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SP Telemedia Limited
and its controlled entities
ABN 46 093 058 069

Annual report
31 July 2007

SP Telemedia Limited and its controlled entities

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SP Telemedia Limited and its controlled entities
 Directors' report
 For the year ended 31 July 2007

The directors present their report together with the financial report of SP Telemedia Limited ('the Company') and of the consolidated entity, being the Company and its controlled entities, for the financial year ended 31 July 2007 and the auditor's report thereon.

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SP Telemedia Limited and its controlled entities
 Directors' report (continued)
 For the year ended 31 July 2007

1. Directors

The directors of the Company at any time during or since the end of the financial year are:

**Name, qualifications
 and independence
 status**

Age Experience, special responsibilities and other directorships

RD Millner Chairperson Non-Executive Director	56	Washington H Soul Pattinson Ltd (1984-current), New Hope Corporation Ltd (1995-current), SP Telemedia Ltd (2000-current), Souls Private Equity Ltd (2004-current), Brickworks Ltd (1997-current), Brickworks Investment Company Ltd (2003-current), Australian Pharmaceutical Industries Ltd (2000-current), Milton Corporation Ltd (1998-current), Choiseul Investments Ltd (1995-current), KH Foods Ltd (1994-2004). Member of Remuneration committee.
MJ Millner Deputy Chairperson Non-Executive Director	54	Washington H Soul Pattinson Ltd (1997-current), SP Telemedia Ltd (2000-current), Brickworks Ltd (1998-current), Choiseul Investments Ltd (2001-current), KH Foods Ltd (1997-2006), Ruralco Ltd (2003-2006), Ruralco Holdings Limited (2007-current), Australian Food & Fibre Ltd (2000-2004). Member of Remuneration and Audit committees.
PR Robinson Non-Executive Director B Comm	55	Washington H Soul Pattinson Ltd (1984-current), SP Telemedia Ltd (2000-current), KH Foods Ltd (1997-2006), New Hope Corporation Ltd (1997-current), Clover Corporation Ltd (1997-current), Australian Pharmaceutical Industries Ltd (2000-current). Member of Remuneration and Audit committees.
DJ Fairfull Non-Executive Director B Comm CPA ACIS ASIA	65	Washington H Soul Pattinson Ltd (1997-current), SP Telemedia Ltd (2000-current), KH Foods Ltd (1997-2004), New Hope Corporation Ltd (1997-current), Clover Corporation Ltd (2002-2004), Australian Pharmaceutical Industries Ltd (2000-2007), Souls Private Equity Ltd (2004-current), Stockland Ltd (1990-2006), Soul Communications Ltd (2005-current), Gazal Corporation Ltd (1987-2004). Member of Remuneration committee.
D Ledbury Non-Executive Director B Bus AICD	57	SP Telemedia Ltd (2000-current), Soul Communications Ltd (2005-current).
WP Cleaves Independent Non-Executive Director Solicitor & Barrister	72	SP Telemedia Ltd (2004-current), Soul Communications Ltd (2005-current). Chairman of the Audit committee.
A Gordon Non-Executive Director	36	SP Telemedia Ltd (appointed Director 11th August 2006, resigned Director 22 nd March 2007), Executive Chairman of WIN Corporation Pty Ltd, SELECTV Broadcasting Limited (2006-current)

SP Telemedia Limited and its controlled entities
 Directors' report (continued)
 For the year ended 31 July 2007

2. Company secretary

Mr Nicholas Dunn holds a Bachelor of Commerce degree from the Australian National University and is a member of the Institute of Chartered Accountants of Australia. Mr Dunn also holds several other company secretary positions within the SP Telemedia Limited group. Mr Dunn was appointed in 2004.

3. Directors' meetings

The number of directors' meetings (including meetings of committees of directors) and number of meetings attended by each of the directors of the Company during the financial year are:

Director	Board Meetings		Audit Committee Meetings		Remuneration Committee Meetings	
	A	B	A	B	A	B
RD Millner	16	16	-	-	1	1
MJ Millner	15	16	2	3	1	1
PR Robinson	14	16	3	3	1	1
DJ Fairfull	16	16	-	-	1	1
D Ledbury	16	16	-	-	-	-
P Cleaves	15	16	2	3	-	-
A Gordon	5	10	-	-	-	-

A – Number of meetings attended

B – Number of meetings held during the time the director held office during the year

4. Subsidiary name change

During the financial year the subsidiary company formerly known as B Digital Limited changed its name to Soul Communications Limited.

SP Telemedia Limited and its controlled entities Directors' report (continued)

For the year ended 31 July 2007

5. Corporate governance statement

The SP Telemedia Limited Board is committed to ensuring its policies and practices reflect good corporate governance and recognises that for the success of the Company an appropriate culture is nurtured and developed throughout all levels of the Company.

This statement outlines the main corporate governance practices in place throughout the financial year, which comply with the ASX Corporate Governance Council Principles of Good Corporate Governance and Best Practices Recommendations (ASX Recommendations), unless otherwise stated.

Areas where the company has not adhered to the ASX recommendations:

- The composition of the board does not comply with the recommendation that a majority of directors be "independent". This is because:
 - Mr R Millner, Mr M Millner, Mr P Robinson and Mr D Fairfull are directors of the company's major shareholder (45.5%) Washington H Soul Pattinson Limited; and
 - Mr D Ledbury was employed as the managing director of the company within the last three years; and

The board does not believe that any of these relationships interferes with the judgement of these directors and that each director brings an independent mind and judgement to the board. Each of the directors is subject to the same retirement by rotation requirements as any other director requiring their continuing appointment to be approved by shareholders.

- The audit committee does not comprise a majority of independent directors. The chairman of the audit committee, Mr W Cleaves is an independent director while the remaining two members, Mr P Robinson and Mr M Millner are both directors of the company's majority shareholder Washington H Soul Pattinson Limited. The board believes that both of these directors bring extensive experience and knowledge to their role on the committee to enable them to properly discharge its functions.

5.1 Board of directors

Role of the board

The board's primary role is the protection and enhancement of long-term shareholder value.

To fulfil this role, the board is responsible for the overall corporate governance of the consolidated entity including formulating its strategic direction, approving and monitoring capital expenditure, setting remuneration, appointing, removing and creating succession policies for directors and senior executives, establishing and monitoring the achievement of management's goals and ensuring the integrity of internal control and management information systems.

It is also responsible for approving and monitoring financial and other reporting.

The board has delegated responsibility for operation and administration of the Company to the Chief Executive Officer and executive management. Responsibilities are delineated by formal authority delegations.

SP Telemedia Limited and its controlled entities
 Directors' report (continued)
 For the year ended 31 July 2007

5.1 Board of directors (continued)

Board processes

To assist in the execution of its responsibilities, the board has established a number of board committees including a Remuneration Committee, and an Audit Committee. These committees have mandates and operating procedures, which are reviewed on a regular basis. The board has also established a framework for the management of the consolidated entity including a system of internal control, a business risk management process and the establishment of appropriate ethical standards.

The full board currently holds monthly scheduled meetings each year, plus strategy meetings and any extraordinary meetings at such other times as may be necessary to address any specific significant matters that may arise.

The agenda for meetings is prepared in conjunction with the chairperson, chief executive officer and company secretary. Standing items include the chief executive officer's report, financial reports, strategic matters, governance and compliance. Submissions are circulated in advance. Executives are regularly involved in board discussions and directors have other opportunities, including visits to business operations, for contact with a wider group of employees.

Independent professional advice and access to company information

Each director has the right of access to all relevant Company information and to the Company's executives and, subject to prior consultation with the chairperson, may seek independent professional advice from a suitably qualified adviser at the consolidated entity's expense. The director must consult with an advisor suitably qualified in the relevant field, and obtain the chairperson's approval of the fee payable for the advice before proceeding with the consultation. A copy of the advice received by the director is made available to all other members of the board.

Composition of the Board

The names of the directors of the Company in office at the date of this report are set out in the Directors' report on page 4 of this report. The composition of the board is determined using the following principles:

- a minimum of six directors, with a broad range of expertise both nationally and internationally
- a majority of directors having extensive knowledge of the Company's industries, and those which do not, have extensive expertise in significant aspects of auditing and financial reporting, or risk management of large companies
- enough directors to serve on various committees without overburdening the directors or making it difficult for them to fully discharge their responsibilities

An independent director is a director who is not a member of management (a non-executive director) and who:

- holds less than five per cent of the voting shares of the Company and is not an officer of, or otherwise associated, directly or indirectly, with a shareholder of more than five per cent of the voting shares of the Company
- has not within the last 3 years been employed in an executive capacity by the Company or another group member, or been a director after ceasing to hold any such employment
- within the last 3 years has not been a principal or employee of a material professional adviser or a material consultant to the Company or another group member
- is not a material supplier or customer of the Company or another group member, or an officer of or otherwise associated, directly or indirectly, with a material supplier or customer
- has no material contractual relationship with the Company or another group member other than as a director of the Company
- is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Company.

SP Telemedia Limited and its controlled entities
Directors' report (continued)
For the year ended 31 July 2007

5.2 Nomination committee

The full board performs the functions of the nomination committee. Given the board comprises six members it was decided that no improvement in the group's corporate governance would be achieved by establishing a separate nomination committee. The whole board carries out the duties that would otherwise be undertaken by a nomination committee. Any relevant issues were dealt with during regular board meetings on an as required basis. Board members who are due to retire under the company's constitution do not take part in the nomination discussions.

5.3 Remuneration committee

The remuneration committee reviews and makes recommendations to the board on remuneration packages and policies applicable to the executive officers and directors themselves of the Company and of other group executives for the consolidated entity. It is also responsible for share option schemes, incentive performance packages, superannuation entitlements, retirement and termination entitlements, fringe benefits policies and professional indemnity and liability insurance policies.

The members of the remuneration committee during the year were:

- R Millner (Chairman)
- M Millner
- P Robinson
- D Fairfull

The Chief Executive Officer is invited to remuneration committee meetings, as required, to discuss senior executives' performance and remuneration packages but does not attend meetings involving matters pertaining to him.

The remuneration committee meets once a year and as required and committee members' attendance record is disclosed in the table of directors' meetings on page 5.

SP Telemedia Limited and its controlled entities
Directors' report (continued)
For the year ended 31 July 2007

5.4 Remuneration report

5.4.1 Principles of compensation - audited

Remuneration of directors and executives is referred to as compensation as defined in AASB 124.

Compensation levels for key management personnel of the consolidated entity are competitively set to attract and retain appropriately qualified and experienced directors and executives. The remuneration committee considers the appropriateness of compensation packages given trends in comparative companies both locally and internationally and the objectives of the consolidated entity's compensation strategy.

The compensation structures explained below are designed to attract suitably qualified candidates, reward the achievement of strategic objectives, and achieve the broader outcome of creation of value for shareholders. The compensation structures take into account:

- the capability and experience of the key management personnel
- the key management personnel's ability to control the consolidated entity's performance
- the consolidated entity's performance
- the amount of incentives within each key management person's compensation.

Compensation packages include a mix of fixed and variable compensation and short-term and long-term performance-based incentives.

In addition to their salaries, the consolidated entity also provides non-cash benefits to its key management personnel.

Fixed compensation

Fixed compensation consists of base compensation (which is calculated on a total cost basis and includes any FBT charges related to employee benefits including motor vehicles), as well as employer contributions to superannuation funds.

Compensation levels are reviewed annually by the remuneration committee through a process that considers individual, segment and overall performance of the consolidated entity.

Performance-linked compensation

Performance linked compensation includes both short-term and long-term incentives and is designed to reward key management personnel for meeting or exceeding their financial and personal objectives. The short-term incentive is provided in the form of cash, while the long-term incentive is provided as ordinary shares of the Company under the rules of the executive bonus share scheme (see note 25 to financial statements). The payment of cash bonuses and shares under the executive bonus share scheme are subject to board discretion.

SP Telemedia Limited and its controlled entities
Directors' report (continued)
For the year ended 31 July 2007

5.4 Remuneration report (continued)

5.4.1 Principles of compensation – audited (continued)

The total performance linked compensation is equal to 1.6% of the consolidated entity's profit before interest expense, income tax, intangible amortisation and certain items as determined by the remuneration committee. This amount is calculated to form an annual bonus pool that is allocated to selected executives at the discretion of the remuneration committee. Half of this bonus pool is paid as a cash bonus to the selected executives while the remaining half must be taken as shares through the bonus share scheme.

The remuneration committee considers that the above performance-linked compensation structure is generating the desired outcome.

Other benefits

Key management personnel can also receive non-cash benefits as part of the terms and conditions of their appointment. Non-cash benefits typically include motor vehicles, and the Company pays fringe benefits tax on these benefits.

Service contracts

The consolidated entity entered into service contracts with Mr M Simmons, Mr J Eather, Ms D Wright and Mr S Legge. The contracts commenced 1 July 2005 and are for a three year period following which their employment will continue on the same terms and conditions until a new contract is negotiated. Following the sale of NBN Enterprises Pty Limited on 9 May 2007, Mr J Eather and Ms D Wright were no longer employed by the consolidated group.

The service contracts are capable of termination with three months notice and the consolidated entity retains the right to terminate the contract immediately by making payment equal to three months pay in lieu of notice other than for gross misconduct. The contracts do not provide for any termination benefits other than statutory entitlements to accrued annual and long service leave together with any superannuation benefits.

Non-executive directors

Total compensation for all non-executive directors, last voted upon by shareholders at the 2004 AGM, is not to exceed \$500,000 per annum. Note that in the following remuneration table the remuneration for Mr D Fairfull, Mr W Cleaves and Mr D Ledbury includes directors' fees from a controlled entity, Soul Communications Limited. Non-executive directors do not receive performance related compensation. Directors' fees cover all main board activities and membership of committees.

SP Telemedia Limited and its controlled entities
 Directors' report (continued)
 For the year ended 31 July 2007

5.4 Remuneration report (continued)

5.4.2 Directors' and executive officers' remuneration (Company and Consolidated) - audited

Details of the nature and amount of each major element of remuneration of each director of the Company, each of the five named Group executives who receive the highest remuneration and other key management personnel are:

		Short-term				Post-employment	Termination benefits \$	Share-based payments	Share-based payments	Total \$	S300A (1)(e)(i) Proportion of remuneration performance related %	S300A (1)(e)(vi) Value of options as proportion of remuneration %
		Salary & fees \$	STI cash bonus \$(A)	Non-monetary benefits \$	Total \$	Superannuation benefits \$		Options \$(B)	Shares \$(B)			
Directors												
Non-executive												
Mr R Millner, Chairman **	2007	70,000	-	-	70,000	6,300	-	-	-	76,300	-	-
	2006	70,000	-	-	70,000	6,300	-	-	-	76,300	-	-
Mr M Millner **	2007	55,000	-	-	55,000	4,950	-	-	-	59,950	-	-
	2006	55,000	-	-	55,000	4,950	-	-	-	59,950	-	-
Mr P Robinson **	2007	45,000	-	-	45,000	4,050	-	-	-	49,050	-	-
	2006	45,000	-	-	45,000	4,050	-	-	-	49,050	-	-
Mr D Fairfull **	2007	113,750	-	-	113,750	10,237	-	-	-	123,987	-	-
	2006	167,749	-	-	167,749	15,097	-	-	-	182,846	-	-
Mr W Cleaves **	2007	94,626	-	-	94,626	8,516	-	-	-	103,142	-	-
	2006	131,685	-	-	131,685	11,852	-	-	-	143,537	-	-
Mr D Ledbury * **	2007	176,230	-	11,002	187,232	16,189	-	-	-	203,421	-	-
	2006	143,768	-	19,400	163,168	12,939	410,042	-	-	586,149	-	-
Mr A Gordon ** (resigned 22 March 2007)	2007	26,250	-	-	26,250	2,363	-	-	-	28,613	-	-
	2006	-	-	-	-	-	-	-	-	-	-	-

* D Ledbury was previously managing director and retired from this position effective 1 August 2005.

SP Telemedia Limited and its controlled entities
 Directors' report (continued)
 For the year ended 31 July 2007

5.4 Remuneration report (continued)

5.4.2 Directors' and executive officers' remuneration (Company and Consolidated) - audited (continued)

Executives		Short-term				Post-employment	Termination benefits \$	Share-based payments	Share-based payments	Total \$	S300A (1)(e)(i) Proportion of remuneration performance related %	S300A (1)(e)(i) Value of options as a proportion of remuneration %
		Salary & fees \$	STI cash bonus \$(A)	Non-monetary benefits \$	Total \$	Superannuation benefits \$		Options \$(B)	Shares \$(B)			
Mr M Simmons	2007	447,824	77,000	41,448	566,272	72,960	-	-	138,733	777,965	27.7%	-
	2006	415,488	80,000	22,789	518,277	69,289	-	-	18,267	605,833	16.2%	-
Mr S Legge	2007	340,237	49,000	14,233	403,470	54,493	-	-	87,583	545,546	25.0%	-
	2006	314,372	50,000	4,548	368,920	50,566	-	-	11,417	430,903	14.3%	-
Ms K Langtry	2007	94,600	-	-	94,600	96,150	-	63,377	-	254,127	-	24.9%
	2006	175,009	-	-	175,009	15,751	-	28,608	-	219,368	-	13.0%
Mr G Savva	2007	270,000	-	-	270,000	24,300	-	18,359	-	312,659	-	5.9%
	2006	282,581	-	-	282,581	24,808	-	8,287	-	315,676	-	2.6%
Mr S Banfield	2007	160,643	22,360	-	183,003	14,458	-	-	-	197,461	11.3%	-
	2006	-	-	-	-	-	-	-	-	-	-	-
Ms M De Ville	2007	183,746	-	-	183,746	45,817	-	-	-	229,563	-	-
	2006	-	-	-	-	-	-	-	-	-	-	-
Former												
Mr S Mitchinson (resigned 12 September 2007)	2007	197,977	3,750	5,511	207,238	17,817	-	69,124	-	294,179	1.3%	23.5%
	2006	183,323	-	-	183,323	16,499	-	31,202	-	231,024	-	13.5%
Ms D Wright (employer subsidiary sold 9 May 2007)	2007	172,950	24,500	26,365	223,815	27,395	-	-	43,792	295,002	23.1%	-
	2006	209,299	25,000	23,992	258,291	32,555	-	-	5,708	296,554	10.4%	-
Mr J Eather (employer subsidiary sold 9 May 2007)	2007	346,450	77,000	28,427	451,877	58,713	693,554	-	138,733	1,342,877	16.1%	-
	2006	418,033	80,000	22,405	520,438	69,304	-	-	18,267	608,009	16.2%	-
Mr W Pye (resigned 14 June 2007)	2007	207,309	-	13,099	220,408	33,865	-	-	-	254,273	-	-
	2006	211,029	2,956	5,458	219,443	37,507	-	-	-	256,950	1.2%	-
Mr P George (resigned 7 February 2006)	2007	-	-	-	-	-	-	-	-	-	-	-
	2006	263,993	-	-	263,993	21,369	-	220,000	-	505,362	-	43.5%
Total compensation: key management personnel (consolidated)	2007	3,002,592	253,610	140,085	3,396,287	498,573	693,554	150,860	408,841	5,148,115		
	2006	3,086,329	237,956	98,592	3,422,877	392,836	410,042	288,097	53,659	4,567,511		
Total compensation: key management personnel (company) **	2007	580,856	-	11,002	591,858	52,605	-	-	-	644,463		
	2006	613,202	-	19,400	632,602	55,188	410,042	-	-	1,097,832		

SP Telemedia Limited and its controlled entities
 Directors' report (continued)
 For the year ended 31 July 2007

5.4 Remuneration report (continued)

Notes in relation to the table of directors' and executive officers remuneration - audited

- A. The short-term incentive bonus paid in the 2007 financial year is for performance during the 31 July 2006 financial year using the criteria set out on page 10, the short-term incentive bonus paid in the 2006 financial year is for performance during the 31 July 2005 financial year.
- B. Mr M Simmons, Mr J Eather, Mr S Legge and Ms D Wright received shares as part of their remuneration under the executive bonus share scheme (EBSS). The fair value of the shares was the market value of the shares purchased under the scheme for the executive. The fair value is allocated to each reporting period evenly over the period from grant date to vesting date subject to certain events which trigger vesting. The sale of NBN Enterprises Pty Limited in the 2007 financial year triggered the vesting of all shares under the EBSS.

Mr M Mitchinson, Mrs K Langtry, Mr G Savva and Mr P George received share options as part of their remuneration under Soul Communications Limited's executive share option plan (ESOP). The fair value of the options is calculated at the date of grant using the Black-Scholes pricing model and allocated to each reporting period evenly over the period from grant date to vesting date subject to certain events which trigger vesting. In valuing the options, market conditions have been taken into account. The full acquisition of Soul Communications Limited during the 2007 financial year triggered all of the options granted under the ESOP to vest.

The following factors and assumptions were used in determining the fair value of options on grant date:

Grant Date	Expiry Date	Fair value per option (B)	Price of shares on grant date	Expected volatility	Risk free interest rate	Exercise price (A)
Mr P George 13 September 2005	30 June 2015	44c	44c	49%	5.1%	-
Other executives 13 September 2005	30 June 2015	40c	40c	49%	5.1%	-

- (A) Any options that are eligible for vesting will require the executive to pay a nominal amount of \$1 each time they exercise any options, regardless of the number exercised.
- (B) The measurement dates for the assessment of the fair values of the options granted was 26th April 2005 for Mr P George and 28th June 2005 for the other executives.

5.4.3 Analysis of bonuses included in remuneration - unaudited

Details of the vesting profile of the long-term incentive share bonuses awarded as remuneration to executives are detailed below.

	Included in remuneration \$	Long term incentive bonus	
		% vested in year (A)	% forfeited in year
Executives			
Mr M Simmons	138,733	100	-
Mr J Eather	138,733	100	-
Mr S Legge	87,583	100	-
Ms D Wright	43,792	100	-

- (A) The sale of NBN Enterprises Pty Limited during the 2007 financial year triggered the vesting of all shares under the EBSS.

SP Telemedia Limited and its controlled entities
 Directors' report (continued)
 For the year ended 31 July 2007

5.4 Remuneration report (continued)

5.4.4 Equity instruments

All options refer to options over ordinary shares of Soul Communications Limited, which are exercisable on a one-for-one basis under the ESOP plan.

5.4.4.1 Options and rights over equity instruments granted as compensation - audited

Details on options over ordinary shares in Soul Communications Limited that were granted as compensation to each key management person during the reporting period and details on options that were vested during the reporting period are as follows:

2007	Number of options granted during 2007		Grant date	Number of options vested during 2007		Fair value per option at grant date (\$)	Exercise price per option \$ (A)	Expiry date
Executives								
Mr S Mitchinson	-	-	-	173,200	-	0.3991	-	30 June 2015
Mrs K Langtry	-	-	-	158,800	-	0.3991	-	30 June 2015
Mr G Savva	-	-	-	46,000	-	0.3991	-	30 June 2015
2006	Number of options granted during 2006		Grant date	Number of options vested during 2006		Fair value per option at grant date (\$)	Exercise price per option \$ (A)	Expiry date
Executives								
Mr S Mitchinson	173,200	13 September 2005	-	-	-	0.3991	-	30 June 2015
Mr P George	1,000,000	13 September 2005	500,000	-	-	0.4400	-	30 June 2015
Mrs K Langtry	158,800	13 September 2005	-	-	-	0.3991	-	30 June 2015
Mr G Savva	46,000	13 September 2005	-	-	-	0.3991	-	30 June 2015

(A) Any options that are eligible for vesting will require the executive to pay a nominal amount of \$1 each time they exercise any options, regardless of the number exercised.

No options have been granted since the end of the financial year. The options were provided at no cost to the recipients.

5.4.4.2 Modification of terms of equity-settled share-based payment transactions - audited

No terms of equity-settled share-based payment transactions (including options and rights granted as compensation to a key management person) have been altered or modified by the issuing entity during the reporting period.

SP Telemedia Limited and its controlled entities
 Directors' report (continued)
 For the year ended 31 July 2007

5.4 Remuneration report (continued)

5.4.4.3 Exercise of options granted as compensation - audited

During the reporting period, the following shares were issued on the exercise of options previously granted as compensation:

	Executives	Number of shares	Amount paid \$/share (A)
2007	Mr S Mitchinson	173,200	-
	Mrs K Langtry	158,800	-
	Mr G Savva	46,000	-
2006	Mr P George	500,000	-

(A) The amount paid on exercise of the options was \$1.

There are no amounts unpaid on the shares issued as a result of the exercise of the options.

5.4.4.4 Analysis of options and rights over equity instruments
 granted as compensation – unaudited

Details of the vesting profile of the options granted as remuneration to each director of the Company and each of the specified executives and relevant group executives is detailed below.

Executives	Options granted		% vested in year (B)	% Forfeited in year (A)	Financial years in which grant vests	Value yet to vest \$	
	Number	Date				Min	Max
Mr P George	1,000,000	13 September 2005	Nil	50%	31 July 2006/07	Nil	Nil
Mr S Mitchinson	173,200	13 September 2005	100%	Nil	31 July 2007	Nil	Nil
Mrs K Langtry	158,800	13 September 2005	100%	Nil	31 July 2007	Nil	Nil
Mr G Savva	46,000	13 September 2005	100%	Nil	31 July 2007	Nil	Nil

(A) On 11 August 2006, Mr P George forfeited his remaining unexercised options.

(B) On the full acquisition of Soul Communications Limited in the 2007 financial year all options under the ESOP vested.

SP Telemedia Limited and its controlled entities
 Directors' report (continued)
 For the year ended 31 July 2007

5.4 Remuneration report (continued)

5.4.4.5 Analysis of movements in options - unaudited

The movement during the reporting period, by value, of options over ordinary shares in the Company held by each Company director and each of the five named Company executives and relevant group executives is detailed below.

	Value of Options			Total option value in year \$
	Granted in year \$ (A)	Exercised in year \$ (B)	Forfeited in year \$ (C)	
Mr P George	-	-	220,000	-
Mr S Mitchinson	-	69,124	-	69,124
Mrs K Langtry	-	63,377	-	63,377
Mr G Savva	-	18,359	-	18,359
	-	150,860	220,000	150,860

- (A) The value of options granted in the year is the fair value of the options calculated at grant date using the Black-Scholes option pricing model. The total value of the options granted is included in the table above.
- (B) The value of options exercised during the year is calculated as the market price of shares of the Company on the Australian Stock Exchange at grant date as the shares issued from the exercise of the options are issued for no consideration.
- (C) On 11 August 2006, Mr P George forfeited his remaining unexercised options.

5.5 Audit committee

The audit committee has a documented charter, approved by the board. All members must be non-executive directors. The Chairperson may not be the Chairperson of the board. The committee advises on the establishment and maintenance of a framework of internal control and appropriate ethical standards for the management of the consolidated entity.

The members of the audit committee during the year were:

- Mr W Cleaves (Chairperson) – Independent Non-Executive
- Mr M Millner
- Mr P Robinson

The internal and external auditors, other directors, the chief executive officer and chief financial officer, are invited to audit committee meetings at the discretion of the committee. The committee met three times during the year and committee members' attendance record is disclosed in the table of directors' meetings on page 5.

SP Telemedia Limited and its controlled entities
Directors' report (continued)
For the year ended 31 July 2007

5.5 Audit committee (continued)

The Chief Executive Officer and the Chief Financial Officer declared in writing to the board that the financial records of the Company for the financial year have been properly maintained, the Company's financial reports for the financial year ended 31 July 2007 comply with accounting standards and present a true and fair view of the Company's financial condition and operational results. This statement is required annually.

The external auditor met with the audit committee and the board of directors three times during the year.

The responsibilities of the audit committee include:

- reviewing the annual, half-year and other financial information distributed externally.
- assessing corporate risk assessment processes
- assessing the performance and objectivity of the internal audit function
- assessing whether non-audit services provided by the external auditor are consistent with maintaining the external auditor's independence. Each reporting period the external auditor provides an independence declaration in relation to the audit or review
- providing advice to the board in respect of whether the provision of the non-audit services by the external auditor is compatible with the general standard of independence of auditors imposed by the Corporations Act 2001
- assessing the adequacy of the internal control framework and the Company's code of ethical standards
- organising, reviewing and reporting on any special reviews or investigations deemed necessary by the board
- monitoring the procedures to ensure compliance with the Corporations Act 2001 and the ASX Listing Rules and all other regulatory requirements
- addressing any matters outstanding with auditors, Australian Taxation Office, Australian Securities and Investments Commission, ASX and financial institutions.

The audit committee reviews the performance of the external auditors on an annual basis and normally meets with them during the year to:

- discuss the external audit and internal audit plans, identifying any significant changes in structure, operations, internal controls or accounting policies likely to impact the financial statements and to review the fees proposed for the audit work to be performed
- review the half-year and preliminary final report prior to lodgement with the ASX, and any significant adjustments required as a result of the auditor's findings, and to recommend board approval of these documents, prior to announcement of results
- review the draft annual and half-year financial report, and recommend board approval of the financial report
- review the results and findings of the auditor, the adequacy of accounting and financial controls, and to monitor the implementation of any recommendations made.

SP Telemedia Limited and its controlled entities
Directors' report (continued)
For the year ended 31 July 2007

5.6 Risk management

Oversight of the risk management system

The board oversees the establishment, implementation and annual review of the Company's Risk Management System. Management has established and implemented the Risk Management System for assessing, monitoring and managing operational, financial reporting, and compliance risks for the consolidated entity. The Chief Executive Officer and the Chief Financial Officer have declared, in writing to the board, that the financial reporting risk management and associated compliance and controls have been assessed and found to be operating efficiently and effectively. The operational and other risk management compliance and controls have also been assessed and found to be operating efficiently and effectively. All risk assessments covered the whole financial year and the period up to the signing of the annual financial report for all material operations in the consolidated entity, and material associates and joint ventures.

Risk management and compliance and control

The consolidated entity strives to ensure that its products and services are of the highest standard.

The board is responsible for the overall internal control framework, but recognises that no cost-effective internal control system will preclude all errors and irregularities.

Comprehensive practices have been established to ensure:

- capital expenditure and revenue commitments above a certain size obtain prior board approval
- financial exposures are controlled
- occupational health and safety standards and management systems are monitored and reviewed to achieve high standards of performance and compliance with regulations
- business transactions are properly authorised and executed
- the quality and integrity of personnel
- financial reporting accuracy and compliance with the financial reporting regulatory framework (see page 19)
- environmental regulation compliance (see page 19)

SP Telemedia Limited and its controlled entities
Directors' report (continued)
For the year ended 31 July 2007

5.6 Risk management (continued)

Financial reporting

The Chief Executive Officer and the Chief Financial Officer have declared, in writing to the board that the Company's financial reports are founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board.

Monthly actual results are reported against budgets approved by the directors and revised forecasts for the year are prepared regularly.

Environmental regulation

The consolidated entity's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation. However, the board believes that the consolidated entity has adequate systems in place for the management of its environmental requirements and is not aware of any breach of those environmental regulations as they apply to the consolidated entity.

Internal audit

The internal auditor assists the board in ensuring compliance with internal controls and risk management programs by regularly reviewing the effectiveness of the above-mentioned compliance and control systems. The audit committee is responsible for approving the program of internal audit visits to be conducted each financial year and for the scope of the work to be performed. The audit committee is responsible for recommending to the board the appointment and dismissal of the internal auditor.

5.7 Ethical standards

All directors, managers and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the consolidated entity. Every employee has a nominated supervisor to whom they may refer any issues arising from their employment.

Conflict of interest

Directors must keep the board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. Where the board believes that a significant conflict exists for a director on a board matter, the director concerned does not receive the relevant board papers and is not present at the meeting whilst the item is considered. Details of director related entity transactions with the Company and consolidated entity are set out in note 36 to the financial statements.

SP Telemedia Limited and its controlled entities
 Directors' report (continued)
 For the year ended 31 July 2007

5.7 Ethical standards (continued)

Code of conduct

Trading in general Company securities by directors and employees

Directors and senior executives may acquire shares in the Company, but are prohibited from dealing in Company shares:

- except in the period of six weeks following the release of the Company's half-year and annual results to the Australian Stock Exchange ('ASX'), the annual general meeting or any major announcement
- whilst in possession of price sensitive information not yet released to the market

At times other than those referred to above directors and senior executives must notify the chairman (or two other directors if the chairman is absent or has a conflict of interest in the matter) at least two business days before they trade in the company's shares.

5.8 Communication with shareholders

The board provides shareholders with information using a Continuous Disclosure Policy which includes identifying matters that may have a material effect on the price of the Company's securities, notifying them to the ASX and issuing media releases.

In summary, the Continuous Disclosure Policy operates as follows:

- the Chief Executive Officer, the Chief Financial Officer and the Company secretary are responsible for interpreting the company's policy and where necessary informing the board. The company secretary is responsible for all communications with the ASX. Such matters are advised to the ASX on the day they are discovered
- the annual report is distributed to all shareholders (unless a shareholder has specifically requested not to receive the document)
- the half-yearly report contains summarised financial information and a review of the operations of the consolidated entity during the period. The half-year reviewed financial report is lodged with the Australian Securities and Investments Commission and the ASX
- proposed major changes in the consolidated entity which may impact on share ownership rights are submitted to a vote of shareholders
- analyst and media briefings and general meetings transcripts lodged with the ASX
- the full texts of notices of meetings and associated explanatory material lodged with the ASX
- the external auditor attends the annual general meetings to answer questions concerning the conduct of the audit, the preparation and content of the auditor's report, accounting policies adopted by the Company and the independence of the auditor in relation to the conduct of the audit.

The board encourages full participation of shareholders at the Annual General Meeting, to ensure a high level of accountability and identification with the consolidated entity's strategy and goals. Important issues are presented to the shareholders as single resolutions.

The shareholders are requested to vote on the appointment and aggregate remuneration of directors, the Remuneration report and changes to the Constitution. Copies of the Constitution are available to any shareholder who requests it.

6. Principal activities

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

- Licensed telecommunications carrier in accordance with the Telecommunications Act 1997.
- Sale of retail telecommunication products and services.
- Commercial television station.

SP Telemedia Limited and its controlled entities
Directors' report (continued)
For the year ended 31 July 2007

7. Operating and financial review

SP Telemedia Limited reported a profit after tax attributable to members of the company of \$44.9 million for the year to 31 July 2007, compared with \$8.2 million for FY 2006. This result includes an after-tax profit of \$31.9 million from the sale of the company's NBN media assets at the beginning of May 2007.

Operating profit after tax, including nine months' trading by NBN, was \$13.1 million, compared with \$8.2 million in FY 2006, which included NBN's results for 12 months. NBN's after-tax profit for the nine months to 30 April 2007 was \$6.1 million, \$0.7 million (10.4 per cent) lower than for the nine months to 30 April 2006.

Profit after tax from SP Telemedia's continuing operations, normalised to exclude non recurring significant items and amortisation of intangible assets, increased by 38 per cent to \$12.7 million (FY 2006: \$9.2 million). Normalised earnings before interest, tax, depreciation and amortisation (EBITDA) from continuing operations increased by 39 per cent to \$37.1 million (FY 2006: \$26.7 million).

Operating cash flow for the year was \$43.3 million. Operating cash flow from continuing operations was \$31.9 million. At 31 July 2007, the company had net cash of \$41 million.

The directors have declared a fully franked final dividend of 1.2 cents per share, unchanged from the previous year, payable on 15 November 2007 to shareholders on the register at 11 October 2007. This will bring total dividends for the year to 13.9 cents fully franked (FY 2006: 2.4 cents), including the special dividend of 11.5 cents paid in July following the sale of NBN. The company is continuing to review its capital management options.

The profit increase by our telecommunications operations is a considerable achievement in a very competitive market and demonstrates the value of owning our own infrastructure. Following the sale of NBN, SP Telemedia is focused on increasing traffic on our fully converged video, voice and data IP network, which is one of the most advanced in Australia and the second largest regional access broadband network.

With a strong balance sheet and cash flow, the company is well placed to take advantage of growth opportunities, including any further consolidation of the industry.

We have continued to increase our corporate and government business, winning new contracts in the last six months with a total annualised value of more than \$14 million.

The SOUL consumer mobile customer base, which is one of the largest among Australian resellers, achieved minimal margin reduction in spite of strong competition. Revenue, however, was lower than the previous year as a result of new commission arrangements.

SP Telemedia Limited and its controlled entities
 Directors' report (continued)
 For the year ended 31 July 2007

7. Operating and financial review (continued)

Our other consumer business performed well, highlighting the competitive advantages of our broadband infrastructure and network coverage

We are continuing to expand and upgrade our infrastructure to attract new customers and increase margins and, with new ADSL2+, mobile 3G and SME products to be launched shortly, the company is positioned for further growth.

Under the sale agreement for NBN, SP Telemedia will continue to provide transmission capacity and telecommunications products and services to NBN and will continue to use NBN transmission sites and premises for 15 years.

Results for the year to	31 July 2007 (\$million)	31 July 2006 (\$million)	% increase
Reported results for continuing operations			
Revenue	426.6	413.3	3.2
EBITDA	32.3	14.9	116.8
EBIT	10.8	(6.5)	266.2
NPAT	7.0	0.3	2233.3
Normalised results for continuing operations ¹			
Revenue	426.6	413.3	3.2
EBITDA	37.1	26.7	39.0
EBIT	21.9	17.9	22.3
NPAT	12.7	9.2	38.0
Earnings per share (cents)	3.1	2.6	19.2
Final dividend (fully franked) – cents	1.2	1.2	-
Total ordinary dividends for the year (fully franked) – cents	2.4	2.4	-
Total ordinary and special dividends for the year (fully franked) – cents	13.9	2.4	479.2
¹ Normalised results exclude amortisation of intangible assets and losses from the B Shop business (FY06 & FY07), a tax consolidation benefit (FY07 only), and restructuring costs for B Digital and the cost of employee share options (FY06 only).			

SP Telemedia Limited and its controlled entities
 Directors' report (continued)
 For the year ended 31 July 2007

8. Dividends

Dividends paid or declared by the Company to members since the end of the previous financial year were:

	Cents per share	Total amount \$'000	Franked/ unfranked	Date of payment
Declared and paid during the year 2007				
Special 2007 ordinary	11.5	46,599	Franked	25 July 2007
Interim 2007 ordinary	1.2	4,863	Franked	22 May 2007
Final 2006 ordinary	1.2	<u>4,862</u>	Franked	22 November 2006
Total amount		<u>56,324</u>		

Franked dividends declared as paid during the year were franked at the rate of 30 per cent.

Declared after end of year

After the balance sheet date the directors have declared a fully franked dividend of 1.2 cents per ordinary share payable 15 November 2007.

The financial effect of this dividend has not been brought to account in the financial statements for the year ended 31 July 2007 and will be recognised in subsequent financial reports.

SP Telemedia Limited and its controlled entities
 Directors' report (continued)
 For the year ended 31 July 2007

9. Events subsequent to reporting date

There has not arisen in the interval between the end of the 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 of the Company, to affect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity, in future financial years.

10. Likely developments

Other than the matters discussed, there are no material likely developments for the consolidated entity at the date of this report.

11. Directors' interests

The relevant interest of each director in the shares and options over such instruments issued by the companies within the consolidated entity and other related bodies corporate, as notified by the directors to the Australian Stock Exchange in accordance with S205G(1) of the Corporations Act 2001, at the date of this report is as follows:

	Shares in SP Telemedia Ltd	Shares in Washington H Soul Pattinson and Company Ltd
Mr R Millner	2,095,528	18,791,502
Mr M Millner	2,059,399	18,426,482
Mr P Robinson	123,556	74,210
Mr D Fairfull	144,445	60,000
Mr D Ledbury	178,223	5,000
Mr W Cleaves	49,889	-

12. Share options

Shares issued on exercise of options

During or since the end of the financial year, the Company has not issued ordinary shares as a result of the exercise of options.

SP Telemedia Limited and its controlled entities
Directors' report (continued)
For the year ended 31 July 2007

13. Indemnification and insurance of officers and auditors

Indemnification

The Company has agreed to indemnify all directors and officers of the Company against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as directors of the company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

The Company has also agreed to indemnify all directors and officers of its controlled entities for all liabilities to another person (other than the company or a related body corporate) that may arise from their position, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

Insurance premiums

Since the end of the previous financial year the Company has paid insurance premiums of \$115,965 in respect of directors' and officers' liability and legal expenses' insurance contracts, for current and former directors and officers, including senior executives of the Company and directors, senior executives and secretaries of its controlled entities. The insurance premiums relate to:

- costs and expenses incurred by the relevant officers in defending proceedings, whether civil or criminal and whatever their outcome; and
- other liabilities that may arise from their position, with the exception of conduct involving a wilful breach of duty or improper use of information or position to gain a personal advantage.

The insurance policies outlined above do not contain details of the premiums paid in respect of individual officers of the Company.

14. Non-audit services

During the year KPMG, the Company's auditor, has performed certain other services in addition to their statutory duties.

The board has considered the non-audit services provided during the year by the auditor and in accordance with written advice provided by resolution of the audit committee, is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the audit committee to ensure they do not impact the integrity and objectivity of the auditor; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Details of the amounts paid to the auditor of the Company, KPMG, and its related practices for audit and non-audit services provided during the year are set out in note 8 to the financial statements.

SP Telemedia Limited and its controlled entities
 Directors' report (continued)
 For the year ended 31 July 2007

14. Non-audit services (continued)

Details of the amounts paid to the auditor of the Company, KPMG, and its related practices for audit and non-audit services provided during the year are set out below. In addition, amounts paid to other auditors for the statutory audit have been disclosed:

	Consolidated	
	2007 \$	2006 \$
Audit services:		
Auditors of the Company:		
Audit and review of financial reports (KPMG Australia)	393,721	295,932
Other audit services (KPMG Australia)	115,088	-
	508,809	295,932
Services other than statutory audit:		
Other regulatory audit services		
Telecommunications USO return (KPMG Australia)	10,231	-
Other assurance services		
AIFRS transition services (KPMG Australia)	-	82,000
Other services		
Taxation compliance services (KPMG Australia)	8,119	18,000
Visa applications (KPMG Australia)	8,929	-
Corporate advisory services (KPMG Australia)	60,000	-
Class order preparation (KPMG Australia)	1,500	-
	88,779	100,000

15. Lead auditor's independence declaration

The Lead auditor's independence declaration is set out on page 91 and forms part of the directors' report for financial year ended 31 July 2007.

16. Rounding off

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

This report is made with a resolution of the directors:



R Millner
 Director

Dated at Sydney this 10th day of October 2007.

SP Telemedia Limited and its controlled entities
Income statements
For the year ended 31 July 2007

In thousands of AUD

	Note	Consolidated		The Company	
		2007	2006 Restated*	2007	2006
Revenue		426,568	413,314	-	-
Cost of sales		(297,014)	(299,103)	-	-
Gross profit		129,554	114,211	-	-
Other income	6	4	-	66,456	11,798
Selling & Distribution expenses		(69,718)	(73,104)	-	-
Administrative expenses		(49,051)	(43,690)	(43,620)	(177)
Profit/(loss) from operating activities		10,789	(2,583)	22,836	11,621
Financial income	9	4,163	3,051	2,545	1,780
Financial expenses	9	(7,106)	(2,256)	(6,409)	(702)
Net financing (costs)/income		(2,943)	795	(3,864)	1,078
Share of loss of associates	18	-	(3,905)	-	-
Profit/(loss) before tax		7,846	(5,693)	18,972	12,699
Income tax (expense)/benefit	10	(1,883)	602	(14,341)	(270)
Profit/(loss) from continuing operations after tax for the year		5,963	(5,091)	4,631	12,429
Discontinued operation					
Profit of discontinued operation (net of income tax)	5	37,942	7,852	-	-
Profit for the year		43,905	2,761	4,631	12,429
Attributable to:					
Equity holders of the parent		44,937	8,166	4,631	12,429
Minority interest		(1,032)	(5,405)	-	-
Profit for the year		43,905	2,761	4,631	12,429
Earnings per share for profit attributable to the ordinary equity holders of the Company:					
Basic earnings per share	11	11.1	2.3		
Diluted earnings per share	11	11.1	2.3		
Earnings per share for profit attributable to the ordinary equity holders of the Company from continuing operations:					
Basic earnings per share from continuing operations	11	1.7	0.1		
Diluted earnings per share from continuing operations	11	1.7	0.1		

* see discontinued operation – note 5

The income statements are to be read in conjunction with the notes of the financial statements set out on pages 31 to 87.

SP Telemedia Limited and its controlled entities
 Statements of recognised income and expense
 For the year ended 31 July 2007

In thousands of AUD

	Consolidated		The Company	
	2007	2006	2007	2006
Foreign exchange translation differences	138	(116)	-	-
Revaluation increment on acquisition of controlling interest in associate, formerly equity accounted, recognised in equity	-	1,864	-	-
Net income recognised directly in equity	138	1,748	-	-
Profit for the period	43,905	2,761	4,631	12,429
Total recognised income and expense for the period	44,043	4,509	4,631	12,429
Attributable to:				
Equity holders of the parent	45,031	9,977	4,631	12,429
Minority interest	(988)	(5,468)	-	-
Total recognised income and expense for the period	44,043	4,509	4,631	12,429

Other movements in equity arising from transactions with owners as owners are set out in note 28.

The statements of recognised income and expense are to be read in conjunction with the notes to the financial statements set out on pages 31 to 87.

SP Telemedia Limited and its controlled entities
Balance sheets
As at 31 July 2007

<i>In thousands of AUD</i>	<i>Note</i>	Consolidated		The Company	
		2007	2006	2007	2006
Assets					
Cash and cash equivalents	12	80,654	19,161	69,796	5
Trade and other receivables	13	68,209	94,349	72	5
Inventories	14	2,716	2,614	-	-
Intangible assets	22	29,211	36,690	-	-
Assets held for sale	19	500	500	-	-
Current tax assets	17	308	36	-	15
Prepayments and other assets	15	4,950	5,409	2,359	28
Total current assets		186,548	158,759	72,227	53
Receivables	13	-	440	98,333	75,723
Investments	16	-	47	195,169	310,644
Deferred tax assets	20	-	4,493	8,815	760
Property, plant and equipment	21	120,784	148,796	-	-
Intangible assets	22	66,897	225,289	-	-
Prepayments and other assets	15	5,995	5,337	4,040	-
Total non-current assets		193,676	384,402	306,357	387,127
Total assets		380,224	543,161	378,584	387,180
Liabilities					
Bank overdraft	12	10	6	10	6
Trade and other payables	23	58,091	81,964	1,395	224
Interest-bearing loans and borrowings	24	8,051	40,353	7,500	-
Employee benefits	25	2,772	4,002	-	-
Income tax payable	17	14,727	4,209	14,727	-
Provisions	26	165	224	-	-
Deferred revenue	27	22,995	36,665	-	-
Total current liabilities		106,811	167,423	23,632	230
Interest-bearing loans and borrowings	24	31,087	39,517	35,797	14,240
Deferred tax liabilities	20	1,819	6,273	-	-
Employee benefits	25	1,219	2,580	-	-
Provisions	26	164	1,484	-	2,046
Deferred revenue	27	6,622	7,621	-	-
Total non-current liabilities		40,911	57,475	35,797	16,286
Total liabilities		147,722	224,898	59,429	16,516
Net assets		232,502	318,263	319,155	370,664
Equity					
Issued capital	28	272,837	272,883	272,837	272,883
Reserves	28	(50,627)	1,929	-	(230)
Retained earnings	28	10,292	21,679	46,318	98,011
Total equity attributable to equity holders of the parent		232,502	296,491	319,155	370,664
Minority interest	28	-	21,772	-	-
Total equity	28	232,502	318,263	319,155	370,664

The balance sheets are to be read in conjunction with the notes to the financial statements set out on pages 31 to 87.

SP Telemedia Limited and its controlled entities
 Statements of cash flows
 For the year ended 31 July 2007

<i>In thousands of AUD</i>		Consolidated		The Company		
		Note	2007	2006	2007	2006
Cash flows from operating activities						
			523,283	558,167	-	-
			(479,957)	(529,348)	(1,856)	(59)
			43,326	28,819	(1,856)	(59)
			2,937	2,641	2,135	24
			(6,858)	(3,623)	(5,503)	-
			(9,572)	(9,508)	15	89
		35	29,833	18,329	(5,209)	54
Cash flows from investing activities						
			-	117	-	-
		5	234,191	-	235,928	-
			-	-	-	3,798
			-	(8,119)	-	(8,128)
			(72,949)	-	(73,105)	-
			(30,447)	(13,425)	-	-
			(182)	4,625	-	-
			(699)	(20,109)	-	-
			-	-	7,897	14,093
			129,914	(36,911)	170,720	9,763
Cash flows from financing activities						
			-	243	-	243
			-	(1,590)	-	(1,590)
			114,251	5,000	110,817	-
			(119,711)	(600)	(114,817)	-
			(39,983)	29,079	(35,400)	-
			(696)	(412)	-	-
			4,150	-	-	-
			(56,324)	(12,985)	(56,324)	(8,489)
			(98,313)	18,735	(95,724)	(9,836)
			61,434	153	69,787	(19)
			19,155	19,002	(1)	18
			55	-	-	-
		12	80,644	19,155	69,786	(1)

The statements of cash flows are to be read in conjunction with the notes to the financial statements set out on pages 31 to 87.

SP Telemedia Limited and its controlled entities
Notes to the consolidated financial statements (continued)
For the year ended 31 July 2007

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SP Telemedia Limited and its controlled entities
Notes to the consolidated financial statements
For the year ended 31 July 2007

1. **Reporting entity**

SP Telemedia Limited (the 'Company') is a company domiciled in Australia. The address of the Company's registered office is 11-17 Mosbri Crescent, Newcastle, NSW 2300. The consolidated financial report of the Company for the financial year ended 31 July 2007 comprises the Company and its subsidiaries (together referred to as the 'consolidated entity') and the consolidated entity's interest in associates and jointly controlled entities.

2. **Basis of preparation**

(a) **Statement of compliance**

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ('AASBs') (including Australian Interpretations) adopted by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001. The consolidated financial report of the consolidated entity and the company also complies with the IFRSs and interpretations adopted by the International Accounting Standards Board

The financial statements were approved by the Board of Directors on 10 October 2007.

(b) **Basis of measurement**

The financial report is prepared on the historical cost basis.

(c) **Functional and presentation currency**

These consolidated financial statements are presented in Australian dollars, which is the company's functional currency and the functional currency of the majority of the consolidated entity.

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, all financial information presented in Australian dollars has been rounded off to the nearest thousand dollars, unless otherwise stated.

(d) **Use of estimates and judgements**

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

(e) **Classification of assets and liabilities**

A subsidiary company that operates in the retail telecommunications industry has an operating cycle of 24 months and has classified operating assets and liabilities as current and non current on this basis. Other assets and liabilities are classified based on an operating cycle of 12 months.

SP Telemedia Limited and its controlled entities
Notes to the consolidated financial statements
For the year ended 31 July 2007

3. **Significant accounting policies**

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by Group entities.

The comparative income statement has been re-presented as if an operation discontinued during the current period had been discontinued from the start of the comparative period (see note 5)

(a) **Basis of consolidation**

(i) **Subsidiaries**

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Investments in subsidiaries are carried at the lower of their cost of acquisition or fair value in the Company's financial statements.

(ii) **Associates**

Associates are those entities in which the consolidated entity has significant influence, but not control, over the financial and operating policies. The consolidated financial statements includes the consolidated entity's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the consolidated entity's share of losses exceeds its interest in an associate, the consolidated entity's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the consolidated entity has incurred legal or constructive obligations or made payments on behalf of an associate.

SP Telemedia Limited and its controlled entities
Notes to the consolidated financial statements
For the year ended 31 July 2007

3. **Significant accounting policies (continued)**

(iii) **Transactions eliminated on consolidation**

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

Unrealised gains arising from transactions with associates are eliminated to the extent of the consolidated entity's interest in the entity with adjustments made to the 'Investment in associates' and 'Share of associates net profit' accounts.

Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment. Gains and losses are recognised as the contributed assets are consumed or sold by the associates and jointly controlled entities or, if not consumed or sold by the associate when the consolidated entity's interest in such entities is disposed of.

(iv) **Acquisition of minority interests**

On acquisition of minority interests the consolidated entity recognises the difference between the cost of the acquisition and the carrying value of the minority interests as an equity reserve.

(b) **Foreign currency transactions**

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Australian dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Australian dollars at foreign exchange rates ruling at the dates the fair value was determined.

(c) **Property, plant and equipment**

(i) **Owned assets**

Items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation and impairment losses (see accounting policy h). The cost of self-constructed assets includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads.

SP Telemedia Limited and its controlled entities
Notes to the consolidated financial statements
For the year ended 31 July 2007

3. Significant accounting policies (continued)

(c) Property, plant and equipment (continued)

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

(ii) Leased assets

Leases in terms of which the consolidated entity assumes substantially all the risks and rewards of ownership are classified as finance leases.

(iii) Subsequent costs

The consolidated entity recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the consolidated entity and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

(iv) Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated.

The estimated useful lives in the current and comparative periods are as follows:

- Plant and equipment 2.5-20 years
- Leasehold improvements 8 years
- Leased assets 5-10 years
- Buildings 40 years

The residual value, the useful life and the depreciation method applied to an asset are reassessed at least annually.

SP Telemedia Limited and its controlled entities
Notes to the consolidated financial statements
For the year ended 31 July 2007

3. Significant accounting policies (continued)

(d) Intangible assets

(i) Goodwill

Business combinations

All business combinations are accounted for by applying the purchase method. Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and tested annually for impairment (see accounting policy (h)).

(ii) Television licence

The television licence is stated at cost less accumulated impairment losses (see accounting policy (h)). The television licence is subject to renewal by the Australian Communication and Media Authority. The directors have no reason to believe that the licence will not be renewed. The directors regularly assess the carrying value of the licence to ensure it is not carried at a value greater than its recoverable amount. No amortisation is provided against the licence as the directors believe the licence has an indefinite useful life.

(iii) Capitalised subscriber costs

Capitalised subscriber costs comprising dealer connection commissions, fulfilment costs and sim-cards are recognised as an asset and amortised using the straight line method from the date of initial recognition over the period during which the future economic benefits are expected to be obtained, being the contract period.

(iv) Acquired customer base

On acquisition of a subsidiary, customers of the acquired subsidiary are valued and brought to account as intangible assets. The value given to the customers is the expected future economic benefit expected to be derived from these customers.

(v) Development costs

Operating costs incurred in developing or acquiring income producing assets are recognised as an asset and amortised using the straight line method from the date of initial recognition over the period during which the future economic benefits are expected to be obtained, being the contract period.

SP Telemedia Limited and its controlled entities
Notes to the consolidated financial statements
For the year ended 31 July 2007

3. Significant accounting policies (continued)

(d) Intangible assets (continued)

(vi) Other intangible assets

Other intangible assets that are acquired by the consolidated entity are stated at cost less accumulated amortisation (see below) and impairment losses (see accounting policy h).

Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

(vii) Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

(viii) Amortisation

Amortisation is charged to the income statement on a straight-line basis, unless stated otherwise, over the estimated useful lives of intangible assets unless such lives are indefinite. Goodwill and intangible assets with an indefinite useful life are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives in the current and comparative periods are as follows:

- Goodwill - indefinite life
- Television licence - indefinite life
- Acquired customer base - 4 years based on rate of churn of customers
- Capitalised subscriber costs – 24 months
- Development costs – 2 -20 years

SP Telemedia Limited and its controlled entities
Notes to the consolidated financial statements
For the year ended 31 July 2007

3. **Significant accounting policies (continued)**

(e) Trade and other receivables

(i) Other trade and other receivables

Trade and other receivables are stated at their amortised cost less impairment losses (see accounting policy (h)).

(f) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses

(g) Cash and cash equivalents

Cash and cash equivalents comprise cash balances, short term bills and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the consolidated entity's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(h) Impairment

The carrying amounts of the consolidated entity's assets, inventories (see accounting policy (f) and deferred tax assets (see accounting policy (o)), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated (see accounting policy (h)).

SP Telemedia Limited and its controlled entities
Notes to the consolidated financial statements
For the year ended 31 July 2007

3. **Significant accounting policies (continued)**

(h) Impairment (continued)

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement, unless an asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through profit or loss.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units (group of units) and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

(i) Calculation of recoverable amount

Impairment of receivables is not recognised until objective evidence is available that a loss event has occurred. Significant receivables are individually assessed for impairment. Impairment testing of significant receivables that are not assessed as impaired individually is performed by placing them into portfolios of significant receivables with similar risk profiles and undertaking a collective assessment of impairment. Non-significant receivables are not individually assessed. Instead, impairment testing is performed by placing non-significant receivables in portfolios of similar risk profiles, based on objective evidence from historical experience adjusted for any effects of conditions existing at each balance sheet date.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment

Impairment losses, other than in respect of goodwill, are reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimate used to determine the recoverable amount.

An impairment loss in respect of goodwill is not reversed.

An impairment loss in respect of a receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

SP Telemedia Limited and its controlled entities
Notes to the consolidated financial statements
For the year ended 31 July 2007

3. Significant accounting policies (continued)

(h) Impairment (continued)

(ii) Reversals of impairment (continued)

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(iii) Derecognition of financial assets and liabilities

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired
- the consolidated entity retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party; or
- the consolidated entity has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in profit and loss.

(i) Share capital

(i) Transaction costs

Transaction costs of an equity transaction are accounted for as a deduction from equity, net of any related income tax benefit.

(l) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

SP Telemedia Limited and its controlled entities
Notes to the consolidated financial statements
For the year ended 31 July 2007

3. Significant accounting policies (continued)

(j) **Employee benefits**

(i) **Long-term service benefits**

The consolidated entity's net obligation in respect of long-term service is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates, and is discounted using the rates attached to the Commonwealth Government bonds at the balance sheet date which have maturity dates approximating to the terms of the consolidated entity's obligations.

(ii) **Wages, salaries, annual leave, sick leave and non-monetary benefits**

Liabilities for employee benefits for wages, salaries, annual leave and sick leave that are expected to be settled within 12 months of the reporting date represent present obligations resulting from employees' services provided to reporting date, are calculated at undiscounted amounts based on remuneration wage and salary rates that the consolidated entity expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax. Non-accumulating non-monetary benefits, such as medical care, housing, cars and free or subsidised goods and services, are expensed based on the net marginal cost to the consolidated entity as the benefits are taken by the employees.

(iii) **Executive share option plan**

A subsidiary, Soul Communications Limited offered options under an executive and employee share option plan. The fair value of options granted was recognised as an employee expense with a corresponding increase in equity. The fair value was measured at grant date and spread over the period during which the employees became unconditionally entitled to the options. The fair value of the options granted was measured using the Black-Scholes formula, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense was adjusted to reflect the actual number of share options that vested except where forfeiture was related to market performance hurdles.

(iv) **General employee share plan**

A subsidiary, Soul Communications Limited offered a General Employee Share Plan to eligible employees to acquire shares in Soul Communications Limited for no consideration as a bonus component of their remuneration. The fair value of the shares issued was recognised as an employee expense with a corresponding increase in equity, and was measured based on the volume weighted average share price of the shares in the company on the Australian Stock Exchange over the 5 trading days ending on the day the shares are issued.

(v) **Executive Bonus Share Scheme**

The consolidated entity has in place an Executive Bonus Share Scheme that provides for selected executives to receive ordinary shares in the company. Funds are transferred to a trust which acts as an agent and purchases shares for the benefit of the selected executives. A treasury share reserve is recognised for the funds transferred to the scheme. An employee expense is recognised over the period during which the executives become unconditionally entitled to the shares with a corresponding decrease in the treasury share reserve.

(vi) **Profit share and bonus plan**

A liability is recognised for profit sharing and bonus plans ('Plan') in accordance with the formally Documented Plan. The benefit calculations are documented and determined before signing the financial report.

(vii) **Superannuation**

The company and other controlled entities contribute to several defined contribution superannuation plans. Contributions are recognised as an expense in the income statement on an accruals basis.

SP Telemedia Limited and its controlled entities
Notes to the consolidated financial statements
For the year ended 31 July 2007

3. **Significant accounting policies (continued)**

(k) Provisions

A provision is recognised in the balance sheet when the consolidated entity has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(l) Trade and other payables

Trade and other payables are stated at their amortised cost.

Trade payables are non-interest bearing and are normally settled on 30-60 day terms.

(m) Revenue

(i) Goods sold and services rendered

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

(ii) 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.

Revenue from the sale of equipment and handsets is recognised in the income statement (net of rebates, returns, discounts and other allowances) when the significant risks and rewards of ownership have been transferred to the customer, which is ordinarily when the equipment and handset is delivered to the customer.

Where the sale is settled through instalments, interest revenue is recognised over the contract term, using the effective interest method.

(iii) Rendering of services

Revenue from rendering services is recognised in proportion to the stage of completion of the contract and is only brought to account when it is considered probable that the revenue will be received.

Revenue from the provision of telecommunication services includes access to the mobile network, telephone calls, connection and retention commission and other services. Connection and retention commissions are recognised on a straight-line basis over the specified contract period. These are received at the time of connection or retention of a customer. These are deferred and amortised over the contract term. Airtime and access fee revenues are recognised when the fee in respect of the services is earned.

(iv) Income in advance

Income in advance represents customer access fees invoiced that are not earned at the reporting date. Access fees are normally invoiced to customers one month in advance. This is taken to revenue in the month to which the access fees relate.

SP Telemedia Limited and its controlled entities
Notes to the consolidated financial statements
For the year ended 31 July 2007

3. Significant accounting policies (continued)

(n) Expenses

(i) Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense and spread over the lease term.

(ii) Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(iii) Net financing costs

Net financing costs comprise interest payable on borrowings calculated using the effective interest method, interest receivable on funds invested and foreign exchange gains and losses. Borrowing costs are expensed as incurred and included in net financing costs.

Interest income is recognised in the income statement as it accrues, using the effective interest method. The interest expense component of finance lease payments is recognised in the income statement using the effective interest method.

(o) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

SP Telemedia Limited and its controlled entities
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For the year ended 31 July 2007

3. **Significant accounting policies (continued)**

(o) **Income tax (continued)**

Tax consolidation

The company and its wholly-owned Australian resident entities have formed a tax-consolidated group with effect from 1 August 2006 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is SP Telemedia Limited.

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate taxpayer within group' approach by reference to the carrying amounts of assets and liabilities in the separate financial statements of each entity and the tax values applying under tax consolidation.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the subsidiaries are assumed by the head entity in the tax-consolidated group and are recognised as amounts payable (receivable) to (from) other entities in the tax-consolidated group in conjunction with any tax funding arrangement amounts (refer below). Any difference between these amounts is recognised by the Company as an equity contribution or distribution.

The Company recognises deferred tax assets arising from unused tax losses of the tax-consolidated group to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability is recognised by the head entity only.

Nature of tax funding arrangements and tax sharing arrangements

The head entity, in conjunction with other members of the tax-consolidated group, has entered into a tax funding arrangement which sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts. The tax funding arrangements require payments to/from the head entity equal to the current tax liability (asset) assumed by the head entity and any tax-loss deferred tax asset assumed by the head entity, resulting in the head entity recognising an inter-entity receivable (payable) equal in amount to the tax liability (asset) assumed. The inter-entity receivable (payable) are at call.

Contributions to fund the current tax liabilities are payable as per the tax funding arrangement and reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant tax authorities.

SP Telemedia Limited and its controlled entities
Notes to the consolidated financial statements
For the year ended 31 July 2007

3. **Significant accounting policies (continued)**

(o) **Income tax (continued)**

Nature of tax funding arrangements and tax sharing arrangements (continued)

The head entity in conjunction with other members of the tax-consolidated group, has also entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

(p) **Segment reporting**

A segment is a distinguishable component of the consolidated entity that is engaged either in providing products or services (business segment) which is subject to risks and rewards that are different from those of other segments.

(q) **Goods and services tax**

Revenue, 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 taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part 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 balance sheet.

Cash flows are included in the statement 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.

(r) **Discontinued operation**

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative income statement is restated as if the operation had been discontinued from the start of the comparative period.

(s) **Earnings per share**

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options.

SP Telemedia Limited and its controlled entities
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3. Significant accounting policies (continued)

(t) Accounting estimates and judgements

Management discussed with the Audit Committee the development, selection and disclosure of the consolidated entity's critical accounting policies and estimates and the application of these policies and estimates. The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Key sources of estimation uncertainty

Note 22 contains information about the assumptions and their risk factors relating to goodwill impairment.

Impairment of goodwill and intangibles with indefinite useful lives

The consolidated entity assesses whether goodwill and intangibles with indefinite useful lives are impaired at least annually in accordance with the accounting policy in note 19. These calculations involve an estimation of the recoverable amount of the cash-generating units to which the goodwill and intangibles with indefinite useful lives are allocated.

(u) New standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2007, but have not been applied in preparing this financial report:

AASB 7 Financial Instruments: Disclosures (August 2005) is applicable for annual reporting periods beginning on or after 1 January 2007, and will require additional disclosures with respect to the Group's financial instruments and share capital.

AASB 2005-10 Amendments to Australian Accounting Standards (September 2005) is applicable for annual reporting periods beginning on or after 1 January 2007 and is expected to only impact disclosures contained within the consolidated financial report.

AASB 8 Operating Segments replaces the presentation requirements of segment reporting in AASB 114 *Segment Reporting*. AASB 8 is applicable for annual reporting periods beginning on or after 1 January 2009 and is not expected to have an impact on the financial results of the Company and the Group as the standard is only concerned with disclosures.

AASB 2007-3 Amendments to Australian Accounting Standards is applicable for annual reporting periods beginning on or after 1 January 2009 and must be adopted in conjunction with AASB 8 *Operating Segments*. This standard is only expected to impact disclosures contained within the financial report.

Interpretation 11 AASB 2 Share-based Payment -- Group and Treasury Share Transactions. Interpretation 11 will become mandatory for the Group's 2008 financial report. Interpretation 11 is not expected to have any impact on the financial report. The potential effect of the Interpretation on the Company's financial report has not yet been determined.

- **AASB 2007-1 Amendments to Australian Accounting Standards** is applicable for annual reporting periods beginning on or after 1 March 2007 and is not expected to have any impact on the consolidated financial report. The potential impact on the Company has not yet been determined.

SP Telemedia Limited and its controlled entities
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4. **Segment reporting**

Segment information is presented in respect of the consolidated entity's business segments based on the consolidated entity's management and internal reporting structure.

Inter-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

Business segments

The consolidated entity comprises the following main business segments:

- *Telecommunications* – Licensed telecommunications carrier selling both wholesale and retail products and services.
- *Media* – Operation of a commercial television station including commercial production and outside broadcast facilities.

Geographical segments

The consolidated entity operates predominately in Australia.

SP Telemedia Limited and its controlled entities
Notes to the consolidated financial statements
For the year ended 31 July 2007

4. Segment reporting (continued)

Business segments

	Media (Discontinued)		Telecommunications		Eliminations		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006
<i>In thousands of AUD</i>								
Revenue from external customers:	61,145	79,776	423,913	410,795	-	-	485,058	490,571
Inter-segment revenue	2,931	2,518	2,655	2,519	(5,586)	(5,037)	-	-
Total revenue	64,076	82,294	426,568	413,314	(5,586)	(5,037)	485,058	490,571
Segment result	8,702	13,302	10,789	(2,583)	-	-	19,491	10,719
Profit from operating activities*							19,491	10,719
Net financing costs*							(4,434)	(1,098)
Share of loss of associates							-	(3,905)
Income tax expense*							(3,027)	(2,955)
Profit on sale of media segment (net of tax)							31,875	-
Profit for the period							43,905	2,761
Segment assets	-	165,580	380,936	389,502	-	(11,921)	380,936	543,161
Segment liabilities	-	63,128	148,434	173,691	-	(11,291)	148,434	224,898
Capital expenditure	1,610	4,136	29,399	60,051	-	-	31,009	64,187
Depreciation	3,144	3,226	14,752	10,370	-	-	17,896	13,596
Amortisation of non current intangibles	82	87	7,010	12,564	-	-	7,092	12,651

* These include balances from both continued and discontinued operations.

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5. Discontinued operation

In May 2007, the Consolidated entity sold its entire media segment; the segment was not a discontinued operation or classified as held for sale as at 31 July 2006 and the comparative income statement has been re-presented to show the discontinued operation separately from the continuing operations.

This disposal involved the sale of 100% of the consolidated entity's interest in NBN Enterprises Pty Limited.

Profits attributable to the discontinued operation were as follows:

<i>In thousands of AUD</i>	2007	2006
Results of discontinued operation		
Revenue	64,076	82,294
Expenses	(56,865)	(70,885)
Profit before income tax	7,211	11,409
Income tax expense	(1,144)	(3,557)
Results from operating activities, net of income tax	6,067	7,852
Gain on sale of discontinued operation	47,699	-
Income tax on gain on sale of discontinued operation	(15,824)	-
Gain on sale of discontinued operation after income tax	31,875	-
Profit for the period	37,942	7,852
Basic earnings per share (cents)	9.4	2.2
Diluted earnings per share (cents)	9.4	2.2
Cash flows from discontinued operation		
Amounts not already disclosed in the cash flow statement are as follows:		
Net cash from operating activities	6,240	10,912
Net cash from investing activities	(2,183)	(4,017)
Net cash from financing activities	-	5,000

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5. Discontinued operation (continued)

In thousands of AUD

Effect of the disposal on the financial position of the group

Cash and cash equivalents	(469)
Trade and other receivables	(19,697)
Prepayments	(601)
Investments	(47)
Intangible assets	(151,613)
Property, plant and equipment	(40,533)
Deferred tax assets	(1,249)
Trade and other payables	18,184
Provisions	4,079
Net identifiable assets and liabilities	(191,946)
Total consideration	244,000
Consideration received, satisfied in cash	238,000
Cash disposed of	(469)
Cash inflow	237,531
Transaction costs paid	(3,340)
Net cash inflow	234,191

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6. Other Income

<i>In thousands of AUD</i>	Consolidated		The Company	
	2007	2006 Restated*	2007	2006
Dividends	-	-	-	11,798
Profit on sale of discontinued operation	-	-	66,456	-
Net gain on disposal of non-current assets	4	-	-	-
	4	-	66,456	11,798

7. Expenses

<i>In thousands of AUD</i>	Consolidated		The Company	
	2007	2006 Restated*	2007	2006
Profit before income tax includes the following specific expenses:				
Employee benefits	47,488	41,104	-	-

8. Auditors' remuneration

	Consolidated		The Company	
	2007	2006	2007	2006
Audit services				
Auditors of the Company				
<i>KPMG Australia:</i>				
Audit and review of financial reports	393,721	295,932	-	-
Other audit services	115,088	-	-	-
Other regulatory audit services	10,231	-	-	-
	519,040	295,932	-	-
Other services				
Auditors of the Company				
<i>KPMG Australia</i>				
Other assurance services	70,429	82,000	-	-
Taxation	8,119	18,000	-	-
	78,548	100,000	-	-

9. Net financing costs

<i>In thousands of AUD</i>	Consolidated		The Company	
	2007	2006 Restated*	2007	2006
Interest income	4,163	3,051	2,545	1,780
Interest expense	(6,658)	(2,256)	(5,961)	(702)
Borrowing costs	(448)	-	(448)	-
Net financing income/(costs)	(2,943)	795	(3,864)	1,078

* See discontinued operations - Note 5

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10 Income tax expense

Recognised in the income statement

<i>In thousands of AUD</i>	<i>Note</i>	Consolidated		The Company	
		2007	2006	2007	2006
Current tax expense					
Current year		4,585	10,251	13,621	-
Adjustments for prior years		(552)	(320)	-	-
		<u>4,033</u>	<u>9,931</u>	<u>13,621</u>	<u>-</u>
Deferred tax expense					
Origination and reversal of temporary differences		(1,006)	(5,493)	(8,056)	270
Tax losses transferred on tax consolidation		-	-	8,776	-
Benefit of tax losses recognised		-	(1,483)	-	-
		<u>(1,006)</u>	<u>(6,976)</u>	<u>720</u>	<u>270</u>
Income tax expense excluding sale of discontinued operation		3,027	2,955	14,341	270
Income tax expense from continuing operations		1,883	(602)	14,341	270
Income tax expense from discontinued operation (excluding tax on gain on sale)	5	1,144	3,557	-	-
		<u>3,027</u>	<u>2,955</u>	<u>14,341</u>	<u>270</u>
Income tax on gain on sale of discontinued operation	5	15,824	-	-	-
Total income tax expense		<u>18,851</u>	<u>2,955</u>	<u>14,341</u>	<u>270</u>

Numerical reconciliation between tax expense and pre-tax net profit

<i>In thousands of AUD</i>	Consolidated		The Company	
	2007	2006	2007	2006
Profit before tax	62,756	5,716	18,972	12,699
Income tax expense/(benefit) using the domestic corporation tax rate of 30% (2006: 30%)	18,827	1,715	5,692	3,810
Increase/(decrease) in income tax expense due to:				
Non-deductible expenses	198	1,550	12,795	-
Rebatable dividends received	-	-	-	(3,540)
Difference in calculating the gain on sale of discontinued operation for accounting and tax purposes	1,634	-	(4,146)	-
Effect of implementation of tax consolidation	(743)	-	-	-
Effect of previously unrecognised temporary differences	(513)	-	-	-
Share of joint venture entities net profit	-	10	-	-
	<u>19,403</u>	<u>3,275</u>	<u>14,341</u>	<u>270</u>
Over provided in prior years	(552)	(320)	-	-
Income tax expense on pre-tax net profit	<u>18,851</u>	<u>2,955</u>	<u>14,341</u>	<u>270</u>

Income tax recognised directly in equity

In the 2007 financial year, the consolidated entity reversed \$204,000 previously recognised in equity in relation to intangible assets (2006: \$799,000 recognised).

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11. Earnings per share

	2007 Cents	2006 Cents
Basic and diluted earnings per share	11.1	2.3
Basic and diluted earnings per share from continuing operations	1.7	0.1
	2007 Number	2006 Number
Weighted average number of shares used in calculating basic and diluted earning per share		
Issued ordinary shares at 1 August	405,208,684	353,367,969
Effect of share options exercised	-	3,846,227
Weighted average number of ordinary shares at 31 July	405,208,684	357,214,196

In thousands of AUD

Reconciliations of net profit attributable to ordinary shareholders used in calculating earnings per share

	2007	2006
Net profit for the year	43,905	2,761
Net loss attributable to outside equity interest	(1,032)	(5,405)
Net profit attributable to ordinary shareholders	44,937	8,166
Net Profit/(loss) for the year from continuing operations	5,963	(5,091)
Net loss attributable to outside equity interest	(1,032)	(5,405)
Net profit attributable to ordinary shareholders from continuing operations	6,995	314

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12. Cash and cash equivalents

In thousands of AUD

Current

	Consolidated		The Company	
	2007	2006	2007	2006
Bank balances	80,650	19,142	69,796	5
Cash	4	19	-	-
Cash and cash equivalents	80,654	19,161	69,796	5
Bank overdraft	(10)	(6)	(10)	(6)
Cash and cash equivalents in the statement of cashflows	80,644	19,155	69,786	(1)

13. Trade and other receivables

In thousands of AUD

Current

	Consolidated		The Company	
	2007	2006	2007	2006
Trade receivables	68,339	77,511	-	-
Less: Impairment losses	(12,641)	(6,151)	-	-
Accrued income	5,477	6,555	5	-
Other receivables	7,034	16,434	67	5
	68,209	94,349	72	5

Non-current

Other receivables	-	6	-	-
Loans to related entities	-	324	-	-
Loans to key management personnel	-	110	-	-
Loans to controlled entities	-	-	98,333	75,723
	-	440	98,333	75,723

14. Inventories

In thousands of AUD

	Consolidated		The Company	
	2007	2006	2007	2006
Handsets, SIMS, accessories and tapes	2,716	2,614	-	-

15. Prepayments and other assets

In thousands of AUD

Current

	Consolidated		The Company	
	2007	2006	2007	2006
Prepayments	4,623	5,400	2,032	28
Other	327	9	327	-
	4,950	5,409	2,359	28

Non-current

Term deposits	-	4,150	-	-
Security deposits	1,955	1,187	-	-
Prepayments	3,833	-	3,833	-
Other	207	-	207	-
	5,995	5,337	4,040	-

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16. **Investments**

In thousands of AUD

Non-current investments

	Consolidated		The Company	
	2007	2006	2007	2006
Investments in subsidiaries	-	-	195,169	310,644
Investments in other corporations	-	47	-	-
	-	47	195,169	310,644

In November 2006, SP Telemedia Limited acquired the minority shareholders' interests in Soul Communications Limited (refer note 34) resulting in an increase in the carrying value of the investment in Soul Communications of \$73.3 million to \$224.1 million.

An estimate of the fair value of the total investment in Soul Communications Limited based on the November 2006 acquisition implied a fair value of approximately \$133.0 million (\$91.0 million less than carrying value). This has been taken as an indicator of impairment and in accordance with AASB 136, the carrying value of the investment has therefore been compared to its recoverable amount. The recoverable amount is the higher of the fair value less cost to sell and the value in use.

In order to calculate value in use, management performed discounted cash flow analysis. The calculation used cash flow projections based on board approved budgeted cash flow for the next 3 years together with a further 2 years of zero growth and a terminal value. A pre-tax discount rate of 11% has been used in discounting the projected cash flows. The calculation resulted in a discounted cash flow of \$181.4 million, \$42.7 million less than the carrying value.

An impairment loss of \$42.7 million has been recognised in the company's administrative expenses in the income statement for the current year.

17. **Current tax assets and liabilities**

The current tax asset for the consolidated entity of \$308,000 (2006: \$36,000) and for the company in 2006 of \$15,000 represents the amount of income tax recoverable in respect of current and prior financial periods that arise from the payment of tax in excess of the amounts due to the relevant tax authority.

The current tax liability for the consolidated entity and the company of \$14,727,000 (2006: \$4,209,000 for the consolidated entity and Nil for the company) represents the amount of income taxes payable in respect of current and prior financial periods.

18. **Investments accounted for using the equity method**

In the financial statements investments in associates are accounted for using the equity method. The consolidated entity did not have any investments in associates during the 2007 financial year but did have investments that it equity accounted during the 2006 financial year. Details of the investments that were equity accounted during the 2006 financial year are as follows:

SP Telemedia Limited and its controlled entities
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18. Investments accounted for using the equity method (continued)

<i>In thousands of AUD</i>	Revenues (100%)	Loss (100%)	Share of associates net profit/(loss) recognised
2006			
SPT Telecommunications Pty Ltd (1)	38,997	(126)	(63)
B Shop Telecommunications Pty Ltd (2)	22,011	(5,429)	(4,183)
Kooee Pty Ltd (1)	19,304	(217)	341
	<u>80,312</u>	<u>(5,772)</u>	<u>(3,905)</u>

(1) The remaining 50 % interest in SPT Telecommunications Pty Ltd and Kooee Pty Ltd were acquired on 30 June 2006. The contributions to net profit for these companies for 2006 shown in the above table are for the 11 months to this date.

(2) On 19 July 2006, the consolidated entity disposed of its 50% shareholding in B Shop Telecommunications Pty Limited (B Shop) for a nominal sum of \$100. The transaction also involved the consolidated entity acquiring the business and certain assets and liabilities of B Shop for the amount of \$200,000. The assets and liabilities of B Shop were recognised at the following fair values:

<i>In thousands of AUD</i>	2006
Assets of B Shop:	
Cash at bank/on hand	112
Security deposits, bonds and sundry debtors	76
Inventory	1,144
Property, plant and equipment	500
	<u>1,832</u>
Liabilities of B Shop:	
Creditors	323
Taxes payable	88
Finance agreements	21
Provisions	416
	<u>848</u>
 Net identifiable assets acquired	 <u>984</u>
 Purchase consideration	
Cash on settlement	200
Loans and advances extinguished	784
	<u>984</u>

In addition to the above, the consolidated entity forgave loans, advances and stock payments owed to it by B Shop amounting to \$7,431,000.

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19. **Assets held for sale**

The assets acquired in the formerly held jointly controlled entity, B Shop Telecommunications Pty Ltd are presented as held for sale. The assets held for sale consist of fit outs, fixtures and fittings for 33 retail stores which are carried at a fair value of \$500,000 in the accounts at 31 July 2007 (2006: \$500,000).

20. **Deferred tax assets and liabilities**

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

Consolidated

In thousands of AUD

	Assets		Liabilities		Net	
	2007	2006	2007	2006	2007	2006
Property, plant and equipment	-	(1,248)	5,413	3,512	5,413	2,264
Intangible assets	-	-	10,141	18,231	10,141	18,231
Investments	-	(380)	-	14	-	(366)
Receivables	(1,385)	(1,159)	4,204	3,652	2,819	2,493
Inventories	-	(50)	-	52	-	2
Interest-bearing loans and borrowings	-	(61)	-	107	-	46
Employee benefits	(1,195)	(1,726)	-	-	(1,195)	(1,726)
Payables	-	(248)	-	-	-	(248)
Provisions	(995)	(750)	-	-	(995)	(750)
Other items	(686)	(640)	-	-	(686)	(640)
Unearned revenue	(5,226)	(9,072)	-	-	(5,226)	(9,072)
Tax value of loss carry-forwards recognised	(8,452)	(8,454)	-	-	(8,452)	(8,454)
Tax (assets) / liabilities	(17,939)	(23,788)	19,758	25,568	1,819	1,780
Set off of tax	17,939	19,295	(17,939)	(19,295)	-	-
Net tax (assets) / liabilities	-	(4,493)	1,819	6,273	1,819	1,780

The Company

In thousands of AUD

	Assets		Liabilities		Net	
	2007	2006	2007	2006	2007	2006
Employee benefits	-	8	-	-	-	8
Tax value of loss carry-forwards recognised	8,452	121	-	-	8,452	121
Equity raising costs	363	631	-	-	363	631
Tax assets	8,815	760	-	-	8,815	760
Set off of tax	-	-	-	-	-	-
Net tax assets	8,815	760	-	-	8,815	760

At 31 July 2007, a deferred tax liability of \$14,853,000 (2006: \$27,648,000) relating to an investment in a subsidiary has not been recognised because the Company controls whether the liability will be incurred and it is satisfied that it will not be incurred in the foreseeable future.

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20. Deferred tax assets and liabilities (continued)
Movement in temporary differences during the year

	Balance 1 August 2005	Recognised in profit or loss	Recognised in equity	Acquired in business combinations	Balance 31 July 2006	Recognised in profit or loss	Recognised in equity	Tax losses transferred on tax consolidation	Included in disposal group [note 5]	Balance 31 July 2007
Consolidated										
Investments	2,083	(2,083)	-	-	-	-	-	-	-	-
Receivables	2,394	(615)	-	714	2,493	214	-	-	112	2,819
Property, plant and equipment	2,498	(234)	-	-	2,264	2,720	-	-	429	5,413
Intangible assets	19,657	(2,676)	799	451	18,231	(7,637)	(204)	-	(249)	10,141
Inventories	35	(33)	-	-	2	55	-	-	(57)	-
Other assets	48	(48)	-	-	-	-	-	-	-	-
Interest bearing loans and borrowings	190	(144)	-	-	46	(46)	-	-	-	-
Payables	(307)	53	-	6	(248)	170	-	-	78	-
Investments	-	(366)	-	-	(366)	380	-	-	(14)	-
Unearned revenue	(8,258)	(814)	-	-	(9,072)	3,846	-	-	-	(5,226)
Provisions	(533)	(217)	-	-	(750)	(257)	-	-	12	(995)
Employee benefits	(1,644)	(120)	-	38	(1,726)	(407)	-	-	938	(1,195)
Other items	(900)	260	-	-	(640)	(46)	-	-	-	(686)
Tax loss carry-forwards	(8,515)	61	-	-	(8,454)	2	-	-	-	(8,452)
	6,748	(6,976)	799	1,209	1,780	(1,006)	(204)	-	1,249	1,819
Company										
Equity raising costs	900	(269)	-	-	631	(268)	-	-	-	363
Other items	-	8	-	-	8	(8)	-	-	-	-
Tax loss carry-forwards	130	(9)	-	-	121	(445)	-	8,776	-	8,452
	1,030	(270)	-	-	760	(720)	-	8,776	-	8,815

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21. Property, plant and equipment

<i>In thousands of AUD</i>	Land	Plant and equipment	Consolidated Leasehold improvements	Leased assets	Buildings	Total
Cost						
Balance at 1 August 2005	5,625	93,109	1,418	793	6,667	107,612
Acquisitions through business combinations	-	49,295	500	-	-	49,795
Additions	-	14,272	83	28	9	14,392
Disposals	-	(593)	-	-	-	(593)
Assets classified as held for resale	-	-	(500)	-	-	(500)
Write-downs and write-offs	-	(869)	(285)	-	-	(1,154)
Balance at 31 July 2006	5,625	155,214	1,216	821	6,676	169,552
Balance at 1 August 2006	5,625	155,214	1,216	821	6,676	169,552
Disposal of discontinued operation	(5,565)	(31,366)	-	-	(6,676)	(43,607)
Additions	-	29,391	-	1,618	-	31,009
Disposals	-	(792)	-	-	-	(792)
Lease payouts	-	789	-	(789)	-	-
Write-downs and write-offs	-	(2,572)	-	-	-	(2,572)
Balance at 31 July 2007	60	150,664	1,216	1,650	-	153,590

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21. **Property, plant and equipment (continued)**

<i>In thousands of AUD</i>	Consolidated					Total
	Land	Plant and equipment	Leasehold improvements	Leased assets	Buildings	
Depreciation and impairment losses						
Balance at 1 August 2005	-	8,088	128	88	147	8,451
Depreciation charge for the year	-	12,888	217	339	152	13,596
Disposals	-	(422)	-	-	-	(422)
Write-downs and write-offs	-	(869)	-	-	-	(869)
Balance at 31 July 2006	-	19,685	345	427	299	20,756
Balance at 1 August 2006	-	19,685	345	427	299	20,756
Depreciation charge for the year	-	17,374	212	197	113	17,896
Disposal of discontinued operation	-	(2,662)	-	-	(412)	(3,074)
Disposals	-	(239)	-	-	-	(239)
Lease payouts	-	516	-	(516)	-	-
Write-downs and write-offs	-	(2,533)	-	-	-	(2,533)
Balance at 31 July 2007	-	32,141	557	108	-	32,806
Carrying amounts						
At 1 August 2005	5,625	85,021	1,290	705	6,520	99,161
At 31 July 2006	5,625	135,529	871	394	6,377	148,796
At 1 August 2006	5,625	135,529	871	394	6,377	148,796
At 31 July 2007	60	118,523	659	1,542	-	120,784

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21. Property, plant and equipment (continued)

Leased plant and machinery

The consolidated entity leases equipment under a number of finance lease agreements. At the end of each of the leases the consolidated entity has the option to purchase the equipment at a beneficial price. At 31 July 2007, the net carrying amount of leased plant and machinery was \$1,542,000 (2005: \$394,000). The leased equipment secures lease obligations (see note 24).

22. Intangible assets

Consolidated

In thousands of AUD

Current

Net capitalised subscriber costs

	2007	2006
Balance 1 August	122,074	99,307
Additions	26,969	22,767
Written-off	(89,186)	-
Balance 31 July	59,856	122,074

Amortisation

Balance 1 August	85,384	62,621
Amortisation	34,447	22,763
Written-off	(89,186)	-
Balance 31 July	30,645	85,384

Carrying amounts

At 1 August	36,690	36,686
At 31 July	29,211	36,690

Consolidated

Non-current

Cost

	Goodwill	Acquired customer base	TV licence	Development costs	Total
Balance at 1 August 2005	56,930	22,023	125,000	636	204,589
Acquisitions through business combinations	30,313	6,318	-	1,119	37,750
Other acquisitions	-	-	-	504	504
Balance 31 July 2006	87,243	28,341	125,000	2,259	242,843
Balance 1 August 2006	87,243	28,341	125,000	2,259	242,843
Acquisitions through business combinations	36	-	-	-	36
Other acquisitions	-	-	-	271	271
Sale of discontinued operation	(25,782)	-	(125,000)	(1,071)	(151,853)
Balance 31 July 2007	61,497	28,341	-	1,459	91,297

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22. Intangible assets (continued)

	Goodwill	Acquired customer base	TV licence	Development costs	Total
Amortisation and Impairment					
Balance at 1 August 2005	-	4,826	-	77	4,903
Amortisation for the year	-	12,519	-	132	12,651
Balance 31 July 2006	-	17,345	-	209	17,554
Balance 1 August 2006	-	17,345	-	209	17,554
Amortisation for the year	-	6,662	-	430	7,092
Sale of discontinued operation	-	-	-	(246)	-
Balance 31 July 2007	-	24,007	-	393	24,400
Carrying amounts					
At 1 August 2005	56,930	17,197	125,000	559	199,686
At 31 July 2006	87,243	10,996	125,000	2,050	225,289
At 1 August 2006	87,243	10,996	125,000	2,050	225,289
At 31 July 2007	61,497	4,334	-	1,066	66,897

Amortisation

The amortisation charge is recognised in the following line items in the income statement:

<i>In thousands of AUD</i>	Consolidated		The Company	
	2007	2006	2007	2006
Cost of sales	34,447	22,763	-	-
Administrative expenses	7,092	12,651	-	-

Impairment tests for cash generating units containing goodwill and the television licence

The following units have significant carrying amounts of goodwill and the television licence:

<i>In thousands of AUD</i>	Consolidated	
	2007	2006
NBN Television		
- Goodwill	-	25,782
- Television licence	-	125,000
SPT Telecommunications - Goodwill	28,906	28,881
Soul Communications Limited - Goodwill	32,591	32,580
	61,497	212,243

The recoverable amount of the goodwill in the Soul Communications cash-generating unit is based on value in use calculations, which use cash flow projections based on the board approved budgeted cashflow for the next 3 years together with a further 2 years of zero growth and a terminal value. A pre-tax discount rate of 11% has been used in discounting the projected cash flows. The key assumptions used in determining the future cashflows were with regard to subscriber numbers, average revenue per user and gross margins. These have been determined by reference to historical trends adjusted for the impact of new agreements.

The recoverable amount of the goodwill in the SPT Telecommunications cash-generating unit is based on value in use calculations, which use cash flow projections based on the board approved budgeted cashflow for the next 3 years together with a further 2 years of zero growth and a terminal value. A pre-tax discount rate of 11% has been used in discounting the projected cash flows. The key assumptions used in determining the future cashflows were with regard to revenue growth and gross margins. These have been determined by reference to historical trends adjusted for expectations from recently completed network builds as well as recent contract wins.

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23. Trade and other payables

<i>In thousands of AUD</i>	Consolidated		The Company	
	2007	2006	2007	2006
Amounts owed to director related entities	-	50	-	-
Other trade payables and accrued expenses	37,460	47,276	216	224
Non-trade payables and accrued expenses	20,631	34,638	1,179	-
	58,091	81,964	1,395	224

24. Interest-bearing loans and borrowings

This note provides information about the contractual terms of the consolidated entity's interest-bearing loans and borrowings. For more information about the consolidated entity's exposure to interest rate and foreign currency risk, see note 26.

<i>In thousands of AUD</i>	Note	Consolidated		The Company	
		2007	2006	2007	2006
Current liabilities					
Current portion of secured bank loans	(i)	7,500	2,300	7,500	-
Finance lease liabilities		551	185	-	-
Loan from parent entity	(ii)	-	29,740	-	-
Unsecured loan		-	8,128	-	-
		8,051	40,353	7,500	-
Non-current liabilities					
Secured bank loans	(i)	30,000	39,500	30,000	-
Finance lease liabilities		1,087	17	-	-
Loans from controlled entities	36	-	-	5,797	14,240
		31,087	39,517	35,797	14,240

- (i) The bank loans are secured by:
- a fixed and floating charge over all of the assets of SP Telemedia Limited, Soul Pattinson Telecommunications Pty limited, SPT Telecommunications Pty Limited and Kooee Mobile Pty limited and
 - a mortgage over the shares in Soul Communications Limited and SPTCom Pty Limited held by SP Telemedia Limited and Soul Pattinson Telecommunications Pty Limited
- (ii) The parent entity loan recorded in the prior year was a loan from the consolidated entity's majority shareholder, Washington H Soul Pattinson Limited. Interest was charged at the current bank bill swap rate plus 0.5 percent. This loan was repaid in November 2006.

SP Telemedia Limited and its controlled entities
Notes to the consolidated financial statements
For the year ended 31 July 2007

24. Interest-bearing loans and borrowings (continued)

Financing facilities

In thousands of AUD

	Consolidated		The Company	
	2007	2006	2007	2006
Secured bank loan facility	90,000	42,850	90,000	-
Equipment finance facility	-	750	-	-
	90,000	43,600	90,000	-
Facilities utilised at reporting date				
Secured bank loan facility	37,500	41,800	37,500	-
Equipment finance facility	-	-	-	-
	37,500	41,800	37,500	-
Facilities not utilised at reporting date				
Secured bank loan facility	52,500	1,050	52,500	-
Equipment finance facility	-	750	-	-
	52,500	1,800	52,500	-

Financing arrangements

Secured bank loan facility

The unused secured bank loan facility may be drawn-down at anytime. The loans are subject to floating interest rates. The \$90 million facility comprises \$77 million that expires on 22 November 2009 and \$13 million that expires on 22 November 2007.

Finance lease liabilities

Finance lease liabilities of the consolidated entity are payable as follows:

	Consolidated					
	Minimum lease payments			Minimum lease payments		
	2007	Interest 2007	Principal 2007	2006	Interest 2006	Principal 2006
<i>In thousands of AUD</i>						
Less than one year	644	(93)	551	191	(6)	185
Between one and five years	1,175	(88)	1,087	17	-	17
	1,819	(181)	1,638	208	(6)	202

Under the terms of the lease agreements, no contingent rents are payable.

SP Telemedia Limited and its controlled entities
Notes to the consolidated financial statements
For the year ended 31 July 2007

25. **Employee benefits**

In thousands of AUD

	Consolidated		The Company	
	2007	2006	2007	2006
Current				
Liability for annual leave	2,772	4,002	-	-
Non Current				
Liability for long-service leave	1,219	2,580	-	-

Share based payments

(i) Executive Share Option Plan

Soul Communications Limited, a subsidiary of SP Telemedia Limited, and its consolidated group had in place an Executive Share Option Plan ("ESOP") to selected executives to receive options to purchase ordinary shares of Soul Communications Limited. The ESOP was established during the financial year ended 31 July 2005.

The ESOP provided for 49 executives to receive options over ordinary shares of Soul Communications Limited. The number of options issued to each executive commensurated with market rates assessed for their respective roles. This was independently assessed as part of the total remuneration package to the executive.

All options were to expire on the earlier of their expiry date or termination of the executive's employment. Options were exercisable earlier than the expiry dates where certain events occur such as where a takeover bid results in a bidder acquiring a relevant interest in more than half of the issue shares in the company or where the executive ceases to be employed for a limited number of reasons (such as death, total disability, redundancy or retirement) or where the board exercises a discretion for an earlier exercise. The acquisition of the remaining shares of Soul Communications Limited by SP Telemedia Limited during the financial year resulted in all options vesting.

There were no voting or dividend rights attached to the options. Voting rights attached to the issued shares when the options have been exercised.

The number of options granted to each executive was conditional on the consolidated entity achieving certain earnings per share (ERPS) performance hurdles.

For the purposes of measuring achievement of the performance hurdles, the EPS of the consolidated entity for the 2005 financial year (excluding goodwill and significant items) was compared to the EPS of the consolidated entity for the 2004 financial year (excluding goodwill and significant items). The percentage growth in EPS between these two periods determined the proportion of the options granted that were eligible for exercise upon satisfaction of the service criteria outlined below. The relevant percentage was calculated on the following basis:

EPS growth between year ended 30 June 2005 and the year ended 30 June 2004	% of options eligible for vesting
Less than 5%	0
Over 5% but less than 10%	30
Over 10% but less than 20%	60
20% or more	100

SP Telemedia Limited and its controlled entities
Notes to the consolidated financial statements
For the year ended 31 July 2007

25. **Employee benefits (continued)**

Once the number of options available under the performance hurdle had been determined, the number that were actually exercisable was determined by reference to the following service hurdles:

- 50% of the options eligible for exercise upon satisfaction of the service hurdle became available for exercise (i.e. vest) on 30 June 2007, provided the executive was still employed by a member of the consolidated entity on that date; and
- the remaining 50% of the options eligible for exercise upon satisfaction of the service hurdle were to become available for exercise on 30 June 2008, provided the executive is still employed by a member of the consolidated entity on that date. The takeover of Soul Communications Limited by SP Telemedia Limited during the financial year resulted in all options becoming exercisable.

Options did not vest until the service criteria have been achieved. Each option was convertible to one ordinary share. As the options were low exercise price options, any options that were eligible for vesting required the executive to pay \$1 for the exercise of options, regardless of the number exercised.

The number and weighted average exercise prices of share options is as follows:

	Weighted	Number	Weighted	Number
	average	of options	average	of options
	exercise		exercise	
	price		price	
<i>In thousands of options</i>	2007	2007	2006	2006
Outstanding at the beginning of the period	-	1,937	-	3,259
Cancelled during the period	-	(592)	-	(587)
Exercised during the period	-	(1,345)	-	(735)
Granted during the period	-	-	-	-
Outstanding at the end of the period	-	-	-	1,937
Exercisable at the end of the period	-	-	-	1,937

The options had an expiry date of 30 June 2015.

The fair value of services received in return for share options granted was measured by reference to the fair value of share options granted. The estimate of the fair value of the services received was measured based on Black-Scholes formula. The contractual life of the option (10 years) was used as an input into this model. Expectations of early exercise was incorporated into the Black-Scholes formula. The table below shows the assumptions used in the fair value modelling. The share options granted to the former managing director of Soul Communications Limited, Mr Peter George are shown separately.

SP Telemedia Limited and its controlled entities
Notes to the consolidated financial statements
For the year ended 31 July 2007

25. Employee benefits (continued)

	Key management personnel 2007	Key management personnel 2006	Peter George 2006
<i>Fair value of share options and assumptions</i>			
Fair value at measurement date per option	0.399	0.399	0.440
Share price (i)	0.399	0.399	0.440
Exercise price (ii)	-	-	-
Expected volatility (expressed as weighted average volatility used in the modelling Black-Scholes formula)	49%	49%	49%
Option life (expressed as weighted average life used in the modelling under Black-Scholes formula)	10	10	10
Risk-free interest rate	5.10%	5.10%	5.10%

- (i) Market share price at grant date
(ii) Any options that were eligible for vesting required the executive to pay \$1 each time they exercised any number of options

The expected volatility was based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information.

Share options were granted under a service condition and, for grants to key management personnel, market and non-market performance conditions. Such conditions were not taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

(ii) Executive Bonus Share Scheme

The consolidated entity has in place an Executive Bonus Share Scheme for selected executives. The scheme was established 6 June 2005. The scheme provides for selected executives to receive ordinary shares in the company. Under the terms of the scheme a bonus pool is established for the selected executives. The annual bonus pool is equal to 1.6% of the consolidated entity's profit before interest expense, income tax, intangible amortisation and significant items. Half of this bonus pool is paid as a cash bonus to the selected executives while the remaining half must be taken as shares through the bonus share scheme.

Under the bonus share scheme the executive receives the voting rights and dividend entitlement to shares purchased under the scheme however they are unable to access the shares until they satisfy the continuity of service criteria. These shares vest to the employee at 20% per annum at the end of each of the following five years, provided they continue to be employed in the consolidated entity. If the employee terminated their employment, they forfeit their entitlement to the unvested shares, except in limited circumstances such as medical reasons, bona fide retirement or termination other than for gross misconduct.

During the year \$229,200 (2006:\$255,000) was paid into the executive bonus share scheme for the benefit of 5 (2006: 9) employees. During the year ended 31 July 2007 \$ 458,700 (2006: \$25,500) was recognised as an expense as a result of all share available under the Executive Bonus Share Scheme vesting on the sale of NBN Enterprises Pty Limited.

SP Telemedia Limited and its controlled entities
Notes to the consolidated financial statements
For the year ended 31 July 2007

26. Provisions

In thousands of AUD

Consolidated	Make good costs	Unexpired airtime	Employee Termination	Customer loyalty program	Television licence	Lease increment	Total
Balance 1 August 2006	165	59	160	-	1,127	197	1,708
Provisions made during the year	-	-	-	100	-	10	110
Provisions used during the year	(100)	(59)	-	-	(53)	-	(212)
Disposed of with discontinued operation	-	-	(160)	-	(1,074)	(43)	(1,277)
Balance 31 July 2007	<u>65</u>	<u>-</u>	<u>-</u>	<u>100</u>	<u>-</u>	<u>164</u>	<u>329</u>
Current	65	-	-	100	-	-	165
Non-current	-	-	-	-	-	164	164
	<u>65</u>	<u>-</u>	<u>-</u>	<u>100</u>	<u>-</u>	<u>164</u>	<u>329</u>

The Company

	Indemnity
Balance 1 August 2006	2,046
Provisions made during the year	-
Provisions used during the year	<u>(2,046)</u>
Balance 31 July 2007	<u>-</u>

Make good costs

The make good costs provision relates to the consolidated entities estimated costs to make good leased premises used for retail telecommunications sales. The provision is based on the estimated cost per leased site using historical costs for sites made good previously.

Unexpired airtime

The provision for unexpired airtime related to contractual commitments to provide future airtime as an incentive to retain customers for a further contract term

Employee termination

The employee termination provision related to a termination payment agreed by the board for the Chief Executive Officer of the media operation.

Customer loyalty program

The customer loyalty provision is for the expected settlement costs of loyalty program obligations.

SP Telemedia Limited and its controlled entities
Notes to the consolidated financial statements
For the year ended 31 July 2007

26. Provisions (continued)

Television licence

The group's media operation has an obligation to pay a licence fee on its television advertising revenue. The licence fee is calculated on a cash basis with a provision made for the licence fees payable on uncollected advertising sales at period end.

Lease increment

Where the consolidated entity has contracted lease agreements that contain incremental lease payments over the term of the lease a provision is recognised for the increased lease payments so that lease expenditure is recognised on a straight line basis over the lease term.

Indemnity

When the company sold its shares in Kooee Communications Pty Limited to Soul Communications Pty Limited in the 2005 financial year the sale agreement included certain indemnities. The company's estimated liability under the indemnity was provided for and actual amount settled in the 2007 financial year.

27. Other liabilities

In thousands of AUD

Current liabilities

Unearned revenue
Income in advance

	Consolidated		The Company	
	2007	2006	2007	2006
Unearned revenue	18,990	33,548	-	-
Income in advance	4,005	3,117	-	-
	<u>22,995</u>	<u>36,665</u>	<u>-</u>	<u>-</u>
Non-current liabilities				
Unearned revenue	6,622	7,621	-	-

Non-current liabilities

Unearned revenue

SP Telemedia Limited and its controlled entities
Notes to the consolidated financial statements
For the year ended 31 July 2007

28. Capital and reserves

Consolidated

In thousands of AUD

	Share capital	Foreign currency reserve	Share option reserve	Treasury share reserve	Revaluation reserve	Minority interest acquisition reserve	Retained earnings	Total	Minority interest	Total equity
Balance at 1 August 2005	235,140	(15)	95	-	-	-	22,001	257,221	37,454	294,675
Total recognised income and expense	-	(53)	-	-	1,864	-	8,166	9,977	(5,468)	4,509
Treasury share reserve arising	-	-	-	(230)	-	-	-	(230)	-	(230)
Movement in share option reserve	-	-	268	-	-	-	-	268	326	594
Additional interest purchased	-	-	-	-	-	-	-	-	(6,045)	(6,045)
Share options exercised	307	-	-	-	-	-	-	307	-	307
Transaction costs	(64)	-	-	-	-	-	-	(64)	-	(64)
Shares issued	37,500	-	-	-	-	-	-	37,500	-	37,500
Dividends to shareholders	-	-	-	-	-	-	(8,488)	(8,488)	(4,495)	(12,983)
Balance at 31 July 2006	272,883	(68)	363	(230)	1,864	-	21,679	296,491	21,772	318,263
Balance at 1 August 2006	272,883	(68)	363	(230)	1,864	-	21,679	296,491	21,772	318,263
Total recognised income and expense	-	94	-	-	-	-	44,937	45,031	(988)	44,043
Reversal of revaluation	-	-	-	-	(475)	-	-	(475)	-	(475)
Movement in treasury share reserve	-	-	-	230	-	-	-	230	-	230
Movement in share option reserve	-	-	77	-	-	-	-	77	88	165
Acquisition of minority interest	-	-	-	-	-	(52,482)	-	(52,482)	(20,872)	(73,354)
Transaction costs	(46)	-	-	-	-	-	-	(46)	-	(46)
Dividends to shareholders	-	-	-	-	-	-	(56,324)	(56,324)	-	(56,324)
Balance at 31 July 2007	272,837	26	440	-	1,389	(52,482)	10,292	232,502	-	232,502

SP Telemedia Limited and its controlled entities
Notes to the consolidated financial statements
For the year ended 31 July 2007

28. Capital and reserves (continued)

Reconciliation of movement in capital and reserves

The Company

In thousands of AUD

	Share capital	Treasury share reserve	Retained earnings	Total equity
Balance at 1 August 2005	235,140	-	94,071	329,211
Total recognised income and expense	-	-	12,429	12,429
Treasury share reserve movement	-	(230)	-	(230)
Share options exercised	307	-	-	307
Transaction costs	(64)	-	-	(64)
Shares issued	37,500	-	-	37,500
Dividends to shareholders	-	-	(8,489)	(8,489)
Balance at 31 July 2006	272,883	(230)	98,011	370,664
Balance at 1 August 2006	272,883	(230)	98,011	370,664
Total recognised income and expense	-	-	4,631	4,631
Treasury share reserve movement	-	230	-	230
Transaction costs	(46)	-	-	(46)
Dividends to shareholders	-	-	(56,324)	(56,324)
Balance at 31 July 2007	272,837	-	46,318	319,155

SP Telemedia Limited and its controlled entities
Notes to the consolidated financial statements
For the year ended 31 July 2007

28. **Capital and reserves (continued)**

Share capital

In thousands of shares

On issue at 1 August	405,208,684
Options exercised	-
Ordinary shares issued as consideration for purchase of 50% of SPT Telecommunications Pty Ltd and 50% of Kooee Pty Ltd	-
On issue at 31 July	405,208,684

**The Company
Ordinary shares**

	2007	2006
	405,208,684	353,367,969
	-	1,840,715
	-	50,000,000
	405,208,684	405,208,684

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

Foreign currency translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations where their functional currency is different to the presentation currency of the reporting entity.

Revaluation reserve

The revaluation reserve relates to the value of contracted customers that was recognised on the consolidation of SPT Telecommunication Pty Ltd. This entity was previously equity accounted and the amount recognised in the reserve reflects 50% of the value of contracted customers.

Treasury share reserve

The treasury share reserve represents the value of shares held by an equity compensation plan that the consolidated entity is required to include in the consolidated financial statements. This reserve will be reversed against share capital when the underlying shares vest in the employee. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the consolidated entity's own equity instruments.

Share option reserve

The share option reserve is used to recognise the fair value of options issued but not exercised.

SP Telemedia Limited and its controlled entities
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28. Capital and reserves (continued)

Minority interest acquisition reserve

The consolidated entity acquired an additional 24,800,000 ordinary shares (3% of the issued ordinary shares) in Soul Communications Limited on 31 October 2005. The effect of this acquisition was the recognition of goodwill of \$1.5 million, an intangible asset for acquired customer base of \$0.9 million and a deferred tax liability of \$0.3 million.

On 25 September 2006 the Company announced a conditional offer to acquire the shares in its controlled entity Soul Communications Limited that it did not already own, at an offer price of 16 cents per share. On 1 November 2006 the bid became unconditional and on 8 November 2006 the Company's relevant interest in Soul Communications Limited exceeded 90% triggering the compulsory acquisition provisions. The final shares were acquired under compulsory acquisition on 22 December 2006.

Prior to announcing the offer the Company held 45.76% of the shares in Soul Communications Limited. As a result of this acquisition, the Net Profit After Tax attributable to Members for the 2007 financial year incorporates 45.76% of B Digital's earnings for the 3 months to 31 October 2006 and 100% of its earnings for the 9 months to 31 July 2007.

The total cost of acquisition of the remaining shares was \$73.3 million, with the surplus of the acquisition price over the minority interest acquired being recognised in equity (rather than being recognised as goodwill), leading to a reduction in the net assets of the consolidated entity of \$52.5 million.

The \$73.3 million cost of acquisition was financed through a bank loan.

SP Telemedia Limited and its controlled entities
Notes to the consolidated financial statements
For the year ended 31 July 2007

28. Capital and reserves (continued)

Dividends

Dividends recognised in the current year by the Company are:

<i>In thousands of AUD</i>	Cents per share	Total amount	Franked / unfranked	Date of payment
2007				
Special 2007 ordinary	11.5	46,599	Franked	25 July 2007
Interim 2007 ordinary	1.2	4,863	Franked	22 May 2007
Final 2006 ordinary	1.2	4,862	Franked	22 November 2006
Total amount		<u>56,324</u>		
2006				
Interim 2006 ordinary	1.2	4,248	Franked	23 May 2006
Final 2005 ordinary	1.2	4,240	Franked	17 November 2005
Total amount		<u>8,488</u>		

Franked dividends declared or paid during the year were franked at the tax rate of 30%.

After the balance sheet date the following dividend was proposed by the directors. The dividends have not been provided. The declaration and subsequent payment of dividends has no income tax consequences.

<i>In thousands of AUD</i>	Cents per share	Total amount	Franked / unfranked	Date of payment
Final ordinary	1.2	4,862	Franked	15 November 2007

The financial effect of these dividends have not been brought to account in the financial statements for the financial year ended 31 July 2007 and will be recognised in subsequent financial reports.

Dividends

	The Company	
	2007	2006
Dividend franking account		
<i>In thousands of AUD</i>		
30 per cent franking credits available to shareholders of SP Telemedia Limited for subsequent financial years	17,022	19,396

The above available amounts are based on the balance of the dividend franking account at year-end adjusted for:

- franking credits that will arise from the payment of the current tax liabilities;
- franking debits that will arise from the payment of dividends recognised as a liability at the year-end;
- franking credits that will arise from the receipt of dividends recognised as receivables by the tax consolidated group at the year-end; and
- franking credits that the entity may be prevented from distributing in subsequent years.

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends. The impact on the dividend franking account of dividends proposed after the balance sheet date but not recognised as a liability is to reduce it by \$2,083,930 (2006: \$2,083,930).

SP Telemedia Limited and its controlled entities
Notes to the consolidated financial statements
For the year ended 31 July 2007

29. Financial instruments

Exposure to credit, interest rate and currency risks arises in the normal course of the company's and consolidated entity's business.

Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The company and the consolidated entity does not require collateral in respect of financial assets.

At the balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

Foreign currency risk

The company and consolidated entity is exposed to foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than the AUD. The currencies giving rise to this risk are New Zealand and United States dollars.

Finance lease liabilities

The fair value is estimated as the present value of future cash flows, discounted at market interest rates for homogeneous lease agreements. The estimated fair values reflect changes in interest rates.

Trade and other receivables / payables

For receivables / payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value. All other receivables / payables are discounted to determine the fair value.

SP Telemedia Limited and its controlled entities
Notes to the consolidated financial statements
For the year ended 31 July 2007

29. Financial instruments (continued)

Effective interest rates and repricing analysis

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice.

Consolidated

<i>In thousands of AUD</i>	Effective interest rate	Total	2007					Effective interest rate	Total	2006				
			6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years			6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Financial assets														
Cash and cash equivalents*	6.35%	80,654	80,654	-	-	-	-	4.38%	19,161	19,161	-	-	-	-
Receivables*	8.00%	699	699	-	-	-	-	10.00%	142	142	-	-	-	-
Financial liabilities														
Bank loans	7.00%	(37,500)	(7,500)	-	-	(30,000)	-	6.83%	(41,806)	(1,006)	(1,000)	(2,000)	(37,800)	-
Loans from related parties	-	-	-	-	-	-	-	7.42%	(37,869)	(37,869)	-	-	-	-
Bank overdraft	7.70%	(10)	(10)	-	-	-	-	7.70%	(6)	(6)	-	-	-	-
Finance lease liabilities*	6.90%	(1,638)	(280)	(271)	(532)	(555)	-	9.76%	(202)	(157)	(29)	(16)	-	-
		42,205	73,563	(271)	(532)	(30,555)	-		(60,580)	(19,735)	(1,029)	(2,016)	(37,800)	-

* These assets / liabilities bear interest at a fixed rate.

Company

<i>In thousands of AUD</i>	Effective interest rate	Total	2007					Effective interest rate	Total	2006				
			6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years			6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Financial assets														
Cash and cash equivalents	6.46%	69,796	69,796	-	-	-	-	2.0%	5	5	-	-	-	-
Financial liabilities														
Loans from related parties	-	-	-	-	-	-	-	6.50%	(14,240)	-	-	-	(14,240)	-
Bank loans	7.00%	(37,500)	(7,500)	-	-	(30,000)	-	-	-	-	-	-	-	-
Bank overdraft	7.70%	(10)	(10)	-	-	-	-	7.70%	(6)	(6)	-	-	-	-
		32,286	62,286	-	-	(30,000)	-		(14,241)	(1)	-	-	(14,240)	-

SP Telemedia Limited and its controlled entities
Notes to the consolidated financial statements
For the year ended 31 July 2007

30. **Operating leases**

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

<i>In thousands of AUD</i>	Consolidated		The Company	
	2007	2006	2007	2006
Less than one year	6,239	6,625	-	-
Between one and five years	11,651	17,981	-	-
More than five years	1,160	5,668	-	-
	<u>19,050</u>	<u>30,274</u>	<u>-</u>	<u>-</u>

31. **Capital and other commitments**

In thousands of AUD

Capital expenditure commitments

Plant and equipment

Contracted but not provided for and payable:

	Consolidated		The Company	
	2007	2006	2007	2006
Within one year	8,659	959	-	-
One year or later and no later than five years	5,307	-	-	-
	<u>13,966</u>	<u>959</u>	<u>-</u>	<u>-</u>

32. **Contingencies**

The directors are of the opinion that provisions are not required in respect of these matters, as it is not probable that a future economic sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

Guarantees

- (i) Under the terms of a Deed of Cross Guarantee a subsidiary has guaranteed the repayment of all current and future creditors in the event any of the entities party to the Deed is wound up. No deficiency in net assets exists in these companies at the reporting date.
- (ii) The Company has guaranteed the bank facilities of certain controlled entities.

Litigation

- (i) The Company is defending and cross claiming against a Breach of Employment by a former employee. No asset or liability has been recognised in respect of this case as, in the opinion of the Directors, the likelihood of significant cash outflows relating to this case is considered remote. In the opinion of the Directors disclosure of any further information about the above matters would be prejudicial to the interest of the Company.
- (ii) The Company is appealing a judgment handed down relating to damages awarded to a former supplier. The former supplier has lodged a cross appeal. No asset or liability has been recognised in respect of this case as, in the opinion of the Directors, the likelihood of significant cash outflows relating to this case is considered remote.

In the opinion of the Directors disclosure of any further information about the above matters would be prejudicial to the interest of the Company

SP Telemedia Limited and its controlled entities
Notes to the consolidated financial statements
For the year ended 31 July 2007

33. Consolidated entities

	Country of Incorporation	Ownership interest	
		2007	2006
Parent entity			
SP Telemedia Limited	Australia		
Subsidiaries			
Soul Pattinson Telecommunications Pty Limited	Australia	100	100
SPT Telecommunications Pty Limited	Australia	100	100
Kooee Communications Pty Limited	Australia	100	46
Kooee Pty Limited	Australia	100	73
NBN Enterprises Pty Limited	Australia	-	100
NBN Limited	Australia	-	100
NBN Investments Pty Limited	Australia	-	100
NBN Holdings Pty Limited (deregistered)	Australia	-	100
NBN Productions Pty Limited	Australia	-	100
SPTCom Pty Limited	Australia	100	73
Kooee Mobile Pty Limited	Australia	100	100
Soul Communications Limited (previously B Digital Limited)	Australia	100	46
B Digital Investments Pty Limited	Australia	100	46
Digiplus Investments Pty Limited	Australia	100	46
Digiplus Holdings Pty Limited	Australia	100	46
Digiplus Pty Limited	Australia	100	46
Digiplus Limited	New Zealand	100	46
Codex Limited	New Zealand	100	46
Digiplus Contracts Pty Limited	Australia	100	46
Blue Call Pty Limited	Australia	100	46

Controlled entities with ownership interest of less than 50 percent have been consolidated on the basis of control of the board of directors.

SP Telemedia Limited and its controlled entities
Notes to the consolidated financial statements
For the year ended 31 July 2007

34. **Acquisitions of subsidiaries**

Acquisition of Equity in SPT Telecommunications Pty Limited and Kooee Pty Limited

On 30 June 2006, the consolidated entity acquired the remaining 50% of the issued share capital of both SPT Telecommunications Pty Limited and Kooee Pty Limited that it did not already own. The consideration for the transaction was a cash payment of \$1,071,429 plus the issue of 50,000,000 ordinary shares in SP Telemedia Limited. The operating results of SPT Telecommunications Pty Limited and Kooee Pty Limited have been included in the consolidated Income Statement since the date of acquisition. Prior to this date the results of both companies was equity accounted and recognised in the Income Statement as Share of Loss from associates. The acquisitions had the following effect on the consolidated entity's assets and liabilities.

SPT Telecommunications Pty Limited's net assets at the acquisition date

<i>In thousands of AUD</i>	Recognised values	Fair value adjustments	Carrying amounts
Property, plant and equipment	49,295	-	49,295
Intangible assets	6,616	5,440	1,176
Current tax assets	801	-	801
Trade and other receivables	9,983	-	9,983
Deferred tax assets	103	-	103
Other assets	3,939	-	3,939
Cash and cash equivalents	1,021	-	1,021
Interest-bearing loans and borrowings	(32,349)	-	(32,349)
Deferred tax liabilities	(1,632)	(1,632)	-
Provisions	(4,944)	-	(4,944)
Trade and other payables	(14,361)	-	(14,361)
Net identifiable assets and liabilities	18,472	3,808	14,664
Previous ownership interest	(9,236)		
	9,236		
Goodwill on acquisition	28,881		
Consideration*	38,117		
Consideration satisfied by issue of shares in parent entity	(36,768)		
Cash acquired	(1,021)		
Net cash outflow	328		

* Includes transaction fees and stamp duty

Kooee Pty Limited's net assets at the acquisition date

<i>In thousands of AUD</i>	Recognised values	Fair value adjustments	Carrying amounts
Trade and other receivables	4,552	-	4,552
Other assets	3	-	3
Cash and cash equivalents	74	-	74
Deferred tax liabilities	(302)	-	(302)
Provisions	(1)	-	(1)
Trade and other payables	(2,807)	-	(2,807)
Net identifiable assets and liabilities	1,519	-	1,519
Previous ownership interest	(760)		
	759		
Goodwill on acquisition	-		
Consideration*	759		
Consideration satisfied by the issue of shares in controlled entity	(732)		
Cash acquired	(74)		
Net cash inflow	47		

* Includes transaction fees and stamp duty

SP Telemedia Limited and its controlled entities
Notes to the consolidated financial statements
For the year ended 31 July 2007

35. Reconciliation of cash flows from operating activities

<i>In thousands of AUD</i>	Consolidated		The Company	
	2007	2006	2007	2006
Cash flows from operating activities				
Profit for the period after income tax	43,905	2,761	47,283	12,429
<i>Adjustments for:</i>				
Depreciation	17,896	13,596	-	-
Amortisation	41,539	35,414	-	-
Bad and doubtful debts	7,475	-	-	-
Unrealised foreign exchange loss	54	-	-	-
Interest income	(4,511)	(3,093)	(2,545)	(1,780)
Interest expense	8,496	4,191	5,960	702
Dividends from controlled entities	-	-	-	(11,798)
Share of profit of associates net of dividends received	-	3,905	-	-
Net gain on sale of discontinued operation, net of tax	(31,875)	-	(50,632)	-
Net gain on sale on non-current assets	(4)	-	-	-
Income tax expense	3,027	2,955	(1,483)	270
Operating profit before changes in working capital and provisions	86,002	59,729	(1,417)	(177)
Changes in operating assets and liabilities adjusted for effects from purchase of controlled entities during the financial year:				
(Increase)/decrease in trade and other receivables	5,288	(8,845)	(67)	159
(Increase)/decrease in inventories	(97)	(610)	-	-
(Increase)/decrease in other assets	1,999	3,748	(523)	2
(Increase)/decrease in intangible assets	(27,477)	(22,763)	-	-
(Decrease)/increase in trade and other payables	(1,332)	(4,614)	151	227
(Decrease)/increase in other liabilities	(18,953)	6,414	-	-
(Decrease)/increase in employee benefits	458	436	-	-
(Decrease)/Increase in provisions	(2,562)	(4,676)	-	(270)
	43,326	28,819	(1,856)	(59)
Interest paid	(6,858)	(3,623)	(5,503)	-
Income taxes refunded/(paid)	(9,572)	(9,508)	15	89
Interest received	2,937	2,641	2,135	24
Net cash from operating activities	29,833	18,329	(5,209)	54

SP Telemedia Limited and its controlled entities
Notes to the consolidated financial statements
For the year ended 31 July 2007

36. **Related parties**

The following were key management personnel of the consolidated entity at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period:

Non-executive directors

Mr Robert Millner, Chairman
Mr Michael Millner
Mr David Fairfull
Mr Peter Robinson
Mr Denis Ledbury
Mr William Cleaves
Mr Andrew Gordon (resigned 22 March 2007)

Executives

Mr Michael Simmons, Chief Executive Officer Telecommunications
Mr Jeff Eather, Chief Executive Officer Media (left consolidated entity when NBN Enterprises Pty Limited was sold 9th May 2007)
Mr Steve Legge, Chief Operating Officer
Mr Steve Mitchinson, General Manager, Consumer Operations
Mr Stephen Banfield, Chief Financial Officer (recognised in key management personnel from 1 August 2006)
Ms Mandie De Ville, Chief Information Officer (recognised in key management personnel from 1 August 2006)
Mrs Karen Langtry, Operations Manager, Consumer Operations
Mr George Savva, General Manager, Consumer Sales
Mr Warwick Pye, Group Sales Manager (resigned 14 June 2007)
Ms Deborah Wright, NBN Station Manager (left consolidated group when NBN Enterprises Pty Limited was sold 9th May 2007)

SP Telemedia Limited and its controlled entities
Notes to the consolidated financial statements
For the year ended 31 July 2007

36. **Related parties (continued)**

Key management personnel compensation

The key management personnel compensation included in 'employee benefits' (see note 7) are as follows:

In AUD	Consolidated		The Company	
	2007	2006	2007	2006
Short-term employee benefits	3,396,287	3,422,877	591,858	632,602
Post-employment benefits	498,573	392,836	52,605	55,188
Termination benefits	693,554	410,042	-	410,042
Equity compensation benefits	559,701	341,756	-	-
	5,148,115	4,567,511	644,463	1,097,832

Individual directors and executives compensation disclosures

Information regarding individual directors and executives compensation is provided in the Remuneration Report section of the Directors' report on pages 9 to 16.

Apart from the details disclosed in this note, 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 existing at year-end.

Loans to key management personnel and their related parties (consolidated)

At the beginning of the financial year Mr J Eather had an interest free loan of \$109,500 in relation to retirement benefits. This loan was recognised in the NBN Television group which was sold during the year and as a result there is no loan owing to the consolidated group as at 31 July 2007.

Other key management personnel transactions with the Company or its controlled entities

From time to time, key management personnel of the Company or its controlled entities, or their related entities, may purchase goods from the consolidated entity. These purchases are on the same terms and conditions as those entered into by other consolidated entity employees or customers and are trivial or domestic in nature.

SP Telemedia Limited and its controlled entities
Notes to the consolidated financial statements
For the year ended 31 July 2007

36. Related parties (continued)

Options holdings

The movement during the reporting period in the number of options over ordinary shares in Soul Communications Limited held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

	Held at 1 August 2006	Granted as compensation	Exercised	Expired	Held at 31 July 2007	Vested during the year	Vested and exercisable at 31 July 2007
Options in Soul Communications Limited							
Executives							
Mr S Mitchinson	173,200	-	173,200	-	-	173,200	-
Mrs K Langtry	158,800	-	158,800	-	-	158,800	-
Mr G Savva	46,000	-	46,000	-	-	46,000	-

	Held at 1 August 2005	Granted as compensation	Exercised	Expired	Held at 31 July 2006	Vested during the year	Vested and exercisable at 31 July 2006
Options in Soul Communications Limited							
Executives							
Mr S Mitchinson	-	173,200	-	-	173,200	-	173,200
Mrs K Langtry	-	158,800	-	-	158,800	-	158,800
Mr G Savva	-	46,000	-	-	46,000	-	46,000

	Held at 1 August 2005	Granted as compensation	Exercised	Expired	Held at 31 July 2006	Vested during the year	Vested and exercisable at 31 July 2006
Options in SP Telemedia Limited							
Directors							
Mr P Robinson	8,000	-	8,000	-	-	-	-
Mr D Fairfull	10,000	-	-	(10,000)	-	-	-
Mr D Ledbury	4,000	-	4,000	-	-	-	-
Mr W Cleaves	2,000	-	2,000	-	-	-	-

SP Telemedia Limited and its controlled entities
Notes to the consolidated financial statements
For the year ended 31 July 2007

36. Related parties (continued)

Movements in shares

The movement during the reporting period in the number of ordinary shares in SP Telemedia Limited and Soul Communications Limited held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

	Held at 1 August 2006	Purchases	Received on exercise of options	Sales	Held at 31 July 2007
Shares in SP Telemedia Limited					
Directors					
Mr R Millner	1,792,411	303,117	-	-	2,095,528
Mr M Millner	1,763,522	295,877	-	-	2,059,399
Mr P Robinson	123,556	-	-	-	123,556
Mr D Fairfull	144,445	-	-	-	144,445
Mr D Ledbury	178,223	-	-	-	178,223
Mr W Cleaves	49,889	-	-	-	49,889

Executives

Mr M Simmons	45,393	-	-	-	45,393
Mr J Eather	108,500	-	-	-	108,500

	Held at 1 August 2005	Purchases	Received on exercise of options	Sales	Held at 31 July 2006
Shares in SP Telemedia Limited					
Directors					
Mr R Millner	1,051,557	740,854	-	-	1,792,411
Mr M Millner	1,022,668	740,854	-	-	1,763,522
Mr P Robinson	115,556	-	8,000	-	123,556
Mr D Fairfull	144,445	-	-	-	144,445
Mr D Ledbury	174,223	-	4,000	-	178,223
Mr W Cleaves	28,889	19,000	2,000	-	49,889

Executives

Mr M Simmons	45,393	-	-	-	45,393
Mr J Eather	108,500	-	-	-	108,500

SP Telemedia Limited and its controlled entities
Notes to the consolidated financial statements
For the year ended 31 July 2007

36. Related parties (continued)

	Held at 1 August 2006	Purchases	Received on exercise of options	Sales	Held at 31 July 2007
Shares in Soul Communications Limited					
Directors					
Mr D Ledbury	50,000	-	-	50,000	-
Mr W Cleaves	15,000	-	-	15,000	-
Executives					
Mr M Simmons	33,000	-	-	33,000	-
Mr J Eather	77,000	-	-	77,000	-
	Held at 1 August 2005	Purchases	Received on exercise of options	Sales	Held at 31 July 2006
Shares in Soul Communications Limited					
Directors					
Mr D Ledbury	50,000	-	-	-	50,000
Mr W Cleaves	15,000	-	-	-	15,000
Executives					
Mr M Simmons	33,000	-	-	-	33,000
Mr J Eather	37,500	39,500	-	-	77,000

No shares were granted to key management personnel during the reporting period as compensation.

SP Telemedia Limited and its controlled entities
Notes to the consolidated financial statements
For the year ended 31 July 2007

36. Related parties (continued)

Identity of related parties

The consolidated entity has a related party relationship with its subsidiaries (see note 30), joint venture (see note 15) and with its key management personnel (see note 33).

Other related party transactions

Subsidiaries

Loans are made by the Company to wholly owned subsidiaries.

During the 2007 financial year, the Company loaned \$27,614,938 (2006: 36,428,822) to one of its subsidiaries Soul Pattinson Telecommunications Pty Limited. Interest is not charged on the loan and there is no fixed date for the loan to be repaid. At 31 July 2007, the amount owed to the Company was \$92,882,665 (2006: \$65,267,727).

During the 2007 financial year, the Company repaid \$14,240,425 and loaned \$27,002,559 to one of its subsidiaries NBN Limited. During the 2006 financial year the company was loaned \$4,118,727 by NBN Limited. Interest was charged on the loan at a weighted average market rate on a monthly basis. The loan was forgiven in full during the year as an agreed condition on sale of the subsidiary. At 31 July 2007, the amount owed by the Company was \$Nil (2006: \$14,240,425).

During the 2007 financial year, the Company received \$5,075,495 from one of its subsidiaries SPTCom Pty Limited as repayment of existing loan. During the 2006 year \$28,881 was loaned to SPTCom Pty Limited. During the 2007 financial year interest was not charged on the loan while interest was charged at 6.5% during the 2006 financial year. There is no fixed date for the balance of the loan to be repaid. At 31 July 2007, the amount owed to the Company was \$1,378,600 (2006: \$6,454,095).

During the 2007 financial year, the Company received \$4,000,000 from one of its subsidiaries NBN Enterprises Pty Limited that was loaned to it in the 2006 financial year. Interest was not charged on the loan and the loan was repaid in full during the year. At 31 July 2007, the amount owed to the Company was \$Nil (2006: \$4,000,000).

During the 2007 financial year, the Company loaned \$4,067,772 to one of its subsidiaries SPT Telecommunications Pty Limited. Interest is not charged on the loan and there is no fixed date for the loan to be repaid. At 31 July 2007, the amount owed to the Company was \$4,067,772 (2006: \$Nil).

During the 2007 financial year, the Company was loaned \$5,796,796 by one of its subsidiaries Soul Communications Limited. Interest is not charged on the loan and there is no fixed date for the loan to be repaid. At 31 July 2007, the amount owed by the Company was \$5,796,796 (2006: \$Nil).

Associates

The Consolidated Entity did not have any equity accounted joint ventures during the 2007 financial year. In the 2006 financial year joint venture entities purchased goods and services from the consolidated entity in the amount of \$4,464,137. Transactions with joint ventures were priced on an arm's length basis. No dividends were received from joint ventures in the 2007 or 2006 financial years.

Parent Entity

During the 2007 financial year, the Consolidated entity repaid a loan of \$29,742,002 to its parent entity Washington H Soul Pattinson Limited. This loan was advanced to the company in the 2006 financial year. Interest was charged on the loan at 6.7%. At 31 July 2007, the amount owed to the Company was \$Nil (2006: \$29,742,002).

SP Telemedia Limited and its controlled entities
Notes to the consolidated financial statements
For the year ended 31 July 2007

37. Subsequent events

There has not arisen in the interval between the end of the 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 of the Company, to affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company, in future financial years.

SP Telemedia Limited and its controlled entities
Directors' declaration
For the year ended 31 July 2007

- 1 In the opinion of the directors of SP Telemedia Limited ('the Company'):
- (a) the financial statements and notes including the remuneration disclosures that are contained in the Remuneration report in the Directors' report, set out on pages 27 to 87, are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position of the Company and the consolidated entity as at 31 July 2007 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and
 - (b) the remuneration disclosures that are contained in the Remuneration report in the Directors' report comply with Australian Accounting Standard AASB 124 *Related Party Disclosures* and ASIC Class Order 06/105 *Calculation of director and executive remuneration*/Corporations Act Regulation 2M.6.04.
 - (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- 2 There are reasonable grounds to believe that the Company and the controlled entities identified in Note 33 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those controlled entities pursuant to ASIC Class Order 98/1418.
- 3 The directors have been given the declarations by the chief executive officer and chief financial officer for the financial year ended 31 July 2007 pursuant to Section 295A of the Corporations Act 2001.

Dated at Sydney this 10th day of October 2007.

Signed in accordance with a resolution of the directors:



R Millner
Director



Independent auditor's report to the members of SP Telemedia Limited

Report on the financial report and AASB 124 remuneration disclosures contained in the directors' report

We have audited the accompanying financial report of SP Telemedia Limited (the Company), which comprises the balance sheets as at 31 July 2007, and the income statements, statements of recognised income and expense and cash flow statements for the year ended on that date, a description of significant accounting policies and other explanatory notes 1 to 37 and the directors' declaration of the Group comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

As permitted by the *Corporations Regulations 2001*, the Company has disclosed information about the remuneration of directors and executives (remuneration disclosures), required by Australian Accounting Standard AASB 124 *Related Party Disclosures*, under the heading "remuneration report" in sections 5.4.1, 5.4.2, 5.4.4.1, 5.4.4.2 and 5.4.4.3 of the directors' report and not in the financial report. We have audited these remuneration disclosures.

Directors' responsibility for the financial report and the AASB 124 remuneration disclosures contained in the directors' report

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 2(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

The directors of the Company are also responsible for the remuneration disclosures contained in the directors' report.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement. Our responsibility is also to express an opinion on the remuneration disclosures contained in the directors' report based on our audit.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report and the remuneration disclosures contained in the directors' report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report and the remuneration disclosures contained in the directors' report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report and the remuneration disclosures contained in the directors' report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates



made by the directors, as well as evaluating the overall presentation of the financial report and the remuneration disclosures contained in the directors' report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards (including the Australian Accounting Interpretations), a view which is consistent with our understanding of the Company's and the Group's financial position and of their performance and whether the remuneration disclosures are in accordance with Australian Accounting Standard AASB 124.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Auditor's opinion on the financial report

In our opinion:

(a) the financial report of SP Telemedia Limited is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Company's and the Group's financial position as at 31 July 2007 and of their performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(a).

Auditor's opinion on AASB 124 remuneration disclosures contained in the directors' report

In our opinion the remuneration disclosures that are contained in sections 5.4.1, 5.4.2, 5.4.4.1, 5.4.4.2 and 5.4.4.3 of the directors' report comply with Australian Accounting Standard AASB 124 *Related Party Disclosures*.

A handwritten version of the KPMG logo, with the letters 'KPMG' in a cursive, stylized font.

KPMG

A handwritten signature in black ink, appearing to read 'Kevin A. Leighton'.

Kevin Leighton
Partner
Sydney

10 October 2007



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of SP Telemedia Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 31 July 2007 there have been:

- no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

A handwritten signature in black ink, appearing to read 'Kevin Leighton'.

Kevin Leighton
Partner

Sydney

10 October 2007

SP Telemedia Limited and its controlled entities
ASX additional information
For the year ended 31 July 2007

Additional information required by the Australian Stock Exchange Limited Listing Rules and not disclosed elsewhere in this report is set out below.

Shareholdings (as at 28 September 2007)

Substantial shareholders

The number of shares held by substantial shareholders and their associates are set out below:

Shareholder	Number
Washington H Soul Pattinson and Company Limited	180,144,838
WIN Corporation Pty Limited	51,179,265
Perpetual Limited	45,036,536

Voting rights

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

Distribution of equity security holders

Category	Number of Equity Security Holders	
	Ordinary shares	
1 - 1,000	375	
1,001 - 5,000	1,585	
5,001 - 10,000	1,079	
10,000 - 100,000	1,893	
100,000 and over	154	
	5,086	

The number of shareholders holding less than a marketable parcel of ordinary shares is 410.

Stock Exchange

The Company is listed on the Australian Stock Exchange. The Home exchange is Sydney and ASX code is SOT.

Other information

SP Telemedia Limited, incorporated and domiciled in Australia, is a publicly listed company limited by shares.

SP Telemedia Limited and its controlled entities
ASX additional information (continued)
For the year ended 31 July 2007

Twenty largest shareholders

Name of shareholder	Number of ordinary shares held	Percentage of capital held
Washington H Soul Pattinson and Company Limited	184,470,680	45.52
WIN Corporation Pty Limited	51,179,265	12.63
RBC Dexia Investor Services Australia Nominees Pty Limited	36,222,455	8.94
Citicorp Nominees Pty Limited	4,736,803	1.17
Farjoy Pty Limited	3,834,943	0.95
Brickworks Investment Company Limited	3,322,223	0.82
Cogent Nominees Pty Limited	2,932,307	0.72
J S Millner Holdings Pty Limited	2,503,654	0.62
Mr Noel Francis Mitchell	2,110,000	0.52
Milton Corporation Limited	1,776,588	0.44
Rapcorp Pty Limited	1,750,000	0.43
J P Morgan Nominees Australia Limited	1,699,096	0.42
Choiseul Investments Limited	1,680,517	0.41
Alverstone Holdings Pty Limited	1,660,000	0.41
Dixon Trust Pty Limited	1,628,619	0.40
Invia Custodian Pty Limited	1,428,773	0.35
ANZ Nominees Limited	1,412,097	0.35
Fortis Clearing Nominees Pty Limited	1,213,123	0.30
J H & K O Valder	1,200,000	0.30
Niblick Pty Limited	1,002,000	0.25
	307,763,143	75.95

Principal Registered Office

11-17 Mosbri Crescent
Newcastle NSW 2300

Telephone: 02 4929 2933

Location of Share Registry

Computershare Registry Services Pty Limited
Level 3, 60 Carrington Street
Sydney NSW 1115

Telephone: 02 8234 5000