

**DIRECTORS:**

ROBERT D. MILLNER  
Chairman of Directors  
Director since 2000

MICHAEL J. MILLNER  
Non-Executive Director – Deputy Chairman  
Director since 2000

PETER R. ROBINSON  
B.Comm.  
Non-Executive Director  
Director since 2000

DAVID J. FAIRFULL  
B.Comm., A.C.I.S., C.P.A., A.S.I.A.  
Non-Executive Director  
Director since 2000

DENIS LEDBURY  
Executive Director  
B.Bus., A.I.C.D.  
Director since 2000

**SECRETARY:**

JEFF EATHER  
B.Comm., C.P.A., F.C.I.S., F.C.I.M.

**AUDITORS:**

PRICEWATERHOUSECOOPERS  
Chartered Accountants

**REGISTERED OFFICE:**

11-17 Mosbri Crescent  
NEWCASTLE NSW 2300

**SHARE REGISTER:**

Computershare Registry Services Pty. Limited  
Level 3, 60 Carrington Street, Sydney, N.S.W. 1115  
Telephone: (02) 8234 5000

# **SP Telecommunications Limited and its Controlled Entities**

## **ABN 46 093 058 069**

### **Chairman's Review**

This is the first Annual Report of SP Telecommunications Limited incorporating the operations of wholly owned subsidiaries Soul Pattinson Telecommunications Pty Limited (SPT) and Kooee Communications Pty Limited (Kooee).

The company listed on the Australian Stock Exchange on 10<sup>th</sup> May 2001 following an initial public offering, which was closed oversubscribed raising \$20 million in additional shareholders equity. Prior to listing the Company was a wholly owned subsidiary of Washington H. Soul Pattinson Limited (WHSP), which has retained an approximate 56% shareholding in the Company.

In August 2000 the Company acquired all of the issued shares in SPT, which is a licensed carrier in accordance with the Telecommunications Act 1997. At the time of acquisition, SPT was constructing a high capacity broadband telecommunications network servicing Northern NSW and South East Queensland regions including a backbone network linking Sydney to Brisbane. At the time of acquisition, the Sydney to Newcastle link was operational. Since acquisition SPT has completed the Sydney to Brisbane broadband backbone and at this time is delivering broadband services between these two capital cities and the regions in between. SPT commenced full operations in January 2001 and now provides a range of high and low capacity broadband services to a diverse customer base, including carriers, carriage service providers, internet service providers, government agencies and large to small corporates.

SPT is experiencing significant success in the provision of data networks, virtual private networks (VPN's) and internet access particularly to government, ISP's and corporates. This success is underwritten by the ability of SPT to design and build tailored solutions for customers including the provision of "tails" or last mile access.

During the financial year SPT invested approximately \$12 million in the Sydney – Brisbane network and customer interconnect resulting in a total investment of \$16.3 million since commencement of construction up to the year end. Business signed and identified future demand has meant SPT will further expand the network in the new financial year, including the construction of the North West network to Tamworth and Armidale and the addition of extra capacity on the Sydney – Brisbane network. This expenditure is to approximate \$7 million and is supported by identifiable revenue streams.

The Kooee retail brand was launched at the end of October 2000 and has steadily built its customer base to over 14,000 residential customers and 300 corporate customers. This large base of customers continues to grow at a healthy rate and will provide a constant stream of profit for the company.

The Group has reported a loss before tax for the financial year of \$1.424 million. This loss included the write off of \$554,000 goodwill arising on consolidation from the acquisition of SPT. The after tax loss this year is \$1.283 million. Revenue for the financial year was \$8.217 million and earnings before interest, tax, depreciation and amortisation was an \$87,000 loss. The group will pay income tax of approximately \$9,000 respective to this year.

The pleasing aspect of the Group's results is that it has traded with positive earnings before tax in each of the last four months of the financial year. Given the group is still in its early development and establishment phase the Directors have confidence the Group will continue its profit growth.

**S P Telecommunications Limited and its Controlled Entities**  
**ABN 46 093 058 069**

**For the year ended 31 July 2001**  
**Directors' Report**

Your directors present their report on the consolidated entity consisting of S P Telecommunications Limited and the entities it controlled at the end of, or during, the year ended 31 July 2001.

**Directors**

The following persons were directors of S P Telecommunications Limited during the whole of the financial year and up to the date of this report:

Robert D. Millner  
 Michael J. Millner  
 Peter R. Robinson  
 David J. Fairfull  
 Denis Ledbury

William P. Cleaves was a director from the beginning of the financial year until his resignation on 12 September 2000.

**Principal activities**

During the year the principal continuing activities of the consolidated entity consisted of:

- (a) Licensed telecommunications carrier in accordance with the Telecommunications Act 1997.
- (b) Sale of retail telecommunication products and services.

The following significant changes in the nature of the activities of the consolidated entity occurred during the year:

- (a) Acquisition of controlled entity; Soul Pattinson Telecommunications Pty Limited
- (b) Retail operations commenced in October 2000. Sydney to Brisbane network commenced carriage of traffic in January 2001.
- (c) Company was publicly listed on Australian Stock Exchange, May 2001.

**Dividends**

There were no dividends declared or paid during the financial year. No dividends have been declared or paid since the end of the financial year.

**Review of operations**

A summary of consolidated revenues and results by significant industry segments is set out below:

	Segment revenues		Segment results	
	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
Telecommunications	<b>8,217</b>	-	<b>(1,424)</b>	-
Loss from ordinary activities before income tax expense			<b>(1,424)</b>	-
Income tax credit			<b>141</b>	-
Loss from ordinary activities after income tax			<b>(1,283)</b>	-
Net loss			<b>(1,283)</b>	-

## Earnings per share

	Cents	Cents
Basic earnings per share	(0.03)	-
Diluted earnings per share	(0.03)	-

## Significant changes in the state of affairs

Significant changes in the state of affairs of the consolidated entity during the financial year were as follows:

	<b>\$'000</b>
(a) An increase in contributed equity of \$30,760,000 as a result of:	
Debt to equity conversion of 100,000,000 fully paid shares	<b>12,700</b>
Issue of 80,000,000 fully paid ordinary shares at 25 cents each	<b>20,000</b>
Issue of 56,700 fully paid ordinary shares at 25 cents each on exercise of options	<b>14</b>
Less: Transaction costs arising on share issues	<b>(1,954)</b>
	<hr/>
Net increase in share capital	<b>30,760</b>
	<hr/> <hr/>
(b) Net cash received from the increase in contributed equity has and will be used for the enhancement and expansion of the telecommunications network	
(c) Individually significant expenses	<b>\$'000</b>
<i>Expenses</i>	
Goodwill on consolidation written-off	<b>554</b>
	<hr/> <hr/>

## Matters subsequent to the end of the financial year

There has not arisen in the interval between the end of this financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors, to have significantly affected or which may significantly affect:

- (a) the consolidated entity's operations in future financial years, or
- (b) the results of those operations in future financial years, or
- (c) the consolidated entity's state of affairs in future financial years.

## Likely developments and expected results of operations

There are no material likely developments for the consolidated entity, other than continued profitable operations, at the date of this report.

## Environmental Regulations

The company has assessed whether there are any particular or significant environmental regulations which apply to it and has determined there are none.

**Information on directors**

**Particulars of directors' interests in shares and options of:**

<b>Director</b>	<b>Experience</b>	<b>Special responsibilities</b>	<b>SP Telecommunications Limited</b>		<b>W H S P Limited Shares</b>
			<b>Shares</b>	<b>Options</b>	
R D Millner	Chairman of Washington H. Soul Pattinson & Co. Ltd., Brickworks Ltd., Keith Harris & Co. Ltd., Choiseul Investments Ltd., NBN Group, and chairman of SP Telecommunications Group since 2000.	Chairman	<b>80,000</b>	<b>8,000</b>	<b>1,556,962</b>
M J Millner	Director of Washington H. Soul Pattinson & Co. Ltd., Brickworks Ltd., Keith Harris & Co. Ltd., Australian Food & Fibre Ltd., NBN Group, and director of SP Telecommunications Group since 2000.	Deputy Chairman Non-Executive Director	<b>80,000</b>	<b>8,000</b>	<b>1,520,460</b>
P R Robinson <i>B Comm</i>	Executive Director of Washington H. Soul Pattinson and Co. Ltd., Director of Keith Harris & Co. Ltd., API Ltd. and Clover Corporation Ltd., Non-Executive Director of New Hope Collieries, the NBN Group and Director of the SP Telecommunications Limited Group since 2000.	Non-Executive Director	<b>80,000</b>	<b>8,000</b>	<b>7,321</b>

**Information on directors** (continued)

**Particulars of directors' interests in shares and options of:**

Director	Experience	Special responsibilities	SP Telecommunications Limited		W H S P Limited
			Shares	Options	Shares
D J Fairfull <i>B Comm</i> <i>CPA</i> <i>ACIS</i> <i>ASIA</i>	Director of Washington H. Soul Pattinson and Co. Ltd., SME Growth Ltd., Australian Food & Fibre Ltd., Gazal Corporation Ltd., International Pacific Securities Plc., Keith Harris & Co. Ltd., the NBN Group, API Ltd. & Stockland Trust, Director of SP Telecommunications Group since 2000.	Non-Executive Director	100,000	10,000	3,000
D Ledbury <i>B Bus</i> <i>AICD</i>	Director of the NBN Group, Regional Broadcasters Australia Pty Ltd., and Director of SP Telecommunications Group since 2000.	Executive Director	40,000	1,104,000	2,250
W P Cleaves	Director of the NBN Group and SP Telecommunications Group (Resigned 12 September 2001).	Non-Executive Director	20,000	2,000	-

**Meetings of directors**

The numbers of meetings of the company's board of directors and of each board committee held during the year ended, and the numbers of meetings attended by each director were:

	Full meetings of directors		Audit		Meetings of committees		Remuneration	
	A	B	A	B	A	B	A	B
Robert D. Millner	5	5	1	1	1	1	1	1
Michael J. Millner	5	5	1	1	1	1	1	1
Peter R. Robinson	5	5	1	1	1	1	1	1
David J. Fairfull	5	5	1	1	1	1	1	1
Denis Ledbury	4	5	1	1	*	*	*	*
William P. Cleaves	1	1	-	-	*	*	*	*

A = Number of meetings attended

B = Number of meetings held during the time the director held office or was a member of the committee during the year

\* = Not a member of the relevant committee

### Retirement, election and continuation in office of directors

Mr William P. Cleaves retired as a director on 12<sup>th</sup> September 2000.

Mr Robert D. Millner is the director retiring by rotation who, being eligible, offers himself for re-election.

### Directors' and executives' emoluments

The remuneration committee, consisting of four non-executive directors, advises the Board on remuneration policies and practices generally, and makes specific recommendations on remuneration packages and other terms of employment for executive directors, other senior executives and non-executive directors.

Executive remuneration and other terms of employment are reviewed annually by the committee having regard to performance against goals set at the start of the year, relevant comparative information and independent expert advice. As well as a base salary, remuneration packages include superannuation, retirement and termination entitlements and fringe benefits.

Remuneration of non-executive directors is determined by the Board within the maximum amount approved by the shareholders from time to time.

Details of the nature and amount of each element of the emoluments of each director of SP Telecommunications Limited and each of the 4 officers of the company and the consolidated entity receiving the highest emoluments are set out in the following tables.

#### *Non-executive directors of SP Telecommunications Limited*

Name	Directors' base fee \$	Super-annuation \$	Total \$
Robert D. Millner	7,800	624	8,424
Michael J. Millner	5,580	446	6,026
Peter R. Robinson	5,580	446	6,026
David J. Fairfull	5,580	446	6,026

#### *Executive directors of SP Telecommunications Limited*

Name	Base salary \$	Non-cash benefits \$	Super-annuation \$	Total \$
Denis Ledbury	17,656	1,803	2,295	21,754

#### *Executives of SP Telecommunications Limited (excluding directors)*

Name	Base salary \$	Non-cash benefits \$	Super-annuation \$	Total \$
Mr J Eather	4,125	852	536	5,513
Mr M Simmons	38,375	3,924	4,989	47,288
Mr S Legge	15,162	1,449	1,971	18,582
Ms D Wright	7,812	1,359	1,016	10,187

*Executives of the consolidated entity*

Name	Base salary \$	Non-cash benefits \$	Super- annuation \$	Total \$
Mr J Eather	4,125	852	536	5,513
Mr M Simmons	38,375	3,924	4,989	47,288
Mr S Legge	15,162	1,449	1,971	18,582
Ms D Wright	7,812	1,359	1,016	10,187

**Share options granted to directors and the most highly remunerated officers**

Options over unissued ordinary shares granted during or since the end of the financial year to any of the directors or the 5 most highly remunerated officers of the company and consolidated entity as part of their remuneration were as follows:

<i>Directors</i>	<b>Options granted</b>
D Ledbury	1,100,000

*Other executives of SP Telecommunications Limited*

J Eather	900,000
M Simmons	1,000,000
D Wright	200,000
S Legge	800,000

*Executives of the consolidated entity (excluding directors)*

J Eather	900,000
M Simmons	1,000,000
D Wright	200,000
S Legge	800,000

The options were granted under the Employee Share Option Plan on 10<sup>th</sup> May 2001.

**Shares under option**

Unissued ordinary shares of S P Telecommunications Limited under option at the date of this report are as follows:

	<b>Number</b>	<b>Issue price of shares</b>	<b>Expiry date</b>
SP Telecommunications Limited Employee Share Option Plan	4,000,000	25 cents	10 <sup>th</sup> May 2006

The director's options are exercisable from 10<sup>th</sup> May 2003 to 10<sup>th</sup> May 2006. The executives' options are exercisable from 10<sup>th</sup> May 2002 to 10<sup>th</sup> May 2006.



**Insurance of officers**

During the financial year, the ultimate parent entity and each of its controlled entities indemnified the directors and certain executive officers of each entity for liability:

- a) to a third party (other than the company or a related body corporate) unless the liability arises out of conduct involving a lack of good faith; and
- b) for costs and expenses incurred in successfully defending civil or criminal proceedings or in connection with an application, in relation to such proceedings, in which relief is granted under the Corporations Law

No liability has arisen under these indemnities as at the date of this report.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the consolidated entity.

**Proceedings on behalf of company**

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party, for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the company with leave of the Court under section 237 of the Corporations Act 2001.

**Rounding of amounts**

The company is of a kind referred to in Class Order 98/0100, issued by the Australian Securities & Investments Commission, relating to the "rounding off" of amounts in the directors' report. Amounts in the directors' report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

**Auditor**

PricewaterhouseCoopers continues in office in accordance with section 327 of the Corporations Act 2001.

Dated at Sydney this 27<sup>th</sup> day of September, 2001.

This report is made in accordance with a resolution of the directors.

R.D. Millner

M.J. Millner

**SP Telecommunications Limited and its Controlled Entities**  
**Statements of financial performance**

**For the year ended 31 July 2001**

	Notes	Consolidated		Company	
		2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
Revenue from sale of services	3	7,947	-	-	-
Cost of sales	4	(6,547)	-	-	-
Gross profit		1,400	-	-	-
Other revenues from ordinary activities	3	270	-	236	-
Selling and distribution expenses		(426)	-	-	-
Administration expenses		(2,513)	-	(123)	-
Borrowing costs	4	(155)	-	-	-
<b>Profit/(loss) from ordinary activities before income tax expense</b>		<b>(1,424)</b>	-	<b>113</b>	-
Income tax (expense)/benefit	5(a)	141	-	(66)	-
<b>Profit/(loss) from ordinary activities after income tax expense</b>		<b>(1,283)</b>	-	<b>47</b>	-
Total revenues, expenses and valuation adjustments attributable to members of SP Telecommunications Limited recognised directly in equity		-	-	-	-
<b>Total changes in equity other than those resulting from transactions with owners as owners</b>	16	<b>(1,283)</b>	-	<b>47</b>	-
		<b>Cents</b>	<b>Cents</b>		
Basic earnings per share		(0.03)	-		
Diluted earnings per share		(0.03)	-		

*The above statements of financial performance should be read in conjunction with the accompanying notes.*

**SP Telecommunications Limited and its Controlled Entities**  
**Statements of financial position**

**For the year ended 31 July 2001**

		Consolidated		Company	
	Notes	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
<b>Current assets</b>					
Cash assets	6	13,523	-	13,843	-
Receivables	7	1,083	-	17,217	-
Inventories	8	37	-	-	-
Other	9	389	-	10	-
Total current assets		<u>15,032</u>	-	<u>31,070</u>	-
<b>Non-current assets</b>					
Other financial assets	10	-	-	-	-
Property, plant and equipment	11	16,375	-	-	-
Total non-current assets		<u>16,375</u>	-	-	-
<b>Total assets</b>		<u>31,407</u>	-	<u>31,070</u>	-
<b>Current liabilities</b>					
Payables	12	1,390	-	263	-
Current tax liabilities	13	9	-	-	-
Provisions	14	531	-	-	-
Total current liabilities		<u>1,930</u>	-	<u>263</u>	-
<b>Total liabilities</b>		<u>1,930</u>	-	<u>263</u>	-
<b>Net assets</b>		<u>29,477</u>	-	<u>30,807</u>	-
<b>Equity</b>					
Contributed equity	15	30,760	-	30,760	-
Retained profits/(losses)	16	(1,283)	-	47	-
<b>Total equity</b>		<u>29,477</u>	-	<u>30,807</u>	-

*The above statements of financial position should be read in conjunction with the accompanying notes.*

**SP Telecommunications Limited and its Controlled Entities**  
**Statements of Cash Flows**

**For the year ended 31 July 2001**

	Notes	Consolidated		Company	
		2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
<b>Cash flows from operating activities</b>					
Receipts from customers		6,891	-	-	-
Payments to suppliers and employees		(6,273)	-	(25)	-
Interest received	3	265	-	236	-
Borrowing costs	4	(155)	-	-	-
<b>Net cash inflow from operating activities</b>	27(b)	<u>728</u>	-	<u>211</u>	-
<b>Cash flows from investing activities</b>					
Payments for property, plant and equipment		(11,776)	-	-	-
Loans to related parties		(6)	-	(17,128)	-
<b>Net cash (outflow) from investing activities</b>		<u>(11,782)</u>	-	<u>(17,128)</u>	-
<b>Cash flows from financing activities</b>					
Proceeds from issues of shares and other equity securities		32,714	-	32,714	-
Proceeds from borrowings		8,200	-	-	-
Share issue transaction costs		(1,954)	-	(1,954)	-
Repayment of borrowings		(13,676)	-	-	-
<b>Net cash inflow from financing activities</b>		<u>25,284</u>	-	<u>30,760</u>	-
<b>Net increase in cash held</b>		<u>14,230</u>	-	<u>13,843</u>	-
Cash at the beginning of the financial year		(707)	-	-	-
<b>Cash at the end of the financial year</b>	27(a)	<u><u>13,523</u></u>	-	<u><u>13,843</u></u>	-

*The above statements of cash flows should be read in conjunction with the accompanying notes.*

## **SP Telecommunications Limited and its Controlled Entities**

### **Notes to the financial statements**

#### **Note 1. Statement Of Significant Accounting Policies**

The significant policies which have been adopted in the preparation of this financial report are:

##### **(a) Basis of preparation**

The financial report is a general purpose financial report which has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

It has been prepared on the basis of historical costs and does not take into account changing money values or fair values of non-current assets. The assumption is made that the economic entity will continue as a going concern.

The consolidated accounts include those of the parent entity and all of its controlled entities as listed in note 24. Where controlled entities are acquired during the financial year their results are included only from the date of acquisition and where controlled entities are disposed of during a financial year their results are included to the date of disposal. All intercompany transactions have been eliminated.

The parent entity holds 100% of the issued capital of Soul Pattinson Telecommunications Pty Limited and 100% of the issued capital of Kooee Communications Pty Limited.

##### **(b) Prior year comparatives**

There are no prior year comparatives as the consolidated entity commenced full operations in January 2001.

##### **(c) Revenue recognition**

Revenues are recognised at fair value of the consideration received net of the amount of goods and services tax (GST).

###### *Sale of goods*

Revenue from the sale of goods is recognised (net of returns, discounts and allowances) when control of the goods passes to the customer.

###### *Rendering of services*

Revenue from rendering services is recognised in proportion to the stage of completion of the contract.

###### *Interest revenue*

Interest revenue is recognised as it accrues.

##### **(d) Goods and services tax**

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statements of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities, which are recoverable from, or payable to, the ATO are classified as operating cash flows.

## **SP Telecommunications Limited and its Controlled Entities**

### **Notes to the financial statements**

#### **(e) Foreign currency**

##### *Transactions*

Foreign currency transactions are translated to Australian currency at the rates of exchange ruling at the date of the transactions. At balance date there were no amounts payable or receivable by the economic entity in foreign currencies.

#### **(f) Borrowing costs**

Borrowing costs represent interest relating to borrowings.

Borrowing costs are expensed as incurred unless they relate to qualifying assets. Qualifying assets are assets which take more than 12 months to get ready for their intended use or sale. In these circumstances, borrowing costs are capitalised to the cost of the assets.

#### **(g) Taxation – Note 5**

The consolidated entity adopts the income statement liability method of tax effect accounting.

Income tax expense is calculated on operating profit adjusted for permanent differences between taxable and accounting income. The tax effect of timing differences, which arise from items being brought to account in different periods for income tax and accounting purposes, is carried forward in the statement of financial position as a future income tax benefit or a provision for deferred income tax.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits relating to tax losses are only brought to account when their realisation is virtually certain. The tax effect of capital losses are not recorded unless realisation is virtually certain.

#### **(h) Acquisition of assets**

All assets acquired including property, plant and equipment are initially recorded at their cost of acquisition at the date of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition.

##### *Subsequent additional costs*

Costs incurred on assets subsequent to initial acquisition are capitalised when it is probable that future economic benefits in excess of the originally assessed performance of the asset will flow to the consolidated entity in future years. Costs that do not meet the criteria for capitalisation are expensed as incurred.

#### **(i) Receivables – Note 7**

The collectibility of debts is assessed at balance date and specific provision is made for any doubtful accounts.

##### *Trade debtors*

Trade debtors are recognised at the amount receivable and are generally due for settlement 30 days from the end of the month in which the invoice is raised.

#### **(j) Inventories – Note 8**

Stores are carried at the lower of cost and net realisable value.

#### **(k) Investments – Note 10**

##### *Controlled entities*

Investments in controlled entities are carried in the Company's financial statements at the lower of cost and recoverable amount.

## SP Telecommunications Limited and its Controlled Entities

### Notes to the financial statements

#### (l) Operating leases

Payments made under operating leases are expensed on a straight-line basis over the term of the lease.

#### (m) Maintenance and repairs

Maintenance, repair costs and minor renewals are charged as expenses as incurred.

#### (n) Goodwill

Where an entity or operation is acquired, the identifiable net assets (liabilities) are measured at fair value. The excess of the fair value of the cost of acquisition over the value of the identifiable net assets (liabilities) acquired is brought to account as goodwill. However, the goodwill is expensed in the year of acquisition as it is uncertain as to the benefits expected to arise.

#### (o) Recoverable amount of non-current assets valued on cost basis

The carrying amount of non-current assets valued on the cost basis are reviewed to determine whether they are in excess of their recoverable amount at balance date. If the carrying amount of a non-current asset exceeds its recoverable amount, the asset is written down to the lower amount. The write-down is recognised as an expense in the net profit or loss in the reporting period in which it occurs.

Where a group of assets working together supports the generation of cash inflows, recoverable amount is assessed in relation to that group of assets.

In assessing recoverable amounts of non-current assets the relevant cash flows have not been discounted to their present value.

#### (p) Depreciation and amortisation

##### *Complex assets*

The components of major assets that have materially different useful lives, are effectively accounted for as separate assets, and are separately depreciated.

##### *Useful lives*

All assets have limited useful lives and are depreciated using the straight-line method over their estimated useful lives.

Property, plant and equipment (excluding land) is depreciated from the date of acquisition or from the time as asset is completed and held ready for use.

The depreciation rates used are as follows:

	<u>2001</u>	<u>2001</u>
Property, plant and equipment:	5 – 40%	-

#### (q) Payables

Liabilities are recognised for amounts to be paid in the future for goods or services received. These amounts are unsecured.

#### (r) Employee entitlements – Note 22

##### *Wages, salaries, annual leave and sick leave*

The provisions for employee entitlements to wages, salaries, annual leave and sick leave represent present obligations resulting from employees' services provided up to the balance date, calculated at undiscounted amounts based on current wage and salary rates including related on-costs.

#### (s) Cash

For the purposes of the statement of cash flows, cash includes cash at bank and cash on hand, which are used in the cash management function on a day to day basis.

**SP Telecommunications Limited and its Controlled Entities**  
**Notes to the financial statements**

**Note 2. Segment information**

Industry Segments	Telecommunications		Consolidated	
	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
Revenue outside the consolidated entity	<u>8,217</u>	-	<u>8,217</u>	-
<b>Total revenue</b>	<u>8,217</u>	-	<u>8,217</u>	-
Segment operating loss	<u>(1,424)</u>	-	<u>(1,424)</u>	-
Income tax credit			<u>141</u>	-
Loss from ordinary activities after income tax			<u>(1,283)</u>	-
Segment assets	<u>31,407</u>	-	<u>31,407</u>	-
<b>Total assets</b>			<u><u>31,407</u></u>	-

*Geographical segments*

The consolidated entity operates wholly within Australia.

**Note 3. Revenue**

Revenue from operating activities	Consolidated		Company	
	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
Sale of services	7,947	-	-	-
<b>Other Revenues:</b>				
Interest	265	-	236	-
Sundry Income	5	-	-	-
Revenue from ordinary activities	<u>8,217</u>	-	<u>236</u>	-



**SP Telecommunications Limited and its Controlled Entities**  
**Notes to the financial statements**

**Note 4. Profit from ordinary activities**

	Consolidated		Company	
	2001	2000	2001	2000
	\$'000	\$'000	\$'000	\$'000
<b>(a) Individually significant items included in profit from ordinary activities before income tax expense</b>				
Goodwill on consolidation – written off	<b>554</b>	-	-	-
<b>(b) Profit from ordinary activities before income tax expense has been arrived at after charging the following items:</b>				
<b>Expenses</b>				
Cost of services sold	<b>6,547</b>	-	-	-
Depreciation				
Plant and equipment	<b>628</b>	-	-	-
Borrowing costs:				
Related parties	<b>375</b>	-	-	-
Less: Capitalised borrowing costs	<b>(220)</b>	-	-	-
	<b>155</b>	-	-	-
Net expense from movements in provision for:				
Doubtful Debts	<b>959</b>	-	-	-
Unearned Revenue	<b>519</b>	-	-	-
Employee Entitlements	<b>12</b>	-	-	-
Operating lease rental expense	<b>296</b>	-	-	-

**SP Telecommunications Limited and its Controlled Entities**  
**Notes to the financial statements**

**Note 5. Income tax**

	Consolidated		Company	
	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
<i>(a) Income tax expense</i>				
Prima facie income tax expense/(credit) calculated at 34% on the profit/(loss) from ordinary activities	<b>(484)</b>	-	<b>38</b>	-
Increase in income tax expense/(credit) due to:				
Transfer of deferred tax balances not brought to account	<b>144</b>	-	<b>28</b>	-
Sundry items	<b>2</b>	-	-	-
Restatement of deferred tax balance due to change in company tax rate	<b>9</b>	-	-	-
Income tax expense/(credit) on operating profit before individually significant income tax items	<b>(329)</b>	-	<b>66</b>	-
Individually significant income tax items:				
Goodwill on consolidation – written off	<b>188</b>	-	-	-
Income tax expense/(credit) attributable to operating profit	<b>(141)</b>	-	<b>66</b>	-
Income tax expense/(credit) attributable to operating profit is made up of:				
Current income tax provision	<b>9</b>	-	-	-
Deferred income tax provision	<b>(157)</b>	-	-	-
Future income tax benefit	<b>7</b>	-	-	-
Over provision in prior year	-	-	-	-
Tax loss transferred in	-	-	<b>66</b>	-
	<b>(141)</b>	-	<b>66</b>	-
<i>(b) Current tax liabilities</i>				
Provision for current income tax				
Movements during the year:				
Balance at beginning of the year	-	-	-	-
Current year's income tax expense on operating profit	<b>9</b>	-	<b>66</b>	-
Tax losses transferred in	-	-	<b>(66)</b>	-
	<b>9</b>	-	-	-

**SP Telecommunications Limited and its Controlled Entities**  
**Notes to the financial statements**

**Note 5. Income Tax** *(continued)*

	Consolidated		Company	
	2001	2000	2001	2000
	\$'000	\$'000	\$'000	\$'000
<i>(c) Future income tax benefit not taken to account</i>				
The potential future income tax benefit arising from timing differences has not been recognised as an asset because recovery of timing differences is not assured beyond any reasonable doubt:				
Timing differences	<u>127</u>	-	<u>24</u>	-

The potential future income tax benefit will only be obtained if:

(i) the relevant company derives future assessable income of a nature and an amount sufficient to enable the benefit to be realised, or the benefit can be utilised by another company in the consolidated entity in accordance with Division 170 of the Income Tax Assessment Act 1997;

(ii) the relevant company and/or the consolidated entity continues to comply with the conditions for deductibility imposed by the law; and

(iii) no changes in tax legislation adversely affect the relevant company and/or the consolidated entity in realising the benefit.

**Note 6. Current assets – Cash assets**

Cash at bank and on hand	<u>13,523</u>	-	<u>13,843</u>	-
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**Note 7. Current assets – Receivables**

Trade debtors	2,036	-	89	-
Less: Provision for doubtful debts	(959)	-	-	-
	<u>1,077</u>	-	<u>89</u>	-
Loans to controlled entities	-	-	17,128	-
Loans to related parties	6	-	-	-
	<u>1,083</u>	-	<u>17,217</u>	-

**Note 8. Current assets – Inventories**

Stores – at cost	<u>37</u>	-	-	-
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**SP Telecommunications Limited and its Controlled Entities**  
**Notes to the financial statements**

**Note 9. Current assets – Other**

	Consolidated		Company	
	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
Prepayments	<b>389</b>	-	<b>10</b>	-

**Note 10. Non-current assets – Other financial assets**

**Other (non-traded) investments**

Shares in controlled entities – at cost	-	-	-*	-
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\* SP Telecommunications Limited holds the following investments:

- 2, \$1 shares in Soul Pattinson Telecommunications Pty Limited
- 2, \$1 shares in Kooee Communications Pty Limited.

**Note 11. Non-current assets – Property, plant and equipment**

**Land and buildings**

Freehold land At cost	<b>60</b>	-	-	-
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**Plant and equipment**

At cost	<b>16,943</b>	-	-	-
Less: Accumulated depreciation	<b>(628)</b>	-	-	-
	<b>16,315</b>	-	-	-
Total property, plant and equipment	<b>16,375</b>	-	-	-

**Reconciliations**

Reconciliations of the carrying amounts of each class of property, plant and equipment at the beginning and end of the current financial year are set out below.

	Freehold Land \$'000	Plant & equipment \$'000	Total \$'000
<b>Consolidated</b>			
Carrying amount at 1 <sup>st</sup> August 2000	-	-	-
Additions	60	11,717	11,777
Disposals	-	-	-
Additions through acquisition of entity (note 24)	-	5,226	5,226
Depreciation expense	-	(628)	(628)
Carrying amount at 31 <sup>st</sup> July 2001	<b>60</b>	<b>16,315</b>	<b>16,375</b>

**SP Telecommunications Limited and its Controlled Entities**  
**Notes to the financial statements**

**Note 12. Current liabilities – Payables**

	Consolidated		Company	
	2001	2000	2001	2000
	\$'000	\$'000	\$'000	\$'000
Trade creditors	804	-	196	-
Other creditors	586	-	2	-
Other loans – controlled entities	-	-	65	-
	<b>1,390</b>	-	<b>263</b>	-

**Note 13. Current liabilities – Current tax liabilities**

Income tax	9	-	-	-
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**Note 14. Current liabilities – Provisions**

Employee entitlements	12	-	-	-
Unearned revenue	519	-	-	-
	<b>531</b>	-	-	-

**Note 15. Contributed equity**

**Issued and paid-up share capital**

180,056,700 ordinary shares, fully paid	30,760	-	30,760	-
<b>(a) Ordinary shares</b>				
Balance at the beginning of year	-	-	-	-
Shares Issued				
- 100,000,000 from debt to equity conversion	12,700	-	12,700	-
- 80,000,000 for cash pursuant to a prospectus	20,000	-	20,000	-
- Transaction costs arising from issue for cash pursuant to prospectus	(1,954)	-	(1,954)	-
- 56,700 from the exercise of options under one for ten offer	14	-	14	-
Balance at the end of the year	<b>30,760</b>	-	<b>30,760</b>	-

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings.

8,000,000 options were granted to holders of ordinary shares, holders are entitled to one free option for every 10 shares allotted. Each option is convertible into one ordinary share at any time before 10<sup>th</sup> May 2006 at a fixed price of 25 cents per share. The number of unissued ordinary shares under these options at 31<sup>st</sup> July 2001 is 7,943,300.

4,000,000 options were granted to employees, under the employee share option plan (refer note 22).

10,000,000 options were granted to Washington H. Soul Pattinson Limited with an exercise price of 25 cents per share. These options have been escrowed for a period of two years from the listing date (10<sup>th</sup> May 2001) and expire on 10<sup>th</sup> May 2006.

**SP Telecommunications Limited and its Controlled Entities**  
**Notes to the financial statements**

**Note 16. Retained profits**

	Consolidated		Company	
	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
Retained profits at the beginning of the financial year	-	-	-	-
Net profit/(loss) for the year	(1,283)	-	47	-
Retained profit/(loss) at the end of the financial year	<u>(1,283)</u>	<u>-</u>	<u>47</u>	<u>-</u>

**Note 17. Dividends**

Franking credits available for subsequent financial years based on a tax rate of 30%	22	-	-	-
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The above amounts present the balance of the franking account at the end of the financial year, adjusted for:

- (a) franking credits that will arise from the payment of the tax liability
- (b) franking debits that will arise from the payment if dividends recognised as a liability at the reporting date
- (c) franking credits that will arise from the receipt of dividends recognised as receivable at the reporting date; and
- (d) franking credits that may be prevented from being distributed in subsequent financial years.

The consolidated amounts include franking credits that would be available to the parent entity if distributable profits of the controlled entities were paid as dividends.

**Note 18. Remuneration of directors**

*Directors' income*

The number of directors of the Company whose income from the Company or any related party falls within the following bands:

\$	\$	2001	2001
0	– 9,999	5	-
20,000	– 29,999	1	-
		\$	\$
Total income paid or payable, or otherwise made available, to all directors of the company and controlled entities from the Company or any related party		<u>48,256</u>	<u>-</u>
		\$	\$
		26,502	-

**SP Telecommunications Limited and its Controlled Entities**  
**Notes to the financial statements**

**Note 19. Remuneration of auditors**

	Consolidated		Company	
	2001	2000	2001	2000
	\$'000	\$'000	\$'000	\$'000
Remuneration for audit or review of the financial reports of the parent entity or any entity in the consolidated entity:				
Auditor of the parent entity – PricewaterhouseCoopers Australian firm	17	-	-	-
Remuneration for other services:				
Auditor of the parent entity – PricewaterhouseCoopers Australian firm	88	-	-	-

**Note 20. Financial instruments**

**(a) Interest rate risk**

*Interest rate risk exposures*

The consolidated entity's exposure to interest rate risk and the effective weighted average interest rate classes of financial assets and financial liabilities is set out below.

Exposure arises predominately from assets and liabilities bearing variable interest rates as the consolidated entity intends to hold fixed rate assets and liabilities to maturity.

	Note	Weighted average interest rate	Fixed Interest Maturing In:				Non-interest bearing	Total \$'000
			Floating interest rate \$'000	1 year or less \$'000	1 to 5 years \$'000	More than 5 years \$'000		
<b>2001</b>								
<i>Financial assets</i>								
Cash assets	6	3.6 %	13,523	-	-	-	-	13,523
Receivables	7	-	-	-	-	-	1,083	1,083
			13,523	-	-	-	1,083	14,606
<i>Financial liabilities</i>								
Payables	12	-	-	-	-	-	1,390	1,390
			-	-	-	-	1,390	1,390

**(b) Credit risk exposure**

Credit risk represents the loss that would be recognised if counter parties failed to perform as contracted.

*Recognised financial instruments*

The credit risk on financial assets of the consolidated entity which have been recognised on the statement of financial position, is the carrying amount, net of any provision for doubtful debts.

**SP Telecommunications Limited and its Controlled Entities**  
**Notes to the financial statements**

**Note 20. Financial instruments** *(continued)*

**(c) Net fair values of financial assets and liabilities**

*Valuation approach*

Net fair values of financial assets and liabilities are determined by the consolidated entity on the following bases:

*Recognised financial instruments*

The net fair value of cash and cash equivalents and non interest bearing monetary financial assets and financial liabilities for the consolidated entity approximate their carrying value.

*Unrecognised financial instruments*

There are no unrecognised financial instruments.

**Note 21. Commitments for expenditure**

	Consolidated		Company	
	2001	2000	2001	2000
	\$'000	\$'000	\$'000	\$'000
<b>Capital commitments</b>				
Commitments for the acquisition of plant and equipment contracted for at the reporting date but not recognised as liabilities, payable:				
Within one year	<b>1,226</b>	-	-	-
Later than one year but not later than 5 years	-	-	-	-
Later than 5 years	-	-	-	-
	<b>1,226</b>	-	-	-
<b>Operating leases</b>				
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:				
Within one year	<b>301</b>	-	-	-
Later than one year but not later than 5 years	<b>937</b>	-	-	-
Later than 5 years	<b>1,410</b>	-	-	-
Commitments not recognised in the financial statements	<b>2,648</b>	-	-	-



**SP Telecommunications Limited and its Controlled Entities**  
**Notes to the financial statements**

**Note 22. Employee entitlements**

	Consolidated		Company	
	2001	2000	2001	2000
	\$'000	\$'000	\$'000	\$'000
<b>Employee entitlement liabilities</b>				
Provision for employee entitlements				
Current (note 14)	<b>12</b>	-	-	-
Aggregate employee entitlement liability	<b>12</b>	-	-	-
	<b>Number</b>		<b>Number</b>	
Number of employees at the end of the financial year	<b>24</b>	-	-	-

As explained in note 1(r), the amounts for annual leave are measured at their present values.

**Employee share option plan**

The company has an employee share option plan.

The plan provides for 5 executives to receive a maximum of 4,000,000 options over ordinary shares. Each option is convertible to one ordinary share. There are no voting rights attached to the unissued ordinary shares. Voting rights will be attached to the unissued ordinary shares when the options have been exercised. The exercise price of the options, determined in accordance with the Rules of the plan, is 25 cents per share.

All options expire on the 10<sup>th</sup> May 2006. In addition, the options can only be exercised after 12 months from the listing date, 10<sup>th</sup> May 2002.

**Note 23. Related parties**

**Directors**

The names of each person holding the position of director of SP Telecommunications Limited during the financial year are Messrs RD Millner, MJ Millner, D Ledbury, PR Robinson, DJ Fairfull and WP Cleaves. Mr WP Cleaves retired as a director during the year.

Details of directors' remuneration benefits are set out in Note 18

No director has entered into a material contract with the company or the consolidated entity since the end of the previous financial year and there were no material contracts involving directors' interests subsisting at year end.

*Directors' holdings of shares and share options*

The interest of directors of SP Telecommunications Limited and their director-related entities in shares and share options of entities within the consolidated entity at year end are set out below.

	Consolidated	
	2001	2000
	Number	Number
Ordinary shares	<b>400,000</b>	-
Options over ordinary shares	<b>1,140,000</b>	-

## **SP Telecommunications Limited and its Controlled Entities**

### **Notes to the financial statements**

#### **Note 23. Related parties** *(Continued)*

##### *Directors' transactions in shares and share options*

During the year SP Telecommunications Limited granted options over 4,000,000 unissued shares under the Employee Share Option Plan. Of these options 1,100,000 were granted to Denis Ledbury, these options have been escrowed for a period of two years from the listing date (10<sup>th</sup> May 2001) and expire on 10<sup>th</sup> May 2006.

##### *Directors' transaction with the Company or its controlled entities*

A number of directors of the Company, or their director related entities, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of these entities.

The terms and conditions of the transactions with the Directors and their director related entities were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-directors related entities on an arm's length basis.

##### *Non-director related parties*

The classes of non-director related parties are:

- controlling entity of the Company
- wholly-owned controlled entities
- commonly controlled entities

##### *Transactions*

All transactions with non-director related parties are on normal terms and conditions. Interest paid on loans from the ultimate parent entity is at variable interest rates.

##### *Wholly owned group*

Information relating to controlled entities is set out in note 24

All controlled entities are wholly owned

**SP Telecommunications Limited and its Controlled Entities**  
**Notes to the financial statements**

**Note 23. Related parties** *(Continued)*

**Other related parties**

The aggregate amounts included in the profit/(loss) from ordinary activities before income tax expense that resulted from transactions with non-director related parties are:

	Consolidated		Company	
	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
Sales revenue				
Commonly controlled entities	341	-	-	-
Interest expense				
Controlling entity	220	-	-	-
Operating expenses				
Commonly controlled entities	333	-	-	-
Aggregate amount of other transactions with non-director related parties:				
Loan advances to:				
Wholly owned controlled entities	-	-	17,128	-
Commonly controlled entities	6	-	-	-
Loan advances from:				
Controlling entity	8,200	-	-	-
Wholly owned controlled entities	-	-	65	-
Loan repayments to:				
Controlling entity	12,788	-	-	-
Commonly controlled entities	888	-	-	-

*Receivables*

Aggregate amounts receivable from non-director related parties:

*Amounts receivable other than trade debts*

Current				
Wholly – owned controlled entities	-	-	17,128	-
Commonly controlled entities	6	-	-	-

*Payables*

Aggregate amounts payable to non-director related parties:

*Amounts payable other than trade creditors*

Current				
Wholly – owned controlled entities	-	-	65	-

**Ultimate parent entity**

The ultimate parent entity of SP Telecommunications Limited is Washington H. Soul Pattinson and Company Limited which at 31<sup>st</sup> July 2001 owns 56.45% of the issued ordinary shares (2000: 100%).

**SP Telecommunications Limited and its Controlled Entities**  
**Notes to the financial statements**

**Note 24. Controlled entities**

*(a) Particulars in relation to controlled entities*

*Name*

SP Telecommunications Limited

*Controlled Entities*

Soul Pattinson Telecommunications Pty Limited

Kooee Communications Pty Limited

*(b) Acquisition of controlled entities*

The following controlled entities were acquired during the year:

Acquisition of entities

During the financial year the consolidated entity purchased 100% of the voting shares of Soul Pattinson Telecommunications Pty Limited (2000: 100% of the voting shares of Kooee Communications Pty Limited). Details of the acquisition are as follows:

	Consolidated		Company	
	2001	2000	2001	2000
	\$'000	\$'000	\$'000	\$'000
Consideration *	-	-	-	-
Outflow of cash	-	-	-	-
Fair value of net assets of entity acquired:				
Property, plant and equipment	5,226	-	-	-
Future income tax benefit	7	-	-	-
Prepayments	333	-	-	-
Trade debtors	427	-	-	-
Bank overdraft	(707)	-	-	-
Trade creditors	(207)	-	-	-
Provision for deferred income tax liability	(157)	-	-	-
Borrowings	(5,476)	-	-	-
	(554)	-	-	-
Goodwill on acquisition	554	-	-	-
Consideration (cash)	-	-	-	-

\*Soul Pattinson Telecommunications Pty Limited was acquired on 1<sup>st</sup> August 2000, for \$2, and the operating results of the entity from that date have been included in consolidated operating profit. The entity is a licensed telecommunications carrier.

Kooee Communications Pty Limited was acquired on 20<sup>th</sup> July 2000, for \$2, and the operating results from that date have been included in consolidated operating profit. The entity's main activities are the provision of telecommunication services.

**SP Telecommunications Limited and its Controlled Entities**  
**Notes to the financial statements**

**Note 25. Contingent Liabilities**

	Consolidated		Company	
	2001	2000	2001	2000
	\$'000	\$'000	\$'000	\$'000
Litigation				
<p>A Supreme court summons was issued in August 2001 seeking payment for equipment purchases, in respect of Soul Pattinson Telecommunications Pty Limited.</p> <p>The company is defending the action, and has lodged a cross claim.</p> <p>The directors are of the opinion, based on legal advice, that no provision is required.</p>				
Amount claimed:	2,600	-	-	-
Total estimated contingent liabilities	<u>2,600</u>	<u>-</u>	<u>-</u>	<u>-</u>

**Note 26. Economic dependency**

A controlled entity, Kooee Communications Pty Limited, is dependent upon telecommunication services rendered by Primus Telecommunications Pty Limited pursuant to a virtual service provider agreement, which is due to expire on 31<sup>st</sup> July 2003.

**SP Telecommunications Limited and its Controlled Entities**  
**Notes to the financial statements**

**Note 27. Notes to the statements of cash flows**

Consolidated		Company	
2001	2000	2001	2000
\$'000	\$'000	\$'000	\$'000

*(a) Reconciliation of cash*

For the purposes of the statement of cash flows, cash includes cash on hand and at bank. Cash as at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

Cash assets	<b>13,523</b>	-	<b>13,843</b>	-
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*(b) Reconciliation of profit/(loss) from ordinary activities after income tax to net cash provided by operating activities*

Profit/(loss) from ordinary activities after income tax	<b>(1,283)</b>	-	<b>47</b>	-
Add/(less) non-cash items:				
Depreciation	<b>628</b>	-	-	-
Goodwill on consolidation – written off	<b>554</b>	-	-	-
(Decrease)/increase in income taxes payable	<b>9</b>	-	-	-
(Decrease)/increase in deferred taxes payable	<b>(150)</b>	-	-	-
Net cash used by operating activities before changes in assets and liabilities	<b>(242)</b>	-	-	-
Change in assets and liabilities adjusted for effects of purchase of controlled entities during the financial year:				
(Increase) in inventories	<b>(37)</b>	-	-	-
(Increase) in prepayments	<b>(56)</b>	-	<b>(10)</b>	-
(Increase) in trade debtors	<b>(1,409)</b>	-	<b>(89)</b>	-
Increase in loans from controlled entities	<b>-</b>	-	<b>65</b>	-
Increase in accounts payable	<b>1,181</b>	-	<b>198</b>	-
Increase in provisions	<b>1,291</b>	-	-	-
Net cash provided by operating activities	<b>728</b>	-	<b>211</b>	-

**SP Telecommunications Limited and its Controlled Entities**  
**Notes to the financial statements**

**Note 28. Earnings per share**

	Consolidated	
	Cents	Cents
Basic earnings per share	(0.03)	-
Diluted earnings per share	(0.03)	-

	Number	Number
<b>Weighted average number of shares used as the denominator</b>		
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	<u>41,921,072</u>	-
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	<u>43,770,882</u>	-

	\$'000	\$'000
<b>Reconciliations of earnings used in calculating earnings per share</b>		
Basic earnings per share		
Net loss	(1,283)	-
Earnings used in calculating basic earnings per share	<u>(1,283)</u>	-
Diluted earnings per share		
Net loss	(1,283)	-
Earnings used in calculating diluted earnings per share	<u>(1,283)</u>	-

**Information concerning the classification of securities**

**(a) Options**

Options granted to share holders under the SP Telecommunications Limited Option Plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share. The options have not been included in the determination of basic earnings per share. Details relating to the options are set out in note 15.

## **SP Telecommunications Limited and its Controlled Entities**

### **Directors' declaration**

The directors declare that the financial statements and notes set out on pages 10 to 31.

- (a) comply with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
- (b) give a true and fair view of the company's and consolidated entity's financial position as at and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date.

In the directors' opinion:

- (a) the financial statements and notes are in accordance with the Corporations Act 2001; and
- (b) there are reasonable grounds to believe that the company and the subsidiaries identified in Note 24 will be able to pay their debts as and when they become due and payable.

Dated at Sydney this 27<sup>th</sup> day of September, 2001.

This declaration is made in accordance with a resolution of the directors.

R.D. Millner

M.J. Millner



## **SP Telecommunications Limited and its Controlled Entities**

### **Independent Audit Report to the Members of SP Telecommunications Limited**

#### **Scope**

We have audited the financial report of SP Telecommunications Limited (the Company) for the financial year ended 31<sup>st</sup> July 2001 as set out on pages 10 to 32. The Company's directors are responsible for the financial report which includes the financial statements of the Company and the consolidated financial statements of the consolidated entity comprising the Company and the entities it controlled at the end of or during, the financial year. We have conducted an independent audit of the financial report in order to express an opinion on it to the members of the Company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance as to whether the financial report is free of material misstatement. Our procedures include examination on a test basis, of evidence supporting the amount and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion as to whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards, other mandatory professional reporting requirements and the Corporations Act 2001 in Australia so as to present a view which is consistent with our understanding of the Company's and the consolidated entity's financial position, and performance as represented by the results of their operations and their cash flows.

The audit opinion expressed in this report has been formed on the above basis.

#### **Audit Opinion**

In our opinion, the financial report of the Company is in accordance with:

- a) the Corporations Act 2001, including:
  - i) giving a true and fair view of the Company's and consolidated entity's financial position as at 31<sup>st</sup> July 2001 and of their performance for the financial year ended on that date; and
  - ii) complying with Accounting Standards and the Corporations Regulations 2001; and
- b) other mandatory professional reporting requirements.

PricewaterhouseCoopers  
Chartered Accountants

W M Russell  
Partner

Newcastle,  
28<sup>th</sup> September 2001

## SP Telecommunications Limited and its controlled entities

### Shareholder information

The shareholder information set out below was applicable as at 13<sup>th</sup> September 2001.

#### A. Distribution of equity securities

Analysis of numbers of equity security holders by size of holding:

	Class of equity security	
	Ordinary shares	
	Shares	Options
1 – 1,000	2	839
1,001 – 5,000	88	912
5,001 – 10,000	871	116
10,001 – 100,000	1,109	70
100,001 and over	75	13
	<u>2,145</u>	<u>1,950</u>

There were 27 holders of less than a marketable parcel of ordinary shares.

#### B. Equity security holders

##### *Twenty largest quoted equity security holders*

The names of the twenty largest holders of quoted equity securities are listed below:

Name	Ordinary shares	
	Number held	Percentage of issued shares
Washington H. Soul Pattinson & Company Limited	101,633,678	56.45
RBC Global Services Australia Nominees Pty Limited	6,434,369	3.57
Brickworks Limited	2,100,000	1.17
Sydney Anglican Church Investment Trust	2,000,000	1.11
Farjoy Pty Limited	2,000,000	1.11
Permanent Trustee Australia Limited (FAM0001 A/C)	2,000,000	1.11
SME Equities Pty Limited	2,000,000	1.11
Warren Brick Company Limited	1,650,000	0.92
Choiseul Investments Limited	1,000,000	0.56
Dixson Trust Pty Limited	1,000,000	0.56
Milton Corporation Limited	1,000,000	0.56
Permanent Trustee Company Limited (MAP0001 A/C)	1,000,000	0.56
Chase Manhattan Nominees Limited	962,000	0.53
Smoothdale No. 1 Pty Limited	637,500	0.35
Keith Harris and Company Limited	500,000	0.28
Graeme Lance Robertson	500,000	0.28
National Nominees Limited	427,873	0.24
MCP Scone Pty Limited	400,000	0.22
Guardian Trust Australia Limited	384,000	0.21
Noel Francis Mitchell	380,000	0.21
	<u>128,009,420</u>	<u>71.11</u>

##### *Unquoted equity securities*

	Number on issue	Number of holders
Washington H. Soul Pattinson and Company Limited – Options	10,000,000	1
Options issued under the Employee Share Option Plan to take up ordinary shares	4,000,000	5

## **SP Telecommunications Limited and its controlled entities**

### **Shareholder information**

#### **C. Substantial holders**

Substantial holders in the company are set out below:

	<b>Number held</b>	<b>Percentage</b>
Ordinary shares		
Washington H. Soul Pattinson and Company Limited	101,633,678	56.45

#### **D. Voting rights**

The voting rights attaching to each class of equity securities are set out below:

- (a) Ordinary shares  
On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.
- (b) Options  
No voting rights.

### **STOCK EXCHANGE LISTING**

SP Telecommunications Limited shares are listed on the Australian Stock Exchange and trade under the ASX code SOT.

**SP Telecommunications Limited and its Controlled Entities**  
**ABN 46 093 058 069**

**For the year ended 31 JULY 2001**

**CORPORATE GOVERNANCE STATEMENT**

This statement outlines the Company's main Corporate Governance practices. Unless otherwise stated, all practices were in place for the entire year.

**The Board of Directors**

The Board of Directors is ultimately responsible for the overall Corporate Governance of the economic entity and operates in accordance with the following broad principles: -

- In accordance with the Company's Constitution, the Board should comprise no less than 1 or more than 5 Directors.
- A majority of the Board should be non-executive Directors.
- The Chairman should be a non-executive Director
- The Board should comprise Directors with a broad range of skills and experience.

In order to carry out its duties, the Board meets at least 5 times a year. The Board has established nomination, remuneration and audit committees consisting of non-executive Directors to assist the full Board examining these particular areas. Each committee has its authority delegated to it by the Board.

At all time during the year there was a significant majority of non-executive Directors on the Board. At the date of signing the Director's Report, the Board consisted of four non-executive Directors and one executive Director.

Directors are initially appointed by the full Board, subject to election by shareholders at the next Annual General Meeting. Under the Constitution, one Director shall retire from office each year and submit themselves for re-election by shareholders at the Annual General Meeting.

**Chairman**

The Chairman of the Board is a non-executive Director who is elected by the full Board.

**Executive Director**

The performance of the Executive Director is reviewed reviewed by the nomination committee on an ongoing basis.

**Non-Executive Directors**

The performance of non-executive Directors is reviewed by the Chairman on an ongoing basis. Any Director whose performance is considered unsatisfactory is asked to resign.

**Independent Professional Advice**

In the discharge of their duties and responsibilities, the Directors individually (as well as the Board) have the right to seek independent professional advice at the company's expense. However, for such advice to individual Directors prior to approval of the Chairman is required, which is not to be unreasonably withheld.

**Nomination Committee**

The nomination committee consists of the non-executive Directors.

The main responsibilities of the committee are to periodically review the membership of the Board, having regard for the Company's particular needs, both present and future. Where necessary, advice is sought from independent consultants.

**Remuneration Committee**

The remuneration committee consists of the non-executive Directors. The main responsibility of the committee is to make recommendations to the full Board on remuneration matters and other terms of employment for executive Directors, senior executives and non-executive Directors.

Remuneration of non-executive Directors is determined by the Board within the maximum amount approved by shareholders from time to time.

Further information on Directors' remuneration is set out in Note 18 to the financial statements.

**SP Telecommunications Limited and its Controlled Entities**  
**ABN 46 093 058 069**

**For the year ended 31 JULY 2001**

CORPORATE GOVERNANCE STATEMENT (cont.)

**Audit Committee**

The audit committee consists of the Board of Directors and the Company Secretary.

The main responsibilities of the audit committee are to: -

- Review and report to the Board on the annual report and financial statements.
- Provide assurance to the Board that it is receiving adequate, up to date and reliable information.
- Assist the Board in reviewing the effectiveness of the Company's internal control procedures covering efficiency and reliability of operations, financial reporting and compliance with applicable laws and regulations.
- Assist the Board in reviewing the work of risk management.

It is also the responsibility of the committee to recommend to the Board the appointment, removal and remuneration of the external auditors, to review the terms of their engagement and the scope and quality of the external audit.

The committee meets on a regular basis, usually every two months, and at least annually with the internal and external auditors. The Chief Executive Officer, the Internal Auditor, the Company Secretary and the Financial Controller are invited to attend Audit Committee meetings at the discretion of the Committee.

The internal and external auditors have a clear line of direct communication at any time to the Chairman of the Board.

The Committee has authority, within the scope of its responsibilities, to seek information it requires from any employee or external party and obtain external legal or other independent professional advice.

The Committee reports to the full Board after each committee meeting and relevant papers and minutes are provided to all Directors.

**Risk Assessment and Management**

The Board has in place a number of arrangements and policies to identify and manage areas of significant business risk. These include: -

- Regular detailed financial, budgetary and management reporting.
- Procedures to manage financial and operational risks.
- Established organisational structures, procedures and policies.
- Comprehensive insurance and risk management programs.
- Procedures requiring Board approval for all borrowings, guarantees and capital expenditure beyond minor levels.
- Where applicable, the utilisation of specialised staff and external auditors.

**Ethical Standards**

All Directors, executives, managers and employees are expected to act with integrity and maintain appropriate ethical standards. The Company has policies dealing with the conduct of the Company's affairs including: -

- Professional conduct.
- Standards of workplace behaviour and equal opportunity.
- Compliance with laws and regulations.
- Relationships with customers, suppliers and competitors.
- The environment
- Conflicts of interest.

The standards on trading in company securities prohibit the purchase and sale of securities during certain time periods and when individuals are in possession of price sensitive information.