

## ASX / MEDIA RELEASE

### M2 agrees to acquire People Telecom

#### People Telecom Board unanimously recommend shareholders approve the transaction

**Friday 5 December 2008**; M2 Telecommunications Group Limited (“M2”, ASX: MTU) and People Telecom Limited (“People”, ASX: PEO) today announced that they have reached agreement for M2 to acquire 100% of People Telecom by way of Scheme of Arrangement (“Scheme”).

Under the Scheme, People shareholders will receive the following consideration:

- **0.0916 MTU shares for every 1 PEO share;**
- **0.6886 cents in cash for every 1 PEO share; and**
- **up to 0.344 cents per PEO share**, payable in either MTU shares or cash (at M2’s election), subject to People’s net cash (as defined) being at, or above, a mutually agreed level on the date one week prior to the meeting of People shareholders convened to consider approval of the Scheme and which amount will reduce on a dollar for dollar basis to the extent that People’s net cash is below that mutually agreed level (**Additional Consideration**).

The Scheme Booklet, anticipated to be issued to People shareholders during February 2009, will provide relevant details regarding the consideration.

The transaction, as proposed, values each People share between a minimum of 5.46 cents and a maximum of 5.81 cents, based on M2’s volume weighted average price (VWAP) of 52 cents for the previous thirty trading days up to and including 3 December 2008. This represents a premium on the VWAP of People shares over the thirty trading days up to and including 3 December 2008 of between 118% and 132%.

Commenting on the proposed acquisition, Vaughan Bowen, Managing Director/CEO of M2, said; *“We are pleased to have reached agreement with the People Telecom Board to acquire People Telecom.*

*“Bringing People into the M2 Group is both strategic and logical, in that it adds considerable additional scale to the combined group together with complementary capabilities and marketing channels. The addition of People to M2’s strongly growing customer base is expected to increase group revenues to greater than \$250M on an annualised basis and is expected to considerably increase consolidated earnings and earnings per share”* said Bowen.

People Telecom Chairman, Barry Hamilton, said of the transaction: *“The People Board is most satisfied to have reached unanimous agreement to proceed with the acquisition by M2..*



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*“We believe that this transaction represents the most effective means by which People shareholders can realise maximum value, both in terms of the consideration being at a substantial premium to People’s recent share price performance and in terms of People shareholders receiving a sizable number of shares in M2, which has a proven track record of strong growth, consistently increasing profitability and dividend payments”* said Mr Hamilton.

### **People Board Recommendation**

- The Directors of People unanimously recommend that People shareholders vote in favour of the Scheme in the absence of a superior proposal and subject to an Independent Expert concluding that the proposal is in the best interests of People shareholders.
- The People Board will appoint an Independent Expert to consider the transaction and the Independent Expert’s report will be distributed to all People shareholders as part of the Scheme Booklet.

### **Benefits to People Shareholders**

The proposed transaction provides a number of benefits to People shareholders, including:

- M2 is offering a significant premium to People shareholders.
- The sizable MTU share (“scrip”) component of the M2 offer provides the potential for People shareholders to benefit from any uplift in MTU share value which may arise, in light of M2’s expected earnings per share (“EPS”) accretion from the transaction.
- M2 has a history of strong earnings and dividend payments to its shareholders. By receiving MTU scrip as part of the Scheme consideration, People shareholders will be well positioned to benefit from M2’s track record of growth and shareholder returns.

### **Benefits to M2 Shareholders**

The proposed transaction provides a number of benefits to M2 shareholders, including:

- Strong expected EPS uplift based on the benefits and synergies to be realised from the combination of the M2 and People businesses. EPS accretion as a result of the transaction is expected to be between 15% and 20% on an annualised basis.
- The transaction significantly increases the scale of the M2 group, with consolidated revenues expected to be above \$250M on an annualised basis, accompanied by the abovementioned strong growth in earnings and EPS.
- The People business has a strong and credible presence in the small and medium enterprise market, which will enhance M2’s sales, marketing and operational capabilities for the growth and support of this important market segment.

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- People employs a team of talented men and women, with skills and experiences in various disciplines, which are expected to deliver added value across the combined business.

### **Scheme Implementation Agreement**

M2 and People have entered into a Scheme Implementation Agreement under which M2 has agreed to acquire People by way of Scheme of Arrangement. Consistent with transactions of this type, the completion of the Scheme is subject to certain conditions precedent which must be satisfied or waived for the Scheme to proceed. The parties will seek to satisfy the conditions precedent between now and the date of completion of the Scheme. Appendix 1, attached to this release, provides a summary of the key terms of the Scheme Implementation Agreement.

### **Anticipated Timing**

The Scheme is expected to be completed in early April 2009. It is anticipated that the Scheme Booklet (incorporating the Independent Expert's report) will be dispatched to People shareholders during February 2009. It is anticipated that a general meeting of the shareholders of People will be convened in March 2009, at which the Scheme will be presented to People shareholders for approval.

### **Contact Details**

<u>M2 Telecommunications:</u>	Vaughan Bowen – Managing Director / CEO ;	03 9674 6569
	Kellie Dean – Company Secretary :	03 9674 6577
<u>People Telecom:</u>	Barry Hamilton – Chairman:	0418 325 333
	John Stanton - CEO:	02 9458 5801

## Appendix 1

### Scheme Implementation Agreement – Key Terms

The scheme implementation agreement (“SIA”) between People and M2 imposes obligations on the parties to proceed with the proposed Scheme. This attachment summarises the key points of the SIA.

#### 1. Conditions Precedent

Implementation of the Scheme is subject to conditions precedent (which will be set out in full in the scheme booklet) including:

- (a) **(regulatory approvals)** the obtaining of any approvals required from regulatory authorities (including ASIC and ASX) and government agencies which are necessary to implement the Scheme;
- (b) **(no restraints)** there being no orders made by a Court or regulatory authority that restrains implementation of the Scheme;
- (c) **(no warranty/representation breach)** no breach of warranty or representation under the SIA by People or M2;
- (d) **(no material adverse effect)** there being no event which would have a material adverse effect on People or M2; and
- (e) **(no prescribed occurrences and other events)** there being no “prescribed occurrence” (broadly, the events listed in s652C of the Corporations Act) and other certain prescribed events.

The Scheme also requires Court approval in accordance with 411(4)(b) of the Corporations Act, and the approval of shareholders of People.

#### 2. Exclusivity

From execution of the SIA until implementation of the Scheme or the earlier termination of the SIA, People and M2 must use their best endeavours to ensure that their representatives do not, except with the prior consent of the other, solicit, initiate or invite any discussions in relation to a third party proposal and must notify the other of any approach by a third party in relation to a third party proposal. The mutual exclusivity obligations are subject to fiduciary carve-outs.

#### 3. Break fee

M2 has agreed to pay People a break fee of \$300,000 for the costs and disbursements incurred by People and the time invested by the management and People Board if the SIA is terminated or the Scheme is not implemented as a result of the non-satisfaction of certain conditions precedent (including M2 material adverse change), a person making the third party proposal for



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M2 (which proposal resulted in termination of the SIA) acquiring voting power of 50% or more in M2, or M2 breaches its exclusivity obligations.

People has agreed to pay M2 a break fee of \$300,000 for the costs and disbursements incurred by M2 and the time invested by the management and M2 Board if the SIA is terminated or the Scheme is not implemented as a result of the non-satisfaction of certain conditions precedent (including People material adverse change), People not using its best endeavours to cause certain conditions precedent to be satisfied (including People shareholder approval and Court approval), any People Board member withdrawing or changing their recommendation in relation to the Scheme or supporting a third party proposal for People, or People breaches its exclusivity obligations.

#### 4. **Termination**

The SIA may be terminated in a number of circumstances, including:

- (a) by either party, if the other party is in material breach of the SIA and has not rectified the breach within five business days after notice, the Scheme has been permanently restrained by a Court or regulatory authority or the other party breaches its exclusivity obligations;
- (b) by M2 if the Scheme is not approved by the requisite majority of People shareholders or any member of the People Board withdraws or changes their recommendation in relation to the Scheme or supports a third party proposal for People; and
- (c) by People if, after People has received notice of a third party proposal for M2, the People Board has determined in good faith and acting reasonably that if a third party proposal for M2 is implemented the Scheme would not be in the best interests of, or fair and reasonable to, People shareholders.

## About M2 Telecommunications Group Limited

Established in 1999, M2 Telecommunications Group Limited (ASX: MTU) is Australia's largest network independent provider of fixed-line, mobile and data telecommunications services. M2 is head-quartered in Melbourne and employs approximately 160 people nationwide. M2 also provides fixed-line and 3G mobile services in New Zealand.

Within its "M2 Telecom" business division, M2 offers a suite of unique bundled telecommunications services and value added offerings targeted principally at the small enterprise market, distributed through an exclusive trans-Tasman network of sales dealerships, agencies and through targeted on-line marketing ventures ([www.simplymobiles.com.au](http://www.simplymobiles.com.au) and [www.greenmobiles.com.au](http://www.greenmobiles.com.au)). M2 Telecom also incorporates Southern Cross Telco, an established retail and small enterprise targeted telco, acquired by M2 in October 2007.

"M2 Wholesale" is the other core business division of M2, in which wholesale telecommunications services are supplied to small and medium sized telecommunications service providers and Internet Service Providers (ISP's). M2 Wholesale was launched in mid 2006 following M2's appointment by Optus as its exclusively endorsed aggregator/enabler of Optus mobile services. As a further boost to its wholesale operations, in May 2007 M2 completed the purchase of Australia's largest independent data wholesaling business, Wholesale Communications Group Pty Ltd (WCG), followed by the acquisition of Commander Communication's established wholesale network services company, Unitel Australia Pty Ltd in February 2008.

M2's consolidated revenues now exceed \$150 million (annualised), approximately evenly shared between M2 Telecom and M2 Wholesale.

M2 has a proven track-record of delivering consistent growth in both revenues and most importantly "bottom line" profit, year-on-year for each of the last 6 years. In recognition of this significant and consistent growth, M2 was named by Business Review Weekly as one of Australia's fastest growing companies in 2003, 2004, 2005, 2006 and 2008 and on the Deloitte Technology Fast 50 in 2004, 2005 and 2008.

M2 has an established dividend policy, with fully franked dividends exceeding 70% of M2's Net Profit After Tax (NPAT) having been paid to shareholders each fiscal half for four consecutive years, with the most recent being a fully franked final dividend of 3 cents per share for the half year to June 30 2008.

For more about M2 visit [www.m2.com.au](http://www.m2.com.au)

Related Company sites:

- [www.sctelco.com.au](http://www.sctelco.com.au)
- [www.wcg.net.au](http://www.wcg.net.au)
- [www.simplymobiles.com.au](http://www.simplymobiles.com.au)
- [www.greenmobiles.com.au](http://www.greenmobiles.com.au)



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### About People Telecom

People Telecom (ASX/NZX: PEO) is a leading supplier of a broad range of telecommunications products and services. With People Telecom's flexible and efficient communication network, customers can tailor communication solutions to suit their every need.

People Telecom is head-quartered in Sydney and employs approximately 100 people in Australia.

People Telecom provides fixed line, mobile, broadband, business-grade VoIP, complex data and co-location solutions which are accessible and easy to manage - creating a service that delivers. In both the business and consumer segments People Telecom follows a simple philosophy: 'listen to our customers and bring them the best products and services available in the market'. For People Telecom, the customer always comes first.

Since the company's inception in early 2000, People Telecom has demonstrated remarkable results in system design and integration, providing clients with a new and refreshing alternative in a competitive telecommunications environment. People Telecom was named by Business Review Weekly as one of Australia's fastest growing companies in 2004 and 2006, and in 2007 was recognised as the nation's **Best Regional Service Provider** at the Australian Telecom Awards.

In 2008 People Telecom acquired one of Australia's leading providers of business-grade VoIP, ValueNet, and offers a fully hosted IP-telephony service to enterprises across Australia.

People Telecom, through its Peoplenet web-based customer portal, continues to lead the industry with its online billing and service management solutions, allowing customers to take full control of their billing and account management.

"We are the People's Choice - turning Services into Solutions" - that is the People Telecom vision.

For more information visit: [www.peopletelecom.com.au](http://www.peopletelecom.com.au)

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