iinet

SCHEME BOOKLET

in relation to a proposal from TPG Telecom Limited (ABN 46 093 058 069) to acquire all of the ordinary shares in iiNet Limited (ABN 48 068 628 937) that the TPG Group does not already own by way of a recommended scheme of arrangement.

Your Directors unanimously recommend that you

Vote in Favour

of the Scheme, in the absence of a Superior Proposal, and subject to the Independent Expert maintaining its conclusion that the Scheme is in the best interests of iiNet Shareholders.

The Independent Expert has concluded that the Scheme is fair and reasonable and in the best interests of iiNet Shareholders, in the absence of a Superior Proposal.

The Scheme Meeting will be held at the Pan Pacific Perth, 207 Adelaide Terrace, Perth, Western Australia on Monday, 27 July 2015 at 10.00am (WST).

A Notice of Scheme Meeting is included as Annexure F to this Scheme Booklet. A Proxy Form for the Scheme Meeting and an Election Form accompany this Scheme Booklet.

THIS IS AN IMPORTANT DOCUMENT AND REQUIRES YOUR IMMEDIATE ATTENTION. YOU SHOULD READ THIS DOCUMENT IN ITS ENTIRETY BEFORE DECIDING WHETHER OR NOT TO VOTE IN FAVOUR OF THE SCHEME. IF YOU ARE IN ANY DOUBT AS TO WHAT YOU SHOULD DO, YOU SHOULD CONSULT YOUR FINANCIAL, LEGAL, TAXATION OR OTHER PROFESSIONAL ADVISER IMMEDIATELY.

If you have any questions in relation to the Scheme, or this Scheme Booklet, please call the iiNet Shareholder Information Line on 1300 812 892 (within Australia) or +61 2 9098 9204 (outside Australia), or visit the Scheme website at www.iinetscheme.net.au.

Azure Capital
Financial Adviser

K&L GATES
Legal Adviser

Important Notices

Date of this Scheme Booklet

This Scheme Booklet is dated 15 June 2015.

Defined terms and interpretation

Capitalised terms used in this Scheme Booklet (other than in the Independent Expert's Report contained in Annexure A, the Independent Limited Assurance Report contained in Annexure B and the Proxy Form accompanying this Scheme Booklet) are either defined in brackets when first used or are defined in the Glossary in Section 13. The Glossary also sets out some rules of interpretation which apply to this Scheme Booklet. The Independent Expert's Report and the Independent Limited Assurance Report contain their own defined terms which are sometimes different from those set out in the Glossary in Section 13.

References to Sections and Annexures are to the named Sections and Annexures in this Scheme Booklet.

All references in this Scheme Booklet to "$", "A$", "AUD", "Australian dollars" are to Australian currency.

Purpose of this Scheme Booklet

This Scheme Booklet includes the explanatory statement for the Scheme required by section 412(1) of the Corporations Act. The purpose of this Scheme Booklet is to explain the terms of the Scheme and the manner in which it will be implemented (if approved). This Scheme Booklet provides all information required to be given to iiNet Shareholders or that is otherwise material to your decision as to whether or not to vote in favour of the Scheme at the Scheme Meeting.

General

This Scheme Booklet is important. You should read this Scheme Booklet carefully before making a decision about how to vote on the Scheme Resolution to be considered at the Scheme Meeting.

No investment advice

This Scheme Booklet does not constitute financial product advice and has been prepared without reference to the individual investment objectives, the financial situation, the taxation position or the particular needs of any iiNet Shareholder or any other person. It is important that you read this Scheme Booklet before making any decision, including a decision on whether or not to vote in favour of the Scheme. If you are in any doubt as to what you should do, you should consult your financial, legal, taxation or other professional adviser immediately.

You should consult your taxation adviser as to the applicable tax consequences of the Scheme.
A summary of the taxation considerations is set out in Section 10.

Not an offer

This Scheme Booklet does not constitute or contain an offer to iiNet Shareholders, or a solicitation of an offer from iiNet Shareholders in any jurisdiction.

Responsibility statement

Other than as set out below, this Scheme Booklet has been prepared by iiNet and is the responsibility of iiNet.

The TPG Information (being information about TPG, TPG Shares and the Combined Group) has been prepared by TPG and is the responsibility of TPG. None of TPG, its Related Bodies Corporate or the directors, officers, employees or advisers of any of those entities assumes any responsibility for the accuracy or completeness of any information contained in this Scheme Booklet other than the TPG Information. None of iiNet, its Related Bodies Corporate or the directors, officers, employees or advisers of any of those entities assumes any responsibility for the accuracy or completeness of the TPG Information.

Lonergan Edwards has prepared, and is responsible for, the Independent Expert's Report contained in Annexure A. None of iiNet, TPG, their respective Related Bodies Corporate or the directors, officers, employees or advisers of any of those entities assumes any responsibility for the accuracy or completeness of the Independent Expert's Report.

The Investigating Accountant has prepared, and is responsible for, the Independent Limited Assurance Report contained in Annexure B. None of iiNet, TPG, their respective Related Bodies Corporate or the directors, officers, employees or advisers of any of those entities assumes any responsibility for the accuracy or completeness of the Independent Limited Assurance Report.

PricewaterhouseCoopers Securities Ltd has prepared, and is responsible for, the Taxation Implications contained in Section 10. None of iiNet, TPG, their respective Related Bodies Corporate or the directors, officers, employees or advisers of any of those entities assumes any responsibility for the accuracy or completeness of PricewaterhouseCoopers Securities Ltd's Taxation Implications contained in Section 10.

Role of ASIC

A copy of this Scheme Booklet has been lodged with, and registered by, ASIC for the purposes of section 412(6) of the Corporations Act. ASIC has been given the opportunity to comment on this Scheme Booklet in accordance with section 411(2)(b) of the Corporations Act. Neither ASIC nor any of its officers takes any responsibility for the contents of this Scheme Booklet.

ASIC has been requested to provide a statement, in accordance with section 411(17)(b) of the Corporations Act, that it has no objection to the Scheme. If ASIC provides that statement, it will be produced to the Court at the Second Court Hearing.

Role of the ASX

A copy of this Scheme Booklet has been lodged with the ASX. Neither the ASX nor any of its officers takes any responsibility for the contents of this Scheme Booklet.

Important notice associated with the Court order under section 411(1) of the Corporations Act

The fact that under section 411(1) of the Corporations Act the Court has ordered that a meeting be convened and has approved this Scheme Booklet does not mean that the Court:

(a) has formed any view as to the merits of the proposed Scheme or as to how you should vote (on this matter, you must reach your own decision); or

(b) has prepared, or is responsible for the content of, the Scheme Booklet.

No internet site is part of this Scheme Booklet

The iiNet Group and the TPG Group maintain internet websites. Any references in this Scheme Booklet to a website are a textual reference for information only and do not form part of this Scheme Booklet. There are references to the Scheme website at www.iinetscheme.net.au where copies of this Scheme Booklet are available to view or download and online voting and online Election can be accessed.

Notice to foreign shareholders

The release, publication or distribution of this Scheme Booklet in jurisdictions other than Australia may be restricted by law or regulation in those other jurisdictions, and persons outside of Australia who come into possession of this Scheme Booklet should seek advice on and observe any relevant restrictions. Any failure to comply with relevant restrictions may constitute a violation of applicable laws or regulations.

This Scheme Booklet complies with disclosure requirements in Australia and Australian law, which may be different to the requirements and laws in other countries outside of Australia.

Disclaimer as to forward looking statements

Certain statements in this Scheme Booklet relate to the future. These forward looking statements involve known and unknown risks, uncertainties, assumptions and other important factors that could cause the actual results, performance and achievements of the iiNet Group or the TPG Group to be materially different from future results, performance or achievements expressed or implied by those statements. Such risks, uncertainties, assumptions and other important factors include, among other things, general economic conditions, exchange rates, interest rates, the regulatory environment, competitive pressures, selling price and market demand.

The forward looking statements in this Scheme Booklet reflect the views held only at the date of this Scheme Booklet. Additionally, statements of the intentions of TPG reflect its present intentions as at the date of this Scheme Booklet and may be subject to change.

Other than as required by law, neither the iiNet Group nor the TPG Group nor 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 Scheme Booklet will actually occur.

Subject to any continuing obligations under law or the Listing Rules, the iiNet Group and the TPG Group and their respective directors disclaim any obligation or undertaking to disseminate after the date of this Scheme Booklet, any updates or revisions to any forward looking statements to reflect any change in expectations in relation to those statements or any change in events, conditions or circumstances on which those statements are based.

You are cautioned not to place reliance on any forward looking statements.

Charts, maps and diagrams

Any diagrams, charts, maps, graphs and tables appearing in this Scheme Booklet are illustrative only and may not be drawn to scale. Unless otherwise stated, all data contained in diagrams, charts, maps, graphs and tables is based on information available as at the date of this Scheme Booklet.

Effect of rounding

A number of figures, amounts, percentages, prices, estimates, calculations of value and fractions in this Scheme Booklet are subject to the effect of rounding (unless otherwise stated). Accordingly, the actual calculation of these figures may differ from the figures set out in this Scheme Booklet.

Privacy and personal information

iiNet and TPG will need to collect personal information to implement the Scheme. The personal information may include the names, contact details and details of shareholdings of iiNet Shareholders together with contact details of individuals appointed by iiNet Shareholders as proxies, body corporate representatives or attorneys at the Scheme Meeting. If that personal information is not collected, iiNet and TPG may be hindered in, or prevented from, conducting the Scheme Meeting or implementing the Scheme effectively, or at all. The personal information collected may be disclosed to print and mail service providers, and to iiNet and TPG and their respective advisers and agents to the extent necessary to effect the Scheme.

iiNet 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 and may contact the Registrar if they wish to exercise those rights.

iiNet Shareholders who appoint an individual as their proxy, body corporate representative or attorney to vote at the Scheme Meeting should inform that individual of the matters outlined above.

Persons are entitled, under section 173 of the Corporations Act, to inspect and copy the Register. The Register contains personal information about iiNet Shareholders.

iiNet Shareholder Information Line and Scheme website

If you have any questions about your iiNet Shares or any other matter in this Scheme Booklet, please call the iiNet Shareholder Information Line on 1300 812 892 (within Australia) or
+61 2 9098 9204 (outside Australia) or visit the Scheme website at www.iinetscheme.net.au.

Contents

Important dates and times for the Scheme(1)

Event	Time and Date
Election Date (last day to make a Cash Election or a Share Election)[2]	**5.00pm (WST) on Tuesday, 21 July 2015**
Time and date for determining eligibility to vote at the Scheme Meeting	**5.00pm (WST) on Tuesday, 21 July 2015**
ASX announcement of Election results and whether TPG Share Cap has been exceeded and proportional scale back applies	Wednesday, 22 July 2015
Last date and time for receipt of Proxy Forms, powers of attorney or certificates of appointment of body corporate representatives for the Scheme Meeting	**10.00am (WST) on Saturday, 25 July 2015 or if you are a member of the iiNet Employee Deferred Tax Scheme by no later than 10.00am (WST) on Friday, 24 July 2015**
Scheme Meeting	10.00am (WST) on Monday, 27 July 2015[3]
If the Scheme is approved by the Requisite Majority of iiNet Shareholders	
ACCC announcement of its final decision[4]	Thursday, 20 August 2015
Second Court Date (Second Court Hearing for approval of the Scheme[5])	Friday, 21 August 2015
Outcome of the Second Court Hearing announced	Friday, 21 August 2015
Effective Date	Monday, 24 August 2015
iiNet Shares suspended from trading on the ASX	Monday, 24 August 2015
Ex-dividend date (for ASX purposes) for Discretionary Special Dividend, if declared	Tuesday, 25 August 2015
New TPG Shares commence trading on the ASX on a deferred settlement basis.	Tuesday, 25 August 2015
Dividend Record Date (for determining entitlements to the Discretionary Special Dividend), if declared[6]	5.00pm (WST) on Thursday, 27 August 2015
Ex-dividend date (for tax purposes) for Discretionary Special Dividend, if declared	Friday, 28 August 2015
Record Date (for determining entitlements to Scheme Consideration)	5.00pm (WST) on Monday, 31 August 2015
Payment of the Discretionary Special Dividend by iiNet, if declared	Monday, 7 September 2015
Implementation Date (transfer of Scheme Shares to TPG and payment/issue by TPG of Scheme Consideration to Scheme Shareholders).	Monday, 7 September 2015
Last day of deferred settlement trading on the ASX in New TPG Shares	Monday, 7 September 2015
New TPG Shares commence trading on the ASX on a normal settlement basis	Tuesday, 8 September 2015

1 All dates in the timetable are indicative only and are subject to change. The actual timetable will depend on many factors outside the control of the iiNet Group including the time in which Conditions are satisfied or (where applicable) waived and the receipt of approvals from the Court and other Regulatory Authorities. iiNet (with the agreement of TPG) has the right to vary the timetable subject to approval by the Court and the ASX, where required. Any variation to the timetable will be announced by iiNet on the ASX and on the Scheme website at www.iinetscheme.net.au.

2 If you don't make an Election or if you acquire iiNet Shares after this date, you will be deemed to have made a Cash Election, and you will receive the Cash Consideration.

3 iiNet will request a trading halt in the quotation of the iiNet Shares effective from the opening of the market on the date of the Scheme Meeting pending the announcement of the results of the Scheme Meeting.

4 This date may change and if it does, it may impact on other dates in this table. iiNet will announce to the ASX as soon as practicable after the ACCC notifies iiNet of any change to its final decision date of the required changes (if any) to the dates in this table.

5 The Second Court Date to approve the Scheme will not occur until as soon as practicable after the ACCC's final decision has been announced.

6 See Section 4.4 for information about the Discretionary Special Dividend and the circumstances in which it may be declared and paid.

iiNet Chairman's Letter

Michael Smith

Dear iiNet Shareholder,

On behalf of the iiNet Board, I am pleased to provide you with this Scheme Booklet that contains all the information you will need to consider in relation to the proposed acquisition of iiNet by TPG.

THE SCHEME

On 13 March 2015, iiNet and TPG announced that they had entered into a Scheme Implementation Agreement to acquire the iiNet Shares that TPG does not own, by way of a scheme of arrangement ("Original TPG Proposal").

On 6 May 2015, following the receipt of an alternative competing proposal from M2 Group Ltd ("M2"), iiNet and TPG announced that they had reached agreement on the terms of an improved proposal by TPG and had entered into a revised Scheme Implementation Agreement reflecting the improved proposal ("Scheme").

Under the Scheme, iiNet Shareholders will receive:

- The **Scheme Consideration** as either:
  - **Cash Consideration:** $8.80 in cash per iiNet Share; or
  - **Share Consideration:** 0.969 TPG Shares per iiNet Share, subject to a cap. A proportional scale back will apply if this cap is exceeded; and
- **Discretionary Special Dividend:** a Discretionary Special Dividend[7] of up to $0.75 per iiNet Share in cash, which will be franked to the maximum extent possible. TPG will provide a cash top-up payment to iiNet Shareholders to the extent that the Discretionary Special Dividend is less than $0.75 per iiNet Share.

A key feature of the Scheme is the ability for iiNet Shareholders to elect before the Election Date to receive their Scheme Consideration in cash ("Cash Election") or in TPG Shares ("Share Election"). The Discretionary Special Dividend is only payable in cash.

In addition, an Australian tax resident iiNet Shareholder may receive some benefit from the franking credits attached to the Discretionary Special Dividend, subject to their personal taxation circumstances. For illustrative purposes, the franking credits attached to a dividend based on iiNet's retained earnings as at 31 December 2014 of $0.644 per iiNet Share would be equivalent to $0.276 per iiNet Share[8].

The Scheme will bring together two of Australia's iconic ISP challenger brands and the clear outperformers of the telecommunications sector over the last five years. TPG intends to preserve the culture, staff and customer services that are central to the identity and long success of iiNet's strong customer service brand. Thus, the combination of iiNet and TPG will see both brands running alongside each other on TPG's impressive national telecommunications infrastructure network, which will provide substantial benefits for customers of the Combined Group.

VALUE OF THE SCHEME CONSIDERATION

The 'total consideration' **of at least $9.55**[9] per iiNet Share (excluding the additional potential benefit of franking credits), represents significant premiums to iiNet's Share prices[10]:

- **40%** premium over the closing price of iiNet Shares on the ASX on 12 March 2015 (being the last trading day prior to the announcement of the Original TPG Proposal) of $6.81;
- **46%** premium over the five day VWAP of iiNet Shares on the ASX up to and including 12 March 2015 of $6.52;

7 Subject to the Scheme becoming Effective and iiNet receiving a favourable ATO Tax Ruling.
8 This is provided as an example only. The actual amount of the Discretionary Special Dividend will depend upon iiNet's retained earnings at the declaration date.
9 The Total Consideration is at least $9.55 per iiNet Share for those iiNet Shareholders who make or are deemed to make a Cash Election. The value of the Share Consideration will fluctuate with changes in the price of TPG Shares, meaning that the Total Consideration for those iiNet Shareholders who make a Share Election may be more or less than $9.55 per iiNet Share.
10 iiNet Share prices prior to 12 March 2015 have been adjusted for the 2015 Interim Dividend of $0.105 per iiNet Share, which was declared by iiNet on 18 February 2015 and paid on 30 March 2015.

- **50%** premium over the VWAP of iiNet Shares on the ASX for the period from 19 February 2015 (being the day iiNet announced its results for the six months ended 31 December 2014) up to and including 12 March 2015 of $6.37; and
- **45%** premium over the 30 day VWAP of iiNet Shares on the ASX up to and including 12 March 2015 of $6.58.

In addition, the Total Consideration represents a:

- CY14 EV/EBITDA multiple of **10.0x**, a significant premium to multiples paid in recent comparable change of control transactions for consumer fixed line telecommunications businesses;
- CY14 PE multiple of **23.8x**, a materially higher multiple than iiNet's historical trading levels; and
- **34%** premium above the average broker standalone price target for iiNet Shares of $7.13[11].

DIRECTORS' RECOMMENDATION

Your Directors have considered the advantages and disadvantages of the Scheme and unanimously recommend that iiNet Shareholders vote in favour of the Scheme, in the absence of a Superior Proposal, and subject to the Independent Expert maintaining its conclusion that the Scheme is in the best interests of iiNet Shareholders.

Each Director intends to vote the iiNet Shares they hold or control in favour of the Scheme, in the absence of a Superior Proposal, and subject to the Independent Expert maintaining its conclusion that the Scheme is in the best interests of iiNet Shareholders.

In the Board's view, the certainty of value under the Scheme and the limited conditionality of the Scheme are compelling when considering the potential trajectory of iiNet's earnings into the future based on iiNet's current performance, current competitive dynamics in the emerging NBN consumer and business markets, and the risk-adjusted value of iiNet's current strategic initiatives which will take time and additional capital to implement.

INDEPENDENT EXPERT'S OPINION

In addition, the Independent Expert, Lonergan Edwards & Associates Limited, appointed by the iiNet Directors, has concluded that the Scheme is fair and reasonable and in the best interests of iiNet Shareholders, in the absence of a Superior Proposal.

COMPREHENSIVE PROCESS

iiNet has for many years been considered the leading consolidator in the industry, and much of its historic growth has been underpinned by a series of well-placed and executed acquisitions. As part of this ongoing industry consolidation, iiNet has regularly been approached by both trade and financial counterparties regarding merger proposals and the outright sale of iiNet. The iiNet Board had not considered the historical discussions or informal proposals to be of sufficient merit to make a recommendation to iiNet Shareholders, until the receipt and ultimate recommendation of the Original TPG Proposal.

11 Calculated using the average of broker price targets for iiNet published between 19 February 2015 and 11 March 2015 of between $5.67 and $9.05.

“Each Director intends to vote the iiNet Shares they hold or control in favour of the Scheme, in the absence of a Superior Proposal, and subject to the Independent Expert maintaining its conclusion that the Scheme is in the best interests of iiNet Shareholders.”

Further, by recommending the Original TPG Proposal and the publication of the Scheme Implementation Agreement, the iiNet Board established a transparent process to accommodate and facilitate alternative superior proposals. To date, the iiNet Board has received three proposals for the company by two different bidders:

- **13 March 2015:** the Original TPG Proposal (of $8.60 cash per iiNet Share);
- **27 April 2015:** M2 announced a competing proposal for iiNet, proposing a consideration of 0.803 M2 shares per iiNet Share plus $0.75 cash per iiNet Share in the form of a special dividend (“M2 Proposal”). The M2 Proposal has since been withdrawn and is not available; and
- **6 May 2015:** Following evaluation of the M2 Proposal, the iiNet Board initiated TPG’s matching right provided for in the Scheme Implementation Agreement, which led to the announcement of TPG’s improved proposal of **at least $9.55 per** iiNet Share (“Revised TPG Proposal”).

The Revised TPG Proposal represents significant premiums to the trading levels of iiNet Shares prior to the announcement of the Original TPG Proposal, an **11%** premium to the Original TPG Proposal and provides iiNet Shareholders with the additional benefit of flexibility to choose cash or scrip consideration. The iiNet Board is confident that the proposed Scheme is the best available opportunity for iiNet Shareholders to realise certain value for their shares. However, should an alternative proposal emerge, the iiNet Board, consistent with its fiduciary duties, will consider the merits of any such proposal and advise you accordingly.

SCHEME MEETING

Your vote is important as the Scheme Resolution needs a certain level of iiNet Shareholder support to be approved. I strongly encourage you to read this Scheme Booklet carefully as it contains information material to a decision on how to vote and information on how to vote.

I also strongly urge you to participate in this important decision either by attending the Scheme Meeting which will be held at the Pan Pacific Perth, 207 Adelaide Terrace, Perth, Western Australia on Monday, 27 July 2015 at 10.00am (WST) or if you are unable to attend, by completing the enclosed personalised Proxy Form.

If you require any further information, please call the Shareholder Information Line on **1300 812 892** (within Australia) or **+61 2 9098 9204** (outside Australia) or visit the Scheme website at **www.iinetscheme.net.au**.

On behalf of the Board of iiNet, I would like to take this opportunity to thank you in advance for your ongoing support of iiNet. The iiNet Board believes that the proposed acquisition of iiNet by TPG makes strong commercial and strategic sense, is in the best interests of iiNet Shareholders, and encourages you to vote in favour of the Scheme. I look forward to your participation at the Scheme Meeting.

Yours sincerely

Michael Smith
Chairman
iiNet Limited

TPG Chairman's Letter

David Teoh

Dear iiNet Shareholder,

The Board and management of TPG are pleased to provide iiNet Shareholders with this opportunity to participate in the Scheme under which TPG proposes to acquire those shares in iiNet that the TPG Group does not own for Total Consideration of at least $9.55 per iiNet Share for those iiNet Shareholders who elect or are deemed to elect to receive the Cash Consideration.

Under the Scheme, iiNet Shareholders will have the option to receive all cash or elect to receive TPG Shares and remain a shareholder in the new enlarged company. All New TPG Shares issued under the Scheme will be quoted on the ASX.

TPG is a leading ASX listed provider of telecommunication services to residential users, small and medium enterprises, government, large corporate enterprises and wholesale customers. TPG's net profit after tax was $171.7 million for the financial year ended 31 July 2014 and $106.7m for the half year ended 31 January 2015. TPG considers that the iiNet and TPG businesses are highly complementary in terms of geographic presence, market segments and corporate customer base. The combined businesses will provide broadband services to over 1.7 million subscribers and will be well-positioned to deliver scale benefits in an NBN environment.

TPG acknowledges that the value of the iiNet business is a result of the high levels of customer service provided by iiNet staff and for this reason intends to maintain the iiNet brand as part of a dual brand strategy. Moving forward, TPG intends to preserve and foster this key strength.

As an iiNet Shareholder, your vote is important to ensure that the Scheme is implemented and the benefits of the Scheme can be realised by all iiNet Shareholders. These benefits include the certainty of value of the cash alternative, or the opportunity for continued exposure to an investment in the telecommunications industry and the potential to access CGT rollover relief under the share alternative.

This Scheme Booklet provides important information in relation to the transaction, and on behalf of the TPG Board, I encourage you to read it carefully and vote in favour of the Scheme at the Scheme Meeting to be held on 27 July 2015.

I look forward to welcoming those of you who elect to receive TPG Shares as TPG Shareholders following successful implementation of the Scheme.

Yours sincerely

David Teoh
Chairman
TPG Telecom Limited

Reasons to vote for or against the Scheme, and key considerations

Reasons to **VOTE IN FAVOUR** of the Scheme:

1	The Directors unanimously recommend that you vote in favour of the Scheme, in the absence of a Superior Proposal, and subject to the Independent Expert maintaining its conclusion that the Scheme is in the best interests of iiNet Shareholders.
2	The Independent Expert has concluded the Scheme is fair and reasonable and in the best interests of iiNet Shareholders, in the absence of a Superior Proposal.
3	The Scheme provides consideration flexibility for Scheme Shareholders in being able to choose between receiving the Scheme Consideration in cash or New TPG Shares, with the latter subject to the TPG Share Cap. The Discretionary Special Dividend (or Top-Up Cash Consideration) will be payable in cash.
4	The Scheme gives Scheme Shareholders the opportunity to make a Share Election before the Election Date, to become shareholders in TPG and participate in an unparalleled combination of two of Australia's iconic ISP challenger brands, which have been the clear outperformers of the Australian telecommunications sector over the last five years. Such Scheme Shareholders would retain exposure to the benefits of such a combination, as well as potential to access CGT rollover relief.
5	For those Scheme Shareholders who would prefer to receive their full consideration in cash, the Scheme provides the opportunity for such Scheme Shareholders to realise certain value for their iiNet Shares.
6	The Directors believe the Scheme is compelling relative to the changing dynamics of the Australian telecommunications industry, the risks associated with the execution of iiNet's current strategic initiatives, and in light of previous engagements with potential strategic and financial acquirers of iiNet.
7	The Total Consideration of at least $9.55[12] per Scheme Share is higher than iiNet Shares had ever traded on the ASX prior to the announcement of the Original TPG Proposal on 13 March 2015.
8	The Total Consideration of at least $9.55[13] per Scheme Share represents a significant premium over trading prices of iiNet Shares on ASX prior to the announcement of the Original TPG Proposal on 13 March 2015, and a significant premium of 34% above the average broker price target for iiNet Shares prior to 13 March 2015 of $7.13.
9	The Total Consideration of at least $9.55[14] per Scheme Share represents a CY14 EV/EBITDA multiple of 10.0x, which is a significant premium to multiples paid in recent comparable change of control transactions for consumer fixed line telecommunications businesses. The Total Consideration of at least $9.55[14] per Scheme Share also represents a CY14 PE multiple of 23.8x.

12 The Total Consideration is at least $9.55 per iiNet Share for those iiNet Shareholders who make or are deemed to make a Cash Election. The value of the Share Consideration will fluctuate with changes in the price of TPG Shares, meaning that the Total Consideration for those iiNet Shareholders who make a Share Election may be more or less than $9.55 per iiNet Share.

13 See footnote 12.

14 See footnote 12.

10	The Discretionary Special Dividend (if declared) gives an additional benefit to those Australian tax resident Scheme Shareholders whose personal taxation circumstances allow them to capture some benefit from the franking credits related to that dividend[15].
11	If the Scheme does not proceed and no Superior Proposal emerges, the price of Shares in iiNet may fall below prevailing prices, and you will continue to be subject to the risks associated with owning iiNet Shares.
12	No Superior Proposal has emerged as at the date of this Scheme Booklet.
13	You will not incur any stamp duty or brokerage charges if the Scheme proceeds. However for Ineligible Foreign iiNet Shareholders who made a Share Election, applicable brokerage, stamp duty and other selling costs, will be deducted from the proceeds of sale by the nominee. See Section 4.2(e).

Reasons why you may wish to vote in favour of the Scheme are set out in more detail in Section 1.1.

15 The value of franking credits is not the same for all iiNet Shareholders. The use of franking credits and the exact post-tax value realised by you will depend on your individual tax circumstances. Please refer to Section 10 for further details and consult your professional taxation adviser in respect of your individual tax situation.

Reasons to **VOTE AGAINST** the Scheme:

1. You may disagree with the Directors' unanimous recommendation or the Independent Expert's conclusion and believe that the Scheme is not in your best interests.
2. You may believe that there is potential for a Superior Proposal to be made in the foreseeable future.
3. You may wish to maintain an interest in a publicly listed investment with iiNet's specific characteristics.
4. The tax consequences of the Scheme may not suit your current financial position.
5. The Scheme may be subject to conditions that you consider unacceptable.

Reasons why you may not want to vote in favour of the Scheme are set out in more detail in Section 1.2.

Other factors **TO CONSIDER**:

1. The Share Consideration consists of a specified number of New TPG Shares, being 0.969 New TPG Shares for each Scheme Share, subject to the TPG Share Cap.

   As the Share Ratio is fixed, the implied value of the Total Consideration for iiNet Shareholders who made a Share Election will fluctuate before New TPG Shares are issued as consideration under the Scheme on the Implementation Date. Importantly, that implied value may fall below the Independent Expert's valuation range of $8.90 to $9.75 per iiNet Share.

   In comparison, iiNet Shareholders who make a Cash Election will be paid a fixed cash amount of $9.55 that will not be subject to change.

   Given this, in deciding whether to vote in favour of the Scheme and whether to make a Cash Election or a Share Election, iiNet Shareholders should carefully consider the current market price of TPG Shares and the potential for that price to fall or rise before the New TPG Shares are issued under the Scheme.

2. On 11 June, 2015 the ACCC released a Statement of Issues **(SOI)** in relation to TPG's proposed acquisition of iiNet[16]. The ACCC has sought public submissions on the SOI by 2 July 2015 and has given a proposed date for their final decision on 20 August 2015. TPG and iiNet will work with the ACCC during this next phase to address any concerns the ACCC may have. The fact that the ACCC has issued the SOI does not necessarily mean that it will oppose TPG's proposed acquisition of iiNet. The Scheme will not proceed unless ACCC notifies TPG before the End Date, that it does not intend to take any further action with respect to the Scheme and will not oppose the Scheme proceeding; or ACCC's decision is subsequently set aside by the Court or any other competent Australian court as contemplated by clause 3.8(c) of the Scheme Implementation Agreement.

3. The Second Court Date to approve the Scheme will not occur until as soon as practicable after the ACCC's final decision has been announced and is currently expected to occur on 21 August 2015. As a result, the Effective Date for the Scheme is not expected to occur until 24 August 2015 and the Implementation Date is not expected to occur until 7 September 2015. Scheme Shareholders who make a Share Election will not be issued with New TPG Shares until the Implementation Date. Scheme Shareholders who make a Share Election should consider the important information regarding TPG Shares in Section 7, and the risks associated with owning TPG Shares, as set out in Section 9 and the impact that the extended time period between the Election Date and the Implementation Date (to allow for the ACCC's decision to be received) may have on these risks.

4. After careful consideration, the Directors determined that the Improved TPG Proposal, which is the subject of the Scheme, is more favourable to iiNet and iiNet Shareholders than the now withdrawn M2 Proposal, for a number of reasons. These reasons are set out in Section 4.7.

   Since the Improved TPG Proposal was announced, M2 has withdrawn the M2 Proposal and no Superior Proposal has emerged. Thus, it is important to understand that iiNet Shareholders are not being asked to select between the Improved TPG Proposal and the M2 Proposal, as the latter is not available to iiNet Shareholders even if the Scheme does not proceed.

   The Scheme is the only liquidity opportunity that is currently available to iiNet Shareholders to sell all their iiNet Shares for a certain value, and there is no certainty that a similar liquidity event will materialise in the future.

16 Further details on the requirement to obtain ACCC approval to the Scheme and the Statement of Issues are set out in Section 11.2(a)(i).

5 The Scheme is an "all-or-nothing" proposal.

If the Scheme is approved by the Requisite Majority of iiNet Shareholders and the Court, and all other Conditions are either satisfied or (where applicable) waived, the Scheme will bind all iiNet Shareholders, including those who do not vote on the Scheme Resolution and those who vote against it, meaning that all Scheme Shareholders will have their Scheme Shares transferred to TPG and will receive the Total Consideration.

6 As a result of M2 announcing the M2 Proposal, TPG was released from the standstill provisions that had previously applied under the Scheme Implementation Agreement. Should the Scheme not proceed, TPG may decide to take advantage of any resulting fall in the iiNet Share price to increase its holding of iiNet Shares. This may make iiNet a less attractive takeover target which may have an adverse effect on the trading prices of iiNet Shares.

7 The Break Fee described in Section 11.2(c) is not payable if the Scheme Resolution is not passed, unless the Directors withdraw or change their recommendation of the Scheme before the Scheme Meeting, subject to the Independent Expert maintaining its conclusion that the Scheme is in the best interests of iiNet Shareholders.

8 If the Scheme proceeds, each Scheme Shareholder is deemed to have warranted to iiNet that all their Scheme Shares (including any rights and entitlements attaching to those shares) will, at the date of the transfer to TPG, be fully paid and free from all encumbrances and interests of third parties of any kind, whether legal or otherwise, and restrictions on transfer of any kind.

Other factors to consider relevant to your decision on how to vote at the Scheme Meeting are set out in more detail in Section 1.3.

What to do now, how to vote and how to make an Election

1. Read this Scheme Booklet

You should carefully consider the information included in this Scheme Booklet to help you make an informed decision on how to vote on the Scheme.

You should read this document in its entirety. Answers to some common questions are contained in the Frequently Asked Questions Section starting on page 23.

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

If you have any questions in relation to the Scheme or this Scheme Booklet, please call the iiNet Shareholder Information Line on 1300 812 892 (within Australia) or +61 2 9098 9204 (outside Australia), or visit the Scheme website at www.iinetscheme.net.au.

2. Make an Election

Scheme Shareholders may make an Election to receive their Scheme Consideration as either the Cash Consideration or the Share Consideration at any time before the Election Date. If any iiNet Shares are acquired after the Election Date, the holder of those iiNet Shares will not be able to make an Election and will be deemed to have made a Cash Election.

You can elect the form of Scheme Consideration that you would prefer to receive by completing the enclosed Election Form and returning it to one of the addresses stated below in accordance with the instructions on the Election Form so that it is received by the Registrar prior to 5.00pm (WST) on the Election Date, being Tuesday, 21 July 2015. Note that the Election Date is before the date of the Scheme Meeting, so if you want to make an Election you must do so before you vote at the Scheme Meeting.

You must return the Election Form to the Registrar by either posting it in the reply paid envelope marked 'Election Form' accompanying this Scheme Booklet (only for use in Australia) or by sending, delivering or faxing it as follows:

Registrar:
Link Market Services Limited

Mail to:
iiNet Limited
C/- Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235

Fax to:
+61 2 9287 0309

In person to:
Link Market Services Limited
1A Homebush Bay Drive
Rhodes NSW 2138

Alternatively you can make an Election online. To make an Election electronically, please visit www.iinetscheme.net.au and follow the relevant instructions accordingly.

Scheme Shareholders who made or are deemed to have made a Cash Election will receive the full amount of their Scheme Consideration in cash. Scheme Shareholders who acquired Scheme Shares after the Election Date will receive the full amount of their Scheme Consideration for those Scheme Shares in cash.

If the TPG Share Cap is exceeded, there will be a proportional scale back of the number of New TPG Shares issued per Scheme Share, and Scheme Shareholders who made a Share Election will receive the balance of their Scheme Consideration in cash. The TPG Share Cap is calculated as at the Election Date and iiNet will announce to ASX on Wednesday, 22 July 2015 the results of the Election process and whether the TPG Share Cap has been exceeded and the proportional scale back (if any) that will apply to Scheme Shareholders who made a Share Election and who hold their Scheme Shares continuously from the Election Date to the Record Date.

The table below sets out the proportional scale back that will apply to Scheme Shareholders who make a Share Election with varying levels of Share Elections made.

Percentage of Scheme Shares in respect of which a Share Election is made by Scheme Shareholders (%)	**0%**	**20%**	**40%**	**60%**	**80%**	**100%**
Implied Share Consideration scrip ratio (x)	0.969	0.891	0.446	0.297	0.223	0.178
Percentage of New TPG shares received out of original allocation (%)	100%	92%	46%	31%	23%	18%
Balance of Scheme Consideration that is paid in Cash ($ per iiNet Share)	-	0.70	4.75	6.10	6.78	7.18

Fractional entitlements to New TPG Shares will be rounded to the nearest whole share, and if there is a proportional scale-back the entitlements to the balance of the Scheme Consideration in cash will be rounded to the nearest whole cent.

All Scheme Shareholders are entitled to make an Election to receive either the Cash Consideration or the Share Consideration and to change their Election at any time before the Election Date. However, Ineligible Foreign iiNet Shareholders who made a Share Election will not be issued New TPG Shares under the Scheme. Instead, the New TPG Shares that would otherwise have been issued to Ineligible Foreign iiNet Shareholders who made a Share Election will be issued to a nominee appointed by TPG who will sell those New TPG Shares and account to TPG for the net proceeds from that sale (after deducting any applicable brokerage, stamp duty and other selling costs, taxes and charges). TPG will then remit the portion of proceeds it receives from the nominee to each Ineligible Foreign iiNet Shareholder in accordance with their entitlement. See Section 4.2(e) for further details in respect of Ineligible Foreign iiNet Shareholders.

If no Election is made, or an Election is invalid, or it is received after the Election Date, a Scheme Shareholder will be deemed to have validly elected to receive their Scheme Consideration as Cash Consideration.

An Election is not transferable. If any iiNet Shares are acquired after the Election Date, the holder of those iiNet Shares will not be able to make an Election and will be deemed to have made a Cash Election.

If a Share Election is made and the total value of New TPG Shares to be issued to a Scheme Shareholder (calculated at the Election Date) would not be at least $500 (a Marketable Parcel) then the Scheme Shareholder will be deemed to have made a Cash Election, and that Share Election will not be taken into account for the purposes of calculating whether the TPG Share Cap has been exceeded.

If you acquire iiNet Shares before the Election Date you should consider the form of Scheme Consideration that you would prefer to receive and make an Election.

3. Vote on the Scheme Resolution

The details of the Scheme Meeting are as follows:

Location: the Pan Pacific Perth, 207 Adelaide Terrace, Perth, Western Australia
Date: Monday, 27 July 2015
Time: 10.00am (WST)

If you are an iiNet Shareholder as at 5.00pm (WST) on Tuesday, 21 July 2015, you will be entitled to vote on the Scheme Resolution at the Scheme Meeting.

YOUR VOTE IS IMPORTANT

The Directors unanimously recommend that you vote in favour of the Scheme Resolution, in the absence of a Superior Proposal and subject to the Independent Expert maintaining its conclusion that the Scheme is in the best interests of iiNet Shareholders.

The Independent Expert has concluded that the Scheme is fair and reasonable and in the best interests of iiNet Shareholders, in the absence of a Superior Proposal.

You can vote:
in person, by attending the Scheme Meeting;
by proxy, by completing and returning to the Registrar the enclosed Proxy Form for the Scheme Meeting. The Proxy Form must be received by the Registrar by no later than 10.00am (WST) on Saturday, 25 July 2015 or if you are a member of the iiNet Employee Deferred Tax Scheme by no later than 10.00am (WST) on Friday, 24 July 2015;
by attorney, by providing the Registrar the original (or certified copy) of the instrument appointing an attorney by no later than 10.00am (WST) on Saturday, 25 July 2015; or
by corporate representative (in the case of a body corporate), by providing the Registrar a copy of the certificate of appointment of the representative by no later than 10.00am (WST) on Saturday, 25 July 2015 or by providing a copy of the certificate of appointment of the representative to the Registrar at the Scheme Meeting.

Further details on how to vote on the Scheme Resolution, including how to appoint a proxy, attorney or, if applicable, a corporate representative to vote on your behalf, are set out in Section 3.

1

Reasons to vote in favour of or against the Scheme

1. Reasons to vote in favour of or against the Scheme

This Section sets out the reasons why the Directors consider that you should vote in favour of the Scheme (Section 1.1), the reasons why you may decide to vote against the Scheme (Section 1.2) and other considerations that are relevant to your decision (Section 1.3).

You should read the entire Scheme Booklet before deciding whether or not to vote in favour of the Scheme.

Whilst the Directors acknowledge that there are reasons to vote against the Scheme, they believe the advantages of the Scheme significantly outweigh the disadvantages.

1.1 Reasons to vote in favour of the Scheme

1

The Directors have assessed the merits of the Scheme, and unanimously recommend that you vote in favour of the Scheme, in the absence of a Superior Proposal and subject to the Independent Expert maintaining its conclusion that the Scheme is in the best interests of iiNet Shareholders.

Full details of the key reasons for the Directors' recommendations are set out in this Section 1.1. Each Director intends to vote the iiNet Shares they hold or control in favour of the Scheme, in the absence of a Superior Proposal and subject to the Independent Expert maintaining its conclusion that the Scheme is in the best interests of iiNet Shareholders.

2

The Independent Expert has concluded the Scheme is fair and reasonable and in the best interests of iiNet Shareholders, in the absence of a Superior Proposal.

The Directors commissioned Lonergan Edwards & Associates Limited as the Independent Expert to assess the merits of the Scheme.

The Independent Expert assessed the full underlying value of iiNet Shares to be in the range of $8.90 to $9.75 per iiNet Share. As the Scheme Consideration is consistent with the Independent Expert's assessed valuation range for iiNet Shares on a 100% controlling interest basis, the Independent Expert has concluded that the Scheme is fair and reasonable and is in the best interests of iiNet Shareholders, in the absence of a Superior Proposal.

The Independent Expert also assessed that the Discretionary Special Dividend (if declared) allows the release of franking credits to iiNet's Australian tax resident Scheme Shareholders, thereby increasing the potential value to some Scheme Shareholders.

The Independent Expert has also stated that its assessed value range of iiNet Shares on a 100% controlling interest basis of $8.90 to $9.75 per iiNet Share was determined after including an appropriate proportion of the potential synergies available to TPG and other potential buyers.

A complete copy of the Independent Expert's Report is included in Annexure A.

3

The Scheme provides consideration flexibility for Scheme Shareholders in being able to choose between receiving the Scheme Consideration in cash or New TPG Shares, with the latter subject to the TPG Share Cap. The Discretionary Special Dividend (or Top-Up Cash Consideration) will be payable in cash.

Scheme Shareholders have the choice of receiving their Scheme Consideration as either cash or New TPG Shares under the Scheme.

The Share Consideration is subject to an aggregate cap of 27,523,946 New TPG Shares being issued, calculated as at the Election Date. If the TPG Share Cap is exceeded, there will be a proportional scale-back of the number of New TPG Shares issued per Scheme Share, and Scheme Shareholders who made a Share Election will receive the balance of their Scheme Consideration in cash. iiNet will announce to ASX on Wednesday, 22 July 2015 the results of the Election process and whether the TPG Share Cap has been exceeded and the proportional scale back (if any) that will apply to Scheme Shareholders who have made a Share Election and who hold their Scheme Shares continuously from the Election Date to the Record Date.

This flexibility permits Scheme Shareholders to choose the form of Scheme Consideration that best matches their personal circumstances.

Those Scheme Shareholders who do not make a valid Election will be deemed to have made a Cash Election to receive 100% of their Scheme Consideration as Cash Consideration.

An Election is not transferable. If any iiNet Shares are acquired after the Election Date, the holder of those iiNet Shares will not be able to make an Election and will be deemed to have made a Cash Election. If you acquire iiNet Shares before the Election Date you should consider the form of Scheme Consideration that you would prefer to receive and make an Election.

If a Share Election is made and the total value of New TPG Shares to be issued to a Scheme Shareholder (calculated at the Election Date) would not be a Marketable Parcel then the Scheme Shareholder will be deemed to have made a Cash Election, and that Share Election will not be taken into account for the purposes of calculating whether the TPG Share Cap has been exceeded.

4

The Scheme gives Scheme Shareholders who hold Scheme Shares at the Election Date, the opportunity to make a Share Election, to become shareholders in TPG and participate in an unparalleled combination of two of Australia's iconic ISP challenger brands, which have been the clear outperformers of the Australian telecommunications sector over the last five years. Such Shareholders would retain exposure to the benefits of such a combination, as well as potential to access CGT rollover relief.

Scheme Shareholders have the opportunity to make a Share Election to share in any strategic and financial benefits that would accrue to the Combined Group. TPG intends to preserve the culture, staff and customer services that are central to the identity and long success of iiNet's strong customer service brand. Thus, the combination of iiNet and TPG will see both brands running alongside each other on TPG's impressive national telecommunications infrastructure network, which will provide substantial benefits for customers of the Combined Group.

The ability to access such benefits would ultimately depend on successful integration of the two businesses, as well as the continued trading performance of both businesses and continued valuation metrics in the Australian telecommunications sector.

If the Scheme is implemented, those Scheme Shareholders who receive Share Consideration may benefit from CGT rollover relief. Availability of CGT rollover relief will depend on your individual tax circumstances. Please refer to Section 10 for further details and consult your professional taxation adviser in respect of your individual tax situation.

5

For those Scheme Shareholders who would prefer to receive their full consideration in cash, the Scheme provides the opportunity for such Scheme Shareholders to realise certain value for their iiNet Shares.

The Cash Consideration of $8.80 per Scheme Share is available to all Scheme Shareholders who make a Cash Election, or acquire Scheme Shares after the Election Date. This provides you with a high degree of certainty of value and timing, and the opportunity to dispose of all of your iiNet Shares at a significant premium to trading prices prior to the announcement of the Original TPG Proposal.

Specifically, if the Scheme proceeds, those Scheme Shareholders who make or are deemed to have made a Cash Election will receive the Cash Consideration of $8.80 for each Scheme Share held by them as at the Record Date (currently expected to be Monday, 31 August 2015), to be paid on or about the Implementation Date, which is currently expected to be Monday, 7 September 2015.

In contrast, if the Scheme does not proceed, you will not receive the Scheme Consideration, and the Discretionary Special Dividend would not be paid, and the value which you may realise for your investment in iiNet will necessarily be less certain.

6

The Directors believe the Scheme is compelling relative to the changing dynamics of the Australian telecommunications industry, the risks associated with the execution of iiNet's current strategic initiatives, and in light of previous engagements with potential strategic and financial acquirers of iiNet.

In making their recommendation, the Directors have considered the Scheme with regard to the above considerations.

The Directors believe that the Scheme provides a compelling opportunity for iiNet Shareholders to realise their investment in iiNet Shares at a significant premium to iiNet's trading performance and average broker price targets prior to the announcement of the Original TPG Proposal, and at a significant valuation premium to the multiples paid in recent consumer fixed line telecommunications change of control transactions.

7 **The Total Consideration of at least $9.55[17] per Scheme Share is higher than iiNet Shares had ever traded on the ASX prior to the announcement of the Original TPG Proposal on 13 March 2015.**

The Total Consideration of at least $9.55[18] per Scheme Share under the Scheme represents a higher price than iiNet Shares had ever traded on the ASX prior to the announcement of the Original TPG Proposal on 13 March 2015. The previous highest intra-day trading price of $8.50 occurred on 18 November 2014, and the highest closing price of $8.40 occurred on 8 December 2014.

8 **The Total Consideration of at least $9.55[19] per Scheme Share represents a significant premium over trading prices of iiNet Shares on ASX prior to the announcement of the Original TPG Proposal on 13 March 2015, and a significant premium of 34% to the average broker price target for iiNet Shares prior to 13 March 2015 of $7.13.**

The Total Consideration of at least $9.55[20] per Scheme Share, represents the following premiums to iiNet's Share prices[21]:

(a) 40.2% premium over the closing price of iiNet Shares on the ASX on 12 March 2015 of $6.81;

(b) 46.4% premium over the five day VWAP of iiNet Shares on the ASX up to and including 12 March 2015 of $6.52;

(c) 49.9% premium over the VWAP of iiNet Shares on the ASX for the period from 19 February 2015[22] up to and including 12 March 2015, of $6.37; and

(d) 45.1% premium over the 30 day VWAP of iiNet Shares on the ASX up to and including 12 March 2015 of $6.58.

The Total Consideration of at least $9.55[23] per Scheme Share is also 34% above the average broker price target for iiNet Shares of $7.13 prior to the announcement of the Original TPG Proposal on 13 March 2015[24]. Whilst broker price targets of ASX listed companies provide a useful comparison, they are based on assumptions and projections that may or may not be realised or achieved and should be viewed accordingly.

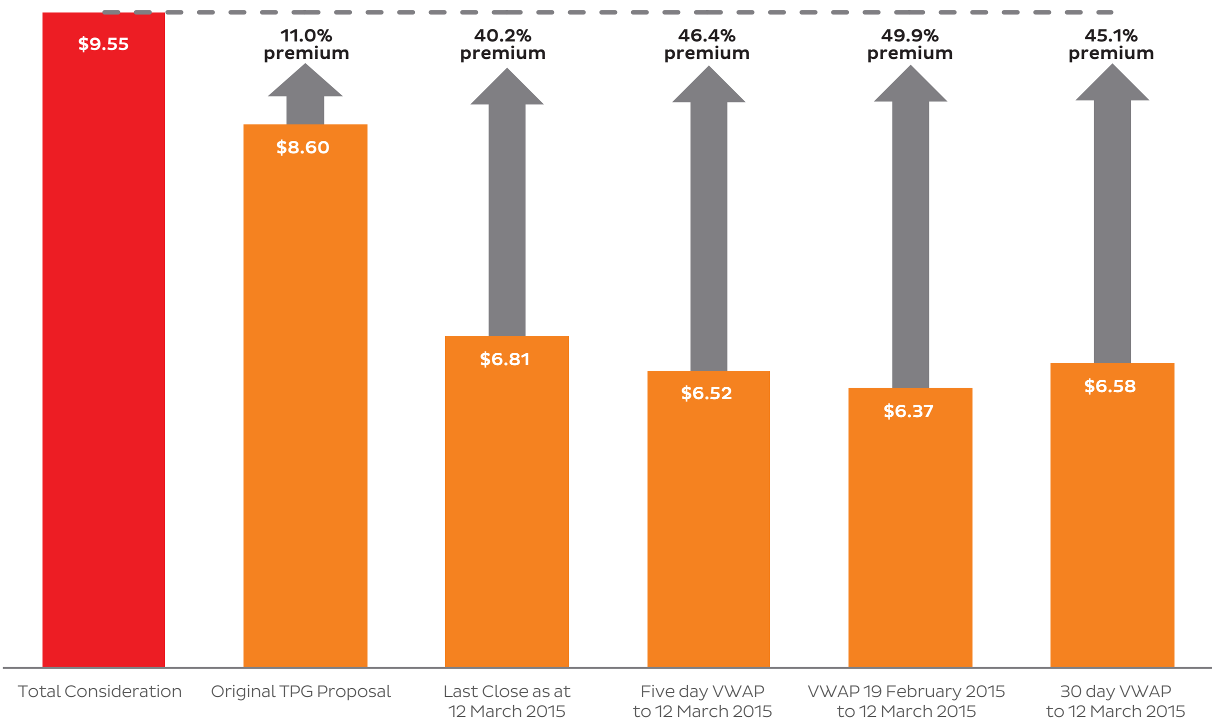


Figure 1: Premium of Total Consideration to trading prices of iiNet Shares before the announcement of the Original TPG Proposal

17 The Total Consideration is at least $9.55 per iiNet Share for those iiNet Shareholders who make or are deemed to make a Cash Election. The value of the Share Consideration will fluctuate with changes in the price of TPG Shares, meaning that the Total Consideration for those iiNet Shareholders who make a Share Election may be more or less than $9.55 per iiNet Share.

18 See footnote 17.

19 See footnote 17.

20 See footnote 17.

21 iiNet Share prices prior to 12 March 2015 have been adjusted for the 2015 Interim Dividend of $0.105 per iiNet Share, which was declared by iiNet on 18 February 2015 and paid on 30 March 2015.

22 19 February 2015 being the day iiNet announced its results for the six months ended 31 December 2014.

23 See footnote 17.

24 Calculated using the average of broker price targets for iiNet published between 19 February 2015 and 11 March 2015 of between $5.67 and $9.05.

9

The Total Consideration of at least $9.55[25] per Scheme Share represents a CY14 EV/EBITDA multiple of 10.0x[26], which is a significant premium to multiples paid in recent comparable change of control transactions for consumer fixed line telecommunications businesses. The Total Consideration of at least $9.55[27] per Scheme Share also represents a CY14 PE multiple of 23.8x[28].

The CY14 EV/EBITDA multiple of 10.0x implied by the Total Consideration represents a significant premium to the multiples paid in comparable consumer fixed line telecommunications change of control transactions, including the highly synergistic acquisitions made by iiNet between 2008 to 2013, at between 3.3x and 6.8x EV/EBITDA.

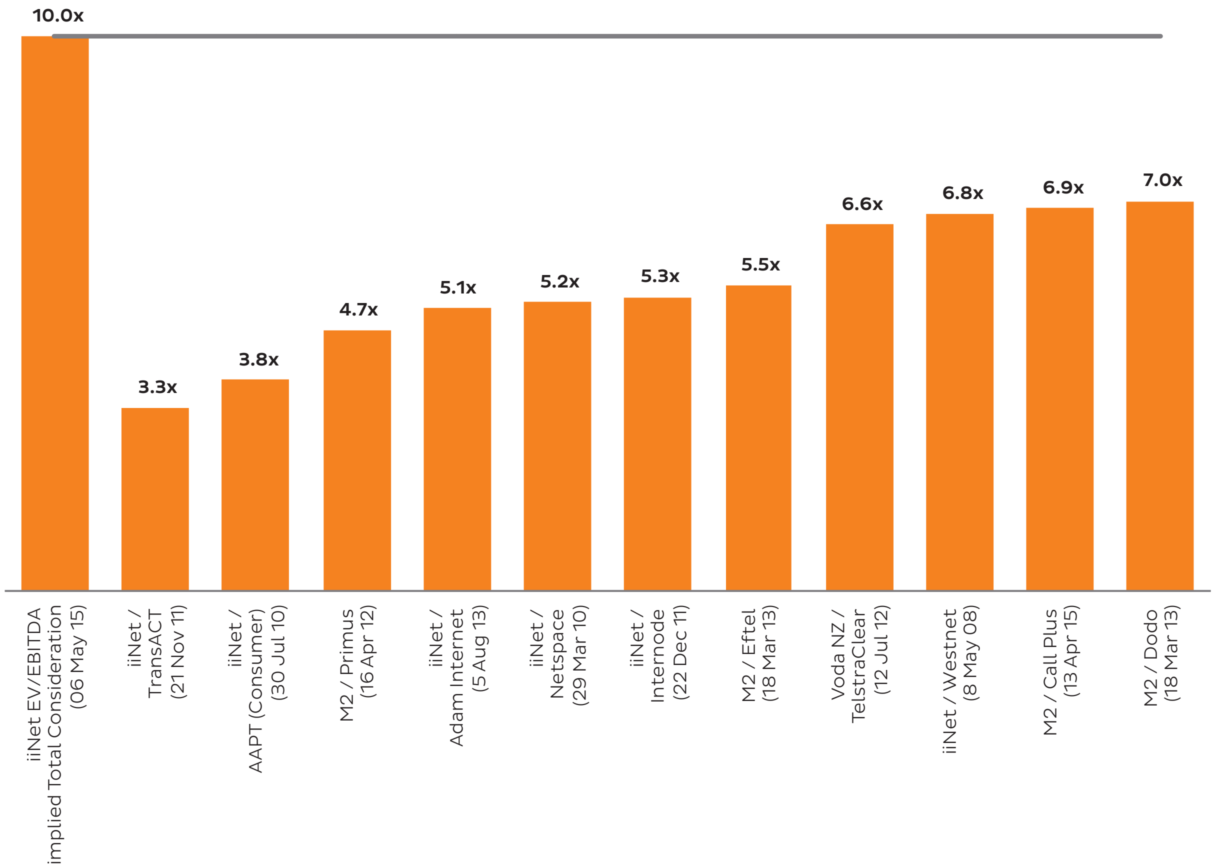


Figure 2: CY14 EV/EBITDA premium to precedent fixed line consumer telecommunication acquisitions

10

The Discretionary Special Dividend (if declared) gives an additional benefit to those Australian tax resident Scheme Shareholders whose personal taxation circumstances allow them to capture some benefit from the franking credits related to that dividend.

Subject to the Scheme becoming Effective and iiNet receiving a favourable ATO Tax Ruling, iiNet will declare the Discretionary Special Dividend of up to $0.75 per iiNet Share in cash, which will be franked to the maximum extent possible. The final amount of the Discretionary Special Dividend (if declared) is still to be determined. TPG will pay the Top-Up Cash Consideration to Scheme Shareholders to the extent that the Discretionary Special Dividend declared by iiNet is less than $0.75 per iiNet Share.

25 See footnote 17.

26 Includes iiNet net debt of $400 million (net debt of $383 million as at 31 December 2014, which includes the Indefeasible Right of Use liability, and an adjustment for the payment of the 2015 Interim Dividend), and the pre-synergies underlying CY14 EBITDA of $197 million.

27 See footnote 17.

28 Pre-synergies underlying CY14 net profit after tax of $66 million.

An Australian tax resident Scheme Shareholder whose personal taxation circumstances allow them to capture some benefit from the franking credits attached to the Discretionary Special Dividend will receive an additional benefit up to the value of those franking credits in that Scheme Shareholder's hands. For illustrative purposes, the franking credits attached to a dividend of $0.644 per iiNet Share would be equivalent to $0.276 per iiNet Share[29] (see Section 4.4).

The value of franking credits is not the same for all iiNet Shareholders. The use of franking credits and the exact post-tax value realised by you will depend on your individual tax circumstances. Please refer to Section 10 for further details and consult your professional taxation adviser in respect of your individual tax situation.

11

If the Scheme does not proceed and no Superior Proposal emerges, the price of Shares in iiNet may fall below prevailing prices, and you will continue to be subject to the risks associated with owning iiNet Shares.

Since 12 March 2015 (the day prior to the announcement of the Original TPG Proposal) to 9 June 2015 (the last practicable trading day prior to the date of this Scheme Booklet) the closing price of iiNet Shares on the ASX has risen 40.4% to $9.56.

The Directors are unable to predict the price at which iiNet Shares will trade in the future, but consider that, in the absence of the implementation of the Scheme and in the absence of a Superior Proposal, or speculation regarding an alternative proposal, the price of iiNet Shares may fall below the current market price. In addition, the future trading price of iiNet Shares will continue to be subject to market volatility and you will be exposed to the risks associated with your investment in iiNet Shares, compared to the certain value of the Total Consideration of at least $9.55[30] available under the Scheme. These risks are further described in Section 9.

12

No Superior Proposal has emerged as at the date of this Scheme Booklet.

The Scheme Implementation Agreement allows the Directors to consider a Competing Proposal as explained in Section 11.2(b). Since the Announcement Date, there has been a significant period of time and ample opportunity for a Superior Proposal to emerge.

As at the date of this Scheme Booklet, no Competing Proposal has been received by iiNet since the date of announcement of TPG's Improved Offer on 6 May 2015, and the Directors are not aware of any Competing Proposal that is likely to be made.

13

You will not incur any stamp duty or brokerage charges if the Scheme proceeds

No brokerage or stamp duty is payable on the transfer of your Scheme Shares under the Scheme.

However, for Ineligible Foreign iiNet Shareholders who made a Share Election, applicable brokerage, stamp duty and other selling costs, taxes and charges will be deducted from the proceeds of sale by the nominee of the New TPG Shares that would otherwise have been issued to those Ineligible Foreign iiNet Shareholders.

If you sell your iiNet Shares on the ASX (rather than disposing of them via the Scheme), you may incur brokerage charges (and, potentially, GST on those charges).

1.2 Reasons to vote against the Scheme

1

You may hold a different view to the Directors and the Independent Expert and believe that the Scheme is not in your best interests.

You may disagree with the unanimous recommendation of the Directors, who have recommended that iiNet Shareholders vote in favour of the Scheme, in the absence of a Superior Proposal and subject to the Independent Expert maintaining its conclusion that the Scheme is in the best interests of iiNet Shareholders.

Similarly, you may disagree with the conclusion of the Independent Expert, who has determined that the Scheme is fair and reasonable and in the best interests of iiNet Shareholders, in the absence of a Superior Proposal.

29 Based on iiNet's retained earnings at 31 December 2014 of $106 million.

30 See footnote 17.

2

You may believe that there is potential for a Superior Proposal to the Scheme to be made in the foreseeable future.

Since the date of announcement of the Improved TPG Proposal on 6 May 2015, there has been a significant period of time and opportunity for a Superior Proposal to emerge. However, as at the date of this Scheme Booklet, no Competing Proposal has been received by iiNet since the date of announcement of TPG's Improved Offer on 6 May 2015, and the Directors are not aware of any further Competing Proposal that is likely to be made.

3

You may wish to maintain an interest in a publicly listed investment with iiNet's specific characteristics.

You may wish to keep your iiNet Shares as you may want to preserve your investment in a publicly listed company with the specific characteristics of iiNet. Implementation of the Scheme may represent a disadvantage if you do not want to change your investment profile. You should seek investment, legal or other professional advice in relation to your own circumstances.

4

The tax consequences of the Scheme may not suit your current financial position.

If the Scheme is approved and implemented, it will potentially result in taxation consequences for you, which may not be optimal depending on your individual circumstances.

A general guide to the taxation implications of the Scheme is set out in Section 10. This guide is expressed in general terms only and you should seek professional advice relating to your personal circumstances.

5

The Scheme may be subject to Conditions that you consider unacceptable.

In addition to ACCC clearance, iiNet Shareholder approval and Court approval, the Scheme is subject to other Conditions. The Conditions (and their status as at the date of this Scheme Booklet) are summarised in Section 11.2(a) and set out in full in clause 3.1 of the Scheme Implementation Agreement (Annexure C). You may consider that those Conditions are unacceptable.

1.3 Other relevant considerations

1

If a Share Election is made, the value of the Share Consideration may fluctuate before New TPG Shares are issued as consideration under the Scheme.

Scheme Shareholders who hold Scheme Shares at the Election Date, are being offered the choice of either Cash Consideration or Share Consideration under the Scheme.

The Share Consideration consists of a specified number of New TPG Shares, being 0.969 New TPG Shares for each Scheme Share, subject to the TPG Share Cap, calculated as at the Election Date.

As the Share Ratio is fixed, the value of the Total Consideration may fluctuate before New TPG Shares are issued as consideration under the Scheme on the Implementation Date. Importantly, if the market price of TPG Shares falls, the implied value of the Total Consideration under a Share Election may fall below the valuation range of the Independent Expert of $8.90 to $9.75 per iiNet Share.

Set out below is an illustration of the implied value of the Total Consideration per Scheme Share if a Share Election is made by a Scheme Shareholder at the Election Date, based on potential movements in the market price of TPG Shares on ASX and assuming no scale-back. This implied value does not include the value of any franking credit benefits associated with the Discretionary Special Dividend, if declared and if accessible by the individual iiNet Shareholder.

TPG Share Price	$8.00	$8.50	$9.00	$9.50	$10.00
Implied value of the Share Consideration, i.e. 0.969 TPG Shares	$7.75	$8.24	$8.72	$9.21	$9.69
Discretionary Special Dividend (or Top-Up Cash Consideration)	$0.75	$0.75	$0.75	$0.75	$0.75
Implied Total Consideration under a Share Election	**$8.50**	**$8.99**	**$9.47**	**$9.96**	**$10.44**

In comparison, Scheme Shareholders who make or are deemed to have made a Cash Election or acquire Scheme Shares after the Election Date, will be paid a fixed cash amount that will not be subject to change.

Given this, in deciding whether to vote in favour of the Scheme, and whether to make a Cash Election or a Share Election, iiNet Shareholders should carefully consider the current market price of TPG Shares and the potential for that price to fall or rise before the New TPG Shares are issued under the Scheme. Further, Ineligible Foreign Shareholders should carefully consider these matters in light of the fact that, if they made a Share Election, they will not receive any New TPG Shares under the Scheme, and will instead receive the net proceeds of sale of the New TPG Shares that they would otherwise have been issued.

iiNet Shareholders should also consider the important information regarding TPG Shares in Section 7, and the risks associated with owning TPG Shares, as set out in Section 9.

2

On 11 June, 2015 the ACCC released a Statement of Issues **(SOI)** in relation to TPG's proposed acquisition of iiNet[31]. The SOI identifies lines of inquiry through which the ACCC will seek further information, prior to announcing its final view.

In that SOI, the ACCC has raised concerns about the potential impact of the transaction on the market for the supply of retail fixed broadband services and will further consider:

- the extent of constraints that exist in that market and whether the merged entity would have an incentive to increase prices and/or reduce service levels in light of these constraints;
- the potential impact on the incentives other competitors have to compete with the merged entity; and
- the concentration of competition in the market for supply of retail fixed broadband services and the closeness of competition between TPG and iiNet.

The ACCC also expressed the view in the SOI that the transaction is unlikely to raise concerns in the markets for the supply of wholesale transmission services, fixed voice, mobile voice, mobile broadband or subscription television services.

The ACCC has sought public submissions on the SOI by 2 July 2015 and has given a proposed date for their final decision on 20 August 2015. TPG and iiNet will work with the ACCC during this next phase to address any concerns the ACCC may have. The fact that the ACCC has issued the SOI does not necessarily mean that it will oppose TPG's proposed acquisition of iiNet.

The Scheme will not proceed unless ACCC notifies TPG before the End Date, that it does not intend to take any further action with respect to the Scheme and will not oppose the Scheme proceeding; or ACCC's decision is subsequently set aside by the Court or any other competent Australian court as contemplated by clause 3.8(c) of the Scheme Implementation Agreement.

3

The Second Court Date to approve the Scheme will not occur until as soon as practicable after the ACCC's final decision has been announced and is currently expected to occur on 21 August 2015. As a result, the Effective Date for the Scheme is not expected to occur until 24 August 2015 and the Implementation Date is not expected to occur until 7 September 2015. Scheme Shareholders who make a Share Election will not be issued with New TPG Shares until the Implementation Date. Scheme Shareholders who make a Share Election should consider the important information regarding TPG Shares in Section 7, and the risks associated with owning TPG Shares, as set out in Section 9 and the impact that the extended time period between the Election Date and the Implementation Date (to allow for the ACCC's decision to be received) may have on these risks.

31 Further details on the requirement to obtain ACCC approval to the Scheme and the Statement of Issues are set out in Section 11.2(a)(i).

4

After careful consideration in conjunction with their advisers, the Directors determined that the Improved TPG Proposal, which is the subject of the Scheme, is more favourable to iiNet and iiNet Shareholders than the now withdrawn M2 Proposal.

A comprehensive process has been undertaken by the Directors to maximise value for iiNet Shareholders, which has culminated in three proposals for the company by two different suitors.

After careful consideration, the Directors determined that the Improved TPG Proposal, which is the subject of the Scheme, is more favourable to iiNet and iiNet Shareholders than the now withdrawn M2 Proposal, for a number of reasons. These reasons are set out in Section 4.7.

Since the Improved TPG Proposal was announced, M2 has withdrawn the M2 Proposal and no Superior Proposal has emerged. Thus, it is important to understand that iiNet Shareholders are not being asked to select between the Improved TPG Proposal and the M2 Proposal, as the latter is not available to iiNet Shareholders even if the Scheme does not proceed.

The Scheme is the only liquidity opportunity available for iiNet Shareholders to sell all their iiNet Shares for a certain value, and there is no certainty that a similar liquidity event will materialise in the future.

5

The Scheme is an "all-or-nothing" proposal.

If the Scheme is approved by the Requisite Majority and the Court and all of the other Conditions to the Scheme are either satisfied or (where applicable) waived:

(a) the Scheme will bind all iiNet Shareholders, including those who do not vote on the Scheme Resolution and those who vote against it, meaning that all Scheme Shareholders will have their Scheme Shares transferred to TPG and will receive the Scheme Consideration;

(b) iiNet will become a wholly-owned Subsidiary of TPG;

(c) and iiNet will be delisted from the ASX.

If any of the Conditions to the Scheme are not satisfied or (where applicable) waived by the End Date, and TPG and iiNet are unable to agree on an alternative means of proceeding, the Scheme Implementation Agreement may be terminated and the Scheme will not be implemented.

6

TPG was released from the original standstill provisions when M2 announced the M2 Proposal.

The Scheme Implementation Agreement, when originally executed, included a provision which prevented TPG from acquiring iiNet Shares during the duration of the Scheme, other than in certain restricted circumstances. However, that provision ceased to apply when M2 announced the M2 Proposal, meaning that TPG is free to acquire additional iiNet Shares.

Accordingly, should the Scheme not proceed, TPG may decide to take advantage of any resulting fall in the iiNet Share price by acquiring additional iiNet Shares, and TPG would be able to increase its holding to 19.99% of iiNet without the approval of other iiNet Shareholders. This may make iiNet a less attractive takeover target to other parties which may have an adverse effect on the price of iiNet Shares.

7

A Break Fee may be payable by iiNet to TPG under certain circumstances, but not if the Scheme Resolution is not passed.

iiNet has agreed to pay TPG the Break Fee of $16 million in certain circumstances, which include a Director changing, withdrawing or modifying his/her recommendation, subject to the Independent Expert maintaining its conclusion that the Scheme is in the best interests of iiNet Shareholders, a person other than TPG obtaining Control of iiNet as a result of a Competing Proposal or TPG terminating the Scheme Implementation Agreement where iiNet is in material breach of its obligations. Please refer to Section 11.2(c) for a fuller summary of this obligation.

However, should the Scheme Resolution not be passed by the Requisite Majority of iiNet Shareholders (other than in circumstances where an iiNet Director has changed, withdrawn or modified his/her recommendation) the Break Fee is not payable.

8

Warranty by Scheme Shareholders about their Scheme Shares.

If the Scheme proceeds, each Scheme Shareholder is deemed to have warranted to iiNet that all their Scheme Shares (including any rights and entitlements attaching to those shares) will, at the date of the transfer to TPG, be fully paid and free from all encumbrances and interests of third parties of any kind, whether legal or otherwise, and restrictions on transfer of any kind.

2

Frequently Asked Questions

2. Frequently Asked Questions

Question	Answer	Further information
The Scheme at a glance		
What is the Scheme?	**The Scheme involves TPG acquiring the iiNet Shares the TPG Group does not already own by way of scheme of arrangement. Under the Scheme, Scheme Shareholders will receive Total Consideration of at least $9.55[32] per Scheme Share, comprising:** • The **Scheme Consideration** as either: **Cash Consideration:** $8.80 in cash per Scheme Share; or **Share Consideration:** 0.969 New TPG Shares per Scheme Share, subject to the TPG Share Cap; and • **Discretionary Special Dividend:** $0.75 per iiNet Share in cash, in the form of a dividend paid by iiNet which will be franked to the maximum extent possible, subject to receipt of the ATO Tax Ruling and to the Scheme becoming Effective. The final amount of the Discretionary Special Dividend (if declared) is still to be determined. However, TPG will pay the Top-Up Cash Consideration to Scheme Shareholders to the extent that the Discretionary Special Dividend declared by iiNet is less than $0.75 per iiNet Share. If the Scheme is approved and implemented, all Scheme Shares that the TPG Group does not already own will be transferred to TPG. Section 4 contains a summary of the Scheme (including the conditions to which the Scheme is subject) and its effect.	Section 4 and Annexure C
What is a "scheme of arrangement"?	A scheme of arrangement is a means of implementing an acquisition of shares under the Corporations Act. It requires a vote in favour of the Scheme Resolution by certain majorities of shareholders at a meeting of shareholders convened by the Court, followed by Court approval. A detailed description of the Scheme is set out in Section 4.	Section 4
Who is TPG?	**TPG is a provider of telecommunication services in Australia and is listed on the ASX.**	Section 6
What do the Directors recommend?	The Directors unanimously recommend that you vote in favour of the Scheme, in the absence of a Superior Proposal and subject to the Independent Expert maintaining its conclusion that the Scheme is in the best interests of iiNet Shareholders. Each iiNet Director intends to vote the iiNet Shares they hold or control in favour of the Scheme, in the absence of a Superior Proposal and subject to the Independent Expert maintaining its conclusion that the Scheme is in the best interests of iiNet Shareholders. The reasons for their recommendation and other matters that you may wish to consider are described in Section 1.	Section 1
What is the Independent Expert's conclusion?	The Independent Expert has concluded that the Scheme is fair and reasonable and in the best interests of iiNet Shareholders, in the absence of a Superior Proposal.	Annexure A

32 The Total Consideration is at least $9.55 per iiNet Share for those iiNet Shareholders who make or are deemed to make a Cash Election. The value of the Share Consideration will fluctuate with changes in the price of TPG Shares, meaning that the Total Consideration for those iiNet Shareholders who make a Share Election may be more or less than $9.55 per iiNet Share.

Question	Answer	Further information
Why you should vote in favour of the Scheme	**Some of the key reasons why you should vote in favour of the Scheme include:** • The Directors unanimously recommend that you vote in favour of the Scheme, in the absence of a Superior Proposal, and subject to the Independent Expert maintaining its conclusion that the Scheme is in the best interests of iiNet Shareholders; • The Independent Expert has concluded the Scheme is fair and reasonable and in the best interests of iiNet Shareholders, in the absence of a Superior Proposal; • The Scheme provides consideration flexibility for Scheme Shareholders in being able to choose between receiving the Scheme Consideration in cash or New TPG Shares, with the latter subject to the TPG Share Cap. The Discretionary Special Dividend (or Top-Up Cash Consideration) will be payable in cash. • The Scheme gives Scheme Shareholders who hold Scheme Shares at the Election Date, the opportunity to make a Share Election, to become shareholders in TPG and to participate in an unparalleled combination of two of Australia's iconic ISP challenger brands, which have been the clear outperformers of the Australian telecommunications sector over the last five years. Such Scheme Shareholders would retain exposure to the benefits of such a combination, as well as potential to access CGT rollover relief; • For those Scheme Shareholders who would prefer to receive their full consideration in cash, the Scheme provides the opportunity for such Scheme Shareholders to realise certain value for their iiNet Shares; • The Directors believe the Scheme is compelling relative to the changing dynamics of the Australian telecommunications industry, the risks associated with the execution of iiNet's current strategic initiatives, and in light of previous engagements with potential strategic and financial acquirers of iiNet; • The Total Consideration of at least $9.55[33] per Scheme Share is higher than iiNet Shares had ever traded on the ASX prior to the announcement of the Original TPG Proposal on 13 March 2015; • The Total Consideration of at least $9.55[34] per Scheme Share represents a significant premium over trading prices of iiNet Shares on the ASX and average broker price targets for iiNet prior to the announcement of the Original TPG Proposal on 13 March 2015; • The Total Consideration of at least $9.55[35] per Scheme Share represents a CY14 EV/EBITDA multiple of 10.0x, which is a significant premium to multiples paid in recent comparable change of control transactions for consumer fixed line telecommunications businesses. The Total Consideration of at least $9.55[36] per Scheme Share also represents a CY14 PE multiple of 23.8x;	Section 1.1

33 See footnote 32.
34 See footnote 32.
35 See footnote 32.
36 See footnote 32.

Question	Answer	Further information
	• The Discretionary Special Dividend (if declared) gives an additional benefit to those Australian tax resident Scheme Shareholders whose personal taxation circumstances allow them to capture some benefit from the franking credits related to that dividend[37]; • If the Scheme does not proceed and no Superior Proposal emerges, the price of Shares in iiNet may fall below prevailing prices, and you will continue to be subject to the risks associated with owning iiNet Shares; • No Superior Proposal has emerged as at the date of this Scheme Booklet. The Scheme represents an unprecedented liquidity event for iiNet Shareholders to sell all their iiNet Shares, and there is no certainty that a similar liquidity event will materialise in the future; and • You will not incur any stamp duty or brokerage charges if the Scheme proceeds. However, for Ineligible Foreign iiNet Shareholders who made a Share Election, applicable brokerage, stamp duty and other selling costs will be deducted from the proceeds of sale by the nominee. See Section 4.2(e).	
What is the premium to trading prices of my iiNet Shares?	**The Total Consideration of at least $9.55[38] per Scheme Share represents a significant premium of[39]:** • 40.2% over the closing price of iiNet Shares on the ASX on 12 March 2015[40] of $6.81; • 46.4% over the five day VWAP of iiNet Shares on the ASX up to and including 12 March 2015[40] of $6.52; • 49.9% over the VWAP of iiNet Shares on the ASX for the period 19 February 2015[41] up to and including 12 March 2015 of $6.37; and • 45.1% over the 30 day VWAP of iiNet Shares on the ASX up to and including 12 March 2015[40] of $6.58.	Sections 4.5 and 4.2
Why you may consider voting against the Scheme	**Some of the possible reasons why you may consider voting against the Scheme include:** • You may disagree with the Directors' unanimous recommendation or the Independent Expert's conclusion and believe that the Scheme is not in your best interests; • You may believe that there is potential for a Superior Proposal to be made in the foreseeable future; • You may wish to maintain an interest in a publicly listed investment with iiNet's specific characteristics; • The tax consequences of the Scheme may not suit your current financial position; and • The Scheme may be subject to Conditions that you consider unacceptable.	Section 1.2

37 The value of franking credits is not the same for all iiNet Shareholders. The use of franking credits and the exact post-tax value realised by you will depend on your individual tax circumstances. Please refer to Section 10 for further details and consult your professional taxation adviser in respect of your individual tax situation.

38 See footnote 32.

39 iiNet Share prices prior to 12 March 2015 have been adjusted for the 2015 Interim Dividend of $0.105 per iiNet Share, which was declared by iiNet on 18 February 2015 and paid on 30 March 2015.

40 12 March 2015 being the last trading day prior to the announcement of the Original TPG Proposal on 13 March 2015.

41 19 February 2015 being the day iiNet announced its results for the six months ended 31 December 2014.

Question	Answer	Further information
WHAT YOU WILL RECEIVE UNDER THE SCHEME		

What will I receive if the Scheme is implemented?	**If the Scheme is implemented, for each Scheme Share, Scheme Shareholders will be entitled to receive:**
	• The **Scheme Consideration** as either:
	  • **Cash Consideration:** $8.80 in cash per Scheme Share; or
	  • **Share Consideration:** 0.969 New TPG Shares per Scheme Share, subject to the TPG Share Cap;
	plus
	• **Discretionary Special Dividend:** $0.75 per iiNet Share in cash, in the form of a dividend paid by iiNet which will be franked to the maximum extent possible, subject to receipt of the ATO Tax Ruling and to the Scheme becoming Effective. The ATO Tax Ruling that has been requested from the ATO is expected to confirm that the Discretionary Special Dividend can be franked, and that iiNet Shareholders who receive the franked Discretionary Special Dividend, and who have satisfied the '45 day at risk' holding period (explained at Section 10.3(b)) will be entitled to the franking credit attached to this dividend.
	The final amount of the Discretionary Special Dividend (if declared) is still to be determined. However, TPG will pay the Top-Up Cash Consideration to Scheme Shareholders to the extent that the Discretionary Special Dividend declared by iiNet is less than $0.75 per iiNet Share.
	A key feature of the Scheme is the ability for Scheme Shareholders who hold Scheme Shares at the Election Date, to elect to receive their Scheme Consideration in cash by making a Cash Election or in New TPG Shares by making a Share Election (other than the Discretionary Special Dividend or Top-Up Cash Consideration, which are only payable in cash).
	Refer to the FAQ section titled *"Making an Election to receive the Cash Consideration or the Share Consideration"* for further information.
		Sections 4.2 and 4.4

What will I receive if all Scheme Shareholders make a Share Election?	The Share Consideration is subject to an aggregate cap of 27,523,946 New TPG Shares being issued.
	If the TPG Share Cap is exceeded, there will be a proportional scale-back of the number of New TPG Shares issued per Scheme Share, and Scheme Shareholders who made a Share Election will receive the balance of their Scheme Consideration in cash.
	As an illustration, if Scheme Shareholders representing 154,381,086 Scheme Shares (representing all iiNet Shares apart from TPG's interest in iiNet) make a valid Share Election, (and presuming that those Scheme Shareholders held those Scheme Shares on the Election Date) each Scheme Shareholder would receive:
	• **Scheme Consideration of:**
	  • **Cash Consideration:** $7.18 in cash per Scheme share;
	  • **Share Consideration:** 0.178 New TPG Shares per Scheme Share; and
		Section 4.2

Question	Answer	Further information
	• $0.75 per iiNet Share in cash, as a Discretionary Special Dividend, if declared (or the Top-Up Cash Consideration). If the TPG Share Cap is exceeded, there will be a proportional scale-back of the number of New TPG Shares issued per Scheme Share, and Scheme Shareholders who made a Share Election will receive the balance of their Scheme Consideration in cash. See Section 4.3 for further details on the formula to determine the number of New TPG Shares issued per Scheme Share if the TPG Share Cap is exceeded.	
How will fractional entitlements be treated?	Fractional entitlements to New TPG Shares will be rounded up to the nearest whole share, and if a proportional scale-back applies, the balance in cash will be rounded to the nearest whole cent.	Section 4.2(c)
What is the Discretionary Special Dividend?	Subject to receipt of the ATO Tax Ruling, and the Scheme becoming Effective, iiNet will declare a Discretionary Special Dividend of up to $0.75 per iiNet Share to be paid in cash, to the extent permitted by iiNet's retained earnings at the time of declaration. If the Discretionary Special Dividend is less than $0.75 per iiNet Share, TPG will pay the Top-Up Cash Consideration equal to $0.75 per Scheme Share, less the cash amount of the dividend paid, if any.	Section 4.4
How much will the Discretionary Special Dividend be (if declared)?	The amount of the Discretionary Special Dividend is still to be determined. The Discretionary Special Dividend will be paid to the maximum extent possible using available retained earnings of iiNet at the time of declaration. Given this, the amount of the Discretionary Special Dividend will depend on the amount of iiNet's retained earnings at the time of declaration. Based on iiNet's retained earnings at 31 December 2014 of $106 million, the Discretionary Special Dividend would be equivalent to $0.644 per iiNet Share, on the basis that iiNet Shares have been issued in respect to the iiNet Performance Rights referred to in Section 5.8(a). Further, an Australian tax resident Scheme Shareholder whose personal taxation circumstances allow them to capture some benefit from the franking credits attached to the Discretionary Special Dividend (if declared) will receive an additional benefit up to the value of those franking credits in that Scheme Shareholder's hands[42]. For illustrative purposes, the franking credits attached to a dividend of $0.644 per iiNet Share would be equivalent to $0.276 per iiNet Share. Where the Discretionary Special Dividend is less than $0.75 per Scheme Share, TPG will pay the balance in cash as the Top-Up Cash Consideration.	Sections 4.4 and 10

42 The value of franking credits is not the same for all iiNet Shareholders. The use of franking credits and the exact post-tax value realised by you will depend on your individual tax circumstances. Please refer to Section 11 for further details and consult your professional taxation adviser in respect of your individual tax situation.

Question	Answer	Further information
Am I entitled to receive the Scheme Consideration and the Discretionary Special Dividend if and when it is declared?	**If you hold iiNet Shares:** • on the Dividend Record Date, you will be entitled to receive the Discretionary Special Dividend, if declared; and • on the Record Date, you will be entitled to receive the Scheme Consideration. Ineligible Foreign iiNet Shareholders who made a Share Election will be remitted the net cash proceeds of the sale of the New TPG Shares to which they are entitled in accordance with the process explained in Section 4.2(e).	Sections 4.2 and 4.4
When will I receive the Scheme Consideration and the Discretionary Special Dividend if and when it is declared?	**If the Scheme becomes Effective:** • Scheme Shareholders who make or are deemed to have made a Cash Election will be paid the Cash Consideration and the Discretionary Special Dividend, if declared, (or any Top-Up Cash Consideration) on the Implementation Date; and • Scheme Shareholders (other than Ineligible Foreign iiNet Shareholders) who made a Share Election will be issued the New TPG Shares to which they are entitled (and any cash payment if a proportional scale-back applies) and will be paid the Discretionary Special Dividend, if declared, (or any Top-Up Cash Consideration) on the Implementation Date. The Implementation Date is currently expected to be Monday, 7 September 2015. Ineligible Foreign iiNet Shareholders who made a Share Election will be remitted the net cash proceeds of the sale of the New TPG Shares to which they would otherwise have been entitled in accordance with the process explained in Section 4.2(e).	Sections 4.2 and 4.4
If I receive Share Consideration, when will my New TPG Shares start trading on the ASX?	TPG will seek confirmation from the ASX that, from the first trading day after the Effective Date (or such later date as the ASX requires), trading in the New TPG Shares will commence on the ASX, initially on a deferred settlement basis. Subject to confirmation from ASX, the New TPG Shares issued as Share Consideration will trade on a normal settlement basis with effect from the first trading day after the Implementation Date (or such later date as the ASX requires). Scheme Shareholders who sell New TPG Shares before they receive their holding statements or confirm their holdings of New TPG Shares do so at their own risk. Neither iiNet nor TPG takes any responsibility for such trading.	Section 4.18
Will I have to pay brokerage or stamp duty?	No, you will not have to pay brokerage or stamp duty on the transfer of Scheme Shares under the Scheme. However, if you are an Ineligible Foreign iiNet Shareholder and you made a Share Election, applicable brokerage, stamp duty and other selling costs, taxes and charges will be deducted from the proceeds of sale by the nominee of the New TPG Shares that would otherwise have been issued to you. Refer to Section 4.2(e) for further information.	Section 4.2

Question	Answer	Further information
What are the tax implications of the Scheme?	The taxation consequences of the Scheme for iiNet Shareholders will depend on whether you receive the Cash Consideration or the Share Consideration and if the Discretionary Special Dividend is declared, and will be subject to your personal facts and circumstances. Section 10 provides a general outline of the Australian taxation consequences for certain Scheme Shareholders on the disposal of their iiNet Shares to TPG under the Scheme. You should consult with your own tax adviser regarding the consequences of disposing of your iiNet Shares to TPG in accordance with the Scheme in light of current tax laws and your particular investment circumstance.	Section 10 contains a summary of the main Australian taxation implications for Scheme Shareholders.
MAKING AN ELECTION TO RECEIVE THE CASH CONSIDERATION OR THE SHARE CONSIDERATION		
How do iiNet Shareholders make a valid Scheme Consideration Election?	You can elect the form of Scheme Consideration that you would prefer to receive by completing the enclosed Election Form and returning it to one of the addresses stated in Section 3.2 in accordance with the instructions on the Election Form so that it is received by the Registrar prior to 5.00pm (WST) on the Election Date, being Tuesday, 21 July 2015. Note that the Election Date is before the date of the Scheme Meeting, so if you want to make an Election, you will need to do so before you vote at the Scheme Meeting. Alternatively, you make an Election electronically at any time prior to 5.00pm (WST) on the Election Date, by visiting the iiNet Scheme website at www.iinetscheme.net.au and following the relevant instructions.	Section 3.2
What happens if I do not make the Election in time or if the Election is invalid?	If an Election is not received by the Registrar prior to 5.00pm (WST) on the Election Date, you will be deemed to have made a Cash Election to receive your Scheme Consideration as Cash Consideration. If any iiNet Shares are acquired after the Election Date, the holder of those iiNet Shares will not be able to make a Share Election or a Cash Election and will be deemed to have made a Cash Election. If you make an invalid Election, you will be deemed to have elected to receive your Scheme Consideration as Cash Consideration.	Section 3.2
Can I elect to receive part Cash Consideration and part Share Consideration?	**No. An iiNet Scheme Shareholder who holds iiNet Shares on or prior to the Election Date may only elect one of the following Scheme Consideration alternatives:** • **Cash Consideration:** $8.80 in cash per Scheme Share; or • **Share Consideration:** 0.969 New TPG Shares per Scheme Share, subject to the TPG Share Cap. The Discretionary Special Dividend of $0.75 per iiNet Share, if declared (or the Top-Up Cash Consideration) is only payable in cash. The Share Consideration is subject to an aggregate cap of 27,523,946 New TPG Shares being issued. If the TPG Share Cap is exceeded, there will be a proportional scale-back of the number of New TPG Shares issued per Scheme Share, and Scheme Shareholders who made a Share Election will receive the balance of their Scheme Consideration in cash.	Section 4.2

Question	Answer	Further information
	iiNet will announce to ASX on 22 July 2015 whether the TPG Share Cap has been exceeded and the proportional scale back (if any) that will apply to those Scheme Shareholders who made a Share Election and who hold their Scheme Shares continuously from the Election Date until the Record Date.	
Should I make an Election even if I intend not to vote or to vote against the Scheme?	If you intend not to vote, or to vote against the Scheme, you should nevertheless consider making an Election. If you do not make an Election and the Scheme becomes Effective, you will be taken to have elected to receive 100% of your Scheme Consideration as Cash Consideration regardless of whether you voted for or against the Scheme, or did not vote at all. Note that the Election Date is before the date of the Scheme Meeting, so if you want to make an Election, you will need to do so before you vote at the Scheme Meeting.	Section 3.2
Can iiNet Shareholders change their Election?	You can change your Election by logging on to the iiNet Scheme website at www.iinetscheme.net.au and following the relevant instructions by 5.00pm (WST) on Tuesday, 21 July 2015. If you are unable to use the iiNet Scheme website, you can request a replacement Election Form. Replacement Election Forms can be obtained by contacting Link Market Services Limited on +61 1300 812 892 between 8:30am and 5:00pm (Australian Eastern Standard Time) Monday to Friday. The last valid Election Form received by the iiNet Registry or completed online by the Election Date will be used for the purposes of determining your Election.	Section 3.2
Can I make an Election if I acquire iiNet Shares after the Election Date?	No. If you acquire iiNet Shares after the Election Date, you will be deemed to have made a Cash Election and will receive the Cash Consideration.	Section 3.2
What happens if I acquire iiNet Shares after the Election Date in respect of which an Election has been made?	Elections made in respect of iiNet Shares that are transferred after the Election Date are not transferrable. This means that you will be deemed to have made a Cash Election in respect of any iiNet Shares that you acquire after the Election Date and will receive the Cash Consideration for those iiNet Shares.	Section 3.2
What happens if I sell some but not all of my iiNet Shares after I make an Election?	If you make an Election and after the Election Date sell some but not all of your iiNet Shares, your Election will remain valid in respect of those iiNet Shares that you still hold on the Record Date.	Section 3.2
What happens if I make an Election and then acquire more iiNet Shares after the Election Date?	Your Election will remain valid in respect of those iiNet Shares that you held on the Election Date and continue to hold on the Record Date. You will be deemed to have made a Cash Election in respect of any additional iiNet Shares that you acquire after the Election Date and will receive the Cash Consideration for those additional iiNet Shares.	Section 3.2

Question	Answer	Further information
What will happen if the total value of New TPG Shares to be issued to you would not be a Marketable Parcel?	If you make a Share Election and the total value of New TPG Shares to be issued to you (calculated at the Election Date) would not be a Marketable Parcel then you will be deemed to have made a Cash Election, and your Share Election will not be taken into account for the purposes of calculating whether the TPG Share Cap has been exceeded.	Section 3.2
How will overseas iiNet Shareholders be treated under the Scheme?	All Scheme Shareholders, regardless of citizenship or place of residence, will be entitled to make an Election. If a Scheme Shareholder's address as shown in the iiNet Register (as at the Record Date) is in a jurisdiction other than Australia and its external territories or New Zealand, they will be an Ineligible Foreign iiNet Shareholder for the purposes of the Scheme and will not be able to receive New TPG Shares under the Scheme (unless TPG is satisfied that it is permitted to allot and issue New TPG Shares to that iiNet Shareholder pursuant to the Scheme by the laws of that place). Ineligible Foreign iiNet Shareholders who made a Share Election will not be issued New TPG Shares under the Scheme. Instead, the New TPG Shares that would otherwise have been issued to Ineligible Foreign iiNet Shareholders who made a Share Election will be issued to a nominee appointed by TPG who will sell those New TPG Shares and account to TPG the net proceeds from that sale (after deducting any applicable brokerage, stamp duty and other selling costs, taxes and charges). TPG will then remit the portion of proceeds it receives from the nominee to each Ineligible Foreign iiNet Shareholder in accordance with their entitlement.	Section 4.2(e)
I am a foreign iiNet Shareholder. Does that make me an Ineligible Foreign Shareholder?	An Ineligible Foreign iiNet Shareholder is a Scheme Shareholder whose address as shown in the Register on the Record Date is a place outside Australia and its external territories or New Zealand (unless TPG is satisfied that it is permitted to allot and issue New TPG Shares to that iiNet Shareholder pursuant to the Scheme by the laws of that place).	Section 4.2(e)
How will I know the results of Elections made?	iiNet will announce a summary of the Elections made on Wednesday, 22 July 2015 through the ASX and on the Scheme website at www.iinetscheme.net.au. That announcement will state whether or not the TPG Share Cap has been exceeded based on Elections made as at the Election Date.	Section 4.3

THE SCHEME MEETING AND VOTING AT THE SCHEME MEETING

Who can vote?	If you are an iiNet Shareholder at 5.00pm (WST) on Tuesday, 21 July 2015 you will be entitled to vote on the Scheme Resolution to be proposed at the Scheme Meeting.	Section 3.3(d)
When and where will the Scheme Meeting be held?	The Scheme Meeting to approve the Scheme is scheduled to be held at the Pan Pacific Perth, 207 Adelaide Terrace, Perth, Western Australia on Monday, 27 July 2015 commencing at 10.00am (WST).	Section 3.3(a) and Annexure F

Question	Answer	Further information
How do I vote?	**You may vote in person by attending the Scheme Meeting. Alternatively, if you would like to vote at the Scheme Meeting but cannot attend in person, you can vote:** • **by proxy**, by completing and returning to the Registrar the enclosed Proxy Form for the Scheme Meeting. The Proxy Form must be received by the Registrar by no later than 10.00am (WST) on Saturday, 25 July 2015 or if you are a member of the iiNet Employee Deferred Tax Scheme by no later than 10.00am (WST) on Friday, 24 July 2015; • **by attorney**, by providing the Registrar the original (or certified copy) of the instrument appointing an attorney by no later than 10.00am (WST) on Saturday, 25 July 2015; or • **by corporate representative** (in the case of a body corporate), by providing the Registrar a copy of the certificate of appointment of the representative by no later than 10.00am (WST) on Saturday, 25 July 2015 or by providing a copy of the certificate of appointment of the representative to the Registrar at the Scheme Meeting. Alternatively, you can vote online at www.iinetscheme.net.au by following the relevant instructions.	Section 3.4
What vote is required to approve the Scheme?	**The Scheme Resolution needs to be approved by the Requisite Majority of iiNet Shareholders, which is:** • a majority in number (more than 50%) of iiNet Shareholders present and voting at the Scheme Meeting (in person or by proxy, corporate representative or attorney); and • at least 75% of the total number of votes cast on the Scheme Resolution at the Scheme Meeting. The Court has the discretion to waive the first of these two requirements if the Court considers it appropriate to do so.	Section 3.3(b)
Should I vote?	Voting is not compulsory. However, the Directors believe that the Scheme is important for all iiNet Shareholders and the Directors unanimously recommend that you vote in favour of the Scheme, in the absence of a Superior Proposal and subject to the Independent Expert maintaining its conclusion that the Scheme is in the best interests of iiNet Shareholders.	Section 3.4(d)
Why should I vote?	Your vote is important if you want to receive the Scheme Consideration and the Discretionary Special Dividend, if declared (or any Top-Up Cash Consideration). The Scheme Resolution needs to be passed by the Requisite Majority of iiNet Shareholders to be approved. The Directors have determined that the Scheme is in the best interests of iiNet Shareholders and unanimously recommend that you vote in favour of the Scheme, in the absence of a Superior Proposal and subject to the Independent Expert maintaining its conclusion that the Scheme is in the best interests of iiNet Shareholders.	Section 3

Question	Answer	Further information
What happens if I do not vote or vote against the Scheme?	If the Scheme is approved by the Requisite Majority of iiNet Shareholders and by the Court, and implemented, all Scheme Shares that you hold on the Record Date will be transferred to TPG and you will receive the Scheme Consideration and the Discretionary Special Dividend, if declared. This will occur even if you did not vote, or voted against the Scheme, at the Scheme Meeting. If the Scheme does not proceed, iiNet Shareholders will retain their iiNet Shares. iiNet will continue to operate as a stand-alone entity listed on the ASX and iiNet Shareholders will not receive the Scheme Consideration or Discretionary Special Dividend. iiNet will continue to focus on its business plan and implementation of strategy and any payment of dividends in the future will be considered in accordance with iiNet's dividend policy.	Section 3.1(c)
What are my options?	**You may:** • vote on the Scheme Resolution at the Scheme Meeting (or appoint a proxy, attorney or, if applicable, a corporate representative to vote on your behalf); • sell your iiNet Shares on market at any time before the close of trading on the ASX on the Effective Date. If you do so you may incur brokerage costs; or • do nothing.	Section 3.1
When will the result of the Scheme Meeting be known?	The result will be announced to the ASX shortly after the conclusion of the Scheme Meeting, and will be accessible from the ASX's website at www.asx.com.au and on the Scheme website at www.iinetscheme.net.au. If the Scheme Resolution is approved at the Scheme Meeting by the Requisite Majority, the Scheme will not become Effective unless it is approved by the Court at the Second Court Hearing.	

IMPLEMENTATION OF THE SCHEME

What will happen to iiNet if the Scheme becomes Effective?	If the Scheme becomes Effective, iiNet will be delisted from the ASX and will become a wholly-owned Subsidiary of the TPG Group.	Sections 4.17 and 4.20
Are there Conditions that need to be satisfied before the Scheme can proceed?	Implementation of the Scheme is subject to the satisfaction or (as applicable) waiver of a number of Conditions. These Conditions are summarised in Section 11.2 and are set out in full in the Scheme Implementation Agreement (Annexure C).	Section 11.2 and Annexure C
When will the Scheme become Effective?	Subject to the satisfaction or (as applicable) waiver of the Conditions, the Scheme will become Effective on the Effective Date (currently expected to be Monday, 24 August 2015).	Section 4.12
When will iiNet Shares cease trading on the ASX?	If the Scheme becomes Effective, iiNet Shares are expected to cease trading on the ASX from the close of trading on the Effective Date, which is currently scheduled to be Monday, 24 August 2015.	Section 4.13

Question	Answer	Further information
What happens if the Scheme is not approved?	If the Scheme is not approved by the Requisite Majority of iiNet Shareholders or the Court, the Scheme will not proceed. iiNet Shareholders will retain their iiNet Shares and continue to be subject to the risks detailed in Section 9. Scheme Shareholders will not receive the Scheme Consideration, or the Discretionary Special Dividend (or the Top-Up Cash Consideration). The iiNet Share price is likely to fall in the absence of a Superior Proposal. iiNet will remain as a standalone company listed on the ASX, and will continue to focus on its business plan and implementation of strategy and any payment of dividends in the future will be considered in accordance with iiNet's dividend policy.	Section 9

OTHER QUESTIONS

Question	Answer	Further information
What is the status of the M2 Proposal?	M2 has now withdrawn the M2 Proposal. As a result, the M2 Proposal is not available to iiNet Shareholders, even if the Scheme does not proceed. It is important to understand that iiNet Shareholders are not being asked to choose between the Scheme and the now withdrawn M2 Proposal. The Scheme is the only liquidity opportunity available for iiNet Shareholders to sell all their iiNet Shares for a certain value, and there is no certainty that a similar liquidity event will materialise in the future.	Section 4.7
What are the prospects of receiving a Competing Proposal?	Since the announcement of TPG's Improved Offer on 6 May 2015, there has been a significant period of time and ample opportunity for a Superior Proposal to emerge. However, as at the date of this Scheme Booklet, no Competing Proposal has been received by iiNet since the date of announcement of the Improved TPG Proposal on 6 May 2015, and the Directors are not aware of any further Competing Proposal that is likely to be made.	Section 11.2(b)
What are the prospects of receiving a Competing Proposal? (continued)	Importantly, the M2 Proposal has now been withdrawn and that proposal is not available to iiNet Shareholders, even if the Scheme does not proceed. In relation to a Competing Proposal, iiNet has agreed to certain exclusivity and Break Fee provisions in favour of TPG, which are detailed in Sections 11.2(b) and 11.2(c).	Section 11.2(b)
What happens if a Competing Proposal is received?	The Directors will carefully consider any Competing Proposal that is received in accordance with their fiduciary duties. There is nothing preventing other parties from making unsolicited Competing Proposals to iiNet at any time, but iiNet is not permitted to solicit Competing Proposals before the Effective Date, the End Date or the date when the Scheme Implementation Agreement terminates (whichever occurs first). The Scheme Implementation Agreement requires the Directors to take a number of steps (including notifying TPG of the material details of the Competing Proposal and allowing TPG three Business Days to make a Counter Proposal) before the Directors can withdraw their unanimous recommendation of the Scheme. A Break Fee may be payable by iiNet to TPG in those circumstances.	Section 11.2(b)

Question	Answer	Further information
Can I sell my iiNet Shares now?	You can sell your iiNet Shares on market at any time before the close of trading on the ASX on the Effective Date at the then prevailing market price (which may vary from the Scheme Consideration). If you do so you will not receive the Scheme Consideration or the Discretionary Special Dividend, if declared (including any Top-Up Cash Consideration from TPG), and you may incur brokerage costs. iiNet intends to apply to the ASX for iiNet Shares to be suspended from official quotation on the ASX from close of trading on the Effective Date (which is currently expected to be Monday, 24 August 2015). You will not be able to sell your iiNet Shares on market after this time.	Section 3.1
When could iiNet be required to pay the Break Fee to TPG?	Under the Scheme Implementation Agreement, iiNet must pay the Break Fee of $16 million, which is approximately 1% of the implied equity value of iiNet under the Scheme, if certain events occur including: • certain breaches of the Scheme Implementation Agreement by iiNet; • any Director failing to recommend the Scheme or changing, withdrawing or modifying his/her recommendation to vote in favour of the Scheme, subject to the Independent Expert concluding the Scheme remains in the best interests of iiNet Shareholders; • the announcement of a Competing Proposal before the End Date and, within twelve months, the Competing Proposal completing; or • a Condition not being satisfied due to an act or omission of iiNet in breach of its obligations pursuant to the terms of the Scheme Implementation Agreement.	Section 11.2(c)

INFORMATION ABOUT THE COMBINED GROUP

What are TPG's intentions for iiNet and the Combined Group if the Scheme is implemented?	If the Scheme is implemented, TPG intends to integrate the businesses of the iiNet Group and the TPG Group as part of the Combined Group. TPG has indicated its intention to retain the iiNet brand, and accordingly, the high level of customer service that iiNet is renowned for.	Section 7.2
Who will be the directors and senior management of the Combined Group?	TPG will be the ultimate parent company of the Combined Group. TPG does not currently anticipate any change to the composition of TPG's Board following the implementation of the Scheme, and therefore expects the Board of the Combined Group to remain as set out in Section 6.5(a). As noted in Section 7.2, if the Scheme is implemented, TPG intends to conduct a review of iiNet's operations. Final decisions regarding senior management of the Combined Group will be made as part of the integration process and that review.	Section 7.2(f)
What will the dividend policy of the Combined Group be?	The TPG Group does not have a formal dividend policy. The TPG Board considers whether to pay a dividend and the amount of such a dividend every six months following the preparation of the TPG Group's accounts for the preceding half year based on the circumstances at that time. TPG does not currently expect any change to this position to arise as a result of the implementation of the Scheme.	Section 8.11

Question	Answer	Further information
What are the risks associated with the Combined Group?	If the Scheme is implemented, Scheme Shareholders who made a Share Election (other than Ineligible Foreign iiNet Shareholders) will receive New TPG Shares as Scheme Consideration, subject to the TPG Share Cap. There are a number of factors that may influence the price of TPG Shares and the future operating and financial performance of the Combined Group. Section 9 outlines the key, but not all, risks associated with an investment in the Combined Group and the value of TPG Shares and other risks that iiNet Shareholders should be aware of. iiNet Shareholders should read Section 9 carefully in its entirety before deciding whether to vote in favour of the Scheme and whether to make a Cash Election or a Share Election.	Section 9

FURTHER QUESTIONS

What other information is available?	You should read the detailed information in relation to the Scheme provided in this Scheme Booklet, including the Independent Expert's Report which concludes that the Scheme is in the best interests of iiNet Shareholders, in the absence of a Superior Proposal. Further information in relation to iiNet can be obtained from the ASX or on its website www.asx.com.au or on the Scheme website www.iinetscheme.net.au.	
Who can help answer my questions about the Scheme?	If you have any questions in relation to the Scheme or the Scheme Meeting, please contact the iiNet Shareholder Information Line on: • 1300 812 892 (within Australia); or • +61 2 9098 9204 (outside Australia); or visit the Scheme website www.iinetscheme.net.au. If you are in any doubt as to what you should do, you should consult your financial, legal, taxation or other professional adviser immediately.	

3

Your Decision and making an Election

3. Your Decision and making an Election

This Section contains information relating to voting entitlements and information on how to vote at the Scheme Meeting for iiNet Shareholders.

3.1 What you can do

You have the following options in relation to your iiNet Shares. iiNet encourages you to read this Scheme Booklet in its entirety and to consider your personal risk profile, portfolio strategy, tax position and financial circumstances and to seek professional advice before making any decision in relation to your iiNet Shares.

(a) Vote at the Scheme Meeting

You can vote on the Scheme Resolution at the Scheme Meeting in person or by proxy, attorney or, if applicable, a corporate representative. For directions on how to vote at the Scheme Meeting (or how to appoint a proxy, attorney or, if applicable, a corporate representative to vote on your behalf), and important voting information generally please refer to Section 3.4.

The Directors unanimously recommend that you vote in favour of the Scheme, in the absence of a Superior Proposal and subject to the Independent Expert maintaining its conclusion that the Scheme is in the best interests of iiNet Shareholders. The reasons for the Directors' unanimous recommendation are set out in Section 1.1.

(b) Sell your iiNet Shares on the ASX

You are able to sell all or some of your iiNet Shares on market for cash, provided that you do so before close of trading in iiNet Shares on the ASX on the Effective Date (currently expected to be Monday, 24 August 2015) when trading in iiNet Shares will end.

Since the Announcement Date, iiNet Shares have traded on the ASX at prices above the closing iiNet Share price on 12 March 2015 (being the last ASX trading day for iiNet Shares prior to the Announcement Date). However, this may not continue into the future, and even at prices above the closing iiNet Share price on 12 March 2015 the consideration you receive for a sale of your iiNet Shares may be less than the Total Consideration that you may receive under the Scheme.

If you are considering selling your iiNet Shares on the ASX, you should have regard to the prevailing trading prices of iiNet Shares at that time.

If you sell your iiNet Shares on market for cash, you:

(i) will not be entitled to receive the Scheme Consideration;

(ii) will not be entitled to receive the fully franked Discretionary Special Dividend if declared;

(iii) may incur a brokerage charge;

(iv) may incur CGT on the disposal of your iiNet Shares (as you also may do under the Scheme); and

(v) will not be able to participate in any Superior Proposal to the Scheme, if one emerges noting that, however, as at the date of this Scheme Booklet, no Competing Proposal has been received by iiNet since the date of announcement of TPG's Improved Proposal on 6 May 2015, and the Directors are not aware of any further Competing Proposal that is likely to be made.

(c) Do nothing

If, despite the Directors' unanimous recommendation and the conclusion of the Independent Expert, you decide not to vote in favour of the Scheme Resolution, you should note that if the Scheme Resolution is approved by the Requisite Majority of iiNet Shareholders and all of the other Conditions are satisfied or (where applicable) waived, the Scheme will bind all iiNet Shareholders, including those who voted against the Scheme Resolution at the Scheme Meeting and those who did not vote at all.

Remember, if you want to receive the Scheme Consideration and the Discretionary Special Dividend, if declared, your vote is important. If the Scheme Resolution is not approved by the Requisite Majority of iiNet Shareholders you will not be entitled to receive any Scheme Consideration and the Discretionary Special Dividend, if declared.

3.2 How to make an Election to receive Cash Consideration or Share Consideration

Scheme Shareholders who hold their iiNet Shares on or prior to the Election Date may elect to receive their Scheme Consideration as either the Cash Consideration or the Share Consideration.

You can make an Election by completing the enclosed Election Form and returning it to one of the addresses stated in the "How to Vote" section above in accordance with the instructions on the Election Form so that it is received by the Registrar prior to 5.00pm (WST) on the Election Date, being Tuesday, 21 July 2015. Note that the Election Date is before the date of the Scheme Meeting, so if you want to make an Election you must do so before you vote at the Scheme Meeting.

You must return the Election Form to the Registrar by either posting it in the reply paid envelope accompanying this Scheme Booklet marked 'Election Form' (only for use in Australia) or by sending, delivering or faxing it as follows:

Registrar:
Link Market Services Limited

Mail to:
iiNet Limited
C/- Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235

Fax to:
+61 2 9287 0309

In person to:
Link Market Services Limited
1A Homebush Bay Drive
Rhodes NSW 2138

Alternatively you can make an Election online. To make an Election electronically, visit the Scheme website at www.iinetscheme.net.au and follow the relevant instructions.

Scheme Shareholders who make or are deemed to have made a Cash Election will receive the full amount of their Scheme Consideration in cash.

If the TPG Share Cap is exceeded, there will be a proportional scale-back of the number of New TPG Shares issued per Scheme Share, and Scheme Shareholders who made a Share Election will receive the balance of their Scheme Consideration in cash.

Fractional entitlements to New TPG Shares will be rounded up to the nearest whole share, and if there is scale-back entitlements to the balance in cash will be rounded to the nearest whole cent.

All Scheme Shareholders who hold their iiNet Shares on or prior to the Election Date are entitled to make an Election to receive either the Cash Consideration or the Share Consideration. However, Ineligible Foreign iiNet Shareholders who made a Share Election will not be issued New TPG Shares. Instead, the New TPG Shares that would otherwise have been issued to Ineligible Foreign iiNet Shareholders who made a Share Election will be issued to a nominee who will sell those New TPG Shares and account to TPG the net proceeds from that sale. TPG will then remit the portion of proceeds it receives from the nominee to each Ineligible Foreign iiNet Shareholder in accordance with their entitlement. See Section 4.2(e) for further details in respect of Ineligible Foreign iiNet Shareholders.

If no Election is made, or an Election is invalid, or it is received after the Election Date, a Scheme Shareholder will be deemed to have validly elected to receive their Scheme Consideration as Cash Consideration. An Election is not transferable. If any iiNet Shares are acquired after the Election Date, the holder of those iiNet Shares will not be able to make an Election and will be deemed to have made a Cash Election. If you acquire iiNet Shares before the Election Date you should consider the form of Scheme Consideration that you would prefer to receive and make an Election.

If a Share Election is made and the total value of New TPG Shares to be issued to a Scheme Shareholder (calculated at the Election Date) would not be a Marketable Parcel then the Scheme Shareholder will be deemed to have made a Cash Election, and that Share Election will not be taken into account for the purposes of calculating whether the TPG Share Cap has been exceeded.

3.3 Scheme Meeting

(a) Time and location

The Scheme Meeting to approve the Scheme is scheduled to be held at the Pan Pacific Perth, 207 Adelaide Terrace, Perth, Western Australia on Monday, 27 July 2015 at 10.00am (WST).

(b) Requisite Majority

The Scheme Resolution will be proposed to the Scheme Meeting which must be approved by:

(i) a majority in number (more than 50%) of iiNet Shareholders present and voting at the Scheme Meeting (in person or by proxy, corporate representative or attorney); and

(ii) at least 75% of the total number of votes which are cast at the Scheme Meeting,

(Requisite Majority), for the Scheme to become Effective. The Court has the discretion to waive the first of these two requirements if the Court considers it appropriate to do so.

(c) Notice of Scheme Meeting

The Scheme Resolution is set out in the Notice of Scheme Meeting which is set out in Annexure F.

(d) Entitlement to vote at the Scheme Meeting

If you are registered as an iiNet Shareholder as at 5.00pm (WST) on Tuesday, 21 July 2015, you will be entitled to vote on the Scheme Resolution at the Scheme Meeting. Voting on the Scheme Resolution will be by poll.

3.4 How to vote on the Scheme Resolution

You can vote on the Scheme Resolution in either of two ways:

(i) by attending the Scheme Meeting in person; or

(ii) by appointing a proxy, an attorney, or, if you or your proxy is a body corporate, by appointing a corporate representative to attend the Scheme Meeting and vote on your behalf.

If you wish to vote in person, you should attend the Scheme Meeting.

(a) Voting by Proxy

If you are unable, or do not want, to attend the Scheme Meeting you may vote by proxy. Your personalised Proxy Form for the Scheme Meeting accompanies this Scheme Booklet.

You can appoint a proxy by completing and returning to the Registrar the enclosed Proxy Form for the Scheme Meeting. The Proxy Form must be received by the Registrar **by no later than 10.00am (WST) on Saturday, 25 July 2015** or if you are a member of the iiNet Employee Deferred Tax Scheme by no later than 10.00am (WST) on Friday, 24 July 2015.

You must return the Proxy Form to the Registrar by either posting it in the reply paid envelope accompanying this Scheme Booklet marked 'Proxy Form' (only for use in Australia) or by sending, delivering or faxing it as follows:

Registrar:
Link Market Services Limited

Mail to:
iiNet Limited
C/- Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235

Fax to:
+61 2 9287 0309

In person to:
Link Market Services Limited
1A Homebush Bay Drive
Rhodes NSW 2138

Alternatively you can vote online: To vote by proxy electronically, please either visit the iiNet Scheme website at www.iinetscheme.net.au or directly visit www.linkmarketservices.com.au and complete the relevant instructions below.

Select "Investor & Employee Login" and in the "Single Holding" box, enter iiNet Limited or the ASX code **(IIN)** in the Issuer name field, your Holder Identification Number **(HIN)** or Security Reference Number **(SRN)** (which is shown on the front of your Proxy Form), postcode and security code which is shown on the screen and click "Login": Select the "Voting" tab and then follow the prompts. You will be taken to have signed your Proxy Form if you lodge it in accordance with the instructions given on the website.

A fax of a Proxy Form is valid provided that it has been received by the Registrar using the fax number provided above by no later than 10.00am (WST) on Saturday, 25 July 2015 or if you are a member of the iiNet Employee Deferred Tax Scheme by no later than 10.00am (WST) on Friday, 24 July 2015. A fax will be deemed to have been received:

(i) when sent by 5.00pm (WST) on a Business Day, that day;

(ii) when sent after 5.00pm (WST) on a Business Day, the next Business Day; or

(iii) when sent on a day that is not a Business Day, the next Business Day.

If an attorney signs a Proxy Form on your behalf, a certified copy of the power of attorney under which the Proxy Form was signed must be received by the Registrar at the same time as the Proxy Form (unless you have already provided a certified copy of the power of attorney to the Registrar). If you complete and return a Proxy Form, you may still attend the meeting in person, revoke the proxy and vote at the meeting.

If you submit a proxy, you may appoint the chairman of the Scheme Meeting or another person (who need not be an iiNet Shareholder) to represent you at the Scheme Meeting and vote on the Scheme Resolution by inserting the name of your desired representative in the space provided for that purpose on the Proxy Form. If you are entitled to cast two or more votes you may appoint two proxies and may specify the proportion or number of votes each proxy is appointed to exercise, but where the proportion or number is not specified, each proxy may exercise half the votes.

Any instrument of proxy in which the name of the appointee is not filled in will be deemed to have been given in favour of the chairman of the Scheme Meeting.

The chairman of the Scheme Meeting intends to vote all undirected proxies in favour of the Scheme Resolution.

iiNet has retained the Proxy Solicitation Agent to solicit proxies from iiNet Shareholders.

(b) Voting by corporate representative

If you are, or your proxy is, a body corporate you (or your body corporate proxy) may appoint an individual to act as your or its (as the case may be) representative to vote in person at the Scheme Meeting.

Unless otherwise specified in the appointment, a representative acting in accordance with his or her authority, until it is revoked by the appointing body corporate, is entitled to exercise the same powers on behalf of that body corporate as that body corporate could exercise at a meeting or in voting on a resolution.

A certificate with or without the seal of the body corporate, signed by two directors of that body corporate or signed by one director and one secretary, or any other document as the chairman of the Scheme Meeting in his or her sole discretion considers sufficient, will be evidence of the appointment or of the revocation of the appointment, as the case may be, of a representative.

iiNet Shareholders can download and complete the 'Appointment of Corporate Representation' form by visiting the iiNet Scheme website at www.iinetscheme.net.au and following the relevant instructions or by visiting Link Market Services Limited's website: http://www.linkmarketservices.com.au/corporate/investorservices/forms.html.

(c) Voting by attorney

An iiNet Shareholder may appoint a person (who need not be an iiNet Shareholder) as his, her or its attorney to attend and vote at the Scheme Meeting.

An instrument appointing an attorney must be in writing executed under the hand of the appointer or the appointer's attorney duly authorised in writing or, if the appointer is a corporation, under its common seal (if any) or the hand of its duly authorised attorney or executed in a manner permitted by the Corporations Act. The instrument may contain directions as to the manner in which the attorney is to vote on a particular resolution(s) and, subject to the Corporations Act, may otherwise be in any form as the Directors may prescribe or accept. A fax of a certified copy of a written power of attorney is valid provided it has been provided to Link Market Services Limited or to the fax numbers in Section 3.4(a) (and has been deemed to be received (in accordance with Section 3.4(a)) by no later than 10.00am (WST) on Saturday, 25 July 2015.

(d) Is voting compulsory?

Voting is not compulsory. However, if you want to receive the Scheme Consideration and the Discretionary Special Dividend, if declared, your vote is important.

If you do not vote, and the Scheme is approved by the Requisite Majority of iiNet Shareholders and the Court, your iiNet Shares will be transferred to TPG in consideration for TPG providing you the Scheme Consideration. If the Scheme is not approved, iiNet will remain an independent company and you will remain an iiNet Shareholder.

If you are unable to attend the Scheme Meeting, you should complete and return the Proxy Form as directed in Section 3.4(a).

4

The Scheme

4. The Scheme

4.1 Introduction

On 6 May 2015, iiNet and TPG announced that they had reached agreement on the terms of an improved proposal by TPG to acquire the remaining 93.75% of iiNet Shares that the TPG Group does not own, and that they had amended the Scheme Implementation Agreement to reflect the terms of TPG's improved proposal. On 10 June 2015 iiNet and TPG further amended the Scheme Implementation Agreement to provide for the Election to be made before the Scheme Meeting. The Proposed Transaction will be implemented by way of a scheme of arrangement under Australian law.

A summary of the key terms of the Scheme Implementation Agreement are set out in Section 11, and a complete copy of the Scheme Implementation Agreement is set out in Annexure C.

If the Scheme is approved by the Requisite Majority of iiNet Shareholders and by the Court, and if all other Conditions are satisfied or (where applicable) waived, all Scheme Shares will be transferred to TPG with effect from the Implementation Date and without the need for any further act by the Scheme Shareholders (other than acts required to be performed by iiNet, its Directors or officers, as attorney or agent for the Scheme Shareholders). From the Implementation Date, iiNet will become a wholly-owned Subsidiary of the TPG Group. iiNet Shares are expected to be delisted from the ASX shortly after the Implementation Date.

A copy of the Scheme is set out in Annexure D.

4.2 What you will receive if the Scheme is implemented

(a) Overview

If the Scheme is implemented, Scheme Shareholders will receive the Scheme Consideration which is either:

- **Cash Consideration:** $8.80 in cash per Scheme Share; or
- **Share Consideration:** 0.969 New TPG Shares per Scheme Share (subject to the TPG Share Cap).

In addition, subject to iiNet receiving a favourable ATO Tax Ruling and the Scheme becoming Effective, iiNet will declare the Discretionary Special Dividend of up to $0.75 per iiNet Share in cash, which will be franked to the maximum extent possible. The final amount of the Discretionary Special Dividend (if declared) is still to be determined. However, TPG will pay the Top-Up Cash Consideration to Scheme Shareholders to the extent that the Discretionary Special Dividend declared by iiNet is less than $0.75 per iiNet Share.

(b) Elections and proportional scale-back

Scheme Shareholders who hold iiNet Shares on or prior to the Election Date may elect to receive their Scheme Consideration as either the Cash Consideration or the Share Consideration.

The Share Consideration is subject to an aggregate cap of 27,523,946 New TPG Shares being issued. If the TPG Share Cap is exceeded, there will be a proportional scale-back of the number of New TPG Shares issued per Scheme Share, and Scheme Shareholders who made a Share Election will receive the balance of their Scheme Consideration in cash.

If a Share Election is made and the total value of New TPG Shares to be issued to a Scheme Shareholder (calculated at the Election Date) would not be a Marketable Parcel then the Scheme Shareholder will be deemed to have made a Cash Election, and that Share Election will not be taken into account for the purposes of calculating whether the TPG Share Cap has been exceeded.

See Section 4.3 for further details on the formula to determine the number of New TPG Shares issued per Scheme Share if the TPG Share Cap is exceeded.

(c) Rounding and Share Splitting

If the number of iiNet Shares an iiNet Shareholder holds on the Record Date means that their aggregate entitlement to New TPG Shares is not a whole number, then their fractional entitlement to New TPG Shares of 0.5 or more will be rounded up to the nearest whole number and their fractional entitlement of less than 0.5 will be rounded down to the nearest whole number.

Where the TPG Share Cap is exceeded and there is a proportional scale back of the number of New TPG Shares to be issued per Scheme Share, entitlements to the balance of the Scheme Consideration in cash will be rounded to the nearest whole cent.

If TPG is of the opinion (acting reasonably) that two or more Scheme Shareholders have been party to Share Splitting or division in an attempt to obtain unfair advantage by reference to such rounding, TPG may give notice to those Scheme Shareholders attributing to one of them specifically identified in the notice the Scheme Shares held by all of them.

(d) Receipt of the Scheme Consideration

Scheme Shareholders will receive both the Scheme Consideration and the Discretionary Special Dividend, if declared (including any Top-Up Cash Consideration from TPG) on the Implementation Date (currently expected to be Monday, 7 September, 2015).

No brokerage fees, stamp duty or other costs are payable by Scheme Shareholders in connection with the payment of cash or the issue of New TPG Shares under the Scheme.

Both the Cash Consideration and the Discretionary Special Dividend, if declared (including any Top-Up Cash Consideration from TPG) will be paid:

- where the iiNet Shareholder has nominated an Australian bank account that is currently used by iiNet for the payment of dividends prior to the Record Date, by electronic funds transfer in Australian currency into that account; or
- otherwise, by cheque in Australian currency to the iiNet Shareholder by prepaid post to their registered address.

(e) Ineligible Foreign iiNet Shareholders

A Scheme Shareholder will be an Ineligible Foreign iiNet Shareholder if their address as shown in the Register is a place outside of Australia and its external territories or New Zealand, unless TPG is satisfied that the laws of an Ineligible Foreign iiNet Shareholder's country of residence (as shown in the Register) permit the issue of New TPG Shares to the Ineligible Foreign iiNet Shareholders either unconditionally or after compliance with terms which TPG reasonably regards as acceptable and practical.

Ineligible Foreign iiNet Shareholders who made a Share Election will not be issued New TPG Shares. Instead, the New TPG Shares that would otherwise have been issued to Ineligible Foreign iiNet Shareholders who made a Share Election will be issued to a nominee to be appointed by TPG. TPG will procure that, as soon as reasonably practicable after the Implementation Date, the nominee sell those New TPG Shares on-market on ASX at such price and on such other terms as the nominee determines in good faith, and at the risk of the Ineligible Foreign iiNet Shareholders. Settlement of the net proceeds (after deducting any applicable brokerage, stamp duty and other selling costs, taxes and charges) of New TPG Shares sold will occur on a T+3 basis into an account controlled by TPG. After the last sale of those New TPG Shares, TPG will then remit the portion of the proceeds it receives from the sale of the New TPG Shares by the nominee to each Ineligible Foreign iiNet Shareholder in accordance with their entitlement.

Each Ineligible Foreign iiNet Shareholder will receive, for each New TPG Share to which they would otherwise have been entitled, an amount equivalent to the average price per New TPG Share obtained by the nominee (after deducting any applicable brokerage, stamp duty and other selling costs, taxes and charges). This means that the amount received by an Ineligible Foreign iiNet Shareholder may be more or less than the amount actually received by the nominee for the sale of the New TPG Shares that the Ineligible Foreign iiNet Shareholder would otherwise have been entitled to receive under the Scheme.

The portion of the proceeds attributable to each Ineligible Foreign iiNet Shareholder will be paid as soon as reasonably practicable by cheque in Australian dollars and sent by prepaid post (at the risk of the Ineligible Foreign Shareholder) to the address recorded in the Register on the Record Date.

4.3 Share Consideration formula

TPG has capped the number of New TPG Shares to be issued to Scheme Shareholders at a maximum of 27,523,946, and will make a cash payment in addition to issuing New TPG Shares where the TPG Share Cap is exceeded.

If a Share Election is made and the total value of New TPG Shares to be issued to a Scheme Shareholder (calculated at the Election Date) would not be a Marketable Parcel then the Scheme Shareholder will be deemed to have made a Cash Election, and that Share Election will not be taken into account for the purposes of calculating whether the TPG Share Cap has been exceeded.

iiNet will announce to ASX on Wednesday, 22 July 2015 the results of the Election process and whether the TPG Share Cap has been exceeded and the proportional scale back (if any) that will apply to Scheme Shareholders who made a Share Election and who hold their Scheme Shares continuously from the Election Date to the Record Date.

The formula to determine the number of New TPG Shares issued per Scheme Share if the TPG Share Cap is exceeded is summarised below, and is set out in clause 5.2(c) of the Scheme (a copy of which is set out in Annexure D).

(a) Share Consideration formula where TPG Share Cap is not exceeded

If the total number of New TPG Shares to be issued to all Scheme Shareholders who have made a Share Election is less than or equal to the TPG Share Cap, then the number of New TPG Shares to be issued to each Scheme Shareholder who makes a Share Election will be determined in accordance with the following formula (rounded to the nearest whole New TPG Share):

$X = Y \times Z$

where:

X is the number of New TPG Shares to be issued to that Scheme Shareholder

Y is 0.969 New TPG Shares for each Scheme Share

Z is the number of Scheme Shares held by that Scheme Shareholder continuously from the Election Date until the Record Date

(b) Share Consideration formula where TPG Share Cap is exceeded

If the total number of New TPG Shares to be issued to all Scheme Shareholders who have made a Share Election is greater than the TPG Share Cap, then the number of New TPG Shares to be issued to each Scheme Shareholder who makes a Share Election will be determined in accordance with the following formula (rounded to the nearest whole New TPG Share):

$A = (B/C) \times E$

where:

A is the number of New TPG Shares to be issued to the Scheme Shareholder

B is the TPG Share Cap

C is the aggregate number of Scheme Shares held by all Scheme Shareholders who have made a Share Election

E is the number of Scheme Shares held by that Scheme Shareholder continuously from the Election Date until the Record Date;

plus

each Scheme Shareholder who makes a Share Election will receive an amount of cash determined in accordance with the following formula (rounded to the nearest whole cent):

$F = (1 - (B/(C \times D))) \times G \times E$

where:

F is the amount of cash to be paid to the Scheme Shareholder

B is the TPG Share Cap

C is the aggregate number of Scheme Shares held by all Scheme Shareholders who have made a Share Election

D is the Share Ratio

G is $8.80

E is the number of Scheme Shares held by that Scheme Shareholder continuously from the Election Date until the Record Date.

4.4 Discretionary Special Dividend

iiNet will declare the Discretionary Special Dividend of up to $0.75 per iiNet Share in cash, which will be franked to the maximum extent possible and will be payable only if the Scheme becomes Effective. TPG will pay the Top-Up Cash Consideration to iiNet Shareholders to the extent that the Discretionary Special Dividend declared by iiNet is less than $0.75 per iiNet Share.

The Discretionary Special Dividend, if declared (including any Top-Up Cash Consideration) will be paid in addition to the Scheme Consideration.

iiNet will only declare the Discretionary Special Dividend if iiNet receives a favourable class ruling from the ATO in respect of the declaration and payment of that dividend in a form acceptable to iiNet and TPG **(ATO Tax Ruling)**. iiNet has lodged an application for the ATO Tax Ruling, but as at the last practicable date before the date of this Scheme Booklet, the ATO Tax Ruling had not been received.

The ATO Tax Ruling that has been requested from the ATO is expected to confirm that the Discretionary Special Dividend can be franked, and that iiNet Shareholders who receive the franked Discretionary Special Dividend, and who have satisfied the '45 day at risk' holding period (explained at Section 10.3(b)) will be entitled to the franking credit attached to this dividend.

The final amount of the Discretionary Special Dividend (if declared) is still to be determined. The Discretionary Special Dividend (if declared) will be paid to the maximum extent possible using available retained earnings of iiNet at the time of declaration. Given this, the amount will depend on the amount of iiNet's retained earnings at the time of declaration. Based on iiNet's retained earnings at 31 December 2014 of $106 million, the Discretionary Special Dividend would be equivalent to $0.644 per iiNet Share.

iiNet intends that the Discretionary Special Dividend will be franked to the maximum extent possible. Accordingly, an Australian tax resident Scheme Shareholder whose personal taxation circumstances allow them to capture some benefit from the franking credits attached to the Discretionary Special Dividend (if declared) will receive (in their personal tax assessment) an additional benefit up to the value of those franking credits in that Scheme Shareholder's hands. The franking credits attached to a dividend of $0.644 per iiNet Share would be equivalent to an additional $0.276 per iiNet Share.

The value of franking credits is not the same for all iiNet Shareholders. The use of franking credits and the exact post-tax value realised by you will depend on your individual tax circumstances. Please refer to Section 10 for further details and consult your professional taxation adviser in respect of your individual tax situation.

If iiNet decides to declare the Discretionary Special Dividend, it intends do so on or prior to the Effective Date, provided that iiNet has received the ATO Tax Ruling at that time.

If the Discretionary Special Dividend is declared, iiNet will pay the Discretionary Special Dividend on the Implementation Date. If the Discretionary Special Dividend declared by iiNet is less than $0.75 per iiNet Share, TPG will pay the Top-Up Cash Consideration on the Implementation Date.

The Discretionary Special Dividend will be funded by an unsecured and interest free loan to iiNet by TPG pursuant to the Loan Agreement. Full particulars of the Loan Agreement including the terms, funding and payment of the Discretionary Special Dividend are set out in Section 11.3 and clauses 5.8 and 5.9 of the Scheme Implementation Agreement (Annexure C).

4.5 Directors' recommendation

The Directors unanimously recommend that you vote in favour of the Scheme, in the absence of a Superior Proposal (and subject to the Independent Expert maintaining its conclusion that the Scheme is in the best interests of iiNet Shareholders).

Each of the Directors intends to vote, or procure the voting of, the iiNet Shares they hold or control at the time of the Scheme Meeting, in favour of the Scheme Resolution, in the absence of a Superior Proposal (and subject to the Independent Expert maintaining its conclusion that the Scheme is in the best interests of iiNet Shareholders). Details of the Relevant Interests of each Director are set out in Section 12.3.

The Directors have unanimously formed the view that the Scheme is in the best interests of iiNet Shareholders for the following reasons:

(a) the Total Consideration of at least $9.55[43] per Scheme Share is higher than iiNet Shares have ever traded on the ASX prior to the announcement of the Original TPG Proposal on 13 March 2015;

(b) the Total Consideration of at least $9.55[44] per Scheme Share represents a significant premium of[45]:

  (i) 40.2% over the closing price of iiNet Shares on the ASX on 12 March 2015[46] of $6.81;

  (ii) 46.4% over the five day VWAP of iiNet Shares on the ASX up to and including 12 March 2015 of $6.52;

  (iii) 49.9% over the VWAP of iiNet Shares on the ASX for the period 19 February 2015 up to and including 12 March 2015[47] of $6.37; and

  (iv) 45.1% over the 30 day VWAP of iiNet Shares on the ASX up to and including 12 March 2015 of $6.58.

(c) The Total Consideration of at least $9.55[48] per Scheme Share represents a CY14 EV/EBITDA multiple of 10.0x, which is a significant premium to multiples paid in recent comparable change of control transactions for consumer fixed line telecommunications businesses. The Total Consideration of at least $9.55[49] per Scheme Share also represents a CY14 PE multiple of 23.8x;

(d) the ability of iiNet to pay the Discretionary Special Dividend gives a potential additional benefit to those Scheme Shareholders whose personal taxation circumstances allow them to capture some benefit from the franking credits related to that dividend[50];

(e) the Scheme provides consideration flexibility for Scheme Shareholders in being able to choose between receiving the Scheme Consideration in cash or New TPG Shares, with the latter subject to the TPG Share Cap. The Discretionary Special Dividend (or Top-Up Cash Consideration) will be payable in cash;

(f) the certainty of value of the Cash Consideration, and the limited conditionality of the Scheme, are compelling relative to the potential trajectory of iiNet's earnings into the future based on iiNet's current performance, current competitive dynamics (including iiNet's strengths and weaknesses in the emerging NBN consumer and business markets), and the value of iiNet's current strategic growth and improvement initiatives (which will take time and capital to implement and are subject to risk); and

(g) the absence of any Competing Proposal since the date of announcement of the Improved TPG Proposal on 6 May 2015.

The reasons to vote in favour or against the Scheme, and other matters that you may wish to consider in deciding how to vote on the Scheme, are set out in Section 1.

4.6 Independent Expert's conclusion

iiNet has commissioned Lonergan Edwards as the Independent Expert to prepare a report to ascertain whether the Scheme is in the best interests of iiNet Shareholders.

The Independent Expert states:

"In our opinion, the Scheme is fair and reasonable and is in the best interests of iiNet shareholders, in the absence of a superior proposal".

The Independent Expert has stated that the Total Consideration to be received by iiNet Shareholders under both the cash alternative and the share alternative is consistent with its assessed value range of iiNet Shares on a 100% controlling interest basis of $8.90 to $9.75 per iiNet Share, and has noted that the Total Consideration represents a significant premium to the recent market prices of iiNet Shares to the initial announcement of the Proposed Transaction on 13 March 2015.

The Independent Expert has assessed that the value of the Total Consideration to be received by iiNet Shareholders who elect to receive the Cash Consideration is $9.55 per iiNet Share.

43 The Total Consideration is at least $9.55 per iiNet Share for those iiNet Shareholders who make or are deemed to make a Cash Election. The value of the Share Consideration will fluctuate with changes in the price of TPG Shares, meaning that the Total Consideration for those iiNet Shareholders who make a Share Election may be more or less than $9.55 per iiNet Share.

44 See footnote 43.

45 iiNet Share prices prior to 12 March 2015 have been adjusted for the 2015 Interim Dividend of $0.105 per iiNet Share, which was declared by iiNet on 18 February 2015 and paid on 30 March 2015.

46 12 March 2015 being the last trading day prior to the announcement of the Original TPG Proposal on 13 March 2015.

47 19 February 2015 being the day iiNet announced its results for the six months ended 31 December 2014.

48 See footnote 43.

49 See footnote 43.

50 The value of franking credits is not the same for all iiNet Shareholders. The use of franking credits and the exact post-tax value realised by you will depend on your individual tax circumstances. Please refer to Section 10 for further details and consult your professional taxation adviser in respect of your individual tax situation.

In assessing the value of the Total Consideration to be received by iiNet Shareholders who elect to receive the Share Consideration, the Independent Expert has taken into account recent trading of TPG Shares, the TPG Share Cap, the likely level of on-market trading in TPG Shares subsequent to completion of the Scheme, recent stock market conditions and the earnings multiples implied by its valuation range. Taking into account those factors, the Independent Expert has assessed the realisable value of a New TPG Share at between $8.75 and $9.25 per New TPG Share. Accordingly, the Independent Expert has assessed that the value of the Total Consideration to be received by iiNet Shareholders who elect to receive the Share Consideration is between $9.23 to $9.71. The Independent Expert has noted that because of the TPG Share Cap iiNet Shareholders should be aware that they may not receive New TPG Shares for all of their iiNet Shares under the Share Election.

The Independent Expert has also advised that the Discretionary Special Dividend (if declared) allows the release of franking credits to Australian tax resident Scheme Shareholders, thereby increasing the potential value to some Scheme Shareholders. The Independent Expert's Report is set out in Annexure A.

The Independent Expert has also stated that its assessed value range of iiNet Shares on a 100% controlling interest basis of $8.90 to $9.75 per iiNet Share was determined including an appropriate portion of the potential synergies available to TPG and other potential buyers.

4.7 Background to the Scheme and the M2 Proposal

(a) Overview of process undertaken by the Directors

On 13 March 2015, iiNet and TPG announced the Original TPG Proposal, which comprised of a cash payment of $8.60 per iiNet Share. At that time, the Directors recommended that iiNet Shareholders approve the Original TPG Proposal, in the absence of a Superior Proposal. The Directors considered the Original TPG Proposal as compelling relative to the changing dynamics of the Australian telecommunications industry, the risks associated with the execution of iiNet's strategic initiatives, and in light of previous engagements with potential strategic and financial acquirers of iiNet.

On 27 April 2015, M2 announced that it had made the M2 Proposal to iiNet under which M2 offered consideration of 0.803 M2 shares for each iiNet Share plus a $0.75 special dividend paid in cash by iiNet and funded by M2. In accordance with their legal obligations, the Directors carefully reviewed and considered the M2 Proposal relative to the Original TPG Proposal. The Directors determined that the value premium under the M2 Proposal was sufficient to enable the iiNet Board to issue a 'Relevant Notice' to TPG under the Scheme Implementation Agreement and commence the matching right process in accordance with the Scheme Implementation Agreement.

Following the receipt of the M2 Proposal, and in accordance with the matching right process in the Scheme Implementation Agreement, TPG provided iiNet with the Improved TPG Proposal to acquire the remaining 93.75% of iiNet Shares that the TPG Group does not own pursuant to the Scheme for Total Consideration of at least $9.55[51] per iiNet Share.

The value of the cash consideration offered under the Improved TPG Proposal was an 11% increase on the value of the consideration under the all-cash Original TPG Proposal, featured the ability to elect to receive either cash or share consideration (subject to a cap), and also included a $0.75 special dividend paid by iiNet and funded by TPG.

In accordance with their legal obligations, the Directors carefully reviewed and considered the Improved TPG Proposal relative to the M2 Proposal. The Directors determined that the Improved TPG Proposal is more favourable to iiNet and iiNet Shareholders than the M2 Proposal.

On 6 May 2015, iiNet announced that it had accepted the Improved TPG Proposal and that it had agreed with TPG to propose the Scheme which reflects the terms of the Improved TPG Proposal.

As a result of iiNet's acceptance of the Improved TPG Proposal, the M2 Proposal was withdrawn by M2. Because M2 has withdrawn the M2 Proposal, that proposal is not available to iiNet Shareholders, even if the Scheme does not proceed. This means that iiNet Shareholders are not being asked to choose between the Improved TPG Proposal and the M2 Proposal. The Improved TPG Proposal is the only liquidity opportunity available for iiNet Shareholders to sell all their iiNet Shares for a certain value, and there is no certainty that a similar liquidity event will materialise in the future.

As explained in Section 11.2(b), the Scheme Implementation Agreement, as amended to reflect the Improved TPG Proposal, still allows the Directors to consider any new Competing Proposal that may materialise in the future. Since the date of announcement of TPG's Improved Offer on 6 May 2015, there has been a significant period of time and ample opportunity for a Superior Proposal to emerge.

51 See footnote 43.

However, as at the date of this Scheme Booklet, no Competing Proposal has been received by iiNet since the date of announcement of TPG's Improved Offer on 6 May 2015, and the Directors are not aware of any Competing Proposal that is likely to be made.

(b) Key reasons why the Directors considered that the Improved TPG Proposal is superior to the now withdrawn M2 Proposal

After careful consideration, the Directors determined that the terms of the Improved TPG Proposal are more favourable to iiNet and iiNet Shareholders than the now withdrawn M2 Proposal. In forming this view, the iiNet Board considered the following aspects:

- **Value certainty afforded by the Improved TPG Proposal compared to the M2 Proposal:**
  - The certain value of cash under the Improved TPG Proposal is preferable on a risk-adjusted basis to the inherently uncertain future value of a combined iiNet and M2 under the M2 Proposal;
  - The returns to iiNet Shareholders under the M2 Proposal would ultimately depend on successful integration of the two businesses and capturing of synergy benefits, as well as the continued trading performance of both businesses and continued valuation metrics in the Australian telecommunications sector. In contrast, the Improved TPG Proposal provides iiNet Shareholders who make a Cash Election (or who make no Election) a certain fixed value should the Scheme proceed; and
  - The range of implied values attributable to the M2 Proposal given that it involves predominantly share consideration, which means that the value of the consideration offered varies depending upon the valuation of M2 shares. In comparison, the Improved TPG Proposal provides certainty of a fixed cash value for those Scheme Shareholder who make a Cash Election (or who make no Election);
- **Additional upside from synergies under the M2 Proposal is likely to be limited**, as the iiNet Board considers that the majority of value attributable to potential future synergies has been factored into the price premium offered for iiNet Shares under the M2 Proposal;
- **Both proposals provide the ability to access the key benefits of receiving scrip and associated CGT rollover relief**, should that be desirable for the individual shareholder, although the Share Consideration in the Improved TPG Proposal is capped; and
- **Both TPG and M2 have indicated their intention to retain the iiNet brand, and accordingly, the high level of customer service that iiNet is renowned for**, which is a testament to the significant value that has been created by the staff of iiNet.

It is important to understand that iiNet Shareholders are not being asked to choose between the Improved TPG Proposal and the M2 Proposal. This is because M2 has withdrawn the M2 Proposal – that proposal is not available to iiNet Shareholders, even if the Scheme does not proceed. The Improved TPG Proposal is the only liquidity opportunity available for iiNet Shareholders to sell all their iiNet Shares for a certain value, and there is no certainty that a similar liquidity event will materialise in the future.

4.8 Implementation, timetable and procedures

If the Scheme is approved by the Requisite Majority of iiNet Shareholders and the Court, and all other Conditions are satisfied or (where applicable) waived, it is expected that the Scheme will be implemented on Monday, 7 September 2015. The key dates and times in relation to the Scheme are set out on page 2. These key dates are indicative only and are subject to change.

4.9 Scheme Meeting

The Court has ordered that a meeting of iiNet Shareholders be held at 10.00am (WST) on Monday, 27 July 2015 to consider the Scheme.

The fact that under section 411(1) of the Corporations Act the Court has ordered that the Scheme Meeting be convened and has approved this Scheme Booklet does not mean that the Court:

(a) has formed any view as to the merits of the proposed Scheme or as to how iiNet Shareholders should vote (on this matter iiNet Shareholders must reach their own decision); or

(b) has prepared, or is responsible for, the content of the Scheme Booklet.

The order of the Court that the Scheme Meeting be convened is not, and should not be treated as, an endorsement by the Court of, or any other expression of opinion by the Court on, the Scheme.

At the Scheme Meeting, iiNet Shareholders will be asked to consider and, if thought fit, to pass the Scheme Resolution. For the acquisition of all Scheme Shares by TPG to proceed and the Scheme Consideration to become payable, the Scheme Resolution must be approved by the Requisite Majority of iiNet Shareholders.

If the Scheme Resolution is not approved by the Requisite Majority of iiNet Shareholders at the Scheme Meeting, it will not be implemented and iiNet will not apply to the Court for any further orders in connection with the Scheme. The Notice of Scheme Meeting is contained in Annexure F.

4.10 Court approval

iiNet will apply to the Court for orders approving the Scheme if:

(a) the Scheme Resolution is approved by the Requisite Majority of iiNet Shareholders at the Scheme Meeting; and

(b) all other Conditions are satisfied or (where applicable) waived.

The date on which the Court hears iiNet's application is the Second Court Date, which is currently expected to be Friday, 21 August 2015. Any change to this date will be announced through the ASX and notified on the Scheme website www.iinetscheme.net.au. The Second Court Date to approve the Scheme will not occur until as soon as practicable after the ACCC's final decision has been announced which is currently expected to occur on 20 August 2015[52].

The Court may refuse to grant the orders referred to above even if the Scheme Resolution is approved by the Requisite Majority of iiNet Shareholders.

ASIC will be asked to issue a written statement that it has no objection to the Scheme. ASIC would not be expected to issue such a statement until shortly before the Second Court Date. If ASIC does not produce a written statement that it has no objection to the Scheme, the Court may still approve the Scheme provided it is satisfied that section 411(17)(a) of the Corporations Act is satisfied.

Each iiNet Shareholder has the right to appear at the Second Court Hearing.

4.11 Actions by iiNet and TPG

If Court orders approving the Scheme are obtained, the Directors and the TPG Board will take or procure the taking of the steps required for the Scheme to be implemented. These will include the following:

(a) iiNet will lodge with ASIC and the ASX an office copy of the Court order approving the Scheme under section 411(10) of the Corporations Act at which time the Scheme will become Effective;

(b) on the Effective Date, iiNet will take all actions necessary to appoint persons nominated by TPG as directors of each member of the iiNet Group so that TPG's nominees represent a majority of the boards of those members of the iiNet Group;

(c) on or prior to the Effective Date, iiNet will declare the Discretionary Special Dividend if the ATO Tax Ruling has been received;

(d) at the close of trade on the Effective Date, iiNet Shares will be suspended from trading on the ASX;

(e) subject to confirmation from ASX, on the first trading day after the Effective Date (or such later date as the ASX requires), the New TPG Shares comprising the Scheme Consideration will commence trading on the ASX, on a deferred settlement basis;

(f) iiNet will pay the Discretionary Special Dividend if declared (and TPG will pay any Top-Up Cash Consideration), on the Implementation Date;

(g) on the Implementation Date, all of the Scheme Shares held by Scheme Shareholders at 5.00pm (WST) on the Record Date will be transferred to TPG and, in exchange TPG will pay the cash and issue the New TPG Shares comprising the Scheme Consideration;

(h) on the Implementation Date, iiNet will enter the name of TPG in the Register as the holder of the Scheme Shares;

(i) on the Implementation Date, iiNet will apply to be removed from the official list of the ASX which is expected to occur shortly following that date;

(j) on the Implementation Date, each director of each member of the iiNet Group (other than the new directors appointed as nominees of TPG on the Effective Date or any directors who agree with TPG to remain as directors) will resign and, if TPG determines, be replaced by directors nominated by TPG;

52 See Section 11.2(a)(i) for details about the ACCC condition.

(k) subject to confirmation from ASX, on the first trading day after the Implementation Date (or such later date as the ASX requires), trading in New TPG Shares issued as Scheme Consideration will commence on a normal settlement basis; and

(l) those Ineligible Foreign iiNet Shareholders who elected to receive Share Consideration will receive the cash proceeds of the sale of the New TPG Shares comprising that Share Consideration following the sale of those New TPG Shares on the ASX by a nominee appointed by TPG.

4.12 Effective Date

The Scheme will become Effective on the date upon which the office copy of the order of the Court under section 411(10) of the Corporations Act approving the Scheme is lodged with ASIC or such earlier date as the Court determines or specifies in the order. iiNet intends to lodge the order of the Court with ASIC on the next Business Day after the Second Court Date, which is expected to be Friday, 21 August 2015.

If the Scheme becomes Effective, iiNet will immediately give notice of the event to the ASX.

Once the Scheme becomes Effective, iiNet and TPG will become bound to implement the Scheme in accordance with its terms.

4.13 Suspension of trading in iiNet Shares

It is expected that suspension of trading in iiNet Shares on the ASX will occur from close of trade on the Effective Date. This is expected to occur on Monday, 24 August 2015.

4.14 Deed Poll

TPG has executed a Deed Poll in favour of the Scheme Shareholders, by which it offers to acquire all of the Scheme Shares held by Scheme Shareholders. In consideration of the acceptance of that offer (and subject to the Scheme becoming Effective) the transfer of each Scheme Share to TPG, TPG undertakes in favour of each Scheme Shareholder to provide the Scheme Consideration for each Scheme Share in accordance with the terms of the Scheme.

A copy of the Deed Poll is contained in Annexure E.

4.15 Record Date

The Record Date for the Scheme is Monday, 31 August 2015. Only Scheme Shareholders who appear on the Register at 5.00pm (WST) on the Record Date will be entitled to receive the Scheme Consideration.

4.16 Election Date

The last date and time for making an Election as described in Section 3.2 is 5.00pm (WST) on Tuesday, 21 July 2015.

4.17 Implementation of the Scheme

The Implementation Date is currently expected to be Monday, 7 September 2015. If the Scheme becomes Effective, all Scheme Shares will be transferred to TPG, in return for the payment by TPG of the Cash Consideration and the issue by TPG of the New TPG Shares in the manner described in Section 4.2.

4.18 Trading in New TPG Shares

TPG will seek confirmation from the ASX that, as from the first trading day after the Effective Date (or such later date as the ASX requires), expected to be Tuesday, 25 August 2015, the New TPG Shares issued as Scheme Consideration commence trading on the ASX, initially on a deferred settlement basis and, with effect from the first trading day after the Implementation Date (or such later date as the ASX requires), expected to be Tuesday, 8 September 2015, on a normal settlement basis. Scheme Shareholders who sell New TPG Shares before they receive their holding statements or confirm their holdings of New TPG Shares do so at their own risk. Neither iiNet nor TPG takes any responsibility for such trading.

4.19 Stamp duty

iiNet does not expect that any stamp duty will be payable on the transfer of the Scheme Shares to TPG. However, if stamp duty is payable, TPG has an obligation under the Scheme Implementation Agreement to pay the stamp duty.

4.20 De-listing of iiNet

It is intended that, on the Implementation Date, iiNet will request that the ASX remove iiNet from the official list of the ASX, and such de-listing is expected to occur shortly following that date.

4.21 Scheme Implementation Agreement

iiNet and TPG have entered into the Scheme Implementation Agreement in connection with the proposed Scheme. The Scheme Implementation Agreement was amended to reflect the terms of the Improved TPG Proposal on 5 May 2015. On 10 June 2015 iiNet and TPG further amended the Scheme Implementation Agreement to provide for the Election to be made before the Scheme Meeting. The Scheme Implementation Agreement sets out the obligations of iiNet and TPG in relation to the Scheme.

A summary of the key terms and conditions of the Scheme Implementation Agreement is set out in Section 11 and a full copy of the Scheme Implementation Agreement is set out in Annexure C.

4.22 What will happen if the Scheme is not approved?

If the Scheme is not approved by the Requisite Majority of iiNet Shareholders and the Court, the Scheme will not be implemented. Further, if any of the Conditions are not satisfied or (where applicable) waived by the End Date and iiNet and TPG are unable to reach agreement on an extension of time or an alternative method of proceeding (where applicable) then the Scheme Implementation Agreement may be terminated and the Scheme will not be implemented.

The consequences of the Scheme not being implemented include:

(a) you will retain your iiNet Shares, you will not receive the Scheme Consideration, and you will continue to be exposed to the risks associated with your investment in iiNet Shares as described in Section 9;

(b) iiNet will not declare or pay the Discretionary Special Dividend (and no Top-Up Cash Consideration will be paid by TPG);

(c) the iiNet Share price is likely to fall in the absence of a Superior Proposal;

(d) iiNet will remain a standalone company listed on the ASX, in the absence of a Superior Proposal;

(e) the expected benefits of the Scheme as set out in Section 1.1 will not be realised; and

(f) iiNet will have incurred significant costs (estimated as at the date of the Scheme Booklet at $1.6m) and management time and resources for no outcome.

4.23 Tax implications

The transfer of your iiNet Shares in accordance with the Scheme, and the payment of the Discretionary Special Dividend (if declared), may have tax implications for you. You should seek your own professional advice regarding your individual tax consequences.

In particular, the value of franking credits that relate to the Discretionary Special Dividend (if declared) is not the same for all Scheme Shareholders. In addition, there are special rules that apply to determine whether or not a Scheme Shareholder who receives the Discretionary Special Dividend (if declared) will be entitled to receive the related franking credits.

A summary of relevant tax implications for Scheme Shareholders including the tax consequences of the Discretionary Special Dividend is contained in Section 10.

Please refer to Section 10 for further details and consult your professional taxation adviser in respect of your individual tax situation.

4.24 What to do next

(a) Read the remainder of this Scheme Booklet

Read the remainder of this Scheme Booklet in full before making any decision on the Scheme.

(b) Consider your options

iiNet Shareholders should refer to Section 1 for further guidance on the reasons to vote in favour of, or against, the Scheme and Section 9 for guidance on the risk factors associated with the iiNet Group's business and general risks associated with continuing to hold iiNet Shares.

If you have any questions in relation to the Proposed Transaction, the Scheme or the Scheme Meeting, please contact the iiNet Shareholder Information Line on 1300 812 892 (within Australia) or +61 2 9098 9204 (outside Australia), or visit the Scheme website www.iinetscheme.net.au.

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

(c) Make an Election

Scheme Shareholders who hold Scheme Shares at the Election Date may elect to receive their Scheme Consideration as either the Cash Consideration or the Share Consideration. If you do not make an Election you will receive your Scheme Consideration as Cash Consideration. An Election is not transferable. If any iiNet Shares are acquired after the Election Date, the holder of those iiNet Shares will not be able to make an Election and will be deemed to have made a Cash Election. If you acquire iiNet Shares before the Election Date you should consider the form of Scheme Consideration that you would prefer to receive and make an Election.

If a Share Election is made and the total value of New TPG Shares to be issued to a Scheme Shareholder (calculated at the Election Date) would not be a Marketable Parcel then the Scheme Shareholder will be deemed to have made a Cash Election, and that Share Election will not be taken into account for the purposes of calculating whether the TPG Share Cap has been exceeded.

You can make an Election prior to 5.00pm (WST) on the Election Date, being Tuesday, 21 July 2015. Instructions on how to make an Election are set out in Section 3.2.

(d) Vote at the Scheme Meeting

The Directors urge you to vote on the Scheme at the Scheme Meeting. The Scheme affects your holding of iiNet Shares and your vote at the Scheme Meeting is important in determining whether the Scheme proceeds.

The Directors unanimously recommend that you vote in favour of the Scheme, in the absence of a Superior Proposal and subject to the Independent Expert maintaining its conclusion that the Scheme is in the best interests of iiNet Shareholders.

5

Information about iiNet

5. Information about iiNet

5.1 Overview of iiNet

Over the past 22 years, iiNet has grown to become the second largest residential DSL broadband provider in Australia, and the leading challenger brand in the sector. It has approximately 975,000 broadband subscribers nationally, providing over 1.9 million fixed line internet, telephone, mobile, and data services to these residential and business customers, both over its own broadband network and through third party networks. In addition to organic growth, a significant cornerstone of iiNet's growth story has been the successful acquisitions of brands including Westnet, Netspace, TransACT, Internode and Adam Internet.

iiNet's business division was launched in 2007 and provides business solution products including fixed line internet/data, voice, mobile and PBX services to Small Office-Home Office, Small-to-Medium enterprises as well as corporate and government customers. In the 2014 financial year, the business division generated revenue of approximately $205 million, representing almost 20% of iiNet's total revenue.

With the introduction of the NBN, iiNet has leveraged its scale, network and technology capabilities to take advantage of opportunities presented by the NBN, gaining over 40,000 NBN customers, with a 26% market share in new fibre estates and a 19% market share in areas with an existing internet connection as at 30 June 2014. While the NBN is still small in the context of iiNet's total subscriber base, this will continue to grow as the roll-out progresses and expands the market size available to iiNet.

iiNet's subscriber base is supported by over 2,000 employees, the majority of whom are in iiNet's call centres directly supporting customers. iiNet has developed a strong brand and track record of award-winning, quality customer service, consistently maintaining industry-leading net promoter scores **(NPS)**. iiNet's heavy customer focus, and its success at maintaining customer satisfaction, remains a key defining and differentiating factor to the other broadband providers in Australia.

5.2 Operational Structure

iiNet operates the following brands across its residential and business customer bases, offering innovative products and content services. iiNet's successful brands position the company as the leading challenger in the Australian residential telecommunications market.

5.3 Directors and Key Management Personnel

The current Directors and other key management personnel **(KMP)** of iiNet are as follows:

(a) Directors

- **Mr Michael Smith**, Non-Executive Chairman
- **Mr Peter James**, Non-Executive Director
- **Mr David Grant**, Non-Executive Director
- **Ms Louise McCann**, Non-Executive Director
- **Mr Paul McCarney**, Non-Executive Director
- **Mr Patrick O'Sullivan**, Non-Executive Director

(b) Other KMP

- **Mr David Buckingham**, Chief Executive Officer
- **Mr Greg Bader**, Chief Business Officer
- **Ms Maryna Fewster**, Chief Operating Officer
- **Mr Matthew Toohey**, Chief Information Officer
- **Mr Mark Dioguardi**, Chief Technology Officer

5.4 Litigation

iiNet is from time to time involved in disputes and litigation.

As at the date of this Scheme Booklet, no member of the iiNet Group is involved in any ongoing litigation or dispute which the Directors believe is material in the context of the iiNet Group taken as a whole.

5.5 Historical financial information

The financial information set out below is in abbreviated form and does not contain all the disclosures that are usually provided in an annual report prepared in accordance with the Corporations Act. The financial information has been extracted from iiNet's financial results for the half year ended 31 December 2014, and its audited financial statements for the financial years ended 30 June 2014 and 30 June 2013. iiNet's full financial accounts, including all notes to those accounts, can be found in:

- the iiNet Half Year Financial Report for the six months ended 31 December 2014 (released to the ASX on 19 February 2015);
- the iiNet 2014 Annual Report for the financial year ended 30 June 2014 (released to the ASX on 23 September 2014); and
- the iiNet 2013 Annual Report for the financial year ended 30 June 2013 (released to the ASX on 24 September 2013).

Copies of these reports as given by iiNet to the ASX are available from the ASX's website www.asx.com.au and on iiNet's website at www.iinet.net.au.

(a) Consolidated Statements of Profit or Loss and Other Comprehensive Income

	For the period ended 31 December 2014 $'000	For the year ended 30 June 2014 $'000	For the year ended 30 June 2013 $'000
Revenue			
Rendering of services	523,962	980,621	916,810
Sale of hardware	22,672	24,840	23,174
Other revenue	365	705	1,006
Total revenue	**546,999**	**1,006,166**	**940,990**
Other income	664	2,093	1,081
Network and carrier costs	(279,069)	(545,847)	(494,672)
Hardware costs	(21,997)	-	-
Employee expenses	(91,116)	(156,289)	(144,526)
Marketing expenses	(18,744)	(37,942)	(34,833)
Occupancy costs	(14,686)	(26,563)	(27,621)
Corporate expenses	(23,984)	(42,519)	(44,491)
Depreciation and amortisation expense	(42,289)	(84,845)	(82,045)
Finance costs	(9,628)	(21,303)	(22,729)
Other costs	(3,630)	(6,531)	(7,913)
Profit before income tax	42,520	**86,420**	**83,241**
Income tax expense	(13,455)	(23,396)	(22,303)
Profit for the year	**29,065**	**63,024**	**60,938**
Other comprehensive income/(loss)			
Items that may be reclassified subsequently to profit or loss			
Cash flow hedges:			
Net loss taken to equity	(1,189)	(4,498)	(247)
Income tax on items of other comprehensive income	356	1,449	74
Other comprehensive loss for the period, net of tax	**(833)**	**(3,049)**	**(173)**
Total comprehensive income for the period	**28,232**	**59,975**	**60,765**
Earnings per share attributable to owners of the Company	**Cents**	**Cents**	**Cents**
Basic earnings per share	18.2	39.1	37.8
Diluted earnings per share	18.1	38.7	38.6

(b) Consolidated Statement of Financial Position

	As at 31 December 2014 $'000
Current assets	
Cash and cash equivalents	16,079
Trade and other receivables	87,649
Prepayments	5,917
Inventory	17,678
Non-current assets held for sale	-
Derivative financial instruments	3,520
Income tax receivable	939
Total current assets	**131,782**
Non-current assets	
Plant and equipment	164,813
Intangible assets and goodwill	481,015
Indefeasible right of use assets	176,029
Derivative financial instruments	9,521
Deferred tax assets	4,212
Other assets	1,338
Total non-current assets	**836,928**
Total assets	**968,710**
Liabilities	
Current Liabilities	
Trade and other payables	106,597
Unearned revenue	67,859
Interest bearing loans and borrowings	7,540
Indefeasible right of use **(IRU)** lease liabilities	21,228
Income tax payable	-
Provisions	5,225
Employee benefit liability	13,910
Derivative financial instruments	-
Total current liabilities	**222,359**
Non-current liabilities	
Interest bearing loans and borrowings	211,949
Indefeasible right of use **(IRU)** lease liabilities	158,065
Deferred tax liabilities	-
Provisions	7,223
Unearned revenue	2,663
Employee benefit liability	1,126
Total non-current liabilities	**381,026**
Total liabilities	**603,385**
Net assets	**365,325**
Equity	
Issued capital	251,069
Retained earnings	106,227
Other reserves	8,424
Equity attributable to owners of the Company	**365,720**
Non-controlling interests	(395)
Total equity	**365,325**

5.6 Forecast financial information

iiNet has given careful consideration as to whether forecast financial information for iiNet on a standalone basis can and should be included in this Scheme Booklet. In particular, iiNet has considered whether there is a reasonable basis for the preparation and disclosure in the Scheme Booklet of reliable and useful forecast financial statements. iiNet has concluded that forecast financial statements for iiNet cannot be provided in this Scheme Booklet as iiNet does not have a reasonable basis for such forecasts as required by applicable law and practice, and that inclusion of such forecasts could be potentially misleading. Factors which can have a material impact on the reliability of forecasts include:

(a) Changes in variables which are beyond the control of iiNet, such as the competitive environment and general economic conditions;
(b) Changes in the regulatory environment and the roll out of the National Broadband Network; and
(c) Eventuation of other risks that iiNet is exposed to, such as those referred to in Section 9.4.

5.7 Material Changes in the Financial Position of iiNet Limited

Other than:
(a) the accumulation of profits in the ordinary course of trading; or
(b) as disclosed in the Scheme Booklet or as otherwise disclosed to the ASX by iiNet,

within the knowledge of the iiNet Board, the financial position of iiNet has not materially changed since 31 December 2014, being the date of the iiNet Half Year Financial Report for the 6 months ended 31 December 2014 (released to the ASX on 19 February 2015).

A copy of the iiNet Half-Year Financial Report for the 6 months ended 31 December 2014 is available free of charge on iiNet's website (http://investor.iinet.net.au), by contacting the iiNet Shareholder Information Line on 1300 812 892 (within Australia) or +61 2 9098 9204 (outside Australia) or by visiting the Scheme website at www.iinetscheme.net.au.

Further information regarding iiNet's financial performance is set out in the Independent Expert's Report which is set out in Annexure A.

5.8 iiNet issued securities

(a) Capital structure

The capital structure of iiNet as at the date of this Scheme Booklet (and in the case of the 2013 iiNet Performance Rights, as at 1 July 2015)[53] is as follows:

Capital Structure	Number of Securities
Ordinary Shares	162,950,896
Unlisted Options	Nil
2013 iiNet Performance Rights	1,614,327
Total	**164,565,223**

(b) Substantial shareholders

The substantial shareholders of iiNet as at 9 June 2015, being the last practicable trading day before the date of this Scheme Booklet are as follows:

Substantial Shareholder	Number of Shares	Percentage
J P Morgan Nominees Australia Limited	28,390,504	17.42
HSBC Custody Nominees (Australia) Limited	23,771,394	14.59
Citicorp Nominees Pty Limited	17,813,512	10.93
National Nominees Limited	15,031,472	9.22
TPG Telecom Limited[54]	10,184,137	6.25

53 Further details are provided in Section 12.1.
54 Note this figure is the combined shareholding for TPG Group. The actual shareholding is held in 3 separate parcels.

5.9 Recent iiNet Share price performance

The Original TPG Proposal was announced to the market prior to the opening trade on the ASX on Friday, 13 March 2015. The last recorded closing price for iiNet Shares on the ASX before the public announcement of the Scheme was $6.81 (on Thursday, 12 March 2015).

The closing price of iiNet Shares on the ASX on 9 June 2015, being the last practicable trading day before the date of this Scheme Booklet, was $9.56, being a premium of 0.1% above the Total Consideration of $9.55 per Scheme Share[55].

During the three months ended 12 March 2015:

(a) the highest recorded sale price for iiNet Shares on the ASX was $8.12 on 12 December 2014; and

(b) the lowest recorded sale price for iiNet Shares on the ASX was $6.12 on 19 February 2015.

The following chart highlights the movements in iiNet Share price performance over the last 10 years ending on 9 June 2015, being the last practicable trading day before the date of this Scheme Booklet.

iiNet Share price performance

Figure 3 – iiNet Share price performance

5.10 Further information

iiNet is a 'disclosing entity' that is subject to regular reporting and disclosure obligations under the Corporations Act and the Listing Rules. In addition, under the Listing Rules, subject to certain limited exceptions, iiNet is required to notify the ASX immediately on becoming aware of any information which a reasonable person might expect to have a material impact on the price or value of iiNet Shares.

Copies of documents given by iiNet to ASIC under the Corporations Act may be obtained from, or inspected at, any office of ASIC. Copies of documents given by iiNet to the ASX are available from the ASX's website www.asx.com.au and on iiNet's website at www.iinet.net.au.

55 The Total Consideration is at least $9.55 per iiNet Share for those iiNet Shareholders who make a Cash Election. The value of the Share Consideration will fluctuate with changes in the price of TPG Shares, meaning that the Total Consideration for those iiNet Shareholders who make a Share Election may be more or less than $9.55 per iiNet Share.

6

Information about TPG and TPG Shares

6. Information about TPG and TPG Shares

6.1 Overview of TPG

TPG is a leading Australian provider of telecommunication services to residential users, small and medium enterprises, government, large corporate enterprises and wholesale customers.

TPG is listed on the ASX and TPG's shares are quoted on the ASX under the code 'TPM'. TPG's market capitalisation as at 9 June 2015, being the last practicable trading day prior to the date of this Scheme Booklet, was approximately $6.84 billion.

TPG employs approximately 2,830 people in Australia and the Philippines and is headquartered in Macquarie Park, New South Wales, Australia.

In the financial year ended 31 July 2014, the TPG Group's EBITDA and net profit after tax were $363.7 million and $171.7 million respectively. As at 31 January 2015, the TPG Group's consolidated total assets were approximately $1.57 billion and net assets were approximately $908 million.

Further information about TPG can be obtained from TPG's website at www.tpg.com.au/about/investorrelations.php or on the ASX announcements platform at www.asx.com.au.

6.2 Overview of TPG's business

TPG was founded in 1986 as Total Peripherals Group, which sold computer equipment and network and internet services. TPG began a strategic investment in DSLAM infrastructure in 2005 and ceased the sale of computer equipment in December 2005. Since then, TPG has focussed on providing internet solutions to a broad range of residential customers, SMEs and corporate customers and has continued to grow strongly. The business was listed on the ASX in April 2008 via a merger with SP Telemedia Limited, and in November 2009 SP Telemedia Limited was renamed TPG Telecom Limited. TPG has undertaken a number of acquisitions since then including the acquisition of PIPE Networks in March 2010, IntraPower (Trusted Cloud) in August 2011 and AAPT in February 2014. TPG provides the following services to residential users, small and medium enterprises, government, large corporate enterprises and wholesale customers across Australia and overseas:

- Internet – ADSL2+, Fibre Optic and Ethernet broadband access, as well as Internet Protocol Television;
- Mobile telephony;
- Standard home phone telephony and VoIP (Internet based) telephony;
- Cloud computing services; and
- Business networking solutions – fully managed corporate wide area networks, Internet based virtual private networks and data networks.

TPG delivers these services through its own carrier-grade voice, data and internet network infrastructure. TPG owns end-to-end network infrastructure, including over 400 DSLAM enabled telephone exchanges across Australia, extensive inter-capital and metropolitan fibre optic networks, and six data storage facilities across Australia.

Through its acquisition of PIPE Networks in 2010, TPG acquired the international PPC-1 submarine cable which connects Australia and Guam with onwards connectivity to USA and Japan. TPG's acquisition of AAPT in February 2014 added inter-capital fibre optic networks to its infrastructure assets which further enhanced its position in the Australian telecommunications market.

In addition, TPG is party to agreements which provide it with access to the Southern Cross cable, and an agreement which will provide it access to the proposed SEA-US submarine cable between Guam and California which is currently being constructed by NEC Corporation. The addition of SEA-US to the TPG network will extend the reach of TPG's directly controlled network into the main hub of internet content in the US.

The TPG Group operates in two key divisions – the Consumer Division and the Corporate Division, which contributed approximately 49% and 51% of the TPG Group's revenue for the six-months ended 31 January 2015, respectively.

The Consumer Division provides internet, home phone and mobile phone services to a subscriber base that included over 786,000 broadband subscribers and 342,000 mobile phone subscribers as at 31 January 2015. TPG offers retail customers standalone services as well as plans that bundle broadband and home phone line rental.

The Corporate Division customer base includes small and medium enterprises, government, large corporate enterprises and wholesale customers. The Corporate Division grew significantly with the acquisition of AAPT in February 2014. TPG's Corporate Division has recently released a number of new business products, such as the Fibre400 plan, which offers unlimited internet at 400 Mbps to customers located in TPG on-net buildings.

6.3 TPG's strategy

The TPG business is focussed on growing its residential and corporate customer bases profitably by delivering market leading telecommunications services.

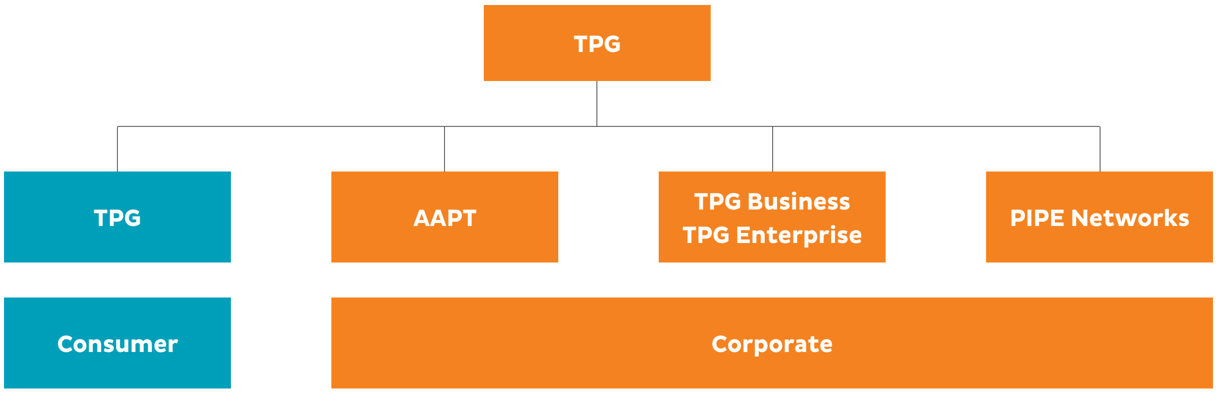
In particular, TPG regularly tenders for business from new customers in the corporate, government, wholesale and consumer markets. At any point in time, TPG may be participating in a number of tender opportunities. Success in any one or more of those tenders cannot be assured, but may have a material impact on TPG's revenue and EBITDA, and may also materially impact TPG's capex requirements.

In order to maximise its prospects for profitable growth, TPG strives to run its business as efficiently as possible and with an industry leading cost structure. The manner in which it seeks to achieve this cost structure advantage is through careful investment in network infrastructure combined with disciplined overhead cost control.

The TPG Group's ownership of network infrastructure has also been a significant strategic advantage in product differentiation in the corporate and government markets.

6.4 Corporate structure

TPG's business currently functions through a number of different entities. The principal vehicles and brands through which it will operate on an ongoing basis are shown in the below diagram.



6.5 Directors and senior management of TPG

(a) Directors

As at the date of this Scheme Booklet, the directors of TPG are:

- **David Teoh** – *Executive Chairman, Chief Executive Officer*
  David is the founder and Managing Director of the TPG group of companies. David has been the Chairman of TPG since 2008.
- **Denis Ledbury** – *Non-Executive Director*
  Denis has been a director of TPG since 2000 and is the Chairman of the Audit & Risk Committee and Remuneration Committee. Denis was the Managing Director of TPG Telecom between 2000 and 2005, and was associated with the NBN group of companies for over 24 years (the last 14 as Chief Executive Officer).
- **Robert Millner** – *Non-Executive Director*
  Robert has been a director of TPG since 2000 and is a member of the Audit & Risk and Remuneration Committees. Robert is also a director of several public companies, including BKI Investment Company Ltd (2003-current), Apex Healthcare Berhad (Malaysia) (2000-current), Australian Pharmaceutical Industries Ltd (2000-current), Milton Corporation Ltd (1998-current), Brickworks Ltd (1997-current), New Hope Corporation Ltd (1995-current), Washington H Soul Pattinson and Company Ltd (1984-current).

- **Joseph Pang** – *Non-Executive Director*
  Joseph has been a director of TPG since 2008 and is a member of the Audit & Risk and Remuneration Committees. Joseph has worked in financial roles in the UK, Canada and Hong Kong prior to starting his own Management and Financial Consulting Service in Australia.
- **Shane Teoh** – *Non-Executive Director*
  Shane was appointed to the board of TPG in 2012. Shane holds a Bachelor of Commerce and a Bachelor of Laws from the University of New South Wales. Shane is also the managing director of Total Forms Pty Ltd, a leading developer of accounting and taxation software in Australia.

(b) Senior management

As at the date of this Scheme Booklet, the other key management personnel of TPG are:

- **Stephen Banfield** – *Chief Financial Officer and Company Secretary*
- **Craig Levy** – *Chief Operating Officer*
- **Tony Moffatt** – *General Counsel*
- **John Paine** – *National Technical and Strategy Manager*
- **Wayne Springer** – *General Manager, Corporate Products and Pricing*
- **Mandie de Ville** – *Chief Information Officer*
- **Mark Rafferty** – *General Manager Sales, Enterprise and Wholesale.*

6.6 Corporate Governance

The TPG Board is responsible for the corporate governance of the TPG Group. In this regard, the TPG Board has incorporated each of the ASX Corporate Governance Council's Revised Principles and Recommendations, in accordance with ASX Listing Rule 4.10.3 into its corporate governance policies (except as otherwise stated in its Annual Report).

TPG's corporate governance policies are summarised below and further details are available on TPG's website at www.tpg.com.au/about/investorrelations.

(a) TPG Board

The TPG Board has adopted a Board Charter that formalises its roles and responsibilities, including defining matters that are reserved for the TPG Board and setting the powers and responsibilities of the chief executive officer.

The TPG Board is responsible for the overall corporate governance of the TPG Group including formulating its strategic direction, setting remuneration, appointing, removing and creating succession policies for directors, establishing and monitoring the achievement of management's goals, ensuring the integrity of risk management, internal control and legal compliance. The TPG Board delegates to senior management responsibility for the implementation of the strategic direction of TPG.

The TPG Board has established an Audit & Risk Committee and a Remuneration Committee to assist the TPG Board in fulfilling its responsibilities.

The TPG Board believes that each director brings an independent mind and judgement to bear on all Board decisions, notwithstanding that the Chairman and a majority of the Board are not independent (as that concept is used in the ASX Corporate Governance Council's Revised Principles and Recommendations). The performance of the TPG Board, its individual members and Committees is reviewed on an annual basis.

(b) Ethical and responsible decision making

TPG has adopted a written Code of Conduct to assist directors and staff in understanding their responsibilities to ensure TPG conducts its business in accordance with all applicable laws and regulations and in a way that enhances TPG's reputation. The Code of Conduct is also reflected in internal policies and procedures which reinforce TPG's commitment to complying with all applicable laws and regulations.

TPG is committed to encouraging diversity, and to that end its Code of Conduct provides that TPG will treat all employees and potential employees according to their skills, qualifications, competencies and potential, and will not discriminate on the basis of race, religion, gender, sexual preference, age, marital status or disability.

TPG has also established a written Securities Trading Policy which identifies the principles by which TPG balances the investment interests of its directors, senior executives and employees with the requirements for ensuring such trades only take place when all information relevant to making such investment decisions is fully disclosed to the market.

(c) Safeguard integrity in financial reporting

TPG has established an Audit & Risk Committee which is responsible for providing assurance that TPG's financial statements and related notes are complete, are in accordance with applicable accounting standards, and provide a true and fair view.

The TPG Board has adopted a formal charter which details the function and responsibility of the Audit & Risk Committee to ensure the integrity of the financial statements and independence of the external auditor. These responsibilities include ensuring the integrity of the financial reporting process, the risk management process, internal reporting and controls, management of strategic and major financial and operational risks, and the external audit process, based on sound principles of accountability, transparency and responsibility.

The Audit & Risk Committee is comprised of three non-executive directors, two of whom are independent. The Committee meets at least twice a year.

(d) Market disclosure and shareholder communications

TPG has established a Market Disclosure Policy to ensure that the market is properly informed of matters that may have a material impact on the price at which TPG's securities are traded.

The TPG Board aims to ensure that shareholders are informed of all major developments affecting TPG. In this regard, TPG posts its annual report and major announcements on its website and provides a link via the website to the ASX website so that all ASX releases, including notices of meetings, presentations, and analyst and media briefings, can be accessed.

TPG also encourages shareholder participation at general meetings.

(e) Risk management

TPG has an established business risk management framework to enable identification, control and oversight of material business risks facing the TPG Group. These risks include operational, financial, regulatory and technical risks.

The primary responsibility for identifying and controlling business risks lies with management. The Audit & Risk Committee, under delegation from the TPG Board, plays an oversight role in ensuring that material business risks and their associated controls are regularly reported to the Board by management and that a satisfactory system of risk management and internal control is maintained.

(f) Director's fees and executive remuneration

The TPG Board has established a Remuneration Committee which is responsible for reviewing remuneration packages and policies applicable to executives and directors and making recommendations to the Board in this regard.

The Remuneration Committee comprises three non-executive directors, two of whom are independent. The Committee meets as required and, at a minimum, twice a year.

Remuneration levels for key management personnel of the TPG Group are designed to attract and retain appropriately qualified and experienced directors and executives. The Remuneration Committee considers the suitability of remuneration packages relative to trends in comparable companies and to the objectives of the TPG Group's remuneration strategy.

6.7 TPG issued securities

(a) Capital structure

The capital structure of TPG as at the date of this Scheme Booklet is as follows:

Capital Structure	Number of Securities
Ordinary shares	793,808,141
Performance rights[1]	874,500
Unlisted options	Nil

1 Historically, TPG has settled vested performance rights by purchasing TPG Shares on-market (rather than issue new TPG Shares to the holder).

(b) Substantial holders

The substantial holders of TPG as at 9 June 2015, being the last practicable trading day before the date of this Scheme Booklet are as follows:

Substantial Holder	Number of Shares	Voting Power
David Teoh and Vicky Teoh	291,625,604	36.74%
Washington H Soul Pattinson and Company Limited	213,400,684	26.88%

6.8 Recent TPG Share price performance

TPG Shares are listed on the ASX under the code "TPM". Set out below is a table summarising recent trading prices of TPG Shares on the ASX.

TPG Share price information	Price
Last recorded price for TPG Shares on 12 March 2015, being the last trading day before the public announcement of the Original TPG Proposal on 13 March 2015	$7.74
Last recorded price for TPG Shares on 5 May 2015, being the last trading day before the public announcement of the Improved TPG Proposal on 6 May 2015	$8.79
Last recorded price for TPG Shares on 9 June 2015, being the last practicable trading day prior to the date of this Scheme Booklet	$8.62
Highest and lowest recorded sale prices for TPG Shares during the three months immediately before 9 June 2015, being the last practicable trading day prior to the date of this Scheme Booklet	
High (7 April 2015)	$9.72
Low (11 March 2015)	$7.35

Set out below is a graph depicting the share price performance of TPG Shares on the ASX from 1 January 2013 until 9 June 2015, being the last the last practicable trading day prior to the date of this Scheme Booklet.

TPG Share price

None of the TPG Share prices referred to above should be taken as necessarily being an indication of the likely price of TPG Shares following implementation of the Scheme.

6.9 Historical financial information

(a) Basis of preparation

Sections 6.9(b) and 6.9(c) below set out a summary of certain historical financial information about the consolidated TPG Group for the half-year ended 31 January 2015 (being the TPG Group's most recent published results) as well as for the years ended 31 July 2014 and 31 July 2013.

The financial information is presented in a summary form and consequently does not contain all of the disclosures that are usually provided in an annual report prepared in accordance with the Corporations Act. Further financial information is available in the TPG Group's half-year financial report for the period ended 31 January 2015 as well as in the TPG Group's 2014 and 2013 annual reports. These reports set out the TPG Group's significant accounting policies during these periods and are available on TPG's website at www.tpg.com.au/about/investorrelations.php.

The historical financial information for the half-year ended 31 January 2015 has been extracted from the TPG Group's half-year financial report for that period which has been reviewed by the TPG Group's auditors, KPMG, and on which KPMG issued an unqualified review opinion.

The historical financial information for the years ended 31 July 2014 and 31 July 2013 has been extracted from the TPG Group's audited financial statements for those years on which KPMG issued an unqualified audit opinion.

(b) Unaudited Historical Income Statement

	HY15 $'000	FY14 $'000	FY13 $'000
Revenue	627,308	970,920	724,533
Other income	1,743	2,633	3,349
Telecommunications expense	(290,300)	(454,199)	(328,139)
Employee benefits expense	(68,375)	(103,634)	(60,067)
Other expenses	(34,166)	(52,069)	(46,690)
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**236,210**	**363,651**	**293,086**
Depreciation of plant and equipment	(51,419)	(72,559)	(49,892)
Amortisation of intangibles	(23,676)	(35,214)	(23,942)
Results from operating activities	**161,115**	**255,878**	**219,252**
Finance income	671	1,762	2,447
Finance expenses	(9,585)	(10,837)	(9,400)
Net financing costs	**(8,914)**	**(9,075)**	**(6,953)**
Profit before income tax	**152,201**	**246,803**	**212,299**
Income tax expense	(45,476)	(75,124)	(63,134)
Profit for the period	**106,725**	**171,679**	**149,165**

In the table above 'HY15' represents the half-year ended 31 January 2015 and 'FY14' and 'FY13' represent the years ended 31 July 2014 and 31 July 2013 respectively.

(c) Historical Statement of Financial Position

	31 Jan 2015 $'000
Assets	
Cash and cash equivalents	36,141
Trade and other receivables	99,289
Inventories	4,519
Investments	57,606
Prepayments and other assets	9,965
Total Current Assets	**207,520**
Investments	89,409
Property, plant and equipment	569,968
Intangible assets	701,686
Prepayments and other assets	6,348
Total Non-Current Assets	**1,367,411**
Total Assets	**1,574,931**
Liabilities	
Trade and other payables	151,320
Loans and borrowings	191
Current tax liabilities	23,911
Employee benefits	13,046
Provisions	12,060
Accrued interest	605
Deferred income and other liabilities	83,263
Total Current Liabilities	**284,396**
Loans and borrowings	318,129
Deferred tax liabilities	14,353
Employee benefits	1,887
Provisions	19,984
Deferred income and other liabilities	28,194
Total Non-Current Liabilities	**382,547**
Total Liabilities	**666,943**
Net Assets	**907,988**
Equity	
Share capital	516,907
Reserves	54,931
Retained earnings	336,150
Total Equity	**907,988**

6.10 Material changes in the financial position of TPG

During April and May 2015 the TPG Group paid $90.3 million to increase its investment in Amcom Telecommunications Limited by purchasing shares in that company. This will be reflected in the TPG Group's statement of financial position by an increase of $90.3 million in the value of investments and of non-current loans and borrowings.

On 24 March 2015, TPG declared a fully franked interim 2015 dividend of 5.5 cents per share. This interim dividend, which totalled $43.7 million, was paid to TPG shareholders on 19 May 2015. As this interim dividend was not declared prior to 31 January 2015 it is not provided for in the 31 January 2015 statement of financial position.

Other than as disclosed above and:

(a) the accumulation of profits in the ordinary course of trading; or

(b) as disclosed in the Scheme Booklet or as otherwise disclosed to the ASX by TPG,

within the knowledge of the TPG Board, TPG's financial position has not materially changed since 31 January 2015, being the date of TPG's most recent half-year financial report.

6.11 Forecast financial information

On 24 March 2015 the TPG Board announced to the ASX its financial results commentary for the half-year ended 31 January 2015, which included a forecast for the TPG Group's EBITDA for the year ending 31 July 2015 of $480 million to $483 million. At the same time, TPG announced to the ASX an investor presentation in respect of its financial results for the half-year ended 31 January 2015, in which a forecast was also provided for the TPG Group's capital expenditure for the year ending 31 July 2015 of $135 million to $145 million. Both the financial results commentary and the investor presentation for the half-year ended 31 January 2015 are available on the ASX announcements platform at www.asx.com.au.

Based on circumstances existing as at the date of this Scheme Booklet, the TPG Board consider that it is unlikely the TPG Group's actual EBITDA and capital expenditure for the year ending 31 July 2015 will be materially different to the forecasts provided on 24 March 2015.

The above forecasts for the year ending 31 July 2015 take no account of the proposed acquisition of iiNet.

6.12 Financing of the TPG Group

The TPG Group has in place a $490 million syndicated bank debt facility, of which $320 million was drawn as at 31 January 2015. Under the terms of the facility there are no compulsory repayments until the expiry of the facility on 27 February 2017. The facility is secured by a fixed and floating charge over a majority of the TPG Group's assets.

The TPG Group's leverage ratio, calculated as the ratio of debt to annualised EBITDA (based on the TPG Group's EBITDA for the half-year ended 31 January 2015) is less than 0.7:1.

In order to finance the Cash Consideration and related cash payments under the Scheme, the TPG Group is party to a Commitment Letter and Term Sheet under which certain lenders will arrange and underwrite proposed new debt facilities to be made available to TPG which total $2.2 billion. The terms of those proposed new debt facilities are expected to be materially the same as the terms of TPG's existing syndicated bank debt facility. A summary of the terms of the proposed new debt facilities is set out in Section 7.4.

6.13 Dividend policy of the TPG Group

As at the date of this Scheme Booklet, the TPG Group does not have a formal dividend policy. Every six months following the preparation of the TPG Group's financial statements for the preceding half-year, the TPG Board considers whether to pay a dividend and the amount of such a dividend taking into account the circumstances at that time including the financial performance of the TPG Group for the preceding half-year.

A summary of TPG's historical fully franked declared dividends for FY12, FY13 and FY14 can be found below:

Year	Final	Interim	Total
FY14	$0.0475	$0.045	$0.0925
FY13	$0.04	$0.035	$0.075
FY12	$0.0275	$0.0275	$0.055

6.14 Litigation

TPG is from time to time involved in disputes and litigation.

As at the date of this Scheme Booklet, no member of the TPG Group is involved in any ongoing litigation or dispute which TPG believes is likely to lead to a material liability in the context of the TPG Group taken as a whole.

6.15 Rights and liabilities attached to New TPG Shares

The New TPG Shares will be issued as fully paid ordinary shares and will rank equally with all issued ordinary shares of TPG from the date of their allotment.

The New TPG Shares will have the same rights and liabilities attaching to them as existing TPG Shares by virtue of TPG's constitution, the Corporations Act and the common law. A broad summary of those rights is set out below.

(a) General meetings

Each holder of TPG Shares is entitled to receive notice of and to attend and vote at all meetings of members of TPG. They are entitled to be present and vote at meetings in person, or by proxy, attorney or authorised representative.

TPG Shareholders are also entitled to call a general meeting in accordance with the Corporations Act.

(b) Voting

Each TPG Share confers the right to vote at general meetings. On a show of hands, each TPG Shareholder has one vote. On a poll, each TPG Shareholder has one vote for each fully paid TPG Share that the TPG Shareholder holds and a fraction of a vote proportional to the amount paid on each partly-paid TPG Share.

(c) Dividends

TPG Shareholders are entitled to receive dividends declared in respect of TPG Shares in proportion to the number of TPG Shares they hold.

The directors may declare dividends as and when they see fit.

(d) Transfer of TPG Shares

A TPG Shareholder may transfer all or any of the TPG Shares they hold to a third party, subject to formal requirements.

The TPG Board may refuse to register a transfer of TPG Shares in any circumstances permitted by the Listing Rules. The TPG Board must refuse to register a transfer that is in breach of a restriction agreement in relation to TPG Shares entered into pursuant to the Listing Rules.

(e) Non-marketable parcels

As permitted by the Listing Rules, the TPG constitution confers the power on TPG to dispose of non-marketable parcels of TPG Shares. TPG must not sell a non-Marketable Parcel unless it has given 42 days' written notice to the TPG Shareholder of its intention to sell the TPG Shares. The TPG Shareholder may ask TPG to exempt their Shares, in which case TPG will not sell the parcel. If TPG does sell the TPG Shares, the proceeds of the sale are remitted to the TPG Shareholder.

(f) Winding-up

Each TPG Share confers on its holder the right to participate equally in the distribution of the assets of TPG in a winding up, subject only to any amounts unpaid on the TPG Share.

If TPG is wound up, the liquidator may, with the sanction of a special resolution, divide among the TPG Shareholders in kind the whole or any part of the property of the Company, and may for that purpose set such value as the liquidator considers fair upon any property to be so divided, and determine how the division is to be carried out as between the Shareholders.

(g) Variation

The rights and liabilities attached to the TPG Shares may, unless their terms of issue state otherwise, only be varied or cancelled:

- with the consent in writing of the holders of 75% of the issued shares in the class; or
- with the sanction of a special resolution passed at a separate meeting of the holders of those shares.

The rights and liabilities attaching to TPG Shares (including New TPG Shares) are governed by the Corporations Act and TPG's constitution. A copy of TPG's constitution is available on the ASX announcements platform or TPG Shareholders may request a copy from TPG on (02) 8220 6000.

6.16 Further information

TPG is a 'disclosing entity' that is subject to regular reporting and disclosure obligations under the Corporations Act and the Listing Rules. In addition, under the Listing Rules, subject to certain limited exceptions, TPG is required to notify the ASX immediately on becoming aware of any information which a reasonable person might expect to have a material impact on the price or value of TPG Shares.

Copies of documents given by TPG to ASIC under the Corporations Act may be obtained from, or inspected at, any office of ASIC. Additionally iiNet Shareholders have a right to obtain from TPG, free of charge, copies of TPG's annual financial report, TPG's half-year financial report and any continuous disclosure notices given by TPG after the lodgement of TPG's annual report and before the lodgement of this Scheme Booklet with ASIC by requesting a copy from TPG on (02) 8220 6000. Copies of documents given by TPG to the ASX are available from the ASX's website www.asx.com.au and on TPG's website at www.tpg.com.au.

7

TPG and the Scheme

7. TPG and the Scheme

7.1 Rationale for TPG's proposed acquisition of iiNet

TPG's primary motivation for entering into the Proposed Transaction is to continue to grow its business for the benefit of its shareholders. TPG considers that the iiNet and TPG businesses are highly complementary in terms of geographic presence, market segments and corporate customer base. The combined businesses will provide broadband services to over 1.7 million subscribers and will be well-positioned to deliver scale benefits in an NBN environment. TPG hopes to benefit by harnessing iiNet's well-known brand and skills in customer service.

7.2 TPG's intentions if the Scheme is implemented

The statements set out in this Section 7.2 are statements of current intentions only which may change as new information becomes available or circumstances change. Any decisions will only be reached after implementation of the Scheme when all material facts and circumstances are known to TPG.

(a) Overview

If the Scheme is implemented, members of the TPG Group will become the holders of all iiNet Shares and, accordingly, iiNet will become a wholly-owned Subsidiary of the TPG Group.

This Section 7.2 sets out the present intentions of TPG in relation to iiNet, including in relation to:

- the continuation of iiNet's business;
- any major changes to the iiNet business, including any redeployment of the fixed assets of iiNet; and
- the future employment of the present employees of iiNet,

in each case, if the Scheme is implemented.

The intentions set out in this Section 7.2 have been formed on the basis of facts and information concerning iiNet and the general business environment which are known to the TPG Group as at the date of this Scheme Booklet.

Final decisions regarding the matters set out below will only be made by TPG in the light of all such material information, facts and circumstances at the relevant time. Accordingly, it is important to recognise that the statements set out in this Section 7.2 are statements of current intentions only, which may change as new information becomes available or circumstances change.

The intentions of other members of the TPG Group, including those Subsidiaries of TPG that currently hold iiNet Shares, are the same as TPG's intentions.

(b) Implementation and integration process

If the Scheme is implemented, TPG intends to work quickly to integrate the businesses of the iiNet Group and the TPG Group, whilst continuing to operate iiNet's business under its existing brand.

TPG's ability to do so will be reliant on TPG first gaining a better understanding of iiNet's business. This is because TPG has limited knowledge of iiNet's business and operations, given that, prior to announcement of the Proposed Transaction, TPG's due diligence on iiNet was limited to publicly available information, and since that time TPG has not had access to the iiNet business, its records, management or other internal iiNet resources due to commercial sensitivities.

As a result, if the Scheme is implemented, TPG intends to conduct a review of iiNet's operations covering strategic, financial and operational matters. That review will seek to validate TPG's understanding of iiNet's business in order to assist in the integration process and to identify areas in which iiNet's business may be improved.

While TPG does not have any specific intentions in relation to the outcomes of the review, it may identify areas in which TPG's understanding of iiNet's business differs from the current position, and may also identify opportunities to better integrate the two businesses and to achieve greater efficiencies and synergy benefits over time.

In particular, TPG notes that the existing businesses of the iiNet Group and the TPG Group are complementary and share some common requirements in terms of infrastructure and operations. Accordingly, it is expected that the process of integrating the two businesses may result in some changes to both the iiNet business and the TPG business, but the nature or extent of such changes will depend on the outcome of the review described above.

TPG anticipates that the review is likely to be substantially completed within approximately six months of the Scheme being implemented.

TPG has no current intention to make major changes to the iiNet business and intends to support iiNet in continuing to operate its business largely consistently with its existing strategies and initiatives. TPG has no current intention to redeploy any of iiNet's fixed assets. However, any final decisions regarding the continuation of iiNet's business, any major changes to the iiNet business, and any redeployment of the fixed assets of iiNet will be made as part of that review.

(c) Future employment of the present employees of iiNet

TPG will evaluate the future employment requirements of the iiNet Group business as part of the integration process and the review described in Section 7.2(b) above. That evaluation will also be made in the light of the operating model which is proposed to be adopted for the iiNet Group and TPG Group businesses, under which TPG intends to maintain separate brands for the iiNet Group and TPG Group businesses. Subject to the outcomes of that evaluation, TPG will endeavour to minimise any disruption to iiNet and its employees.

Overall, key operational responsibilities for the iiNet business are expected to be largely unchanged. However, final decisions regarding the structure of the TPG Group and iiNet Group businesses (including in respect of any potential duplication between existing corporate and administrative functions) will be made as part of the integration process and review described in Section 7.2(b) above.

TPG believes that the proposed acquisition of iiNet should offer benefits for iiNet employees by bringing together the businesses of the iiNet Group and the TPG Group with the potential to create exciting growth opportunities across the combined group.

(d) Employee incentive arrangements

TPG understands that iiNet has a long term incentive plan and a short term incentive plan, each of which will no longer be applicable following implementation of the Scheme. After implementation of the Scheme, TPG intends to review and implement appropriate incentive arrangements for key employees so as to align the interests of iiNet Group employees with those of the TPG Group.

The terms of any new incentive plans and the employees who will be entitled to participate in those plans will be determined by TPG after implementation of the Scheme.

(e) iiNet to be delisted

If the Scheme is implemented, TPG will cause iiNet to request the ASX to remove it from the ASX's official list. Following delisting, investors will no longer be able to acquire or trade in iiNet Shares on the ASX.

(f) Directors

TPG intends to reconstitute the iiNet Board with representatives of the TPG Group and to make similar changes to the boards of iiNet's Subsidiaries. The representatives of the TPG Group have not yet been identified and their identities will depend on the circumstances at the relevant time. The timing of such changes to the iiNet Board and the boards of iiNet's Subsidiaries will be in accordance with the Scheme Implementation Agreement.

(g) Headquarters

Pending the outcome of the review described in Section 7.2(b) above, TPG currently intends that the principal operational centre of the iiNet business will remain in Perth, Western Australia following implementation of the Scheme.

7.3 Scheme Consideration

If the Scheme becomes Effective, TPG will pay, or procure the provision of, the Cash Consideration to the Scheme Shareholders, and issue the Share Consideration to the Scheme Shareholders, in accordance with the terms of the Scheme and the Deed Poll.

(a) Cash Consideration

Based on:

- iiNet's issued share capital as at the date of this Scheme Booklet;

- the maximum number of iiNet Performance Rights that are expected to vest on or before the Record Date (Sections 12.1 and 12.2) and the Scheme Consideration;
- the TPG Group continuing to hold a total of 10,184,137 iiNet Shares as at the Record Date; and
- the assumption that all Scheme Shareholders make or are deemed to make a Cash Election,

the maximum amount of Cash Consideration required to be paid by TPG to all Scheme Shareholders under the Scheme is approximately $1.36 billion **(Aggregate Cash Consideration)**.

The actual aggregate Cash Consideration required to be paid by TPG will only be determined after the Record Date when entitlements to Cash Consideration or Share Consideration are finally determined.

(b) Discretionary Special Dividend and Top-Up Cash Consideration

In addition to the Aggregate Cash Consideration, based on:

- iiNet's issued share capital as at the date of this Scheme Booklet; and
- the maximum number of iiNet Performance Rights that may vest on or before the Record Date (Sections 12.1 and 12.2) and the Scheme Consideration,

the maximum amount of cash required in order for TPG to lend funds to iiNet to pay the Discretionary Special Dividend (and/or for TPG to pay any Top-Up Cash Consideration) is approximately $123 million (Aggregate Dividend Amount).

(c) Share Consideration

A maximum of 27,523,946 New TPG Shares may be issued as Share Consideration calculated as at the Election Date. Subject to the Scheme becoming Effective, there is no restriction on the ability of TPG to issue the maximum number of New TPG Shares which it may be required to issue as Share Consideration.

The actual number of New TPG Shares required to be issued by TPG will only be determined after the Record Date when entitlements to Cash Consideration or Share Consideration are finally determined.

7.4 TPG's cash funding arrangements

(a) Background

TPG and a syndicate of banks (being ANZ, NAB and Westpac) (together, the **Lenders**), are parties to a Syndicated Facility Agreement dated 12 March 2010 as amended from time to time **(Existing Facility Agreement)** under which the Lenders have made available to TPG various debt facilities.

(b) Overview of commitment in respect of Facilities

TPG and the Lenders have, prior to the date of this Scheme Booklet, executed a mandate and commitment letter which attaches a term sheet **(Commitment Letter and Term Sheet)** under which the Lenders will arrange and underwrite proposed debt facilities to be made available to TPG which total $2.2 billion **(Facilities)**.

The Facilities are to be made available for the purposes of:

- refinancing the existing debt facilities of the TPG Group;
- TPG's acquisition of iiNet under the Scheme (including to fund the Discretionary Special Dividend), and to pay related transaction costs; and
- funding the working capital requirements and general corporate purposes of the TPG Group.

Based on the Commitment Letter and Term Sheet, the aggregate amount available for draw down under the Facilities for the purpose of TPG's acquisition of iiNet under the Scheme (including to fund the Discretionary Special Dividend) is sufficient to fund the Aggregate Cash Consideration and the Aggregate Dividend Amount.

The Lenders indicate in the Commitment Letter and Term Sheet that they intend to syndicate the Facilities.

TPG expects that, prior to the date currently scheduled for the Scheme Meeting, it will finalise and execute formal documentation in respect of the Facilities on substantially the terms described in the Commitment Letter and Term Sheet.

(c) Conditions precedent to commitment and draw down

Commitment is subject to certain matters

The Lenders' commitment to underwrite the Facilities pursuant to the Commitment Letter and Term Sheet is subject to:

(i) certain conditions precedent being satisfied by TPG (Conditions Precedent); and

(ii) no event occurring prior to execution of formal documentation for the Facilities which, in the reasonable opinion of the Lenders, might materially and adversely affect:

- the international or domestic debt, bank or capital markets;
- the financial condition, results, operations or business prospects of the TPG Group (excluding iiNet); or
- the ability of the Lenders to syndicate the Facilities.

As at the date of this Scheme Booklet, TPG is not aware of any reason why the Conditions Precedent (as described in further detail below) will not be satisfied in time to allow the Facilities to be drawn down to pay the Aggregate Cash Consideration and the Aggregate Dividend Amount as and when it is due under the terms of the Scheme, provided the Scheme has become Effective.

Further, as at the date of this Scheme Booklet, TPG is not aware of any reason why any of the events described in sub-paragraph (ii) above are expected to occur prior to execution of formal documentation for the Facilities.

Conditions Precedent

The Conditions Precedent include providing an agent for the Lenders, among other things, the following:

- copies of the Scheme documentation, including the Scheme Implementation Agreement, Scheme Booklet and any supplements or amendments to them;
- a certificate executed by a TPG Director confirming that certain steps in connection with implementation of the Scheme have occurred or will occur, such as the Scheme becoming Effective and iiNet becoming a wholly-owned Subsidiary of TPG on implementation of the Scheme;
- evidence of receipt of all required regulatory approvals in connection with the Scheme (including the ACCC clearance);
- evidence that the formal documentation for the Facilities has been fully signed and, if applicable, is in registrable form together with all things necessary to pay stamp duty or other taxes;
- evidence that all amounts outstanding under the Existing Facility Agreement will be refinanced in full on the date of financial close by application of drawings under the Facilities;
- a transaction structure memorandum, including a structure chart for the TPG Group post-implementation of the Scheme;
- signed verification certificates and authorised officer certificates attaching all corporate authorisation material including any powers of attorney, and certifying usual matters including solvency and corporate benefit;
- copies of relevant documents authorising the execution and performance of the formal documentation for the Facilities;
- legal opinions from the Lenders' counsel in each relevant jurisdiction evidencing TPG's legal capacity and the TPG Group's corporate structure;
- copies of customary searches of registers kept by ASIC, including the personal property securities register, in respect of members of the TPG Group;
- a funds flow statement relating to payments to be made by TPG from drawings under the Facilities at financial close;
- evidence that all fees, costs and expenses payable in connection with the Facilities have been paid; and
- satisfaction by TPG of customary 'know your customer' and anti money laundering requirements.

Additional Conditions Precedent applicable to draw downs of funds under the Facilities are to include:

- the absence, at the time of draw down, of any 'default' under the terms of the formal documentation for the Facilities;
- all representations and warranties given by TPG under the formal documentation for the Facilities remaining, in all material respects, correct and not misleading; and
- receipt of a duly completed and signed draw down request.

TPG expects that the formal documentation for the Facilities will provide that a draw down can be made under the Facilities at any time up to 30 September 2015, subject to satisfaction of the Conditions Precedent.

Default

The Commitment Letter and Term Sheet provide that the terms of the Existing Facility Agreement will apply to the concept of a 'default' under the formal documentation for the Facilities. TPG expects, based on the relevant terms concerning events of default under the Existing Facility Agreement and negotiations between TPG and the Lenders to date, that the terms of the formal documentation for the Facilities will provide that a 'default' will occur where:

- TPG does not pay on the due date an amount due under a finance document entered into in connection with the Facilities, including security agreements **(Finance Document)**, or does not otherwise comply with its obligations under a Finance Document;
- TPG does not comply with various financial covenants it has given including in relation to minimum shareholder funds and the leverage ratio of the TPG Group;
- TPG makes a material misrepresentation or an incorrect statement in a Finance Document which may be remedied by TPG in certain circumstances;
- various events occur that indicate that a member of the TPG Group is or may be insolvent, or may become insolvent;
- it is or becomes unlawful for TPG to perform any of its obligations under a Finance Document;
- any TPG Group member suspends or ceases to carry on a material part of its business or conducts any business which is not consistent with TPG's core business of providing internet and telecommunications products and services to retail, government and wholesale customers;
- a Subsidiary of TPG ceases to be a wholly-owned Subsidiary of TPG other than pursuant to a transaction permitted by the Lenders;
- any TPG Group member reduces its capital or passes a resolution to authorise a share buy-back other than with the consent of the Lender;
- TPG's auditors qualify the audited annual consolidated financial statements of TPG;
- the authority or ability of any member of the TPG Group to conduct its business is limited by any seizure, expropriation, nationalisation, intervention, restriction or other action by or on behalf of any governmental, regulatory or other authority or other person;
- TPG rescinds or purports to rescind or repudiates or purports to repudiate a Finance Document;
- any party to any specified agreement (which is expected to include the Scheme documents) rescinds or purports to rescind or repudiates or purports to repudiate the agreement, and such rescission or repudiation is likely to have a material adverse effect (as defined below) on the interests of the Lenders under the Finance Documents;
- any litigation, arbitration or any administrative, governmental, regulatory or other investigation, proceeding or dispute is commenced or threatened against any member of the TPG Group or its assets and has, or is reasonably likely to have, a material adverse effect (as defined below). It is expected that this will extend to any such matter being commenced or threatened in relation to the Scheme;
- any event or circumstance or series of events or circumstances, whether related or not, occurs which the Lenders believe has or is reasonably likely to have a material adverse effect (as defined below); or

- TPG is removed from the official list of the ASX or its shares are suspended from official quotation by the ASX and remain suspended for a continuous period of more than 5 trading days.

The Existing Facility Agreement defines a 'material adverse effect' to mean a material adverse effect on:

- the business, operation, property or condition (financial or otherwise) of the TPG Group as a whole;
- the ability of a TPG Group member to perform its obligations under the Existing Facility Agreement and related documents; or
- the validity or enforceability of the whole or any material part of the Existing Facility Agreement and related documents, or any material rights or remedies of any Lender under the Existing Facility Agreement and related documents.

TPG expects, based on negotiations to date with the Lenders, that the above definition of a 'material adverse effect' will be retained on substantially the same terms in the formal documentation for the Facilities.

As at the date of this Scheme Booklet, none of the events listed above has occurred and TPG is not aware of any reason why such an event would occur prior to the time at which TPG intends to draw down amounts under the Facilities to pay the Aggregate Cash Consideration and the Aggregate Dividend Amount as and when it is due under the terms of the Scheme, provided the Scheme has become Effective.

(d) Cancellation of Lenders' commitment

Any Lender may terminate their commitment to underwrite the Facilities under the Commitment Letter and Term Sheet if:

- in its opinion, there is a material breach of the Commitment Letter and Term Sheet (or related fee letter) by TPG which is not cured within 14 days of notice being given to TPG by the Lender;
- the Lenders agree with TPG to terminate the Commitment Letter and Term Sheet;
- TPG fails or has failed to disclose to the Lenders information which could be relevant to its decision to underwrite the Facilities; or
- the Scheme does not proceed.

The Lenders' commitment to underwrite the Facilities under the Commitment Letter and Term Sheet expires on 31 August 2015. TPG expects, based on negotiations between TPG and the Lenders to date, that the formal documentation for the Facilities will be executed by the parties prior to the expected Second Court Date on 21 August 2015.

8

Information about the Combined Group

8. Information about the Combined Group

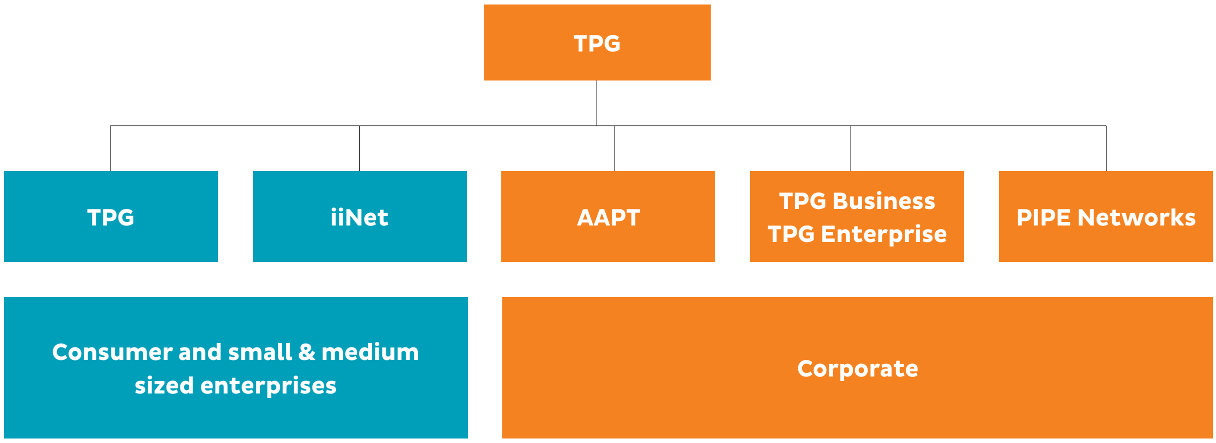
8.1 Overview of the Combined Group

If the Scheme is implemented, the Combined Group will represent a large player in the fixed line Australian telecommunications industry, with a fixed broadband customer base second only to Telstra. The Combined Group will have approximately 1.7 million broadband subscribers, representing over 27% of the addressable market, and a significant presence in the corporate, wholesale and government markets.

As the businesses of iiNet and TPG are quite similar, the descriptions about the types of products that will be offered and the approach to the market will be largely as described in Sections 5 and 6 for the businesses separately. It is intended that the Combined Group will operate a dual brand strategy such that the iiNet brand will continue to operate in the market with a focus on high levels of customer service.

8.2 Operational Structure of the Combined Group

TPG intends that the iiNet brand will be retained after implementation of the Scheme. As a result, the likely operational structure of the Combined Group including the principal operating entities and brands is set out below.



8.3 Combined Group's board of directors and senior management

(a) Directors

TPG will be the ultimate parent company of the Combined Group. TPG does not currently anticipate any change to the composition of the TPG Board following implementation of the Scheme, and therefore expects the Board to remain as set out in Section 6.5(a). See Section 6.5(a) for information about the members of the TPG Board.

(b) Senior management

As noted in Section 7.2, if the Scheme is implemented, TPG intends to conduct a review of iiNet's operations. Whilst the key operational responsibilities for the iiNet business are expected to be largely unchanged, final decisions regarding the structure of the Combined Group and its senior management requirements will be made as part of the integration process and that review.

8.4 Corporate Governance of the Combined Group

As TPG will be the ultimate parent company of the Combined Group, TPG expects that the corporate governance policies and practices of the Combined Group will be the same as TPG's existing policies and practices. See Section 6.6 for information about the corporate governance of TPG.

8.5 Pro forma historical financial information for the Combined Group

(a) Overview

The Combined Group Unaudited Pro-Forma Financial Information contained in this Section 8.5 comprises the:

(i) unaudited pro-forma statement of comprehensive income for the combined TPG and iiNet business (Combined Group Unaudited Pro-Forma Statement of Comprehensive Income) for the illustrative six month period ended 31 January 2015; and

(ii) unaudited pro-forma statement of financial position for the combined TPG and iiNet business as at 31 January 2015 (Combined Group Unaudited Pro-Forma Statement of Financial Position).

The Combined Group Unaudited Pro-Forma Financial Information has been derived to provide iiNet Shareholders with an illustrative historical statement of comprehensive income and historical financial position of the Combined Group if the Scheme is implemented. It is indicative only and does not illustrate the financial information that may be contained in future TPG financial statements when the Scheme is implemented.

The Combined Group Unaudited Pro-Forma Financial Information set out in this Section 8.5 should be read in conjunction with the information contained elsewhere in this Booklet, including the risk factors set out in Section 9, and also the accounting policies of TPG as disclosed in its most recent annual and half yearly financial reports.

KPMG Financial Advisory Services (Australia) Pty Ltd has been engaged as the Investigating Accountant to prepare an Independent Limited Assurance Report on the compilation of the Combined Group Unaudited Pro-forma Financial Information, as set out in this Section 8.5. The Independent Limited Assurance Report is set out in Annexure B. iiNet Shareholders should note the scope, limitations and emphasis of matter of the Independent Limited Assurance Report.

(b) Basis of preparation

With the exception of matters noted in Key assumptions below, the Combined Group Unaudited Pro-Forma Financial Information has been prepared in accordance with the recognition and measurement principles of the Accounting Standards. The Combined Group Unaudited Pro-Forma Financial Information contained in this Section 8.5 is based on:

(i) TPG's reviewed financial report for the half-year ended 31 January 2015; and

(ii) iiNet's reviewed financial report for the half-year ended 31 December 2014,

adjusted for certain pro forma transactions and/or other adjustments described in the notes to the Combined Group Unaudited Pro-Forma Financial information presented in this Section 8.5; and

(iii) the key assumptions set out in Section 8.5(c) below.

The Combined Group Unaudited Pro-Forma Financial Information is presented in an abbreviated form and does not include all of the disclosures, statements and comparative information required by the Accounting Standards as they are applicable to annual financial reports prepared in accordance with the Corporations Act.

As a result of differences in the dates of half year reporting, information used in deriving the Combined Group Unaudited Pro-Forma Financial Information in relation to TPG and iiNet is derived from differing six month financial periods. For the purposes of the Combined Group Unaudited Pro-Forma Financial Information, it has been assumed that these periods are identical. This period is referred to as the Illustrative Half Year Period ended 31 January 2015 and relates to the notional half year beginning 1 August 2014 and ended 31 January 2015.

The Combined Group Unaudited Pro-Forma Financial Information is provided for illustrative purposes and is prepared on the assumption that:

(i) for the purposes of the Combined Group Unaudited Pro-Forma Statement of Comprehensive Income, the Scheme had been implemented on 1 August 2014; and

(ii) for the purposes of the Combined Group Unaudited Pro-Forma Statement of Financial Position, the Scheme had been implemented on 31 January 2015.

This is not intended to reflect the financial performance or the financial position that would have actually resulted had the Scheme been implemented on this date, or the results that may be obtained in the future. If the Proposed Transaction had occurred in the past, TPG's financial position and financial performance would likely have been different from that presented in the Combined Group Unaudited Pro-Forma Financial

Information. Due to the nature of pro forma information, it may not give a true picture of TPG's financial position and financial performance. The Combined Group Unaudited Pro-Forma Financial Information is not represented as being indicative of TPG's views on its future financial position or future financial performance.

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

(c) Key assumptions

The Combined Group Unaudited Pro-Forma Financial Information has been prepared based on the key assumptions set out below.

(i) Acquisition accounting – Fair value of identifiable assets and liabilities acquired

For the purposes of preparing the Combined Group Unaudited Pro-Forma Financial Information, it has been assumed that there will be no adjustments to the carrying value of identified assets and liabilities acquired. In the event that any fair value adjustments are subsequently identified, this will have an equal but opposite effect on goodwill arising on acquisition.

(ii) Acquisition accounting – Other intangibles

For the purposes of preparing the Combined Group Unaudited Pro-Forma Financial Information, it has been assumed that there will be no separately identifiable intangible assets other than those already recognised in iiNet's 31 December 2014 statement of financial position. It is, however, likely that separately identified intangibles, particularly in the form of subscriber bases, will be identified, with the resulting effect of reducing goodwill arising on acquisition. Given that subscriber bases will have finite lives, net profit after tax will decrease as a result of the requirement to amortise these intangibles over their estimated useful life. This will not, however, have an impact on cash flows.

(iii) Deferred tax

For the purposes of preparing the Combined Group Unaudited Pro-Forma Financial Information, it has been assumed that there will be no resetting of iiNet's tax cost bases following the acquisition. It is, however, likely that the Allocable Cost Amount calculation will result in a deferred tax position which is different to the position presented in the Combined Group Unaudited Pro-Forma Financial Information. Any resulting adjustment will have an equal but opposite impact on the amount of goodwill recognised.

(iv) Variation in accounting policies

The Combined Group Unaudited Pro-Forma Financial Information applies the individual accounting policies of TPG and iiNet respectively to the financial information of each entity. No allowance for variations in accounting policies between TPG and iiNet has been made in the Combined Group Unaudited Pro-Forma Financial Information.

TPG has not had sufficient access to iiNet's financial records to determine the consequences that may arise as a result of differences in accounting policies or in the application of accounting policies between TPG and iiNet and, therefore, there is some uncertainty regarding the extent or the amount of the impact that such differences may have.

TPG does not make any representation or warranty, express or implied, in relation to the extent or the amount of the impact that may be caused by any accounting policy differences referred to above. However, based on a review of the accounting policies set out in the TPG and iiNet 2014 Annual Reports it has been noted, for example, that TPG and iiNet apply different rates of depreciation for some classes of property, plant and equipment and intangible assets. Other accounting policy differences may also exist.

(v) Scheme Consideration

For the purposes of preparing the Combined Group Unaudited Pro-Forma Financial Information, it has been assumed that the Scheme Consideration is settled entirely in cash. If iiNet Shareholders do elect to take some of the Scheme Consideration in New TPG Shares there would be a corresponding reduction in loans and borrowings and increase in equity in the Combined Group Unaudited Pro-Forma Statement of Financial Position and a decrease in interest expense in the Combined Group Unaudited Pro-Forma Statement of Comprehensive Income.

(d) Combined Group Unaudited Pro-forma Statement of Comprehensive Income

The Combined Group Unaudited Pro-Forma Statement of Comprehensive Income has been derived from combining:

- the TPG historical consolidated statement of comprehensive income for the six months ended 31 January 2015, which was extracted from TPG's half year report for the half year ended 31 January 2015, which was reviewed by KPMG and on which an unqualified review opinion was provided;
- the iiNet historical consolidated statement of comprehensive income for the six months ended 31 December 2014, which was extracted from iiNet's half year report for the half year ended 31 December 2014, which was reviewed by Ernst & Young and on which an unqualified review opinion was provided; and
- the Pro-Forma adjustments noted below.

The table below sets out the Combined Group Unaudited Pro-Forma Statement of Comprehensive Income for the Illustrative Half Year Period ended 31 January 2015.

$'000	TPG	iiNet	Pro-Forma Adjustments	Notes	Combined Group Pro-Forma
Revenue	627,308	546,634	(8,882)	3	1,165,060
Other income	1,743	664	(1,324)	4	1,083
Telecommunications expense	(290,300)	(301,066)	3,482	3	(587,884)
Employee benefits expense	(68,375)	(91,116)	2,142	1,2	(157,349)
Other expenses	(34,166)	(61,044)	1,109	1	(94,101)
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**236,210**	**94,072**	**(3,473)**		**326,809**
Depreciation	(51,419)	(20,520)	-		(71,939)
Amortisation	(23,676)	(21,769)	3,396	3	(42,049)
Results from operating activities	**161,115**	**51,783**	**(77)**		**212,821**
Finance income	671	365	-		1,036
Finance expense	(9,585)	(9,628)	(46,030)	3,5	(65,243)
Net financing costs	**(8,914)**	**(9,263)**	**(46,030)**		**(64,207)**
Profit before income tax	**152,201**	**42,520**	**(46,107)**		**148,614**
Income tax (expense)/benefit	(45,476)	(13,455)	13,965		(44,966)
Profit for the period	**106,725**	**29,065**	**(32,142)**		**103,648**
Attributable to:					
Owners of the Company	106,725	29,473	(32,142)		104,056
Non-controlling interest	-	(408)	-		(408)
	106,725	**29,065**	**(32,142)**		**103,648**

Notes to the Statement of Comprehensive Income

The following Pro-Forma adjustments have been included in the Combined Group Unaudited Pro-Forma Statement of Comprehensive Income as if the Scheme had occurred on 1 August 2015:

1) *Significant non-recurring items*

Reflects significant non-recurring costs identified in iiNet's financial report for the half-year ended 31 December 2014. These costs related to business acquisitions, restructuring and asset disposals and have been excluded from the Combined Group Unaudited Pro-forma Financial Information due to their non-recurring nature.

2) *Share-based payment expense relating to 2015 iiNet Performance Rights*

Reflects the reversal of the share-based payment expense recognised in relation to the 2015 iiNet Performance Rights during the half-year ended 31 December 2014. Under the terms of the Scheme Implementation Agreement, 2015 iiNet Performance Rights issued under the LTI Plan will be cancelled.

3) *Transactions between TPG and iiNet*

Reflects the elimination of transactions in the ordinary course of business between TPG and iiNet. The parties have historically entered into a number of arrangements which continued during the Illustrative Half Year Period ended 31 January 2015. These arrangements relate mostly to:

- the provision of TPG bandwidth capacity to iiNet; and
- the provision of access to iiNet network infrastructure, data centres and DSLAM ports to TPG.

4) *Reversal of dividend income*

Reflects the reversal of dividend income received from iiNet recognised in TPG's financial report for the half year ended 31 January 2015.

5) *Interest on increased debt facilities*

Recognition of the estimated incremental interest costs associated with the incremental borrowing expected to be incurred by TPG should the Scheme proceed. TPG has negotiated a revised debt facility to fund the Proposed Transaction. For the purposes of preparing the Combined Group Unaudited Pro-Forma Financial Information it is assumed that the Scheme Consideration is paid entirely in cash and no New TPG Shares are issued. Total debt is estimated to increase by the Scheme Consideration of $1.474 billion.

(e) Combined Group Unaudited Pro-forma Statement of Financial Position

The Combined Group Unaudited Pro-Forma Statement of Financial Position has been derived from combining:

- the TPG historical consolidated statement of financial position as at 31 January 2015, which was extracted from TPG's half year report for the half year ended 31 January 2015, which was reviewed by KPMG and on which an unqualified review opinion was provided;
- the iiNet historical statement of financial position as at 31 December 2014, which was extracted from iiNet's half year report for the half year ended 31 December 2014, which was reviewed by Ernst & Young and on which an unqualified review opinion was provided; and
- the Pro-Forma adjustments noted below.

The table below sets out the Combined Group Unaudited Pro-forma Statement of Financial Position as at the end of the Illustrative Half Year Period.

$'000	TPG	iiNet	Pro-Forma Adjustments	Notes	Combined Group Pro-Forma
Cash and cash equivalents	36,141	16,079	7,638	3	59,858
Trade and other receivables	99,289	87,649	(2,227)	4	184,711
Inventories	4,519	17,678	-		22,197
Investments	57,606	-	-		57,606
Prepayments and other assets	9,965	5,917	-		15,882
Derivative financial instruments	-	3,520	-		3,520
Total current assets	**207,520**	**130,843**	**5,411**		**343,774**
Investment in iiNet	76,400	-	(76,400)	5	-
Other investments	13,009	-	-		13,009
Property, plant and equipment	569,968	164,813	-		734,781
Goodwill	546,090	414,472	1,209,981	4,5	2,170,543
Indefeasible right of use (IRU) assets	73,328	176,029	(47,885)	4	201,472
Other intangible assets	82,268	66,543	-		148,811
Derivative financial instruments	-	9,521	-		9,521
Prepayments and other assets	6,348	1,338	-		7,686
Total non-current assets	**1,367,411**	**832,716**	**1,085,696**		**3,285,823**
Total assets	**1,574,931**	**963,559**	**1,091,107**		**3,629,597**
Trade and other payables	151,320	106,597	(2,227)	4	255,690
Loans and borrowings	191	7,540	-		7,731
Indefeasible right of use (IRU) liabilities	-	21,228	(7,109)	4	14,119
Current tax liabilities	23,911	(939)	-		22,972
Employee benefits	13,046	13,910	-		26,956
Provisions	12,060	5,225	-		17,285
Deferred income and other liabilities	83,868	67,859	-		151,727
Total current liabilities	**284,396**	**221,420**	**(9,336)**		**496,480**

$'000	TPG	iiNet	Pro-Forma Adjustments	Notes	Combined Group Pro-Forma
Loans and borrowings	318,129	211,949	1,505,339	2,3,5	2,035,417
Indefeasible right of use (IRU) liabilities	-	158,065	(31,214)	4	126,851
Deferred tax liabilities	14,353	(4,212)	(6,600)	2	3,541
Employee benefits	1,887	1,126	-		3,013
Provisions	19,984	7,223	-		27,207
Deferred income and other liabilities	28,194	2,663	-		30,857
Total non-current liabilities	**382,547**	**376,814**	**1,467,525**		**2,226,886**
Total liabilities	**666,943**	**598,234**	**1,458,189**		**2,723,366**
Net assets	**907,988**	**365,325**	**(367,082)**		**906,231**
Equity					
Share capital	516,907	251,069	(251,069)	5	516,907
Reserves	54,931	8,424	(44,924)	1,5	18,431
Retained earnings	336,150	106,227	(71,089)	1,2,3,5	371,288
Equity attributable to owners	**907,988**	**365,720**	**(367,082)**		**906,626**
Non-controlling interests	-	(395)	-		(395)
Total equity	**907,988**	**365,325**	**(367,082)**		**906,231**

Notes to the Statement of Financial Position

The following Pro-Forma adjustments have been included in the Combined Group Unaudited Pro-Forma Statement of Financial Position as if the Scheme had occurred on 31 January 2015:

1) *Accounting for existing TPG equity investment in iiNet – Historical fair value gains*

Reflects recognition through equity of the historical fair value gains made by TPG relating to its existing investment in iiNet, previously classified as available for sale and recognised in other comprehensive income.

The Accounting Standards require re-measurement of existing equity interest in the acquiree to the acquisition-date fair value. No adjustment has been made for this fair value change as the Combined Group Unaudited Pro-forma Statement of Financial Position assumes Scheme implementation occurs on 31 January 2015. Any change in the fair value of TPG's existing interest in iiNet between 31 January 2015 and the Scheme Implementation Date will result in recognition of a gain or loss in the Combined Group Statement of Comprehensive Income in the period the transaction completes with an equal but opposite adjustment to goodwill.

2) *Transaction costs*

Reflects the $9 million of estimated transaction costs incurred by TPG and $22 million of estimated transaction costs incurred by iiNet in relation to the Proposed Transaction partially offset by a $6.6 million deferred tax asset arising in relation to these costs.

3) *Discretionary Special Dividend*

Reflects the Discretionary Special Dividend of $0.75 per iiNet Share payable under the Scheme Implementation Agreement. The amount of the dividend will however be limited to iiNet's retained earnings at the time of declaration. Should the special dividend be less than $0.75 per iiNet Share, TPG will pay the difference in cash. Based on iiNet's retained earnings at 31 December 2014 of $106 million, the Discretionary Special Dividend would be equivalent to $0.644 per iiNet Share and the remaining $0.106 per iiNet Share would be paid in cash by TPG (i.e. together $0.75 per iiNet Share).

4) Transactions between TPG and iiNet

Reflects the elimination of balances between TPG and iiNet resulting from transactions between these parties in the ordinary course of business. Included within this elimination adjustment is a $9.6 million increase in goodwill which represents the re-acquiring by TPG of an IRU previously sold to iiNet.

5) Acquisition accounting

This adjustment reflects the:

- increase in borrowings of $1,474.3 million to fund the Scheme Consideration;
- reversal of TPG's existing $76.4 million investment in iiNet;
- elimination of iiNet's net assets of $350.3 million (being the $365.7 million of net assets from iiNet's historical consolidated statement of financial position as at 31 December 2014 less the $15.4 million of estimated transaction costs incurred by iiNet in relation to this Proposed Transaction (net of tax)); and
- resulting goodwill arising on acquisition of $1,200.4 million as shown in the table below.

	$'000
Cash paid	1,358,554
Special dividend paid	115,786
Scheme Consideration	1,474,340
TPG investment in iiNet at 31 January 2015	76,400
Sub-total	**1,550,740**
Less: iiNet net assets at 31 December 2014	(365,720)
Add: iiNet transaction costs pre-acquisition (net of tax)	15,400
Goodwill on acquisition	**1,200,420**

For the purposes of preparing the Combined Group Unaudited Pro-Forma Financial Information it has been assumed that the total Scheme Consideration will be settled in cash. However, Scheme Shareholders who hold Scheme Shares at the Election Date will make an Election between receiving their Scheme Consideration in cash or in New TPG Shares.

If any Scheme Shareholders who hold Scheme Shares at the Election Date make the Share Election, the fair value of the Total Consideration transferred to Scheme Shareholders may be different than if the Total Consideration was paid fully in cash. The amount of the impact on the fair value of the Total Consideration will depend on the TPG Share price at the Scheme Implementation Date and the number of New TPG Shares that are issued to Scheme Shareholders. Any difference in the fair value of the Total Consideration transferred will have a direct impact on goodwill.

The initial determination of goodwill and other assets and liabilities (including intangible assets) related to the acquisition of the iiNet will be reported as "provisional" values with adjustments made to finalise these values within twelve months of the Scheme Implementation Date. At the date of this Scheme Booklet it is not possible to determine the fair values of the assets acquired and the liabilities and contingent liabilities assumed. As a result the actual determination of goodwill may change. The goodwill balance recognised will be subject to annual impairment testing. Should an impairment be identified the resulting impact on earnings could be significant.

8.6 Material changes in the financial position of the Combined Group

Amcom investment

As noted in Section 6.10, during April and May 2015 the TPG Group paid $90.3 million to increase its investment in Amcom Telecommunications Limited by purchasing shares in that company.

As the Combined Group Unaudited Pro-forma Statement of Financial Position in Section 8.5(e) is based on TPG's 31 January 2015 balance sheet, the increased investment in Amcom is not reflected in the Combined Group Unaudited Pro-forma Statement of Financial Position.

The impact of the investment would result in an increase of $90.3 million in the value of investments and of non-current loans and borrowings in the Combined Group Unaudited Pro-forma Statement of Financial Position as at 31 January 2015.

Dividends

On 24 March 2015, TPG declared a fully franked interim 2015 dividend of 5.5 cents per TPG share. This interim dividend, which totalled $43.7 million, was paid to TPG shareholders on 19 May 2015. As this interim dividend was declared after 31 January 2015 it is not provided for in the Combined Group Unaudited Pro-forma Statement of Financial Position.

On 18 February 2015, iiNet declared a fully franked interim 2015 dividend of 10.5 cents per iiNet share. This interim dividend, which totalled $17.1 million, was paid to iiNet shareholders on 30 March 2015. As this interim dividend was declared after 31 January 2015 it is not provided for in the Combined Group Unaudited Pro-forma Statement of Financial Position.

8.7 Synergies

TPG has limited knowledge of iiNet's business and operations, given that, prior to announcement of the Proposed Transaction, TPG's due diligence on iiNet was limited to publicly available information, and since that time TPG has not had access to the iiNet business, its records, management or other internal iiNet resources due to commercial sensitivities. Accordingly, it is not possible at this time for TPG to reliably quantify the synergies that may be realised upon integration of the TPG and iiNet businesses following implementation of the Scheme.

However, TPG does have an understanding of possible areas in which the Combined Group is most likely to be able to generate synergy benefits following implementation of the Scheme. These include:

Network synergies:

- Moving iiNet traffic onto TPG's domestic metro, regional and inter-capital fibre infrastructure.
- Moving off-net DSL subscribers onto owned DSLAMs in any areas where it is identified that either business has spare DSLAM capacity where the other business has an off-net DSL customer.
- TPG providing domestic and international IP services to iiNet.
- Utilising TPG's voice network to serve iiNet voice customers.
- Increased economies of scale benefitting the acquisition of third party network services.

Other cost synergies:

- Removal of duplicate listed company expenses.
- Simplification and rationalisation of duplicate back-office functions.
- Leveraging the Combined Group's increased marketing strength.

TPG intends to ensure that iiNet's high level of customer service is preserved following implementation of the Scheme and believes that the above are examples of categories of synergies that can be achieved by the Combined Group without materially adversely impacting customer service.

8.8 Forecast financial information

The presentation of the Combined Group Unaudited Pro-Forma Financial Information in Section 8.5 above provides iiNet Shareholders with an indication of the profile of the Combined Group over the historical time period that is subject of that information. However, the unaudited pro-forma historical financial information for the Combined Group cannot be relied on as indicative of TPG's expectations as to the future performance of the Combined Group. The future performance of the Combined Group will inevitably be materially different from the information set out in the unaudited pro-forma historical financial information for the Combined Group as it will reflect performance in FY2016 and later years rather than the historical time period that is subject of that information.

TPG has given careful consideration as to whether forecast financial information can and should be included in this Scheme Booklet in respect of the Combined Group. In particular, TPG has considered whether there is a reasonable basis for the preparation and disclosure in the Scheme Booklet of reliable and useful forecast financial statements. TPG has concluded that forecast financial statements for the Combined Group cannot be provided in this Scheme Booklet as TPG does not have a reasonable basis for such forecasts as required by applicable law and practice, and that inclusion of such forecasts could be potentially misleading. The considerations which have resulted in this conclusion include:

- TPG has limited knowledge of iiNet's business and operations, given that, prior to announcement of the Proposed Transaction, TPG's due diligence on iiNet was limited to publicly available information, and since that time TPG has not had access to the iiNet business, its records, management or other internal iiNet resources due to commercial sensitivities. Accordingly, it is not possible for TPG to formulate any reliable forecasts for the future financial performance of the iiNet business.

- TPG is not currently in a position to determine in a reliable manner the impact which the integration of the TPG and iiNet businesses following implementation of the Scheme may have on the financial performance of the Combined Group.
- Changes in variables which are beyond the control of TPG, such as the competitive environment and general economic conditions, can have a material impact on the reliability of any forecasts produced.
- Changes in the regulatory environment and the roll out of the National Broadband Network could potentially have a material impact on the Combined Group's future financial performance.
- Information is not available to TPG to calculate potential fair value adjustments in relation to the assets of iiNet following implementation of the Scheme. Consequently depreciation, amortisation and tax expenses cannot be calculated accurately and may be materially different when finalised.

8.9 Combined Group's capital structure immediately after implementation of the Scheme

On implementation of the Scheme, TPG will issue up to 27,523,946 New TPG Shares to Scheme Shareholders as part of the Scheme Consideration.

Accordingly, as a result of the implementation of the Scheme, the number of TPG Shares on issue may increase from approximately 794 million (being the number on issue as at the date of this Scheme Booklet) up to approximately 821 million. This means existing iiNet Shareholders will own up to 3.4% of the Combined Group, depending on the number of Scheme Shareholders who hold Scheme Shares at the Election Date who made a Share Election. The below table sets out the total number of TPG Shares that will be on issue following the implementation of the Scheme, with varying levels of Share Elections made.

% of Scheme Shares in respect of which a Share Election is made	0%	20%	40%	60%	80%	100%
Number of TPG Shares currently on issue (million)	794	794	794	794	794	794
Number of New TPG Shares issued under the Scheme (million)	Nil	6	11	17	22	28
Total number of TPG Shares after the Scheme is implemented (million)	794	799	805	810	816	821
% of Combined Group owned by existing iiNet Shareholders after the Scheme is implemented	Nil	0.7%	1.4%	2.0%	2.7%	3.4%

Notes:

(1) the numbers of TPG Shares in the above table have been rounded to the nearest whole million shares.

(2) the 0% column is the basis on which the Combined Group Unaudited Pro-Forma Financial Information as at 31 January 2015 has been prepared.

8.10 Financing of the Combined Group

Following implementation of the Scheme, it is intended that iiNet's existing debt financing facilities will be refinanced using TPG's new debt finance facilities as described in Section 7.4.

It is expected that the Combined Group's leverage ratio, calculated as the ratio of debt to annualised EBITDA (based on the pro forma EBITDA for the Combined Group for the Illustrative Half-Year Period ended 31 January 2015 and assuming that the Scheme Consideration is paid entirely in cash, and incorporating TPG's $90.3 million increase in other investments referred to in Section 8.6) will be approximately 3.4:1.

8.11 Dividend policy of the Combined Group

As noted in Section 6.13 the TPG Group does not have a formal dividend policy. TPG does not currently expect any change to this position as a result of the implementation of the Scheme. See Section 6.13 for further information.

9

Risk Factors

9. Risk factors

9.1 Introduction

In considering the Scheme, you should be aware that there are a number of risk factors, both general and specific, associated with the Scheme.

This Section outlines:

- risks associated with the Scheme and the creation of the Combined Group (see Section 9.2);
- risks affecting the Combined Group (see Section 9.3);
- risks specific to iiNet (see Section 9.4); and
- general investment risks (see Section 9.5).

The outline of risks in this Section 9 is a summary only and should not be considered exhaustive. This Section 9 does not purport to list every risk that may be associated with an investment in iiNet, TPG or the Combined Group now or in the future, and the occurrence or consequences of some of the risks described in this Section 9 may be partially or completely outside the control of the iiNet Group, TPG Group and the Directors and senior management team of each of iiNet and TPG.

No assurances or guarantees are given in relation to the future performance of, profitability of, or potential payment of dividends by any of iiNet, TPG or the Combined Group. These risk factors do not take into account your individual circumstances and you should consult your financial, legal, taxation or other professional adviser if you are in any doubt as to what you should do.

The selection of risks has been based on an assessment of a combination of the probability of the risk occurring and impact of the risk if it did occur. This assessment is based on the knowledge of iiNet and TPG (where relevant) as at the date of this Scheme Booklet but there is no guarantee or assurance that the importance of different risks will not change or that other risks will not emerge.

You should carefully consider the risk factors discussed in this Section 9, as well as the other information contained in this Scheme Booklet before voting on the Scheme.

9.2 Specific risks associated with the Scheme and the creation of the Combined Group

(a) Implied value of Share Consideration

Under the terms of the Scheme, Scheme Shareholders who hold Scheme Shares at the Election Date, can elect to receive Share Consideration. If the Scheme Shareholder makes a Share Election, the value that such Scheme Shareholder may realise on the sale of the New TPG Shares issued as the Share Consideration will depend on the price at which New TPG Shares trade on the ASX after the Implementation Date.

Some iiNet Shareholders may not wish to continue to hold the New TPG Shares received under the Scheme and may sell them on the ASX soon after the Implementation Date. There is a risk that such sales may drive down the price of TPG Shares in the short term.

In any event, there is no guarantee regarding the market price of TPG Shares before the Scheme Meeting or after the Implementation Date. In particular, see Section 1.3 regarding the effect of fluctuations in the TPG Share price on the value of the Share Consideration. Future market prices may either be above or below current or historical market prices. Information about the current trading prices of TPG Shares may be obtained from asx.com.au.

(b) Integration risks

The long term success of the Combined Group will depend, amongst other things, on the success of management in integrating the two businesses. Whilst the Scheme will bring together two of Australia's leading ISP challenger brands and there may be synergy benefits to be captured, there is a risk that implementation of the Scheme may not be successful and those synergy benefits may not be captured by the Combined Group due to various factors including:

- unexpected delays, challenges, liabilities and costs in relation to, but not limited to, integrating operating and management systems such as IT, information or accounting systems; and
- the loss of key personnel.

The transition of information systems and data, technical, financial and legal information and resources may not proceed smoothly and may divert management's attention from managing the Combined Group's business. There is a risk that revenue streams or operations could be disrupted or that costs associated with the transition may be greater than expected, which could adversely impact the Combined Group's financial performance and the future prospects of the Combined Group.

(c) Accounting risks

Accounting for the Scheme will require a fair value assessment of iiNet's assets and liabilities to be performed.

The difference between the value of the Scheme Consideration and the fair value of assets and liabilities acquired will be recognised as intangible assets, including goodwill.

In accordance with normal accounting practice, the intangible assets may be subject to amortisation and impairment testing in future periods. In the event that there is a reduction in the value of the intangibles, it is likely to be reflected as amortisation or an impairment charge in future statutory accounts. Any such future impairment of goodwill and amortisation of intangible assets may have an adverse impact on the reported financial performance of the Combined Group.

(d) Court delays

There is a risk that the Court may not approve the Scheme, or that the approval of the Court is delayed.

(e) Tax consequences for Scheme Shareholders

If the Scheme proceeds, there may be tax consequences for Scheme Shareholders. Scheme Shareholders should seek their own professional advice regarding the individual tax consequences of the Scheme applicable to them. Further information on the tax consequences of the Scheme is set out in Section 10.

(f) Risks of trading during deferred settlement trading period

Scheme Shareholders who elect to receive Share Consideration will not necessarily know the exact number of New TPG Shares that they will receive (if any) as Scheme Consideration until a number of days after those shares can be traded on the ASX on a deferred settlement basis. Scheme Shareholders who trade New TPG Shares on a deferred settlement basis without knowing the number of New TPG Shares they will receive as Scheme Consideration may risk adverse financial consequences if they purport to sell more New TPG Shares than they receive under the Scheme.

9.3 Specific risk factors relating to Combined Group

The following risk factors are relevant to one or both of TPG and iiNet as stand-alone ISPs. Accordingly, they will continue to be relevant to the Combined Group if the Scheme is implemented and iiNet on a stand-alone basis if the Scheme is not implemented.

(a) Change in risk and investment profile

After implementation of the Scheme, Scheme Shareholders who elect to receive Share Consideration will be exposed to risk factors relating to TPG, and to certain additional risks relating to the Combined Group and the integration of the two ISPs.

Importantly, whilst the operations of iiNet and TPG are similar in a number of ways, the subscriber base, portfolio of brands, capital structure and size of the Combined Group will be different from that of iiNet on a stand-alone basis.

(b) Competitive environment

Increased competition or consolidation in the industry could impact the Combined Group's financial performance by affecting its ability to grow its customer base and/or its ability to make money from its service offerings.

(c) National Broadband Network

The Australian government is rolling out the NBN which is planned to cover approximately 97% of premises across Australia. All retail telecommunication service providers will have equivalent access to acquiring wholesale services on the NBN, which is intended to create a more level competitive playing field in the industry. This new competitive environment with the NBN may enable the entrance of new competitors in the market which could have an adverse impact on the future financial performance of the Combined Group if it is unable to effectively compete against the new competitors. Increasing competition enabled by the NBN may require increased investment in marketing to retain and win new customers, which would impact adversely on the Combined Group's operating margins.

(d) Sustainability of growth

The continued strong growth in sales and profitability of the Combined Group is dependent on a number of factors, including the Combined Group's ability to win new customers on a profitable basis and to retain and grow revenues from existing customers. This organic growth is conditional on the continued performance of the Combined Group's various channels to market, the ongoing achievement of sales objectives by the Combined Group's sales teams and the provision of a consistent high quality customer service experience. If any of these growth factors were negatively impacted and growth was impaired then the financial performance and reputation of the business would be negatively impacted.

(e) Information technology

The telecommunications industry is heavily dependent on technology for the delivery of the various services made available to customers and both iiNet and TPG have invested significantly in the development of management information and other information technology systems which will maximise the efficiency of the Combined Group's operations. Should these systems not be adequately maintained, secured or updated, or the Combined Group's disaster recovery processes not be adequate, system failures may negatively impact on the Combined Group's performance.

(f) Business interruption

The operations of the Combined Group may be affected by operational and technical difficulties which could result in business interruption, monetary losses and possible legal liability. A significant disruption of the Combined Group's business through network or systems failure could cause financial loss for the Combined Group and increased customer churn.

The Combined Group may be subject to liability for accidents, outages or systems failure and corruption against which it cannot insure or which it may elect not to insure because of premium costs or for other reasons, or in amounts which exceed policy limits.

(g) Security or privacy of data

Failures or breaches of data protection and systems security can cause reputational damage, regulatory impositions and financial loss. The legal and regulatory environment surrounding information security and privacy is increasingly complex and demanding. Australian Privacy Principles now govern privacy and data protection throughout Australia and significantly enhance privacy and data protection regulation.

The protection of customer, employee, third party and company data is critical to the Combined Group's operations. The Combined Group has access to a significant amount of customer, employee and third party information, including through its database of customers. Customers, employees and third parties such as suppliers will also have high expectations that the Combined Group will adequately protect their personal information.

(h) Maintenance of professional reputation and brand name

The success of the Combined Group is heavily reliant on the reputation and branding of iiNet and TPG. Unforeseen issues or events that place the iiNet or TPG's reputation at risk may impact on the future growth and profitability of the Combined Group.

(i) Diminution of customer satisfaction and loyalty

The business of each of the iiNet Group and TPG Group is a customer service business and is therefore dependent on customer satisfaction and loyalty. Any diminution in customer sentiment towards TPG or iiNet may have an adverse impact on the financial performance and position of the Combined Group.

(j) Regulatory risk

The Combined Group will operate in a highly regulated industry with strong penalties for non-compliance with regulations, including fines and undertakings that may include customer redress.

Telecommunications services are subject to various laws and regulations. Amendments to, or more stringent implementation of, current laws and regulations governing operations could have a substantial adverse impact on the Combined Group and cause increases in expenses, capital expenditure or costs.

Failure to comply with applicable laws, regulations, agreements and permitting requirements may result in enforcement actions, including orders issued by judicial or Regulatory Authorities. Where that occurs, operations may cease or be curtailed, and may lead to corrective measures requiring capital operations or payment of compensation for those suffering loss or damage, or the imposition of civil or criminal fines or penalties for violations of applicable laws or regulations.

(k) Risk of litigation, claims and disputes

The Combined Group may be subject to litigation and other claims and disputes in the course of its business, including employment disputes, contractual disputes or occupational and personal claims. Such litigation, claims and disputes, including the costs of settling claims and operational impacts, could adversely affect the Combined Group's business, operating and financial performance.

(l) Acquisition risk

The Combined Group may pursue acquisition of assets that meet its investment criteria as opportunities arise and if funding is available. Such acquisitions involve a number of risks inherent in assessing the values, strengths, weaknesses and profitability of the target's business or assets and it is possible that unexpected problems may arise.

(m) Personnel risk

If not managed effectively, the Combined Group's ability to attract and retain key talent in its management and operational staff could have a negative effect on its reputation and performance.

(n) Ability to service debt

The Combined Group's ability to service its debt and other obligations will depend on its future performance and cash flows which, to a certain extent, are subject to general economic, financial, competitive, legislative, regulatory and other factors, many of which are beyond its control. The Combined Group's historical financial results (on a pro forma basis) have been, and it is anticipated that the Combined Group's future financial results will continue to be, subject to fluctuations. Cash flows can vary and the Combined Group's business may not generate sufficient cash flow from operations to enable it to satisfy its debt and other obligations. Any inability to secure sufficient debt funding (including to refinance on acceptable terms) or to service its existing and new debt may have a material adverse effect on the Combined Group's financial performance and prospects.

(o) Credit risk

The Combined Group will be exposed to the risk of financial loss if any of its large corporate customers fails to meet its contractual obligations to pay for the services it acquires from the Combined Group.

(p) Relationship with supplier and access to third party infrastructure

The Combined Group's ability to provide its telecommunication services and products will be highly dependent on securing wholesale services from its carrier suppliers. The business of the Combined Group could be materially impacted if any of the wholesale providers were unable to provide services as contracted or made a decision to supply services on unfavourable terms or to not supply at all (except for services that are deemed 'declared services' by the ACCC and which have regulated pricing). The Combined Group will compete directly with its own suppliers of fixed line and mobile services. If the Combined Group's carrier suppliers failed to supply the services, or changed terms to be less favourable than those currently offered to the Combined Group, this change could materially impact on the financial performance of the Combined Group.

9.4 Specific risk factors relating to the iiNet Group

(a) Competition and potential operating margin erosion

The iiNet Group operates in a highly competitive telecommunications market. In particular, the iiNet Group competes against larger telecommunications companies which have considerable scale and market power. The size and financial strength of some of the iiNet Group's competitors can make it difficult for the iiNet Group to compete effectively in the telecommunications market. Some of those competitors will also be in receipt of significant proceeds from the disposal of network assets to NBN. The iiNet Group's financial performance or operating margins could be adversely affected if the actions of competitors or potential competitors become more effective, or if new competitors enter the market and the iiNet Group is unable to counter these actions.

iiNet directly competes with larger firms that own infrastructure that iiNet requires access to in order to deliver services to iiNet's customers, including fixed infrastructure and mobile networks, where those competitors may have a pricing advantage. In addition, customer usage of the internet is subject to change. Currently customers are increasingly using high bandwidth applications (for example, high definition streaming) and this pattern of usage will better advantage owners of infrastructure and disadvantage operators, such as iiNet, who lease infrastructure.

(b) Relationship with suppliers and access to third party infrastructure

The iiNet Group's ability to provide its telecommunication services and products is highly dependent on securing wholesale services from its carrier suppliers, which are principally Telstra and Singtel Optus. The business of the iiNet Group could be materially impacted if any of the wholesale providers were unable to provide services as contracted or made a decision to supply services on unfavourable terms (except for services that are deemed 'declared services' by the ACCC and which have regulated pricing). iiNet competes directly with its own suppliers of fixed line and mobile services. If the iiNet Group's carrier suppliers failed to supply the services, or changed terms to be less favourable than those currently offered to the iiNet Group, this change could materially impact on the financial performance of the iiNet Group.

(c) Technology changes and lack of ownership of mobile infrastructure

The telecommunications industry is constantly evolving with new technologies and products which could act as substitutes for the products or services offered by the iiNet Group. The lack of ownership of a mobile network or mobile infrastructure is a particular threat given the continuing changes in customer behaviour with increasing internet and phone use outside of the home or office. There is no guarantee that the iiNet Group can effectively keep up with changes in technological developments and failure to keep pace with emerging technology could result in the iiNet Group finding it increasingly difficult to compete in its chosen target segments. iiNet Group currently operates as a mobile virtual network operator using Singtel Optus' wireless network infrastructure. iiNet Group competes directly with Singtel Optus in the supply of mobile services.

9.5 General investment risks

(a) General equity market risks

As with any entity with shares listed on the ASX, the market price of the iiNet Shares or TPG Shares is influenced by a variety of general business cycles and economic and political factors in Australia and overseas, including economic growth, interest rates, exchange rates, inflation, employment levels, changes in government, fiscal, monetary and regulatory policy in relevant jurisdictions.

(b) Economic conditions

Economic conditions, both domestic and global, may affect the performance of iiNet or TPG. Adverse changes in such things as global and country-by-country economic growth, the level of economic activity and inflation, interest rates, exchange rates, government policy (including fiscal, monetary and regulatory policies), general consumption and consumer spending, employment rates and industrial disruption, amongst others, may also affect the iiNet Group's, the TPG Group's and the Combined Group's operating environment, operational performance, reputation, financial performance and/or financial position.

(c) Share market conditions

There are risks associated with an investment in financial products quoted on the ASX. In particular, share price movements could affect the value of any investment in iiNet or TPG.

The performance of iiNet or TPG and the price at which iiNet Shares or TPG Shares trade on the ASX may be determined by a range of factors, including movements in the local and international equity and bond markets and general investor sentiment in those markets, recommendations by brokers and analysts, inflation, interest rates, exchange rates, general economic conditions and outlooks, changes in government, fiscal, monetary and regulatory policies, global geo-political events and hostilities and acts of terrorism, the announcement of new technologies and changes in the supply of and demand for relevant stocks. These factors could affect the trading price of shares, regardless of operating performance.

(d) Taxation risks

A change to the Australian taxation regime may affect iiNet or TPG or each of their shareholders. Personal tax liabilities are the responsibility of each individual shareholder. TPG and iiNet are not responsible for taxation or penalties incurred by their shareholders.

(e) Accounting standards

Australian accounting standards are set by the Australian Accounting Standards Board (AASB). Changes to accounting standards issued by AASB could materially adversely affect the financial performance and position reported in iiNet's or TPG's financial statements, and are outside the control of the directors of each of iiNet and TPG.

10

Taxation Implications

10. Taxation Implications

10.1 Introduction

The following Section is a general outline of the Australian tax consequences for Australian tax resident iiNet Shareholders who receive the Discretionary Special Dividend and dispose of their iiNet Shares under the Scheme.

The following Section also provides a general outline of the Australian tax consequences for non-Australian tax resident iiNet Shareholders who receive the Discretionary Special Dividend and dispose of their iiNet Shares under the Scheme.

This general outline reflects the current provisions of the *Income Tax Assessment Act 1936* (Cth), the *Income Tax Assessment Act 1997* (Cth) and the *A New Tax System (Goods and Services Tax) Act 1999* (Cth) **(the Tax Law)**, and the regulations made under those Acts, and takes into account current tax rulings issued by the ATO and the current administrative practices of the ATO. This outline does not otherwise take into account or anticipate changes in the law, whether by way of judicial decision or legislative action.

This outline is of a general nature only. It does not constitute tax advice and should not be relied upon as such.

iiNet Shareholders are advised to consult their own independent tax adviser regarding the consequences of acquiring, holding or disposing of iiNet Shares and receiving the Discretionary Special Dividend in light of the Tax Law and their particular circumstances.

This outline is relevant to those persons who hold iiNet Shares as at the Record Date as capital assets for Australian tax purposes. It does not apply to persons who:

- hold iiNet Shares as revenue assets or trading stock;
- hold iiNet Shares subject to special tax rules, such as banks, insurance companies, tax exempt organisations, dealers in securities or managed investment trusts;
- are 'significant stakeholders' or 'common stakeholders' as defined in section 124-783 of the Tax Law in relation to the Scheme of Arrangement;
- change their tax residency while holding iiNet Shares; or
- are subject to the Taxation of Financial Arrangements rules in Division 230 of the *Income Tax Assessment Act 1997* (Cth) in respect of their iiNet Shares.

10.2 ATO Tax Ruling

iiNet has applied for an ATO Tax Ruling on behalf of iiNet Shareholders on certain matters discussed in this Section, including:

- whether the Discretionary Special Dividend is assessable to Australian tax resident iiNet Shareholders;
- whether the Discretionary Special Dividend constitutes a frankable distribution;
- whether iiNet Shareholders can claim a tax offset in respect of the Discretionary Special Dividend;
- confirmation of the timing of the CGT disposal and confirmation that the capital proceeds received by iiNet Shareholders in relation to the CGT disposal will include the Discretionary Special Dividend paid by iiNet;
- whether any capital gain made by the iiNet Shareholders will be reduced by the amount of the Discretionary Special Dividend paid by iiNet that is included in the iiNet Shareholders' assessable income;
- whether iiNet Shareholders who receive TPG Shares as part of the consideration for disposing of their iiNet Shares can choose to obtain partial rollover relief under the scrip for scrip provisions in Subdivision 124-M of the Tax Law;
- if an iiNet Shareholder chooses to obtain partial rollover relief under the scrip for scrip provisions in Subdivision 124-M of the Tax Law, how will the iiNet Shareholder's remaining capital gain be calculated, and how will the cost base and acquisition date of the TPG Shares received be determined;
- whether the Commissioner will make a determination to deny the imputation benefit received by iiNet Shareholders pursuant to the franking credit streaming provisions or other franking credit anti-avoidance provisions; and
- whether the Commissioner will make a determination that any capital benefits provided to iiNet Shareholders under the Scheme will be an unfranked dividend.

The following commentary anticipates a favourable ATO Tax Ruling being obtained from the ATO in relation to the above matters. It is possible, however, that the ATO may take a different view in the ATO Tax Ruling from that expressed in this Section. iiNet will post the ATO Tax Ruling on its website as soon as it becomes available.

10.3 Receipt of Discretionary Special Dividend

(a) Assessibility of Discretionary Special Dividend

On the basis that the Discretionary Special Dividend will be an authorised distribution under iiNet's Constitution, paid in accordance with section 254T of the Corporations Act, and will not be sourced, directly or indirectly, from iiNet's share capital account, the Discretionary Special Dividend will be a dividend, and a frankable distribution.

The Discretionary Special Dividend paid will be included in an Australian tax resident iiNet Shareholder's assessable income.

For certain iiNet Shareholders, the Discretionary Special Dividend will need to be "grossed-up" by the amount of the franking credits that are attached to the dividend. As a result, the amount of the Discretionary Special Dividend, plus the amount of franking credits that are stated to attach to the dividend in the distribution statement received by the iiNet Shareholder in respect of that dividend, must be included in the iiNet Shareholder's assessable income.

(b) Franking Tax Offset

The amount of the franking credits that are stated to attach to the Discretionary Special Dividend (as specified on the distribution statement) can, subject to the requirements set out below, be used to offset the amount of tax that the iiNet Shareholder is required to pay.

For an iiNet Shareholder to be entitled to a tax offset in relation to the franking credits, the iiNet Shareholder must satisfy the '45-day holding period' rule. Broadly, the 'holding period' rule requires the iiNet Shareholder to hold the iiNet Share 'at-risk' for a specified continuous period of at least 45 days (not including the date of acquisition or the date of disposal) within a specific period.

The specific period for which iiNet Shareholders must hold their iiNet Shares 'at-risk' is dependent on whether there is a 'related payment' in relation to the dividend. This matter is part of the ATO Tax Ruling that has been applied for. The reduction in the Scheme Consideration paid by TPG is likely to be considered to be a 'related payment' in relation to the Discretionary Special Dividend.

On this basis, the ATO Tax Ruling is expected to clarify that for an iiNet Shareholder to be entitled to a tax offset, the iiNet Shareholder will need to hold their iiNet Shares 'at risk' for a continuous 45 day period (not including the date of acquisition or the date of disposal) during the period from 14 July 2015 to 12 October 2015 but where the shares cannot be held 'at risk' after 30 August 2015 (being the last day the iiNet Shares could be held 'at risk' if the Scheme Record Date is 31 August 2015). Any iiNet Shareholder that acquires their iiNet Shares on or after 17 July 2015 will not be entitled to a tax offset for the franking credits.

To hold shares 'at risk', an iiNet Shareholder must not have a materially diminished risk of loss or opportunity for gain in respect of the iiNet Shares. Whether an iiNet Shareholder holds their shares 'at risk' will depend on other arrangements they may have entered into in relation to their iiNet Shares (e.g. risk mitigation strategies such as put options etc.). Shares should be considered held 'at risk' if no other arrangements exist. Special rules apply, though, for certain taxpayers including discretionary trusts.

If Australian tax resident individuals or complying superannuation entities have an excess of franking credits in comparison to the tax they are required to pay, those iiNet Shareholders may be entitled to a refund from the ATO equal to that excess.

If Australian tax resident corporate iiNet Shareholders have an excess of franking credits in comparison to the tax they are required to pay, those iiNet Shareholders may be entitled to carry forward those credits (converted to carried forward tax losses) to later income tax years to offset future tax payable.

Non-Australian tax resident iiNet Shareholders, that do not hold their iiNet Shares through a permanent establishment in Australia, should receive the full amount of the Discretionary Special Dividend free of any Australian dividend withholding tax, as it is anticipated to be fully franked.

Non-Australian tax resident iiNet Shareholders, that hold their iiNet Shares through a permanent establishment in Australia, should be taxable as if they were an Australian resident for income tax purposes (refer to the comments provided above). Non-Australian tax resident iiNet Shareholders are not eligible to claim any benefit arising from excess franking credits.

(c) Imputation integrity measures

The availability of the franking credits attaching to the Discretionary Special Dividend is subject to the application of certain integrity measures. It is considered that the integrity measures should not apply to deny or limit the availability of those credits to iiNet Shareholders who are entitled to receive the Discretionary Special Dividend. This matter will be addressed in the ATO Tax Ruling and the comments in this Section assume a favourable ATO Tax Ruling will be obtained.

10.4 Disposal of iiNet Shares

(a) Australian Capital Gains Tax

If the Scheme is approved, iiNet Shareholders will dispose of their iiNet Shares as a result of the implementation of the Scheme. The disposal will be a CGT event (CGT Event A1). The CGT event will happen on the Implementation Date.

The tax implications for iiNet Shareholders from the disposal of their iiNet Shares will depend upon their taxpayer status (i.e. whether they are an individual, a company or the trustee of a trust etc.) and the cost base of their iiNet Shares.

As a general rule, a capital gain or capital loss will be realised upon the disposal. Further details are set out later in this Section regarding the availability of scrip for scrip rollover relief on the exchange of iiNet Shares for TPG Shares. If applicable, this scrip for scrip rollover relief may defer a portion of the capital gain.

An iiNet Shareholder will make a capital gain on the disposal of their iiNet Shares if the capital proceeds received exceed the cost base of their iiNet Shares. An iiNet Shareholder will make a capital loss if the capital proceeds are less than the reduced cost base of their iiNet Shares.

The capital proceeds received by an iiNet Shareholder will be equal to the amount of any Discretionary Special Dividend received from iiNet plus the Scheme Consideration received from TPG.

If an iiNet Shareholder makes a capital gain and has included an amount in their assessable income as a result of receiving the Discretionary Special Dividend, their capital gain in respect of the iiNet Shares will be reduced by the amount of the Discretionary Special Dividend.

If an iiNet Shareholder makes a capital loss, the capital proceeds used in calculating this capital loss are not reduced for any amount included in their assessable income as a result of receiving the Discretionary Special Dividend.

Capital gains and capital losses of a taxpayer in a year of income from all sources are aggregated, together with any unapplied net capital loss from prior years, to determine if the taxpayer has made a net capital gain. If an iiNet Shareholder makes a net capital gain for the year, they will be entitled to benefit from the CGT discount if:

- the iiNet Shareholder has beneficially owned their iiNet Shares for at least 12 months at the Implementation Date; and
- the iiNet Shareholder is an individual, the trustee of a trust, or a complying superannuation entity.

Should the CGT discount apply, an iiNet Shareholder will be entitled to reduce their capital gain realised on disposal of their iiNet Shares by 50% (for individuals and trustees holding iiNet Shares) or 33.33% (for complying superannuation entities).

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

The CGT discount will not be available to an iiNet Shareholder that is a company.

Any net capital gain for the year after the application of any CGT discount is included in the taxpayer's assessable income and is subject to income tax at the taxpayer's marginal tax rate.

Net capital losses may not be deducted against other income for income tax purposes, but may be carried forward to offset against capital gains derived in future income years. Specific loss rules apply to iiNet Shareholders that are companies. These rules may limit the ability to offset capital losses in a current or later income year.

(b) Non-Australian Tax Resident Shareholders

A non-Australian tax resident iiNet Shareholder will not be subject to Australian CGT on any capital gain in respect of their iiNet Shares if:

- the iiNet Shareholder is not a resident of Australia for the purposes of the Tax Law and has not held their iiNet Shares in carrying on business through an Australian permanent establishment; and
- the iiNet Shareholder (and their associates) does not hold 10% or more of iiNet Shares on the Implementation Date and has not held 10% or more of iiNet Shares throughout a 12 month period during the two years preceding the sale of their iiNet Shares.

A non-Australian tax resident iiNet Shareholder that has held 10% or more of iiNet Shares, either alone or together with their associates, should obtain specific advice on the application of the Australian CGT rules to any gain or loss realised on sale.

A non-Australian tax resident iiNet Shareholder should also obtain specific advice on the application of the laws of their country of residence (for tax purposes) and any Double Tax Treaty between their country of residence (for tax purposes) and Australia in determining the tax consequences of the disposal of their iiNet Shares.

(c) Scrip for scrip rollover relief

Broadly, scrip for scrip rollover relief may be available to defer a capital gain made by a taxpayer, if under an arrangement, a taxpayer exchanges a share in a company for a share in another company.

Non-Australian tax resident iiNet Shareholders should seek their own independent tax advice regarding their ability to obtain scrip for scrip rollover relief.

Only iiNet Shareholders who choose to exchange their iiNet Shares for TPG Shares will be eligible to access the scrip for scrip rollover relief provided certain conditions are met. Whether these conditions are met is part of the ATO Tax Ruling and the comments in this Section assume a favourable ATO Tax Ruling will be obtained.

Scrip for scrip rollover relief will only be available where the iiNet Shareholder would have otherwise made a capital gain and the iiNet Shareholder elects to apply the relief. The election to utilise scrip for scrip rollover relief is evidenced by the manner in which the tax return for the relevant income year is prepared.

iiNet Shareholders who choose to exchange their iiNet Shares for TPG Shares will only be able to access scrip for scrip rollover relief in respect of the capital gain related to the "Eligible Proceeds" they receive. "Eligible Proceeds" should be the market value of the TPG Shares received by iiNet Shareholders.

"Ineligible Proceeds" should be the amount of the Discretionary Special Dividend, plus any Top-Up Cash Consideration and other cash consideration in the event of a scaling back of TPG Shares to be issued.

The cost base of the iiNet Shares that are disposed of by the iiNet Shareholders will need to be apportioned in a reasonable manner across the Eligible Proceeds and Ineligible Proceeds to determine the portion of the total capital gain that can be rolled over. The ATO Tax Ruling may provide iiNet Shareholders with an illustrative example of how this might be done.

To the extent that an iiNet Shareholder elects to apply scrip for scrip rollover relief:

- any capital gain made as a result of the exchange of iiNet Shares for TPG Shares (i.e. any capital gain in relation to "Eligible Proceeds") should be disregarded;
- the cost base of the TPG Share acquired in the exchange is determined by reasonably attributing to it the part of the cost base of the iiNet Share for which rollover relief was obtained. For iiNet Shareholders who obtained their current iiNet Shares under an earlier rollover, the cost base of the TPG Shares should be the cost base of the original shares; and
- the date of acquisition of the TPG Shares is taken to be the date of acquisition of the iiNet Shares for CGT purposes. For iiNet Shareholders who obtained their current iiNet Shares under an earlier rollover, the date of acquisition of the new TPG Shares should be taken to be the date that they acquired the original shares.

(d) Capital Benefits Integrity Measures

The Tax Law contains certain integrity measures under which the Commissioner may deem capital benefits received by Shareholders to be unfranked dividends. It is considered that the integrity measures should not apply and the Commissioner should not make a determination that any capital benefits provided to iiNet Shareholders under the Scheme will be unfranked dividends. This matter is part of the ATO Tax Ruling and the comments in this Section assume a favourable ATO Tax Ruling will be obtained.

10.5 Stamp duty

No stamp duty should become payable by any iiNet Shareholder on the disposal of the iiNet Shares to TPG. TPG, as the transferee/acquirer of those iiNet Shares, will be the party who will be liable for any stamp duty that is payable in respect of the Scheme.

10.6 Goods and services tax (GST)

iiNet Shareholders will not be liable to pay GST on the Scheme Consideration received for their iiNet Shares.

11

Scheme Implementation Agreement

11. Scheme Implementation Agreement

11.1 Background

iiNet and TPG have entered into the Scheme Implementation Agreement in connection with the proposed Scheme. The Scheme Implementation Agreement sets out the obligations of iiNet and TPG in relation to the Scheme.

The Scheme Implementation Agreement is provided in Annexure C.

11.2 Summary of the key terms of the Scheme Implementation Agreement

(a) Conditions

Implementation of the Scheme is subject to the satisfaction or (where applicable) waiver of the Conditions that are summarised in this Section 11.2(a) which also identifies those Conditions that have been satisfied or (where applicable) waived and the status of others at the date of this Scheme Booklet. As far as iiNet is aware as at the date of this Scheme Booklet, no circumstances have occurred which will cause any of the Conditions not to be satisfied or to become incapable of satisfaction. The Conditions are as follows:

(i) **(ACCC)** TPG has received written notice from the ACCC to the effect that the ACCC does not propose to oppose, intervene or seek to prevent the implementation of the Scheme under or by reference to section 50 of the Competition Act, which notification is either unconditional or is on or requires conditions or undertakings acceptable to TPG;

Current status: On 11 June 2015, the ACCC released a Statement of Issues **(SOI)** with respect to TPG's proposed acquisition of iiNet. The SOI identifies lines of inquiry through which the ACCC will seek further information, prior to announcing its final view.

In that **SOI**, the ACCC has raised concerns about the potential impact of the transaction on the market for the supply of retail fixed broadband services and will further consider:

- the extent of constraints that exist in that market and whether the merged entity would have an incentive to increase prices and/or reduce service levels in light of these constraints;
- the potential impact on the incentives other competitors have to compete with the merged entity; and
- the concentration of competition in the market for supply of retail fixed broadband services and the closeness of competition between TPG and iiNet.

The ACCC also expressed the view in the SOI that the transaction is unlikely to raise concerns in the markets for the supply of wholesale transmission services, fixed voice, mobile voice, mobile broadband or subscription television services.

The ACCC has sought public submissions on the SOI by 2 July 2015 and has given a proposed date for their final decision on 20 August 2015. TPG and iiNet will work with the ACCC during this next phase to address any concerns the ACCC may have. The fact that the ACCC has issued the SOI does not necessarily mean that it will oppose TPG's proposed acquisition of iiNet.

The Scheme will not proceed unless ACCC notifies TPG before the End Date, that it does not intend to take any further action with respect to the Scheme and will not oppose the Scheme proceeding, or ACCC's decision is subsequently set aside by the Court or any other competent Australian court as contemplated by clause 3.8(c) of the Scheme Implementation Agreement.

(ii) **(Restraints)** no temporary restraining order, preliminary or permanent injunction or other order issued by any Court of competent jurisdiction or Governmental Agency or other legal restraint or prohibition preventing the Scheme is in effect at 8.00am (WST) on the Second Court Date;

Current status: No such restraint is in force or, to the best of the Directors' knowledge, is threatened.

(iii) **(Shareholder approval)** the Scheme is approved by iiNet Shareholders at the Scheme Meeting by the Requisite Majority of iiNet Shareholders;

Current status: to be satisfied.

(iv) **(ASIC and ASX)** before 8.00am (WST) on the Second Court Date, ASIC and the ASX issue or provide such consents or approvals as are necessary or which iiNet and TPG agree are necessary or desirable to implement the Scheme and such consent, approval or other act has not been withdrawn or revoked before 8.00am on the Second Court Date;

Current status: Other than those described in Section 12.9, no such consents or approvals have been identified or proposed by iiNet or TPG.

(v) **(Court approval)** the Scheme is approved by the Court in accordance with section 411(4)(b) of the Corporations Act either unconditionally or on conditions that do not impose unduly onerous obligations upon either party (acting reasonably);

Current status: to be satisfied.

(vi) **(iiNet Performance Rights)** before 8.00am (WST) on the Second Court Date, arrangements have been put in place and all necessary Regulatory Approvals have been obtained so that:

(A) all iiNet Performance Rights outstanding as at the date of the Scheme Implementation Agreement; and

(B) all iiNet Performance Rights that will be issued after the date of the Scheme Implementation Agreement (including those issued where the vesting outcome for an award is more than 100% under the terms of an offer of iiNet Performance Rights),

will either vest, have lapsed or have been cancelled before the Record Date;

Current status: to be satisfied.

(vii) **(No iiNet Prescribed Occurrence)** no iiNet Prescribed Occurrence occurs between the date of the Scheme Implementation Agreement and 8.00am (WST) on the Second Court Date;

Current status: no iiNet Prescribed Occurrence has occurred or, to the best of the Directors' knowledge, is threatened to occur.

(viii) **(No Material Adverse Change)** there is no Material Adverse Change between the date of the Scheme Implementation Agreement and 8.00am (WST) on the Second Court Date;

Current status: no Material Adverse Change has occurred or, to the best of the Directors' knowledge, is threatened to occur.

(ix) **(iiNet Warranties)** the iiNet Warranties being true and correct in all material respects on the date of the Scheme Implementation Agreement and at 8.00am (WST) on the Second Court Date;

Current status: the iiNet Warranties are true and correct in all material respects.

(x) **(TPG Warranties)** the TPG Warranties being true and correct in all material respects on the date of the Scheme Implementation Agreement and at 8.00am (WST) on the Second Court Date;

Current status: the Directors are not aware of any TPG Warranties not being true and correct in all material respects.

(xi) **(Decline in S&P/ASX 200 Index)** on no day in the period between the date of the Scheme Implementation Agreement and the Business Day before the Second Court Date is the S&P/ASX 200 Index at the close of trading for the previous five trading days 15% or more below its level as at the close of trading on the Announcement Date;

Current status: this event has not occurred.

(xii) **(Independent Expert's Report)** the Independent Expert provides the Independent Expert's Report to iiNet, stating that in its opinion the Scheme is in the best interests of iiNet Shareholders, on or before the Scheme Booklet is registered with ASIC and does not change or publicly withdraw this conclusion before 8.00am (WST) on the Second Court Date;

Current status: the Independent Expert's Report states that the Scheme is in the best interests of iiNet Shareholders, and the Directors are not aware of any intention of the Independent Expert to change or publicly withdraw this conclusion.

(b) Exclusivity arrangements

During the Exclusivity Period, there is nothing preventing other parties from making unsolicited Competing Proposals to iiNet.

However, iiNet, its Related Bodies Corporate and its Authorised Persons may not directly or indirectly:

(i) solicit, invite, initiate or encourage any Competing Proposal or any enquiries, proposals, discussions or negotiations with any third party in relation to (or that could reasonably be expected to lead to) a Competing Proposal;

(ii) negotiate or enter into or participate in negotiations or discussions with any person in relation to (or that could reasonably be expected to lead to) a Competing Proposal, or communicate an intention to do any of those things;

(iii) solicit, invite, initiate, encourage, facilitate or permit any person (other than TPG) to undertake due diligence investigations in respect of iiNet, its Related Bodies Corporate or any of their businesses and operations, in connection with such person formulating, developing or finalising, or assisting in the formulation, development or finalisation of, a Competing Proposal; or

(iv) make available to any other person (other than TPG) or permit any such person to receive any non-public information relating to iiNet, its Related Bodies Corporate, or any of their businesses and operations, in connection with such person formulating, developing or finalising, or assisting in the formulation, development or finalisation of, a Competing Proposal.

However, the restrictions in paragraphs 11.2(b)(ii), (iii) and (iv) do not restrict iiNet or any Director from taking or refusing to take any action with respect to a Competing Proposal provided that:

(i) the Competing Proposal is bona fide and is made by or on behalf of a person that the iiNet Board considers is of reputable commercial standing; and

(ii) the iiNet Board has determined in good faith after:

  (A) consultation with iiNet's financial advisers, that the Competing Proposal is or may reasonably be expected to lead to a Superior Proposal; and
  (B) receiving written advice from iiNet's external Australian legal advisers practising in the area of corporate law,

that failing to take action or refusing to take the action (as the case may be) with respect to the Competing Proposal would be likely to constitute a breach of the fiduciary or statutory obligations of the iiNet Board.

If a Competing Proposal is received which the iiNet Board determines is, or may reasonably be expected to lead to, a Superior Proposal and as a result any Director wishes to change his or her recommendation of the Scheme then iiNet must give TPG written notice including full details of the Competing Proposal and the reasons why the relevant Director or Directors have decided to change their recommendation. TPG then has the right (but not the obligation) to make a Counter Proposal within three Business Days of receiving that notice. If TPG makes a Counter Proposal that is no less favourable than the Competing Proposal, then iiNet and TPG will use their best endeavours to agree the changes required to the Scheme Implementation Agreement to give effect to the Counter Proposal.

If TPG does not make a Counter Proposal or makes one that the Directors in good faith determine is less favourable than the Competing Proposal then the Directors can decide to proceed with the Competing Proposal but in that case the Break Fee may be payable.

(c) Break Fee

iiNet has agreed to pay TPG the Break Fee, being $16 million (representing 1% of the approximate equity value of iiNet based on the Scheme Consideration), if before the End Date:

(i) a Director fails to recommend the Scheme;

(ii) a Director changes, withdraws or modifies his or her recommendation of the Scheme or makes any public statement or takes any other action that is inconsistent with his or her recommendation of the Scheme (including where a Competing Proposal is announced and is recommended by any Director), subject to the Independent Expert maintaining its conclusion that the Scheme is in the best interests of iiNet Shareholders;

(iii) a Competing Proposal is announced and, within twelve months of the Competing Proposal being announced, the Competing Proposal results in a person (other than a member of the TPG Group) obtaining Control of iiNet, voting power of more than 50% of the iiNet Shares, merging or amalgamating with iiNet or acquiring an interest in all or a substantial part of the business or assets of the iiNet Group;

(iv) a Condition (other than there being no Material Adverse Change or breach of TPG Warranties) is not satisfied due to the action (or failure to act) of iiNet in breach of iiNet's obligation and TPG does not waive that Condition before the End Date; or

(v) TPG terminates the Scheme Implementation Agreement where iiNet is in material breach of its obligations.

The Break Fee is not payable if, despite the Directors' recommendation of the Scheme, the Scheme Resolution is not passed at the Scheme Meeting.

(d) Termination of the Scheme Implementation Agreement

The Scheme Implementation Agreement provides for its termination by iiNet or TPG in certain circumstances summarised in this Section 11.2(d) and set out in clause 15 of the Scheme Implementation Agreement

(Annexure C). As far as iiNet is aware as at the date of this Scheme Booklet, no circumstances have occurred which will entitle either iiNet or TPG to exercise their termination rights.

(i) Termination by either party

The Scheme Implementation Agreement may be terminated at any time prior to 9.00am (WST) on the Second Court Date by TPG or iiNet:

(A) if the other is in material breach of any of its obligations; or

(B) where a Condition is not satisfied, or becomes incapable of satisfaction and the parties are unable to agree:

- a waiver of the Condition;
- an extension of time for the satisfaction of the Condition; or
- to proceed with the Proposed Transaction in accordance with an alternative means or method,

and where that Condition is not satisfied or is incapable of satisfaction because of a written notice from the ACCC, the parties will be required to consider in good faith the merits of an appeal to the Court.

(ii) Termination by iiNet

iiNet may terminate the Scheme Implementation Agreement at any time prior to 9.00am (WST) on the Second Court Date if:

(A) all Directors publicly recommend a Superior Proposal and do not, within three Business Days, reinstate their recommendation of the Proposed Transaction; or

(B) TPG materially breaches a TPG Warranty, fails to remedy that breach and the breach was of a kind that, had it been disclosed to iiNet prior to its entry into the Scheme Implementation Agreement, could reasonably be expected to have resulted in iiNet either not entering into the Scheme Implementation Agreement or entering into it on materially different terms.

(iii) Termination by TPG

TPG may terminate the Scheme Implementation Agreement where:

(A) iiNet materially breaches an iiNet Warranty and fails to remedy its breach and the breach was of a kind that, had it been disclosed to TPG prior to its entry into the Scheme Implementation Agreement, could reasonably be expected to have resulted in TPG either not entering into the Scheme Implementation Agreement or entering into it on materially different terms or the breach results in, or could reasonably be expected to result in, a Material Adverse Change; or

(B) any Director fails to recommend the Scheme or changes, withdraws or modifies his or her recommendation of the Scheme, or makes any public statement or takes any other action that is inconsistent with his or her recommendation of the Scheme.

(e) Restrictions on iiNet

Clause 7 of the Scheme Implementation Agreement requires that the iiNet Group conduct its business in the ordinary and usual course and, consistent with that requirement, restricts the iiNet Group's ability to do various things before the Implementation Date without TPG's approval (which approval must not be unreasonably withheld or delayed) including:

(i) **(Governance)** amending its constitution, materially altering any accounting policy, or creating any encumbrance over its business or property, other than in the usual and ordinary course of business consistent with past practice;

(ii) **(Capital)** issuing shares or any securities or instruments which may convert into shares or any other securities (except upon the vesting and exercise of iiNet Performance Rights); resolving to reduce its share capital in any way; converting its shares into a larger or smaller number of shares; declaring or paying any dividend, bonus or other share of its profits or assets by way of dividend, capital reduction or otherwise (other than the Discretionary Special Dividend); entering into a buy-back agreement; or approving the terms of a buy-back agreement;

(iii) **(Finance)** incurring any additional financial indebtedness (except for existing facilities); guaranteeing or indemnifying the obligations of any person other than a member of the iiNet Group (other than in the ordinary course of business and consistent with past practice); entering into any new financing arrangement, agreement or otherwise providing financial accommodation, or amending the terms of any existing financing arrangement, agreement or instrument; or giving or agreeing to give a financial benefit to a related party of iiNet;

(iv) **(Contracts)** entering into, terminating or amending the terms of a contract which is material to the conduct of the iiNet Group's business, involves aggregate expenditure greater than $7.5 million, annual revenue greater than $10 million, or has a committed term which is greater than three years; entering into, renewing or permitting rollover for a term that exceeds 90 days for any agreement for the acquisition of domestic or international transmission services, domestic or international IP transit or peering or data centre space or services;

(v) **(Acquisitions and disposals)** acquiring or disposing of any interest in a business, real property, entity or undertaking, the value of which exceeds $10 million in aggregate; disposing of the whole or a substantial part of its business or property; or incurring or entering into any new commitments involving the purchase of plant and equipment of more than $20 million in aggregate;

(vi) **(Employment)** making any material change to the terms of employment of any director, officer, executive or senior manager of the iiNet Group; granting or paying any bonus, incentive, retention, severance or termination payment to any director, officer, executive or senior manager of the iiNet Group; entering into a new employment contract under which the total remuneration payable would exceed $130,000 in any twelve month period, other than to replace a role that becomes vacant as a result of the resignation of an existing employee or for a new employee who is employed in order to fill a role that is vacant as at the date of the Scheme Implementation Agreement; or entering into any enterprise bargaining agreement or any other form of collective agreement concerning the terms of employment of employees of the iiNet Group; or

(vii) **(Performance Rights)** waiving or varying any unsatisfied conditions or hurdles to which any iiNet Performance Right is subject; exercising any discretion enjoyed by iiNet or the iiNet Board under the Long Term Incentive Plan or any offer letter issued under that plan, or making any determination under the Long Term Incentive Plan unless in each case requested by TPG; modifying the rules of any share based incentive plan or scheme; or granting a performance right or a phantom performance right.

(f) Representations and Warranties

Clause 9 of the Scheme Implementation Agreement which is included as Annexure C contains customary representations and warranties by each of iiNet and TPG.

11.3 Loan Agreement

If iiNet declares the Discretionary Special Dividend, that dividend will be paid using the cash proceeds of a loan made to iiNet by TPG. iiNet and TPG have agreed the terms of the Loan Agreement, the material terms of which provide that:

(a) the amount of the loan will be equal to the aggregate cash amount of the Discretionary Special Dividend (if any) that has been declared by iiNet, and the loan can only be used to fund payment of the Discretionary Special Dividend (if any);

(b) iiNet may only draw down the loan where it has already declared the Discretionary Special Dividend and not earlier than the Effective Date, and the loan amount must be paid by TPG to iiNet at the same time that TPG pays the balance of the Scheme Consideration into a trust account operated by iiNet pursuant to the Scheme;

(c) iiNet is not required to repay the loan for at least 12 months following the date on which the Discretionary Special Dividend is paid by iiNet;

(d) iiNet must repay the loan, in full, on or prior to the fifth anniversary of the date of TPG providing the loan amount to iiNet.

The Loan Agreement was executed on 11 June 2015.

12

Additional Information

12. Additional information

12.1 2013 iiNet Performance Rights

As at the date of this Scheme Booklet, there are 1,434,957 2013 iiNet Performance Rights on issue. Based on their governing terms, it is expected that holders of 2013 iiNet Performance Rights will be issued an additional 179,370 2013 iiNet Performance Rights on 1 July 2015, resulting in a total of 1,614,327 2013 iiNet Performance Rights being on issue.

The 2013 iiNet Performance Rights were divided into three equal tranches with performance hurdles measured over one, two and three years, respectively. Initial vesting of each tranche commences at 15% annual total shareholder return **(TSR)**, 100% vests at 20% TSR, whilst a stretch target of 25% TSR results in a 150% vesting outcome.

(a) At 30 June 2013, Tranche 1 was assessed at 150% because exceptional stretching TSR of more than 25% was achieved for the year;

(b) At 30 June 2014, Tranche 2 was assessed at 150% because exceptional stretching TSR of more than 25% per annum over the 2 year performance period was achieved;

(c) Tranche 3 is due to be tested on 30 June 2015. Given iiNet's Share price performance, it is expected that the TSR vesting condition pursuant to this tranche will be satisfied in full.

It is a Condition of the Scheme that all these 2013 iiNet Performance Rights will either vest, lapse or be cancelled before the Record Date.

All 2013 iiNet Performance Rights currently on issue are unvested as at the date of this Scheme Booklet. On vesting, one iiNet Share will be issued in respect of each 2013 iiNet Performance Right.

The final outstanding conditions to the vesting of the 2013 iiNet Performance Rights will be satisfied on 30 June 2015. As such, iiNet expects that all 1,614,327 2013 iiNet Performance Rights will vest prior to the Record Date.

Accordingly, from the Record Date, there will be no 2013 iiNet Performance Rights on issue.

12.2 2015 iiNet Performance Rights

As at the date of this Scheme Booklet, entitlements under the 2015 iiNet Performance Rights have been issued to four general managers and five current executives of iiNet.

It is a Condition of the Scheme that all these 2015 iiNet Performance Rights will either vest, lapse or be cancelled before the Record Date.

All 2015 iiNet Performance Rights currently on issue are unvested as at the date of this Scheme Booklet. The iiNet Board has made various determinations under the governing terms of the 2015 iiNet Performance Rights that have the effect that none of the 2015 iiNet Performance Rights will vest, and no iiNet Shares will be issued in respect of those 2015 iiNet Performance Rights, as a result of the change of Control of iiNet occurring under the Scheme.

Furthermore, all 2015 iiNet Performance Rights will lapse on or prior to the Record Date.

Accordingly, from the Record Date, there will be no 2015 iiNet Performance Rights on issue.

12.3 Interests of Directors

The Directors have no interest in the outcome of the Scheme, except as provided for in this Scheme Booklet.

(a) iiNet marketable securities

The number, description and amount of iiNet marketable securities held by or on behalf of each Director as at the date of this Scheme Booklet are:

Director	iiNet Shares
Michael Smith	270,429
Peter James	35,000
David Grant	88,000
Louise McCann	32,100
Paul McCarney	Nil
Patrick O'Sullivan	6,400
Total	**431,929**

Directors may indirectly, and without their knowledge, hold iiNet marketable securities through memberships of professional superannuation or investment funds where such funds hold iiNet Shares for investment purposes.

Other than Louise McCann, as a result of an on-market purchase of 3,800 iiNet Shares at an average of $6.56 per share by a private superannuation fund on 2 March 2015, no Director has acquired or disposed of a Relevant Interest in any iiNet Shares in the 4 month period ending on the day immediately before the date of this Scheme Booklet.

(b) TPG marketable securities

None of the Directors has a conflict of interest in unanimously recommending the Scheme, in the absence of a Superior Proposal, given that:

(i) no Director holds any securities of TPG as at the date of this Scheme Booklet; and

(ii) each of the Directors has undertaken to iiNet not to acquire any securities of TPG at any time before the Implementation Date or the termination of the Scheme (whichever occurs first).

(c) Participation in the Scheme

Except as set out in this Section 12.3, all Directors will be treated in the same way under the Scheme as all other iiNet Shareholders.

(d) Termination Benefits

There are no termination benefits for Directors.

(e) Interests of Directors in contracts entered into by TPG

Except as set out in this Section 12.3, none of the Directors have any interests in contracts entered into by TPG.

(f) Other agreements or arrangements with Directors in connection with the Scheme

iiNet proposes to obtain a new directors' and officers' insurance policy to provide coverage for all current Directors for seven years from the Implementation Date following consultation with TPG.

Except as set out in this Section 12.3(f), there are no other agreements or arrangements between any Director of iiNet and any other person in connection with or conditional upon the outcome of the Scheme.

(g) Benefits to Directors

Neither TPG nor any of its Associates will be making any payment or giving any benefit to any current member of the iiNet Board as compensation or consideration for, or otherwise in connection with, their resignation from the iiNet Board if the Scheme is implemented and the iiNet Board is accordingly reconstituted, other than the benefits payable by iiNet to the Directors under the terms of the relevant iiNet Director's employment agreement with iiNet (refer to Section 12.3(d)).

12.4 Intentions of TPG after the Implementation Date

If the Scheme is implemented, it will be a matter for TPG to formulate its intentions in relation to:

(a) the continuation of the business of iiNet;
(b) any major changes to be made to the business of iiNet; and
(c) the future employment of the present employees of iiNet.

The intentions of TPG with respect to those matters are set out in Section 7.2.

12.5 Relevant interests of TPG in iiNet securities

As at the date of this Scheme Booklet, TPG has a Relevant Interest in a total of 10,184,137 iiNet Shares, representing approximately 6.25% of the total number of iiNet Shares on issue. This Relevant Interest arises as a result of the following holdings of iiNet Shares by wholly-owned Subsidiaries of TPG:

(a) ACN 139 798 404 Pty Ltd – legal and beneficial holder of 1,352,055 iiNet Shares;
(b) Blue Call Pty Ltd – legal and beneficial holder of 2,364,931 iiNet Shares; and
(c) Value Added Network Pty Ltd – legal and beneficial holder of 6,467,151 iiNet Shares.

As at the date of this Scheme Booklet, no iiNet Shares are held by or on behalf of any TPG Directors other than Shane Teoh.

12.6 Dealings in iiNet securities

Neither TPG nor any of its Associates has provided, or agreed to provide, consideration for any iiNet Shares under a purchase or agreement during the four months ending on the day immediately before the date of this Scheme Booklet.

During the period of four months ending on the day immediately before the date of this Scheme Booklet, neither TPG nor any of its Associates has given or offered to give or agreed to give a benefit to another person where the benefit was likely to induce the other person, or an Associate of that person, to:

(a) vote in favour of the Scheme; or
(b) dispose of iiNet Shares,

and the benefit has not been offered to all iiNet Shareholders.

12.7 Lodgement of Scheme Booklet

This Scheme Booklet was given to ASIC on 26 May 2015 in accordance with section 411(2)(b) of the Corporations Act.

12.8 Foreign selling restrictions

(a) Overview

The distribution of this Scheme Booklet outside of Australia may be restricted by law and persons who come into possession of it should seek advice and observe any such restrictions. Any failure to comply with such restrictions may contravene applicable securities laws. iiNet and TPG disclaim all liabilities to such persons.

No action has been taken to register or qualify this Scheme Booklet, the Scheme or the New TPG Shares, or otherwise permit a public offering of the New TPG Shares, in any jurisdiction outside of Australia and its external territories, and New Zealand.

This Scheme Booklet is subject to Australian disclosure requirements. Financial information in this Scheme Booklet has been prepared in accordance with Australian Accounting Standards and is presented in an abbreviated form and does not contain all of the disclosures that are usually provided in a financial report prepared in accordance with the Corporations Act. Australian disclosure requirements and Australian Accounting Standards may be different from those applicable in other jurisdictions. Scheme Shareholders in jurisdictions outside Australia and its external territories, and New Zealand are Ineligible Foreign iiNet Shareholders under the Scheme and should refer to Section 4.2(e).

This Scheme Booklet and the Scheme do not, either individually or in combination, constitute an offer to sell to iiNet Shareholders or a solicitation of an offer to purchase from iiNet Shareholders any securities in iiNet or TPG in any jurisdiction where such an offer or solicitation would be illegal. Scheme Shareholders who reside outside of Australia but who do not constitute Ineligible Foreign iiNet Shareholders should note that this Scheme Booklet has been prepared (in accordance with the requirements in Australia) for the sole purpose of allowing you to consider the Scheme. It must not be distributed, reproduced or disclosed (in whole or part) to other persons or used for any purpose other than consideration of the Scheme.

This Scheme Booklet has not been filed with or considered or approved by any regulatory body in any country other than Australia and iiNet Shareholders should consult with their professional advisers as to whether any other formalities or consents are required to permit them to receive New TPG Shares pursuant to the Scheme.

(b) New Zealand

This Scheme Booklet does not constitute a New Zealand product disclosure statement, prospectus or investment statement and has not been registered, filed with or approved by any New Zealand regulatory authority under or in connection with the *Securities Act 1978* (NZ) or the *Financial Markets Conduct Act 2013* (NZ). The disclosure materials are being distributed in New Zealand only to persons to whom securities may be offered in New Zealand pursuant to the *Securities Act (Overseas Companies) Exemption Notice 2013* (or any replacement of that notice).

The offer of New TPG Shares will comply with the laws of Australia applicable to the offer of New TPG Shares.

The taxation treatment of Australian securities is not the same as for New Zealand securities. The issue of New TPG Shares may involve a currency exchange risk as they will be quoted on the ASX in Australian dollars.

If you are uncertain about whether this investment is appropriate for you, you should seek the advice of an appropriately qualified financial adviser.

12.9 ASIC Relief

Paragraph 8302(h) of Part 3 of Schedule 8 of the Corporations Regulations requires the Scheme Booklet to set out whether, within the knowledge of the Directors, the financial position of iiNet has changed since the date of the last balance sheet laid before iiNet Shareholders in accordance with section 314 or 317 of the Corporations Act being 30 June 2014. ASIC has granted iiNet relief from this requirement so that this Scheme Booklet only needs set out whether, within the knowledge of the Directors, the financial position of iiNet has materially changed since 31 December 2014 (being the last date of the period to which the financial statements for the half-year ended 31 December 2014 relate). See Section 5.7.

12.10 No unacceptable circumstances

The Directors believe that the Scheme does not involve any circumstances in relation to the affairs of any iiNet Shareholder that could reasonably be characterised as constituting "unacceptable circumstances" for the purposes of section 657A of the Corporations Act.

12.11 Creditors of iiNet

The Scheme, if implemented, is not expected to materially prejudice iiNet's ability to pay its creditors as the Scheme involves the acquisition of iiNet Shares for consideration provided by a third party, rather than the acquisition of iiNet's underlying assets. No material new liability (other than Proposed Transaction costs and the loan to pay the Discretionary Special Dividend funded by TPG under the Loan Agreement) is expected to be incurred by iiNet as a consequence of the Proposed Transaction. iiNet has paid and is paying all of its creditors within normal terms of trade and is solvent and trading in an ordinary commercial manner.

12.12 Experts and fees

The persons performing a function in a professional or advisory capacity in connection with the Scheme and with the preparation of this Scheme Booklet are:

(a) Azure Capital as financial adviser to iiNet;
(b) K&L Gates as legal adviser in relation to Australian law to iiNet;
(c) Ernst & Young as auditor of iiNet;
(d) Lonergan Edwards as the author of the Independent Expert's Report;
(e) KPMG as auditor of TPG;
(f) KPMG Transaction Services as the Investigating Accountant and the author of the Independent Limited Assurance Report;

(g) Global Proxy Solicitation as the Proxy Solicitation Agent and the operator of the iiNet Shareholder Information Line and the Scheme website www.iinetscheme.net.au; and

(h) PricewaterhouseCoopers Securities Ltd as tax adviser to iiNet and author of the Taxation Implications contained in Section 10.

Each of them will be entitled to receive professional fees charged in accordance with their normal basis of charging.

The fee for professional services paid or payable to the Independent Expert which has provided the Independent Expert's Report is estimated at $260,000 (plus GST).

iiNet may not pay fees to iiNet's Advisers in connection with the Scheme Implementation Agreement and the Scheme in excess of $22 million without TPG's consent.

TPG has incurred professional fees in connection with the Scheme and these are included in the proforma historical financial information statements in Section 8.5.

12.13 Consents and disclaimer

(a) Consents

Each of the following persons has given and has not before the date of this Scheme Booklet withdrawn its written consent to be named in this Scheme Booklet in the form and context in which it is named:

(i) Azure Capital as the financial adviser to iiNet;

(ii) K&L Gates as legal adviser to iiNet as to matters of Australian law;

(iii) Ernst & Young as the auditor of iiNet;

(iv) Link Market Services Limited as the Registrar;

(v) Lonergan Edwards as the Independent Expert in this Scheme Booklet and as to the inclusion in this Scheme Booklet of the Independent Expert's Report in Annexure A and the references to the Independent Expert's Report elsewhere in this Scheme Booklet, in each case in the form and context in which it is included;

(vi) KPMG as auditor of TPG;

(vii) KPMG Transaction Services (a division of KPMG Financial Advisory Services (Australia) Pty Ltd) as the Investigating Accountant in this Scheme Booklet and as to the inclusion in this Scheme Booklet of the Independent Limited Assurance Report in Annexure B and the references to the Independent Limited Assurance Report elsewhere in this Scheme Booklet, in each case in the form and context in which it is included;

(viii) Global Proxy Solicitation as the Proxy Solicitation Agent and the operator of the iiNet Shareholder Information Line and the Scheme website www.iinetscheme.net.au;

(ix) TPG as to the inclusion in this Scheme Booklet of the TPG Information in the form and context in which it is included; and

(x) PricewaterhouseCoopers Securities Ltd as the author of the Taxation Implications contained in Section 10 and the references to that summary elsewhere in this Scheme Booklet, in each case in the form and context in which it is included.

(b) Disclaimer

Each person referred to in Section 12.13(a):

(i) has not authorised or caused the issue of this Scheme Booklet;

(ii) does not make, or purport to make, any statement in this Scheme Booklet or any statement on which a statement in this Scheme Booklet is based, other than as specified Section 12.13(a); and

(iii) to the maximum extent permitted by law, expressly disclaims all liability in respect of, makes no representation regarding, and takes no responsibility for any part of this Scheme Booklet other than a reference to its name and any statement or report which has been included in this Scheme Booklet with the consent of that person referred to in Section 12.13(a).

12.14 Supplementary information

If between the date of lodgement of this Scheme Booklet for registration by ASIC and the Effective Date, TPG becomes aware of any of the following:

(a) a material statement in the TPG Information that is false or misleading;

(b) a material omission from the TPG Information;

(c) a significant change affecting a matter included in the TPG Information; or

(d) a significant new matter affecting TPG that has arisen and that would have been required to be included in the TPG Information if it had arisen before the date of lodgement of this Scheme Booklet for registration by ASIC,

TPG will make available supplementary information to iiNet. iiNet will make any supplementary material provided by TPG available to iiNet Shareholders by releasing that material to the ASX (www.asx.com.au) and posting the supplementary document to the Scheme website (www.iinetscheme.net.au). Depending on the nature and timing of the changed circumstances and subject to obtaining any relevant approvals, iiNet may also send those supplementary materials to iiNet Shareholders.

If, between the date of lodgement of this Scheme Booklet for registration by ASIC and the Effective Date, iiNet becomes aware of any of the following:

(a) a material statement in this Scheme Booklet that is false or misleading;

(b) a material omission from this Scheme Booklet;

(c) a significant change affecting a matter included in this Scheme Booklet; or

(d) a significant new matter that has arisen and that would have been required to be included in this Scheme Booklet if it had arisen before the date of lodgement of this Scheme Booklet for registration by ASIC,

iiNet will make available supplementary material to iiNet Shareholders. iiNet intends to make available any supplementary material by releasing that material to the ASX (www.asx.com.au) and posting the supplementary document to the Scheme website (www.iinetscheme.net.au). Depending on the nature and timing of the changed circumstances and subject to obtaining any relevant approvals, iiNet may also send those supplementary materials to iiNet Shareholders.

12.15 Other material information

Except as set out in this Scheme Booklet, there is no other information material to the making of a decision in relation to the Scheme, being information that is within the knowledge of any Director or Related Body Corporate of iiNet, which has not previously been disclosed to iiNet Shareholders.

13

Glossary

13. Glossary

In this Scheme Booklet (except for Annexure A and Annexure B), unless the context requires otherwise:

2013 iiNet Performance Rights means the iiNet Performance Rights issued during FY 2013.

2015 iiNet Performance Rights means the iiNet Performance Rights issued during FY 2015.

2015 Interim Dividend means the interim dividend of $0.105 per iiNet Share declared by iiNet on 18 February 2015 and paid on 30 March 2015.

ACCC means the Australian Competition and Consumer Commission.

Accounting Standards means:
(a) the accounting standards made by the Australian Accounting Standards Board in accordance with the Corporations Act, and the requirements of that Act relating to the preparation and content of accounts; and
(b) generally accepted accounting principles that are consistently applied in Australia, except those inconsistent with the standards or requirements referred to in paragraph (a).

Adviser means any person who is engaged to provide professional advice of any type (including legal, accounting, consulting or financial advice) to iiNet or TPG.

Annexure means an annexure to this Scheme Booklet.

Announcement Date means 13 March 2015, being the date on which TPG and iiNet announced to the ASX that they had entered into the Scheme Implementation Agreement.

ASIC means the Australian Securities and Investments Commission.

Associate has the meaning given to that term in Division 2 of Part 1.2 of the Corporations Act.

ASX means ASX Limited (ABN 98 008 624 691) or, if the context requires, the financial market operated by it.

ATO means the Australian Taxation Office.

ATO Tax Ruling has the meaning given to that term in Section 4.4.

Authorised Person means, in respect of a person:
(a) a director, officer, partner, member or employee of the person;
(b) an Adviser of the person; and
(c) a director, officer or employee of an Adviser of the person.

Break Fee means $16 million.

Business Day means a day that is not a Saturday, Sunday or a public holiday or bank holiday in Sydney, New South Wales or Perth, Western Australia.

Cash Consideration means $8.80 per Scheme Share in cash payable to a Scheme Shareholder who has made or is deemed to have made a Cash Election.

Cash Election means a valid Election made, or deemed to be made, by a Scheme Shareholder to receive the Cash Consideration in accordance with the terms of the Scheme.

CGT means capital gains tax.

Combined Group means the corporate group comprising of the TPG Group and the iiNet Group following implementation of the Scheme.

Commissioner means the Commissioner of Taxation.

Competing Proposal means any proposal, offer or transaction by a third party (other than TPG or its Related Bodies Corporate) that, if completed, would mean:
(a) a person would acquire a Relevant Interest or voting power in 15% or more of the issued iiNet Shares or of the securities of any member of the iiNet Group;
(b) a person would enter into, buy, dispose of, terminate or otherwise deal with any cash settled equity swap or other synthetic, economic or derivative transaction connected with or relating to 15% or more of the issued iiNet Shares or of the securities of any member of the iiNet Group;
(c) a person would directly or indirectly acquire or obtain an interest (including an economic interest) in all or a substantial part or material part of the business conducted by, or assets or property of, iiNet or any member of the iiNet Group;
(d) a person would acquire Control of iiNet or any member of the iiNet Group;
(e) a person may otherwise acquire, or merge with, iiNet or any member of the iiNet Group (including by way of takeover bid, scheme of arrangement, capital reduction, sale of assets, sale of securities, strategic alliance, dual listed company structure, joint venture or partnership); or
(f) iiNet would issue, on a fully diluted basis, 15% or more of its capital as consideration for the assets or share capital of another person,

or any proposal by iiNet to implement any reorganisation of capital. Each successive material modification or variation of any proposal, offer or transaction in relation to a Competing Proposal constitutes a new Competing Proposal.

Competition Act means the *Competition and Consumer Act 2010* (Cth).

Conditions means the conditions precedent to the implementation of the Scheme set out in clause 3 of the Scheme Implementation Agreement, as summarised in Section 11.2(a).

Control has the meaning given under section 50AA of the Corporations Act and **Controlled** has the equivalent meaning.

Corporations Act means the *Corporations Act 2001* (Cth).

Counter Proposal has the meaning given to that term in clause 10.6(d) of the Scheme Implementation Agreement.

Court means the Federal Court of Australia.

CY14 means the calendar year to 31 December 2014.

Deed Poll means the deed poll under which TPG covenants in favour of the Scheme Shareholders to perform all actions attributed to it under the Scheme, in the form set out in Annexure E.

Directors mean the directors of iiNet.

Discretionary Special Dividend means the proposed fully franked dividend (if any) that may be declared by iiNet, as described in Section 4.4.

Dividend Record Date means the date for determining entitlements to the Discretionary Special Dividend (if declared), which is expected to be 5.00pm (WST) on Thursday, 27 August 2015.

Effective means, when used in relation to the Scheme, the coming into effect, under section 411(10) of the Corporations Act, of the order of the Court made under section 411(4)(b) of the Corporations Act in relation to the Scheme.

Effective Date means with respect to the Scheme, the date on which the Scheme becomes Effective.

Election means a Cash Election or a Share Election in respect of Scheme Shares made at any time before the Election Date by a Scheme Shareholder.

Election Date means the last date for receipt of an Election Form in order to make an Election in accordance with the terms of the Scheme, being 5.00pm WST on Tuesday, 21 July 2015.

Election Form means the form that accompanies this Scheme Booklet or is made available by iiNet (in printed or electronic form) to be used by an iiNet Shareholder to make an Election.

End Date means the later of:
(a) 31 October 2015; or
(b) such other date and time agreed in writing between TPG and iiNet.

Ernst & Young means Ernst & Young ABN 75 288 172 749.

EV/EBITDA is a financial ratio used to determine the value of a company where:
(a) EV is the enterprise value of the company, being market capitalisation plus debt, minority interest and preferred shares, minus total cash and cash equivalents; and
(b) EBITDA is the company's earnings before interest, taxes, depreciation and amortisation.

Excluded Shareholder means each of the TPG Group Members described in Section 12.5.

Exclusivity Period means the period commencing on the date of the Scheme Implementation Agreement and ending on the earliest of:
(a) the End Date;
(b) the Effective Date; and
(c) the date the Scheme Implementation Agreement is terminated in accordance with its terms.

FY means financial year.

Governmental Agency means any government or representative of a government or any governmental, semi-governmental, administrative, fiscal, regulatory or judicial body, department, commission, authority, tribunal, agency, or competition authority or entity and includes any minister, ASIC, the ASX and any regulatory organisation established under statute or any stock exchange.

GST means a goods and services tax or similar value added tax levied or imposed under the GST Law.

GST Law has the meaning given to it in the *A New Tax System (Goods and Services Tax) Act 1999* (Cth).

iiNet means iiNet Limited ABN 48 068 628 937.

iiNet Board means the board of directors of iiNet as constituted from time to time (or any committee of the board of directors of iiNet constituted from time to time to consider the Proposed Transaction on behalf of iiNet).

iiNet Employee Deferred Tax Scheme means the iiNet Limited Employee Participation Plan (Tax Deferred Plan) 2008.

iiNet Group means iiNet and its Subsidiaries.

iiNet Performance Rights means a right granted under the Long Term Incentive Plan to acquire by way of issue or transfer an iiNet Share subject to the terms and conditions of such plan.

iiNet Prescribed Occurrence means the occurrence of any of the following on or after the date of the Scheme Implementation Agreement and before 8.00am (WST) on the Second Court Date:
(a) iiNet converts all or any of its shares into a larger or smaller number of shares (see section 254H of the Corporations Act);
(b) any member of the iiNet Group resolves to reduce its share capital in any way;
(c) any member of the iiNet Group:
  (i) enters into a buy back agreement; or
  (ii) resolves to approve the terms of a buy back agreement under subsections 257C(1) or 257D(1) of the Corporations Act;
(d) any member of the iiNet Group issues shares, or grants a performance right, a phantom performance right, or an option over its shares, or agrees to make such an issue or grant such a performance right, phantom performance right or an option;
(e) any member of the iiNet Group issues, or agrees to issue, convertible notes;
(f) any member of the iiNet Group disposes, or agrees to dispose, of the whole, or a substantial part, of its business or property;
(g) any member of the iiNet Group creates, or agrees to create, any mortgage, charge, lien or other encumbrance over the whole, or a substantial part, of its business or property, other than in the usual and ordinary course of business consistent with past practice;
(h) any member of the iiNet Group becomes Insolvent,

provided that an iiNet Prescribed Occurrence will not include any matter:
(i) required to be done or procured by iiNet pursuant to the Scheme Implementation Agreement or the Scheme;
(j) required by law or by an order of a court or Governmental Agency;
(k) expressly permitted pursuant to the Scheme Implementation Agreement; or
(l) the undertaking of which TPG has previously approved in writing (which approval must not be unreasonably withheld or delayed). As at the date of this Scheme Booklet, TPG has approved:
  (i) the issue of any additional iiNet Performance Rights after the date of the Scheme Implementation Agreement where those additional iiNet Performance Rights have been issued solely in satisfaction of iiNet's existing obligation to any of David Buckingham, Maryna Fewster or Greg Bader under the 2012 and 2013 grants under the Long Term Incentive Plan because the vesting outcome of an award is more than 100% under the terms of the offer of iiNet Performance Rights previously made to those individuals; and
  (ii) the issue of iiNet Shares upon the vesting of iiNet Performance Rights provided each iiNet Performance Right will only entitle the holder to receive one iiNet Share.

iiNet Share means an issued fully paid ordinary share in the capital of iiNet.

iiNet Shareholder means each person who is registered in the Register as a holder of iiNet Shares.

iiNet Warranties means the representations and warranties of iiNet set out in clause 9.3 of the Scheme Implementation Agreement.

Implementation Date means, with respect to the Scheme, the fifth Business Day, or such other Business Day as iiNet and TPG agree, following the Record Date.

Improved TPG Proposal means the proposed acquisition by TPG of all of the iiNet Shares not otherwise owned by any member of the TPG Group for a Total Consideration of at least $9.55[56] per Scheme Share announced to the ASX by iiNet and TPG on 6 May 2015.

Indefeasible Right of Use means an exclusive, unrestricted and indefeasible right to use dedicated capacity on an international cable.

Independent Expert means Lonergan Edwards Associates Limited.

Independent Expert's Report means the report of the Independent Expert set out in Annexure A.

Independent Limited Assurance Report means the report of the Investigating Accountant set out in Annexure B.

Ineligible Foreign iiNet Shareholder means a Scheme Shareholder whose address as shown in the iiNet Register (as at the Record Date) is in a place outside Australia and its external territories, or New Zealand, unless TPG is satisfied, acting reasonably, that the laws of that place permit the allotment and issue of TPG Shares to that Scheme Shareholder pursuant to the Scheme either unconditionally or after compliance with conditions that TPG in its sole discretion regards as acceptable and not unduly onerous or impracticable.

Insolvency Event means in relation to a person:
(a) the appointment of a liquidator, provisional liquidator, administrator, statutory manager, controller, receiver, receiver and manager or other insolvency official (whether under an Australian law or a foreign law) to the person or to the whole or a substantial part of the property or assets of the person and the action is not stayed, withdrawn or dismissed within 14 days;
(b) the entry by the person into a compromise or arrangement with its creditors generally;
(c) the calling of a meeting to consider a resolution to wind up the person (other than where the resolution is frivolous or cannot reasonably be considered to be likely to lead to the actual winding up of the person) or the making of an application or order for the winding up or deregistration of the person other than where the application or order (as the case may be) is set aside or withdrawn within 14 days;
(d) the person suspending or threatening to suspend payment of its debts as and when they become due;
(e) the person ceasing or threatening to cease to carry on business;
(f) the person being unable to pay its debts when they fall due within the meaning of the Corporations Act or being otherwise presumed to be insolvent under the Corporations Act;
(g) the person being deregistered as a company or otherwise dissolved;
(h) the person executing a deed of company arrangement;
(i) the person incurring a liability while acting or purporting to act as trustee (or co-trustee) or general partner of a trust or partnership (including a limited partnership) where the person is not entitled to be fully indemnified against the liability out of trust or partnership assets because of one or more of the following:
  (i) a breach of trust or obligation as partner by the person;
  (ii) the person acting outside the scope of its powers as trustee or partner;
  (iii) a term of the trust or partnership denying, or limiting, the person's right to be indemnified against the liability;
  (iv) the assets of the trust or partnership being insufficient to discharge the liability; or
(j) anything analogous to those events set out in any of paragraphs (a) to (i) inclusive occurring in relation to the person under the laws of a foreign jurisdiction,

and a person shall be **Insolvent** if any event specified in paragraphs (a) to (j) inclusive occurs in respect of that person.

Investigating Accountant means KPMG Transaction Services (a division of KPMG Financial Advisory Services (Australia) Pty Ltd) the author of the Independent Limited Assurance Report set out in Annexure B.

Listing Rules means the official listing rules of the ASX as amended from time to time.

Loan Agreement means the agreement agreed between TPG as lender and iiNet as borrower in which TPG agreed to lend iiNet an amount sufficient to fund the payment of the Discretionary Special Dividend (if declared).

Lonergan Edwards means Lonergan Edwards & Associates Limited ABN 53 095 445 560.

Long Term Incentive Plan or LTI Plan means the iiNet Limited Executive Long Term Incentive Plan as amended by the iiNet Board on 22 November 2011.

Marketable Parcel has the meaning given to that term in the Listing Rules.

Material Adverse Change means an event, occurrence or matter that occurs, is announced, is disclosed or otherwise becomes known to TPG (whether it becomes public or not) after the date of the Scheme Implementation Agreement, and which (individually or when aggregated with other events, occurrences or matters) has or could reasonably be expected to have:
(a) the result that the business of iiNet is unable to be carried on substantially in the way it was being carried on as at the date of the Scheme Implementation Agreement; or
(b) one or more of the following effects (in each case determined in accordance with Accounting Standards):
  (i) for an event, occurrence or matter with a one-off impact – a diminution in the net assets of the iiNet Group of $18 million or more; or
  (ii) in all other cases – the incurring of any liabilities, costs or expenses (contingent or otherwise) where the quantum exceeds $18 million (on a pre-tax basis),

other than events, occurrences or matters:
(c) required to be done or procured by iiNet pursuant to the Scheme Implementation Agreement or the Scheme;
(d) resulting directly from changes in general economic and political conditions or changes that affect the telecommunications industry generally;
(e) fairly disclosed to the ASX before the date of the Scheme Implementation Agreement or which may arise from an event, occurrence or matter which was so disclosed; or
(f) which TPG has previously approved in writing (which approval must not be unreasonably withheld or delayed).

M2 means M2 Group Limited.

M2 Proposal means the now withdrawn Competing Proposal to acquire all of the iiNet Shares announced to the ASX by M2 on 27 April 2015 proposing a total consideration of 0.803 M2 shares per iiNet Share plus $0.75 cash per iiNet Share in the form of a special dividend.

NBN means the National Broadband Network, an Australia-wide project to upgrade the existing fixed line phone and internet network infrastructure conducted by NBN Co Limited, an Australian government company.

New TPG Shares means TPG Shares to be issued as Share Consideration.

Notice of Scheme Meeting means the notice convening the Scheme Meeting for that meeting as set out in Annexure F.

Original TPG Proposal means the proposed acquisition by TPG of all of the iiNet Shares not otherwise owned by any member of the TPG Group for a cash payment of $8.60 per iiNet Share announced to the

56 The Total Consideration is at least $9.55 per iiNet Share for those iiNet Shareholders who make or are deemed to make a Cash Election. The value of the Share Consideration will fluctuate with changes in the price of TPG Shares, meaning that the Total Consideration for those iiNet Shareholders who make a Share Election may be more or less than $9.55 per iiNet Share.

ASX by iiNet and TPG on 13 March 2015.

PE is an equity valuation multiple where P is the current market price of a company's shares and E is the earnings per share of that company.

Proposed Transaction means the proposed acquisition by TPG, in accordance with the terms and conditions of the Scheme Implementation Agreement, of all of the iiNet Shares (other than the iiNet Shares held by an Excluded Shareholder) through the implementation of the Scheme.

Proxy Form means the proxy form that accompanies this Scheme Booklet or is available from the Registrar.

Proxy Solicitation Agent means Global Proxy Solicitation Pty Limited ABN 90 122 943 131.

Record Date means, in respect of the Scheme, 5.00pm (WST) on the third Business Day (or such other Business Day as iiNet and TPG agree in writing) following the Effective Date.

Register means the share register of iiNet Shareholders kept pursuant to section 168(1) of the Corporations Act.

Registrar means Link Market Services Limited ABN 54 083 214 537 of Level 4 Central Park, 152 St Georges Terrace, Perth, Western Australia 6000.

Regulatory Approval means:
(a) any approval, consent, authorisation, registration, filing, lodgement, permit, franchise, agreement, notarisation, certificate, permission, licence, direction, declaration, authority, waiver, modification or exemption from, by or with a Governmental Agency; or
(b) in relation to anything that would be fully or partly prohibited or restricted by law if a Governmental Agency intervened or acted in any way within a specified period after lodgement, filing, registration or notification, the expiry of that period without intervention or action.

Regulatory Authorities includes:
(a) a government or governmental, semi-governmental, administrative, fiscal or judicial entity or authority;
(b) a minister, department, office, commission, delegate, instrumentality, tribunal, agency, board, authority or organisation of any government;
(c) any regulatory organisation established under statute; and
(d) in particular, ACCC, ASIC and the ASX.

Related Body Corporate of a person, means a related body corporate of that person under section 50 of the Corporations Act and includes any body corporate that would be a related body corporate if section 48(2) of the Corporations Act was omitted.

Relevant Interest has the same meaning given by sections 608 and 609 of the Corporations Act.

Requisite Majority means in relation to the Scheme Resolution, a resolution passed by:
(a) a majority in number (more than 50%) of iiNet Shareholders (as the case may be) who are present and voting, either in person or by proxy, attorney or in the case of a corporation its duly appointed corporate representative; and
(b) at least 75% of the votes cast on the resolution.
The Court has the discretion to waive the first of these two requirements if the Court considers it appropriate to do so.

Scheme means the proposed scheme of arrangement pursuant to Part 5.1 of the Corporations Act between iiNet and Scheme Shareholders, in the form set out in Annexure D.

Scheme Booklet means this scheme booklet, including the Annexures.

Scheme Consideration means the consideration payable to Scheme Shareholders under the Scheme, comprised of the Cash Consideration and the Share Consideration and, if applicable, the Top-Up Cash Consideration.

Scheme Implementation Agreement means the Scheme Implementation Agreement dated 13 March 2015 between iiNet and TPG as amended or varied from time to time including on 5 May 2015 and 10 June 2015, as set out in Annexure C.

Scheme Meeting means the meeting of iiNet Shareholders ordered by the Court to be convened under section 411(1) of the Corporations Act to consider and vote on the Scheme, to be held at 10.00am (WST) on Monday, 27 July 2015, and includes any adjournment or postponement of that meeting.

Scheme Resolution means the resolution to be proposed to the iiNet Shareholders at the Scheme Meeting to approve the Scheme, set out in the Notice of Scheme Meeting.

Scheme Share means an iiNet Share on issue as at 5.00pm (WST) on the Record Date other than any iiNet Share then held by an Excluded Shareholder (but including any such iiNet Share held on behalf of one or more third parties or otherwise in a fiduciary capacity).

Scheme Shareholder means a person who holds one or more Scheme Shares.

Second Court Date means the first day on which an application made to the Court for an order under section 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 or appealed application is heard.

Second Court Hearing means the Court hearing occurring on the Second Court Date.

Share Consideration means the consideration determined in accordance with clause 5.2 of the Scheme Implementation Agreement as being payable to a Scheme Shareholder who has made a Share Election, and that includes the Top-Up Cash Consideration (if any).

Share Election means a valid Election made by a Scheme Shareholder to receive the Share Consideration in accordance with the terms of the Scheme.

Share Ratio means 0.969 New TPG Shares per Scheme Share.

Share Splitting means the splitting by a holder of iiNet Shares into two or more parcels of iiNet Shares whether or not it results in any change in beneficial ownership of the iiNet Shares.

Subsidiary has the meaning given to that term in section 46 of the Corporations Act.

Superior Proposal means a bona fide Competing Proposal which the iiNet Board determines, acting in good faith and in order to satisfy what the iiNet Board reasonably considers to be its fiduciary or statutory duties, would, if completed substantially in accordance with its terms, be likely to result in a transaction more favourable to iiNet Shareholders than the Proposed Transaction having regard to matters including consideration, conditionality, funding, certainty and timing.

Top-Up Cash Consideration means, if the Discretionary Special Dividend declared by iiNet is:
(a) $0.75 per Scheme Share, nil; or
(b) less than $0.75 per Scheme Share, the amount that is $0.75 less the amount of the Discretionary Special Dividend.

Total Consideration means the consideration per Scheme Share, comprised of the:
(a) Cash Consideration; or
(b) Share Consideration;
plus in each case
(c) the Discretionary Special Dividend if declared and paid by iiNet (or the Top-Up Cash Consideration).

TPG means TPG Telecom Limited ABN 46 093 058 069.

TPG Board means the board of directors of TPG.

TPG Director means a member of the TPG Board.

TPG Group means TPG and its Subsidiaries.

TPG Information means:
(a) the TPG Chairman's letter;
(b) the information set out in Section 2 (under the heading "Information about the Combined Group")
(c) the information set out in Section 6 (Information about TPG);
(d) the information set out in Section 7 (TPG and the Scheme);
(e) the information set out in Section 8 (Information about the Combined Group);
(f) the information set out in Section 9.2, (Specific risks associated with the Scheme and the creation of the Combined Group) Section 9.3 (Specific risk factors relating to Combined Group) and Section 9.5 (General investment risks to the extent they apply to TPG);
(g) the information set out in Section 12.4 (Intentions of TPG after the Implementation Date) and Section 12.5 (Relevant interests of TPG in iiNet securities);
(h) to the extent they have been prepared based on information provided by TPG, any definitions set out in this Glossary; and
(i) information set out elsewhere in this Scheme Booklet repeating or based on the information referred to in paragraphs (a) to (g) above.

TPG Share means a fully paid ordinary share in the capital of TPG.

TPG Shareholder means each person who is registered in TPG's register as a holder of TPG Shares.

TPG Share Cap means an aggregate cap of 27,523,946 New TPG Shares being issued as Share Consideration calculated as at the Election Date.

TPG Warranties means the representations and warranties of TPG set out in clause 9.1 of the Scheme Implementation Agreement.

VWAP means the volume weighted average price.

WST means Western Standard Time in Australia.

In this Scheme Booklet (except for Annexure A and Annexure B):
- all dates and times are Perth, Western Australia times unless otherwise indicated;
- words and phrases not otherwise defined in this Scheme Booklet (excluding the Annexures) have the same meaning (if any) as is given to them by the Corporations Act;
- the singular includes the plural and vice versa;
- a reference to a person includes a reference to a corporation;
- headings are for ease of reference only and do not affect the interpretation of this Scheme Booklet; and
- a reference to a Section is to a Section in this Scheme Booklet unless stated otherwise.

LONERGAN EDWARDS
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The Directors
iiNet Limited
Level 1
502 Hay Street
Subiaco WA 6008

10 June 2015

Subject: Proposed acquisition by way of Scheme

Dear Directors

Background

1 On 13 March 2015, iiNet Limited (iiNet or the Company) announced that it and TPG Telecom Limited (TPG) had signed a Scheme Implementation Agreement (the Initial Agreement) under which TPG would acquire all of the shares in iiNet that it does not already own[1] for a cash consideration of $8.60 cash per share.

2 Subsequent to this agreed transaction:

(a) on 27 April 2015 iiNet announced that it had received a proposal from M2 Group Limited (M2 Group) to acquire all of the ordinary shares in iiNet by way of a scheme of arrangement (the M2 Group Proposal) for a consideration that comprised:

(i) 0.803 M2 Group shares for each share in iiNet

(ii) a special dividend of $0.75 per iiNet share

(b) on 30 April 2015 iiNet issued a "Relevant Notice" to TPG, and provided TPG with the opportunity to respond (within three business days) to the M2 Group Proposal consistent with the terms of the Initial Agreement.

Proposed transaction

3 On 6 May 2015 iiNet announced that it and TPG had entered into a revised Scheme Implementation Agreement (the Revised Agreement) under which TPG would acquire all of the shares in iiNet that it does not already own. The proposed acquisition of the shares is to be implemented via a scheme of arrangement between iiNet and its shareholders (the Scheme) and is subject to a number of conditions precedent (as summarised in Section I of our report).

1 TPG currently owns 6.25% of iiNet.

4 If the Scheme is approved by iiNet shareholders and the Court, iiNet shareholders will receive a combination of:

(a) $8.80 cash per iiNet share (the Cash Alternative); or

(b) 0.969 TPG shares for each share in iiNet, subject to an agreed cap (the Share Alternative); plus

(c) $0.75 cash per iiNet share by way of a fully franked special dividend (the Special Dividend)[2].

5 The Revised Agreement allows iiNet shareholders to elect to receive either the Cash Alternative or the Share Alternative. iiNet shareholders who do not make an election will receive the Cash Alternative. If the aggregate of elections for the Share Alternative exceed approximately 27.5 million TPG shares there will be a proportional scale back and iiNet shareholders will receive the balance of the consideration in cash.

6 The Cash Alternative or the Share Alternative comprise the Scheme Consideration. In addition, iiNet shareholders will receive the Special Dividend of up to $0.75 per share. If the Special Dividend is less than $0.75 per share, iiNet shareholders will receive an additional cash payment per share from TPG equal to the difference between the Special Dividend and $0.75 per share. The Special Dividend will only be paid by iiNet if iiNet receives a favourable ATO Tax Ruling, iiNet has sufficient retained earnings and the Scheme is approved by iiNet shareholders.

7 For the purpose of our report we have defined the aggregate of the Scheme Consideration and the Special Dividend as the Total Consideration.

8 The Scheme is subject to the Court convening a meeting of iiNet shareholders. Under the *Corporations Act 2001 (Cth)* (Corporations Act), the Scheme is approved by iiNet shareholders if a resolution in favour of the Scheme is passed by a majority in number of the iiNet shareholders present and voting at the Scheme meeting (in person or by proxy), and by 75% of the votes cast on the resolution. If this occurs a second Court hearing will be held to approve the Scheme, which if approved, will become binding on all iiNet shareholders who hold iiNet shares as at the Scheme Record Date, whether or not they voted for the Scheme (and even if they voted against the Scheme).

Purpose of report

9 The Scheme is subject to a number of conditions precedent, including an independent expert concluding that the Scheme is in the best interests of iiNet shareholders. In addition, the Directors' recommendation of the Scheme is subject to an independent expert concluding that the Scheme is in the best interests of iiNet shareholders, in the absence of a superior proposal.

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2 The Special Dividend is subject to a favourable ruling from the Australian Taxation office (ATO) and to the extent permitted by iiNet's retained earnings at the time of declaration. Should the Special Dividend be less than $0.75 per iiNet share, TPG will pay the difference in cash.

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10 Accordingly, the Directors of iiNet have requested that Lonergan Edwards & Associates Limited (LEA) prepare an IER stating whether, in our opinion, the Scheme is fair and reasonable and in the best interests of iiNet shareholders and the reasons for that opinion. LEA is independent of iiNet, TPG and M2 Group and has no other involvement or interest in the proposed Scheme.

Summary of opinion

11 In our opinion, the Scheme is fair and reasonable and in the best interests of iiNet shareholders in the absence of a superior proposal. We have formed this opinion for the reasons set out below.

Value of iiNet shares

12 We have assessed the value of iiNet shares using two main valuation methodologies. Our assessed value of 100% of the shares in the Company under each valuation method is summarised below:

iiNet – valuation summary ($ per share)		
Methodology	**Low**	**High**
Discounted cash flow (DCF)	$8.82	$9.85
Capitalisation of earnings before interest, tax, depreciation and amortisation (EBITDA)	$9.05	$9.67

13 Based on the above we have assessed the value of 100% of the shares in iiNet at between $8.90 to $9.75 per share. This valuation range includes approximately $1.04 to $1.46 per share for the value of expected synergy benefits[3] on the basis that:

(a) significant synergy benefits from an acquisition of iiNet are likely to be available to other listed telecommunications companies including TPG, M2 Group and Singapore Telecommunications;

(b) in a competitive bidding environment it is reasonable to expect that a proportion of the expected synergies available to a number of purchasers will be paid away to the target company shareholders.

Treatment of synergy benefits

14 TPG has not outlined in detail or quantified the level of synergies and efficiencies which it may be able to generate as a result of acquiring iiNet. However, in an Australian Securities Exchange (ASX) release dated 13 March 2015, Mr David Teoh (Mr Teoh) stated that:

"The combined businesses will provide broadband services to over 1.7 million subscribers and will be well positioned to deliver scale benefits in an NBN environment."

"The transaction is expected to be immediately EPS accretive for TPG shareholders[4]."

3 Based on our DCF valuation of a share of the synergies likely to be available to a number of industry participants.

4 Prior to amortisation of acquired intangibles.

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15 In addition, should it be successful in acquiring iiNet, TPG has confirmed an intention to maintain the iiNet brand as part of a dual brand strategy and to preserve and foster the high levels of customer service provided by iiNet staff.

16 Based on published broker research, we note that investment analysts[5] estimate that the potential cost synergies available to TPG range (within three years of completion) between $60 million and $87 million per annum (with the majority of analysts' estimates within the range of $70 million to $80 million per annum).

17 Australian Securities & Investments Commission (ASIC) Regulatory Guide 111 – *Content of expert reports* (RG 111) states that synergies that are not available to other potential bidders should not be taken into account in the valuation of the target company when assessing whether an offer is fair.

18 We have discussed the potential synergies available to TPG and other potential acquirers with iiNet management. Based on this discussion and our analysis, we note that the potential cost synergies arising from an acquisition of iiNet largely comprise:

(a) head office and public company cost savings, which are expected to be available to all of the large listed telecommunications companies with a head office presence in Australia

(b) network synergies, which are likely to be highest for those companies which own and operate their own fixed line telecommunications network. Accordingly, we believe that network synergies are likely to be highest for companies such as TPG and Singapore Telecommunications (the owner of Optus)[6].

19 While the nature and resultant value of synergy benefits available to potential purchasers will vary, in our view the level of potential benefits available to other acquirers are significant. For example, M2 Group stated that:

(a) it expects to be able to generate cost synergies from an acquisition of iiNet of $60 million per annum, with these benefits being realised over three years

(b) M2 Group may also be able to generate revenue synergies (e.g. from marketing its energy products to iiNet customers).

20 In our view, Singapore Telecommunications is also likely to be able to generate significant synergies from an acquisition of iiNet.

21 Based on our analysis we believe that annual synergy benefits of around $60 million per annum (within three years of completion) are likely to be available to more than one bidder. Thus, these synergy benefits do not represent "special value" and accordingly an appropriate

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5 Broker reports reviewed include those from CBA, Citigroup, Credit Suisse, Deutsche Bank, JP Morgan, Bank of America Merrill Lynch, Morgan Stanley, Ord Minnett and Petra Capital.

6 In our view, Telstra would be prohibited from acquiring iiNet by the ACCC.

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proportion[7] of these potential synergy benefits is included in our assessed value of iiNet shares.

Cash Alternative

22 If iiNet shareholders approve the Scheme and all conditions are satisfied, then iiNet shareholders who elect to receive the Cash Alternative will receive $8.80 cash for each iiNet share held.

23 Accordingly, for those iiNet shareholders that elect the Cash Alternative, we have assessed the value of the Total Consideration to be received by iiNet shareholders at $9.55 per iiNet share as set out below:

Value of Total Consideration per iiNet share – Cash Alternative	
	$ per share
Cash Alternative	8.80
Special Dividend to be paid by iiNet pursuant to the Scheme	0.75
Value of Total Consideration	9.55

Note:
1 Due to the benefit of Australian franking credits attached to the proposed Special Dividend, the value of the Total Consideration to some Australian resident shareholders in iiNet may be greater than $9.55 per share (on a pre-tax basis).

Share Alternative

24 If iiNet shareholders approve the Scheme and all conditions are satisfied, then iiNet shareholders who elect to receive the Share Alternative will receive 0.969 shares in TPG for each iiNet share held. The value of the Share Alternative is therefore inherently dependent on the prevailing TPG share price at the time the Scheme is completed.

25 In assessing the value of TPG shares for the purpose of our report we have had regard to:

(a) the recent trading range of TPG shares

(b) the maximum number of shares to be issued by TPG under the Scheme, which is low compared to the enlarged number of TPG shares on issue post completion of the Scheme

(c) the likely level of on-market trading in TPG shares subsequent to completion of the Scheme, having regard to factors including:

(i) the modest risk of a potential oversupply of TPG shares from those shareholders in iiNet that elect the Share Alternative and subsequently decide they do not wish to retain the TPG shares received as consideration

(ii) the dilution effect implicit in any control premium being paid by TPG

(iii) the level of synergies relative to the size of TPG post merger

(d) recent stock market conditions

7 In order for an acquisition to be value accretive for its own shareholders it is unlikely that a purchaser would knowingly pay away 100% of the value of potential synergy benefits to the target company shareholders.

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(e) the earnings multiples implied by our adopted range.

26 Since the announcement of the revised Scheme on 6 May 2015 up until 9 June 2015 the TPG share price has ranged between $8.57 and $9.26 per share, and the volume weighted average price (VWAP) of TPG shares during this period was $8.93. Based on the above we have assessed the realisable value of the TPG shares offered as the Share Alternative at between $8.75 and $9.25 per share.

27 Accordingly, the value of the Total Consideration under the Share Alternative is as follows:

Value of Total Consideration per iiNet share – Share Alternative	Low $ per share	High $ per share
Assessed realisable value of TPG shares	8.75	9.25
Scheme ratio	0.969	0.969
Assessed value of Share Alternative	8.48	8.96
Special Dividend to be paid by iiNet pursuant to the Scheme	0.75	0.75
Value of Total Consideration	9.23	9.71

Note:
1 Due to the benefit of Australian franking credits attached to the proposed Special Dividend, the value of the Total Consideration to some Australian resident shareholders in iiNet may be greater than $9.23 to $9.71 per share (on a pre-tax basis).

28 As noted above, the maximum number of TPG shares to be issued as consideration is capped at approximately 27.5 million. If this cap is reached there will be a proportional scale back and iiNet shareholders will receive the balance of consideration in cash plus the $0.75 Special Dividend. Accordingly, iiNet shareholders should be aware that they may not receive TPG shares for all their iiNet shares under the Share Alternative.

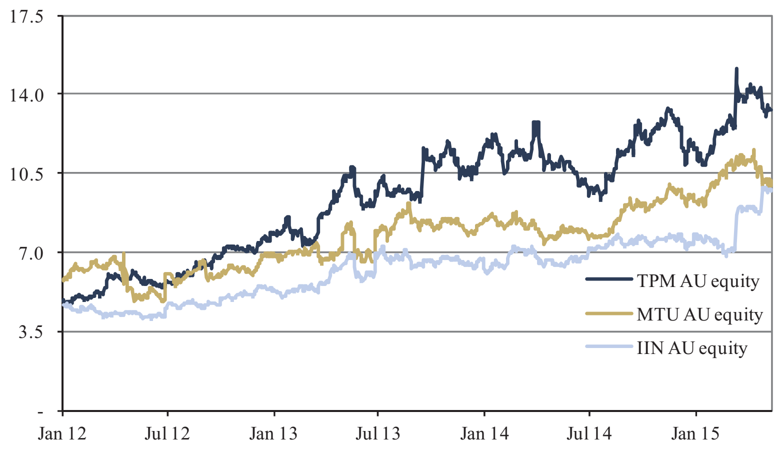
Other considerations

29 iiNet shareholders should note that the listed market price of TPG shares is subject to daily fluctuation. The price at which TPG shares may be sold may therefore be greater or less than our assessed realisable value of TPG shares of $8.75 to $9.25 per share.

30 iiNet shareholders should also note that any decision to hold TPG shares beyond the short-term is a separate investment decision. As it is not possible to accurately predict future share price movements, any decision to hold TPG shares should be made by shareholders having regard to their risk profile, liquidity preference, tax position and expectations as to value and future market conditions. iiNet shareholders should therefore seek independent professional advice specific to their individual circumstances if required.

31 In particular, iiNet shareholders electing to receive the Share Alternative under the Scheme should be aware that the forward EBITDA multiples at which TPG (and other ASX listed telecommunications companies) shares trade have increased appreciably over the last three years as shown below:

One year forward EBITDA multiples for TPG, iiNet and M2 Group



Source: Bloomberg.

32 We have interpreted this increase to reflect (inter alia) growth in the telecommunications sector generally and expectations of on-going industry consolidation. Given the nature of the industry in which these companies operate, the extent to which these prevailing multiples can be sustained is inherently uncertain. Accordingly, those iiNet shareholders who elect to receive the Share Alternative should be aware that the current prevailing multiples may reduce should industry and/or market conditions deteriorate (which, other things being equal, would lower the price at which TPG shares trade).

Fair and reasonable opinion

33 Pursuant to 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.

34 In the case of iiNet, the value of the consideration to be received by iiNet shareholders is dependent on (and may vary according to) whether shareholders elect the Cash Alternative or the Share Alternative. We have therefore provided a comparison for each of these alternatives with our assessed value of iiNet shares.

35 The relevant comparison for iiNet shareholders electing the Cash Alternative is shown below:

Position of iiNet shareholders – Cash Alternative

	Low $ per share	High $ per share	Mid-point $ per share
Value of Total Consideration	9.55	9.55	9.55
Value of 100% of iiNet	8.90	9.75	9.33
Extent to which the Total Consideration exceeds (is less than) the value of iiNet	0.65	(0.20)	0.22

36 As the Total Consideration to be received by iiNet shareholders is consistent with our assessed valuation range for iiNet shares on a 100% controlling interest basis, in our opinion,

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the Total Consideration is fair to those iiNet shareholders electing the Cash Alternative when assessed based on the guidelines set out in RG 111.

37 The relevant comparison for iiNet shareholders electing the Share Alternative is shown below:

Position of iiNet shareholders – Share Alternative	Low $ per share	High $ per share	Mid-point $ per share
Value of Total Consideration	9.23	9.71	9.47
Value of 100% of iiNet	8.90	9.75	9.33
Extent to which the Total Consideration exceeds (is less than) the value of iiNet	0.33	(0.04)	0.14

38 As the Total Consideration to be received under the Share Alternative is consistent with our assessed valuation range for iiNet shares on a 100% controlling interest basis, in our opinion, the Total Consideration is fair to those iiNet shareholders electing the Share Alternative when assessed based on the guidelines set out in RG 111.

39 Pursuant to RG 111, a transaction is reasonable if it is fair. Further, in our opinion, if the Scheme is "reasonable" it must also be "in the best interests" of shareholders, in the absence of a superior proposal.

40 Consequently, in our opinion, the Scheme is also "reasonable" and "in the best interests" of iiNet shareholders in the absence of a superior proposal.

M2 Group Proposal

41 As stated above, in addition to the (revised) agreed proposal from TPG pursuant to the Scheme, iiNet also received the M2 Group Proposal (which has since lapsed). Details of this alternate proposal are summarised in Section IX.

42 The iiNet Directors' recommendation of the Scheme is subject to an independent expert concluding that the Scheme is in the best interests of iiNet shareholders, in the absence of a superior proposal. In considering our opinion on the Scheme we have therefore also had regard to the M2 Group Proposal.

43 Our comparative assessment of the equivalent consideration to iiNet shareholders under the Scheme and the M2 Group Proposal is as follows:

Comparative assessment of proposals	Value per iiNet share Low $	Value per iiNet share High $
Total Consideration under Scheme with TPG:		
Cash Alternative	9.55	9.55
Share Alternative(1)	9.23	9.71
M2 Group Proposal	9.18	9.58

8

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44 As noted, at the date of our report, there is no material difference in our assessed value of the consideration under either of the alternatives under the Scheme with TPG and the M2 Group Proposal. These comparative positions may change prior to the date of the Scheme meeting dependent on movements in the share prices of TPG and M2 Group in the intervening period[8].

45 However, only the Scheme with TPG provides iiNet shareholders with both a cash and share alternative (subject to the indicated cap under the Share Alternative). The Cash Alternative from TPG provides all iiNet shareholders with a certain cash sum of $9.55 per share[9] for their iiNet shares.

46 In contrast the M2 Group Proposal comprised only scrip consideration. Accordingly, if the M2 Group Proposal was implemented, those iiNet shareholders seeking to realise their investment would have needed to sell the M2 Group shares received as consideration. Given the large number of M2 Group shares to be issued, this selling may have had an adverse impact on the M2 Group share price in the short term.

47 Consequently, on a risk-adjusted basis, we have concluded that the proposed Scheme with TPG is a superior proposal to the M2 Group Proposal.

Recent share prices subsequent to the announcement of the Scheme

48 Shareholders should note that iiNet shares have traded on the ASX in the range of $9.56 to $9.99 per share in the period since the Scheme was announced on 6 May 2015 up to 9 June 2015. The share market trading during this period has been at share prices higher than the value of the Total Consideration under the Cash Alternative of $9.55 per iiNet share.

49 We have interpreted this share market trading to reflect factors including:

(a) the view of certain investors that given the competing interests for iiNet tabled to date, together with the potential strategic value of iiNet to other participants in the telecommunications sector, there remains the prospect of a superior proposal to the Scheme

(b) the transfer of share ownership in iiNet to those shareholders able to benefit from (and therefore willing to pay a premium for) the franking credits likely to attach to the Special Dividend that may potentially be paid (subject to iiNet shareholder approval of the Scheme)[10].

50 iiNet shareholders considering selling their iiNet shares on the ASX to take advantage of such higher share prices will need to consider brokerage costs and should note that:

(a) the iiNet share price on the ASX is subject to daily fluctuation

8 We note that under the Scheme with TPG, iiNet shareholders will need to make an election between the Cash Alternative and the Share Alternative prior to the Scheme meeting.

9 Including the Special Dividend.

10 We note however that any benefit from receipt of the franking credits is unlikely to be realised before the FY16 tax year.

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(b) iiNet shareholders who sell their iiNet shares on the ASX will not obtain the benefit of any superior proposal should this eventuate.

Likelihood of a superior proposal

51 As noted above, the potential synergies available to TPG and other potential buyers are significant relative to the annual standalone earnings of iiNet. The potential for significant business synergies was a key consideration in the tabling of both the M2 Group Proposal and the Scheme.

52 Accordingly, in our opinion, there remains a possibility that a superior proposal may emerge prior to the date of the Scheme meeting. However, at the date of this report no superior proposal has been received.

Assessment of the Scheme

53 We summarise below the likely advantages and disadvantages of the Scheme for iiNet shareholders.

Advantages

54 The Scheme has the following benefits for iiNet shareholders:

(a) the Total Consideration under both the Cash Alternative and the Share Alternative is consistent with our assessed value range of iiNet shares on a 100% controlling interest basis (which was determined after including a value for synergy benefits available to potential acquirers of $1.04 to $1.46 per share[11])

(b) the Total Consideration being offered to iiNet shareholders therefore includes a significant share of the value of synergies expected to arise from the acquisition of iiNet by TPG

(c) the Total Consideration represents a significant premium to the recent market prices of iiNet shares prior to the initial announcement of the proposed transaction on 13 March 2015, and reflects an implied premium which exceeds observed premiums paid in successful takeovers generally

(d) the potential Special Dividend allows the release of franking credits to iiNet Australian shareholders, thereby increasing the potential value to some shareholders.

Disadvantages

55 If the Scheme is implemented iiNet shareholders will no longer hold a direct interest in iiNet. In the event that future value is created by iiNet as a result of on-going operations over and above that reflected in our assessed valuation of the company:

(a) those iiNet shareholders who elect to receive the Cash Alternative will therefore not participate in such future value

[11] Based on our DCF assessment.

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(b) those iiNet shareholders that elect to receive the Share Alternative may retain a limited exposure to such future value due to the cap on the number of TPG shares to be issued as consideration under the Share Alternative.

Conclusion

56 Given the above analysis, we consider that the acquisition of iiNet shares by TPG under the Scheme is fair and reasonable and in the best interests of iiNet shareholders in the absence of a superior proposal.

General

57 In preparing this report we have considered the interests of iiNet shareholders as a whole. Accordingly, this report only contains general financial advice and does not consider the personal objectives, financial situations or requirements of individual shareholders.

58 The impact of approving the Scheme on the tax position of iiNet shareholders depends on the individual circumstances of each investor. iiNet shareholders should read the Scheme Booklet and consult their own professional advisers if in doubt as to the taxation consequences of the Scheme.

59 The ultimate decision whether to approve the Scheme should be based on each iiNet shareholder's assessment of their own circumstances. If iiNet shareholders are in doubt about the action they should take in relation to the Scheme or matters dealt with in this report, shareholders should seek independent professional advice. For our full opinion on the Scheme and the reasoning behind our opinion, we recommend that iiNet shareholders read the remainder of our report.

Yours faithfully

Craig Edwards
Authorised Representative

Julie Planinic
Authorised Representative

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Table of contents

Appendices

I Key terms of the Scheme

Terms

60 On 13 March 2015, iiNet announced that it and TPG had signed a Scheme Implementation Agreement (the Initial Agreement) under which TPG would acquire all of the shares in iiNet that it does not already own[12] for a cash consideration of $8.60 cash per share. On 6 May 2015 the parties announced that the Agreement had been amended to reflect a revised offer from TPG (the Revised Agreement).

61 The proposed acquisition of the shares is to be implemented via a scheme of arrangement between iiNet and its shareholders (the Scheme) and is subject to a number of conditions precedent as summarised below.

62 If the Scheme is approved by iiNet shareholders and the Court, iiNet shareholders will receive a combination of:

(a) $8.80 cash per iiNet share (the Cash Alternative); or

(b) 0.969 TPG shares for each share in iiNet, subject to an agreed cap (the Share Alternative); plus

(c) $0.75 cash per iiNet share by way of a fully franked special dividend (the Special Dividend)[13].

63 The Revised Agreement allows iiNet shareholders to elect to receive either the Cash Alternative or the Share Alternative. iiNet shareholders who do not make an election will receive the Cash Alternative. If the aggregate of elections for the Share Alternative exceeds approximately 27.5 million TPG shares there will be a proportional scale back and iiNet shareholders will receive the balance of the consideration in cash.

64 The Cash Alternative or the Share Alternative comprise the Scheme Consideration. In addition, iiNet shareholders will receive the Special Dividend of up to $0.75 per share. If the Special Dividend is less than $0.75 per share, iiNet shareholders will receive an additional cash payment per share from TPG equal to the difference between the Special Dividend and $0.75 per share. The Special Dividend will only be paid by iiNet if iiNet receives a favourable ATO Tax Ruling, iiNet has sufficient retained earnings and the Scheme is approved by iiNet shareholders.

65 If the Scheme is approved by iiNet shareholders and the Court, iiNet shareholders will receive the Scheme Consideration and the Special Dividend (which for the purpose of this report have been collectively defined as the Total Consideration).

12 TPG currently owns 6.25% of iiNet.

13 The Special Dividend is subject to a favourable ruling from the Australian Taxation office (ATO) and to the extent permitted by iiNet's retained earnings at the time of declaration. Should the Special Dividend be less than $0.75 per iiNet share, TPG will pay the difference in cash.

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Conditions

66 The Scheme is subject to the satisfaction of a number of conditions precedent, including the following which are outlined in the Revised Agreement between iiNet and TPG announced on 6 May 2015:

(a) regulatory approval from the Australian Competition and Consumer Commission (ACCC), which is either unconditional or is on, or requires, conditions and undertakings acceptable to TPG

(b) regulatory approvals from ASIC and ASX to enable implementation of the Scheme

(c) approval of the Scheme by the Court in accordance with s411(4)(b) of the Corporations Act either unconditionally or on conditions that do not impose onerous obligations on either party

(d) iiNet shareholder approval by the requisite majorities under the Corporations Act at the Scheme meeting

(e) no temporary restraining order, preliminary or permanent injunction or other order issued by any Court of competent jurisdiction or other legal restraint or prohibition preventing the transaction is in effect at 8.00am on the Second Court Date

(f) no "iiNet Prescribed Occurrence" (as defined in clause 1.1 of the Revised Agreement) occurs in respect of iiNet on or before 8.00am on the Second Court Date

(g) no "Material Adverse Change" (as defined in clause 1.1 of the Revised Agreement) occurs in respect of iiNet on or before 8.00am on the Second Court Date

(h) the "iiNet Warranties" (as set out in clause 9.3 of the Revised Agreement) are true and correct in all material respects as at the time they are given

(i) the "TPG Warranties" (as set out in clause 9.1 of the Revised Agreement) are true and correct in all material respects as at the time they are given

(j) iiNet enters into appropriate arrangements with each of the holders of performance rights issued by iiNet to ensure the rights either vest, have lapsed or have been cancelled before the Record Date

(k) between 13 March 2015 and immediately prior to the Second Court Date, the S&P ASX200 Index does not close at a level 15% or more below the level at the close of trading on 13 March 2015 for five consecutive ASX trading days

(l) the provision of an independent expert's report which concludes that the Scheme is in the best interests of iiNet shareholders, and the independent expert not changing or publicly withdrawing this conclusion prior to 8.00am on the Second Court Date.

67 In addition, iiNet has agreed that up until 31 October 2015 it will not:

(a) solicit, invite, encourage or initiate any competing transaction

(b) participate in any discussions or negotiations which may reasonably be expected to lead to a competing transaction

(c) enter into any agreement, arrangement or understanding in relation to a competing transaction or any agreement, arrangement or understanding which may reasonably be expected to lead to the completion of a competing transaction

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(d) provide any information to a third party for the purposes of enabling that party to table a competing transaction.

68 The exclusivity obligations do not apply if iiNet has complied with the various obligations set out in the Revised Agreement and the iiNet Directors determine:

(a) the proposed competing transaction is a superior proposal or the steps which the iiNet Directors propose to take may reasonably be expected to lead to a competing transaction which is a superior proposal

(b) based on written advice from its legal advisers, that compliance with exclusivity obligations would involve a breach of fiduciary duties or would otherwise be unlawful.

69 Subject to any potential breach of fiduciary duties, iiNet must notify TPG if it receives a superior competing proposal and give TPG three business days to match that competing proposal.

70 A break fee of $16.0 million is payable by iiNet to TPG in certain circumstances as specified in the Revised Agreement.

Resolution

71 iiNet shareholders will be asked to vote on the Scheme in accordance with the resolution contained in the notice of meeting accompanying the Scheme Booklet.

72 If the resolution is passed by the requisite majorities, iiNet must apply to the Court for orders approving the Scheme, and if that approval is given, lodge the orders with ASIC and do all things necessary to give effect to the Scheme. Once the Court approves the Scheme it will become binding on all iiNet shareholders who hold iiNet shares as at the Scheme Record Date, whether or not they voted for the Scheme (and even if they voted against the Scheme).

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II Scope of our report

Purpose

73 The Scheme is to be effected pursuant to Part 5.1 of the Corporations Act, which governs schemes of arrangement. Part 3 of Schedule 8 of the *Corporations Regulations 2001* (Corporations Regulations) prescribes information to be sent to shareholders in relation to a members' scheme of arrangement pursuant to s411 of the Corporations Act.

74 Paragraph 8303 of Schedule 8 of the Corporations Regulations provides that, where the other party to the transaction holds not less than 30% of the voting shares in the company the subject of the scheme, or where a director of the other party to the transaction is also a director of the company the subject of the scheme, the explanatory statement must be accompanied by an IER assessing whether the proposed scheme is in the best interests of shareholders and state reasons for that opinion.

75 The current shareholding of TPG in iiNet is 6.25%. Furthermore, TPG has no representation on the iiNet Board. Accordingly, there is no regulatory requirement for an IER. However, both a condition precedent to the Scheme and the iiNet Directors recommendation of the Scheme are subject to an independent expert concluding that the Scheme is in the best interests of iiNet shareholders.

76 Furthermore, as the Scheme (if approved and implemented) will result in 100% of the securities in iiNet being held by TPG, RG111 requires that we provide an opinion on whether the consideration payable under the Scheme is fair and reasonable to the shareholders of iiNet.

77 The Directors of iiNet have therefore requested LEA to prepare an IER stating whether the proposed acquisition of the shares in iiNet by TPG under the Scheme is fair and reasonable and in the best interests of iiNet shareholders and the reasons for that opinion.

78 This report has been prepared by LEA for the benefit of iiNet shareholders to assist them in considering the resolution to approve the Scheme. Our report will accompany the Scheme Booklet to be sent to iiNet shareholders. The sole purpose of our report is to determine whether, in our opinion, the Scheme is fair and reasonable and in the best interests of iiNet shareholders.

79 The ultimate decision whether to approve the Scheme should be based on each iiNet shareholder's assessment of their own circumstances. If in doubt about the action they should take in relation to the Scheme or matters dealt with in this report, shareholders should seek independent professional advice.

Basis of assessment

80 In preparing our report we have given due consideration to the Regulatory Guides issued by ASIC including, in particular, RG 111.

81 RG 111 distinguishes "fair" from "reasonable" and considers:

(a) the Scheme to be "fair" if the value of the Scheme Consideration is equal to or greater than the value of the securities that are the subject of the Scheme. A comparison must be made assuming 100% ownership of the target company

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(b) the Scheme to be "reasonable" if it is fair. The Scheme may also be "reasonable" if, despite not being "fair" in the expert's view, there are sufficient reasons for shareholders to approve the Scheme in the absence of a superior proposal.

82 There is no legal definition of the expression "in the best interests". However, RG 111 states that a Scheme 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 Scheme in the absence of a higher offer.

83 In our opinion, if the Scheme is fair and reasonable under RG 111 it must also be in the best interests of iiNet shareholders.

84 Our report has therefore considered:

(a) the market value of 100% of the shares in iiNet

(b) the value of the Total Consideration offered by TPG under each of the Cash Alternative and the Share Alternative

(c) the extent to which (a) and (b) differ (in order to assess whether the Scheme is fair under RG 111)

(d) the extent to which a control premium is being paid to iiNet shareholders

(e) the extent to which iiNet shareholders are being paid a share of any synergies likely to be generated pursuant to the potential transaction

(f) the listed market price of iiNet shares, both prior to and subsequent to the announcement of the proposed Scheme

(g) the likely market price of iiNet shares if the proposed Scheme is not approved

(h) the value of iiNet to an alternative offeror and the likelihood of a higher alternative offer being made for iiNet prior to the date of the Scheme meeting

(i) the advantages and disadvantages of the Scheme from the perspective of iiNet shareholders

(j) other qualitative and strategic issues associated with the Scheme.

Limitations and reliance on information

85 Our opinions are based on the economic, sharemarket, financial and other conditions and expectations prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time.

86 Our report is also based upon financial and other information provided by iiNet and its advisers. We understand the accounting and other financial information that was provided to us has been prepared in accordance with the Australian equivalents to International Financial Reporting Standards. We have considered and relied upon this information and believe that the information provided is reliable, complete and not misleading and we have no reason to believe that material facts have been withheld.

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87 The information provided was evaluated through analysis, enquiry and review to the extent considered appropriate for the purpose of forming an opinion on the Scheme from the perspective of iiNet securityholders. However, we do not warrant that our enquiries have identified or verified all of the matters which an audit, extensive examination or "due diligence" investigation might disclose. Whilst LEA has made what it considers to be appropriate enquiries for the purpose 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 IER.

88 Accordingly, this report and the opinions expressed therein should be considered more in the nature of an overall review of the anticipated commercial and financial implications of the proposed transaction, rather than a comprehensive audit or investigation of detailed matters.

89 An important part of the information base used in forming an opinion of the kind expressed in this report is comprised of the opinions and judgement of management of the relevant companies. This type of information has also been evaluated through analysis, enquiry and review to the extent practical. However, it must be recognised that such information is not always capable of external verification or validation.

90 In forming our opinion, we have also assumed that:

(a) the information set out in the Scheme Booklet is complete, accurate and fairly presented in all material respects

(b) if the Scheme becomes legally effective, it will be implemented in accordance with the terms set out in the Revised Agreement and the terms of the Scheme itself.

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III Profile of iiNet

Overview

91 iiNet is Australia's second largest direct service line (DSL) Internet Service Provider (ISP). The Company maintains its own broadband network and provides over 1.9 million broadband, telephony, mobile and internet protocol television (IPTV) services to approximately 975,000 customers Australia-wide. iiNet employs more than 2,000 staff across three countries, 80% of whom are employed to directly service the customer base.

History

92 iiNet was founded in a suburban garage by its former Chief Executive Officer (CEO), Mr Michael Malone, in 1993. The Company's shares listed on the ASX in September 1999. Since that date iiNet has grown significantly both organically and as a result of acquisitions. Key acquisitions since 2005 are shown below:

iiNet – key acquisitions

Date	Acquisition	Subscriber numbers
Feb 05	OzEmail	Acquisition of 230,000 active non-casual customers, including 47,000 broadband users and 65,000 active casual customers. As a result iiNet's total subscribers increased to more than 620,000
May 08	Westnet	Added 215,000 active services including 138,000 broadband users
Mar 10	Netspace	Acquisition of over 70,000 broadband customers (increasing iiNet's broadband customers to more than 520,000) and over 120,000 active services (increasing iiNet's active services to around 920,000)
Jul 10	AAPT Consumer Division	Acquisition of approximately 113,000 broadband customers (increasing iiNet's broadband customers to 652,000) and 251,000 other active services, (increasing iiNet's active services to around 1,326,000)
Nov 11	TransACT Communications	Acquisition of over 40,000 subscribers across residential, small to medium enterprises, corporate and government market segments
Dec 11	Internode	Added approximately over 190,000 broadband DSL subscribers and 260,000 active services
Aug 13	Adam Internet	Added approximately 70,000 broadband subscribers located primarily in South Australia and the Northern Territory. Grew iiNet's customer base to over 900,000 broadband subscribers
Sep 14	Tech2 Group (60% interest acquired)	Tech2 Group is a technology services and solutions provider to residential and business customers. Services include communications build services, remote and on-site technical support and installation services

93 In late 2004, throughout 2005 and into 2006, iiNet moved to introduce its own digital subscriber line access multiplexers (DSLAM) infrastructure into telephone exchanges Australia-wide. This move allowed iiNet to be the first Australian DSL carrier to offer speeds of over 1.5 megabit per second (Mbps) to a significant number of customers. The maximum download speed was initially 8 Mbps (known as ADSL1), which increased to 12 Mbps and later to 24 Mbps, as ADSL2 / ADSL2+ standards were ratified and tested with iiNet's equipment. The Company currently has over 450 DSLAM enabled exchanges active around Australia.

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Current operations

94 iiNet provides broadband and telephony communication services to consumers and business customers. Its flagship products are broadband and voice services. The Company operates from a Perth head office, with call centres located in Australia, New Zealand and South Africa. iiNet derives some 80% of its revenue from residential services, with the remainder from commercial services.

95 iiNet's strong customer service has been recognised globally, winning the Large Business award at the 2013 International Service Excellence Awards and achieving the highest customer promoter score in the telecommunications industry. iiNet's customer service strategy clearly differentiates it from its competitors and underpins its low churn levels (by industry standards). As a key element to its integration approach, iiNet has also directed significant resources to lifting customer service levels of acquired entities to the iiNet standard.

96 Subscriber numbers for the three years ended 30 June 2014 (FY14) and for the six months ended 31 December 2014 (1H15) are shown below:

iiNet – subscriber numbers(1)

	FY12 (000s)	FY13 (000s)	FY14 (000s)	1H15 (000s)
On-net	545	549	619	623
Off-net	289	271	266	267
National Broadband Network (NBN) & fibre	5	20	65	85
Internet	839	840	950	975
Fixed phone	431	423	453	472
Voice over internet protocol (VoIP)	216	224	231	254
Mobile phone and data	93	126	156	167
IPTV	19	27	36	41
Total subscribers	1,598	1,640	1,826	1,909

Note:
1 Subscriber numbers are a combination of organic and acquired subscriber growth.

97 In respect of the above subscriber services we note:

(a) internet related services include On-net, Off-net and NBN & fibre:

(i) On-net broadband services refer to broadband plans offered over an ISP's own network. iiNet has invested in and acquired its own DSLAM network, enabling it to provide On-net services that allows iiNet to bypass a resale relationship with Telstra Corporation (Telstra). This translates into higher margins for iiNet's On-net services as it is only required to pay the regulated unconditional local loop or line sharing service charge to Telstra (as opposed to entering into a wholesale arrangement)

(ii) Off-net broadband services refer to broadband plans offered over the network owned by another provider such as Telstra or Optus. iiNet margins on Off-net subscribers are much lower than On-net due to the significant access costs paid to Telstra as a wholesale customer

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(iii) fibre broadband services are provided over an optical fibre network to either the premises or a shared distribution hub. iiNet subscriber numbers for fibre services are approximately 85,000 as of 31 December 2014, of which some 60,000 are NBN customers. iiNet expects fibre subscriber levels to grow with the continued rollout of the NBN and related migration from both On-net and Off-net services[14]

(b) telephone related services:

(i) fixed phone services refer to traditional phone services that are provided over the public switched telephone network (PSTN). iiNet generally provides these services in a bundled arrangement with its internet services. Fixed phone services generally are in decline (refer Section IV) and iiNet has not been immune from this trend[15]

(ii) VoIP services enable people to use the internet as the transmission medium for telephone calls by sending voice data over the internet rather than the traditional PSTN. Similar to fixed line services, iiNet generally provides these services in a bundled arrangement with its internet services. VoIP services continue to replace fixed line telephone services and iiNet expects this trend to continue

(c) mobile phone and data services enable users of wireless devices to access transmission services using radio frequency signals rather than through end to end wire communication. iiNet offers mobile phone and data services as a reseller of the Optus mobile network

(d) IPTV is a service through which digital television is delivered to the user over the internet. iiNet TV with Fetch is a digital IPTV service delivered through broadband internet that includes a set top box, personal video recorder, electronic program guide as well as recording space for content. Packages can also include subscriptions for various linear channels, movie packages and Netflix (quota-free) when packaged with another iiNet broadband plan.

98 iiNet's average revenue per user (ARPU) and gross margins per month for the three years to FY14, as well as 1H15, are set out below:

iiNet – ARPU and gross margins

	FY12	FY13	FY14	1H15
ARPU ($)				
On-net	54	54	53	53
Off-net	47	48	48	47
Fixed phone	49	47	44	42
VoIP	7	7	7	7
Mobile	na	23	24	27
Average gross margin per user ($)				
On-net	34	37	36	37
Off-net	7	9	9	6
Fixed phone	15	18	16	14
VoIP	4	4	4	3
Mobile	na	8	7	6

14 In areas where the NBN has been installed, iiNet has achieved a higher market share than its current combined On-Net and Off-Net market share.

15 The increase in iiNet's fixed phone subscriber numbers in recent years has been due to acquisitions.

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iiNet – ARPU and gross margins	FY12	FY13	FY14	1H15
Gross margin (%)				
On-net	63%	69%	68%	70%
Off-net	15%	19%	19%	13%
Fixed phone	31%	38%	36%	33%
VoIP	57%	57%	57%	43%
Mobile	na	35%	29%	22%

na – not available.

99 With the exception of On-net services in the more recent reporting periods, iiNet's gross margins for all its other services have been declining. As mentioned previously and shown above, due to the ability to avoid the need to pay wholesale rates, the gross margins for iiNet's On-net subscribers (utilising its own DSLAM network) are significantly higher than those for Off-net subscribers.

100 iiNet was the first telecommunications company to provide services over the NBN and has become one of the largest providers of telecommunications services using this network. With the continued roll out of the NBN, iiNet expects to migrate across its customers from both its On-net and Off-net services. While margins in respect of On-net services are expected to decline, Off-net margins are expected to improve as a result.

Financial performance

101 The financial performance of iiNet for the three years to FY14, as well as 1H15, is set out below:

iiNet – summary of financial performance	FY12 Audited $m	FY13 Audited $m	FY14 Audited $m	1H15 Reviewed $m
Internet related services	516.0	588.3	640.9	333.6
Telephony	267.3	289.2	285.2	150.2
Wholesale	5.2	3.6	4.6	2.2
Domains	7.9	17.7	27.9	15.6
Set up and sale of hardware	33.7	41.1	46.9	30.9
Installation	-	-	-	14.1
Other revenue	1.2	1.0	0.7	0.4
Total revenue	831.2	941.0	1,006.2	547.0
Underlying EBITDA(1)	**144.2**	**178.9**	**195.6**	**96.6**
Depreciation and amortisation	(65.5)	(82.0)	(84.8)	(42.3)
Underlying EBIT(1)(2)	**78.8**	**96.8**	**110.8**	**54.3**
Significant items(3)	0.6	8.1	(3.8)	(2.6)
Net financial expense	(16.4)	(21.7)	(20.6)	(9.2)
Profit before tax	63.0	83.2	86.4	42.5
Income tax expense	(26.0)	(22.3)	(23.4)	(13.5)
Profit after tax	37.1	60.9	63.0	29.1
Loss attributable to minority interests	-	-	-	0.4
Profit after tax attributable to iiNet shareholders	37.1	60.9	63.0	29.5

23

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iiNet – summary of financial performance	FY12 Audited $m	FY13 Audited $m	FY14 Audited $m	1H15 Reviewed $m
Key statistics				
Total subscribers at period end (000s)	1,598	1,640	1,826	1,909
Growth in total revenue	19%	13%	7%	11%
Growth in underlying EBITDA	38%	24%	9%	1%
Underlying EBITDA margin	17%	19%	19%	18%
Underlying EBIT margin	9%	10%	11%	10%

Note:
1 Before significant items.
2 Earnings before interest and tax.
3 Significant items comprise costs incurred relating to the acquisition of businesses, restructuring and asset disposals, net of a gain on acquisition (FY12) and a rebate for internal interconnection charges relating to prior periods.
Rounding differences exist.

102 Below is a summary of the key factors that have impacted on the annual financial performance of iiNet in FY12, FY13, FY14 and 1H15.

Year to 30 June 2012 (FY12)

- revenue increased 19% to $831 million and underlying EBITDA increased 38% to $144.2 million
- iiNet made two acquisitions during FY12, being TransACT Communications (30 November 2011) and Internode (31 January 2012). These acquisitions increased iiNet's broadband market share to approximately 15%, and were expected to produce significant synergies once fully integrated into iiNet
- in particular, the acquisition of TransACT Communications significantly expanded iiNet's presence in the business segment, with revenue in that segment increasing to more than $170 million on an annualised basis.

Year to 30 June 2013 (FY13)

- revenue increased 13% to $941 million and underlying EBITDA increased by 24% to $178.9 million
- EBITDA margins increased due to, inter alia, the realisation of acquisition synergies, cost savings and an increase in the average number of products per customer. Operating costs fell approximately 4% in the second half of FY13
- the business division performed strongly, with revenues growing 53% to $183 million (reflecting the acquisitions of TransACT Communications and Internode in the prior year). This segment made up 19% of group revenue in FY13
- during the year, iiNet launched 4G mobile services, and became the first provider to launch NBN services across all access technologies (including fibre, satellite and wireless). As at 30 June 2013, the Company had approximately 126,000 mobile subscribers and more than 20,000 customers on the NBN

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– customer retention levels remained high due to the continued focus on customer service.

Year to 30 June 2014 (FY14)

– revenue increased 7% to $1,006 million and underlying EBITDA increased 9% to $196 million

– broadband subscribers increased by 110,000 as a result of the acquisition of Adam Internet in August 2013 (70,000 subscribers) and organic growth (40,000 net). The acquisition of Adam Internet was immediately earnings per share (EPS) accretive

– iiNet's share of the NBN market increased to over 20%, with over 40,000 iiNet customers on the NBN (with more than 50% of those customers being new to iiNet)

– revenue from business customers increased 11% to $204 million (some 20% of total revenue).

Half year to 31 December 2014 (1H15)

– revenue increased 11% to $547 million (on a comparable half-year basis). However, underlying EBITDA only increased 1.4% to $96.6 million due to, inter alia:

  - a $4 million increase in call centre costs to grow and service the customer base
  - reduced gross profit margins for broadband off-net, fixed phone, VoIP and mobile services
  - increased sales of lower margin mobile handsets
  - an EBITDA loss of $885,000 from Tech2 Group[16]. This represents 100% of the loss incurred by Tech2 Group in the period, notwithstanding that iiNet's interest is only 60% (the minority interest in Tech2 Group's loss is added back below the EBITDA line as shown in the table above). The loss reflected, in part, the cost of increased resource capacity to support the expected growth in services

– broadband subscribers on the NBN increased to over 60,000. Mobile subscribers increased 7% to 167,000, driven by the increase in the product range to include standalone mobile phone contracts and Apple iPhone products, and the iPhone launch in November 2014

– business revenues increased by approximately 5% to $106 million, driven by a focus on extending the Company's reach on the east coast of Australia.

FY15 guidance

– iiNet management have not provided any detailed earnings guidance to the ASX for FY15. Whilst we have been provided with iiNet management's latest forecast for FY15, this has not been disclosed in our report for reasons of commercial confidentiality. However, we note management does not expect EBITDA for FY15 to

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16 In September 2014, iiNet acquired a 60% interest in Tech2 Group, which provides iiNet with capability in in-home and NBN installation services. The EBITDA loss of $885,000 reflects the loss at the 100% ownership level.

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be materially different from the range adopted in recent broker reports (i.e. from $196 million to $202 million[17]). In contrast, underlying EBITDA in the 12 months to 31 December 2014 was $196.9 million.

Financial position

103 The financial position of iiNet as at 30 June 2014 and 31 December 2014 is set out below:

iiNet – statement of financial position	30 Jun 14 $m	31 Dec 14 $m
Trade and other receivables	75.0	87.6
Inventories	12.9	17.7
Other current assets	6.9	6.9
Creditors, accruals, current provisions and employee entitlements	(120.2)	(125.7)
Unearned revenue	(65.5)	(67.9)
Net working capital	**(90.9)**	**(81.4)**
Plant and equipment	162.4	164.8
Intangible assets and goodwill	456.2	481.0
Indefeasible right of use (IRU) assets	124.4	176.0
Deferred tax assets	5.2	4.2
Other non-current assets	-	1.4
Non-current provisions and employee entitlements	(4.7)	(8.3)
Non-current unearned revenue	(1.2)	(2.7)
Net operating assets	**651.4**	**735.0**
Cash and cash equivalents	25.2	16.1
Net derivative assets	2.2	13.0
Borrowings	(204.6)	(219.5)
IRU liabilities	(118.2)	(179.3)
Net debt	**(295.4)**	**(369.7)**
Net assets	**356.0**	**365.3**
Add net liabilities attributed to minority interests	-	0.4
Net assets attributed to iiNet shareholders	**356.0**	**365.7**

Rounding differences exist.

104 Net working capital is negative due primarily to the level of creditors, accruals and unearned revenue. Given the nature of the business and the expected level of on-going pre-paid income this position is considered sustainable.

Intangible assets and goodwill

105 Intangible assets and goodwill comprise the following:

17 Source: Bloomberg (accessed on 20 March 2015). 13 analysts' forecasts were shown on Bloomberg.

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iiNet – intangible assets and goodwill	30 Jun 14 $m	31 Dec 14 $m
Subscriber acquisition costs	10.7	11.2
Development costs	9.6	8.2
Subscriber bases	12.6	10.3
Goodwill	396.3	414.5
Software, licences and other assets	27.0	36.8
Intangible assets and goodwill	456.2	481.0

106 The majority of intangibles by value (subscriber bases and goodwill) relate to various historical business acquisitions. Other intangible assets relate to capitalised costs for the acquisition of new subscribers, software system development and licences.

107 The carrying value of goodwill is tested for impairment annually using the DCF method. As at 30 June 2014 the cash flows were discounted adopting a pre-tax discount rate of 12% per annum.

IRU assets and liabilities

108 iiNet recognises IRU assets and liabilities on its balance sheet. An IRU is an exclusive, unrestricted and indefeasible right to use dedicated capacity on an international cable. An IRU gives an ISP the ability to provide customers with international service on a long term basis. The access to specific transmission capacity effectively amounts to economic ownership of the transmission capacity during the term of the agreement. Accordingly, generally accepted accounting policies require that the transaction be accounted for as a finance lease.

109 On acquisition of the capacity an intangible asset is recognised at fair value and is amortised over the term of the agreement. iiNet's accounting policy notes state:

"Where the capacity purchased under IRU arrangements represents an exclusive right over a separately identifiable asset, the Group has concluded that these IRU arrangements contain a lease. The classification of the lease component of the IRU as an operating or finance lease is assessed in accordance with the Group's stated accounting policy on leases. In the case of finance leases, the right of use asset is presented as an intangible asset.

The Group is party to a number of international bandwidth capacity supply agreements which contains elements of a lease. The lease components of these agreements have been classified as indefeasible right of use ('IRU') finance leases where it meets the criteria for such classification."

110 As at 31 December 2014, iiNet had entered into an additional IRU for an extra 600 gigabyte capacity on the Southern Cross cable. This agreement resulted in the recognition of an asset of $57.3 million and a corresponding liability for the same amount (assessed at the present value of the minimum lease payments). The asset acquired is amortised on a straight line basis over the period of the benefit (agreement).

111 As at 31 December 2014, the new IRU increased the Company's intangible assets as follows:

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iiNet – IRU asset	$m
Opening balance 1 July 2014	124.4
Fair value of additional IRU entered into in December 2014	57.3
	181.7
Less amortisation of existing IRUs	(5.7)
Closing balance 31 December 2014	176.0

112 As at 31 December 2014 the IRU liability had increased by some $61.1 million, primarily due to the liability for the additional capacity:

iiNet – IRU liability	$m
Opening balance 1 July 2014	118.2
Lease liability for additional IRU entered into in December 2014	57.3
Accretion of interest	4.3
Mark-to-market foreign exchange adjustment	12.0
Less lease payments made	(12.5)
IRU liability	179.3

113 The initial cash flow requirements associated with this new bandwidth capacity exceed the impact of the total IRU capacity costs on reported earnings as follows:

iiNet – impact of all IRUs (including the new agreement)	FY15 $m	FY16 $m	FY17 $m	FY18 $m	FY19 $m
Cash flow (lease payments)	25.4	39.5	47.8	45.9	16.2
Amortisation[(1)(2)]	9.4	11.2	12.8	12.8	12.8
Finance charges	7.3	7.7	6.9	4.4	2.5
Total profit and loss charge	16.6	18.9	19.6	17.1	15.3

Note:
1 Straight line amortisation for the new IRU continues beyond FY19.
2 iiNet also holds a prepaid domestic capacity agreement, which is amortised at $2.4 million per annum.
Rounding differences exist.

Franking credits

114 As at the date of this report, iiNet had available franking credits of some $78.5 million calculated as follows:

iiNet – available franking credits	$m
Franking credits as at 30 June 2014	68.9
Franking credits arising from tax paid in the period 1 July 2014 to 31 March 2015	25.9
Franking debits arising from payment of FY14 final dividend	(9.0)
Franking debits arising from payment of FY15 interim dividend	(7.3)
Franking credits available for future distribution	78.5

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Note:
1 No tax payable was recognised in the balance sheet as at 31 December 2014.

115 The balance of available franking credits is in excess of the distributable franking credits[18] based on iiNet's retained earnings as at 31 December 2014:

iiNet – excess franking credits	
	$m
Retained earnings as at 31 December 2014	106.2
Less FY15 interim dividend declared	(17.0)
Franked dividend payable if 100% distributed[(1)]	89.2
Franking credit attaching to 100% distribution[(2)]	38.2
Excess franking credits[(3)]	40.3

Note:
1 Excludes the earnings for the period subsequent to 1 January 2015.
2 Being $89.2 million x 0.3/0.7.
3 Available franking credits of $78.5 million less $38.2 million.

116 Whilst the level of franking credits is significant relative to iiNet's market capitalisation, iiNet management have advised that the prospect of a special dividend in the ordinary course of business is low given the available cash reserves and the company's borrowing capacity[19].

117 Accordingly, no additional value (over and above that implicitly reflected in our DCF and earnings based valuation) has been attributed to these franking credits in Section VI when forming an opinion on the overall value of iiNet.

Effective tax rate

118 The effective tax rate for FY14 was some 27.1% (FY13 26.8%) as a result of the recognition and utilisation of tax losses[20]. As at 31 December 2014 iiNet had unutilised tax losses of around $26.0 million (with a potential tax benefit before discounting of around $8.0 million).

Share capital and performance

119 As at 12 March 2015, iiNet had 163.0 million fully paid ordinary shares on issue. Performance rights granted to eligible executives are summarised below:

iiNet – performance rights			
Tranche	**Issue price**	**No. of rights (000s)**	**Vesting conditions**
2013 LTI Scheme Tranche 1	3.71	538[(1)]	3 years
2013 LTI Scheme Tranche 2	2.87	538[(1)]	3 years
2013 LTI Scheme Tranche 3	2.39	538[(2)]	3 years
		1,614[(3)]	

18 Dividends can only be franked if they are paid from retained earnings.

19 As at 31 December 2014 the Company had some $40 million of unused bank facilities. However, some capacity would need to be retained for unforeseen events. The cash on hand as at 31 December 2014 was sufficient to fund the payment of the interim dividend declared.

20 All available tax losses have been recognised as a deferred tax asset in the statement of financial position.

Note:
1 Granted but not yet vested.
2 Not granted or vested. Given final assessment of Tranche 3 is pending completion of the performance period (which includes 30 June 2015), the number of rights is based on management's expectations that around 538,000 performance rights will be issued.
3 This would total 1.614 million if 150% of the performance rights for Tranche 3 are issued.

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120 As at 31 March 2015 the significant shareholders in iiNet were TPG with a 6.3% interest and BT Investment Management / Westpac with a 6.0% interest.

Share price performance

121 The price of iiNet shares from 1 March 2012 to 22 May 2015 is summarised below:

iiNet – share price performance

	High $	Low $	Close $	Monthly volume 000
Quarter ended				
March 2012	3.23	2.79	3.03	8,292
June 2012	3.19	2.84	3.08	4,866
September 2012	3.83	3.05	3.68	9,468
December 2012	4.69	3.68	4.58	12,340
March 2013	5.33	4.12	5.20	14,537
June 2013	6.89	5.15	6.20	19,341
September 2013	6.64	5.63	6.16	23,298
December 2013	6.59	5.78	6.51	12,670
March 2014	8.08	6.15	7.41	16,246
June 2014	7.55	6.80	7.31	15,897
Month ended				
July 2014	7.63	7.16	7.63	12,794
August 2014	8.38	7.07	7.72	16,632
September 2014	8.34	7.57	8.14	15,309
October 2014	8.28	7.50	8.00	13,754
November 2014	8.50	7.95	8.06	14,351
December 2014	8.48	7.01	7.87	17,373
January 2015	7.93	7.24	7.50	12,017
February 2015	7.69	6.12	6.56	39,536
1 March 2015 to 12 March 2015(1)	6.82	6.37	6.81	18,066
13 March 2015 to 31 March 2015(2)	8.95	8.47	8.83	55,412
April 2015	10.18	8.57	9.94	28,756
1 May 2015 – 22 May 2015	10.09	9.71	9.81	20,342

Note:
1 Being the date prior to the announcement of the Initial Agreement.
2 Being the date of the Initial Agreement to the end of the month of March 2015.
Source: Bloomberg.

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122 The following chart illustrates the movement in the share price of iiNet and the S&P / ASX200 Index from 1 January 2012 to 22 May 2015:

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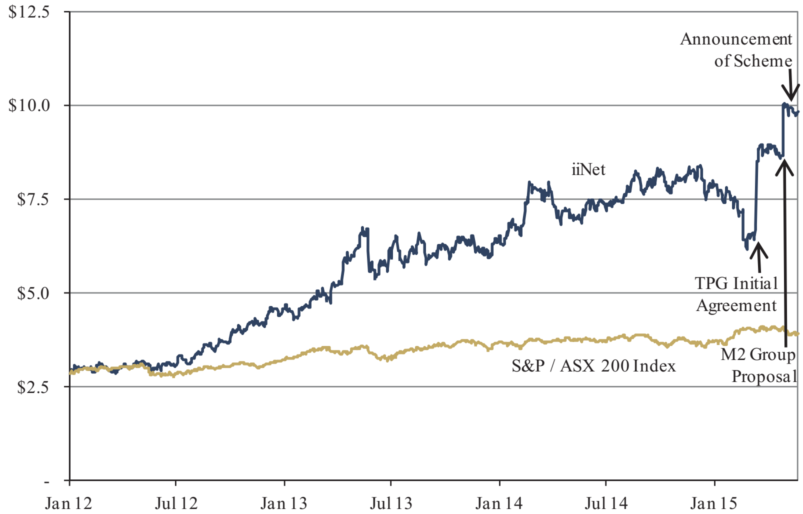
iiNet – share price history
1 January 2012 to 22 May 2015



Source: Bloomberg.

123 iiNet has significantly outperformed the S&P / ASX200 Index due to a combination of organic growth, earnings accretive acquisitions, as well as investors placing significant value on defensive assets such as telecommunications companies with high cash generating capacity and regular and stable dividends.

Liquidity in iiNet shares

124 The liquidity in iiNet shares based on trading on the ASX over the 12 month period prior to the announcement of the Initial Agreement with TPG is set out below:

iiNet – liquidity in shares

Period	Start date	End date	No. of shares traded 000	WANOS[1] outstanding 000	Implied level of liquidity Period[2] %	Annual[3] %
1 month	13 Feb 15	12 Mar 15	42,648	162,872	26.2	314.2
3 months	13 Dec 14	12 Mar 15	69,357	162,400	42.7	170.8
6 months	13 Sep 14	12 Mar 15	107,955	162,144	66.6	133.2
1 year	13 Mar 14	12 Mar 15	189,455	161,686	117.2	117.2

Note:
1 Weighted average number of shares outstanding (WANOS) during relevant period.
2 Number of shares traded during the period divided by WANOS.
3 Implied annualised figure based upon implied level of liquidity for the period.

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125 In the 12 month period prior to the announcement of the Initial Agreement with TPG total share turnover equalled 117.2% of the issued shares in iiNet, indicating a very high level of market liquidity for a company of its size. The level of liquidity in more recent periods has been even higher, with 42.7% (or 170.8% on an annualised basis) of iiNet shares traded in the three months prior to the announcement of the Initial Agreement with TPG.

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IV Profile of TPG[21]

Overview

126 TPG is Australia's third largest telecommunications company (based on profitability) and the fourth largest ISP (based on subscriber numbers). The company owns and operates its own carrier-grade voice, data and internet network infrastructure and provides communication services to residential users, small and medium enterprises, government, large corporate enterprises and wholesale customers. TPG offers voice, internet and data solutions including ADSL2+, fibre optic and ethernet broadband access, telephony services, IPTV and various business networking solutions.

History

127 TPG was formed through the merger of TPG and SP Telemedia in April 2008. The combined businesses had one of the largest DSLAM networks in Australia at the time (in excess of 300 exchanges) and given the complementary offerings of the respective companies, the merger provided material synergies. SP Telemedia changed its name to TPG in November 2009, following shareholder approval.

128 TPG was originally founded as Total Peripherals Group by Mr Teoh in 1986 as an information technology company selling computers. In 1995 it commenced providing internet services and by 2005 had discontinued its computer assembly operations. It acquired 70.3% of internet business Chariot in February 2007 (with the remaining 29.7% subsequently acquired), which at the time had approximately 151,000 access customers and 85,000 active subscribers (including 25,000 ADSL subscribers).

129 SP Telemedia was a telecommunications company based in Newcastle that was trading under the SOUL brand, retailing voice, video and data services. It was Australia's largest reseller of mobile phone services and had grown through a number of acquisitions, the most notable being the takeover of B Digital in 2006. B Digital was a provider of mobile, home phone and internet telecommunications services to residential customers.

130 Since the April 2008 merger, TPG has grown both organically and as a result of acquisitions into a major telecommunications services company in Australia. A summary of TPG's key acquisitions over this timeframe are shown below:

TPG – key acquisitions

Date	Acquisition	Description / Subscriber numbers
Mar 10	Pipe Networks	Pipe Networks was an ASX listed facilities based telecommunications provider specialising in high speed data transmission. The acquisition included 1.3 million metres of fibre optic based network connected to over 100 providers, 350 Telstra exchanges and 550 buildings, and a submarine cable to Guam connecting Australia to the US and Asia
Aug 11	IntraPower	Intrapower was a leading provider of secure, reliable information technology as-a-service to customers in Australia and New Zealand. At the time of the acquisition the company was servicing 88 organisations and 3,500 users with its TrustedCloud solution

21 This profile is based on publicly available information in respect of TPG only.

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TPG – key acquisitions		
Date	**Acquisition**	**Description / Subscriber numbers**
Feb 14	Telecom New Zealand Australia and its subsidiaries which included AAPT (AAPT)	The AAPT telecommunications infrastructure included: • 11,000 kilometres of fibre across Australia • fibre access to 1,500 premises • 15 data centres across all major capital cities; and • widespread mid-band ethernet capability

131 The addition of AAPT acquired in February 2014 expanded TPG's telecommunications infrastructure. It now owns the following key infrastructure assets:

(a) over 17,000 kilometres of metro and inter-capital fibre network

(b) Australia's largest dedicated dark fibre network (over 5,000 kilometres)

(c) over 400 DSLAM enabled exchanges, offering mid-band ethernet and ADSL services

(d) one of Australia's largest and most sophisticated voice networks, carrying over 184 million calls per month

(e) a 7,000 kilometre submarine cable connecting Sydney to Guam and onward to the United States and Asia

(f) significant cloud computing and storage footprint distributed across six locations nationally; and

(g) one of Australia's largest internet exchanges.

Current operations

132 TPG operates from a Sydney head office and is a multi-media full service telecommunications company providing consumer and corporate telecommunications services. In the half year period to 31 January 2015, TPG derived approximately 50% of its revenue and EBITDA from each of its consumer and corporate divisions. Its specific services cover internet, fixed line and mobile phone services, IPTV as well as various business networking solutions.

133 Subscriber numbers for the three years ended 31 July 2014 and for the six months ended 31 January 2015 are shown below:

TPG – subscriber numbers(1)(2)	31 Jul 12 (000s)	31 Jul 13 (000s)	31 Jul 14 (000s)	31 Jan 15 (000s)
On-net bundle	221	351	471	512
On-net stand alone	276	236	205	189
Off-net	98	84	70	66
NBN and fibre	-	-	2	19
Internet	595	671	748	786
Fixed phone	235	358	477	535
Mobile phone and data	255	360	362	342
Total subscribers	1,085	1,389	1,587	1,663

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Note:
1 Subscriber numbers include a combination of organic and acquired subscriber growth.
2 Internet, fixed phone and mobile phone subscribers are not mutually exclusive.

134 In respect of the above subscriber services we note[22]:

(a) internet related services include On-net, Off-net and NBN and fibre:

(i) TPG's On-net broadband services (including bundled and standalone) include over 400 DSLAMs, and similar to iiNet, enable it to bypass a resale relationship with Telstra (which translates into higher operating margins)

(ii) TPG's margins on Off-net subscribers are lower than On-net (again similar to iiNet) due to the significant access costs paid to Telstra

(iii) NBN services were first offered by TPG late in the financial year to 31 July 2014 and NBN subscriptions have recently been growing by approximately 500 to 600 customers per week. In addition, TPG is delivering an extensive fibre to the basement (FTTB) service to apartment buildings in capital cities, offering broadband at 100 Mbps at a price lower than existing offers from rival ISPs.

(b) telephone related services:

(i) TPG has consistently maintained steady subscriber growth in fixed phone services despite the declining trend in this industry segment generally

(ii) mobile and data services contribute a relatively small proportion of TPG's revenue and are not delivered on TPG owned infrastructure. In the six months to 31 January 2015 TPG increased prices, which when combined with TPG only offering a 3G plan[23], contributed to a decline in mobile subscribers for the period.

135 TPG's ARPU per month for the three years ended 31 July 2014 and for the six months ended 31 January 2015 are set out below:

TPG – monthly ARPU(1)	31 Jul 12 $	31 Jul 13 $	31 Jul 14 $	31 Jan 15 $
On-net (broadband only)	43.2	42.8	42.3	42.3
Off-net (broadband only)	50.4	51.8	52.8	53.3
Broadband / home phone bundle (excl. calls)	52.1	52.2	52.4	52.5
NBN bundle	na	na	na	62.8
FTTB bundle	na	na	na	54.5
Home phone voice	6.0	6.0	7.0	7.0

Note:
1 Broadband ARPUs exclude GST, voice revenue and any one-off charges such as installations and equipment sales.
na = not available.

22 Refer to Profile of iiNet (Section III) for a description of these activities.
23 TPG has launched 4G plans in May 2015.

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136 Due to the increasing proportion of TPG's customer base subscribing to bundled broadband and home phone line rental plans, average monthly ARPU (i.e. including all TPG's broadband customers) increased to $50.10 in the year to 31 July 2014 from $49.30 in the previous year. For the six months to 31 January 2015, ARPU increased to $50.70.

Financial performance

137 The financial performance of TPG for the three years ended 31 July 2014, as well as for the six months ended 31 January 2015 is set out below:

TPG – summary of financial performance

	31 Jul 12 Audited $m	31 Jul 13 Audited $m	31 Jul 14 Audited $m	31 Jan 15 Reviewed $m
TPG broadband	347.2	403.1	478.4	264.0
TPG mobile	52.0	68.6	79.1	41.5
Other consumer	13.5	8.6	5.7	2.5
Corporate	250.4	244.2	407.7	319.3
Operating revenue	663.1	724.5	970.9	627.3
Underlying EBITDA[1]	**238.7**	**272.6**	**362.4**	**236.2**
Depreciation and amortisation	(81.0)	(73.8)	(107.8)	(75.1)
Underlying EBIT[1]	**157.7**	**198.8**	**254.6**	**161.1**
Significant items[2]	22.7	20.5	1.3	-
Net financial expense	(17.1)	(7.0)	(9.1)	(8.9)
Profit before tax	163.2	212.3	246.8	152.2
Income tax expense	(72.3)	(63.1)	(75.1)	(45.5)
Profit after tax	91.0	149.2	171.7	106.7
Key statistics				
Total subscribers at period end (000s)	1,085	1,389	1,587	1,663
Growth in operating revenue[3]	15%	9%	34%	59%
Growth in underlying EBITDA[3]	7%	14%	33%	49%
Underlying EBITDA margin	36%	38%	37%	38%
Underlying EBIT margin	24%	27%	26%	26%

Note:
1 Before significant items.
2 Significant items comprise IRU gains, business acquisition / integration costs and other non-recurring costs or benefits.
3 Growth shown is relative to previous corresponding periods.
Rounding differences exist.

138 Below is a summary of the key factors that have impacted on the annual financial performance of TPG in the three years ended 31 July 2014, as well as for the six months ended 31 January 2015.

Year to 31 July 2012

– revenue increased by 15% to $663.1 million and underlying EBITDA increased by 7% to $238.7 million

- TPG grew its consumer broadband subscriber base by 47,000 in the year. The growth was driven by a 114,000 increase in subscriptions to TPG's ADSL2+ with home phone bundle plans, partially offset by a decline in standalone On-net (52,000) and Off-net (15,000) subscribers. TPG's mobile subscriber growth for the year was 54,000
- as at 31 July 2012 TPG's domestic fibre network spanned 2,572 kilometres, which represented a 39% expansion during the year.

Year to 31 July 2013

- revenue increased by 9% to $724.5 million and underlying EBITDA increased by 14% to $272.6 million
- TPG's broadband subscriber base increased by 76,000 (net) due to an increase of 130,000 subscribers to its home phone and broadband bundle plans, partially offset by a reduction in standalone On-net (40,000) and Off-net (14,000) subscribers. TPG's mobile phone subscriber base increased by 105,000
- TPG continued to expand its network infrastructure by adding 12 new exchanges during the year, increasing the number of exchanges directly connected to its fibre network (by 50), adding over 800 kilometres to its domestic fibre footprint and increasing the number of buildings directly connected to its fibre network.

Year to 31 July 2014

- revenue increased by 34% to $970.9 million and underlying EBITDA increased 33% to $362.4 million. This was achieved through organic growth in TPG's consumer and corporate divisions (underlying EBITDA increased by 19% and 20% respectively), accompanied by the maiden contribution from AAPT (which provided underlying EBITDA of $38.2m for the five months post acquisition)
- integration of AAPT included the consolidation of teams, systems, networks and processes and resulted in an uplift in AAPT's EBITDA margin from approximately 18% pre-acquisition to 23% (underlying) for the five months to 31 July 2014
- the consumer division added 77,000 broadband subscribers (net) organically, comprised of an increase of 120,000 subscribers of its bundled internet and home phone plans, partially offset by a reduction in standalone On-net and Off-net subscribers. TPG's mobile phone subscriber base showed much more modest growth for the year, increasing by just 2,000, due to price increases and the absence of a 4G mobile phone offering
- during the final quarter of the year TPG commenced offering NBN plans.

6 months to 31 January 2015

- revenue increased 59% to $627.3 million (on a comparable half-year basis) and underlying EBITDA increased by 49% to $236.2 million, with comparative growth for the period aided by the acquisition of AAPT

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– TPG's consumer broadband subscriber base grew by 38,000 for the period, with net additions of 21,000 ADSL customers and 17,000 NBN / FTTB subscribers

– the consumer division's underlying EBITDA growth for the half year period was 18% higher than the previous corresponding period, due to ongoing organic subscriber growth as well as an increase in EBITDA contribution per broadband subscriber

– TPG's corporate division achieved EBITDA of $117.7 million for the period (compared with $64.5 million for the previous half year period), largely due to the acquisition of AAPT.

Year to 31 July 2015 guidance

– on 3 December 2014 TPG provided EBITDA guidance for the year to 31 July 2015 of $455 million to $460 million. This was later upgraded in the financial report for the six months to 31 January 2015 (released on 24 March 2015) to EBITDA of $480 million to $483 million

– under the timetable for the Scheme between TPG and iiNet, the proposed acquisition of iiNet is not expected to complete in the year to 31 July 2015 and hence reported earnings for this year will not be impacted.

Financial position

139 The financial position of TPG as at 31 July 2014 and 31 January 2015 is set out below:

TPG – statement of financial position	31 Jul 14 $m	31 Jan 15 $m
Debtors and prepayments	95.8	109.3
Inventories	2.7	4.5
Creditors, accruals, current provisions and other liabilities	(178.3)	(200.3)
Unearned revenue	(79.2)	(83.3)
Net working capital	**(159.0)**	**(169.8)**
Plant and equipment	553.8	570.0
Intangible assets and goodwill	637.4	628.4
IRU assets	74.9	73.3
Investments	106.5	147.0
Debtors and prepayments (non-current)	14.4	6.3
Deferred tax liabilities (non-current)	(18.1)	(14.4)
Unearned revenue (non-current)	(28.8)	(28.2)
Provisions and employee entitlements (non-current)	(25.2)	(21.9)
Total funds employed	**1,155.9**	**1,190.8**
Cash and cash equivalents	23.8	36.1
Interest bearing liabilities	(347.2)	(318.9)
Net cash / (borrowings)	**(323.5)**	**(282.8)**
Net assets attributable to TPG shareholders	**832.4**	**908.0**

Rounding differences exist.

140 Net working capital is negative (a not uncommon position in the telecommunications industry) and reflects primarily the reported level of creditors, provisions and unearned

38

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revenue. Given the strong operating cash flow nature of the business and the expected level of on-going pre-paid income this position is considered sustainable.

Investments

141 As at 31 January 2015, TPG held a number of investments in available for sale financial assets with a value of $147.0 million, the majority of which were represented by TPG's investment in ASX listed entities (i.e. iiNet, Amcom Telecommunications and Covata). As at 22 May 2015, the listed market value of TPG's investment in these companies was as follows:

TPG – ASX listed investments(1)

	iiNet	Amcom Telecomm.	Covata	Total
Share price as at 22 May 2015 ($)	$9.81	$2.44	$0.44	n/a
Number of shares held (millions)	10.18	53.25	56.65	n/a
Value of interest ($ millions)	99.9	129.9	24.9	254.7

Note:
1 Number of shares held taken from the most recent substantial share holder notice lodged by TPG and share prices as at 22 May 2015.
n/a = not applicable.

Intangible assets and goodwill

142 Intangible assets and goodwill comprise the following:

TPG – intangible assets and goodwill

	31 Jul 14 $m	31 Jan 15 $m
Goodwill	549.1	546.1
Acquired customer bases	60.3	42.5
Trademarks	20.1	20.1
Software	5.6	4.3
Licenses	2.4	15.4
Total intangible assets and goodwill	**637.4**	**628.4**

143 The majority of intangibles by value (goodwill and acquired customer bases) relate to various historical business acquisitions. The carrying value of goodwill is tested for impairment annually using the DCF method. As at 31 July 2014 the cash flows were discounted adopting a pre-tax discount rate of 13.5% per annum.

IRU assets and liabilities

144 Similar to iiNet, TPG recognises IRU assets on its balance sheet. On acquisition of the capacity an intangible asset is recognised at fair value and is amortised over the term of the agreement. TPG's accounting policy notes state:

"Indefeasible rights of use (IRUs) of acquired network capacity are brought to account as intangible assets at the present value of the future cash flows payable for the right. IRUs of acquired subsidiaries are accounted for at their fair value as at the date of acquisition."

145 As at 31 January 2015 TPG held IRU assets of $73.3 million.

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Share capital and performance

146 As at 12 March 2015, TPG had 793.8 million fully paid ordinary shares on issue.

147 TPG also has a long term incentive structure in the form of a performance rights plan. The plan was introduced in the year to 31 July 2012 with the first grant rights taking place on 9 March 2012. A second grant of rights occurred on 24 December 2012 and a third grant of rights was made on 22 November 2013 and 18 December 2013. The total number of rights outstanding as at 31 July 2014 was 1,092,734. All rights issued to date have the same key terms:

(a) one third of the performance rights granted will vest following the release of TPG's audited financial statements for each of the three financial years ending after the date of grant subject to the satisfaction of performance conditions

(b) at each vesting date:

(i) 30% of the performance rights that are due to vest on that date will vest if the rights holder has been continuously employed by TPG up until and including the relevant vesting date; and

(ii) 70% of the performance rights that are due to vest on that date will vest if the rights holder has been continuously employed by TPG up until and including the relevant vesting date and TPG has met its financial objectives for the financial year immediately preceding the relevant vesting date

(c) any performance rights which do not vest, automatically lapse.

Significant shareholders

148 The two significant shareholders in TPG are Mr and Mrs Teoh with 36.7% of the TPG shares on issue, and Washington H Soul Pattinson and Company Ltd (Soul Pattinson) with 26.9% of the shares on issue[24].

Share price performance

149 The price of TPG shares from 1 January 2012 to 22 May 2015 is summarised below:

TPG – share price performance

	High $	Low $	Close $	Monthly volume 000
Quarter ended				
March 2012	1.88	1.27	1.78	16,468
June 2012	1.93	1.66	1.75	16,118
September 2012	2.25	1.70	2.22	17,579
December 2012	2.64	2.20	2.59	18,540
March 2013	3.22	2.43	3.11	25,318
June 2013	3.98	3.08	3.52	30,890
September 2013	4.57	3.45	4.34	26,547
December 2013	5.41	4.03	5.32	23,078
March 2014	6.74	4.89	6.65	33,033

24 Washington H Soul Pattinson and Company Ltd was the major shareholder in SP Telemedia.

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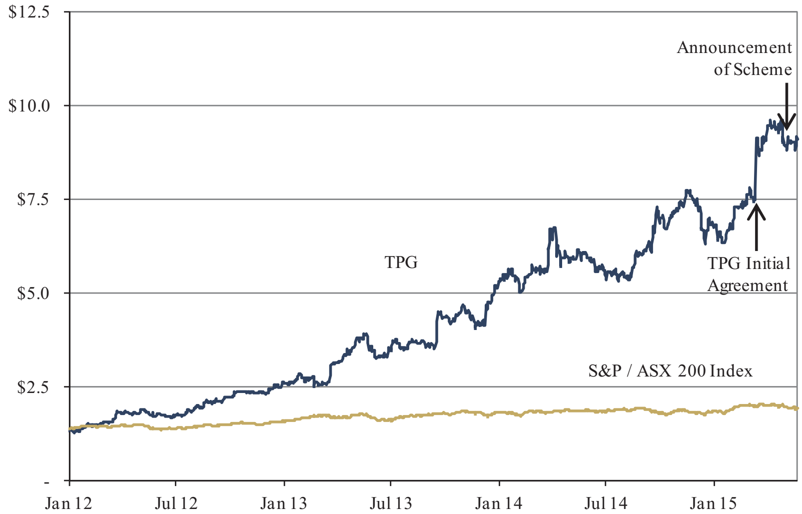
TPG – share price performance

	High $	Low $	Close $	Monthly volume 000
June 2014	6.85	5.47	5.51	56,594
Month ended				
July 2014	5.71	5.23	5.52	36,438
August 2014	6.29	5.27	6.03	24,515
September 2014	7.35	5.98	6.84	34,270
October 2014	7.33	6.28	7.26	35,225
November 2014	7.83	7.21	7.41	31,152
December 2014	7.68	6.05	6.75	51,804
January 2015	6.89	6.26	6.70	33,428
February 2015	7.73	6.72	7.62	31,817
1 March 2015 to 12 March 2015(1)	7.87	7.31	7.74	12,026
13 March 2015 31 March 2015(2)	9.45	8.50	9.17	33,961
April 2015	9.72	8.48	8.94	36,307
1 May 2015 to 22 May 2015	9.26	8.50	9.10	22,221

Note:
1 Being the date prior to the announcement of the Initial Agreement.
2 Being the date of the Initial Agreement to the end of the month of March 2015.
Source: Bloomberg.

150 The following chart illustrates the movement in the share price of TPG and the S&P / ASX200 Index from 1 January 2012 to 22 May 2015:

TPG – share price history
1 January 2012 to 22 May 2015



Source: Bloomberg.

151 The consistent share price growth exhibited by TPG reflects its strong earnings growth (attributable to both organic growth and EPS accretive acquisitions) and continued market

share gains over the period shown above. We have interpreted the material increase in the TPG share price post the announcement of the Initial Agreement (i.e. the initial offer for iiNet) as reflecting the market's view of potential operating synergies available to TPG should TPG's acquisition of iiNet be successful[25].

152 Further analysis of share market trading in TPG shares subsequent to the Initial Agreement is set out in Section VIII of our report.

Liquidity in TPG shares

153 The liquidity in TPG shares based on trading on the ASX over the 12 month period to 22 May 2015 is set out below:

TPG – liquidity in shares

Period	Start date	End date	No of shares traded 000	WANOS[(1)] outstanding 000	Implied level of liquidity Period[(2)] %	Implied level of liquidity Annual[(3)] %
1 month	23 Apr 15	22 May 15	41,360	793,808	5.21	63.39
3 months	23 Feb 15	22 May 15	114,849	793,808	14.47	59.34
6 months	23 Nov 14	22 May 15	230,583	793,808	29.05	58.58
1 year	23 May 14	22 May 15	472,358	793,808	59.51	59.51

Note:
1 Weighted average number of shares outstanding (WANOS) during relevant period.
2 Number of shares traded during the period divided by WANOS.
3 Implied annualised figure based upon implied level of liquidity for the period (based on number of days in respective periods).

154 As noted above, TPG has two major shareholders being Mr and Mrs Teoh (36.7% interest) and Soul Pattinson (26.9% interest). Accordingly, the free float of the company has effectively been restricted to around 63.6% of the issued capital. In each of the 3 and 6 month annualised periods, as well as the 12 month period prior to 22 May 2015, total share turnover was around 60% of the issued shares in TPG, indicating a high level of market liquidity.

25 Consistent with observed market transactions, the value of potential synergies to an acquirer generally exceeds the value of the synergies "paid away" in the offer consideration.

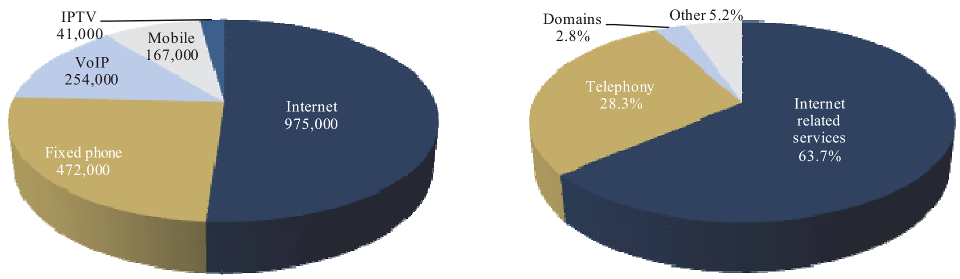
V Industry overview

Overview

155 iiNet has grown through a combination of organic growth and acquisitions to become Australia's second largest DSL ISP. The Company generates 100% of its revenue in Australia and has call centre operations in New Zealand and South Africa. As detailed in Section III, iiNet provides over 1.9 million broadband, telephony and IPTV services to more than 975,000 broadband customers. A breakdown of subscriber numbers as at 1H15 and revenue for FY14 is summarised in the charts below:

iiNet

1H15 subscriber numbers **FY14 revenue**



156 As indicated, iiNet generates the majority of its revenue from internet (63.7%) and telephony (28.3%) services. While fixed line telephone services currently provide a material contribution to iiNet's revenue and cash flows, the decline in this customer segment in recent years is expected to continue. Accordingly, the ISP industry is the primary focus of this section, with a high level overview of the telephone industry also provided.

ISP Industry

Key drivers

157 The key factors driving the performance of the ISP industry include growth in the number of fixed line internet connections, mobile broadband penetration (and the competition thereof), household computer penetration and use, online content and data usage and general economic conditions.

Fixed line internet connections and mobile broadband penetration

158 Broadband internet connections (incorporating DSL, cable and fibre) exhibited double digit growth in the four years to FY11[26], as users rapidly migrated from dial-up services. However, in recent periods, growth in broadband internet connections has been more modest, due to, inter alia, the high proportion of households now with fixed internet broadband:

[26] IBISWorld, Internet Service Providers in Australia, January 2015. ABS data prior to June 2009 is not available.

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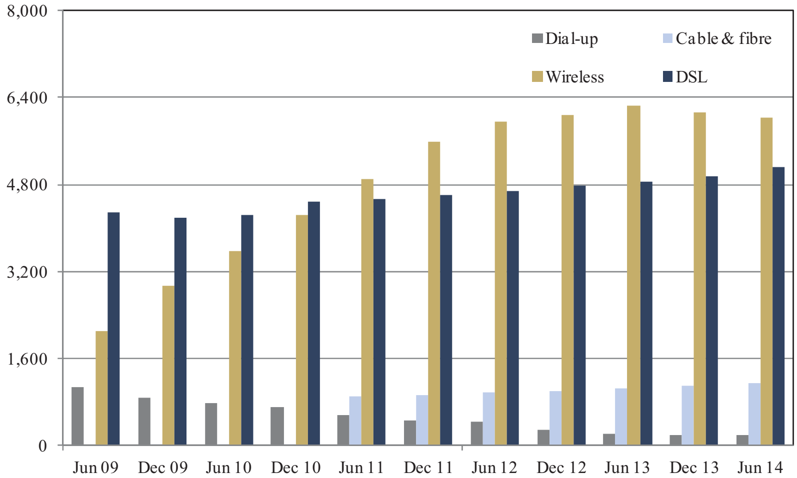
Total internet connections
June 2009 – June 2014 (000s)



Source: Australian Bureau of Statistics (ABS), 8153.0. Data for cable services pre June 2011 is not available.

159 Mobile telecommunication carriers provide wireless access via laptop data cards and USB attachments (or dongles) as a substitute to more traditional fixed line internet connections. The acceptance and growth of wireless internet services has been driven by a number of factors, including availability (users may not have access to an economical fixed line internet option), convenience (mobile broadband can be used in multiple locations), improving internet speeds (due to the introduction of high speed 4G services) and more competitive prices[27]. However, wireless internet has its limitations, such as low data limits and the inability to use the service over multiple devices. Therefore, users tend to adopt the service that suits them, with those who use the internet less frequently, do not require a fixed phone service or require mobility favouring wireless internet services, and those users who use the internet more often, or have the need to connect multiple devices, favouring fixed internet services with higher usage allowances[28].

160 As at 30 June 2014, combined broadband and dial-up internet connections totalled 6.5 million, which was 5.4% higher than the previous year. Wireless internet connections peaked at 6.2 million in June 2013, and have since reduced marginally due to subscriptions reaching saturation levels[29]. IBISWorld expects growth in fixed line internet connections of approximately 3% per annum over the next five years. This is based on its view that fixed line internet is expected to remain the dominant type of internet access over this period, given the ease of access to established infrastructure for both consumers and businesses.

27 While iiNet provides mobile broadband (and mobile phone services), these are not material contributors to earnings for the Company at present. Such services are also often bundled with other iiNet services.

28 Fixed line internet can linked to a wireless modem and serve as a wireless home network for a number of devices (including computers, tablets and phones).

29 ACCC Telecommunications Report 2013-2014, February 2015.

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Household computer penetration and use

161 The level of computer density in households increases the potential ISP subscriber market. As mentioned above, as user numbers and usage increase, so too does the requirement for higher internet download limits. The percentage of households in Australia with at least one computer has grown from approximately 70% in 2006 to over 85% in 2014 and is forecast to grow to over 90% by 2020[30]. Further, in 2013 Nielson estimated that 38% of Australian households owned four or more connected devices (including tablets and smart phones), whilst the average time spent online was 23.3 hours per person per week (a significant increase from an average of 6.7 hours per week 10 years previously)[31].

Online content and data usage

162 Increasing levels of online video content (OVC) are expanding Australian's entertainment options, which is having a corresponding impact on internet data usage. There are five types of OVC providers in Australia, as outlined in the table below:

OVC service types

Provider	Service type	Example
Free to air broadcasters	Catch up service On demand streaming video Hybrid broadcast broadband TV	ABC iview, TENplay, Stan, Presto Entertainment, Freeview Plus
Subscription broadcaster	Streaming live channels, video / catch up on demand	Foxtel Go, Foxtel Play
ISPs	IPTV Video on demand	Fetch TV BigPond Movies
Consumer electronic companies	Device / Overseas based content libraries, IPTV	iTunes, PlayStation Store, Google Play
Standalone OTT service providers	On demand video services	Quickflix, EzyFlix Netflix

Source: ACMA Research Blog "Supply & demand: Catch up TV leads Australians' online video use", 10 February 2015.

163 Australian Communications and Media Authority (ACMA) research shows that almost 8 million Australians had watched OVC in the six months to June 2014[32]. Reasons cited for choosing OVC over traditional programming include timing flexibility, the ability to avoid advertising and cost. Accessing OVC on a regular basis has therefore become a key demand driver for data usage and hence fixed line ISPs[33]. It should also be noted that consumer demand for illegal and pirated content (not included in the table above) is also a key determinant of demand for downloading capacity.

164 While OVC is not the only attributable factor, the chart below shows the increase in broadband data usage over the five years to 30 June 2014:

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30 IBISWorld, Internet Service Providers in Australia, January 2015.

31 NBN Corporate Plan 2014-2017, 11 November 2014.

32 ACMA Research Blog "Supply & demand: Catch up TV leads Australians' online video use", 10 February 2015.

33 For example, on 25 March 2015 Netflix launched in Australia, and according to iiNet, within one week accounted for 15% of all iiNet customer internet traffic. Source: Sydney Morning Herald article "iiNet data points to big start for Netflix in Australia", 30 March 2015.

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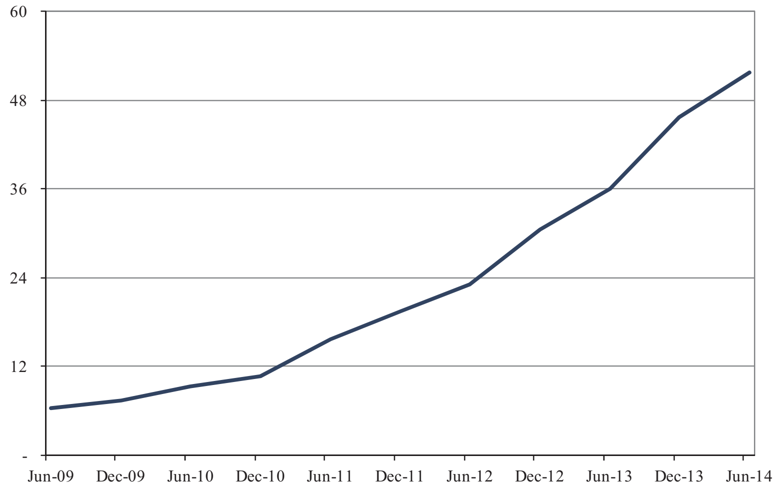
Data usage
Gigabyte (GB) / connection / month



Source: ABS 8153.0, June 2014.

165 The ISP industry is also being driven by increased demand for services that require internet access. These include E-Commerce, VoIP, online banking, government services, social networking, online gaming and a range of other services. These services are ingraining internet access as a necessity rather than something discretionary. As many of these services are in the growth stage of their life cycle, this will only serve to prolong the growth phase of the ISP industry in Australia.

Economic environment

166 Consumer demand for ISP services is primarily influenced by growth in the number of premises (which is impacted by population and business growth). While the level of growth in household incomes is expected to increase the potential market for ISP services, as discussed above, most consumers no longer view internet services as discretionary. Business demand is affected by the level of economic activity, particularly in those sectors of the economy that are high users of telecommunication services.

167 Whilst global economic growth is trending upwards, the combination of lower commodity prices, the slow transition of the Australian economy from mining sector-led growth towards other sectors such as building and construction, as well as restricted government spending are adversely impacting the growth potential of the Australian economy. Concurrently, record low interest rates, a significant decline in the value of the Australian dollar (in particular relative to the United States dollar) and higher export volumes are offsetting these impacts to some extent.

Product segments

168 ISPs offer services through a number of technologies including DSL connections, cable, dial-up and fibre, as well as satellite and fixed wireless networks. The respective market shares of these mediums is shown in the table below:

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ISP product and services segmentation	
Product	**Users (%)**
DSL	77.1
Cable	15.0
Dial-up	3.7
Fibre	1.9
Satellite	1.5
Fixed wireless	0.8
	100.0

Source: IBISWorld, Internet Service Providers in Australia, January 2015.

169 In respect of the above we note that:

(a) DSL is the dominant form of fixed broadband given it is essentially run on the existing PSTN and can be used without interrupting other activity on the line. The most common form of DSL is asymmetric DSL (ADSL), which provides faster information access capability than DSL. Essentially, the bandwidth is greater towards the customer's premises (known as the downstream) than the reverse (known as the upstream). The introduction of the NBN is expected to result in a gradual decline in this segment as customers switch to fibre connections

(b) cable broadband works in a similar way to DSL, but instead uses cable TV network infrastructure to provide internet access. These networks are typically a hybrid of optic fibre and coaxial cable (copper), which allows a faster transmission than the traditional phone network comprised entirely of copper

(c) dial-up was at one point the favoured ISP service and required users to dial in to the network for the cost of a local call (and associated subscription fees). The majority of these customers have subsequently transitioned to broadband as faster and better value internet access options arose

(d) fibre cables are superior to the above services but are expensive and time consuming to install. Fibre optic networks are expected to continue to grow across Australia as the NBN roll out continues (as discussed below)

(e) satellite internet connections use a satellite dish receiver and are typically used in rural areas where it is difficult and costly to install and maintain fixed line connections.

Competition

170 Competition in the ISP industry is driven by price, quality and level of connection and customer service, product range and branding. Price is the major basis for competition, with other factors such as plan download quotas and speeds being generally comparable. As prices fall, users tend to migrate to faster services. For the smaller ISPs, retail prices are a function of the wholesale price that Telstra or other infrastructure owners charge for access to their respective networks.

171 ISPs also tend to compete or differentiate themselves based on:

(a) customer service, including help desk and support services, which can be particularly relevant for new internet users or those with basic computer skills

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(b) bundling, by encouraging customers to take up multiple telecommunication services

(c) the ability to offer the latest value-added features such as IPTV etc.

(d) quality of internet connection. However, since most ISPs do not report service outages this comparison can be difficult.

172 The high fixed cost nature of the ISP industry and the ability to gain economies of scale has resulted in significant merger and acquisition activity. Both TPG and iiNet have been at the forefront of ISP industry consolidation and as a result these companies are now the third and fourth largest ISP companies. TPG's recent offer for iiNet and Vocus Communications' offer for Amcom Telecommunications are further examples of consolidation in the Australian ISP industry.

173 While consolidation has increased, there have been a number of companies entering, or announcing their intention to enter, the ISP industry, most notably Foxtel (Australia's incumbent pay TV provider) and MyRepublic (a Singapore-based broadband firm). There is also the possibility that utility companies (looking to bundle power and telecommunication services) and other large retailers will look to enter the market utilising the NBN infrastructure currently under construction. The NBN therefore has the potential to significantly change the competitive landscape, once a meaningful roll out of the infrastructure has been undertaken.

Major participants

174 There are currently 71 ISPs with more than 1,000 subscribers operating in Australia[34]. Notwithstanding this, the Australian ISP industry is highly concentrated with the top four participants accounting for 82.5% of industry revenue, including[35]:

ISP major participants

Competitor	Market share(1)	Description(2)
Telstra	47.6%	Offers internet and online services through its BigPond business, which is Australia's largest ISP. Due to its established infrastructure, BigPond is particularly dominant in regional areas with around 80% market share(3). In late 2013, Telstra launched a low cost ISP called Belong in an effort to compete with lower priced ISPs.
Optus	15.9%	Optus is Australia's second largest telecommunications company and second largest ISP. It operates four networks, being fixed, mobile, broadband and satellite. The company is heavily investing in wireless telecommunications in an attempt to obtain a greater market share in this segment.
iiNet	15.3%	iiNet is Australia's third largest ISP (and second largest DSL ISP) and has invested in DSLAMs that allow it to bypass a resale relationship with Telstra. iiNet has grown organically and also through acquisitions including OzEmail, Westnet, AAPT's consumer division, TransACT and Internode.
TPG	12.0%	TPG provides a diverse range of communication services to residential users, small to medium enterprises, government, large corporate enterprises and wholesale customers. The company offers broadband services, telephone services, mobile plans and various business networking solutions.

34 ACMA.

35 IBISworld, Internet Service Providers in Australia, January 2015.

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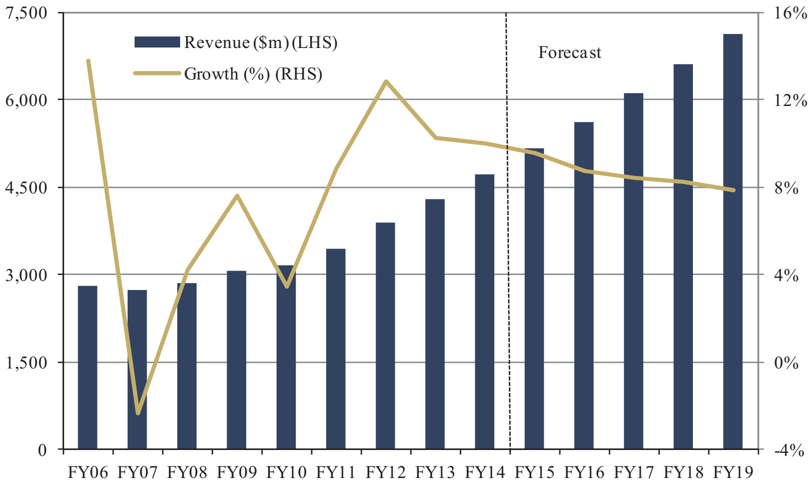
ISP major participants		
Competitor	**Market share[1]**	**Description[2]**
M2 Group	6.7%	M2 Group is a provider of a range of telecommunications services to households and small businesses. Its consumer segment provides a full range of low cost telecommunications services, energy and insurance services, its business segment offers voice and data services, equipment and value-added offerings and it also operates a telecommunications wholesale segment.
Others	2.5%	While the combined market share of the remaining industry participants (including M2 Group, Vocus Telecommunications and Amcom Telecommunications) is comparatively low, competition from smaller industry participants is expected to increase with the roll out of the NBN.

Note:
1 Source: ACMA, based on broadband subscriber numbers, as at June 2014.
2 For further information with respect to these companies' activities, refer to Appendix D.
3 Morgan Stanley Research, iiNet, 22 February 2015.

Historical and future performance

175 Accelerating access speeds have fuelled an increasing cycle of content and application innovation, higher usage and faster speeds. This has driven an exponential rise in the volume of data downloaded. For consumers, more sophisticated applications and enhanced access speeds have improved the experience and convenience of online entertainment. This has all served to increase demand for ISP services, which has grown strongly over the five years to FY14 (experiencing compound annual growth of 9.1%) to reach turnover of $4.9 billion.

ISP industry revenue
Actual (FY06 to FY14) and forecast (FY15 to FY19)



Source: IBISWorld, Internet Service Providers in Australia, January 2015 (nominal).

176 ISPs have engaged in a fierce battle to win subscribers, build scale and increase market share. As a result, broadband internet access pricing has fallen substantially over the past five years, which has encouraged a growing proportion of households to purchase broadband services or

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upgrade services (including those migrating from dial-up). Improved pricing however is not the only reason behind the increase in broadband subscribers. As mentioned above, there has also been a significant increase in the function and usability of online applications, with on-going technological innovation fostering new internet services.

177 The ISP industry's future performance is expected to be underpinned by steady subscriber growth and increased internet use, due to[36]:

(a) the growing influence of the internet on consumers and businesses. More people and businesses are using the internet daily, as entrenched services such as E-Commerce, general browsing, email, online banking and social networking have made the internet more of a necessity

(b) the development of the NBN over the next five years is expected to drive growth opportunities for industry players, as internet speeds increase and connection reliability is enhanced. As access providers, ISPs are expected to benefit as subscribers choose to upgrade their connections.

Recent trends

Wireless communications

178 Mobile carriers such as Telstra, Optus and Vodafone are competing more directly with fixed line ISPs. Mobile data services have experienced strong growth as a result of the rollout of 3G and subsequently 4G infrastructure, allowing subscribers to access the internet at more competitive speeds than was previously possible and at more affordable prices. The constant connectivity offered by mobile internet services is appealing to many consumers, as is the ability to create a personal hotspot using a phone or tablet that allows users to connect computers to the internet via 3G and 4G networks. However, as mentioned above, wireless internet has its limitations, such as low data limits and the inability to use the service over multiple devices.

179 Worldwide Interoperability for Microwave Access (WiMAX) is a standardised wireless technology used to provide broadband access to customer premises. A WiMAX network requires a system of towers similar to mobile phone towers, but in much lower concentration[37]. The main advantages of WiMAX are the significant range of access (with standard Wi-Fi services having a range of less than 50 metres and WiMAX having a range of almost 50 kilometres) and cost (given the costs of establishing and maintaining a network are comparatively inexpensive). WiMAX has been used in Australia by iiNet and other wireless companies in competition with 4G mobile broadband.

Copyright infringement and online piracy

180 The Federal Government is currently considering a number of options to curb illegal downloading, including forcing ISPs to block offending websites and punish those caught infringing copyright. Such actions however would require changes to the Copyright Act and

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36 IBISworld, Internet Service Providers in Australia, January 2015 and LEA analysis.

37 These towers connect to the internet using a high speed wired link, and also connect to each other wirelessly through a microwave link meaning that just a few towers can easily cover a very large area. The signal from these towers is then received by the user through a small antenna on their computer or phone.

overturn a 2012 High Court ruling which had previously found that ISPs were not liable for their customers' illegal content. Although no official statistics are available, it is understood that a material proportion of download capacity is currently used for illegal content. Any change to legislation that intends to curb illegal downloading therefore has the potential to reduce data usage and hence demand for some internet access services.

National Broadband Network

181 On 7 April 2009, the Labour Government announced the creation of a wholesale-only, open-access communications network aimed at delivering high speed broadband and telephony services across Australia. The Government formed NBN Co to carry out the project and to provide services to wholesale customers, including ISPs without directly servicing the end user. Originally, the plan was to build a 100 Mbps fibre to the premises network to cover 93% of the population, with the remaining 7% covered by satellite and wireless technology. However, a strategic review initiated by the newly elected Liberal Government in late 2013 introduced a more cost efficient proposal, incorporating a mix of technologies (which is the current plan)[38]:

(a) fibre to the premises (25% of connections) – the installation of optical fibre directly to individual buildings and businesses to provide high speed internet access of up to 100 Mbps

(b) fibre to the node (29% of connections) – the installation of optical fibre to a junction box (i.e. a node) in a neighbourhood to serve customers within a certain radius. The connection from the node to the premises will generally use DSL over existing telephone wires or coaxial cable

(c) fibre to the distribution point (11% of connections) – involves a network design in which the fibre network is deployed to a distribution point near the premises or the basement of the building

(d) hybrid fibre-coaxial (HFC) (27% of connections) – involves a combination of optical fibre cable from the distribution centre to serving nodes located close to business and residential users and the use of coaxial cable from these nodes to individual premises

(e) satellite internet (3% of connections) – data is sent to and from a computer through a satellite; and

(f) fixed wireless (5% of connections) – the operation of wireless devices or systems in fixed locations such as homes and offices.

Rollout plan and migration of customers

182 The NBN roll out to date has been intermittent and slow. However, current targets are to have the NBN passing over 13 million premises by June 2024, as shown below:

[38] NBN Corporate Plan 2014-2017, 11 November 2014.

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NBN Rollout Plan (in 000s)	Jun 15	Jun 16	Jun 17	Jun 18	Jun 19	Jun 20	Jun 21	Jun 22	Jun 23	Jun 24
Brownfields[(1)]	857	1,727	2,727	3,927	5,127	6,327	7,427	8,477	9,477	10,091
Greenfields[(2)]	192	285	414	564	742	967	1,240	1,581	1,893	2,111
Fixed wireless	260	354	431	508	554	554	554	554	554	554
Satellite	48	206	206	206	206	206	306	306	306	306
Total	1,357	2,572	3,778	5,205	6,629	8,054	9,527	10,918	12,230	13,062

Note:
1 Pre-existing premises.
2 New developments that represent growth in the number of premises.
Source: NBN Co Strategic Review, December 2013.

183 NBN Co has entered into agreements with Telstra and Optus to facilitate migration to the NBN. These have included the:

(a) Renegotiated Telstra Definitive Agreements – on 23 June 2011, NBN Co and Telstra executed a number of Definitive Agreements under which Telstra will progressively disconnect its copper services and HFC broadband services. In December 2014, amendments were made to these agreements under which NBN Co will progressively take ownership of many parts of Telstra's copper and HFC cable networks and use this infrastructure in the NBN in return for a number of payments

(b) Optus HFC Agreement – on 23 June 2011, NBN Co and Optus executed an agreement that provides for the progressive migration of Optus HFC subscribers to the NBN as it is rolled out. NBN Co has agreed to make progressive payments to Optus, based on the number of Optus subscribers that migrate from its HFC network.

Impact on ISPs

184 As indicated above, the NBN rollout is expected to provide significant growth opportunities and increase competition for ISPs:

(a) growth is expected to be driven by higher internet usage and increasing demand for content. According to the NBN business plan, the average NBN end user's peak download speed was 36 Mbps, which is approximately 1.8 times the national non-NBN average at 20 Mbps. An analysis of the average internet speed of NBN users versus non-NBN users is as follows:

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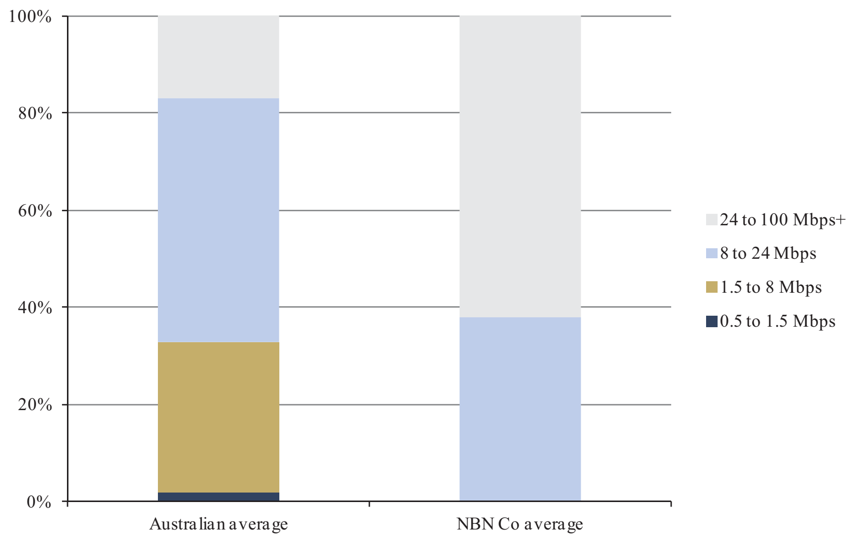
Internet speed
NBN users versus non-NBN users



Source: National Broadband Network Corporate Plan 2014-2017, 11 November 2014

NBN users are also consuming an average 63 GB / month, which is 21% higher than the average of 52 GB / month as of June 2014[39]

(b) competition is expected to increase from the removal of the infrastructure advantage held by Telstra (and to a lesser extent other ISP infrastructure owners) and the related increase in the ability of small resellers and other unrelated retailers (such as potentially Woolworths or Coles) to enter the market. The NBN is expected to reduce the dominance of the big four ISPs, who will effectively become NBN resellers for many of their current services. However these larger participants are still expected to represent the majority of industry revenue, due to economies of scale and the existence of established brands

(c) regional areas will become more accessible, reducing Telstra's dominance in this area, as the current cost of investing in infrastructure (including DSLAMs) in regional Australia in most cases outweighs the potential return

(d) customer acquisition costs are expected to rise as a result of the NBN, with the slow rollout increasing the length and cost of the ISP's marketing campaigns aimed at retaining and increasing market share as subscribers transition across to the NBN; and

(e) the migration of existing ISP customers to a retail NBN service will most likely lead to a renewed focus across the industry on customer service.

39 National Broadband Network Corporate Plan 2014-2017, 11 November 2014.

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Telephone services

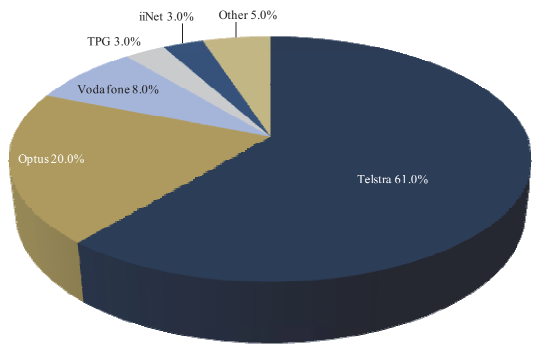
Overview

185 As mentioned above iiNet provides fixed line, VoIP and mobile phone services in Australia in addition to broadband services. Phone services are generally bundled with iiNet's internet services (fixed line and VoIP in particular) and are not the primary driver of earnings for the Company (as compared to internet services). Accordingly, the discussion below provides a high level overview only of the major relevant trends in the telephone services industry.

Australian telecommunications industry

186 The telecommunications services industry generated $41.5 billion in FY14 and is projected by IBISworld to increase to $45.6 billion over the five years through to FY19[40]. Telstra is by far the largest company operating in the Australian telecommunications services industry, primarily due to its history as the government owned monopoly telecommunications company prior to deregulation and its privatisation. At present, the top three companies (Telstra, Optus and Vodafone) account for more than 89% of revenue, as shown in the chart below[41]:

Telecommunications major participants



Sources: AFR and UBS.

187 The major areas in which telecommunications companies compete are very similar to the ISP industry and include price, coverage and customer service. A common pricing strategy employed by telecommunications companies (particularly for mobile phones) is a cap plan, which offers users a defined use limit for a fixed monthly fee.

Telephone services

188 The primary phone services offered by telecommunications companies are fixed line (incorporating traditional phone services and VoIP) and mobile phone services.

Fixed line / VoIP

189 The number of retail and resale fixed line telephone services in operation declined from 11.0 million to 9.2 million over the six years to FY14. Over the same period the number of Australian adults using internet telephone services increased to 4.9 million, as shown below:

40 IBISWorld, Telecommunication Services in Australia, January 2015, nominal.

41 UBS / Australian Financial Review (AFR).

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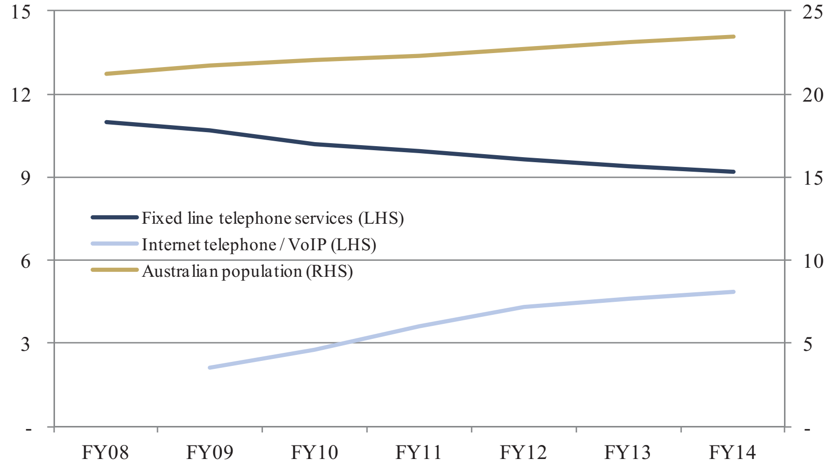
Fixed telephone services in operation vs. population growth
June 2009 to 2014 (billion)



Source: ACMA, ABS 3101. VoIP information for FY08 is not available.

190 While the Australian population has continued to grow, the number of households with fixed line telephone services has declined annually[42]. ACMA estimates that at June 2014, 27% of the total adult population did not have a fixed line telephone service at home. The primary reason for this is competing technologies such as mobile phones (where penetration is high amongst Australians) and growth in internet telephone services (including VoIP and Skype), which can be provided for a fraction of the cost of fixed line phone services provided there is a fixed line internet connection available.

Mobile services

191 Mobile services have grown steadily over the past five years, benefiting from the rapid adoption of smartphones and tablets, which has driven higher data usage and demand for constant connectivity. However, revenue growth has been tempered by strong price competition between major players, with Telstra, Optus and Vodafone competing for market share.

192 Mobile carriers have continued to increase their market share of the telecommunications sector over the last 10 years, driven by the greater prevalence of mobile phones, reduced handset prices and the decline in prices for mobile voice services. In this respect, it has become cheaper for many consumers to disconnect their landlines and rely solely on their mobile phones.

193 Technology platforms such as WhatsApp and Skype have emerged as a form of external competition for phone calls and text messaging. These technologies use the network infrastructure of telecommunications companies, but are conducted as data services rather than phone services.

42 There were 9.2 million retail and resale fixed line telephone services in operation at June 2014, compared to 11.0 million at June 2008.

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Outlook

194 As shown above, ISP industry revenue is forecast to grow at a compound rate of 5.8% to reach $7.1 billion by FY19[43]. In the immediate future the ISP industry is expected to be underpinned by continued consolidation and price based competition aimed at growing market share and attracting additional subscribers. Continued technological innovation and increases in the function of online applications are expected to foster new internet services, while entrenched internet services have made internet access a necessity rather than a discretionary item.

195 However as outlined above, it is the roll out of the NBN which is expected to shape the ISP industry in the medium to long term. The NBN rollout is expected to drive growth opportunities for industry players as internet speeds increase and connection reliability is enhanced. In an increasingly competitive NBN environment, customer service levels will be paramount (to avoid excessive levels of customer churn), as infrastructure will become homogenous between providers. The ability to bundle products and provide additional services such as IPTV and other content will also be used to attract and maintain customers.

196 Consistent with the more recent historical experience, fixed line phone services are expected to continue to decline, with internet phone services expected to grow. In this respect, to a significant degree, data services will be cannibalising traditional phone services. Mobile phone services are expected to continue to grow, driven by increased penetration of smart phones and associated mobile applications.

43 IBISworld, Internet Service Providers in Australia, January 2015.

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VI Valuation methodology

Valuation approaches

197 RG 111 outlines the appropriate methodologies that a valuer should consider when valuing assets or securities for the purposes of, amongst other things, share buy-backs, selective capital reductions, schemes of arrangement, takeovers and prospectuses. These include:

(a) the DCF methodology

(b) the application of earnings multiples appropriate to the businesses or industries in which the company or its profit centres are engaged, to the estimated future maintainable earnings or cash flows of the company, added to the estimated realisable value of any surplus assets

(c) the amount that would be available for distribution to shareholders in an orderly realisation of assets

(d) the quoted price of listed securities, when there is a liquid and active market and allowing for the fact that the quoted market price may not reflect their value on a 100% controlling interest basis

(e) any recent genuine offers received by the target for any business units or assets as a basis for valuation of those business units or assets.

198 Under the DCF methodology the value of the business is equal to the net present value (NPV) of the estimated future cash flows including a terminal value. In order to arrive at the NPV the future cash flows are discounted using a discount rate which reflects the risks associated with the cash flow stream.

199 Methodologies using capitalisation multiples of earnings or cash flows are commonly applied when valuing businesses where a future "maintainable" earnings stream can be established with a degree of confidence. Generally, this applies in circumstances where the business is relatively mature, has a proven track record and expectations of future profitability and has relatively steady growth prospects. Such a methodology is generally not applicable where a business is in start-up phase, has a finite life, or is likely to experience a significant change in growth prospects and risks in the future.

200 Capitalisation multiples can be applied to either estimates of future maintainable operating cash flow, earnings before interest, tax, depreciation and amortisation (EBITDA), earnings before interest, tax and amortisation (EBITA), earnings before interest and tax (EBIT) or net profit after tax. The appropriate multiple to be applied to such earnings is usually derived from stock market trading in shares in comparable companies which provide some guidance as to value and from precedent transactions within the industry. The multiples derived from these sources need to be reviewed in the context of the differing profiles and growth prospects between the company being valued and those considered comparable. When valuing controlling interests in a business an adjustment is also required to incorporate a premium for control. The earnings from any non-trading or surplus assets are excluded from the estimate of the maintainable earnings and the value of such assets is separately added to the value of the business in order to derive the total value of the company.

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201 An asset based methodology is applicable in circumstances where neither a capitalisation of earnings nor a DCF methodology is appropriate. It can also be applied where a business is no longer a going concern or where an orderly realisation of assets and distribution of the proceeds is proposed. Using this methodology, the value of the net assets of the company are adjusted for the time, cost and taxation consequences of realising the company's assets.

Methodologies selected

202 The market value of the shares in iiNet has been assessed on a going concern basis by determining the market value of the business operations and deducting net borrowings. The DCF method and capitalisation of EBITDA method have been adopted to determine the value of the business operations.

DCF

203 The DCF methodology is considered the most appropriate valuation methodology for iiNet due to:

(a) the availability of long term cash flow forecasts which we consider sufficiently reliable for valuation purposes

(b) the differences between reported profit and cash flow arising from, inter alia:

(i) the capitalisation (and subsequent amortisation) of customer acquisition costs for accounting purposes; and

(ii) the material difference between the payment profile for IRUs (which are generally front ended) and their accounting treatment, which amortises IRU costs over the term of each of the agreements and recognises a notional interest cost on the IRU liability.

Capitalisation of EBITDA

204 A capitalisation of EBITDA method has been adopted as most transaction evidence in the telecommunications sector is expressed in terms of EBITDA multiples. Under this methodology the value of the business is represented by its core underlying EBITDA capitalised at a rate (or EBITDA multiple) reflecting the risk inherent in those earnings.

205 As stated in Section III, iiNet has a number of IRUs which provide it with dedicated capacity on international cables. Due to the long term nature of these arrangements and the dedicated capacity which is acquired by iiNet, the accounting standards require that the transactions be accounted for as finance leases. The IRU asset recognised for accounting purposes is amortised over the term of the IRU and the IRU liability recognised for accounting purposes reflects the present value of the liability in relation to current IRUs, with the notional interest costs being charged as a finance cost. As such, the costs associated with the IRUs are not reflected in EBITDA.

206 The assessed enterprise value under the capitalisation of EBITDA methodology should therefore be greater than that assessed under the DCF methodology as the capitalisation of EBITDA methodology does not reflect the cash flow payments associated with the IRUs. Accordingly, in addition to bank debt, the IRU liability must be deducted from the enterprise value assessed under the capitalisation of EBITDA methodology to assess the equity value.

207 Further IRUs will be required in the future to continue to provide international services in perpetuity. These IRUs reflect maintenance and/or growth capital expenditure requirements of the business. Accordingly, in adopting the capitalisation of EBITDA methodology, we have considered whether any further adjustment is required to the assessed enterprise value to account for these future capital expenditure requirements.

Cross-check based on listed market price

208 As a cross-check on our assessed valuation range, we have also considered the listed market price of iiNet shares prior to the announcement of the Scheme adjusted for a takeover (control) premium. This cross-check is appropriate given that iiNet shares are highly liquid (with significant share trading taking place on the ASX) and are widely researched by investment analysts[44].

Value of Share Alternative

209 For the purpose of assessing the value of the Share Alternative we have had primary regard to the recent listed market prices of TPG shares. This is principally because the listed market prices of TPG shares are likely to represent a reasonable proxy for the amount that iiNet shareholders could expect to realise if they sold any TPG shares received as consideration either immediately or in the short-term.

210 We have also cross-checked the reasonableness of our assessed value of TPG shares being offered as consideration by reference to implied earnings multiples.

44 According to Bloomberg (on 20 March 2015), 13 investment analysts published research on iiNet.

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VII Valuation of iiNet

Valuation methodology

211 As stated in Section V, the market value of the shares in iiNet has been assessed on a going concern basis by determining the market value of the business operations and deducting net borrowings. The DCF method and capitalisation of EBITDA method have been adopted to determine the value of the business operations. The resulting values under each method are discussed below.

DCF valuation

212 Under the DCF methodology the value of the business is equal to the NPV of the estimated future cash flows including a terminal value. In order to arrive at the NPV the future cash flows are discounted using a discount rate which reflects the risks associated with the cash flow stream.

Cash flow projections

213 Our DCF valuation is based on free cash flow projections to 30 June 2025 (the forecast period) plus a terminal value as at the end of the forecast period. The free cash flow projections have been derived by LEA having regard to iiNet's forecasts for FY15, discussions with iiNet management regarding the outlook for the business, historical and forecast growth rates, profit margins and other relevant factors.

214 Whilst LEA believes the assumptions underlying the cash flow projections are reasonable and appropriate, it should be noted that in respect of these projections:

(a) the major assumptions underlying the projections were formulated in the context of current economic, financial and other conditions

(b) the projections and the underlying assumptions have not been reviewed by an investigating accountant for reasonableness or accuracy of compilation and application of assumptions

(c) future profits and cash flows are inherently uncertain

(d) by their nature, the projections do not take into account the operational flexibility available to management to react to changes in the market conditions in which iiNet operates

(e) the achievability of these projections is not warranted or guaranteed by iiNet or LEA, as they are predictions of future events that cannot be assured and are necessarily based on assumptions, many of which are beyond the control of iiNet and its management; and

(f) actual results may be significantly more or less favourable.

215 Free cash flow represents the operating cash flows on an ungeared basis (i.e. before interest) less taxation payments[45], capital expenditure and working capital requirements. The free cash flow on an ungeared basis is adopted to enable the value of the business to be determined irrespective of the level of debt funding employed.

45 Calculated on an ungeared basis.

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216 The free cash flow projections are also net of expected IRU payments over the forecast period, and the on-going costs associated with IRUs are reflected in the terminal value. Accordingly, when determining the equity value from the DCF enterprise value the IRU liability recognised for accounting purposes does not need to be deducted as allowance has already been made for the related payments in the DCF calculation.

217 As the detailed cash flow projections are commercially sensitive they have not been set out in our report. However, we set out below information on the major assumptions underlying the free cash flow projections.

Major assumptions

218 The major assumptions underlying the free cash flow projections for the iiNet business are set out below:

Base case assumptions	Commentary
Fixed line internet subscribers • 4% growth per annum for three years to 30 June 2018 • 3% growth per annum for subsequent seven years to 30 June 2025	• 4% growth assumption implies organic growth of approximately 40,000 subscribers per annum • iiNet achieved organic growth in internet subscribers of around 40,000 in FY14 and 25,000 in 1H15 • Whilst organic subscriber growth in FY12 (negative 32,000) and FY13 (2,000) was significantly lower, this reflected (in part) higher expected churn following the acquisition of the AAPT consumer business in FY11 • The fixed line internet market is reaching maturity. In the four years ended 30 June 2014, total fixed line internet services in Australia grew at a compound average growth rate (CAGR) of around 2% per annum. Annual population growth is around 1.6% • The NBN is expected to create a more level playing field and enable ISPs to more easily compete against Telstra, especially in regional markets (potentially resulting in market share gains for iiNet). However, based on current business plans the NBN will also reduce barriers to entry for new entrants Increased focus on the small to medium business market and east coast could also lead to market share gains for iiNet
Fixed line voice subscribers • 2.5% reduction per annum over forecast period to 30 June 2020 • The reduction in fixed line voice subscribers is forecast to decline at an accelerated rate from 1 July 2020 as more customers migrate to VoIP services on the NBN	• Total fixed line voice services in Australia have declined by 2.6% per annum over the four years to 30 June 2014

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Base case assumptions	Commentary
VoIP subscribers • The reduction in fixed line voice subscribers is offset by increases in VoIP subscribers (driven by migration to the NBN and growth in broadband subscribers, a proportion of which are also expected to subscribe to VoIP) • However, total voice subscribers (fixed and VoIP) as a percentage of broadband subscribers declines slightly each year	• Total VoIP services in Australia increased by 13.8% per annum (CAGR) over the four years to 30 June 2014, albeit from a low base • Total VoIP services growth moderated to 5.8% and 6.1% in FY13 and FY14 respectively
Mobile subscribers • Mobile subscribers increase by around 30,000 to 40,000 per annum over the forecast period to 30 June 2025	• Increase in mobile subscribers is consistent with increase achieved over recent years • iiNet's 4G mobile business was only launched in FY13 • Increase in subscriber base reflects current small subscriber base (167,000 as at 31 December 2014), recent product launches in December 2014 and increasing intense competition from major industry participants
Average margin per user (AMPU) – fixed line internet services • AMPU for On-net, Off-net and NBN & fibre are constant in nominal dollar terms (per user) at levels expected for FY15 • However, the rollout of the NBN is expected to result in the migration of On-net and Off-net customers to the NBN over the forecast period (with resulting margin impacts as discussed to the right)	• Competition is assumed to lower AMPU in real terms by around 2.5% (i.e. inflation) • As the NBN is currently being rolled out in metropolitan areas first, On-net migration to the NBN is expected to occur faster than Off-net migration • On-net margins are currently higher than the margins on the NBN. Accordingly, AMPU is expected to decline for On-net subscribers migrating to the NBN • In contrast, Off-net margins are expected to increase significantly following migration to the NBN due to the lower access costs for ISPs
AMPU – fixed line voice services • AMPU is assumed to fall 2.0% per annum (in nominal terms) for each year to 30 June 2020, but is flat thereafter	• AMPU declined around 2.7% per annum (CAGR) over the two and a half year period to 31 December 2014
AMPU – VoIP and Mobile • AMPU is assumed to remain constant over the forecast period to 30 June 2025	• Competition is assumed to lower AMPU in real terms by around 2.5% (i.e. inflation)
Overhead costs • Overhead costs (including marketing expenses) increase by 2.1% per annum (CAGR) over the forecast period to 30 June 2025	• Some cost efficiencies / economics of scale have been assumed to offset the impact of declining margins resulting from the NBN

Base case assumptions	Commentary
Capital expenditure • Capital expenditure (including customer acquisition costs) reduces from the level expected in FY15 of around $60 million to around $40 million per annum by FY25	• The rollout of the NBN is expected to result in some capital expenditure savings for iiNet (particularly once the large majority of customers are migrated to the NBN)
IRU payments • Payments for existing IRUs are as set out in Section III • One of the current access arrangements expires in FY17 and is expected to result in higher operating costs after expiry • Due to the increase in data usage and subscriber growth, allowance is made for additional IRU arrangements	• As IRUs are reflected in the cash flows (and terminal value) the IRU liability (recognised for accounting purposes) does not need to be deducted from the DCF enterprise value.
Terminal value growth rate • 1.5% per annum	• Competition and the mature nature of the fixed line telecommunications market is assumed to result in profit growth below inflation post the forecast period ending 30 June 2025
Discount rate • 9.5% per annum (after corporate tax)	• Refer Appendix C • Discount rate is consistent with rates applied by investment analysts

Sensitivity analysis

219 The base case assumptions set out above reflect the base case assumptions adopted in the financial model. As noted in paragraph 214 above, there are inherent qualifications that apply to cash flow projections on which DCF valuations are based. In addition, the cost of capital can vary between industry participants based on factors such as differing perceptions / acceptance of risk and willingness to assume debt funding obligations.

220 It is important therefore not to credit the output of DCF models with a precision it does not warrant. It follows that any DCF valuation process should consider a range of scenarios, having regard to the respective key valuation drivers of the business being valued.

221 In assessing our valuation range we have therefore considered the sensitivity of value to changes in the key assumptions, as shown below:

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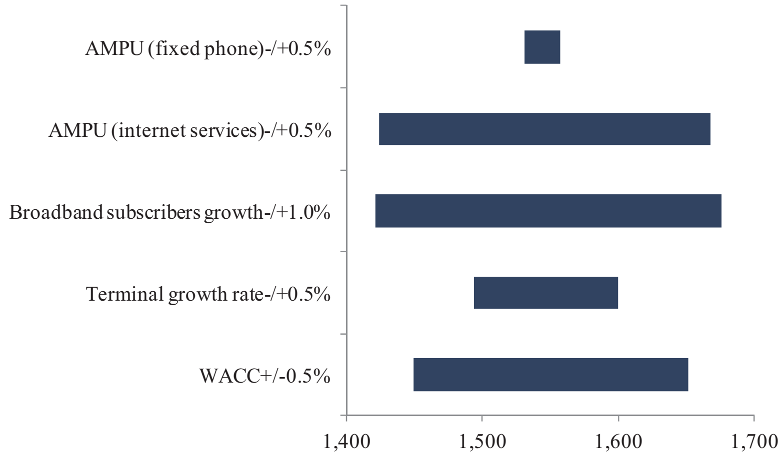
Sensitivity analysis
Impact of % changes in certain assumptions ($m)



Note: WACC – weighted average cost of capital.

Synergies

TPG synergies

222 TPG has not outlined in detail or quantified the level of synergies and efficiencies which it may be able to generate as a result of acquiring iiNet. However, in an ASX release dated 13 March 2015, Mr Teoh stated that:

"The combined businesses will provide broadband services to over 1.7 million subscribers and will be well positioned to deliver scale benefits in an NBN environment."

"The transaction is expected to be immediately EPS accretive for TPG shareholders[46]."

223 Based on published broker research, we note that investment analysts[47] estimate that the potential cost synergies available to TPG range (within three years of completion) between $60 million and $87 million per annum (with the majority of analysts' estimates within $70 million to $80 million per annum).

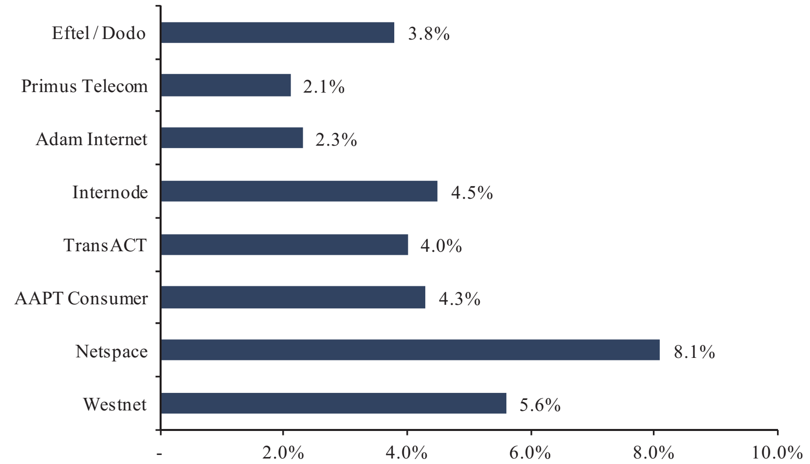
224 We note that the $70 million to $80 million of annual synergies estimated in recent brokers reports represents some 8.6% to 9.9% of iiNet's cost base[48]. In comparison, the expected savings (as a percentage of the target company's cost base) in other acquisitions of fixed line telecommunications businesses are set out below:

46 Prior to amortisation of acquired intangibles.

47 Broker reports reviewed include those from CBA, Citigroup, Credit Suisse, Deutsche Bank, JP Morgan, Bank of America Merrill Lynch, Morgan Stanley, Ord Minnett and Petra Capital.

48 Based on total costs (excluding depreciation and amortisation) of $810.6 million in FY14.

Announced cost synergies in recent iiNet and M2 Group transactions
Expected cost synergies as a percentage of target's cost base



Source: Company announcements, analyst reports and LEA analysis.

Synergies available to other potential acquirers

225 As set out in RG 111, synergies that are not available to other potential bidders should not be taken into account in the valuation of the target company when assessing whether an offer is fair.

226 We have discussed the potential synergies available to TPG and other potential acquirers with iiNet management. Based on this discussion and our analysis, we note that the potential cost synergies arising from an acquisition of iiNet largely comprise:

(a) head office and public company cost savings, which are expected to be available to all of the large listed telecommunications companies with a head office presence in Australia

(b) network synergies, which are likely to be highest for those companies which own and operate their own fixed line telecommunications network. Accordingly, we believe that network synergies are likely to be highest for companies such as TPG and Singapore Telecommunications (the owner of Optus)[49].

227 While the nature and resultant value of synergy benefits available to potential purchasers will vary, in our view the level of potential benefits available to other acquirers is significant. For example, M2 Group stated that:

(a) it expects to be able to generate cost synergies from an acquisition of iiNet of $60 million per annum, with these benefits being realised over three years

(b) M2 Group may also be able to generate revenue synergies (e.g. from marketing its energy products to iiNet customers).

[49] In our view, Telstra would be prohibited from acquiring iiNet by the ACCC.

228 In our view, Singapore Telecommunications is also likely to be able to generate significant synergies from an acquisition of iiNet.

229 Based on our analysis we believe that annual synergy benefits of around $60 million per annum (within three years of completion) are likely to be available to more than one bidder. Thus, these synergy benefits do not represent "special value" and some proportion of the synergy benefits should appropriately be included in the fair market value of iiNet.

230 We have undertaken a DCF analysis of these synergy benefits to assess the value thereof. On this basis, our assessment of the total value of 100% of these synergies is as follows:

	Low $m	High $m
NPV of identified synergy benefits	430	480

Note:
1 Cash flows discounted are net of tax. Implementation costs equal to $30 million have been taken into account. This is consistent with the level of implementation costs estimated by M2 Group in order to achieve their $60 million in annual cost synergies.
2 Adopting a discount rate of 9.5% per annum after tax.
3 The above value represents 7.2 to 8.0 times the pre-tax estimate of the full year synergy benefits expected to be achieved in year three.

Proportion of synergies included in valuation

231 We have then considered what proportion of the value of synergy benefits / cost savings should be assumed in determining the market value of 100% of iiNet. In making our assessment we have considered:

(a) the degree of confidence about the level and achievability of the potential synergies (noting that head office and public company cost savings are likely to be easier to achieve)

(b) the risks of possible (net) revenue losses

(c) the possibility of net revenue gains

(d) the competitive bidding environment.

232 In our opinion, a bidder would only pay a high proportion of synergy value (i.e. 50%) in a competitive bidding scenario. In the absence of a competing bidding scenario, the proportion of synergy value paid away to the target shareholders is likely to be materially lower than 50%. Further, as the purchaser implicitly bears the risk of implementing the initiatives to achieve the synergies, this risk reduces the proportion of synergies which are paid to the target shareholders. However, in the current circumstances:

(a) both TPG and M2 Group have put forward proposals for the acquisition of iiNet, and can both generate significant synergies

(b) the implementation risks associated with both the realisation of head office cost savings and network synergies would be low for companies like TPG and M2 Group.

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233 Given the competitive bidding environment, we have assumed that 40% to 50% of the value of potential cost synergies would be paid away to iiNet shareholders. Accordingly, we have included an amount equal to $172 million to $240 million for the value of synergy benefits in our value of iiNet. Our assessment allows for the risks of achieving the synergy benefits, uncertainty as to their timing and quantum and allows for the fact that a bidder would only pay away a proportion of the value of the synergy benefits identified.

DCF value

234 Based on the above (including the results of the sensitivity analysis) we have assessed the value of 100% of iiNet shares (using the DCF method and including a share of the value of potential synergies) at the following amounts:

iiNet – DCF valuation	Low $m	High $m
DCF value of business(1)	1,500	1,600
Value of residual tax losses and 60% interest in Tech2(2)	13	16
DCF value of share of synergies	172	240
Enterprise value	1,685	1,856
Less net debt as at 30 April 2015(1)(3)	(234)	(234)
Equity value	1,451	1,622
Fully diluted shares on issue	164.6	164.6
Value per share	$8.82	$9.85

Note:

1 As IRU payments (and related hedges) are reflected in the cash flows (and terminal value), the IRU liability does not need to be deducted from the DCF value.

2 The DCF value of the business excludes the benefit of residual tax losses and any earnings contribution from Tech2. iiNet's 60% interest in Tech2 was acquired for $11 million (excluding contingent consideration yet to be paid) in August 2014.

3 Net debt includes accrued transaction costs associated with the Scheme.

Capitalisation of EBITDA method

235 As stated in Section V we have also valued iiNet using the capitalisation of EBITDA method. Under this method the underlying EBITDA (before significant items) is capitalised at an appropriate EBITDA multiple to determine the enterprise value of the business.

EBITDA adopted for valuation purposes

236 In order to assess the appropriate level of EBITDA for valuation purposes we have had regard to the historical and forecast results of the business, and have discussed the business' financial performance, operating environment and prospects with iiNet management.

237 A summary of iiNet's revenue and underlying EBITDA[50] for the three years ended FY14 and 1H15 is summarised below:

50 Before significant items.

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iiNet – summary of historical profitability	FY12 $m	FY13 $m	FY14 $m	1H15 $m
Revenue	831.2	941.0	1,006.2	547.0
Underlying EBITDA(1)(2)	144.2	178.9	195.6	96.6
Underlying EBITDA margin	*17.4%*	*19.0%*	*19.4%*	*17.7%*

Note:
1 Before significant items.
2 The 1H15 underlying EBITDA result includes a loss from Tech2 of $885,000.

238 iiNet management have not provided any detailed earnings guidance to the ASX for FY15. Whilst we have been provided with iiNet management's latest forecast for FY15, this has not been disclosed in our report for reasons of commercial confidentiality. However, we note management does not expect EBITDA for FY15 to be materially different from the range adopted in recent broker reports (i.e. from $196 million to $202 million[51]). In comparison, underlying EBITDA (before significant items) in the 12 months to 31 December 2014 was $196.9 million.

239 For valuation purposes we have adopted (FY15 forecast) underlying EBITDA of $197.0 million. This includes the recognition of a small increase in operating costs[52] which will be incurred from around mid-FY17 following the expiry of one of iiNet's current infrastructure access arrangements.

EBITDA multiple

240 The selection of the appropriate EBITDA multiple to apply is a matter of judgement but normally involves consideration of a number of factors including, but not limited to:

- The stability and quality of earnings
- The quality of the management and the likely continuity of management
- The nature and size of the business
- The spread and financial standing of customers
- The financial structure of the company and gearing level
- The multiples attributed by share market investors to listed companies involved in similar activities or exposed to the same broad industry sectors
- The multiples that have been paid in recent acquisitions of businesses involved in similar activities or exposed to the same broad industry sectors
- The future prospects of the business including the growth potential of the industry in which it is engaged, strength of competitors, barriers to entry, etc
- The cyclical nature of the industry
- Expected changes in interest rates
- The asset backing of the underlying business of the company and the quality of the assets
- The extent to which a premium for control is appropriate
- Whether the assessment is consistent with historical and prospective earnings

51 Source: Bloomberg (accessed on 20 March 2015). 13 analysts' forecasts were shown on Bloomberg.

52 Specifically, in cost of sales. The benefit of the cost avoided until mid-FY17 is not material to the valuation assessment.

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241 We discuss below specific factors taken into consideration when assessing the appropriate EBITDA multiple range for iiNet.

Listed company multiples

242 The EBITDA multiples for Australian and New Zealand listed companies operating in the telecommunications sector are set out in Appendix D. As the level of underlying EBITDA adopted for valuation purposes is consistent with our estimate of the likely level of underlying EBITDA in FY15 the multiples below are based on each company's average broker forecasts for that financial year:

Listed company EBITDA multiples[1]	Enterprise value $m	FY15[2] EBITDA multiples x
iiNet[3]	1,479	7.4
TPG[3]	6,300	13.6
Telstra Corporation	88,766	8.2
Singapore Telecommunications[4]	73,317	9.6
Spark New Zealand	5,761	6.3
Chorus	3,310	5.7
M2 Group	2,206	12.4
Vocus Communications[5]	654	12.9
Amcom Telecommunications[5]	512	9.8
Macquarie Telecom Group	135	5.1
Average		**9.1**
Median		**8.9**

Note:
1 Enterprise value and earnings multiples calculated as at 18 May 2015, unless otherwise stated.
2 Forecast earnings are based on Bloomberg broker average forecast (excluding outliers and outdated forecasts).
3 TPG and iiNet enterprise values and forecast EBITDA multiples are calculated as at 12 March 2015 (i.e. pre announcement of the Scheme).
4 EBITDA includes the EBIT from Singapore Telecommunications' associates as a proxy for EBITDA as information on the level of depreciation and amortisation for these companies is not available.
5 On 17 December 2014, Vocus Communications announced a takeover offer for Amcom Telecommunications. The enterprise values and forecast EBITDA multiples are therefore calculated on 24 October 2014 (being the last trading day prior to the announcement of the approach by Vocus Communications).

Source: Bloomberg, latest full year statutory accounts, latest interim accounts, company announcements, LEA analysis.

243 We note that the comparison of EBITDA multiples for telecommunications companies should be taken in context of these companies' operating models and means of accessing the network, which may impact significantly on respective EBITDA, and therefore on EBITDA multiples. For example, M2 Group incurs access charges which are expensed within EBITDA. In comparison, iiNet also has IRUs which result in amortisation and interest charges (i.e. reflected below the EBITDA line).

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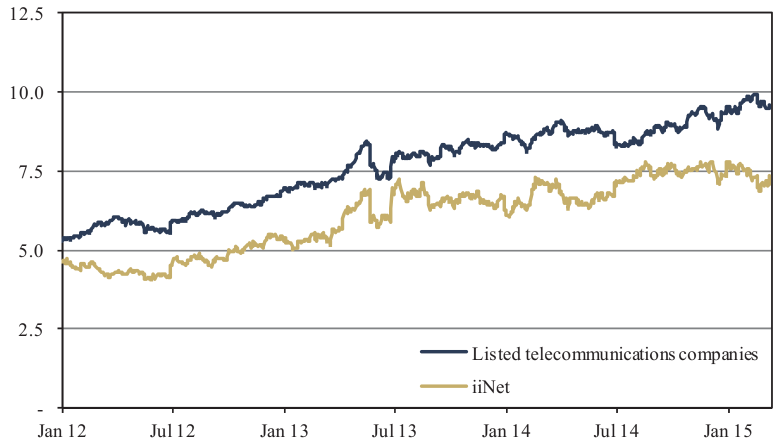
244 The above multiples are based on the listed market price of each company's shares (and therefore exclude a premium for control). Empirical evidence undertaken by LEA indicates that the average premium paid above the listed market price in successful takeovers in Australia ranges between 30% and 35% (assuming the pre-bid market price does not reflect any speculation of the takeover). This broadly translates to a premium of 20% to 25% at the EBITDA multiple or enterprise value level, although this varies depending on the level of debt funding employed in each company.

245 We also note that the one year forward EBITDA multiples for the above telecommunications companies have increased significantly over recent years, and are now high by historical standards as shown below[53]:

One year forward EBITDA multiples for iiNet and other telecommunications companies[(1)]



Note:
1 The EBITDA multiple for the other listed telecommunications companies represents the simple average EBITDA multiples of Telstra, Spark New Zealand, Singapore Telecommunications, TPG Telecom, M2 Group, Macquarie Telecom, Vocus Communications and Amcom Telecommunications.
2 iiNet has consistently traded on a lower implied EBITDA multiple than the other listed telecommunications companies.

Transaction evidence

246 As set out in Appendix E there have been a number of recent transactions in the fixed line telecommunications sector. A summary of the EBITDA multiples implied by these transactions (which reflected the acquisitions of controlling interests) is shown below:

53 In our view, the reduction in market interest rates over the period, together with the likelihood of further industry consolidation, have been contributing factors to the higher EBITDA multiples currently prevailing.

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Telecommunications transactions					
			Enterprise value[(2)]	EBITDA multiples	
				Historical	Forecast
Date[(1)]	Target	Acquirer	$m	x	x
Apr 15	Call Plus Group	M2 Group	245.4	6.9[(3)]	5.6[(3)]
Apr 15	Spark NZ's international voice business	My Net Fone	22.2	na	6.3
Dec 14	Amcom Telecom.	Vocus Com.	607.6	13.0[(4)]	12.3[(4)]
Aug 13	Adam Internet	iiNet	59.1	na	5.1
Mar 13	Eftel	M2 Group	44.1	5.5[(5)]	5.0[(5)]
Mar 13	Dodo	M2 Group	203.9	7.0[(5)]	5.0[(5)]
Jul 12	TelstraClear	Vodafone NZ	654.0	6.6	na
Apr 12	Primus Telecom	M2 Group	187.8	4.7	na
Dec 11	Internode	iiNet	131.4	na	5.3
Nov 11	TransACT	iiNet	56.8	3.3	3.3
Feb 11	Clear Telecoms	M2 Group	26.9	na	3.4
Jul 10	AAPT Consumer	iiNet	75.1	na	3.8
Mar 10	Netspace	iiNet	41.5	na	5.2

Note:
1 Date of announcement.
2 100% basis. New Zealand dollar amounts have been translated at the exchange rate on the relevant transaction dates.
3 Historical multiples based on FY15 forecast and forecast multiples based on FY16 forecast (as at 13 April 2015).
4 Given the difference in operating models, and in particular, Amcom Telecommunications' ownership of infrastructure assets, we do not deem this a comparable transaction.
5 Historical multiples based on FY13 forecast and forecast multiples based on FY14 combined forecast for Eftel and Dodo (as at 18 March 2013).
na – not available.
Source: LEA analysis using data from ASX announcements, broker reports and company annual reports.

247 In relation to the transaction evidence it should be noted that:

(a) with the exception of Amcom (which is the subject of a merger proposal from Vocus Telecommunications), the above multiples reflect those paid in bolt-on acquisitions. Given the much larger size (and market position) of iiNet, we believe that significantly higher EBITDA multiples should be applied to iiNet compared to the EBITDA multiples implied from the small bolt-on transactions

(b) the transactions relate to the acquisition of 100% of the businesses and therefore implicitly incorporate a premium for control.

Comparison with M2 Group

248 We note that a number of investment analysts consider M2 Group to be the most comparable listed company to iiNet, as M2 Group is also a major ISP and both companies have successfully grown organically and by acquisition[54]. As noted below, iiNet shares have consistently traded at a discount to the EBITDA multiples implied by the market price of M2 Group shares in the period up to the announcement of the Initial Agreement with TPG:

54 Whilst TPG is also a major ISP, it is considered less comparable to iiNet due to (inter alia) its significant ownership of its own telecommunications infrastructure.

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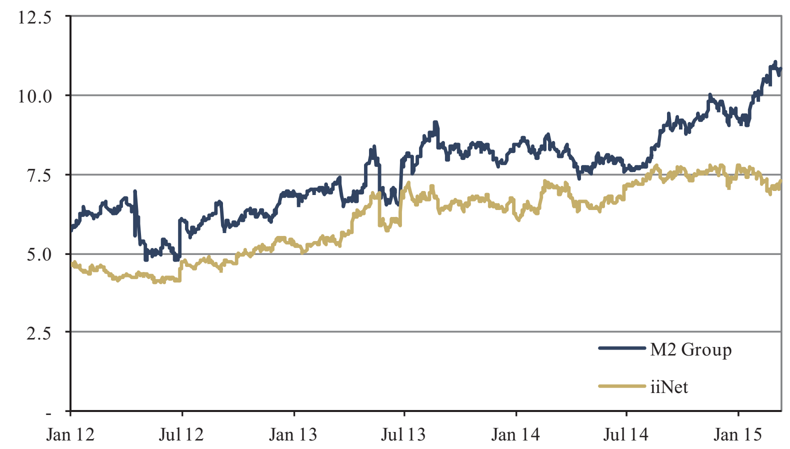
One year forward EBITDA multiples for iiNet and M2 Group



Source: Bloomberg

249 While M2 Group may be considered by the market to be the most comparable listed company to iiNet, we note that the two ISPs have different operating models, as noted in paragraph 243 above, which may explain in part the difference in EBITDA multiples between the two companies.

Control premium and treatment of synergies

250 In assessing the EBITDA multiple for the valuation of 100% of iiNet we have applied an appropriate premium for control. As stated above, empirical evidence from research undertaken by LEA indicates that the average premium paid above the listed market price in successful takeovers in Australia ranges between 30% and 35% (assuming the pre-bid market price does not reflect any speculation of the takeover). This broadly translates to a premium of 20% to 25% at the EBITDA multiple or enterprise value level, although this varies depending on the level of debt funding employed in each company.

251 However, higher premiums have been paid in competitive bidding scenarios (particularly where the expected annual synergies are high relative to the standalone earnings of the target company, as is the case with iiNet).

252 Nonetheless, the existence of synergies from business combinations is one of the key reasons why bidders pay a control premium to acquire a company. Consequently, in our opinion, it is inappropriate (in the circumstances of iiNet) to incorporate a separate value for synergies over and above that already implicitly reflected in the controlling interest multiple applied.

Conclusion on appropriate EBITDA multiple

253 Based on the above, in our opinion, an EBITDA multiple range of 9.5 to 10.0 is appropriate when applied to the level of underlying EBITDA adopted for valuation purposes.

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Value of iiNet under the capitalisation of EBITDA method

254 On this basis, the value of 100% of iiNet shares under the capitalisation of EBITDA method is as follows:

iiNet – valuation based on EBITDA method		
	Low $m	**High $m**
EBITDA adopted for valuation purposes(1)	197	197
EBITDA multiple	9.5	10.0
	1,872	1,970
Value of residual tax losses and 60% interest in Tech2(2)	13	16
Net debt as at 30 April 2015(3)	(234)	(234)
IRU liabilities as at 30 April 2015(3)	(161)	(161)
Equity value	1,490	1,591
Fully diluted shares on issue	164.6	164.6
Value per share	$9.05	$9.67

Note:

1 This includes the recognition of a small increase in operating costs which will be incurred from around mid-FY17 following the expiry of one of iiNet's current infrastructure access arrangements.

2 The level of EBITDA adopted for valuation purposes does not reflect any earnings contribution from iiNet's 60% interest in Tech2. iiNet's interest in Tech2 was acquired for $11 million (excluding contingent consideration yet to be paid) in August 2014.

3 Net debt includes accrued transaction costs associated with the Scheme.

4 Net of related hedges.

Conclusion

255 The resulting iiNet share values based on the valuation methodologies applied are summarised below:

iiNet – valuation summary ($ per share)		
Methodology	**Low**	**High**
DCF	$8.82	$9.85
Capitalisation of EBITDA	$9.05	$9.67

256 Having regard to the above we have assessed the value of iiNet shares in the range of **$8.90** to **$9.75** per share.

Cross-check based on listed market price adjusted for a control premium

257 In the period from 19 February 2015 (being the date of iiNet's half yearly profit release[55]) to 12 March 2015 (being the last trading day prior to the announcement of the Initial Agreement with TPG) the listed market price of iiNet shares ranged between $6.12 and $6.82 per share, with the VWAP during the period being $6.47. Significant trading in iiNet shares occurred during this period (some $252 million by value), which indicates (prima facie) that the share trading range during this period was likely to be a reasonably reliable indicator of the portfolio value of iiNet shares prior to the announcement of the Scheme.

55 As the iiNet share price fell significantly following the half yearly profit release for 1H15, we believe it is more appropriate to consider the listed market price from that date.

258 Our assessed valuation range therefore implies the following premium above the VWAP referred to above:

	Low $	High $
Adopted valuation range	8.90	9.75
VWAP (19 Feb 2015 to 12 March 2015)	6.47	6.47
Implied control premium	37.6%	50.7%

259 The above implied control premium exceeds the average premium of 30% to 35% generally paid in takeovers. However, as noted above, higher premiums (than the average premium) have been paid in competitive bidding scenarios, particularly where the expected annual synergies are high relative to standalone earnings of the target company (as is the case with iiNet).

260 Given the competitive bidding environment and the level of expected synergies, we therefore consider that our valuation range is reasonable and appropriate.

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VIII Valuation of Share Alternative

Approach

261 As set out in Section I, if iiNet shareholders approve the Scheme and all conditions are satisfied, then iiNet shareholders who elect to receive the Share Alternative will receive 0.969 shares in TPG for each iiNet share held. iiNet shareholders electing this alternative will also receive the Special Dividend of 75 cents per iiNet share.

262 As stated in Section VI it is customary in transactions where scrip is offered as consideration to rely upon the listed market price of the bidder's shares[56] (in this case TPG) as the reference point for estimating the realisable value of the consideration offered. This is principally because:

(a) the listed market prices of TPG shares are likely to represent a reasonable proxy for the amount that iiNet shareholders could expect to realise if they sold any TPG shares received as consideration either immediately, or in the short-term

(b) any decision to continue to hold TPG shares beyond the immediate to short-term is a separate investment decision which should be made by shareholders having regard to their risk profile, liquidity preference, tax position and expectations as to value and future market conditions. It is also not possible to accurately predict future share price movements

(c) whilst there may be a future opportunity for iiNet shareholders to share in a control premium in the event TPG was acquired, this is not a scenario that we consider likely in the short-term.

263 Accordingly, in our opinion, the recent market prices of TPG shares are the appropriate reference point for estimating the value of the Share Alternative. In doing so, we have also considered the depth of the market for those securities and the volatility of the share price.

264 We have also cross-checked the reasonableness of our assessed value of TPG shares being offered as consideration by reference to implied earnings multiples.

Recent share prices

Recent share trading history

265 The historical share prices for TPG are set out in Section IV. More recent trading in TPG shares is shown below:

56 Provided there is sufficient liquidity in the bidder's shares.

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TPG – share price history					
Time periods up to and including 9 June 2015	**Low $**	**High $**	**VWAP $**	**Number traded (m)**	**Value traded ($m)**
1 month period up to announcement of first TPG offer(1)	7.20	7.87	7.52	26.2	197.2
Since announcement of first TPG offer(2)	8.48	9.72	9.04	112.2	1,013.9
Since announcement of M2 Group competing proposal(3)	8.48	9.26	8.93	54.6	487.8
Since announcement of second TPG offer(4)	8.57	9.26	8.93	34.3	306.5

Note:
1 13 February 2015 to 12 March 2015.
2 13 March 2015 to 9 June 2015.
3 27 April 2015 to 9 June 2015.
4 6 May 2015 to 9 June 2015.

266 As indicated above the listed market price of TPG shares increased appreciably following the announcement on 13 March 2015 of the first TPG offer[57]. This reflected the synergies expected to be realised by TPG and TPG's statements that the transaction is expected to be immediately EPS accretive for TPG shareholders (prior to the amortisation of acquired intangibles).

267 As a result of the M2 Group counter-proposal, TPG has increased its offer for iiNet. The increased cost of the higher offer has, prima facie, resulted in the TPG share price falling from the recent highs achieved prior to the increased offer. Accordingly, in our view, the listed market prices of TPG shares following the announcement of the increased Total Consideration (on 6 May 2015) are more relevant when assessing the value of the Share Alternative.

268 In our view, the TPG share price subsequent to and including 6 May 2015 is also more representative of the share price assuming the Scheme is approved than the share prices before 6 May 2015.

Share trading restrictions and liquidity

269 There are no significant restrictions on trading in TPG which would prevent sufficient trading (on a day-to-day basis) to produce an unbiased share price.

270 Further, in our view, the liquidity in TPG shares over the previous 12 months has been high. In particular, since the announcement of the Initial Agreement with TPG on 13 March 2015 to 9 June 2015, the total value of TPG shares traded exceeds $1 billion.

Information disclosures

271 TPG is well researched and analysed by share broking firms and institutional investors. As at 8 May 2015, earnings forecasts for TPG were provided on Bloomberg from 12 securities / brokerage firms.

57 We note the share price also increased following the announcement of TPG's first half result on 24 March 2015.

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272 Significant information in relation to the operations of TPG has also been disclosed in its financial reports and ASX announcements. Further, TPG has an obligation under the ASX Listing Rules (subject to certain exemptions) to notify the ASX immediately of any information that it becomes aware of concerning TPG which a reasonable person would expect to have a material effect on the price or value of TPG shares.

Number of TPG shares to be issued as consideration

273 As set out in Section I, the number of shares to be issued by TPG as consideration under the Scheme is capped at approximately 27.5 million. If the aggregate of elections for the Share Alternative exceeds 27.5 million there will be a proportional scale back and iiNet shareholders will receive the balance of the consideration in cash.

274 As at 6 May 2015 TPG had 793.8 million ordinary shares on issue.

275 The maximum number of shares to be issued by TPG as consideration under the Scheme will therefore represent 3.3% of the enlarged capital base of TPG, as follows:

Share Alternative as a % of enlarged capital base

		Maximum election for Share Alternative million
Number of TPG shares held by existing shareholders[1]		793.8
Maximum number of shares to be issued pursuant to election for Share Alternative	(A)	27.5
Total shares outstanding in TPG post transaction[1]	(B)	821.3
iiNet shareholders' interest[2] in TPG post transaction.	(A) / (B)	3.3%

Note:
1 Ignoring performance rights.
2 Representing the collective interest of iiNet shareholders.

276 Based on the above, even if a large number of iiNet shareholders subsequently elect not to retain the shares in TPG received as consideration, we consider the potential for an oversupply of TPG shares which may have an adverse impact on the TPG share price in the short-term to be modest.

277 Furthermore, given the availability of the Cash Alternative under the Scheme, this modest risk is arguably mitigated, as iiNet shareholders seeking to realise their investment pursuant to the transaction could do so by acceptance of the Cash Alternative.

Dilution and synergies

278 To the extent that TPG is paying a control premium (above the listed market price) for iiNet there will be a dilution effect on the value of TPG shares subsequent to a successful conclusion of the Scheme. This is because the listed market price of TPG shares will reflect a portfolio rather than a controlling interest in the enlarged group. In the absence of synergies this dilution often results in a fall in the share price of the bidder.

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279 However, TPG has indicated that large synergies (particularly relative to the size of the standalone earnings of iiNet) are likely to be realised from combining the two businesses. In particular, TPG has reiterated that the proposed acquisition of iiNet under the Scheme remains immediately EPS accretive for TPG shareholders (prior to the amortisation of acquired intangibles)[58].

280 Given the size of expected synergies relative to the stand alone earnings of iiNet, in our opinion, it is reasonable to conclude that the value of expected synergies would exceed the dilutionary effect discussed above.

Conclusion

281 In summary, in assessing the value of the TPG shares offered as consideration under the Scheme we have had regard to:

(a) the recent trading range of TPG shares

(b) the maximum number of shares to be issued by TPG under the Scheme, which is low compared to the enlarged number of TPG shares on issue post completion of the Scheme

(c) the likely level of on-market trading in TPG shares subsequent to completion of the Scheme, having regard to factors including:

(i) the modest risk of a potential oversupply of TPG shares from those shareholders in iiNet that elect the Share Alternative and subsequently decide they do not wish to retain the TPG shares received as consideration

(ii) the dilution effect implicit in any control premium being paid by TPG

(iii) the level of synergies relative to the size of TPG post merger

(d) recent stock market conditions

(e) the earnings multiples implied by our adopted range (see below).

282 Based on the above we have assessed the realisable value of the TPG shares offered as consideration under the Scheme at between $8.75 and $9.25 per share.

Assessed value of Share Alternative

283 We have therefore assessed the value of the Share Alternative to be received by iiNet shareholders pursuant to the Scheme at the amounts below:

58 Source: TPG announcement dated 6 May 2015.

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Value of Share Alternative per iiNet share	Low $ per share	High $ per share
Assessed realisable value of TPG shares	8.75	9.25
Scheme ratio	0.969	0.969
Assessed value of Share Alternative	8.48	8.96
Special Dividend	0.75	0.75
Total Consideration under Share Alternative	9.23	9.71

284 As noted above, the maximum number of TPG shares to be issued as consideration is capped at approximately 27.5 million. If this cap is reached there will be a proportional scale back and iiNet shareholders will receive the balance of consideration in cash plus the $0.75 Special Dividend.

Other considerations

285 iiNet shareholders should note that the listed market price of TPG shares is subject to daily fluctuation. The price at which TPG shares may be sold may therefore be greater or less than our assessed realisable value of TPG shares of $8.75 to $9.25 per share.

286 iiNet shareholders should also note that any decision to hold TPG shares beyond the short-term is a separate investment decision. As it is not possible to accurately predict future share price movements, any decision to hold TPG shares should be made by shareholders having regard to their risk profile, liquidity preference, tax position and expectations as to value and future market conditions. As noted below, TPG shares are currently trading on high multiples compared to both those prevailing over recent years and sector comparables.

Implied EBITDA multiple

287 As stated above, we have cross-checked our assessment of the realisable value of TPG shares by considering the EBITDA multiple implied for the core business of the enlarged entity (post completion of the Scheme). For the purpose of determining an implied EBITDA multiple post completion of the Scheme we have assumed that the maximum number of TPG shares under the Share Alternative are issued as consideration, with the balance of the consideration being paid in cash.

288 On this basis the total cash consideration to be paid is as follows:

Cash consideration:	
iiNet shares on issue (millions)	164.6
iiNet shares held by TPG (millions)	10.2
iiNet shares subject to offer (millions)	154.4
Maximum number of iiNet shares which can accept the Share Alternative[1] (millions)	28.4
Assumed number of iiNet shares to be paid cash consideration (millions)	126.0
Cash offer per share	$8.80
Cash consideration ($m)	1,109

Note:

1 The maximum number of TPG shares that can be issued under the Share Alternative is approximately 27.5 million. Based on the exchange ratio this implies 28.4 million iiNet shares can be exchanged for TPG shares under the Scheme.

79

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Market capitalisation

289 The market capitalisation of TPG based on our assessed value of TPG shares post completion of the Scheme is shown below:

TPG – estimated market capitalisation of enlarged entity[1]		
	Low	High
Shares on issue post completion of Scheme (million)[2]	821.3	821.3
Adopted share price ($)[3]	8.75	9.25
Market capitalisation post completion of Scheme ($m)	7,187	7,597

Note:
1 Based on 793.8 million shares currently on issue, plus maximum number of TPG shares to be issued under the Share Alternative (approximately 27.5 million).
2 Ignoring TPG performance rights.
3 Assessed realisable value of TPG shares.

Net debt

290 Based upon the latest reported balance sheet for TPG, we estimate that the enlarged entity (post completion of the Scheme) will have the following net debt position, assuming iiNet shareholders elect to receive the maximum number of TPG shares offered as consideration:

TPG net debt – post TPG share offer	iiNet $m	TPG $m	Total $m
Net debt[1][2]	212	283	495
IRU liabilities[1]	161	-	161
Cost of Amcom shares acquired since 31 January 2015[3]	-	90	90
Sub-total	373	373	746
Cost of Special Dividend payable to iiNet shareholders[4]			123
Cash consideration			1,109
Implementation costs associated with synergy benefits[5]			35
Transaction costs			30
Total net debt (post TPG share offer)			**2,043**

Note:
1 iiNet as at 30 April 2015, TPG as at 31 January 2015 (latest publicly available).
2 TPG paid a 5.5 cent interim dividend on 19 May 2015, totalling $43.7 million. We have assumed that the cash generated by the business subsequent to 31 January 2015 offsets the cash cost of the interim dividend paid.
3 Source: TPG ASX announcements dated 1 May 2015 and 12 May 2015.
4 164.6 million shares at $0.75 per share.
5 In the absence of any public statements by TPG we have assumed that one-off implementation costs are equal to 50% of the annual synergy benefits expected from the acquisition of iiNet.

Investments

291 As at 22 May 2015, TPG also held other listed investments (excluding iiNet) with a listed market value of $155 million:

(a) 53.252 million shares in Amcom Telecommunications Limited (representing a 19.99% interest). The market value of these shares is around $130 million (based on a market price of $2.44 per share as at 22 May 2015);

(b) 56.6 million shares in Covata Limited (representing a 15.3% interest). The market value of these shares is around $25 million (based on a market price of $0.44 per share as at 22 May 2015).

Enterprise value

292 On this basis the enterprise value of TPG (post completion of the Scheme) is as follows:

TPG – estimated enterprise value post completion of the Scheme	Low $m	High $m
Market capitalisation post completion of Scheme	7,187	7,597
Add net debt	2,043	2,043
Less: market value of other listed investments	(155)	(155)
Enterprise value (post completion of Scheme)	9,075	9,485

Implied EBITDA multiple

293 For the purpose of calculating the EBITDA multiple implied by the above enterprise value we have adopted normalised EBITDA of $735 million. This reflects:

(a) normalised EBITDA of $482 million for TPG on a standalone basis (consistent with the profit guidance provided by TPG in its half yearly report dated 24 March 2015[59]); less

(b) dividend income received from listed investments and other accounting adjustments[60] of around $14 million; plus

(c) the level of EBITDA for iiNet adopted for valuation purposes in Section VII of $197 million; plus

(d) $70 million in estimated synergy benefits (consistent with the range of $70 million to $80 million adopted in broker reports).

294 On this basis, the EBITDA multiple incorporating the benefit of expected synergies (which are expected to be achieved in full over three years) is as follows:

TPG – implied EBITDA multiple post completion of the Scheme	Low $m	High $m
Enterprise value (post completion of Scheme)	9,075	9,485
Normalised EBITDA (including expected synergies)	735	735
Implied EBITDA multiple (post completion of Scheme)	12.3	12.9

59 TPG's management forecast is also consistent with the median of the 12 broker forecasts sourced from Bloomberg on 8 May 2015.

60 As noted in the Scheme Booklet, accounting policy differences between iiNet and TPG (primarily relating to the treatment of IRU capacity acquired by iiNet from TPG) will result in a small adjustment to reported EBITDA on a combined basis.

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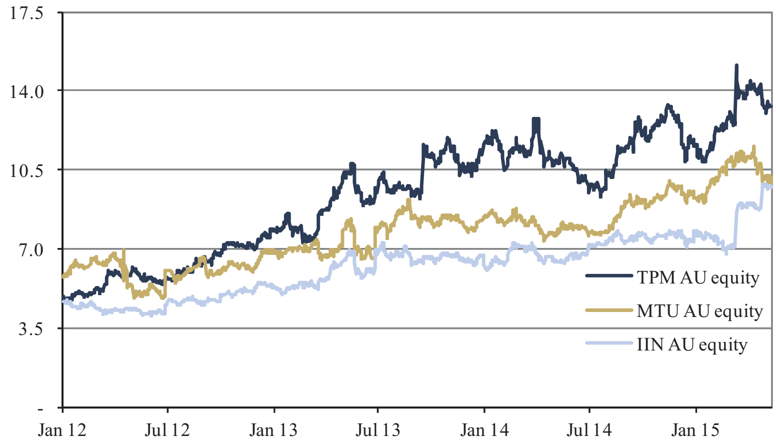
295 TPG has consistently traded at a significant premium in terms of forward EBITDA multiples to iiNet and M2 Group (as shown below). Market analysts (with whom we concur) have attributed this premium to reflect (inter alia) TPG's significant ownership of its own telecommunications infrastructure.

One year forward EBITDA multiples for TPG, iiNet and M2 Group



Source: Bloomberg

296 The implied EBITDA multiple calculated above is consistent with the forward EBITDA multiples implied by recent trading in TPG shares. Consequently, we consider our assessed range of realisable values for TPG shares to be reasonable and appropriate.

297 However, we also note that the forward EBITDA multiples at which TPG, M2 Group and iiNet shares trade have increased appreciably over the last three years. We have interpreted this increase to reflect (inter alia) growth in the telecommunications sector generally and expectations of on-going industry consolidation. Given the nature of the industry in which these companies operate, the extent to which these prevailing multiples can be sustained is inherently uncertain. Accordingly, those iiNet shareholders who elect to receive the Share Alternative should be aware that the current prevailing multiples may reduce should industry and/or market conditions deteriorate (which, other things being equal, would lower the price at which TPG shares trade).

298 In contrast, the Cash Alternative of $9.55 per share[61] provides all iiNet shareholders with a certain cash sum for their iiNet shares. The Cash Alternative is therefore likely to be particularly attractive to those iiNet shareholders with a shorter term investment horizon.

61 Including the Special Dividend.

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IX M2 Group Proposal

Background

299 As set out in Section I of our report, in addition to the agreed proposal from TPG pursuant to the Scheme, iiNet also received a competing proposal from M2 Group (the M2 Group Proposal) which lapsed on 6 May 2015[62].

300 Pursuant to the M2 Group Proposal, iiNet shareholders were to receive:

(i) 0.803 M2 Group shares for each share in iiNet

(ii) a special dividend of $0.75 per iiNet share.

301 The iiNet Directors' recommendation of the Scheme is subject to an independent expert concluding that the Scheme is in the best interests of iiNet shareholders, in the absence of a superior proposal. In considering our opinion on the Scheme we have therefore had regard to the M2 Group Proposal.

Valuation methodology

302 With the exception of the special dividend, consideration payable to iiNet shareholders under the M2 Group Proposal comprised shares in M2 Group. As stated in Section VI it is customary in transactions where scrip is offered as consideration to rely upon the listed market price of the bidder's shares[63] (in this case M2 Group) as the reference point for estimating the realisable value of the consideration offered. This is principally because:

(a) the listed market prices of M2 Group shares are likely to represent a reasonable proxy for the amount that iiNet shareholders could expect to realise if they sold any M2 Group shares received as consideration either immediately, or in the short-term

(b) any decision to continue to hold M2 Group shares beyond the immediate to short-term is a separate investment decision which should be made by shareholders having regard to their risk profile, liquidity preference, tax position and expectations as to value and future market conditions. It is also not possible to accurately predict future share price movements.

303 Accordingly, in our opinion, the recent market prices of M2 Group shares are the appropriate reference point for estimating the value of the share consideration component under the M2 Group Proposal. In doing so, we have also considered the depth of the market for those securities and the volatility of the share price.

304 We have also cross-checked the reasonableness of our assessed value of M2 Group shares by reference to implied earnings multiples.

62 As iiNet and M2 did not enter into a scheme implementation deed by 5.00pm (AEST) on Wednesday 6 May 2015, M2's competing proposal was withdrawn.

63 Provided there is sufficient liquidity in the bidder's shares.

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Recent M2 Group share prices

305 The historical share prices for M2 Group are set out in Appendix F. More recent trading in M2 Group shares is shown below:

M2 Group – recent share price history					
Time periods up to and including 9 June 2015	High $	Low $	VWAP $	Number traded (m)	Value traded ($m)
Since announcement of Call Plus acquisition(1)(2)	11.79	10.00	11.03	43.1	475.6
Since announcement of M2 Group Proposal(3)	11.60	10.00	10.92	31.8	346.8

Note:
1 13 April 2015 to 9 June 2015.
2 It should be noted that the Call Plus Group acquisition has not yet completed.
3 27 April 2015 to 9 June 2015.

306 On 13 April 2015, M2 Group announced that it had entered into binding agreements to acquire 100% of both Call Plus Group and a related entity, 2Talk Limited (collectively referred to as "Call Plus") for NZ$250 million. Call Plus is New Zealand's third largest internet service provider.

307 M2 Group management stated that they expected the Call Plus business to contribute NZ$45 million in EBITDA in FY16 and result in underlying FY16 EPS accretion of approximately 15% for M2 Group.

308 Given the significance of the acquisition, we have therefore considered the listed market price of M2 Group shares post the announcement of the Call Plus acquisition.

Share trading restrictions and liquidity

309 There are no significant restrictions on trading in M2 Group which would prevent sufficient trading (on a day-to-day basis) to produce an unbiased share price.

310 Further, in our view, the liquidity in M2 Group shares over the above periods has been relatively high, with over $475 million of M2 Group shares traded since the date of the Call Plus acquisition announcement.

Information disclosures

311 M2 Group is also well researched and analysed by share broking firms and institutional investors. As at 8 May 2015, earnings forecasts for M2 Group were provided on Bloomberg by 14 securities / brokerage firms.

312 Significant information in relation to the operations of M2 Group has been disclosed in its financial reports and ASX announcements. Further, M2 Group has an obligation under the ASX Listing Rules (subject to certain exemptions) to notify the ASX immediately of any information that it becomes aware of concerning M2 Group which a reasonable person would expect to have a material effect on the price or value of M2 Group shares.

Number of M2 Group shares to be issued as consideration

313 As at 8 May 2015, M2 Group had 183.1 million ordinary shares on issue[64].

314 The number of shares to be issued by M2 Group as consideration under the M2 Group Proposal would therefore have represented 41.9% of the enlarged capital base of M2 Group, as follows:

M2 Group shares on issue pre and post offer	Number of shares (millions)
iiNet shares on issue	164.6
Exchange ratio	0.803
M2 Group shares to be issued as consideration	132.2
M2 Group shares on issue prior to transaction	183.1
M2 Group shares on issue post transaction	315.3
Shares to be issued / M2 Group shares on issue prior to M2 Group Proposal	72.2%
Shares to be issued / M2 Group shares on issue post transaction	41.9%

315 The M2 Group Proposal did not include a cash alternative. Accordingly, if the M2 Group Proposal was implemented, those iiNet shareholders seeking to realise their investment would needed to have sold their M2 Group shares received as consideration.

316 Given the large number of M2 Group shares to be issued to iiNet shareholders, in our opinion, there may therefore have been an oversupply of M2 Group shares following completion of the M2 Group Proposal if a large number of iiNet shareholders elected to sell the M2 Group shares received. This effective stock overhang may have had an adverse impact on the M2 Group share price in the short term.

Dilution and synergies

317 To the extent that M2 Group paid a control premium (above the listed market price) for iiNet there would be a dilution effect on the value of M2 Group shares subsequent to a successful conclusion of the M2 Group Proposal. This is because the listed market price of M2 Group shares will reflect a portfolio rather than a controlling interest in the enlarged group. In the absence of synergies this dilution often results in a fall in the share price of the bidder.

318 However, M2 Group has indicated that large synergies (particularly relative to the size of the standalone earnings of iiNet) are likely to be realised from combining the two businesses. In particular, in presenting its proposal M2 Group stated that it expected to achieve annual savings of at least $60 million pre-tax, to be achieved over a three year period.

319 Given the size of expected synergies relative to the standalone earnings of iiNet, in our opinion, it is reasonable to conclude that the value of expected synergies would offset the dilutionary effect discussed above.

64 In addition, M2 has approximately 0.7 million employee options on issue.

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Conclusion

320 In summary, in assessing the value of the M2 Group shares offered as consideration under the M2 Group Proposal we have had regard to:

(a) the recent trading range of M2 Group shares

(b) the large number of shares to be issued by M2 Group under the M2 Group Proposal compared to the enlarged number of M2 Group shares on issue post completion of the proposed transaction

(c) the likely level of on-market trading in M2 Group shares subsequent to completion of the proposed transaction, having regard to factors including:

(i) any potential oversupply of M2 Group shares from those shareholders in iiNet not wishing to retain the M2 Group shares received as consideration

(ii) the dilution effect implicit in any control premium being paid by M2 Group

(iii) the level of synergies relative to the size of M2 Group post merger

(d) recent stock market conditions

(e) the earnings multiples implied by our adopted range.

321 Based on the above we have assessed the realisable value of the M2 Group shares offered as consideration under the M2 Group Proposal at between $10.50 and $11.00 per share.

322 Our assessed value range of M2 Group shares reflects in particular the significant number of new shares to be issued pursuant to the M2 Group Proposal, together with the absence of a cash alternative. We would expect the downward pressure effect of these factors on the M2 Group share price to reduce over time. However, as noted above, any decision to continue to hold M2 Group shares beyond the immediate to short-term is a separate investment decision which should be made by shareholders having regard to their risk profile, liquidity preference, tax position and expectations as to value and future market conditions.

Implied EBITDA multiple

323 We have cross-checked our assessment of the realisable value of M2 Group shares by considering the EBITDA multiple implied for the core business of the enlarged entity (post completion of the M2 Group Proposal).

Market capitalisation

324 The market capitalisation of M2 Group based on our assessed value of M2 Group shares post assumed completion of the M2 Group Proposal is shown below:

M2 Group – estimated market capitalisation of enlarged entity	Low	High
Shares on issue post assumed completion of M2 Group Proposal (million)	315.3	315.3
Adopted share price ($)[1]	$10.50	$11.00
Market capitalisation post assumed completion of M2 Group Proposal ($m)	3,310	3,468

Note:
1 Value of M2 Group share consideration per share.

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Net debt

325 Based upon the latest reported balance sheet for M2 Group, we estimate that the enlarged entity (post assumed completion of the M2 Group Proposal) would have the following net debt:

M2 Group – estimated net debt post assumed completion of the M2 Group Proposal	iiNet[1] $m	M2 Group[2] $m	Total $m
Net debt[1][2]	212	231	443
IRU liabilities[1]	161	-	161
Cost of Call Plus acquisition[3]	-	245	245
Sub-total	373	476	849
Cost of Special Dividend payable to iiNet shareholders[4]			123
Implementation costs associated with synergy benefits[5]			30
Break fee and transaction costs[6]			50
Total net debt (post M2 Group Proposal)			**1,052**

Note:

1 iiNet as at 30 April 2015, M2 Group as at 31 December 2014 (latest publicly available).
2 M2 Group paid a 15 cent interim dividend on 16 April 2015, totalling $27.3 million (of which $7.6 million was reinvested pursuant to the dividend reinvestment plan (DRP)). We have assumed that the cash generated by the business subsequent to 31 December 2014 offsets the cash cost of the interim dividend paid.
3 Source: M2 Group investor presentation dated 8 May 2015.
4 164.6 million shares at $0.75 per share.
5 Source: M2 Group ASX announcement dated 27 April 2015 (page 3).
6 This represents the break fee payable to TPG in the event the TPG Scheme does not proceed, and other transaction costs. In a conference call with analysts on 27 April 2015, the CEO of M2 Group indicated that total transaction costs would be greater than $50 million.

Enterprise value

326 On this basis the enterprise value of M2 Group (post assumed completion of the M2 Group Proposal) is as follows:

M2 Group– estimated enterprise value post assumed completion of the M2 Group Proposal	Low $m	High $m
Market capitalisation post assumed completion of M2 Group Proposal	3,310	3,468
Plus net debt	1,052	1,052
Enterprise value (post assumed completion of M2 Group Proposal)	4,362	4,520

Implied EBITDA multiple

327 For the purpose of calculating the EBITDA multiple implied by the above enterprise value we have adopted normalised EBITDA of $476 million. This reflects:

87

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(a) normalised EBITDA of $177 million for M2 Group on a standalone basis (based on the average of 14 broker forecasts for the 12 months ending 30 June 2015[65]); plus

(b) the expected EBITDA contribution from the Call Plus business in FY16 of A$42 million (being NZ$45 million converted at an exchange rate of A$1.0 = NZ$1.08[66]); plus

(c) the level of EBITDA for iiNet adopted for valuation purposes in Section VII of $197 million; plus

(d) $60 million being the level of annual cost synergies identified by M2 Group (as discussed above).

328 On this basis, the implied EBITDA multiple incorporating the benefit of expected synergies (which were expected by M2 Group to be achieved over 3 years) is as follows:

M2 Group – implied EBITDA multiple post assumed completion of the M2 Group Proposal

	Low $m	High $m
Enterprise value (post assumed completion of M2 Group Proposal)	4,362	4,520
Normalised EBITDA (including expected synergies)	476	476
Implied EBITDA multiple (post assumed completion of M2 Group Proposal)	9.2	9.5

329 The implied EBITDA multiple calculated above is consistent with the forward EBITDA multiples implied by recent trading in M2 Group shares. Consequently, we consider our assessed range of realisable values for M2 Group shares to be reasonable and appropriate.

330 However, we note that the forward EBITDA multiples at which M2 Group (and other ASX listed telecommunications companies) shares trade have increased appreciably over the last three years, as shown below:

65 Broker forecasts as at 8 May 2015.

66 Exchange rate on 15 May 2015.

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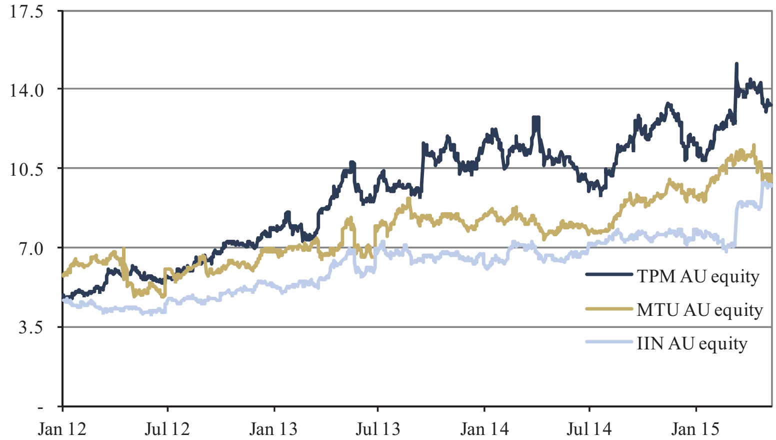
One year forward EBITDA multiples for TPG, iiNet and M2 Group



Source: Bloomberg

331 As noted above, we have interpreted this increase to reflect (inter alia) growth in the telecommunications sector generally and expectations of on-going industry consolidation. Given the nature of the industry in which these companies operate, the extent to which these prevailing multiples can be sustained is inherently uncertain. Accordingly, there is a risk that the current prevailing multiples may reduce should industry and/or market conditions deteriorate (which, other things being equal, would lower the price at which M2 Group shares trade).

Total value of M2 Group Proposal

332 Under the terms of the M2 Group Proposal iiNet shareholders would be entitled to receive the share consideration component, together with the Special Dividend of $0.75 per share.

333 As noted above we have assessed the realisable value of the M2 Group shares offered as consideration under the M2 Group Proposal at between $10.50 and $11.00 per share.

334 Accordingly, we have assessed the total value of the consideration to be received by iiNet shareholders pursuant to the M2 Group Proposal at the amounts set out below:

Value of total consideration per iiNet share

	Low $ per share	High $ per share
Assessed realisable value of M2 Group shares	10.50	11.00
Share consideration ratio	0.803	0.803
Assessed value of share consideration component	8.43	8.83
Special dividend to be paid by iiNet pursuant to the M2 Group Proposal	0.75	0.75
Total value of M2 Group Proposal	9.18	9.58

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Note:
1 Due to the benefit of Australian franking credits attached to the proposed special dividend, the total value of the M2 Group Proposal to some Australian resident shareholders in iiNet may be greater than $9.18 to $9.58 per share (on a pre-tax basis).

Conclusion on M2 Group Proposal

335 As set out in Section X of our report, we have assessed the value of the Total Consideration to be received by iiNet shareholders pursuant to the Scheme with TPG at $9.55 per share for those shareholders electing the Cash Alternative and $9.23 to $9.71 per share for those shareholders electing the Share Alternative.

336 Our comparative assessment of the equivalent consideration to iiNet shareholders under the Scheme and the M2 Group Proposal is therefore as follows:

Comparative assessment of proposals

	Value per iiNet share Low $	High $
Total Consideration under Scheme with TPG:		
Cash Alternative	9.55	9.55
Share Alternative(1)	9.23	9.71
M2 Group Proposal	9.18	9.58

Note:
1 The maximum number of TPG shares to be issued as consideration is capped at approximately 27.5 million. If this cap is reached there will be a proportional scale back and iiNet shareholders will receive the balance of consideration in cash plus the $0.75 Special Dividend.

337 As noted, at the date of our report, there is no material difference in our assessed value of the consideration under either of the alternatives under the Scheme with TPG and the M2 Group Proposal. These comparative positions may change prior to the date of the Scheme meeting dependent on movements in the share prices of TPG and M2 Group in the intervening period[67].

338 However, only the Scheme with TPG provides iiNet shareholders with both a cash and share alternative (subject to the indicated cap under the Share Alternative). The Cash Alternative from TPG provides all iiNet shareholders with a certain cash sum of $9.55 per share[68] for their iiNet shares. In contrast the M2 Group Proposal comprises only scrip consideration.

339 Consequently, on a risk-adjusted basis, we have concluded that the proposed Scheme with TPG is a superior proposal to the M2 Group Proposal.

67 We note that under the Scheme with TPG, iiNet shareholders will need to make an election between the Cash Alternative and the Share Alternative prior to the Scheme meeting.

68 Including the Special Dividend.

X Evaluation of the Scheme

Summary of opinion

340 In our opinion, the Scheme is fair and reasonable and in the best interests of iiNet shareholders in the absence of a superior proposal. We have formed this opinion for the reasons set out below.

Value of iiNet shares

341 As set out in Section VIII we have assessed the value of iiNet between $8.90 and $9.75 per share. This valuation range includes approximately $1.04 to $1.46 per share for the value of expected synergy benefits[69] on the basis that:

(a) significant synergy benefits from an acquisition of iiNet are likely to be available to other listed telecommunications companies including TPG, M2 Group and Singapore Telecommunications;

(b) in a competitive bidding environment it is reasonable to expect that a proportion of the expected synergies available to a number of purchasers will be paid away to the target company shareholders.

Cash Alternative

342 If iiNet shareholders approve the Scheme and all conditions are satisfied, then iiNet shareholders who elect to receive the Cash Alternative will receive $8.80 cash for each iiNet share held.

343 Accordingly, for those iiNet shareholders that elect the Cash Alternative, we have assessed the value of the Total Consideration to be received by iiNet shareholders at $9.55 per iiNet share as set out below:

Value of Total Consideration per iiNet share – Cash Alternative

	$ per share
Cash Alternative	8.80
Special Dividend to be paid by iiNet pursuant to the Scheme	0.75
Value of Total Consideration	9.55

Note:
1 Due to the benefit of Australian franking credits attached to the proposed Special Dividend, the value of the Total Consideration to some Australian resident shareholders in iiNet may be greater than $9.55 per share (on a pre-tax basis).

Share Alternative

344 If iiNet shareholders approve the Scheme and all conditions are satisfied, then iiNet shareholders who elect to receive the Share Alternative will receive 0.969 shares in TPG for each iiNet share held. The value of the Share Alternative is inherently dependent on the prevailing TPG share price on completion of the Scheme.

69 Based on our DCF valuation of a share of the synergies likely to be available to a number of industry participants.

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345 In assessing the value of TPG shares for the purpose of our report we have had regard to:

(a) the recent trading range of TPG shares

(b) the maximum number of shares to be issued by TPG under the Scheme, which is low compared to the enlarged number of TPG shares on issue post completion of the Scheme

(c) the likely level of on-market trading in TPG shares subsequent to implementation of the Scheme

(d) recent stock market conditions; and

(e) the earnings multiples implied by our adopted range.

346 Since the announcement of the revised Scheme on 6 May 2015 up until 9 June 2015 the TPG share price has ranged between $8.57 and $9.26 per share, and the VWAP of TPG shares during this period was $8.93. Based on the above we have assessed the realisable value of the TPG shares offered as the Share Alternative at between $8.75 and $9.25 per share.

347 Accordingly, the value of the Total Consideration under the Share Alternative is as follows:

Value of Total Consideration per iiNet share – Share Alternative	Low $ per share	High $ per share
Assessed realisable value of TPG shares	8.75	9.25
Scheme ratio	0.969	0.969
Assessed value of Share Alternative	8.48	8.96
Special Dividend to be paid by iiNet pursuant to the Scheme	0.75	0.75
Value of Total Consideration	9.23	9.71

Note:
1 Due to the benefit of Australian franking credits attached to the proposed Special Dividend, the value of the Total Consideration to some Australian resident shareholders in iiNet may be greater than $9.23 to $9.71 per share (on a pre-tax basis).

348 As noted above, the maximum number of TPG shares to be issued as consideration is capped at approximately 27.5 million. If this cap is reached there will be a proportional scale back and iiNet shareholders will receive the balance of consideration in cash at the rate of $8.80 per share plus the $0.75 Special Dividend. Accordingly, iiNet shareholders should be aware that they may not receive TPG shares for all their iiNet shares under the Share Alternative.

Other considerations

349 iiNet shareholders should note that the listed market price of TPG shares is subject to daily fluctuation. The price at which TPG shares may be sold may therefore be greater or less than our assessed realisable value of TPG shares of $8.75 to $9.25 per share.

350 iiNet shareholders should also note that any decision to hold TPG shares beyond the short-term is a separate investment decision. As it is not possible to accurately predict future share price movements, any decision to hold TPG shares should be made by shareholders having regard to their risk profile, liquidity preference, tax position and expectations as to value and

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future market conditions. iiNet shareholders should therefore seek independent professional advice specific to their individual circumstances if required.

Fair and reasonable opinion

351 Pursuant to 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.

352 In the case of iiNet, the value of the consideration to be received by iiNet shareholders is dependent on (and may vary according to) whether shareholders elect the Cash Alternative or the Share Alternative. We have therefore provided a comparison for each of these alternatives with our assessed value of iiNet shares.

353 The relevant comparison for iiNet shareholders electing the Cash Alternative is shown below:

Position of iiNet shareholders – Cash Alternative	Low $ per share	High $ per share	Mid-point $ per share
Value of Total Consideration	9.55	9.55	9.55
Value of 100% of iiNet	8.90	9.75	9.33
Extent to which the Total Consideration exceeds (is less than) the value of iiNet	0.65	(0.20)	0.22

354 As the Total Consideration to be received by iiNet shareholders is consistent with our assessed valuation range for iiNet shares on a 100% controlling interest basis, in our opinion, the Total Consideration is fair to those iiNet shareholders electing the Cash Alternative when assessed based on the guidelines set out in RG 111.

355 The relevant comparison for iiNet shareholders electing the Share Alternative is shown below:

Position of iiNet shareholders – Share Alternative	Low $ per share	High $ per share	Mid-point $ per share
Value of Total Consideration	9.23	9.71	9.47
Value of 100% of iiNet	8.90	9.75	9.33
Extent to which the Total Consideration exceeds (is less than) the value of iiNet	0.33	(0.04)	0.14

356 As the value of the Total Consideration under the Share Alternative is consistent with our assessed valuation range for iiNet shares on a 100% controlling interest basis, in our opinion, the Total Consideration is fair to those iiNet shareholders electing the Share Alternative when assessed based on the guidelines set out in RG 111.

357 Pursuant to RG 111, a transaction is reasonable if it is fair. Further, in our opinion, if the Scheme is "reasonable" it must also be "in the best interests" of shareholders, in the absence of a superior proposal.

358 Consequently, in our opinion, the Scheme is also "reasonable" and "in the best interests" of iiNet shareholders in the absence of a superior proposal.

Assessment of reasonableness

359 In assessing whether the Scheme is reasonable and in the best interests of iiNet shareholders LEA has also considered, in particular:

(a) the extent to which a control premium is being paid to iiNet shareholders

(b) the extent to which iiNet shareholders are being paid a share of any synergies likely to be generated pursuant to the potential transaction

(c) the listed market price of iiNet shares, both prior to and subsequent to the announcement of the proposed Scheme

(d) the likely market price of iiNet shares if the proposed Scheme is not approved

(e) the value of iiNet to an alternative offeror and the likelihood of a higher alternative offer being made for iiNet prior to the date of the Scheme meeting

(f) the advantages and disadvantages of the Scheme from the perspective of iiNet shareholders

(g) other qualitative and strategic issues associated with the Scheme.

360 These issues are discussed in detail below.

Extent to which a control premium is being paid

361 Research undertaken by LEA indicates that average premiums paid in successful takeovers in Australia generally range between 30% and 35% above the listed market price of the target company's shares[70] three months prior to the announcement of the bid (assuming no speculation of the takeover is reflected in the pre-bid price). This premium range reflects the fact that:

(a) the owner of 100% of the shares in a company obtains access to all the free cash flows of the company being acquired, which it would otherwise be unable to do as a minority shareholder

(b) the controlling shareholder can direct the disposal of surplus assets and the redeployment of the proceeds

(c) a controlling shareholder can control the appointment of directors, management policy and the strategic direction of the company

(d) a controlling shareholder is often able to increase the value of the entity being acquired through synergies and/or rationalisation savings.

362 In calculating the premium implied by the Total Consideration we have adopted the Cash Alternative[71]. As noted above the Total Consideration under the Cash Alternative is $9.55 per share. We have had reference to the market prices of iiNet shares (as traded on the ASX) for

70 After adjusting the pre-bid market prices for the movement in share market indices between the date of the pre-bid market price and the announcement of the takeover.

71 There is no election limit under the Cash Alternative. We have assumed that iiNet shareholders electing the Share Alternative will do so on the basis that they consider this alternative to provide a higher level of consideration.

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periods up to and including 12 March 2015 (being the trading day prior to the announcement by iiNet and TPG that the Initial Agreement had been entered into).

363 We note that iiNet shareholders received an interim dividend of $0.105 per share on 30 March 2015 and that the share prices prior to the ex-date of 12 March 2015 (including the periods over which we have measured the premiums implied by the Total Consideration) traded with an entitlement to this dividend.

364 Accordingly, to ensure the implied premium is calculated on an appropriate basis we have therefore adopted a total consideration of $9.655 per share for implied offer premium calculation purposes, determined as follows:

Total consideration for offer premium calculations(1)	$
Total Consideration(2)	9.550
iiNet's FY15 interim dividend	0.105
Total value to iiNet shareholders	9.655

Note:
1 In our opinion, it is more appropriate to calculate the implied offer premium using the pre-announcement market price without adjustment for the interim dividend, and compare this price with the total value received by shareholders (being the Total Consideration and the interim dividend paid post the initial announcement of the Scheme).
2 Assuming election of the Cash Alternative and excluding any separate benefit from franking credits.

365 The implied offer premium relative to iiNet share prices up to 12 March 2015 is shown below:

Implied offer premium relative to recent iiNet share prices	iiNet share price $	Implied offer premium %
1 month VWAP to 12 March 2015	6.53	47.9
3 months VWAP to 12 March 2015	6.91	39.7

366 In considering the implied premiums we note that prior to share market trading on 19 February 2015, iiNet announced its results for 1H15. The reported trading performance was below the prior expectations of share market analysts and led to a consequent decline in the iiNet share price to a low of $6.12 per share[72].

367 In the circumstances of iiNet we have therefore also had regard to the VWAP of iiNet shares for the period 19 February 2015 to 12 March 2015 and the implied offer premium, as shown below:

72 The iiNet share price subsequently recovered to a close of $6.81 per share (on an ex-dividend basis) on 12 March 2015, the last trading day prior to the announcement by iiNet and TPG that they had entered into the initial Agreement.

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Implied offer premium based on trading post 1H15 results announcement	iiNet share price $	Implied offer premium %
VWAP 19 February 2015 to 12 March 2015	6.47	49.2

368 Having regard to the above, in particular the more recent trading in iiNet shares prior to the announcement of the Initial Agreement, in our opinion, the Total Consideration provides iiNet shareholders with a significant premium, and reflects an implied premium which exceeds observed premiums paid in successful takeovers generally.

Extent to which iiNet shareholders are being paid a share of synergies

369 In Section VII we have estimated the level of synergies potentially available to purchasers of iiNet, including TPG. While the nature and resultant value of synergy benefits available to potential purchasers will vary, in our view the level of potential benefits available to other acquirers is significant. Accordingly, when determining the value of 100% of the shares in iiNet we have included a proportion of the value of these potential synergies in our assessed value.

370 As the Scheme Consideration is consistent with our assessed value of iiNet shares, and implies a control premium which exceeds observed premiums paid in successful takeovers generally, we have concluded that the Scheme Consideration includes an appropriate share of the value of potential synergies available to TPG.

Recent share prices subsequent to the announcement of the Scheme

371 Shareholders should note that iiNet shares have traded on the ASX in the range of $9.56 to $9.99 per share in the period since the Scheme was announced on 6 May 2015 up to 9 June 2015. The share market trading during this period has been at share prices higher than the value of the Total Consideration under the Cash Alternative of $9.55 per iiNet share.

372 We have interpreted this share market trading to reflect factors including:

(a) the view of certain investors that given the competing interests for iiNet tabled to date, together with the potential strategic value of iiNet to other participants in the telecommunications sector, there remains the prospect of a superior proposal to the Scheme

(b) the transfer of share ownership in iiNet to those shareholders able to benefit from (and therefore willing to pay a premium for) the franking credits likely to attach to the Special Dividend that may potentially be paid (subject to iiNet shareholder approval of the Scheme)[73].

373 iiNet shareholders considering selling their iiNet shares on the ASX to take advantage of such higher share prices will need to consider brokerage costs and should note that:

73 We note however that any benefit from receipt of the franking credits is unlikely to be realised before the FY16 tax year.

(a) the iiNet share price on the ASX is subject to daily fluctuation

(b) iiNet shareholders who sell their iiNet shares on the ASX will not obtain the benefit of any superior proposal should this eventuate.

Likely price of iiNet shares if the Scheme is not implemented

374 In our opinion, if the Scheme is not approved, it is likely (at least in the immediate short-term) that iiNet shares will trade relative to (and probably at a slight discount to) the M2 Group Proposal. We are of this opinion because there continues to be a compelling reason for M2 Group to acquire iiNet (notwithstanding that the M2 Group Proposal tabled on 27 April 2015 has lapsed).

Likelihood of a superior proposal

375 As previously noted, in addition to the Scheme with TPG, M2 Group tabled an alternate proposal to acquire all the ordinary shares in iiNet. We have considered the M2 Group Proposal in Section IX of our report and have concluded that the Scheme with TPG is a superior proposal to the M2 Group Proposal.

376 Given that the synergies available to potential buyers from an acquisition of iiNet are significant it is possible that an alternative bidder could emerge.

377 However, at the date of this report no superior proposal has been received. It is therefore uncertain as to whether:

(a) M2 Group will put forward a further proposal to acquire all the ordinary shares in iiNet

(b) an alternative bidder will emerge

(c) any improved proposal (from M2 Group or another party) would be a superior proposal to that with TPG under the Scheme

(d) in the event that a proposal assessed to be superior to that proposed with TPG under the Scheme was tabled, the extent to which (if any) TPG would further improve its current proposal.

Assessment of the Scheme

378 We summarise below the likely advantages and disadvantages of the Scheme for iiNet shareholders.

Advantages

379 The Scheme has the following benefits for iiNet shareholders:

(a) the Total Consideration under both the Cash Alternative and the Share Alternative is consistent with our assessed value range of iiNet shares on a 100% controlling interest basis (which was determined after including a value for synergy benefits available to potential acquirers of $1.04 to $1.46 per share[74])

[74] Based on our DCF assessment.

(b) the Total Consideration being offered to iiNet shareholders therefore includes a significant share of the value of synergies expected to arise from the acquisition of iiNet by TPG

(c) the Total Consideration represents a significant premium to the recent market prices of iiNet shares prior to the initial announcement of the proposed transaction on 13 March 2015, and reflects an implied premium which exceeds observed premiums paid in successful takeovers generally

(d) the potential Special Dividend allows the release of franking credits to iiNet Australian shareholders, thereby increasing the potential value to some shareholders.

Disadvantages

380 If the Scheme is implemented iiNet shareholders will no longer hold a direct interest in iiNet. In the event that future value is created by iiNet as a result of on-going operations over and above that reflected in our assessed valuation of the company:

(a) those iiNet shareholders who elect to receive the Cash Alternative will therefore not participate in such future value

(b) those iiNet shareholders that elect to receive the Share Alternative may retain a limited exposure to such future value due to the cap on the number of TPG shares to be issued as consideration under the Share Alternative.

Conclusion

381 Given the above analysis, we consider that the acquisition of iiNet shares by TPG under the Scheme is fair and reasonable and in the best interests of iiNet shareholders in the absence of a superior proposal.

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Appendix A

Financial Services Guide

Lonergan Edwards & Associates Limited

1 Lonergan Edwards & Associates Limited (ABN 53 095 445 560) (LEA) is a specialist valuation firm which provides valuation advice, valuation reports and independent expert's reports (IER) in relation to takeovers and mergers, commercial litigation, tax and stamp duty matters, assessments of economic loss, commercial and regulatory disputes.

2 LEA holds Australian Financial Services Licence No. 246532.

Financial Services Guide

3 The *Corporations Act 2001 (Cth)* (Corporations Act) authorises LEA to provide this Financial Services Guide (FSG) in connection with its preparation of an IER to accompany the Scheme Booklet to be sent to iiNet shareholders in connection with the Scheme.

4 This FSG is designed to assist retail clients in their use of any general financial product advice contained in the IER. This FSG contains information about LEA generally, the financial services we are licensed to provide, the remuneration we may receive in connection with the preparation of the IER, and if complaints against us ever arise how they will be dealt with.

Financial services we are licensed to provide

5 Our Australian Financial Services Licence allows us to provide a broad range of services to retail and wholesale clients, including providing financial product advice in relation to various financial products such as securities, derivatives, interests in managed investment schemes, superannuation products, debentures, stocks and bonds.

General financial product advice

6 The IER contains only general financial product advice. It was prepared without taking into account your personal objectives, financial situation or needs.

7 You should consider your own objectives, financial situation and needs when assessing the suitability of the IER to your situation. You may wish to obtain personal financial product advice from the holder of an Australian Financial Services Licence to assist you in this assessment.

Fees, commissions and other benefits we may receive

8 LEA charges fees to produce reports, including this IER. These fees are negotiated and agreed with the entity who engages LEA to provide a report. Fees are charged on an hourly basis or as a fixed amount depending on the terms of the agreement with the entity who engages us. In the preparation of this IER, LEA is entitled to receive a fee estimated at $260,000 plus GST.

9 Neither LEA nor its directors and officers receive any commissions or other benefits, except for the fees for services referred to above.

Appendix A

10 All of our employees receive a salary. Our employees are eligible for bonuses based on overall performance and the firm's profitability, and do not receive any commissions or other benefits arising directly from services provided to our clients. The remuneration paid to our directors reflects their individual contribution to the company and covers all aspects of performance. Our directors do not receive any commissions or other benefits arising directly from services provided to our clients.

11 We do not pay commissions or provide other benefits to other parties for referring prospective clients to us.

Complaints

12 If you have a complaint, please raise it with us first, using the contact details listed below. We will endeavour to satisfactorily resolve your complaint in a timely manner.

13 If we are not able to resolve your complaint to your satisfaction within 45 days of your written notification, you are entitled to have your matter referred to the Financial Ombudsman Services Limited (FOS), an external complaints resolution service. You will not be charged for using the FOS service.

Contact details

14 LEA can be contacted by sending a letter to the following address:

Level 7
64 Castlereagh Street
Sydney NSW 2000
(or GPO Box 1640, Sydney NSW 2001)

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Appendix B

Qualifications, declarations and consents

Qualifications

1 LEA is a licensed investment adviser under the Corporations Act. LEA's authorised representatives have extensive experience in the field of corporate finance, particularly in relation to the valuation of shares and businesses and have prepared hundreds of IERs.

2 This report was prepared by Mr Craig Edwards and Ms Julie Planinic, who are each authorised representatives of LEA. Mr Edwards and Ms Planinic each have over 20 years experience respectively in the provision of valuation advice (and related advisory services).

Declarations

3 This report has been prepared at the request of the Directors of iiNet to accompany the Scheme Booklet to be sent to iiNet shareholders. It is not intended that this report should serve any purpose other than as an expression of our opinion as to whether or not the Scheme is fair and reasonable and in the best interests of iiNet shareholders.

Interests

4 At the date of this report, neither LEA, Mr Edwards nor Ms Planinic have any interest in the outcome of the Scheme. With the exception of the fee shown in Appendix A, LEA will not receive any other benefits, either directly or indirectly, for or in connection with the preparation of this report.

5 LEA has had no prior business or professional relationship with iiNet or TPG prior to the preparation of this report, other than the preparation of the IER on the acquisition by iiNet of the AAPT Consumer business in 2010.

Indemnification

6 As a condition of LEA's agreement to prepare this report, iiNet agrees to indemnify LEA in relation to any claim arising from or in connection with its reliance on information or documentation provided by or on behalf of iiNet which is false or misleading or omits material particulars or arising from any failure to supply relevant documents or information.

Consents

7 LEA consents to the inclusion of this report in the form and context in which it is included in the Scheme Booklet.

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Appendix C

Appropriate discount rate for iiNet

1 The determination of the discount rate or cost of capital for a business requires identification and consideration of the factors that affect the returns and risks of that business, together with the application of widely accepted methodologies for determining the returns demanded by the debt and equity providers of the capital employed in the business.

2 The discount rate applied to the projected cash flows from a business represents the financial return that will be demanded before an investor would be prepared to acquire (or invest in) the business.

3 Businesses are normally funded by a mix of debt and equity. The WACC is a widely used and accepted basis to calculate the "representative" rate of returns required by debt and equity investors. The required rate of return for equity is frequently evaluated using the capital asset pricing model (CAPM) and the required rate of return for debt funding is determined having regard to various factors such as current borrowing costs and prevailing credit ratings. The cost of equity and the cost of debt are weighted by the respective proportions of equity and debt funding to arrive at the WACC.

4 Accordingly, we set out below an explanation of:

(a) the WACC and its elements (including the CAPM, its application in determining the cost of equity, the cost of debt and debt equity mix)

(b) our assessment of the appropriate parameters to be used when determining the discount rate from the perspective of prospective purchasers.

Weighted average cost of capital

5 The generally accepted WACC formula is the post-tax WACC, without adjustment for imputation[75] as shown below:

WACC formula

$$WACC = R_e\frac{E}{V} + R_d(1-t)\frac{D}{V}$$

where:

R_e = expected equity investment return or cost of equity in nominal terms
R_d = interest rate on debt (pre-tax)
t = corporate tax rate
E = market value of equity
D = market value of debt
V = market value of debt plus equity

[75] Given free capital flows between developed countries and the small size of the Australian stock market (as a percentage of global markets), the cost of capital of listed companies (other than perhaps regulated infrastructure assets) should be assessed in a global context ignoring Australian imputation. This is the approach generally adopted by independent experts.

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Appendix C

CAPM and the cost of equity

6 The CAPM stems from the theory that a prudent investor would price an investment so that the expected return is equal to the risk-free rate of return plus an appropriate premium for risk. The CAPM assumes that there is a positive relationship between risk and return. That is, rational investors are risk adverse and demand higher returns for accepting higher levels of risk.

7 The CAPM is based on the concept of non-diversifiable risk and calculates the cost of equity as follows:

Cost of equity calculation

$$R_e = R_f + \beta_e[E(R_m) - R_f]$$

where:

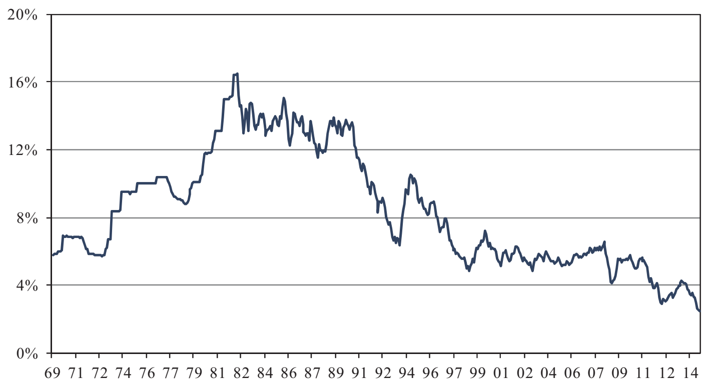
R_e	=	expected equity investment return or cost of equity in nominal terms
R_f	=	risk-free rate of return
$E(R_m)$	=	expected market return
$E(R_m) - R_f$	=	market risk premium (MRP)
β_e	=	equity beta

8 The individual components of the CAPM are discussed below.

Risk-free rate

9 We have applied a risk-free rate of 4.0% per annum. This exceeds the average yield to maturity currently prevailing on 20 year Australian government bonds (of approximately 3.4% per annum as at 18 May 2015) as we believe current yields (notwithstanding their long-term nature) remain at unsustainably low levels[76] due to, inter alia, the effect of quantitative easing measures by major overseas central banks to stimulate economic activity:

Australian government bond yield – nominal 10 year bonds
Monthly data, July 1969 to March 2015



Source: Reserve Bank of Australia (RBA) Table F02, downloaded 13 April 2015.

[76] Particularly in real terms (after allowance for long term inflation expectations).

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Appendix C

10 In our view, the application of the current (very low) government bond yields and long-term average MRP is inappropriate in the context of determining required equity rates of return (discount rates). Theoretically, the anomalous currently low government bond interest rates could be allowed for by increasing the MRP. However, as it is difficult to reliably measure short-term movements in the MRP, we have instead increased the risk-free rate for the purposes of estimating required equity rates of return. This is consistent with the approach adopted by other valuation experts and the investment analysts which provide research reports on iiNet.

Market risk premium

11 The MRP, [$E(R_m)$-R_f], represents the additional return above the risk-free rate that investors require in order to invest in a well diversified portfolio of equity securities, i.e. the equity market as a whole. Strictly speaking, the MRP is equal to the expected return from holding shares over and above the return from holding risk-free government securities. Since expected returns are generally not observable, a common method of estimating the MRP is based on average realised (ex-post) returns.

12 Because realised rates of return, especially for shares, are highly volatile over short periods, short-term average realised rates of return are unlikely to be a reliable estimate of the expected rate of return or MRP. Consequently the MRP is measured over a long period of time. It should also be noted that the standard error of the estimate of the mean for longer periods is typically lower than the standard error of the mean where a shorter period is used. This supports more reliance being placed on the average MRP calculated over the longer term.

13 Based on our review of empirical studies on the long-term MRP in Australia, the MRP used in Australian regulatory decisions and by valuation practitioners generally, we have adopted a MRP of 6.0%.

Equity beta

14 Beta is a measure of the expected volatility of the return on an investment relative to the market as a whole. The CAPM assumes that beta is the only reason expected returns on an asset differ from the expected return on the market as a whole. A beta greater than 1 suggests that an investment's returns are expected to be more volatile and risky than average (and accordingly a higher return than the market is required), whereas a beta less than 1 suggests that future returns will be less volatile and risky.

15 Similar to MRPs, expected equity betas are not observable. Historical betas are usually estimated and used as a reference to determine the appropriate forward-looking betas. In addition, factors such as betas of comparable companies and relevant industry sectors and a qualitative assessment of the systematic risks of the subject business are also considered. The determination of the appropriate beta to apply is, therefore, ultimately a matter of judgement.

Listed company betas

16 The equity betas for selected Australian companies in the telecommunications sector are set out below:

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Appendix C

Australian listed telecommunications companies

Company name	Market cap A$m(1)	Gearing %(2)	SIRCA beta(3)	SIRCA R-square(4)	Bloomberg beta(5)	Bloomberg R-square(4)
iiNet	1,110	25.0	0.89	0.19	0.49	0.04
Telstra Corporation	75,188	14.8	0.43	0.19	0.30	0.06
Singapore Telecommunications	69,510	5.1	0.06(6)	na	0.65	0.35
TPG Telecom	6,144	2.5	0.81	0.08	0.57	0.04
Spark New Zealand	5,051	11.5	0.39	0.04	1.46	0.24
M2 Group	1,975	11.2	0.42	0.03	0.66	0.08
Hutchison Tel. (Australia)	1,222	na	0.78	0.04	0.27	0.01
Chorus Limited	1,125	66.6	1.08	0.07	2.05	0.15
Vocus Communications	562	14.1	1.35	0.13	1.03	0.06
Amcom Telecommunications	496	3.3	0.97	0.15	0.22	na
Macquarie Telecommunications	113	17.9	0.82	0.09	0.50	0.04

Note:
1 Market capitalisation as at 18 May 2015, other than iiNet and TPG (which are as at 12 March 2015, i.e. prior to the announcement of the Scheme) and Amcom Telecommunications and Vocus Communications (which are calculated as at 24 October 2014, being the last trading day prior to the announcement of the approach by Vocus Communications).
2 Gearing calculated as net debt divided by enterprise value.
3 SIRCA betas are estimated as at 31 December 2014 using four years of monthly data (the latest available).
4 R-square is a statistical measure of how well the regression line approximates the real data points. It has a value between zero and 1. The closer R-square is to 1 the more reliable the beta estimate.
5 Betas obtained from Bloomberg using four years of monthly data as at 18 May 2015.
6 SIRCA provides betas for Australian listed entities only. Hence this beta is based on the Singapore Telecommunications' securities listed on the ASX, which are only a modest proportion of the total shares in company.

Source: SIRCA and Bloomberg. na – not available.

17 The above betas vary widely which reflects differences in size, leverage and operational risks. The calculated beta estimates also vary depending on the index used and the period over which the beta is calculated. Individual stock betas are also generally less reliable than industry betas. As a result, it is important to also consider the related R-squared values shown above.

18 The R-squared value measures the reliability of the beta estimate, and ranges from nil (being not reliable) to 1 (highly reliable). As the above individual stock betas have low R-squared values we do not consider them to be reliable for valuation purposes.

Industry betas

19 The beta estimate for the Australian telecommunications sector is broadly consistent with the beta for Telstra, due to the high relative market capitalisation of that company[77]. Consistent with the beta estimate for Telstra, the Australian telecommunications sector beta also has a low R-squared value and is therefore not considered reliable.

77 Telstra represents the large majority of the telecommunications sector index in Australia due to its high market capitalisation. As a result its lower risk profile distorts the beta for the Australian telecommunications sector.

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Appendix C

20 Accordingly, we have also considered:

(a) beta estimates for the Australian telecommunications sector excluding Telstra, which we calculated to be 0.71 (with an R-squared value of 0.40)

(b) beta estimates for the telecommunications sector in the United States. However, it should be noted that differences in the operating and regulatory environment in the two countries will impact on the respective betas:

United States telecommunications sector betas	Bloomberg	Stern University
Mobile telecommunications	0.89	1.15
Fixed line telecommunications	0.84	1.07

Analyst estimates

21 We have reviewed recent analysts' reports on iiNet and note that analysts apply betas in the range of 1.0 to 1.2 for iiNet.

Business risks

22 When assessing betas it is also important to consider the overall reasonableness of the beta estimate having regard to, inter alia, the systematic risks associated with the business:

Key business risks

- The broadband market in Australia is approaching maturity. As such growth in subscriber numbers will become more dependent on market share gains which may lead to greater price competition.
- Whilst the NBN has a number of benefits for iiNet (e.g. providing a level playing field for iiNet to compete with Telstra in regional areas), it also encourages new entrants and increased competition.
- The proportion of customers who migrate to the NBN and the period over which this occurs is also uncertain. Significant delays in the rollout of the NBN have also been experienced compounding this uncertainty.
- Technological change has had significant structural impacts on the telecommunications industry and is expected to continue. In particular, there is a risk that the strong growth in wireless internet use could detract from the market share held by fixed-broadband services.
- The telecommunications sector in Australia is heavily regulated and this is expected to continue.

Conclusion on beta

23 Having regard to the above, we have concluded that the beta for iiNet should be consistent with or slightly above the market average beta of 1.0. Accordingly, we have adopted a beta estimate of 1.0 to 1.1 for the iiNet business.

Gearing

24 The gearing level adopted should represent the level of debt that the asset can reasonably sustain and is not necessarily equivalent to the gearing level of the entity owning the asset. The factors that affect the "optimum" level of gearing will differ between assets. Generally, the major issues to address in determining this optimum level will include:

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Appendix C

(a) the variability in earnings stream

(b) working capital requirements

(c) the level of investment in tangible assets

(d) the nature and risk profile of the tangible assets.

25 In general, the lower the expected volatility of cash flows (i.e. risk), the higher the debt levels which can be supported (and vice versa). Furthermore, as the equity beta is a function of both business risk and financial risk (being the level of financial leverage or gearing), it is important to adopt in the WACC calculation a level of gearing which is consistent with the gearing ratios of the listed companies for which equity betas were used to assess the appropriate beta. If this is not done then, in theory, the equity beta would need to be adjusted to reflect the different level of gearing adopted. However, this adjustment is subject to considerable estimation error and is therefore not preferred. Consequently, when assessing the appropriate gearing level it is appropriate to consider the gearing levels of "comparable" listed companies over the period over which the beta estimates were calculated.

26 As indicated in paragraph 16 of this Appendix, the gearing ratios of the listed Australian telecommunications companies are generally low.

27 As at 31 December 2014 iiNet had net debt excluding IRUs (which we consider part of operating activities rather than funding activities) of around $203 million. Based on the Offer of around $1.57 billion for the equity, iiNet's gearing ratio (debt / enterprise value) was therefore around 13% as at 31 December 2014.

28 Accordingly, for the purposes of our discount rate assessment we have adopted a gearing ratio of 15% debt to 85% equity. This gearing ratio also recognises the debt servicing capacity of the Company.

Cost of debt

29 A long term cost of debt of 6.5% per annum has been adopted for iiNet. This reflects a borrowing margin of 2.5% above the adopted risk-free rate.

Calculation of WACC

30 Based on the above we have adopted a discount rate of 9.5% per annum (after tax) for iiNet:

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Appendix C

iiNet – adopted discount rate	Low %	High %
Cost of equity		
Risk-free rate	4.0	4.0
MRP	6.0	6.0
Beta	1.0	1.1
Cost of equity	10.0	10.6
Cost of debt		
Pre-tax	6.5	6.5
After tax (x 0.7)	4.6	4.6
Proportion of equity funding	85.0	85.0
Proportion of debt funding	15.0	15.0
WACC	**9.2**	**9.7**
Adopted WACC	**9.5**	

Comparison with analyst reports

31 We note that our assessed discount rate range is consistent with the discount rates for iiNet applied by investment analysts, as summarised below:

Discount rates applied by investment analysts		Discount rate %
Broker 1	27 April 2015	10.0[2]
Broker 2	6 May 2015	8.1
Broker 3	13 March 2015[1]	10.1
Broker 4	19 February 2015[1]	9.6
Broker 5	19 February 2015[1]	9.8
Broker 6	19 February 2015[1]	9.2
Broker 7	19 February 2015[1]	10.0
Broker 8	19 February 2015[1]	8.2
Broker 9	7 May 2015	10.0
Average		9.4
Median		9.8

Note:
1 Subsequent broker reports have focussed on an analysis of the respective offers for iiNet rather than the underlying operating performance and valuation of the business.
2 This discount rate includes an additional 2% equity risk premium due to the risk of increased competition post NBN.

108

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Appendix D

Listed telecommunications companies

1 A summary of the EBITDA multiples and a brief company description of the Australian and New Zealand listed companies operating in the telecommunications sector are set out below:

Listed company trading multiples[1]

	Enterprise value[2]	EBITDA multiples[3]		
		Historical FY14	Forecast FY15	Forecast FY16
	$m	x	x	x
iiNet[4]	1,479	7.6	7.4	7.2
TPG[4]	6,300	17.4	13.6	12.4
Telstra Corporations	88,766	8.5	8.2	7.9
Singapore Telecommunications[5]	73,317	9.9	9.6	9.9
Spark New Zealand	5,761	6.4	6.3	6.2
Chorus	3,310	5.3	5.7	5.7
M2 Group	2,206	13.9	12.4	9.6
Vocus Communications[6]	654	19.8	12.9	9.7
Amcom Telecommunications[6]	512	10.9	9.8	8.7
Macquarie Telecom Group	135	5.3	5.1	5.1
Average		**10.5**	**9.1**	**8.2**
Median		**9.2**	**8.9**	**8.3**

Note:
1 Enterprise value and earnings multiples calculated as at 18 May 2015, unless otherwise stated.
2 Enterprise value includes net debt (interest bearing liabilities less non-restricted cash), preference shares, convertible notes, net derivative liabilities, net pension liabilities, market capitalisation adjusted for material option dilution and buybacks and excludes surplus assets.
3 Forecast earnings are based on Bloomberg broker average forecast (excluding outliers and outdated forecasts).
4 TPG and iiNet enterprise values and forecast EBITDA multiples are calculated as at 12 March 2015 (i.e. pre-announcement of the Scheme).
5 EBITDA includes the EBIT from Singapore Telecommunications' associates as a proxy for EBITDA for these companies as information on the level of depreciation and amortisation is not available.
6 On 17 December 2014, Vocus Communications announced a takeover offer for Amcom Telecommunications. The enterprise values and forecast EBITDA multiples are therefore calculated on 24 October 2014 (being the last trading day prior to the announcement of the approach by Vocus Communications).
7 We have also considered Hutchison Telecommunications (Australia), however, given recent losses for the company and a lack of analyst forecasts, meaningful EBITDA multiples cannot be derived.

Source: Bloomberg, latest full year statutory accounts, latest interim accounts, company announcements, LEA analysis.

iiNet Limited

2 iiNet is Australia's second largest DSL ISP. The Company maintains its own broadband network and provides over 1.9 million broadband, telephony and IPTV services to approximately 975,000 customers nationwide. iiNet employs more than 2,000 staff across three countries, 80% of whom are employed to directly service the customer base. The Company has invested and acquired its own DSLAM network, enabling it to provide services

LONERGAN EDWARDS & ASSOCIATES LIMITED

Appendix D

that allow it to bypass a resale relationship with telecommunication infrastructure owners like Telstra and Optus.

TPG Telecom Limited

3 TPG is an Australian-based full service telecommunications company providing consumer, wholesale and corporate telecommunications services. The company offers voice, internet and data solutions to a range of customers, including ADSL2+, fibre optic and ethernet broadband access, telephony services, IPTV and various business networking solutions. TPG also owns and operates its own carrier-grade voice, data and internet network infrastructure.

Telstra Corporation Limited

4 Telstra is Australia's largest telecommunication company and incumbent telecommunications infrastructure owner. The company provides basic access services to most homes and businesses as well as local and long-distance call, mobile and internet services. Its customer base includes over 15 million mobile telephony subscribers and 3.5 million broadband subscribers (the largest market share in each of these respective markets). Telstra also owns 50% of Foxtel in a joint venture with News Corporation. In December 2014, Telstra and the Federal Government amended a 2011 agreement (which originally involved the disconnection of the Telstra copper and HFC networks) to progressively transfer control of its copper and HFC cable network assets to NBN Co.

Singapore Telecommunications Limited

5 Singapore Telecommunications owns a diverse range of communication companies in the Asia Pacific region, including Singapore, Australia, South East Asia and Africa. Its services include fixed line, mobile, data, internet, info-communications technology, satellite and pay television. The company's operations include Optus (the second largest Australian telecommunications company offering fixed line, mobile and internet services) and investments in five regional mobile operators, namely Telkomsel (Indonesia), Globe Telecom (the Philippines), Advanced Info Service (Thailand), PBTL (Bangladesh) and Bharti Airtel (India), which has a significant presence in Bangladesh, Sri Lanka and Africa.

Spark New Zealand Limited

6 Spark New Zealand provides digital communications, entertainment and information technology services to New Zealand consumers and businesses. The company was the larger proportion of the Telecom Corporation of New Zealand business, prior to the split of its retail operations (Spark New Zealand) and infrastructure assets (Chorus, see below) in December 2011. Spark New Zealand is made up of a number of core business areas, including Spark Home, Mobile & Business, Spark Digital, Spark Ventures and Spark Network.

Chorus Limited

7 Chorus is a wholesale and retail telecommunications company. It is New Zealand's largest telecommunications infrastructure provider and was previously a part of Telecom Corporation of New Zealand. The company maintains a network of local telephone exchanges, cabinets and copper and fibre cables and is also constructing a high speed broadband network across New Zealand. Chorus supplies more than 90% of all fixed network connections to retail service providers and has approximately 1.8 million fixed line connections.

LONERGAN EDWARDS & ASSOCIATES LIMITED

Appendix D

M2 Group Limited

8 M2 Group provides a diverse range of telecommunications services in Australia to residential and small to medium businesses as well as wholesale telecommunications resellers. The company is the fifth largest ISP provider in Australia and has historically operated under three business segments, being consumer, business and wholesale. With the recent acquisition of New Zealand's fourth largest telecommunications company, Call Plus Group, M2 Group now operates under four business segments (with New Zealand a standalone business unit). In addition to telecommunications services, M2 Group also offers energy and insurance services.

Vocus Communications Limited

9 Vocus Communications is a provider of integrated telecommunications services, including fibre solutions, international IP transit and data centre facilities. The company owns approximately 600 kilometres of metro fibre in Australia and over 4,200 kilometres of intercity fibre in New Zealand. Vocus Communications' metro fibre network connects over 1,000 buildings in capital cities and has an additional 30,000 buildings within its footprint. In addition to its fibre network, the company owns submarine cable capacity connecting Australia to Singapore, New Zealand and the United States.

Amcom Telecommunications Limited

10 Amcom Telecommunications is an Australia-based information technology and telecommunications company. The company product set includes national data network access, unified communications, cloud solutions and managed services, all of which is supported by its extensive fibre-optic network and a range of information technology services including advisory, integration and security solutions.

Macquarie Telecom Group Limited

11 Macquarie Telecom Group is an Australian company engaged in the provision of telecommunication and hosting services to corporate and government customers within Australia. It provides local and long distance services, calling cards and inbound calling services along with the management of telecommunications facilities. Macquarie Telecom Group also provides data services along with telecommunications advisory services.

LONERGAN EDWARDS & ASSOCIATES LIMITED

Appendix E

Transaction multiples

1 There have been a number of transactions involving businesses operating in the Australasian telecommunications industry[78]. The implied multiples from these transactions, and a brief description of the company's activities at the date of the acquisition, are set out below However, with the exception of Amcom (which is the subject of a merger proposal from Vocus Communications) and TelstraClear (which was acquired by Vodafone NZ), the below multiples reflect those paid in bolt-on acquisitions. Given the much larger size (and market position) of iiNet, we believe that significantly higher EBITDA multiples should be applied to iiNet compared to the EBITDA multiples implied from the small bolt-on transactions.

Australasian telecommunications transactions

Date[(1)]	Target	Acquirer	Enterprise value[(2)] $m	EBITDA multiples Historical x	EBITDA multiples Forecast x
Apr 15	Call Plus Group	M2 Group	245.4	6.9[(3)]	5.6[(3)]
Apr 15	Spark NZ's international voice business	My Net Fone	22.2	na	6.3
Dec 14	Amcom Telecom.	Vocus Com.	607.6	13.0[(4)]	12.3[(4)]
Aug 13	Adam Internet	iiNet	59.1	na	5.1
Mar 13	Eftel	M2 Group	44.1	5.5[(5)]	5.0[(5)]
Mar 13	Dodo Australia Holdings	M2 Group	203.9	7.0[(5)]	5.0[(5)]
Jul 12	TelstraClear	Vodafone NZ	654.0	6.6	na
Apr 12	Primus Telecom	M2 Group	187.8	4.7	na
Dec 11	Internode	iiNet	131.4	na	5.3
Nov 11	TransACT	iiNet	56.8	3.3	3.3
Feb 11	Clear Telecoms	M2 Group	26.9	na	3.4
Jul 10	AAPT Consumer	iiNet	75.1	na	3.8
Mar 10	Netspace	iiNet	41.5	na	5.2

Note:
1 Date of announcement.
2 100% basis. New Zealand dollar amounts have been translated at the exchange rate on the relevant transaction dates.
3 Historical multiples based on FY15 forecast and forecast multiples based on FY16 forecast (as at 13 April 2015).
4 Given the difference in operating models, and in particular, Amcom Telecommunications' ownership of infrastructure assets, we do not deem this a comparable transaction.
5 Historical multiples based on FY13 forecast and forecast multiples based on FY14 combined forecast for Eftel and Dodo (as at 18 March 2013).
na – not available.
Source: LEA analysis using data from ASX announcements, broker reports and company annual reports.

2 We have also considered the following transactions but determined that they were not comparable as they related primarily to the purchase on infrastructure assets or unrelated services:

78 We have also considered transactions involving telecommunications infrastructure companies (such as TPG's acquisitions of Pipe Networks and the AAPT Assets), however, these are not deemed comparable to iiNet and have therefore not been included in our transaction analysis.

LONERGAN EDWARDS & ASSOCIATES LIMITED

Appendix E

(a) TPG's acquisition of Pipe Networks Limited announced on 11 November 2009

(b) TPG's acquisition of IntraPower Limited announced on 11 July 2011; and

(c) TPG's acquisition of Telecom New Zealand Australia Pty Limited and its subsidiaries including AAPT announced on 9 December 2013.

Call Plus Group

3 Call Plus is New Zealand's third largest provider of broadband and fixed voice services, offering more than 400,000 services across the consumer, business and wholesale market segments. Its consumer brands include Slingshot, Orcon and Flip, while the Call Plus Business and 2 Talk brands service the small to medium business market. In June 2014, Call Plus acquired rival ISP Orcon which at the time gave Call Plus a 15% market share and a customer base of more than 220,000.

Spark New Zealand's international voice business

4 Spark New Zealand's international voice business includes a carrier grade global voice network spanning four continents, specialist staff, customer built international voice trading systems, over 220 international carrier relationships and interconnect agreements and the Telecom New Zealand International brand. It currently carries 2.8 billion minutes a year and has 220 global wholesale customers.

Amcom Telecommunications Limited

5 Amcom Telecommunications is an Australia-based information technology and telecommunications company. The company product set includes national data network access, unified communications, cloud solutions and managed services, all of which is supported by its extensive fibre-optic network and a range of information technology services including advisory, integration and security solutions.

Adam Internet Pty Limited

6 Adam Internet is based in Adelaide and at the time of acquisition had approximately 70,000 broadband subscribers located primarily in South Australia and the Northern Territory, plus a range of key South Australian business and government clients consuming data-centre, hosting and cloud services. The company also holds DSLAM and fibre network infrastructure.

Eftel Limited

7 Eftel was established in 1999 and is a telecommunications carrier and ISP in Australia offering DSL and dial-up internet access, web hosting and VoIP services. Its leading brands include Eftel, ClubTelco, engin and aaNet service wholesale, corporate, government, and retail customers across Australia. The company also provides internet infrastructure and support services to other Australian ISPs.

Dodo Australia Holdings Pty Limited

8 Dodo Australia Holdings provides telecommunication services to residential consumers and corporate markets in Australia. The company offers broadband, wireless and dial-up internet

LONERGAN EDWARDS & ASSOCIATES LIMITED

Appendix E

services as well as home phone, wireless telephony and VoIP services. The company also provides alarm monitoring services, car, home building and contents insurance, and sells electricity in Victoria to residential consumers. At the date of acquisition Dodo Australia Holdings had over 400,000 customers and 660,000 active services.

TelstraClear Limited

9 TelstraClear owns New Zealand's second largest fixed telecommunications infrastructure, which includes 6,600 kilometres of fibre (connecting 19 of the country's largest cities) and an extensive local access network (with 2,000 kilometres of fibre and 4,500 kilometres of copper) as well as a cable TV and broadband access network passing 150,000 homes in Wellington and Christchurch. Its customer base includes government and large corporations, small and medium enterprises as well as consumers.

Primus Telecommunications Holdings Pty Ltd

10 Primus Telecommunications provides voice, data, internet and web hosting services for business and residential customers in Australia. It offers a range of local call and long-distance call services, internet access and business direct-connect services. The company also owns fibre cable networks in the major Australian metropolitan areas (i.e. Sydney, Melbourne, Brisbane, Perth and Adelaide).

Internode Pty Limited

11 Internode provides broadband internet and phone services to households and businesses in Australia. Its business services include internet and phone solutions, VoIP services, hosting and content services such as data centre co-location, as well as web hosting and converged communications. Its household services include broadband and phone services, VoIP and entertainment and content services.

TransACT Communications Pty Ltd

12 TransACT Communications provides telecommunication services to customers and businesses throughout Australia. The company offers fixed line telephony services, mobile phone solutions, subscription television, video on demand, broadband internet and data centre services.

Clear Telecoms Pty Ltd

13 Clear Telecoms was Australia's largest privately owned provider of business telecommunication services, with nearly 20,000 small and medium business customers across Australia, generating annual revenue of approximately $70 million. It offers mobile services, 3G and mobile data, global roaming, mobile number portability services and wireless broadband services.

AAPT Consumer Division

14 The AAPT Consumer Division comprises services provided to residential, small and home office users, including fixed line voice (home and small business phone services), broadband internet (including ADSL and ADSL 2+) and mobile phone services. As at the acquisition date (August 2010), AAPT's Consumer Division had approximately 113,000 broadband users and some 251,000 active services.

LONERGAN EDWARDS & ASSOCIATES LIMITED

Appendix E

Netspace Online Systems Pty Ltd

15 Netspace Online Systems is based in Melbourne and provides telecommunication services. The company offers fixed and mobile telephone services, broadband, voice, enhanced calling features, international roaming, wireless internet and other services. As at the date of acquisition (March 2010), the company had over 105,000 subscribers, including 70,000 broadband subscribers.

LONERGAN EDWARDS & ASSOCIATES LIMITED

Appendix F

Profile of M2 Group[79]

Overview

1 M2 Group provides a diverse range of telecommunications services in Australia to residential and small to medium businesses as well as wholesale telecommunications resellers. The company is the fifth largest ISP provider in Australia and has historically operated under three business segments, being consumer, business and wholesale. With the recent acquisition of New Zealand's fourth largest telecommunications company, Call Plus Group[80], M2 Group now operates under four business segments (with New Zealand a standalone business unit). In addition to telecommunications services, M2 Group also offers energy and insurance services.

History

2 M2 Group was founded in 1999 initially as a re-seller of telecommunications services for small enterprises, taking advantage of excess capacity on established network infrastructure. In October 2004, M2 Group listed on the ASX and has since grown significantly both organically and as a result of acquisitions. A list of material acquisitions by the company since 2009 is as follows:

Date	Acquisition	Description / subscriber numbers
Jun 09	Commander Communications	Acquired customer contracts, operating systems, plant and equipment and associated intellectual property of Commander Communications from receivers. The company was a provider of telecommunication services to small and medium businesses.
Feb 11	Clear Telecoms	Clear Telecoms was Australia's largest privately owned provider of business telecommunications services, with almost 20,000 small to medium business customers.
Jun 12	Primus Telecom	Primus Telecom provided broadband services to residential, small to medium businesses, corporate and wholesale customers. The acquisition included some 165,000 customer contracts as well as infrastructure including data centres and metro fibre rings.
May 13	Dodo	Dodo was a telecommunications, utilities and insurance provider for residential and small enterprises with some 400,000 customers and 660,000 active services. Dodo focuses on being a single point retailer of essential services.
May 13	Eftel	Eftel was a provider of a full suite of telecommunication services to consumers, corporate, government and the wholesale market. At the date of acquisition the company had some 130,000 active services.
Apr 15	Call Plus Group	Call Plus Group was New Zealand's fourth largest telecommunications company and third largest broadband internet provider. At the time of acquisition it had more than 400,000 broadband and fixed voice post paid services in operation across its consumer, business and wholesale segments.

79 This profile is based on publicly available information in respect of M2 Group.

80 At the date of our report, the acquisition of the Call Plus Group had not yet completed.

LONERGAN EDWARDS & ASSOCIATES LIMITED

Appendix F

Current operations

3 M2 Group operates from a Melbourne head office and is a provider of a full suite of traditional and next generation telecommunications products. The company offers ADSL2+, NBN, fibre optic internet services as well as mobile phone and fixed telephone services (including line rental services). Subsequent to the acquisition of Dodo, M2 Group also provides a range of utility and insurance services in selected Australian states.

4 In 1H15, M2 Group derived approximately 59%, 32% and 9% of its revenue from its respective consumer, small to medium business and wholesale divisions. A summary of M2 Group's business segments is as follows (including the recently added New Zealand business unit):

(a) consumer – in the consumer (residential) segment M2 Group has a dual positioning with the iPrimus brand offering value and the Dodo brand targeting cost conscious consumers. M2 Group aims to provide Australian households with both a full range of telecommunications services, as well as utility (power and gas) and insurance (car and home) services

(b) small to medium business – M2 Group's business offering is predominantly provided under the Commander brand and includes a suite of managed voice, data and cloud services, equipment, value-added offerings as well as electricity services. Under the Engin brand, M2 Group also offers VoIP telephony services

(c) wholesale – the company's wholesale business segment offers companies the ability to sell their own corporate mobile, voice and data services under their own brand name throughout Australia

(d) New Zealand – the New Zealand operations primarily relate to the recently acquired Call Plus Group. The business offers a range of fixed line, data and mobile services targeting residential, small to medium businesses and wholesale markets. Its portfolio of brands include slingshot, flip, orcon and CallPlus, targeting a range of customer segments.

5 Dodo is licensed to retail both electricity and gas in Victoria, New South Wales, South Australia, the Australian Capital Territory and Queensland. Dodo Electricity is currently available in Victoria, New South Wales, South Australia and Queensland, and Dodo Gas is available in Victoria (with plans to add gas throughout south-eastern Australia in the future).

6 An overview of M2 Group's services in operation for the two years to FY14, as well as 1H15 is set out below:

M2 Group – services in operation[1]

	FY13 (000s)	FY14 (000s)	1H15 (000s)
Voice	730	773	796
Mobile	254	225	223
Broadband	412	482	508
Energy	56	93	107
Total services in operation	1,452	1,573	1,634

LONERGAN EDWARDS & ASSOCIATES LIMITED

Appendix F

Note:
1 Subscriber numbers include a combination of organic and acquired subscriber growth. The numbers above exclude pre-paid services and services for the New Zealand based Call Plus Group. FY12 services in operation are not available. Insurance services in operation are not publicly disclosed.

7 In respect of the above we note that:

(a) in 1H15 91% of customers in the consumer segment and 86% in the business segment bundled broadband with fixed line services

(b) mobile services in operation declined in FY14 due to the elimination of a large number of low value mobile broadband services, as well as an inability to offer 4G services until February 2014. Post this period, growth in mobile subscriber numbers has resumed

(c) energy services have exhibited high growth and exhibit high levels of ARPU (refer below).

8 M2 Group's ARPU for the two years to FY14, as well as 1H15 are set out below:

M2 Group – ARPU(1)

	FY13 $	FY14 $	1H15 $
Voice	52	52	51
Mobile	29	31	35
Broadband	41	44	45
Energy	121	116	111
Average	47	50	51

Note:
1 Excludes pre-paid services. FY12 ARPU is not available.

9 As noted, over a period of significant growth in subscriber numbers, ARPU has been relatively constant (with declines in the energy segment being offset by increases in the mobile segment). Subsequent to the elimination of low value mobile broadband services in FY14, whilst the total number of mobile services in operation has declined, the ARPU has increased.

Financial performance

10 The financial performance of M2 Group for the three years ended FY14, as well as 1H15 is set out below:

LONERGAN EDWARDS & ASSOCIATES LIMITED

Appendix F

M2 Group – summary of financial performance	FY12 Audited $m	FY13 Audited $m	FY14 Audited $m	1H15 Reviewed $m
Total revenue	392.7	680.2	1,022.8	545.6
Underlying EBITDA[(1)]	**64.1**	**118.3**	**158.6**	**85.4**
Depreciation and amortisation[(2)]	(10.2)	(31.3)	(46.4)	(23.1)
Underlying EBIT[(1)]	**54.0**	**87.0**	**112.1**	**62.3**
Significant items[(3)]	(5.0)	(11.0)	-	-
Net financial expense	(2.0)	(10.9)	(17.5)	(7.5)
Profit before tax	47.0	65.0	94.6	54.8
Income tax expense	(14.0)	(21.3)	(27.6)	(16.3)
Profit after tax	33.0	43.8	67.1	38.5
Loss / (profit) attributable to minority interests	0.1	0.3	(0.1)	0.0
Profit after tax attributable to M2 Group shareholders	**33.0**	**44.1**	**67.0**	**38.5**
Key statistics				
Total subscribers at period end (000s)	na	1,452	1,573	1,634
Growth in total revenue[(4)]	(8%)	73%	50%	8%
Growth in underlying EBITDA[(4)]	36%	84%	34%	14%
Underlying EBITDA margin	16%	17%	16%	16%
Underlying EBIT margin	14%	13%	11%	11%

Note:
1 Before significant items.
2 Includes non-cash amortisation of customer contracts of $5.1 million in FY12, $14.6 million in FY13, $26.3 million in FY14 and $12.1 million in 1H15.
3 Significant items comprise non-recurring acquisition transaction costs.
4 Growth shown is relative to previous corresponding periods.
Rounding differences exist. na – not available.

11 Below is a summary of the key factors that have impacted on the annual financial performance of M2 Group in FY12, FY13, FY14 and 1H15.

Year to 30 June 2012 (FY12)

– revenue decreased by 8% to $392.7 million, however underlying EBITDA increased by 36% to $64.1 million following the elimination of a number of high volume and low margin customers associated with recent acquisitions, a continued focus on cost reduction and the delivery of acquisition synergies

– the company made a number of operational changes including significant investments in building its sales capability and internal processes, consolidating its call centres operations and consolidating its brands (e.g. the dealer channel was consolidated under the Commander brand).

Year to 30 June 2013 (FY13)

– revenue increased 73% to $680.2 million and underlying EBITDA increased by 84% to $118.3 million driven by the acquisition and related benefits (including synergies) of

119

Appendix F

Primus Telecom in FY12, as well as two months contribution from the Dodo and Eftel businesses acquired in May 2013

– the company continued its investment in operational performance, with changes to its distribution strategy aimed at reducing margin erosion and churn, restructuring of its customer care centres and the completion of the integration of the Primus Telecom acquisition

– the acquisition of Dodo expanded M2 Group's product offering into energy and gas retailing and car, home and contents insurance.

Year to 30 June 2014 (FY14)

– revenue increased by 50% to $1,022.8 million and underlying EBITDA increased by 34% to $158.6 million, driven primarily by a full year's contribution from the Dodo and Eftel businesses acquired in late FY13. Organic growth in subscriber numbers of 121,000 was also recorded

– M2 Group completed the rollout of 15 Dodo Connect Kiosks to generate sales in telecommunications and energy services

– there was continued focus on the integration of acquisitions, with a number of projects carried out to reduce complexity, simplify processes, consolidate systems and reduce service costs.

Half year to 31 December 2014 (1H15)

– revenue increased by 8% to $545.6 million and underlying EBITDA increased by 14% to $85.4 million (on a comparable half year basis) driven primarily through organic growth of some 57,000 additional services for the period

– stated areas of targeted growth included accelerating the rollout of Dodo Kiosks, progressing its Pay TV product offering, further additions to the Dodo product portfolio and expanding the Commander sales channels.

FY15 guidance

– in its 1H15 report M2 Group confirmed it was on track to achieve its previously stated guidance for FY15 of revenue growth of 8% to 9% ($1,104.7 million to $1,114.9 million) and net profit after tax growth of 15% to 20% ($77.0 million to $80.4 million).

LONERGAN EDWARDS & ASSOCIATES LIMITED

Appendix F

Financial position

12 The financial position of M2 Group as at 30 June 2014 and 31 December 2014 is set out below:

M2 Group – statement of financial position		
	30 Jun 14 $m	31 Dec 14 $m
Debtors and prepayments	123.4	129.4
Inventories	5.4	8.3
Creditors, accruals and provisions	(198.0)(1)	(194.9)
Net working capital	**(69.2)**	**(57.1)**
Plant and equipment	61.0	63.5
Intangible assets / goodwill	599.8(2)	588.0
Investments	10.6	10.4
Prepayments (non-current)	4.2	4.7
Deferred tax liabilities (net)	(6.9)	(8.0)
Provisions and payables (non-current)	(9.2)	(9.0)
Total funds employed	**590.3**	**592.5**
Cash and cash equivalents	41.0	44.9
Interest bearing liabilities	(295.5)	(279.8)
Derivative financial instruments (net)	(3.1)	(0.9)
Net borrowings	**(257.6)**	**(235.9)**
Net assets attributable to M2 Group shareholders	**332.7**	**356.6**

Note:
1 Includes $19.8 million of unearned revenue (information for which is not publicly disclosed for 1H15).
2 Includes IRU assets of $24.8 million (information for which is not publicly disclosed for 1H15).
Rounding differences exist.

13 Net working capital is negative (a not uncommon position in the telecommunications industry) and reflects primarily the reported level of creditors, provisions and unearned revenue. Given the operating cash flow nature of the business and the expected level of on-going pre-paid income this position is considered sustainable.

Intangible assets and goodwill

14 Intangible assets and goodwill comprise the following:

M2 Group – intangible assets and goodwill(1)	
	30 Jun 14 $m
Goodwill	447.5
Customer contracts	51.2
Brands	50.5
Software	26.0
IRU assets	24.7
Total intangible assets and goodwill	**599.8**

Note:
1 1H15 breakdown of intangible assets and goodwill is not publicly disclosed.

Appendix F

15 The majority of intangibles by book value (goodwill, customer contracts and brands) relate to various historical acquisitions. The carrying value of goodwill is subject to annual impairment testing, or whenever there is an indication of sustained impairment.

16 M2 Group's IRU assets were $24.7 million as at 30 June 2014 and are amortised on a straight line basis over the remaining life of the IRU contracts (which range from 2 to 12 years).

Share capital and performance

17 As at 21 April 2015, M2 Group had 183.1 million fully paid ordinary shares on issue. In addition the company had 0.7 million performance rights on issue (with attaching share entitlements) at exercise prices of $3.14 to $6.75 per share.

Share price performance

18 The price of M2 Group shares from 1 January 2012 to 22 May 2015 is summarised below:

M2 Group – share price performance

	High $	Low $	Close $	Monthly volume 000
Quarter ended				
March 2012	3.69	2.82	3.62	6,239
June 2012	3.73	2.97	3.36	16,217
September 2012	3.66	2.92	3.46	9,667
December 2012	4.23	3.43	4.18	11,505
March 2013	5.10	4.01	4.91	12,842
June 2013	6.48	4.83	5.85	18,984
September 2013	7.27	5.42	6.07	22,294
December 2013	6.49	5.52	6.27	15,494
March 2014	6.93	5.80	6.00	15,763
June 2014	6.12	5.27	5.78	15,962
Month ended				
July 2014	6.08	5.69	6.08	9,914
August 2014	7.42	5.95	7.37	23,282
September 2014	8.08	7.35	7.61	32,902
October 2014	8.08	7.32	7.85	16,226
November 2014	8.75	7.81	8.31	16,768
December 2014	8.67	7.72	8.13	11,525
January 2015	9.00	7.70	9.00	14,867
February 2015	9.99	8.82	9.88	19,678
March 2015	10.53	9.71	10.14	19,743
April 2015	11.79	10.05	10.98	23,737
1 May 2015 to 22 May 2015	11.31	10.55	11.09	14,953

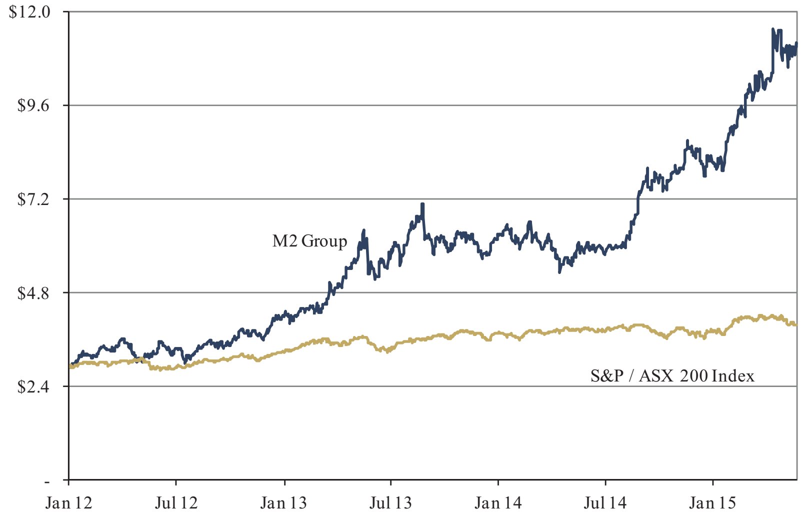
Source: Bloomberg.

19 The following chart illustrates the movement in the share price of M2 Group and the S&P / ASX 200 Index from 1 January 2012 to 22 May 2015:

LONERGAN EDWARDS & ASSOCIATES LIMITED

Appendix F

M2 Group – share price history
1 January 2012 – 22 May 2015



Source: Bloomberg.

20 M2 Group significantly outperformed the S&P / ASX 200 Index over the above period, which reflects M2 Group's strong earnings growth (attributable to both organic growth and EPS accretive acquisitions) and continued market share gains. Further analysis of share market trading in M2 Group shares is set out in Section IX of our report.

Liquidity in M2 Group shares

21 The liquidity in M2 Group shares based on trading on the ASX over the 12 month period to 22 May 2015 is set out below:

M2 Group – liquidity in shares

Period	Start date	End date	No of shares traded 000	WANOS(1) outstanding 000	Implied level of liquidity Period(2) %	Implied level of liquidity Annual(3) %
1 month	23 Apr 15	22 May 15	25,810	183,135	14.1	171.5
3 months	23 Feb 15	22 May 15	64,899	182,527	35.6	145.8
6 months	23 Nov 14	22 May 15	106,619	182,221	58.5	118.0
1 year	23 May 14	22 May 15	221,348	181,453	122.0	122.0

Note:
1 WANOS during relevant period.
2 Number of shares traded during the period divided by WANOS.
3 Implied annualised figure based upon implied level of liquidity for the period (based on number of days in respective periods).

LONERGAN EDWARDS & ASSOCIATES LIMITED

Appendix F

22 In each of the periods disclosed, total share turnover (on an annualised basis) has been substantially in excess of 100% of the issued shares in M2 Group, indicating a very high level of market liquidity.

LONERGAN EDWARDS & ASSOCIATES LIMITED

Appendix G

Glossary

Term	Meaning
AAPT	AAPT Limited
ABS	Australian Bureau of Statistics
ACCC	Australian Competition and Consumer Commission
ACMA	Australian Communications and Media Authority
ADSL	Asymmetric DSL
AFR	Australian Financial Review
AMPU	Average margin per user
ARPU	Average revenue per user
ASIC	Australian Securities & Investments Commission
ASX	Australian Securities Exchange
ATO	Australian Taxation Office
CAGR	Compound average growth rate
Call Plus	Call Plus Group and a related entity, 2Talk Limited
CAPM	Capital asset pricing model
Cash Alternative	$8.80 cash per iiNet share
CEO	Chief Executive Officer
Corporations Act	*Corporations Act 2001 (Cth)*
Corporations Regulations	*Corporations Regulations 2001*
DCF	Discounted cash flow
DRP	Dividend reinvestment plan
DSL	Direct service line
DSLAM	Digital subscriber line access multiplexers
EBIT	Earnings before interest and tax
EBITA	Earnings before interest, tax and amortisation
EBITDA	Earnings before interest, tax, depreciation and amortisation
EPS	Earnings per share
FOS	Financial Ombudsman Services Limited
FSG	Financial Services Guide
FTTB	Fibre to the basement
FY	Financial year
GB	Gigabyte
HFC	Hybrid fibre-coaxial
IER	Independent expert's report
iiNet / Company	iiNet Limited
Initial Agreement	The Scheme Implementation Agreement entered into by iiNet and TPG, under which TPG would acquire all of the shares in iiNet that it does not already own for a cash consideration of $8.60 per share
IPTV	Internet protocol television
IRU	Indefeasible right of use
ISP	Internet service provider
LEA	Lonergan Edwards & Associates Limited
M2 Group	M2 Group Limited
M2 Group Proposal	The proposal from M2 Group to acquire all of the ordinary shares in iiNet by way of a scheme of arrangement for a consideration that comprised shares in M2 Group plus a special dividend
Mbps	Megabits per second
Mr Teoh	Mr David Teoh, the Executive Chairman and CEO of TPG
MRP	Market risk premium

Appendix G

Term	Meaning
NBN	National Broadband Network
NPV	Net present value
OVC	Online video content
PSTN	Public switched telephone network
RBA	Reserve Bank of Australia
Revised Agreement	The revised Scheme Implementation Agreement under which TPG would acquire all of the shares in iiNet via the Scheme, subject to a number of conditions precedent
RG 111	Regulatory Guide 111 – *Content of expert reports*
Scheme	The proposed acquisition of iiNet shares to be implemented via a scheme of arrangement between iiNet and its shareholders
Scheme Consideration	The Cash Alternative or the Share Alternative
Share Alternative	0.969 TPG shares per iiNet share subject to an agreed cap
Soul Pattinson	Washington H Soul Pattinson and Company Ltd
Special Dividend	Up to $0.75 cash per iiNet share by way of a fully franked dividend
Telstra	Telstra Corporation
Total Consideration	The Scheme Consideration plus the Special Dividend
TPG	TPG Telecom Limited
VoIP	Voice over internet protocol
VWAP	Volume weighted average price
WACC	Weighted average cost of capital
WANOS	Weighted average number of shares outstanding
WiMAX	Worldwide Interoperability for Microwave Access

KPMG Transaction Services
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Australian Financial Services Licence No. 246901
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DX: 1056 Sydney
www.kpmg.com.au

The Directors
TPG Telecom Limited
65 Waterloo Road
Macquarie Park NSW 2113

12 June 2015

Dear Directors

Limited Assurance Investigating Accountant's Report and Financial Services Guide

Investigating Accountant's Report

Introduction

KPMG Financial Advisory Services (Australia) Pty Ltd (of which KPMG Transaction Services is a division) ("KPMG Transaction Services") has been engaged by TPG Telecom Limited ("TPG") to prepare this report for inclusion in the Scheme Booklet to be dated on or around 12 June 2015 ("Scheme Booklet"), and to be issued by iiNet Limited ("iiNet"), in respect of the proposed acquisition of iiNet by TPG ("Transaction").

Expressions defined in the Scheme Booklet have the same meaning in this report.

Scope

You have requested KPMG Transaction Services to perform a limited assurance engagement in relation to the combined group unaudited pro-forma financial information described below and disclosed in the Scheme Booklet.

The combined group unaudited pro-forma 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*.

Compilation of the Combined Group Unaudited Pro-Forma Financial Information

You have requested KPMG Transaction Services to perform limited assurance procedures in relation to the compilation of the following combined group unaudited pro-forma financial information of the combined TPG (the responsible party) and iiNet Group included in the Scheme Booklet.

The combined group unaudited pro-forma financial information has been derived from the historical financial information of TPG and iiNet, after adjusting for the effects of the pro-forma adjustments described in section 8.5 of the Scheme Booklet. The combined group unaudited pro-forma financial information consists of the Combined Group Unaudited Pro-Forma Statement of Comprehensive Income for the Illustrative Half Year Period ended 31 January 2015 and the Combined Group Unaudited Pro-Forma Statement of Financial Position as at the end of the Illustrative Half Year Period being 31 January 2015 (collectively the "Combined Group Unaudited Pro-Forma Financial Information"). The basis on which TPG has compiled the Combined Group Unaudited Pro-Forma Financial Information is specified in section 8.5 of the Scheme Booklet.

The Combined Group Unaudited Pro-Forma Financial Information has been compiled by TPG to illustrate the impact of the Transaction on TPG's financial position as at 31 January 2015 and TPG's comprehensive income for the half year ended 31 January 2015. As part of this process, information about TPG's and iiNet's financial position and comprehensive income has been extracted by TPG from TPG's financial statements for the half year ended 31 January 2015, which were reviewed by KPMG and on which an unqualified opinion was provided, and from iiNet's financial statements for the half year ended 31 December 2014, which were reviewed by iiNet's auditor and on which an unqualified opinion was provided.

For the purposes of preparing this report we have performed limited assurance procedures in relation to the Combined Group Unaudited Pro-Forma Financial Information in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the Combined Group Unaudited Pro-Forma Financial Information has not been properly compiled on the basis stated in section 8.5 of the Scheme Booklet.

We have conducted our procedures in accordance with the Standard on Assurance Engagements ASAE 3420 *Assurance Engagements To Report on the Compilation of Pro-Forma Historical Financial Information included in a Prospectus or other Document* (ASAE 3420).

Our limited assurance engagement has involved performing procedures to assess whether the applicable criteria used by TPG in the compilation of the Combined Group Unaudited Pro-Forma Financial Information provides a reasonable basis for presenting the significant effects directly attributable to the event(s) or transaction(s), and that the:

- related pro-forma adjustments give appropriate effect to those criteria; and
- resultant Combined Group Unaudited Pro-Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The engagement has also involved evaluating the overall presentation of the Combined Group Unaudited Pro-Forma Financial Information.

The procedures we performed were based on our professional judgement and included:

- consideration of whether the unadjusted historical financial information, which forms the basis for the Combined Group Unaudited Pro-Forma Financial Information, has been extracted from an appropriate source;
- consideration of work papers, accounting records and other documents, including those dealing with the extraction of the historical financial information of TPG from its reviewed financial statements for the half year ended 31 January 2015, and those dealing

with the extraction of historical financial information of iiNet from its reviewed financial statements for the half year ended 31 December 2014;

- consideration of the pro-forma adjustments described in the Scheme Booklet;
- enquiry of directors, management, personnel and advisors;
- the performance of analytical procedures applied to the Combined Group Unaudited Pro-forma Historical Financial Information; and
- a review of accounting policies for consistency of application in the preparation of the pro-forma adjustments.

The procedures performed in a limited assurance engagement vary in nature from, and are less in extent than for, an audit. As a result, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had we performed an audit. Accordingly, we do not express an audit opinion about whether the Combined Group Unaudited Pro-Forma Financial Information has been properly compiled on the basis stated in section 8.5 of the Scheme Booklet.

As part of this engagement, we have not performed an audit or review of the historical financial information used in compiling the Combined Group Unaudited Pro-Forma Financial Information, or of the Combined Group Unaudited Pro-Forma Financial Information itself. Also, our engagement did not involve updating or re-issuing any previously issued audit or review report on any financial information used in compiling the Combined Group Unaudited Pro-Forma Financial Information.

The purpose of the compilation of the Combined Group Unaudited Pro-Forma Financial Information being included in the Scheme Booklet is solely to illustrate the impact of the Transaction on the unadjusted financial information of TPG. Accordingly, we do not provide any assurance that the actual outcome of the Transaction would have been as presented.

Directors' responsibilities

The directors of TPG are responsible for the preparation of the Combined Group Unaudited Pro-Forma Financial Information, including the selection and determination of the pro-forma transactions and/or adjustments, and for properly compiling the Combined Group Unaudited Pro-Forma Financial Information on the basis stated in section 8.5 of the Scheme Booklet.

The directors' responsibility includes establishing and maintaining such internal controls as the directors determine are necessary to enable the preparation of financial information that is free from material misstatement, whether due to fraud or error.

Conclusions

Compilation of the Combined Group Unaudited Pro-Forma Financial Information

Based on our procedures, which are not an audit, nothing has come to our attention that causes us to believe that the Combined Group Unaudited Pro-Forma Financial Information is not compiled, in all material respects, on the basis stated in section 8.5 of the Scheme Booklet.

We have not audited or reviewed the historical financial information extracted from the financial statements of TPG for the half year ended 31 January 2015 or iiNet for the half year ended 31 December 2014, and we do not express any opinion, or make any statement of negative assurance, as to whether the Combined Group Unaudited Pro-Forma Financial Information is prepared or presented fairly, in all material respects, in accordance with the recognition and measurement principles prescribed in Australian Accounting Standards, and TPG's accounting policies.

Emphasis of Matter

Without modifying our conclusion above, we draw attention to section 8.5 (c) of the Scheme Document, which describes key assumptions in relation to acquisition accounting, for the purposes of preparing the Combined Group Unaudited Pro-Forma Financial Information, it has been assumed that there will be no separately identifiable intangible assets other than those already recognised in iiNet's 31 December 2014 statement of financial position. It is, however, likely that separately identified intangibles, particularly in the form of subscriber bases, will be identified, with the resulting effect of reducing goodwill arising on acquisition. Given that subscriber bases will have finite lives, net profit after tax will decrease as a result of the requirement to amortise these intangibles over their estimated useful life. This will not, however, have an impact on cash flows.

Independence

KPMG Transaction Services does not have any interest in the outcome of the proposed takeover, other than in connection with the preparation of this report and participation in due diligence procedures for which normal professional fees will be received. KPMG is the auditor of TPG and from time to time, KPMG also provides TPG with certain other professional services for which normal professional fees are received.

General advice warning

This report has been prepared, and included in the Scheme Booklet, to provide investors with general information only and does not take into account the objectives, financial situation or needs of any specific investor. It is not intended to take the place of professional advice and investors should not make specific investment decisions in reliance on the information contained in this report. Before acting or relying on any information, an investor should consider whether it is appropriate for their circumstances having regard to their objectives, financial situation or needs.

Restriction on use

Without modifying our conclusions, we draw attention to section 8.5 of the Scheme Booklet, which describes the purpose of the financial information, being for inclusion in the Scheme Booklet. As a result, the financial information may not be suitable for use for another purpose. We disclaim any assumption of responsibility for any reliance on this report, or on the financial information to which it relates, for any purpose other than that for which it was prepared.

KPMG Transaction Services has consented to the inclusion of this Investigating Accountant's Report in the Scheme Booklet in the form and context in which it is so included, but has not authorised the issue of the Scheme Booklet. Accordingly, KPMG Transaction Services makes no representation regarding, and takes no responsibility for, any other statements, or material in, or omissions from, the Scheme Booklet.

Yours faithfully

Matthew Saunders
Authorised Representative

Financial Services Guide
Dated 12 June 2015

What is a Financial Services Guide (FSG)?

This FSG is designed to help you to decide whether to use any of the general financial product advice provided by **KPMG Financial Advisory Services (Australia) Pty Ltd ABN 43 007 363 215**, Australian Financial Services Licence Number 246901 (of which KPMG Transaction Services is a division) (**'KPMG Transaction Services'**), and Matthew Saunders as an authorised representative of KPMG Transaction Services, authorised representative number 404266 **(Authorised Representative)**.

This FSG includes information about:

- KPMG Transaction Services and its Authorised Representative and how they can be contacted
- the services KPMG Transaction Services and its Authorised Representative are authorised to provide
- how KPMG Transaction Services and its Authorised Representative are paid
- any relevant associations or relationships of KPMG Transaction Services and its Authorised Representative
- how complaints are dealt with as well as information about internal and external dispute resolution systems and how you can access them; and
- the compensation arrangements that KPMG Transaction Services has in place.

The distribution of this FSG by the Authorised Representative has been authorised by KPMG Transaction Services. This FSG forms part of an Investigating Accountant's Report (Report) which has been prepared for inclusion in a disclosure document or, if you are offered a financial product for issue or sale, a Product Disclosure Statement (PDS). The purpose of the disclosure document or PDS is to help you make an informed decision in relation to a financial product. The contents of the disclosure document or PDS, as relevant, will include details such as the risks, benefits and costs of acquiring the particular financial product.

Financial services that KPMG Transaction Services and the Authorised Representative are authorised to provide

KPMG Transaction Services holds an Australian Financial Services Licence, which authorises it to provide, amongst other services, financial product advice for the following classes of financial products:

- deposit and non-cash payment products;
- derivatives;
- foreign exchange contracts;
- government debentures, stocks or bonds;
- interests in managed investments schemes including investor directed portfolio services;
- securities;
- superannuation;
- carbon units;
- Australian carbon credit units; and
- eligible international emissions units,

to retail and wholesale clients. We provide financial product advice when engaged to prepare a report in relation to a transaction relating to one of these types of financial products. The Authorised Representative is authorised by KPMG Transaction Services to provide financial product advice on KPMG Transaction Services' behalf.

KPMG Transaction Services and the Authorised Representative's responsibility to you

KPMG Transaction Services has been engaged by TPG Telecom Limited ("TPG") to provide general financial product advice in the form of a Report to be included in the Scheme Booklet ("Document") prepared by TPG in relation to the proposed acquisition of iiNet Limited ("Transaction").

You have not engaged KPMG Transaction Services or the Authorised Representative directly but have received a copy of the Report because you have been provided with a copy of the Document. Neither KPMG Transaction Services nor the Authorised Representative are acting for any person other than the TPG.

KPMG Transaction Services and the Authorised Representative are responsible and accountable to you for ensuring that there is a reasonable basis for the conclusions in the Report.

General Advice

As KPMG Transaction Services has been engaged by TPG, the Report only contains general advice as it has been prepared without taking into account your personal objectives, financial situation or needs.

You should consider the appropriateness of the general advice in the Report having regard to your circumstances before you act on the general advice contained in the Report.

You should also consider the other parts of the Document before making any decision in relation to the Transaction.

Fees KPMG Transaction Services may receive and remuneration or other benefits received by our representatives

KPMG Transaction Services charges fees for preparing reports. These fees will usually be agreed with, and paid by, TPG. Fees are agreed on either a fixed fee or a time cost basis. In this instance, TPG has agreed to pay KPMG Transaction Services $75,000 for preparing the Report. KPMG Transaction Services and its officers, representatives, related entities and associates will not receive any other fee or benefit in connection with the provision of the Report.

KPMG Transaction Services officers and representatives (including the Authorised Representative) receive a salary or a partnership distribution from KPMG's Australian professional advisory and accounting practice (the KPMG Partnership). KPMG Transaction Services' representatives (including the Authorised Representative) are eligible for bonuses based on overall productivity. Bonuses and other remuneration and benefits are not provided directly in connection with any engagement for the provision of general financial product advice in the Report.

Further details may be provided on request.

Referrals

Neither KPMG Transaction Services nor the Authorised Representative pay commissions or provide any other benefits to any person for referring customers to them in connection with a Report.

Associations and relationships

Through a variety of corporate and trust structures KPMG Transaction Services is controlled by and operates as part of the KPMG Partnership. KPMG Transaction Services' directors and Authorised Representatives may be partners in the KPMG Partnership. The Authorised Representative is a partner in the KPMG Partnership. The financial product advice in the Report is provided by KPMG Transaction Services and the Authorised Representative and not by the KPMG Partnership.

From time to time KPMG Transaction Services, the KPMG Partnership and related entities (KPMG entities) may provide professional services, including audit, tax and financial advisory services, to companies and issuers of financial products in the ordinary course of their businesses.

KPMG entities have provided, and continue to provide, a range of audit, tax and advisory services to TPG for which professional fees are received. Over the past two years professional fees of $914,642 and $490,572 have been received from TPG. None of those services have related to the transaction or alternatives to the transaction.

No individual involved in the preparation of this Report holds a substantial interest in, or is a substantial creditor of, TPG or has other material financial interests in the transaction.

Complaints resolution

Internal complaints resolution process

If you have a complaint, please let either KPMG Transaction Services or the Authorised Representative know. Formal complaints should be sent in writing to The Complaints Officer, KPMG, PO Box H67, Australia Square, Sydney NSW 1213. If you have difficulty in putting your complaint in writing, please telephone the Complaints Officer on 02 9335 7000 and they will assist you in documenting your complaint.

Written complaints are recorded, acknowledged within 5 days and investigated. As soon as practical, and not more than 45 days after receiving the written complaint, the response to your complaint will be advised in writing.

External complaints resolution process

If KPMG Transaction Services or the Authorised Representative cannot resolve your complaint to your satisfaction within 45 days, you can refer the matter to the Financial Ombudsman Service (FOS). FOS is an independent company that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial services industry.

Further details about FOS are available at the FOS website www.fos.org.au or by contacting them directly at:

Address: Financial Ombudsman Service Limited, GPO Box 3, Melbourne Victoria 3001

Telephone: 1300 78 08 08
Facsimile: (03) 9613 6399
Email: info@fos.org.au.

The Australian Securities and Investments Commission also has a freecall infoline on 1300 300 630 which you may use to obtain information about your rights.

Compensation arrangements

KPMG Transaction Services has professional indemnity insurance cover as required by the Corporations Act 2001(Cth).

Contact Details

You may contact KPMG Transaction Services or the Authorised Representative using the contact details:

KPMG Transaction Services

A division of KPMG Financial Advisory Services (Australia) Pty Ltd
10 Shelley St
Sydney NSW 2000
PO Box H67
Australia Square
NSW 1213
Telephone: (02) 9335 7000
Facsimile: (02) 9335 7200

Matthew Saunders
C/O KPMG
PO Box H67
Australia Square
NSW 1213
Telephone: (02) 9335 7000

Facsimile: (02) 9335 7200

Amended and Restated Scheme implementation agreement

iiNet Limited (**iiNet**)

TPG Telecom Limited (**TPG**)

MinterEllison LAWYERS

LEVEL 19 AURORA PLACE 88 PHILLIP STREET SYDNEY NSW 2000
AUSTRALIA DX 117 SYDNEY
T +61 2 9921 8888 F +61 2 9921 8123
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ME_121320322_1 (W2007)

Scheme implementation agreement

ME_121320322_1 (W2007)

Details

Date

13 March 2015

Parties

Name	**iiNet Limited**
ABN	48 068 628 937
Short form name	**iiNet**
Notice details	Facsimile: 08 9221 8473 Address: Level 1, 502 Hay Street, Subiaco, Western Australia 6008 Attention: Chief Executive Officer

Name	**TPG Telecom Limited**
ABN	46 093 058 069
Short form name	**TPG**
Notice details	Facsimile: 02 9252 7855 Address: 63-65 Waterloo Road, Macquarie Park, New South Wales 2113 Attention: Company Secretary

Background

A iiNet and TPG have agreed to implement the Proposed Transaction on and subject to the terms and conditions of this agreement.

B iiNet and TPG have agreed certain other matters in connection with the Proposed Transaction as set out in this agreement.

C On the Amendment Dates, iiNet and TPG agreed certain amendments to this agreement in order to revise the agreed terms of the Proposed Transaction.

Agreed terms

1. Defined terms & interpretation

1.1 Defined terms

In this agreement, unless the context otherwise requires, the following words and expressions have meanings as follows:

ACCC means the Australian Competition and Consumer Commission.

Accounting Standards means:

(a) the accounting standards made by the Australian Accounting Standards Board in accordance with the Corporations Act, and the requirements of that Act relating to the preparation and content of accounts; and

(b) generally accepted accounting principles that are consistently applied in Australia, except those inconsistent with the standards or requirements referred to in paragraph (a).

Adviser means any person who is engaged to provide professional advice of any type (including legal, accounting, consulting or financial advice) to iiNet or TPG.

Amendment Dates means the First Amendment Date and 10 June 2015, being the dates on which amendments made to this agreement became effective in accordance with the terms of the Amendment and Restatement Deeds.

Amendment and Restatement Deeds means the deeds between TPG and iiNet dated 5 May 2015 and 10 June 2015 which amended the terms of this agreement.

ASIC means the Australian Securities and Investments Commission.

Associate has the meaning given in Division 2 of Part 1.2 of the Corporations Act.

ASX means ASX Limited (ABN 98 008 624 691) or, if the context requires, the financial market operated by it.

Authorised Person means, in respect of a person:

(a) a director, officer, partner, member or employee of the person;

(b) an Adviser of the person; and

(c) a director, officer or employee of an Adviser of the person.

Break Fee has the meaning given to that term in clause 11.3.

Business Day means a day that is not a Saturday, Sunday or a public holiday or bank holiday in Sydney, New South Wales or Perth, Western Australia.

Cash Consideration means $8.80 per Scheme Share, in cash payable to a Scheme Shareholder who has made or is deemed to have made a Cash Election.

Cash Election means a valid election made, or deemed to be made, by a Scheme Shareholder to receive the Cash Consideration in accordance with the terms of the Scheme.

Change of Control Requirements has the meaning given to that term in clause 7.5.

Claim means a claim, notice, demand, action, proceeding, litigation, prosecution, arbitration, investigation, judgment, award, damage, loss, cost, expense or liability however arising, whether present, unascertained, immediate, future or contingent, whether based in contract, tort or statute.

Competing Proposal means any proposal, offer or transaction by a third party (other than TPG or its Related Bodies Corporate) that, if completed, would mean:

(a) a person would acquire a relevant interest or voting power in 15% or more of the iiNet Shares or of the securities of any of member of the iiNet Group;

(b) a person would enter into, buy, dispose of, terminate or otherwise deal with any cash settled equity swap or other synthetic, economic or derivative transaction connected with or relating to 15% or more of the iiNet Shares or of the securities of any member of the iiNet Group;

(c) a person would directly or indirectly acquire or obtain an interest (including an economic interest) in all or a substantial part or material part of the business conducted by, or assets or property of, iiNet or any member of the iiNet Group;

(d) a person would acquire Control of iiNet or any member of the iiNet Group;

(e) a person may otherwise acquire, or merge with, iiNet or any member of the iiNet Group (including by way of takeover bid, scheme of arrangement, capital reduction, sale of assets, sale of securities, strategic alliance, dual listed company structure, joint venture or partnership); or

(f) iiNet will issue, on a fully diluted basis, 15% or more of its capital as consideration for the assets or share capital or another person,

or any proposal by iiNet to implement any reorganisation of capital. Each successive material modification or variation of any proposal, offer or transaction in relation to a Competing Proposal will constitute a new Competing Proposal.

Competition Act means the *Competition and Consumer Act 2010* (Cth).

Conditions means the conditions set out in clause 3.1 and **Condition** means any one of them.

Control has the meaning given under section 50AA of the Corporations Act. **Controlled** has the equivalent meaning.

Corporations Act means the *Corporations Act 2001* (Cth).

Costs has the meaning given to that term in clause 11.2(a).

Counter Proposal has the meaning given to that term in clause 10.6(d).

Court means the Federal Court of Australia or any other court of competent jurisdiction under the Corporations Act as the parties may agree in writing.

Deed Poll means the deed poll to be executed by TPG prior to the First Court Date, in the form to be agreed by the parties acting in good faith, provided that where TPG nominates a TPG Nominee in accordance with clause 2(c), the Deed Poll must provide for the TPG Nominee to have the primary obligations under the Deed Poll.

Discretionary Special Dividend has the meaning given to that term in clause 5.8.

Effective means, when used in relation to the Scheme, the coming into effect, under section 411(10) of the Corporations Act, of the order of the Court made under section 411(4)(b) of the Corporations Act in relation to that Scheme.

Effective Date, with respect to the Scheme, means the date on which the Scheme becomes Effective.

Election means a Cash Election or a Share Election.

Election Date means the last date for receipt of an election form in order to make an Election in accordance with the terms of the Scheme, being 5.00pm (WST) on 21 July 2015 or such other date as iiNet and TPG agree in writing.

End Date means the later of:

(a) 31 October 2015; and

(b) such other date and time agreed in writing between TPG and iiNet.

Excluded Shareholder means any iiNet Shareholder who is TPG or a wholly-owned subsidiary of TPG.

Exclusivity Period means the period commencing on the date of this agreement (being 13 March 2015) and ending on the earliest of:

(a) the End Date;

(b) the Effective Date; and

(c) the date this agreement is terminated in accordance with its terms.

First Amendment Date means 5 May 2015.

First Court Date means the date the Court first hears the application to order the convening of the Scheme Meeting under section 411(1) of the Corporations Act.

Governmental Agency means any government or representative of a government or any governmental, semi-governmental, administrative, fiscal, regulatory or judicial body, department, commission, authority, tribunal, agency, competition authority or entity and includes any minister, ASIC, ASX and any regulatory organisation established under statute or any stock exchange.

Headcount Test means the requirement under section 411(4)(a)(ii)(A) of the Corporations Act that the resolution to approve the Scheme at the Scheme Meeting is passed by a majority in number of iiNet Shareholders present and voting, either in person or by proxy.

iiNet Board means the board of directors of iiNet as constituted from time to time (or any committee of the board of directors of iiNet constituted from time to time to consider the Proposed Transaction on behalf of iiNet).

iiNet Group means iiNet and its Subsidiaries.

iiNet Indemnified Parties means each Authorised Person of a member of the iiNet Group.

iiNet Performance Rights means a right granted under iiNet's Long Term Incentive Plan to acquire by way of issue or transfer an iiNet Share subject to the terms and conditions of such plan.

iiNet Prescribed Occurrence means the occurrence of any of the following on or after the date of this agreement (being 13 March 2015) and before 8.00am (WST) on the Second Court Date:

(a) iiNet converts all or any of its shares into a larger or smaller number of shares (see section 254H of the Corporations Act);

(b) any member of the iiNet Group resolves to reduce its share capital in any way;

(c) any member of the iiNet Group:

(i) enters into a buy-back agreement; or

(ii) resolves to approve the terms of a buy-back agreement under subsections 257C(1) or 257D(1) of the Corporations Act;

(d) any member of the iiNet Group issues shares, or grants a performance right, a phantom performance right, or an option over its shares, or agrees to make such an issue or grant such a performance right, phantom performance right or an option;

(e) any member of the iiNet Group issues, or agrees to issue, convertible notes;

(f) any member of the iiNet Group disposes, or agrees to dispose, of the whole, or a substantial part, of its business or property;

(g) any member of the iiNet Group creates or agrees to create, any mortgage, charge, lien or other encumbrance over the whole, or a substantial part, of its business or property, other than in the usual and ordinary course of business consistent with past practice; or

(h) any member of the iiNet Group becomes Insolvent,

provided that an iiNet Prescribed Occurrence will not include any matter:

(i) required to be done or procured by iiNet pursuant to this agreement or the Scheme;

(j) required by law or by an order of a court or Governmental Agency;

(k) expressly permitted pursuant to this agreement; or

(l) the undertaking of which TPG has previously approved in writing (which approval must not be unreasonably withheld or delayed).

iiNet Register means the register of members of iiNet maintained by or on behalf of iiNet in accordance with section 168(1) of the Corporations Act.

iiNet Share means an issued fully paid ordinary share in the capital of iiNet.

iiNet Shareholder means each person who is registered in the iiNet Register as a holder of iiNet Shares.

iiNet Warranties means the representations and warranties of iiNet set out in clause 9.3.

Implementation Date means, with respect to the Scheme, the fifth Business Day, or such other Business Day as the parties agree, following the Record Date for the Scheme.

Impugned Amount has the meaning given to that term in clause 12.4.

Independent Expert means an expert, independent of the parties, engaged by iiNet in good faith to opine on whether the Scheme is in the best interests of iiNet Shareholders.

Independent Expert's Report means the report from the Independent Expert commissioned by iiNet for inclusion in the Scheme Booklet, which includes a statement by the Independent Expert on whether, in its opinion, the Scheme is in the best interests of iiNet Shareholders, and includes any update of that report by the Independent Expert.

Ineligible Foreign iiNet Shareholder means a Scheme Shareholder whose address as shown in the iiNet Register (as at the Record Date) is in a place outside Australia and its external territories, unless TPG is satisfied, acting reasonably, that the laws of that place permit the allotment and issue of TPG Shares to that Scheme Shareholder pursuant to the Scheme either unconditionally or after compliance with conditions that TPG in its sole discretion regards as acceptable and not unduly onerous or impracticable.

Insolvency Event means in relation to a person:

(a) **insolvency official**: the appointment of a liquidator, provisional liquidator, administrator, statutory manager, controller, receiver, receiver and manager or other insolvency official (whether under an Australian law or a foreign law) to the person or to the whole or a substantial part of the property or assets of the person and the action is not stayed, withdrawn or dismissed within 14 days;

(b) **arrangements**: the entry by the person into a compromise or arrangement with its creditors generally;

(c) **winding up**: the calling of a meeting to consider a resolution to wind up the person (other than where the resolution is frivolous or cannot reasonably be considered to be likely to lead to the actual winding up of the person) or the making of an application or order for the winding up or deregistration of the person other than where the application or order (as the case may be) is set aside or withdrawn within 14 days;

(d) **suspends payments**: the person suspends or threatens to suspend payment of its debts as and when they become due;

(e) **ceasing business**: the person ceases or threatens to cease to carry on business;

(f) **insolvency**: the person is or becomes unable to pay its debts when they fall due within the meaning of the Corporations Act or is otherwise presumed to be insolvent under the Corporations Act;

(g) **deregistration**: the person being deregistered as a company or otherwise dissolved;

(h) **deed of company arrangement**: the person executing a deed of company arrangement;

(i) **person as trustee or partner**: the person incurs a liability while acting or purporting to act as trustee (or co-trustee) or general partner of a trust or partnership (including a limited partnership) and the person is not entitled to be fully indemnified against the liability out of trust or partnership assets because of one or more of the following:

    (i) a breach of trust or obligation as partner by the person;

    (ii) the person acting outside the scope of its powers as trustee or partner;

    (iii) a term of the trust or partnership denying, or limiting, the person's right to be indemnified against the liability;

    (iv) the assets of the trust or partnership being insufficient to discharge the liability; or

(j) **analogous events**: anything analogous to those set out in any of paragraphs (a) to (g) inclusive occurs in relation to the person under the laws of a foreign jurisdiction,

and a person shall be **Insolvent** if any event specified in paragraphs (a) to (j) inclusive occurs in respect of that person.

Listing Rules means the official listing rules of ASX as amended from time to time.

Long Term Incentive Plan means the iiNet Limited Executive Long Term Incentive Plan as amended by the Board of iiNet Limited on 22 November 2011, on the terms disclosed to TPG prior to the date of this agreement (being 13 March 2015).

Marketable Parcel has the meaning given to that term in the Listing Rules.

Material Adverse Change means an event, occurrence or matter that occurs, is announced, is disclosed or otherwise becomes known to TPG (whether it becomes public or not) after the date of this agreement (being 13 March 2015), and which (individually or when aggregated with other events, occurrences or matters) has or could reasonably be expected to have:

(a) the result that the business of iiNet is unable to be carried on substantially in the way it is carried on as at the date of this agreement (being 13 March 2015); or

(b) one or more of the following effects (in each case determined in accordance with Accounting Standards):

    (i) for an event, occurrence or matter with a one-off impact – a diminution in the net assets of the iiNet Group by $18 million or more; or

    (ii) in all other cases – the incurring of any liabilities, costs or expenses (contingent or otherwise) where the quantum exceeds $18 million (on a pre-tax basis),

other than events, occurrences or matters:

(c) required to be done or procured by iiNet pursuant to this agreement or the Scheme;

(d) resulting directly from changes in general economic and political conditions or changes that affect the telecommunications industry generally;

(e) fairly disclosed to the ASX before the date of this agreement (being 13 March 2015) or which may arise from an event, occurrence or matter which was so disclosed; or

(f) which TPG has previously approved in writing (which approval must not be unreasonably withheld or delayed).

Material Contract has the meaning given to that term in clause 7.2(l).

New TPG Shares means fully paid ordinary shares in the capital of TPG to be issued under the Scheme.

Proposed Transaction means the proposed acquisition by TPG, in accordance with the terms and conditions of this agreement, of all of the iiNet Shares (other than the iiNet Shares held by an Excluded Shareholder) through the implementation of the Scheme.

Record Date means, in respect of the Scheme, 5.00pm (WST) on 12 August 2015 (or such other Business Day as the parties agree in writing).

Regulatory Approval means:

(a) any approval, consent, authorisation, registration, filing, lodgment, permit, franchise, agreement, notarisation, certificate, permission, licence, direction, declaration, authority, waiver, modification or exemption from, by or with a Governmental Agency; or

(b) in relation to anything that would be fully or partly prohibited or restricted by law if a Governmental Agency intervened or acted in any way within a specified period after lodgment, filing, registration or notification, the expiry of that period without intervention or action.

Related Body Corporate of a person, means a related body corporate of that person under section 50 of the Corporations Act and includes any body corporate that would be a related body corporate if section 48(2) of the Corporations Act was omitted.

Relevant Notice has the meaning given to that term in clause 10.6(b)(iv)(B).

Rival Acquirer has the meaning given to that term in clause 10.6(a).

RG 60 means Regulatory Guide 60 issued by ASIC.

Scheme means the proposed scheme of arrangement pursuant to Part 5.1 of the Corporations Act between iiNet and Scheme Shareholders in respect of all Scheme Shares, to be agreed by the parties acting in good faith, subject to any alterations or conditions made or required by the Court under section 411(6) of the Corporations Act and approved in writing by each party.

Scheme Booklet means the explanatory booklet to be prepared by iiNet in respect of the Proposed Transaction in accordance with the terms of this agreement and to be despatched to iiNet Shareholders.

Scheme Consideration means the consideration payable to Scheme Shareholders under the Scheme, being comprised of the Cash Consideration and the Share Consideration and, if applicable, the Top Up Cash Consideration.

Scheme Meeting means the meeting of iiNet Shareholders ordered by the Court to be convened under section 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 Share means an iiNet Share on issue as at the Record Date other than any iiNet Share then held by an Excluded Shareholder (but including any such iiNet Share held on behalf of one or more third parties or otherwise in a fiduciary capacity).

Scheme Shareholder means a person who holds one or more Scheme Shares.

Second Court Date means the first day on which an application made to the Court for an order under section 411(4)(b) of the Corporations Act approving the Scheme is heard or scheduled to be heard or, if the application is adjourned for any reason, means the date on which the adjourned application is heard or scheduled to be heard.

Share Consideration means the consideration determined in accordance with clause 4.6 as being payable to a Scheme Shareholder who has made a valid Share Election.

Share Consideration Cap means 27,523,946 New TPG Shares.

Share Election means a valid election made by a Scheme Shareholder to receive the Share Consideration in accordance with the terms of the Scheme.

Share Ratio means 0.969 New TPG Shares per Scheme Share.

Share Splitting means the splitting by a holder of iiNet Shares into two or more parcels of iiNet Shares whether or not it results in any change in beneficial ownership of the iiNet Shares.

Subsidiary has the meaning given to that term in section 46 of the Corporations Act.

Superior Proposal means a bona fide Competing Proposal which the iiNet Board determines, acting in good faith and in order to satisfy what the iiNet Board reasonably considers to be its fiduciary or statutory duties, would, if completed substantially in accordance with its terms, be likely to result in a transaction more favourable to iiNet Shareholders than the Proposed

Transaction having regard to matters including consideration, conditionality, funding, certainty and timing.

Timetable means the indicative timetable in relation to the Proposed Transaction set out in Schedule 1 with such modifications as may be agreed in writing by the parties.

Top Up Cash Consideration means, if applicable, the amount calculated in accordance with clause 5.8(b)(ii).

TPG Group means TPG and its Subsidiaries.

TPG Indemnified Parties means each Authorised Person of a member of the TPG Group.

TPG Information means such information regarding TPG that is provided by or on behalf of TPG to iiNet or the Independent Expert:

(a) to enable the Scheme Booklet to be prepared and completed in compliance with all applicable laws;

(b) to enable applications for Regulatory Approvals to be made; and

(c) otherwise in compliance with TPG's obligations under clause 5.2(a).

TPG Nominee has the meaning given to that term in clause 2(c).

TPG Share means an issued fully paid ordinary share in the capital of TPG.

TPG Warranties means the representations and warranties of TPG set out in clause 9.1.

1.2 Interpretation

In this agreement, except where the context otherwise requires:

(a) the singular includes the plural and vice versa, and a gender includes other genders;

(b) another grammatical form of a defined word or expression has a corresponding meaning;

(c) a reference to a clause, paragraph, schedule or annexure is to a clause or paragraph of, or schedule or annexure to, this agreement, and a reference to this agreement includes any schedule or annexure;

(d) a reference to a document or instrument includes the document or instrument as novated, altered, supplemented or replaced from time to time;

(e) a reference to **A$**, **$A**, **dollar** or **$** is to Australian currency;

(f) a reference to time is to Perth, Western Australia time;

(g) a reference to a party is to a party to this agreement, and a reference to a party to a document includes the party's executors, administrators, successors and permitted assigns and substitutes;

(h) a reference to a person includes a natural person, partnership, body corporate, association, governmental or local authority or agency or other entity;

(i) a reference to a statute, ordinance, code or other law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them;

(j) a word or expression defined in the Corporations Act has the meaning given to it in the Corporations Act;

(k) the meaning of general words is not limited by specific examples introduced by **including**, **for example** or similar expressions;

(l) a rule of construction does not apply to the disadvantage of a party because the party was responsible for the preparation of this agreement or any part of it; and

(m) if a day on or by which an obligation must be performed or an event must occur is not a Business Day, the obligation must be performed or the event must occur on or by the next Business Day.

1.3 Headings

Headings are for ease of reference only and do not affect interpretation.

2. Agreement to propose Scheme

(a) iiNet agrees to propose and implement the Scheme on and subject to the terms and conditions of this agreement, and substantially in accordance with the Timetable.

(b) Subject to clauses 2(c) and (d), TPG agrees to assist iiNet in proposing and implementing the Scheme on and subject to the terms and conditions of this agreement, and substantially in accordance with the Timetable.

(c) TPG expects that the entity that acquires the Scheme Shares under the Scheme will be a wholly-owned Subsidiary of TPG incorporated in Australia, but may nominate any wholly-owned Subsidiary of TPG (**TPG Nominee**) to acquire the Scheme Shares under the Scheme by giving written notice to iiNet on before the date that is 5 Business Days before the First Court Date.

(d) If TPG nominates the TPG Nominee to acquire the Scheme Shares under the Scheme, then:

(i) references in this agreement to TPG acquiring the Scheme Shares under the Scheme, or taking any other action under or in respect of the Scheme, are to be read as references to the TPG Nominee doing so;

(ii) TPG must procure that TPG Nominee complies with its obligations under the Scheme; and

(iii) any such nomination will not relieve TPG of its obligations under this agreement, including the obligation to pay (or procure the payment by TPG Nominee of) the Cash Consideration and, if applicable, the Top-Up Cash Consideration and to issue and allot the Share Consideration in accordance with the terms of the Scheme.

3. Conditions precedent and pre-implementation steps

3.1 Conditions to Scheme

Subject to this clause 3, the Scheme will not become Effective, until each of the following conditions precedent is satisfied or waived to the extent and in the manner set out in this clause 3:

(a) (**ACCC**): TPG has received written notice from the ACCC to the effect that the ACCC does not propose to oppose, intervene or seek to prevent the implementation of the Scheme under or by reference to section 50 of the Competition Act, which notification is either unconditional or is on or requires conditions or undertakings acceptable to TPG;

(b) (**Restraints**) no temporary restraining order, preliminary or permanent injunction or other order issued by any Court of competent jurisdiction or Governmental Agency or other legal restraint or prohibition preventing the Scheme is in effect at 8.00am (WST) on the Second Court Date;

(c) (**Shareholder approval**) the Scheme is approved by iiNet Shareholders at the Scheme Meeting by the majorities required under section 411(4)(a)(ii) of the Corporations Act;

(d) (**ASIC and ASX**) before 8.00am (WST) on the Second Court Date, ASIC and ASX issue or provide such consents or approvals as are necessary or which iiNet and TPG agree are necessary or desirable to implement the Scheme and such consent, approval or other act has not been withdrawn or revoked before 8.00am (WST) on the Second Court Date;

(e) (**Court approval**) the Scheme is approved by the Court in accordance with section 411(4)(b) of the Corporations Act either unconditionally or on conditions that do not impose unduly onerous obligations upon either party (acting reasonably);

(f) (**iiNet Performance Rights**) before 8.00am (WST) on the Second Court Date, arrangements have been put in place and all necessary Regulatory Approvals have been obtained so that:

(i) all iiNet Performance Rights outstanding as at the date of this agreement (being 13 March 2015); and

(ii) all iiNet Performance Rights that will be issued after the date of this agreement (being 13 March 2015) (including those issued where the vesting outcome for an award is more than 100% under the terms of an offer of iiNet Performance Rights),

will either vest, have lapsed or have been cancelled before the Record Date;

(g) (**No iiNet Prescribed Occurrence**) no iiNet Prescribed Occurrence occurs between the date of this agreement (being 13 March 2015) and 8.00am (WST) on the Second Court Date;

(h) (**No Material Adverse Change**) there is no Material Adverse Change between the date of this agreement (being 13 March 2015) and 8.00am (WST) on the Second Court Date;

(i) (**iiNet Warranties**) the iiNet Warranties being true and correct in all material respects on the date of this agreement (being 13 March 2015) and at 8.00am (WST) on the Second Court Date;

(j) (**TPG Warranties**) the TPG Warranties being true and correct in all material respects on the date of this agreement (being 13 March 2015) and at 8.00am (WST) on the Second Court Date;

(k) (**Decline in S&P/ASX 200 Index**) on no day in the period between the date of this agreement (being 13 March 2015) and the Business Day before the Second Court Date is the S&P/ASX 200 Index at the close of trading for the previous 5 trading days 15% or more below its level as at the close of trading on the date of this agreement; and

(l) (**Independent Expert's Report**) the Independent Expert provides the Independent Expert's Report to iiNet, stating that in its opinion the Scheme is in the best interests of iiNet Shareholders, on or before the date on which the Scheme Booklet is registered with ASIC under the Corporations Act, and the Independent Expert does not change or publicly withdraw this conclusion prior to 8.00am (WST) on the Second Court Date.

3.2 Change in Independent Expert Opinion

For the purposes of the Condition in clause 3.1(l), if the Independent Expert provides the Independent Expert's Report to iiNet stating that in its opinion the Scheme is in the best interests of iiNet Shareholders on or before the date on which the Scheme Booklet is registered with ASIC under the Corporations Act, and prior to 8.00am (WST) on the Second Court Date determines that one of either the Cash Consideration or the Share Consideration (and, if applicable, the Top-Up Cash Consideration) are (in its opinion) no longer in the best interests of iiNet Shareholders, then the Independent Expert will not be considered to have changed or publicly withdrawn this conclusion (and the Condition in clause 3.1(l) will remain satisfied), provided that the Independent Expert retains its conclusion that the other of the Cash Consideration or the Share Consideration (and, if applicable, the Top-Up Cash Consideration) remains in the best interests of iiNet Shareholders.

3.3 Benefit and waiver of conditions precedent

(a) The Conditions in clauses 3.1(c), 3.1(d) and 3.1(e) are for the benefit of each party and any breach or non-satisfaction of any of them cannot be waived.

(b) The Conditions in clauses 3.1(a) and 3.1(b), and are for the benefit of each party and any breach or non-satisfaction of any of them may only be waived (if capable of waiver) with the written consent of both parties.

(c) The Conditions in clauses 3.1(f), 3.1(g), 3.1(h), 3.1(i) and 3.1(k) are for the sole benefit of TPG and any breach or non-satisfaction of any of them may only be waived by TPG giving its written consent.

(d) The Conditions in clauses 3.1(j) and 3.1(l) are for the sole benefit of iiNet and any breach or non- satisfaction of any of them may only be waived by iiNet giving its written consent.

(e) A party entitled to waive the breach or non-satisfaction of a Condition pursuant to this clause 3.3 (either individually or jointly) may do so in its absolute discretion.

(f) Any waiver of the breach or non-satisfaction of a Condition by a party who is entitled to do so pursuant to this clause 3.3 is only effective if such waiver is given on or prior to 8.00am (WST) on the Second Court Date.

(g) If a party waives the breach or non-satisfaction of any Condition, that waiver will not preclude it from suing the other party for any breach of this agreement including a breach that resulted in the non-satisfaction of the Condition that was waived.

3.4 Procuring satisfaction of the Conditions

(a) iiNet and TPG will use their respective reasonable endeavours to procure that each of the Conditions is satisfied as soon as reasonably practicable after the date of this agreement (being 13 March 2015) or continues to be satisfied at all times until the last time they are to be satisfied (as the case may require).

(b) Each of iiNet and TPG must:

(i) promptly apply for all approvals necessary in order to satisfy the Condition in clause 3.1(a) and provide the other party with a copy of all such applications;

(ii) take all the steps for which it is responsible as part of the process to obtain the approvals necessary in order to satisfy the Condition in clause 3.1(a);

(iii) respond, at the earliest practicable time, to all requests for information in respect of the applications for approvals necessary in order to satisfy the Condition in clause 3.1(a);

(iv) subject to clause 3.4(c), provide the other with all information and assistance reasonably requested by the other and the ACCC in connection with the application necessary in order to satisfy the Condition in clause 3.1(a); and

(v) so far as it is able, allow the other and its Authorised Persons the opportunity to be present and make submissions at any meetings with the ACCC relating to the application necessary in order to satisfy the Condition in clause 3.1(a).

(c) Before providing any document or other information to the other party (in this clause 3.4(c), the **Recipient**) pursuant to clause 3.4(b)(iv), a party (in this clause 3.4(c), the **Discloser**) may redact any part of that document, or not disclose any part of that information, which contains or is confidential, non-public information (**Sensitive Confidential Information**) if the Discloser reasonably believes that:

(i) the Sensitive Confidential Information is of a commercially sensitive nature; or

(ii) the disclosure of the Sensitive Confidential Information to the Recipient would be damaging to the commercial or legal interest of the Discloser or any of its Related Bodies Corporate,

and may provide the document or disclose the information to the Recipient with any Sensitive Confidential Information redacted or excluded, provided that, where Sensitive Confidential Information is so redacted or excluded, the Discloser must provide:

(iii) the Recipient with as much details about the relevant communication, submission or correspondence (and any other relevant circumstances) as is reasonably possible without disclosing Sensitive Confidential Information; and

(iv) a complete version of the document or other information, without any redaction or exclusion of information, to the Recipient's external lawyers on the basis that the Recipient's external lawyers will not disclose the Sensitive Confidential Information to the Recipient or any other third party including the ACCC without the Discloser's prior written consent and will only use the information for the purpose of satisfying the Condition in clause 3.1(a).

3.5 Notifications

Each of TPG and iiNet must:

(a) keep the other promptly and reasonably informed of the steps it has taken and of its progress towards satisfaction of the Conditions;

(b) promptly notify the other in writing if it becomes aware that any Condition has been satisfied; and

(c) promptly notify the other in writing if it becomes aware that any Condition is or has become incapable of being satisfied (having regard to the respective obligations of each party under clause 3.4).

3.6 Certificate

On the Second Court Date, TPG and iiNet will provide a joint certificate to the Court confirming whether or not the Conditions (other than the Condition set out in clause 3.1(e)) have been satisfied or waived in accordance with the terms of this agreement.

3.7 Scheme voted down

If the Scheme is not approved by iiNet Shareholders at the Scheme Meeting by reason only of the non-satisfaction of the Headcount Test and iiNet or TPG considers, acting reasonably, that Share Splitting or some abusive or improper conduct may have caused or contributed to the Headcount Test not having been satisfied then iiNet must:

(a) apply for an order of the Court contemplated by section 411(4)(a)(ii)(A) of the Corporations Act to disregard the Headcount Test and seek Court approval of the Scheme under section 411(4)(b) of the Corporations Act, notwithstanding that the Headcount Test has not been satisfied; and

(b) make such submissions to the Court and file such evidence as counsel engaged by iiNet to represent it in Court proceedings related to the Scheme, in consultation with TPG, considers is reasonably required to seek to persuade the Court to exercise its discretion under section 411(4)(a)(ii)(A) of the Act by making an order to disregard the Headcount Test.

3.8 Conditions not capable of being satisfied

(a) If a Condition is not satisfied, or becomes incapable of being satisfied, before the End Date, then unless the relevant Condition (where capable of waiver) is waived:

(i) subject to clause 3.8(b), either party may give the other party written notice (**Consultation Notice**) within 5 Business Days after the relevant notice of that fact being given under clause 3.5(c);

(ii) upon delivery of the Consultation Notice, the parties must consult in good faith with a view to determining whether they can reach agreement with respect to:

(A) the terms (if any) on which the party with the benefit of the relevant Condition will waive that Condition;

(B) an extension of the time for satisfaction of the relevant Condition or an extension of the End Date (as the case may be); or

(C) the Proposed Transaction proceeding by way of alternative means or methods; and

(iii) if the parties are unable to reach such agreement within 5 Business Days after a Consultation Notice is given, or if a Consultation Notice is not given within the timeframe specified in clause 3.8(a)(i) then, subject to clause 3.8(b), either party may terminate this agreement by notice to the other without any liability to any party by reason of that termination alone.

(b) A party will not be entitled to give a Consultation Notice or terminate this agreement pursuant to clause 3.8(a)(iii) if the relevant Condition has not been satisfied as a result of:

(i) a breach of this agreement by that party; or

(ii) a deliberate act or omission of that party which directly and materially contributed to that Condition not being satisfied.

(c) The parties agree that their respective obligations to consult in good faith under clause 3.8(a)(ii) extends to considering, in good faith, the merits of an appeal to the Federal Court of Australia or any other competent Australian court where TPG has received written notice from the ACCC to the effect that:

(i) the ACCC proposes to oppose, intervene or seek to prevent the implementation of the Scheme under or by reference to section 50 of the Competition Act; or

(ii) the ACCC does not propose to oppose, intervene or seek to prevent the implementation of the Scheme under or by reference to section 50 of the Competition Act subject to conditions or undertakings that are not acceptable to TPG,

and either of the parties considers that the implementation of the Scheme would not contravene the Competition Act notwithstanding the notice received from the ACCC.

3.9 Interpretation

For the purposes of this clause 3, a Condition will be incapable of satisfaction, or incapable of being satisfied if:

(a) in the case of the Condition in clause 3.1(a) – ACCC notifies TPG in writing that it will not provide the notification in the terms referred to in clause 3.1(a) or will only provide that notification subject to conditions or undertakings that are not acceptable to TPG; and

(b) in all other cases – there is an act, failure to act or occurrence that will prevent the Condition being satisfied by the End Date (and the breach or non-satisfaction that would otherwise have occurred has not already been waived in accordance with this agreement).

4. Scheme structure

4.1 Scheme

The parties acknowledge and agree that, subject to the Scheme becoming Effective, on the Implementation Date the general effect of the Scheme will be that all of the Scheme Shares will be transferred to TPG and the Scheme Shareholders will be entitled to receive, for each Scheme Share held at the Record Date, the Scheme Consideration.

4.2 Scheme Consideration

(a) TPG covenants in favour of iiNet (in its own right and separately as trustee for each of the Scheme Shareholders) that, if the Scheme becomes Effective, in consideration for the transfer to TPG of the Scheme Shares held by each Scheme Shareholder under the terms of the Scheme, TPG will provide to each Scheme Shareholder the Scheme Consideration for each Scheme Share held by them in accordance with the terms of the Scheme.

(b) TPG covenants in favour of iiNet (in its own right and separately as trustee for each of the Scheme Shareholders) that, if the Scheme becomes Effective, TPG will:

(i) procure the payment to a trust account operated by iiNet of an amount in cleared funds equal to:

(A) the aggregate amount of the Cash Consideration for all Scheme Shares, plus

(B) the aggregate amount of cash payable in accordance with clause 4.6(c)(ii); plus

(C) if applicable, the aggregate amount of the Top Up Cash Consideration,

by no later than the Business Day before the Implementation Date and otherwise in accordance with the Scheme;

(ii) allot and issue to the Scheme Shareholders the New TPG Shares that comprise the Scheme Consideration in accordance with the Scheme on terms such that each New TPG Share will rank equally in all respects with each existing TPG Share;

(iii) apply to ASX for the official quotation of the New TPG Shares that comprise the Scheme Consideration on the ASX; and

(iv) ensure that on issue, each New TPG Share that comprises the Scheme Consideration will be fully paid and free from any mortgage, charge, lien, encumbrance or other security interest.

(c) Subject to the Scheme becoming Effective and TPG complying with its obligations under clauses 4.2(a) and 4.2(b), at 10.00am on the Implementation Date, the transactions which form part of the Scheme will be implemented in the following sequence:

(i) all existing iiNet Shares at the Record Date will be transferred to TPG; and

(ii) in exchange, each Scheme Shareholder will receive the Scheme Consideration.

4.3 Election Mechanism

(a) iiNet must ensure that the Scheme Booklet sent to iiNet Shareholders is accompanied by a form of election which provides for the matters set out in clause 4.3(b) under which each iiNet Shareholder may make a Cash Election or a Share Election.

(b) The form of election shall provide that:

(i) subject to clause 4.3(b)(vi), an iiNet Shareholder may make only one Election in relation to a particular holding;

(ii) subject to clause 4.3(b)(vi), any Election by an iiNet Shareholder will apply to all of the iiNet Shares that iiNet Shareholder holds continuously from the Election Date until the Record Date;

(iii) an Election may be made by an iiNet Shareholder by:

(A) completing the election form in accordance with the instructions specified on the form or set out in the Scheme Booklet; and

(B) returning the completed election form in accordance with the instructions on it so that it is received by no later than the Election Date,

or by taking equivalent actions in electronic form if permitted by the iiNet Constitution and the Court at the first Court hearing;

(iv) once made, an Election by an iiNet Shareholder may be varied before the Election Date (provided that any variation that purports to make an Election invalid will not be effective);

(v) if an Election is not made by an iiNet Shareholder prior to the Election Date in respect of all of the iiNet Shares held by that iiNet Shareholder as at the Election Date, then that iiNet Shareholder will be deemed to have made a Cash Election;

(vi) an iiNet Shareholder that holds one or more parcels of iiNet Shares as trustee or nominee for, or otherwise on account of, another person, may, in a manner to be agreed between the parties (acting reasonably), make separate Elections in relation to each of those parcels of iiNet Shares (and, for the purpose of calculating the Scheme Consideration to which the iiNet Shareholder is entitled each such parcel of iiNet Shares will be treated as though it were held by a separate iiNet Shareholder);

(vii) an iiNet Shareholder that acquires iiNet Shares after the Election Date will not be eligible to make an Election in respect of those iiNet Shares and will be deemed to have made a Cash Election in respect of those iiNet Shares;

(viii) if an iiNet Shareholder makes a Share Election and the total value of New TPG Shares to be issued to that iiNet Shareholder (calculated at the Election Date) is less than a Marketable Parcel of New TPG Shares, that iiNet Shareholder will be deemed to have made a Cash Election,

and must otherwise be in a form agreed between iiNet and TPG.

(c) iiNet must ensure that, to the extent reasonably practicable, iiNet Shareholders that have acquired iiNet Shares after the date of the despatch of the Scheme Booklet and before the Election Date can receive an election form on request to iiNet.

(d) In order to facilitate the provision of the Scheme Consideration, iiNet must, upon the written request of TPG, provide, or procure the provision, to TPG or a nominee of TPG, of:

(i) a weekly update of the Elections that have been received;

(ii) details of the final Elections made by each iiNet Shareholder, as soon as reasonably practicable after the Election Date; and

(iii) a complete copy of the Register as at the Record Date, within three Business Days after the Record Date,

and such other information as TPG may reasonably require to provide the Scheme Consideration in accordance with this agreement and the terms of the Scheme.

4.4 Ineligible Foreign iiNet Shareholders

(a) TPG will be under no obligation under the Scheme to issue, and will not issue, any New TPG Shares to any Ineligible Foreign iiNet Shareholder, and instead, unless TPG and iiNet otherwise agree, TPG will issue on the Implementation Date the New TPG Shares to which that Ineligible Foreign iiNet Shareholder would otherwise have been entitled (if they were a Scheme Shareholder who was not an Ineligible Foreign iiNet Shareholder) to a nominee appointed by TPG.

(b) Where New TPG Shares are issued to a nominee pursuant to clause 4.4(a), TPG will procure that, as soon as reasonably practicable and in any event not more than 15 Business Days after the Implementation Date, the nominee:

(i) sells on ASX or another prescribed financial market all of the New TPG Shares issued to the nominee in accordance with clause 4.4(a) in such manner, at such price and on such other terms as the nominee determines in good faith, and at the risk of the Ineligible Foreign iiNet Shareholders; and

(ii) remits to TPG the proceeds of sale (after deducting any applicable brokerage, stamp duty and other selling costs, taxes and charges).

(c) Where New TPG Shares are issued to a nominee pursuant to clause 4.4(a), promptly after the last remittance in accordance with clause 4.4(b), TPG will pay to each Ineligible Foreign iiNet Shareholder the proportion of the net proceeds of sale received by TPG pursuant to clause 4.4(b)(ii) to which that Ineligible Foreign iiNet Shareholder is entitled.

4.5 Consideration payable for Scheme Shares subject of a Cash Election

If a Scheme Shareholder has made a Cash Election, or is deemed to have made a Cash Election, the Scheme Shareholder will receive the Cash Consideration plus, (if applicable) the Top Up Cash Consideration, for each Scheme Share the subject of that Cash Election held by that Scheme Shareholder as at the Record Date.

4.6 Consideration payable for Scheme Shares subject of a Share Election

(a) If a Scheme Shareholder has made a Share Election, the Scheme Shareholder will receive the Share Consideration determined in accordance with this clause 4.6.

(b) If the aggregate number of New TPG Shares the subject of a Share Election under the Scheme is less than or equal to the Share Consideration Cap, then each Scheme Shareholder who has made a Share Election shall receive, in respect of the Scheme Shares the subject of that Share Election:

(i) the number of New TPG Shares determined in accordance with the following formula (rounded to the nearest whole New TPG Share):

$$X = Y \times Z$$

where:

X is the number of New TPG Shares to be issued to that Scheme Shareholder

Y is the Share Ratio

Z is the number of Scheme Shares held by that Scheme Shareholder continuously from the Election Date until the Record Date

plus

(ii) if applicable, the Top Up Cash Consideration for each Scheme Share held by that Scheme Shareholdert continuously from the Election Date until the Record Date.

(c) If the aggregate number of New TPG Shares the subject of a Share Election under the Scheme is greater than the Share Consideration Cap, then each Scheme Shareholder who has made a Share Election shall receive, in respect of the Scheme Shares the subject of that Share Election:

(i) the number of New TPG Shares determined in accordance with the following formula (rounded to the nearest whole New TPG Share):

$$A = (B/C) \times E$$

where:

A is the number of New TPG Shares to be issued to the Scheme Shareholder

B is the Share Consideration Cap

C is the aggregate number of iiNet Shares held as at the Election Date by all iiNet Shareholders who have made a Share Election

E is the number of Scheme Shares held by that Scheme Shareholder continuously from the Election Date until the Record Date;

plus

(ii) an amount of cash determined in accordance with the following formula (rounded to the nearest whole cent):

$$F = (1 - (B/(C \times D))) \times G \times E$$

where:

F is the amount of cash to be paid to the Scheme Shareholder

B is the Share Consideration Cap

C is the aggregate number of iiNet Shares held as at the Election Date by all iiNet Shareholders who have made a Share Election

D is the Share Ratio

G is $8.80

E is the number of Scheme Shares held by that Scheme Shareholder continuously from the Election Date until the Record Date;

plus

(iii) if applicable, the Top Up Cash Consideration for each Scheme Share held by that Scheme Shareholder continuously from the Election Date until the Record Date.

4.7 Share splitting

If TPG is of the opinion (acting reasonably) that two or more Scheme Shareholders (each of whom holds a number of Scheme Shares that results in rounding in accordance with clause 4.6) have, before the Record Date, been party to Share Splitting or division in an attempt to obtain unfair advantage by reference to such rounding, TPG may give notice to those Scheme Shareholders:

(a) setting out their names and registered addresses as shown in the iiNet Register;

(b) stating that opinion; and

(c) attributing the Scheme Shares held by all of them to one of them as specifically identified in the notice,

and, after such notice has been given, the Scheme Shareholder specifically identified in the notice as the deemed holder of all the specified Scheme Shares will, for the purposes of the Scheme, be taken to hold all of those Scheme Shares and each of the other Scheme Shareholders whose names and registered addresses are set out in the notice will, for the purposes of the Scheme, be taken to hold no Scheme Shares. TPG, in complying with the other provisions of the Scheme relating to it in respect of the Scheme Shareholder specifically identified in the notice as the deemed holder of all the specified Scheme Shares, will be taken to have satisfied and discharged its obligations to the other Scheme Shareholders named in the notice under the terms of the Scheme.

4.8 Deed Poll

TPG covenants in favour of iiNet (in its own right and separately as trustee for each of the Scheme Shareholders) to execute and deliver the Deed Poll prior to the First Court Date.

4.9 iiNet Performance Rights

(a) iiNet covenants that:

(i) not more than 1,614,327 iiNet Performance Rights will vest on or before the Effective Date;

(ii) no iiNet Performance Rights will vest after the Record Date; and

(iii) on or before the Record Date, iiNet will issue not more than 1,614,327 iiNet Shares in satisfaction of those iiNet Performance Rights.

(b) iiNet and TPG must use their respective reasonable endeavours to agree a proposed strategy to ensure that the Condition in clause 3.1(f) is satisfied, and then must each use their best endeavours to expeditiously implement the agreed strategy.

(c) iiNet must not:

(i) waive or vary any unsatisfied conditions or hurdles to which any iiNet Performance Right is subject;

(ii) exercise any discretion enjoyed by iiNet or the iiNet Board under the Long Term Incentive Plan or any offer letter issued under that plan; or

(iii) make any determination under clause 16.1 of the Long Term Incentive Plan,

unless TPG requests that it does so, in which case iiNet must promptly comply with such request (subject at all times to such action being in compliance with the Corporations Act and the Listing Rules).

5. Scheme – parties' respective implementation obligations

5.1 iiNet's obligations

iiNet must take all steps reasonably necessary to implement the Scheme as soon as reasonably practicable after the date of this agreement (being 13 March 2015) and substantially in accordance with the Timetable, including taking each of the following steps:

(a) (**promote merits of the Proposed Transaction**) participate in, and ensure the iiNet Board participates in, efforts reasonably requested by TPG to promote the merits of the Proposed Transaction, including meeting with key iiNet Shareholders at the reasonable request of TPG;

(b) (**Scheme Booklet**) prepare the Scheme Booklet in compliance with all applicable laws (in particular with the Corporations Act, RG 60 and the Listing Rules);

(c) (**drafts of Scheme Booklet**) make available to TPG drafts of the Scheme Booklet (excluding any draft of the Independent Expert's Report), consult with TPG in relation to the content of those drafts (other than the TPG Information), and consider in good faith, for the purpose of amending those drafts, comments from TPG on those drafts;

(d) (**commission Independent Expert's Report**) promptly appoint an Independent Expert to provide the Independent Expert's Report, and provide any assistance and information reasonably requested by the Independent Expert to enable it to prepare the Independent Expert's Report;

(e) (**experts**) provide all assistance and information reasonably requested by any experts appointed by iiNet and/or TPG in connection with the preparation of the Scheme Booklet;

(f) (**approval of TPG Information**) seek approval from TPG for the form and context in which the TPG Information appears in the Scheme Booklet, which approval TPG must not unreasonably withhold or delay, and iiNet must not lodge the Scheme Booklet with ASIC until such approval is obtained from TPG;

(g) (**liaison with ASIC**) as soon as reasonably practicable after the date of this agreement (being 13 March 2015):

(i) provide an advanced draft of the Scheme Booklet to ASIC for its review and approval for the purposes of section 411(2) of the Corporations Act; and

(ii) liaise with ASIC during the period of its consideration of that draft of the Scheme Booklet and keep TPG reasonably informed of any matters raised by ASIC in relation to the Scheme Booklet and use reasonable endeavours, in consultation with TPG, to resolve any such matters;

(h) (**approval of Scheme Booklet**) as soon as reasonably practicable after the conclusion of the review by ASIC of the Scheme Booklet, procure that a meeting of the iiNet Board, or of a committee of the iiNet Board appointed for the purpose, is held to consider approving the Scheme Booklet for despatch to the iiNet Shareholders, subject to orders of the Court under section 411(1) of the Corporations Act;

(i) (**section 411(17)(b) statements**) apply to ASIC for the production of statements in writing pursuant to section 411(17)(b) of the Corporations Act stating that ASIC has no objection to the Scheme;

(j) (**first Court hearing**) lodge all documents with the Court and take all other reasonable steps to ensure that promptly after, and provided that, the approval in clause 5.1(h) has been received, an application is heard by the Court for an order under section 411(1) of the Corporations Act directing iiNet to convene the Scheme Meeting;

(k) (**registration of Scheme Booklet**) if the Court directs iiNet to convene the Scheme Meeting, as soon as possible after such orders are made, request ASIC to register the explanatory statement included in the Scheme Booklet in relation to the Scheme in accordance with section 412(6) of the Corporations Act;

(l) (**convening Scheme Meeting**) take all reasonable steps necessary to comply with the orders of the Court including, as required, despatching the Scheme Booklet to the iiNet Shareholders and convening and holding the Scheme Meeting, provided that if this agreement is terminated under clause 15 iiNet will take all steps reasonably required to ensure the Scheme Meeting is not held;

(m) (**Court approval application if parties agree that conditions are capable of being satisfied**) if the resolution submitted to the Scheme Meeting is passed by the majorities required under the Corporations Act and, if necessary, the parties agree on the Business Day immediately following the Scheme Meeting that it can be reasonably expected that all of the Conditions will be satisfied or waived prior to 8.00am (WST) on the proposed Second Court Date, apply (and, to the extent necessary, re-apply) to the Court for orders approving the Scheme;

(n) (**implementation of Scheme**) if the Scheme is approved by the Court:

(i) subject to the Listing Rules, promptly lodge with ASIC an office copy of the orders approving the Scheme in accordance with section 411(10) of the Corporations Act;

(ii) determine entitlements to the Scheme Consideration as at the Record Date in accordance with the Scheme;

(iii) execute proper instruments of transfer of and effect and register the transfer of the Scheme Shares to TPG on the Implementation Date; and

(iv) do all other things contemplated by or necessary to give effect to the Scheme and the orders of the Court approving the Scheme;

(o) (**documents**) consult with TPG in relation to the content of the documents required for the purpose of the Scheme (including originating process, affidavits, submissions and draft minutes of Court orders); and

(p) (**compliance with laws**) do everything reasonably within its power to ensure that all transactions contemplated by this agreement are effected in accordance with all applicable laws and regulations.

5.2 TPG's obligations

TPG must take all steps reasonably necessary to assist iiNet to implement the Scheme as soon as reasonably practicable after the date of this agreement (being 13 March 2015) and substantially in accordance with the Timetable including taking each of the following steps:

(a) (**TPG Information**) provide to iiNet all information regarding TPG, the Scheme Consideration, and TPG's intentions with respect to the assets, business and employees of iiNet if the Scheme is approved and implemented that is required by all applicable laws (in particular with the Corporations Act, RG 60 and the Listing Rules) for inclusion in the Scheme Booklet;

(b) (**confirmation of TPG Information**) subject to clause 5.6, promptly after iiNet requests that it does so, confirm in writing to iiNet that it consents to the inclusion of the TPG Information in the Scheme Booklet, in the form and context in which the TPG Information appears;

(c) (**Independent Expert**) promptly provide all assistance and information reasonably requested by the Independent Expert to enable it to prepare the Independent Expert's Report for inclusion in the Scheme Booklet;

(d) (**assistance with Scheme Booklet and Court documents**) promptly provide any assistance or information reasonably requested by iiNet or its Advisers in connection with the preparation of the Scheme Booklet (including any supplementary disclosure to iiNet Shareholders) and any documents required to be filed with the Court in respect of the Scheme;

(e) (**representation**) procure that TPG is represented by counsel at the Court hearings convened for the purposes of section 411(4)(b) of the Corporations Act; and

(f) (**compliance with laws**) do everything reasonably within its power to ensure that all transactions contemplated by this agreement are effected in accordance with all applicable laws and regulations; and

(g) (**official quotation**) apply to ASX for official quotation by ASX of the New TPG Shares to be issued pursuant to the Scheme.

5.3 New information

(a) iiNet must provide to TPG all such further or new information of which iiNet becomes aware that arises after the Scheme Booklet has been despatched to iiNet Shareholders until the date of the Scheme Meeting where this is or may be necessary to ensure that the Scheme Booklet continues to comply with the Corporations Act, RG 60 and the Listing Rules.

(b) TPG must provide to iiNet all such further or new information of which TPG becomes aware that arises after the Scheme Booklet has been despatched to iiNet Shareholders until the date of the Scheme Meeting where this is or may be necessary to ensure that the TPG Information continues to comply with the Corporations Act, RG 60 and the Listing Rules.

5.4 Verification

(a) iiNet must undertake reasonable verification processes in relation to the information included in the Scheme Booklet (other than the TPG Information) so as to ensure that such information is not misleading or deceptive in any material respect (whether by omission or otherwise) and, once those processes have been completed, provide written confirmation to TPG of the completion of such processes.

(b) TPG must undertake reasonable verification processes in relation to the TPG Information so as to ensure that such information is not misleading or deceptive in any material respect (whether by omission or otherwise) and, once those processes have been completed, provide written confirmation to iiNet of the completion such processes.

5.5 Responsibility statements

The Scheme Booklet will include a responsibility statement, in a form to be agreed by the parties, that will contain words to the following effect:

(a) that, to the maximum extent possible at law, iiNet will not be responsible for any TPG Information and will disclaim any liability for TPG Information appearing in the Scheme Booklet; and

(b) that, to the maximum extent possible at law, TPG will not be responsible for any information appearing in the Scheme Booklet other than the TPG Information and will disclaim any liability for any information appearing in the Scheme Booklet other than the TPG Information.

5.6 Disagreement on content

If TPG and iiNet disagree on the form or content of the Scheme Booklet, they must consult in good faith to try to settle an agreed form of the Scheme Booklet. If complete agreement is not reached after reasonable consultation, then:

(a) if the disagreement relates to the form or content of any information appearing in the Scheme Booklet other than the TPG Information, the iiNet Board will, acting in good faith, decide the final form or content of the disputed part of the Scheme Booklet; and

(b) if the disagreement relates to the form or content of the TPG Information, iiNet will make such amendments to the form or content of the disputed part of the TPG Information as TPG reasonably requires.

5.7 Good faith co-operation

Each party must procure that its Authorised Persons work (including by attending meetings and by providing information) in good faith and in a timely and co-operative fashion with the other parties to implement the Scheme, to prepare all documents required relating to the Scheme, and to agree and execute the strategy described in clause 7.5.

5.8 Payment of Discretionary Special Dividend and internal payments

(a) Notwithstanding any other provision of this agreement, iiNet agrees that the iiNet Board will declare and pay a dividend of up to a maximum of $0.75 per Scheme Share in cash (**Discretionary Special Dividend**) to iiNet Shareholders, on the following basis:

(i) the Discretionary Special Dividend is to be declared on the Effective Date once the Scheme has become Effective;

(ii) the payment date for the Discretionary Special Dividend will be determined by iiNet at its discretion, provided that the Discretionary Special Dividend is paid only after the Record Date and not later than the Implementation Date;

(iii) the Discretionary Special Dividend will be franked to the maximum extent possible, subject to the franking account of iiNet not being in deficit after the payment of the Discretionary Special Dividend;

(iv) the Discretionary Special Dividend is to be paid from accumulated profits of the iiNet Group existing immediately prior to the declaration of that dividend and such that the retained earnings balance of iiNet Group is not extinguished; and

(v) the Australian Taxation Office provides, prior to the declaration of the Discretionary Special Dividend, a tax ruling in respect of the declaration and payment of that dividend in a form acceptable to iiNet and TPG (both acting reasonably).

(b) If, having complied with clauses 5.8(a)(i) to 5.8(a)(v), the amount of the Discretionary Special Dividend declared by iiNet is:

(i) $0.75 per Scheme Share, then the Top Up Cash Consideration will be nil and clause 5.9 will apply to the funding of the Discretionary Special Dividend; or

(ii) less than $0.75 per Scheme Share, then the Top Up Cash Consideration will be the amount that is $0.75 less the amount of the Discretionary Special Dividend, and:

(A) clause 4.2(b)(i)(C) will apply to the payment of the Top Up Cash Consideration; and

(B) clause 5.9 will apply to the funding of the Discretionary Special Dividend.

(c) Notwithstanding any other provision of this agreement, iiNet may make any intra group distributions and payments between members of the iiNet Group, in order to be able to declare and pay the Discretionary Special Dividend.

5.9 Funding of Discretionary Special Dividend

(a) TPG agrees that, if iiNet declares a Discretionary Special Dividend in accordance with clause 5.8(a), TPG (or a member of the TPG Group) will, subject to the Scheme having become Effective, provide an unsecured, interest free loan to iiNet in an amount equal to the aggregate cash amount of the Discretionary Special Dividend.

(b) The loan provided pursuant to clause 5.9(a) must:

(i) be paid by TPG to iiNet at least one Business Day prior to the payment date for the Discretionary Special Dividend; and

(ii) not be repayable for at least 12 months following the payment date for the Discretionary Special Dividend.

(c) TPG's obligation to make the payment referred to in clause 5.9(b)(i) will be satisfied by the payment of the relevant amount in immediately available funds to the account nominated by iiNet for the purposes of this clause.

6. Board recommendation

6.1 Recommendation

Subject to clause 6.3, iiNet represents and warrants to TPG, as at the Amendment Date, that it has been advised by each iiNet director that he or she will, and iiNet must procure that each iiNet director will, recommend that iiNet Shareholders vote in favour of the Scheme, qualified only by the words to the effect of 'in the absence of a superior proposal and subject to the independent expert concluding that the scheme is in the best interests of iiNet shareholders'.

6.2 iiNet's Statement to contain recommendation

Subject to clause 6.3, iiNet must ensure that the Scheme Booklet includes:

(a) a unanimous recommendation by the iiNet Board that iiNet Shareholders vote in favour of the Scheme, qualified only by the words to the effect of 'in the absence of a superior proposal and subject to the independent expert concluding that the scheme is in the best interests of iiNet shareholders'; and

(b) a statement by each iiNet director that he or she will vote in favour of the Scheme in respect of all iiNet Shares controlled or held by, or on behalf of, that iiNet director, qualified only by the words to the effect of 'in the absence of a superior proposal and subject to the independent expert concluding that the scheme is in the best interests of iiNet shareholders'.

6.3 Withdrawal or modification of recommendation

iiNet represents and warrants to TPG, as at the Amendment Date, that it has been advised by each iiNet director that he or she will not, and iiNet must procure that each iiNet director does not:

(a) change, withdraw or modify his or her recommendation of the Scheme; and

(b) make any public statement or take any other action that is inconsistent with his or her recommendation of the Scheme,

in each case except where:

(c) iiNet receives a Competing Proposal and the iiNet Board determines, after all of TPG's rights under clause 10.6 have been exhausted, that the Competing Proposal constitutes a Superior Proposal; or

(d) the Independent Expert concludes in the Independent Expert's Report that the Scheme is not in the best interests of iiNet Shareholders, or the Independent Expert concludes in the Independent Expert's Report that the Scheme is in the best interests of iiNet Shareholders but then changes or publicly withdraws this conclusion prior to 8.00am (WST) on the Second Court Date.

6.4 Change in Independent Expert Opinion

For the purposes of clause 6.3(d), if the Independent Expert concludes in the Independent Expert's Report that the Scheme is in the best interests of iiNet Shareholders, and prior to 8.00am (WST) on the Second Court Date determines that one of either the Cash Consideration or the Share Consideration (and, if applicable, the Top-Up Cash Consideration) are (in its opinion) no longer in the best interests of iiNet Shareholders, then the Independent Expert will not be considered to have changed or publicly withdrawn this conclusion (and the iiNet directors will not be entitled to take any of the actions referred to in clauses 6.3(a) and 6.3(b)), provided that the Independent Expert retains its conclusion that the other of the Cash Consideration or the Share Consideration (and, if applicable, the Top-Up Cash Consideration) remains in the best interests of iiNet Shareholders.

7. Conduct of business before the Implementation Date

7.1 Conduct of iiNet business

Subject to clause 7.3, from the date of this agreement (being 13 March 2015) up to and including the Implementation Date, other than to the extent that the relevant matter has been fairly disclosed to the ASX before the date of this agreement (being 13 March 2015), iiNet must conduct its business, and must cause each of its Subsidiaries to conduct their businesses, in the ordinary and usual course of business and:

(a) operate those businesses consistent with past practice, in substantially the same manner as previously conducted;

(b) use reasonable endeavours to preserve their relationships with customers, suppliers, landlords, licensors, licensees and others having material business dealings with them, and to retain the services of all key employees;

(c) use reasonable endeavours to ensure that all assets are maintained in the normal course consistent with past practice;

(d) use reasonable endeavours to comply in all material respects with all material contracts to which a member of the iiNet Group is a party, and with laws, authorisations and licenses applicable to each member of the iiNet Group;

(e) not take or fail to take any action that constitutes an iiNet Prescribed Occurrence or that could reasonably be expected to result in an iiNet Prescribed Occurrence; and

(f) not take or fail to take any action that would, or would be likely to, prevent a Condition being satisfied or result in a Condition not being satisfied.

7.2 Prohibited actions

(a) Subject to clause 7.3, from the date of this agreement (being 13 March 2015) up to and including the Implementation Date, other than to the extent that the relevant matter has been fairly disclosed to the ASX before the date of this agreement (being 13 March 2015), iiNet must not, and must procure that the iiNet Group does not:

(b) declare, pay or distribute any dividend, bonus or other share of its profits or assets by way of dividend, capital reduction or otherwise other than the Discretionary Special Dividend;

(c) in respect of any single transaction or series of related or similar transactions, acquire or dispose of any interest in a business, real property, entity or undertaking, the value of which exceeds $10 million in aggregate;

(d) pay any Adviser any fee, cost or other form of compensation or remuneration that is directly or indirectly as a result of, contingent on, or in connection with:

(i) iiNet or TPG entering into this agreement;

(ii) TPG acquiring a Relevant Interest in the Scheme Shares; or

(iii) the Scheme or a transaction contemplated by this agreement,

where all such amounts paid would exceed, in aggregate, $22 million;

(e) except as required by law or as provided in an existing contract in place at the date of this agreement (being 13 March 2015), make any material change to the terms of employment of (including increasing the remuneration or compensation of or accelerating the rights to benefits of any kind), or grant or pay any bonus, incentive, retention, severance or termination payment to, any director, officer, executive or senior manager of the iiNet Group;

(f) enter into a new employment contract with a potential employee of the iiNet Group under which contract the total remuneration payable to that potential employee would exceed $130,000 in any 12 month period, other than to replace a role that becomes vacant after the date of this agreement (being 13 March 2015) as a result of the resignation of an existing employee or in respect of a new employee who is employed in order to fill a role that is vacant as at the date of this agreement (being 13 March 2015);

(g) enter into any enterprise bargaining agreement or any other form of collective agreement concerning the terms of employment of employees of the iiNet Group;

(h) incur any additional financial indebtedness (except for draw-downs on existing banking facilities consistent with iiNet's current budget), or guarantee or indemnify the obligations of any person other than a member of the iiNet Group, other than in the usual and ordinary course of business and consistent with past practice;

(i) enter into any new financing arrangement, agreement or otherwise provide financial accommodation (irrespective of what form that accommodation takes), or amend the term of any existing financing arrangement, agreement or instrument;

(j) incur or enter into any new commitments involving the purchase of plant and equipment (as defined in iiNet's statement of cash flows) of more than $20 million in aggregate;

(k) give or agree to give a financial benefit to a related party of iiNet;

(l) enter into a contract which is material to the conduct of the iiNet Group's business, involves aggregate expenditure greater than $7.5 million, annual revenue greater than $10 million, or has a committed term which is greater than 3 years (**Material Contract**), or terminate or amend the terms of a Material Contract;

(m) modify the rules of any share based incentive plan or scheme, including the Long Term Incentive Plan;

(n) amend its constitution;

(o) alter in any material respect any accounting policy of any member of the iiNet Group;

(p) enter into, renew, or permit to rollover for a term that exceeds 90 days, any contract arrangement or understanding for the acquisition of domestic or international transmission services, domestic or international IP transit or peering, or data centre space or services; or

(q) agree to do any of the matters set out above.

7.3 iiNet permitted activities

The obligations of iiNet under clauses 7.1 and 7.2 do not apply in respect of any matter:

(a) required to be done or procured by iiNet pursuant to this agreement or the Scheme;

(b) required by law or by an order of a court or Governmental Agency; or

(c) the undertaking of which TPG has previously approved in writing (which approval must not be unreasonably withheld or delayed).

7.4 Access

In the period from the date the last of the Conditions in clauses 3.1(a) and 3.1(c) have been satisfied to the Implementation Date, iiNet must provide TPG with all reasonable access during normal business hours and on reasonable notice to the management, offices, books, records and business operations of iiNet that TPG reasonably requires in order to implement the Proposed Transaction or for TPG to prepare for the transition of ownership of the iiNet Group.

7.5 Change of control

As soon as practicable after the date of this agreement (being 13 March 2015), the parties must:

(a) seek to identify any change of control or similar provisions in any material contract to which a member of the iiNet Group is party which may be triggered by the implementation of the Proposed Transaction (**Change of Control Requirements**); and

(b) use all reasonable endeavours to agree a proposed strategy to obtain any consents required in accordance with the terms of any identified Change of Control Requirements, and to then expeditiously seek those consents in accordance with the agreed strategy.

8. Reconstitution of the board of each member of the iiNet Group

iiNet represents and warrants to TPG that it has been advised by each iiNet director that he or she will, and iiNet must procure that the iiNet Board will:

(a) on the Effective Date, take all actions necessary (and in accordance with the constitution of the relevant iiNet Group member, the Corporations Act and the Listing Rules) to appoint the persons nominated by TPG, and who consent to act, as new directors of iiNet and new directors of each Subsidiary of iiNet, such that such nominees of TPG represent a majority of the iiNet Board and a majority of the board of each Subsidiary of iiNet; and

(b) on the Implementation Date:

(i) procure that each iiNet director (other than the new iiNet directors appointed pursuant to clause 8(a) or any iiNet directors who agree with TPG to remain as iiNet directors) resigns from their office as an iiNet director by providing to the iiNet Board their resignation in writing (such resignation to include a statement to the effect that the outgoing director has no claim outstanding against any member of the iiNet Group); and

(ii) procure that each director of each Subsidiary of iiNet (other than the new iiNet directors appointed pursuant to clause 8(a) or any iiNet directors who agree with TPG to remain as directors of the relevant Subsidiary of iiNet) resigns from their office as a director of the relevant Subsidiary of iiNet by providing to the board of the relevant Subsidiary of iiNet their resignation in writing (such resignation to include a statement to the effect that the outgoing director has no claim outstanding against any member of the iiNet Group).

9. Representations and warranties

9.1 TPG representations and warranties

(a) TPG represents and warrants to iiNet each of the matters set out in clause 9.1(b) as at the date of this agreement (being 13 March 2015) and at all subsequent times until 8.00am (WST) on the Second Court Date (except that where any statement is expressed to be made only at a particular date it is given only at that date).

(b) TPG represents and warrants that:

(i) TPG is a validly existing corporation registered under the laws of its place of incorporation;

(ii) the execution and delivery of this agreement has been properly authorised by all necessary corporate action and TPG has full corporate power and lawful authority to execute and deliver this agreement and to perform or cause to be performed its obligations under this agreement;

(iii) this agreement constitutes legal, valid and binding obligations on it and this agreement does not result in a breach of or default under any deed or any writ, order or injunction, rule or regulation to which TPG is a party or is bound;

(iv) the TPG Information provided to iiNet in accordance with clause 5.2(a) for inclusion in the Scheme Booklet will:

(A) be provided in good faith;

(B) comply in all material respects with the requirements of the Corporations Act, the Listing Rules and RG 60; and

(C) be provided on the understanding that iiNet will rely on that information for the purposes of preparing the Scheme Booklet and proposing and implementing the Scheme in accordance with the requirements of the Corporations Act;

(v) as at the date the Scheme Booklet is despatched to iiNet Shareholders, the TPG Information, in the form and context in which that information appears in the version of the Scheme Booklet registered by ASIC under section 412(6) of the Corporations Act will not be misleading or deceptive in any material respect (whether by omission or otherwise);

(vi) as at the Amendment Date, TPG is not in breach of its continuous disclosure obligations under the Listing Rules and is not relying on the exclusion in Listing Rule 3.1A to withhold any information from disclosure (other than in relation to the Proposed Transaction or as disclosed in writing to iiNet on or before the Amendment Date);

(vii) the issued capital of TPG as of the Amendment Date is 793,808,141 TPG Shares;

(viii) all information provided by or on behalf of TPG to the Independent Expert to enable the Independent Expert's Report to be included in the Scheme Booklet to be prepared and completed will not be misleading or deceptive in any material respect (whether by omission or otherwise) and will be provided in good faith and on the understanding that the Independent Expert will rely upon that information for the purposes of preparing the Independent Expert's Report for inclusion in the Scheme Booklet;

(ix) TPG does not require the approval of its shareholders or the approval or consent of any other person to enter into or perform any of its obligations under this agreement; and

(x) TPG's financial statements as disclosed to the ASX have been prepared in accordance with the Accounting Standards on a basis consistent with past practice financial statements and, so far as TPG is aware, there has not been any event, change, effect or development which would require TPG to restate its financial statements as disclosed to the ASX.

9.2 TPG's indemnity

TPG agrees with iiNet to indemnify and keep indemnified iiNet against all claims, actions, proceedings, liabilities, obligations, damages, loss, harm, charges, costs, expenses, duties and other outgoings of whatever nature and however arising which iiNet may suffer or incur by reason of any breach of any of the representations and warranties in clauses 9.1(a) or 9.1(b).

9.3 iiNet representations and warranties

(a) iiNet represents and warrants to TPG each of the matters set out in clause 9.3(b) as at the date of this agreement (being 13 March 2015) and at all subsequent times until 8.00am (WST) on the Second Court Date (except that where any statement is expressed to be made only at a particular date it is given only at that date).

(b) iiNet represents and warrants that:

(i) iiNet is a validly existing corporation registered under the laws of its place of incorporation;

(ii) the execution and delivery of this agreement by iiNet has been properly authorised by all necessary corporate action and iiNet has full corporate power and lawful authority to execute and deliver this agreement and to perform or cause to be performed its obligations under this agreement;

(iii) this agreement constitutes legal, valid and binding obligations on iiNet and the execution of this agreement of itself does not result in a breach of or default under any agreement or deed or any writ, order or injunction, rule or regulation to which iiNet or any of its Subsidiaries is a party or to which they are bound;

(iv) the information contained in the Scheme Booklet (other than the TPG Information):

(A) will be prepared and included in the Scheme Booklet in good faith; and

(B) will comply in all material respects with the requirements of the Corporations Act, Listing Rules and RG 60;

(v) as at the date the Scheme Booklet is despatched to iiNet Shareholders, the Scheme Booklet registered by ASIC under section 412(6) of the Corporations Act (excluding the TPG Information and the Independent Expert's Report) will not be misleading or deceptive in any material respect (whether by omission or otherwise);

(vi) as at the date of this agreement (being 13 March 2015), iiNet is not in breach of its continuous disclosure obligations under the Listing Rules and is not relying on the exclusion in Listing Rule 3.1A to withhold any information from disclosure (other than in relation to the Proposed Transaction or as disclosed in writing to TPG on or before the date of this agreement (being 13 March 2015));

(vii) the issued capital of iiNet as of the date of this agreement (being 13 March 2015) is 162,950,896 iiNet Shares;

(viii) 1,076,220 iiNet Performance Rights are on issue as at the date of this agreement (being 13 March 2015);

(ix) no more than 538,107 additional iiNet Performance Rights may be issued after the date of this agreement (being 13 March 2015) as a result of the vesting outcome for an award being more than 100% under the terms of an offer of iiNet Performance Rights;

(x) the maximum number of iiNet Shares that will be issued in satisfaction of all iiNet Performance Rights as at the Record Date will be 1,614,327 iiNet Shares;

(xi) there are no phantom performance rights on issue under any of iiNet's incentive plans or schemes, including the Long Term Incentive Plan;

(xii) iiNet's financial statements as disclosed to the ASX have been prepared in accordance with the Accounting Standards on a basis consistent with past practice financial statements and, so far as iiNet is aware, there has not been any event, change, effect or development which would require iiNet to restate its financial statements as disclosed to the ASX; and

(xiii) no member of the iiNet Group has issued, or agreed to issue, any other securities or instruments which may convert into iiNet Shares or any other securities in iiNet.

9.4 iiNet's indemnity

iiNet agrees with TPG to indemnify and keep indemnified TPG from and against all claims, actions, proceedings, liabilities, obligations, damages, loss, harm, charges, costs, expenses, duties and other outgoings of whatever nature and however arising which TPG may suffer or incur by reason of any breach of any of the representations and warranties in clauses 9.3(a) or 9.3(b).

9.5 Notifications

Each party will promptly advise the other in writing if it becomes aware of any fact, matter or circumstance which constitutes or is reasonably expected to constitute a breach of any of the representations or warranties given by it under this clause 9.

9.6 Survival of representations

Each representation and warranty in clauses 9.1 and 9.3:

(a) is severable;

(b) will survive the termination of this agreement; and

(c) is given with the intent that liability thereunder will not be confined to breaches which are discovered prior to the date of termination of this agreement.

9.7 Survival of indemnities

Each indemnity in this agreement (including those in clauses 9.2 and 9.4) will:

(a) be severable;

(b) be a continuing obligation;

(c) constitute a separate and independent obligation of the party giving the indemnity from any other obligations of that party under this agreement; and

(d) survive the termination of this agreement.

9.8 Limitations on Claims against iiNet

(a) iiNet's representations and warranties in clause 9.3 and the indemnity in clause 9.4 are each subject to, and no Claim can be made against iiNet in respect of, matters that have been fairly disclosed in iiNet's announcements to the ASX prior to the date of this agreement (being 13 March 2015).

(b) Notwithstanding any other provision of this agreement:

(i) the maximum aggregate amount which iiNet is required to pay in relation to a breach of this agreement (including in respect of a breach of representation and warranty) is an amount equal to the Break Fee and in no event will the aggregate liability of iiNet under or in connection with a breach of this agreement exceed an amount equal to the Break Fee; and

(ii) where the Break Fee becomes payable to TPG under this agreement (or would be payable if a demand was made), TPG cannot make any additional claim under the indemnity in clause 9.4 or further Claim against iiNet in relation to any event or occurrence referred to in clause 11.4 or for any material breach referred to in clause 15.1 (but, for the avoidance of doubt, may exercise any right available to it to terminate this agreement under clause 15.1).

9.9 Limitations on Claims against TPG

(a) TPG's representations and warranties in clause 9.1 and the indemnity in clause 9.2 are each subject to, and no Claim can be made against TPG in respect of, matters that have been fairly disclosed in TPG's announcements to the ASX prior to the Amendment Date.

(b) The maximum aggregate amount which TPG is required to pay in relation to a breach of this agreement (including in respect of a breach of representation and warranty) is $14 million and in no event will the aggregate liability of iiNet under or in connection with a breach of this agreement exceed an amount equal to $14 million.

10. Exclusivity

10.1 No existing discussions

Other than in relation to the discussions with TPG in connection with the Proposed Transaction and this agreement and the discussions prior to the First Amendment Date with M2 Group Limited (**M2**) in connection with the proposed transaction announced by M2 to ASX on 27 April 2015 (**M2 Discussions**), iiNet represents and warrants to TPG that, as at the Amendment Date:

(a) neither itself, its Related Bodies Corporate nor any of their respective Authorised Persons is a party to any agreement with a third party entered into for the purpose of facilitating a Competing Proposal; and

(b) neither itself, its Related Bodies Corporate nor any of their respective Authorised Persons is participating in any discussions or negotiations with a third party that concern, or that could reasonably be expected to lead to, a Competing Proposal.

10.2 No-shop

During the Exclusivity Period, iiNet must not, and must ensure that its Related Bodies Corporate and their respective Authorised Persons do not, directly or indirectly solicit, invite, initiate or encourage any Competing Proposal or any enquiries, proposals, discussions or negotiations with any third party in relation to (or that could reasonably be expected to lead to) a Competing Proposal, or communicate any intention to do any of these things.

10.3 No-talk

Subject to clause 10.7, during the Exclusivity Period, iiNet must not, and must ensure that its Related Bodies Corporate and their respective Authorised Persons do not, directly or indirectly:

(a) negotiate or enter into or participate in negotiations or discussions with any person, other than to the extent required for iiNet to terminate the M2 Discussions; or

(b) communicate any intention to do any of these things,

in relation to (or which may reasonably be expected to lead to) a Competing Proposal, even if that person's Competing Proposal was not directly or indirectly solicited, encouraged or initiated by iiNet or any of its Related Bodies Corporate, or that person has publicly announced the Competing Proposal.

10.4 No due diligence

During the Exclusivity Period, except with the prior written consent of TPG, iiNet must not, and must ensure that its Related Bodies Corporate and their respective Authorised Persons do not, directly or indirectly:

(a) solicit, invite, initiate, or encourage, or (subject to clause 10.7) facilitate or permit, any person (other than TPG) to undertake due diligence investigations in respect of iiNet, its Related Bodies Corporate, or any of their businesses and operations, in connection with such person formulating, developing or finalising, or assisting in the formulation, development or finalisation of, a Competing Proposal; or

(b) subject to clause 10.7, make available to any person (other than TPG) or permit any such person to receive any non-public information relating to iiNet, its Related Bodies Corporate, or any of their businesses and operations, in connection with such person formulating, developing or finalising, or assisting in the formulation, development or finalisation of, a Competing Proposal.

10.5 Notification of approaches

(a) During the Exclusivity Period, iiNet must promptly notify TPG in writing of:

(i) any approach, inquiry or proposal made by any person to iiNet, any of its Related Bodies Corporate or any of their respective Authorised Persons, to initiate any discussions or negotiations that concern, or that could reasonably be expected to lead to, a Competing Proposal; and

(ii) any request made by any person to iiNet, any of its Related Bodies Corporate, or any of their respective Authorised Persons, for any information relating to iiNet, its Related Bodies Corporate, or any of their businesses and operations, in connection with such person formulating, developing or finalising, or assisting in the formulation, development or finalisation of, a Competing Proposal.

(b) Subject to clause 10.7, a notice given under clause 10.5(a) must be accompanied by all material details of the relevant event, including (as the case may be):

(i) the identity of the person who made the relevant approach, inquiry or proposal to initiate discussions or negotiations referred to in clause 10.5(a)(i), or who made the relevant request for information referred to in clause 10.5(a)(ii); and

(ii) the material terms and conditions (including price, conditions precedent, timetable and break fee (if any)) of any Competing Proposal or any proposed Competing Proposal (to the extent known).

(c) During the Exclusivity Period, iiNet must promptly provide TPG with:

(i) in the case of written materials, a copy of; or

(ii) in any other case, a written statement of,

any non-public information relating to iiNet, its Related Bodies Corporate, or any of their businesses and operations made available or received by any person in connection with such person formulating, developing or finalising, or assisting in the formulation, development or finalisation of, a Competing Proposal and which has not previously been provided to TPG.

10.6 iiNet's response to Rival Acquirer and TPG's right to respond

(a) If iiNet is permitted by virtue of clause 10.7 to engage in activity that would otherwise breach any of clauses 10.3, 10.4(a), 10.4(b) and 10.5(b), iiNet must enter into a confidentiality agreement with the person who has made the applicable Competing Proposal (**Rival Acquirer**) on customary terms and must not enter into any other agreement, understanding or commitment in respect of a Competing Proposal or a potential Competing Proposal except as permitted by clause 10.6(b).

(b) If iiNet receives a Competing Proposal and as a result, any iiNet director proposes to either:

(i) change, withdraw or modify his or her recommendation of the Scheme; or

(ii) approve or recommend entry into any agreement, commitment, arrangement or understanding relating to the Competing Proposal (other than a confidentiality agreement contemplated by clause 10.6(a)),

iiNet must ensure that no iiNet director does so:

(iii) unless the Competing Proposal is bona fide; and

(iv) until each of the following has occurred:

(A) the iiNet directors have made the determination contemplated by clause 10.7(b) in respect of that Competing Proposal;

(B) iiNet has given TPG written notice (**Relevant Notice**) of the iiNet director's proposal to take the action referred to in clauses 10.6(b)(i) or 10.6(b)(ii) (subject to TPG's rights under clause 10.6(d)), including details of the grounds on which the iiNet directors propose to take such action;

(C) subject to clause 10.6(c), iiNet has given TPG all information that would be required by clause 10.5(b) as if it was not subject in any way to clause 10.7;

(D) TPG's rights under clause 10.6(d) have been exhausted; and

(E) the iiNet directors have made the determination contemplated by clause 10.7(b) in respect of that Competing Proposal after TPG's rights under clause 10.6(d) have been exhausted and after evaluation of any Counter Proposal.

(c) Prior to giving TPG the information under clause 10.6(b)(iv)(C), iiNet must advise the Rival Acquirer that the Rival Acquirer's name and other details which may identify the Rival Acquirer will be provided by iiNet to TPG on a confidential basis.

(d) If iiNet gives a Relevant Notice to TPG under clause 10.6(b)(iv)(B), TPG will have the right, but not the obligation, at any time during the period of 3 Business Days following the receipt of the Relevant Notice, to amend the terms of the Proposed Transaction including increasing the amount of consideration offered under the Proposed Transaction or proposing any other form of transaction (each a **Counter Proposal**), and if it does so then the iiNet directors must review the Counter Proposal in good faith. If the iiNet directors determine that the Counter Proposal would be more favourable, or at least no less favourable, to iiNet and the iiNet Shareholders than the Competing Proposal (having regard to the matters noted in clause 10.7(b)), then iiNet and TPG must use their best endeavours to agree the amendments to this agreement that are reasonably necessary to reflect the Counter Proposal and to enter into an amended agreement to give effect to those amendments and to implement the Counter Proposal, and iiNet must use its best endeavours to procure that the iiNet directors recommend the Counter Proposal to the Shareholders and not recommend the applicable Competing Proposal.

(e) For the purposes of this clause 10.6, each successive material modification of any third party expression of interest, offer or proposal in relation to a Competing Proposal will constitute a new Competing Proposal.

10.7 Fiduciary out

The restrictions in clauses 10.3, 10.4(a) and 10.4(b) and the obligations in clause 10.5(b) do not apply to the extent they restrict iiNet or any iiNet director from taking or refusing to take any action with respect to a Competing Proposal (in relation to which there has been no contravention of this clause 10) provided that:

(a) the Competing Proposal is bona fide and is made by or on behalf of a person that the iiNet Board considers is of reputable commercial standing; and

(b) the iiNet Board has determined in good faith after:

(i) consultation with iiNet's financial advisers, that the Competing Proposal is or may reasonably be expected to lead to a Superior Proposal; and

(ii) receiving written advice from iiNet's external Australian legal adviser practising in the area of corporate law,

that failing to take the action or refuse to take the action (as the case may be) with respect to the Competing Proposal would be likely to constitute a breach of the fiduciary or statutory obligations of the iiNet Board.

11. Break Fee

11.1 TPG declaration

TPG represents and warrants to iiNet that it would not have entered into the Amendment and Restatement Deed without the benefit of this clause 11 and it would not have entered into and continued the negotiations leading up to the Amendment and Restatement Deed unless TPG had a reasonable expectation that iiNet would agree to enter into a clause of this kind.

11.2 Acknowledgments

(a) iiNet acknowledges that TPG has incurred:

(i) significant external advisory costs;

(ii) some internal costs of a similar kind (including directors and management time costs, risk management costs and capital costs);

(iii) out-of-pocket expenses;

(iv) commitment fees and other financing costs; and

(v) reasonable opportunity costs incurred by TPG in pursuing the Scheme or in not pursuing other alternative acquisitions or strategic initiatives,

in relation to the Scheme and will incur further costs after the Amendment Date if the Scheme is not successful (**Costs**).

(b) iiNet represents and warrants that:

(i) it has received legal advice on this agreement and the operation of this clause 11; and

(ii) it considers this clause 11 to be fair and reasonable and that it is appropriate to agree to the terms in this clause 11 in order to secure the significant benefits to it (and the Shareholders) resulting from the Scheme.

11.3 Agreement on Costs

The parties acknowledge that the amount of the Costs is inherently unascertainable and that, even after termination of this agreement, the Costs will not be able to be accurately ascertained. As a genuine and reasonable pre-estimate of the Costs that TPG will suffer if the Scheme does not proceed, the parties agree that, for the purposes of this clause 11, the Costs will be the sum of $16 million (**Break Fee**).

11.4 Reimbursement of Costs

(a) iiNet agrees to pay to TPG the Break Fee if at any time on or after the Amendment Date and before the End Date, any of the following events occur:

(i) any iiNet director fails to recommend the Scheme as described in clauses 6.1 and 6.2;

(ii) any iiNet director changes, withdraws or modifies his or her recommendation of the Scheme or makes any public statement, or takes any other action that is inconsistent with his or her recommendation of the Scheme (including where a Competing Proposal is announced and is recommended by any iiNet director), other than in the case specified in clause 6.3(d) (but subject always to clause 6.4) provided that the reasons for the Independent Expert's conclusions do not include (in whole or in part) the existence of a Competing Proposal;

(iii) a Competing Proposal is announced before the End Date and, within 12 months of the Competing Proposal being announced, the Competing Proposal results in a person or persons (other than a member of the TPG Group) obtaining Control of iiNet, voting power in more than 50% of the iiNet Shares, merging or amalgamating with iiNet or acquiring (directly or indirectly) an interest in all or a substantial part of the business or assets of the iiNet Group;

(iv) a Condition (other than the Conditions in clause 3.1(h) and 3.1(j)) is not satisfied due to an action (or failure to act) of iiNet or any of its Related Bodies Corporate in breach of iiNet's obligations under clause 3.4, and TPG does not waive that Condition before the End Date; or

(v) TPG terminates this agreement under clause 15.1(a)(i).

(b) The payment of the Break Fee by iiNet to TPG provided for in this clause 11.4 must be made within 5 Business Days of receipt of a written demand for payment by TPG. The demand may only be made after the occurrence of an event referred to in clause 11.4(a).

12. Modification of Break Fee or exclusivity arrangements

12.1 Modifications following regulatory intervention

If any of the following occurs:

(a) a Governmental Agency finds that all or any part of the payment required to be made under clause 11 or an exclusivity arrangement under clause 10 is unacceptable or unenforceable; or

(b) as a result of an application to the Takeovers Panel, the Takeovers Panel indicates that, in the absence of a written undertaking under section 201A of the *Australian Securities and Investments Commission Act 2001* (Cth) to modify the amount of the Break Fee or the circumstances in which it is to be paid or the circumstances in relation to an exclusivity arrangement under clause 10, it will make a declaration of unacceptable circumstances,

then, subject to clause 12.2:

(c) the parties must amend clause 10 and/or 11 to the extent required to give effect to the requirements of the Governmental Agency or the Takeovers Panel (as the case may be) and (in circumstances referred to in clause 12.1(b)) must give the required undertaking(s); and

(d) neither the occurrence of any of the events referred to in clauses 12.1(a) or 12.1(b) nor the amendment of clause 10 and/or 11 will be taken to be a breach of, or permit any party to terminate, this agreement.

12.2 No requirement to act unless decision final

The parties are only required to take steps under 12.1(c) in relation to any requirement of a Governmental Agency or the Takeovers Panel if:

(a) no appeal or review proceeding is available from the decision to impose that requirement or the period for lodging an appeal or commencing review proceedings has expired without an appeal having been lodged or review proceedings commenced; or

(b) TPG and iiNet agree in writing not to appeal or seek review of the decision to impose that requirement.

12.3 Appeals and review of regulatory decisions

Nothing in this agreement requires either party to appeal or seek review of any decision of a Governmental Agency or the Takeovers Panel referred to in clauses 12.1(a) or 12.1(b). If either

TPG or iiNet wishes to appeal or seek review of any such decision then the other must make submissions in the course of those proceedings supporting the review made by the first party.

12.4 Determination by Governmental Agency

If a Governmental Agency determines that payment of all or any part of the Break Fee is unacceptable, unlawful or involves a breach of the fiduciary or statutory duties of the members of the iiNet Board (**Impugned Amount**) and either no appeal from that determination is available or the period for lodging an appeal has expired without having an appeal having been lodged then:

(a) the obligation of iiNet to pay the Break Fee does not apply to the extent of the Impugned Amount; and

(b) if TPG has received any part of the Impugned Amount, it must refund it within 5 Business Days after that determination is made or the period for lodging has expired, whichever is later.

13. Standstill

[Deleted].

14. Confidentiality and Public Announcement

14.1 Confidentiality

(a) Each party acknowledges and agrees that:

(i) information provided by either party to the other, or obtained by either party from the other, in the course of proposing, negotiating or implementing the Proposed Transaction (including information provided before or after the date of this agreement (being 13 March 2015)); and

(ii) all copies of information, agreements and those parts of the notes and other records referred to above,

is strictly confidential (**Confidential Information**) and may not be disclosed to any third party (except as permitted by this agreement).

(b) For the avoidance of doubt, information that is known by a party before the date of this agreement (being 13 March 2015) and that was not obtained on a confidential basis from another party in the course of proposing, negotiating or implementing the Proposed Transaction is not Confidential Information.

(c) Confidential Information may only be used for the purposes of implementing the Proposed Transaction or disclosed by a party:

(i) to a Related Body Corporate or any Authorised Person of that party (or of any Related Body Corporate) for the purpose of implementing the Proposed Transaction, provided that the disclosing party ensures that the recipient only uses it for the purposes of implementing the Proposed Transaction and otherwise complies with these terms of confidentiality; and

(ii) if disclosure is required by law, the rules of a stock exchange, or any requirement of a court or Governmental Agency.

14.2 Public Announcements on execution

Immediately after the Amendment Date, the parties must issue public announcements in a form previously agreed to in writing between them.

14.3 Further public announcements

(a) Subject to clause 14.3(b), any further public announcements by iiNet or TPG in relation to, or in connection with, the Proposed Transaction or any other transaction the subject of this agreement or the Scheme may only be made in a form approved by each party in writing (acting reasonably) subject to where a party is required by law or the Listing Rules to make any announcement or to make any disclosure in relation to, or in connection with, the Proposed Transaction or any other transaction the subject of this agreement or the Scheme.

(b) Where iiNet is required by law and/or the Listing Rules to make any announcement or make any disclosure in relation to the Proposed Transaction, it may do so only after it has given as much notice as is reasonable in all the circumstances to, and has consulted (to the fullest extent reasonable in the circumstances) with, TPG or its Advisers.

15. Termination

15.1 Termination by notice

(a) TPG or iiNet may, by notice in writing to the other, terminate this agreement at any time prior to 9.00am (WST) on the Second Court Date:

(i) if the other is in material breach of any of its obligations under this agreement (other than a material breach of a representation or warranty), and, if capable of remedy, the other party has failed to remedy that breach within five Business Days (or 5.00 pm on the day before the Second Court Date if earlier) of receipt by it of a notice in writing from the terminating party setting out details of the relevant circumstance and requesting the other party to remedy the breach; or

(ii) in accordance with clause 3.8.

(b) iiNet may, by notice in writing to TPG, terminate this agreement at any time prior to 9.00am (WST) on the Second Court Date if at any time before then:

(i) all iiNet directors publicly recommend a Superior Proposal and do not, within three Business Days, reinstate their recommendation of the Proposed Transaction; or

(ii) TPG materially breaches a representation or warranty contained in clause 9.1(b), and:

(A) TPG fails to remedy that breach within five Business Days of receipt by it of a notice in writing from iiNet setting out details of the relevant circumstance and requesting TPG to remedy the breach or the breach cannot be remedied to the reasonable satisfaction of iiNet by subsequent action on the part of TPG before 8.00am (WST) on the Second Court Date; and

(B) the breach was of a kind that, had it been disclosed to iiNet prior to its entry into this agreement, could reasonably be expected to have resulted in iiNet either not entering into this agreement or entering into it on materially different terms.

(c) TPG may, by notice in writing to iiNet, terminate this agreement at any time prior to 8.00am (WST) on the Second Court Date if, at any time before then:

(i) iiNet materially breaches a representation or warranty contained in clause 9.3(b), and:

(A) iiNet fails to remedy that breach within five Business Days of receipt by it of a notice in writing from TPG setting out details of the relevant circumstance and requesting iiNet to remedy the breach or the breach cannot be remedied to the reasonable satisfaction of TPG by subsequent action on the part of iiNet before 8.00am (WST) on the Second Court Date; and

(B) either:

(I) the breach was of a kind that, had it been disclosed to TPG prior to its entry into this agreement, could reasonably be expected to have resulted in TPG either not entering into this agreement or entering into it on materially different terms; or

(II) the breach amounts to, results in, or discloses anything, that could reasonably be expected to amount to a Material Adverse Change; or

(ii) any iiNet director:

(A) fails to recommend the Scheme in the manner described in clauses 6.1 and 6.2; or

(B) changes, withdraws or modifies his or her recommendation of the Scheme or makes any public statement, or takes any other action that is inconsistent with his or her recommendation of the Scheme (including where a Competing Proposal is announced and is recommended by any iiNet director).

15.2 Automatic termination

Without limiting any other term of this agreement, this agreement will terminate automatically if the Scheme is not approved by the necessary majorities at the Scheme Meeting.

15.3 Effect of termination

(a) In the event of termination of this agreement under clause 3.8, 15.1 or 15.2, this agreement will become void and have no effect, except that the provisions of clauses 9.6, 9.7, 9.8, 9.9, 11, 14, 16 and 18.3 to 18.15 (inclusive) survive termination.

(b) Termination of this agreement does not affect any accrued rights of a party in respect of a breach of this agreement prior to termination.

16. Releases

16.1 Release of iiNet Indemnified Parties

(a) Subject to any restrictions imposed by law, TPG releases any and all rights that it may have as at the date of this agreement (being 13 March 2015) and from time to time, and agrees with iiNet that it will not make any Claim, against any iiNet Indemnified Party in connection with:

(i) any breach of any covenant, representation or warranty given by iiNet under this agreement;

(ii) any disclosures containing any statement which is false or misleading (whether by omission or otherwise); or

(iii) any failure to provide information,

except where an iiNet Indemnified Party has not acted in good faith, has engaged in wilful misconduct or wilful concealment. To avoid doubt, nothing in this clause 16.1(a) limits the rights of TPG to terminate this agreement under clause 15.

(b) iiNet receives and holds the benefit of clause 16.1(a) as trustee for the iiNet Indemnified Parties.

16.2 Release of TPG Indemnified Parties

(a) Subject to any restrictions imposed by law, iiNet releases any and all rights that it may have as at the date of this agreement (being 13 March 2015) and from time to time, and agrees with TPG that it will not make any Claim, against any TPG Indemnified Party in connection with:

(i) any breach of any covenant, representation or warranty given by TPG under this agreement;

(ii) any disclosure containing any statement which is false or misleading (whether by omission or otherwise); or

(iii) any failure to provide information,

except where a TPG Indemnified Party has not acted in good faith, has engaged in wilful misconduct or wilful concealment. To avoid doubt, nothing in this clause 16.2(a) limits the rights of iiNet to terminate this agreement under clause 15.

(b) TPG receives and holds the benefit of clause 16.2(a) as trustee for the TPG Indemnified Parties.

16.3 Deeds of indemnity, access and insurance

(a) TPG acknowledges that, notwithstanding any other provision of this agreement, iiNet may, prior to the Implementation Date, enter into arrangements to secure directors and officers run-off insurance for up to such 7 year period, and that any actions to facilitate that insurance or in connection therewith will not be iiNet Prescribed Occurrences or breach any provision of this agreement.

(b) iiNet receives and holds the benefit of paragraph (a) as trustee for each director and officer of a member of the iiNet Group.

17. Notices

Any communication under or in connection with this agreement:

(a) must be in writing;

(b) must be addressed as shown on the Details page (or as otherwise notified by that party to the other party from time to time);

(c) must be signed by the party making the communication or by a person duly authorised by that party;

(d) must be delivered or posted by prepaid post to the address, or sent by fax to the number, of the addressee, in accordance with clause 17(b); and

(e) will be deemed to be received by the addressee:

(i) (**in the case of prepaid post**) on the third Business Day after the date of posting to an address within Australia, and on the fifth Business Day after the date of posting to an address outside Australia;

(ii) (**in the case of fax**) at the local time (in the place of receipt of that fax) which then equates to the time at which that fax is sent as shown on the transmission report which is produced by the machine from which that fax is sent and which confirms transmission of that fax in its entirety, unless that local time is not a Business Day, or is after 5.00pm (WST) on a Business Day, when that communication will be deemed to be received at 9.00am (WST) on the next Business Day; and

(iii) (**in the case of delivery by hand**) on delivery at the address of the addressee as provided in clause 17(b), unless that delivery is not made on a Business Day, or after 5.00pm (WST) on a Business Day, when that communication will be deemed to be received at 9.00am (WST) on the next Business Day.

18. General

18.1 Further acts

Each party will promptly do and perform all further acts and execute and deliver all further documents (in form and content reasonably satisfactory to that party) required by law or reasonably requested by any other party to give effect to this agreement.

18.2 Timetable

The parties acknowledge the Timetable as an indicative timetable and will consult with each other regularly in relation to:

(a) performing their respective obligations within the framework established by the Timetable; and

(b) any need to modify the Timetable.

18.3 Payments

Unless otherwise expressly provided in this agreement, where an amount is required to be paid to a party (the **Receiving Party**) by another party under this agreement, that amount shall be paid:

(a) in immediately available and irrevocable funds by electronic transfer to a bank account or accounts notified by the Receiving Party in writing on or before the due date for payment, or in other such immediately payable funds as the parties may agree; and

(b) without deduction, withholding or set-off.

18.4 Consents or approvals

A party may:

(a) give conditionally or unconditionally; or

(b) withhold,

its approval or consent in its absolute discretion unless this agreement expressly provides otherwise.

18.5 GST

(a) Any reference in this clause 18.5 to a term defined or used in the *A New Tax System (Goods and Services Tax) Act 1999* (Cth) is, unless the context indicates otherwise, a reference to that term as defined or used in that Act.

(b) Unless expressly included, the consideration for any supply under or in connection with this agreement does not include GST.

(c) To the extent that any supply made by a party (**Supplier**) to another party (**Recipient**) under or in connection with this agreement is a taxable supply, the Recipient must pay to the Supplier, in addition to the consideration to be provided under this agreement but for the application of this clause 18.5(c) for that supply (**GST Exclusive Consideration**), an amount equal to the amount of the GST Exclusive Consideration (or its GST exclusive market value) multiplied by the rate at which GST is imposed in respect of the supply. This clause 18.5(c) does not apply to any taxable supply under or in connection with this agreement that is expressly stated to include GST.

(d) The amount on account of GST payable in accordance with this clause 18.5 will be paid at the same time and in the same manner as the consideration otherwise payable for the supply is provided.

(e) Any reference in the calculation of any consideration or of any indemnity, reimbursement or similar amount to a cost, expense or liability incurred by a person (**Relevant Expense**) is a reference to the relevant expense reduced by an amount equal to any input tax credit entitlement of that person (or of the representative member of any GST group to which the person belongs) in relation to the Relevant Expense. A party will be assumed to have an entitlement to a full input tax credit unless it demonstrates otherwise prior to the date on which the relevant payment or consideration must be provided.

(f) Unless expressly included, any monetary thresholds specified in this agreement are exclusive of GST.

18.6 Stamp duty

TPG must pay all stamp duties (if any) and any fines and penalties with respect to stamp duty in respect of this agreement or the Scheme or the steps to be taken under this agreement or the Scheme (including the acquisition or transfer of Scheme Shares pursuant to the Scheme).

18.7 Expenses

Except as otherwise provided in this agreement, each party will pay its own costs and expenses in connection with the negotiation, preparation, execution, and performance of this agreement and the Scheme Booklet and the proposed, attempted or actual implementation of this agreement and the Scheme.

18.8 Amendments

This agreement may only be varied by a document signed by or on behalf of each of the parties.

18.9 Assignment

A party cannot assign, novate or otherwise transfer any of its rights or obligations under this agreement without the prior written consent of each other party, which consent that other party may give or withhold in its absolute discretion.

18.10 Waiver

(a) Failure to exercise or enforce or a delay in exercising or enforcing or the partial exercise or enforcement of any right, power or remedy provided by law or under this agreement by any party will not in any way preclude, or operate as a waiver of, any exercise or enforcement, or further exercise or enforcement of that or any other right, power or remedy provided by law or under this agreement.

(b) Any waiver or consent given by any party under this agreement will only be effective and binding on that party if it is given or confirmed in writing by that party.

(c) No waiver of a breach of any term of this agreement will operate as a waiver of another breach of that term or of a breach of any other term of this agreement.

(d) Nothing in this agreement obliges a party to exercise a right to waive any conditional term of this agreement that may be in its power.

18.11 Counterparts

(a) This agreement may be executed in any number of counterparts and by the parties on separate counterparts. Each counterpart constitutes the agreement of each party who has executed and delivered that counterpart. Each counterpart is an original but the counterparts together are one and the same agreement.

(b) This agreement is binding on the parties on the exchange of duly executed counterparts.

(c) The parties agree that a copy of an original executed counterpart sent by facsimile machine to the facsimile number or by email to the email address of the other party specified in clause 17, instead of the original, is sufficient evidence of the execution of the original and may be produced in evidence for all purposes in place of the original.

18.12 Entire agreement

This agreement:

(a) embodies the entire understanding of the parties and constitutes the entire terms agreed on between the parties; and

(b) supersedes any prior agreement (whether or not in writing) between the parties.

18.13 No representation or reliance

(a) Each party acknowledges that no party (nor any person acting on its behalf) has made any representation or other inducement to it to enter into this agreement, except for representations or inducements expressly set out in this agreement.

(b) Each party acknowledges and confirms that it does not enter into this agreement in reliance on any representation or other inducement by or on behalf of any other party, except for any representation or inducement expressly set out in this agreement.

18.14 No merger

The rights and obligations of the parties will not merge on completion of any transaction under this agreement. They will survive the execution and delivery of any assignment or other document entered into for the purpose of implementing any transaction.

18.15 Governing law

(a) This agreement is governed by and will be construed according to the laws of Western Australia.

(b) Each party irrevocably submits to the non-exclusive jurisdiction of the courts of Western Australia and of the courts competent to determine appeals from those courts.

Schedule 1 - Indicative Timetable

Event	Date
Enter into Amendment and Restatement Deed	5 May 2015
Lodge Scheme Booklet with ASIC for review and comment	22 May 2015
First Court Date	10 June 2015
Scheme Booklet registered with ASIC	12 June 2015
Despatch Scheme Booklet to iiNet Shareholders	17 June 2015
Scheme Meeting	27 July 2015
Second Court Date	4 August 2015
Effective Date – lodge office copy of Court order approving the Scheme with ASIC	5 August 2015
Record Date	12 August 2015
Implementation Date: Pay Scheme Considerations to participants in the Scheme. Reconstitute boards of each iiNet Group company	17 August 2015

Signing page

EXECUTED as an agreement.

Executed by **iiNet Limited** in accordance with the provisions of section 127(1) of the *Corporations Act*

←	←
Signature of director	Signature of director/company secretary (Please delete as applicable)
Name of director (print)	Name of director/company secretary (print)

Executed by **TPG Telecom Limited** in accordance with the provisions of section 127(1) of the *Corporations Act*

←	←
Signature of director	Signature of director/company secretary (Please delete as applicable)
Name of director (print)	Name of director/company secretary (print)

ME_121320322_1 (W2007)

Scheme

Scheme of Arrangement made under section 411 of the *Corporations Act 2001* (Cth)

Parties

iiNet Limited (ABN 48 068 628 937) of Level 1, 502 Hay Street, Subiaco, Western Australia 6008 (**iiNet**)

Scheme Shareholders

Background

A iiNet is a public company limited by shares and is admitted to the official list of ASX.

B TPG Telecom Limited (ABN 46 093 058 069) (**TPG**) is a public company limited by shares and is admitted to the official list of ASX.

C On 13 March 2015, TPG and iiNet entered into the Implementation Agreement pursuant to which, amongst other things, iiNet has agreed to propose this Scheme to the Scheme Shareholders, and each of iiNet and TPG have agreed to take certain steps to give effect to this Scheme.

D On 5 May 2015 and 10 June 2015, TPG and iiNet amended the Implementation Agreement to reflect revised terms of the Scheme.

E If this Scheme becomes Effective, then all the Scheme Shares will be transferred to TPG and the Scheme Consideration will be provided to the Scheme Shareholders in accordance with the provisions of this Scheme.

F TPG has entered into the Deed Poll for the purposes of covenanting in favour of Scheme Shareholders to perform all actions attributed to it under this Scheme.

1. Defined terms and interpretation

1.1 Defined terms

In this Scheme, except where the context otherwise requires:

ASX means ASX Limited (ABN 98 008 624 691) or, if the context requires, the financial market operated by it.

Business Day means a day that is not a Saturday, Sunday or a public holiday or bank holiday in Sydney, New South Wales or Perth, Western Australia.

Cash Consideration means $8.80 per Scheme Share, in cash payable to a Scheme Shareholder who has made or is deemed to have made a Cash Election.

Cash Election means a valid election made, or deemed to be made, by a Scheme Shareholder to receive the Cash Consideration in accordance with the terms of this Scheme.

CHESS means the Clearing House Electronic Subregister System operated by ASX Settlement Pty Ltd and ASX Clear Pty Limited.

Conditions means the conditions set out in clause 3.1 of the Implementation Agreement and **Condition** means any one of them.

Corporations Act means the *Corporations Act 2001* (Cth).

Court means the Federal Court of Australia.

Deed Poll means the deed poll between iiNet and TPG under which TPG covenants in favour of the Scheme Shareholders to perform all actions attributed to it under this Scheme.

Discretionary Special Dividend means the dividend declared by iiNet in accordance with clause 5.8 of the Implementation Agreement.

Effective means, when used in relation to this Scheme, the coming into effect, under section 411(10) of the Corporations Act, of the Scheme Order.

Effective Date means the date on which this Scheme becomes Effective.

Election means a Cash Election or a Share Election.

Election Date means the last date for receipt of an election form in order to make an Election in accordance with the terms of the Scheme, being 5.00pm on 21 July 2015 or such other date as iiNet and TPG agree in writing.

End Date means the later of:

(a) 31 October 2015; and

(b) such other date and time agreed in writing between TPG and iiNet.

Excluded Shareholder means any iiNet Shareholder who is TPG or a wholly-owned subsidiary of TPG.

First Court Date means the date the Court first hears the application to order the convening of the Scheme Meeting under section 411(1) of the Corporations Act.

Implementation Agreement means the scheme implementation agreement dated 13 March 2015 between TPG and iiNet, as amended or varied from time to time including on 5 May 2015 and 10 June 2015.

Implementation Date means the fifth Business Day, or such other Business Day as TPG and iiNet agree, after the Record Date.

Ineligible Foreign iiNet Shareholder means a Scheme Shareholder whose address as shown in the Register (as at the Record Date) is in a place outside Australia and its external territories or New Zealand, unless TPG is satisfied, acting reasonably, that the laws of that place permit the allotment and issue of New TPG Shares to that Scheme Shareholder pursuant to the Scheme either unconditionally or after compliance with conditions that TPG in its sole discretion regards as acceptable and not unduly onerous or impracticable.

iiNet Share means an issued fully paid ordinary share in the capital of iiNet.

iiNet Shareholder means each person who is registered in the Register as a holder of iiNet Shares.

iiNet Share Registry means Link Market Services Limited of Level 4 Central Park, 152 St Georges Terrace, Perth, Western Australia 6000.

Listing Rules means the official listing rules of ASX as amended from time to time.

Marketable Parcel has the meaning given to that term in the Listing Rules.

New TPG Shares means fully paid ordinary shares in the capital of TPG to be issued under the Scheme.

Record Date means 5.00pm on 31 August 2015, or such other Business Day as iiNet and TPG agree in writing.

Register means the share register of iiNet kept pursuant to section 168(1) of the Corporations Act.

Share Consideration means the consideration determined in accordance with clause 5.2 as being payable to a Scheme Shareholder who has made a Share Election.

Share Consideration Cap means 27,523,946 New TPG Shares.

Share Election means a valid election made by a Scheme Shareholder to receive the Share Consideration in accordance with the terms of this Scheme.

Share Ratio means 0.969 New TPG Shares per Scheme Share.

Scheme means the scheme of arrangement pursuant to Part 5.1 of the Corporations Act proposed between iiNet and the iiNet Shareholders as set out in this document together with, subject to clause 8.12, any alterations or conditions made or required by the Court under section 411(6) of the Corporations Act.

Scheme Consideration means the consideration payable to Scheme Shareholders under this Scheme, being comprised of the Cash Consideration and the Share Consideration and, if applicable, the Top Up Cash Consideration.

Scheme Meeting means the meeting of iiNet Shareholders ordered by the Court to be convened under section 411(1) of the Corporations Act to consider and vote on the Scheme and includes any adjournment of that meeting.

Scheme Order means the orders of the Court made under section 411(4)(b) of the Corporations Act (and, if applicable and subject to clause 8.12, section 411(6) of the Corporations Act) in relation to this Scheme.

Scheme Share means an iiNet Share on issue as at the Record Date other than any iiNet Share then held by an Excluded Shareholder (but including any such iiNet Share held on behalf of one or more third parties or otherwise in a fiduciary capacity).

Scheme Shareholder means a person who holds one or more Scheme Shares.

Scheme Transfer means a duly completed and executed proper instrument of transfer in respect of the Scheme Shares for the purposes of section 1071B of the Corporations Act, which may be a master transfer of all Scheme Shares.

Second Court Date means the first day on which an 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 the application is adjourned or subject to appeal for any reason, the day on which the adjourned or appealed application is heard.

Share Splitting means the splitting by a holder of iiNet Shares into two or more parcels of iiNet Shares whether or not it results in any change in beneficial ownership of the iiNet Shares.

takes effect or taking effect means on and from the first time when an office copy of the Scheme Order approving the Scheme pursuant to section 411(4)(b) of the Corporations Act is lodged with ASIC pursuant to section 411(10) of the Corporations Act.

Top Up Cash Consideration means, if the Discretionary Special Dividend declared by iiNet is:

(a) $0.75 per iiNet Share, nil; or

(b) less than $0.75 per iiNet Share, the amount that is $0.75 less the amount of the Discretionary Special Dividend.

TPG means TPG Telecom Limited (ABN 46 093 058 069) of 63-65 Waterloo Road, Macquarie Park, New South Wales 2113.

1.2 Interpretation

In this Scheme, except where the context otherwise requires:

(a) the singular includes the plural and vice versa, and a gender includes other genders;

(b) another grammatical form of a defined word or expression has a corresponding meaning;

(c) a reference to a clause, schedule or annexure is to a clause of, or schedule or annexure to, this Scheme, and a reference to this Scheme includes any schedule or annexure;

(d) a reference to a document or instrument includes the document or instrument as novated, altered, supplemented or replaced from time to time;

(e) a reference to **A$**, **$A**, **dollar** or **$** is to Australian currency;

(f) a reference to time is to Perth, Western Australia time;

(g) a reference to a person includes a natural person, partnership, body corporate, association, governmental or local authority or agency or other entity;

(h) a reference to a statute, ordinance, code or other law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them;

(i) a word or expression defined in the Corporations Act has the meaning given to it in the Corporations Act;

(j) the meaning of general words is not limited by specific examples introduced by **including**, **for example** or similar expressions;

(k) a rule of construction does not apply to the disadvantage of a party because the party was responsible for the preparation of this Scheme or any part of it; and

(l) if a day on or by which an obligation must be performed or an event must occur is not a Business Day, the obligation must be performed or the event must occur on or by the next Business Day.

2. Conditions

2.1 Conditions to the Scheme

The Scheme is conditional upon, and will have no force or effect until, the satisfaction of each of the following:

(a) as at 8.00 am on the Second Court Date each of the conditions set out in clause 3.1 of the Implementation Agreement (other than the condition relating to the approval of the Court set out in clause 3.1(e) of the Implementation Agreement) have been satisfied or waived in accordance with the terms of the Implementation Agreement;

(b) as at 8.00 am on the Second Court Date neither the Implementation Agreement nor the Deed Poll have been terminated in accordance with their terms;

(c) the Court approves this Scheme under section 411(4)(b) of the Corporations Act either unconditionally or on conditions consented to by TPG in accordance with clause 8.12;

(d) subject to clause 8.12, such other conditions made or required by the Court under section 411(6) of the Corporations Act in relation to the Scheme have been satisfied or waived; and

(e) the coming into effect, pursuant to section 411(10) of the Corporations Act on or before the End Date, of the Scheme Order.

2.2 Certificate

iiNet will provide to the Court on the Second Court Date certificates signed by TPG and iiNet (or such other evidence as the Court requests) stating whether or not the conditions referred to in clause 3.1 of the Implementation Agreement (other than the condition relating to the approval of the Court set out in clause 3.1(e) of the Implementation Agreement) have been satisfied or waived in accordance with the terms of the Implementation Agreement as at 8.00am on the Second Court Date.

3. The Scheme

(a) Subject to clause 2.1, this Scheme takes effect for all purposes on the Effective Date.

(b) This Scheme will lapse and be of no further force or effect if the Effective Date has not occurred on or before the End Date.

4. Implementation of the Scheme

4.1 Lodgement of Scheme Order with ASIC

If the conditions in clauses 2.1(a) to 2.1(d) are satisfied, iiNet must lodge with ASIC, in accordance with section 411(10) of the Corporations Act, an office copy of the Scheme Order approving this Scheme as soon as possible after, and in any event by 5.00pm on the first Business Day after, the day on which the Court approves this Scheme.

4.2 Transfer of Scheme Shares

Subject to this Scheme becoming Effective, the following actions will occur (in the order set out below):

(a) TPG will provide the Scheme Consideration in the manner contemplated by clause 5; and

(b) on the Implementation Date:

(i) the Scheme Shares, together with all rights and entitlements attaching to the Scheme Shares as at the Implementation Date, must be transferred to TPG, without the need for any further act by any Scheme Shareholder (other than acts performed by iiNet as attorney and agent for Scheme Shareholders under clause 8.5), by iiNet effecting a valid transfer or transfers of the Scheme Shares to TPG under section 1074D of the Corporations Act or, if that procedure is not available for any reason, by:

(A) iiNet delivering to TPG a duly completed Scheme Transfer, executed on behalf of the Scheme Shareholders by iiNet; and

(B) TPG duly executing the Scheme Transfer, attending to the stamping of the Scheme Transfer (if required) and delivering it to iiNet for registration; and

(ii) immediately following receipt of the Scheme Transfer in accordance with clause 4.2(b)(i)(B) or the transfer being effected under section 1074D of the Corporations Act (as the case may be), iiNet must enter, or procure the entry of, the name of TPG in the Register in respect of all the Scheme Shares transferred to TPG in accordance with this Scheme.

5. Scheme Consideration

5.1 Election

(a) A Scheme Shareholder may make a:

(i) Cash Election; or

(ii) Share Election,

by completing the election form which accompanies the Scheme Booklet (or is otherwise provided to the Scheme Shareholder by iiNet, including electronically) in accordance with the instructions specified on the form or set out in the Scheme Booklet (or as provided by iiNet in connection with an election that is made electronically), and returning (including by way of electronic submission) the completed election form in accordance with those instructions so that it is received by no later than 5.00pm on the Election Date.

(b) If an Election is not made by a Scheme Shareholder prior to the Election Date in accordance with clause 5.1(a), then that Scheme Shareholder will be deemed, for the purpose of this Scheme, to have made a Cash Election.

(c) If a Scheme Shareholder acquires Scheme Shares after the Election Date, then that Scheme Shareholder will be deemed, for the purpose of this Scheme, to have made a Cash Election in respect of those Scheme Shares.

(d) If a Scheme Shareholder makes a Share Election and the total value of New TPG Shares to be issued to that Scheme Shareholder (calculated at the Election Date) is less than a Marketable Parcel of New TPG Shares, then that Scheme Shareholder will be deemed, for the purpose of this Scheme, to have made a Cash Election.

(e) If an Election is made by a Scheme Shareholder and that Scheme Shareholder transfers any iiNet Shares that were the subject of that Election after the Election Date and before the Record Date, then that Election will be deemed, for the purpose of this Scheme, to be valid only in respect of the iiNet Shares that the Scheme Shareholder held continuously from the Election Date until the Record Date.

(f) A Scheme Shareholder that holds one or more parcels of Scheme Shares as trustee or nominee for, or otherwise on account of, another person, may make separate Elections in relation to each of those parcels of Scheme Shares (and, for the purpose of calculating the Scheme Consideration to which the Scheme Shareholder is entitled, each such parcel of Scheme Shares will be treated as though it were held by a separate Scheme Shareholder).

(g) If a Scheme Shareholder has made a Cash Election, or is deemed to have made a Cash Election, then that Scheme Shareholder will receive:

(i) the Cash Consideration; and

(ii) if the amount of the Discretionary Special Dividend declared by iiNet is less than $0.75, the Top Up Cash Consideration,

for each Scheme Share the subject of that Cash Election held by that Scheme Shareholder as at the Record Date.

(h) If a Scheme Shareholder has made a Share Election, then that Scheme Shareholder will receive the Share Consideration determined in accordance with clause 5.2.

5.2 Consideration payable for Scheme Shares subject of a Share Election

(a) Subject to clauses 5.3 and 5.4, if the aggregate number of New TPG Shares the subject of a Share Election under the Scheme is less than or equal to the Share Consideration Cap, then each Scheme Shareholder who has made a Share Election shall receive, in respect of the Scheme Shares the subject of that Share Election:

(i) the number of New TPG Shares determined in accordance with the following formula (rounded to the nearest whole New TPG Share):

$$X = Y \times Z$$

where:

X is the number of New TPG Shares to be issued to that Scheme Shareholder

Y is the Share Ratio

Z is the number of Scheme Shares held by that Scheme Shareholder continuously from the Election Date until the Record Date;

plus

(ii) if the amount of the Discretionary Special Dividend declared by iiNet is less than $0.75, the Top Up Cash Consideration for each Scheme Share held by that Scheme Shareholder continuously from the Election Date until the Record Date.

(b) Subject to clauses 5.3 and 5.4, if the aggregate number of New TPG Shares the subject of a Share Election under the Scheme is greater than the Share Consideration Cap, then each Scheme Shareholder who has made a Share Election shall receive, in respect of the Scheme Shares the subject of that Share Election:

(i) the number of New TPG Shares determined in accordance with the following formula (rounded to the nearest whole New TPG Share):

$$A = (B/C) \times E$$

where:

A is the number of New TPG Shares to be issued to the Scheme Shareholder

B is the Share Consideration Cap

C is the aggregate number of iiNet Shares held as at the Election Date by all iiNet Shareholders who have made a Share Election

E is the number of Scheme Shares held by that Scheme Shareholder continuously from the Election Date until the Record Date;

plus

(ii) an amount of cash determined in accordance with the following formula (rounded to the nearest whole cent):

$$F = (1 - (B/(C \times D))) \times G \times E$$

where:

F is the amount of cash to be paid to the Scheme Shareholder

B is the Share Consideration Cap

C is the aggregate number of iiNet Shares held as at the Election Date by all iiNet Shareholders who have made a Share Election

D is the Share Ratio

G is $8.80

E is the number of Scheme Shares held by that Scheme Shareholder continuously from the Election Date until the Record Date;

plus

(iii) if the amount of the Discretionary Special Dividend declared by iiNet is less than $0.75, the Top Up Cash Consideration for each Scheme Share held by that Scheme Shareholder continuously from the Election Date until the Record Date.

5.3 Ineligible Foreign iiNet Shareholders

(a) TPG is under no obligation to, and will not, issue any New TPG Shares to any Ineligible Foreign iiNet Shareholder pursuant to this Scheme. Where an Ineligible Foreign iiNet Shareholder makes a Share Election, TPG will, on the Implementation Date, issue the New TPG Shares to which that Ineligible Foreign iiNet Shareholder would otherwise have been entitled (if they were a Scheme Shareholder who was not an Ineligible Foreign iiNet Shareholder) to a nominee appointed by TPG.

(b) Where New TPG Shares are issued to a nominee pursuant to clause 5.3(a), TPG will procure that, as soon as reasonably practicable and in any event not more than 15 Business Days after the Implementation Date, the nominee:

(i) sells on the ASX or another prescribed financial market all of the New TPG Shares issued to the nominee in accordance with clause 5.3(a) in such manner, at such price and on such other terms as the nominee determines in good faith, and at the risk of the Ineligible Foreign iiNet Shareholders; and

(ii) remits to TPG the proceeds of sale (after deducting any applicable brokerage, stamp duty and other selling costs, taxes and charges).

(c) Where New TPG Shares are issued to a nominee pursuant to clause 5.3(a), promptly after the last remittance in accordance with clause 5.3(b), TPG will pay to each Ineligible Foreign iiNet Shareholder the proportion of the net proceeds of sale received by TPG pursuant to clause 5.3(b)(ii) to which that Ineligible Foreign iiNet Shareholder is entitled.

5.4 Share splitting

If TPG is of the opinion (acting reasonably) that two or more Scheme Shareholders (each of whom holds a number of Scheme Shares that results in rounding in accordance with clause 5.2) have, before the Record Date, been party to Share Splitting or division in an attempt to obtain unfair advantage by reference to such rounding, TPG may give notice to those Scheme Shareholders:

(a) setting out their names and registered addresses as shown in the Register;

(b) stating that opinion; and

(c) attributing the Scheme Shares held by all of them to one of them as specifically identified in the notice,

and, after such notice has been given, the Scheme Shareholder specifically identified in the notice as the deemed holder of all the specified Scheme Shares will, for the purposes of the Scheme, be taken to hold all of those Scheme Shares and each of the other Scheme Shareholders whose names and registered addresses are set out in the notice will, for the purposes of the Scheme, be taken to hold no

Scheme Shares. TPG, in complying with the other provisions of the Scheme relating to it in respect of the Scheme Shareholder specifically identified in the notice as the deemed holder of all the specified Scheme Shares, will be taken to have satisfied and discharged its obligations to the other Scheme Shareholders named in the notice under the terms of the Scheme.

5.5 Provision of Scheme Consideration – cash payments by TPG

(a) In consideration for the transfer to TPG of each Scheme Share the subject of a Cash Election, TPG will, by no later than the Business Day before the Implementation Date, deposit into a trust account operated by iiNet as trustee for the Scheme Shareholders an amount in cleared funds equal to:

(i) the aggregate amount of the Cash Consideration for all Scheme Shares; plus

(ii) the aggregate amount of cash payable in accordance with clause 5.2(b)(ii); plus

(iii) if the amount of the Discretionary Special Dividend declared by iiNet is less than $0.75, aggregate amount of the Top Up Cash Consideration for all Scheme Shareholders.

(b) Subject to TPG having complied with clause 5.5(a), iiNet must, on the Implementation Date and from the trust account referred to in clause 5.5(a), pay or procure the payment to:

(i) each Scheme Shareholder who has made a Cash Election, the Cash Consideration attributable to that Scheme Shareholder;

(ii) each Scheme Shareholder who has made a Share Election, the amount of cash payable (if any) in accordance with clause 5.2(b)(ii); and

(iii) all Scheme Shareholders (in addition to the amounts payable under clauses 5.5(b)(i) and 5.5(b)(ii)), if the amount of the Discretionary Special Dividend declared by iiNet is less than $0.75, the Top Up Cash Consideration,

in each case based on the number of Scheme Shares held by that Scheme Shareholder as at the Record Date.

(c) iiNet's obligation under clause 5.5(b) will be satisfied by iiNet:

(i) where a Scheme Shareholder has, before the Record Date, made an election in accordance with the requirements of the iiNet Share Registry to receive dividend payments from iiNet by electronic funds transfer to a bank account nominated by the Scheme Shareholder, paying, or procuring the payment of, the relevant amount of Australian currency by electronic means in accordance with that election; or

(ii) otherwise, dispatching, or procuring the dispatch of, a cheque in Australian currency to the Scheme Shareholder by prepaid post to their address shown in the Register as at the Record Date, such cheque being drawn in the name of the Scheme Shareholder (or in the case of joint holders, in accordance with the procedures set out in clause 5.7), for the relevant amount.

5.6 Provision of Scheme Consideration – Share Elections

Subject to clauses 5.3 and 5.4, in consideration for the transfer to TPG of each Scheme Share the subject of a Share Election, TPG will:

(a) on the Implementation Date, allot and issue to the Scheme Shareholders the New TPG Shares that comprise the Scheme Consideration payable in accordance with clause 5.2 on terms such that each New TPG Share will rank equally in all respects with each existing fully paid ordinary share in the capital of TPG;

(b) no later than 7 Business Days after trading starts in New TPG Shares on a deferred settlement basis, send or procure the dispatch to each Scheme Shareholder that makes a Share Election (other than Ineligible Foreign iiNet Shareholders), to their address recorded in the Register on the Record Date, a holding statement for the New TPG Shares issued to that Scheme Shareholder;

(c) apply to ASX for the commencement of trading of the New TPG Shares that comprise the Scheme Consideration on the ASX on a deferred settlement basis as from the Business Day after the Effective Date (or such later date as the ASX requires) and on an ordinary settlement basis as from the Business Day after the Implementation Date (or such later date as the ASX requires); and

(d) ensure that, on issue, each New TPG Share that comprises the Scheme Consideration will be fully paid and free from any mortgage, charge, lien, encumbrance or other security interest.

5.7 Joint holders

In the case of Scheme Shares held in joint names:

(a) any cheque required to be paid to Scheme Shareholders will be payable to the joint holders and will be forwarded to the holder whose name appears first in the Register on the Record Date; and

(b) any other document required to be sent under this Scheme will be forwarded to the holder whose name appears first in the Register as at the Record Date.

5.8 Surplus funds

To the extent that, following satisfaction of iiNet's obligations under clauses 5.5(b) and 5.5(c), there is a surplus in the amount held by iiNet as trustee for the Scheme Shareholders in the trust account referred to in that clause, that surplus may be paid by iiNet to TPG.

6. Dealings in iiNet Shares

6.1 Determination of Scheme Shareholders

To establish the identity of the Scheme Shareholders, dealings in iiNet Shares or other alterations to the 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 Register as the holder of the relevant iiNet 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 place where the Register is kept,

and iiNet must not accept for registration, nor recognise for any purpose (except a transfer to TPG pursuant to this Scheme and any subsequent transfer by TPG or its successors in title), 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.

6.2 Register

(a) iiNet must register all registrable transmission applications or transfers of the Scheme Shares in accordance with clause 6.1(b) on or before the Record Date.

(b) If this Scheme becomes Effective, a Scheme Shareholder (and any person claiming through that Scheme Shareholder) must not dispose of, or purport or agree to dispose of, any Scheme Shares or any interest in them after the Record Date otherwise than pursuant to this Scheme, and any attempt to do so will have no effect and iiNet shall be entitled to disregard any such disposal.

(c) For the purpose of determining entitlements to the Scheme Consideration, iiNet must maintain the Register in accordance with the provisions of this clause 6.2 until the Scheme Consideration has been paid to the Scheme Shareholders. The Register in this form will solely determine entitlements to the Scheme Consideration.

(d) All statements of holding for iiNet Shares (other than statements of holding in favour of TPG) will cease to have effect after the Record Date as documents of title in respect of those shares and, as from the Record Date, each entry on the Register (other than entries on the Register in respect of TPG) will cease to have effect except as evidence of entitlement to the Scheme Consideration in respect of the iiNet Shares relating to that entry.

(e) As soon as possible on or after the Record Date, and in any event within one Business Day after the Record Date, iiNet will ensure that details of the names, registered addresses and holdings of iiNet Shares for each Scheme Shareholder as shown in the Register as at the Record Date are available to TPG in the form TPG reasonably requires.

7. Quotation of iiNet Shares

(a) iiNet will apply to ASX to suspend trading of iiNet Shares on the ASX with effect from the close of trading on the Effective Date.

(b) On a date after the Implementation Date to be determined by TPG, iiNet will apply:

(i) for termination of the official quotation of iiNet Shares on the ASX; and

(ii) to have itself removed from the official list of the ASX.

8. General Scheme provisions

8.1 Appointment of agent and attorney

(a) On this Scheme becoming Effective, each Scheme Shareholder, without the need for any further act, irrevocably appoints iiNet as its agent and attorney for the purposes of:

(i) executing any document or form or doing any other act necessary to give effect to the terms of this Scheme including, without limitation, the execution of the Share Transfer and the giving of the Scheme Shareholder's consent under clause 8.3; and

(ii) enforcing the Deed Poll against TPG,

and iiNet accepts such appointment.

(b) iiNet, as agent and attorney of each Scheme Shareholder, may sub-delegate its functions, authorities or powers under this clause 8.1 to all or any of its directors and officers (jointly, severally, or jointly and severally).

8.2 Enforcement of Deed Poll

iiNet undertakes in favour of each Scheme Shareholder that it will enforce the Deed Poll against TPG (as applicable on behalf of and as agent and attorney for the Scheme Shareholders).

8.3 Scheme Shareholders' consent

Each Scheme Shareholder irrevocably consents to iiNet and TPG doing all things and executing all deeds, instruments, transfers or other documents as may be necessary, incidental or expedient to the implementation and performance of this Scheme.

8.4 Scheme Shareholders' agreements

Under this Scheme:

(a) each Scheme Shareholder agrees to the transfer of their Scheme Shares, together with all rights and entitlements attaching to those Scheme Shares, to TPG in accordance with the terms of this Scheme;

(b) each Scheme Shareholder agrees to the variation, cancellation or modification of the rights attached to their Scheme Shares constituted by or resulting from this Scheme;

(c) each Scheme Shareholder acknowledges that this Scheme binds iiNet and all Scheme Shareholders (including those who did not attend the Scheme Meeting and those who did not vote, or voted against this Scheme, at the Scheme Meeting) and, to the extent of any inconsistency, overrides the constitution of iiNet; and

(d) each Scheme Shareholder that makes a Share Election agrees to become a holder of New TPG Shares and to have its name entered in the TPG share register, and accepts the New TPG Shares issued to it under the Scheme on the terms and conditions of the TPG constitution, without the need for any further act by the Scheme Shareholder.

8.5 Warranty by Scheme Shareholders

Each Scheme Shareholder is deemed to have warranted to TPG that:

(a) all their Scheme Shares (including any rights and entitlements attaching to those Scheme Shares) will, at the date of the transfer of them to TPG, be fully paid and free from all mortgages, charges, security interests (including any 'security interests' within the meaning of section 12 of the *Personal Property Securities Act 2009* (Cth)), liens, encumbrances and interests of third parties of any kind, whether legal or otherwise, and restrictions on transfer of any kind; and

(b) they have full power and capacity to sell and to transfer their Scheme Shares, and all rights and entitlements attaching to those Scheme Shares, to TPG.

8.6 Title to Scheme Shares

(a) Immediately upon provision of the Scheme Consideration in accordance with clauses 5.5and 5.6, TPG will be beneficially entitled to the Scheme Shares transferred to it under this Scheme pending registration by iiNet of TPG in the Register as the holder of the Scheme Shares.

(b) To the extent permitted by law, the Scheme Shares (including all rights and entitlements attaching to the Scheme Shares) transferred under this Scheme to TPG will, at the time of transfer of them to TPG, vest in TPG free from all mortgages, charges, security interests (including any 'security interests' within the meaning of section 12 of the *Personal Property Securities Act 2009* (Cth)), liens, encumbrances and interests of third parties of any kind, whether legal or otherwise, and restrictions on transfer of any kind.

8.7 Appointment of sole proxy

Immediately upon provision of the Scheme Consideration in accordance with clauses 5.5 and 5.6, and until iiNet registers TPG as the holder of all Scheme Shares in the Register, each Scheme Shareholder:

(a) is deemed to have appointed TPG as attorney and agent (and directed TPG in each such capacity) to appoint any director, officer, secretary or agent nominated by TPG as its sole proxy and, where applicable or appropriate, corporate representative to attend shareholders' meetings, exercise the votes attaching to the Scheme Shares registered in their name and sign any shareholders' resolution;

(b) acknowledges that no Scheme Shareholder may itself attend or vote at any of those meetings or sign any resolutions, whether in person, by proxy or by corporate representative (other than pursuant to clause 8.7(a));

(c) must take all other actions in the capacity of a registered holder of Scheme Shares as TPG reasonably directs; and

(d) acknowledges and agrees that in exercising the powers conferred in clause 8.7(a), TPG and any director, officer, secretary or agent nominated by TPG under that clause may act in the best interests of TPG as the intended registered holder of the Scheme Shares.

8.8 Notices

Where a notice, transfer, transmission application, direction or other communication referred to in this Scheme is sent by post to iiNet, it will not be deemed to be received in the ordinary course of post or on a date other than the date (if any) on which it is actually received at iiNet's registered office or at the iiNet Share Registry as the case may be.

8.9 Inconsistencies

This Scheme binds iiNet and all iiNet Shareholders, and to the extent of any inconsistency, overrides the iiNet constitution.

8.10 No liability when acting in good faith

None of TPG, iiNet nor any director, officer, secretary or employee of iiNet will be liable for anything done or omitted to be done in good faith in the performance of this Scheme or the Deed Poll.

8.11 Further assurance

iiNet will execute all documents and do all acts and things as may be necessary or expedient for the implementation of, and performance of its obligations under, this Scheme.

8.12 Alterations and conditions

If the Court proposes to approve this Scheme subject to any conditions or alterations under section 411(6) of the Corporations Act, iiNet may, by its counsel on behalf of all persons concerned consent to only such of those conditions or alterations to this Scheme to which TPG has consented, such consent not to be unreasonably withheld or delayed.

8.13 Stamp Duty

TPG will pay any stamp duty payable on the transfer by Scheme Shareholders of the Scheme Shares to TPG.

8.14 Governing Law

(a) This Scheme is governed by and will be construed according to the laws of Western Australia.

(b) Each party irrevocably submits to the non-exclusive jurisdiction of the courts of Western Australia and of the courts competent to determine appeals from those courts.

Deed Poll

Date

Parties

This deed poll is made by:

Name	**TPG Telecom Limited**
ABN	46 093 058 069
Short name	**TPG**
Address	63-65 Waterloo Road, Macquarie Park, New South Wales 2113

in favour of:

Each Scheme Shareholder.

Background

A On 13 March 2015, TPG and iiNet Limited (**iiNet**) entered into a scheme implementation agreement with respect to the Scheme and associated matters (**Implementation Agreement**).

B On 5 May 2015 and 10 June 2015, TPG and iiNet amended the Implementation Agreement to reflect revised terms of the Scheme.

C The effect of the Scheme will be to transfer all Scheme Shares to TPG in exchange for the Scheme Consideration.

D TPG is entering into this deed poll to covenant in favour of the Scheme Shareholders that it will perform all actions attributed to it under the Scheme.

ME_121840934_1 (W2007)

Agreed terms

1. Defined terms and interpretation

1.1 Defined terms

In this deed poll, unless otherwise defined, capitalised words and phrases have the same meaning as given to them in the proposed scheme of arrangement pursuant to Part 5.1 of the Corporations Act between iiNet and Scheme Shareholders in respect of all Scheme Shares (**Scheme**).

1.2 Interpretation

In this deed poll, headings are for convenience only and do not affect its interpretation and, unless the context requires otherwise:

(a) words importing the singular include the plural and vice versa;

(b) a reference to any document (including the Scheme) is to that document as varied, novated, ratified or replaced; and

(c) a reference to a clause, party, annexure or schedule is a reference to a clause of, and a party, annexure and schedule to, this deed poll and a reference to this deed poll includes any annexure and schedule.

1.3 Nature of deed poll

TPG acknowledges that:

(a) this deed poll may be relied on and enforced by any Scheme Shareholder in accordance with its terms, even though the Scheme Shareholder is not party to it; and

(b) each Scheme Shareholder irrevocably appoints iiNet and each of its directors and officers (jointly and severally) as its agent and attorney to enforce this deed poll against TPG on behalf of that Scheme Shareholder.

2. Condition precedent and termination

2.1 Condition precedent to obligations of the Scheme

The obligations of TPG under this deed poll are subject to the Scheme becoming Effective.

2.2 Termination

The obligations of TPG under this deed poll will automatically terminate, and the terms of this deed poll will be of no force or effect, if:

(a) the Implementation Agreement is terminated in accordance with its terms; or

(b) the Scheme is not Effective by the End Date.

2.3 Consequences of termination

If this deed poll is terminated under clause 2.2, in addition and without prejudice to any other rights, powers or remedies available to it:

(a) TPG is released from its obligations to further perform this deed poll, except those obligations under clause 6.7; and

(b) each Scheme Shareholder retains the rights it has against TPG in respect of any breach of this deed poll which occurs before it is terminated.

3. Scheme obligations

Subject to clause 2, TPG covenants in favour of each Scheme Shareholder to perform all actions attributed to it under, and otherwise comply with, the Scheme as if it were a party to the Scheme.

4. Warranties

TPG represents and warrants in favour of each Scheme Shareholder 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 the constitution of TPG or any material term or provision of any agreement, or any writ, order or injunction, judgment, law, rule or regulation to which it is a party or by which it is bound.

5. Continuing obligations

This deed poll is irrevocable and, subject to clause 2, remains in full force and effect until:

(a) TPG has fully performed its obligations under this deed poll; or

(b) the earlier termination of this deed poll under clause 2.

6. General

6.1 Notices

Any notice or other communication to TPG in respect of this deed poll must be in legible writing and in English and:

(a) must be addressed as shown below:

Attention:	Company Secretary
Address:	63-65 Waterloo Road, Macquarie Park, New South Wales 2113
Facsimile:	+61 2 9252 7855

(b) must be signed by the person making the communication or by a person duly authorised by that person;

(c) must be delivered or posted by prepaid post to the address of TPG in accordance with clause 6.1(a) or sent by facsimile to the facsimile number of TPG specified above; and

(d) will be regarded as received by the addressee:

(i) (**in the case of delivery by hand**) on delivery at the address of the addressee as provided in clause 6.1(a), unless that delivery is not made on a Business Day, or after 5.00pm on a Business Day, when that communication will be deemed to be received at 9.00am on the next Business Day;

(ii) (**in the case of prepaid post**) on the third Business Day after the date of posting to an address within Australia, and on the fifth Business Day after the date of posting to an address outside Australia; and

(iii) (**in the case of fax**) at the local time (in the place of receipt of that fax) which then equates to the time at which that fax is sent as shown on the transmission report which is produced by the machine from which that fax is sent and which confirms transmission of that fax in its entirety, unless that local time is not a Business Day, or is after 5.00pm on a Business Day, when that communication will be deemed to be received at 9.00am on the next Business Day.

6.2 Governing law

(a) This deed poll is governed by and will be construed according to the laws of Western Australia.

(b) Each party irrevocably submits to the non-exclusive jurisdiction of the courts of Western Australia and of the courts competent to determine appeals from those courts.

6.3 Waiver

A party does not waive a right, power or remedy if it fails to exercise or delays in exercising the right, power or remedy. A single or partial exercise by a party of a right, power or remedy does not prevent another or further exercise of that or another right, power or remedy. A waiver of a right, power or remedy must be in writing and signed by the party giving the waiver.

6.4 Variation

This deed poll may not be varied unless:

(a) if before the First Court Date, the variation is agreed to by iiNet; or

(b) if on or after the First Court Date, the variation is agreed to by iiNet and the Court indicates that the variation would not of itself preclude approval of the Scheme,

in which event TPG will enter into a further deed poll in favour of the Scheme Shareholders giving effect to the variation.

6.5 Cumulative rights

The rights, powers and remedies of TPG and the Scheme Shareholders under this deed poll are cumulative and do not exclude any other rights, powers or remedies provided by law independently of this deed poll.

6.6 Assignment

The rights created by this deed poll are personal to TPG and each Scheme Shareholder and may only be assigned with the prior written consent of TPG.

6.7 Stamp duty

TPG must pay any stamp duties and any related fines and penalties in respect of this deed poll, the performance of this deed poll and each transaction effected by or made under or pursuant to this deed poll.

6.8 Further assurances

TPG must promptly do all things necessary or expedient to be done by it in connection with the matters referred to in this deed poll and to implement the Scheme.

Executed as a deed poll.

Executed by **TPG Telecom Limited** in accordance with the provisions of section 127(1) of the *Corporations Act*

← Signature of director	← Signature of director/company secretary (Please delete as applicable)
Name of director (print)	Name of director/company secretary (print)

Notice of Court ordered Scheme Meeting of Shareholders of iiNet Limited ABN 48 068 628 937

Notice is given that, by an order of the Federal Court of Australia, a meeting of members of iiNet Limited (**iiNet**) will be held at the Pan Pacific Perth, 207 Adelaide Terrace, Perth, Western Australia on Monday, 27 July 2015 at 10.00am (WST).

Business

The purpose of the Scheme Meeting is to consider, and if thought fit, to agree to a scheme of arrangement (with or without modification) proposed to be made between iiNet and the iiNet Shareholders other than TPG Telecom Limited and its wholly-owned subsidiaries as at the Record Date (**Scheme**) pursuant to Part 5.1 of the *Corporations Act 2001* (Cth) (**Corporations Act**). The Scheme is proposed to be made in respect of the iiNet Shares held by iiNet Shareholders in the form of the Scheme contained in **Annexure D** to the Scheme Booklet which accompanies this notice.

To assist you in making an informed voting decision, further information on the Scheme is set out in the Scheme Booklet accompanying this notice. A copy of the Scheme is set out in **Annexure D** to the Scheme Booklet and its purpose and effect is explained throughout that document.

Terms used in this notice, including in the resolution set out below, have the same meaning as set out in the Glossary in the Scheme Booklet which accompanies this notice.

Resolution

To consider and, if thought fit, to pass the following resolution:

> *"That, pursuant to and in accordance with section 411 of the Corporations Act, the Scheme of Arrangement proposed to be entered into between iiNet Limited (the **Company**) and holders of its fully paid ordinary shares other than TPG Telecom Limited and its wholly-owned subsidiaries (**Scheme**) is approved and the board of directors of the Company are authorised to agree to such modifications or conditions as are thought fit by the Federal Court of Australia (**Court**) and, subject to approval of the Scheme by the Court, to implement the Scheme with any such modifications or conditions."*

In accordance with section 411(4)(b) of the Corporations Act, the Scheme is subject to the approval of the Court. If the resolution put to the meeting is approved by the Requisite Majority of iiNet Shareholders, iiNet intends to apply to the Court for approval of the Scheme.

Majority required

In accordance with section 411(4)(a) of the Corporations Act, for the Scheme to be Effective, the resolution must be passed by:

- unless the Court orders otherwise, a majority in numbers of iiNet Shareholders present and voting (either in person or by proxy); and
- 75% of the votes cast on the resolution.

The vote will be conducted by poll.

Chairman

The Court has directed that Michael Smith is to act as chairman of the Scheme Meeting and that if Michael Smith is unable or unwilling to attend, David Grant is to act as chairman at the Scheme Meeting), and has directed the chairman of the Scheme Meeting to report the results of the Scheme Resolution to the Court.

Voting entitlement

For the purposes of this Scheme Meeting, iiNet Shares will be taken to be held by the persons who are the registered holders at 5.00pm (WST) on Tuesday, 21 July 2015. All holders of iiNet Shares as at that time are entitled to vote at the Scheme Meeting.

How to vote

See **section 4** of the Scheme Booklet for detailed information regarding voting and submitting proxy and voting instructions forms for the Scheme Meeting.

Court approval

The Scheme (with or without modification) is subject to the approval of the Federal Court of Australia.

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Corporate Directory

Directors
Mr Michael Smith
Mr Peter James
Mr David Grant
Ms Louise McCann
Mr Paul McCarney
Mr Patrick O'Sullivan

Company Secretary
Mr Ben Jenkins

Registered and Corporate Office
Level 1
502 Hay Street
Subiaco WA 6008
Tel: +61 8 9214 2222

Financial Advisers
Azure Capital
Level 34
Exchange Tower
2 The Esplanade
Perth WA 6000
Tel: +61 8 6263 0888
Fax: +61 8 6263 0878

Legal Advisers
K&L Gates
Level 32
44 St Georges Terrace
Perth WA 6000
Tel +61 8 9216 0900
www.klgates.com

Auditor
Ernst & Young
Ernst & Young Building
11 Mounts Bay Road
Perth WA 6000
Tel: +61 8 9429 2222

Independent Expert
Lonergan Edwards
7/64-68 Castlereagh Street,
Sydney NSW 2000
Tel: +61 2 8235 7500

Investigating Accountant
KPMG Transaction Services
10 Shelley Street
Sydney NSW 2000
Tel: +61 2 9335 7000
Fax: +61 2 9335 7001

Proxy Solicitation Agent
Global Proxy Solicitation
Level 2, 220 George Street
Sydney, NSW 2000
Tel: +61 2 8022 7940

Share Registry
Link Market Services Limited
Level 4 Central Park
152 St Georges Terrace
Perth WA 6000
Tel: +61 1300 275 410
Fax: +61 2 9287 0309

Stock Exchange Listing
Australian Securities Exchange
ASX Code: IIN

iiNet Shareholder Information Line
1300 812 892 (within Australia)
+61 2 9098 9204 (outside Australia)

Scheme website
www.iinetscheme.net.au

502 HAY ST (GROUND FL)
SUBIACO, WA 6008
P: 13 19 17

iinet
connect better

ABN 48 068 628 937

LODGE YOUR VOTE

ONLINE
www.linkmarketservices.com.au

BY MAIL
iiNet Limited
C/- Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235 Australia

BY FAX
+61 2 9287 0309

BY HAND
Link Market Services Limited
1A Homebush Bay Drive, Rhodes NSW 2138

ALL ENQUIRIES TO
Telephone: +61 1300 275 410

PROXY FORM

I/We being a member(s) of iiNet Limited and entitled to attend and vote hereby appoint:

STEP 1

APPOINT A PROXY

the Chairman of the Meeting *(mark box)*

OR if you are **NOT** appointing the Chairman of the Meeting as your proxy, please write the name of the person or body corporate you are appointing as your proxy

or failing the person or body corporate named, or if no person or body corporate is named, the Chairman of the Meeting, as my/our proxy to act on my/our behalf (including to vote in accordance with the following directions or, if no directions have been given and to the extent permitted by the law, as the proxy sees fit) at the Scheme Meeting of the Company to be held at **10:00am (WST) on Monday, 27 July 2015 at the Pan Pacific Perth, 207 Adelaide Terrace, Perth, Western Australia** (the **Meeting**) and at any postponement or adjournment of the Meeting.

If you are an iiNet Shareholder as at 5:00pm (WST) on Tuesday, 21 July 2015, you will be entitled to vote on the Scheme Resolution at the Scheme Meeting.

The Chairman of the Meeting intends to vote undirected proxies in favour of each item of business.

STEP 2

VOTING DIRECTIONS

Proxies will only be valid and accepted by the Company if they are signed and received no later than 48 hours before the Meeting.

Please read the voting instructions overleaf before marking any boxes with an ☒

Resolutions

	For	Against	Abstain*
1 Scheme Resolution			

* If you mark the Abstain box for a particular Item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

STEP 3

SIGNATURE OF SHAREHOLDERS – THIS MUST BE COMPLETED

Shareholder 1 (Individual)	Joint Shareholder 2 (Individual)	Joint Shareholder 3 (Individual)
Sole Director and Sole Company Secretary	Director/Company Secretary (Delete one)	Director

This form should be signed by the shareholder. If a joint holding, either shareholder may sign. If signed by the shareholder's attorney, the power of attorney must have been previously noted by the registry or a certified copy attached to this form. If executed by a company, the form must be executed in accordance with the company's constitution and the *Corporations Act 2001* (Cth).

HOW TO COMPLETE THIS SHAREHOLDER PROXY FORM

YOUR NAME AND ADDRESS

This is your name and address as it appears on the Company's share register. If this information is incorrect, please make the correction on the form. Shareholders sponsored by a broker should advise their broker of any changes. **Please note: you cannot change ownership of your shares using this form.**

APPOINTMENT OF PROXY

If you wish to appoint the Chairman of the Meeting as your proxy, mark the box in Step 1. If you wish to appoint someone other than the Chairman of the Meeting as your proxy, please write the name of that individual or body corporate in Step 1. A proxy need not be a shareholder of the Company.

DEFAULT TO CHAIRMAN OF THE MEETING

Any directed proxies that are not voted on a poll at the Meeting will default to the Chairman of the Meeting, who is required to vote those proxies as directed. Any undirected proxies that default to the Chairman of the Meeting will be voted according to the instructions set out in this Proxy Form.

VOTES ON ITEMS OF BUSINESS – PROXY APPOINTMENT

You may direct your proxy how to vote by placing a mark in one of the boxes opposite each item of business. All your shares will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any item by inserting the percentage or number of shares you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on the items of business, your proxy may vote as he or she chooses. If you mark more than one box on an item your vote on that item will be invalid.

APPOINTMENT OF A SECOND PROXY

You are entitled to appoint up to two persons as proxies to attend the Meeting and vote on a poll. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by telephoning the Company's share registry or you may copy this form and return them both together.

To appoint a second proxy you must:

(a) on each of the first Proxy Form and the second Proxy Form state the percentage of your voting rights or number of shares applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded; and

(b) return both forms together.

SIGNING INSTRUCTIONS

You must sign this form as follows in the spaces provided:

Individual: where the holding is in one name, the holder must sign.

Joint Holding: where the holding is in more than one name, either shareholder may sign.

Power of Attorney: to sign under Power of Attorney, you must lodge the Power of Attorney with the registry. If you have not previously lodged this document for notation, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the *Corporations Act 2001*) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please indicate the office held by signing in the appropriate place.

CORPORATE REPRESENTATIVES

If a representative of the corporation is to attend the Meeting the appropriate "Certificate of Appointment of Corporate Representative" should be produced prior to admission in accordance with the Notice of Meeting. A form of the certificate may be obtained from the Company's share registry or online at www.linkmarketservices.com.au.

LODGEMENT OF A PROXY FORM

This Proxy Form (and any Power of Attorney under which it is signed) must be received at an address given below by **10:00am (WST) on Saturday, 25 July 2015,** being not later than 48 hours before the commencement of the Meeting. Any Proxy Form received after that time will not be valid for the scheduled Meeting.

Proxy Forms may be lodged using the reply paid envelope or:

ONLINE
www.linkmarketservices.com.au
Login to the Link website using the holding details as shown on the Proxy Form. Select 'Voting' and follow the prompts to lodge your vote. To use the online lodgement facility, shareholders will need their "Holder Identifier" (Securityholder Reference Number (SRN) or Holder Identification Number (HIN) as shown on the front of the Proxy Form).

BY MAIL
iiNet Limited
C/- Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235
Australia

BY FAX
+61 2 9287 0309

BY HAND
delivering it to Link Market Services Limited*
1A Homebush Bay Drive
Rhodes NSW 2138

* During business hours (Monday to Friday, 9:00am–5:00pm)

IF YOU WOULD LIKE TO ATTEND AND VOTE AT THE SCHEME MEETING, PLEASE BRING THIS FORM WITH YOU.
THIS WILL ASSIST IN REGISTERING YOUR ATTENDANCE.

iinet
connect better

ABN 48 068 628 937

LODGE YOUR DIRECTION

ONLINE
www.linkmarketservices.com.au

BY MAIL
iiNet Limited
C/- Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235 Australia

BY FAX
+61 2 9287 0309

BY HAND
Link Market Services Limited
1A Homebush Bay Drive, Rhodes NSW 2138

ALL ENQUIRIES TO
Telephone: +61 1300 275 410

X99999999999

VOTING DIRECTION FORM

STEP 1

DIRECTION TO THE TRUSTEE OF THE PLAN

I, being a participant of the IINET Deferred Employee Share Plan direct the Trustee of the Plan to vote on my behalf in respect of any voting rights attaching to shares held for my benefit under the Plan at the Scheme Meeting of the Company to be held at **10:00am (WST) on Monday, 27 July 2015 at the Pan Pacific Perth, 207 Adelaide Terrace, Perth, Western Australia** and at any adjournment of that meeting. Forms will only be valid and accepted by the Company if they are signed and received no later than **10:00am (WST) on Friday, 24 July 2015.**

If you are an iiNet Shareholder as at 5.00pm (WST) on Tuesday, 21 July 2015, you will be entitled to vote on the Scheme Resolution at the Scheme Meeting.

STEP 2

VOTING DIRECTIONS

This form will only be used for the purpose of voting on the resolutions specified below.
To direct the Trustee on how to vote on any resolution, please insert ☒ in the appropriate box.
In the absence of a direction by you, the Trustee has no direction and your votes will not be counted.

Resolutions

	For	Against	Abstain*
1 Scheme Resolution	☐	☐	☐

* If you mark the Abstain box for a particular Item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

STEP 3

SIGNATURE OF PARTICIPANT – THIS MUST BE COMPLETED

Signature of Participant

iinet
connect better

ABN 48 068 628 937

All Registry communications to:
Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235 Australia
Telephone: +61 1300 275 410
ASX Code: IIN
Website: www.linkmarketservices.com.au

SCHEME OF ARRANGEMENT – ELECTION FORM

IMPORTANT – This is an important document and requires your immediate attention.

You may use this Election Form to elect to receive either the Cash Consideration or the Share Consideration.

If you do not return this Election Form by the Election Date (defined below), you will be deemed to have made a Cash Election.

To be a valid election, your Election Form must be received by Link Market Services Limited by 5:00pm (WST) on Tuesday, 21 July 2015 (Election Date) or such later time and date as iiNet Limited may announce to the ASX. Election Forms received after the Election Date will be invalid and you will be deemed to have made a Cash Election. If you acquire additional iiNet Shares after the Election Date you will not be able to make an Election in respect of those additional iiNet Shares and you will automatically be deemed to have made a Cash Election in respect of those additional iiNet Shares. If as a result of making a Share Election the total value of New TPG Shares you receive (calculated as at the Election Date) will be less than a Marketable Parcel, you will be deemed to have made a Cash Election.

You may only make one election in respect of all of the iiNet Shares you hold as at the Election Date.

iiNet Shareholders should refer to the important information overleaf. Do not complete this Election Form until you have read the accompanying Scheme Booklet and the instructions on the back of this Election Form. Please read the election options carefully and if you are in any doubt about what to do you should consult with your investment, financial, taxation or other professional advisers

A Election

You are not required to submit and return this Election Form if you want to elect to receive the Cash Consideration.

If you correctly complete and return this form you will be deemed to have made your chosen election in respect to ALL of the iiNet Shares you hold continuously from the Election Date until the Record Date.

☐ **Election A – All Cash Consideration:**
A$8.80 per Scheme Share

☐ **Election B – All Share Consideration:**
0.969 New TPG Shares per Scheme Share (subject to a scale back if the TPG Share Cap is reached)

* Please note elections can also be made online at www.iinetscheme.com.au

B Contact Details

Please provide a daytime telephone number where we can contact you, if we have any questions about this application.

Daytime telephone number

(   )

Contact name (PRINT)

C Shareholder Signature(s) – This MUST be completed

I/We, have made the above election in respect of all my/our iiNet Shares and hereby agree to the terms and conditions as set out in the Scheme Booklet.

Shareholder 1 (Individual)	Joint Shareholder 2 (Individual)	Joint Shareholder 3 (Individual)
Sole Director and Sole Company Secretary	Director/Company Secretary (Delete one)	Director

This form must be signed by the shareholder. If a joint holding, all shareholders should sign. If signed by the shareholder's attorney, the power of attorney must have been previously noted by the registry or a certified copy attached to this form. If executed by a company, the form must be executed in accordance with the company's constitution and the *Corporations Act 2001* (Cwlth).

Date

/ /

THIS FORM MUST BE RECEIVED BY LINK MARKET SERVICES LIMITED BY NO LATER THAN 5:00PM (WST) ON TUESDAY, 21 JULY 2015

iiNET LIMITED

1. How to complete the Election Form

Please complete all relevant sections of the Election Form USING BLOCK LETTERS in accordance with the instructions on the form.

Please note your consideration will be issued in the names as they appear on the Register.

If you are electing the Share Consideration option, you must complete and return this Election Form in accordance with the instructions below.

Please refer to the Scheme Booklet dated 15 June 2015.

Terms are defined in the Scheme Booklet and have the same meaning in this Election Form.

Please sign this Election Form in the places for signature(s) out on the front page and in accordance with the following instructions:

- **Joint shareholders:** If your iiNet Limited Shares are held in the names of more than one person, all of those persons must sign this Election Form.
- **Corporations:** This Election Form must be signed by either two directors or a director and a company secretary. Alternatively, where the company has a sole director and, pursuant to the Corporations Act, there is no company secretary, or where the sole director is also the sole company secretary, that director may sign alone. Alternatively, a duly appointed attorney may sign.
- **Powers of attorney:** If this Election Form is signed under a power of attorney, please attach a certified copy of the power of attorney to this Election Form when you return it. If this Election Form is signed under Power of Attorney, the attorney declares that he/she has no notice of revocation of the Power of Attorney.
- **Deceased Estates:** All the executors and administrators must sign this Election Form. When you return this Election Form, please attach it to a certified copy of probate, letters of administration or certificate of grant accompanied (where required by law for the purpose of transfer) by a certificate of payment of death or succession duties and (if necessary) a statement in terms of Section 1071B(9)(b)(iii) of the Corporations Act.

2. How to lodge your Election Form

A reply paid envelope is enclosed for your use. No postage stamp is required if it is posted in Australia. Alternatively, the completed Election Form may be mailed to the postal address, or delivered by hand to the delivery address, set out below. **Your completed Election Form must be received by the iiNet Limited Share Registry (Link Market Services Limited) by no later than 5:00pm (WST) on Tuesday, 21 July 2015.**

Postal Delivery

iiNet Limited Scheme
C/- Link Market Services Limited
Locked Bag A14
SYDNEY SOUTH NSW 1235
AUSTRALIA

Hand Delivery

iiNet Limited Scheme
C/- Link Market Services Limited
1A Homebush Bay Drive
RHODES NSW 2138
(Please do not use this address for mailing purposes)

Online Elections: visit www.iinetscheme.net.au to make your election.

If you have any enquiries about the Scheme of Arrangement, please contact the iiNet Shareholder Information Line on 1300 812 892 (within Australia) or +61 2 9098 9204 (outside Australia), or visit the Scheme website at www.iinetscheme.net.au.

3. How to change your election preference

An iiNet Shareholder can change their election by logging on to the iiNet Scheme website at www.iinetscheme.net.au and following the relevant instructions by 5:00pm (WST) on Tuesday, 21 July 2015. If an iiNet Shareholder cannot use the process of the iiNet Scheme website, they can request a replacement Election Form. Replacement Election Forms can be obtained by contacting Link Market Services Limited on +61 1300 275 410 between 8:30am and 5:00pm (Australian Eastern Standard Time) Monday to Friday. The last valid Election Form received by the iiNet Registry or valid online instruction completed by the Election Date will be used for the purposes of determining that iiNet Shareholder's Election.