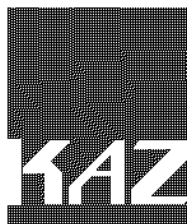


THIS IS AN IMPORTANT DOCUMENT AND REQUIRES YOUR IMMEDIATE ATTENTION. IF YOU ARE IN DOUBT AS TO HOW TO DEAL WITH IT, YOU SHOULD CONSULT YOUR LEGAL, FINANCIAL OR OTHER PROFESSIONAL ADVISER.



# Information Memorandum

In relation to a recommended proposal for Telstra Corporation Limited ACN 051 775 556 to acquire KAZ Group Limited ACN 002 124 405 via Schemes of Arrangement



**STRENGTH**  *Flexibility*

**THE DIRECTORS OF KAZ UNANIMOUSLY RECOMMEND YOU VOTE IN FAVOUR OF THE SCHEMES, IN THE ABSENCE OF A SUPERIOR OFFER.**

*The Independent Expert has concluded that the Scheme proposals are fair and reasonable and are in the best interests of shareholders and optionholders.*

 **ROTHSCHILD**

Allens Arthur Robinson 

SHAREHOLDER ENQUIRY LINE: 1800 040 842

INTERNATIONAL CALLS: +613 9415 4204



## Key Dates

Latest date and time by which proxy forms must be received by KAZ (see page 4 for further details)

10:00am Sunday 4 July 2004

Date and time for determining eligibility to vote at the Ordinary Scheme Meeting

10:00am Sunday 4 July 2004

Date and time for determining eligibility to vote at the Option Scheme Meeting

Commencement of Option Scheme Meeting 10:15am Tuesday 6 July 2004

Scheme Meetings

Tuesday 6 July 2004

Court hearing for approval of the Schemes

Friday 9 July 2004

Effective Date of the Schemes

Friday 9 July 2004

Suspension of trading in KAZ Shares

Close of trading, Friday 9 July 2004

Record Date for determining entitlements to Scheme Consideration

Friday 16 July 2004

Implementation of the Schemes

Monday 19 July 2004

Despatch of cheques for Scheme Consideration

Monday 19 July 2004

Termination of quotation of KAZ Shares

Tuesday 20 July 2004

All dates following the date of the Scheme Meetings are indicative only and are subject to the Court approval process. All times referred to are Australian Eastern Standard Time (AEST).

Date: This Information Memorandum is dated 28 May 2004.



## Important Notices

### **READ THIS DOCUMENT**

You should read this Information Memorandum in its entirety before making a decision as to how to vote at a Scheme Meeting. If you are in doubt as to what you should do, you should consult your investment or other professional adviser.

### **RESPONSIBILITY STATEMENT**

The information concerning Telstra and the Telstra Group contained in section 3 of this Information Memorandum, including information as to the funding arrangements it has made to provide the Scheme Consideration and information as to the views, intentions and decisions of Telstra and the directors of Telstra in relation to KAZ (collectively the Telstra Information) has been provided by Telstra and is the responsibility of Telstra. KAZ does not assume any responsibility for the accuracy or completeness of the Telstra Information.

Telstra does not assume any responsibility for the accuracy or completeness of the information contained in this Information Memorandum other than that contained in section 3.

The information contained in section 6 of this Information Memorandum is the responsibility of Deloitte Corporate Finance. Neither Telstra nor KAZ assume any responsibility for the accuracy or completeness of the information contained in section 6 of this Information Memorandum.

Deloitte Corporate Finance does not assume any responsibility for the accuracy or completeness of the information contained in this Information Memorandum other than that contained in section 6.

The information contained in the Information Memorandum other than in sections 3 and 6 is the responsibility of KAZ.

### **ROLE OF ASIC**

A copy of this Information Memorandum has been examined by ASIC. A copy of the Explanatory Statement set out in section 4 of this Information Memorandum has been registered by ASIC for the purposes of section 412(6) of the Corporations Act. ASIC has been requested to provide a statement, in accordance with section 411(17)(b) of the Corporations Act, that ASIC has no objection to the Ordinary Scheme or the Option Scheme. If ASIC provides that statement, then it will be produced to the Court at the time of the Court hearing to approve the Schemes. Neither ASIC nor any of its officers takes any responsibility for the contents of this Information Memorandum.

### **NOTICE TO FOREIGN SHAREHOLDERS**

This document complies with disclosure requirements of Australia that may be different to those in other countries.

### **DEFINED TERMS AND INTERPRETATION**

Capitalised terms used in this Information Memorandum are defined in the Glossary of Terms in section 11. Unless otherwise stated, all data contained in charts, graphs and tables is based on information available as at the date of this Information Memorandum. All references to time in this Information Memorandum are references to Australian Eastern Standard Time. All references to \$, dollars or cents are to Australian currency.



## **PRIVACY AND PERSONAL INFORMATION**

KAZ will need to collect personal information to implement the Schemes. The personal information may include the names, contact details and details of shareholdings of KAZ Shareholders and Option Holders, plus contact details of individuals appointed by KAZ Shareholders or Option Holders as proxies, corporate representatives or attorneys at the Scheme Meetings. The collection of some of this information is required or authorised by the Corporations Act. KAZ Shareholders and Option Holders 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 can contact KAZ's Privacy Officer by email to [privacycompliance@kaz-group.com](mailto:privacycompliance@kaz-group.com) if they wish to exercise those rights.

The information may be disclosed to print and mail service providers, and to KAZ's advisers to the extent necessary to effect the Schemes. If the information outlined above is not collected, KAZ may be hindered in, or prevented from, conducting the Scheme Meetings or implementing the Schemes effectively or at all.

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

You should also note that all persons are entitled, under section 173 of the Corporations Act, to inspect and copy KAZ's register of option holders. This register contains personal information about Option Holders. For more information about this entitlement see section 4.14 below.



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## Enclosed with this Information Memorandum

For KAZ Shareholders receiving this Information Memorandum:

- Blue personalised proxy form for meeting of KAZ Shareholders;
- Notice of Ordinary Scheme Meeting; and
- Reply paid envelope (for use in Australia).

For Option Holders receiving this Information Memorandum:

- Yellow personalised proxy form for meeting of Option Holders;
- Notice of Option Scheme Meeting; and
- Reply paid envelope (for use in Australia).

**KAZ Shareholder Information Line: 1800 040 842**

If you have any questions in relation to the Schemes, you can call the KAZ Shareholder Information Line on the above number (or for overseas callers +61 3 9415 4204) between the hours of 8:00am and 6:00pm AEST on weekdays.



## Letter from the Chairman of KAZ Group Limited

28 May, 2004

Dear KAZ Shareholders and Option Holders,

### THE PROPOSAL

On 7 April 2004, Telstra Corporation Limited (Telstra) and KAZ Group Limited (KAZ) jointly announced a proposal for the acquisition by Telstra of all the shares in KAZ for \$0.40 cash per share via a scheme of arrangement (the Ordinary Scheme).

The completion of the proposed acquisition will require KAZ Shareholder and Court approval.

In addition, it is also proposed that all Options will be cancelled, in exchange for Telstra paying each Option Holder a cash sum for their Options. That cancellation will be implemented by way of a second, separate, scheme of arrangement (the Option Scheme).

The meetings of KAZ Shareholders and Option Holders to vote on the Ordinary Scheme and Option Scheme respectively are to be held in Sydney on Tuesday 6 July 2004. For the Schemes to proceed certain conditions need to be satisfied and the Schemes must be approved by specified majorities at the Scheme Meetings. The Schemes also require Court approval.

### RECOMMENDATION

Your Board unanimously believes that the Ordinary Scheme and Option Scheme are in the best interest of KAZ Shareholders and Option Holders and recommends that you vote in favour of the Ordinary Scheme and the Option Scheme in the absence of a superior proposal. Each Director intends to vote in favour of the Ordinary Scheme and Option Scheme in relation to their personal holdings of KAZ Shares and Options.

### REASONS FOR THE DIRECTORS' RECOMMENDATION

The key reasons for the Directors' recommendation of the Ordinary Scheme and Option Scheme include the following:

- The proposed transaction at a price of \$0.40 per KAZ Share represents a significant premium to KAZ's recent trading price. It represents:
  - a 20.5 per cent premium to the volume weighted average KAZ Share price of 33.2 cents between the announcement of KAZ's half year result on 24 February 2004 and the announcement of the proposed acquisition on 7 April 2004;
  - a 26.9 per cent premium to the three month volume weighted average KAZ Share price prior to announcement on 7 April 2004 of 31.5 cents; and
  - a 33.4 per cent premium to the six month volume weighted average KAZ Share price prior to announcement on 7 April 2004 of 30.0 cents.
- The Independent Expert, Deloitte Corporate Finance, has expressed the opinion that the proposed transaction price of \$0.40 per KAZ Share is fair and reasonable and is in the best interest of KAZ Shareholders. The full report of the Independent Expert is set out in section 6 of this Information Memorandum.
- The transaction price of \$0.40 per KAZ Share represents certainty of value paid to KAZ Shareholders participating in the Ordinary Scheme. The Directors of KAZ recognise that although the KAZ Share price could eventually trade at levels above \$0.40, it has not done so since 30 April 2002 and that there is always uncertainty in relation to the stock market valuation of any company.



- The Option Scheme gives Option Holders the ability to realise the value of their Options in a timely, certain way. The Independent Expert has found that the value offered for KAZ's Options is fair and reasonable and is in the best interest of Option Holders.

## TELSTRA'S INTENTIONS

The Directors also note that Telstra has indicated that it intends to operate KAZ as a stand-alone Information, Communications and Technology (ICT) business of sufficient scale to be a market leader in the ICT marketplace. The Directors believe that the combination of KAZ's and Telstra's strengths will increase the solutions and services offerings that the businesses can provide to customers and will position the business as a competitive provider of an integrated suite of communications, IT and Business Process Outsourcing (BPO) services.

The Directors believe that such a combination with Telstra will be highly beneficial for the KAZ business. While KAZ has had a history of strong and successful growth to date, over time, the convergence of communications infrastructure, networking services, IT services and BPO is driving customers to demand a full range of ICT solutions from their IT and telecommunications service providers. The combination of KAZ and Telstra's capabilities will enable KAZ to more effectively service its customers' needs and compete more effectively in the ICT marketplace. The retention of KAZ as a separate stand-alone business will on the other hand serve to ensure that KAZ's flexible 'can do' culture and responsive approach to business is retained.

## THE CONSEQUENCES OF THE SCHEMES

If the Schemes are successful, Scheme Participants will be paid on the 6th Business Day after the Schemes become Effective.

If the Ordinary Scheme is not approved at the Ordinary Scheme Meeting then KAZ will continue as an independent entity, you will not receive \$0.40 cash for your shares and KAZ will continue to pursue its operational and growth objectives and the creation of shareholder value. However, in these circumstances, your Directors anticipate that the price at which KAZ Shares are traded on the ASX will fall below \$0.40.

If the Option Scheme is not approved but the Ordinary Scheme is approved, Telstra has indicated that it intends to acquire the Options using other permissible methods, such as compulsory acquisition or cancellation under the Corporations Act.

Your careful consideration of this matter is important. I encourage you to read this Information Memorandum (including the report of the Independent Expert) carefully in full and, if required, to seek your own investment or other professional advice. The Directors consider it important that you have the opportunity to vote on this matter and encourage you to do so. I urge you to attend the relevant Scheme Meeting or, if you are unable to attend, to complete and return the relevant enclosed proxy form.

If you have any questions in relation to the proposed transaction, please call the KAZ Shareholder Information Line on Free Call 1800 040 842 (or for overseas callers +61 3 9415 4204) between the hours of 8:00am and 6:00pm AEST on weekdays.

Your sincerely,

Peter Housden  
Acting Chairman



## Letter from the Chief Executive Officer of Telstra

28 May, 2004

Dear KAZ Shareholders and Option Holders,

On 7 April 2004, KAZ and Telstra jointly announced their intention for Telstra to acquire KAZ through schemes of arrangement.

If approved the transaction will provide growth opportunities by leveraging the complementary capabilities of Telstra and KAZ and by responding better to customer demands for converged solutions.

As set out in the Information Memorandum, Telstra has indicated its intention to operate KAZ as a separate co-branded subsidiary of Telstra and is committed to retaining KAZ's flexible 'can do' culture and responsive approach to business. Telstra recognises that KAZ's business is essentially a 'people business' and that a large part of the value of KAZ is generated by the loyalty and quality of its team.

KAZ engaged an Independent Expert to consider the proposed transaction. The Independent Expert concluded that the proposed transaction price of \$0.40 per KAZ Share is fair and reasonable, is in the best interests of KAZ Shareholders and that the value offered for KAZ's Options is fair and reasonable.

Thank you in advance for giving this proposal your careful consideration. We are excited about the opportunity to create a leading information and communication technologies company in the Australian market and to build on KAZ's success to date.

Yours sincerely,

A handwritten signature in black ink that reads 'J. P. Switkowski'.

Ziggy Switkowski

Chief Executive Officer

Telstra Corporation Limited



## Your vote

### SCHEME MEETINGS

The Ordinary Scheme Meeting will be held:

- at 10:00am on Tuesday 6 July 2004;
- at Avillion Hotel, 389 Pitt Street, Sydney NSW 2000.

The Option Scheme Meeting will be held:

- at the later of 10:15am on Tuesday 6 July 2004, or immediately following the close of the Ordinary Scheme Meeting;
- at Avillion Hotel, 389 Pitt Street, Sydney NSW 2000.

For the Ordinary Scheme to proceed, the Ordinary Scheme must be approved by a majority of KAZ Shareholders who vote (in person, by proxy, by attorney or, in the case of corporations, by authorised corporate representative). Those KAZ Shareholders who vote in favour must hold at least 75% of the total number of KAZ Shares voted at the Ordinary Scheme Meeting.

For the Option Scheme to proceed, the Option Scheme must be approved by a majority of Option Holders who vote (in person, by proxy, by attorney or, in the case of corporations, by authorised corporate representative). Those Option Holders who vote in favour must represent at least 75% of the total amount of debts and claims of the creditors present and voting at the Option Scheme Meeting.

### WHO CAN VOTE?

KAZ has determined that the KAZ Shareholders who will be eligible to vote at the Ordinary Scheme Meeting are those registered as a KAZ Shareholder at 10:00am on Sunday 4 July 2004.

The Option Holders who will be eligible to vote at the Option Scheme Meeting are those registered as an Option Holder at the time of the Option Scheme Meeting.

If you are unsure whether you can vote, you can call the KAZ Shareholder Information Line on Free Call 1800 040 842 (or for overseas callers +61 3 9415 4204) between the hours of 8:00am and 6:00pm AEST on weekdays.

### WHAT SHOULD YOU DO?

- Read this Information Memorandum and the enclosed Notices of Scheme Meetings carefully.
- If you have any queries, consult your investment or other professional adviser, or for information call the KAZ Shareholder Information Line on Free Call 1800 040 842 (or for overseas callers +61 3 9415 4204) between the hours of 8:00am and 6:00pm AEST on weekdays.
- Exercise your right to vote. Your Directors believe the Schemes are a matter of importance for all KAZ Shareholders and Option Holders and therefore urge you to vote.



## **VOTING IN PERSON**

To vote in person, attend the Scheme Meetings on Tuesday 6 July 2004 at Avillion Hotel, 389 Pitt Street, Sydney NSW 2000.

Attorneys who plan to attend a Scheme Meeting should bring with them the original or a certified copy of the power of attorney under which they have been authorised to attend and vote at the Scheme Meeting.

A corporation which is a KAZ Shareholder or Option Holder may appoint an individual to act as its representative. The appointment must comply with the requirements of section 250D of the Corporations Act. The representative should bring to the Scheme Meeting evidence of their appointment, including any authority under which it is signed.

## **VOTING BY PROXY**

To vote by proxy at the Ordinary Scheme Meeting, complete and sign the enclosed blue personalised proxy form. The form must be received by the KAZ Share Registry by 10:00am Sunday 4 July 2004.

To vote by proxy at the Option Scheme Meeting, complete and sign the enclosed yellow personalised proxy form. The form must be received by the KAZ Share Registry by 10:00am Sunday 4 July 2004.

**You may return your proxy form to the KAZ Share Registry by posting it in the reply paid envelope provided (for use in Australia) or by delivering or faxing it to:**

Post or Fax to:  
KAZ Share Registry  
Computershare Investor Services Pty Limited  
GPO Box 242  
Melbourne VIC 8060  
Facsimile: +61 2 8235 8220

Deliver to:  
KAZ Share Registry  
Computershare Investor Services Pty Limited  
Level 2  
60 Carrington Street  
Sydney NSW 2000



## 1. Key features of the Schemes

This section is a summary only. KAZ Shareholders and Option Holders should read the entire document before making a decision on how to vote.

### THE SCHEMES

Telstra and KAZ jointly announced on 7 April 2004 a proposed acquisition of KAZ by Telstra. Under the proposal, Telstra will acquire all KAZ Shares, and all Options will be cancelled. Telstra's intentions concerning the continuation of the business of KAZ are set out in section 3 of this Information Memorandum.

The proposed transaction will be implemented by way of two schemes of arrangement (the Ordinary Scheme and the Option Scheme) which, if implemented, will have the following effect:

- the transfer of all KAZ Shares to Telstra Services Solutions Holdings, a wholly owned subsidiary of Telstra;
- KAZ Shareholders as at the Record Date (Ordinary Scheme Participants) receiving cash from Telstra for each KAZ Share;
- the cancellation of all Options; and
- Option Holders as at the Record Date (Option Scheme Participants) receiving cash from Telstra for the cancellation of each Option.

### CONSIDERATION

Ordinary Scheme Participants will receive \$0.40 cash from Telstra for each KAZ Share held by them at the Record Date.

Details of the consideration payable to Option Scheme Participants are contained in section 4.13.

### WHEN WILL YOU GET PAID

If the Schemes proceed, the consideration for transfer of your KAZ Shares or the cancellation of your Options must be paid by Telstra on the 6th Business Day after the Effective Date. This is expected to be Monday 19 July 2004.

### DIRECTORS' RECOMMENDATION

Your Directors unanimously believe that the Schemes are in the best interest of KAZ Shareholders and Option Holders and recommend that you vote in favour of your relevant Scheme in the absence of any superior offer.

All Directors who hold KAZ Shares and Options intend to vote in favour of the Schemes.

The key reasons of each of the Directors for their recommendations and other matters which you may wish to take into consideration are set out in section 2.2 of this Information Memorandum.

### INDEPENDENT EXPERT

The Independent Expert, Deloitte Corporate Finance, has expressed the opinion that the Schemes are in the best interest of KAZ Shareholders and Option Holders.

The Independent Expert's Report is set out in full in section 6 of this Information Memorandum.

You are encouraged to read this report in full.



## THE VOTE AND OTHER APPROVALS

The Ordinary Scheme must be approved by KAZ Shareholders at a meeting to be held on Tuesday 6 July 2004 at 10:00am and the Option Scheme must be approved by Option Holders at a meeting to be held on Tuesday 6 July 2004 at 10:15am or immediately following the close of the Ordinary Scheme Meeting.

The Ordinary Scheme must be approved by:

- a majority in number of KAZ Shareholders who vote at the Ordinary Scheme Meeting (in person or by proxy); and
- at least 75% of the total number of KAZ Shares voted at the Ordinary Scheme Meeting (in person or by proxy).

The Option Scheme must be approved by:

- a majority in number of Option Holders who vote at the Option Scheme Meeting (in person or by proxy); and
- at least 75% of the total amount of debts and claims of the creditors present and voting at the Option Scheme Meeting (in person or by proxy).

Following the Scheme Meetings, the Court will be asked to approve the Schemes. Court approval is required for all schemes of arrangement. The hearing for Court approval is expected to be held on Friday 9 July 2004.

The Option Scheme is conditional on the Ordinary Scheme. If the Ordinary Scheme is not approved by KAZ Shareholders and the Court, the Option Scheme will not proceed even if it is approved by Option Holders.

The Ordinary Scheme is not conditional on the Option Scheme and, if approved by KAZ Shareholders and the Court, will proceed regardless of whether the Option Scheme is approved.

## CONDITIONS

Implementation of the Schemes is subject to a number of Conditions Precedent which are summarised in section 4.6 of this Information Memorandum, and set out in full in clause 3.1 of the Merger Implementation Agreement (a copy of which is set out in section 7 of this Information Memorandum).

## HOW TO VOTE

Details of how you can vote are contained on page 4 and in the relevant Notice of Scheme Meeting provided with this Information Memorandum.

## INFORMATION FROM TELSTRA

Section 3 of this Information Memorandum contains information from Telstra and the Telstra Group.

## TAX IMPLICATIONS

Section 5 of this Information Memorandum contains information concerning the income tax consequences of the Schemes for certain Australian resident KAZ Shareholders and Option Holders. You are encouraged to read this section in full.



## 2. Issues for you to consider

### 2.1 DIRECTORS' RECOMMENDATION

The Directors of KAZ, whose names are set out below, recommend that you vote in favour of the Schemes at the Scheme Meetings, in the absence of a superior proposal:

NAME OF DIRECTOR	POSITION
Peter Kazacos	Chief Executive Officer
Peter Housden	Independent Director
Lyndsey Cattermole	Non-Executive Director
Peter Draney	Non-Executive Director
David Knox	Executive Director
Michael O'Sullivan	Executive Director

The Directors unanimously believe that, for the reasons set out in section 2.2 below, the Schemes are in the best interest of KAZ Shareholders and Option Holders. The Directors therefore recommend that, in the absence of a superior offer, KAZ Shareholders and Option Holders vote to approve the Schemes.

All Directors intend to vote in favour of the Schemes in respect of the KAZ Shares and Options that they hold (or that are held on their behalf). For details of the Directors' shareholdings and interests in KAZ Shares and Options, see section 4.23 of this Information Memorandum.

Lyndsey Cattermole and Peter Draney, who together own approximately 12.13% of the KAZ Shares, have granted Telstra a call option over their respective shareholdings (full details of these options are set out in section 4.23 of this Information Memorandum).

### 2.2 THE KEY REASONS FOR THE DIRECTORS' RECOMMENDATION

#### THE SHARE SCHEME

The Directors have, in forming their conclusion and recommendation, given detailed consideration to the following:

(a) Premium to historical KAZ Share prices

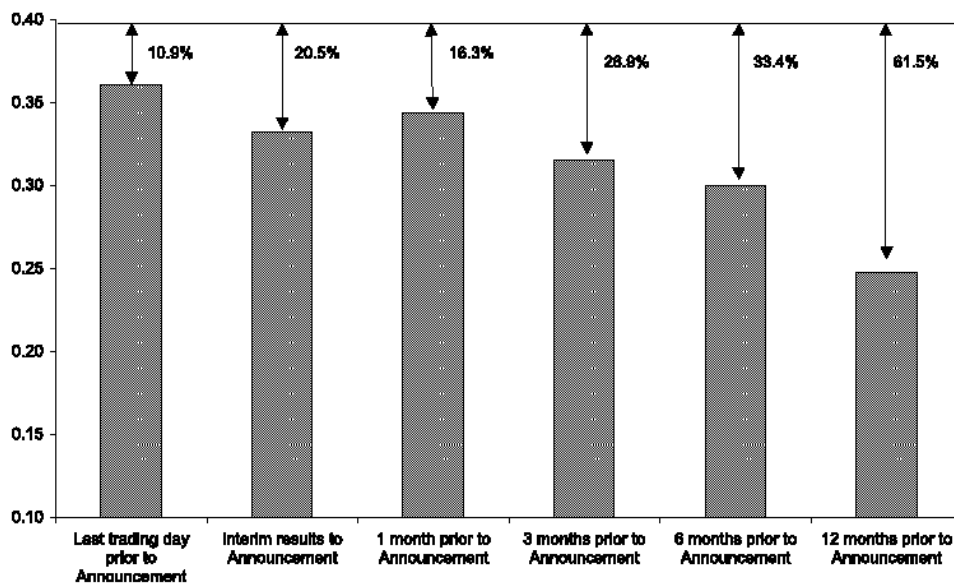
Under the terms of the Ordinary Scheme, Ordinary Scheme Participants will receive \$0.40 cash for each KAZ Share held by them. This represents a significant premium to prices at which KAZ was trading on the ASX prior to the announcement of the proposed transaction on 7 April 2004.

The table and chart below set out the implied premium of the proposed transaction price of \$0.40 per KAZ Share against a range of time periods.

PERIOD	KAZ VWAP PRICE <sup>1</sup>	PREMIUM IMPLIED BY TELSTRA'S \$0.40 OFFER
Last day on which KAZ traded prior to 7 April 2004 <sup>2</sup>	36.1 cents	10.9%
Between announcement of KAZ interim results (on 24 February) and 7 April 2004	33.2 cents	20.5%
1 Month (pre 7 April 2004)	34.4 cents	16.3%
3 Months (pre 7 April 2004)	31.5 cents	26.9%
6 Months (pre 7 April 2004)	30.0 cents	33.4%
1 Year (pre 7 April 2004)	24.8 cents	61.5%

1. VWAP means volume weighted average price and is calculated based on daily closing share prices and volume. The VWAP for various periods in the table above has been rounded to the nearest 0.1 cent.
2. 7 April 2004 is the date on which KAZ and Telstra announced that they had agreed to pursue the Schemes.

**Premium to VWAPs at Telstra offer price of \$0.40 per share**



- (b) KAZ Shares have traded below \$0.40 for around two years  
 The last date that KAZ Shares closed at a price higher than \$0.40 prior to the announcement of the Schemes on 7 April 2004 was 30 April 2002 when the shares closed at a price of \$0.42.



(c) Possibility for a superior offer for all KAZ Shares

There remains the possibility that an interested party may make a superior competitive proposal to acquire all KAZ Shares prior to KAZ Shareholders voting on the Ordinary Scheme. Accordingly, the recommendation of the Directors remains subject to there being no superior offer for all of the shares of KAZ. The Directors have received no such offer to date and have no basis for believing that any such offer will be forthcoming.

(d) Independent Expert

An Independent Expert, Deloitte Corporate Finance, has provided an opinion to the Directors and has concluded that the cash offer price of \$0.40 per KAZ share is fair and reasonable, and that the Ordinary Scheme is in the best interest of KAZ Shareholders.

The cash offer price of \$0.40 is within the Independent Expert's valuation range of \$0.37–\$0.43 per share.

The Independent Expert's Report is included in section 6 of this Information Memorandum. The report should be read in its entirety, including the assumptions on which the conclusions are based.

(e) Certainty of value

The valuation of IT services and technology companies is subjective, given it is based on uncertain future cash flows based on a range of assumptions underlying the financial performance of the company, future growth developments and underlying economic conditions and the cyclical nature of IT services businesses.

In particular within the technology sector there has been very significant volatility in the trading levels of listed technology companies over the recent past. These trading levels reflect (i) a fundamentally volatile investment environment for technology focused stocks throughout the recent technology stock market bubble burst as well as (ii) the cyclical nature of the technology sector and IT services businesses.

Given this valuation uncertainty and stock market volatility, the Directors of KAZ recognise that although the KAZ Share price could eventually trade at levels above \$0.40, it has not done so since 30 April 2002 and that there is always uncertainty in relation to the stock market valuation of any company. There is therefore also potential downside risk in the trading value of KAZ Shares.

Compared to this, the Ordinary Scheme consideration of \$0.40 per KAZ Share in cash will be paid shortly after the Ordinary Scheme Meeting if the Ordinary Scheme is approved and all conditions have been satisfied (or waived). Therefore, subject to the satisfaction of conditions to the Ordinary Scheme, the Ordinary Scheme provides certain value, at a significant premium to the recent trading range of KAZ Shares, and near certain timing of receipt of that value.

(f) If the proposal is not implemented

If the Ordinary Scheme is not implemented, the following outcomes are likely:

- KAZ Shareholders will continue to hold KAZ Shares and KAZ will continue to operate independently; and
- The value at which KAZ Shares trade on the ASX is likely to fall below \$0.40 per share.



(g) Brokerage

If the Ordinary Scheme is implemented you will not have to pay any brokerage fees that you may otherwise have to pay on the sale of your KAZ Shares.

## THE OPTION SCHEME

The Directors have, in forming their conclusion and recommendation, given detailed consideration to the following:

(a) Timely realisation of value

KAZ's Options are not transferable. The Option Scheme gives Option Scheme Participants the ability to realise the value of their Options in a timely, certain way.

(b) Independent Expert opinion

The Independent Expert has formed the view that the value offered for Options under the Option Scheme is fair and reasonable and that the Option Scheme is in the best interest of Option Holders.

(c) Telstra's intention to compulsorily acquire (or cancel) Options

Telstra has indicated that, should the Ordinary Scheme succeed but the Option Scheme fail, its intention is to proceed to compulsorily acquire (or cancel) Options using mechanisms available to it under the Corporations Act. Having regard to this intention, the Directors believe that if the Option Scheme is implemented, Option Holders will receive a more timely realisation of value than under a scenario where compulsory acquisition (or cancellation) is required.

## 2.3 IT CONVERGENCE AND TELSTRA'S INTENTIONS IN RELATION TO KAZ

The Directors also note that Telstra has indicated that its current intentions are to operate KAZ as a stand-alone Information, Communications and Technology (ICT) business of sufficient scale to be a market leader in the ICT marketplace. The Directors believe that the combination of KAZ's and Telstra's strengths will increase the solutions and services offerings that the businesses can provide to customers, and will position the business as a competitive provider of an integrated suite of communications, IT and Business Process Outsourcing (BPO) services.

The Directors believe that such a combination with Telstra will be highly beneficial for the KAZ business. While KAZ has had a history of strong and successful growth to date, over time, the convergence of communications infrastructure, networking services, IT services and BPO is driving customers to demand a full range of ICT solutions from their IT and telecommunications service providers. The combination of KAZ and Telstra's capabilities will enable KAZ to more effectively service its customers' needs and compete more effectively in the ICT marketplace. The retention of KAZ as a separate stand-alone business will on the other hand serve to ensure that KAZ's flexible 'can do' culture and responsive approach to business is retained.

### 3. Information from Telstra

*The information concerning Telstra and the Telstra Group in this section 3 has been provided by Telstra and is the responsibility of Telstra. KAZ does not assume any responsibility for the accuracy or completeness of this information.*

#### **3.1 PROFILE OF TELSTRA**

##### (a) Overview of Telstra and its principal activities

Telstra is Australia's leading telecommunications and information services company. Telstra is listed on ASX and approximately 51.05% of its shares are owned by the Commonwealth.

Telstra competes in telecommunications markets throughout Australia and is comprised of the following strategic business units:

- Telstra Consumer and Marketing;
- Telstra Business and Government;
- Telstra Country Wide;
- BigPond™, Media Services and Sensis;
- Telstra Wholesale;
- Telstra International;
- Infrastructure Services; and
- Telstra Technology, Innovation and Products.

These business units are supported by corporate areas including Legal and Office of Company Secretary; Regulatory, Corporate and Human Relations; Human Resources; Corporate Development; and Finance and Administration.

Telstra's main activities include the provision of:

- basic access services to most homes and businesses in Australia;
- local and long distance telephone calls in Australia and international calls to and from Australia;
- mobile telecommunications services;
- a comprehensive range of data and internet services (including through Telstra BigPond™, Australia's leading ISP);
- management of business customers' IT and/or telecommunications services;
- wholesale services to other carriers and carriage service providers;
- advertising, directories and information services; and
- cable distribution services for FOXTEL's cable subscription television services.

Telstra's international business includes Hong Kong CSL Limited (one of Hong Kong's leading mobile operators), TelstraClear Limited (the second largest full service carrier in New Zealand) and a joint venture interest in Reach Ltd (one of the leading wholesale providers of combined voice, data and internet connectivity services in the Asia-Pacific region).



(b) Directors of Telstra

The Telstra Directors are:

NAME OF DIRECTOR	POSITION
John T Ralph	Interim Chairman
Zygmunt E Switkowski	Chief Executive Officer
Samuel H Chisholm	Director
Anthony J Clark	Director
John E Fletcher	Director
Belinda J Hutchinson	Director
Catherine B Livingstone	Director
Charles Macek	Director
Donald G McGauchie	Director
John W Stocker	Director

### 3.2 PROFILE OF TELSTRA SERVICES SOLUTIONS HOLDINGS LIMITED

It is proposed that, after the Ordinary Scheme is approved, all of the KAZ Shares will be transferred to Telstra Services Solutions Holdings (a wholly owned subsidiary of Telstra).

(a) Overview of Telstra Services Solutions Holdings and its principal activities

Telstra Services Solutions Holdings is the non-trading investment holding company which holds the shares of the various subsidiary companies of Services Solutions, an operating unit of Telstra Business and Government.

Services Solutions provides a range of managed network and managed IT solutions and services to Telstra's business customers, leveraging Telstra's infrastructure, core communications business and customer relationships. Services include Managed IT, Managed Network Services, Outsourcing (including Business Process Outsourcing), Professional Services, Technical Consulting, Business Consulting, eBusiness (including EFTPOS) and Hosting.

Telstra Services Solutions Holdings currently holds the following investments (through a wholly owned subsidiary):

- 47.86% of the shares in Keycorp Limited; and
- 100% of the shares in Telstra eBusiness Services Pty Ltd.



(b) Directors of Telstra Services Solutions Holdings

The directors of Telstra Services Solutions Holdings are:

NAME OF DIRECTOR	POSITION	POSITION WITHIN TELSTRA
Douglas Gratton	Director	Company Secretary
Geoff J Nicholson	Director	Senior Executive, Finance and Administration
David Kirton	Director	Group Financial Controller, Business and Government
Michael J Foster	Director	Managing Director, Services Solutions, Business and Government

### 3.3 INFORMATION ON KAZ SECURITIES

(a) Telstra's interests in KAZ securities

As at the date of this Information Memorandum, Telstra had a relevant interest in:

- 100,475,555 KAZ Shares; and
- Nil Options.

As at the date of this Information Memorandum, Telstra's voting power in KAZ was 12.13%.

(b) Acquisitions of KAZ Shares and Options by Telstra or Telstra associates

Except as disclosed elsewhere in this information Memorandum, neither Telstra nor its associates provided, or agreed to provide, consideration for KAZ Shares or Options under a purchase or agreement during the four months before the date of this Information Memorandum.

(c) Highest price paid for KAZ Shares by Telstra or associates

Except as disclosed elsewhere in this information Memorandum, neither Telstra nor any of its associates has provided, or has agreed to provide, any consideration for any KAZ Shares or Options under a purchase or agreement during the four months before the date of this Information Memorandum.

(d) Pre-Scheme benefits

Except as disclosed elsewhere in this information Memorandum, during the period of four months before the date of this Information Memorandum, neither Telstra nor any of its associates gave, offered to give, or agreed to give a benefit to another person which was likely to induce the other person, or an associate of the other person, to:

- vote in favour of the Ordinary Scheme or the Option Scheme; or
- dispose of KAZ Shares or Options,

and which is not offered to all KAZ Shareholders or Option Holders.



## 3.4 RATIONALE FOR THE PROPOSED ACQUISITION OF KAZ

The rationale for the proposed acquisition of KAZ includes:

(a) Meeting customer demands

The convergence of communications infrastructure, networking services, IT services and Business Process Outsourcing (BPO) is driving customers to demand a full range of Information and Communications Technologies (ICT) solutions from their telecommunications provider.

(b) Global trends

Global telecommunications incumbents including SingTel NCS, BT Global Services and Deutsche Telekom T-Systems are investing to extend their IT services capabilities through acquisitions to complement their communications strengths.

(c) Building on core strengths by expanding IT services capability

The transaction positions Telstra well in the managed services and ICT markets, by expanding Telstra's IT services capability alongside its core strengths in telecommunications.

(d) Future growth in ICT

The transaction delivers increased capability in the ICT services market, a key driver of future growth for Telstra's Business and Government business unit, by enabling Telstra to serve an increasing number of customers who are looking to telecommunications companies as partners who deliver and manage their complex IT and BPO services requirements.

(e) End to end customer solutions – competitive and secure service

- The combination of KAZ's and Telstra's strengths increases the solutions and services offerings Telstra can provide its customers and ensures it can be a competitive provider of their communications, IT and BPO needs.
- The acquisition of KAZ is anticipated to allow Telstra to more effectively combine communication solutions and IT and BPO related services that, as a trusted and secure partner, will be managed and maintained on behalf of customers.
- The acquisition facilitates the delivery of end-to-end communications solutions to business and government customers from the advisory and consulting phase through to the delivery and management phase.



## 3.5 TELSTRA'S INTENTIONS

### (a) Overview

This section sets out Telstra's intentions in relation to the following:

- the continuation of the business of KAZ;
- any major changes to the business of KAZ and any redeployment of the fixed assets of KAZ; and
- the future employment of the present employees of KAZ.

These statements of intention are based on the information concerning KAZ, its business and the general business environment which is known to Telstra at the time of preparation of this Information Memorandum. Final decisions will only be reached by Telstra in light of increased knowledge through exposure to the business and material information and circumstances at the relevant time including as a result of the reduced level of functions arising from KAZ ceasing to be a listed company. Accordingly, the statements set out in this section 3.5 are statements of current intention only which may change as new information becomes available or circumstances change.

Telstra's intentions set out in this section 3.5 also reflect the intentions of Telstra Services Solutions Holdings, subject to the same qualifications set out above.

### (b) Intentions upon the Ordinary Scheme being approved

If the Ordinary Scheme becomes Effective, Telstra's current intentions are as set out below.

#### (i) General operational matters

Telstra's intention is to operate KAZ as a co-branded stand-alone ICT business of sufficient scale to create a market leader in the ICT marketplace.

#### (ii) Intention as to branding and operations

Telstra intends to operate KAZ as a separate co-branded subsidiary of Telstra. It is intended that after the acquisition, KAZ will be renamed "KAZ, a Telstra company". This name may evolve over time to reflect the integral relationship with Telstra and its customers.

#### (iii) Employees

KAZ brings experienced people with skills in BPO, systems integration, consulting, applications development and IT management services to complement Telstra's existing managed services business and telecommunications expertise.

Telstra believes KAZ's flexible 'can do' culture and responsive approach to business has been driven by its successful management team. Therefore, Telstra's current intentions are not to change the leadership team or employee make-up within KAZ.



It is intended that KAZ's current Chief Executive Officer, Mr Peter Kazacos, will continue to lead the business following the acquisition by Telstra, and it is presently intended that Mr Kazacos's current management team will continue to report to him. Mr Kazacos will report to the Managing Director of Telstra Services Solutions, and be an active member of the Telstra Services Solutions leadership team.

Telstra recognises that KAZ's business is essentially a "people business" and that a large part of the value of KAZ is generated by the loyalty and quality of its team. As indicated in section 3.4 above, the acquisition of KAZ by Telstra is about growth and gaining capabilities and skills in the ICT industry.

The current intention is that KAZ will continue to run as a stand-alone entity in the Telstra Business and Government business, reporting into Telstra Services Solutions (an operating unit of Telstra Business and Government). Consequently, KAZ employees will remain on their current employment arrangements and conditions, and with the additional benefit of access to a range of Telstra employee benefits.

KAZ employees will, however, no longer have access to the KAZ Group Limited Employee Share Participation Plan. Also, the current KAZ Executive Share Acquisition Plan will be terminated and a new plan introduced to continue to retain, motivate and attract key executives and talent into the organisation.

(iv) Other corporate matters

If the Ordinary Scheme becomes Effective, Telstra intends to:

- arrange for KAZ to be removed from the official list of ASX; and
- replace members of the Board of KAZ with Telstra nominees.

(c) Intentions if the Ordinary Scheme is approved but not the Option Scheme

The Option Scheme is conditional on approval of the Ordinary Scheme but not vice versa.

If the Ordinary Scheme is approved, but the Option Scheme is not approved, Telstra's current intention is, subject to implementation of the Ordinary Scheme, to compulsorily acquire (or cancel) all of the Options pursuant to Part 6A.2 of the Corporations Act.

(d) Business, assets and employees

Other than as set out in this section 3.5 and elsewhere in this Information Memorandum, it is the present intention of Telstra:

- to continue the businesses of KAZ;
- not to make any major changes to the businesses of KAZ;
- to consider consolidating Telstra-owned and/or KAZ-owned data centres;
- not to redeploy any of the other major fixed assets of KAZ; and
- to maintain the employment of KAZ's existing employees.



## 3.6 SOURCES OF CONSIDERATION

### (a) Cash consideration

The consideration for the acquisition of all KAZ Shares and the cancellation of all Options will be satisfied wholly in cash.

If the Ordinary Scheme becomes Effective, the amount of cash that would be payable by Telstra to Ordinary Scheme Participants would be approximately \$331 million. In addition, if the holders of Options exercised all their Options before the Record Date, an additional amount of approximately \$3 million would be payable by Telstra to acquire the additional shares issued upon the exercise. Accordingly, the maximum amount that Telstra could be required to pay upon the Ordinary Scheme becoming Effective is approximately \$334 million.

If the Option Scheme becomes Effective, the amount of cash that would be payable by Telstra to Option Scheme Participants (assuming no Options are exercised after the date of this Information Memorandum) would be approximately \$2 million.

### (b) Telstra's funding arrangements

The Ordinary Scheme and the Option Scheme will be funded by Telstra from Telstra's cash resources. Those resources will, at the time required for payment, exceed the maximum amounts that Telstra could be required to pay if both the Ordinary Scheme and the Option Scheme become Effective (including all transaction costs).

### (c) Deed Poll

Telstra has executed a deed poll dated 28 May in favour of each holder of KAZ Shares and Options from time to time. In summary, in the Deed Poll, Telstra undertakes that:

- subject to the Ordinary Scheme becoming Effective and in consideration of the transfer of each KAZ Share to it (or to its nominee), it will pay the Ordinary Scheme Consideration to each Ordinary Scheme Participant on the Implementation Date; and
- subject to the Ordinary Scheme and the Option Scheme becoming Effective and in consideration of the cancellation of each Option, it will pay the Option Scheme Consideration to each Option Scheme Participant on the Implementation Date.

A copy of the Deed Poll is contained in section 8 of this Information Memorandum.

## 3.7 CONSENT

This section 3 of this Information Memorandum contains statements made by, or statements said to be based on statements made by Telstra Services Solutions Holdings. Telstra Services Solutions Holdings has consented to the inclusion of each statement made by Telstra Services Solutions Holdings in the form and context in which the statements appear and has not withdrawn that consent at the date of this Information Memorandum.

## 4. Explanatory Statement

This Explanatory Statement (Explanatory Statement) has been prepared pursuant to section 412(1) of the Corporations Act to explain the effect of the schemes of arrangement between KAZ and KAZ Shareholders (the Ordinary Scheme), and between KAZ and Option Holders (the Option Scheme), to be considered at the Scheme Meetings. The Schemes are set out in sections 9 and 10 of this Information Memorandum.

### 4.1 WHO IS AFFECTED BY THE SCHEMES?

If the Schemes are implemented:

- Under the Ordinary Scheme, KAZ Shareholders who hold KAZ Shares at the Record Date (Ordinary Scheme Participants) will transfer their KAZ Shares to Telstra Services Solutions Holdings in return for a cash consideration of \$0.40 per KAZ Share paid by Telstra; and
- Under the Option Scheme, Option Holders who hold Options at the Record Date (Option Scheme Participants) will receive cash consideration in return for the cancellation of their Options.

### 4.2 WHY YOU MAY CONSIDER VOTING FOR THE SCHEMES

#### (a) Premium to historical KAZ Share prices

Under the terms of the Ordinary Scheme, Ordinary Scheme Participants will receive \$0.40 cash for each KAZ Share held by them. This represents a significant premium to prices at which KAZ Shares were trading on the ASX prior to the announcement of the proposed transaction on 7 April 2004.

#### (b) Timely realisation of value of Options

The Option Scheme gives Option Scheme Participants the ability to realise the value of their Options in a timely, certain way.

#### (c) Independent Expert

An Independent Expert, Deloitte Corporate Finance, has concluded that the cash offer price of \$0.40 is fair and reasonable, and that the Ordinary Scheme is in the best interest of KAZ Shareholders.

The Independent Expert has also formed the view that the value offered for KAZ's Options is fair and reasonable and is in the best interest of Option Holders.

The Independent Expert's Report is set out in full in section 6 of this Information Memorandum.



## 4.3 WHY YOU MAY CONSIDER VOTING AGAINST THE SCHEMES

Although the Schemes are recommended by your Directors and the Independent Expert has expressed the opinion that the Schemes are in the best interest of KAZ Shareholders and Option Holders, factors which may lead you to vote against the Schemes include:

(a) Consideration offered under Schemes

You consider that the Scheme Consideration offered is too low. KAZ Shares have traded at prices above \$0.40 per KAZ Share in the past, although the last time they did so was April 2002. You may believe that there are factors affecting the current market value of KAZ Shares that are short-term in nature, and that KAZ may in the longer term realise value of more than \$0.40 per share.

(b) KAZ to continue as an independent entity

You believe that KAZ will deliver greater returns to KAZ Shareholders and Option Holders by remaining as an independent entity. If the Schemes are implemented, KAZ Shareholders and Option Holders will no longer participate in the future performance of the company. You may believe that there are opportunities to grow and develop the company which will lead to an increased value of your KAZ Shares or Options over time.

(c) Tax consequences

If the Schemes proceed, as with any asset disposal there may be tax consequences for Scheme Participants which could include tax payable on the disposal of KAZ Shares and/or the cancellation of Options. Further information on the relevant tax consequences is contained in section 5 of this Information Memorandum. KAZ Shareholders and Option Holders should seek their own professional advice regarding the individual tax consequences applicable to them.

## 4.4 STEPS IN IMPLEMENTING THE SCHEMES

(a) KAZ and Telstra have entered into the Merger Implementation Agreement and have agreed to implement the Schemes. Telstra has executed the Deed Poll, in favour of Scheme Participants, covenanting to pay the Scheme Consideration.

(b) The Court has ordered that KAZ convene separate Scheme Meetings of KAZ Shareholders and Option Holders, at 10:00am on Tuesday 6 July 2004 in the case of the Ordinary Scheme Meeting, and at 10:15am on Tuesday 6 July 2004 or immediately following the close of the Ordinary Scheme Meeting in the case of the Option Scheme Meeting, for the purposes of voting on the Schemes.

(c) If:

- (i) the Schemes are approved by the requisite majorities at each of the Scheme Meetings; and
- (ii) all other Conditions Precedent have been satisfied or waived,

then KAZ will apply to the Court for orders approving the Schemes.



- (d) If:
- (i) the Ordinary Scheme, but not the Option Scheme, is approved by the requisite majorities at the Ordinary Scheme Meeting; and
  - (ii) all other Conditions Precedent have been satisfied or waived,
- then KAZ will apply to the Court for orders approving the Ordinary Scheme.
- (e) If:
- (i) the Option Scheme, but not the Ordinary Scheme, is approved by the requisite majorities at the Option Scheme Meeting; and
  - (ii) all other Conditions Precedent have been satisfied or waived,
- then KAZ will not apply to the Court for orders approving the Option Scheme.
- (f) Each KAZ Shareholder and Option Holder has the right to appear at the application by KAZ for orders approving the Schemes.
- (g) If the Court orders approving the Schemes are obtained, KAZ and Telstra have agreed that they will take or procure the taking of the steps required for the Schemes to proceed, including:
- (i) KAZ will lodge with ASIC an office copy of the Court orders approving the Schemes under section 411(10) of the Corporations Act;
  - (ii) in consideration for the transfer of the KAZ Shares to Telstra Services Solutions Holdings, Telstra will pay to each Ordinary Scheme Participant the Ordinary Scheme Consideration in accordance with the provisions of the Ordinary Scheme;
  - (iii) in consideration for the cancellation of the Options, Telstra will pay to each Option Scheme Participant the Option Scheme Consideration in accordance with the provisions of the Option Scheme;
  - (iv) KAZ will enter the name of Telstra Services Solutions Holdings in the Register in respect of the KAZ Shares;
  - (v) KAZ will cancel all of the Options; and
  - (vi) KAZ will be delisted from the ASX.

The Court may refuse to grant the orders referred to in section 4.4(c) or (d) even if the Schemes are approved by the requisite majorities at the Scheme Meetings.

## 4.5 ANCILLARY DOCUMENTS

The Schemes (set out in sections 9 and 10 of this information Memorandum) contain the legal rights and obligations of KAZ and Scheme Participants under the Schemes. In addition, KAZ and Telstra have undertaken certain obligations pursuant to the following agreements:

- Merger Implementation Agreement dated 6 April 2004 between KAZ and Telstra (a copy of which is set out in section 7 of this Information Memorandum); and
- Deed Poll dated 28 May by Telstra (a copy of which is set out in section 8 of this Information Memorandum).



## 4.6 CONDITIONS PRECEDENT

In addition to the approval of the Schemes by KAZ Shareholders and Option Holders, the obligations of KAZ and Telstra to implement the Schemes are subject to the following conditions being satisfied or, where applicable, waived in accordance with the terms of the Merger Implementation Agreement:

- (a) **ASIC and ASX:** before 6.00pm on the day before the Second Court Date, ASIC and ASX issue or provide such consents or approvals or do other acts which KAZ and Telstra agree are necessary or desirable to implement the Transaction;
- (b) **Governmental Agencies:** before 6.00pm on the day before the Second Court Date, all other approvals of a Governmental Agency (as defined in the Merger Implementation Agreement) which KAZ and Telstra agree are necessary to implement the Transaction are obtained;
- (c) **KAZ Prescribed Occurrences or KAZ Regulated Events:** no KAZ Prescribed Occurrence (as defined in the Merger Implementation Agreement) or KAZ Regulated Event (as defined in the Merger Implementation Agreement) having occurred between 6 April 2004 and 6.00pm on the day before the Second Court Date;
- (d) **KAZ Material Adverse Change:** no KAZ Material Adverse Change (as defined in the Merger Implementation Agreement) having occurred, being discovered, being announced, being disclosed or otherwise becoming known to Telstra between 6 April 2004 and 6.00pm on the day before the Second Court Date;
- (e) **KAZ Representations and Warranties:** the representations and warranties of KAZ set out in clause 7.3 of the Merger Implementation Agreement being true and correct as at 6 April 2004 and as at 6.00pm on the day prior to the Second Court Date;
- (f) **Telstra Representations and Warranties:** the representations and warranties of Telstra set out in clause 7.1 of the Merger Implementation Agreement being true and correct as at 6 April 2004 and as at 6.00pm on the day prior to the Second Court Date.
- (g) **Prescribed Market Occurrence:** no Prescribed Market Occurrence (as defined in the Merger Implementation Agreement) having occurred between 6 April 2004 and 6.00pm on the day prior to the Second Court Date;
- (h) **Restraints:** 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 being in effect at 6.00pm on the day prior to the Second Court Date;
- (i) **Shareholder approval:** before 6.00pm on the day prior to the Second Court Date, KAZ Shareholders approve the Ordinary Scheme by the requisite majorities under section 411(4) of the Corporations Act;
- (j) **Penalties:** between 6 April 2004 and 6.00pm on the day prior to the Second Court Date, KAZ has not received any notice from a Governmental Agency (as defined in the Merger Implementation Agreement) that it may become liable for a penalty or breach of any law (other than a minor breach or a breach in a minor respect) and there is no circumstance in which the reputation of KAZ is, or could reasonably be expected to be, materially adversely affected.



KAZ and Telstra have jointly agreed to waive condition precedent (a) above being the requirement to obtain all ASIC and ASX consents and approvals prior to the Second Court Date, set out in clause 3.1 (a) of the Merger Implementation Agreement.

Full details of the Conditions Precedent, the ability of one or both KAZ or Telstra to rely on the various conditions and the provisions relating to satisfaction or waiver of these Conditions Precedent are set out in clause 3 of the Merger Implementation Agreement which is set out in section 7 of this Information Memorandum.

## 4.7 TERMINATION

Subject to certain limitations, the Merger Implementation Agreement and the obligations of KAZ and Telstra to proceed with the Schemes may be terminated prior to the commencement of the hearing of the application to the Court to approve the Schemes on the Second Court Date:

- (a) by either party if the other party is in material breach of any term of the Merger Implementation Agreement before the Second Court Date (where such breach is not remedied within specified time periods);
- (b) by Telstra if a majority of KAZ directors withdraw or change their recommendation of the Transaction;
- (c) by either party if the Conditions Precedent are not satisfied or waived (in accordance with the terms in the Merger Implementation Agreement);
- (d) by Telstra if a majority of KAZ directors recommend, promote or otherwise endorse a Competing Transaction (as defined in the Merger Implementation Agreement);
- (e) by either party if a Court or other Governmental Agency (as defined in the Merger Implementation Agreement) has issued a final and non-appealable order, decree or ruling, or has taken other action, that permanently restrains or prohibits the Transaction;
- (f) by either party if the Court refuses to make an order convening the Scheme Meetings or approving the Schemes and that party obtains an opinion from Queen's Counsel or Senior Counsel that an appeal against that decision would have no reasonable prospect of success;
- (g) by Telstra, if a person (other than Peter Kazacos or Telstra and its associates) has together with its associates the power to exercise, or to control the exercise of, a right to vote attached to at least 25% of KAZ Shares;
- (h) by either party, if at a duly held meeting the Ordinary Scheme Participants do not approve the Ordinary Scheme by the majorities required under the Corporations Act;
- (i) by either party, if the Schemes have not become effective by 30 September 2004 (or such other date as KAZ and Telstra may agree in writing); or
- (j) by Telstra if a takeover bid for KAZ Shares is publicly proposed by a person other than Telstra (or any related body corporate) for a consideration per KAZ Share which is superior to the consideration per KAZ Share publicly proposed to be paid by Telstra pursuant to the Transaction.

Full details of these termination rights are set out in clause 10 of the Merger Implementation Agreement, a copy of which is set out in section 7 of this Information Memorandum.



## 4.8 SCHEME MEETINGS

- (a) On 28 May 2004 the Court ordered that a Scheme Meeting of KAZ Shareholders be convened to be held at 10:00am on Tuesday 6 July 2004 at Avillion Hotel, 389 Pitt Street, Sydney NSW 2000, and a Scheme Meeting of Option Holders be convened to be held at 10:15am on Tuesday 6 July 2004, or immediately following the close of the Ordinary Scheme Meeting, at Avillion Hotel, 389 Pitt Street, Sydney NSW 2000.
- (b) The notices convening the Scheme Meetings are enclosed with the Information Memorandum of which this Explanatory Statement forms part.
- (c) The order of the Court to convene the Scheme Meetings 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 Schemes.
- (d) KAZ has determined (for the purposes of regulation 7.11.38 of the Corporations Regulations) that each KAZ Shareholder who appears on the Register at 10:00am on Sunday 4 July 2004 is entitled to attend and vote at the Ordinary Scheme Meeting, either in person or by proxy or attorney or, in the case of a corporation that is a member, by its representative appointed in accordance with the Corporations Act.
- (e) Each Option Holder who appears on the register of option holders of KAZ at the time of the Option Scheme Meeting is entitled to attend and vote at the Option Scheme Meeting, either in person or by proxy or attorney.
- (f) Voting at the Scheme Meetings will be by poll.
- (g) Instructions on how to attend and vote at the Scheme Meetings, or to appoint a proxy, attorney or representative to attend and vote on your behalf, are set out on page 4 of this Information Memorandum.

## 4.9 EFFECTIVE DATE OR END DATE

- (a) The Schemes will become Effective upon lodgement of the court approval orders with ASIC, which is expected to be on Friday 9 July 2004, with the Schemes being implemented on Monday 19 July.
- (b) If the Schemes become Effective, KAZ will give notice of that event to the ASX.
- (c) On the Effective Date, KAZ and Telstra will become bound to take the steps required for:
  - (i) Telstra Services Solutions Holdings to become the holder of all of the KAZ Shares in accordance with the provisions of the Ordinary Scheme; and
  - (ii) KAZ to cancel all of the Options in accordance with the provisions of the Option Scheme.
- (d) If the Schemes have not been implemented by 30 September 2004, or such other date as KAZ and Telstra agree in writing (the End Date under the Schemes), the Schemes will lapse and be of no further force or effect.



## 4.10 DETERMINATION OF PERSONS ENTITLED TO ORDINARY SCHEME CONSIDERATION

- (a) For the purpose of establishing who are Ordinary Scheme Participants, dealings in KAZ Shares will only be recognised if:
  - (i) 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 KAZ Shares by the Record Date; and
  - (ii) in all other cases, if registrable transmission applications or transfers in respect of those dealings are received on or before the Record Date at the place where the Register is kept.
- (b) KAZ must register registrable transmission applications or transfers in respect of those dealings that are received on or before the Record Date at the place where the Register is kept, provided that nothing in this section 4.10(b) requires KAZ to register a transfer that would result in a KAZ Shareholder holding a parcel of KAZ Shares that is less than a Marketable Parcel.
- (c) KAZ will not accept for registration or recognise for any purpose any transmission application or transfer in respect of KAZ Shares received after the Record Date (except a transfer to Telstra or Telstra Services Solutions Holdings pursuant to the Ordinary Scheme and any subsequent transfer by Telstra or Telstra Services Solutions Holdings, or their successors in title).
- (d) For the purpose of determining entitlements to the Ordinary Scheme Consideration, KAZ will, until the Ordinary Scheme Consideration has been paid, maintain the Register in accordance with the provisions of this section 4.10 and the Register in this form will solely determine entitlements to the Ordinary Scheme Consideration.
- (e) KAZ must procure that on the Record Date, details of the names, registered addresses and holdings of KAZ Shares of every Ordinary Scheme Participant as shown in the Register at the Record Date are available to Telstra in such form as Telstra may reasonably require.
- (f) As from the Record Date (and other than for Telstra or Telstra Services Solutions Holdings, or their successors in title), all share certificates and holding statements for the KAZ Shares will cease to have effect as documents of title, and each entry on the Register at that date will cease to have any effect other than as evidence of entitlement to the Ordinary Scheme Consideration.

## 4.11 ORDINARY SCHEME CONSIDERATION

Under the terms of the Ordinary Scheme, Ordinary Scheme Participants will receive \$0.40 cash per KAZ Share.

**4.12 DETERMINATION OF PERSONS ENTITLED TO OPTION SCHEME CONSIDERATION**

- (a) From the Effective Date, Options shall not be capable of being exercised, notwithstanding any term upon which the Option was granted.
- (b) KAZ will not accept for registration or recognise for any purpose any transmission, application or exercise notice in respect of Options received after the Effective Date.
- (c) For the purpose of determining entitlements to the Option Scheme Consideration, the register of option holders of KAZ at the Effective Date will solely determine entitlements to the Option Scheme Consideration.
- (d) KAZ must procure that on the Effective Date, details of the names, registered addresses and holdings of Options of every Option Holder as shown in the register of option holders of KAZ at the Effective Date are available to Telstra in such form as Telstra may reasonably require.
- (e) As from the Effective Date, all Option certificates for the Options will cease to have effect as documents of title, and each entry on the register of option holders of KAZ at that date will cease to have any effect other than as evidence of entitlement to the Option Scheme Consideration.

**4.13 OPTION SCHEME CONSIDERATION**

Option Scheme Participants will receive cash per Option calculated in accordance with the offer prices in the last column below:

Option type	Number issued	Expiry date	Strike price	Offer price
Employee Options issued on Float (tranche 2)	1,175,010	18/04/2005	\$0.166	\$0.255
Employee Options issued on Float (tranche 3)	1,625,628	18/04/2006	\$0.166	\$0.265
Executive Options issued on Float (tranche 2)	430,596	18/04/2005	\$0.166	\$0.255
Executive Options issued on Float (tranche 3)	517,002	18/04/2006	\$0.166	\$0.265
Ausdata Options FY 2001	45,000	03/09/2004	\$0.570	\$0.025
Ausdata Options FY 2002	30,000	02/09/2005	\$0.570	\$0.085
Director/Employee Options (prospectus)	840,000	03/09/2004	\$0.790	\$0.010
Non-Executive Director Options (prospectus)	1,800,000	09/03/2006	\$0.166	\$0.265
Change Management Acquisition Options (tranche 3)	277,500	01/10/2004	\$0.166	\$0.245
Change Management Acquisition Options (tranche 4)	277,500	01/04/2005	\$0.166	\$0.250
Change Management 2001 Incentive Options	240,000	03/09/2004	\$0.166	\$0.245
Change Management 2002 Incentive Options	240,000	16/08/2005	\$0.770	\$0.050
Change Management 2002 Incentive Replacement Options	240,000	16/08/2005	\$0.167	\$0.255



## **4.14 RIGHT TO ACCESS AND COPY KAZ REGISTER OF OPTION HOLDERS**

KAZ is required to keep an up-to-date register of option holders (under section 170 of the Corporations Act), which contains details about all Option Holders and all issued Options. Option Holders are entitled to inspect KAZ's complete register of option holders without charge (under section 173 of the Corporations Act). KAZ Shareholders may also access the register of option holders without charge. Other persons may access the register of option holders for a fee.

Anyone may request copies of the KAZ register of option holders in whole or part for a fee. KAZ will provide such copies within 7 days of the request.

## **4.15 SUSPENSION OF TRADING OF KAZ SHARES**

It is expected that suspension of trading on the ASX in KAZ Shares will occur from the close of trading on the date on which KAZ notifies the ASX of the Court approval of the Schemes.

On the first Business Day after the Implementation Date, KAZ will apply for termination of the official quotation of KAZ Shares on the ASX.

The termination of quotation of KAZ Shares on the ASX will occur on Tuesday 20 July 2004 in the ordinary course.

## **4.16 CANCELLATION OF OPTIONS**

If the Schemes are implemented, all Options will be cancelled in accordance with the terms of the Option Scheme. From the Effective Date, Options shall not be capable of being exercised, and KAZ will not accept for registration or recognise for any purpose any transmission application or transfer in respect of Options received after the Effective Date.

## **4.17 CREDITORS OF KAZ**

The Schemes, if implemented, will not materially prejudice KAZ's ability to pay its creditors as they involve the purchase of the KAZ Shares and cancellation of Options rather than KAZ's underlying assets. No material new liability (other than transaction costs) is expected to be incurred by KAZ as a consequence of the implementation of the Schemes.

## **4.18 INDEPENDENT EXPERT**

The Independent Expert, Deloitte Corporate Finance, has expressed the opinion that the Schemes are in the best interest of KAZ Shareholders and Option Holders.

The Independent Expert's Report is set out in full in section 6 of this Information Memorandum. You are encouraged to read this report in full.



## 4.19 TAX IMPLICATIONS

Section 5 of this Information Memorandum contains information concerning the income tax consequences of the Schemes for certain KAZ Shareholders and Option Holders. You are encouraged to read this section in full.

## 4.20 ACTIONS TO BE TAKEN BY KAZ SHAREHOLDERS AND OPTIONS HOLDERS

- (a) KAZ Shareholders and Option Holders who wish to vote (and who are entitled to attend and vote) at the relevant Scheme Meeting may vote either in person or by proxy or attorney or, in the case of a corporation, by an authorised corporate representative.
- (b) KAZ Shareholders and Option Holders who are entitled to attend and vote may attend and vote in person at the relevant Scheme Meeting. The Ordinary Scheme Meeting will be held at 10:00am on Tuesday 6 July 2004, and the Option Scheme Meeting will be held at 10:15am on Tuesday 6 July 2004 or immediately following the close of the Ordinary Scheme Meeting.
- (c) KAZ Shareholders who wish to vote by proxy at the Ordinary Scheme Meeting must complete and sign the enclosed blue personalised proxy form. The form must be received by the KAZ Share Registry by 10:00am Sunday 4 July 2004.
- (d) Option Holders who wish to vote by proxy at the Option Scheme Meeting must complete and sign the enclosed yellow personalised proxy form. The form must be received by the KAZ Share Registry by 10:00am Sunday 4 July 2004.
- (e) The sending of a proxy form will not preclude any KAZ Shareholder or Option Holder from attending in person and voting at the relevant Scheme Meeting at which that person is entitled to attend and vote in person. However, voting in person by a KAZ Shareholder or Option Holder will preclude any proxy of that person from being counted.

## 4.21 DIRECTORS AND DIRECTORS' RECOMMENDATIONS

The Directors of KAZ are:

NAME OF DIRECTOR	POSITION
Peter Kazacos	Chief Executive Officer
Peter Housden	Independent Director
Lyndsey Cattermole	Non-Executive Director
Peter Draney	Non-Executive Director
David Knox	Executive Director
Michael O'Sullivan	Executive Director

Each of the Directors considers himself or herself to be independent of Telstra and each of the Directors desires to make and considers himself or herself justified in making a recommendation in relation to the Scheme.

Each of the Directors recommends that KAZ Shareholders and Option Holders vote, respectively, in favour of the Ordinary Scheme and the Option Scheme in the absence of a superior offer.



The reasons for each Director's recommendation are set out in section 2.2 of this Information Memorandum.

## 4.22 HOW THE DIRECTORS INTEND TO VOTE

Each of the Directors intends to vote in favour of the Schemes in respect of the KAZ Shares and Options held by him or her, or on his or her behalf (as set out in section 4.23 below).

## 4.23 HOLDINGS AND DEALINGS IN KAZ SHARES AND OPTIONS BY DIRECTORS

The number of KAZ Shares and Options held by or on behalf of each Director as at the date of this Information Memorandum are as follows:

NAME OF DIRECTOR	KAZ SHARES	OPTIONS	OPTION TYPE <sup>1</sup>
Peter Kazacos	106,980,000 52,560,000 <sup>2</sup>	360,000	Director/Employee Options (prospectus)
Peter Housden	100,000 <sup>3</sup>	Nil	—
Lyndsey Cattermole	50,187,778	Nil	—
Peter Draney	50,287,777	Nil	—
David Knox	5,962,172 92,449 <sup>4</sup>	300,000	Director/Employee Options (prospectus)
Michael O'Sullivan	28,849,250	90,000	Director/Employee Options (prospectus)

Notes:

1. See section 4.13 for details about the Option types named in this table.
2. These are shares (a) held by family members of Peter Kazacos, over which Peter Kazacos has the power to exercise voting control, and (b) held in a superannuation fund of which Peter Kazacos is a beneficiary.
3. These are shares held in a superannuation fund of which Peter Housden is a beneficiary.
4. These are shares held by family members and a related body corporate of David Knox over which David Knox has the power to exercise voting control.

Except as described below, in the four months ending on the day immediately before the day on which this Information Memorandum was lodged for registration by ASIC, no Director has provided, or agreed to provide, or has received or agreed to receive consideration for a KAZ Share or Option under a sale, purchase, or agreement for sale or purchase of KAZ Shares or Options.

On 16 April 2004, 609 KAZ Shares were issued under KAZ's dividend reinvestment plan to family members and a related body corporate of David Knox, over which David Knox has the power to exercise voting control.



On 6 April 2004, Lyndsey Cattermole and Peter Draney each granted Telstra an option on identical terms to acquire their respective holdings of KAZ Shares. (The total KAZ Shares which are the subject of the option deeds is 100,475,555 or 12.13% (based on 828,039,925 KAZ Shares being on issue). The key terms of the option deeds are summarised below.

- **(Consideration)** – If the option is exercised, Telstra will pay to Lyndsey Cattermole and Peter Draney the same amount per KAZ Share as it pays to all other Ordinary Scheme Participants.
- **(Exercise Period)** – The option can only be exercised by Telstra during a 20 business day period which ends on the earlier of:
  - the date 20 business days after the Ordinary Scheme Meeting or, if a shareholder meeting is not convened by KAZ Group within 3 months after the date of the deed, the date that is 3 months after the date of the deed;
  - if a higher alternative proposal (which is a takeover bid) has been announced and that bid becomes or is declared unconditional and the bidder has acquired a relevant interest in more than 50% of the KAZ Shares, the date that is the later of:
    - one month after that higher alternative proposal was announced; and
    - 10 business days after the later of the bidder announcing that: (A) it has relevant interests in more than 50% of the KAZ Shares, and (B) the takeover bid has become unconditional; and
  - 30 September 2004.

At the end of the exercise period, the option will lapse.

- **(Scheme not approved and no alternative proposal)** – If the Ordinary Scheme is not approved by KAZ Shareholders or the Court, and no alternative proposal has been announced, the option will immediately lapse.
- **(Effect of higher rival proposals)** – Telstra may only exercise the option if a third party has announced a higher alternative proposal and Telstra has subsequently announced a matching or higher proposal of its own. In addition, in order for the option to be exercised, at least one of the following must have happened:
  - a third party has relevant interests in more than 50% of the KAZ Shares;
  - the Ordinary Scheme has been approved by KAZ Shareholders or Telstra has relevant interests in more than 50% of the KAZ Shares; and, if the Telstra proposal is subject to any defeating conditions (other than any condition not waivable by Telstra or a condition the satisfaction or non-satisfaction of which is within the power of KAZ), Telstra waives, or announces an intention to waive, the conditions;
  - KAZ has agreed to sell the whole or a substantial part of its assets, business or property to a person other than Telstra; or



- KAZ has agreed to propose a capital reduction or shareholder approval resolution under item 7 of section 611 of the Corporations Act which, if approved, would result in a person other than Telstra having relevant interests in more than 50% of KAZ Shares.
- **(Voting)** – Lyndsey Cattermole and Peter Draney remain free to vote their shares as they see fit.

Full copies of the option deeds were released to the ASX on 8 April 2004.

#### 4.24 HOLDINGS AND DEALINGS IN TELSTRA SHARES BY DIRECTORS

Other than as described below, no marketable securities of Telstra are held by or on behalf of the Directors.

NAME OF DIRECTOR	TELSTRA SHARES
Peter Kazacos	600
	3,120 <sup>1</sup>
Peter Housden	13,000 <sup>2</sup>
Lyndsey Cattermole	46,080
Peter Draney	4,830
David Knox	1,000

Notes:

1. These are shares held in a superannuation fund of which Peter Kazacos is a beneficiary.
2. These are shares held in a superannuation fund of which Peter Housden is a beneficiary.

In the four months ending on the day immediately before the day on which this Information Memorandum was lodged for registration by ASIC, no Director has provided, or agreed to provide, or has received or agreed to receive consideration for a Telstra Share under a sale, purchase, or agreement for sale or purchase of Telstra Shares.

#### 4.25 PAYMENTS OR OTHER BENEFITS TO DIRECTORS, SECRETARIES OR EXECUTIVE OFFICERS

It is not proposed in connection with the Schemes that any payment or other benefit will be made or given to any director, secretary or executive officer of KAZ or of any corporation related to KAZ as compensation for loss of, or as consideration for or in connection with, his retirement from office as director, secretary or executive officer of KAZ or any corporation related to KAZ.

#### 4.26 AGREEMENTS OR ARRANGEMENTS WITH DIRECTORS

There are no other agreements or arrangements made between any Director and any other person in connection with or conditional upon the outcome of the Schemes.

#### 4.27 INTERESTS HELD BY DIRECTORS IN CONTRACTS OF TELSTRA

Apart from normal retail arrangements, no Director has an interest in any contract entered into by Telstra.



## 4.28 CAPITAL STRUCTURE OF KAZ

At the date of this Information Memorandum KAZ has 828,039,925 ordinary shares and 7,738,236 options on issue.

KAZ will issue on or around 7 June 2004 approximately 400,000 KAZ Shares to participants in the KAZ Employee Share Participation Plan in respect of a contribution period expiring on 1 June 2004. The precise number of KAZ Shares to be issued will be calculated at the end of the contribution period. The Directors of KAZ have resolved to wind up the KAZ Employee Share Participation Plan and there will be no further contribution periods under that plan after 1 June 2004.

## 4.29 KAZ'S EARNINGS GUIDANCE FOR 2004-2005

On 24 February 2004, KAZ announced its H1 FY04 results as well as the following earnings guidance to the market for the year ended 30 June 2004 (FY04) and the year ended 30 June 2005 (FY05).

<b>FY04 Financials</b>	<b>\$M</b>
Revenue	400 - 410
EBITDA	33 - 37
EBITDA (normalised)	42 - 46

<b>FY05 guidance</b>
Revenue growth in excess of 10%, with similar growth in EBITDA

Source: KAZ company results announcement, including KAZ's results presentation, 24 February 2004

## 4.30 SPECIFIC ASSUMPTIONS IN RELATION TO KAZ'S EARNINGS GUIDANCE FOR FY05

Key assumptions employed in KAZ's FY05 guidance are:

- Sales revenue growth of at least 10%; and
- EBITDA margins in 2005 to be at least maintained at levels expected in FY04.

The Directors consider that these assumptions are reasonable, with the following relevant factors justifying these assumptions:

- Revenue in H1 FY04 grew 16% over the same period last year to approximately \$215m, with growth coming from both of KAZ's major business segments, KAZ Technology Services and KAZ Business Services. Compared to the immediately preceding period (H2 FY03), revenue grew by \$43m.<sup>1</sup> KAZ's growth in revenues over these periods is considered to be reflective both of the company's positioning in these markets as well as market improvement;
- The market outlook for KAZ is improving. It is relevant to note in this context that product revenues in H1 FY04 grew by 41% year on year. The growth in product sales provides an early indicator of improvement in the IT

1: Note though that this comparison is considered to be less relevant than the year-on-year comparison to H1 FY03.

services market. In addition, customer plans and intentions disclosed to KAZ appear consistent with an improving market outlook;

- Many of KAZ's contracts, particularly in the KAZ Business Services business segment, carry price indexation provisions, which would be expected to provide growth in revenues for these contracts in line with broad economy wide price indices;
- KAZ is expecting some growth in revenue to begin to flow in FY05 from recently introduced products offerings; and
- KAZ is implementing measures to control costs so as to improve profitability. These include measures to better cross-region resource management so as to maximise resource utilisation and measures to improve project estimation and pricing.

#### 4.31 GENERAL ASSUMPTIONS

The following general assumptions have also been adopted in preparing the KAZ forward earnings guidance for FY04 and FY05.

- No significant adverse change, over and above that forecast, to economic conditions in the forthcoming 18 months in the geographic areas in which KAZ operates;
- No unanticipated losses of any significant contracts or non-renewals of customer contracts coming up for renewal over the forecast periods;
- No material adverse change to the tax or other regulatory regimes relevant to the operations of KAZ will occur prior to the end of the forecast periods, FY04 and FY05;
- No material change in the accounting policies adopted by KAZ as set out in KAZ's 2003 annual report or applicable accounting standards will occur prior to the end of the forecast period;
- No material sales of businesses or assets of KAZ, and no material investments in new projects, will occur prior to the end of the forecast period;
- There will be no impairment to the carrying value of non-current assets and no write-downs will be required;
- There will be no loss of key personnel and suitable qualified personnel will be available in the labour market to meet KAZ's business requirements; and
- There will be no significant adverse change to the rate of growth experienced by KAZ in recent years in salaries and wages costs.

#### 4.32 IMPORTANT NOTES IN RELATION TO FORWARD EARNINGS GUIDANCE

Forecasts and projections, including KAZ's forward earnings guidance, are, by their nature, subject to risks, uncertainties, assumptions and unexpected events, many of which may be outside the control of KAZ and its



directors. Also, events and circumstances often do not occur as anticipated and, therefore, actual events are likely to differ from the forecasts and projections and the differences may be material. Accordingly, the directors of KAZ cannot and do not guarantee the achievement of the earnings guidance set out in section 4.29 or any of the elements thereof. Furthermore, the directors of KAZ assume no responsibility to update or amend the earnings guidance after the issue of this Information Memorandum if the conditions underlying the earnings guidance change over time.

#### **4.33 MATERIAL CHANGES IN THE FINANCIAL POSITION OF KAZ**

The latest published financial statements of KAZ are the Financial Statements and Results for the half year ended 31 December 2003 that were released to the ASX on 24 February 2004.

To the knowledge of the Directors, there has not been a material change in the financial position of KAZ since 31 December 2003, except as disclosed in announcements to the ASX.

#### **4.34 THE KAZ EXECUTIVE SHARE ACQUISITION PLAN**

KAZ has an Executive Share Acquisition Plan under which it offers loans to certain executives and key members of staff to acquire KAZ Shares. KAZ proposes, if the Schemes are approved by the Court, that in accordance with the rules of the plan it will exercise its discretion at that time to wind up the plan with effect from the Effective Date. The rules of the plan provide that on a winding up of the plan, participants are only liable to KAZ for moneys outstanding under the loans to the extent of proceeds realised on a disposal of those KAZ Shares.

When the KAZ Shares are transferred to Telstra Services Solutions Holdings pursuant to the Ordinary Scheme, the \$0.40 per KAZ Share payable by Telstra in respect of shares purchased under the Executive Share Acquisition Plan will be paid to KAZ to be applied first in reducing the amount of any loan outstanding in respect of that Scheme Participant, and then the excess, if any, will be paid to the Scheme Participant. If the amount of the loan outstanding per KAZ Share is greater than \$0.40 KAZ shall apply the whole of the \$0.40 per KAZ Share to the loan amount and the Scheme Participant will have no further liability to KAZ in respect of the loan amount.

#### **4.35 REGULATORY RELIEF**

ASIC has allowed KAZ to depart from complying with the requirements of paragraphs 1 and 3 of Schedule 8 Part 2 of the Corporations Regulations in respect of the Option Scheme.

#### **4.36 INTENTIONS**

If the Schemes are implemented, it will be a matter for the directors of Telstra to formulate their intentions as to:

- (a) the continuation of the business of KAZ;
- (b) any major changes to the business of KAZ, including redeployment of fixed assets; and
- (c) the future employment of the present employees of KAZ.

The current intentions of Telstra, as communicated to KAZ, are set out in section 3 of this Information Memorandum.

If the Schemes are not implemented, KAZ would continue as an independent entity and would continue to pursue its operational and growth objectives and the creation of shareholder value.

#### 4.37 CONSENT OF EXPERT

Deloitte Corporate Finance has consented to the inclusion of its report in section 6 of this Information Memorandum and to the references to its report in this Information Memorandum being made in the form and context in which each such reference is included.

#### 4.38 EXCLUSIVITY ARRANGEMENTS WITH TELSTRA

(a) No shop

Under clause 12.2 of the Merger Implementation Agreement, KAZ is prohibited from (among other things) directly or indirectly soliciting, inviting, facilitating, encouraging or initiating any enquiries, negotiations or discussions, or communicating any intention to do any of these things, with a view to obtaining any expression of interest, offer or proposal from any person in relation to a competing proposal.

(b) No talk and no due diligence

Under clause 12.3 of the Merger Implementation Agreement, KAZ is prevented from (among other things) negotiating with any person regarding a competing proposal.

Under clause 12.4 of the Merger Implementation Agreement, KAZ is prevented from (among other things) soliciting, initiating or permitting any party (other than Telstra) from undertaking due diligence investigations on KAZ.

These provisions do not apply, however, in relation to a bona fide competing proposal where the KAZ Board has obtained written advice from Queen's Counsel or Senior Counsel that compliance with these provisions would involve a breach by the KAZ directors of their fiduciary or statutory duties.

(c) Competing Proposal

For the purposes of this section 4.38, a competing proposal is an offer or proposal by a person other than Telstra to acquire all or a substantial part of the business of KAZ, to acquire 20% or more of the shares in KAZ or in any of its subsidiaries, or to otherwise acquire control of or merge with KAZ.

#### 4.39 COST REIMBURSEMENT

The Merger Implementation Agreement contains cost reimbursement arrangements. The cost reimbursement provisions are set out in full in clauses 13 to 15 of the Merger Implementation Agreement which is set out in section 7 of this Information Memorandum.

In summary, the Merger Implementation Agreement provides for reimbursement by KAZ of Telstra's costs in the amount of \$3,300,000 (plus any applicable GST) in certain circumstances. Those circumstances are as follows (each of the following being a separate trigger):



- (a) a takeover bid, scheme or other proposal under which a person other than Telstra (or a related body corporate) would acquire control of KAZ for a consideration superior (having regard to price, timing and conditionality) to that offered by Telstra under the Ordinary Scheme (Competing Bid) is announced or open for acceptance and, at any time:
  - (i) pursuant to that Competing Bid, the bidder acquires a relevant interest in more than 50% of all KAZ Shares; and
  - (ii) the Competing Bid is free or becomes free from any defeating conditions; or
- (b) a person other than Telstra (or a related body corporate) acquires, or agrees to acquire (whether or not that agreement is conditional) the whole or a substantial part of KAZ's assets, business or property; or
- (c) the Directors (or any one or more of them) fails to make, or withdraws, a recommendation to Scheme Participants in favour of the Schemes except in circumstances where an independent expert's report is commissioned by KAZ and that report fails to conclude that the transaction is in the best interest of KAZ Shareholders; or
- (d) the Directors (or any one or more of them) endorses or otherwise supports a proposal or offer to acquire the shares of KAZ (whether by way of takeover bid, scheme of arrangement or otherwise) or to acquire the whole or a substantial part of KAZ's assets, business or property, made by a person other than Telstra; or
- (e) Telstra terminates the Merger Implementation Agreement under clause 10.1(b) because KAZ is in material breach of that agreement, provided that the prevention of that breach was within the control of KAZ.

No reimbursement amount is payable if the Merger Implementation Agreement is terminated for some other reason. The reimbursement amount is not payable by KAZ to the extent that the reimbursement is unlawful.

KAZ also has a reciprocal arrangement for the reimbursement of its costs up to a maximum of \$3,300,000, payable by Telstra where KAZ terminates the Merger Implementation Agreement for material breach by Telstra, provided the prevention of that breach was within the control of Telstra. See clause 15 of the Merger Implementation Agreement (set out in section 7 of this Information Memorandum) for further details.

#### **4.40 NO UNACCEPTABLE CIRCUMSTANCES**

The Directors of KAZ do not believe that the Transaction involves any circumstances in relation to the affairs of KAZ that could be reasonably be characterised as constituting "unacceptable circumstances" for the purposes of section 657A of the Corporations Act.

#### **4.41 OTHER MATERIAL INFORMATION**

Other than as contained in this Information Memorandum, there is no information material to the making of a decision in relation to the Schemes (being information that is within the knowledge of any Director of KAZ or a related company) that has not previously been disclosed to KAZ Shareholders or Option Holders.



## 5. Tax implications

### 5.1 INTRODUCTION

The following is a general description, based on Australian law in effect as at the date of this Information Memorandum, of the Australian taxation consequences to you if the Schemes are implemented. The description is only relevant to those KAZ Shareholders and Option Holders that hold their KAZ Shares and Options on capital account for the purposes of investment; others should consult their advisers concerning the taxation consequences of their particular circumstances.

The following discussion is of a general nature only and does not consider the position of particular KAZ Shareholders or Option Holders. You should consult your own tax adviser about the tax consequences that will apply to your individual circumstances if the Schemes are implemented. KAZ Shareholders or Option Holders that are not resident in Australia for tax purposes will need to consult their tax advisers in the jurisdiction in which they are resident for tax purposes concerning the tax consequences in that jurisdiction if the Schemes are implemented.

### 5.2 TAXATION CONSEQUENCES IF THE ORDINARY SCHEME IS IMPLEMENTED

If you received your KAZ Shares under a Share Plan please refer to section 5.3 below.

(a) KAZ Shareholders that are tax resident in Australia

If the Ordinary Scheme is implemented, you will receive a cash payment from Telstra of \$0.40 for each KAZ Share held by you at the Record Date. If the cash payment you receive exceeds your cost base in your KAZ Shares for capital gains tax (CGT) purposes, you will realise a capital gain equal to the difference. Your cost base will generally be the amount you paid to acquire your KAZ Shares (including any incidental costs and less certain tax free amounts you may have received in relation to your KAZ Shares since you acquired them). If the Ordinary Scheme is implemented and the cash payment you receive is less than the reduced cost base of your KAZ Shares you will realise a capital loss. Capital losses can only be offset against capital gains realised by you in the same year of income or in subsequent years of income. Your reduced cost base will generally be the amount you paid to acquire your KAZ shares.

Where you have held your KAZ Shares for at least 12 months prior to your KAZ Shares being transferred to Telstra Services Solutions Holdings, you will be entitled to reduce the taxable capital gain realised by you by 50% (for individuals holding KAZ Shares directly, or indirectly through a trust) or 33 1/3% (for complying superannuation funds). This is referred to as the CGT discount. The CGT discount will not be available however where KAZ Shares are disposed of by a company.

Alternatively, if you acquired your KAZ Shares before 11:45am on 21 September 1999, you can choose to be taxed on 100% of your capital gain calculated by reference to your indexed cost base (ie your cost base increased for inflation, but only up to 30 September 1999), if that method produces a lower taxable capital gain for you.



(b) KAZ Shareholders that are not tax resident in Australia

If the Ordinary Scheme is implemented and you are not tax resident in Australia, you will only be subject to Australian CGT in respect of any capital gain realised by you if you, together with any of your associates, beneficially owned at least 10% (by value) of the issued KAZ Shares at any time during the 5 years preceding the time when your KAZ Shares are transferred to Telstra Services Solutions Holdings. Even if this was the case, you may be able to claim relief from Australian taxation under a double tax treaty (if applicable).

If you are an individual or trust subject to Australian tax as a result of the Ordinary Scheme being implemented, you can claim the CGT discount if you have held your KAZ Shares for at least 12 months prior to your KAZ Shares being transferred to Telstra Services Solutions Holdings, as discussed under section 5.2(a) above.

(c) Pre-CGT KAZ Shares

Capital gains or capital losses made on the disposal of an asset are normally disregarded if you acquired the asset before 20 September 1985 (ie pre-CGT assets). However, where you own pre-CGT shares in a company (that has not been listed for quotation in the official list of a stock exchange at all times in the period of 5 years before the disposal of those shares) and, just before the disposal of those shares either:

- the market value of the property of the company (which is not its trading stock) that was acquired on or after 20 September 1985; or
- the market value of interests the company owned through interposed companies or trusts in property (except trading stock) that was acquired on or after 20 September 1985;

is at least 75% of the net value of the company, then the disposal of those shares will give rise to a capital gain.

The amount of that capital gain will be equal to that part of the consideration from the disposal of the shares that is reasonably attributable to the amount by which the market value of the property acquired on or after 20 September 1985 exceeds the sum of the cost bases of that property.

If you acquired your KAZ Shares before 20 September 1985, KAZ will advise you of whether you will realise a capital gain in respect of the disposal of your pre-CGT shares and the amount of that gain.

## 5.3 TAXATION CONSEQUENCES FOR KAZ SHAREHOLDERS WHO ACQUIRED THEIR KAZ SHARES UNDER SHARE PLANS AND TAXATION CONSEQUENCES FOR OPTION HOLDERS

(a) KAZ Shares acquired under the KAZ Group Limited Executive Share Acquisition Plan

If you acquired your KAZ Shares under the KAZ Group Limited Executive Share Acquisition Plan, see section 5.2 above for a general description of the taxation consequences to you if the Ordinary Scheme is implemented. See also the comments below.



If you acquired your KAZ Shares in parcels at different points in time and at various prices, you will need to calculate your capital gain or capital loss separately for each parcel. In particular, your cost base in each KAZ Share will be the price that you paid for the share. This means that, depending upon the price that you paid for your KAZ Shares, you might realise a capital gain on the disposal of some of the shares and realise a capital loss on others.

Any capital gains that you realise on the disposal of any of your KAZ Shares may be offset by available capital losses, including capital losses arising from the disposal of your other KAZ Shares, and any capital losses carried forward from prior years from the sale of other assets.

The amount of any capital gains remaining after the application of available capital losses may then be reduced by the CGT discount to the extent to which the remaining capital gains arise from KAZ Shares that you have held for at least 12 months prior to their transfer to Telstra Services Solutions Holdings. The date of acquisition of each parcel of KAZ Shares will therefore be relevant for working out your entitlement to the CGT discount. However, the CGT discount is not available to companies.

You should also be aware that, if you have a balance outstanding on any loan that you received under this Share Plan (after applying your cash payment from Telstra in repayment of the loans), the Commissioner of Taxation might require the cost base of your KAZ Shares to be reduced by the amount outstanding on the loan, on the basis that the outstanding balance is not recovered by KAZ from you.

(b) KAZ Shares acquired under the KAZ Group Limited Employee Share Participation Plan

(i) Current employees

If you are a current employee and acquired KAZ Shares under this Share Plan, the taxation consequences to you if the Ordinary Scheme is implemented depend on whether you elected to be taxed on those KAZ Shares in the year in which you acquired them.

(A) If you elected to be taxed in the year of acquisition

See section 5.2 above for a general description of the taxation consequences to you if the Ordinary Scheme is implemented. Section 5.2 should be read subject to the comments below.

For the purpose of calculating the amount of any capital gain or capital loss realised by you from the disposal of your KAZ Shares to Telstra, the cost base of your KAZ Shares will include the 'market value' of the KAZ Shares, as calculated under the tax legislation, at the time that you acquired them. This would equal the amount on which you were taxed at that time.

(B) If you did not elect to be taxed in the year of acquisition

The full amount of the cash payment that you receive from Telstra (that is, \$0.40 per KAZ Share) must be included in your assessable income. No CGT consequences will arise to you from the disposal of your KAZ Shares to Telstra Services Solutions Holdings.



(ii) Former employees

If you are a former employee and acquired your KAZ Shares under this Share Plan, the taxation consequences to you if the Ordinary Scheme is implemented depend on whether you elected to be taxed on your KAZ Shares in the year in which you acquired them.

(A) If you elected to be taxed in the year of acquisition

See section 5.2 above for a general description of the taxation consequences to you if the Ordinary Scheme is implemented. Section 5.2 should be read subject to the comments below.

For the purpose of calculating the amount of any capital gain or capital loss realised by you from the disposal of your KAZ Shares to Telstra Services Solutions Holdings, the cost base of your KAZ Shares will include the 'market value' of the KAZ Shares, as calculated under the tax legislation, at the time that you acquired them. This would equal the amount on which you were taxed at that time.

(B) If you did not elect to be taxed in the year of acquisition

(1) If the disposal of your KAZ Shares under the Ordinary Scheme occurs within 30 days after your employment ceased

The full amount of the cash payment that you receive from Telstra must be included in your assessable income. No CGT consequences will arise to you from the disposal of your KAZ Shares to Telstra Services Solutions Holdings.

(2) If the disposal of your KAZ Shares under the Ordinary Scheme does not occur within 30 days after your employment ceased

See section 5.2 above for a general description of the taxation consequences to you if the Ordinary Scheme is implemented. Section 5.2 should be read subject to the comments below.

For the purpose of calculating the amount of any capital gain or capital loss realised by you from the disposal of your KAZ Shares to Telstra Services Solutions Holdings, the cost base of your KAZ Shares will include the 'market value' of the KAZ Shares, as calculated under the tax legislation, at the time that your employment ceased. This would equal the amount on which you were taxed at that time.

(c) Taxation consequences for Option Holders

(i) Current employees

Subject to section 5.3(c)(iii) below, if you are a current employee, the taxation consequences to you if the Option Scheme is implemented depend on whether you elected to be taxed on your Options in the year in which you acquired them.

(A) If you elected to be taxed in the year of acquisition

The cancellation of your Options will be treated as a disposal of your Options for CGT purposes. The amount of any capital gain or capital loss that you make will be calculated by reference to the cash payment that you receive from Telstra for the cancellation of your Options less the cost base of the Options.

The cost base of your Options will include the 'market value' of the Options, as calculated under the tax legislation, at the time that you acquired them. This would equal the amount on which you were taxed at that time.

If you have held your Options for at least 12 months prior to their cancellation, the amount of any realised capital gains (after the application of available capital losses) can be reduced by the CGT discount. However, the CGT discount is not available to companies.

(B) If you did not elect to be taxed in the year of acquisition

The full amount of the cash payment that you receive from Telstra must be included in your assessable income. No CGT consequences will arise to you from the cancellation of your Options.

(ii) Former employees

Subject to section 5.3(c)(iii) below, if you are a former employee, the taxation consequences to you if the Option Scheme is implemented depend on whether you elected to be taxed on your Options in the year in which you acquired them.

(A) If you elected to be taxed in the year of acquisition

The cancellation of your Options will be treated as a disposal of your Options for CGT purposes. The amount of any capital gain or capital loss that you make will be calculated by reference to the cash payment that you receive from Telstra for the cancellation of your Options less the cost base of the Options.

The cost base of your Options will include the 'market value' of the Options, as calculated under the tax legislation, at the time that you acquired them. This would equal the amount on which you were taxed at that time.

If you have held your Options for at least 12 months prior to their cancellation, the amount of any realised capital gains (after the application of available capital losses) can be reduced by the CGT discount. However, the CGT discount is not available to companies.

(B) If you did not elect to be taxed in the year of acquisition

(1) If the cancellation of your Options under the Option Scheme occurs within 30 days after your employment ceased



The full amount of the cash payment that you receive from Telstra must be included in your assessable income. No CGT consequences will arise to you from the cancellation of your Options.

- (2) If the disposal of your Options under the Option Scheme does not occur within 30 days after your employment ceased

The cancellation of your Options will be treated as a disposal of your Options for CGT purposes. The amount of any capital gain or capital loss that you make will be calculated by reference to the cash payment that you receive from Telstra for the cancellation of your Options less the cost base of the Options.

The cost base of your Options will include the 'market value' of the Options, as calculated under the tax legislation, at the time that your employment ceased. This would equal the amount on which you were taxed at that time.

If you have held your Options for at least 12 months prior to their cancellation, the amount of any realised capital gains (after the application of available capital losses) can be reduced by the CGT discount. However, the CGT discount is not available to companies.

- (iii) Option Holders with more than 5% interest in KAZ Shares or more than 5% voting rights

The commentary above does not apply to you if, immediately after you acquired your Options, you held a legal or beneficial interest in more than 5% of KAZ Shares or, immediately after you acquired your Options, you were in a position to cast or control the casting of more than 5% of the maximum number of votes that might be cast at a general meeting of KAZ. In these circumstances, you will have automatically been taxed in the year of acquisition.

The cancellation of your Options will be treated as a disposal of your Options for CGT purposes. The amount of any capital gain or capital loss that you make will be calculated by reference to the cash payment that you receive from Telstra for the cancellation of your Options less the cost base of the Options.

The cost base of your Options will include the 'market value' of the Options, as calculated under the tax legislation, at the time that you acquired them. This would equal the amount on which you were taxed at that time.

If you have held your Options for at least 12 months prior to their cancellation, the amount of any realised capital gains (after the application of available capital losses) can be reduced by the CGT discount. However, the CGT discount is not available to companies.

## 5.4 STAMP DUTY AND GOODS AND SERVICES TAX

No stamp duty or goods and services tax will be payable by you as a result of the Ordinary Scheme or the Option Scheme being implemented.

## SECTION 6

# Independent Expert's Report KAZ Group Limited

### STRICTLY PRIVATE & CONFIDENTIAL

7 May 2004

The Directors  
KAZ Group Limited  
Level 10  
59 Goulburn Street  
SYDNEY NSW 2000

Dear Directors

## Proposed Schemes of Arrangement

### 1. INTRODUCTION

On 7 April 2004, Telstra Corporation Limited ("Telstra") and KAZ Group Limited ("KAZ") announced that they had entered into a Merger Implementation Agreement ("MIA") under which Telstra will acquire all of the fully paid ordinary shares in KAZ to which it is not already entitled for \$0.40 per share in cash by way of a scheme of arrangement (the "Share Scheme").

Under the proposal, KAZ will also enter into a separate scheme of arrangement with its Optionholders (the "Option Scheme") which will result in all the options being cancelled for consideration ranging between \$0.010 and \$0.265 per option, without any obligation to first pay the exercise price.

The "Share Scheme" and the "Option Scheme" are jointly referred to as the "Proposed Schemes". The detailed terms of the Proposed Schemes are set out in the Information Memorandum and an overview of the Proposed Schemes is provided in Section 1 of our detailed report.

### 2. PURPOSE OF THE REPORT

Notwithstanding that an independent expert's report is not required pursuant to the Corporations Act 2001, you have requested that we prepare an independent expert's report advising whether, in our opinion:

- the Share Scheme is in the best interest of KAZ Shareholders as a whole
- the Option Scheme is in the best interest of KAZ Optionholders as a whole

This report is to be included in the information Memorandum, to be sent to Shareholders and Optionholders, and has been prepared for the exclusive purpose of assisting Shareholders and Optionholders in their consideration of the Proposed Schemes. The report should not be used for any other purpose.

### 3. BASIS OF EVALUATION

In order to assess whether the Proposed Schemes are in the best interest of Shareholders and Optionholders as a whole, we have had regard to the fairness and reasonableness of the Proposed Schemes, namely:

- assessed whether the Share Scheme is fair by estimating the fair market value of an ordinary KAZ share and comparing that value to the estimated fair market value of the consideration to be received by Shareholders pursuant to the Share Scheme
- assessed whether the Option Scheme is fair by estimating the fair market value of a KAZ option and comparing that value to the estimated fair market value of the consideration to be received by Optionholders pursuant to the Option Scheme
- assessed the reasonableness of the Proposed Schemes by considering other advantages and disadvantages of the Proposed Schemes to Shareholders and Optionholders

### 4. SUMMARY AND CONCLUSION

In our opinion, in the absence of a higher offer:

- the Share Scheme is fair and reasonable and it is therefore in the best interest of the Shareholders as a whole
- the Option Scheme is fair and reasonable and it is therefore in the best interest of the Optionholders as a whole

We have based this opinion on the analysis contained in our report which is summarised below.

### 5. SHARE SCHEME

The Share Scheme is fair

Set out in the table below is a comparison of our assessment of the fair market value of a KAZ share with the consideration offered by Telstra.

#### EVALUATION OF FAIRNESS

	LOW \$	HIGH \$
Estimated fair market value of a KAZ share (section 6.5)	0.37	0.43
Consideration offered	0.40	0.40

The consideration offered by Telstra is within the range of our estimate of the fair market value of a KAZ share. Accordingly it is our opinion that the Share Scheme is fair.

## Valuation of a KAZ share

We have estimated the fair market value of a KAZ share using the capitalisation of maintainable earnings method, which estimates the value of KAZ by capitalising its maintainable earnings with an appropriate earnings multiple. We have also considered the reasonableness of this value by reference to recent trading in KAZ shares.

We have selected earnings before interest, tax, depreciation and amortisation ("EBITDA") as an appropriate measure of earnings for KAZ because earnings multiples based on EBITDA are less sensitive to different financing structures, depreciation and amortisation accounting policies and effective tax rates than multiples based on earnings before interest and tax ("EBIT") or net profit after tax ("NPAT"). In particular, KAZ has significant levels of

goodwill amortisation which make EBITDA a more appropriate valuation measure than EBIT or NPAT.

We have estimated KAZ's maintainable level of EBITDA to be \$49.0 million, based on management's earnings guidance range for the financial year ending 30 June 2004, their publicly announced statement that 2005 financial year earnings should exhibit growth in excess of 10% and after taking into account KAZ's current prospects and historical performance. We have applied an earnings multiple of 5.0 to 5.5 (on a minority interest basis) based on an analysis of listed companies and previous mergers and acquisitions in the computer services industry and added a premium for control in the range of 25% to 30%. The fair market value of KAZ using this method was \$309.1 million to \$353.3 million which equates to \$0.37 to \$0.43 cents per KAZ share. This valuation range was supported by our analysis of recent trading in KAZ shares.

## The Share Scheme is reasonable

We have formed our opinion on the reasonableness of the Share Scheme based on an analysis of the likely advantages and disadvantages to Shareholders of accepting the Share Scheme.

### ADVANTAGES OF THE SHARE SCHEME

- Shareholders are able to dispose of their KAZ shares for cash consideration which significantly exceeds the recent trading range on the ASX for KAZ shares. The opportunity to realise this value may not be otherwise available for some time in the absence of the Share Scheme offer or an alternative offer
- the KAZ share price has risen significantly since the announcement of the Proposed Schemes. Should the Share Scheme not be approved there is a risk that the KAZ share price will fall below the offer price
- the major Shareholders (representing more than 41% of KAZ shares on issue) have already indicated their intention to vote in favour of the Share Scheme which implies they are a seller of KAZ shares at that price. Accordingly, if the Share Scheme does not proceed, it is possible that the market may perceive an overhang in KAZ shares which will act to depress its share price
- stock market prices for companies in the information technology ("IT") sector, both globally and in Australia, are highly volatile, with market sentiment being generally negative towards the sector since the collapse in share prices following the bursting of the "internet bubble" in 2001. Whilst there has been a significant improvement in market sentiment towards the IT sector over the past 12 months it is likely that volatility of shares within the sector will continue to be relatively high. If the Share Scheme does not proceed, KAZ Shareholders would be impacted by any further volatility in shares prices of companies in the IT sector
- in the public announcement of the deal on 7 April 2004, Telstra identified expected net synergies of \$17 million EBITDA in FY2007. Whilst these synergy benefits will not flow to KAZ Shareholders and Optionholders, if the Proposed Schemes are approved, they indicate that KAZ has special value to Telstra which may not be available to other purchasers. Accordingly, the offer made by Telstra may incorporate an element of special value

### DISADVANTAGES OF THE SHARE SCHEME

- KAZ Shareholders will no longer collectively control KAZ or hold a direct interest in the company and accordingly will not participate in the future growth of KAZ to the extent that it may generate a future value above the Share Scheme offer price. In particular, there are potential upsides associated with the development of new software applications such as Atune as well as the potential to win major new contracts which might enhance the value of a KAZ share over time. However, we have reflected our view on the opportunities and risks associated with these opportunities at the current time in our assessment of the market value of a KAZ share

- electing to accept the offer pursuant to the Share Scheme may crystallise tax liabilities for individual Shareholders. The tax implications of the Proposed Schemes to KAZ Shareholders are outlined in the Information Memorandum. KAZ Shareholders should consult their tax adviser regarding their personal circumstances
- the offer may not represent an attractive price for Shareholders who believe that adverse factors impacting current market value may be short term in nature and that KAZ has a higher intrinsic value in the longer term if its upside potential can be captured

We consider the advantages of the Share Scheme proceeding outweigh the disadvantages. Accordingly, we have concluded that the Share Scheme is reasonable.

## 6. OPTION SCHEME

### The Option Scheme is fair

Set out in the table below is a comparison of our assessment of the fair market values of the KAZ options with the consideration offered by Telstra. We have valued each option utilising the Black-Scholes option pricing model and applied a discount for the lack of marketability of the options where appropriate. The table below summarises our valuation conclusions in respect of the Option Scheme. It is our opinion that the Option Scheme is fair to Optionholders as a whole.

#### Valuation of KAZ options

Expiry Date	Exercise Price \$	Number of options \$	Estimated Fair Market Value per option		Value of the Option Consideration \$	Implied		Premium
			Low \$	High \$		Low %	High %	
18 Apr 2005	0.166	1,175,010	0.165	0.188	0.255	54.7%	35.3%	
18 Apr 2006	0.166	1,625,628	0.169	0.193	0.265	56.7%	37.1%	
18 Apr 2005	0.166	430,596	0.165	0.188	0.255	54.7%	35.3%	
18 Apr 2006	0.166	517,002	0.169	0.193	0.265	56.7%	37.1%	
03 Sep 2004	0.570	45,000	0.007	0.009	0.025	237.5%	195.3%	
02 Sep 2005	0.570	30,000	0.039	0.045	0.085	117.4%	90.3%	
03 Sep 2004	0.790	840,000	0.001	0.001	0.010	1,186.4%	1,025.6%	
09 Mar 2006	0.166	1,800,000	0.169	0.193	0.265	57.1%	37.5%	
01 Oct 2004	0.166	277,500	0.164	0.187	0.245	49.7%	31.0%	
01 Apr 2005	0.166	277,500	0.165	0.188	0.250	51.8%	32.8%	
03 Sep 2004	0.166	240,000	0.164	0.187	0.245	49.7%	31.0%	
16 Aug 2005	0.770	240,000	0.019	0.022	0.050	162.9%	130.0%	
16 Aug 2005	0.167	240,000	0.166	0.189	0.255	54.0%	34.8%	
		<b>7,738,236</b>						

Source: KAZ management and Deloitte Corporate Finance calculations

## The Option Scheme is reasonable

We have formed our opinion on the reasonableness of the Option Scheme based on an analysis of the likely advantages and disadvantages to Optionholders of accepting the Option Scheme.

### ADVANTAGES OF THE OPTION SCHEME

- Optionholders will be able to dispose of their options. As the options are neither listed on a stock exchange nor assignable/tradeable, holders of options have limited opportunities to dispose of their options. Acceptance of the Option Scheme allows Optionholders to dispose of their options for cash consideration
- Optionholders will not need to pay the exercise price prior to being able to realise value for their options
- the Option Scheme provides certainty of value to be realised by the Optionholders and a premium above the assessed value per option

### DISADVANTAGES OF THE OPTION SCHEME

- Optionholders will no longer have the opportunity to participate in any potential increase in KAZ's share price over and above the implied premium for each series of options
- the Option Scheme may crystallise income tax liabilities for individual Optionholders

In our opinion the Option Scheme is reasonable.

### OTHER CONSIDERATIONS

The Proposed Schemes were announced on 7 April 2004. The directors of KAZ have confirmed that there have not been any alternative offers since this date and that they are not aware of any alternative offers that may be forthcoming.

If a superior alternative offer emerges prior to the meeting to approve the Proposed Schemes, KAZ Shareholders and Optionholders will be able to vote against the Proposed Schemes.

An individual Shareholder or Optionholder's decision in relation to the Proposed Schemes may be influenced by his or her particular circumstances. We have considered the Proposed Schemes for Shareholders and Optionholders as a whole. We have not considered the effect of the Proposed Schemes on the particular circumstances of individual Shareholders and Optionholders nor have we considered their individual objectives, financial situation or needs. Due to their particular circumstances, individual Shareholders and Optionholders may place different emphasis on various aspects of the Proposed Schemes from the one adopted in this report. Accordingly, individuals may reach different conclusions as to whether the Proposed Schemes are in their best interest. If in doubt Shareholders or Optionholders should consult an independent adviser.

This opinion should be read in conjunction with our detailed report which sets out our scope and findings. Please note all amounts stated in this report are in Australian dollars unless otherwise stated.

Yours faithfully



MJ Pittorino  
Director

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# 1 The Proposed Schemes

## 1.1 BACKGROUND

On 6 April 2004, KAZ entered into a Merger Implementation Agreement with Telstra that would result in Telstra acquiring all the issued shares in KAZ and the cancellation of all KAZ options by way of the Proposed Schemes. The Proposed Schemes require approval by the KAZ Shareholders, KAZ Optionholders and the Court. Details of the Proposed Schemes are set out in the Information Memorandum.

## 1.2 OVERVIEW OF THE SHARE SCHEME

The Share Scheme provides for the acquisition by Telstra of all of the issued shares in KAZ. The key terms of the Share Scheme are summarised as follows:

- the consideration offered to acquire each KAZ share is \$0.40 cash, which is payable by Telstra six business days after the Court approves the Share Scheme
- the Share Scheme will need to be approved at a meeting of KAZ Shareholders. Approval of the Share Scheme requires more than 50% of KAZ Shareholders who vote at the meeting, in person or by proxy, to vote in favour of the proposed resolutions. The KAZ Shareholders voting in favour must also hold at least 75% of the shares voted at the Share Scheme meeting
- implementation of the Share Scheme is subject to approval by the Court
- the Share Scheme is not dependent on the Option Scheme and, if approved, will proceed regardless of whether the Option Scheme is approved

## 1.3 OVERVIEW OF THE OPTION SCHEME

KAZ and Telstra have agreed to execute the necessary documents to give effect to the Option Scheme. The key terms of the Option Scheme are summarised as follows:

- the Option Scheme will result in all the options on issue being cancelled
- the consideration offered for the delivery of and cancellation of the options ranges from \$0.01 to \$0.26 per option without any obligation to first pay the exercise price, as set out in the Information Memorandum and is payable in cash six business days after the Court approves the Option Scheme
- the Option Scheme will need to be approved at a meeting of KAZ Optionholders. Approval of the Option Scheme requires more than 50% of KAZ Optionholders who vote at the meeting, in person or by proxy, to vote in favour of the proposed resolutions. The KAZ Optionholders voting in favour must also hold at least 75% of the total number of contingent debts and claims voted at the Option Scheme meeting
- implementation of the Option Scheme is subject to approval of the Share Scheme by KAZ Shareholders and by the Court. The Option Scheme is also conditional on the Share Scheme proceeding. If the Share Scheme is not approved, the Option Scheme will not proceed even if it is approved by Optionholders

## 1.4 CONDITIONS OF THE PROPOSED SCHEMES

The principal conditions of the Proposed Schemes outlined in the Information Memorandum include:

- the Share Scheme is approved by the required majority of KAZ Shareholders at the Share Scheme meeting
- obtaining any necessary regulatory consents
- no material adverse change to KAZ's financial position
- no material disposals or acquisitions are made by KAZ
- no competing proposals are solicited by KAZ's Board
- no breach of the representations and warranties provided by Telstra and KAZ
- no court or other restraining orders preventing the consummation of the Proposed Schemes
- no material disruption or material adverse change in the capital market conditions

For full details of the conditions of the Proposed Schemes, please refer to the Information Memorandum.

## 2 Scope of the report

### 2.1 PURPOSE OF THE REPORT

Deloitte Corporate Finance has been appointed by the directors of KAZ as an independent expert to express an opinion as to whether or not the Proposed Schemes are in the best interest of the KAZ Shareholders and Optionholders.

Section 411 of the Corporations Act 2001 (“Section 411”) regulates schemes of arrangement between a company and its members. Part 3 of Schedule 8 of the Corporations Regulations 2001 (Cw/ith) prescribes the information to be provided to Shareholders and Optionholders in relation to schemes of arrangement. These provisions require the preparation of a report by an independent expert stating whether or not, in the expert’s opinion, the Proposed Schemes are in the best interest of members of the company subject to the scheme where either:

- the corporation which is the other party to the scheme (Telstra) has a director in common with the company which is the subject of the scheme (KAZ)
- the corporation which is the other party to the scheme is entitled to more than 30% of the voting shares in the company which is the subject of the scheme

As Telstra does not have any directors in common with KAZ and does not have more than 30% of the voting shares in KAZ there is no legal requirement for an independent expert’s report in respect of the Proposed Schemes. However, directors of KAZ have requested us to prepare an independent expert’s report on the Proposed Schemes, as if it was required under Part 3 of Schedule 8 of the Corporations Regulations 2001 (Cw/ith), in order to assist Shareholders and Optionholders in their consideration of the Proposed Schemes.

This report is to be included in the information Memorandum to be sent to Shareholders and Optionholders and has been prepared exclusively for the purpose of assisting Shareholders and Optionholders in their consideration of the Proposed Schemes. This report may not be used for any other purpose.

### 2.2 BASIS OF EVALUATION

There is no statutory or regulatory definition of the expression “in the best interest”. Schemes of arrangement regulated by Section 411 can include many different types of transactions and the basis of evaluation selected by the expert must be appropriate to the nature of the specific transaction. The interpretation of “in the best interest” is a matter of judgment for the expert having regard to the guidance and alternatives available.

In this case the Proposed Schemes have the same effect as a takeover offer for KAZ. Section 640 of the Corporations Act 2001 (“Section 640”) requires an independent expert’s report in connection with a takeover offer to state whether, in the expert’s opinion, the takeover offer is fair and reasonable. ASIC Policy Statement 75, which is directed primarily towards reports prepared under Section 640, implies that if the Proposed Schemes are fair and reasonable they will be in the best interest of Shareholders and Optionholders. Under ASIC Policy Statement 75, an offer is:

- fair, when the value of the consideration is equal to or greater than the value of the securities subject to the scheme. The comparison must be made assuming 100% ownership of the target company
- reasonable, if it is fair, or despite not being fair, after considering other significant factors, Shareholders should accept the offer under the scheme in the absence of any higher bids

In interpreting the meaning of “in the best interest” we have considered ASIC Policy Statement 75, Practice Note 43 and common market practice. To assess whether the Proposed Schemes are in the best interest of Shareholders and Optionholders, we have adopted the test of whether the Proposed Schemes are either fair and reasonable, or not fair but reasonable, as set out in ASIC Policy Statement 75.

### **2.3 SHAREHOLDERS/OPTIONHOLDERS AS A WHOLE**

We have evaluated the Proposed Schemes for Shareholders as a whole and Optionholders as a whole. We have not considered the effect of the Proposed Schemes on the particular circumstances of individual Shareholders and Optionholders. Due to their particular circumstances, individual Shareholders and Optionholders may place a different emphasis on various aspects of the Proposed Schemes from the one adopted in this report. Accordingly, individuals may reach different conclusions on whether the Proposed Schemes are in their best interest.

### **2.4 DEFINITION OF VALUE**

For the purpose of our opinion, fair market value is defined as the price at which the shares would change hands between a knowledgeable willing buyer and a knowledgeable willing seller, neither being under a compulsion to buy or sell and both having reasonable knowledge of relevant facts.

Fair market value, as defined above, is a concept of value, which may or may not equal the “purchase/sale price” that could be obtained if the shares or options were sold to a special purchaser in an actual transaction in the open market. Special purchasers may be willing to pay higher prices to gain control, to reduce or eliminate competition, to ensure a source of material supply or sales, or to achieve cost savings or other synergies arising on business combinations, which could be enjoyed by the purchaser. Our valuation is not premised on the existence of a special purchaser.

### **2.5 LIMITATIONS AND RELIANCE ON INFORMATION**

The opinion of Deloitte Corporate Finance is based on economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time. This report should be read in conjunction with the declarations outlined in Appendix 5.

Our procedures and enquiries do not include verification work nor constitute an audit in accordance with Australian Auditing Standards (“AUS”), nor do they constitute a review in accordance with AUS 902 applicable to review engagements.

## **3 Computer services industry**

### **3.1 STRUCTURE OF INDUSTRY**

The computer services industry consists of a wide variety of firms operating across various sub-sectors, including Business Process Outsourcing (“BPO”). KAZ’s operations span IT services, including the computer services industry. The computer services industry includes hardware and software consultancy and professional services, accounting for approximately 50% of industry revenue, in addition to systems analysis, design and programming, building of custom-designed systems, data processing and preparation services.

The computer services industry is characterised by a highly skilled and knowledgeable workforce. Operations have historically been very labour intensive, and consequently many firms are seeking to contract much of their work to highly skilled but low wage countries, such as India and China, and retaining the more highly skilled and value-added activities within Australia.

Relative to other industries, products and services have a relatively short life cycle, with most requiring an update or upgrade every five years. Additionally, many products require a large up-front investment in research and development, and accordingly, industry participants require significant financial backing.

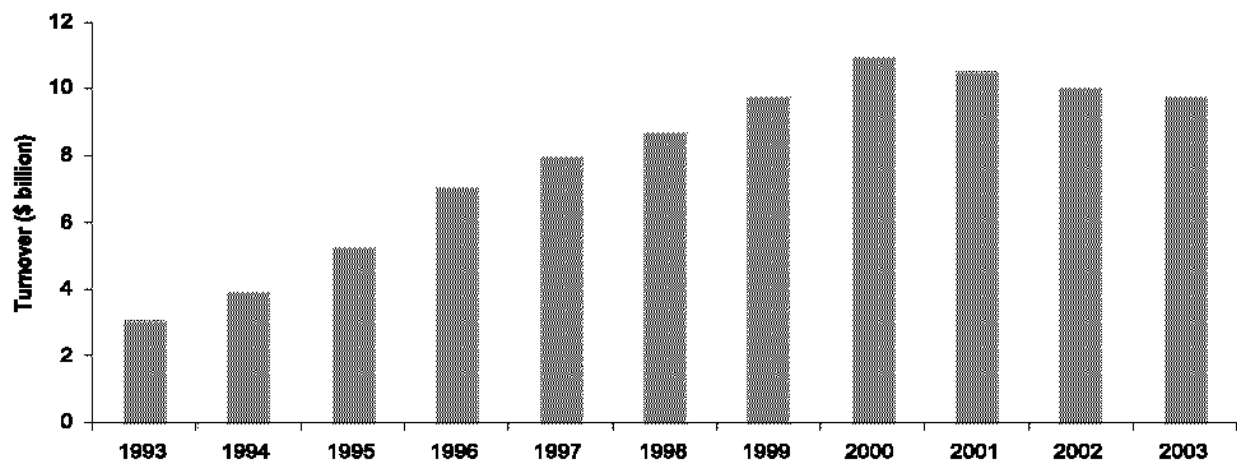
### 3.2 COMPETITIVE ANALYSIS AND CURRENT STATUS

The computer services industry in Australia is highly fragmented and mature, with success becoming increasingly related to scale of operations, quality and service reputation and brand recognition. Large multinational companies dominate the Australian market, with a number of Australian owned industry participants servicing niche markets. The industry employed approximately 65,000 people during the 2002/03 financial year, and generated revenues of \$9,786 million.

Revenue has historically been generated from a mix of both public and private sector clients. The finance, banking and insurance sectors account for 40% of industry revenue, government administration 25% and other sectors the remaining 35%.

The year 2000 ("Y2K") bug led to many firms bringing forward much of their IT hardware and software expenditure to the 1999 and 2000 years, not all of which currently needs to be replaced or renewed. This cyclical nature of the industry has resulted in declining revenues in recent years, as indicated in the figure below.

**Figure1: Historical Industry turnover**



The highly fragmented nature of the industry is evidenced by the fact that the top four companies in 2002/03 accounted for approximately 38.5% of total industry revenue. Major players include IBM Australia Ltd, EDS (Australia) Pty Ltd and CSC Australia Pty Ltd. In addition, a range of large Indian technology houses are significantly increasing their presence.

Key demand determinants for the computer services industry include the following:

- the price of computer hardware and software
- the rate of development of new technologies and computer applications
- the need for customised software applications
- general trends in the overall economy, as organisations typically defer or abandon large capital expenditures in times of uncertain conditions
- general trends in IT outsourcing and solutions

Having an established customer base (preferably with long term contracts) and access to hardware and software together with specialist programming skills acts as a competitive advantage to industry participants. Despite this, an increase in selective outsourcing is likely to occur in the industry, with large contracts being disaggregated into smaller components and tendered separately.

In recent years the industry has been adversely affected by a number of factors, including the 2000/01 stock market correction in the technology sector, the downgrading of the perceived potential of e-commerce and business-to-business/business-to-consumer trading and the re-evaluation of the potential of internet companies.

Dissatisfaction with the results achieved from outsourcing contracts by both the government and private sectors, as well as the results from large Enterprise Resource Planning (“ERP”) application implementations, has resulted in the re-evaluation of outsourcing strategies, affecting the demand and spending in the area over the last three years.

### 3.3 CRITICAL SUCCESS FACTORS

The success of businesses operating in this industry is dependent upon a number of key determinants:

- the ability to attract quality trained staff
- strong management and marketing skills
- ongoing research and development
- strong financial backing and cash flow management to finance the research and development expenditure

### 3.4 BARRIERS TO ENTRY AND REGULATION

With the exception of the necessary specialist programming knowledge and access to appropriate computer hardware and software, the industry has very few barriers to entry. In addition, there are no regulations or licences applicable to the industry. However, increasing complexity in software development is likely to result in higher barriers to entry in the future.

### 3.5 RECENT TRANSACTIONS

In recent years, the computer services industry has undergone significant rationalisation. A large number of transactions have taken place as companies have attempted to gain competitive advantage related to increased scale of operations.

A key driver behind many of these transactions in the computer services industry is the increasing trend of hardware vendors moving into the computer services sector, such as IBM’s acquisition of the consulting arm of PricewaterhouseCoopers in July 2002, hardware vendors continuing to pursue a direct fulfilment model and software players consolidating in their segment.

The following table shows some recent significant transactions within the Australian computer services industry.

**Table 1: Summary of recent transactions in the computer services industry in Australia**

Date of transaction	Target Company	Acquirer	Value of deal (\$M)
02 Mar 2000	FishTech & Partners Pty Ltd	Solution 6 Holdings Ltd	16.9
20 Mar 2000	Beethoven Computer Systems	Data#3 Limited	0.8
13 Aug 2000	exo-net International Ltd	Solution 6 Holdings Ltd	38.7
25 Aug 2000	AAG Technology Services	Volante Group Limited	30.0
24 Oct 2000	Fundi Software	KAZ Computer Services Ltd <sup>1</sup>	5.8
08 Dec 2000	Ceedata Holdings Pty Ltd	Solution 6 Holdings Ltd	26.2
31 Jan 2001	Australian Administration Services	KAZ Computer Services Ltd <sup>1</sup>	77.5
09 Aug 2001	DesignPlus Pty Ltd	KAZ Computer Services Ltd <sup>1</sup>	0.2
30 Jan 2002	Aspect Computing Pty Ltd	KAZ Computer Services Ltd <sup>1</sup>	205.7
03 Nov 2002	Strategic Computer Solutions	Volante Group Limited	0.8
06 Nov 2003	IS Pty Ltd	Data#3 Limited	0.3
09 Jul 2003	Securenet Ltd	beTRUSTed Holdings Inc	119.8
22 Dec 2003	Ipex ITG Pty Limited	Volante Group Limited	73.0
29 Mar 2004	Logicalis Australia	IBM Global Services Aust. Ltd	88.5
Current	Solution 6 Holdings Limited	MYOB Limited	435.0

Source: SDC Platinum

Notes: <sup>1</sup> Now part of KAZ Group Limited

Details of these transactions are presented in Appendix 3.

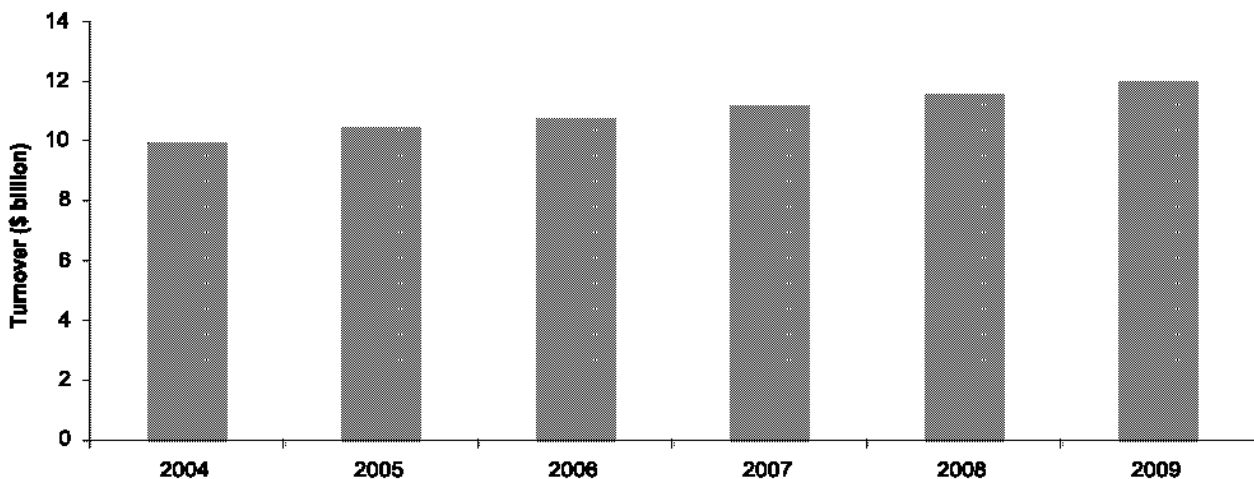
### 3.6 FUTURE EXPECTATIONS

The trends in the computer services industry in Australia are closely correlated with the dynamics of the global IT industry. Overall IT spending in all areas, including hardware, software and services, had minimal to no growth in 2003. Average annual forecast growth over the period to 2009 is expected to be a relatively low 4%, marginally above the forecast growth in GDP of 3.5% over the same period.

Industry analysts are forecasting this growth will result from increased demand for business process outsourcing and a general growth in demand from both the public and private sector. In particular, demand is expected to continue to grow from e-commerce, security and on-line payment systems.

Despite this, forecast industry performance remains uncertain. Export market growth is anticipated from selected countries in the Asia-Pacific region, however, the industry is facing the increasing prospect of the further transfer of labour intensive activities to highly skilled cheaper labour countries. In addition, due to cost or service promises not being met, some government contracts are likely to be insourced and many federal government outsourcing contracts have been cancelled, put on hold or broken down into smaller contracts (selective outsourcing).

Forecast growth in revenues in the Australian computer consulting industry is shown in the following figure.



Source: IBIS World

The current and future trends of the computer service industry in Australia are in line with the expected global IT trends, which are currently impacted by the following:

- increasing economies of scale resulting from ongoing industry consolidation
- a convergence of IT and telecommunications industries
- increasing demand for more fully integrated product offerings, resulting from industry participants leveraging their wider in-house service offerings (e.g. product plus services)
- increasing standardisation of products, which allows disaggregation of the value chain and the greater outsourcing of functions
- customers have placed an increased focus on their return on investment in IT, which has tended to strengthen the relationships between product vendors and system integrators, since it has encouraged them to improve product integration
- new developments in hardware, network and system management and security applications

## 4 Profile of KAZ

### 4.1 COMPANY HISTORY

KAZ Group Ltd was founded in 1988 under the name KAZ Computer Services. Having commenced operations in Sydney that year, the company experienced significant growth in operations. In the 1990s it established data centres in other parts of Australia and in 1999 expanded its operations into the Asian market, establishing a data centre in Singapore.

On 9 March 2000 KAZ listed on the Australian Stock Exchange (“ASX”), raising \$32 million. Net proceeds of \$8.5 million after float costs and payments to Shareholders were used to develop additional support infrastructure within the Asia Pacific region, in addition to funding acquisitions.

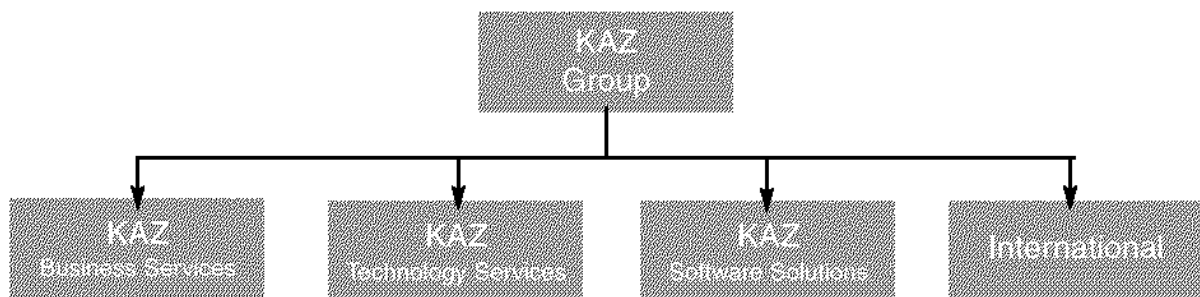
Later in that year the company also undertook a one for six share split and commenced an acquisition programme. KAZ purchased Change Management, one of the largest IT services organisations operating in the South Australian market; Ausdata, a provider of total document processing solutions and Fundi Software, an enterprise systems management developer. This programme was continued in 2001, with the company acquiring Australian Administration Services (“AAS”), Australia’s largest provider of administration services to the industry superannuation funds sector.

In 2002 the company continued to expand operations, establishing a further two data centres, one being located in Hong Kong and the other in Western Australia. The company also acquired Aspect Computing Pty Ltd (“Aspect”), a provider of applications development, applications maintenance, systems integration, education and risk management services. The company changed its name from KAZ Computer Services to KAZ Group Limited on 12 March 2002.

### 4.2 GROUP STRUCTURE

Figure 3 below sets out a simplified group structure for KAZ, based on the organisation’s four divisional areas.

Figure 3: KAZ group structure



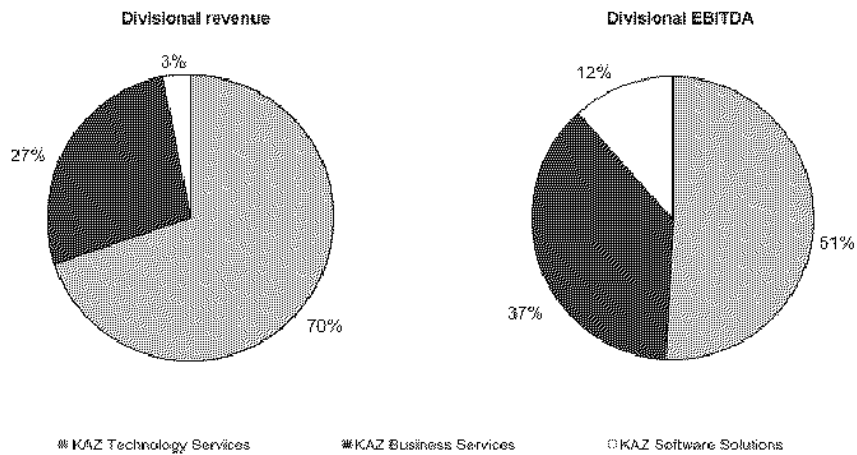
Source: KAZ management

The principal operations of each of the divisions in the KAZ group are discussed in Section 4.3.

## 4.3 PRINCIPAL ACTIVITIES AND PRODUCTS

KAZ operates through three divisional areas within Australia – KAZ Business Services, KAZ Technology Services and KAZ Software Solutions. The percentages of forecast normalised 2004 revenues and EBITDA, by division, are included in the figure below.

Figure 4: KAZ divisional revenue and EBITDA



Source: KAZ management

In addition to the domestic operations, KAZ operates in selected locations throughout Asia. A summary of the operations provided by each division are included in the following table.

Table 2: KAZ divisional operations

Division	Risk management	Education	Systems integration	Business process outsourcing	IT infrastructure outsourcing	Applications development	Applications maintenance
KAZ Business Services	*	*	*	✓	*	*	*
KAZ Technology Services	✓	✓	✓	*	✓	✓	✓
KAZ Software Services	*	*	*	*	*	✓	*
International	*	*	*	✓	✓	*	*

Source: KAZ management

Further analysis of each division is discussed below.

### 4.3.1 KAZ BUSINESS SERVICES (“KBS”)

KBS provides business process outsourcing to both the public and private sectors. Holding approximately 45% of the industry superannuation fund market, KAZ is a market leader in providing core superannuation administration services, overseeing more than 3.5 million member accounts and 165,000 employers. Established customer contact

centres manage telephone, fax, email and web-based customer interactions, in addition to being able to provide support, consultancy services and marketing expertise to clients. Additionally, KBS specialises in the following areas:

- customer contact solutions – providing customer contact centres on an ad-hoc, overflow or permanent basis
- client administration and transaction processing services – services include account record management, claims management, forms processing, customer reporting, billing and payments processing and financial record keeping
- document management services – providing end-to-end document management solutions, including processing cheques, credit card vouchers, remittance payments, invoices and application forms

#### **4.3.2 KAZ TECHNOLOGY SERVICES (“KTS”)**

KTS is a leading supplier of IT solutions. The government sector accounts for approximately 58% of the division’s revenue and according to industry research, KTS was able to secure 11.5% of all significant IT outsourcing contracts awarded in the 2002 calendar year.

Services are often provided through long-term fixed priced contracts and include the following:

- infrastructure facilities management and outsourcing offering stable, central and secure IT environments under fixed price contracts
- managed infrastructure services – providing a range of services to manage a customer’s desktop, including support desk, end user support, change management equipment and software support, asset management and procurement
- system integration services
- application development and maintenance services – services involved in planning and building an application, including inception and maintaining and supporting the implemented application
- consultancy services – providing risk management services and advice on business continuity and security strategies
- education – offering an extensive range of courses covering all major platforms and operating systems
- hardware sales – offering IBM, SUN, HP, Cisco and other vendor equipment
- licensing services – providing services for a wide variety of vendors, including Microsoft, IBM, Citrix, Novell, Adobe and McAfee

#### **4.3.3 KAZ SOFTWARE SOLUTIONS (“KSS”)**

Primarily operating in the finance industry, KSS is a software developer offering membership administration products, utility products and document management solutions. The business is focused on the development of three main product sets:

- document and image processing – a fully integrated document management system which processes cheques, credit card vouchers, remittance payments, invoices and application forms
- Atune software line – an advanced superannuation membership management system which stores and processes member data
- Fundi software line – specialising in products which enhance the manageability, performance, useability and productivity of the enterprise mainframe platform

#### **4.3.4 INTERNATIONAL**

Having established data centres in Singapore and Hong Kong, KAZ provides IT outsourcing services to clients in the Asia Pacific region. Major operations in the region include the following:

- a joint venture in Thailand to administer superannuation for over one million Thai government employees
- a business partnering with Tradelink Electronic Commerce Ltd offering IT outsourcing services in the Hong Kong market

## 4.4 CUSTOMERS AND SUPPLIERS

KAZ has a broad base of customers from both the public and private sectors. Many services provided by the group are under long-term contracts, typically three to five years, with staggered expiry dates. KAZ has a strong track record of retaining customers at the end of the contract periods as a result of its service performance, competitive pricing structure and the costs that would otherwise be incurred by a customer to switch service providers.

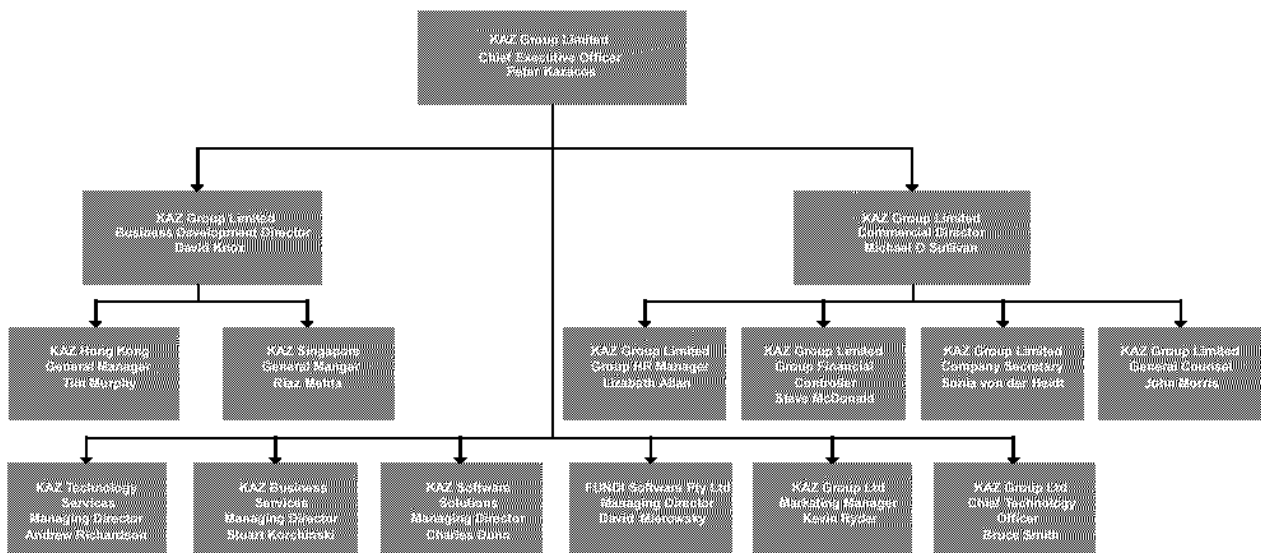
KAZ generates much of its revenue under these long-term contracts. Most income generated by the KBS division, and the infrastructure side of the KTS division, is generated under these contracts. Revenue is also generated on a time and materials basis, through some of the applications work performed by KTS, while KSS largely generates royalty and product revenue.

KAZ's single largest expenditure is labour costs. KAZ has also established both hardware and software supply relationships with many of the largest IT companies, often under contract for a period of one to two years. The company's major customers include government departments and superannuation funds. The company's major suppliers/partners include IBM Australia Ltd, BMC Software Inc, Cisco Systems Ltd, Microsoft Corporation and Sun Microsystems Corporation.

## 4.5 MANAGEMENT AND PERSONNEL

In total KAZ employs approximately 2,700 people on a full time equivalent basis. The figure below summarises KAZ's management structure.

Figure 5: KAZ group structure



Source: KAZ management

#### 4.6 COMPETITIVE POSITION OF KAZ (SWOT ANALYSIS)

We have carried out an analysis of the strengths, weaknesses, opportunities and threats (“SWOT”) of KAZ. A summary of the key findings is set out below. Further potential upsides and risks have been included in our assessment of an appropriate valuation multiple for KAZ.

**Table 3: SWOT analysis**

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>• The ability to be able to provide complete end-to-end solutions</li> <li>• Established distribution arrangements with leading IT suppliers, such as IBM</li> <li>• Long-term customer contracts with both public sector and private sector enterprises</li> <li>• Established operations in the Asia-Pacific region</li> <li>• A portfolio of complementary businesses</li> <li>• An experienced management team</li> <li>• Strong reputation in the key markets in which KAZ operates</li> <li>• The use of leading-edge technology</li> </ul>	<ul style="list-style-type: none"> <li>• Fluctuating revenues due to operating in a mature industry with exposure to cyclical downturns in the IT sector</li> <li>• Lack of scale of balance sheet vis-à-vis multinational competitors, making it difficult to compete for tier 1 contracts</li> <li>• Changing market conditions with greater offshore outsourcing</li> <li>• At times when the company has experienced weakness in its share price it has created a negative perception amongst KAZ customers with the potential to hinder new sales</li> <li>• High level of goodwill amortisation charges on profit and loss renders ‘headline’ profit vulnerable, with a corresponding impact on external perceptions of the group</li> </ul>
Threats	Opportunities
<ul style="list-style-type: none"> <li>• Declining prices and margins in IT products</li> <li>• Convergence in demand of IT and telecommunications products, making the market more competitive</li> <li>• Increased price competition in the market placing pressure on margins</li> <li>• Further M&amp;A activity in the region leading to stronger competitors</li> <li>• Investment in IT products dependent upon favourable economic conditions, with overall IT spending expected to grow only moderately to 2009</li> <li>• Limited infrastructure in the Asia Pacific region, restricting growth</li> <li>• Loss of key clients and staff</li> </ul>	<ul style="list-style-type: none"> <li>• Development of new technologies creating increased demand for consulting services</li> <li>• Continuing demand for selective outsourcing services by the public and private sectors</li> <li>• Continued growth through acquisition, where revenues and cost synergies can be achieved</li> <li>• Greater cross-selling of a range of KAZ products to existing customers</li> <li>• Increased expansion into the Asia Pacific region</li> <li>• The upsides represented by the development of new software applications such as Atune</li> </ul>

#### 4.7 CAPITAL STRUCTURE AND SHAREHOLDERS

As at the date of this report KAZ had the following securities on issue:

- 828,039,925 ordinary shares
- 7,738,236 options to subscribe for the ordinary shares, which are to be cancelled as set out in the Information Memorandum

The following table lists the top ten Shareholders in KAZ:

**Table 4: Top 10 Shareholders**

Name	Number of Shares Held	% of Shares Held
Peter Kazacos	106,980,000	12.9
Vicki Kazacos	52,320,000	6.3
Peter Draney	50,287,777	6.1
Lyndsey Cattermole	50,187,778	6.1
Cassidy Investments	28,549,250	3.4
Westpac Custodian Nominees	27,396,296	3.3
Angelo Doukas	27,000,000	3.3
Maria Doukas	26,200,000	3.2
BNP Paribas Arbitrage (HK) Limited	20,000,000	2.4
JP Morgan Nominees Australia Ltd	18,604,709	2.2
<b>Top 10 Shareholders</b>	<b>407,525,810</b>	<b>49.2</b>
Other Shareholders	420,514,115	50.8
<b>Grand total</b>	<b>828,039,925</b>	<b>100.0</b>

Source: KAZ share registry as at 8 May 2004

#### 4.8 SHARE PRICE PERFORMANCE

The quarterly share price performance of KAZ since listing on 9 March 2000 is as follows:

**Table 5: KAZ quarterly share price information**

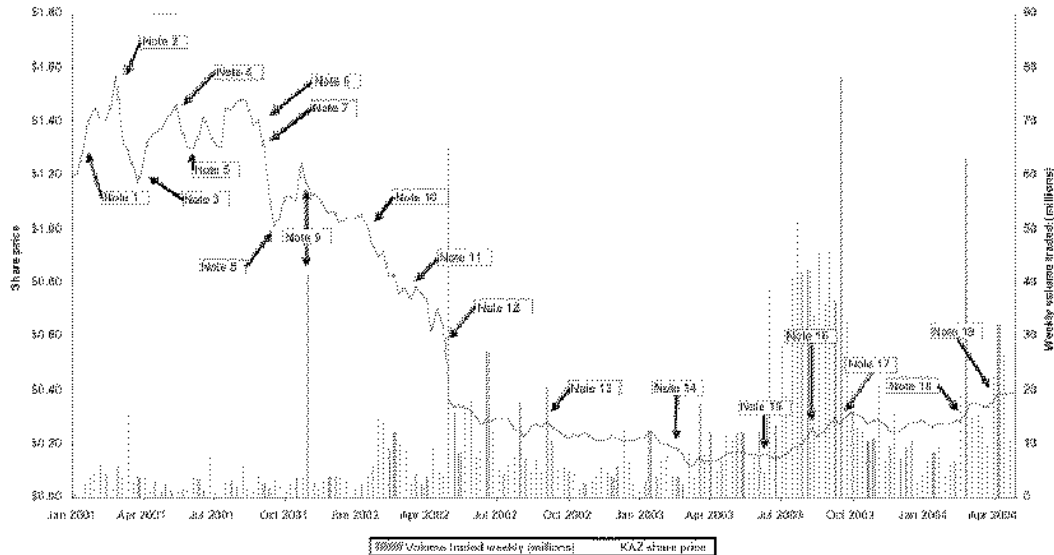
Quarter end date	High (\$)	Low (\$)	Last Trade (\$)	Volume
9 March 2000 to 31 March 2000	1.417	0.534	1.125	33,355,914
30 June 2000	1.133	0.497	0.900	31,342,400
30 September 2000	0.990	0.700	0.830	35,470,207
31 December 2000	1.350	0.820	1.250	30,729,563
31 March 2001	1.620	1.110	1.170	60,418,327
30 June 2001	1.490	1.170	1.370	35,758,375
30 September 2001	1.540	0.950	1.040	34,248,544
31 December 2001	1.320	0.970	1.020	77,892,454
31 March 2002	1.070	0.720	0.760	93,957,664
30 June 2002	0.780	0.250	0.285	204,946,491
30 September 2002	0.320	0.215	0.225	112,422,810
31 December 2002	0.245	0.195	0.220	64,487,472
31 March 2003	0.290	0.110	0.145	89,419,402
30 June 2003	0.180	0.135	0.145	160,083,317
30 September 2003	0.325	0.140	0.305	531,880,596
31 December 2003	0.320	0.225	0.295	150,307,426
31 March 2004	0.365	0.255	0.345	191,013,672
1 April 2004 to 4 May 2004	0.395	0.345	0.390	92,689,459

Source: Bloomberg

Notes: Historical share price adjusted for share split on 18 April 2000

Since listing 32 million shares in March 2000, the share price of KAZ has fluctuated significantly. Between 30 June 2003 and 2 April 2004, the last trading day prior to the announcement of the Proposed Schemes, the share price fluctuated between a low of \$0.14 and a high of \$0.37. Share price movements and trading volumes since January 2001 are presented graphically in the figure below.

Figure 6: KAZ stock activity on ASX



Source: Bloomberg

Significant movements in the share price and traded volume of KAZ shares are discussed in the table below.

Table 6: Announcements impacting recent trading in KAZ shares

Note	Date	Comments
1	01 Feb 2001	KAZ expands its Victorian outsourcing business with three new contracts.
2	12 Mar 2001	Release of half-year financial report.
3	09 Apr 2001	KAZ announces a 3 year multi million dollar IT outsourcing contract with an international retail banking group.
4	17 May 2001	Announcement of a share issue to partly fund acquisition of Australian Administration Services.
5	31 May 2001	ASX announcement that IT is to be one of the new industry classifications when Standard and Poor's alters its indexing system.
6	03 Sep 2001	Release of preliminary financial report.
7	11 Sep 2001	September 11 terrorist attacks.
8	22 Oct 2001	KAZ announces the purchase of the remaining 50% of the Singapore operations it did not already own.
9	02 Nov 2001	AMP sells down substantial shareholding, from 11.78% to 7.46%
10	30 Jan 2002	KAZ announces the acquisition of Aspect Computing Pty Limited.
11	04 Mar 2002	Release of half-year financial report.
12	03 May 2002	KAZ announces a downward revision of financial forecasts.
13	02 Sep 2002	Release of preliminary financial report.
14	06 Mar 2003	Release of half-year preliminary financial report.
15	16 Jun 2003	Announcement of intention by CEO and Managing Director, Mr Peter Kazacos, to move into position of Deputy Chairman.
16	03 Sep 2003	Release of preliminary financial report.
17	19 Sep 2003	Chairman Mr Tony Hartnell, and directors, Mr Michael Lillierap and Mr Murray Wells resign from the board.
18	24 Feb 2004	Release of half-year financial report.
19	7 Apr 2004	Telstra announces takeover offer for KAZ.

Source: Bloomberg

## 4.9 FINANCIAL PERFORMANCE

The restated audited financial results of KAZ for the periods ended 30 June 2002 and 30 June 2003, the reviewed results for the six months ended 31 December 2003 and the mid-point of the earnings guidance range for the year ending 30 June 2004 are summarised in the table below.

**Table 7: Financial results**

	Actual 12 months ended June 02 \$'000	Actual 12 months ended June 03 \$'000	Actual 6 months ended December 03 <sup>1</sup> \$'000	Mid-point of earnings guidance for the 12 months ending June 04 \$'000
<b>Trading revenue</b>	<b>253,630</b>	<b>356,057</b>	<b>214,984</b>	<b>405,000</b>
Revenue growth (%)	<i>N/a</i>	40.4% <sup>2</sup>	<i>N/a</i>	13.7% <sup>3</sup>
<b>EBITDA</b>	<b>35,102</b>	<b>33,167</b>	<b>17,078</b>	<b>35,000</b>
Margin (%)	13.8%	9.3%	7.9%	8.6%
Depreciation and amortisation	(17,090)	(24,713)	(12,649)	(25,635)
<b>EBIT</b>	<b>18,012</b>	<b>8,454</b>	<b>4,429</b>	<b>9,365</b>

Source: Audited financial statements for the financial years ended 30 June 2002 and 30 June 2003, reviewed results for the six months ended 31 December 2003 and the mid-point of the earnings guidance range for the year ending 30 June 2004 announced on 24 February 2004

Notes: *N/a* – Not applicable

<sup>1</sup> Six month EBITDA adjusted to remove the impact of reported restatement adjustments

<sup>2</sup> Significant growth in revenue was due to the acquisition of Aspect Computing during the year

<sup>3</sup> Revenue growth compared to 12 months ended 30 June 2003

Revenue from ordinary activities showed significant growth between 2002 and 2003, largely achieved through the acquisition of Aspect Computing in March 2002. Aspect Computing generated an additional \$109.8 million revenue in the first eight months of the 2002 year, bringing combined revenue to \$363.4 million on a pro-forma basis which is in line with the 2003 results. The forecast increase for the 2004 year from the publicly announced earnings guidance range is due to a combination of a general turnaround in the industry and an increase in market share.

The EBITDA figures presented in Table 7 above are affected by a number of unusual, non-recurring items. In Table 8 we have removed these items to present a normalised level of EBITDA.

**Table 8: Normalised results**

	Actual 12 months ended June 02 \$'000	Actual 12 months ended June 03 \$'000	Actual 6 months ended December 03 \$'000	Mid-point of earnings guidance for the 12 months ending June 04 \$'000
<b>EBITDA per above</b>	<b>35,102</b>	<b>33,167</b>	<b>17,078</b>	<b>35,000</b>
Aspect acquisition	9,300	-	-	-
Future platform development costs	-	2,000	2,700	<i>Note 1</i>
Redundancies and restructuring	-	3,500	1,700	<i>Note 1</i>
Gain on sale of property	-	-	(400)	<i>Note 1</i>
Fixed infrastructure costs	-	-	400	<i>Note 1</i>
Aggregate normalisation adjustments	9,300	5,500	4,400	9,000 <sup>2</sup>
<b>Normalised EBITDA</b>	<b>44,402</b>	<b>38,667</b>	<b>21,478</b>	<b>44,000</b>

Source: KAZ management accounts, board reports and publicly announced earnings guidance range on a reported and normalised basis

Notes: <sup>1</sup> Aggregate balance include normalisation adjustments for platform development costs, infrastructure costs, redundancies and restructuring and gain on sale of property

While reported EBITDA appears to have remained relatively stable between 2002 and 2003, normalised EBITDA declined by approximately \$5.7 million. This decline was primarily the result of the non-renewal of two significant contracts in the 2002 year. Normalised EBITDA growth in 2004 from the announced earnings guidance is reflective of the anticipated revenue growth in the various divisions in the 2004 year. Normalised EBITDA for the year ending 30 June 2004 is consistent with the mid-point of the earnings guidance range announced on 24 February 2004.

Normalisation adjustments are discussed further below.

#### **Aspect acquisition**

In March 2002 KAZ acquired Aspect Computing, now incorporated into the KTS divisional operations. EBITDA of approximately \$9.3 million was earned in the eight months to March 2002.

#### **Atune platform development costs**

Atune platform development costs relate to a generational upgrade of the Ultimass platform used by AAS, operating as part of the KBS division. KAZ has expensed these costs since acquiring control of Atune, even though they are considered unlikely to recur after platform development is complete and they are anticipated to generate an economic benefit in future periods. Accordingly, adjustments have been made to reflect the non-recurring nature of these expenses.

#### **Redundancies and restructuring**

Non-recurring redundancy and restructuring costs relate to the downturn in the IT sector subsequent to the industry peak in 2000, in addition to integration costs arising from the merger between Aspect Computing and KAZ Computer Services to form KTS.

#### **Gain on sale of property**

Non-recurring property sales have been excluded from maintainable earnings.

#### **Fundi infrastructure costs and adjustments**

Fundi normalisation adjustments relate to development expenditures which have historically been expensed even though they are anticipated to generate an economic benefit in future periods. Accordingly, adjustments have been made to reflect the non-recurring nature of these items.

Deloitte Corporate Finance has not undertaken an independent review of KAZ's prospective financial information released to the market. Accordingly, Deloitte Corporate Finance does not express an opinion on the reasonableness of the assumptions underlying the prospective financial information, or their achievability. However, to the extent that this report refers to prospective financial information, Deloitte Corporate Finance has considered the prospective financial information and the basis of the underlying assumptions. The prospective financial information and the underlying assumptions are the sole responsibility of KAZ.

The procedures involved in Deloitte Corporate Finance's consideration of this information consisted of enquiries of company personnel and analytical procedures applied to the financial data. These procedures and enquiries did not include verification work nor constitute an audit in accordance with Australian Auditing Standards, nor did they constitute a review in accordance with AUS 902 applicable to review procedures. Accordingly, Deloitte Corporate Finance does not express any opinion on the prospective financial information referred to in this report.

Based on these procedures and enquiries, Deloitte Corporate Finance is not aware of anything to suggest that the assumptions underlying KAZ's prospective financial information are unreasonable. In relation to the prospective financial information, actual results are likely to be different from the prospective financial information of KAZ referred to in this report since anticipated events frequently do not occur as expected and the variation may be material. The achievement of the prospective financial information is dependent on the outcome of the assumptions. Accordingly, we express no opinion as to whether the prospective financial information will be achieved.

#### 4.10 FINANCIAL POSITION

The audited statements of financial position of the KAZ consolidated group as at 30 June 2002 and 30 June 2003, together with the unaudited statement of financial position as at 31 March 2004, are summarised in the table below.

**Table 9: Financial position**

	30 June 2002 Audited \$'000	30 June 2003 Audited \$'000	31 March 2004 Unaudited \$'000
<b>Current assets</b>			
Cash	57,755	48,624	41,219
Receivables	64,947	62,767	62,109
Other	6,857	3,323	11,676
<b>Total current assets</b>	<b>129,559</b>	<b>114,713</b>	<b>115,004</b>
<b>Non-current assets</b>			
Property, plant and equipment	25,813	21,950	21,138
Intangibles	263,996	266,307	255,981
Other	13,712	16,090	19,190
<b>Total non-current assets</b>	<b>303,521</b>	<b>304,347</b>	<b>296,309</b>
<b>Total assets</b>	<b>433,080</b>	<b>419,060</b>	<b>411,313</b>
<b>Current liabilities</b>			
Payables	48,241	40,451	43,149
Interest bearing liabilities	9,309	2,801	1,453
Provisions	14,904	17,206	15,128
Other	6,868	-	-
<b>Total current liabilities</b>	<b>79,322</b>	<b>60,458</b>	<b>59,730</b>
<b>Non-current liabilities</b>			
Payables	-	2,400	2,780
Interest bearing liabilities	48,191	45,419	39,891
Provisions	4,000	4,363	5,653
Other	914	5,196	5,234
<b>Total non-current liabilities</b>	<b>53,105</b>	<b>57,378</b>	<b>53,558</b>
<b>Total liabilities</b>	<b>132,427</b>	<b>117,836</b>	<b>113,288</b>
<b>Net assets</b>	<b>300,653</b>	<b>301,224</b>	<b>298,025</b>

*Source: Audited financial statements for the financial years ended 30 June 2002 and 30 June 2003 and unaudited management accounts as at 31 March 2004*

The statement of financial position has remained relatively stable since 30 June 2002, with net assets declining \$2.6 million or less than 1%. Significant movements in KAZ's total assets and total liabilities over the period include a \$16.5 million decline in cash, with a similar decline in interest bearing liabilities.

## 5 Valuation methodology

### 5.1 VALUATION METHODOLOGIES

To estimate the fair market value of the shares in KAZ we have considered common market practice and the valuation methodologies recommended by ASIC Practice Note 43 regarding valuation reports of independent experts. These are discussed below.

#### 5.1.1 MARKET BASED METHODS

Market based methods estimate a company's fair market value by considering the market price of transactions in its shares or the market value of comparable companies. Market based methods include:

- capitalisation of maintainable earnings
- analysis of a company's recent share trading history
- industry specific methods

The capitalisation of maintainable earnings method estimates fair market value based on the company's future maintainable earnings and an appropriate earnings multiple. An appropriate earnings multiple is derived from market transactions involving comparable companies. The capitalisation of maintainable earnings method is appropriate where the company's earnings are relatively stable.

The most recent share trading history provides evidence of the fair market value of the shares in a company where they are publicly traded in an informed and liquid market.

Industry specific methods estimate market value using rules of thumb for a particular industry. Generally rules of thumb provide less persuasive evidence of the market value of a company than other valuation methods because they may not account for company specific factors.

#### 5.1.2 DISCOUNTED CASH FLOW METHOD

The discounted cash flow method estimates market value by discounting a company's future cash flows to their net present value. This method is appropriate where a projection of future cash flows can be made with a reasonable degree of confidence. The discounted cash flow method is commonly used to value early stage companies or projects with a finite life.

#### 5.1.3 ASSET BASED METHODS

Asset based methods estimate the market value of a company's shares based on the realisable value of its identifiable net assets. Asset based methods include:

- orderly realisation of assets method
- liquidation of assets method
- net assets on a going concern basis

The orderly realisation of assets method estimates fair market value by determining the amount that would be distributed to shareholders, after payment of all liabilities including realisation costs and taxation charges that arise, assuming the company is wound up in an orderly manner.

The liquidation method is similar to the orderly realisation of assets method except the liquidation method assumes the assets are sold in a shorter time frame. Since wind up or liquidation of the company may not be contemplated, these methods in their strictest form may not necessarily be appropriate. The net assets on a going concern basis method estimates the market values of the net assets of a company but does not take account of realisation costs.

These asset based methods ignore the possibility that the company's value could exceed the realisable value of its assets as they ignore the value of intangible assets such as customer lists, management, supply arrangements and goodwill. Asset based methods are appropriate when companies are not profitable, a significant proportion of a company's assets are liquid, or for asset holding companies.

## 5.2 SELECTION OF VALUATION METHODOLOGIES

We are of the opinion that the most appropriate methodology to value KAZ is the capitalisation of maintainable earnings method due to the following factors:

- KAZ has shown a reasonably consistent pattern of historical earnings (after normalisation) which is expected to continue in future
- there is an adequate number of publicly listed companies with operations sufficiently similar to those of KAZ to provide meaningful analysis
- KAZ does not have a finite lifespan nor is it required to undertake an abnormal level of capital expenditure in the foreseeable future
- there are no reliable long-term cash flow forecasts thus the discounted cash flow method is not appropriate
- there is no intention to liquidate the company so the orderly realisation of assets method is not appropriate

In addition, we have also performed an analysis of the company's recent share trading history to provide additional evidence of the fair market value of shares in KAZ.

## 6 Valuation of a KAZ share

### 6.1 VALUATION OF KAZ

Deloitte Corporate Finance has estimated the fair market value of a KAZ share to be in the range of \$0.37 to \$0.43 on a control basis.

For the purpose of our opinion, fair market value is defined as the amount at which the shares would change hands between a knowledgeable willing buyer and a knowledgeable willing seller, neither being under a compulsion to buy or sell. We have not considered special value in this assessment.

In determining this amount, we estimated the fair market value of KAZ using the following methods:

- the capitalisation of future maintainable earnings method
- analysis of recent share trading

These are discussed in Sections 6.2 and 6.3 respectively.

### 6.2 CAPITALISATION OF FUTURE MAINTAINABLE EARNINGS

The capitalisation of future maintainable earnings method estimates fair market value by capitalising future earnings using an appropriate multiple, adding any surplus or non-operating assets, deducting net debt and applying a premium for control. To value KAZ using the capitalisation of future maintainable earnings method requires the determination of the following:

- an estimate of future maintainable earnings
- an appropriate earnings multiple
- the value of any surplus assets
- the level of net debt outstanding

- an appropriate premium for control

Our considerations on each of these are discussed separately below.

### **6.2.1 FUTURE MAINTAINABLE EARNINGS**

Future maintainable earnings represent the level of maintainable earnings that the existing operations could reasonably be expected to generate. We have selected EBITDA as an appropriate measure of earnings for KAZ because earnings multiples based on EBITDA are less sensitive to different financing structures, depreciation and amortisation accounting policies and effective tax rates than multiples based on EBIT or NPAT. In particular, KAZ has significant levels of goodwill amortisation which make EBITDA a more appropriate valuation measure than EBIT or NPAT. Therefore EBITDA allows a better comparison with earnings multiples of other companies.

We have estimated future maintainable EBITDA to be \$49.0 million. In determining future maintainable earnings we have had particular regard to management's earnings guidance range for the 2004 year, their publicly announced statement that 2005 financial year earnings should exhibit growth in excess of 10% and the following factors:

- normalised historical earnings for the 30 June 2002 and 2003 financial years
- actual and budgeted results for the 2004 year to date
- the extent and nature of normalisation adjustments in all periods

The estimated future maintainable EBITDA does not take into account any uplift in earnings that the company may be able to achieve through the development of new products and services. While the company is currently in the process of developing new software applications, it is anticipated by KAZ management that they will not have a material impact on earnings for several years and there is still a risk that the products will not succeed. In addition, significant future research and development expenditure is required prior to the completion of these software applications.

### **6.2.2 EARNINGS MULTIPLE**

We have determined an earnings multiple in the range of 5.0 to 5.5 times EBITDA on a minority interest basis.

In selecting this earnings multiple we have considered:

- earnings multiples derived from share market prices of comparable listed companies
- prices achieved in mergers and acquisitions of comparable companies
- company specific factors relevant to KAZ

These are discussed separately below.

#### **Share market trading multiples**

The share market valuation of listed companies provides evidence of an appropriate earnings multiple for KAZ. The share price of a listed company represents the market value of a minority interest in that company. We have compiled share market trading multiples for companies comparable to KAZ. These companies, together with their earnings multiples, are summarised in the following table.

**Table 10: Earnings multiples – share market trading**

Company	Enterprise value \$m	Historical EBITDA \$m/yr 2003	Forecast EBITDA \$m/yr 2004	Forecast EBITDA \$m/yr 2005
HPAL Ltd	178.1	6.3	5.8	5.6
Oakton Ltd	92.8	10.4	7.8	7.0
SMS Management and Tech Ltd	50.9	N/a	9.5	6.0
Volante Group Limited	148.4	Nmf	Nmf	4.4
Data#3 Limited	17.1	2.6	2.8	2.6
Optima ICM Limited	17.5	3.0	N/a	N/a
<b>Simple average</b>		<b>5.6</b>	<b>6.5</b>	<b>5.1</b>

Source: Bloomberg

Notes: N/a – not applicable due to the company making historical losses or forecasts not being available

Nmf – not meaningful as the company underwent significant restructuring during the 2004 financial year, acquiring ipe x ITG Fly Limited. Accordingly, while enterprise value is calculated after this restructuring, 2003 earnings represent only those applicable to the Volante Group Limited prior to the restructure. 2004 results are a combination of both pre and post restructuring earnings and are therefore not meaningful

Further details of the above companies are provided at Appendix 2.

General comments regarding the multiples and operations of the above companies are listed below:

- enterprise values were calculated by summing the total of the net borrowings at each company's most recent reporting date and the market capitalisation at 4 May 2004. Earnings were taken from the last annual report
- many of the above companies are considerably smaller than KAZ. In general, smaller companies have lower earnings multiples than larger companies
- the above companies do not perform all of the activities undertaken by KAZ. Accordingly, KAZ may face a number of different opportunities and risks compared to the other companies, specifically with regards to the development of new software applications such as Atune
- KAZ is the market leader in some of the activities undertaken in the industry
- significant market rationalisation has been occurring in the industry in recent years
- Data#3 Limited and Optima ICM Limited are thinly traded stocks, resulting in greater volatility of share price and market capitalisation of these companies

### Merger and acquisition multiples

The price achieved in mergers or acquisitions of comparable companies may provide relevant evidence of an appropriate earnings multiple for KAZ. The acquisition price of a company represents the market value of a controlling interest in that company. The difference between the market value of a controlling interest and a minority interest is referred to as the premium for control.

We compiled a list of merger and acquisition transactions for companies comparable to KAZ as set out in Section 3. Details of these transactions are outlined in Appendix 3. Due to a lack of publicly available information, we have not been able to make any meaningful conclusions on appropriate earnings multiples from these transactions.

However, we were able to obtain relevant information on KAZ's acquisition of Australian Administration Services, Australia's largest provider of administrative services to the superannuation funds industry. The implied multiple arising on the transaction was approximately 5.0 times historical EBITDA on a control basis.

## Selected multiple

In selecting an appropriate multiple to apply to KAZ's future maintainable EBITDA we have considered the following:

- in general, larger companies have higher earnings multiples than smaller companies. KAZ is larger than all of the other comparable companies
- the implied multiple on the acquisition of AAS by KAZ in 2001
- the multiples for the forecast 2005 year are the most comparable with our selected future maintainable earnings
- KAZ is relatively comparable to the entire set of comparable companies, with more similarities to HPAL Ltd, Oakton Ltd and Volante Group Ltd. KAZ is least comparable to Optima ICM Limited
- KAZ's normalised EBITDA has been relatively flat from 2001 to 2004 reflecting the difficulty in achieving growth in profits in the current market
- risks associated with achieving forecast earnings, requiring substantial revenue and EBITDA growth
- the cyclical nature of the IT industry
- risks associated with the renewal of existing contracts
- the potential upsides represented by the development of new software applications such as Atune
- the investment in Atune potentially not providing the envisaged returns or incurring higher than expected costs

As a result of these factors, we have selected a multiple of 5.0 to 5.5 times EBITDA on a minority interest basis to apply to KAZ.

### 6.2.3 SURPLUS ASSETS

KAZ has several joint venture operations that do not contribute to its maintainable earnings. For this reason they have been treated as surplus assets and have been considered separately.

The joint venture operations are at a very early stage of development. Based on discussions with management and a review of financial information, the long-term earnings of these enterprises are uncertain and unlikely to materially affect the maintainable earnings of the business. Accordingly, the joint venture businesses have been valued based on their net tangible assets ("NTA") as at 31 March 2004. With the exception of Thai Administration Services, the assets held by the joint venture operations are predominately cash, while liabilities are primarily intercompany loans. The NTA of Thai Administration Services comprises a mix of current and non-current assets and liabilities with various degrees of liquidity.

The KAZ group has carried forward tax losses. Taking account of the quantum, timing of the future cash flow benefit associated with these losses and the risks that the tax losses may not be utilised, these are not considered material to the valuation of KAZ.

Furthermore, KAZ has certain loans receivable under the 'Executive Share Acquisition Plan'. The recoverable amount of these receivables has been considered a surplus asset.

Surplus asset values are summarised in the table below.

**Table 11: Surplus assets**

Joint venture operation	\$'000
Red 2 Black Group (50%)	9
Money Solutions (50%)	-
Enhanced Processing Technologies Pty Ltd (60%)	314
Enhanced Processing Technologies Inc. (60%)	479
Thai Administration Services (19%)	285
Executive Share Acquisition Plan receivables	3,060
<b>Surplus assets</b>	<b>4,147</b>

Source: KAZ management

#### 6.2.4 NET DEBT

KAZ's net debt at 31 March 2004, based on unaudited management accounts, was as set out below. We have adjusted this net debt position by the amount of the interim dividend, being the only material change in net debt expected by management between 31 March 2004 and settlement of the Proposed Schemes.

**Table 12: Net debt**

	\$'000
Cash	41,219
Less: interim dividend	(1,720)
<b>Adjusted cash</b>	<b>39,499</b>
Current interest bearing liabilities	(1,453)
Non-current interest bearing liabilities	(39,891)
<b>Net debt</b>	<b>(1,845)</b>

Source: KAZ management and unaudited accounts

#### 6.2.5 PREMIUM FOR CONTROL

Earnings multiples derived from share market trading do not reflect the market value for control of a company as they are for portfolio holdings. Australian studies indicate the premiums required to obtain control of companies range between 25% and 40% of the portfolio holding values. The following factors have been taken into consideration in determining an appropriate premium for control for KAZ:

- the industry is subject to significant competition, particularly from larger international players with local representation such as IBM Australia Ltd and CSC Australia Pty Ltd
- the current scheme of arrangement between MYOB Ltd and Solution 6 Limited indicates a premium for control of 21% to the closing market price of Solution 6 Limited one day prior to the merger announcement and 37% to the three month volume weighted average price prior to the merger announcement. Although this transaction relates to the IT industry, these two companies are primarily software developers and provide few outsourcing services. Due to this difference in operations, this transaction is a less relevant indicator of a control premium for KAZ
- the current consolidation that is occurring within the IT sector combined with the recovery in the share market price of KAZ over the past year may limit the premium to be paid over these already higher share market prices

Based on these considerations, we believe that a premium for control in the range of 25% to 30% is appropriate for KAZ.

### 6.2.6 VALUATION: CAPITALISATION OF FUTURE MAINTAINABLE EARNINGS

The value of KAZ derived from the capitalisation of future maintainable earnings method is summarised below.

**Table 13: Summary – capitalisation of future maintainable earnings method**

	Section		Low value	High value
Maintainable earnings	6.2.1	\$'000	49,000	49,000
Earnings multiple	6.2.2	times	5.0	5.5
<b>Enterprise value</b>		<b>\$'000</b>	<b>245,000</b>	<b>269,500</b>
Surplus assets	6.2.3	\$'000	4,147	4,147
Net debt	6.2.4	\$'000	(1,845)	(1,845)
<b>Equity value (on a minority basis)</b>		<b>\$'000</b>	<b>247,302</b>	<b>271,802</b>
Premium for control (25% to 30%)	6.2.5	\$'000	61,826	81,541
<b>Equity value (on a control basis)</b>		<b>\$'000</b>	<b>309,128</b>	<b>353,343</b>

### 6.2.7 COMPARISON OF IMPLIED 2004 MULTIPLE TO COMPARABLE COMPANIES

In assessing the reasonableness of the above valuation, we have compared the implied 2004 EBITDA multiple for KAZ on a minority interest basis to the forecast 2004 EBITDA multiples for the comparable companies. The implied multiple is calculated as follows:

**Table 14: Implied 2004 multiple**

	Low value \$'000s	High value £'000s
Enterprise value on minority basis	245,000	269,500
Mid-point of earnings guidance range for 2004 normalised EBITDA	44,000	44,000
<b>Implied EBITDA multiple</b>	<b>5.6</b>	<b>6.1</b>

The implied 2004 EBITDA multiple equates to 5.6 to 6.1 times EBITDA. As indicated in Table 10, forecast EBITDA multiples for the comparable companies for the 2004 year range from 2.8 to 9.5 times EBITDA with a simple average of 6.5. The implied multiple for KAZ is consistent with those multiples.

## 6.3 ANALYSIS OF RECENT SHARE TRADING

The share market can be expected to provide an objective assessment of the fair market value of a listed entity, where the market is well informed and the shares trade in a liquid market. Market prices incorporate the influence of all publicly known information relevant to the value of an entity's securities. We believe that the share price is an appropriate measure of the fair market value of KAZ's shares for the following reasons:

- KAZ's half year financial report for the six months ended 31 December 2003 was released to the market on 24 February 2004, providing a recent update regarding KAZ's financial performance
- KAZ is followed by a number of equities analysts who regularly publish brokers reports on KAZ

Accordingly we believe that it is reasonable to assume that the share price represents an objective assessment of the value of KAZ's shares.

Set out in the table below is a comparison of recent KAZ share market trading data to the consideration of \$0.40 per share being offered pursuant to the Share Scheme.

**Table 15: KAZ ordinary share price**

	Share price High (\$)	Share price Low (\$)	Volume weighted average price (\$)	Implied premium %	Average daily volume
As at 2 April 2004	0.370	0.355	0.361	10.9%	4,114,528
1 month to 2 April 2004	0.370	0.320	0.344	16.3%	3,139,024
3 months to 2 April 2004	0.370	0.255	0.315	26.9%	3,206,256

Source: Bloomberg

Note: 2 April 2004 is the most recent trading date prior to the announcement of the Proposed Schemes

Over the past 12 months 126% of KAZ's issued capital has turned over at an average price of \$0.247 per share. Approximately 80% of this turnover has been at or below \$0.30 per share. Trading volumes have fluctuated significantly over this period, reaching a high of 29.0 million and a low of 0.3 million shares per day.

Based on the above share price trading history, the offer of \$0.40 per share under the Share Scheme represents a significant premium to historical prices. After allowing for a premium for control, recent share price trading is consistent with the valuation range derived under the capitalisation of future maintainable earnings approach.

#### 6.4 NUMBER OF SHARES OUTSTANDING

We have not specifically adjusted the number of shares outstanding of 828,039,925 million to take account of the dilutive effect of options because the dilutive impact is less than 1% of the value of KAZ and is not considered material to our analysis.

#### 6.5 VALUATION CONCLUSION

The valuation of KAZ derived from the capitalisation of maintainable earnings method is summarised in the following table.

**Table 16: Valuation of KAZ**

	Section		Low value	High value
Capitalisation of earnings	6.2.6	\$'000s	309,128	353,343
Number of shares	6.4	'000s	828,040	828,040
<b>Deloitte Corporate Finance assessed market value per share</b>		\$	<b>0.37</b>	<b>0.43</b>

## 7 Valuation of KAZ options

### 7.1 OVERVIEW

KAZ has a series of unlisted share options on issue. Each option entitles the holder to purchase KAZ shares at the effective option exercise price.

As at 30 April 2004, KAZ had options on issue in respect of 7,738,236 shares. The details are set out below.

**Table 17: Details of employee share options on issue**

Expiry date	Effective exercise price \$	Number outstanding
18 April 2005	0.166	1,175,010
18 April 2006	0.166	1,625,628
18 April 2005	0.166	430,596
18 April 2006	0.166	517,002
03 September 2004	0.570	45,000
02 September 2005	0.570	30,000
03 September 2004	0.790	840,000
09 March 2006	0.166	1,800,000
01 October 2004	0.166	277,500
01 April 2005	0.166	277,500
03 September 2004	0.166	240,000
16 August 2005	0.770	240,000
16 August 2005	0.167	240,000
<b>Total</b>		<b>7,738,236</b>

Source: KAZ management

### 7.2 VALUATION METHODOLOGY AND ASSUMPTIONS

We have utilised the Black-Scholes option pricing model to estimate the market value of the options. In preparing our valuation we have assumed that the conversion date will not occur prior to the expiry date of the option.

### 7.3 VALUATION INPUTS

The following inputs were used to value the various options issued by KAZ:

**Table 18: Valuation inputs**

Input	Parameter used	Rationale
Spot price	\$0.40	Offer price incorporated in the Share Scheme
Effective exercise price	From \$0.166 to \$0.790 per option	As set out in the KAZ Employee Share Option Plan
Share price volatility	55.10%	100 week annualised volatility of KAZ share price against the Australian All Ordinaries Index
Risk free interest rate	5.33% to 5.44%	Government bond rate for the equivalent term of the options
Dividend yield	2.45%	Historical dividend yield
Liquidity discount	20% to 30%	Refer to commentary in Section 7.3.2 below

Source: Bloomberg

Our considerations regarding the more significant inputs are set out below.

### 7.3.1 VOLATILITY

Taking into account the historical volatility of KAZ's listed shares and the Australian All Ordinaries Index, we have estimated the volatility of the underlying KAZ share price to be 55.10% per annum.

### 7.3.2 DISCOUNT FOR LACK OF MARKETABILITY

The Black-Scholes option valuation model assumes that there is a liquid market for the options. We have applied a discount for lack of marketability to the value of the options to reflect that the options are unlisted and are not assignable or transferable.

In practice, and from a review of restricted stock studies, discounts for lack of marketability range between 10% and 40%. A discount for lack of marketability of 20% to 30% was selected to discount the value of each option.

## 7.4 VALUATION OF THE SHARE OPTIONS

Based on the above assumptions and methodology, the value of each class of option is outlined in the table below.

**Table 19: Valuation of share options**

Expiry Date	Exercise Price \$	Number of options \$	Estimated Fair Market Value per option		Value of the Option Consideration \$	Implied Premium	
			Low \$	High \$		Low %	High %
18 Apr 2005	0.166	1,175,010	0.165	0.188	0.255	54.7%	35.3%
18 Apr 2006	0.166	1,625,628	0.169	0.193	0.265	56.7%	37.1%
18 Apr 2005	0.166	430,596	0.165	0.188	0.255	54.7%	35.3%
18 Apr 2006	0.166	517,002	0.169	0.193	0.265	56.7%	37.1%
03 Sep 2004	0.570	45,000	0.007	0.009	0.025	237.5%	195.3%
02 Sep 2005	0.570	30,000	0.039	0.045	0.085	117.4%	90.3%
03 Sep 2004	0.790	840,000	0.001	0.001	0.010	1,186.4%	1,025.6%
09 Mar 2006	0.166	1,800,000	0.169	0.193	0.265	57.1%	37.5%
01 Oct 2004	0.166	277,500	0.164	0.187	0.245	49.7%	31.0%
01 Apr 2005	0.166	277,500	0.165	0.188	0.250	51.8%	32.8%
03 Sep 2004	0.166	240,000	0.164	0.187	0.245	49.7%	31.0%
16 Aug 2005	0.770	240,000	0.019	0.022	0.050	162.9%	130.0%
16 Aug 2005	0.167	240,000	0.166	0.189	0.255	54.0%	34.8%
		<b>7,738,236</b>					

Source: KAZ management and Deloitte Corporate Finance calculations

As detailed in the table above, the option consideration offered by Telstra is at a significant premium to the values derived by us for each series of options. Our evaluation of the Option Scheme is set out in Section 8 of this report.

## 8 Evaluation and conclusion

### 8.1 BACKGROUND

In order to assess whether the Proposed Schemes are in the best interest of Shareholders and Optionholders as a whole, we have had regard to the fairness and reasonableness of the Proposed Schemes, namely:

- assessed whether the Share Scheme is fair by estimating the fair market value of an ordinary KAZ share and comparing that value to the estimated fair market value of the consideration to be received by Shareholders pursuant to the Share Scheme
- assessed whether the Option Scheme is fair by estimating the fair market value of a KAZ option and comparing that value to the estimated fair market value of the consideration to be received by Optionholders pursuant to the Option Scheme
- assessed the reasonableness of the Proposed Schemes by considering other advantages and disadvantages of the Proposed Schemes to Shareholders and Optionholders

### 8.2 OPINION

In our opinion, in the absence of a higher offer:

- the Share Scheme is fair and reasonable and it is therefore in the best interest of the Shareholders as a whole
- the Option Scheme is fair and reasonable and it is therefore in the best interest of the Optionholders as a whole

We have based this opinion on the analysis contained in our report which is summarised below.

### 8.3 ASSESSMENT OF THE SHARE SCHEME

In order to assess whether the Share Scheme is in the best interest of KAZ Shareholders as a whole, we have had regard to the fairness and reasonableness of the Share Scheme. We have based our opinion on the following:

#### 8.3.1 FAIRNESS

We have estimated the fair market value of a KAZ share to be in the range of \$0.37 to \$0.43. A comparison of the Share Scheme consideration of \$0.40 with the value of \$0.37 to \$0.43 indicates that the Share Scheme is fair.

The opinion was based on the following:

- the consideration represents a significant premium over and above the recent share market price of KAZ shares prior to the announcement of the transaction
- the consideration is within our estimated fair market value range of a KAZ share on a control basis

Set out in the table below is a comparison of recent KAZ share market trading data and the consideration being offered pursuant to the Share Scheme.

**Table 20: Share Scheme – premium to recent share trading**

	\$	implied premium
Consideration	0.400	
Share trading: (minority interest)		
Closing price 2 April 2004 <sup>1</sup>	0.361	10.9%
1 month prior to announcement <sup>2</sup>	0.344	16.3%
2 months prior to announcement <sup>2</sup>	0.323	23.8%
3 months prior to announcement <sup>2</sup>	0.315	26.9%

Notes: 1. Most recent trading day prior to announcement

2. Based on the volume weighted average price

### 8.3.2 REASONABLENESS

We have formed our opinion on the reasonableness of the Share Scheme based on an analysis of the likely advantages and disadvantages to Shareholders of accepting the Share Scheme.

#### Advantages of the Share Scheme

- Shareholders are able to dispose of their KAZ shares for cash consideration which significantly exceeds the recent trading range on the ASX for KAZ shares. The opportunity to realise this value may not be otherwise available for some time in the absence of the Share Scheme offer or an alternative offer
- the KAZ share price has risen significantly since the announcement of the Proposed Schemes. Should the Share Scheme not be approved there is a risk that the KAZ share price will fall below the offer price
- the major Shareholders (representing more than 41% of KAZ shares on issue) have already indicated their intention to vote in favour of the Share Scheme which implies they are a seller of KAZ shares at that price. Accordingly, if the Share Scheme does not proceed, it is possible that the market may perceive an overhang in KAZ shares which will act to depress its share price
- stock market prices for companies in the information technology (“IT”) sector, both globally and in Australia, are highly volatile, with market sentiment being generally negative towards the sector since the collapse in share prices following the bursting of the “internet bubble” in 2001. Whilst there has been a significant improvement in market sentiment towards the IT sector over the past 12 months it is likely that volatility of shares within the sector will continue to be relatively high. If the Share Scheme does not proceed, KAZ Shareholders would be impacted by any further volatility in shares prices of companies in the IT sector
- in the public announcement of the deal on 7 April 2004, Telstra identified expected net synergies of \$17 million EBITDA in FY2007. Whilst these synergy benefits will not flow to KAZ Shareholders and Optionholders, if the Proposed Schemes are approved, they indicate that KAZ has special value to Telstra which may not be available to other purchasers. Accordingly, the offer made by Telstra may incorporate an element of special value

### **Disadvantages of the Share Scheme**

- KAZ Shareholders will no longer collectively control KAZ or hold a direct interest in the company and accordingly will not participate in the future growth of KAZ to the extent that it may generate a future value above the Share Scheme offer price. In particular, there are potential upsides associated with the development of new software applications such as Atune as well as the potential to win major new contracts which might enhance the value of a KAZ share over time. However, we have reflected our view on the opportunities and risks associated with these opportunities at the current time in our assessment of the market value of a KAZ share
- electing to accept the offer pursuant to the Share Scheme may crystallise tax liabilities for individual Shareholders. The tax implications of the Proposed Schemes to KAZ Shareholders are outlined in the Information Memorandum. KAZ Shareholders should consult their tax adviser regarding their personal circumstances
- the offer may not represent an attractive price for Shareholders who believe that adverse factors impacting current market value may be short term in nature and that KAZ has a higher intrinsic value in the longer term if its upside potential can be captured

We consider the advantages of the Share Scheme proceeding outweigh the disadvantages. Accordingly, we have concluded that the Share Scheme is reasonable.

## **8.4 ASSESSMENT OF THE OPTION SCHEME**

The Option Scheme is conditional upon the approval of the Share Scheme and will not proceed unless the Share Scheme is approved.

We have concluded above that the Share Scheme is in the best interest of KAZ Shareholders. Most of the considerations applicable to KAZ Shareholders are also applicable to Optionholders.

In order to assess whether the Option Scheme is in the best interest of KAZ Optionholders as a whole, we have had regard to the fairness and reasonableness of the Option Scheme. We have based our opinion on the following:

### **8.4.1 FAIRNESS**

In our opinion, the Option Scheme is, on balance, fair to the Optionholders as a whole.

This opinion was based on the following:

- the consideration represents a significant premium over the estimated market values of all the options on issue

Set out in the table below is a comparison of our assessment of the fair market values of the KAZ options with the consideration offered by Telstra.

**Table 21: Valuation of share options**

Expiry Date	Exercise Price \$	Number of options \$	Estimated Fair Market Value per option		Value of the Option Consideration \$	Implied Premium	
			Low \$	High \$		Low %	High %
18 Apr 2005	0.166	1,175,010	0.165	0.188	0.255	54.7%	35.3%
18 Apr 2006	0.166	1,625,628	0.169	0.193	0.265	56.7%	37.1%
18 Apr 2005	0.166	430,596	0.165	0.188	0.255	54.7%	35.3%
18 Apr 2006	0.166	517,002	0.169	0.193	0.265	56.7%	37.1%
03 Sep 2004	0.570	45,000	0.007	0.009	0.025	237.5%	195.3%
02 Sep 2005	0.570	30,000	0.039	0.045	0.085	117.4%	90.3%
03 Sep 2004	0.790	840,000	0.001	0.001	0.010	1,186.4%	1,025.6%
09 Mar 2006	0.166	1,800,000	0.169	0.193	0.265	57.1%	37.5%
01 Oct 2004	0.166	277,500	0.164	0.187	0.245	49.7%	31.0%
01 Apr 2005	0.166	277,500	0.165	0.188	0.250	51.8%	32.8%
03 Sep 2004	0.166	240,000	0.164	0.187	0.245	49.7%	31.0%
16 Aug 2005	0.770	240,000	0.019	0.022	0.050	162.9%	130.0%
16 Aug 2005	0.167	240,000	0.166	0.189	0.255	54.0%	34.8%
		<b>7,738,236</b>					

Source: KAZ management and Deloitte Corporate Finance calculations

### 8.4.2 REASONABLENESS

We have formed our opinion on the reasonableness of the Option Scheme based on an analysis of the likely advantages and disadvantages to Optionholders of accepting the Option Scheme.

#### Advantages of the Option Scheme

- Optionholders will be able to dispose of their options. As the options are neither listed on a stock exchange nor assignable/tradeable, holders of options have limited opportunities to dispose of their options. Acceptance of the Option Scheme allows Optionholders to dispose of their options for cash consideration
- Optionholders will not need to pay the exercise price prior to being able to realise value for their options
- the Option Scheme provides certainty of value to be realised by the Optionholders and a premium above the assessed value per option

#### Disadvantages of the Option Scheme

- Optionholders will no longer have the opportunity to participate in any potential increase in KAZ's share price over and above the implied premium for each series of options
- the Option Scheme may crystallise income tax liabilities for individual Optionholders

In our opinion the Option Scheme is reasonable.

## 8.5 OTHER CONSIDERATIONS

- The Proposed Schemes were announced on 7 April 2004. The directors of KAZ have confirmed that there have not been any alternative offers since this date and that they are not aware of any alternative offers that may be forthcoming
- If a superior alternative offer emerges prior to the meeting to approve the Proposed Schemes, KAZ Shareholders and Optionholders will be able to vote against the Proposed Schemes
- An individual Shareholder or Optionholder's decision in relation to the Proposed Schemes may be influenced by his or her particular circumstances. We have considered the Proposed Schemes for Shareholders and Optionholders as a whole. We have not considered the effect of the Proposed Schemes on the particular circumstances of individual Shareholders and Optionholders nor have we considered their individual objectives, financial situation or needs. Due to their particular circumstances, individual Shareholders and Optionholders may place different emphasis on various aspects of the Proposed Schemes from the one adopted in this report. Accordingly, individuals may reach different conclusions as to whether the Proposed Schemes are in their best interest. If in doubt Shareholders or Optionholders should consult an independent adviser

## Appendix 1: Glossary

REFERENCE	DEFINITION
AAG	AAG Technology Services
AAS	Australian Administration Services
ASIC	Australian Securities and Investments Commission
Aspect	Aspect Computing Pty Ltd
ASX	Australian Stock Exchange Limited
AUS	Australian Auditing Standards
BPO	Business Process Outsourcing
BT	beTRUSTED Holdings Limited
Data#3	Data#3 Limited
Deloitte Corporate Finance	Deloitte Corporate Finance Pty Limited
DesignPlus	DesignPlus Pty Ltd
Directors	Directors of KAZ Group Limited
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
ERP	Enterprise Resource Planning
FishTech	FishTech & Partners Pty Ltd
FY	Financial year
HPAL	HPAL Limited
IBIS	IBIS World Pty Ltd
Information Memorandum	The document containing the Explanatory Statement, Schemes of Arrangement, notices of meeting and the information to be sent to KAZ Shareholders and Optionholders in connection with the Proposed Schemes

## REFERENCE

IT  
 KAZ  
 KBS  
 KSS  
 KTS  
 MIA  
 NPAT  
 NTA  
 Oakton  
 Optima  
 Reference  
 Option  
 Optionholders  
 Option Scheme  
  
 Proposed Schemes  
 Rothschild  
 SCS  
 Section 411  
 Section 640  
 Securenet  
 Share  
 Shareholders  
 Share Scheme  
  
 SMS  
 SWOT  
 Telstra  
 Volante  
 Y2K

## DEFINITION

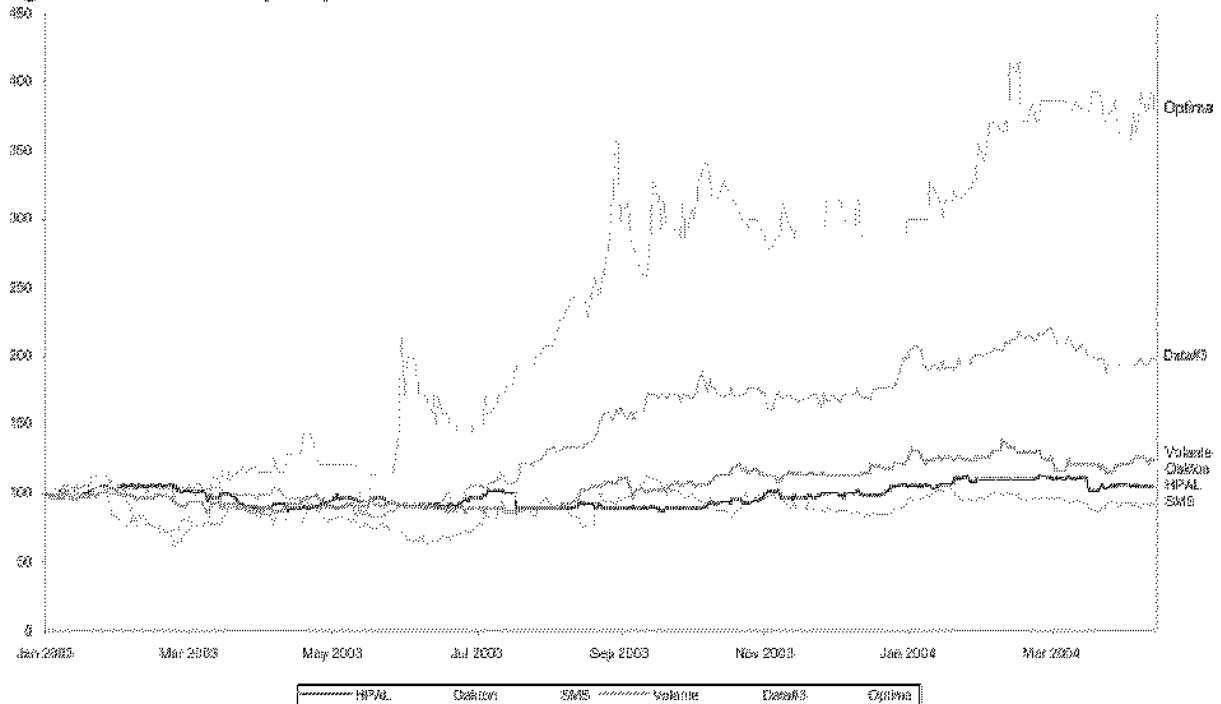
information technology  
 KAZ Group Limited  
 KAZ Business Services  
 KAZ Software Solutions  
 KAZ Technology Services  
 Merger Implementation Agreement  
 Net profit after tax  
 Net tangible assets  
 Oakton Limited  
 Optima ICM Limited  
 Definition  
 An option held in KAZ  
 Existing holders of KAZ options  
 The proposal to cancel all options in return for a cash payment in accordance with the provisions of Chapter 5.1 of the Corporations Act  
 The Share Scheme and the Option Scheme  
 N M Rothschild & Sons (Australia) Limited  
 Strategic Computer Solutions  
 Section 411 of the Corporations Act 2001  
 Section 640 of the Corporations Act 2001  
 Securenet Ltd  
 A share held in KAZ  
 Existing holders of KAZ shares  
 The proposed scheme of arrangement under which Telstra will acquire all of the issued shares of KAZ at a price of \$0.40 per share  
 SMS Management & Technology Limited  
 Strengths, weaknesses, opportunities and threats  
 Telstra Corporation Limited  
 Volante Group Limited  
 The year 2000

## Appendix 2: Comparable entities

Following our preliminary selection of comparable companies, we have identified six publicly listed companies that operate in the Australian computer services industry that are comparable with KAZ. The following comments relate to the operations, historical growth and activities of the selected companies.

The graph below illustrates the comparative share market trading for the period since 1 January 2003 for the selected set of comparable companies.

Figure 7: Relative share price performance



Source: Bloomberg

In the table below we have compiled a summary of some key financial data which facilitates the comparison between KAZ and the set of comparable companies.

Table 22: Comparable companies – selected financial indicators

Company	Revenue 2003 (\$million)	Revenue growth in 2003	Expected revenue growth in 2004 <sup>1</sup>	EBITDA margin 2003	NPAT <sup>2</sup> margin 2003
HPAL Limited ("HPAL")	160.3	10.0%	5.5%	17.8%	9.3%
Oakton Limited ("Oakton")	44.6	53%	9.4%	19.9%	13.2%
SMS Management & Technology Ltd ("SMS")	82.5	(36)%	(9.2)%	Nmf <sup>3</sup>	Nmf
Volante Group Limited ("Volante")	324.5	(11)%	Nmf	3.4%	2.0%
Data#3 Limited ("Data#3")	192.6	12%	n/a	3.4%	2.3%
Optima ICM Limited ("Optima")	132.2	300% <sup>3</sup>	n/a	4.4%	2.8%

Source: Bloomberg

Notes: N/A – not available

Nmf – not meaningful

<sup>1</sup> Based on IBES earnings estimates

<sup>2</sup> Adjusted for goodwill amortisation

<sup>3</sup> Due to impact of acquisition

### **HPAL LIMITED (“HPAL”)**

HPX provides information and image management services in Australia, predominately to the financial services, telecommunications, government, transport and utility industries. Services include consultancy in services integration, data formatting and management, document collation and distribution, transaction management, format conversion and image storage and retrieval.

Following on from the three acquisitions in 2002, 2003 saw the company acquire the Melbourne based business operation of GBM Logic Pty Ltd. Also in that year, the company generated sales of \$160 million, an increase of 10% over the prior year. Despite this, the company’s after tax profit declined from \$13.2 million to \$12.6 million, largely due to increases in employee, contract labour and outsourced services expenses.

### **OAKTON LIMITED (“OAKTON”)**

OKN is a provider of professional IT consulting services, including technology architecture services, business IT strategy, custom application development, information management and data warehousing services, application integration and management services, project and delivery management services, specialist IT recruitment services and procurement solutions.

During the 2003 year, OKN successfully completed the acquisition of three businesses, Tier Australia, mPower Systems and Aston IT group. As a result of these acquisitions, sales increased 51% to \$45 million, however, after tax profit declined from \$6.9 million to \$4.8 million.

### **SMS MANAGEMENT & TECHNOLOGY LIMITED (“SMS”)**

Primarily servicing the financial services, telecommunications, health, government, defence and utility industries, SMX is an international information technology, enterprise and management solutions provider. The company offers IT, business and management consulting, project management, internet products, IT contracting and permanent recruitment, enterprise solutions and e-commerce development and integration.

SMX generated sales revenue of \$83 million in the 2003 year, a 36% decline on 2002. This decrease in sales, in addition to a \$98 million write-off of goodwill, adversely affected the company’s after tax profit, decreasing net income from \$0.01 million to a loss of \$107 million.

### **VOLANTE GROUP LIMITED (“VOLANTE”)**

VGL provides a variety of IT services to educational organisations, government departments and companies. These services include information technology procurement services, information technology technical services, the remarketing of IT equipment, the supply of hardware and software and IT recruitment services.

VGL generated sales revenue of \$325 million in the 2003 year, a decrease of 11% on 2002. Despite this, the company’s after tax profit of \$4 million remained stable. This was achieved through cost savings and strict control over cash management. In late 2003, VGL completed its acquisition of the Melbourne based IT company Ipx ITG Pty Limited, expanding its ability to provide IT outsourcing, IT infrastructure management and IT consulting services.

## **DATA#3 LIMITED (“DATA#3”)**

DTL provides IT solutions to business and government markets in Australia. These solutions integrate equipment and software from leading suppliers with Data#3's own design, management, installation and support services including procurement, recruitment and application services.

DTL generated sales revenue of \$193 million in the 2003 year, an increase of 12% over the prior year. Despite this, DTL's after tax profit decreased from \$3.1 million to \$2.2 million. This decline can be attributed to a \$2 million loss on the assumption of a joint venture partnership's net liabilities.

## **OPTIMA ICM LIMITED (“OPTIMA”)**

OPI is a computer hardware vendor servicing the education, government, small-medium enterprises (“SME”) and retail markets. OPI also offers outsourcing and system integration solutions primarily to SME markets along with providing internet security products and services.

During the 2003 year, OPI generated sales of \$132 million, an increase of 300% on the 2002 year. The large increase in sales had a positive effect on OPI's after tax profit increasing it to \$3.1 million from a loss of \$2.1 million in the previous year. The large growth in sales has been attributed to OPI's notebook strategy, which included the commencement of an exclusive supply agreement with one of the world's leading notebook manufacturers and also an acquisition involving the business infrastructure division of Powerlan.

## **Appendix 3: Comparable transactions**

We identified a number of recent Australian merger and acquisition transactions. Due to a lack of publicly available detailed information, we were not able to use them as a benchmark in determining the appropriate valuation multiple or control premium. Below are summaries of the transactions.

### **FishTech & Partners Pty Ltd**

FishTech & Partners Pty Ltd (“FishTech”) was a developer of application software. Solution 6 Holdings Ltd acquired FishTech for 1.9 million ordinary shares, valued at \$16.91 million in May 2000. The shares were valued based on Solution 6's closing stock price of \$8.90 on 1 March 2000, the last full trading day prior to the announcement. Upon completion, FishTech held a 14% stake in Solution 6.

### **Beethoven Computer Services Pty Ltd**

Beethoven Computer Services Pty Ltd was a developer of integrated computer systems. Data#3 Ltd acquired the systems integration business of Beethoven Computer Services Pty Ltd for 313,000 new ordinary shares valued at \$832,000 in March 2000. The shares were valued based on Data#3's closing stock price of \$2.66 on 17 March 2000, the last full trading day prior to the announcement.

### **exo-net International Ltd**

exo-net International Ltd was a New Zealand company which developed accounting software. Solution 6 Holdings Ltd acquired exo-net International Ltd, for NZ\$38.671 million (A\$30 million) in August 2000. The consideration consisted of NZ\$36.971million cash and 1.242 million ordinary shares valued at NZ\$1.698 million. The shares were

valued based on Solution 6's closing stock price of NZ\$1.366 (A\$1.06) on 7 March 2001, the last full trading day prior to announcement

### **AAG Technology Services**

AAG Technology Services ("AAG") was a provider of computer consulting services. Volante acquired the entire share capital of AAG for an estimated 30 million ordinary shares valued at \$30 million in October 2000. The shares were valued based on Volante's closing share price of \$1 on 24 August 2000, the last full trading day prior to the announcement. The offer was conditional upon 90% of AAG's shares being tendered.

### **Fundi Software**

Fundi Software was an IT outsourcing and enterprise systems software development group specialising in the mainframe and midrange system markets. Fundi operated an IT data centre servicing both the West Australian and Asian markets. KAZ acquired Fundi Software for \$5.8 million in October 2000. The consideration consisted of \$2.9 million in cash, \$2.9 million in ordinary stock, and an undisclosed amount of profit-related payments. The shares were valued based on KAZ's closing stock price of \$0.93 on 23 October 2000, the last full trading day prior to the announcement.

### **Ceedata Holdings Pty Ltd**

Ceedata Holdings Pty Ltd was a developer of accounting software. Solution 6 Holdings Ltd acquired Ceedata Holdings Pty Ltd, for \$26.2 million in January 2001. The consideration consisted of \$10 million in cash, 15 million ordinary shares valued at \$16.2 million and an option to acquire 10 million ordinary shares exercisable at \$1.25. The shares were valued based on Solution 6's closing stock price of \$1.08 on 7 December 2000, the last full trading day prior to announcement.

### **Australian Administration Services**

In January 2001, Australian Administration Services, Australia's largest provider of administrative services to the superannuation funds industry, was acquired by KAZ from AMP Life Limited. The deal comprised cash consideration totalling \$77.5 million.

### **DesignPlus Pty Ltd**

DesignPlus Pty Ltd ("DesignPlus") was a Western Australian based developer of Internet software. DesignPlus' software development business focused on the development of client server and web based applications and products for the midrange system markets. KAZ acquired DesignPlus for \$225,000 in August 2001.

### **Aspect Computing Pty Ltd**

Aspect Computing Pty Ltd designed software. KAZ acquired Aspect for \$205.7 million in March 2002. The consideration consisted of \$108.8 million in cash and 102 million ordinary shares valued at \$96.9 million. The shares were valued based on KAZ's closing stock price of \$0.95 on 29 January 2002, the last full trading day prior to the announcement.

### **Strategic Computer Solutions**

Strategic Computer Solutions ("SCS") was a computer consulting services provider. Volante acquired SCS for \$0.8 mil in November 2002. The consideration consisted of \$0.6 million in cash and \$0.2 million in profit-related payments.

## **f5 Pty Ltd**

f5 Pty Ltd was an information technology solutions services provider. Data#3 acquired f5 Pty Ltd in exchange for 155,000 new ordinary shares valued at \$280,000 in November 2003. The shares were valued based on Data#3's closing stock price of \$1.82 on 5 November 2003, the last full trading day prior to the announcement.

## **Securenet Ltd**

Securenet Ltd ("Securenet") was a computer consulting services provider. beTRUSTed Holdings Inc ("BT"), a unit of BANK ONE Corp, Columbus, Ohio's One Equity Partners LLC subsidiary, through its beTRUSTed Australia Pty Ltd subsidiary, completed its tender offer to acquire the entire share capital of Securenet for \$1.57 in cash per share, or a total value of \$119.8 million on a fully-diluted basis. The offer had been conditional upon at least 50.1% of Securenet's shares being tendered. The transaction was effected on 12 September 2003.

## **Ipex Information Technology Group Pty Ltd**

Volante acquired Ipex Information Technology Group Pty Ltd, a computer consulting services provider, from Takapana Investments Pty Ltd, creating the largest Australian owned, national IT infrastructure and services group. Total consideration of \$73.0 million consisted of \$10.9 million in profit-related payments and the issuance of 50.9 million ordinary Volante shares valued at \$62 million. The shares were valued based on Volante's closing share price of \$1.22 on 19 December 2003, the last full trading day prior to the announcement.

## **Logicalis Australia**

Logicalis Australia, a computer consulting services provider, together with Logical CSI, were acquired by IBM Global Services Australia Ltd in March 2004. The combined transaction had a total value of \$88.5 million.

## **Solution 6 Holdings Limited**

MYOB Limited, a provider of accounting software to small and medium sized companies, is currently in negotiations to acquire its largest competitor, Solution 6 Holdings Limited. The deal, valued at \$435 million in cash and scrip, is set to create the nation's largest listed technology group.

## Appendix 4: Sources of information

In preparing this report we have had access to the following principal sources of information:

- various financial statements and annual reports of the Company and its subsidiaries and joint venture operations
- internal management reports of the Company and its subsidiaries and joint venture operations
- forecast and budgeted financial statements for the 2004 financial year
- publicly available information on comparable companies
- various discussions with, and documentation from, the management and officers of the company
- other publicly available information, including information published by Bloomberg, IBIS World and SDC Platinum

In addition, we have had discussions with management of KAZ, in relation to the above information and to current operations and prospects.

## Appendix 5: Qualifications, declarations and consents

The report has been prepared at the request of the directors of KAZ and is to be included in the Information Memorandum to be given to Shareholders for approval of the Proposed Schemes. Accordingly, it has been prepared only for the benefit of the directors and those persons entitled to receive the notice of the meeting in their assessment of the Proposed Schemes outlined in the report and should not be used for any other purpose. Further, recipients of this report should be aware that it has been prepared without taking account of their individual objectives, financial situation or needs. Accordingly, each recipient should consider these factors before acting on the Proposed Schemes.

The report represents solely the expression by Deloitte Corporate Finance of its opinion as to whether the Proposed Schemes are in the best interest of Shareholders and Optionholders as a whole. Deloitte Corporate Finance consents to this report being included in the Information Memorandum.

Statements and opinions contained in this report are given in good faith but, in the preparation of this report, Deloitte Corporate Finance has relied upon the information provided by the directors and executives of KAZ which Deloitte Corporate Finance believes, on reasonable grounds, to be reliable, complete and not misleading. Deloitte Corporate Finance does not imply, nor should it be construed, that it has carried out any form of audit or verification on the information and records supplied to us. Drafts of our report were issued to KAZ management for confirmation of factual accuracy.

To the extent that this report refers to prospective financial information we have considered the prospective financial information and the basis of the underlying assumptions. The prospective financial information and the underlying assumptions are the sole responsibility of KAZ. Our procedures are limited primarily to enquiries of company personnel and analytical procedures applied to the financial data. In accordance with the various professional standards and guidance pursuant to which this report has been prepared, as set out in Section 2, we do not express any opinion on the prospective financial information referred to in this report.

Actual results are likely to be different from the prospective financial information of KAZ referred to in this report since anticipated events frequently do not occur as expected and the variation may be material. The achievement of prospective financial information is dependent on the outcome of the assumptions. Accordingly, we express no opinion as to whether the prospective financial information will be achieved.

Furthermore, recognising that Deloitte Corporate Finance may rely on information provided by KAZ and its officers and/or associates, KAZ has agreed to make no claim against Deloitte Corporate Finance to recover any loss or damage which KAZ may suffer as a result of that reliance and also has agreed to indemnify Deloitte Corporate Finance against any claim arising out of the assignment to give this report, except where the claim has arisen as a result of any proven wilful misconduct by Deloitte Corporate Finance.

Deloitte Corporate Finance is the licensed corporate advisory division of Deloitte Touche Tohmatsu ("DTT") and is wholly owned by the partners of that firm. DTT is a national firm of chartered accountants and forms part of the international professional accounting organisation operating under that name. DTT in Australia and internationally provide a full range of accounting and advisory services. DTT is a Swiss Verein (association), and, as such, neither DTT nor any of its member firms has any liability for each other's acts or omissions. Each member firm is a separate and independent legal entity operating under the names "Deloitte," "Deloitte & Touche," "Deloitte Touche Tohmatsu," or other, related names. The services described herein are provided by the member firms and not by the Deloitte Touche Tohmatsu Verein.



The employees of Deloitte Corporate Finance principally involved in the preparation of this report were Mark Pittorino, B.Com, M.App.Fin, CA, Stephen Ferris, B.Ec, CA, ASIA and Andrew Robinson, B.Bus, CA. Each has many years experience in the provision of corporate financial advice, including specific advice on valuations, mergers and acquisitions, as well as the preparation of expert reports.

Neither Deloitte Corporate Finance, DTT, nor any partner or executive or employee thereof has any financial interest in the outcome of the proposed transaction which could be considered to affect our ability to render an unbiased opinion in this report. Deloitte Corporate Finance will receive a fee of approximately \$110,000 exclusive of GST in relation to the preparation of this report. This fee is based upon time spent at our normal hourly rates and is not contingent upon the success or otherwise of the Proposed Schemes.

## Financial Services Guide

March 2004

### WHAT IS A FINANCIAL SERVICES GUIDE?

This Financial Services Guide ("FSG") is an important document whose purpose is to assist you in deciding whether to use any of the financial services offered by Deloitte Corporate Finance Pty Limited (ABN 19 003 833 127). The use of "we", "us" or "our" is a reference to Deloitte Corporate Finance Pty Limited as the holder of Australian Financial Services Licence ("AFSL") No. 241457. The contents of this FSG include:

- who we are and how we can be contacted
- what services we are authorised to provide to you under our AFSL
- how we (and any other relevant parties) are remunerated
- details of any potential conflicts of interest
- details of our internal and external dispute resolution systems and how you can access them.

### INFORMATION ABOUT US

Any financial services offered will be provided by Deloitte Corporate Finance Pty Limited ABN 19 003 833 127, which is authorised under the Corporations Act 2001 to provide these services to you. We will not be acting for any other party when providing services to you. You may contact us using the details on page 1 of this FSG.

Deloitte Corporate Finance Pty Limited is ultimately owned by the Australian partnership of Deloitte Touche Tohmatsu. The Australian partnership of Deloitte Touche Tohmatsu and its related entities provide services primarily in the areas of audit, tax, consulting and financial advisory services. Our directors may be partners in the Australian partnership of Deloitte Touche Tohmatsu.

The Australian partnership of Deloitte Touche Tohmatsu is a member firm of the Deloitte Touche Tohmatsu Verein. As the Deloitte Touche Tohmatsu Verein is a Swiss Verein (association), neither it nor any of its member firms has any liability for each other's acts or omissions. Each of the member firms is a separate and independent legal entity operating under the names "Deloitte," "Deloitte & Touche," "Deloitte Touche Tohmatsu," or other related names.

Any financial services offered will be provided by Deloitte Corporate Finance Pty Limited and not by the Australian partnership of Deloitte Touche Tohmatsu, its related entities, or the Deloitte Touche Tohmatsu Verein.

We do not have any associations or relationships with any entities that are issuers of financial products. However, you should note that we and the Australian partnership of Deloitte Touche Tohmatsu (and its related bodies corporate) may from time to time provide professional services to financial product issuers in the ordinary course of business.

### WHAT FINANCIAL SERVICES ARE WE LICENSED TO PROVIDE?

The AFSL we hold authorises us to carry on a financial services business to:

- a) provide financial product advice in respect of securities; and
- b) deal in a financial product by arranging for another person to apply for, acquire, vary or dispose of financial products in respect of securities;

to retail and wholesale clients.

## **WHAT OTHER DOCUMENTS MAY YOU RECEIVE?**

We must give you a Statement of Advice (“SoA”) whenever we provide you with any advice that takes into account your objectives, financial situation and needs (otherwise known as “personal financial advice”). The purpose of the SoA is to help you understand and decide whether to rely on our advice. The contents of the SoA will include the advice, the basis on which it is given and information about fees, commissions and associations, if any, that may have influenced the provision of our advice.

In order for us to provide you with personal financial advice, you will need to give us details of your personal objectives, current financial situation and needs. You have the right not to divulge this information but you should note that in this situation the advice we provide you will be general and may not be appropriate to your personal objectives, financial situation and needs. We will provide a warning in our advice to you if it has been prepared without taking into consideration your personal objectives, financial situation and needs. You should read any warnings carefully and consider your personal circumstances before acting on our advice.

If we recommend that you acquire a particular financial product (other than securities) or become involved in the issue of a financial product, we must also provide you with a Product Disclosure Statement (“PDS”). The purpose of the PDS is to help you make an informed decision about the acquisition of a financial product. The contents of the PDS will include details such as the risks, benefits and costs of acquiring the particular financial product.

## **HOW CAN YOU ENGAGE US?**

You may specify how you would like to give us instructions. For example, you may provide us with instructions via telephone, mail, facsimile or email. Please note that we will require instructions in writing for any services that we provide for which we charge you a fee. Depending on the nature of the instructions you provide us, we may confirm your instructions in a letter of engagement containing our standard terms and conditions.

## **HOW ARE WE AND OUR EMPLOYEES REMUNERATED?**

You will be charged a fee for any services we provide to you. Our fees are usually determined on an hourly basis; however they may be a fixed amount. We may also seek reimbursement of any out-of-pocket expenses incurred in providing services to you.

Fee arrangements will be agreed with you or the person who actually engages us and we will confirm our remuneration in a written letter of engagement to you or to the person who actually engaged us.

Neither Deloitte Corporate Finance Pty Limited nor its directors and officers, nor any related bodies corporate or associates and their directors and officers, receives any commissions or other benefits, except for the fees for services referred to above.

All of our employees receive a salary. Our employees are eligible for annual salary increases based on overall performance and do not receive any commissions or other benefits arising directly from services provided to you. 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 you.

We do not pay commissions or provide other benefits to other parties for referring prospective clients to us.

## WHAT SHOULD YOU DO IF YOU HAVE A COMPLAINT?

If you are not satisfied with the services we have provided, you may wish to advise us of your concerns. Our internal complaint handling process is designed to respond to your concerns promptly and equitably. In the first instance, you should discuss your concerns with the person responsible for providing the service to you and explain the problem. If you are unable to reach a suitable resolution, please address your complaint in writing to:

The Complaints Officer  
Practice Protection Group  
PO Box N250  
Grosvenor Place  
Sydney NSW 1220

If you are not satisfied with the steps we have taken to resolve your complaint, you may contact the Financial Industry Complaints Service ("FICS"). FICS provides free advice and assistance to consumers to help them resolve complaints relating to members of the financial services industry.

Complaints may be submitted to FICS at:

Financial Industry Complaints Service  
PO Box 579  
Collins Street West  
Melbourne VIC 8007  
Telephone: 1300 780 808  
Fax: +61 3 9621 2291  
Internet: <http://www.fics.asn.au>

If your complaint relates to the professional conduct of a person who is a Chartered Accountant, you may wish to lodge a complaint in writing with the Institute of Chartered Accountants in Australia ("ICAA"). The ICAA is the professional body responsible for setting and upholding the professional, ethical and technical standards of Chartered Accountants. Contact details for lodging a complaint with the ICAA can be obtained from their website at <http://www.icaa.org.au/about/index.cfm>.

The Australian Securities and Investments Commission ("ASIC") regulates Australian companies, financial markets, financial services organisations and professionals who deal and advise in investments, superannuation, insurance, deposit taking and credit. Their website contains information on lodging complaints about companies and individual persons and sets out the types of complaints handled by ASIC. You may contact ASIC as follows:

Info line: 1 300 300 630  
Email: [infoline@asic.gov.au](mailto:infoline@asic.gov.au)  
Internet: <http://www.asic.gov.au/asic/asic.nsf>

## PRIVACY

Any personal information collected by us will be handled in accordance with our Privacy Statement which summarises our policies and practices governing the treatment of personal information that we acquire from and about you. We do not disclose any personal information about you to other parties without your permission, except as required or permitted by law. A copy of our Privacy Statement can be obtained by contacting us using the details on page 1 of this FSG.

## 7. Merger Implementation Agreement

Date	6 April 2004
Parties	
1.	KAZ Group Limited (ACN 002 124 405) of Level 10, 59 Goulburn Street, Sydney, New South Wales (KAZ); and
2.	Telstra Corporation Limited (ACN 051 775 556) of Level 41, 242 Exhibition Street, Melbourne, Victoria (Telstra).
Recitals	
A	KAZ and Telstra have agreed that Telstra will acquire all of the ordinary shares of KAZ and that all options of KAZ shall be cancelled by means of schemes of arrangement under Part 5.1 of the Corporations Act such that Telstra will hold all of the issued shares of KAZ.
B	KAZ and Telstra have agreed in good faith to implement the KAZ Schemes upon and subject to the terms and conditions of this Agreement.

**It is agreed** as follows.

### 1. DEFINITIONS AND INTERPRETATION

#### 1.1 DEFINITIONS

In this Agreement, unless the context otherwise requires, the following words and expressions have meanings as follows:

**ASIC** means the Australian Securities and Investments Commission;

**ASX** means Australian Stock Exchange Limited (ACN 008 624 691);

**Business** means the business of providing information technology and other outsourcing services carried on by the KAZ Group as at the date of this Agreement;

**Business Day** means a weekday on which trading banks are open for business in Sydney;

**Competing Transaction** means a transaction, which if completed, would mean a person (other than Telstra or a related body corporate) would:

- (a) directly or indirectly, acquire an interest, a relevant interest in or become the holder of:
  - (i) 20% or more of the KAZ Shares or 20% or more of the shares in any of KAZ's subsidiaries; or
  - (ii) the whole or a substantial part or a material part of the business or property of KAZ or any of its subsidiaries;
- (b) acquire control of KAZ, within the meaning of section 50AA of the Corporations Act; or
- (c) otherwise acquire or merge (including by a reverse takeover bid or dual listed company structure) with KAZ;

**Corporations Act** means the Corporations Act 2001 (Cth);

**Court** means a court of competent jurisdiction under the Corporations Act;

**Deed Poll** means a deed poll in the form of Annexure 3 (or in such other form as is agreed between KAZ and Telstra);



**Disclosed** means fairly disclosed by KAZ in writing to Telstra in a disclosure letter delivered to Telstra on the date of this Agreement;

**Effective** means, when used in relation to a Scheme, the coming into effect, pursuant to section 411(10) of the Corporations Act, of the order of the Court made under section 411(4)(b) in relation to the Scheme;

**End Date** means 30 September 2004, or such later date as KAZ and Telstra may agree in writing;

**Governmental Agency** means any government or governmental, semi-governmental, administrative, fiscal, regulatory or judicial body, department, commission, authority, tribunal, agency or entity;

**Implementation Date** means the Business Day immediately following the Record Date;

**Insolvency Event** means in relation to a person:

- (a) **insolvency official:** the appointment of a liquidator, provisional liquidator, administrator, 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;
- (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 corporation) or the making of an application or order for the winding up or dissolution of the corporation other than where the application or order (as the case may be) is set aside within 14 days;
- (d) **suspends payment:** the person suspends or threatens to suspend payment of its debts generally; or
- (e) **insolvency:** the person is or becomes unable to pay its debts when they fall due or is otherwise presumed to be insolvent under the insolvency laws applying to that person;

**KAZ Board** means the board of directors of KAZ;

**KAZ Costs** means those costs of KAZ in relation to the Transaction as set out in Annexure 6;

**KAZ Group** means KAZ and its related bodies corporate;

**KAZ Indemnified Parties** means KAZ, each of KAZ's related bodies corporate, the directors and employees of KAZ and the directors and employees of each of KAZ's related bodies corporate;

**KAZ Information** has the meaning given in clause 8.1;

**KAZ Material Adverse Change** means events or occurrences or matters other than:

- (a) those required to be done or procured by KAZ pursuant to this Agreement;
- (b) those Disclosed by KAZ to Telstra (provided that disclosure of the risk of an event, occurrence or matter happening shall not be a disclosure of an actual event, occurrence or matter); or
- (d) an actual event, occurrence or matter which is known to Telstra prior to the date of this Agreement (which does not include knowledge of the risk of an event, occurrence or matter happening),

which individually, or when aggregated with all such events, occurrences or matters, could reasonably be expected to:

- (e) have a material adverse effect on the assets and liabilities, financial position and performance, business, operations, financial condition (including contingent liabilities), profits and losses or prospects of KAZ or any related body corporate but excluding any effect arising from the termination or non-renewal of any customer contract; or
- (f) result between the date of this Agreement and 6.00pm on the day prior to the Second Court Date in a diminution in KAZ's net assets (excluding goodwill) of \$5,700,000 or more; or
- (g) have a material adverse effect on the ability of KAZ to perform its obligations under this Agreement; or which has had the effect referred to in paragraphs (e), (f) or (g).

**KAZ Prescribed Occurrence** means the occurrence of any of the following:

- (a) KAZ converting all or any of its shares into a larger or smaller number of shares;
- (b) KAZ or a subsidiary of KAZ resolving to reduce its share capital in any way or reclassifying, combining, splitting or redeeming or repurchasing directly or indirectly any of its shares;
- (c) KAZ or a subsidiary of KAZ:



- (i) entering into a buy-back agreement; or
  - (ii) resolving to approve the terms of a buy-back agreement under the Corporations Act;
  - (d) KAZ or a subsidiary of KAZ issuing shares, or granting an option over its shares, or agreeing to make such an issue or grant such an option (other than an issue of KAZ Shares pursuant to the exercise of a KAZ Option in accordance with its terms, which KAZ Option was granted prior to the date of this Agreement);
  - (e) KAZ or a subsidiary of KAZ issuing or agreeing to issue, securities or other instruments convertible into shares or debt securities;
  - (f) KAZ or a subsidiary of KAZ making any material change or amendment to its constitution;
  - (g) KAZ or a subsidiary of KAZ disposing or agreeing to dispose of the whole, or a substantial part of its business or property;
  - (h) KAZ or a subsidiary of KAZ creating, or agreeing to create, any mortgage, charge, lien or other encumbrance over the whole, or a substantial part, of its business or property; or
  - (i) an Insolvency Event occurring in relation to KAZ or a subsidiary of KAZ
- provided that a KAZ Prescribed Occurrence will not include a matter:

- (a) required to be done or procured by KAZ pursuant to this Agreement or the KAZ Schemes;
- (b) Disclosed by KAZ; or
- (c) the undertaking of which the Transaction Implementation Committee has approved in writing;

**KAZ Regulated Event** means the occurrence of any of the following:

- (a) KAZ or a subsidiary of KAZ declaring, paying or distributing any dividend, bonus or other share of its profits or assets, or returning or announcing an intention to return or agreeing to return any capital to its members, other than the 2003 interim dividend of \$0.0025 per KAZ Share;
  - (b) KAZ issuing a profit warning;
  - (c) KAZ or a subsidiary of KAZ disposing, or agreeing to dispose of the whole or a substantial part of its business or property;
  - (d) KAZ or a subsidiary of KAZ:
    - (i) acquiring or disposing; or
    - (ii) agreeing to acquire or dispose; or
    - (iii) offering or proposing to acquire or dispose of; or
    - (iv) announcing a bid or tendering for,any securities, business, assets, interests in a joint venture, entity or undertaking, the value of which exceeds \$1,000,000; or
  - (e) KAZ or a subsidiary of KAZ incurring or agreeing to incur capital expenditure in excess of \$1,000,000, except as Disclosed in document ACC.10.0500 in the data room as described in Appendix 2 to the disclosure letter,
- provided that a KAZ Regulated Event will not include a matter:

- (a) required to be done or procured by KAZ pursuant to this Agreement or the KAZ Schemes;
- (b) Disclosed by KAZ; or
- (c) the undertaking of which the Transaction Implementation Committee has approved in writing;

**KAZ Schemes** means the Ordinary Scheme and the Option Scheme;

**KAZ Shareholder** means each person who is registered in the register of members of KAZ as the holder of KAZ Shares;

**KAZ Shares** means fully paid ordinary shares in KAZ;

**Listing Rules** means the official listing rules of ASX;

**No-Shop Period** means the period from and including the date of this Agreement to the earlier of:

- (a) the termination of this Agreement in accordance with its terms; and
- (b) the End Date;

**Non-Disclosure Agreement** means the deed between KAZ and Telstra dated 23 February 2004 and amended by an amending agreement dated 23 March 2004;



**Option** means an option to acquire a KAZ Share, issued under an Option Plan;

**Option Holder** means each person who is registered in the register of option holders of KAZ as the holder of an Option at the Record Date;

**Option Plans** means the KAZ Group Limited Employee Share Option Plan and the KAZ Computer Services Limited Executive Share Option Plan;

**Option Scheme** means the Scheme between KAZ and the KAZ Option Holders as described in Clause 5.1;

**Ordinary Scheme** means the Scheme between KAZ and the Ordinary Scheme Participants as described in clause 4.1;

**Option Scheme Consideration** has the meaning given in clause 5.2;

**Ordinary Scheme Participant** means each person who is a KAZ Shareholder as at the Record Date;

**Prescribed Market Occurrence** means the occurrence of either of the following:

- (a) the S&P/ASX 200 Industrials index falling by 15% or more from the closing level of the index on the date of the last trading day before the date of this Agreement; or
- (b) the NASDAQ composite index falling by 25% or more from the closing level of the index on the date of the last trading day before the date of this Agreement;

**Public Announcement** means the public announcement to be made jointly by Telstra and KAZ in the form of Annexure 4;

**Record Date**, in relation to a Scheme, means 5.00 pm on the fifth Business Day following the date on which a Scheme becomes Effective, or such earlier date as the parties may agree in writing;

**Regulatory Approvals** means the approvals, clearances, decisions or determinations referred to in clause 3.1(a) to (c);

**Representatives** means any person acting for or on behalf of a party including any director, officer, employee, contractor, or professional adviser of a party;

**Scheme** means a scheme of arrangement under Part 5.1 of the Corporations Act;

**Scheme Booklets** means the information to be prepared by KAZ in respect of the Schemes, approved by the Court and despatched to Scheme Participants;

**Scheme Meetings** means each of the meetings to be convened by the Court in relation to the KAZ Schemes pursuant to Section 411(1) of the Corporations Act;

**Scheme Participants** means the Ordinary Scheme Participants and the Option Holders;

**Second Court Date** means the first day on which the application made to the Court for an order pursuant to Section 411(4)(b) of the Corporations Act approving the KAZ Schemes is heard;

**Telstra Costs** means those costs of Telstra in relation to the Transaction as set out in Annexure 5;

**Telstra Group** means Telstra and its related bodies corporate;

**Telstra Indemnified Parties** means Telstra, each of Telstra's related bodies corporate, the directors and employees of Telstra and the directors and employees of each of Telstra's related bodies corporate;

**Telstra Information** means such information regarding Telstra and its related bodies corporate provided by Telstra to KAZ in writing for inclusion in the Scheme Booklets as referred to in clause 6.2(a);

**Timetable** means the timetable for the implementation of the KAZ Schemes as agreed between the parties and set out in Annexure 7;

**Transaction** means the acquisition by Telstra of all of the KAZ Shares and all of the Options by means of the KAZ Schemes in accordance with the terms of this Agreement;

**Transaction Implementation Committee** means the committee to be established under clause 6.6;

## 1.2 INTERPRETATION

In this Agreement, headings and boldings are for convenience only and do not affect the interpretation of this Agreement and, unless the context otherwise requires:

- (a) words importing the singular include the plural and vice versa;
- (b) words importing a gender include any gender;
- (c) other parts of speech and grammatical forms of a word or phrase defined in this Agreement have a corresponding meaning;
- (d) an expression importing a natural person includes any company, partnership, joint venture, association, corporation or other body corporate and any Governmental Agency;
- (e) a reference to any thing (including, but not limited to, any right) includes a part of that thing but nothing in this clause 1.2(e) implies that performance of part of an obligation constitutes performance of the obligation;
- (f) a reference to a clause, party, annexure, exhibit or schedule is a reference to a clause of, and a party, annexure, exhibit and schedule to, this Agreement and a reference to this Agreement includes any annexure, exhibit and schedule;
- (g) a reference to a statute, regulation, proclamation, ordinance or by-law includes all statutes, regulations, proclamations, ordinances or by-laws amending, consolidating or replacing it, whether passed by the same or another Governmental Agency with legal power to do so, and a reference to a statute includes all regulations, proclamations, ordinances and by-laws issued under that statute;
- (h) a reference to a document includes all amendments or supplements to, or replacements or novations of, that document;
- (i) a reference to a party to a document includes that party's successors and permitted assigns;
- (j) no provision of this Agreement will be construed adversely to a party solely on the ground that the party was responsible for the preparation of this Agreement or that provision;
- (k) a reference to an agreement other than this Agreement includes an undertaking, deed, agreement or legally enforceable arrangement or understanding whether or not in writing;
- (l) a reference to an asset includes all property of any nature, including, but not limited to, a business, and all rights, revenues and benefits;
- (m) a reference to a document includes any agreement in writing, or any certificate, notice, instrument or other document of any kind whether stored or provided in paper or electronic form;
- (n) a reference to a body, other than a party to this Agreement (including, without limitation, an institute, association or authority), whether statutory or not:
  - (i) which ceases to exist; or
  - (ii) whose powers or functions are transferred to another body,is a reference to the body which replaces it or which substantially succeeds to its powers or functions;
- (o) (without limiting the ways in which information can be provided or disclosed) information will be deemed to have been provided or disclosed by one party to the other if the party provides the other party with a document and the relevant piece of information is fairly disclosed in the document;
- (p) a party shall not be taken to know (or have been disclosed) a thing or matter, or be reasonably expected to know (or have been disclosed) a thing or matter, unless the party also knows (or has been disclosed), or could be reasonably expected to know (or have been disclosed) (having regard to the information provided), the extent or magnitude of the effect of that thing or matter;
- (q) where a word or phrase is given a defined meaning, any other part of speech or grammatical form of that word or phrase has a corresponding meaning;
- (r) a term defined in or used for the purposes of the Corporations Act has the same meaning when used in this Agreement;
- (s) the word "includes" in any form is not a word of limitation;
- (t) a reference to "\$" or "dollar" is to Australian currency; and



- (u) a reference to any time is a reference to that time in Sydney.

## 1.3 REFERENCES TO TELSTRA

References to Telstra in this Agreement, other than references in relation to a payment obligation, shall, if reasonably requested by Telstra in writing, be taken to be references to Telstra's nominee, Telstra Services Solutions Holdings Limited (ACN 079 750 315).

## 2. AGREEMENT TO PROPOSE SCHEME

KAZ agrees to propose the KAZ Schemes (substantially in the form of Annexures 1 and 2) and the parties agree to implement the Transaction upon and subject to the terms and conditions of this Agreement. Any changes to Annexures 1 and 2 must be agreed between the parties.

## 3. CONDITIONS PRECEDENT AND PRE-IMPLEMENTATION STEPS

### 3.1 CONDITIONS PRECEDENT

Subject to this clause 3, the obligations of the parties under clauses 2, 4 and 5 are subject to the satisfaction of each of the following conditions precedent:

- (a) **ASIC and ASX:** before 6.00pm on the day prior to the Second Court Date, ASIC and ASX issue or provide such consents or approvals or do other acts which KAZ and Telstra agree are necessary or desirable to implement the Transaction;
- (b) **Governmental Agencies:** before 6.00pm on the day prior to the Second Court Date, all other approvals of a Governmental Agency which KAZ and Telstra agree are necessary to implement the Transaction are obtained;
- (c) **KAZ Prescribed Occurrences or KAZ Regulated Events:** no KAZ Prescribed Occurrence or KAZ Regulated Event having occurred between the date of this Agreement and 6.00pm on the day prior to the Second Court Date;
- (d) **KAZ Material Adverse Change:** no KAZ Material Adverse Change having occurred, being discovered, being announced, being disclosed or otherwise becoming known to Telstra between the date of this Agreement and 6.00pm on the day prior to the Second Court Date;
- (e) **KAZ Representations and Warranties:** the representations and warranties of KAZ set out in clause 7.3 of this Agreement being true and correct as of the date of this Agreement and as of 6.00pm on the day prior to the Second Court Date;
- (f) **Telstra Representations and Warranties:** the representations and warranties of Telstra set out in clause 7.1 of this Agreement being true and correct as of the date of this Agreement and as of 6.00pm on the day prior to the Second Court Date.
- (g) **Prescribed Market Occurrence:** no Prescribed Market Occurrence having occurred between the date of this Agreement and 6.00pm on the day prior to the Second Court Date;
- (h) **Restraints:** 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 being in effect at 6.00pm on the day prior to the Second Court Date;
- (i) **Shareholder approval:** before 6.00pm on the day prior to the Second Court Date, KAZ Shareholders approve the Ordinary Scheme by the requisite majorities under Section 411(4) of the Corporations Act;
- (j) **Penalties:** between the date of this Agreement and 6.00pm on the day prior to the Second Court Date, KAZ has not received any notice from a Governmental Agency that it may become liable for a penalty or breach of any law (other than a minor breach or a breach in a minor respect) and there is no circumstance in which the reputation of KAZ is, or could reasonably be expected to be, materially adversely affected.

### 3.2 WAIVER OF CONDITIONS PRECEDENT

- (a) The conditions precedent in clauses 3.1(a) and (b) are for the benefit of each party and any breach or non-fulfilment of those conditions may only be waived with the written consent of both parties.
- (b) The conditions precedent in clauses 3.1(c), (d), (e), (g), (h) and (j) are for the sole benefit of Telstra and any breach or non-fulfilment of those conditions may only be waived by Telstra giving its written consent.
- (c) The condition precedent in clause 3.1(f) is for the sole benefit of KAZ and any breach or non-fulfilment of that condition may only be waived by KAZ giving its written consent.
- (d) A party entitled to waive the breach or non-fulfilment of a condition precedent pursuant to this clause 3.2 may do so in its absolute discretion.
- (e) If a party waives the breach or non-fulfilment of a condition precedent in clause 3.1, that waiver will preclude it from suing the other party for any breach of this Agreement that resulted from the breach or non-fulfilment of the condition precedent that was waived or arising from the same event which gave rise to the breach or non-fulfilment of the condition (provided that if the waiver of the condition precedent is itself conditional and the other party accepts the condition, the terms of the condition apply despite this paragraph (e)). Nothing in this clause 3.2 will prevent Telstra from claiming reimbursement of its costs under clause 13.2, if the provisions of clause 13.2 are otherwise satisfied.

### 3.3 CONDITIONS PRECEDENT NOT MET

- (a) If:
  - (i) there is a breach or non-fulfilment of a condition precedent contained in clause 3.1 which is not waived in accordance with this Agreement by the time or date specified in this Agreement for satisfaction of the condition precedent; or
  - (ii) there is an act, failure to act, event or occurrence which will prevent a condition precedent contained in clause 3.1 being satisfied by the time or date specified in clause 3.1 for its satisfaction (and the breach or non-fulfilment of the condition precedent which would otherwise occur has not already been waived in accordance with this Agreement),
 KAZ and Telstra will consult in good faith with a view to determining whether:
  - (iii) the KAZ Schemes may proceed by way of alternative means or methods, or
  - (iv) to extend the relevant time or date for satisfaction of the condition precedent or End Date or to adjourn or change the date of an application to the Court.
- (b) If KAZ and Telstra are unable to reach agreement on such alternative means or methods or such extension within the Required Consultation Period (as defined below), either KAZ or Telstra may, provided that condition precedent is for the benefit of that party, terminate this Agreement by notice in writing to the other without any liability to the other, except in respect of any antecedent breach of this Agreement and provided that this clause 3.3(b) and clauses 7, 8, 10.3, 12.8, 13 to 16, 17.2, 17.3, 17.4 and 17.7 survive termination.
- (c) For the purposes of this clause, the Required Consultation Period is the shorter of:
  - (i) five Business Days after both parties becoming aware that sub-paragraph (a)(i) or (a)(ii) above, as the case may be, is triggered;
  - (ii) the period commencing at the time both parties become aware that sub-paragraph (a)(i) or (a)(ii) above, as the case may be, is triggered and ending at 6.00pm on the day prior to the Second Court Date.

### 3.4 REGULATORY APPROVALS AND GOVERNMENTAL AGENCIES

Each party shall have the right to be present and make submissions at any proposed meeting with any Governmental Agency in relation to the KAZ Schemes or the Transaction.



### 3.5 BEST ENDEAVOURS TO SATISFY CONDITIONS

- (a) KAZ will use its best endeavours, and will ensure that each of its related bodies corporate use their reasonable endeavours, to procure that no KAZ Prescribed Occurrence or KAZ Regulated Event or KAZ Material Adverse Change, to the extent such occurrence or event is within the control of KAZ or any of its related bodies corporate, occurs prior to 6.00pm on the day prior to the Second Court Date.
- (b) Each party must promptly notify the other of satisfaction of a condition precedent and must keep the other informed of any material development of which it becomes aware that may lead to a condition precedent not being satisfied.

## 4. ORDINARY SCHEME

### 4.1 ORDINARY SCHEME

Subject to the terms and conditions of this Agreement, KAZ agrees to propose a Scheme under which all of the KAZ Shares held by Ordinary Scheme Participants will be transferred to Telstra and the ordinary Scheme Participants will be entitled to receive the consideration calculated in accordance with clause 4.2.

### 4.2 ORDINARY SCHEME CONSIDERATION

Telstra covenants in favour of KAZ (in its own right and as trustee on behalf of the Ordinary Scheme Participants) that in consideration for the transfer to Telstra of each KAZ Share held by an Ordinary Scheme Participant under the terms of the Scheme, Telstra will pay or procure the payment to each such Ordinary Scheme Participant on the Implementation Date of \$0.40 cash for each KAZ Share held by that Ordinary Scheme Participant. Any fractional entitlement to a cent of an Ordinary Scheme Participant will be rounded down to the nearest whole cent.

## 5. OPTION SCHEME

### 5.1 OPTION SCHEME

KAZ agrees to propose a Scheme under which all of the Options will be cancelled and the Option Holders will be entitled to receive the consideration calculated in accordance with clause 5.2.

### 5.2 OPTION SCHEME CONSIDERATION

Telstra covenants in favour of KAZ (in its own right and as trustee on behalf of the Option Holders) that in consideration for the delivery up and cancellation of an Option held by an Option Holder under the terms of the Option Scheme, Telstra will pay or procure the payment to each such Option Holder on the Implementation Date the Option Scheme Consideration.

The **Option Scheme Consideration** shall be the amount set out in Exhibit 1 to this Agreement as being the value of that Option based on a Black-Scholes valuation agreed between the parties. The value attributed to any Option in Exhibit 1 shall be subject to such variation as Telstra and KAZ agree is required as a result of the particular terms and conditions of that Option.

Any fractional entitlement to a cent of an Option Holder will be rounded down to the nearest whole cent.

### 5.3 CONDITION

The Option Scheme shall be subject to and conditional upon the Ordinary Scheme becoming Effective provided that such condition may be waived in whole or in part by Telstra in its absolute discretion by notice in writing given to KAZ within 5 Business Days of the date on which the Ordinary Scheme is rejected by the Ordinary Scheme Participants.

## 6. IMPLEMENTATION OF TRANSACTION

### 6.1 KAZ'S OBLIGATIONS

KAZ must take all necessary steps to propose and implement the KAZ Schemes in accordance with the Timetable, including without limitation taking each of the following steps:

- (a) **Court direction:** apply to the Court for orders directing KAZ to convene the Scheme Meetings;
- (b) **Section 411(17)(b) statement:** apply to ASIC for the production of a statement pursuant to section 411(17)(b) of the Corporations Act stating that ASIC has no objection to the KAZ Schemes;
- (c) **Scheme Booklets:** promptly prepare and despatch the Scheme Booklet, in relation to each KAZ Scheme, to the Scheme Participants. KAZ will act in good faith to attempt to ensure that the Scheme Booklets comply with the requirements of:
  - (i) the Corporations Act and the Corporations Regulations;
  - (ii) ASIC Policy Statement 60;
  - (iii) ASIC Policy Statement 142; and
  - (iv) the Listing Rules,and include:
  - (v) the Schemes;
  - (vi) a statement that the KAZ Board unanimously recommends approval of the Schemes; and
  - (vii) notices of meeting and proxy forms; andand will:
  - (viii) as at the date the Scheme Booklets are despatched to Scheme Participants, not be misleading or deceptive in any material respect (whether by omission or otherwise); and
  - (ix) be updated by all such further or new information which may arise after the Scheme Booklets have been despatched until the date of the Scheme Meetings which is necessary to ensure that it is not misleading or deceptive in any material respect (whether by omission or otherwise);
- (d) **Scheme Meetings:** promptly convene the Scheme Meetings in accordance with the Court order provided that if this Agreement is terminated under clause 10.1, it will take all steps reasonably required to ensure the Scheme Meetings are not held;
- (e) **Court approval:** apply to the Court for orders approving such of the KAZ Schemes as are approved by the relevant Scheme Participants;
- (f) **Lodge copy of Court orders:** lodge with ASIC an office copy of the Court orders approving such of the KAZ Schemes as are approved by Scheme Participants at the Scheme Meetings;
- (g) **Registration:** register all transfers of KAZ Shares to Telstra on the Implementation Date.

### 6.2 TELSTRA'S OBLIGATIONS

Telstra must take all necessary steps to assist KAZ to propose and implement the KAZ Schemes as soon as is reasonably practicable including, without limitation, taking each of the following steps:

- (a) **Telstra information:** promptly provide to KAZ for inclusion in the Scheme Booklets such information regarding Telstra, its related bodies corporate and Telstra's intentions regarding KAZ and its employees as KAZ reasonably requires to prepare and issue the Scheme Booklets (including consent to the form and context in

- which the Telstra Information appears in the Scheme Booklets);
- (b) **Supplementary Information:** promptly provide to KAZ such information as may arise after the Scheme Booklets have been prepared which may be necessary to ensure that the Scheme Booklets, in relation to the Telstra Information contained in them, do not contain any material statement which is false or misleading or contain any material omission;
  - (c) **Representation:** procure that it is represented by counsel at the Court hearings convened for the purposes of section 411(4)(b) of the Corporations Act, at which, through its counsel, Telstra will undertake (if requested by the Court) to do all such things and take all such steps within its power as may be necessary in order to ensure the fulfilment of its obligations under this Agreement and the KAZ Schemes; and
  - (d) **Deed Poll:** prior to the despatch of the Scheme Booklets, enter into the Deed Poll.

### 6.3 TELSTRA'S INTENTIONS

Telstra hereby acknowledges that its current intentions in respect of KAZ after the Schemes are implemented are, among other things, to operate KAZ as a separate subsidiary of Telstra, with a separate management and with co-branding (which incorporates as part of that co-branding, the KAZ brand).

### 6.4 PREPARATION OF SCHEME BOOKLETS

- (a) KAZ must consult with Telstra as to the content of the Scheme Booklets (other than the Telstra Information).
- (b) Telstra must consult with KAZ as to the content of the Telstra Information.
- (c) If there is a dispute as to the content of any part of the Scheme Booklets (including without limitation the Telstra Information), the parties must refer the matter to the Transaction Implementation Committee for resolution. The Transaction Implementation Committee must use its reasonable endeavours to resolve the dispute within 5 Business Days.
- (d) KAZ and Telstra each agree that the efficient preparation of the Scheme Booklets is in the interests of KAZ and Telstra shareholders and that they will use all reasonable endeavours and utilise all necessary resources (including management resources and the resources of external advisers) to produce the Scheme Booklets as soon as reasonably practicable and as close as is possible to the Timetable.

### 6.5 CONDUCT OF BUSINESS

Except as otherwise agreed by Telstra in writing, from the date of this Agreement up to and including the Implementation Date, KAZ must, and must cause its subsidiaries to, subject to matters Disclosed, conduct their respective businesses in the ordinary and proper course in substantially the same manner as previously conducted. Without limiting the foregoing, KAZ must, and must cause its subsidiaries to:

- (a) maintain their businesses and assets;
- (b) use its reasonable endeavours to ensure that no KAZ Material Adverse Change, KAZ Prescribed Occurrence or KAZ Regulated Event occurs, to the extent that such event or occurrence is within the control of KAZ or its subsidiaries;
- (c) preserve their relationships with customers, suppliers, licensors, licensees, joint venturers and others with whom they have business dealings;
- (d) use all reasonable efforts to keep available the services of their officers and employees;
- (e) not (except as required by law or pursuant to incentive arrangements agreed with Telstra):
  - (i) increase the remuneration of or pay any bonus or issue any KAZ Shares, KAZ Options or other securities to, or otherwise vary the employment agreements with, any of its directors or employees;
  - (ii) accelerate the rights of any of its directors or employees to benefits of any kind; or
  - (iii) pay a director, executive or employee a termination payment, other than as provided for in an existing employment contract in place as at the date of this agreement and a copy of which has previously been provided to the other party;

- (f) not amend in any material respect any arrangement with its financial advisers in respect of the transactions contemplated by this Agreement, subject in each case to any matter Disclosed by KAZ.

Notwithstanding the provisions of clause 6.5(e), Telstra acknowledges that it will not unreasonably withhold its consent to:

- (A) salary increases or bonus payments to employees which would have arisen in the ordinary course of operations and in accordance with existing employment contracts or practices in place within KAZ prior to the date of this Agreement; and
- (B) KAZ entering into deeds of indemnity, insurance and access in favour of its directors on terms customary for directors of major Australian listed companies.

## 6.6 TRANSACTION IMPLEMENTATION

- (a) As soon as practicable after the date of this Agreement, the parties shall establish a transaction implementation committee made up of the Chief Executive Officer of KAZ and one of either Sandy Zubrinich or Mark Andrew White of Telstra and such other persons as the parties may agree from time to time.
- (b) The role of the Transaction Implementation Committee will be to act as a forum for consultation and planning between the parties in relation to the implementation of the Transaction.
- (c) Subject to this Agreement, nothing in this clause requires either party to act at the direction of the other. The business of each party and its subsidiaries will continue to operate independently of the other until the Implementation Date. The parties agree that nothing in this Agreement shall constitute the relationship of a partnership or a joint venture between the parties.

## 6.7 BOARD RECOMMENDATION

- (a) The Public Announcement to be issued by KAZ immediately after execution of this Agreement states that the KAZ directors unanimously support the Transaction in the absence of a superior offer.
- (b) KAZ undertakes that:
- (i) each of the KAZ directors have said that they intend to make that formal recommendation that Kaz's members vote in favour of the Kaz Schemes in the Scheme Booklets (subject to the explanations contained in the Scheme Booklets) and will not withdraw that recommendation once made; and
- (ii) the KAZ Board will not make any public statement which would suggest that the Transaction is no longer so recommended,
- unless:
- (iii) the KAZ Board has first obtained written advice from Queen's Counsel or Senior Counsel (and a copy of that advice has been provided to Telstra) that the KAZ directors are, by virtue of their fiduciary or other legal duties, unable to recommend to Scheme Participants that the KAZ Schemes be approved or are required to withdraw such a recommendation.

## 6.8 ACCESS TO INFORMATION

From the date of this Agreement to (and including) the Implementation Date, KAZ must, and must (or, in the case of a subsidiary which is not wholly owned, must use its reasonable endeavours to) cause each of its subsidiaries to:

- (a) afford to Telstra (and its related bodies corporate and its officers and advisers) reasonable access to such documents, records and other information (subject to any existing confidentiality obligations owed to third parties), premises, personnel and advisers and the records, premises or personnel of any entity it manages and such reasonable co-operation as Telstra reasonably requires for the purpose of:
- (i) understanding KAZ's financial position including its cashflow and working capital position;
- (ii) implementation of the Schemes, provided that nothing in this paragraph (ii) will require KAZ to provide

- (iii) information to Telstra concerning KAZ's directors' and management's consideration of the Schemes; preparing for carrying on the business of the KAZ Group following implementation of the Schemes (including the specific matters agreed between the parties and set out in a schedule forming Exhibit 2 to this Agreement);
- (iv) Telstra obtaining an understanding of the operations of KAZ's business in order to allow and facilitate the smooth implementation of the plans of Telstra for those businesses following implementation of the Schemes; and
- (v) any other purpose which is agreed in writing between the parties; provided in every case that such access is reasonably necessary to Telstra and does not place an unreasonable burden on the ability of KAZ or any of its subsidiaries to operate their business; and
- (d) as soon as reasonably practicable provide Telstra (and its related bodies corporate and its officers and advisers) with any information reasonably requested by it (including, without limitation, information from KAZ's share registry).

### 6.9 EFFECT OF CLAUSE 6.8

The purpose of clause 6.8 is to facilitate cooperation and communication between the parties. In no circumstances shall breach of clause 6.8 constitute a material breach of the Agreement that would entitle Telstra to terminate under clause 10.1(a).

## 7. REPRESENTATIONS AND WARRANTIES

### 7.1 TELSTRA REPRESENTATIONS

- (a) Telstra represents and warrants to KAZ (on its own behalf and separately as trustee for each of the KAZ Indemnified Parties) each of the matters set out in clause 7.1(b), as at the date of this Agreement, as at 6.00pm on the day prior to the Second Court Date and any other date to which a representation in clause 7.1(b) is expressed to be given.
- (b) Telstra represents and warrants that:
  - (i) it is a validly existing corporation registered under the laws of its place of incorporation;
  - (ii) the execution and delivery of this Agreement by Telstra has been properly authorised by all necessary corporate action and Telstra 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) (subject to laws generally affecting creditors' rights and the principles of equity) this Agreement constitutes legal, valid and binding obligations on it; and
  - (iv) the Telstra Information provided to KAZ in accordance with clause 6.2(a) for inclusion in the Scheme Booklets will be provided in good faith.

### 7.2 TELSTRA INDEMNITY

Telstra agrees with KAZ (on KAZ's own behalf and separately as trustee or nominee for each of the other KAZ Indemnified Parties) to indemnify and keep indemnified the KAZ Indemnified Parties 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 any of the KAZ Indemnified Parties may suffer or incur by reason of any breach of any of the representations and warranties in clause 7.1(b).



## 7.3 KAZ REPRESENTATIONS

- (a) KAZ represents and warrants to Telstra (on its own behalf and separately as trustee for each of the Telstra Indemnified Parties) each of the matters set out in clause 7.3(b) as at the date of this Agreement, as at 6.00pm on the day prior to the Second Court Date and any other date to which a representation in clause 7.3(b) is expressed to be given.
- (b) KAZ represents and warrants that:
  - (i) it is a validly existing corporation registered under the laws of its place of incorporation;
  - (ii) the execution and delivery of this Agreement by KAZ has been properly authorised by all necessary corporate action and KAZ 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) (subject to laws generally affecting creditors' rights and the principles of equity) this Agreement constitutes legal, valid and binding obligations on it;
  - (iv) the KAZ Information has been disclosed in good faith on the basis set out in clause 8; and
  - (v) the total issued capital of KAZ as at the date of this Agreement is:
    - (A) 826,538,858 KAZ Shares; and
    - (B) 8,515,614 Options.

## 7.4 KAZ'S INDEMNITY

KAZ agrees with Telstra (on Telstra's own behalf and separately as trustee for each of the other Telstra Indemnified Parties) to indemnify and keep indemnified the Telstra Indemnified Parties 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 any of the Telstra Indemnified Parties may suffer or incur by reason of any breach of any of the representations and warranties in clause 7.3(b).

## 7.5 SURVIVAL OF REPRESENTATIONS

Each representation and warranty in clauses 7.1 and 7.3:

- (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.

## 7.6 SURVIVAL OF INDEMNITIES

Each indemnity in this Agreement (including those in clauses 7.2 and 7.4) 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.

## 8. NO RELIANCE ON KAZ INFORMATION

### 8.1 TELSTRA DUE DILIGENCE INVESTIGATIONS

Telstra hereby acknowledges and agrees, both on its own behalf and on behalf of each of its Representatives, as follows:

- (a) that prior to entry into this Agreement, it and its Representatives have undertaken and concluded their own due diligence investigations in relation to the KAZ Group, including access to data rooms, site visits,



management presentations, interviews and discussions and access to KAZ Group external auditors and advisers; and

- (b) in the course of those investigations and the negotiations and discussions between the parties prior to entry into this Agreement, KAZ and its Representatives have provided to Telstra and its Representatives information in various forms in connection with the proposed Transaction or relating to the KAZ Group's past, present or future operations, affairs, business and/or strategic plans (KAZ Information).

## 8.2 NO WARRANTY

Telstra confirms and agrees, both on its own behalf and on behalf of each of its Representatives, that neither KAZ nor any of its Representatives:

- (a) makes or has made any representation or warranty:
  - (i) as to the accuracy or completeness of any of the KAZ Information;
  - (ii) that any of the KAZ Information has been audited, verified or prepared with reasonable care; or
  - (iii) that the KAZ Information is the totality of the information that a person considering the Transaction would require or expect to find in order to consider or evaluate the Transaction, except that the KAZ Information has been disclosed in good faith;
- (b) accepts or has accepted any responsibility to Telstra, its Representatives or any other person for any false, inaccurate or misleading KAZ Information or for any opinion formed or conclusion drawn by Telstra, its Representatives or any other person as a result of examining the KAZ information;
- (c) accepts or has accepted any responsibility to inform Telstra of any matter arising or coming to the notice of KAZ which may affect or qualify any KAZ Information; and
- (d) accepts or has accepted any liability for any loss of any kind (including, without limitation, any special, indirect, consequential or economic loss) arising from any inaccuracy, incompleteness or similar defect in the KAZ Information or any default, negligence or lack of care (other than wilful misconduct or gross negligence) in relation to the preparation or provision of the KAZ Information.

## 8.3 NO RELIANCE

Without limiting clauses 8.1 and 8.2, Telstra hereby acknowledges and agrees that it has:

- (a) made its own independent assessment of all KAZ Information;
- (b) carried out, and relied solely on, its own investigation and analysis of the KAZ Information and the Transaction; and
- (c) entered into this Agreement utilising the KAZ Information solely at its own risk.

## 8.4 SECTION 1041H OF THE CORPORATIONS ACT

To the extent permitted by law, Telstra agrees not to make, waives any right it may have to make and shall ensure that none of its Representatives make any claim against KAZ or any of its Representatives under sections 1041H or 1041I of the Corporations Act, or any corresponding provision of any State or Territory enactment in relation to the KAZ Information, this Agreement or the Transaction.

## 8.5 SCHEME BOOKLETS

Without limiting in any way the operations of clauses 8.2, 8.3 or 8.4, Telstra agrees that Section 670D of the Corporations Act will apply in respect of any action which may be applicable by Telstra or any of its related bodies corporate against KAZ or any existing or former director, employee or agent of KAZ under section 1041I of the Corporations Act, section 12GF of the Australian Securities and Investments Commission Act or the equivalent provisions of any of the State Fair Trading Acts (collectively, the Liability Provisions) in relation to any statement in or omission from the Scheme Booklets as if all of the subsections of section 670D excluded liability under the Liability Provisions for contravention of section 1041H of the Corporations Act, section 12DA of the Australian Securities and

Investments Commission Act or the equivalent provisions of the State Fair Trading Acts (as the case may be), in the circumstances specified in those subsections of section 670D.

#### **8.6 BENEFIT OF KAZ INDEMNIFIED PARTIES**

The acknowledgements, confirmations and agreements given and made by Telstra in this clause 8 are given to KAZ on its own behalf and separately as trustee for each of the KAZ Indemnified Parties.

#### **8.7 PUBLIC DOMAIN INFORMATION**

Notwithstanding any other clause in this Agreement, nothing in this clause 8:

- (a) applies in relation to any KAZ Information, or other information, contained in any notice or other document that KAZ (or any subsidiary) has lodged with ASIC or given to ASX (Public Domain Information);
- (b) affects Telstra's ability to rely on the Public Domain Information; or
- (c) affects any rights or remedies Telstra may have in consequence of relying on the Public Domain Information.

### **9. PUBLIC ANNOUNCEMENTS**

#### **9.1 ANNOUNCEMENT OF TRANSACTION**

Immediately after the execution of this Agreement, KAZ and Telstra will jointly issue the Public Announcement.

#### **9.2 FURTHER PUBLIC ANNOUNCEMENTS**

Each party will, subject to law and applicable Listing Rules, use its reasonable endeavours to consult and agree the form of any other public announcement by it or any of its related bodies corporate in connection with the Transaction.

### **10. TERMINATION**

#### **10.1 TERMINATION**

Without limiting any other provision of this Agreement, this Agreement may be terminated at any time prior to the commencement of the hearing of the application to the Court to approve the KAZ Schemes on the Second Court Date:

- (a) by KAZ, if Telstra is in material breach of any clause of this Agreement (including a representation or warranty in clause 7.1), taken in the context of the Transaction as a whole, before the Second Court Date provided that KAZ has given notice to Telstra setting out the relevant circumstances and stating an intention to terminate and the relevant circumstances have continued to exist for 5 Business Days (or any shorter period ending prior to the commencement of the hearing of the application to the Court to approve the Scheme on the Second Court Date) from the time such notice is given;
- (b) by Telstra, if KAZ is in material breach of any clause of this Agreement (including any breach of clauses 6.5, 12 or a representation or warranty in clause 7.3), taken in the context of the Transaction as a whole, before the Second Court Date provided that Telstra has given notice to KAZ setting out the relevant circumstances and stating an intention to terminate and the relevant circumstances have continued to exist for 5 Business Days (or any shorter period ending prior to the commencement of the hearing of the application to the Court to approve the Scheme on the Second Court Date) from the time such notice is given;
- (c) by Telstra if a majority of the KAZ directors withdraw or change their recommendation of the Transaction;
- (d) by either KAZ or Telstra, in accordance with clause 3.3(b));
- (e) by Telstra if a majority of KAZ's directors recommend, promote or otherwise endorse a Competing Transaction;



- (f) by either KAZ or Telstra, if a Court or other Governmental Agency has issued a final and non-appealable order, decree or ruling or taken other action which permanently restrains or prohibits the Transaction;
- (g) by either KAZ or Telstra if the Court finally determines to refuse to make any order convening the Scheme Meetings or any order approving the KAZ Schemes and that party obtains an opinion from Queen's Counsel or Senior Counsel that an appeal against that decision would have no reasonable prospect of success;
- (h) by Telstra, if a person (other than Peter Kazacos or Telstra and its associates) has together with its associates the power to exercise, or to control the exercise of, a right to vote attached to at least 25% of the KAZ Shares;
- (i) by either KAZ or Telstra if at a duly held meeting the Ordinary Scheme Participants do not approve the Ordinary Scheme by the majority required under the Corporations Act;
- (j) by either KAZ or Telstra, if the End Date has passed; or
- (k) by Telstra if a takeover bid for KAZ Shares is publicly proposed by a person other than Telstra (or any related body corporate) for a consideration per KAZ Share which is superior to the consideration per KAZ Share publicly proposed to be paid by Telstra pursuant to the Transaction.

## 10.2 METHOD OF TERMINATION

Where KAZ or Telstra has the right to terminate this Agreement under clause 10.1, that right for all purposes will be validly exercised if that party gives a notice in writing to the other parties stating to the other parties that it terminates this Agreement.

## 10.3 EFFECT OF TERMINATION

In the event of termination of this Agreement by either KAZ or Telstra pursuant to clause 10.1, this Agreement will become void and have no effect, other than in respect of any liability for an antecedent breach of this Agreement and provided that this clause and clauses 3.3(b), 7, 8, 12.8, 13 to 16, 17.2, 17.3, 17.4 and 17.7 survive termination.

## 11. NOTICES

KAZ and Telstra will promptly advise each other in writing of:

- (a) a representation or warranty provided in this Agreement by either party becoming false; or
- (b) a breach of this Agreement by it.

## 12. EXCLUSIVITY

### 12.1 TERMINATION OF EXISTING DISCUSSIONS

KAZ represents and warrants to Telstra that, other than the discussions with Telstra in respect of the Transaction, as at the date of this Agreement, as at the date of the Scheme Meetings and as at 6.00pm on the day prior to the Second Court Date, KAZ is not in negotiations or discussions in respect of any Competing Transaction with any party.

### 12.2 NO-SHOP CONDITIONS

During the No-Shop Period, KAZ must ensure that neither it nor any of its Representatives directly or indirectly solicits, invites, facilitates, encourages, or initiates any enquiries, negotiations or discussions, or communicates any intention to do any of these things, with a view to obtaining any expression of interest, offer or proposal from any person in relation to a Competing Transaction.



## 12.3 NO-TALK CONDITIONS

Subject to clause 12.6, during the No-Shop Period, KAZ must ensure that neither it nor any of its Representative negotiates or enters into, continues or participates in negotiations or discussions with any other person regarding a Competing Transaction, even if:

- (a) that person's Competing Transaction was not directly or indirectly solicited, initiated, or encouraged by KAZ or any of its Representatives; or
- (b) that person has publicly announced their Competing Transaction.

## 12.4 NO DUE DILIGENCE

Without limiting the general nature of clause 12.3, during the No-Shop Period, KAZ must not without Telstra's prior written consent:

- (a) solicit, initiate or permit any party (other than Telstra or its Representatives) to undertake due diligence investigations on KAZ or any of its subsidiaries where to do so would involve a breach of clause 12.2; or
- (b) make available to any other person (other than Telstra or its Representatives) or permit any such person to receive any non-public information relating to Telstra or any of its subsidiaries.

This clause 12.4 does not prevent KAZ providing information to the ASX or KAZ's auditors and advisers acting in that capacity in the ordinary course of business or to otherwise effect the Transaction.

## 12.5 NOTIFICATION

Subject to clause 12.6, during the No-Shop Period, KAZ must immediately inform Telstra if it is approached by any person to engage in any activity that would breach its obligations in clauses 12.2, 12.3 or 12.4 (or would breach its obligations in clauses 12.3 or 12.4 if it were not for clause 12.6) and provide in writing to Telstra:

- (a) the identity of that person; and
- (b) details of the expression of interest and/or proposed Competing Transaction made by the person making the approach and details of any discussions between such person and KAZ (or its Representatives).

## 12.6 EXCEPTION TO NO-TALK

The restrictions in clauses 12.3 and 12.4 and the notification obligations in clauses 12.5 and 12.7 do not apply to the extent that they restrict KAZ or the KAZ Board from taking or refusing to take any action with respect to a bona fide competing proposal (which was not encouraged, solicited or invited, facilitated or initiated by KAZ in contravention of clause 12.2) provided that KAZ's Board has determined, in good faith and acting reasonably after:

- (a) consultation with its financial advisors that such bona fide competing proposal was a superior proposal; and
- (b) receiving written advice from Queen's Counsel or Senior Counsel that failing to respond to such bona fide competing proposal would constitute a breach of the directors' fiduciary or statutory obligations.

## 12.7 NOTIFICATION

Subject to clause 12.6, if, in accordance with clause 12.6, KAZ does respond to a bona fide competing proposal, it must immediately notify Telstra in writing of that fact, the person with whom negotiations are entered into and the details of the competing proposal made by that person.

## 12.8 NON-DISCLOSURE AGREEMENT

Upon execution of this Agreement, the Non-Disclosure Agreement shall terminate and be of no further force and effect, other than in respect of any liability for an antecedent breach of that agreement.



## 13. REIMBURSEMENT OF TELSTRA COSTS

### 13.1 ACKNOWLEDGMENT

KAZ acknowledges that the Telstra Group has incurred and will continue to incur significant costs in relation to the Transaction. For the purposes of this clause 13, these costs incurred by the Telstra Group (Telstra Costs) include the costs set out in Annexure 5.

### 13.2 REIMBURSEMENT

- (a) Subject to clause 13.3, KAZ agrees to reimburse Telstra \$3,300,000 (plus GST, if applicable) for the Telstra Costs if at any time after the execution of this Agreement and before the End Date (Termination Date) any of the following occur:
- (i) a takeover bid, scheme or other proposal under which a person other than Telstra (or a related body corporate) would acquire control of KAZ for a consideration superior (having regard to price, timing and conditionality) to that offered by Telstra under the Ordinary Scheme (Competing Bid) is announced or open for acceptance and, whether before or after the Termination Date:
    - (A) pursuant to that Competing Bid, the bidder acquires a relevant interest in more than 50% of all KAZ Shares; and
    - (B) the Competing Bid is free or becomes free from any defeating conditions; or
  - (ii) a person other than Telstra (or a related body corporate) acquires, or agrees to acquire (whether or not that agreement is conditional) the whole or a substantial part of KAZ's assets, business or property;
  - (iii) the KAZ directors (or any one or more of them) fails to make, or withdraws, a recommendation to Scheme Participants in favour of the KAZ Schemes except in circumstances where an independent expert report is commissioned by KAZ and that report fails to conclude that the Transaction is in the best interest of KAZ Shareholders; or
  - (iv) the KAZ directors (or any one or more of them) endorses or otherwise supports a proposal or offer to acquire the shares of KAZ (whether by way of takeover bid, scheme of arrangement or otherwise) or to acquire the whole or a substantial part of KAZ's assets, business or property, made by a person other than Telstra; or
  - (v) Telstra terminates this Agreement pursuant to 10.1(b) because KAZ is in material breach of this Agreement, provided that the prevention of that breach was within the control of KAZ.
- (b) The reimbursement of Telstra Costs by KAZ to Telstra provided for in this clause 13.2 must be made within two Business Days of receipt by KAZ of a written demand for payment from Telstra. The demand may only be made after the occurrence of an event referred to in clause 13.2(a). The obligation to reimburse under this clause 13.2 cannot be triggered more than once.
- (c) For the purposes of paragraph (a) above, qualifications and explanations contained in the Scheme Booklets in relation to a recommendation to accept the KAZ Schemes shall not be regarded as a failure to make or a withdrawal of a recommendation in favour of the KAZ Schemes.

### 13.3 COMPLIANCE WITH LAW

The reimbursement of Telstra Costs by KAZ under this clause 13 is not required, or is refundable, to the extent that such reimbursement would be unlawful.

### 13.4 NO OTHER LIABILITY

KAZ shall have no liability whatsoever for any breach of this Agreement which arises out of or which relates to an event or occurrence referred to in clauses 4.39(a) – 13.2(a)(v) other than for its liability to reimburse Telstra for costs under clause 13.2 (where that clause applies).



## 13.5 SECURITY BOND

- (a) As security for its obligations under clause 13.2, KAZ will provide Telstra, within 10 Business Days after the date of this Agreement, with a Security Bond (as defined in clause 13.5(e))
- (b) Telstra has the right, without prejudice to any other remedy available to Telstra, to call on the Security Bond if KAZ does not comply with clause 13.2.
- (c) Telstra will return the Security Bond to KAZ if the obligations under clause 13.2 have been complied with.
- (d) KAZ will not take any steps of any kind to restrain Telstra from exercising its rights under this clause 13.5.
- (e) For the purposes of this agreement, "Security Bond" means an unconditional irrevocable bank guarantee in an amount of \$3,300,000 having a term of 6 months.

## 14. ACKNOWLEDGEMENT

KAZ acknowledges that it has received legal advice on this Agreement and the operation of clauses 12 and 13.

## 15. REIMBURSEMENT OF KAZ COSTS

### 15.1 ACKNOWLEDGMENT

Telstra acknowledges that the KAZ Group has incurred and will continue to incur significant costs in relation to the Transaction (including, without limitation, costs incurred prior to the date of this Agreement in considering and assessing all facts, circumstances and issues relating to the proposed Transaction and the decision to enter into the Transaction). For the purposes of this clause 15, these costs incurred by the KAZ Group (KAZ Costs) mean the costs set out in Annexure 6 and no others.

### 15.2 REIMBURSEMENT

- (a) Subject to clause 15.3, Telstra agrees to reimburse KAZ for the KAZ Costs (or, if the KAZ Costs exceed \$3,300,000, \$3,300,000 of the KAZ Costs) if at any time after the execution of this Agreement and before the first of the date on which the Scheme becomes Effective and the End Date KAZ terminates this Agreement pursuant to 10.1(a) because Telstra is in material breach of this Agreement, provided that the prevention of that breach was within the control of Telstra.
- (b) The reimbursement of KAZ Costs by Telstra to KAZ provided for in this clause 15.2 must be made within two Business Days of receipt by Telstra of a written demand for payment from KAZ, provided that such demand sets out in reasonable detail the nature of the costs and is supported by reasonable evidence of those costs having been incurred by KAZ. The demand may only be made after the termination referred to in clause 15.2(a). The obligation to reimburse under this clause 15.2 cannot be triggered more than once.

### 15.3 COMPLIANCE WITH LAW

The reimbursement of KAZ Costs by Telstra under this clause 15 is not required, or is refundable, to the extent that such reimbursement would be unlawful.

### 15.4 NO OTHER LIABILITY

Telstra shall have no liability whatsoever for any breach of this Agreement referred to in clause 15.2(a), other than for its liability to reimburse KAZ for costs under clause 15.2 (where that clause applies).



## 16. ACKNOWLEDGEMENT

Telstra acknowledges that it has received legal advice on this Agreement and the operation of clause 15.

## 17. GENERAL

### 17.1 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.

### 17.2 NOTICES

Any communication under or in connection with this Agreement:

- (a) must be in writing;
- (b) must be addressed as shown below:

#### **KAZ**

Address: Level 10  
59 Goulburn Street  
Sydney NSW 2000

Fax: (02) 8263 2998

For the attention of: Michael O'Sullivan

#### **Telstra**

Address: Level 2  
400 George Street  
Sydney NSW 2000

Fax: (02) 9223 5294

For the attention of: Paul Abfalter

(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 sent by fax to the number, of the addressee, in accordance with clause (b); and
- (e) will be deemed to be received by the addressee:
  - (i) (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 5.00 pm on a Business Day, when that communication will be deemed to be received at 9.00 am on the next Business Day; and
  - (ii) (in the case of delivery by hand) on delivery at the address of the addressee as provided in clause



17.2(b), unless that delivery is not made on a Business Day, or after 5.00 pm on a Business Day, when that communication will be deemed to be received at 9.00 am on the next Business Day.

### **17.3 STAMP DUTIES**

Telstra must pay all stamp duties (if any) and any fines and penalties with respect to stamp duty in respect of this Agreement, the KAZ Schemes or the steps to be taken under this Agreement or the KAZ Schemes.

### **17.4 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 proposed, attempted or actual implementation of this Agreement and the KAZ Schemes.

### **17.5 AMENDMENTS**

This Agreement may only be varied by a document signed by or on behalf of each of the parties.

### **17.6 ASSIGNMENT**

A party cannot assign, novate or otherwise transfer any of its rights or obligations under this Agreement without the prior written consent of the other party.

### **17.7 GOVERNING LAW**

- (a) This Agreement is governed by and will be construed according to the laws of New South Wales.
- (b) Each party irrevocably submits to the non-exclusive jurisdiction of the courts of New South Wales and of the courts competent to determine appeals from those courts.

### **17.8 BUSINESS DAY**

Except where otherwise expressly provided, where under this Agreement the day on which any act, matter or thing is to be done is a day other than a Business Day, such act, matter or thing will be done on the next Business Day.

### **17.9 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.

### **17.10 CONSENTS**

Any consent referred to in, or required under, this Agreement from any party may not be unreasonably withheld, unless this Agreement expressly provides for that consent to be given in that party's absolute discretion.

### **17.11 COUNTERPARTS**

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.



**17.12 ENTIRE AGREEMENT**

To the extent permitted by law, in relation to the subject matter of this Agreement, this Agreement:

- (a) embodies the entire understanding of the parties and constitutes the entire terms agreed upon between the parties; and
- (b) supersedes any prior agreement (whether or not in writing) between the parties.

**17.13 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.

**17.14 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.

**Signed as an Agreement**

**Executed by KAZ Group Limited**

[Signed] _____ Director Signature  <b>Peter Kazacos</b> _____ Print Name	[Signed] _____ Director/Secretary Signature  <b>Peter Housden</b> _____ Print Name
--	--

**Executed by Telstra Corporation Limited**

by its attorney in the presence of

[Signed] _____ Attorney  <b>Michael Foster</b> _____ Print Name	[Signed] _____ Witness  <b>Fiona Gardiner-Hill</b> _____ Print Name
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## **ANNEXURE 1: ORDINARY SCHEME OF ARRANGEMENT**

See section 9 of this Information Memorandum.

## **ANNEXURE 2: OPTION SCHEME OF ARRANGEMENT**

See section 10 of this Information Memorandum.

## **ANNEXURE 3: DEED POLL**

See section 8 of this Information Memorandum.

## **ANNEXURE 4: PUBLIC ANNOUNCEMENT ON 7 APRIL 2004**

[Not included.]

## **ANNEXURE 5: TELSTRA COSTS**

For the purposes of clause 13, Telstra Costs mean the following costs incurred by the Telstra Group in relation to the Transaction:

- (a) professional advisory fees (including, without limitation, legal, financial, accounting, taxation and public relations fees) incurred in connection with the Schemes;
- (b) out-of-pocket expenses incurred in connection with the Schemes including, but not limited to, airfares, hotel accommodation, meals and associated expenses incurred by Telstra employees, advisers (internal and external) and agents in relation to the Schemes;
- (c) mailing and printing costs for documentation used or proposed to be used in connection with the Schemes;
- (d) commitment fees and other similar fees and expenses in connection with the organisation of financing in connection with the payment of the consideration under the Schemes; and
- (e) costs of management and director's time.

## **ANNEXURE 6: KAZ COSTS**

For the purposes of clause 15, KAZ Costs mean the following costs incurred by the KAZ Group in relation to the Transaction:

- (a) professional advisory fees (including, without limitation, legal, financial, accounting, taxation and public relations fees) incurred in connection with the Schemes;
- (b) out-of-pocket expenses incurred in connection with the Schemes including, but not limited to, airfares, hotel accommodation, meals and associated expenses incurred by KAZ employees, advisers (internal and external) and agents in relation to the Schemes;
- (c) mailing and printing costs for documentation used or proposed to be used in connection with the Schemes; and
- (d) costs of management and director's time.

## **ANNEXURE 7: TIMETABLE**

[Not included.]



## 8. Deed Poll

Date	28 May 2004
Parties	
1.	<p><b>Telstra Corporation Limited</b> (ACN 051 775 556) of Level 41, 242 Exhibition Street, Melbourne, Victoria (Telstra) in favour of:</p> <p>Each holder of ordinary shares and Options from time to time in KAZ Group Limited (KAZ) (ACN 002 124 405) (KAZ Shareholders).</p>
Recitals	
A	The directors of KAZ consider that it is in the interests of KAZ that Scheme Participants should consider approving the Schemes.
B	Accordingly, the directors of KAZ have resolved that KAZ should propose the Schemes.
C	The effect of the Schemes will be that all shares in KAZ (together with all rights and entitlements attached to those shares) will be transferred to Telstra and all Options in KAZ will be cancelled such that Telstra will hold all of the issued shares in KAZ.
D	On 6 April 2004 KAZ and Telstra entered into a Merger Implementation Agreement ( <b>Agreement</b> ).
E	In the Agreement, Telstra agreed to take all necessary steps to assist KAZ to implement the Schemes including without limitation but subject to the satisfaction of the Conditions Precedent in the Agreement, paying the scheme consideration in respect of the Schemes.
F	Telstra is entering into this Deed Poll for the purpose of covenanting in favour of the Scheme Participants to perform certain of its obligations under the Agreement.

## OPERATIVE PROVISIONS

**1. DEFINITIONS AND INTERPRETATIONS****1.1 INTERPRETATION**

In this Deed Poll (including the Recitals), unless the context otherwise requires:

- (a) Words and phrases have the same meaning (if any) given to such in the Agreement or if not defined in the Agreement but defined in the Scheme Booklets of KAZ dated on or about 28 May 2004 then as in the Scheme Booklets;
- (b) The singular includes the plural and vice versa;
- (c) Each gender includes every other gender;
- (d) References to persons include references to corporations, partnerships, joint ventures, associations, bodies corporate and any government agency;
- (e) Words and phrases not defined in the Agreement or the Scheme Booklets of KAZ have the same meaning (if any) given to them in the Corporations Act 2001;
- (f) References to any legislation or regulations include any statutory modification of or substitution for such legislation or regulations;
- (g) References to agreements are to agreements as amended from time to time;
- (h) A reference to a clause or party is a reference to a clause of, and a party to, this Deed Poll;
- (i) Headings and sub-headings to this Deed Poll do not affect the interpretation of this Deed Poll;
- (j) References to a currency are to Australian currency.

**1.2 BUSINESS DAY**

Where the day on or by which any thing is to be done is not a Business Day, that thing must be done on or by the next Business Day.

**1.3 NATURE OF DEED POLL**

Telstra acknowledges that this Deed Poll may be relied on and enforced by any Scheme Participant in accordance with its terms even though the Scheme Participants are not party to it.

**1.4 REFERENCES TO TELSTRA**

References to Telstra in this Deed Poll, other than references in relation to a payment obligation, shall, if reasonably requested by Telstra in writing, be taken to be references to Telstra's nominee, Telstra Services Solutions Holdings Limited (ACN 079 750 315).

**2. CONDITIONS PRECEDENT AND TERMINATION**

- (a) Telstra's obligations under clause 3 are subject to:
  - (i) satisfaction or waiver of the conditions contained in clause 3 of the Agreement by 6.00pm on the day prior to the Second Court Date; and
  - (ii) the relevant Scheme becoming Effective.
- (b) Telstra's obligations under this Deed Poll terminate:
  - (i) if the conditions in clause 2(a) of this Deed Poll are not satisfied or waived in writing by Telstra on or before the End Date; or
  - (ii) automatically on the termination of the Agreement, unless KAZ and Telstra otherwise agree.



- (c) If this Deed Poll is terminated under this clause 2 then in addition and without prejudice to any other rights, powers or remedies available to it:
  - (i) Telstra is released from its obligations to further perform this Deed Poll except those obligations contained in clause 6 and any other obligations which by their nature survive termination; and
  - (ii) KAZ Shareholders retain the rights they have against Telstra in respect of any breach of this Deed Poll which occurred before this Deed Poll is terminated.

### 3. PAYMENT OF SCHEME CONSIDERATION

- (a) Subject to clause 2 and clause 3(c), on the Implementation Date:
  - (i) in consideration of the transfer of each KAZ Share to Telstra, Telstra shall pay to each Scheme Participant the Ordinary Scheme consideration, being \$0.40 in respect of each KAZ Share registered in the name of that Ordinary Scheme Participant at the Record Date in accordance with the terms of the Scheme; and
  - (ii) in consideration of the cancellation of each Option, Telstra shall pay to each Option Holder the amount referred to in clause 5.2 of the Agreement in respect of each Option registered in the name of the Option Holder at the Record Date in accordance with the terms of the Scheme.
- (b) The obligations of Telstra to pay the consideration described in clause 3(a) to each Scheme Participant shall be satisfied by Telstra sending or procuring the dispatch to each Scheme Participant by pre-paid post to his or her address recorded in the register of members or option holders as the case may be of KAZ at the Record Date, a pre-printed cheque for the consideration due to that Scheme Participant as determined in accordance with the Schemes. In the case of joint holders of KAZ Shares or Options, the cheque shall be payable to and be forwarded to the holder whose name appears first in the register of members or option holders of KAZ (as the case may be) on the Record Date.
- (c) If the Scheme becomes Effective, Telstra will be entitled to all rights and entitlements in respect of the KAZ Shares. If a Scheme Participant receives the benefit of those rights or entitlements, Telstra will be entitled to deduct from the consideration otherwise payable under this Deed Poll the amount (or value, as reasonably assessed by Telstra) of those rights or entitlements.
- (d) Notwithstanding anything else in this clause 3, if Telstra would be obliged to pay any Scheme Participant a fraction of a cent, that fraction will be rounded down to the nearest whole cent.

### 4. WARRANTIES

Telstra represents and warrants that:

- (a) it is a corporation validly existing under the laws of its place of incorporation;
- (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 the 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; and
- (d) this Deed Poll is valid and binding upon it.

### 5. CONTINUING OBLIGATIONS

This Deed Poll is irrevocable and, subject to clause 2, remains in full force and effect until Telstra has completely performed its obligations under this Deed Poll or the earlier termination of this Deed Poll under clause 2.



## 6. STAMP DUTY

Telstra must pay all stamp duty (if any) imposed on this Deed Poll and on any instrument or other document executed to give effect to this Deed Poll.

## 7. NOTICES

- (a) A notice, consent, request or any other communication to Telstra under this Deed Poll must be in writing and must be left at the address of Telstra, or sent by prepaid post (airmail if posted to or from a place outside Australia) to the address of Telstra or sent by facsimile to the facsimile number of Telstra specified below or any other address or facsimile number the addressee requests in writing.

### **Telstra Corporation Limited**

Attention: Paul Abfalter

Address: Level 2  
400 George Street  
Sydney NSW 2000

Fax no: (02) 9223 5294

- (b) A notice, consent, request or any other communication under or in connection with this Deed Poll is taken to be received:
- (i) if by delivery, when it is delivered unless it is delivered on a day other than a Business Day or after 5.00 pm on a Business Day in which case it is taken to be received at 9.00 am on the next Business Day;
  - (ii) if sent by prepaid post, three Business Days after posting (or seven Business Days, if posted to or from a place outside Australia); and
  - (iii) if a facsimile, at the time of dispatch if the sender receives a transmission report which confirms that the facsimile was sent in its entirety to the facsimile number of the recipient unless the day in the place in which the facsimile is received is not a Business Day or the time in the place in which the facsimile was received was after 5.00 pm on a Business Day, in which case it is taken to be received at 9.00 am on the next Business Day.

## 8. GENERAL

### 8.1 CUMULATIVE RIGHTS

The rights, powers and remedies of Telstra and the KAZ Shareholders under this Deed Poll are cumulative with the rights, powers or remedies provided by law independently of this Deed Poll.



**8.2 WAIVER AND VARIATION**

- (a) A provision or a right under this Deed Poll may not be waived except in writing signed by the person granting the waiver.
- (b) A provision of this Deed Poll may not be varied unless the variation is agreed to by KAZ and the Court indicates that the amendment would not of itself preclude approval of the Schemes, in which event Telstra will enter into a further Deed Poll in favour of the KAZ Shareholders giving effect to such amendment.

**9. GOVERNING LAW AND JURISDICTION**

- (a) This Deed Poll is governed by the laws of New South Wales.
- (b) Telstra irrevocably submits to the non-exclusive jurisdiction of the Courts of New South Wales.

**10. ASSIGNMENT**

The rights and obligations of a person under this Deed Poll are personal. They cannot be assigned, charged or otherwise dealt with, and no person shall attempt or purport to do so.

**Executed** as a Deed Poll

**Signed sealed and delivered by**  
**Telstra Corporation Limited** by its attorney in the presence of

[Signed]	[Signed]
_____ Attorney	_____ Witness

<b>Michael Foster</b>	<b>Tony Henshaw</b>
_____ Print Name	_____ Print Name



## 9. Ordinary Scheme of Arrangement

Pursuant to Section 411 of the Corporations Act

BETWEEN: KAZ GROUP LIMITED (ACN 002 124 405) (KAZ)  
AND: THE HOLDERS OF FULLY PAID ORDINARY SHARES IN KAZ GROUP LIMITED

### 1. DEFINITIONS AND INTERPRETATION

#### 1.1 DEFINITIONS

**ASIC** means the Australian Securities and Investments Commission.

**ASX** means Australian Stock Exchange Limited (ACN 008 624 691).

**Business Day** means a weekday on which trading banks are open for business in Sydney.

**CHESS** means the clearing house electronic sub-register system of share transfers operated by ASX Settlement and Transfer Corporation Pty Limited.

**Corporations Act** means the Corporations Act 2001 (Cth).

**Court** means a court of competent jurisdiction under the Corporations Act.

**Deed Poll** means the Deed Poll dated 28 May 2004 executed by Telstra in favour of KAZ Shareholders.

**Effective** means the coming into effect, pursuant to section 411(10) of the Corporations Act, of the order of the Court made under section 411(4)(b) in relation to the Scheme.

**Effective Date** means the date on which the Scheme becomes Effective.

**End Date** means 30 September 2004.

**Implementation Date** means the Business Day immediately following the Record Date.

**KAZ Shareholder** means each person who is registered in the Register as the holder of KAZ Shares.

**KAZ Shares** means fully paid ordinary shares in KAZ.

**Marketable Parcel** has the meaning given to that term in the ASX Market Rules.

**Merger Implementation Agreement** means the Merger Implementation Agreement dated 6 April 2004 between KAZ and Telstra relating to the implementation of the Transaction.

**Record Date** means 5.00 pm on the fifth Business Day following the Effective Date, or such earlier date as the parties may agree in writing.

**Register** means the KAZ register of members.

**Scheme** means this scheme of arrangement, subject to any alterations or conditions made or required by the Court pursuant to Section 411(6) of the Corporations Act.

**Scheme Consideration** means for each KAZ Share held at the Record Date, \$0.40 cash.

**Scheme Meeting** means the meeting to be convened by the Court pursuant to Section 411(1) of the Corporations Act.

**Scheme Participants** means each person who is a KAZ Shareholder as at the Record Date.

**Second Court Date** means the first day of the Second Court Hearing.

**Second Court Hearing** means the hearing of the application made to the Court for an order pursuant to section 411(4)(b) of the Corporations Act approving the Scheme.

**Share Registry** means person(s) operating the Register.

**Telstra** means Telstra Corporation Limited (ACN 051 775 556) and, other than in relation to a payment obligation, if reasonably requested by Telstra in writing to KAZ, shall be taken to be references to Telstra's nominee, Telstra Services Solutions Holdings Limited (ACN 079 750 315).

**Transaction** means the acquisition by Telstra of all of the KAZ Shares held by Scheme Participants by means of the Scheme.

## 1.2 INTERPRETATION

Headings are for convenience only and do not affect interpretation. The following rules of interpretation apply unless the context requires otherwise.

- (a) The **singular** includes the plural and conversely.
- (b) A **gender** includes all genders.
- (c) Where a **word** or **phrase** is defined, its other grammatical forms have a corresponding meaning.
- (d) A reference to a **person** includes a body corporate, an unincorporated body or other entity and conversely.
- (e) A reference to a **clause** or **schedule** is to a clause of or schedule to this Scheme.
- (f) A reference to any **agreement** or **document** is to that agreement or document as amended, novated, supplemented, varied or replaced from time to time, except to the extent prohibited by that other agreement or document.
- (g) A reference to any **legislation** or to any provision of any legislation includes any modification or re-enactment of it, any legislative provision substituted for it and all regulations and statutory instruments issued under it.
- (h) Mentioning anything after **include, includes** or **including** does not limit what else might be included.
- (i) A reference to **dollars** or **\$** is to Australian currency.
- (j) A reference to a particular time of day shall be a reference to that time in Sydney.
- (k) A word or expression to which a meaning is attributed in the Corporations Act shall bear that meaning.

## 1.3 BUSINESS DAY

Except where otherwise expressly provided, where the day on which any act, matter or thing is to be done is a day other than a Business Day, such act matter or thing shall be done on the immediately succeeding Business Day.

## 2. PRELIMINARY

- (a) KAZ is a public company registered in New South Wales and is a company limited by shares.
- (b) As at 20 May 2004, 828,039,925 KAZ Shares were on issue.
- (c) Telstra is a public company registered in Victoria and is a company limited by shares.
- (d) If the Scheme becomes Effective then:
  - (i) all the KAZ Shares will be transferred to Telstra, and Telstra will pay the Scheme Consideration to Scheme Participants in accordance with the provisions of the Scheme; and
  - (ii) KAZ shall enter the name of Telstra in the Register in respect of all the KAZ Shares.
- (e) Telstra has entered into a Deed Poll in favour of KAZ Shareholders pursuant to which it has covenanted to pay the Scheme Consideration in accordance with the terms of the Deed Poll.

## 3. CONDITIONS PRECEDENT TO AND EFFECTIVENESS OF THE SCHEME

### 3.1 CONDITIONS PRECEDENT

The Scheme is conditional upon:

- (a) all of the conditions set out in clause 3.1 of the Merger Implementation Agreement having been satisfied or having been waived in accordance with the terms of the Merger Implementation Agreement prior to 6.00pm on the day prior to the Second Court Date; and
- (b) all necessary approvals under Section 411(4) of the Corporations Act.



## 3.2 SATISFACTION OF CONDITIONS

- (a) The fulfilment of clause 3.1 is a condition precedent to the operation of the provisions of clause 4 of the Scheme.
- (b) KAZ and Telstra shall provide to the Court at the Second Court Hearing a certificate confirming whether or not all the conditions precedent in the Merger Implementation Agreement and this Scheme have been satisfied or waived.
- (c) The Scheme will lapse and be of no further force or effect if the Effective Date has not occurred on or before the End Date or such later date as KAZ and Telstra may agree in writing.

## 4. THE SCHEME

- (a) As soon as practical, following approval of the Scheme by the Court in accordance with Section 411(4)(b) of the Corporations Act, and in any event by no later than 10.00 am on the Business Day following that approval, KAZ will lodge with ASIC an office copy of the Court order under Section 411(10) of the Corporations Act approving the Scheme. The Court order is taken to have effect on and from the time and date specified in that order.
- (b) On the Implementation Date:
  - (i) all of the KAZ Shares (together with all rights and entitlements attaching to the KAZ Shares) will be transferred to Telstra without the need for any further act by any Scheme Participant (other than acts performed by KAZ or its directors or officers as attorney and agent for the Scheme Participants under clause 6(h));
  - (ii) KAZ will deliver to Telstra a duly completed and executed share transfer form or forms to transfer all of the KAZ Shares to Telstra;
  - (iii) the KAZ Shares together with all rights and entitlements attaching to the KAZ Shares as at that date will be transferred to Telstra; and
  - (iv) in consideration for the transfer of the KAZ Shares to Telstra, Telstra will pay, or procure the payment of, the Scheme Consideration to the Scheme Participants for each KAZ Share registered in the name of that Scheme Participant in accordance with the provisions of the Scheme.
- (c) Telstra will execute the share transfer form(s) referred to in clause 4(b) and will deliver the share transfer forms to KAZ for registration.
- (d) Immediately following receipt of transfer form(s) in respect of the KAZ Shares, KAZ shall enter the name of Telstra in the Register in respect of the KAZ Shares.
- (e) The Scheme Participants agree to the transfer of their KAZ Shares (together with all rights and entitlements attaching to their KAZ Shares) in accordance with the Scheme.
- (f) Upon the Scheme becoming Effective and until KAZ registers Telstra as the holder of all the KAZ Shares in the KAZ Register, each Scheme Participant:
  - (i) is deemed to have appointed KAZ and each of its directors and officers (jointly and severally) as its attorney and agent (and directed KAZ and each of its directors and officers (jointly and severally) in such capacity) to appoint Mark Andrew White or, failing him, Graeme Smith as its sole proxy and, where applicable, corporate representative to attend shareholders' meetings, exercise the votes attaching to the KAZ Shares registered in its name and sign any shareholders' resolution, and no Scheme Participant 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 this clause 4(f)); and
  - (ii) must take all other actions in the capacity of a registered holder of KAZ Shares as Telstra reasonably directs.



KAZ undertakes in favour of each Scheme Participant that it will appoint Mark Andrew White or, failing him, Graeme Smith as that Scheme Participant's proxy or, where applicable, corporate representative in accordance with this clause 4(f).

## 5. DEALINGS IN KAZ SHARES

- (a) For the purpose of establishing who are Scheme Participants, dealings in KAZ Shares will only be recognised if:
  - (i) 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 KAZ Shares by the Record Date; and
  - (ii) in all other cases, if registrable transmission applications or transfers in respect of those dealings are received on or before the Record Date at the place where the Register is kept.
- (b) KAZ must register registrable transmission applications or transfers in respect of those dealings which are received on or before the Record Date at the place where the Register is kept provided that nothing in this clause 5(b) requires KAZ to register a transfer that would result in a KAZ Shareholder holding a parcel of KAZ Shares that is less than a Marketable Parcel.
- (c) KAZ will not accept for registration or recognise for any purpose any transmission application or transfer in respect of KAZ Shares received after the Record Date (except a transfer to Telstra pursuant to this Scheme and any subsequent transfer by Telstra, or its successors in title).
- (d) For the purpose of determining entitlements to the Scheme Consideration, KAZ will, until the Scheme Consideration has been paid, maintain the Register in accordance with the foregoing provisions of this clause 5 and the Register in this form will solely determine entitlements to the Scheme Consideration.
- (e) KAZ must procure that on the Record Date, details of the names, registered addresses and holdings of KAZ Shares of every Scheme Participant as shown in the Register at the Record Date are available to Telstra in such form as Telstra may reasonably require.
- (f) As from the Record Date (and other than for Telstra, or its successors in title), all share certificates and holding statements for the KAZ Shares will cease to have effect as documents of title, and each entry on the Register at that date will cease to have any effect other than as evidence of entitlement to the Scheme Consideration.

## 6. GENERAL SCHEME PROVISIONS

- (a) Should the Court propose to approve the Scheme subject to any variations, alterations or conditions, KAZ may, with the consent of Telstra, by its counsel or solicitor consent on behalf of all persons concerned to those variations, alterations or conditions to which Telstra has consented.
- (b) Where a notice, transfer, transmission application, direction or other communication referred to in the Scheme is sent by post to KAZ, it shall 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 KAZ's registered office or at its Share Registry.
- (c) The Scheme Participants agree to the transfer of their KAZ Shares to Telstra in accordance with the terms of the Scheme.
- (d) The Scheme Participants are deemed to have warranted to Telstra, and appointed and authorised KAZ as their attorney and agent to warrant to Telstra, that all their KAZ Shares (including any rights and entitlements attaching to those shares) which are transferred to Telstra under the Scheme will, at the date of the transfer of them to Telstra, be fully paid and free from all mortgages, charges, liens, encumbrances and interests of third parties of any kind, whether legal or otherwise, and restrictions on transfer of any kind, and that they have full



power and capacity to sell and to transfer their KAZ Shares together with any rights attaching to such shares. KAZ undertakes in favour of each Scheme Participant that it will provide such warranty to Telstra on behalf of the Scheme Participant.

- (e) Telstra shall be beneficially entitled to the KAZ Shares (together with all rights and entitlements attached to the KAZ Shares) transferred to it under the Scheme pending registration by KAZ of Telstra in the KAZ Register as the holder of the KAZ Shares.
- (f) The Scheme Participants consent to KAZ doing all things necessary, expedient or incidental to the implementation of the Scheme.
- (g) KAZ will execute all documents and do all acts and things necessary for the implementation and performance of its obligations under the Scheme.
- (h) Upon the Scheme becoming Effective, each Scheme Participant, without the need for any further act, irrevocably appoints KAZ and all of its directors and officers (jointly and severally) as its attorney and agent for the purpose of executing any document necessary or expedient to give effect to the Scheme including without limitation:
  - (A) a proper instrument of transfer of its KAZ Shares for the purposes of Section 1071B of the Corporations Act which may be a master transfer of all the KAZ Shares; and
  - (B) any instrument appointing Telstra as sole proxy for or, where applicable, corporate representative of each Scheme Participant as contemplated by clause 4(f).
- (i) The proper law of the Scheme is the law of the State of New South Wales. The parties submit to the non-exclusive jurisdiction of the courts exercising jurisdiction in New South Wales.



## 10. Option Scheme of Arrangement

Pursuant to Section 411 of the Corporations Act

BETWEEN: KAZ GROUP LIMITED (ACN 002 124 405) (KAZ)  
AND: THE HOLDERS OF OPTIONS IN KAZ GROUP LIMITED

### 1. DEFINITIONS AND INTERPRETATION

#### 1.1 DEFINITIONS

**ASIC** means the Australian Securities and Investments Commission.

**Business Day** means a weekday on which trading banks are open for business in Sydney.

**Corporations Act** means the Corporations Act 2001 (Cth).

**Court** means a court of competent jurisdiction under the Corporations Act.

**Deed Poll** means the Deed Poll dated 28 May 2004 executed by Telstra in favour of KAZ Shareholders.

**Effective** means the coming into effect, pursuant to section 411(10) of the Corporations Act, of the order of the Court made under section 411(4)(b) in relation to the Scheme.

**Effective Date** means the date on which the Scheme becomes Effective.

**End Date** means 30 September 2004.

**Implementation Date** means the Business Day immediately following the Record Date.

**KAZ Shareholder** means each person who is registered in the Register as the holder of KAZ Shares.

**KAZ Shares** means fully paid ordinary shares in KAZ.

**Merger Implementation Agreement** means the Merger Implementation Agreement dated 6 April 2004 between KAZ and Telstra relating to the implementation of the Transaction.

**Option** means an option granted by KAZ to acquire a KAZ Share, subject to the terms upon which the option was granted.

**Option Holder** means each person who is registered in the register of option holders of KAZ as the holder of an Option at the Record Date.

**Ordinary Scheme** means the scheme of arrangement between KAZ and KAZ Shareholders.

**Record Date** means 5.00 pm on the fifth Business Day following the Effective Date, or such earlier date as the parties may agree in writing.

**Register of Option Holders** means the KAZ register of option holders.

**Scheme** means this scheme of arrangement, subject to any alterations or conditions made or required by the Court pursuant to Section 411(6) of the Corporations Act.



**Scheme Consideration** means for each Option held at the Record Date, the offer price set out in the last column of the following table:

Option type	Number issued	Expiry date	Strike price	Offer price
Employee Options issued on Float (tranche 2)	1,175,010	18/04/2005	\$0.166	\$0.255
Employee Options issued on Float (tranche 3)	1,625,628	18/04/2006	\$0.166	\$0.255
Executive Options issued on Float (tranche 2)	430,596	18/04/2005	\$0.166	\$0.255
Executive Options issued on Float (tranche 3)	517,002	18/04/2006	\$0.166	\$0.255
Ausdata Options FY 2001	45,000	03/09/2004	\$0.570	\$0.025
Ausdata Options FY 2002	30,000	02/09/2005	\$0.570	\$0.085
Director/Employee Options (prospectus)	840,000	03/09/2004	\$0.790	\$0.010
Non-Executive Director Options (prospectus)	1,800,000	09/03/2006	\$0.166	\$0.255
Change Management Acquisition Options (tranche 3)	277,500	01/10/2004	\$0.166	\$0.245
Change Management Acquisition Options (tranche 4)	277,500	01/04/2005	\$0.166	\$0.250
Change Management 2001 Incentive Options	240,000	03/09/2004	\$0.166	\$0.245
Change Management 2002 Incentive Options	240,000	16/08/2005	\$0.770	\$0.050
Change Management 2002 Incentive Replacement Options	240,000	16/08/2005	\$0.167	\$0.255

**Scheme Creditors** means each person who is registered in the Register of Option Holders as the holder of Options at the Record Date.

**Scheme Meeting** means the meeting to be convened by the Court pursuant to Section 411(1) of the Corporations Act.

**Second Court Date** means the first day of the Second Court Hearing.

**Second Court Hearing** means the hearing of the application made to the Court for an order pursuant to section 411(4)(b) of the Corporations Act approving the Scheme.

**Share Registry** means person(s) operating the KAZ register of members.

**Telstra** means Telstra Corporation Limited (ACN 051 775 556) and, other than in relation to a payment obligation, if reasonably requested by Telstra in writing to KAZ, shall be taken to be references to Telstra's nominee, Telstra Services Solutions Holdings Limited (ACN 079 750 315).

**Transaction** means the acquisition by Telstra of all of the KAZ Shares held by Scheme Participants by means of the Scheme.

## 1.2 INTERPRETATION

Headings are for convenience only and do not affect interpretation. The following rules of interpretation apply unless the context requires otherwise.

- (a) The **singular** includes the plural and conversely.
- (b) A **gender** includes all genders.
- (c) Where a **word** or **phrase** is defined, its other grammatical forms have a corresponding meaning.
- (d) A reference to a **person** includes a body corporate, an unincorporated body or other entity and conversely.
- (e) A reference to a **clause** or **schedule** is to a clause of or schedule to this Scheme.
- (f) A reference to any **agreement** or **document** is to that agreement or document as amended, novated, supplemented, varied or replaced from time to time, except to the extent prohibited by that other agreement or document.
- (g) A reference to any **legislation** or to any provision of any legislation includes any modification or re-enactment of it, any legislative provision substituted for it and all regulations and statutory instruments issued under it.
- (h) Mentioning anything after **include, includes** or **including** does not limit what else might be included.
- (i) A reference to **dollars** or **\$** is to Australian currency.
- (j) A reference to a particular time of day shall be a reference to that time in Sydney.
- (k) A word or expression to which a meaning is attributed in the Corporations Act shall bear that meaning.

## 1.3 BUSINESS DAY

Except where otherwise expressly provided, where the day on which any act, matter or thing is to be done is a day other than a Business Day, such act matter or thing shall be done on the immediately succeeding Business Day.

## 2. PRELIMINARY

- (a) KAZ is a public company registered in New South Wales and is a company limited by shares.
- (b) As at 20 May 2004, 7,738,236 Options were on issue.
- (c) Telstra is a public company registered in Victoria and is a company limited by shares.
- (d) If the Scheme becomes Effective then:
  - (i) Scheme Creditors will have their Options cancelled; and
  - (ii) in consideration of the cancellation of each Option Telstra will pay the Scheme Consideration in accordance with the provisions of this Scheme.
- (e) Telstra has entered into a Deed Poll in favour of KAZ Shareholders pursuant to which it has covenanted to pay the Scheme Consideration in accordance with the terms of the Deed Poll.

## 3. CONDITIONS PRECEDENT TO AND EFFECTIVENESS OF THE SCHEME

### 3.1 CONDITIONS PRECEDENT

The Scheme is conditional upon:

- (a) all of the conditions set out in clause 3.1 of the Merger Implementation Agreement having been satisfied or having been waived in accordance with the terms of the Merger Implementation Agreement prior to 6.00pm on the day prior to the Second Court Date; and
- (b) the Ordinary Scheme becoming Effective, provided that this condition may be waived in whole or in part by Telstra in its absolute discretion by notice in writing given to KAZ within 5 Business Days of the date on which the Ordinary Scheme is rejected by the Ordinary Scheme Participants; and
- (c) all necessary approvals under Section 411(4) of the Corporations Act.



## 3.2 SATISFACTION OF CONDITIONS

- (a) The fulfilment of clause 3 is a condition precedent to the operation of the provisions of clause 4 of the Scheme.
- (b) KAZ and Telstra shall provide to the Court at the Second Court Hearing a certificate confirming whether or not all the conditions precedent in the Merger Implementation Agreement and this Scheme have been satisfied or waived.
- (c) The Scheme will lapse and be of no further force or effect if the Effective Date has not occurred on or before the End Date or such later date as KAZ and Telstra may agree in writing.

## 4. THE SCHEME

- (a) As soon as practical following approval of the Scheme by the Court in accordance with Section 411(4)(b) of the Corporations Act, and in any event by no later than 10.00 am on the Business Day following that approval, KAZ will lodge with ASIC an office copy of the Court order under Section 411(10) of the Corporations Act approving the Scheme. The Court order is taken to have effect on and from the time and date specified in that order.
- (b) On the implementation Date, the debts and claims evidenced by the Options and all of the rights and obligations pertaining to the Options shall be cancelled by KAZ and extinguished and thereupon each Scheme Creditor will become entitled to his or her Scheme Consideration.

## 5. GENERAL SCHEME PROVISIONS

- (a) Should the Court propose to approve the Scheme subject to any variations, alterations or conditions, KAZ may, with the consent of Telstra, by its counsel or solicitor consent on behalf of all persons concerned to those variations, alterations or conditions to which Telstra has consented.
- (b) Where a notice, transfer, transmission application, direction or other communication referred to in the Scheme is sent by post to KAZ, it shall 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 KAZ's registered office or at its Share Registry.
- (c) The Scheme Creditors agree to the cancellation of their Options in accordance with the terms of the Scheme.
- (d) The Scheme Creditors consent to KAZ doing all things necessary, expedient or incidental to the implementation of the Scheme.
- (e) KAZ will execute all documents and do all acts and things necessary for the implementation and performance of its obligations under the Scheme.
- (f) Each Scheme Creditor, without the need for any further act, irrevocably appoints KAZ and all of its directors and officers (jointly and severally) as its attorney and agent for the purpose of executing any document necessary or expedient to give effect to the Scheme.
- (g) From the Effective Date, Options shall not be capable of being exercised, notwithstanding any term upon which the Option was granted.
- (h) KAZ will not accept for registration or recognise for any purpose any transmission application or transfer in respect of Options received after the Effective Date.
- (i) The proper law of the Scheme is the law of the State of New South Wales. The parties submit to the non-exclusive jurisdiction of the courts exercising jurisdiction in New South Wales.



## 11. Glossary of Terms

In this Information Memorandum, unless the context otherwise requires:

<b>ASIC</b>	means the Australian Securities and Investments Commission.
<b>ASX</b>	means Australian Stock Exchange Limited (ABN 98 008 624 691).
<b>ASX Business Rules</b>	means the Business Rules of the ASX.
<b>BPO</b>	means Business Process Outsourcing.
<b>Business Day</b>	means a week day on which trading banks are open for business in Sydney.
<b>CHESS</b>	means the clearing house electronic sub-register system of share transfers operated by the ASX Settlement and Transfer Corporation Limited.
<b>Company</b>	means KAZ.
<b>Conditions Precedent</b>	means the conditions precedent specified in clause 3.1 of the Merger Implementation Agreement.
<b>Corporations Act</b>	means the Corporations Act 2001 (Cth).
<b>Court</b>	means the Federal Court of Australia.
<b>Deed Poll</b>	means the Deed Poll dated 28 May 2004 executed by Telstra in favour of KAZ Shareholders and Option Holders covenanting to pay the Scheme Consideration.
<b>Deloitte Corporate Finance</b>	means Deloitte Corporate Finance Pty Limited (ACN 003 833 127).
<b>Director</b>	means a director of KAZ.
<b>Effective</b>	means, when used in relation to a Scheme, the coming into effect, pursuant to subsection 411(10) of the Corporations Act, of the order of the Court made under paragraph 411(4)(b) of the Corporations Act in relation to that Scheme.
<b>Effective Date</b>	means, when used in relation to a Scheme, the date on which an office copy of a Court order under section 411 of the Corporations Act approving that Scheme is lodged with ASIC.
<b>End Date</b>	means 30 September 2004 or such other date as may be agreed between KAZ and Telstra.
<b>Explanatory Statement</b>	means the explanatory statement of KAZ issued pursuant to section 412 of the Corporations Act which is included as section 4 of this Information Memorandum and which has been registered by ASIC.
<b>ICT</b>	means Information, Communications and Technology.
<b>Implementation Date</b>	means the Business Day immediately following the Record Date.
<b>Independent Expert</b>	means Deloitte Corporate Finance.
<b>Independent Expert's Report</b>	means the report of the Independent Expert concerning the Schemes set out in section 6.
<b>Information Memorandum</b>	means this information memorandum, providing information to assist KAZ Shareholders and Option Holders in deciding how to vote on the Schemes.
<b>KAZ</b>	means KAZ Group Limited (ACN 002 124 405) of Level 10, 59 Goulburn Street, Sydney, New South Wales.
<b>KAZ Shareholder</b>	means each person who is registered in the Register as the holder of a KAZ Share from time to time.
<b>KAZ Shares</b>	means fully paid ordinary shares in the capital of KAZ.
<b>KAZ Share Registry</b>	means the KAZ Share Registry, Computershare Investor Services Pty Limited, GPO Box 242, Melbourne, Victoria 8060.



<b>Listing Rules</b>	means the listing rules of the ASX.
<b>Marketable Parcel</b>	has the meaning give to that term in the ASX Market Rules.
<b>Merger Implementation Agreement</b>	means the Merger Implementation Agreement dated 6 April 2004 between KAZ and Telstra relating to the implementation of the Schemes, a copy of which is contained in section 7 of this Information Memorandum.
<b>Notice of Option Scheme Meeting</b>	means the notice of Scheme Meeting of Option Holders enclosed with this Information Memorandum.
<b>Notice of Ordinary Scheme Meeting</b>	means the notice of Scheme Meeting of KAZ Shareholders enclosed with this Information Memorandum.
<b>Option</b>	means an option granted by KAZ to acquire a KAZ Share, subject to the terms upon which the option was granted.
<b>Option Holder</b>	means each person who is registered in the register of option holders of KAZ as the holder of an Option from time to time.
<b>Option Plans</b>	means the KAZ Group Limited Employee Share Option Plan and the KAZ Computer Services Limited Executive Share Option Plan.
<b>Option Scheme</b>	means the scheme of arrangement between KAZ and the Option Scheme Participants set out in section 10, subject to any alterations or conditions made or required by the Court pursuant to section 411(6) of the Corporations Act.
<b>Option Scheme Consideration</b>	has the meaning given in the Option Scheme, as set out in section 10.
<b>Option Scheme Meeting</b>	means the meeting of Option Holders to be convened by the Court pursuant to section 411(1) of the Corporations Act.
<b>Option Scheme Participant</b>	means each person who is an Option Holder as at the Record Date.
<b>Ordinary Scheme</b>	means the scheme of arrangement between KAZ and the Ordinary Scheme Participants set out in section 9, subject to any alterations or conditions made or required by the Court pursuant to section 411(6) of the Corporations Act.
<b>Ordinary Scheme Consideration</b>	means \$0.40 cash in respect of each KAZ Share.
<b>Ordinary Scheme Meeting</b>	means the meeting of KAZ Shareholders to be convened by the Court pursuant to section 411(1) of the Corporations Act.
<b>Ordinary Scheme Participant</b>	means each person who is a KAZ Shareholder as at the Record Date.
<b>Record Date</b>	means 5.00 pm on the fifth Business Day following the Effective Date, or such earlier date as KAZ and Telstra may agree in writing.
<b>Register</b>	means the KAZ register of members.
<b>Scheme Consideration</b>	means the Ordinary Scheme Consideration and the Option Scheme Consideration.
<b>Schemes</b>	means the Ordinary Scheme and Option Scheme.
<b>Scheme Meetings</b>	means the Ordinary Scheme Meeting and the Option Scheme Meeting.
<b>Scheme Participants</b>	means the Ordinary Scheme Participants and the Option Scheme Participants.
<b>Second Court Date</b>	when used in relation to a Scheme, means the day on which the Court makes an order pursuant to section 411(4)(b) of the Corporations Act approving the Scheme.
<b>Share Plan</b>	means the KAZ Group Limited Executive Share Acquisition Plan or the KAZ Group Limited Employee Share Participation Plan.



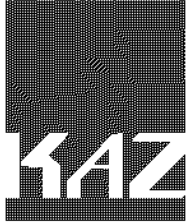
# INFORMATION MEMORANDUM

<b>Telstra</b>	means Telstra Corporation Limited (ACN 051 775 556).
<b>Telstra Group</b>	means Telstra and each of its subsidiaries.
<b>Telstra Services Solutions Holdings</b>	means Telstra Services Solutions Holdings Limited (ACN 079 750 315).
<b>Telstra Shares</b>	means fully paid ordinary shares of Telstra.
<b>Transaction</b>	means the acquisition by Telstra of all of the KAZ Shares and the cancellation of all of the Options by means of the Schemes.









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