CONVERGED COMMUNICATIONS

THIS IS AN IMPORTANT DOCUMENT AND REQUIRES YOUR ATTENTION

You should carefully read this document. If you are in any doubt as to how to deal with it, please consult your financial or other professional adviser.

SP TELEMEDIA LIMITED

ABN 46 093 058 069

Explanatory Statement and Notice of Meeting

Date: 7 April 2008 **Time:** 10.00am

Location: Level 1, 160 Pitt Street Mall, Sydney.

In this document you will find:

1. A letter from the Chairman outlining the proposed resolutions to be considered at the General Meeting and a recommendation as to how you should vote.
2. An explanatory statement containing an explanation of, and information about, the proposed resolutions to be considered at the meeting and information to explain the resolutions.
3. Notice of General Meeting.
4. Proxy Form.

CONVERGED COMMUNICATIONS

Chairman's Letter

Dear Shareholder

The board of SP Telemedia Limited (Company or SP Telemedia) has convened a general meeting of shareholders to be held on 7 April 2008 to obtain shareholder approval of a number of resolutions of major importance to the Company and its shareholders arising from the Company's proposed acquisition of TPG Holdings Limited (TPG).

Further details of the proposed acquisition, including an independent expert's report on the proposed acquisition, are contained in the enclosed explanatory statement.

The Directors expect significant benefits and opportunities will arise from the proposed transaction and unanimously recommend that shareholders vote in favour of the resolutions set out in the accompanying notice of meeting.

Background

Following the sale of NBN Enterprises Limited in May 2007, the Board of SP Telemedia has been examining potential mergers or acquisitions which would complement the existing SP Telemedia business.

The board is of the view that consolidation of the telecommunications industry needs to occur if the large numbers of small telecommunications companies in the Australian market are to compete with the large integrated companies with networks of owned infrastructure.

TPG was identified as a highly complementary fit with SP Telemedia. The merger brings TPG's 238 owned DSLAMs, as at 7 February 2008, with SP Telemedia's converged voice and data network containing over 300 points of presence (PoPs). The merged entity will have the enviable position of an extensive footprint of DSLAMs along with voice and data coverage, other than for the provision of ADSL2+ services, to 98.5% of the population.

Who is TPG?

TPG was established in 1986 and offers dial up, ADSL and ADSL2+ internet solutions to consumers and small business. TPG also offers a variety of network solutions to corporate customers. TPG has a controlling shareholding in Chariot Limited (70.25 per cent). TPG currently has 238 DSLAMs and will continue to roll out DSLAM infrastructure.

Merger Terms

The merger is to be effected under a Share Sale and Placement Agreement through the acquisition by SP Telemedia of all the issued shares in TPG Holdings Limited for an acquisition price of $150 million in cash, to be funded through debt, together with the issue of 270,000,003 SP Telemedia Shares.

The benefits of the Transaction are:

- Cash earnings per share accretive immediately;
- A number of synergies have been identified;
- The merger will provide the Company with greater scale;

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SP Telemedia Limited trading as SOUL

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- Payment of a special dividend of 2.4 cents to Shareholders if all of the Resolutions are approved;
- Increase in cashflow per Share.

Under the Share Sale and Placement Agreement, David Teoh and Vicky Teoh will together acquire a relevant interest in 261,172,492 Shares, which will represent 38.68% of the enlarged share capital of the Company. The Board has retained Lonergan Edwards as an Independent Expert to assess the proposed issue of Shares to the Teohs, as part of the Transaction, under the Share Sale and Placement Agreement. Their report, which you should read in full, is set out in Annexure A of this Explanatory Memorandum and they have assessed the issue of Shares to the Teohs under the Transaction to be not fair but reasonable to the Shareholders not associated with the Teohs. In summary, Lonergan Edwards has concluded that the proposed issue of Teoh Shares is not fair to Shareholders because the effective issue price of the Placement Shares is not equal to and does not exceed the value of 100% of the SP Telemedia Shares. However, in Lonergan Edwards' opinion, the proposed issue is reasonable to Shareholders because the effective issue price of the Shares to be issued to the Teohs represents a significant premium to the ex-dividend price of the Shares prior to announcement of the Transaction and, on balance, the overall advantages of the Transaction outweigh the disadvantages.

Please see sections 5.5 for the directors' review of the advantages and disadvantages of the proposed issue of Shares to the Teohs under the Transaction.

You are urged to consider carefully all of the material in the Explanatory Statement, determine how you wish to vote and cast your vote accordingly.

If you cannot attend the general meeting, you are strongly urged to complete the proxy form and return it to the Company or the Company's share registry as soon as possible and in any event by no later than 10.00am on 5 April 2008.

Yours faithfully

Mr Robert Millner
Chairman
SP Telemedia Limited

29 February 2008

SP Telemedia Limited

ABN 46 093 058 069

Notice of General Meeting

Notice is given that a General Meeting of the members of SP Telemedia Limited will be held at Level 1, 160 Pitt Street Mall, Sydney 2000 on 7 April 2008 at 10.00am to carry out the following business.

Agenda

Business

Resolution 1 – Change in Scale of the Activities of the Company

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

> *"Subject to the passing of Resolutions 2 and 3, that for the purposes of Listing Rule 11.1.2 and for all other purposes, the members approve the change in the scale of the Company's activities that will occur upon the acquisition of all the issued shares in TPG Holdings Limited by the Company."*

Resolution 2 – Issue of Securities to TPG Shareholders

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

> *"Subject to the passing of Resolutions 1 and 3, that for the purposes of Listing Rule 7.1 and for all other purposes, the Company approves the issue of 270,000,003 Shares to TPG Shareholders, who are identified in Schedule 1 to the Explanatory Memorandum which accompanies the Notice of Meeting for this meeting, in accordance with the terms of the Share Sale and Placement Agreement as described in Section 2 of the Explanatory Memorandum."*

Resolution 3 – Approval of Acquisition of Relevant Interests by David Teoh and Vicky Teoh

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

> *"Subject to the passing of Resolutions 1 and 2, that for the purposes of section 611 item 7 of the Corporations Act and for all other purposes, the members approve the acquisition of a relevant interest in 261,172,492 Shares by David Teoh and Vicky Teoh under the Share Sale and Placement Agreement, as described in Section 2 of the Explanatory Memorandum which accompanies the Notice of Meeting for this meeting."*

Resolution 4 – Approval of Financial Assistance to acquire TPG Holdings Limited shares

To consider and, if thought fit, to pass the following resolution as a special resolution:

> *"Subject to the passing of Resolutions 5, 6 and 7, that for the purposes of section 260B(2) of the Corporations Act and for all other purposes, the members approve the giving of financial assistance by TPG Holdings Limited, Value Added Network Pty Limited, Orchid Human Resources Pty Limited, TPG Internet Pty Limited, TPG Network Pty Limited, TPG Research Pty Limited and TPG Broadband Pty Limited to the Company to acquire all the issued shares in TPG Holdings Limited and indirectly of its subsidiary companies which are being acquired in connection with the transactions contemplated under the Share Sale and Placement Agreement, as described in Section 2 of the Explanatory Memorandum which accompanies the Notice of Meeting for this meeting."*

Resolution 5 – Approval of Financial Assistance to acquire Shares

To consider and, if thought fit, to pass the following resolution as a special resolution:

> *"Subject to the passing of Resolutions 4, 6 and 7, that for the purposes of section 260B(1) of the Corporations Act and for all other purposes, the members approve the giving of financial assistance by the Company to the TPG Shareholders, who are identified in Schedule 1 to the Explanatory Memorandum which accompanies the Notice of Meeting for this meeting, to acquire 270,000,003 Shares under the Share Sale and Placement Agreement, as described in Section 2 of the Explanatory Memorandum."*

Resolution 6– Approval of Financial Assistance by subsidiaries of the Company to acquire Shares

To consider and, if thought fit, to pass the following resolution as a special resolution:

> *"Subject to the passing of Resolutions 4, 5 and 7, that for the purposes of section 260B(2) of the Corporations Act and for all other purposes, the members approve the giving of financial assistance by the Australian subsidiaries of the Company, which are identified in Schedule 2 to the Explanatory Memorandum which accompanies the Notice of Meeting for this meeting, to the TPG Shareholders, who are identified in Schedule 1 to the Explanatory Memorandum, to acquire 270,000,003 Shares under the Share Sale and Placement Agreement, as described in Section 2 of the Explanatory Memorandum."*

Resolution 7 – Approval of Financial Assistance by subsidiaries of the TPG to acquire Shares

To consider and, if thought fit, to pass the following resolution as a special resolution:

> *"Subject to the passing of Resolutions 4, 5 and 6, that for the purposes of section 260B(2) of the Corporations Act and for all other purposes, the members approve the giving of financial assistance by TPG Holdings Limited, Value Added Network Pty Limited, Orchid Human Resources Pty Limited, TPG Internet Pty Limited, TPG Network Pty Limited, TPG Research Pty Limited and TPG Broadband Pty Limited, to the TPG Shareholders, who are identified in Schedule 1 to the Explanatory Memorandum, to acquire 270,000,003 Shares under the Share Sale and Placement Agreement, as described in Section 2 of the Explanatory Memorandum."*

Voting

Required Majority

In accordance with the Corporations Act and the Company's Constitution:

- an ordinary resolution must be passed by a simple majority of the total votes cast by shareholders entitled to vote on the resolution (whether in person or by proxy, attorney or representative); and
- a special resolution must be passed by at least 75% of the total votes cast by shareholders entitled to vote on the resolution (whether in person or by proxy, attorney or representative).

Inter-conditional Resolutions

Resolutions 1 to 3 are inter-conditional. Accordingly, each of Resolutions 1 to 3 must be approved by Shareholders by the requisite majority in order for all of Resolutions 1 to 3 to be effective.

Resolutions 4 to 7 are inter-conditional. Accordingly, each of Resolutions 4 to 7 must be approved by Shareholders by the requisite majority in order for all of Resolutions 4 to 7 to be effective.

Voting Exclusion Statements

The Company will disregard any votes cast on:

- Resolution 1, by a person who might obtain a benefit, except a benefit solely in the capacity of a Shareholder if the resolution is passed;

- Resolution 2, by the TPG Shareholders and any other person who might obtain a benefit, except a benefit solely in the capacity of a Shareholder, if the resolution is passed;
- Resolution 3, by the Teohs and their associates;
- Resolution 4, by the Company or its associates;
- Resolution 5, by the TPG Shareholders or their associates;
- Resolution 6, by the TPG Shareholders or their associates; and
- Resolution 7, by the TPG Shareholders or their associates.

However, the Company need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Determination of Shareholders' Right to Vote

For the purposes of Regulation 7.11.37 of the Corporations Regulations 2001, the Directors have determined that the voting entitlements for the purposes of the Meeting will be based on the registered holdings as at 7.00pm (Sydney time) on 5 April 2008. Accordingly those persons will be entitled to attend and vote at the meeting.

How to Vote

You may vote by attending the Meeting in person, by proxy, attorney or authorised representative.

Voting by Proxy and Attorney

Each Shareholder has a right to appoint a proxy.

A proxy form and a reply paid envelope have been enclosed for Shareholders with this Notice. If an additional proxy form is required, the Company's share registry, Computershare, will supply it on request (Telephone: 1300 855 080 (within Australia) or 61 3 9415 4000 (outside Australia)).

A proxy need not be a Shareholder.

A Shareholder, who is entitled to cast 2 or more votes, may appoint 2 proxies and may specify the proportion or number of votes each proxy is appointed to exercise. If no such proportion or number is specified, each proxy may exercise half of your votes. Fractions of votes will be disregarded.

To be effective, the Company must receive the completed proxy form by no later than 10.00am (Australian Eastern Standard Time) on 5 April 2008:

- at its registered office at 11-17 Mosbri Crescent, Newcastle NSW 2300;
- by facsimile to its registered office on fax number +61 3 9473 2118; or
- at its share registry, Computershare Investor Services Pty Limited, Level 2, 60 Carrington Street, Sydney NSW 2000 or by using the reply paid envelope to GPO Box 242, Melbourne VIC 3001.

If an attorney for a member is to vote at the meeting the instrument conferring the power of attorney or a certified copy must be provided to the Company in the same manner as proxies, being not later than 48 hours before the Meeting.

Proxies given by corporate Shareholders must be executed in accordance with their constitutions, or under the hand of a duly authorised officer or attorney.

Any revocations of proxies or attorneys must be received by the time and at one of the places which the instrument appointing the proxy is required to be received.

For more information concerning the appointment of proxies, please refer to the reverse side of the enclosed proxy form.

A proxy may decide whether to vote on any motion, except where the proxy is required by law or the Constitution to vote, or abstain from voting, in their capacity as proxy. If a proxy is directed how to vote on an item of business, the proxy may vote on that item only in accordance with the direction. If a proxy is not directed how to vote on an item of business, the proxy may vote as he or she thinks fit.

Voting in person

Shareholders, or their attorneys, who plan to attend the meeting are asked to arrive at the venue 30 minutes prior to the time designated for the meeting, if possible, so that their holding may be checked against the share register and attendances recorded.

A corporation, which is a shareholder, may appoint an individual to act as its representative and to vote in person at the meeting. The appointment must comply with the requirements of section 250D of the Corporations Act. The representative should bring to the meeting evidence of his or her appointment, including any authority under which it is signed, unless previously given to the SP Telemedia Limited Share Registry.

Voting Intentions

The Chairman intends to vote in favour of all resolutions on the agenda in respect of undirected proxy votes where the Chairman is appointed as proxy.

Key Dates

All times are in Sydney, Australia time.

Event	Date
Deadline for lodgement of proxy forms	10.00am, 5 April 2008
Date and time for determining eligibility to vote (being the date and time you must own Shares)	7.00pm, 5 April 2008
General meeting of Shareholders	10.00am, 7 April 2008
If Resolutions 1 to 7 are approved, expected date of the allotment and issue of the Placement Shares, including the Teoh Shares	23 April 2008
If Resolutions 1 to 7 are approved, expected date of completion of the acquisition of TPG Holdings Limited	23 April 2008

This timetable is indicative only and subject to change.

Important Notices

The Company has prepared the Meeting Documentation based on information available as of 29 February 2008. You should read the Meeting Documentation in its entirety before making a decision as to how to vote on the resolutions to be considered at the Meeting.

The Meeting Documentation does not take into account the investment objectives, financial situation or particular needs of individual Shareholders or any other person. If you are in doubt as to what you should do, you should consult your legal, investment or other professional adviser.

Role of ASIC and ASX

A copy of the Meeting Documentation has been provided to ASIC and ASX. Neither ASIC nor ASX nor any of their respective officers takes any responsibility for the contents of the Meeting Documentation.

Responsibility Statement

The information concerning SP Telemedia contained in the Meeting Documentation (other than Sections 5.2 and 5.3) has been prepared by SP Telemedia (SP Telemedia information) and is the responsibility of SP Telemedia. Neither TPG nor any of its shareholders, representatives, officers, employees or advisers assumes any responsibility for the accuracy or completeness of the SP Telemedia information.

The information concerning the Teohs contained in Sections 5.2 and 5.3 has been provided by the Teohs (Teoh Information) and is the responsibility of the Teohs. Neither SP Telemedia nor any of its representatives, officers, employees or advisers assumes any responsibility for the accuracy or completeness of the Teoh Information.

Lonergan Edwards has prepared the Independent Expert's Report in Annexure A of the Explanatory Memorandum and is responsible for that report in the Meeting Documentation only.

Forward Looking Statements

Certain statements in the Meeting Documentation relate to the future. Such statements involve known and unknown risks, uncertainties and other important factors that may cause the actual results, performance or achievements of SP Telemedia to be materially different from the results, performance or achievements expressed or implied by such statements. These statements reflect views held only as at the date of the Notice. The Company makes no representation and gives no assurance or guarantee that the occurrence of the events expressed or implied in such statements will actually occur. You are cautioned not to place undue reliance on any forward looking statement.

Dated this 29 February 2008

By order of the Board

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Stephen Banfield
Company Secretary
SP Telemedia Limited

EXPLANATORY MEMORANDUM TO SHAREHOLDERS CONCERNING THE GENERAL MEETING

This Explanatory Memorandum has been prepared to assist Shareholders in considering the resolutions set out in the Notice. It is part of, and should be read in conjunction with, the Notice.

1. Introduction

SP Telemedia proposes to expand its telecommunications business by acquiring all of the issued capital of TPG from the TPG Shareholders.

2. Overview of Proposed Acquisition of TPG

2.1 Introduction and Summary of Transaction

As part of SP Telemedia's expansion plan, it began discussions with TPG in October 2007. TPG offers dial up, ADSL and ADSL2+ internet solutions to consumers and small business. TPG also offers a variety of network solutions to corporate customers.

On 7 February 2007, the Company entered into a Share Sale and Placement Agreement with TPG and the TPG Shareholders pursuant to which it is proposed that SP Telemedia will acquire all of the issued share capital of TPG from the TPG Shareholders for an acquisition price of $150 million in cash, to be funded through debt, plus the issue of 270,000,003 Shares (**Placement Shares**). The scrip component of the total consideration represents in aggregate 39.99% of the total issued capital of the Company after the proposed acquisition (assuming no other Shares are issued between the date of this Notice and the issue of the Placement Shares).

TPG has more than 200,000 broadband customers and its own network, with 238 DSLAMs as at 7 February 2008, and the merger will provide significant opportunities for capital and operational cost savings. The combined group will have one of the largest DSLAM networks in Australia and will be one of Australia's most profitable telecommunications companies in terms of profit margin. Refer to Schedule 3 for further details about the historical pro forma profit and loss position of the combined group. In addition to the benefits from combining the SP Telemedia and TPG networks, there will be opportunities to increase network traffic, bundle and cross-sell both companies' products, rationalise rented premises, and reduce personnel and administrative costs. Access to TPG's DSLAMs will also reduce SP Telemedia's capital expenditure as its customer base expands.

2.2 New Directors

Under the Share Sale and Placement Agreement it is proposed that Mr David Teoh and Alan Latimer will be appointed to the board of directors of SP Telemedia upon Completion of the acquisition. Robert Milner will remain on the Board as an independent non-executive Director. It is intended that post Completion of the acquisition, there will be an additional 2 independent non-executive Directors, such that there would be a total of 3 independent non-executive Directors out of a total of 5 Directors on the Board.

(1) **David Teoh** (Age 52)

David is the founder and Managing Director of the TPG group of companies. From commencement in 1986 as a computer systems manufacturer and distributor, TPG has today grown into one of the largest Australian suppliers of internet and network services with substantial telecommunications infrastructure throughout Australia.

(2) **Alan Latimer** (B Comm, CA, GAICD, Age 54)

Mr Latimer is a Member of the Institute of Chartered Accountants and a Graduate Member of the Australian Institute of Company Directors. Mr Latimer is the Chief Financial Officer of TPG Holdings Limited and the TPG group of companies and is also a non-executive director of the ASX listed company, Chariot Internet Limited.

2.3 TPG

(1) Introduction

TPG was founded in 1986 as a personal computer assembler and peripheral distributor. In 2005, TPG discontinued its personal computer and peripheral business and focused on the provision of internet services. TPG was largely a reseller of internet services until 2005. In 2005, TPG began the roll-out of its DSLAM network which changed its business model from a reseller to an infrastructure owner which enables it to provide services at a reduced cost. TPG has, as at 7 February 2008, 238 DSLAMs installed across Australia.

(2) Principal activities

TPG has four distinct divisions.

(a) Value Added Network Pty Limited – this division provides fully-managed corporate wide area networks (WANs) solutions to corporate customers with a range of services such as fully-integrated voice, video, internet and data networks.

(b) TPG Internet Pty Limited – this division is the cornerstone of the current business and offers dial-up, ADSL, ADSL2+, high-speed digital subscriber line (SHDSL) broadband access, email services, website and domain name hosting, Voice Over Internet Protocol (VoIP) and Internet Protocol Television (IPTV).

(c) Orchid Cybertech Services Inc – this division is located in the Phillipines and provides call centre operations to the TPG group.

(d) Chariot Internet Limited – in April 2007, TPG acquired 70.25% of Chariot, a listed internet service provider with a market capitalisation of approximately $9 million. Chariot provides retail internet and related services principally to rural South Australia and Victoria. SP Telemedia has offered to acquire the remaining 29.75% of the issued shares in Chariot, not held by TPG, in the event that Shareholders approve all of the Resolutions. Refer to section 2.9 for further details.

2.4 Profile of merged group

The merger entity will combine TPG's 238 owned DSLAMs, as at 7 February 2008, with SP Telemedia's converged voice and data network containing over 300 points of presence (PoPs). The merged entity will have the enviable position of an extensive footprint of DSLAMs along with voice and data coverage, other than for the provision of ADSL2+ services, to 98.5% of the population.

The merged entity will continue to provide the services currently offered by SP Telemedia and TPG. It is currently intended that each of the brands operated by the two companies will be maintained post merger. The merged group will extract synergies arising from the merger, including cross selling of each company's products, cost savings and rationalisation of management and administration.

As detailed in section 2.9, SP Telemedia will make a scrip offer for the remaining shares in Chariot which is not currently held TPG. Should SP Telemedia acquire the required number of Chariot shares under its offer, it intends to move to compulsory acquisition of all Chariot shares not acquired under the takeover offer. Alternatively, Chariot will be managed as an investment of the SP Telemedia group.

2.5 Completion and Conditions

Completion of the acquisition under the Share Sale and Placement Agreement is scheduled to take place on or about 23 April 2008, and is conditional upon (amongst other conditions):

(1) the passing of Resolutions 1 to 7;

(2) no event occurring that has a material adverse effect on the assets and liabilities, financial position and performance, profits and losses or prospects of either TPG or SP Telemedia;

(3) no prescribed event occurring before completion in respect of TPG or SP Telemedia including:

  (a) conversion, reduction or reorganisation of the capital of either company;

  (b) declaring, paying or distributing any dividend, bonus or other share of profits or assets by way of a dividend, other than in respect of the April 2008 Dividend;

  (c) entering into a buy-back agreement or resolving to approve the terms of a buy-back agreement;

  (d) issuing securities, or granting an option over securities or issuing securities or other instruments convertible into securities;

  (e) making any change or amendment to their respective constitutions;

  (f) without first obtaining the consent of the other party, acquiring or disposing or agreeing to acquire or dispose of, or any securities, business or assets which exceeds $500,000 in aggregate other than the acquisition or disposal of any assets in the ordinary course of the respective businesses;

  (g) other than in the ordinary course of business, providing financial accommodation;

  (h) any regulatory action of any nature being taken by a governmental authority which would have a material adverse effect on the SP Telemedia group or TPG group;

(4) no litigation, governmental investigation, regulatory action or administrative or quasi-judicial proceeding the outcome of which is or is likely to be that any parties to the Share Sale and Purchase Agreement are prevented or restricted from entering into any transactions contemplated by the Share Sale and Purchase Agreement; and

(5) relevant consent being obtained in respect of the transactions contemplated in the Share Sale and Placement Agreement.

2.6 Value of Consideration

The Company will issue the Placement Shares to the TPG Shareholders on the date of Completion. The Placement Shares represent an implied value of $96.02 million, based on the 30 day volume weighted average Share price from 7 February 2008 of $0.3556. SP Telemedia will also pay to the TPG Shareholders on the date of Completion a total cash component of $150,000,000.00.

2.7 Key Terms of the Share Sale and Purchase Agreement

In addition to the terms of the Share Sale and Purchase Agreement set out elsewhere in this Explanatory Statement, other key terms of the Share Sale and Purchase Agreement include the following:

- David Teoh has provided an undertaking not to engage, directly or indirectly, in any business which competes with the current services provided by TPG for a period of up to 3 years after Completion within Australia.
- In the event that a Director fails to recommend or recommends against the Transaction (other than where the Independent Expert opines that the Transaction is not fair and reasonable to Shareholders not associated with the Teohs) or Completion does not occur before 30 April 2008 as a consequence of Resolutions 1 to 7 not being passed by that time, the Company has agreed to pay TPG an amount of $2,500,000.
- The Company and some of the major TPG Shareholders have each respectively given a number of general and commercial warranties regarding the status of the Company and TPG, respectively. They have also given indemnities in relation to certain taxation matters.

2.8 Terms of Placement Shares

The Placement Shares to be issued to the TPG Shareholders are fully paid ordinary shares and will rank equally in all respects with the existing fully paid ordinary shares in SP Telemedia. However, the Placement Shares will not be entitled to receive the April 2008 Dividend.

The Placement Shares will not be subject to escrow.

2.9 Chariot takeover bid

If Shareholders approve all of the Resolutions, the Company will make a scrip takeover offer for the remaining 29.75% of the issued shares in Chariot, not held by TPG, at a price to be determined by an independent expert to be fair and reasonable. Chariot shareholders will be able to participate, free of charge, in a share sale facility to dispose of their SP Telemedia shares received as consideration under the takeover bid. The takeover bid will be conditional only upon the acquisition of TPG being completed and the prescribed events set out in section 652C of the Corporations Act not occurring. The bidder's statement for the Chariot offer will be lodged with ASIC prior to Completion of the Transaction. ASIC has granted to the Company a modification of the Corporations Act, as it applies to the Company, to enable the Company to acquire a relevant interest in the Chariot shares held by TPG, provided that the Company makes the follow on bid for Chariot, on the terms described above.

2.10 Effect of the Transaction on the Capital Structure and Control of SP Telemedia

(1) **Capital Structure**

SP Telemedia's existing capital structure is set out in Table 1.

Table 1. Existing Capital Structure of the Company

Security	Number
Shares	405,208,684
Options	Nil

Table 2. Capital Structure of the Company after issue of Placement Shares at Completion

Security	Number	%
Existing Shares	405,208,684	60.01
Placement Shares to be issued to Teohs at Completion	261,172,492	38.68
Placement Shares to be issued to TPG Shareholders, other than Teohs, at Completion	8,827,511	1.31
Total	675,208,687	100.00

Notes:
The following assumptions are made in Table 2 above:
1. No Shares are issued after the date of this Notice; and
2. No Shares have been issued under the takeover offer for Chariot.

2.11 Summary of pro forma financial information

A profile of the pro-forma financial position of the merged group, assuming the Company has acquired TPG, as set out in:

- a pro-forma statement of financial performance for the year ended 31 July 2007; and
- a pro-forma historical statement of financial position as at 31 July 2007.

is set out in Schedule 3 to this Notice of Meeting and Explanatory Memorandum.

3. Resolution 1 – Change in Scale of the Activities of the Company

3.1 ASX Listing Rule 11.1

Listing Rule 11.1.2 prohibits a listed company from making a significant change, either directly or indirectly, in the scale of its activities without, among other things, obtaining the approval of the holders of its ordinary securities and complying with the Listing Rules in relation to the notice of meeting.

The acquisition of all the issued shares in TPG by SP Telemedia will necessarily involve a change in the scale of the activities of the Company. Post-Transaction, the Company will be significantly larger than it is at present. As a result of the acquisition, SP Telemedia will increase its revenues, geographic spread of infrastructure and customers, asset base, profitability and the number of securities on issue.

Resolution 1 is only effective if Resolutions 2 and 3 are passed and Completion under the Share Sale and Placement Agreement occurs.

4. Resolution 2 – Issue of Securities to TPG Shareholders

4.1 ASX Listing Rule 7.1

ASX Listing Rule 7.1 provides that a company must not, subject to certain exceptions, issue during any 12 month period any equity security, or other securities with rights of conversion to equity securities (such as options), if the number of those equity securities exceeds 15% of the number of securities in the same class on issue at the commencement of the 12 month period prior to the date of issue. An issue of equity securities made with the prior approval of shareholders is not subject to this restriction. Further, any such equity securities issued with prior shareholder approval are not counted towards the 15% limit when considering future issues of equity securities.

The Placement Shares will account for approximately 40% of the enlarged share capital of the Company, post Completion. Accordingly, Shareholder approval is sought for the purposes of Listing Rule 7.1 in order that SP Telemedia may issue the Placement Shares.

4.2 ASX Listing Rule 7.3

Listing Rule 7.3 requires the Notice of Meeting to include the following information for Shareholder's consideration in respect of Resolution 2:

(1) maximum number of Placement Shares to be issued is 270,000,003 Shares.

(2) the Placement Shares will be issued and allotted on Completion which is expected to occur approximately 2 weeks after the General Meeting.

(3) price at which shares are to be issued – not relevant as the Placement Shares will be issued under the Share Sale and Placement Agreement and no additional consideration will be payable by the TPG Shareholders for the Placement Shares. The value of the consideration for the acquisition of TPG is discussed further in section 2.6.

(4) names of shareholders – the Placement Shares will be issued to the TPG Shareholders, who are identified in Schedule 1 to this Notice.

(5) terms of issue – the Placement Shares issued at Completion will rank equally in all respects with the existing issued Shares, however, they will not be entitled to receive the April 2008 Dividend.

(6) the use (or intended use) of the funds to be raised – not applicable in respect of the Placement Shares as no funds will be raised from the issue. The Placement Shares are to be issued as part of the consideration for the acquisition of TPG under the Share Sale and Placement Agreement.

4.3 Directors' recommendation and reasons for recommendation

The Directors recommend Shareholders vote in favour of Resolution 2 for the reasons set out in this Explanatory Memorandum. The Directors intend to vote their own shares in favour of Resolution 2.

Resolution 2 is only effective if Resolutions 1 and 3 are passed.

5. Resolution 3 — Approval of Acquisition of Relevant Interest by Teohs

The issue of the Teoh Shares to the Teohs requires Shareholder approval under the Corporations Act.

5.1 Corporations Act Section 611 item 7

Section 606 of the Corporations Act prohibits, subject to various specified exceptions, a person acquiring a relevant interest in issued voting shares in a company if, as a result of the acquisition, that person's or someone else's voting power in the company increases:

(a) from less than 20% to more than 20%; or

(b) from a starting point that is above 20% and below 90%.

The voting power of a person in a company is determined under section 610 of the Corporations Act. The calculation of a person's voting power in a company involves determining the voting shares in the company in which the person and the person's associates have a relevant interest.

A person has a relevant interest in securities if they:

(a) are the holder of the securities;

(b) have the power to exercise, or control the exercise of, a right to vote attached to securities; or

(c) have the power to dispose of, or control the exercise of a power to dispose of, the securities.

Section 611 item 7 provides an exception to the prohibition in section 606, in circumstances where the shareholders of the company approve an acquisition of shares by virtue of any allotment or acquisition at a meeting at which no votes are cast by parties involved in the proposed acquisition, including their associates.

Shareholder approval is sought pursuant to section 611 item 7 for the issue of the Teoh Shares to the Teohs at Completion, representing up to 38.68% of the voting power in the Company. As at the date of this Notice, the Teohs have no voting power in SP Telemedia.

5.2 Required information

In addition to the other information contained in this Explanatory Memorandum, certain additional information is required to be given to Shareholders under section 611 item 7 of the Corporations Act and ASIC Regulatory Guide 74 as follows:

(1) David Teoh will be issued, and will become the registered holder of, 130,629,731 Shares upon Completion. Vicky Teoh will be issued, and will become the registered holder of, 130,542,761 Shares upon Completion. David and Vicky Teoh are associates of each other for the purposes of the Corporations Act.

(2) David Teoh and Vicky Teoh have no others Associates in relation to SP Telemedia.

(3) Particulars of Shares in which the Teohs have a relevant interest immediately before the proposed issue – Nil

(4) Maximum extent of increase in the Teohs' voting power – 261,172,492 Shares, being 38.68% on the assumptions as set out in the notes to Table 2 above and representing the voting power that the Teohs would have as a result of the issue of the Placement Shares.

(5) The reasons for the proposed allotment are set out at Sections 5.5 below and the Chairman's letter preceding this Explanatory Memorandum.

(6) No Director of the Company has an interest in the Resolutions, save for any interest they share in common with other Shareholders arising out of their shareholdings in the Company.

(7) All of the Directors voted in favour of putting the Resolutions to Shareholders.

5.3 Details of the Teohs and their intentions regarding the future of SP Telemedia

Other than as described in this Explanatory Memorandum, the Teohs:

(1) have no present intention of making any changes to the business of the Company;

(2) have no present intention of injecting further capital into the Company;

(3) have no present intentions to affect or substantially change the continued or future employment of the current employees of the Company;

(4) have no present intention regarding any proposal whereby any property will be transferred between the Company and the Teohs or any person associated with any of them;

(5) have no present intention to redeploy the fixed assets of the Company; and

(6) have no present intention to change significantly the financial or dividend policies of the Company.

These statements are based on the present intentions of the Teohs on the basis of facts and information concerning the Company and the existing circumstances that affect the Company that are known to the Teohs at date of the Explanatory Memorandum. These present intentions may change as new information becomes available, as circumstances change or in the light of all material information, facts and circumstances necessary to assess the operational, commercial, taxation and financial implications of those decisions at the relevant time.

5.4 Independent Expert's Report

ASIC Regulatory Guide 74 recommends that shareholders be provided with an analysis of whether the proposal to be presented is fair and reasonable to the non-associated shareholders.

The Directors have commissioned an independent expert, Lonergan Edwards, to prepare a report on whether the issue of the Teoh Shares, as part of the Transaction, is fair and reasonable to Shareholders not associated with the Teohs. In its report, Lonergan Edwards concludes that the proposal is not fair but reasonable to the non-associated Shareholders. In summary, Lonergan Edwards has concluded that the proposed issue of Teoh Shares is not fair to Shareholders because the effective issue price of the Teoh Shares is not equal to and does not exceed the value of 100% of the Company's Shares. However, in Lonergan Edwards' opinion, the proposed issue is reasonable to Shareholders because the effective issue price of the Shares to be issued to the Teohs represents a significant premium to the ex-dividend price of the Shares prior to announcement of the Transaction and, on balance, the overall advantages of the Transaction outweigh the disadvantages..

Please see Section 5.5 for details on the directors' recommendation and review of the advantages and disadvantages of the proposal to issue the Teoh Shares. A copy of the Independent Expert Report is contained in Annexure A of this Notice, which Shareholders should read carefully and seek their own independent professional advice if necessary.

5.5 Summary of Directors' analysis of the advantages and disadvantages of the proposal

Advantages of voting in favour of the transaction

(1) **EPS accretion**

As a result of the Transaction the cash earnings per Share are likely to increase immediately without any contribution from synergies (excluding the impact of non-cash amortisation of intangibles).

(2) **Synergies**

There are a number of synergies which will be available to the merged group. Synergies include overhead expense reduction (administration and call centre savings), migration of traffic from resold to company owned infrastructure, and the ability to cross-sell both companies' products.

(3) **Owned network and infrastructure**

In addition to SP Telemedia's existing extensive network of voice and data infrastructure, TPG brings a large DSLAM network which is capable of providing ADSL2+ broadband. The combined entity will have a DSLAM footprint in excess of 300 DSLAMs.

(4) **Larger company**

The company will become a larger company with greater revenues and increased levels of profitability. The SP Telemedia Board has formed the view that the value of the SP Telemedia business is best realised in a telecommunications business with larger scale and greater market presence. A larger revenue base reduces risks associated from loss of any individual contracts and increases the effectiveness of marketing spend and other corporate overheads.

(5) **Special dividend**

The Directors have approved the payment of the April 2008 Dividend (incorporating the interim dividend for the half year to 31 January 2008) if the transaction is approved. This dividend will not be payable on the Placement Shares.

(6) **The Independent Expert opines the transaction is reasonable**

The Independent Expert is of the opinion that the proposed issue of Teoh Shares in connection with the Transaction is reasonable to Shareholders because the effective issue price of the Teoh Shares represent a significant premium to the ex-dividend price of the Company's Shares prior to the announcement of the Transaction and, on balance, the overall advantages of the proposed share issue outweigh the disadvantages.

Disadvantages of voting in favour of the transaction

(1) **Reduction in net assets per share**

If the Transaction is approved by Shareholders, the Transaction will result in a reduction in net tangible assets per Share. This is due to the dilutionary effect of the proposed issue of Placement Shares to the TPG Shareholders.

(2) **Increased level of gearing**

If the Transaction is approved, in order to fund the cash component of the consideration for the Transaction, SP Telemedia will drawdown a bank facility to the amount of $154,000,000 and will have an approximate gearing ratio of 37%. A number of covenants attach to the facility and there is an increased level of risk associated with debt.

(3) **Dilution of interest**

By approving the Transaction, existing Shareholders will have a diluted interest in the existing business of SP Telemedia and its assets. Table 2 shows that the Transaction will result in the dilution of existing Shareholders who will hold 60% of the issued share capital in the Company after the issue of the Placement Shares. However, the Shareholders will gain an interest in the business of TPG.

(4) **Integration risk**

The success of the merger and, in particular, the ability to realise cost and revenue synergies will be dependent, among other things, on SP Telemedia and TPG being integrated effectively, efficiently and in a timely manner, without material disruption to their businesses. There is no guarantee that the integration process will be carried out as planned.

(5) **Independent Expert opines that the transaction is not fair but reasonable**

In summary, Lonergan Edwards has concluded that the proposed issue of Teoh Shares is not fair to Shareholders because the effective issue price of the Teoh Shares is not equal to and does not exceed the value of 100% of the Company's Shares. However, in Lonergan Edwards' opinion, the proposed issue is reasonable to Shareholders because the effective issue price of the Shares to be issued to the Teohs represents a significant premium to the ex-dividend price of the Shares prior to announcement of the Transaction and, on balance, the overall advantages of the Transaction outweigh the disadvantages.

(6) **Potential control by Teohs**

The Teohs will together hold approximately 38.68% of the Company's Shares on issue upon Completion of the Transaction. The Teohs will, in those circumstances, hold sufficient Shares to independently veto special resolutions put to Shareholders, including resolutions to amend the Constitution of the Company or to conduct corporate restructures such as schemes of arrangement or selective capital reductions. Depending on the number of votes cast on a particular resolution, the Teohs may be able to, without the support of other Shareholders, independently pass ordinary resolutions put to Shareholders in respect of the ordinary business of the Company such as the composition of the Company's Board and the issue of new share capital.

The issue of the Teoh Shares may deter the making of a future takeover bid for the Company as the Teohs will hold a large substantial stake in the Company.

Disadvantages of not voting in favour of the transaction

(1) **Payment of a break fee of $2.5m to TPG**

The Share Sale and Placement Agreement provides that the Company will pay TPG a $2.5 million break fee if the Shareholders do not approve Resolutions 1 to 7. Refer to section 2.7 of this Explanatory Memorandum for further details.

(2) **Costs associated with the transaction**

In addition to the break fee payable to TPG, if any of Resolutions 1 to 7 are not approved, SP Telemedia will be responsible for its own costs in conducting due diligence, negotiating the sale contract and arranging a debt facility, without the benefits of any of the potential advantages of the Transaction.

(3) **Considerable expense and delays to install owned DSLAM network**

Without TPG, SP Telemedia would need to consider building its own broadband network to remain competitive. This would require a considerable investment and would take a long time to roll out.

(4) **Reliance on resale of broadband and securing additional customers**

If the Transaction is not approved, SP Telemedia would be a reseller of broadband (until owned infrastructure could be built) and would be reliant on favourable terms from broadband providers and significant acquisition of customers to be competitive.

(5) **Smaller size**

As a smaller company, SP Telemedia will remain vulnerable to targeted competition by larger companies.

5.6 Board Recommendation

The Directors unanimously recommend Shareholders vote in favour of Resolution 3. The Directors intend to vote their own shares in favour of Resolution 3.

Resolution 3 is only effective if Resolutions 1 and 2 are passed.

6. Resolution 4 - Approval of Financial Assistance to acquire TPG Holdings Limited shares

6.1 Introduction

As required by section 260B(4) of the Corporations Act, the following information is provided to the members of the Company concerning the proposed special resolution.

Under the Share Sale and Placement Agreement, the Company will acquire all the TPG Shares.

TPG, TPG Internet Pty Ltd, Value Added Network Pty Ltd, TPG Network Pty Limited, TPG Research Pty Limited, TPG Broadband Pty Limited and Orchid Human Resources Pty Ltd (each a **TPG Guarantor** and collectively the **TPG Guarantors**) will become subsidiaries of the Company within the meaning set out in section 46 of the Corporations Act upon the TPG Shares being acquired. The Company is a listed domestic corporation.

Accordingly section 260B(2) of the Corporations Act requires that financial assistance by the TPG Guarantors which assists the Company to acquire the TPG Shares be approved by a special resolution passed at a general meeting of the Company.

Hence, the Company proposes to obtain the approval of its members to the giving by the TPG Guarantors of financial assistance which assists the Company to acquire the TPG Shares.

6.2 Particulars of TPG Financial Assistance

The following steps (**TPG Financial Assistance**) are proposed in connection with the acquisition by the Company of the TPG Shares:

(1) Each TPG Guarantor will provide cross guarantees and indemnities for all of the obligations of the Company and other group companies to Australia and New Zealand Banking Group Limited ABN 11 005 357 522 (**ANZ**) to a security trustee (**Security Trustee**) in respect of facilities to be provided by ANZ to the Company and other group companies for the purposes, inter alia, of assisting in the acquisition of all the TPG Shares in connection with the transactions contemplated under the Share Sale and Placement Agreement;

(2) Each TPG Guarantor will provide a Fixed and Floating Charge in favour of ANZ or to the Security Trustee to secure its obligations under the respective guarantees and indemnities and for other moneys; and

(3) A TPG Guarantor may also be providing a real estate mortgage(s) or other security to ANZ or to the Security Trustee in connection with the financing from ANZ and take additional, ancillary or incidental steps, whether direct or indirect, and enter into other documentation and obligations in connection with the financing from ANZ.

6.3 Reasons for TPG Financial Assistance

(1) Under the Share Sale and Placement Agreement, the Company will acquire all the TPG Shares by way of:

  (a) Cash payment of A$150,000,000.00 to the TPG Shareholders; and

  (b) Issuance of the Placement Shares to the TPG shareholders;

in accordance with the terms of the Share Sale and Placement Agreement.

(2) ANZ has (on and subject to terms and conditions of commitment letter) agreed to advance moneys to the Company to, among others, assist with the acquisition of the TPG Shares on the basis that each TPG Guarantor provides the TPG Financial Assistance.

6.4 Effect of TPG Financial Assistance

Upon acquisition of the TPG Shares, the Company will become the listed holding corporation of each TPG Guarantor for the purposes of section 260B(2) of the Corporations Act.

The giving of TPG Financial Assistance will indirectly increase the liability of the TPG Guarantors by incurring an actual and/or contingent liability in a principal amount of up to A$170,000,000 plus interest, costs, expenses and other amounts.

If the Company and other obligors are unable to pay amounts due to ANZ or otherwise breaches their obligations under the finance documentation, ANZ and/or the Security Trustee will be entitled to demand payment against each TPG Guarantor and enforce the securities provided by each TPG Guarantor in accordance with its respective terms, with the result that all of the assets of each TPG Guarantor will be available to satisfy the claims of ANZ and the Security Trustee.

The directors of the Company consider that each TPG Guarantor should give the TPG Financial Assistance for the following reasons:

(1) the provision of funding allows the acquisition of TPG and each of the other TPG Guarantors with an existing and expanded management team of the Company who are bringing new expertise to each TPG Guarantor to assist in the growth of the business of each TPG Guarantor as well as the Company;

(2) the Company as the new controlling entity will bring to each TPG Guarantor additional expertise and access to capital to enable the TPG Guarantors to consolidate and expand their businesses thereby benefiting the Company and each TPG Guarantor; and

(3) the Directors have concluded that there is no reason to believe that either the Company, other obligors or any of the TPG Guarantors will default in its obligations to ANZ or to the Security Trustee.

6.5 Board Recommendation

The Directors unanimously recommend Shareholders vote in favour of Resolution 4. The Directors intend to vote their own shares in favour of Resolution 4.

Resolution 4 is only effective if Resolutions 5, 6 and 7 are passed.

7. Resolution 5 – Approval of Financial Assistance to acquire Shares

7.1 Introduction

As required by section 260B(4) of the Corporations Act, the following information is provided to the members of the Company concerning the proposed special resolution.

Section 260A of the Corporations Act requires that if a company financially assists a person to acquire shares in the company certain requirements must be met. These requirements include the approval of the financial assistance by the shareholders of the company in accordance with the procedures under section 260B of the Corporations Act and the lodgement of notice of approval of the proposed financial assistance with ASIC at least 14 days before the assistance is given.

The Company proposes to obtain the approval of its members to the giving by the Company of financial assistance in connection with the issuance by the Company of the Placement Shares to the TPG Shareholders.

This Explanatory Memorandum sets out all the information known to the Company that is material to the decision of the member on how to vote on the resolution (other than information previously disclosed) in accordance with section 260B(4) of the Corporations Act.

7.2 Particulars of financial assistance

(1) The issuance of the Placement Shares to the TPG Shareholders will be indirectly financially assisted by the following steps (**Company Financial Assistance**):

  (a) The Company will finance the cash payment to the TPG Shareholders by utilising credit facilities from Australia and New Zealand Banking Group Limited ABN 11 005 357 522 (**ANZ**) for the purposes, inter alia, of assisting in the acquisition of the TPG Shares in connection with the transactions contemplated under the Share Sale and Placement Agreement;

  (b) The Company will provide a Fixed and Floating Charge in favour of ANZ or to the Security Trustee to secure its obligations; and

  (c) The Company may also be providing real estate mortgage(s), a cross guarantee of other group companies or other security to ANZ or to the Security Trustee in connection with the financing from ANZ and take additional, ancillary or incidental steps, whether direct or indirect, and enter into other documentation and obligations in connection with the financing from ANZ.

7.3 Reasons for Company Financial Assistance

The cash payment of A$150,000,000 referred to above will be facilitated by credit facilities to be made available to the Company and other group companies from ANZ (on and subject to terms and conditions of commitment letter). ANZ will also require the Company to provide the other Company Financial Assistance in connection with the credit facilities required for the acquisition of the TPG Shares.

7.4 Effect of Company Financial Assistance

In giving the Company Financial Assistance, the Company will need to utilise credit facilities from Australia and New Zealand Banking Group Limited ABN 11 005 357 522 (ANZ) and will incur an actual and/or contingent liability in a principal amount of up to A$170,000,000 plus interest, charges, costs and other amounts.

It will also need to provide securities to ANZ or to the Security Trustee to secure its obligations under and in connection with the credit facilities and if unable to pay its debts or otherwise breaches their obligations under the finance documentation, the assets of the Company could be subject of enforcement by ANZ or to the Security Trustee in order to recover its outstanding debt.

The directors of the Company consider that the Company should give the Company Financial Assistance for the following reasons:

(1) the provision of funding allows the acquisition of TPG and its subsidiaries that are being acquired, which will assist in the growth of the business of the Company and its subsidiaries;

(2) the expanded group will bring to the Company and its subsidiaries additional expertise and access to capital to enable the Company to consolidate and expand its businesses thereby benefiting the Company; and

(3) the Directors have concluded that there is no reason to believe that the Company will default in its obligations to ANZ or to the Security Trustee.

7.5 Board Recommendation

The Directors unanimously recommend Shareholders vote in favour of Resolution 5. The Directors intend to vote their own shares in favour of Resolution 5.

Resolution 5 is only effective if Resolutions 4, 6 and 7 are passed.

8. Resolution 6 – Approval of Financial Assistance by subsidiaries of the Company to acquire Shares

8.1 Introduction

As required by section 260B(4) of the Corporations Act, the following information is provided to the members of the Company concerning the proposed special resolution.

The wholly owned Australian subsidiaries of the Company, as identified in Schedule 2 to this Notice of Meeting and Explanatory Memorandum (each a SP Guarantor and collectively the SP Guarantors), are subsidiaries of the Company within the meaning set out in section 46 of the Corporations Act. The Company is a listed domestic corporation.

Accordingly section 260B(2) of the Corporations Act requires that financial assistance by the SP Guarantors in connection with the issuance by the Company of the Placement Shares be approved by a special resolution passed at a general meeting of the Company.

Hence, the Company proposes to obtain the approval of its members to the giving by the SP Guarantors of financial assistance relating to the issuance of the Placement Shares.

This Explanatory Note sets out all the information known to the Company that is material to the decision of the member on how to vote on the resolution (other than information previously disclosed) in accordance with section 260B(4) of the Corporations Act.

8.2 Particulars of financial assistance

The issuance of the Placement Shares to TPG Shareholders will be indirectly financially assisted by the following (SP Financial Assistance):

(1) Each SP Guarantor will provide cross guarantees and indemnities for all of the obligations of the Company and other group companies to Australia and New Zealand Banking Group Limited ABN 11 005 357 522 (**ANZ**) or to theSecurity Trustee in respect of facilities to be provided by ANZ to the Company and other group companies for the purposes, inter alia, of assisting in the acquisition of all the TPG Shares in connection with the transactions contemplated under the Share Sale and Placement Agreement;

(2) Each SP Guarantor will provide a Fixed and Floating Charge in favour of ANZ or to the Security Trustee to secure its obligations under the respective guarantees and indemnities and for other moneys; and

(3) An SP Guarantor may also be providing a real estate mortgage(s) or other security to ANZ or to the Security Trustee in connection with the financing from ANZ and take additional, ancillary or incidental steps, whether direct or indirect, and enter into other documentation and obligations in connection with the financing from ANZ.

8.3 Reasons for SP Financial Assistance

ANZ has agreed to advance moneys to the Company to, among others, assist with the acquisition of all the TPG Shares on the basis that each SP Guarantor provides the SP Financial Assistance.

8.4 Effect of SP Financial Assistance

The Company is a listed company and is, and will remain after the issuance of the Placement Shares, the holding company of the SP Guarantors for the purposes of section 260B(2) of the Corporations Act.

The giving of financial assistance will indirectly increase the liability of each SP Guarantor by incurring an actual and/or contingent liability in a principal amount of up to A$170,000,000 plus interest, charges, costs and other amounts.

The directors of the Company consider that each SP Guarantor should give the financial assistance for the following reasons:

(1) the provision of funding allows the acquisition of TPG and its subsidiaries that are being acquired which will assist in the growth of the business of the Company and the SP Guarantors;

(2) the expanded group will bring to the Company and the SP Guarantors additional expertise and access to capital to enable the Company and each SP Guarantor to consolidate and expand its businesses thereby benefiting the Company and the SP Guarantors;

(3) the Directors have concluded that there is no reason to believe that either the Company or any of the SP Guarantors will default in its obligations to ANZ or to theSecurity Trustee.

8.5 Board Recommendation

The Directors unanimously recommend Shareholders vote in favour of Resolution 6. The Directors intend to vote their own shares in favour of Resolution 6.

Resolution 6 is only effective if Resolutions 4, 5 and 7 are passed.

9. Resolution 7 – Approval of Financial Assistance by subsidiaries of the Company to acquire Shares

9.1 Introduction

As required by section 260B(4) of the Corporations Act, the following information is provided to the members of the Company concerning the proposed special resolution.

TPG, TPG Internet Pty Ltd, Value Added Network Pty Ltd, TPG Network Pty Limited, TPG Research Pty Limited, TPG Broadband Pty Limited and Orchid Human Resources Pty Ltd (each a **TPG Guarantor** and collectively the **TPG Guarantors**) will become subsidiaries of the Company within the meaning set out in section 46 of the Corporations Act upon the TPG Shares being acquired. The Company is a listed domestic corporation.

Accordingly section 260B(2) of the Corporations Act requires that financial assistance by the TPG Guarantors which assists the Company to acquire the Placement Shares be approved by a special resolution passed at a general meeting of the Company.

Hence, the Company proposes to obtain the approval of its members to the giving by the TPG Guarantors of financial assistance relating to the issuance of the Placement Shares.

9.2 Particulars of financial assistance

The issuance of the Placement Shares to TPG Shareholders will be indirectly financially assisted by the following (**TPG Additional Financial Assistance**):

(1) Each TPG Guarantor will provide cross guarantees and indemnities for all of the obligations of the Company and other group companies to Australia and New Zealand Banking Group Limited ABN 11 005 357 522 (**ANZ**) or to the Security Trustee in respect of facilities to be provided by ANZ to the Company and other group companies for the purposes, inter alia, of assisting in the acquisition of all the TPG Shares in connection with the transactions contemplated under the Share Sale and Placement Agreement;

(2) Each TPG Guarantor will provide a Fixed and Floating Charge in favour of ANZ or to the Security Trustee to secure its obligations under the respective guarantees and indemnities and for other moneys; and

(3) An TPG Guarantor may also be providing a real estate mortgage(s) or other security to ANZ or to the Security Trustee in connection with the financing from ANZ and take additional, ancillary or incidental steps, whether direct or indirect, and enter into other documentation and obligations in connection with the financing from ANZ.

9.3 Reasons for TPG Additional Financial Assistance

ANZ has agreed to advance moneys to the Company to, among others, assist with the acquisition of all the Placement Shares on the basis that each TPG Guarantor provides the TPG Additional Financial Assistance.

9.4 Effect of TPG Additional Financial Assistance

Upon acquisition of the TPG Shares, the Company will become the listed holding corporation of each TPG Guarantor for the purposes of section 260B(2) of the Corporations Act.

The giving of TPG Additional Financial Assistance will indirectly increase the liability of the TPG Guarantors by incurring an actual and/or contingent liability in a principal amount of up to A$170,000,000 plus interest, costs, expenses and other amounts.

If the Company is unable to pay amounts due to ANZ, ANZ and/or the Security Trustee will be entitled to demand payment against each TPG Guarantor and enforce the securities provided by each TPG Guarantor in accordance with its respective terms, with the result that all of the assets of each TPG Guarantor will be available to satisfy the claims of ANZ and the Security Trustee.

The directors of the Company consider that each TPG Guarantor should give the TPG Additional Financial Assistance for the following reasons:

(1) the provision of funding allows the acquisition of TPG and each of the other TPG Guarantors with an existing and expanded management team of the Company who are bringing new expertise to each TPG Guarantor to assist in the growth of the business of each TPG Guarantor as well as the Company;

(2) the Company as the new controlling entity will bring to each TPG Guarantor additional expertise and access to capital to enable the TPG Guarantors to consolidate and expand their businesses thereby benefiting the Company and each TPG Guarantor; and

(3) the Directors have concluded that there is no reason to believe that either the Company or any of the TPG Guarantors will default in its obligations to ANZ or to the Security Trustee.

9.5 Board Recommendation

The Directors unanimously recommend Shareholders vote in favour of Resolution 7. The Directors intend to vote their own shares in favour of Resolution 7.

Resolution 7 is only effective if Resolutions 4, 5 and 6 are passed.

Glossary

April 2008 Dividend	The fully franked interim dividend of 2.4 cents per Share to be paid to, in respect of the 6 months to 31 January 2008, to Shareholders on the register of members of the Company on 17 April 2008, which will not be paid in respect of the Placement Shares.
Associate	Has the meaning given to the term in the Corporations Act.
ASIC	Australian Securities and Investments Commission.
Australian Stock Exchange or ASX	ASX Limited ACN 008 624 691.
Chariot	Chariot Internet Limited ACN 088 377 860.
Company or SP Telemedia	SP Telemedia Limited ABN 46 093 058 069.
Completion	Completion of the acquisition of TPG under the Share Sale and Placement Agreement.
Corporations Act	The Corporations Act 2001 (Cth), including the regulations made under it.
Directors	The directors of SP Telemedia.
Dollar or $	Australian dollar.
Listing Rules	The listing rules of ASX.
Lonergan Edwards	Lonergan Edwards & Associates Limited ABN 53 095 445 560
Meeting	General meeting of the shareholders of SP Telemedia to be held on 7 April 2008.
Meeting Documentation	The Notice of Meeting and the accompanying Explanatory Memorandum.
Notice or Notice of Meeting	This notice of general meeting.
Ordinary Resolution	A resolution passed by at least 50% of the votes cast by members entitled to vote on a resolution.
Placement Shares	270,000,003 fully paid ordinary shares in SP Telemedia to be issued to the TPG Shareholders under the Share Sale and Placement Agreement.
Share Sale and Placement Agreement	The Share Sale and Placement Agreement between SP Telemedia, TPG, and TPG Shareholders dated 7 February 2008 in relation to the acquisition of all the issued shares in TPG by SP Telemedia.
Shareholders	The holders of Shares.
Shares	Fully paid ordinary shares in SP Telemedia.
Teohs	David Teoh and Vicky Teoh
Teoh Shares	261,172,492 fully paid ordinary shares in SP Telemedia to be issued to the Teohs under the Share Sale and Placement Agreement.
TPG	TPG Holdings Limited ACN 003 328 103.
TPG Shares	Fully paid ordinary shares in TPG.
TPG Shareholders	The holders of TPG Shares as identified in Schedule 1 to this Notice.
Transaction	The acquisition of all the issued capital of TPG under the Share Sale and Placement Agreement.

TPG Shareholder	Number of Placement Shares
DAVID TEOH	130,629,731
VICKY TEOH	130,542,761
JOHN PAINE	1,826,381
WITOLD PIESTRZYNSKI	1,913,352
WAYNE SPRINGER	1,043,646
GREGORY CHURCHILL-BATEMAN	652,279
RODNEY TUNKS	304,397
PATRICIA HORNICK	260,912
STEPHEN YONG	217,426
LEO MUGGLETON	434,853
STUART CLARK	217,426
EDWIN LAM	217,426
MICHELLE PALACI	86,971
MARIO MILTIADOU	86,971
CHANDRA KUKUNOORU	86,971
ALAN LATIMER	1,174,102
WENG KWONG PAK	86,971
CHRIS HO	86,971
KIM CHUA	86,971
AUROFLOR CIRIACO	43,485
TOTAL	**270,000,003**

Schedule 2 – Wholly owned Australian subsidiaries of SP Telemedia

Subsidiaries

Soul Pattinson Telecommunications Pty Limited

SPT Telecommunication Pty Limited

Kooee Communications Pty Limited

Kooee Pty Limited

SPTCom Pty Limited

Kooee Mobile Pty Limited

Soul Communications Limited (previously B Digital Limited)

B Digital Investments Pty Limited

Digiplus Investments Pty Limited

Digiplus Holdings Pty Limited

Digiplus Pty Limited

Soul Contracts Pty Limited

Digiplus Contracts Pty Limited

Blue Call Pty Limited

Schedule 3 – Summary of current financial information

Pro-forma Balance Sheet

	SOT (2007A[1])	TPG (2007A[2])	Pro-forma[3]
	$000	$000	$000
Current assets			
Cash assets	80,654	16,381	97,035
Receivables	68,209	3,647	71,856
Inventories	2,706	173	2,879
Intangibles	29,211		29,211
Assets classified as held for sale	500		500
Current tax	308		308
Other	4,950	4,077	9,027
Total current assets	**186,538**	**24,278**	**210,816**
Non-current assets			
Investments		3,780	3,780
Property, Plant & Equipment	120,784	18,996	139,780
Intangibles	66,897	23,850	90,747
Deferred tax assets		3,284	3,284
Other	5,995	31,516	37,511
Total non-current assets	**193,676**	**81,426**	**275,102**
Total assets	**380,224**	**105,704**	**485,928**
Current Liabilities			
Payables	58,091	20,577	78,668
Deferred revenue	22,995	12,340	35,335
Bank overdrafts	10		10
Interest bearing liabilities	8,051	15,474	23,525
Employee benefits	2,772		2,772
Current tax liabilities	14,727	4,470	19,197
Provisions	165	1,544	1,709
Other			0
Total current liabilities	**106,811**	**54,405**	**161,216**
Non-current Liabilities			
Interest bearing liabilities	31,087	21,917	53,004
Deferred tax liabilities	1,819	2,327	4,146
Employee benefits	1,219		1,219
Provisions	164	201	365
Deferred revenue	6,622		6,622
Other			0
Non-current liabilities	**40,911**	**24,445**	**65,356**
Total liabilities	**147,722**	**78,850**	**226,572**
Net assets	**232,502**	**26,854**	**259,356**

Notes
(1) Compiled from SOT audited accounts for the 12 months ending 31 July 2007
(2) Compiled from TPG audited accounts for the 12 months ending 30 June 2007
(3) The pro forma Balance Sheet has been prepared on the basis of the financial statements in (1) and (2) only. No further adjustments have been included in the calculation of the pro forma information.

Schedule 3 – Summary of current financial information

Pro-forma Income Statement	SOT (2007A[1]) $000	TPG (2007A[2]) $000	Eliminations[3] $000	Pro-forma[5] $000
Continuing Operations				
Revenue	426,568	119,941	(583)	545,926
Cost of sales	(297,014)	(78,194)	583	(374,625)
Gross profit	129,554	41,747		171,301
Other income	4	522		526
Selling and distribution expenses	(69,718)	(7,405)		(77,123)
Administration expenses	(49,051)	(18,450)		(67,501)
Profit / (Loss) from operating activities (EBIT)	10,789	16,414		27,203
Net financing (costs) / income	(2,943)	(1,415)		(4,358)
Share of loss of associates	0			0
Profit / (losss) before tax	7,846	15,000		22,845
Tax	(1,883)	(3,325)		(5,208)
Profit / (loss) after tax from continuing operations	5,963	11,675		17,637
Profit after tax from discontinued operations4	37,942			37,942
Loss attributable to minority equity interest in subsidiary		47		47
Reported profit after tax	**43,905**	**11,722**		**55,626**
Gross margin	**30.4%**	**34.8%**		**31.4%**

Notes

(1) Compiled from SOT audited accounts for the 12 months ending 31 July 2007.

(2) Compiled from TPG audited accounts for the 12 months ending 30 June 2007.

(3) SOT earned approximately $583,000 in revenue from TPG during the 12 months to 31 July 2007; the cost of this is reflected in TPG's cost of sales.

(4) During the 12 months ending 31 July 2007, SOT sold its interest in NBN Television. NBN's result for the period up until the date of disposal and the gain on sale are reflected under discontinued operations.

(5) The pro forma Income Statement has been prepared on the basis of the income statements described in Note (1) and (2) only. Other than as described in Note (3), no further adjustments have been included in the calculation of the pro forma Income Statement.

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The Directors
SP Telemedia Limited
11-17 Mosbri Crescent
Newcastle NSW 2300

26 February 2008

Subject: SP Telemedia Limited acquisition of TPG Holdings Pty Limited

Dear Sirs

Introduction

The proposed acquisition of TPG

1 On 7 February 2008, SP Telemedia Limited (SP Telemedia) announced a proposal to acquire all the issued capital of TPG Holdings Pty Limited (TPG) (the Proposal).

2 If the Proposal is approved and all conditions are satisfied, SP Telemedia will pay $150 million in cash (the Cash Consideration) and issue 270 million SP Telemedia shares (the Consideration Shares, together, the Consideration) to acquire TPG. Vicky and David Teoh, TPG's major shareholders (TPG's Major Shareholders) will receive 261 million (130.5 million each) shares in SP Telemedia of the total 270 million shares to be issued as consideration, and will have a relevant interest of approximately 38.7% in SP Telemedia (the Proposed Share Issue).

SP Telemedia

3 SP Telemedia is a public company listed on the Australian Securities Exchange (ASX). SP Telemedia currently provides wholesale and retail telecommunication products and services in Australia.

TPG

4 TPG is an unlisted Australian public company. TPG provides information technology (IT) network services and internet and internet protocol (IP) based services.

Independent Expert's Report

5 As TPG's Major Shareholders are deemed to be Associates under the Corporations Act and will acquire a relevant interest of more than 20% in SP Telemedia under the Proposal, there is a regulatory requirement for SP Telemedia to commission an Independent Expert's Report (IER). Consequently, the Directors of SP Telemedia have requested that Lonergan Edwards & Associates Limited (LEA) prepare an IER stating whether, in LEA's opinion, the Proposed Share Issue to TPG's Major Shareholders under the Proposal is fair and reasonable to the shareholders of SP Telemedia[1].

6 The key issue on which LEA have been asked to opine is the impact of the Proposal on the ownership structure of SP Telemedia. In simple terms, our task is not to assess the proposed merits of the transaction in financial terms, but rather to assess the ownership implications of a transaction that the directors of SP Telemedia have assessed as a beneficial transaction from the perspective of SP Telemedia's shareholders, having negotiated the terms thereof in good faith.

7 LEA is independent of SP Telemedia, TPG and TPG's Major Shareholders and has no involvement with or interest in the outcome of the Proposal other than in preparing this report.

Summary of opinion

Value of SP Telemedia shares pre-transaction

8 The value of SP Telemedia shares can be determined by reference to the stock market value of SP Telemedia shares pre-transaction. We are also required by ASIC to assess the value of SP Telemedia on a 100% controlling interest basis. We have done this by adding an appropriate premium for control:

Value of SP Telemedia shares – cum dividend	Low $m	High $m
Listed market price (cents per share)(1)	35.6	38.4
Value of 100% of shares (cents per share)(2)	45.5	49.0

Note:

1 Based on volume weighted average market price (VWAP) of SP Telemedia shares over the 1 and 3 month periods prior to 6 February 2008.

2 This value reflects the value on a 100% controlling interest (or takeover) basis, and includes a premium for control.

[1] While we are only required to opine on whether the Proposed Share Issue is fair and reasonable, we have also considered the advantages and disadvantages of the Proposal due to the inter-related nature of the Proposed Share Issue.

9 However, prior to completion of the Proposal, SP Telemedia intends to pay a special dividend to existing shareholders of 2.4 cents per share. As this dividend will not be paid on the shares to be issued to the TPG vendors, in our opinion, it is appropriate to adjust the market value of SP Telemedia shares to reflect this dividend payment when comparing the value of the shares in SP Telemedia with the effective price being paid for the Consideration Shares by TPG's Major Shareholders. Consequently, we have adjusted the stock market value of SP Telemedia shares to reflect an ex-dividend value.

10 On this basis, the ex-dividend value of SP Telemedia shares is as follows:

Ex-dividend value of SP Telemedia shares		
Cents per share	**Low**	**High**
Listed market price	33.2	36.0
Value of 100% of shares	43.1	46.6

Value of consideration paid for TPG

11 Under the Proposal the TPG vendors will receive $150 million in cash and 270 million shares in SP Telemedia.

12 While the TPG vendors will therefore acquire approximately 40% of the shares in SP Telemedia, our opinion is only required in connection with the issue of shares to TPG's Major Shareholders (who will have a relevant interest of 38.7% in the shares in SP Telemedia if the Proposal is approved).

13 Given the size of this shareholding, TPG's Major Shareholders are likely to be able to exert significant influence over the affairs of SP Telemedia. However, TPG's Major Shareholders will not individually control SP Telemedia. This is because:

(a) the other shareholders in SP Telemedia will hold a significantly larger percentage interest in the company (in total), and can therefore block ordinary and special resolutions proposed by TPG's Major Shareholders from being passed

(b) Washington H Soul Pattinson & Company Limited (WHSP) will still have a 27.8% interest in SP Telemedia if the Proposal is approved

(c) TPG's Major Shareholders will only have 2 representatives on SP Telemedia's Board of Directors (out of a total of 5 directors following completion of the acquisition).

14 Further, in the absence of a takeover or other similar proposal for SP Telemedia, it is likely that TPG's Major Shareholders would have to accept a discount to the last traded market price if they wanted to sell all of their shares.

15 Consequently, in our opinion, the SP Telemedia shares to be issued to TPG's Major Shareholders should not be valued at a premium to the listed market price. We have therefore adopted an effective issue price for the Consideration Shares of 33.2 cents to 36.0 cents per SP Telemedia share.

16 However, as the consideration being provided for the Consideration Shares is not cash[2], we have (as required by ASIC Regulatory Guide 111) also examined whether the value attributed to TPG by SP Telemedia (based on the effective issue price) is reasonable having regard to the implied transaction multiples and the very high level of synergies expected to be generated from merging SP Telemedia and TPG.

17 The effective issue price of the Consideration Shares implies the following value for TPG:

Consideration to be paid for TPG

	Low	High
Listed market price of SP Telemedia's shares – ex dividend basis	33.2	36.0
Shares to be issued in total (million)	270.0	270.0
Value of share consideration	89.6	97.2
Cash consideration	150.0	150.0
Value of consideration paid for TPG	239.6	247.2

[2] The consideration being provided is TPG

18 The implied acquisition multiples for TPG are as follows:

Implied enterprise value multiples	Low	High
Operating EBITDA multiple(1):		
FY07 actual	13.7	14.0
FY08 forecast	**5.2**	**5.4**
Operating EBIT multiples(1):		
FY07 actual	29.0	29.8
FY08 forecast	**6.7**	**6.8**
PE multiples(2):		
FY07 actual	69.1	71.0
FY08 forecast	**9.5**	**9.8**

Note:

1 The Company has treated the outstanding obligations under the Southern Cross Cable indefeasible right of use (IRU) as a finance lease. For the purposes of calculating the EBITDA and EBIT multiples above we have adjusted the enterprise value for the present value of the lease payments plus an allowance for the estimated cost of renewing capacity (refer Section VIII). It should be noted that the calculation of the EBITDA and EBIT multiples are sensitive to the treatment of the current (and future) IRU cost.

2 The implied PE multiples above have been calculated after adjusting profitability to reflect an estimate of the ongoing annual cost of acquiring capacity on the Southern Cross cable. (Refer Section VIII for further details).

19 In contrast the multiples of telecommunication companies and internet service providers (ISPs) listed on the ASX are shown below:

Listed company multiples – telecommunications companies and ISPs	EBITDA multiples		EBIT multiples		PE multiples	
	FY07 Actual	FY08 Forecast	FY07 Actual	FY08 Forecast	FY07 Actual	FY08 Forecast
Range (excluding outliers)	5.8 – 8.3	4.6 – 7.9	9.8 – 15.2	6.0 – 11.8	11.1 – 21.8	8.8 – 15.0
Median	7.2	6.1	13.6	8.1	13.3	12.3
Most comparable company multiples:						
iiNet	7.5	6.1	14.8	10.4	21.8	15.0
Amcom	8.3	7.9	12.4	11.8	13.3	12.6

Note:

1 The above multiples are based on each companies' listed market price on 29 January 2008 and therefore exclude a premium for control.

20 The majority of recent transactions in the Australian telecommunications / ISP sector have taken place in the range of 5.0 to 7.0 times historical EBITDA[3]. However, the majority of the companies acquired have been smaller than TPG. The most comparable transaction (OzEmail) was reported to have occurred at a multiple of 5.5 times historical EBITDA (although this transaction took place around three years ago).

21 After adjusting the listed company multiples to reflect a premium for control we note that:

(a) TPG's historical multiples are significantly higher than the historical multiples implied for comparable listed companies and the historical transaction multiples in the telecommunications / ISP sector; and

(b) TPG's forecast multiples are lower than forecast multiples implied for comparable listed companies.

22 This reflects the very significant growth in profit expected to be achieved by TPG in FY08 as a result of:

(a) a forecast increase in subscriber numbers for TPG's ADSL2+ service (which was marketed from mid-2007)

(b) the forecast increase in average revenue per subscriber (ARPU), largely due to users requiring greater bandwidth, and being prepared to pay for greater capacity

(c) the significant decrease in charges by Telstra for line rental costs which is expected to save in the order of $9 million in FY08 compared to the cost in FY07

(d) benefits arising from the fixed nature of DSLAM and backhaul costs.

23 With respect to the forecast growth in profitability in FY08 we note that:

(a) TPG's annualised results for the seven months to 31 January 2008 imply an operating EBITDA for FY08 of $45.4 million[4]

(b) TPG's forecast earnings for FY08 have been subject to a detailed due diligence review by SP Telemedia and their advisers.

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[3] Most transaction evidence in the telecommunications sector is reported in terms of EBITDA rather than EBIT and PE multiples. Further, generally only historical multiples were provided making it difficult to compare TPG's forecast multiple with those of recent transactions.
[4] Before "other income", which principally comprises realised and unrealised foreign exchange gains.

24 Nonetheless, in our opinion, the low forecast FY08 multiple implied by the acquisition of TPG is appropriate given:

(a) the fact that TPG does not have a long-term track record of profitability to support TPG's 2008 forecast profits, which are significantly above the historical level of profitability

(b) the competitive nature of the telecommunications market in Australia and the high risk of technological obsolescence

(c) the low barriers to entry, reflecting the fact that telecommunications and ISP resellers do not require significant capital to enter the industry, and the capital outlay to roll out DSLAMs is not significant[5]

(d) TPG's low level of net tangible assets, which as at 30 January 2008 was $22.2 million

(e) the significantly higher EBITDA margin forecast to be achieved by TPG in FY08 (compared to FY07) and the risk that this may not be sustainable as a result of competition

(f) the risk of TPG achieving its FY08 earnings forecast will be greater than the risk of the comparable companies (iiNet and Amcom) achieving their FY08 earnings forecasts, as the forecast growth in earnings for iiNet and Amcom in FY08 are modest in comparison to that of TPG.

25 However, we understand that SP Telemedia management also expect to achieve very significant synergies[6] as a result of the acquisition of TPG. These benefits principally arise from:

(a) rationalisation of rented premises
(b) general administrative and headcount savings
(c) benefits from moving some call centre operations to the Philippines
(d) migration of SOUL telecommunication reselling services onto TPG's DSLAM infrastructure
(e) migration of TPG purchased backhaul to SP Telemedia's network
(f) migration of SOUL internet bandwidth to TPG's capacity on the Southern Cross cable
(g) consolidation of SP Telemedia and TPG points of presence
(h) reduction in capital expenditure on duplicated DSLAM rollout.

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[5] For example, TPG has over 200 DSLAMs with property, plant and equipment (albeit partly depreciated) of less than $25 million. However, the ability to access Telstra exchanges to physically install DSLAMs is problematic.
[6] While we have reviewed management's estimates of projected synergies we have been asked by SP Telemedia not to disclose these in our report.

26 The projected synergies are very material compared to the standalone profitability of SP Telemedia and TPG[7] and represent, in our opinion, the main benefit to SP Telemedia shareholders from the acquisition. In this regard we note that existing SP Telemedia shareholders will own approximately 60% of the shares in the enlarged company, and will therefore benefit from 60% of the synergies achieved.

Assessment of fairness

27 Under ASIC Regulatory Guide 111, for the Proposed Share Issue to be "fair", the effective issue price must be equal to or exceed the value of 100% of the shares in SP Telemedia. This comparison is shown below.

Issue price of the Consideration Shares			
Cents per share	**Low**	**High**	**Mid-point**
Effective issue price of Consideration Shares	33.2	36.0	34.6
Listed market price (ex-dividend)	33.2	36.0	34.6
Implied premium to listed market price	-	-	-
Effective issue price of Consideration Shares	33.2	36.0	34.6
Value of 100% of SP Telemedia shares (ex-dividend)	43.1	46.6	44.9
Implied discount to value of 100% of SP Telemedia shares	*(23.0%)*	*(22.7%)*	*(22.9%)*

28 In our opinion, the implied acquisition multiples for TPG do not indicate that TPG's Major Shareholders are paying a premium above the listed market price of SP Telemedia shares prior to the announcement of the Proposal for the shares they will acquire under the Proposed Share Issue.

29 Consequently, in our opinion, the Proposed Share Issue is not fair when assessed under the Guidelines set out in ASIC Regulatory Guide 111.

[7] EBITDA forecast for FY08 for SP Telemedia and TPG is $33.9 million and $48.5 million (including "other income", principally comprising foreign exchange gains) respectively.

Assessment of reasonableness

30 However, in our opinion, it is not appropriate to compare the 100% value of SP Telemedia shares with the effective issue price of the Consideration Shares. This is because TPG's Major Shareholders will only acquire around 38.7% of SP Telemedia if the Proposal is implemented, and therefore will not obtain 100% control.

31 While, in our opinion, the shares being issued to TPG's Major Shareholders are not being issued at a premium to the listed market price of SP Telemedia shares, in the absence of the Proposed Share Issue, SP Telemedia would need to undertake either a large cash issue (which would need to be underwritten) or share placement in order to acquire TPG. Given the size of such a capital raising (relative to the existing market capitalisation of SP Telemedia) the price at which such a capital raising would occur would normally represent a large discount to the listed market price of SP Telemedia shares[8].

32 The price at which SP Telemedia shares are to be issued to the TPG vendors therefore represents a significant premium to the price at which SP Telemedia would otherwise be able to raise equity capital.

33 Furthermore, as stated above, SP Telemedia's management expect to generate very significant synergies as a result of acquiring TPG (which should result in SP Telemedia shares increasing in value over time as synergies are achieved). Of these benefits, 60% will accrue to SP Telemedia's existing shareholders.

34 Consequently, as a result of the above, the fact that TPG's Major Shareholders will only acquire around 38.7% in SP Telemedia and the other advantages referred to below, we have concluded that the Proposed Share Issue is reasonable to SP Telemedia shareholders.

Other advantages

35 Other advantages of the Proposed Share Issue (and related acquisition of TPG) are summarised below:

(a) the merged SP Telemedia and TPG business (the Merged Entity) will be significantly larger than SP Telemedia currently. This should lead to increased institutional investment interest (which should result in SP Telemedia shares being re-rated upwards)

[8] Based on observed capital raisings.

(b) the Proposal will facilitate SP Telemedia moving rapidly into the higher margin, higher growth ADSL2+ market, making SP Telemedia less reliant on its mobile telephony re-selling operations and network operations, and avoiding the execution risk of SP Telemedia rolling out its own (similar) ADSL2+ network and competing to obtain subscribers

(c) the acquisition of TPG diversifies SP Telemedia's business and enables the company to offer its product and service offerings to a greater number of prospective customers (eg offering voice services to existing TPG customers through SP Telemedia's IP network) and facilitate bundling and cross-selling of products

(d) the acquisition of TPG is expected to provide significant synergies arising from migration of some call centre operations to the Philippines, migration of resold services to TPG owned network, cost savings from administration and rationalisation of rented premises

(e) the proposed acquisition of TPG is expected to be earnings per share (EPS) accretive for SP Telemedia[9]. However, this largely arises through the increased level of gearing (as SP Telemedia is expected to borrow around $150 million to facilitate the acquisition of TPG) and through realisation of projected synergies

(f) a substantial proportion of the purchase consideration for TPG comprises SP Telemedia shares. This demonstrates the confidence of the TPG's vendors in the future prospects of the combined businesses.

Disadvantages

36 The disadvantages of the Proposed Share Issue (and related acquisition of TPG) are summarised below:

(a) while TPG's Major Shareholders will not have full control of SP Telemedia if the Proposal is approved, they will obtain a 38.7% interest in SP Telemedia and will therefore obtain significant voting power in SP Telemedia. However, we note that this is not dissimilar to the current position, as WHSP currently holds 46.3% of SP Telemedia shares. Further, WHSP will still own 27.8% of SP Telemedia after the Proposed Share Issue

(b) the Proposal will result in the issue of 270 million shares (66.6% of existing capital), which will therefore dilute existing SP Telemedia

[9] Prior to any amortisation of that part of the purchase price attributed to customer acquisition costs, annual impairment charges, synergies and incremental USO obligations. Refer paragraph 247.

shareholder interests in the existing assets and business of SP Telemedia

(c) the Proposal will result in a significant decrease in net tangible assets (NTA) per SP Telemedia share from around 33 cents per share to around 1 cent per share

(d) the Consideration for TPG infers a very high level for goodwill (although this is consistent with the nature of TPG's business). The level of goodwill (and the value of any amount of the purchase price attributed to customer acquisition costs) will need to be tested for impairment annually and may need to be written down in future years

(e) the proposed acquisition of TPG will significantly increase SP Telemedia's debt levels, increasing risk

(f) the proposed acquisition of TPG will require SP Telemedia to make a follow-on takeover offer for Chariot Internet Limited (Chariot)

(g) as the TPG vendors and WHSP will hold some 40% and 27.8% respectively of the shares in the Merged Entity, the possibility that a takeover offer for SP Telemedia might arise in the near future will be diminished

(h) SP Telemedia's universal service obligations (USO) will increase as the USO will be applied to TPG's revenues resulting in additional costs

(i) SP Telemedia may lose the ability to access some $10 million in tax losses

(j) TPG does not have a long-term track record of profitability to support TPG's 2008 forecast profits (although its management accounts indicate that it is on track to achieve these forecasts) and the proposed purchase price implies very high earnings multiples based on its historical earnings. Consequently, the value of TPG could fall significantly if FY08 forecast earnings and projected synergies are not achieved or sustained

(k) TPG's infrastructure and business model is vulnerable should Telstra build a fibre to the node (FTTN) network.

Conclusion

37 Based on the above we have concluded that the Proposed Share Issue is not fair but is reasonable. In LEA's opinion, the Proposed Share Issue is reasonable because:

(a) the combination of SP Telemedia and TPG should enable very significant synergy benefits to be generated

(b) the price at which SP Telemedia shares are being issued to the TPG vendors represents a significant premium to the price at which SP Telemedia could obtain if SP Telemedia were to raise additional equity capital to complete the acquisition of TPG

(c) TPG's Major Shareholders will hold a relevant interest of only 38.7% of the enlarged capital, not 100% control

(d) on balance, the overall advantages of the Proposed Share Issue outweigh the disadvantages.

General

38 The ultimate decision whether to approve the Proposed Share Issue should be based on each SP Telemedia shareholders' assessment of their own circumstances. If SP Telemedia shareholders are in doubt about the action they should take in relation to the Proposed Share Issue or matters dealt with in this report, SP Telemedia shareholders should seek independent professional advice. For our full opinion on the Proposed Share Issue and the reasoning behind our opinion, we recommend that SP Telemedia shareholders read the remainder of our report.

Yours faithfully

Craig Edwards
Authorised Representative

Wayne Lonergan
Authorised Representative

Table of Contents

I The Proposal

Terms

39 On 7 February 2008, SP Telemedia announced a proposal to acquire all the issued capital of TPG (the Proposal).

40 Under the Proposal SP Telemedia will pay $150 million in cash and issue 270 million SP Telemedia shares. The proposed issue of shares as part of the Consideration (the Proposed Share Issue) will result in the TPG vendors holding an interest of 40% in SP Telemedia, and will result in TPG's Major Shareholders, who are deemed to be Associates for the purposes of the Corporations Act, having a relevant interest of 38.7% in SP Telemedia.

Conditions

41 The Proposal is subject to various conditions including the following:

(a) SP Telemedia shareholders approving the acquisition of TPG at a meeting to be held in April 2008

(b) no event occurring that has a material adverse impact on either TPG or SP Telemedia

(c) no prescribed event occurring before completion in respect of TPG or SP Telemedia including conversion, reduction or reorganisation of the capital of either TPG or SP Telemedia.

Undertakings

42 David Teoh, CEO of TPG (who will become Executive Chairman of SP Telemedia should the Proposal be approved) has agreed not to engage in any business that competes with the current services provided by TPG for a period of three years.

43 The Consideration Shares will not be subject to any escrow restriction.

II Scope of our report

Purpose

44 If the Proposal is approved and all conditions are satisfied, the Proposed Share Issue will result in TPG's Major Shareholders holding a relevant interest of 38.7% in SP Telemedia.

45 Section 606 of the Corporations Act 2001 (Corporations Act) generally prohibits the acquisition of a relevant interest in issued voting securities of an entity if the acquisition results in a person's voting power in a company increasing from below 20% to more than 20%, or from a starting point between 20% and 90%, without making an offer to all securityholders of the entity[10]. An exception to this general prohibition is set out in Section 611(7), whereby such an acquisition is allowed where the acquisition is approved by a majority of securityholders of the entity at a general meeting and no votes are cast in respect of securities held by the acquirer or any of its associates.

46 Regulatory Guide 111 sets out the view of ASIC on the operation of Section 611(7) of the Corporations Act. Section 611(7) of the Corporations Act allows shareholders to waive the prohibition in Section 606. ASIC Regulatory Guide 111 requires that shareholders approving a resolution pursuant to this section be provided with all material information in relation to the proposed transaction including an IER.

47 As TPG's Major Shareholders will acquire more than 20% of SP Telemedia shares there is a regulatory requirement for SP Telemedia to commission an IER. Consequently, the Directors of SP Telemedia have requested that LEA prepare an IER stating whether, in LEA's opinion, the Proposed Share Issue to TPG's Major Shareholders is fair and reasonable to the shareholders of SP Telemedia.

48 This report has been prepared to assist the Directors of SP Telemedia in making their recommendation to the shareholders of SP Telemedia not associated with TPG, and to assist these shareholders assess the merits of the Proposed Share Issue.

49 The issue on which LEA have been asked to opine is the impact of the Proposal on the ownership structure of SP Telemedia. In simple terms, our task is not to assess the proposed merits of the transaction in financial terms, but rather to assess the ownership implications of a transaction that the directors of SP Telemedia have assessed as a beneficial transaction from the perspective of SP Telemedia's existing shareholders, having negotiated the terms thereof in good faith.

[10] Subject to the 3% every six months "creep provisions".

50 This report should not be used for any other purpose or by any other party. The ultimate decision whether to approve the Proposed Share Issue should be based on each shareholders' assessment of their own circumstances, including their risk profile, liquidity preference, tax position and expectations as to value and future market conditions. If in doubt about the Proposed Share Issue or matters dealt with in this report, SP Telemedia shareholders should seek independent professional advice.

Basis of assessment

51 In preparing our report, we have given due consideration to ASIC Regulatory Guide 111 – *Content of Expert Reports*.

52 ASIC Regulatory Guide 111 – *Content of Expert Reports* states that an issue of shares requiring approval under item 7 of section 611 of the Corporations Act[11] should be analysed as if it were a takeover bid under Chapter 6[12]. Accordingly, the expert is required to assess the transaction in terms of the convention established for takeovers pursuant to section 640 of the Corporations Act), being:

(a) is the offer "fair" and
(b) is it "reasonable"[13].

53 When assessing takeovers, an offer is "fair" if the value of the offer price or consideration is equal to or greater than the value of the securities the subject of the offer. Further, this comparison should be made assuming 100% ownership of the company and is irrespective of whether the offer is cash or scrip.

54 An offer is "reasonable" if it is fair. An offer may also be reasonable if, despite being "not fair", there are sufficient reasons for security holders to accept the offer in the absence of any higher bid before the close of the offer.

55 Specifically, for the purpose of assessing an issue of shares where the allottee acquires greater than 20% but less than 50% of the company incorporating the merged business (and thus, conventionally, does not provide the vendor / allottee with control of the company incorporating the merged business), Regulatory Guide 111 requires that the value of the consideration offered be assessed against the value of the shares issued to the allottee on a controlling interest basis (ie including a control premium), even though control may not ordinarily pass.

[11] In particular, the acquisition of an interest of greater than 20% in the acquiring entity by the vendor, by the issue of shares by the acquirer to the vendor.
[12] RG111.21 provides an example of such an issue of shares that is comparable to a takeover bid, being where a company issues shares to a vendor of another entity or the vendor of a business and as a consequence, the vendor acquires over 20% of the company incorporating the merged business.
[13] RG111.23 and RG111.9.

56 Regulatory Guide 111 also states that the expert should identify the advantages and disadvantages of the proposal to the shareholders not associated with the transaction, and should provide an opinion on whether the advantages of the proposal outweigh the disadvantages[14].

57 In LEA's opinion, assessing the "fairness" of the Proposed Share Issue by comparing the effective issue price with the value of 100% of SP Telemedia (including a full control premium), does not necessarily assist SP Telemedia shareholders in making an informed choice as to whether to accept or reject the Proposal[15]. Simply put, this is because 100% ownership is not being transferred. Accordingly, for the purpose of this analysis, we have placed greater emphasis on whether, given that the directors of SP Telemedia have formed the view that this is a beneficial transaction to SP Telemedia, the advantages of the Proposed Share Issue to TPG's Major Shareholders outweigh the disadvantages to SP Telemedia.

Limitations and reliance on information

58 Our opinion is based on economic, market and other conditions prevailing at the date of this report.

59 Our report is based upon financial and other information provided by SP Telemedia and TPG.

60 We have considered and relied upon this information and believe that the information provided is reliable, complete, prepared on reasonable grounds, not misleading and does not reflect any material bias. We have no reason to believe that material facts have been withheld from us.

61 The information provided was evaluated through analysis, enquiry and review for the purpose of forming an opinion as to whether the Proposed Share Issue is fair and reasonable to SP Telemedia's shareholders not associated with TPG.

62 However, in assignments such as this time is limited and we do not warrant that our enquiries have identified or verified all of the matters which an audit, extensive examination or "due diligence" investigation might disclose. None of these additional tasks have been undertaken by us and we emphasise that we have not undertaken any detailed examination of, nor conducted a due diligence review of TPG.

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[14] RG 111.39.
[15] RG111.24 provides that if the expert believes that the allottee (vendor) has not obtained or increased its control over the company as a practical matter, then the expert could take this outcome into account in assessing whether the issue price is "reasonable" if the expert has assessed the issue price as being "not fair".

63 We understand the accounting and other financial information that was provided to us has been prepared in accordance with or the Australian equivalent to International Financial Reporting Standards (AIFRS). The estimates and underlying assumptions have not been reviewed by an investigating accountant for reasonableness or accuracy. However, we have reviewed the major assumptions in the context of current economic, financial and other conditions.

64 An important part of the information base used in forming an opinion of the kind expressed in this report is the opinions and judgement of management. This type of information has also been evaluated through analysis, enquiry and review to the extent practical. However, it must be recognised that such information is not always capable of external verification or validation.

65 We in no way guarantee the achievability of the budgets or forecasts of future profits. Budgets and forecasts are inherently uncertain. They are predictions by management of future events which cannot be assured and are necessarily based on assumptions of future events, many of which are beyond the control of management. Actual results may vary significantly from forecasts and budgets with consequential valuation impacts.

66 Specifically, this report should not be used by shareholders of Chariot to determine whether any follow-on takeover offer by SP Telemedia, (should the Proposal be completed), is ‘fair” and “reasonable”. This report has considered the value of TPG’s investment in Chariot for the purposes of the Proposal (and, in particular, the Proposed Share Issue), having regard, inter alia, to the relative small size of Chariot to SP Telemedia, TPG and the Merged Entity. Our valuation of Chariot in this context should not be used for any other purpose.

III Profile of SP Telemedia

Overview

67 SP Telemedia is an ASX-listed company providing fixed and mobile telephony, internet access via dial-up and Asymmetric Digital Subscriber Line (ADSL), internet and broadband data services. Up until May 2007, SP Telemedia operated a regional Australian commercial television station (NBN Enterprises Pty Limited (NBN))[16]. SP Telemedia listed on the ASX in May 2001.

Current operations

68 SP Telemedia, trading as SOUL Converged Communications (SOUL), is a licensed telecommunications carrier that retails telecommunication products and services. SP Telemedia provides retail and wholesale video, voice and data services.

69 SP Telemedia's retail business provides services to residential, corporate / small to medium enterprises (SME) and government customers.

70 Residential focussed services include home phone, mobile telephony and internet services, while business and government services include voice, including Voice over Internet Protocol (VoIP), mobile, internet and data services including virtual private networks (VPNs) and Internet Protocol Television (IPTV).

71 SP Telemedia is Australia's largest reseller of mobile phone services, being Optus's largest customer.

72 SOUL's wholesale services are provided over SOUL's convergent network. This network has over 200 points of presence (PoPs) and facilitates SOUL providing internet access services, voice services, data services including co-location, telehousing and VPNs, residential and business digital subscriber lines (DSLs) and VoIP.

[16] In May 2007 SP Telemedia sold NBN for around $250 million.

Summary of financial performance

73 Set out below is a summary of SP Telemedia's normalised results[17] for its telecommunications business for the year ended 31 July 2006 and 2007:

Normalised results for telecommunications business		
Year ending 31 July	**2006 Actual $m**	**2007 Actual $m**
Revenue	413.3	426.6
EBITDA(1)	26.7	37.1
EBIT(1)	17.9	21.9
Net profit after tax(1)	9.2	12.7

Note:
1 Prior to significant items.

74 Profit after tax from SP Telemedia'telecommunications operations, normalised to exclude significant non-recurring items, was $12.7 million, up 38% on the previous year[18].

75 In FY06 SP Telemedia generated revenues of some $413 million from its telecommunications business[19] and profit after tax (before significant items) of some $9.2 million[20]. The financial result for SP Telemedia's telecommunications business for the 2005 financial year was impacted by the acquisition in April 2005 of 43% of the issued capital in B Digital Limited.

2008 forecast

76 SP Telemedia have forecast modest revenue growth in FY08 and have forecast EBITDA for FY08 of $33.9 million.

77 LEA have been provided with more detailed financial forecasts for SP Telemedia. However, as these detailed forecasts are commercially sensitive, the details have not been set out in this report.

[17] Prior to significant items.
[18] Source: SP Telemedia annual report.
[19] That is, excluding the NBN media operations.
[20] Source: 2006 Director's Report.

Financial position

78 Set out below is SP Telemedia's (unaudited) financial position as at 31 October 2007:

SP Telemedia – financial position – 31 October 2007 (unaudited)	$000
Current assets	
Cash assets	64,421
Receivables	73,202
Inventories	2,224
Intangibles(1)	31,812
Assets classified as held for sale	500
Current tax	91
Other	8,028
Total current assets	180,278
Non-current assets	
Property, plant and equipment(2)	120,804
Intangibles	66,288
Other	5,607
Total non-current assets	192,699
Total assets	372,977
Current liabilities	
Payables	54,463
Bank overdrafts	9
Interest bearing liabilities	545
Current tax liabilities	14,746
Provisions	3,059
Other(3)	28,316
Total current liabilities	101,138
Non-current liabilities	
Interest bearing liabilities	30,960
Deferred tax liabilities	1,554
Provisions	2,004
Other	3,962
Total non-current liabilities	38,480
Total liabilities	139,618
Net assets	233,359

Note:
1 Comprises net capitalised subscriber costs.
2 Property, plant and equipment principally comprises SP Telemedia's network assets.
3 Comprises deferred revenue.
Source: SP Telemedia management accounts.

Share capital

79 As at the date of this report, SP Telemedia had 405.2 million shares on issue, of which 187.7 million (46.3%) were held by WHSP. SP Telemedia's share price is included in the All Ordinaries Index.[21]

Share price performance

80 The price of SP Telemedia shares from 1 January 2006 to 31 January 2008 is summarised in the table below.

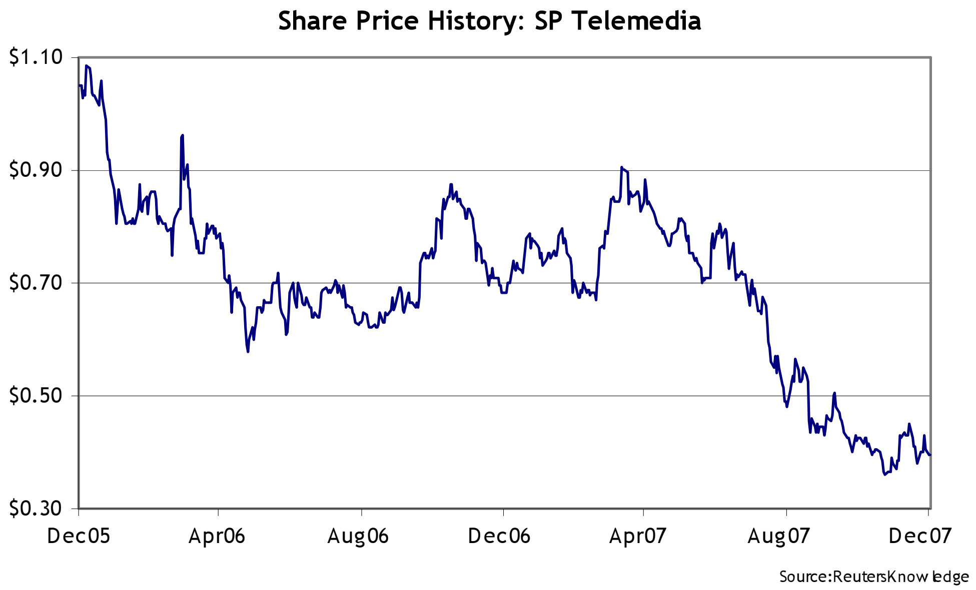
SP Telemedia - share price performance

	High $	Low $	Close $	Monthly volume(1) 000
Quarter ended				
March 2006	1.26	0.84	1.01	9,090
June 2006	1.06	0.65	0.78	10,127
September 2006	0.81	0.70	0.76	4,181
December 2006	1.02	0.74	0.78	9,340
Month				
January 2007	0.91	0.78	0.85	8,382
February 2007	0.91	0.77	0.78	7,110
March 2007	0.92	0.76	0.90	7,639
April 2007	1.06	0.90	0.97	10,574
May 2007	1.06	0.84	0.93	20,497
June 2007	0.93	0.79	0.87	12,704
July 2007	0.93	0.66	0.70	11,157
August 2007	0.71	0.47	0.48	11,108
September 2007	0.58	0.42	0.45	27,149
October 2007	0.53	0.38	0.43	19,437
November 2007	0.44	0.35	0.38	7,251
December 2007	0.47	0.37	0.40	6,880
January 2008	0.41	0.31	0.35	7,558

Note:
1 Monthly volumes for the quarter ended represent average monthly volumes.

[21] Source: Weblink.

81 The following graph illustrates the movement in SP Telemedia's share price over this period:



82 The fall in the SP Telemedia share price from mid-2007, in LEA's view, is principally attributable to the sale of SP Telemedia's NBN business.

IV Profile of TPG

Overview

83 TPG Holdings Limited (ABN 31 003 328 103) is an unlisted, Australian public company.

History

84 The business was founded in 1986 in Sydney, New South Wales. TPG initially operated as a Personal Computer (PC) assembler and PC and computer peripheral distributor. In 1995 TPG commenced providing internet services.

85 In 2005, TPG discontinued its PC assembly business and continued its focus on its Internet business. In 2005 TPG began installing its own digital subscriber line access modules (DSLAMs) infrastructure in east coast telephone exchanges to provide ADSL2+ services. The key difference between ADSL and ADSL2+ is that an ADSL service is transmitted over systems owned by the incumbent network (Telstra), whereas ADSL2+ uses only the copper wire from the exchange to the home (owned by Telstra), with the remaining portion of the transmission transmitted over infrastructure owned or leased by the ADSL2+ provider. The number of DSLAMs installed by TPG within exchanges is some 230 as at December 2007.

Current operations

86 Through its wholly-owned subsidiaries, TPG provides internet and network services to residential, corporate and government clients.

87 TPG's internet division offers dial-up products, ADSL, ADSL2+ and high-speed digital subscriber line (SHDSL) broadband access, email services, website and domain name hosting, Voice-over-Internet Protocol (VoIP) and Internet Protocol Television (IPTV).

88 TPG's Business Networking Solutions division provides fully-managed corporate wide area networks (WANs) with a range of services such as fully-integrated voice, video, internet and data networks[22].

89 TPG recently[23] acquired a 70% interest in the ASX-listed company, Chariot Internet Limited (Internet). Chariot provides retail internet and related services principally to rural South Australia and Victoria. Chariot's loss-making wireless business was sold in August 2007. Further details on Chariot are set out in Appendix C.

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[22] Source: www.tpg.com.au accessed 20 December 2007.
[23] In 2007.

Summary of financial performance

90 Set out below is a summary of TPG's financial performance for the 2006 and 2007 financial years[24]:

TPG summary profit and loss statement		
Year to 30 June	**2006 $m**	**2007 $m**
Revenue		
Internet services	84.2	94.5
Network services	9.2	8.8
Other revenue	12.2	12.2
Total revenue	105.6	115.5
Cost of sales	(81.4)	(82.0)
Gross margin	24.2	33.5
Operating costs	(14.4)	(15.2)
Operating profit	9.8	18.3
Other income	-	2.8
EBITDA	9.8	21.1

91 Key matters impacting on TPG's profitability over the above period are discussed below.

Decline in dial-up and ADSL migration to ADSL2+

92 TPG has experienced a reduced number of ADSL and dial-up subscribers as subscribers migrate to ADSL2+. During the year ended June 2007 some 42,000 subscribers migrated from other services (eg Dial-up, ADSL) to ADSL2+. In part, this was a result of a programme by TPG to migrate all ADSL customers linked to ADSL2+ exchanges to ADSL2+.

93 The following table sets out a summary of the number of TPG subscribers:

TPG subscribers	FY06		FY07	
	Closing	***Average***	**Closing**	***Average***
ADSL2+	6,802	*702*	82,582	*45,026*
ADSL	113,925	*116,839*	78,294	*92,620*
Dial-up	61,562	*75,992*	38,870	*49,580*
Total	182,289	*193,533*	199,746	*187,226*

[24] Excluding the contribution from Chariot.

Average revenue per user (ARPU)

94 ARPU has increased during the period 2005 to 2007. LEA are advised by TPG management that this is due to users requiring greater bandwidth for internet applications (eg for multimedia), and being prepared to pay higher prices for greater capacity.

Direct and other costs

95 The migration to ADSL2+ has improved the gross margin earned by TPG, due to the direct costs payable to Telstra being substantially lower for ADSL2+ compared to ADSL.

96 Marketing costs increased in FY07 from approximately \$0.5 million (in FY06) to approximately \$1.8 million. Little marketing was conducted during FY06 as TPG rolled out their ADSL2+ network. This network was substantially in place by the end of FY07, from which time marketing spend has increased with the view to attracting ADSL2+ customers. TPG management have advised that current marketing spend is in the region of \$0.3 million per month.

97 TPG has opened a call centre operation in Manila in the Philippines. As a result, staff costs have reduced by approximately \$0.7 million from FY06 to FY07, despite an increase in average headcount of some 20%.

Networks

98 In addition to TPG's ISP products, TPG provides corporate and business customers with managed Wide Area Networks, Virtual Private Networks, and voice, video, internet and data networks.

99 This element of TPG's business is forecast to provide reduced contributions in the future. TPG management have advised that this is the result of their customer set increasingly using internet style services to replace traditional networking services.

Other revenue

100 "Other revenue" comprises revenue from services provided other than from the ISP and network operations of TPG, and include:

(a) hardware
(b) installations
(c) connection and disconnection fees
(d) voice revenues; and
(e) bandwidth sales.

101 TPG's gross margin on other revenue decreased from FY06 to FY07, due to:

(a) a change in product / service mix, towards hardware revenue and away from installations; and

(b) a decline in the margins derived on installations and connects / disconnects.

Forecasts

102 A summary of TPG's forecast earnings for the 12 months to 30 June 2008 (FY08) is set out in the table below. While LEA have been provided with detailed forecasts, this detail has not been disclosed as it is commercially sensitive.

TPG – FY08 summary forecast earnings – 12 months to 30 June 2008

	2008 Forecast $m
Total revenue	141.0
Total gross margin	66.5
EBITDA	48.5(1)

Note:
1 After $1.5 million "other income".

103 TPG has forecast a very significant increase in earnings in FY08. This forecast increase is expected to arise as a result of both a higher number of subscribers, and a higher profit margin as a result of a shift in product mix towards the higher margin ADSL2+ product, away from the lower margin ADSL product.

104 The ability of TPG to increase its margins is a function of its cost structure. While TPG pays a line sharing service (LSS)[25] fee per customer to Telstra[26], TPG's backhaul costs (costs for carriage from the exchange to TPG) and backbone costs are largely fixed, whilst IP transit cost reductions are obtained with greater volumes. Thus, to a point the incremental revenues obtained from obtaining new subscribers predominantly flows through to EBITDA in the seven months to 31 December 2007, TPG achieved revenue and EBITDA of $28 million and $15.5 million respectively, and is on-track to achieve its forecast FY08 EBITDA.

[25] "Line sharing" allows an Internet Service Provider (ISP) to provide broadband internet while a separate fixed line carrier provides voice.
[26] This cost has reduced from an amount greater than $29.95 per month to $2.50 per month per subscriber.

Financial position

105 Set out below is TPG's balance sheet as at 30 June 2007 and 30 November 2007 (unaudited):

TPG preliminary balance sheet	Jun 2007 Actual $m	Nov 2007 Actual Unaudited $m
Assets		
Current assets		
Cash and cash equivalents	16.4	26.2[(1)]
Trade and other receivables	3.0	2.1
Inventories	0.2	0.3
Other current assets	3.6	2.6
Total current assets	23.1	31.2
Non-current assets		
Investments	12.6	9.2
Property, plant and equipment	18.7	22.1
Deferred tax assets	1.0	1.0
Other assets (IRU prepayment)	31.4	31.4
Total non-current assets	63.8	63.7
Total assets	86.9	94.9
Current liabilities		
Trade and other payables	16.5	13.7
Deferred revenue	9.4	9.8
Financial liabilities (IRU)	10.4	6.3
Current tax liabilities	4.5	8.7
Short-term provision	0.9	1.0
Total current liabilities	41.7	39.5
Non-current liabilities		
Financial liabilities (IRU)	19.9	19.9
Long-term provisions	0.1	-
Total non-current liabilities	20.0	19.9
Total liabilities	61.7	59.4
Net assets	25.1	35.4

Note:

1 Prior to the payment of a dividend of some $18 million in early December 2007.

Source: TPG management.

106 Investments represent the investment in Chariot and other listed securities. All the investments (other than in Chariot) have been sold in the current year.

Southern Cross Cable capacity

107 TPG has an Indefeasible Right of Use (IRU) for the Southern Cross Cable, a sub-sea telecommunications cable linking Australia, New Zealand, Fiji and the USA including Hawaii. The IRU provides TPG with Internet Protocol (IP) transit capacity for 13.5 years, commencing April 2007.

108 The present value of the cost to secure the IRU has been recognised as an asset in TPG's balance sheet[27].

109 This asset is amortised over the 13.5 year usage period.

110 The financial liability relating to the IRU represents the present value of amount to be paid under the agreement. However, it should be noted that at the end of the 13.5 year period, TPG will have to make further payments should it wish to continue to access capacity on the Southern Cross cable.

Share capital

111 The two major shareholders in TPG are David Teoh and his wife Vicky Teoh. David Teoh is the sole director and secretary of TPG. Together the two major shareholders hold 96.7% of TPG's issued capital of ordinary shares[28].

[27] Details of the total cost of this IRU at November 2007 have been provided to LEA but have not been disclosed as they are commercially sensitive / subject to a confidentiality agreement.
[28] Source: Chariot Internet Limited Notice of General Meeting 16 March 2007.

V Industry overview

Telecommunications[29]

112 The Australian telecommunications industry can be broken into segments based on infrastructure ownership and services. The primary segments are wired carriers, mobile carriers, resellers and internet service providers (ISPs).

113 Wired carriers provide voice and data services via landlines, microwaves or satellite linkups. Services include fixed-wire call services, wired network services and cable services. Participants operate and maintain their own switching and transmission facilities or may own a fixed line telephone network system consisting of copper wire or fibre optic cable. In 2007-08 wired carriers are expected to generate revenues of $12.4 billion. SP Telemedia operates in the wired carriers industry under the brand SOUL.

114 Mobile carriers mainly operate and maintain switching and transmission facilities that provide direct communications via airwaves. Included in this industry are establishments providing wireless telecommunications network services, such as cellular telephone or paging services. Participants may also supply and maintain equipment used to receive signals. SP Telemedia and TPG do not operate in this segment.

115 Resellers are mainly engaged in providing telecommunications services, including fixed line calls, mobile calls and data transfer via a network owned by a third party. Some industry participants own switching equipment, whereas others simply buy and resell telecommunications services purchased at wholesale prices from a network owner. In 2007-08 resellers are expected to generate revenues of $3.4 billion. SP Telemedia operates in this industry through its subsidiary B Digital.

116 ISPs provide customers with access to the internet. Most provide related services such as web page hosting, website development and e-commerce based services. In 2007-08 ISPs are expected to generate revenues of $5.6 billion. TPG is one of the largest privately-owned Australian ISPs. In recent years, ISPs have also commenced offering voice over internet protocol (VoIP) services, by which voice traffic is carried over a 'switchless' internet protocol (IP) network. SP Telemedia also operates in this industry.

Telstra

117 Telstra is the only telecommunications network owner that has a national copper wire telephone line network. Telstra is bound to provide resellers with access to the copper wire network between the telephone exchange and a customer's residence (referred to as the ‘unconditional local loop’ or ULL).

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[29] Source: IBISWorld except where stated otherwise.

118 Telstra's wholesale prices are based on the geographic location, which correlates with the cost of providing the service. For instance, access to local lines in remote and rural areas represents a higher cost to Telstra and a higher wholesale price is charged. The combination of lower population densities in regional and remote areas, with higher wholesale charges mean that resellers are less likely to provide fixed-line call services to households in these regions.

119 From 1 July 2007 Telstra was permitted to increase line rental charges by the rate of inflation to recover costs in providing the service.

120 Interconnection costs are also regulated by ACCC. These are charges levied by Telstra on other telecommunications carriers for domestic PSTN originating and terminating access services, and can represent up to 30% to 45% of the costs incurred by service providers in supplying long distance, fixed-to-mobile and mobile-to-fixed calls to consumers.

Industry consolidation and segments

121 One of the key features characterising the telecommunications industry in recent years has been the consolidation of industry participants. Falling prices (and margins), combined with increased competition has seen a number of companies case operating or be taken over.

122 The three major customer market segments are corporate, household and government:

Market Segments	Wired share %	Reseller share %	ISP share %
Corporate and Government	74	65	12
Household	26	35	88

123 Segment revenues, particularly for wired services, are heavily influenced by the regulatory environment, with Telstra having to base wholesale prices on geographic location. Subsequently, wholesale prices are lower in the corporate market segment, because the majority of larger profitable corporations are located in CBD and metropolitan areas. Hence, there are more resellers competing in these markets.

124 The household market segment, although larger in size and scale than the corporate market, generally has higher wholesale charges, compared to supplying services to corporate clients. Therefore, resellers are at a competitive disadvantage in relative terms, to traditional service providers and fewer resellers compete in this market. Households represent the largest internet subscriber segment based on the number of subscriptions, however the

amount of data downloaded on average is higher for business subscribers than for households.

125 Government organisations are largely supplied by the traditional telecommunication service providers, who compete vigorously for this market segment.

Wired Carriers

126 While copper wires form the basis of Telstra's public switched telephone network (PSTN) network fibre optic cables, which have been used commercially since the mid-1970s, allow information to be transmitted much faster than over copper wire. High capacity submarine fibre optic cables have been highly successful in increasing capacity on international routes underground fibre optic cables also connect the major capital cities. Other cable types include coaxial cable which is used by cable television operators but can also carry data and voice services.

127 Line access charges account for the largest portion of revenue within this industry and, given that Telstra owns the PSTN network, Telstra generates the overwhelming majority of revenue. Given the capital intensity required to duplicate a network such as Telstra's it is unlikely that another network will be built that has the same scale and breadth as the Telstra network. A more extensive fibre optic national cable network is likely to be built eventually but Telstra's copper wire network will remain the main telecommunications conduit for at least the next five to 10 years.

128 Recent technological advances have focused on extending the functionality of the copper wire local loop, to allow increased carrying speeds. This is done using compression technologies such as xDSL, which allow ordinary copper lines to carry digital content at high speed using higher frequencies. The x refers to the fact that there are several variants of the technology including ADSL (asymmetric DSL) and VDSL (very high data rate DSL). In allowing copper wire to be used for a wider range of services, including internet, video and multiple channel voice, DSL technologies have given the existing infrastructure a new lease of life.

129 The top four wired carriers (Telstra, Optus, Telecom New Zealand/AAPT and Macquarie Telecom) account for over 97% of industry revenue. SP Telemedia owns Australia's second largest voice and data network behind Telstra, with over 300 points of presence (PoPs) located throughout all call collection centres in Australia.

130 Participants in this industry are able to provide voice telephony services that by-pass most[30], and in some cases, all[31] of Telstra's network, depending on the type of customer and network configuration.

Competition

131 Competition is principally based on price, service, product innovation and marketing strategies.

132 Price is the major basis of competition because it is often difficult to differentiate products, however service is becoming increasing important and the range of services being offered is expanding. Fast resolution of problems, reliable service and simple billing systems can provide a competitive advantage.

133 The ability to offer the latest technological advances and products is also important.

134 Due to fixed lines having a higher base cost than mobile services, industry participants that can bundle fixed-line products with other services such as internet access and mobile services have an advantage.

Barriers to entry

135 The main barrier to entry is the high capital cost involved in building telecommunications infrastructure[32], although technological innovations are reducing the infrastructure cost of entry. The major impediment in investing in new wired infrastructure is not the cost of the technology but the cost of civil works.

136 Further, the established and vertically-integrated operators achieve considerable cost advantages arising from economies of scale that would not be immediately available to a new entrant, as well as benefiting from having a large established customer base.

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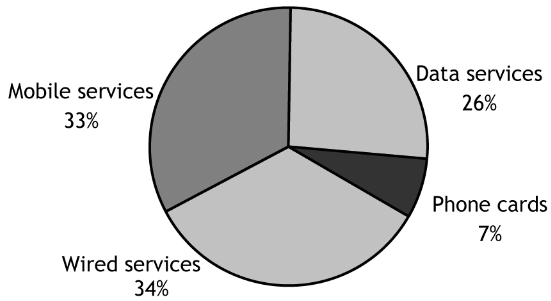
[30] In the case of a network operator with a digital subscriber line access module (DSLAM) network in association with a backhaul network, voice traffic can be carried that uses Telstra's exchange to the home copper network only.
[31] Fixed wire voice carriers can, where economical, install routers on government or business sites, for example, and route voice traffic directly from that site to their network. If the call is terminated on a similar site within that operator's network, the voice call will be carried entirely on networks other than Telstra's.
[32] By way of example, SP Telemedia's network was, in part, purchased from the Administrator of Comindico.

Resellers

137 A telecommunications reseller is essentially a wholesaler of a range of telecommunication services including mobile and fixed-line services. Some resellers operate a switching platform which is physically connected to the carrier's network. The resellers industry comprises 130 businesses, with the top four accounting for around 50% of revenue.

138 The telecommunication reseller industry can be divided into four key segments based on the service provided: wired services[33], mobile services, data services and phone cards.

Telecommunication Resellers - Products and Services



139 One of the most crucial issues for telecommunications resellers is the access regime of the telecommunications industry. This determines which services a telecommunications reseller can access.

140 Further, service providers are heavily dependent on the price at which they can acquire telecommunications services from carriers. In this regard there have been a number of instances where Telstra has dropped retail prices and delayed a price reduction for the corresponding wholesale service. For example, from 5 December 2005 Telstra supplied access services to Telstra's wholesale customers at a price greater than that charged by Telstra to its retail customers. This adversely impacted resellers as it made their product offerings uncompetitive.

141 Telstra has subsequently adopted the ACCC's final determination prices for its core fixed telecom services for companies that have requested ACCC arbitration. The ACCC has also formalised the declaration of a Wholesale Line Rental service (WLR), which is the price that resellers pay to access Telstra's fixed network. Indicative pricing specifies the WLR service at $23.12 per month for residential users and $25.84 for businesses.[34]

[33] Includes fixed-to-mobile calls utilising another carrier's network.
[34] Source: Chime /Telstra interim determination, wholesale line rental service. June 2007

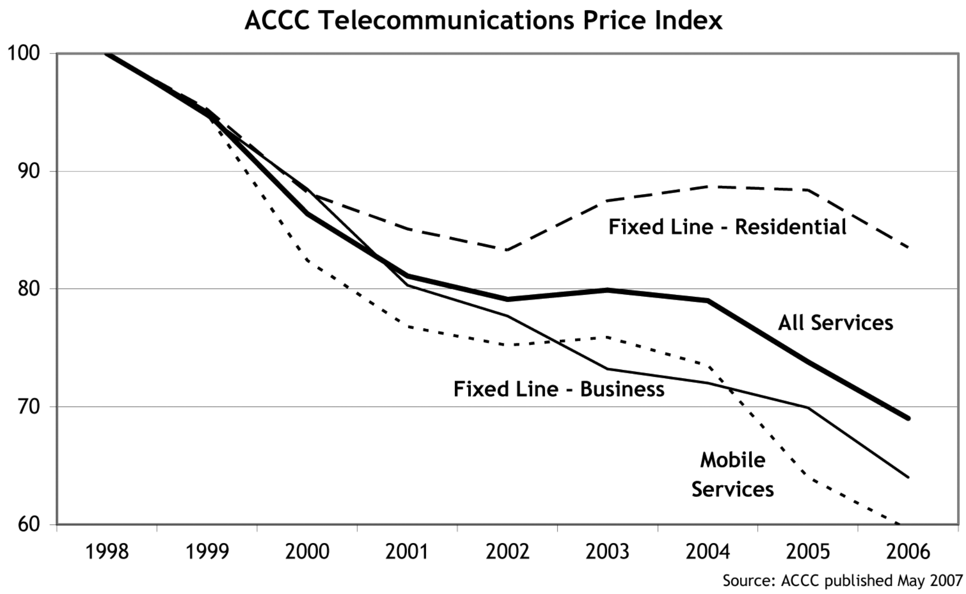
142 In terms of mobile products Telstra wholesales only 2G and 2.5G services, however Hutchison and Optus wholesale 3G services. Resellers have benefited from increased mobile phone uptake, substitution from fixed to mobile services and falling termination charges. These charges are paid by the reseller when a customer calls and connects to someone on another network.

Competition

143 In most parts of Australia, Telstra continues to be the sole provider of local access through its fixed-line network and up to 87% of Australian homes and businesses rely on voice services provided using Telstra's fixed-line network. Approximately 12% of basic access is provided by Optus' hybrid fibre coaxial (HFC) network.

144 Competition is primarily on the basis of price and the quality of customer service.

145 The prices paid by consumers for telecommunications services in Australia fell by 6.5% in 2005-06. Since 1997-98, the overall telecommunications index has fallen by 30.6%.



146 In many instances, increased competition levels have been to the detriment of the traditional reseller whose ability to compete on price and maintain acceptable margins is dependent on their access to low cost networks.

147 Recently the range of services offered by telecommunications resellers has increased. A larger range of services can provide some competitive advantages in economies of scale and scope. In addition, with many customers preferring to receive a single invoice (as opposed to a number of invoices from a range of service providers), the ability to offer an integrated communications, information and entertainment package is of increasing significance

148 For resellers that offer a suite of telecommunication services, bundling has been a key marketing initiative. This involves offering a total discount across a range of services such as line access, calls, internet access and mobile solutions. This passes on savings to consumers but for resellers helps to reduce churn and increase the customer base. This benefits resellers, as an increase in customers helps to lower overhead unit costs and also gives industry participants increased bargaining power when negotiating wholesale access and service agreements with infrastructure owners

Barriers to entry

149 Unlike many other telecommunications sectors resellers do not require significant start-up capital to be invested in networks and infrastructure, as they simply buy capacity from other companies. This gives smaller competitors the opportunity to enter the market and service a particular niche.

150 The greatest barrier to entry is the high level of competition within the industry. Unless they are a niche operator, telecommunications resellers must compete against each other to win market share from the incumbent carriers who have considerable resources at their disposal to both win and retain customers. Recent years have also seen the entry of new competitors into the telecommunications area, including ISPs, content service providers and utility companies, as well as new carriers. These developments all increase the level of competition.

151 Presently, 3G technology is a non-declared service, which means that unlike 2G and the PSTN network, resellers are not guaranteed access to this network at regulated prices.

Do Not Call Register

152 The Australian Communications and Media Authority (ACMA) established a Do Not Call Register (DNCR) in May 2007 and it became fully operational and enforceable on 31 May 2007.[35] This allows consumers to register their telephone numbers if they do not wish to receive certain unsolicited telemarketing calls. Those telecommunications resellers who rely on telemarketing for customer acquisition have therefore had to alter their customer acquisition strategies.

Internet Service Providers

153 There are more than 6.4 million internet subscribers in Australia of which around 761,000 are business or government subscribers, and the rest are households.[36] Approximately 85% of all businesses, and 70% of households, in Australia have internet access. Growth in take-up of internet access has been related to the introduction of more useful applications such as email, online banking and online shopping.

154 The Australian ISP industry is highly fragmented with over 400 ISPs operating in Australia, most of which are small. However, a few large ISPs dominate the market. Telstra has approximately 45% market share, followed by Optus at around 20%. The next tier includes, iiNet, AAPT/PowerTel, Primus, TPG and Internode. These ISPs own their own DSLAM infrastructure.

155 Internet access is provided via either a dial-up (narrowband) service or broadband. Dial-up services are slower and require the user to dial in to the network for the cost of a local call.

156 Broadband internet access can be provided via a range of technologies including:

(a) ADSL, the most commonly used technology, allows users to access the internet over the copper wire network, with speeds reducing as the distance from the exchange increases. Installation of DSLAM networks is not required. The maximum speed is around 8 Mpbs.

(b) ADSL2+ allows faster internet access than ADSL over copper wires, but with speeds reducing as the distance from the exchange increases. The maximum speed is around 20 Mpbs. Providers must install DSLAMs into Telstra-owned exchanges.

[35] Source: www.dbcde.gov.au accessed 21 Jan 2008.
[36] Source: ABS March 2007.

(c) HFC Cable (optical fibre and coaxial cable) provides broadband internet and other services to around 2.7 million premises in major cities. The maximum speed is around 17 Mpbs. Consumer prices are higher than for xDSL services due to the high cost of deploying the cable network.

(d) 3G networks allow broadband internet access via mobile phones. There are four 3G mobile providers currently operating in Australia, all of which offer broadband services. These services were established through infrastructure-sharing agreements, between Optus and Vodafone on one network, and Telstra and Hutchison on another. The high level of network competition, compared to basic ADSL services, has meant that mobile services are subject to limited access regulation.[37]

(e) Satellites can also be used to deliver broadband internet services, across all of Australia. They fill a niche in providing access to the internet in even the most remote locations at speeds similar to those experienced by most ADSL users. The primary issue with satellite services is the high cost, and therefore high prices for consumers. The Australian Government has addressed this issue through the Broadband Connect program which subsidises the cost of these services with the result that consumers pay prices comparable to those paid in metropolitan areas.

(f) BPL (broadband over powerlines) is an emerging technology that provides broadband internet access over existing electricity powerlines. Issues still to be addressed include potential interference with other radio communications services.

Fibre-to-the-node network

157 A key threat to the fixed line broadband industry is the establishment of a new fibre-to-the-node (FTTN) network. FTTN extends fibre cables from the telephone exchange to a cabinet on the street. The remaining connection to the customer's premises still uses the copper network.

158 It is estimated that FTTN will reduce internet connections through DSLAMs significantly, as the DSLAM network built by participants could be by-passed by a FTTN network. The timing of the rollout is uncertain as the current deadline for a decision by the Government, June 2008, may be pushed out to 2009. The key issue is wholesale pricing under which competitors will gain access the network.

[37] Source: Commonwealth of Australia. Broadband Blueprint. 2006.

159 The entire network will take around five years to complete, however rollout will commence in metropolitan areas and work outwards.

160 The "G9" group of telecommunication companies submitted a draft "Special Access Undertaking" to the ACCC in 2007, which details its plan for a FTTN network. The G9 consists of telecommunication companies AAPT, iiNet, Internode, Macquarie Telecom, Optus, PowerTel, Primus, SOUL and TransAct. On December 17 the ACCC rejected the first draft of the G9 proposal under grounds of insufficient transparency in pricing and non-pricing components. Telstra is also a candidate to build a network.

161 The Government has put out a tender for technical advice to help assess private sector proposals for the rollout of a national FTTN network. The network is scheduled to provide broadband services of at least 12 Mbps to 98% of the Australian population and will entail an injection of public funds of up to $4.7 billion.

Voice over internet protocol

162 VoIP is a potential substitute for PSTN fixed-line voice services. Compared to PSTN fixed-line voice, VoIP is generally cheaper, has a more efficient call process[38] and offers additional functions. Many VoIP providers offer free calls between customers on the same VoIP network. However, VoIP calls can be subject to more variations in voice quality compared to PSTN calls and this could inhibit take-up of the service.[39]

163 There were 269 providers offering VoIP-based services in Australia at 5 September 2007. VoIP providers are established ISPs, smaller telecommunications companies and start-up companies specialising in VoIP.[40]

164 The Australian VoIP market is growing rapidly with around 1.4 million subscribers as at June 2007. This is forecast to increase to 4.8 million by June 2011. The introduction of stand-alone DSL services by ISPs will encourage VoIP take-up because users will no longer be required to have PSTN fixed line phone access.

Competition

165 The level of competition between ISPs is high and increasing. There is trend to consolidation as the smaller companies are taken over or exit the market. The key areas of competition are price, service, new products and range of products.

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[38] A call over a PSTN network takes up the full capacity of the two phone lines involved in the call for the duration of the call. In contrast, a VoIP call conversation is split into data packets that are sent over the network and reassembled at the other end. Consequently, line capacity is used more efficiently.
[39] Source: ACMA. The Australian VoIP Market. December 2007.
[40] Source: ACMA. The Australian VoIP Market. December 2007.

166 Price is the major basis of competition with other factors such as download volumes and speeds being easily comparable. For the smaller ISPs retail prices are a function of the wholesale price that Telstra or other infrastructure owners charge. Telstra and other full service telecommunications providers can offer product and service bundles that allow them to spread costs over a range of services, and undercut rivals.

167 Help desk and support services can be a differentiating factor, particularly for new internet users. Many ISPs do not report service outages so comparing technical service can be difficult.

168 The ability to offer the latest value-added features is important in differentiating the various companies. As prices fall users are tending to migrate to faster services. In addition, some ISPs now offer VoIP and internet protocol television (IPTV). Bundling is also becoming an increasing significant point of competition with full service companies encouraging customers to use multiple products and services.

Barriers to entry

169 The barriers to entry are low, which is highlighted by the large number of small ISPs now operating, many of which are simply resellers of access services. However, new ISPs are dependent on telecommunication carriers to provide data communication capacity at reasonable wholesale prices for ADSL services, or access to infrastructure (exchanges) to install a DSLAM network for ADSL2+ services.

170 In order to provide an ADSL2+ service on owned infrastructure, providers must install DSLAMs into Telstra-owned exchanges. The process involved in obtaining approval to install equipment into Telstra exchanges is not without complication, plus there are also physical size restrictions in some exchanges which limit the amount of third party equipment the exchanges can host, plus, according to TPG management, in some exchanges there is / can be considerable delay in physically installing equipment due to other third party providers being “ahead in the queue” to install equipment. Thus, although by regulation Telstra must provide access to its exchanges to third parties, it can take some time and cost for a third party to actually install their equipment.

171 In addition, intense competition means that the ability to provide access to new technologies and a wide range of products is increasingly important.

Outlook

172 Wired carrier revenues are forecast to continue falling, the decline driven by consumer substitution towards mobile phones. Increased broadband uptake, which requires households to maintain a fixed telephone line, will soften but not offset this decline.

173 Reseller revenues are forecast to increase as they expand the depth and breadth of their product ranges, and this will be helped by product tie-ins associated with internet access and mobile call services. Resold wired services are expected to show weaker demand as consumers move to mobile services and disconnect from the PSTN.

174 Demand for internet connections will continue to increase, boosted by lower access prices, increasing acceptance of the internet and new products.The ISP industry will be driven by increased demand for services that require internet access, such as VoIP, online banking and social networking.

175 IBISWorld forecasts an annualised revenue growth rate of 1.3% for the telecommunications services sector to 2013, broken down as follows:

Forecast growth rate

Telecommunications industry	Annualised growth rate (decline) 2007-08 to 2012-13 % per annum
Wired carriers	(2.7)
Mobile carriers	2.5
Resellers	2.6
ISPs	5.6
Other	(0.6)
Total	1.3

VI Valuation approach

Valuation methods

176 ASIC Regulatory Guide 111 "Content of Expert Reports" outlines the appropriate methodologies that a valuer should consider when valuing assets or securities for the purposes of, amongst other things, share buy-backs, selective capital reductions, schemes of arrangement, takeovers and prospectuses. These include:

(a) the discounted cash flow (DCF) method and the estimated realisable value of any surplus assets

(b) the application of earnings multiples appropriate to the businesses or industries in which the company or its profit centres are engaged, to the estimated future maintainable earnings or cash flows of the company, added to the estimated realisable value of any surplus assets

(c) the amount that would be available for distribution to shareholders in an orderly realisation of assets

(d) the quoted price of listed securities, when there is a liquid and active market and allowing for the fact that the quoted market price may not reflect their value should 100% of the securities be available for sale

(e) any recent genuine offers received by the target for any business units or assets as a basis for valuation of those business units or assets[41].

177 The above methods are not mutually exclusive and a combination of the above methods are often applied. The decision as to which technique to apply as the primary method of valuation is dictated primarily by the quality and type of information available in respect of the forecast future performance of the business and the nature of the asset being valued.

[41] RG111.53.

Methodologies selected

178 The following valuation methods have been adopted when valuing SP Telemedia and TPG:

Valuation methodologies	
Asset	**Primary valuation method**
SP Telemedia	Quoted market price of listed securities, cross checked against observed earnings multiples of comparable listed companies and multiples implied from recent transaction evidence in the telecommunications sector
TPG's core operating business	Capitalisation of earnings methodologies and consideration of underlying net tangible asset backing
TPG's investment in Chariot	Principally by reference to the price at which Chariot shares have traded on the ASX prior to the announcement of the Proposal, cross-checked against observed earnings multiples of comparable listed companies and multiples implied from recent transaction evidence, having regard to Chariot's dependence on its financiers including TPG in order to remain a going concern

VII Valuation of SP Telemedia shares prior to implementation of the Proposal

Methodology

179 As stated above, Regulatory Guide 111 states that the quoted market price of listed securities may be used for valuation purposes where there is a liquid and active market, and provided allowance is made for the fact that the quoted market price may not reflect their value should 100% of the securities be available for sale.

180 To assess the value of SP Telemedia shares to be issued under the Proposal we have therefore considered the recent listed market prices of SP Telemedia shares prior to the announcement of the Proposal and the implied earnings multiples based on our assessed valuation range.

181 In our opinion, the listed market price of SP Telemedia shares is the most appropriate basis from which to measure the value of SP Telemedia shares. This is because:

(a) there are no restrictions on SP Telemedia shares which could prevent sufficient trading to produce an unbiased security price

(b) Telemedia shares are relatively liquid, as approximately 149 million shares traded in the 12 months to 25 January 2008 (representing approximately 68.5% of the current number of shares on issue excluding those held by WHSP)

(c) significant information has been disclosed in relation to SP Telemedia's operations in financial reports and investor presentations

(d) SP Telemedia has an obligation under the ASX Listing Rules (subject to certain exceptions) to notify the ASX immediately of any information of which it becomes aware concerning SP Telemedia which a reasonable person would expect to have a material effect on the price or value of SP Telemedia shares.

Recent SP Telemedia share prices

182 The recent market prices of SP Telemedia shares[42] up to 6 February 2008 are shown below:

SP Telemedia share prices				
Period	**Low cents**	**High cents**	**VWAP(1) Cents**	**Volume traded 000s**
1 month to 6 February 2008	30.5	39.0	35.6	9,223
3 month VWAP to 6 February 2008	30.5	46.5	38.4	22,940

Note:
1 Volume weighted average price (VWAP)

183 Based on the above we have adopted a price for SP Telemedia shares of 35.6 cents to 38.4 cents per share prior to the announcement. This reflects the company's listed market value and therefore excludes a premium for control.

100% controlling interest value

184 We are also required by ASIC to assess the value of SP Telemedia on a 100% controlling interest basis. After applying an appropriate premium for control[43] we have adopted a value for 100% of the shares in SP Telemedia of 45.5 cents to 49.0 cents per share.

[42] As traded on the ASX.
[43] Premiums for control in successful takeovers typically range between 30% and 35% above the pre-bid market price of the target company's shares assuming no speculation of the takeover is reflected in the pre-bid price. However, lower premiums are typically paid for companies with significant net cash holdings (such as SP Telemedia).

185 This valuation range implies the following multiples for SP Telemedia on a controlling interest basis:

FY08 forecast multiples	Low	High
100% controlling interest value per share (cents)[(1)]	45.5	49.0
Shares on issue (million)	405.2	405.2
Value of equity ($m)	184.4	198.5
Net cash ($m)	(32.9)	(32.9)
Enterprise value ($m)	151.5	165.6
Forecast FY08 EBITDA ($m)	33.9	33.9
FY08 EBITDA multiple	**4.5**	**4.9**

Note:
1 On a cum-dividend basis.

186 In comparison we note that:

(a) recent transactions in the telecommunications sector have typically occurred at implied multiples of between 5 and 7 times historic EBITDA (refer Appendix E)

(b) the FY08 EBITDA multiple implied by our valuation range is generally less than that calculated for the listed companies set out in Appendix D.

187 Nonetheless, in our opinion, SP Telemedia should trade on lower EBITDA multiples than implied by recent transaction evidence and the listed companies set out in Appendix D. This is principally because:

(a) revenue growth from SP Telemedia's telecommunications business in recent years has been modest[44] and no significant revenue growth is forecast for FY08. Further, SP Telemedia are forecasting a significant reduction in EBITDA in FY08. In contrast the listed companies on higher FY08 multiples have generally exhibited strong growth in revenue and earnings in recent years, with further growth being forecast beyond FY08[45]. Accordingly, these company multiples appear to incorporate a growth premium which in our view should not be reflected in the value of SP Telemedia

[44] Revenues: FY06 - $410.8 million, FY07 - $423.9 million. Source: SP Telemedia Limited 2007 Financial Statements Segment Reporting note.
[45] In particular, iiNet and Amcom.

(b) SP Telemedia’s return on equity is relatively low compared to other telecommunications companies generally.

Conclusion

188 The shares proposed to be issued to TPG’s Major Shareholders are ex a special dividend of 2.4 cents per share. Consequently, we have adopted a value for SP Telemedia shares of 43.1 cents to 46.6 cents per share on a 100% controlling interest (ex-dividend) basis for our assessment of whether the Proposed Share Issue is “fair”.

VIII Value of consideration paid for TPG

The Consideration for TPG

189 Under the Proposal, the TPG vendors will receive $150 million in cash and 270 million SP Telemedia shares. As a result, the TPG Vendors will acquire approximately 40% of the enlarged capital base of SP Telemedia, and TPG's Major Shareholders will have a relevant interest of some 38.7% in SP Telemedia.

190 Given the size of this shareholding TPG's Major Shareholders are likely to be able to exert significant influence over the affairs of SP Telemedia. However, TPG's Major Shareholders will not individually control SP Telemedia. This is because:

(a) the other shareholders in SP Telemedia will hold a significantly larger percentage interest in the company (in total), and can therefore block ordinary and special resolutions proposed by TPG's Major Shareholders from being passed

(b) Washington H Soul Pattinson & Company Limited (WHSP) will still have a 27.8% interest in SP Telemedia if the Proposal is approved

(c) TPG's Major Shareholders will only have 2 representatives on SP Telemedia's Board of Directors (out of a total of 5 directors following completion of the acquisition).

191 Further, in the absence of a takeover or other similar proposal for SP Telemedia, it is likely that TPG's Major Shareholders would have to accept a discount to the last traded market price if they wanted to sell all of their shares.

192 Consequently, in our opinion, the SP Telemedia shares to be issued to TPG's Major Shareholders should not be valued at a premium to the listed market price.

193 However, as the consideration being provided for the Consideration Shares is not cash[46], we have (as required by ASIC Regulatory Guide 111) also examined whether the value attributed to TPG by SP Telemedia (based on the effective issue price) is reasonable having regard to the implied transaction multiples and the very high level of synergies expected to be generated from merging SP Telemedia and TPG.

[46] The consideration being provided is TPG

194 The effective issue price of the Consideration Shares implies the following value for TPG:

Value of consideration paid for TPG	Low	High
Listed market price of SP Telemedia's shares – ex dividend basis	33.2	36.0
Shares to be issued in total (million)	270.0	270.0
Value of share consideration	89.6	97.2
Cash consideration	150.0	150.0
Value of consideration paid for the equity in TPG	239.6	247.2

Enterprise value of TPG

195 In determining the enterprise value of TPG we have adjusted the equity value of TPG for other assets held (comprising cash and a 70.25% interest in Chariot Limited (Chariot)) and the impact of TPG's current obligations under the existing IRU and the estimated cost of future capacity.

Cash

196 TPG management have advised that cash balances at 30 January 2008 were $13.5 million, after payment in early December 2007 of a dividend of $18.4 million. Accordingly, for the purposes of our analysis, we have adopted a cash balance of $13.5 million. While this cash is not "surplus" to requirements we have calculated the implied enterprise value after allowing for this cash balance to ensure the EBIT and EBITDA multiples are calculated on a basis consistent with those set out at Appendix D.

Chariot

197 TPG has a 70.25%[47] interest in Chariot. Chariot is an Australian listed company providing broadband, dial-up, email and internet hosting services.

198 As can be seen from the summary financial information set out at Appendix C, Chariot was loss making before finance costs in 2006 and 2007, but is forecast by management to generate EBITDA of between $3.0 million to $3.5 million in 2008. For the six months to 31 December 2007 Chariot generated EBITDA of some $2.0 million before an impairment charge of $0.4 million relating to customer acquisition costs. However operating profit before tax (before impairment charges) was only $166,000.

[47] 110,423,528 shares held by TPG divided by 141,267,453 shares on issue.

199 Further, we note that:

(a) Chariot has debt of some $6.4 million at 31 January 2008 and its ongoing viability is dependent upon the continued support of its financiers, including TPG

(b) Chariot's current liabilities exceed its current assets by a significant margin

(c) Chariot has negative net tangible assets

(d) in LEA's opinion, Chariot requires a significant equity capital injection in order to remain a viable standalone operation.

200 Given the above, and the fact that TPG's investment in Chariot is relatively immaterial in the context of the Proposal, we have adopted Chariot's market price prior to the announcement of the Proposal when valuing TPG's interest.

201 The volume weighted average price (VWAP) of Chariot shares in the one month period to 31 January 2008 was $0.06, and in the three month period to 31 January 2008 was $0.07.

202 On this basis, our assessed value of TPG's interest in Chariot is set out below:

Value of TPG's interest in Chariot	Low	High
Number of shares held (m)	110.4	110.4
Price per share ($)(1)	0.06	0.07
Value of TPG's interest in Chariot ($m)	6.6	7.7

Note:
1 Based on an analysis of Chariot's 1 month and 3 months VWAP to 31 January 2008.

IRU

203 TPG currently has an arrangement which provides TPG with capacity on the Southern Cross cable for 13.5 years from April 2007. The cost of acquiring this capacity is paid over three years and amortised over 13.5 years (being the period over which TPG has secured access). At low EBITDA or earnings multiples, the implied capitalised impact of the ongoing obligation to purchase capacity is understated.

204 Further the Company treated the outstanding obligations under the Southern Cross Cable indefeasible right of use (IRU) as a finance lease. For the purposes of calculating the EBITDA and EBIT multiples we have therefore:

(a) adjusted the enterprise value for the present value of the lease payments plus an allowance for the adjusted cost of renewing capacity[48]

(b) adjusted earnings, by adding back the amortisation of the cost of capacity (around $2.6 million per annum), to properly reflect earnings on a "before interest, before amortisation" basis[49].

Implied enterprise value of TPG's core business

205 On this basis the enterprise value of TPG's core business is as follows:

Enterprise value of TPG's core business		
	Low	**High**
Total value of TPG	239.6	247.2
Less value attributed to Chariot shareholding	(6.6)	(7.7)
Less cash held as at 30 January 2008[(1)]	(13.5)	(13.5)
Enterprise value	219.5	226.0
Add present value estimate of after tax cost of capacity[(2)]	40.0	40.0
Enterprise value before capacity obligations	259.5	266.0

Note:

1 Reflects the dividend paid by TPG of $18 million in December 2007.

2 For the purposes of this calculation we have adopted a discount rate of 8% per annum reflecting the relatively committed nature of this outlay.

48 It should be noted that the calculation of the EBITDA and EBIT multiples are sensitive to the treatment of the current (and future) IRU or capacity cost.

49 As the amortisation of the current cost reflects, in economic substance, both a principal and interest amount.

Implied earnings multiples

206 The implied acquisition multiples for TPG are as follows:

Implied acquisition multiples	Low	High
Operating EBITDA multiple:		
FY07 actual	13.7	14.0
FY08 forecast	**5.2**	**5.4**
Operating EBIT multiples:		
FY07 actual	29.0	29.8
FY08 forecast	**6.7**	**6.8**
PE multiples(3):		
FY07 actual	69.1	71.0
FY08 forecast	**9.5**	**9.8**

Note:

1 For the purposes of this analysis we have adopted an estimate of depreciation and amortisation of $10.0 million (FY07) and $10.7 million (FY08), based on TPG's forecast capital expenditure for FY08[50]. TPG management have advised that in the long-term, a sustainable level of capital expenditure would be in the region of $10 million per annum. Over time, assuming a steady quantum of capital expenditure, depreciation will approximate capital expenditure.

2 All multiples exclude value and earnings contribution from investment in Chariot, which has been treated as a separate asset.

3 The implied PE multiples above have been calculated after adjusting profitability to reflect an estimate of the ongoing annual cost of acquiring capacity on the Southern Cross cable.

PE multiples

207 In determining the PE multiples implied by the acquisition price as set out above, we have assumed:

(a) the annual ongoing cost of acquiring capacity on the Southern Cross cable is $4.8 million, which we have calculated by converting the payments under the current IRU to an annual annuity equivalent using an interest rate of 8% per annum

[50] Depreciation is forecast at some $6.6 million in FY08.

(b) interest income of $0.7 million is generated annually, being 5% per annum on TPG's cash balance of $13.5 million (being the actual cash position as at 30 January 2008)

(c) tax at 30%

(d) the value of TPG's investment in Chariot is equal to $6.6 million to $7.7 million.

208 On this basis the implied PE for TPG based on FY08 forecast earnings is as follows:

Implied PE – TPG	**Low**	**High**
Value of TPG equity implied by Proposal	239.6	247.2
Less value attributed to Chariot[1]	(6.6)	(7.7)
Adjusted equity value	233.0	239.5
FY08 forecast earnings:		
EBIT[2]	38.9	38.9
Add interest income	0.7	0.7
Less annual equivalent cost of Southern Cross cable capacity	(4.8)	(4.8)
	34.8	34.8
Tax at 30%	(10.4)	(10.4)
FY08 profit after tax	24.4	24.4
Implied FY08 PE	**9.5**	**9.8**

Note:

1 Excluded as earnings forecasts do not include contribution from Chariot.

2 Operating EBITDA of $49.6 million ($47.0 million before other income, plus $2.6 million for amortisation of Southern Cross IRU added back) less depreciation and amortisation of $10.7 million.

Comparable company multiples

209 Set out below is a summary of earnings multiples of Australian listed companies operating in the telecommunications / ISP sector. These are set out at Appendix D:

Listed company multiples

	EBITDA multiples		EBIT multiples		PE multiples	
	FY07 Actual	FY08 Forecast	FY07 Actual	FY08 Forecast	FY07 Actual	FY08 Forecast
Range (excluding outliers)	5.8 – 8.3	4.6 – 7.9	9.8 – 15.2	6.0 – 11.8	11.1 – 21.8	8.8 – 15.0
Median	7.2	6.1	13.6	8.1	13.3	12.3
Most comparable company multiples:						
iiNet	7.5	6.1	14.8	10.4	21.8	15.0
Amcom	8.3	7.9	12.4	11.8	13.3	12.6

Note:

1 The above multiples are based on each companies' listed market price on 29 January 2008 and therefore exclude a premium for control.

210 The majority of recent transactions in the Australian telecommunications sector have taken place in the range of 5.0 to 7.0 times historical EBITDA[51]. However, the majority of the companies acquired have been smaller than TPG. The most comparable transaction (OzEmail) was reported to have occurred at a multiple of 5.5 times historical EBITDA (although this transaction took place around three years ago).

[51] Most transaction evidence in the telecommunications sector is reported in terms of EBITDA rather than EBIT and PE multiples. Further, generally only historical multiples were provided, making it difficult to compare TPG's forecast multiple with those of recent transactions.

211 Of the companies listed at Appendix D, LEA notes that the forecast FY08 EBITDA multiples for iiNet and Amcom are 6.1 and 7.9 respectively (excluding a premium for control). In LEA's view, while iiNet and Amcom are the most comparable of the listed companies set out at Appendix D, iiNet is the most comparable company to TPG in terms of size[52]. A summary comparison of iiNet and TPG is set out below:

Summary comparison of TPG v iiNet

	FY06 Actual $m	FY07 Actual $m	FY08 Forecast $m
Revenues			
iiNet	206.6	227.2	240.8
TPG	105.6	115.5	141.0
Normalised EBITDA			
iiNet	18.1	39.1	46.9
TPG	9.8	21.1	48.5
Number of DSLAMs			
iiNet		285	
TPG		202	

Source: TPG management, iiNet FY07 Annual Results August 2007 presentation, consensus broker forecasts, Merrill Lynch.

212 As indicated above, the FY08 forecast EBITDA for TPG and iiNet are broadly comparable[53]. However, in assessing the appropriate multiple to apply for TPG we have also taken into account:

(a) TPG's significantly higher EBITDA margin and the risk that this may not be sustained

(b) the fact that TPG's FY08 forecast EBITDA is more than double the level of EBITDA achieved in FY07. In contrast iiNet's forecast EBITDA growth in FY08 is around 20%[54]. Consequently, in our opinion, it would normally be perceived that there is less risk associated with the achievement of iiNet's EBITDA forecast than TPG's EBITDA forecast.

[52] While we note that iiNet has a significantly larger subscriber base revenue, its FY08 forecast EBITDA is broadly consistent.
[53] iiNet's FY08 EBITDA forecast is based on average broker forecasts.
[54] Based on average broker forecasts.

213 After adjusting the listed company multiples to reflect a premium for control we note that:

(a) TPG's historical multiples are significantly higher than the historical multiples implied for comparable listed companies and the historical transaction multiples in the telecommunications sector; and

(b) TPG's forecast multiples are lower than forecast multiples implied for comparable listed companies.

214 This reflects the very significant growth in profit expected to be achieved by TPG in FY08 as a result of:

(a) a forecast increase in subscriber numbers for TPG's ADSL2+ service (which was marketed from mid-2007)

(b) the forecast increase in average revenue per subscriber (ARPU) largely due to users requiring greater bandwidth, and being prepared to pay for greater capacity

(c) the significant decrease in charges by Telstra for line rental costs which is expected to save in the order of $9 million in FY08 compared to the cost in FY07

(d) benefits arising from the fixed nature of DSLAM and back-haul costs.

215 The significant growth in profit forecast by management in FY08 is demonstrated in the table below:

Summary earnings - TPG	2006 Actual $000	2007 Actual $000	2008 Forecast $000
Revenue	105,605	115,508	141,004
Gross margin	24,199	33,546	66,473
Operating EBITDA[1]	9,818	18,302	47,033
Gross profit margin	*22.9%*	*29.0%*	*47.1%*
EBITDA margin	*9.3%*	*15.8%*	*33.4%*

Note:
1 Before other income (principally foreign exchange gains).

216 With respect to the forecast growth in profitability in FY08, we note that:

(a) TPG's annualised results for the seven months to 31 January 2008 imply an operating EBITDA for FY08 of $45.4 million[55].

(b) TPG's forecast earnings for FY08 have been subject to a detailed due diligence review by SP Telemedia and their advisers.

217 Nonetheless, in our opinion, the low forecast FY08 multiples implied by the acquisition of TPG is appropriate given:

(a) the fact that TPG does not have a long-term track record of profitability to support TPG's 2008 forecast profits, which are significantly above the historical level of profitability

(b) the competitive nature of the telecommunications market in Australia and the high risk of technological obsolescence

(c) the low barriers to entry, reflecting the fact that telecommunications and ISP resellers do not require significant capital to enter the industry, and the capital outlay to roll out DSLAMs is not significant[56]

(d) TPG's low level of net tangible assets, which as at 30 January 2008 were $22.2 million

(e) the significantly higher EBITDA margin forecast to be achieved by TPG in FY08 (compared to FY07) and the risk that this may not be sustainable as a result of competition

(f) the risk of TPG achieving its FY08 earnings forecast will be greater than the risk of the comparable companies (iiNet and Amcom) achieving their FY08 earnings forecasts, as the forecast growth in earnings for iiNet and Amcom in FY08 are modest in comparison to that of TPG.

218 Consequently, in our opinion, the implied acquisition multiples for TPG do not indicate that TPG's Major Shareholders are paying a premium above the listed market price of SP Telemedia shares prior to the announcement of the Proposal for the shares they will acquire under the Proposed Share Issue.

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[55] Before "other income", which principally comprises realised and unrealised foreign exchange gains.
[56] For example, TPG has over 200 DSLAMs with property, plant and equipment (albeit partly depreciated) of less than $25 million. However, the ability to access Telstra exchanges to physically install DSLAMs is difficult.

IX Evaluation of the Proposed Share Issue

219 In our opinion, the Proposed Share Issue is not fair when assessed based on the guidelines set out in ASIC Regulatory Guide 111. However, in LEA's opinion, the Proposed Share Issue is reasonable. This is principally because:

(a) the combination of SP Telemedia and TPG should enable very significant synergy benefits to be generated

(b) the price at which SP Telemedia shares are being issued to the TPG vendors represents a significant premium to the price at which SP Telemedia could obtain if SP Telemedia were to raise additional equity capital to complete the acquisition of TPG

(c) TPG's Major Shareholders will hold a relevant interest of only 38.7% of the enlarged capital, not 100% control

(d) on balance, the overall advantages of the Proposed Share Issue outweigh the disadvantages.

Assessment of fairness

220 Under ASIC Regulatory Guide 111, for the Proposed Share Issue to be "fair", the effective issue price must be equal to or exceed the value of 100% of the shares in SP Telemedia.

Value of SP Telemedia shares

221 As set out in Section VII we have valued SP Telemedia shares on two bases, as shown below:

Value of SP Telemedia shares – cum dividend basis	Low $m	High $m
Listed market price (cents per share)[1]	35.6	38.4
Value of 100% of shares (cents per share)[2]	45.5	49.0

Note:

1 Based on volume weighted average market price (VWAP) of SP Telemedia shares over the 1 and 3 month periods prior to 6 February2008.

2 This value reflects the value on a 100% controlling interest (or takeover) basis, and includes a premium for control.

222 However, prior to completion of the Proposal, SP Telemedia intends to pay a special dividend to existing shareholders of 2.4 cents per share. As this dividend will not be paid on the shares to be issued to the TPG vendors, in our opinion, it is appropriate to adjust the market value of SP Telemedia shares to reflect this dividend payment when comparing the value of the shares in SP Telemedia with the effective price being paid for the Consideration Shares by TPG's Majority Shareholders. Consequently, we have adjusted the stock market value of SP Telemedia shares to reflect an ex-dividend value.

223 On this basis, the ex-dividend value of SP Telemedia shares is as follows:

Ex-dividend value of SP Telemedia shares		
Cents per share	**Low**	**High**
Listed market price	33.2	36.0
Value of 100% of shares	43.1	46.6

Value of consideration paid for TPG

224 Under the Proposal the TPG vendors will receive $150 million in cash and 270 million shares in SP Telemedia.

225 While the TPG vendors will therefore acquire approximately 40% of the shares in SP Telemedia, our opinion is only required in connection with the issue of shares to TPG's Major Shareholders (who will have a relevant interest of 38.7% in the shares in SP Telemedia if the Proposal is approved).

226 Given the size of this shareholding, TPG's Major Shareholders are likely to be able to exert significant influence over the affairs of SP Telemedia. However, TPG's Major Shareholders will not individually control SP Telemedia. This is because:

(a) the other shareholders in SP Telemedia will hold a significantly larger percentage interest in the company (in total), and can therefore block ordinary and special resolutions proposed by TPG's Major Shareholders from being passed

(b) Washington H Soul Pattinson & Company Limited (WHSP) will still have a 27.8% interest in SP Telemedia if the Proposal is approved

(c) TPG's Major Shareholders will only have 2 representatives on SP Telemedia's Board of Directors (out of a total of 5 directors following completion of the acquisition).

227 Further, in the absence of a takeover or other similar proposal for SP Telemedia, it is likely that TPG's Major Shareholders would have to accept a discount to the last traded market price if they wanted to sell all of their shares.

228 Consequently, in our opinion, the SP Telemedia shares to be issued to TPG's Major Shareholders should not be valued at a premium to the listed market price. We have therefore adopted an effective issue price for the Consideration Shares of 33.2 cents to 36.0 cents per SP Telemedia share.

229 While we note that the issue price of the Consideration Shares implies a high value for goodwill in TPG, we note that:

(a) the forecast FY08 earnings multiples implied by the acquisition price are low compared to comparable listed companies (which also have high levels of implied goodwill)

(b) management of SP Telemedia expect to generate very significant synergies from combining the SP Telemedia and TPG businesses.

Comparison of ex-dividend value and issue price of Consideration Shares

230 Based on the above we set out a comparison of our value of SP Telemedia shares prior to implementation of the Proposal on an ex-dividend basis and the effective issue price of the Consideration Shares:

Issue price of the Consideration Shares			
Cents per share	**Low**	**High**	**Mid-point**
Effective issue price of Consideration Shares	33.2	36.0	34.6
Listed market price (ex-dividend)	33.2	36.0	34.6
Implied premium to listed market price	-	-	-
Effective issue price of Consideration Shares	33.2	36.0	34.6
Value of 100% of SP Telemedia shares (ex-dividend)	43.1	46.6	44.8
Implied discount to value of 100% of SP Telemedia shares	*(23.0%)*	*(22.7%)*	*(22.9%)*

Assessment of fairness

231 Under ASIC Regulatory Guide 111, for the proposed issue to be "fair", the effective issue price must be equal to or exceed the value of 100% of the shares in SP Telemedia.

232 In our opinion, the implied acquisition multiples for TPG do not indicate that TPG's Major Shareholders are paying a premium above the listed market price of SP Telemedia shares prior to the announcement of the Proposal for the shares they will acquire under the Proposed Share Issue.

233 Consequently, in our opinion, the Proposed Share Issue is not fair when assessed under the guidelines set out in ASIC Regulatory Guide 111.

Assessment of reasonableness

234 However, in our opinion, it is not appropriate to compare the 100% value of SP Telemedia shares with the effective issue price of the Consideration Shares. This is because TPG's Major Shareholders will only acquire around 38.7% of SP Telemedia if the Proposal is implemented, and therefore will not obtain 100% control.

235 While, in our opinion, the shares being issued to TPG's Major Shareholders are not being issued at a premium to the listed market price of SP Telemedia shares, in the absence of the Proposed Share Issue, SP Telemedia would need to undertake either a large cash issue (which would need to be underwritten) or share placement in order to acquire TPG. Given the size of such a capital raising (relative to the existing market capitalisation of SP Telemedia) the price at which such a capital raising would occur would normally represent a large discount to the listed market price of SP Telemedia shares[57].

236 The price at which SP Telemedia shares are to be issued to the TPG vendors therefore represents a significant premium to the price at which SP Telemedia would otherwise be able to raise equity capital.

237 Furthermore, as in paragraphs 244 to 246 below, SP Telemedia's management expect to generate very significant synergies as a result of acquiring TPG (which should result in SP Telemedia shares increasing in value over time as synergies are achieved). Of these benefits, 60% will accrue to SP Telemedia's existing shareholders.

238 Consequently, as a result of the above, the fact that TPG's Major Shareholders will only acquire around 38.7% in SP Telemedia and the other advantages referred to below, we have concluded that the Proposed Share Issue is reasonable to SP Telemedia shareholders.

Other factors

239 In assessing the Proposed Share Issue, we have also considered other qualitative and strategic issues and advantages and disadvantages of the Proposed Share Issue to SP Telemedia shareholders.

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[57] Based on observed capital raisings.

Advantages

240 Other advantages of the Proposed Share Issue (and related acquisition of TPG) are summarised in the following paragraphs.

Increase in size

241 Should the Proposal proceed, the Merged Entity will be significantly larger than SP Telemedia currently. This should lead to increased institutional investment interest (which may result in SP Telemedia shares being re-rated upwards).

Product offering

242 Presently, SP Telemedia is deriving a very low rate of return on its assets employed and the market value of its equity. However, the acquisition of TPG will result in:

(a) SP Telemedia moving into the higher growth and higher margin ADSL2+ market

(b) SP Telemedia being less reliant on its mobile telephony, re-selling and network operations

(c) SP Telemedia avoiding the execution risk of rolling out its own (similar) ADSL2+ network and then competing to obtain customers

(d) SP Telemedia being able to utilise ADSL2+ infrastructure that is already installed thus avoiding significant time delays.

243 The acquisition of TPG will also facilitate bundling and cross-selling of services to existing and potential customers, and will enable SP Telemedia to offer its product and service offerings to a greater number of prospective customers (eg offering voice services to existing TPG customers through SP Telemedia's IP network).

Synergies

244 The management of SP Telemedia expect the acquisition of TPG to provide significant synergies to arise from the merger[58]. These benefits principally comprise:

(a) rationalisation of rented premises

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[58] While we have reviewed management's estimates of projected synergies, we have been asked by SP Telemedia not to disclose them in our report.

(b) reduction in headcount through elimination of duplicated personnel
(c) benefits from integrating some of SP Telemedia's call centre operations to the Philippines
(d) migration of SOUL telecommunication reselling services onto TPG's DSLAM infrastructure
(e) migration of TPG purchased backhaul to SP Telemdia's network, and
(f) migration of SOUL internet bandwidth to TPG's capacity on the Southern Cross cable
(g) consolidation of SP Telemedia and TPG points of presence
(h) reduction in capital expenditure on duplicated DSLAM rollout
(i) general administrative savings.

245 SP Telemedia management have also identified other synergy benefits presently not yet costed by SP Telemedia, including:

(a) benefits from cross-selling products to the current customer base
(b) rationalisation of consumer plans
(c) improvement to IT efficiency and other general administrative savings.

246 The projected synergies are very material compared to the standalone profitability of SP Telemedia and TPG[59] and represent, in our opinion, the main benefit to SP Telemedia shareholders from the acquisition. As SP Telemedia's existing shareholders will own approximately 60% of the enlarged group approximately 60% of these synergies will accrue to SP Telemedia's existing shareholders.

Earnings per share (EPS) analysis

247 The proposed acquisition of TPG is expected to be EPS accretive for SP Telemedia, as shown below:

Estimated EPS	$m	Shares on issue	EPS (cents)
Standalone FY08 forecast profit after tax			
SP Telemedia[(1)]	11.9	405.2	2.9
TPG[(2)]	24.4		
Less interest on cash in SP Telemedia no longer retained[(3)]	(0.7)		
Less interest net of tax on borrowings[(4)]	(9.5)		
Pro-forma indicative profit after tax of Merged Entity[(5)]	26.1	675.2	3.9

[59] EBITDA forecast for FY08 for SP Telemedia and TPG is $33.9 million and $48.5 million (after "other income", principally comprising foreign exchange gains) respectively.

Note:
1 Based on management expectation.
2 Refer paragraph 208.
3 Assuming an average of $20 million cash is held for working capital purposes at 5% per annum times 70% (being 100% less 30% tax rate).
4 Assuming $150 million is borrowed at 9.0% per annum times 70% (being 100% less 30% tax rate).
5 The above EPS figures are before any synergy benefits, implementation costs and incremental USO charges.
6 The above EPS figures are calculated before any amortisation of that part of the purchase price attributed to customer acquisition costs (which will reduce reported EPS) and before any impairment charges. In this regard, we note that both goodwill and capitalised customer acquisition costs arising from the acquisition will be subject to an annual impairment review, and any impairment will need to be recognised as an expense.

248 However, this arises largely through the increased level of gearing (as SP Telemedia is expected to borrow around $150 million to facilitate the acquisition of TPG) and through realisation of projected synergies.

Disadvantages

249 The disadvantages of the Proposed Share Issue (and related acquisition of TPG) are summarised in the following paragraphs.

Voting power

250 As stated above, while TPG's Major Shareholders will not have full control of SP Telemedia if the Proposal is approved, they will obtain a relevant interest of 38.7% and therefore will have a significant influence over SP Telemedia operations in SP Telemedia. However, we note that this is not dissimilar to the current position, as WHSP currently holds 46.3% of SP Telemedia shares. Furthermore, WHSP will still own 27.8% of SP Telemedia subsequent to the implementation of the Proposal.

Dilution

251 Should the Proposal proceed, the existing SP Telemedia shareholders will have their current interests diluted to 60%.

252 SP Telemedia currently has 405.2 million shares on issue. Should the Proposal proceed, it will result in the issue of 270 million shares (66.6% of existing capital base), calculated as follows:

Interest to be issued to TPG vendors		
		Million
Shares currently on issue	(A)	405.2
Shares to be issued to TPG vendors	(B)	270.0
% interest to be issued to TPG vendors	(B) / (A)	66.6%

Significant reduction in net asset backing per share

253 Should the Proposal proceed the NTA backing per SP Telemedia share will fall significantly as shown below:

Net tangible assets – post transaction	NTA $m	Shares on issue (millions)	NTA per share (cents)
NTA before TPG acquisition	135.3	405.2	**33.4**
NTA of TPG[1]	22.2	-	-
Less cash payment to TPG vendors	(150.0)	-	-
Issue of shares to TPG vendors	-	270.0	-
NTA after TPG acquisition	7.5	675.2	**1.1**

Note:
1 As at 30 January 2008.

Increase in gearing and financial risk

254 In order to fund the Cash Consideration SP Telemedia will need to borrow around $150 million. In contrast, as at 31 October 2007 SP Telemedia's cash balances exceeded its interest bearing debt. Consequently, if the Proposal is approved SP Telemedia's gearing will significantly increase.

Requires follow-on acquisition of Chariot

255 As a result of acquiring TPG, SP Telemedia will obtain control of Chariot. This will require SP Telemedia to make an offer to acquire the remaining interest in Chariot it does not already own.

Reduced possibility of another offer

256 Should the Proposal be approved, it will result in TPG's Major Shareholders owning 38.7% of the issued capital in SP Telemedia with WHSP holding some 27.8%, which together represents a very significant, although not

individually controlling, interest. In these circumstances, we consider that this reduces the possibility that a takeover for SP Telemedia might arise in the near future.

Universal service obligations

257 Should the Proposal succeed, SP Telemedia's USO commitments will increase (by less than $1 million per annum), as the USO will also be applied to TPG's revenue. As TPG is presently not a "carrier" under current legislation, it does not pay any USO.

Loss of tax losses

258 SP Telemedia currently has some $10 million in tax losses. There is a possibility that SP Telemedia will, subsequent to the Proposal, no longer satisfy relevant tax legislation with respect to continuity of business and continuity of ownership, and may therefore forego the benefits that may have otherwise arisen from these tax losses.

Earnings record

259 TPG does not have a long-term track record of profitability to support TPG's 2008 forecast profits and the proposed purchase price implies very high earnings multiples based on its historical earnings. Consequently, the value of TPG could fall significantly if FY08 forecast earnings and projected synergies are not achieved or sustained

Fibre to the node

260 TPG's infrastructure and business model is vulnerable should Telstra build a fibre to the node (FTTN) network.

261 If such a network is built, Telstra may be able to provide broadband services that effectively by-pass existing local exchange infrastructure, making DSLAM technology effectively redundant.

Conclusion

262 Based on the above, in our opinion, the Proposed Share Issue is not fair. However, in LEA's opinion, the Proposed Share Issue is reasonable. This is principally because:

(a) the combination of SP Telemedia and TPG should enable very significant synergy benefits to be generated

(b) the price at which SP Telemedia shares are being issued to the TPG vendors represents a significant premium to the price at which SP Telemedia could obtain if SP Telemedia were to raise additional equity capital to complete the acquisition of TPG

(c) TPG's Major Shareholders will hold a relevant interest of only 38.7% of the enlarged capital, not 100% control

(d) on balance, the overall advantages of the Proposed Share Issue outweigh the disadvantages.

263 The ultimate decision whether to approve the Proposed Share Issue should be based on each SP Telemedia shareholders' assessment of their own circumstances. If SP Telemedia shareholders are in doubt about the action they should take in relation to the Proposed Share Issue or matters dealt with in this report, SP Telemedia shareholders should seek independent professional advice.

Financial Services Guide

Lonergan Edwards & Associates Limited

1 Lonergan Edwards & Associates Limited (ABN53 095 445 560) (LEA) is a specialist valuation firm which provides valuation advice, valuation reports and Independent Expert's Reports (IER) in relation to takeovers and mergers, commercial litigation, tax and stamp duty matters, assessments of economic loss, commercial and regulatory disputes.

2 LEA holds Australian Financial Services Licence No 246532.

Financial Services Guide

3 The Corporations Act 2001 authorises LEA to provide this Financial Services Guide (FSG) in connection with its provision of an IER to be sent to SP Telemedia shareholders in connection with the Proposed Share Issue.

4 This FSG is designed to assist retail clients in their use of any general financial product advice contained in the IER. This FSG contains information about LEA generally, the financial services we are licensed to provide, the remuneration we may receive in connection with the preparation of the IER, and if complaints against us ever arise how they will be dealt with.

Financial services we are licensed to provide

5 Our Australian financial services licence allows us to provide a broad range of services to retail and wholesale clients, including providing financial product advice in relation to various financial products such as securities, derivatives, interests in managed investment schemes, superannuation products, debentures, stocks and bonds.

General financial product advice

6 The IER contains only general financial product advice. It was prepared without taking into account your personal objectives, financial situation or needs.

7 You should consider your own objectives, financial situation and needs when assessing the suitability of the IER to your situation. You may wish to obtain personal financial product advice from the holder of an Australian Financial Services Licence to assist you in this assessment.

Fees, commissions and other benefits we may receive

8 LEA charges fees to produce reports, including this IER. These fees are negotiated and agreed with the entity who engages LEA to provide a report. Fees are charged on an hourly basis or as a fixed amount depending on the terms of the agreement with the person who engages us.

9 Neither LEA nor its directors and officers receive any commissions or other benefits, except for the fees for services referred to above.

10 All of our employees receive a salary. Our employees are eligible for bonuses based on overall performance and the firm's profitability, and do not receive any commissions or other benefits arising directly from services provided to our clients. The remuneration paid to our directors reflects their individual contribution to the company and covers all aspects of performance. Our directors do not receive any commissions or other benefits arising directly from services provided to our clients.

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

Complaints

12 If you have a complaint, please raise it with us first, using the contact details listed below. We will endeavour to satisfactorily resolve your complaint in a timely manner.

13 If we are not able to resolve your complaint to your satisfaction within 45 days of your written notification, you are entitled to have your matter referred to the Financial Industry Complaints Services (FICS), an external complaints resolution service. You will not be charged for using the FICS service.

Contact details

14 LEA can be contacted by sending a letter to the following address:

Level 27
363 George Street
Sydney NSW 2000
(or GPO Box 1640, Sydney NSW 2001).

Qualifications, declarations and consents

Qualifications

1 LEA is a licenced investment adviser under the Corporations Act 2001. LEA's authorised representatives have extensive experience in the field of corporate finance, particularly in relation to the valuation of shares and businesses.

2 This report was prepared by Mr Craig Edwards and Mr Wayne Lonergan who are each authorised representatives of LEA.

Declarations

3 This report has been prepared at the request of the Directors of SP Telemedia to be sent to SP Telemedia shareholders. It is not intended that this report should serve any purpose other than as an expression of our opinion as to whether or not the Proposed Share Issue is fair and reasonable to SP Telemedia shareholders not associated with TPG.

4 At the date of this report, neither LEA, Mr Edwards nor Mr Lonergan have any interest in the outcome of the Proposal. LEA is entitled to receive a fixed fee of $75,000 plus GST for the preparation of this report. With the exception of the above fee, LEA will not receive any other benefits, either directly or indirectly, for or in connection with the preparation of this report.

Indemnification

5 As a condition of LEA's agreement to prepare this report, SP Telemedia agrees to indemnify LEA in relation to any claim arising from or in connection with its reliance on information or documentation provided by or on behalf of SP Telemedia which is false or misleading or omits material particulars or arising from any failure to supply relevant documents or information.

Consents

6 LEA consents to the inclusion of this report in the form and context in which it is included in the Explanatory Memorandum.

Profile of Chariot

Overview

1 Chariot is a public company, listed on the Australian Securities Exchange. Chariot is an internet service provider, offering ISP services and products including dial-up, ADSL, VoIP, email, web hosting and co-location. The company intends to launch ADSL2+ plus and IPTV in 2008[60].

Financial performance

2 A summary of Chariot's financial performance for the financial years ended 30 June 2006 and 2007 is set out in the following table:

Chariot's financial performance	FY06 Actual $000	FY07 Actual $000
Continuing operations		
Revenue	24,684	22,590
Cost of sales	(11,206)	(12,967)
Gross profit	13,478	9,623
Less: Operating expenses(1)	(18,710)	(13,935)
EBITDA	(5,232)	(4,312)
Less: Depreciation and amortisation	(4,193)	(4,156)
EBIT	(9,425)	(8,468)
Less: finance costs	(1,398)	(1,672)
(Loss) before income tax	(10,823)	(10,140)
Income tax benefit	590	2,639
(Loss) from continuing operations	(10,233)	(7,501)
Loss from discontinued operations(2)	(140)	(1,131)
Net (loss)	(10,373)	(8,632)
Cash flows from operations	1,498	(3,759)

[60] Source: Chariot AGM Chairman's Address, 30 November 2007.

Note:

1 Includes:

	FY06 Actual $000	FY07 Actual $000
Impairment of assets	(7,369)	(4,225)
Restructuring costs	-	(944)
Disposal of wireless business	-	(402)

2 Loss on discontinued operations and fair value less cost to sell on disposal of assets of discontinued operations.

Source: Chariot Financial Statements and TPG Management.

n/a – not available.

3 In August 2007 Chariot disposed of its wireless business, which lost approximately $500,000 in 2007. Disposal costs incurred and recognised in FY07 were $402,000, and a non-cash charge of $536,000 was recognised in FY07 in anticipation of the assets being sold for a nominal amount.

4 Chariot's customer base was subject to an impairment write-down in FY07 of $4.2 million, in addition to amortisation of $3.6 million. The company's loss in FY07 also reflects restructuring costs of $944,000 and additional retrenchment costs of $411,000.

2008 forecast

5 Chariot management expects operational EBITDA in FY08 to be between $3 million and $3.5 million.

6 Factors contributing to the forecast improvement in FY08 include:

(a) rationalisation of operations, including office closures and restructuring

(b) change in product mix.

Financial Position

7 Chariot's financial position as at 30 June 2007 and 31 December 2007 is set out in the following table:

Chariot's financial position	30 Jun 07 $000	31 Dec 07 $000
Current assets		
Cash and cash equivalents	36	23
Trade receivables	698	577
Inventories	13	14
Prepayments and other assets	440	479
Total current assets	1,187	1,093
Non-current assets		
Property, plant and equipment	250	152
Deferred tax assets	2,256	1,668
Intangible assets	14,334	12,420
Other	160	140
Total non-current assets	17,000	14,380
Total assets	18,187	15,473
Current liabilities		
Trade and other payables	3,545	3,620
Interest-bearing liabilities	7,067	6,370
Provisions	773	375
Current tax liabilities	125	-
Unearned income	2,930	2,460
Total current liabilities	14,440	12,825
Non-current liabilities		
Payables	261	163
Provisions	107	73
Deferred tax liability	1,214	984
Total non-current liabilities	1,582	1,220
Total liabilities	16,022	14,045
Net assets	2,165	1,428

8 In the year ended 30 June 2007 Chariot raised equity of $5.9 million by placing some 110.4 million new shares at $0.085 to TPG. The proceeds were

used to repay secured notes ($2.1 million), repay a vendor loan ($1.0 million), purchase convertible notes and convert them to ordinary equity ($3.5 million) and for working capital purposes.

9 Currently, Chariot has 157.2 million shares on issue, of which 110.4 million (or 70.25%) are held by SP Telemedia.

10 It should also be noted that current liabilities exceed current assets by a significant amount at both 30 June 2007 and 31 December 2007. As a result it is likely that Chariot will need to raise a significant amount of equity capital in the short-term if it is to survive as an independent entity. Further, we note that the auditors stated that the ongoing viability is dependent upon the continued support of its financiers including TPG.

Share price performance

11 The price of Chariot's ordinary shares from 1 January 2006 is summarised in the table below:

Chariot share price performance

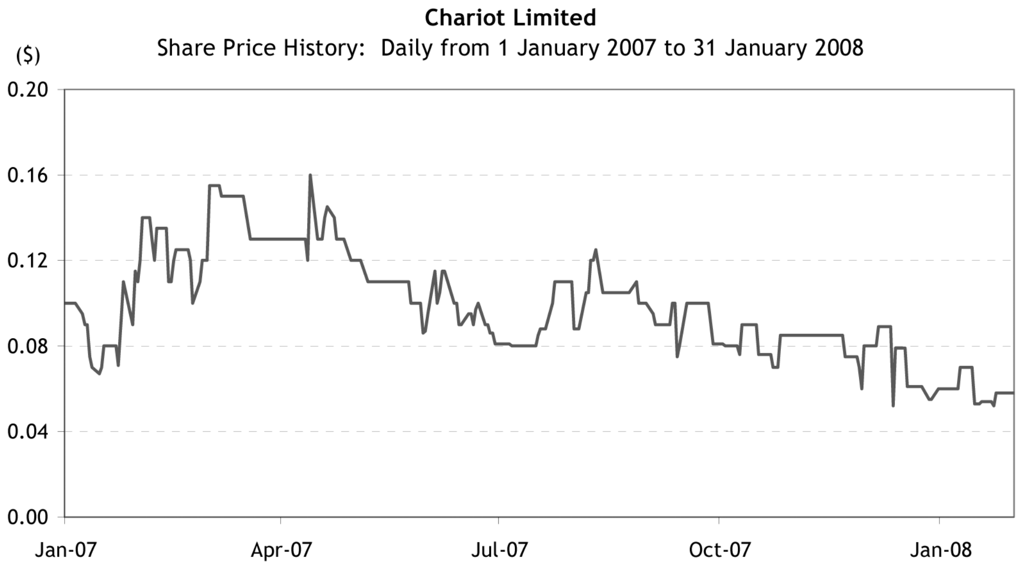
	High $	Low $	Close $	Monthly volume[1] 000
Quarter ended				
March 2006	0.54	0.30	0.32	425
June 2006	0.32	0.06	0.08	1,355
September 2006	0.25	0.07	0.08	588
December 2006	0.14	0.07	0.10	1,226
Month				
January 2007	0.12	0.07	0.11	1,946
February 2007	0.14	0.10	0.12	2,881
March 2007	0.16	0.11	0.13	409
April 2007	0.16	0.12	0.12	985
May 2007	0.13	0.09	0.09	473
June 2007	0.12	0.08	0.08	2,246
July 2007	0.11	0.08	0.11	614
August 2007	0.13	0.09	0.10	696
September 2007	0.10	0.08	0.08	421
October 2007	0.09	0.06	0.09	381
November 2007	0.09	0.06	0.08	250
December 2007	0.09	0.05	0.06	282
January 2008	0.07	0.05	0.06	140

Note:

1 Monthly volumes for the quarter ended represent average monthly volumes.

Chariot – VWAP	Low $	High $	VWAP $	Volume 000
1 month to 31 January 2008	0.052	0.070	0.057	140
3 months to 31 January 2008	0.052	0.089	0.070	671

12 The following graph illustrates the movement in Chariot's share price over this period.



Listed company multiples

1 The earnings multiples of listed companies involved in similar activities or exposed to the same broad industry sectors as SP Telemedia and TPG are set out below:

Australian listed companies								
		EBITDA multiple		EBIT multiples		PE multiples		
	Market capitalisation[1]	Historical 2006/07	Forecast 2007/08	Historical 2006/07	Forecast 2007/08	Historical 2006/07	Forecast 2007/08	Price / NTA
Company	A$m	Times	Times	Times	Times	Times	Times	$
Internet, voice and data companies								
iiNet Limited	284.1	7.5	6.1	14.8	10.4	21.8	15.0	12.4
Amcom Telecommunications Limited	109.4	8.3	7.9	12.4	11.8	13.3	12.6	1.5
M2 Telecommunications Limited[2]	61.4	15.0	7.2	17.8	8.1	18.7	12.0	21.6
Commander Communications Limited	41.2	5.8	14.6[3]	15.2	n/a	11.1	n/a	-[6]
IntraPower Limited	27.3	8.1	5.3	9.8	6.0	n/a	8.8	11.6
Macquarie Telecom Group Limited	26.6	1.1[4]	n/a	n/a	n/a	n/a	n/a	0.6
People Telecom Limited	12.3	n/a	n/a	n/a	n/a	n/a	n/a	1.9
Eftel Limited	11.0	7.2	n/a	n/a	n/a	n/a	n/a	11.1
Chariot Limited[2]	9.1	7.2	4.6	n/a	n/a	n/a	n/a	-[6]
VOIP only companies								
Freshtel Holdings Limited	54.6	n/a[5]	n/a	n/a	n/a	n/a	n/a	3.1
My Net Fone Limited	8.9	n/a[5]	n/a	n/a	n/a	n/a	n/a	42.3

Note:
1 Based on share prices as at 29 January 2008.
2 Forecast 2008 EBITDA multiple based on forecasts from management presentations.
3 Based on management guidance for FY08 of EBITDA of $20 million to $30 million (before abnormals). Further, management announced annualised payroll savings) of some $65 million from restructuring plans.
4 Macquarie Telecom Group's market capital is principally represented by cash holdings.
5 Both Freshtel Holdings Limited and My Net Fone Limited incurred losses at the EBITDA level in FY07.
6 Negative net tangible assets
n/a – not available.

2 We note that the trading multiples listed above are based on minority parcels of shares traded and do not include a control premium.

3 A brief description of each listed company's operations is summarised below.

Internet, voice and data companies

iiNet Limited

4 iiNet Limited is an Australia-based Internet service provider that offers a variety of Internet and communication services such as dial-up, broadband and phone services.

5 The company's national high-speed broadband network gives access to asymmetric digital subscriber line (ADSL) 2+ broadband, also known as broadband2+. Other products offered include Naked DSL, iiTalk, VoIP and other.

M2 Telecommunications

6 M2 specialises in the provision of value-added telecommunications to businesses and consumers, with its core offerings being fixed line voice services, mobile product (M2 Telecom), Full Service IT, broadband and data services.

7 M2 Wholesale allows its customers to incorporate mobile services into their existing product mix and is an exclusively endorsed Optus Mobile Virtual Network Enabler. Products offered include Voice, Messaging, Blackberry and 3G.

People Telecom Limited

8 People Telecom is engaged in the provision of telecommunication services to the Australian corporate and public markets. The product range includes broadband Internet access, fixed wire phone services, mobile phone services and corporate data products.

Eftel Limited

9 Eftel, formerly Datafast Telecommunications Limited, is a national telecommunications service provider which is engaged in telecommunications and supply of internet services. Eftel offers a range of services including Internet, long distance telephony and broadband data to both retail and wholesale customers.

Chariot Limited

10 Chariot is an Australia-based company engaged in providing Internet services. The Company offers a range of Internet solutions, including broadband, dial-up, e-mail, hosting services and VoIP. Chariot also offers Internet reseller incentives to those businesses that have the clientele requiring Internet access.

Macquarie Telecom Limited

11 Macquarie Telecom Group and its subsidiaries provide telecommunication services to corporate and government customers within Australia and Singapore. Macquarie Telecom also operates data and hosting businesses, which provides data networking services to corporate and government customers in Australia. The company operates in three primary business segments: voice, data and hosting, and mobiles.

Commander Communications Limited

12 Commander Communications is a business communications and technology provider to the corporate and enterprise market in Australia. Commander Communications operates in three business segments: Voice Hardware and Networks, Data Hardware and Services.

13 Commander's solutions span office and mobile telephony, information technology hardware and software, Internet and network access, converged solutions, support and maintenance services and software licensing.

Intrapower Limited

14 IntraPower provides Internet protocol communication products and services to corporate Australia. Intrapower are an integrator and aggregator of telecommunication services, focusing on business-to-business (B2B) communications enabling organisations in Australia and New Zealand to source the network providers and integrate the appropriate information technology services and products into secure networks.

VoIP only companies

Freshtel Holdings Limited

15 Freshtel Holdings is engaged in the development and commercialisation of VoIP products and services. The company mainly operates in Australia and the United Kingdom. Freshtel Holdings principally:

(a) retails VoIP services using the Firefly softphone (ie a software telephone)
(b) manufactures and sells VoIP handsets and other hardware; and
(c) provides wholesale call termination and turnkey VoIP software services.

My Net Fone Limited

16 My Net Fone is an Australia-based company that provides broadband VoIP phone services to residential and business customers. My Net Fone provides voice services for customers to make and receive phone calls via any type of broadband Internet connection.

Transaction multiples

1 There have been a number of transactions involving businesses operating in the same broad industry sectors as SP Telemedia and TPG. The implied multiples from the transactions are set out below:

Transaction multiples

Date[1]	Target	Acquirer	Enterprise value $m	Implied EBITDA multiple
Australian transactions				
Jun 2007	Orion Telecommunications (Australian business)	M2 Telecommunications Group Limited	A$11.5-13.3[3]	6.2 - 7.2 [4]
Mar 2007	PowerTel	Telecom New Zealand Limited	A$320.0	8.0
Sep 2006	B Digital	SP Telemedia	A$91.1	5.8[5]
Sep 2005	Damovo	Telstra	A$64.3	5.0[6]
Feb 2005	OzEmail	iiNet	A$104.5	5.5
Nov 2004	Kooee Communications	B Digital	A$64.9	5.2
Sep 2004	NewTel Holdings LLC	Orion Telecommunications	A$35.3	4.1
May 2004	Uecomm Limited	Singtel	A$227.7	11.1
Mar 2004	People Telecom	Swiftel	A$39.2	6.1[7]
Nov 2003	DigiPlus	B Digital	A$62.1	3.4
Mar 2003	RSL COM	Commander Communications	A$59.9	4.8
UK and other transactions				
Jan 2007	PlusNet	BT Group	£62.4	6.6
Feb 2006	Your Communications	THUS Group	£58.8	5.6
Feb 2006	Legend Communications	THUS Group	£13.1	5.8
Dec 2005	One.Tel	Carphone Warehouse	£130.0	7.6
Oct 2005	Integrated Communications	Alternative Networks	£6.2	9.4[8]
Mar 2004	Eurocall	United Utilities	£41.0	9.2[9]
Oct 2003	Pipex Internet	GX Networks	£35.0	3.5
Feb 2003	Alpha Telecom	Tele2 AB	£85.7	5.0
Dec 2002	Opal Telecom	Carphone Warehouse	£109.0	8.7

Note:

1 Historical multiples unless otherwise stated.

2 Month of announcement.

3 Based on the value of Orion's Australian telecommunications business and M2 shares offered as consideration, as assessed by the independent expert.

4 Based on maintainable EBITDA assessed by the independent expert. In our view, the multiple paid reflected the significant level of corporate costs shared by Orion as a standalone entity. Significant corporate cost savings were expected to be generated by M2.

5 Based on the future maintainable EBITDA assessed by the independent expert.

6 Based on forecast EBITDA.

7 Multiple based on EBIT.

8 Multiple reduces to 3.5 based on annualised results for the six months ended March 2006.

9 Multiple reduces to 5.9 if synergy benefits expected to be generated are included in earnings.

n/a – not available.

2 A brief description of each target company's activities is set out below.

Australian transactions

Orion Telecommunications Limited

3 Orion's Australian telecommunications business resold voice fixed line and data services and generated revenue of around $31 million in the year ended 30 June 2007.

PowerTel Group Limited

4 PowerTel provided data, voice and internet solutions for small and medium businesses, corporates, carriers and service providers in Australia.

B Digital Limited

5 B Digital was a provider of mobile, home phone and internet telecommunications services to residential customers.

Damovo

6 Damovo was an IP Customer Premises Equipment maintenance provider for brands such as Ericsson, NEC, Fujitsu, Nortel, Mitel, Cisco, Siemens and Alcatel.

OzEmail

7 OzEmail was an Australian Internet Service Provider using specialised internet systems which includes a sophisticated virtual private network.

Kooee Communications

8 Kooee Communications was a reseller of telecommunication services, offering products and services to the residential and corporate market segments. Kooee Communications had been providing local, long distance, international and mobile telephony to consumers since October 2000.

NewTel Holdings LLC (NewTel)

9 NewTel was acquired by Orion Telecommunications in September 2004 prior to Orion's listing on the ASX. At the date of acquisition NewTel provided telecommunications services in Australia, Ireland, the UK and Spain.

Uecomm Limited

10 Uecomm was established in 1996 as a subsidiary of United Energy. Uecomm specialised in providing broadband connectivity and data and internet services to large corporates and government.

People Telecom

11 People Telecom operated in the telecommunications sector providing customer and account management services for business customers in Australia. The majority of revenues were generated from voice billing for fixed wire and mobile services utilising the network infrastructure owned by third parties. Revenue in FY04 was $57 million.

DigiPlus

12 DigiPlus was established in 1996 and provided approximately 155,000 residential customers with mobile, ISP, IDD, national, local and fixed to mobile telecommunication services.

RSL COM

13 RSL COM was established in 1996 and is a provider of fixed activated voice and data telecom services to business and residential customers through direct, indirect and wholesale channels. The company had approximately 45,000 business customers.

UK and other transactions

PlusNet Plc

14 Founded in 1997 PlusNet had grown to become one of the UK's leading ISP. PlusNet’s brands are providing the broadband and dial-up services to nearly a quarter of a million customers.

Your Communications

15 Your Communications provided fixed line voice and data services (predominantly in the North West of England) and operated a mobile business which was Vodafone’s largest independent UK business-to-business service provider.

Legend Communications

16 Legend Communications provided traditional ISP products and telecommunications services including VoIP. In the year ended 31 March 2005 it generated revenue of £17.1 million.

One.Tel

17 One.Tel was one of the largest alternative telecoms providers in the UK, providing landline calls, line rental, dial-up, broadband and mobile services to residential and small business customers.

Integrated Communications

18 Integrated Communications was established in Reading, UK in 1997 targeting SME business customers. The business operated as a mobile service provider and sells fixed line voice and data products.

Eurocall

19 Eurocall was one of the UK’s largest independent providers of telecom services to the small and medium sized enterprise market. At the date of the acquisition the business had revenue of around £55 million and around 15,000 customers.

Pipex Internet

20 Formerly known as Zipcom Telecommunications Limited, Pipex Internet provides internet services and the supply of telecommunications services. Turnover was approximately £31.6 million with a pre-tax profit of £10.1 million.

Alpha Telecom

21 Alpha Telecom was a pay-as-you-go mobile phone service provider in the UK with pre-paid residential customers. It also provided the supply of pre-paid cards, selling some 1.25 million cards per month in 60,000 outlets across the UK.

Opal Telecom

22 Opal Telecom was a privately owned fixed line and voice telecommunication network services provider in the UK. Acquisition consideration was £65.0 million with a further consideration of £18.0 million subject to a specific EBIT target achievement.

Glossary

ACCC	Australian Competition and Consumer Commission
ACMA	Australian Communications and Media Authority
ADSL	Asymmetric Digital Subscriber Line
AGAAP	Australian generally accepted accounting principles
AGM	Annual general meeting
AIFRS	Australian equivalent to the International Financial Reporting Standards
ARPU	Average revenue per subscriber
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
B Digital	B Digital Limited
Cash Consideration	$150 million cash to be paid by SP Telemedia to the TPG vendors
CBD	Central business district
Chariot	Chariot Internet Limited
Consideration	$150 million cash plus 270.0 million SP Telemedia shares
Consideration Shares	270.0 SP Telemedia shares to be issued by SP Telemedia to the TPG vendors
Corporations Act	Corporations Act 2001
DCF	Discounted cash flow
DNCR	Do Not Call Register
DSLAMs	Digital subscriber line access modules
DSLs	Digital subscriber lines
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
EPS	Earnings per share
FICS	Financial Industry Complaints Services
FSG	Financial Services Guide
FTTN	Fibre to the Node
FY	Financial year
GST	Goods and services tax
HFC	Hybrid fibre coaxial
IER	Independent Expert's Report
IP	Internet protocol
IP TV	Internet Protocol Television
IRU	Indefeasible Right of Use
ISP	Internet service provider
IT	Information technology
LEA	Lonergan Edwards & Associates Limited

LSS	Line sharing service
Merged Entity	The entity comprising the merged operations of SP Telemedia and TPG
MNP	Mobile number portability
NBN	NBN Enterprises Pty Limited
NTA	Net tangible assets
PC	Personal computer
PE	Price earnings
PoPs	Points of presence
Proposed TPG Acquisition	The proposed acquisition by SP Telemedia of all the issued shares in TPG
PSTN	Public switched telephone network
Share Issue	The issue of 270.0 SP Telemedia shares to the TPG vendors that will result in the TPG vendors owning 40.0% of the Merged Entity
SMEs	Small to medium enterprises
SOUL	SOUL Converged Communications
SP Telemedia	SP Telemedia Limited
Telstra	Telstra Limited
TPG	TPG Holdings Pty Limited
TPG vendors	The current shareholders of TPG Holdings Pty Limited
TPG's Major Shareholders	Vicky and David Teoh
ULL	Unconditional local loop
USO	Universal service obligations
VoIP	Voice-over-Internet Protocol
VPNs	Virtual private networks
VWAP	Volume weighted average price
WANs	Wide area networks
WLR	Wholesale Line Rental

SOUL

CONVERGED COMMUNICATIONS