject to any relevant employee share scheme rules);
- may be subject to special tax rules, such as partnerships, tax exempt organisations, insurance companies, dealers in securities or shareholders who change their tax residency while holding their Prime Shares;
- have a functional currency for Australian tax purposes other than an Australian functional currency; and/or
- are subject to the taxation of financial arrangements rules in Division 230 of the ITAA 1997 in relation to gains and losses on their Prime Shares.

1.2 Class Ruling

Prime has lodged a class ruling application with the ATO to obtain the Commissioner of Taxation's views on specific Australian income tax implications for certain Prime Shareholders of their disposal of Prime Shares under the Scheme. In particular, the Class Ruling is being sought to confirm that CGT roll-over relief will be available to Prime Shareholders who are residents of Australia for tax purposes and receive New Seven Shares in exchange for their Prime Shares under the Scheme.

Prime will shortly lodge a modified class ruling application with the ATO to obtain the Commissioner's additional views on specific Australian income tax implications for certain Prime Shareholders in connection with the Special Dividend.

The Scheme is not conditional on the receipt of the class ruling.

The class ruling has not been issued by the ATO as at the date of this document. It is not expected to be issued until after the implementation of the Scheme. Prime Shareholders should refer to the class ruling once it is published. The class ruling will be available at www.ato.gov.au.

It is expected that the Class Rulings will be issued on the basis of a view of the Commissioner of Taxation which is broadly consistent with this summary. It is important that Prime Shareholders be aware that the Commissioner of Taxation may reach an alternative view, however, and this summary should be considered in light of that possibility and read together with the Class Ruling once it is available.

1.3 Special Dividend

(a) Overview

If the Scheme becomes Effective, Prime intends to pay the Special Dividend to all Prime Shareholders who are registered as a holder of Prime Shares on the Special Dividend Record Date. The Special Dividend will be fully franked, and is intended to be paid on the Special Dividend Payment Date.

Under Australian tax law, certain Prime Shareholders who receive a fully franked Special Dividend may be entitled to a 'tax offset' equal to the amount of the franking credit attaching to the dividend, provided they are not prevented from claiming the benefit of the franking credit (see further below). If a Prime Shareholder is entitled to a 'tax offset', the shareholder may offset or reduce the amount of tax payable on their taxable income. Certain Prime Shareholders may not, however, be eligible to receive a 'tax offset' for their franking credits. This is explained further below.

The Australian tax legislation prescribes a number of rules which may prevent Prime Shareholders from claiming the benefit of franking credits on the Special Dividend, including the requirement that a Prime Shareholder is not a 'qualified person' (see further below).

Broadly, these rules are designed to, among other things, discourage trading in franking credits, and may deny the benefit of franking credits to Prime Shareholders generally, or because of their particular circumstances. It is expected that these issues will be addressed in the Class Ruling requested by Prime. Prime Shareholders should refer to the Class Ruling once published. The commentary below is subject to the Commissioner's determination on these matters.

(b) Assessability of Special Dividend

(i) Australian resident individuals, companies and complying superannuation funds

Australian tax resident Prime Shareholders who are individuals, or that are companies or complying superannuation entities:

- should include the Special Dividend in their assessable income in the income year in which the dividend is paid, together with the franking credits attached to that dividend; and

- should be entitled to a tax offset equal to the franking credits attached to the Special Dividend.

A franking credit tax offset that is received by an individual or complying superannuation entity can be applied to offset or reduce the tax payable on their taxable income. Where the tax offset exceeds the tax payable on their taxable income, these Prime Shareholders should be entitled to a tax refund.

Where the Prime Shareholder is an Australian resident corporate shareholder, franked dividends will generally give rise to a franking credit in the company's franking account.

(ii) **Australian resident trusts and partnerships**

Australian tax resident Prime Shareholders who are trustees (other than trustees of complying superannuation entities) or partnerships should include any Special Dividend in the net income of the partnership or trust in the income year in which the dividend is paid, together with the franking credits attached to that dividend.

The tax laws that apply to the treatment of dividends, and in particular franked dividends, for trusts and partnerships are complex. Subject, however, to satisfying certain conditions, the liability to pay tax on the Special Dividend (and the franking credits) and the tax offset provided by the franking credits can flow through to the eligible beneficiaries or partners.

(iii) **Non-Australian resident individuals and corporate Prime Shareholders**

Dividends paid to a Prime Shareholder who is a non-resident of Australia should not be subject to Australian dividend withholding tax on the basis that the Special Dividend will be fully franked.

(c) Franking credits – shares held at risk

The benefit of franking credits can be denied where a Prime Shareholder is not a 'qualified person'. If a Prime Shareholder is not a 'qualified person', then the shareholder would not need to include an amount equal to the franking credits attaching to the Special Dividend in their assessable income but would also not be entitled to a tax offset.

Broadly, to be a 'qualified person', a shareholder must satisfy the 'holding period rules'.

Under these rules, a Prime Shareholder is required to have held their Prime Share 'at risk' for a continuous period of at least 45 days (not including the date of acquisition and the date of disposal of the shares) within the relevant 'qualification period'.

A Prime Share will not be taken to have been held 'at risk' by a Prime Shareholder where they hold positions (such as hedging positions) that materially diminish the risks of loss or opportunities for gain on their shares by more than 70%. In connection with this Scheme, it is expected that Prime Shareholders will be said to cease holding their Prime Shares at risk from the Scheme Record Date.

The duration of the relevant 'qualification period' depends upon whether the Prime Shareholders will be taken to make a 'related payment' in connection with the Special Dividend. If the Prime Shareholders are taken to make a 'related payment', the more stringent 'secondary qualification period' will apply; if not, the more generous 'primary qualification period' will apply.

The secondary qualification period requires that the Scheme Shareholder holds the relevant Prime share 'at risk' for a continuous period of at least 45 days during the period that begins on the 45th day before, and ends on the 45th day after, the day on which the share became ex dividend.

As a practical matter, and applying the indicative timetable, a Prime Shareholder who receives a Special Dividend and holds their Prime Shares 'at risk' for a continuous period of at least 45 days during the period from 10 November 2019 to 27 December 2019 (inclusive) should satisfy the 'holding period rules' and be eligible for the franking credit and tax offset.

The primary qualification period will commence on the day after the Prime Shares were acquired by a Prime Shareholder and end 45 days after the ex dividend date (the ex dividend date being one day after the Special Dividend Record Date). As a practical matter, and applying the indicative timetable, a Prime Shareholder who receives a Special Dividend and holds their Prime Shares 'at risk' for a continuous period of at least 45 days during the period commencing the day after they acquired their Prime Shares to 27 December 2019 (inclusive) should satisfy the 'holding period rules' and be eligible for the franking credit and tax offset.

Although there are strong arguments why the Prime Shareholders should not be taken to make a related payment in these circumstances (in particular, because the Special Dividend does not reduce the Scheme Consideration), based on past practice, it is likely the Commissioner will conclude that the Prime Shareholders will make a related payment and therefore that the more stringent secondary qualification period will apply. This issue will be addressed in the class ruling requested from the ATO. Prime Shareholders should refer to the Class Ruling once published.

1.4 Australian tax resident Prime Shareholders

(a) Disposal of Prime Shares

The disposal of Prime Shares by a Prime Shareholder will trigger capital gains tax (**CGT**) event A1.

The CGT event should occur when the change of ownership of the Prime Shares occurs. Under the Scheme, the change of ownership will occur on the Implementation Date.

Broadly, a Prime Shareholder will:

- make a 'capital gain' if the capital proceeds from the disposal of their Prime Shares exceeds the cost base of their Prime Shares (subject to CGT scrip for scrip roll-over relief, discussed below); or
- make a 'capital loss' if the capital proceeds from the disposal of their Prime Shares are less than the reduced cost base of their Prime Shares.

Subject to the CGT roll-over (discussed below), a Prime Shareholder who makes a capital gain on the disposal of their Prime shares will be required to include in their assessable income any 'net capital gain' after the application of capital losses (if any) and the CGT discount (if available, see below).

A capital loss realised on the disposal of the Prime Shares may be used to offset other capital gains derived by a Prime Shareholder in the income year in which the capital

loss is realised, or may be carried forward to offset capital gains derived by the shareholder in future income years. Specific capital loss recoupment rules apply to companies to restrict their ability to utilise capital losses in future years in some circumstances. Prime Shareholders should obtain their own tax advice in relation to the operation of these rules.

Some Prime Shareholders may be able to disregard a capital gain or capital loss from the disposal of their Prime Shares where their Prime Shares were acquired, or taken to be acquired, before 20 September 1985.

(b) Capital proceeds

The capital proceeds for the CGT event arising from the disposal of Prime Shares under the Scheme is expected to include the Scheme Consideration received by a Prime Shareholder, which for each Prime Share will comprise the New Seven Shares.

Although the Scheme Consideration will not be adjusted by the Special Dividend paid by Prime, it is expected that the Commissioner may rule that the Special Dividend should be included in the capital proceeds received by a Prime Shareholder from the disposal of their Prime Shares. It is possible that the Commissioner may adopt the contrary view: that the Special Dividend does not form part of the capital proceeds. This issue will be addressed in the class ruling requested from the ATO. Prime Shareholders should refer to the Class Ruling once published.

In working out the amount that should be included in the capital proceeds for the CGT event, the market value of the New Seven Shares should be determined at the Implementation Date.

If the Special Dividend intended to be paid by Prime is included in the capital proceeds from the disposal of the Prime Shares, any capital gain made by a Prime Shareholder when CGT event A1 happens may be reduced (but not below zero) by the amount of the Special Dividend that is included in the Prime Shareholder's assessable income.

(c) Cost base

The cost base and reduced cost base of Prime Shares will generally include the amount paid, or the market value of any property given, to acquire the Prime Shares, plus any incidental costs of acquisition (e.g. brokerage fees and stamp duty) that are not otherwise deductible to the Prime Shareholders. The cost base of each Prime Share will depend on the individual circumstances of each Prime Shareholder.

(d) CGT discount

Generally, Australian resident Prime Shareholders who are individuals, trusts, and complying superannuation funds that have held Prime Shares for at least 12 months at the time of disposal should be entitled to a CGT discount in calculating the amount of any capital gain on the disposal of their Prime Shares.

The CGT discount is applied after any available capital losses have been offset to reduce the capital gain.

The applicable CGT discount which would reduce a capital gain arising from the disposal of Prime Shares is 50% in the case of individuals and trusts or 33 1/3% in the case of Australian complying superannuation entities. The CGT discount is not available for Prime Shareholders that are companies.

Prime Shareholders who acquired some or all of their Prime Shares prior to 21 September 1999 may be able to apply the indexation regime to increase the cost base

of those Prime Shares. Any Prime Shareholder that elects to index the cost base of their Prime Shares cannot apply the CGT discount.

As the rules relating to discount capital gains for trusts are complex, Prime recommends that Prime Shareholders who are trustees seek their own independent advice on how the CGT discount provisions will apply to them and the trusts' beneficiaries.

1.5 CGT scrip for scrip roll-over relief

It is expected that the availability of CGT scrip for scrip roll-over relief for Prime Shareholders will be addressed in the Class Ruling requested by Prime. Prime Shareholders should refer to the Class Ruling once published. The commentary below is subject to the Commissioner's determination in respect of these matters.

An Australian resident Prime Shareholder who disposes of their Prime Shares in exchange for New Seven Shares, and who would otherwise make a capital gain in respect of the disposal of their Prime Shares, may choose to obtain CGT scrip for scrip roll-over relief under Subdivision 124-M of the ITAA 1997. Roll-over is not available if a Prime Shareholder realises a capital loss on the disposal of their Prime Shares.

As noted below, if the Special Dividend intended to be paid by Prime is included in the capital proceeds received by a Prime Shareholder from the disposal of their Prime Shares, the Special Dividend is likely to constitute 'ineligible proceeds' for which no CGT roll-over will be available.

Seven will not make a choice under section 124-795(4) of the ITAA 1997 to deny Prime Shareholders obtaining scrip for scrip roll-over relief.

If CGT roll-over relief under Subdivision 124-M of the ITAA 1997 is available, and a Prime Shareholder elects to apply roll-over relief, then:

- a capital gain that the Prime Shareholder makes from the disposal of their Prime Shares under the Scheme, to the extent that the capital gain is attributable to the New Seven Shares, should be disregarded and deferred until a subsequent taxable event occurs in respect of the New Seven Shares;
- no roll-over should be available to the extent that the capital gain is attributable to a Special Dividend paid by Prime which is included in the capital proceeds from the disposal of the Prime Shares (since, as explained above, the Special Dividend will be treated as 'ineligible proceeds'). For the purpose of determining any capital gain that is attributable to the Special Dividend, the CGT cost base of the Prime Shares that is attributable to the Special Dividend is that part of the cost base of the Prime Shares as is reasonably attributable to the Special Dividend. For these purposes, a reasonable basis for apportionment may be to calculate the cost base of the Prime Shares attributable to the Special Dividend by multiplying that cost base by the proportion that is equal to the Special Dividend divided by the sum of the Special Dividend and the market value of the Seven Shares; and
- for the purpose of determining the CGT cost base and reduced cost base of the New Seven Shares, the sum of the CGT cost base and reduced cost base of the Prime Shareholder's Prime Shares will be reasonably apportioned between the New Seven Shares issued to the Prime Shareholder. The cost base of the Prime Shares must first be reduced by so much of it that is reasonably attributable to the Special Dividend paid by Prime (as described above).

- The example below provides a hypothetical example of how the first element of a Prime Shareholder's cost base in the New Seven Share may be calculated.

Example of partial rollover

For the purposes of this example, assume that:

- Xavier acquires 1,000 Prime Shares for \$100 in 2013;
- under the Scheme, Xavier receives 458 New Seven Shares in exchange for his Prime Shares;
- Prime pays Xavier a Special Dividend (equal to \$0.03 per Prime Share) on the Special Dividend Payment Date, and the Commissioner rules that the Special Dividend should form part of the capital proceeds of the disposal from the Prime Shares under the Scheme (and therefore, should be 'ineligible proceeds' received by Xavier); and
- on the Implementation Date, the market value of each New Seven Share held by Xavier is \$0.37.

The Commissioner rules that Prime Shareholders are entitled to CGT roll-over relief, and Xavier chooses to apply the roll-over.

The first element of the cost base of Xavier's New Seven Shares may be determined as follows:

Cost base attributable to ineligible proceeds		
<i>Cost base attributable to ineligible proceeds</i>	=	<i>Cost base of Prime Shares x (Special Dividend / Market value of New Seven Shares + Special Dividend)</i>
	=	$\$100 \times (\$30 / (\$169.46 + \$30))$
	=	$\$100 \times (\$30 / \$199.46)$
	=	\$15.04
Cost base of New Seven Shares		
<i>Cost base of Prime Shares</i>	=	\$100
<i>Cost base attributable to ineligible proceeds</i>	=	\$15.04
<i>First element of cost base of each New Seven Share</i>	=	<i>(Cost base of Prime Shares – cost base of ineligible proceeds) / number of New Seven Shares</i>
	=	$(\$100 - \$15.04) / 458$
	=	\$0.1855

In these circumstances, the Prime Shareholder should be taken to have acquired the New Seven Shares under the Scheme:

- for general CGT purposes, on the Implementation Date; and
- for the purposes of applying the CGT discount to any future dealings in the New Seven Shares, on the date they acquired the relevant Prime Shares.

The Prime Shareholder must make a choice to apply CGT roll-over relief by the day they lodge an income tax return for the income year in which the Implementation Date occurs, which choice can be evidenced by excluding the disregarded capital gain from assessable income in the Prime Shareholder's income tax return. There is no need to lodge a separate notice with the ATO.

1.6 Where scrip for scrip roll-over is not chosen or available

Where a Prime Shareholder is not eligible for, or does not choose, CGT roll-over relief:

- any capital gain or capital loss made by the Prime Shareholder from the disposal of their Prime Shares will be taken into account in calculating the shareholder's 'net capital gain' (see above) for the income year ending 30 June 2020; and
- the first element of the cost base and reduced cost base of each New Seven Share that the Prime Shareholder receives should be equal to the market value of the Prime Shares disposed of on the date the New Seven Share is issued.

The 'acquisition date' of the New Seven Shares should be the Implementation Date. This will be relevant for the purposes of determining whether the Prime Shareholder can be eligible for the CGT discount in relation to a subsequent disposal of the New Seven Shares.

1.7 Non-Australian tax resident Prime Shareholders

For a Prime Shareholder who:

- is a foreign resident, or the trustee of a foreign trust for CGT purposes; and
- has not used their Prime Shares at any time in carrying on a business through a permanent establishment in Australia,

the disposal of the Prime Shares will generally only result in Australian CGT implications if, in broad terms:

- that Prime Shareholder together with their associates held an interest of 10% or more in Prime at the time of disposal or for a 12 month period within two years preceding the disposal (referred to as a 'non-portfolio interest'); and
- more than 50% of the market value of Prime's assets is attributable to direct or indirect interests in 'taxable Australian real property' (as defined in the income tax legislation).

On the basis that less than 50% of the market value of Prime's assets is attributable to direct or indirect interests in 'taxable Australian real property' (as defined in the income tax legislation), Prime Shareholders who are non-Australian tax residents should generally be able to disregard any Australian capital gain or loss otherwise arising as a result of the disposal of the Prime Shares.

A non-resident individual Prime Shareholder who has previously been an Australian tax resident and chose to disregard a capital gain or loss in respect of their Prime Shares from CGT event A1 on ceasing to be an Australian tax resident may be subject to Australian CGT consequences on disposal of their Prime Shares.

Prime Shareholders who are non-Australian tax residents should seek their own independent tax advice as to the tax implications of the Scheme, including tax implications in their country of residence.

1.8 Foreign Resident Capital Gains Withholding

The foreign resident capital gains withholding regime may impose a 12.5% 'withholding' obligation (calculated by reference to the Scheme Consideration) on Seven if:

- Seven considers or reasonably believes that a Prime Shareholder is a foreign resident; and
- the Prime Shareholder satisfies the 'non-portfolio interest' test referred to above.

On the basis that less than 50% of the market value of Prime's assets is, and will be on the Implementation Date, attributable to direct and indirect interests in 'taxable Australian real property' (as defined in the income tax legislation), the foreign resident capital gains withholding regime should not apply to Seven's acquisition of Prime Shares from a Prime Shareholder, and accordingly Seven should not be required to withhold any amount from the Scheme Consideration on account of the withholding.

1.9 GST

There should be no GST payable in respect of the sale of Prime Shares under the Scheme or on the receipt of the Special Dividend. Where a Prime Shareholder is not registered or required to be registered for GST, the sale will be outside the scope of the GST. Otherwise, the sale of the Prime Shares will be an input taxed financial supply. Where this is the case, Prime Shareholders should obtain independent advice in relation to whether there is an ability to claim any input tax credits for the costs (such as legal or professional fees) associated with the disposal of the Prime Shares.

1.10 Stamp Duty

No stamp duty should be payable by Prime Shareholders on the disposal of Prime Shares, or the acquisition of New Seven Shares, under the Scheme.

Any stamp duty payable in connection with the transfer of the Prime Shares to Seven, or the acquisition of New Seven Shares by Prime Shareholders, must be paid by Seven.

Appendix 3 – Supplementary Independent Expert's Report

The Directors
Prime Media Group Limited
Suite 132 Jones Bay Wharf
26-32 Pirrama Road
Pyrmont NSW 2009

9 December 2019

Subject: Revised scheme proposal from Seven West Media Limited (SWM)

Dear Directors

Introduction

- 1 On 9 December 2019, Prime Media Group Limited (Prime or the Company) announced that Seven West Media Limited (SWM) has agreed to allow Prime to pay a fully franked special dividend of 3.0 cents per share (Special Dividend) subject to implementation of the Scheme.
- 2 The Prime Board has announced an intention to pay the Special Dividend, conditional on the Scheme becoming effective. If the Scheme is implemented and the Special Dividend is paid, Prime shareholders on the Scheme Record Date will receive:
 - (a) 0.4582 SWM shares for each Prime share held (the Scheme Consideration); plus
 - (b) the Special Dividend of 3.0 cents per Prime share.
- 3 Importantly, the number of SWM shares to be received for each Prime share under the Scheme has not changed. Accordingly, the Revised Proposal (which we have defined to include the Special Dividend) is superior to the Scheme announced on 18 October 2019.
- 4 Prime shareholders should note that the Special Dividend will only be paid if the Scheme is implemented and if the Prime Board determines to pay the Special Dividend. The Prime Board has stated that it will determine to pay the Special Dividend at the appropriate time having regard to applicable law and that the Prime Directors have no reason to believe that the Special Dividend will not be paid following shareholder approval of the Scheme. Further, with the exception of the Special Dividend, the Prime Board has stated that it has no current intention to resume the payment of dividends.

Scope

- 5 Given the above, the Directors of Prime have requested that we prepare this letter stating whether, in our opinion, the Revised Proposal from SWM for all the shares in Prime is fair and reasonable to, and in the best interests of Prime shareholders.

Opinion on the Revised Proposal

- 6 Pursuant to the Australian Securities & Investments Commission (ASIC) Regulatory Guide 111 – *Content of expert reports* (RG 111) a scheme is “fair” if the value of the scheme consideration is equal to or greater than the value of the securities the subject of the scheme.

Valuation of Prime

- 7 In our report dated 14 November 2019, we assessed the value of Prime shares on a 100% controlling interest basis at between 21.0 and 24.0 cents per share.
- 8 We are not aware of any material events which have subsequently occurred which would cause us to amend the above valuation range. Further, we note that Prime management reconfirmed their previous EBITDA guidance for FY20 of between \$23 million and \$25 million¹ at the Prime annual general meeting on 21 November 2019.

Value of total consideration under Revised Proposal

- 9 As stated above, Prime shareholders will continue to receive 0.4582 SWM shares for each Prime share held if the Scheme is implemented.

SWM share trading

- 10 Accordingly, we set out below a summary of the recent trading in SWM shares since the announcement of the Scheme up to 9 December 2019:

SWM – share price history (post announcement of Scheme)					
Time period	Low (cents)	High (cents)	VWAP ⁽¹⁾ (cents)	Number traded (m)	Value traded \$m
18 Oct 19 to 9 Dec 19	36.0	48.0	41.2	140.9	58.0
21 Oct 19 to 9 Dec 19	36.0	48.0	41.3	132.3	54.7
13 Nov 19 to 9 Dec 19	36.0	45.3	39.3	55.6	21.8
9 Dec 19	36.5	38.0	37.2	1.2	0.4

Note:

- 1 Volume weighted average price (VWAP).

- 11 The above periods were selected because:

- (a) on 18 October 2019, SWM also announced that it had entered into an agreement with SCA to sell its WA radio assets (Redwave) for cash consideration of \$28 million (subject to regulatory approvals from ACMA and the ACCC)
- (b) on 21 October 2019, SWM announced a binding agreement to sell its magazine publishing business (Pacific Magazines) for cash consideration of \$40 million (subject to ACCC approval). We note that the SWM share price initially reacted positively to this announcement, rising 11.7% to 43 cents per share on the date of the announcement
- (c) on 13 November 2019 (at SWM’s AGM), SWM advised that its FY20 underlying EBIT guidance was now expected to be at the lower end of previous guidance

¹ Prior to taking into account the impact of AASB 16 on leases

(d) on 9 December 2019, Prime announced that SWM had agreed to allow Prime to pay the Special Dividend subject to implementation of the Scheme.

12 In our Independent Expert's Report dated 14 November 2019 (IER) we assessed the value of SWM shares offered as consideration at between 40.0 cents and 45.0 cents per share. However since the date of the IER, the SWM share price has declined significantly and last traded at 37.0 cents per share on 9 December 2019.

13 Given the magnitude of this decline, we have lowered our assessed value of SWM shares to between 36.0 cents and 40.0 cents per share. In forming this view we have had principal regard to the current trading price at the date of this letter and the VWAP since 13 November 2019 (being the date SWM advised that its FY20 underlying EBIT guidance was now expected to be at the lower end of previous guidance).

Value of total consideration inclusive of Special Dividend

14 On this basis, we have assessed the value of the total consideration to be received by Prime shareholders under the Revised Proposal (inclusive of the Special Dividend) at 19.5 cents to 21.3 cents per Prime share, as shown below:

Value of total consideration under Revised Proposal per Prime share		
	Low cents per share	High cents per share
Assessed realisable value of SWM shares (cents per SWM share)	36.0	40.0
Scheme ratio	0.4582	0.4582
Value of Scheme Consideration	16.5	18.3
Special Dividend	3.0	3.0
Assessed value of total consideration under Revised Proposal	19.5	21.3

15 Prime shareholders should note that the listed market price of SWM shares is subject to significant daily fluctuation (as evidenced by the significant variation in the SWM share price since the announcement of the Scheme of over 30%). Accordingly, the price at which SWM shares received as consideration may subsequently be sold may be greater or less than our assessed realisable value of SWM shares of 36.0 cents to 40.0 cents per share.

16 Prime shareholders should also note that the Special Dividend will include a franking credit of approximately 1.3 cents per share. These franking credits may provide additional value to some Australian resident shareholders.

Assessment of fairness

17 Pursuant to RG 111, the Revised Proposal is "fair" if the value of the total consideration under the Revised Proposal (inclusive of the Special Dividend) is equal to or greater than the value of the securities the subject of the proposal. This comparison for Prime shares is shown below:

Comparison of total consideration and value of Prime			
	Low cents per share	High cents per share	Mid-point cents per share
Value of total consideration	19.5	21.3	20.4
Value of 100% of Prime	21.0	24.0	22.5
Extent to which the total consideration is less than the value of Prime	(1.5)	(2.7)	(2.1)

- 18 As the total consideration under the Revised Proposal (inclusive of the Special Dividend) is less than our assessed valuation range for Prime shares on a 100% controlling interest basis, in our opinion, the Revised Proposal is not fair to Prime shareholders when assessed based on the Guidelines set out in RG 111.

Reasonableness and in the best interests

- 19 Pursuant to RG 111, the Revised Proposal may be “reasonable” if, despite not being “fair” but after considering other significant factors, in the opinion of the expert there are sufficient reasons for shareholders to approve the Revised Proposal in the absence of a superior proposal.
- 20 RG 111 also states that the Revised Proposal may be “in the best interests of the members of the company” if there are sufficient reasons for securityholders to vote in favour of the Revised Proposal in the absence of a superior proposal.
- 21 Accordingly, we summarise below the likely advantages and disadvantages for Prime shareholders if the Revised Proposal proceeds².

Advantages

- 22 The Revised Proposal has the following benefits for Prime shareholders:
- (a) Prime shareholders will acquire an interest in a much larger, more diversified business with enhanced earnings and related future prospects. The merged entity will also have enhanced financial scale (relative to Prime on a standalone basis) which may lead to improved access to equity and debt markets and an improved ability to pursue further growth opportunities
 - (b) as Prime shareholders will collectively hold approximately 10% of the shares in the merged entity if the Scheme is implemented, Prime shareholders who retain their SWM shares received as consideration should benefit from the realisation of expected synergies from a combination of the businesses over time
 - (c) Prime shares have historically traded on significantly lower EBITDA multiples than SWM. We believe this discount reflects (inter-alia) Prime’s lack of scale and diversification, reliance on SWM for programming, lower opportunity for earnings growth and SWM’s greater bargaining power in pricing negotiations regarding ongoing affiliation fees and program costs. However, as a result of the Scheme, Prime will be acquired by SWM and prima facie this discount should no longer apply. Consequently, we believe the value of Prime will be greater under SWM ownership and accordingly

² These advantages and disadvantages have not changed materially since the date of our IER dated 14 November 2019.

Prime shareholders should benefit from this value uplift over the medium term by virtue of their 10% collective ownership interest in SWM post implementation of the Scheme

- (d) the average relative value of both companies' share prices since 23 August 2019³, and in the one month period prior to the announcement of the Scheme (commencing 18 September 2019), are consistent with the exchange ratio under the Scheme. This analysis therefore indicates that the exchange ratio (i.e. 0.4582 shares in SWM for every Prime share) is reasonable and appropriate if considered as a merger / combination of the two businesses rather than a change in control transaction⁴
- (e) the Revised Proposal is superior to the Scheme announced on 18 October 2019, as Prime shareholders will now also receive the Special Dividend.

Disadvantages

23 The Scheme has the following disadvantages for Prime shareholders:

- (a) our assessed value of the total consideration under the Revised Proposal (inclusive of the Special Dividend) is less than our assessed value range for Prime shares on a 100% controlling interest basis. As a result the Revised Proposal is not fair under RG 111
- (b) whilst the value of the total consideration under the Revised Proposal provides Prime shareholders with a modest premium above the listed market price of Prime shares immediately before the announcement of the Scheme, the premium is significantly below those observed in other change of control transactions
- (c) SWM has a significantly higher debt level than Prime. This higher debt level means that any significant decline in the merged group's profitability could have significant adverse consequences for the value of SWM shares. In contrast, in the absence of the Scheme, Prime is expected to repay all its debt during FY20
- (d) SWM's higher debt level also means that SWM is unlikely to reinstate dividend payments anytime soon, as free cash flow is more likely to be directed towards debt repayments. In contrast, Prime is more likely to be in a position to reinstate dividends, although management may be reluctant to do so given the impact of declining television advertising revenues on profitability.

Conclusion

24 As indicated above there are significant advantages and disadvantages associated with the Revised Proposal. Whilst our assessed value of the consideration (inclusive of the Special Dividend) only provides Prime shareholders with a modest premium above recent trading prices prior to the announcement of the Scheme (and is not fair under RG 111), on balance we have concluded that the Revised Proposal is reasonable to, and in the best interests of, Prime shareholders in the absence of a superior proposal because:

- (a) the exchange ratio (i.e. 0.4582 shares in SWM for every Prime share) is reasonable and appropriate if considered as a merger / combination of the two businesses rather than a change in control transaction

³ Prime provided materially lower earnings guidance for FY20 after the market closed on 22 August 2019.

⁴ This relative value analysis excludes any consideration of the Special Dividend.

- (b) if the Revised Proposal is implemented, Prime shareholders will acquire an interest in a much larger, more diversified business which is better placed to deal with the current challenges being faced by participants in the traditional media sector.

25 Accordingly, we consider the Revised Proposal to be:

- (a) not fair but reasonable to Prime shareholders in the absence of a superior proposal; and
- (b) in the best interests of Prime shareholders in the absence of a superior proposal.

Yours faithfully



Craig Edwards
Authorised Representative



Martin Holt
Authorised Representative