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SP Telemedia to merge with TPG

- **Creates one of Australia's largest DSLAM footprints**
- **Increases eps and cash flow**

SP Telemedia to pay 2.4 cent fully franked special dividend

SP Telemedia (ASX: SOT), the telecommunications company that trades as SOUL, is delighted to announce a proposed merger with the TPG group, one of Australia's leading internet service providers. This transaction will expand SP Telemedia's customer base and network footprint and will be earnings per share accretive upon completion.

TPG, founded in 1986 by its CEO David Teoh, who will become executive chairman of SP Telemedia, provides dial-up, ADSL and ADSL2+ internet services to consumers and small businesses. Its FY2008 revenue is forecast to be $144 million, with EBITDA of $49 million and after-tax profit of $29 million. TPG has more than 200,000 broadband customers and its own network, with 238 DSLAMs, and the merger will provide significant opportunities for capital and operational cost savings.

The merger is to be effected through the acquisition by SP Telemedia of TPG Holdings Limited for an acquisition price of $150 million in cash, to be funded through debt, plus 270 million SP Telemedia shares. Completion of the acquisition is expected in April 2008. On the basis of SP Telemedia's most recent closing share price of $0.35, this will represent an enterprise value of approximately $230 million and a FY2008 PE multiple of approximately 8.5x.

Before amortisation and synergies, the combined group, including four months' contribution from TPG, is expected to achieve revenue of $469 million, with EBITDA of $52 million and after-tax profit of $20 million for FY2008. For FY2009, revenue is expected to be $607 million, with EBITDA of $108 million and after-tax profit of $48 million, also before amortisation and synergies. These figures do not include contributions by Chariot Limited (see below).

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. 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.

TPG owns 70.25 per cent of Chariot Limited (ASX:CTI), a listed internet service provider with a market capitalisation of $9 million. Assuming SP Telemedia shareholders approve the acquisition of TPG at a meeting to be held in April 2008, SP Telemedia intends to make a scrip offer for the remaining 29.75 per cent of Chariot at a price to be determined by an independent expert.

SP Telemedia also announces its intention to pay a fully franked special dividend (incorporating the interim dividend) of 2.4 cents per share on 22 May 2008 to shareholders on the register at 17 April 2008. This special dividend, which SP Telemedia's board intends to pay only if the transaction is approved by shareholders, will not be paid on shares issued as consideration for TPG.

Shareholders will be asked to vote on the proposed merger at a general meeting expected to be held in April 2008. An independent expert's report will be commissioned to report to shareholders on the proposed merger.

Washington H Soul Pattinson, which currently owns 46.3 per cent of SP Telemedia, has advised SP Telemedia that it supports the proposed merger and intends to vote in favour of the transaction, which will dilute its shareholding to 27.7 per cent. Following the merger, interests associated with Mr David Teoh (TPG founder and CEO) will own approximately 38.7 per cent of SP Telemedia and Mr Teoh will assume the position of executive chairman of SP Telemedia. Mr Teoh will appoint a second director to the SP Telemedia board, which will comprise 5 directors in total following the completion of the merger.

Mr Robert Millner, chairman of SP Telemedia, said: 'The merger of SP Telemedia and TPG will create one of Australia's largest and most profitable telecommunications companies, with extensive owned network coverage for voice, video and data applications. We believe that following the merger SP Telemedia will be strongly positioned to participate in any further industry consolidation.'

Mr David Teoh, managing director of TPG, said: 'The merged business will be in an enviable position to continue the strong growth achieved by TPG to date. The extensive IP voice, video and data network of Soul and its mobile and business product capability, combined with TPG's DSLAM network and strong consumer customer presence and management, will place the business in a competitive position for the future.'

The acquisition of TPG is subject to a number of conditions, including:

1. SP Telemedia shareholders approving the acquisition of TPG at a meeting to be held in April 2008.
2. No event occurring that has a material adverse effect on either TPG or SP Telemedia.
3. No prescribed event occurring before completion in respect of TPG or SP Telemedia, including conversion, reduction or reorganisation of the capital of either company.

In the event that a director of SP Telemedia fails to recommend or recommends against the transaction (other than where the independent expert opines that the transaction is not fair and not reasonable) or the approval of SP Telemedia shareholder is not obtained for the transaction, SP Telemedia has agreed to pay TPG an amount of $2.5 million.

Mr Teoh has agreed that he will not engage in any business which competes with the current services provided by TPG for a period of up to 3 years.

SP Telemedia shareholders will receive an Explanatory Memorandum with details of the transaction and an Independent Expert's Report over the next four or so weeks.

SP Telemedia is advised by Pitt Capital Partners as financial advisor and Deacons as legal advisor.

About TPG

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

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About SP Telemedia

SP Telemedia (ASX:SOT) delivers video and voice over IP as well as standard WAN data service to 98% of the population. Its broadband network employs over 320 network access points and data collection centres in 66 call collection areas to reach the majority of regional communities across Australia. The advanced IP carrier backbone ensures high quality end-to-end performance carrying a multitude of applications that previously required specialised or dedicated network infrastructure. It was also the first IP network in the world to deliver next generation real-time digital TV. This capability has attracted key corporate and government contracts. The company has a strong consumer presence as a major full-service telecommunications provider to over 500,000 consumers nationally.

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