DIRECTORS:

ROBERT D. MILLNER
Chairman of Directors
Director since 2000

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

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

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

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

WILLIAM P. CLEAVES
Solicitor & Barrister
Non-Executive Director
Director since 2004

SECRETARY:

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

AUDITORS:
PRICEWATERHOUSECOOPERS
Chartered Accountants

REGISTERED OFFICE:
11-17 Mosbri Crescent
NEWCASTLE NSW 2300

SHARE REGISTER:
Computershare Registry Services Pty. Limited
Level 3, 60 Carrington Street, Sydney, N.S.W. 1115
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Chairman's Review

This is the fourth Annual Report of S P Telemedia Limited (SOT) incorporating the operations of wholly owned subsidiaries Soul Pattinson Telecommunications Pty Limited (SPTel) and Kooee Communications Pty Limited (Kooee).

2004 has seen the Company maintain its strong growth, reporting a Net Profit Before Tax of $11.624M, which represents an increase of approximately 50% on last year's result of $7.782M.

Profit After Tax of $9.659M was 66% greater than last year's result of $5.809M, and the Company held a cash balance of $85.8M at year end, of which, $67.4M represented receipts from the rights issue on 23rd July 2004.

The Directors of SOT have announced a final dividend out of 2003/04 profits of 0.75 cents per share. This dividend will be paid on the enlarged share base of SOT following the acquisition of NBN and represents an approximate 71% increase on the interim dividend paid by SOT in April 2004 which was 0.75 cents per share on the share capital at that time. Total dividends paid by SOT out of 2003/04 profits will amount to an approximate 40% payout ratio of the 2003/04 profits after tax.

A large proportion of the Company's profit growth continues to result from the management and operation of the SPT Telecommunications Pty Limited (SPT) and Kooee Pty Limited (Kooee JV) Joint Ventures. As these operations are equity accounted, the company's statutory accounts do not include any aggregation of revenues and expenses resulting from its joint venture operations, but the Board has included a separate table in its Directors' Report that enables a more detailed analysis of the Company's growth. On the basis of this Report, Revenue increased 72% to $88.4M during the financial year.

On 1st August 2004 SOT acquired NBN Television (NBN) from Washington H Soul Pattinson & Co Limited (WHSP) for a consideration of $145M, partly payable in cash of $80M and partly through the issue of 44.2M shares in SOT at $1.47 each, and the company received strong shareholder support for the transaction.

The acquisition of NBN was effective 01 August 2004 and therefore there is no contribution to SOT profits in 2003/04 from the television business acquired. To fund the acquisition SOT carried out a rights issue of shares in SOT at four new ordinary shares for every nine shares held by shareholders at a price of $1.05 per share. At 23rd July, when the shares were issued, the SOT share price was $1.44. As a result the shares issued by the Company at year-end have increased, however the profit contribution from the acquisition is not included in the year ended 31st July 2004 results.

Because of the magnitude of the NBN acquisition, the Directors of SOT have issued an additional disclosure in the Director's Report of the impact of the acquisition of NBN through pro forma Statement of Financial Performance and Position for the 2003/04 year as if NBN had been a wholly owned subsidiary of SOT for the full year.

SPTel a wholly owned subsidiary of SOT currently operates Australia's second largest regional broadband access network, extending from Melbourne to Cairns, with in excess of 180 Points of Presence (PoPs) or Customer Points of Interconnect. SPT holds a 50% interest in an Incorporated Joint Venture with ntl Telecommunications that has enabled the creation of this extensive network.

The SPTel network provides various state-of-the-art broadband and data networking products & services and is regarded as one of the most innovative, efficient and competitive data networks in Australia. The network is not only unique through the technology adopted but also through the extent of regional coverage and reach achieved on owned infrastructure. Today SPTel has deployed owned infrastructure throughout the eastern seaboard of Australia, the majority of which is in regional markets. It is this extent of network reach on competitive owned infrastructure that has contributed to the success of SPTel.

Kooee is a wholly owned subsidiary of SOT and holds a 50% interest in an Incorporated Joint Venture with WIN Television. This Joint Venture currently offers an extensive range of mainstream telecommunications products and services to both domestic and business markets. These products are offered throughout the eastern seaboard of Australia and the business is managed and operated by Kooee on behalf of the Joint Venture. This joint venture has been operational for less than 18 months, and still has great potential for strong future growth.

The SOT Group continues to expand geographically in network coverage and in products & services offered, particularly in the data telecommunications market. SPT has opened offices in all eastern seaboard capital cities and is aggressively pursuing a number of major business opportunities. The compelling competitiveness and quality of the SPT product base is highlighted by the SPT appointment as preferred State Government supplier in Queensland, NSW and Victoria. In addition, SPT is creating a major presence in Canberra and is hopeful of significant achievements in the Federal Government market and has recently secured a major contract in South Australia to provide data services to 45% of the student body.

SOT is in a sound financial position to capitalise on future opportunities in the telecommunications and media sector and Directors are confident of the continued growth of the Company.

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

For the year ended 31 July 2004
Directors' Report

Your directors present their report on the consolidated entity consisting of S P Telemedia Limited (formerly S P Telecommunications Limited) and the entities it controlled at the end of, or during, the year ended 31 July 2004.

Directors

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

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

William P. Cleaves was appointed a director on 11 August 2004 and continues in office at the date of this report.

Principal activities

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

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

There were no significant changes in the nature of the activities of the consolidated entity during the year.

Dividends

Dividends paid to members during the financial year were as follows:

	2004	2003
	$'000	$'000
Final ordinary dividend for the year ended 31 July 2003 of 0.5 cents (2003: Nil) per fully paid share paid on 19 November 2003	**922**	-
Interim ordinary dividend for the year ended 31 July 2004 of 0.75 cents (2003: Nil) per fully paid share paid on 21 May 2004	**1,394**	-
	2,316	-

In addition to the above dividends, on the 14th September 2004, the directors declared the payment of a final ordinary dividend of three-quarters of a cent (0.75c), fully franked to be paid on the 17th November 2004 out of retained profits at 31 July 2004.

Review of operations

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

	Segment revenues		Segment results	
	2004 **$'000**	2003 $'000	**2004** **$'000**	2003 $'000
Telecommunications	**16,968**	30,484	**11,624**	7,782
Profit from ordinary activities before income tax expense			**11,624**	7,782
Income tax expense			**(1,965)**	(1,973)
Profit from ordinary activities after income tax			**9,659**	5,809
Net profit			**9,659**	5,809

During the financial year a proportion of the Consolidated Entity's profit growth has resulted from management and operation of the SPT Telecommunications Pty Limited and Kooee Pty Limited joint ventures.

The financial information provided in this report has been prepared on the basis of equity accounting the group's participation in these joint ventures.

As additional disclosure and in order to enable more detailed analysis and understanding of the group's performance the following table has been prepared aggregating revenues and expenses under management for the joint venture operations.

	Aggregation of revenue and expenses from joint venture operations under management			
		2004		2003
	Consolidated Entity **$'000**	Joint Venture Entities **$'000**	Total **$'000**	Total $'000
Revenue from ordinary activities under management	**16,968**	**71,454**	**88,418**	51,454
Other expenses	**6,876**	**56,271**	**63,143**	38,228
EBITDA	**10,092**	**15,183**	**25,275**	13,226
Depreciation	**2,791**	**1,305**	**4,096**	2,608
Borrowing costs	**121**	**72**	**193**	252
Profit from ordinary activities	**7,180**	**13,806**	**20,986**	10,366
(Profit)/loss attributable to outside equity interests	**-**	**(7,457)**	**(7,457)**	(2,034)
Profit attributable to members of the parent entity	**7,180**	**6,349**	**13,529**	8,332
Income tax attributable to members of the parent entity	**(1,965)**	**(1,905)**	**(3,870)**	(2,523)
Net profit attributable to members of the parent entity	**5,215**	**4,444**	**9,659**	5,809

Earnings per share

	2004	2003
	Cents	Cents
Basic earnings per share	**4.9**	3.0
Diluted earnings per share	**4.8**	2.8

Significant changes in the state of affairs

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

	2004 $'000
An increase in contributed equity of $87,761,000 (from $30,854,000 to $118,615,000) as a result of:	
Rights issue of 84,189,029 fully paid ordinary shares @ $1.05	**88,398**
Issue of 4,000,000 fully paid ordinary shares @ $0.25 from the exercise of options under Employee Share Option Plan	**1,000**
Issue of 5,050,768 fully paid ordinary shares @ $0.25 from the exercise of options under one for ten offer	**1,263**
Issue of 53,700 fully paid ordinary shares @ $0.167 from the exercise of options under one for ten offer	**9**
	90,670
Less: Transaction costs arising on shares issued	**(2,909)**
Net Increase in share capital	**87,761**

Matters subsequent to the end of the financial year

Change of company name

On 2nd August 2004 S P Telecommunications Limited changed its name to S P Telemedia Limited.

Acquisition of NBN Enterprises Pty Limited

On 1st August 2004 S P Telemedia Limited (formerly S P Telecommunications Limited) acquired all of the issued share capital of NBN Enterprises Pty Limited (NBN) from Washington H. Soul Pattinson and Company Limited (WHSP). The consideration for the purchase of $145 million was satisfied through the issue of 44,217,688 new shares to WHSP totalling $65 million, and $80 million in cash. For additional information, refer note 30.

Following are pro-forma statements of financial performance and financial position if NBN had been acquired by S P Telemedia Limited as at 1st August 2003.

For the year ended 31 July 2004

Pro forma Statement of Financial Performance — **Year Ended 31-Jul-04**

Merged Entity

$'000	NBN	SPT	Consolidation Eliminations	Pro-Forma Combined
Revenue from sale of services	74,635	16,063	(2,480)	88,218
Cost of sales	(41,084)	(3,553)		(44,637)
Gross Profit	**33,551**	**12,510**		**43,581**
Revenue from non operating activities (excluding interest income)	2,443	25	(1,928)	540
Less: Operating expenses				
Occupancy costs	(768)	-		(768)
Administration expenses	(5,652)	(2,812)	1928	(6,536)
Selling, marketing and distribution costs	(9,036)	(511)		(9,547)
Other	(4,353)	-	2,480	(1,873)
Total operating expenses	**(19,809)**	**(3,323)**		**-18,724**
Share of Joint Venture Profit	-	4,444		4,444
EBITDA	**16,185**	**13,656**		**29,841**
Less: Depreciation and Amortisation	(3,599)	(2,791)		(6,390)
EBIT	**12,586**	**10,865**		**23,451**
Less: net interest expense	(1,679)	759		(920)
Profit before income tax	**10,907**	**11,624**		**22,531**
Income tax expense	(3,364)	(1,965)		(5,329)
Profit after income tax	**7,543**	**9,659**		**17,202**

Commentary

The pro-forma Merged Entity earnings for the year-ended 31 July 2004 have been based on the following assumptions:

- 100% of NBN was acquired by S P Telecommunications on 1 August 2003;

- the business operations of NBN, SP Telemedia Ltd or it's joint venture operations do not materially change as a result of the Proposed Transaction;

- $86.6 million is raised pursuant to a rights issue.

- NBN charged related companies SPT and Kooee rent and management fees of approximately $2 million. SPT charged NBN approximately $2.5 million for the year-ended 31 July 2004 pertaining to spectrum fees for NBN's digital television and telecommunications costs. These charges have been eliminated in the above Statement of Financial Performance.

- Goodwill on consolidation has not been amortised in the above pro-forma period.

Pro Forma Statement of Financial Position — As at 31-Jul-04

Merged Entity

$'000	NBN	SPT	Transaction adjustments and Consolidation Eliminations	Pro-Forma Combined
Current Assets				
Cash assets	2,702	85,757	(77,524)	10,935
Receivables	16,086	24,541	(22,020)	18,607
Inventories	2	0		2
Other	575	264		839
Total Current Assets	19,365	110,562	(99,544)	30,383
Non-Current Assets				
Receivables	557	0		557
Investments	47	6,225		6,272
Property, plant & Equipment	34,808	22,944	6,544	64,296
Intangible assets	124,939	0	61	125,000
Goodwill	0	1,096	27,979	29,075
Deferred tax assets	1,310	356		1,666
Other	636	0		636
Total non-current assets	162,297	30,621	34,584	227,502
Total Assets	181,662	141,183	(64,960)	257,885
Current Liabilities				
Payables	15,128	5,547	(1,020)	19,655
Interest bearing liabilities	16,118	600	(16,000)	718
Current tax liabilities	825	1,179		2,004
Provisions	1,390	26		1,416
Total current liabilities	33,461	7,352	(17,020)	23,793
Non-Current Liabilities				
Interest bearing liabilities	25,524	900	(2,524)	23,900
Deferred tax liabilities	1,619	212		1,831
Payables	1,285	0		1,285
Provisions	1,814	13		1,827
Total non-current liabilities	30,242	1,125	(2,524)	28,843
Total Liabilities	63,703	8,477	(19,544)	52,636
Net Assets	117,959	132,706	(45,416)	205,249
Equity				
Contributed equity	5,000	118,615	60,000	183,615
Reserves	50,300	0	(50,300)	0
Retained profits	62,659	14,091	(55,116)	21,634
Total equity	117,959	132,706	(45,416)	205,249

Commentary

As at 31 July 2004, S P Telemedia Limited had completed its rights issue in respect of funding the acquisition of NBN however completion of the acquisition transaction did not take place until 1st August 2004.

The following transaction adjustments reflect completion of the acquisition using the funds raised from the rights issue.

(i) Pro Forma Transaction Adjustments

- S P Telemedia acquires NBN for $145 million. Associated transaction costs which are capitalised are estimated at approximately $1.096 million.

- The purchase price of $145 million is based upon the issue of 44,217,688 shares to Washington H Soul Pattinson at a value of $1.47, and a cash payment of $80 million. The $1.47 value was calculated by taking the volume weighted average price (VWAP) of an SPT share over the period 7 April 2004 to 28 April 2004. The share price at the completion date (1 August 2004) was $1.45, and consequently an adjustment will be made to the Company's investment and Goodwill values, reflecting the share price variation.

- NBN did repay its related party loans of $17 million, and made additional external borrowings of $12.5 million which were used to pay dividends and repay the related party loans (noted above).

- Fees associated with the rights issue are estimated at $2.909 million, and these have been off-set against equity in accordance with accounting standards.

- Goodwill represents the difference between the fair value of the purchase price and the fair value of net assets acquired. Based on an independent valuation of NBN's land and buildings carried out in September 2003, an adjustment of $6.544 million was made to the value of property, plant and equipment. The actual goodwill to be recognised in SP Telemedia's financial statements will reflect the financial statements of NBN Television as at the acquisition date and the fair values of all assets and liabilities acquired and the share price of SP Telemedia at that date.

- Tax balances for NBN have been reinstated to reflect the fact that NBN would not have been part of WHSP's tax consolidated group.

(ii) Pro Forma Consolidation Eliminations

- The above pro forma consolidation elimination of S P Telemedia's investment in NBN, and the elimination of inter-company balances.

Likely developments and expected results of operations

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

Environmental Regulations

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

Information on directors | **Particulars of directors' interests in shares and options of:**

Director	**Experience**	**Special responsibilities**	**SP Telemedia Limited Shares**	**SP Telemedia Limited Options**	**WHSP Limited* Shares**
R D Millner	Chairman of WHSP Ltd., Brickworks Ltd., Choiseul Investments Ltd., and S P Telemedia Group since 2000.	Chairman	**1,051,557**	**-**	**16,002,355**
M J Millner	Director of WHSP Ltd., Brickworks Ltd., Keith Harris & Co. Ltd., Choiseul Investments Ltd., Ruralco Limited, and Director of S P Telemedia Group since 2000.	Deputy Chairman Non-Executive Director	**1,022,668**	**-**	**15,637,335**
P R Robinson *B Comm*	Executive Director of WHSP Ltd., Chairman of Keith Harris & Co. Ltd., API Ltd. and Clover Corporation Ltd., Non-Executive Director of New Hope Collieries, and Director of the S P Telemedia Limited Group since 2000.	Non-Executive Director	**115,556**	**8,000**	**74,210**
D J Fairfull *B Comm* *CPA* *ACIS* *ASIA*	Director of WHSP Ltd., Gazal Corporation Ltd., API Ltd. & Stockland Trust, Director of S P Telemedia Group since 2000.	Non-Executive Director	**144,445**	**10,000**	**60,000**

*Washington H. Soul Pattinson & Company Limited

For the year ended 31 July 2004

Information on directors *(continued)*

Director	Experience	Special responsibilities	Particulars of directors' interests in shares and options of: SP Telemedia Limited Shares	SP Telemedia Limited Options	WHSP Limited* Shares
D Ledbury *B Bus* *AICD*	Director of Commercial Television Australia Pty Ltd, Regional Broadcasters Australia Pty Ltd., and S P Telemedia Group since 2000.	Executive Director	**202,223**	**4,000**	**30,000**
W P Cleaves Solicitor & Barrister	Director of S P Telemedia Group since August 2004.	Non-Executive Director	**28,889**	**2,000**	**-**

Meetings of directors

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

	Full meetings of directors		Meetings of committees: Audit		Nomination		Remuneration	
	A	**B**	**A**	**B**	**A**	**B**	**A**	**B**
Robert D. Millner	9	9	2	2	*	*	1	1
Michael J. Millner	9	9	2	2	*	*	1	1
Peter R. Robinson	9	9	2	2	1	1	1	1
David J. Fairfull	9	9	2	2	1	1	1	1
Denis Ledbury	8	9	*	*	*	*	*	*

A = Number of meetings attended
B = Number of meetings held during the time the director held office or was a member of the committee during the year
* = Not a member of the relevant committee

Retirement, election and continuation in office of directors

Mr David Fairfull retired as director on 18th November 2003 at the Annual General Meeting, and was re-elected.

Mr Robert Millner and Mr Michael Millner are the directors retiring by rotation who, being eligible, offer themselves for re-election.

* Washington H. Soul Pattinson & Company Limited

Directors' and executives' emoluments

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

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

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

Details of the nature and amount of each element of the emoluments of each director of S P Telemedia Limited and each of the 4 officers of the company and the consolidated entity receiving the highest emoluments are set out in Note 19.

Insurance of officers

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

a) to a third party (other than the company or a related body corporate) unless the liability arises out of conduct involving a lack of good faith; and

b) for costs and expenses incurred in successfully defending civil or criminal proceedings or in connection with an application, in relation to such proceedings, in which relief is granted under the Corporations Law

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

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

Proceedings on behalf of company

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

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

Rounding of amounts

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

Dated at Sydney this 13th day of October, 2004.

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

R.D. Millner M.J. Millner

S P Telemedia Limited and its Controlled Entities
Statements of financial performance

For the year ended 31 July 2004

	Notes	Consolidated 2004 $'000	Consolidated 2003 $'000	Company 2004 $'000	Company 2003 $'000
Revenue from ordinary activities (excluding shares of equity accounted net profits of associates)	3	**16,063**	29,701	**-**	-
Cost of sales	4	**(6,344)**	(20,634)	**-**	-
Gross profit		**9,719**	9,067	**-**	-
Other revenues from ordinary activities	3	**905**	783	**4,285**	263
Selling and distribution expenses		**(511)**	(544)	**-**	-
Administration expenses		**(2,812)**	(2,798)	**(119)**	(78)
Borrowing costs	4	**(121)**	(154)	**-**	-
Share of net profit of joint venture accounted for using the equity method		**4,444**	1,428	**-**	-
Profit from ordinary activities before income tax expense		**11,624**	7,782	**4,166**	185
Income tax (expense)/benefit	5(a)	**(1,965)**	(1,973)	**125**	(55)
Profit from ordinary activities after income tax expense		**9,659**	5,809	**4,291**	130
Total revenues, expenses and valuation adjustments attributable to members of S P Telemedia Limited recognised directly in equity		-	-	-	-
Total changes in equity other than those resulting from transactions with owners as owners	17	**9,659**	5,809	**4,291**	130

		Cents	Cents
Basic earnings per share	29	**4.9**	3.0
Diluted earnings per share	29	**4.8**	2.8

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

S P Telemedia Limited and its Controlled Entities
Statements of financial position

As at 31 July 2004

	Notes	Consolidated 2004 $'000	Consolidated 2003 $'000	Company 2004 $'000	Company 2003 $'000
Current assets					
Cash assets	6	**85,757**	13,210	**71,355**	2,499
Receivables	7	**24,541**	4,461	**52,436**	28,814
Inventories	8	**-**	24	**-**	-
Other	9	**264**	269	**24**	21
Total current assets		**110,562**	17,964	**123,815**	31,334
Non-current assets					
Investments accounted for using the equity method	10	**6,225**	1,781	**-**	-
Other financial assets	11	**1,096**	-	**1,096**	-
Property, plant and equipment	12	**22,944**	24,803	**-**	-
Deferred tax assets	5(d)	**356**	238	**130**	2
Total non-current assets		**30,621**	26,822	**1,226**	2
Total assets		**141,183**	44,786	**125,041**	31,336
Current liabilities					
Payables	13	**5,547**	3,177	**4,003**	8
Interest bearing liabilities	14	**600**	600	**-**	-
Current tax liabilities	5(b)	**1,179**	1,619	**(58)**	(29)
Provisions	15	**26**	35	**-**	-
Total current liabilities		**7,352**	5,431	**3,945**	(21)
Non-current liabilities					
Interest bearing liabilities	14	**900**	1,500	**-**	-
Deferred tax liabilities	5(c)	**212**	241	**3**	-
Provisions	15	**13**	12	**-**	-
Total non-current liabilities		**1,125**	1,753	**3**	-
Total liabilities		**8,477**	7,184	**(21)**	(21)
Net assets		**132,706**	37,602	**3,948**	31,357
Equity					
Contributed equity	16	**118,615**	30,854	**118,615**	30,854
Retained profits	17	**14,091**	6,748	**2,478**	503
Total equity		**132,706**	37,602	**121,093**	31,357

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

S P Telemedia Limited and its Controlled Entities
Statements of cash flows

For the year ended 31 July 2004

	Notes	Consolidated 2004 $'000	Consolidated 2003 $'000	Company 2004 $'000	Company 2003 $'000
Cash flows from operating activities					
Receipts from customers (inclusive of GST)		**18,767**	30,054	**-**	-
Payments to suppliers and employees (inclusive of GST)		**(9,484)**	(22,594)	**(130)**	(104)
Dividends received		**-**	-	**4,000**	-
Interest received		**844**	650	**274**	263
Borrowing costs	4	**(121)**	(154)	**-**	-
Income taxes paid		**(2,552)**	(1,083)	**(29)**	(176)
Net cash inflow (outflow) from operating activities	28(b)	**7,454**	6,873	**4,115**	(17)
Cash flows from investing activities					
Payments for property, plant and equipment		**(1,670)**	(6,935)	**-**	-
Loans to related parties		**-**	(500)	**(2,604)**	(4,528)
Proceeds from sale of property, plant and equipment		**18**	-	**-**	-
Repayment of loans to related parties		**-**	-	**-**	(65)
Net cash (outflow) from investing activities		**(1,652)**	(7,435)	**(2,604)**	(4,593)
Cash flows from financing activities					
Proceeds from issues of shares and other equity securities		**69,712**	47	**69,712**	47
Rights issue transaction costs		**(51)**	-	**(51)**	-
Repayment of borrowings		**(600)**	(600)	**-**	-
Dividends paid		**(2,316)**	-	**(2,316)**	-
Net cash inflow (outflow) from financing activities		**66,745**	(553)	**67,345**	47
Net increase/(decrease) in cash held		**72,547**	(1,115)	**68,856**	(4,563)
Cash at the beginning of the financial year		**13,210**	14,325	**2,499**	7,062
Cash at the end of the financial year	28(a)	**85,757**	13,210	**71,355**	2,499

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

Note 1. Statement Of Significant Accounting Policies

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

(a) Basis of preparation

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

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

The consolidated accounts include those of the parent entity and all of its controlled entities as listed in note 25. Where controlled entities are acquired during the financial year their results are included only from the date of acquisition and where controlled entities are disposed of during a financial year their results are included to the date of disposal. All intercompany transactions have been eliminated.

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

In the consolidated financial statements, investments in joint venture entities are accounted for using equity accounting principles. Investments in joint venture entities are carried at the lower of the equity accounted amount and recoverable amount.

The consolidated entity's share of the joint venture entity's net profit or loss is recognised in the consolidated statement of financial performance from the date joint control commenced until the date joint control ceases. Other movements in reserves are recognised directly in consolidated reserves.

Where considered appropriate comparative amounts have been reclassified or represented to ensure comparability with the current reporting period.

(b) Revenue recognition

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

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

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

Interest revenue
Interest revenue is recognised as it accrues.

Resale revenues
The company has a service provider agreement under which the service provider undertakes billing and collection for the company's customers on its behalf. In addition the service provider has assumed credit risk for bad debts. As the company acts as principal in its relationship with its customers, revenues and cashflows associated with billings and collections performed on behalf of the company are brought to account in the statement of Financial Performance and Statement of Cashflows on a gross basis.

(c) Goods and services tax

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

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

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

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

(d) Foreign currency

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

(e) Borrowing costs

Borrowing costs represent interest relating to borrowings.

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

(f) Taxation – Note 5

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

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

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

Tax consolidation legislation

The parent entity, SP Telemedia is considering the implementation of tax consolidation. The Australian Taxation Office has not yet been notified of any decision and the Board has passed no formal resolution. As wholly owned subsidiaries Soul Pattinson Telecommunications Pty Limited and Kooee Communications Pty Limited would become part of the tax consolidated group and would therefore no longer be subject to income tax. The tax consolidated entities would also enter into an accounting tax sharing arrangement.

It is expected that the wholly owned subsidiaries would derecognise their deferred tax balances as of 1 August 2004 and recognise a receivable from the parent entity instead. The impact of the non-implementation of the tax consolidation regime on the financial results of the company in the current financial years is not material.

The financial effect of the implementation of the legislation has not been recognised in the financial statements for the year ended 31 July 2004 as no formal resolution in respect of tax consolidation has been passed by the board and therefore the details of the tax sharing agreement have not been finalised. The impact on the Company’s financial statements of the de-recognition of its deferred tax balances on joining the tax consolidated group would vary depending on the compensation arrangements agreed.

(g) Acquisition of assets

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

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

(h) Receivables – Note 7

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

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

(i) Inventories – Note 8

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

(j) Investments – Notes 10 & 11

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

Joint ventures
In the Company's financial statements, investments in joint venture entities other than partnerships are carried at the lower of equity accounted amount and recoverable amount. Joint venture entities are accounted for as set out in note 1(a).

(k) Operating leases

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

(l) Maintenance and repairs

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

(m) Earnings per share

Basic earnings per share
Basic earnings per share is determined by dividing net profit after income tax attributable to members of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year.

Diluted earnings per share
Diluted earnings per share is calculated by dividing the basic earnings per share, by the weighted average number of ordinary shares and dilutive potential ordinary shares.

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

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

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

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

(o) Depreciation and amortisation

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

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

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

The depreciation rates used are as follows:	2004	2003
Property, plant and equipment:	5% – 40%	5% – 40%

(p) Payables

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

(q) Interest bearing liabilities – Note 14

Bank loans are carried at their principal amounts which represent the present value of future cash flows associated with servicing the debt. Interest is accrued over the period it becomes due and is recorded as part of other creditors.

(r) Employee entitlements – Note 23

Wages, salaries, annual leave and sick leave
Liabilities for employee benefits for wages, salaries, annual leave and sick leave expected to be settled within 12 months of the year-end represent present obligations resulting from employees' services provided to reporting date, 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.

Long service leave
The provision for employee benefits to long service leave represents the present value of the estimated future cash outflows to be made resulting from employees' services provided to reporting date.

(s) Cash
For the purposes of the statement of cash flows, cash includes cash at bank, cash on hand and cash on deposit which is readily convertible to cash.

(t) Equity-based compensation benefits

Equity-based compensation benefits
Equity-based compensation benefits are provided to employees via the Parent Entity's Employee Share Option Plan. Information relating to this plan is set out in note 23.

No accounting entries are made in relation to the Employee Share Option Plan until options are exercised, at which time the amounts receivable from employees are recognised in the statement of financial position as share capital. The amounts disclosed for remuneration of directors and executives in note 19 would include the assessed fair values of options at the date they were granted.

This represents a change in accounting policy from the prior year, where amounts disclosed for remuneration of directors and executives included the assessed fair value of options at the date they were exercised. This change in accounting policy has no impact on the current year or prior year disclosures, as no options were granted or vested during the current or prior financial year.

(u) International Financial Reporting Standards (IFRS)

The Australian Accounting Standards Board (AASB) is adopting IFRS for application to reporting periods beginning on or after 1 January 2005. The AASB will issue Australian equivalents to IFRS, and the Urgent Issues Group will issue abstracts corresponding to IASB interpretations originated by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee. The adoption of Australian equivalents to IFRS will be first reflected in the consolidated entity's financial statements for the half-year ending 31 January 2006 and the year ending 31 July 2006.

Entities complying with Australian equivalents to IFRS for the first time will be required to restate their comparative financial statements to amounts reflecting the application of IFRS to that comparative period. Most adjustments required on transition to IFRS will be made, retrospectively, against opening retained earnings as at 1 August 2004.

Senior Management, the Audit Committee and the Board are aware that accounting policy changes will be required. To date, the Audit Committee has assumed responsibility for managing the transition. In some cases choices of accounting policies are available, including elective exemptions under Pending Accounting Standard AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*. Some of these choices are still being analysed to determine the most appropriate accounting policy for the consolidated entity.

Major changes identified to date that will be required to the consolidated entity's existing accounting policies include the following:

i) *Income tax*
Under the Australian equivalent to IAS 12 *Income Taxes*, deferred tax balances are determined using the balance sheet method which calculates temporary differences based on the carrying amounts of an entity's assets and liabilities in the statement of financial position and their associated tax bases. In addition, current and deferred taxes attributable to amounts recognised directly in equity are also recognised directly in equity.

This will result in a change to the current accounting policy, under which deferred tax balances are determined using the income statement method, items are only tax-effected if they are included in the determination of pre-tax accounting profit or loss and/or taxable income or loss and current and deferred taxes cannot be recognised directly in equity.

ii) *Intangible assets – goodwill*
Under the Australian equivalent to IFRS 3 *Business Combinations*, amortisation of goodwill will be prohibited, and will be replaced by annual impairment testing focusing on the cash flows of the related cash generating unit. As at 31st July 2004, this standard has no impact on the consolidated entity, however, from 1st August 2004, goodwill on consolidation arises due to the acquisition of NBN.

(iii) *Impairment of Assets*

Under the Australian Equivalent to IAS 36 Impairment of Assets, the recoverable amount of an asset will be assessed on the basis of expected net cash flows which have been discounted to present value. This will result in a change to the current accounting policy.

The above should not be regarded as a complete list of changes in accounting policies that will result from the transition to Australian equivalents to IFRS, as not all standards have been analysed as yet, and some decisions have not yet been made where choices of accounting policies are available. For these reasons it is not yet possible to quantify the impact of the transition to Australian equivalents to IFRS on the consolidated entity's financial position and reported results.

Note 2. Segment information

Business Segments

The consolidated entity operates wholly within the telecommunications sector.

Geographical segments

The consolidated entity operates wholly within Australia.

	Telecommunications		Consolidated	
Business Segments	**2004 $'000**	2003 $'000	**2004 $'000**	2003 $'000
External segment revenue	**16,968**	30,484	**16,968**	30,484
Total revenue	**16,968**	30,484	**16,968**	30,484
Segment operating profit	**7,180**	6,354	**7,180**	6,354
Share of net profit/(loss) of joint venture accounted for using the equity method	**4,444**	1,428	**4,444**	1,428
Profit from ordinary activities before income tax			**11,624**	7,782
Income tax expense			**(1,965)**	(1,973)
Profit from ordinary activities after income tax			**9,659**	5,809
Depreciation and amortisation	**2,791**	2,461	**2,791**	2,461
Segment assets	**134,958**	43,005	**134,958**	43,005
Equity accounted investments	**6,225**	1,781	**6,225**	1,781
Consolidated total assets			**141,183**	44,786
Segment liabilities	**8,477**	7,184	**8,477**	7,184
Consolidated total liabilities			**8,477**	7,184
Acquisitions of property, plant & equipment	**953**	6,461	**953**	6,461

Note 3. Revenue

	Consolidated		Company	
	2004 $'000	2003 $'000	**2004 $'000**	2003 $'000
Revenue from operating activities				
Sale of services	**16,063**	29,701	**-**	-
Other Revenues:				
Dividends	**-**	-	**4,000**	-
Interest	**880**	655	**285**	263
Sundry Income	**25**	128	**-**	-
Revenue from ordinary activities	**16,968**	30,484	**4,285**	263

Note 4. Profit from ordinary activities

(a) Profit from ordinary activities before income tax expense has been arrived at after charging the following items:

	Consolidated		Company	
	2004 $'000	2003 $'000	**2004 $'000**	2003 $'000
Expenses				
Cost of services sold (including depreciation)	**6,344**	20,634	**-**	-
Depreciation				
Plant and equipment	**2,791**	2,461	**-**	-
Borrowing costs:				
Other parties	**121**	154	**-**	-
Net expense from movements in provision for:				
Doubtful Debts	**(2)**	(51)	**-**	-
Unearned Revenue	**(100)**	139	-	-
Employee Entitlements	**14**	14	**-**	-
Operating lease rental expense	**567**	497	**-**	-

Note 5. Income tax

	Consolidated		Company	
	2004 $'000	2003 $'000	**2004 $'000**	2003 $'000
(a) Income tax expense				
Prima facie income tax expense calculated at 30% on the profit from ordinary activities	**3,487**	2,335	**1,250**	55
Increase in income tax expense due to:				
Imputation gross-up on dividends received	**-**	-	**514**	-
Sundry items	**-**	21	**-**	-
Decrease in income tax expense due to:				
Share of joint venture entities' net profit	**(1,333)**	(385)	**-**	-
Franking credits on dividends received	**-**	-	**(1,714)**	-
Write-off of capital costs in relation to rights issue	**(175)**	-	**(175)**	-
Income tax under/ (over) provided in prior year	**(14)**	2	**-**	-
Income tax expense/(benefit) attributable to operating profit	**1,965**	1,973	**(125)**	55
Income tax expense/(benefit) attributable to operating profit is made up of:				
Current income tax provision	**2,126**	1,985	**-**	55
Deferred income tax provision	**(29)**	(14)	**3**	-
Future income tax benefit	**(118)**	-	**(128)**	-
Under/(over) provision in prior year	**(14)**	2	**-**	-
	1,965	1,973	**(125)**	55

(b) Current tax liabilities

Provision for current income tax

	Consolidated 2004	Consolidated 2003	Company 2004	Company 2003
Movements during the year:				
Balance at beginning of the year	**1,619**	715	**(29)**	92
Current year's income tax expense on operating profit	**2,126**	1,985	**-**	55
Income tax paid – prior year	**(1,605)**	(717)	**29**	(92)
Income tax paid – current year	**(947)**	(366)	**(58)**	(84)
Under/(over) provision in prior year	**(14)**	2	**-**	-
	1,179	1,619	**(58)**	(29)

Note 5. Income tax *(continued)*

	Consolidated		Company	
	2004 $'000	2003 $'000	**2004 $'000**	2003 $'000
(c) Deferred tax liabilities				
Provision for deferred income tax				
Provision for deferred income tax comprises the estimated expense at the applicable rate of 30% on the following items:				
Difference in depreciation of property, plant and equipment for accounting and income tax purposes	**201**	220	**-**	-
Expenditure currently deductible for tax but deferred for accounting purposes	**-**	20	**-**	-
Sundry Items	**11**	1	**3**	-
	212	241	**3**	-
(d)Deferred tax assets				
Future income tax benefit				
Future income tax benefit comprises the estimated future benefit at the applicable rate of 30% on the following items:				
Provisions and employee entitlements not currently deductible	**222**	225	**-**	-
Tax losses carried forward	**128**	-	**128**	-
Sundry items	**6**	13	**2**	2
	356	238	**130**	2

Tax Consolidation Legislation

As at the date of this report, the Parent Entity and its wholly-owned subsidiaries have not made a decision with regard to the implementation of the tax consolidation legislation. The Directors are of the view that there will be no significant impact on results or financial position as a result of adoption. The financial impact of the implementation of the legislation has not been recognised in the financial statements for the year ended 31 July 2004.

Note 6. Cash assets

	Consolidated 2004	Consolidated 2003	Company 2004	Company 2003
Cash at bank and on hand	**77,507**	7,460	**68,855**	2,499
Short term deposits	**8,250**	5,750	**2,500**	-
	85,757	13,210	**71,355**	2,499

Cash at bank and on hand includes the proceeds of equity raising to be used in the acquisition of NBN Enterprises Pty Limited. Cash receipts of $67.4 million associated with the rights issue on 23rd July 2004 to acquire NBN Enterprises Pty Limited are included in cash at year-end. Refer note 30.

Short-term deposits – $1,650,000 (2003: $2,250,000) represents a security over the consolidated entity's bank loans.

Note 7. Receivables

	Consolidated		Company	
	2004 $'000	2003 $'000	**2004 $'000**	2003 $'000
Trade debtors	**2,500**	3,131	**10**	3
Less: Provision for doubtful debts	**(700)**	(702)	**-**	-
	1,800	2,429	**10**	3
Other debtors	**36**	5	**11**	-
Loans to controlled entities (Refer note 24)	**-**	-	**31,415**	28,811
Amounts owed from related entities (Refer note 24)	**22,705**	2,027	**21,000**	-
	24,541	4,461	**52,436**	28,814

Note 8. Inventories

Stores – at cost	**-**	24	**-**	-

Note 9. Other current assets

Prepayments	**264**	269	**24**	21

Note 10. Investments accounted for using the equity method

	Note				
Joint venture entities	26	**6,225**	1,781	**-**	-

Note 11. Other financial assets

Non-current
Other (non-traded) investments

Cost of acquisition of controlled entity	1,096	-	1,096	-
Shares in controlled entities – at cost	-	-	-*	-*

* S P Telemedia Limited holds the following investments:

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

Cost of acquisition of controlled entity represents acquisition costs incurred during the year ended 31 July 2004 in relation to the purchase of NBN Enterprises Pty Limited, by S P Telemedia Limited on 1st August 2004. For further details refer note 30.

Note 12. Property, plant and equipment

	Consolidated		Company	
	2004	2003	**2004**	2003
	$'000	$'000	**$'000**	$'000
Land and buildings				
Freehold land				
At cost	**60**	60	**-**	-
Plant and equipment				
At cost	**30,409**	29,499	**-**	-
Less: Accumulated depreciation	**(7,525)**	(4,756)	**-**	-
	22,884	24,743	**-**	-
Total property, plant and equipment	**22,944**	24,803	**-**	-

Reconciliations

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

	Freehold Land	**Plant & equipment**	**Total**
	$'000	**$'000**	**$'000**
Consolidated			
Carrying amount at 1st August 2003	60	24,743	24,803
Additions	-	953	953
Disposals	-	(21)	(21)
Depreciation expense	-	(2,791)	(2,791)
Carrying amount at 31st July 2004	60	22,884	22,944

Note 13. Payables

	Consolidated 2004	Consolidated 2003	Company 2004	Company 2003
Trade creditors	**1,127**	1,911	**-**	8
Other creditors	**2,413**	-	**2,413**	-
Amounts owed to related entities (Refer note 24)	**417**	1,266	**-**	-
Amounts owed to director-related entities (Refer note 19)	**1,590**	1,266	**1,590**	-
	5,547	3,177	**4,003**	8

Note 14. Interest bearing liabilities

	Consolidated 2004	Consolidated 2003	Company 2004	Company 2003
Current				
Bank loan - secured	**600**	600	**-**	-
Non-current				
Bank loan - secured	**900**	1,500	**-**	-

The bank loan is secured by a short-term deposit (Note 6). The loan is due to mature on 24 January 2007, and has a fixed interest rate of 6.4% per annum.

Note 15. Provisions

	Consolidated		Company	
	2004 $'000	2003 $'000	**2004 $'000**	2003 $'000
Current				
Employee entitlements	**26**	35	**-**	-
	26	35	**-**	-
Non-current				
Employee entitlements	**13**	12	**-**	**-**

Note 16. Contributed equity

Issued and paid-up share capital

273,664,897 (2003: 180,371,400) ordinary shares, fully paid	**118,615**	30,854	**118,615**	30,854
(a) Ordinary shares Balance at the beginning of year				
180,371,400 (2003: 180,183,900) fully paid ordinary shares @ $0.25	**30,854**	30,807	**30,854**	30,807
Shares issued				
- 84,189,029 fully paid ordinary shares @ $1.05 pursuant to 4 for 9 rights issue	**88,398**	-	**88,398**	-
- Transaction costs arising from issue for cash pursuant to rights issue	**(2,909)**	-	**(2,909)**	-
- 4,000,000 fully paid ordinary shares @ $0.25 from the exercise of options under the Employee Share Option Plan	**1,000**	-	**1,000**	-
- 5,050,768 (2003: 187,500) fully paid ordinary shares @ $0.25 from the exercise of options under one for ten offer	**1,263**	47	**1,263**	47
- 50,700 fully paid ordinary shares @ $0.167 from the exercise of options under one for ten offer	**9**	-	**9**	-
Balance at the end of the year	**118,615**	30,854	**118,615**	30,854

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

On 10th May 2001;

- 8,000,000 options were granted to holders of ordinary shares. Shareholders were entitled to one free option for every 10 shares allotted. Each option is convertible into one ordinary share at any time before 10th May 2006 at a fixed price of 16.7 cents per share (2003: 25 cents). The company's option exercise price was adjusted in accordance with ASX listing rule 6.22 as a result of the rights issue undertaken by the Company during the financial year. The number of unissued ordinary shares under these options at 31st July 2004 is 2,524,132.

- 10,000,000 options were granted to Washington H. Soul Pattinson Limited and have an exercise price of 16.7 cents per share (2003: 25 cents). These options expire on 10th May 2006. The number of unissued ordinary shares under these options at 31st July 2004 is 10,000,000.

- 4,000,000 options were granted to employees, under the employee share option plan. All options were exercised during the current financial year (refer note 23).

Note 17. Retained profits

	Consolidated		Company	
	2004 $'000	2003 $'000	**2004 $'000**	2003 $'000
Retained profits/(losses) at the beginning of the financial year	**6,748**	939	**503**	373
Net profit for the year	**9,659**	5,809	**4,291**	130
Dividends paid	**(2,316)**	-	**(2,316)**	-
Retained profit at the end of the financial year	**14,091**	6,748	**2,478**	503

Note 18. Dividends

Franking credits available for subsequent financial years based on a tax rate of 30%	**3,759**	2,759	**757**	163

The above amounts represent the balance of the franking account at the end of the financial year, adjusted for:

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

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

Note 19. Director and executive disclosures

Directors

The names of each person holding the position of director of S P Telemedia Limited during the financial year are Messrs RD Millner, MJ Millner, PR Robinson, DJ Fairfull and D Ledbury.

William P Cleaves was appointed a director on 11 August 2004 and continues in office at the date of this report.

Remuneration of directors and executives

Remuneration levels are competitively set to attract and retain appropriately qualified and experienced directors and senior managers. The remuneration committee consists of the non-executive Directors. The main responsibility of the committee is to make recommendations to the full Board on remuneration matters and other terms of employment for executive Directors, senior executives and non-executive Directors.

The Committee aims to ensure in respect of directors and senior management that the level and composition of remuneration is sufficient and reasonable so as to encourage enhanced performance of the Company.

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

Details of the remuneration of each director of S P Telemedia Limited and each of the four specified executives of the consolidated entity, and the nature and amount of the elements of their remuneration, are set out in the following tables.

Directors of S P Telemedia Limited

2004	Primary			Post-employment	
	Cash Salary & fees $	Cash Bonus $	Non-monetary benefits $	Superannuation $	Total $
Non-executive					
R D Millner (Chairman)	35,000	-	-	3,150	38,150
M J Millner (Deputy Chairman)	25,000	-	-	2,250	27,250
P R Robinson	25,000	-	-	2,250	27,250
D J Fairfull	25,000	-	-	2,250	27,250
Executive					
D Ledbury (Managing Director)	88,798	7,500	3,772	13,107	113,177
Total	198,798	7,500	3,772	23,007	233,077

Total remuneration of directors of S P Telemedia Limited for the year ended 31 July 2003 is set out below. Information for individual directors is not shown as this is the first financial report prepared since the issue of AASB 1046 *Director and Executive Disclosures by Disclosing Entities.*

2003	Primary			Post-employment	
	Cash Salary & fees $	Cash Bonus $	Non-monetary benefits $	Superannuation $	Total $
Total	195,643	7,950	7,763	14,921	226,277

Note 19. Director and executive disclosures *(continued)*

Specified executives of S P Telemedia Limited

2004	Primary			Post-employment	
	Cash Salary & fees $	Cash Bonus $	Non-monetary benefits $	Superannuation $	Total $
M Simmons, General Manager	154,264	44,000	8,141	25,557	231,962
S Legge, Operations and Engineering Manager	77,493	20,500	2,909	12,694	113,596
R Peacock, National Sales and Marketing Manager (*From 1 August 2003 – 18 June 2004)*	84,883	-	9,653	7,742	102,278
J Eather, Company Secretary	20,562	4,100	1,060	3,248	28,970
Total	337,202	68,600	21,763	49,241	476,806

Total remuneration of specified executives of S P Telemedia Limited for the year ended 31 July 2003 is set out below. Information for individual specified executives is not shown as this is the first financial report prepared since the issue of AASB 1046 *Director and Executive Disclosures by Disclosing Entities.* In some cases, different individuals are included than those specified in the year ended 31 July 2004.

2003	Primary			Post-employment	
	Cash Salary & fees $	Cash Bonus $	Non-monetary benefits $	Superannuation $	Total $
Total	326,606	60,000	31,811	36,180	454,597

Equity instrument disclosures relating to directors and executives

Option holdings

The numbers of options over ordinary shares in the company held during the financial year by each director of S P Telemedia Limited and each of the four specified executives of the consolidated entity, including their personally-related entities, are set out below.

Name	Balance at the start of the year	Exercised/sold during the year	Balance at the end of the year
Directors of S P Telemedia Limited			
R D Millner	28,000	(28,000)	-
M J Millner	28,000	(28,000)	-
P R Robinson	8,000	-	8,000
D J Fairfull	10,000	-	10,000
D Ledbury	1,104,000	(1,100,000)	4,000
W P Cleaves	2,000	-	2,000
Specified executives of the consolidated entity			
M Simmons	1,006,000	(1,006,000)	-
S Legge	800,000	(800,000)	-
J Eather	904,000	(904,000)	-

Note 19. Director and executive disclosures *(continued)*

Share holdings

The numbers of shares in the company held during the financial year by each director of S P Telemedia Limited and each of the four specified executives of the consolidated entity, including their personally-related entities, are set out below.

Name	Balance at the start of the year	Purchases	Received on exercise of options	Received on exercise of rights	Other changes during the year	Balance at the end of the year
Directors of S P Telemedia Limited						
R D Millner	320,000	380,000	28,000	323,557	-	1,051,557
M J Millner	280,000	400,000	28,000	314,668	-	1,022,668
P R Robinson	80,000	-	-	35,556	-	115,556
D J Fairfull	100,000	-	-	44,445	-	144,445
D Ledbury	40,000	-	100,000	62,223	-	202,223
W P Cleaves	20,000	-	-	8,889	-	28,889
Specified executives of the consolidated entity						
M Simmons	89,143	7,200	-	27,913	(33,540)	90,716
J Eather	81,000	-	4,000	23,500	-	108,500

Other transactions with directors and specified executives

A director, Mr. D Fairfull, is a director and shareholder of Pitt Capital Partners Limited (PCP). S P Telemedia Limited engaged the services of PCP as corporate advisors in relation to the acquisition of NBN.

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

As at balance date there was an amount payable from S P Telemedia Limited to PCP totalling $1,590,000.

Note 20. Remuneration of auditors

	Consolidated		Company	
	2004 $	2003 $	**2004 $**	2003 $
Remuneration for audit or review of the financial reports of the parent entity or any entity in the consolidated entity:				
Auditor of the parent entity – PricewaterhouseCoopers Australian firm	**59,000**	38,000	**-**	**-**

Note 21. Financial instruments

(a) Interest rate risk

Interest rate risk exposures

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

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

				Fixed Interest Maturing In:				
	Note	**Weighted average interest rate**	**Floating interest rate $'000**	**1 year or less $'000**	**1 to 5 years $'000**	**More than 5 years $'000**	**Non-interest bearing $'000**	**Total $'000**
2004								
Financial assets								
Cash assets	6	4.65%	77,507	8,250	-	-	-	85,757
Receivables	7	-	-	-	-	-	24,541	24,541
			77,507	8,250	-	-	24,541	110,298
Financial liabilities								
Payables	13	-	-	-	-	-	5,547	5,547
Bank loans	14	6.4%		600	900	-	-	1,500
			-	600	900	-	5,547	7,047
2003								
Financial assets								
Cash assets	6	4.2%	7,460	5,750	-	-	-	13,210
Receivables	7	-	-	-	-	-	4,461	4,461
			7,460	5,750	-	-	4,461	17,671
Financial liabilities								
Payables	13	-	-	-	-	-	3,177	3,177
Bank loans	14	6.4%		600	1,500	-	-	2,100
			-	600	1,500	-	3,177	5,277

Note 21. Financial instruments *(continued)*

(b) Credit risk exposure

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

Recognised financial instruments

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

(c) Net fair values of financial assets and liabilities

Valuation approach

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

Recognised financial instruments

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

Unrecognised financial instruments

There are no unrecognised financial instruments.

Note 22. Commitments for expenditure

	Consolidated		Company	
	2004	2003	**2004**	2003
	$'000	$'000	**$'000**	$'000
Capital commitments				
Commitments for the acquisition of plant and equipment contracted for at the reporting date but not recognised as liabilities, payable:				
Within one year	**5**	-	**-**	-
Later than one year but not later than 5 years	**-**	-	**-**	-
Later than 5 years	**-**	-	**-**	-
	5	-	**-**	-
Operating leases				
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:				
Within one year	**482**	384	**-**	-
Later than one year but not later than 5 years	**1,155**	970	**-**	-
Later than 5 years	**1,019**	1,135	**-**	-
Commitments not recognised in the financial statements	**2,656**	2,489	**-**	-

Note 23. Employee entitlements

	Consolidated		Company	
	2004	2003	**2004**	2003
	$'000	$'000	**$'000**	$'000
Employee entitlement liabilities				
Provision for employee entitlements				
Current (note 15)	**26**	35	**-**	-
Non-current (note 15)	**13**	12	**-**	-
Aggregate employee entitlement liability	**39**	47	**-**	-
	Number		**Number**	
Employee numbers				
Number of employees at the end of the financial year	**35**	39	**-**	-

As at 31 July 2004, the total number of employees of the consolidated entity and joint venture operations under management was 59 (2003: 51)

Employee share option plan

The company has an employee share option plan.

Under the plan the number of options granted cannot exceed 5% of the total number of shares. 4,000,000 options over ordinary shares were issued to 5 executives on 10th May 2001. All options were exercised during the current financial year, and the number of shares issued to employees on the exercise of options is detailed below. Voting rights will be attached to the unissued ordinary shares when the options have been exercised. The exercise price of the options, determined in accordance with the Rules of the plan, is 25 cents per share.

Set out below are summaries of options granted under the plan.

Grant date	Expiry date	Exercise price	Balance at start of the year	Issued during the year	Exercised during the year	Lapsed during the year	Balance at end of the year
			Number	**Number**	**Number**	**Number**	**Number**
Consolidated and Company - 2004							
10 May 2001	10 May 2006	25 cents	4,000,000	-	(4,000,000)	-	-
Total			4,000,000	-	(4,000,000)	-	-
Consolidated and Company - 2003							
10 May 2001	10 May 2006	25 cents	4,000,000	-	-	-	4,000,000
Total			4,000,000	-	-	-	4,000,000

Note 23. Employee entitlements *(continued)*

Options exercised during the financial year and number of shares issued on the exercise of options

Exercise Date	Fair value of shares at Issue date	Consolidated 2004 Number	Consolidated 2003 Number	Company 2004 Number	Company 2003 Number
26 September 2003	$1.30	**3,900,000**	-	**3,900,000**	-
21 June 2004	$1.35	**100,000**	-	**100,000**	-
		4,000,000	-	**4,000,000**	-

The fair value of shares issued on the exercise of options is the weighted average price at which the company's shares were traded on the Australian Stock Exchange on the day prior to the exercise of the options.

	Consolidated 2004 Number	Consolidated 2003 Number	Company 2004 Number	Company 2003 Number
Options vested at the reporting date	**-**	4,000,000	**-**	4,000,000

	Consolidated		Company	
	2004 $	2003 $	**2004 $**	2003 $
Aggregate proceeds received on the exercise of options and recognised as issued capital (Refer Note 16)	**1,000,000**	-	**1,000,000**	-

	2004 $'000	2003 $'000	**2004 $'000**	2003 $'000
Fair value of shares issued on the exercise of options as at their issue date	**5,205**	-	**5,205**	-

Note 24. Related parties

Directors and specified executives

Disclosures relating to directors and specified executives is set out in note 19.

Non-director related parties

The classes of non-director related parties are:

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

Transactions

All transactions with non-director related parties are on normal terms and conditions.

Wholly owned group

Information relating to controlled entities is set out in note 25.

All controlled entities are wholly owned

	Consolidated		Company	
	2004	2003	**2004**	2003
	$'000	$'000	**$'000**	$'000
Non-director related parties				
Aggregate amount of other transactions with non-director related parties:				
Loan advances to:				
Wholly – owned controlled entities	**-**	-	**2,604**	4,528
Joint venture entities	**-**	500	**-**	-
Loan repayments to:				
Wholly – owned controlled entities	**-**	-	**-**	65
Receivables				
Aggregate amounts receivable from non-director related parties:				
Amounts receivable other than trade debts				
Current				
Controlling entity	**21,000**	-	**21,000**	-
Wholly – owned controlled entities	**-**	-	**31,415**	28,811
Joint venture entities	**500**	500	**-**	-
Amounts receivable including trade debts				
Current				
Joint venture entities	**462**	653	**-**	-
Commonly controlled entities	**743**	874	**-**	-

Note 24. Related parties *(Continued)*

Payables

Aggregate amounts payable to non-director related parties:

Amounts payable including trade creditors

Current				
Commonly controlled entities	**417**	1,266	**-**	-

Ultimate parent entity

The ultimate parent entity of S P Telemedia Limited is Washington H. Soul Pattinson and Company Limited which at 31st July 2004 owns 44.45% of the issued ordinary shares (2003: 56.35%).

Note 25. Controlled entities

(a) Particulars in relation to controlled entities	Country of Incorporation	Ordinary Share Consolidated Entity Interest	
		2004 %	2003 %
Name			
Parent entity			
S P Telemedia Limited			
Controlled Entities			
Soul Pattinson Telecommunications Pty Limited	Australia	**100**	100
Kooee Communications Pty Limited	Australia	**100**	100

Note 26. Investments accounted for using the equity method

Details of interests in joint venture entities are as follows:

Name	Principal activities	Joint Venture Balance date	Ordinary share Ownership interest Consolidated 2004 %	Consolidated 2003 %	Investment carrying amount Consolidated 2004 $'000	Consolidated 2003 $'000	Company 2004 $'000	Company 2003 $'000
SPT Telecommunications Pty Ltd	Telecommunications Carrier	30 June	**50**	50	**5,820**	1,763	**-**	-
Kooee Pty Ltd	Telecommunications Retailer	31 July	**50**	50	**405**	18	**-**	-

Results of joint venture entities

The Company's and consolidated entity's share of the joint venture entities' results consist of:

	Consolidated 2004 $'000	Consolidated 2003 $'000	Company 2004 $'000	Company 2003 $'000
Revenues from ordinary activities	**26,131**	7,699	**-**	-
Expenses from ordinary activities	**(19,782)**	(5,720)	**-**	-
Profit from ordinary activities before income tax expense	**6,349**	1,978	**-**	-
Income tax expense relating to ordinary activities	**(1,905)**	(550)	**-**	-
Net Profit – accounted for using the equity method	**4,444**	1,428	**-**	-

Statement of financial position

The Company's and consolidated entity's share of the joint venture entity's assets and liabilities consist of:

	Consolidated 2004 $'000	Consolidated 2003 $'000	Company 2004 $'000	Company 2003 $'000
Current assets	**5,428**	3,279	**-**	-
Non-current assets	**10,541**	5,271	**-**	-
Total assets	**15,969**	8,550	**-**	-
Current liabilities	**(6,352)**	(3,167)	**-**	-
Non-Current liabilities	**(3,392)**	(3,602)	**-**	-
Total liabilities	**(9,744)**	(6,769)	**-**	-
Net assets – accounted for using the equity method	**6,225**	1,781	**-**	-

Movements in carrying amount of joint venture entity

	Consolidated 2004 $'000	Consolidated 2003 $'000	Company 2004 $'000	Company 2003 $'000
Carrying amount at beginning of year	**1,781**	353	**-**	-
Share of joint venture entity net profit	**4,444**	1,428	**-**	-
Carrying amount at end of year	**6,225**	1,781	**-**	-

Commitments

	Consolidated 2004 $'000	Consolidated 2003 $'000	Company 2004 $'000	Company 2003 $'000
Share of associates' capital commitments	**175**	575	**-**	**-**

Note 27. Economic dependency

A controlled entity, Kooee Communications Pty Limited (Kooee), is dependent upon telecommunication services rendered by Primus Telecommunications Pty Limited pursuant to a virtual service provider agreement, which expired on 12th August 2003. The company has re-negotiated a new agreement for a period of 3 years, with a 2 year option, in favour of Kooee, to replace the current agreement, with effect from 1st August 2003.

Note 28. Notes to the statements of cash flows

	Consolidated		Company	
	2004	2003	**2004**	2003
	$'000	$'000	**$'000**	$'000
(a) Reconciliation of cash				
For the purposes of the statement of cash flows, cash includes cash on hand and at bank. Cash as at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:				
Cash at bank and on hand	**77,507**	7,460	**68,855**	2,499
Short term deposits	**8,250**	5,750	**2,500**	-
	85,757	13,210	**71,355**	2,499
(b) Reconciliation of profit from ordinary activities after income tax to net cash provided by operating activities				
Profit from ordinary activities after income tax	**9,659**	5,809	**4,291**	130
Add/(less) non-cash items:				
Depreciation	**2,791**	2,461	**-**	-
(Decrease)/increase in income taxes payable	**(440)**	904	**(29)**	(121)
(Increase) in future income tax benefits	**(118)**	-	**(128)**	-
(Decrease)/increase in deferred taxes payable	**(29)**	(14)	**3**	-
Share of joint venture entity net profit	**(4,444)**	(1,428)	**-**	-
Loss on sale of non-current assets	**2**	-	-	-
Net cash provided by operating activities before changes in assets and liabilities	**7,421**	7,732	**4,137**	9
Change in assets and liabilities adjusted for effects of purchase of controlled entities during the financial year:				
(Increase)/decrease in inventories	**24**	(5)	**-**	-
(Increase)/decrease in prepayments	**5**	354	**(3)**	(7)
(Increase)/decrease in trade debtors	**956**	(1,722)	**-**	-
(Increase) in other operating assets	**(36)**	-	**(20)**	-
(Decrease)/increase in accounts payable	**(908)**	500	**1**	(19)
(Decrease)/increase in provisions	**(8)**	14	**-**	-
Net cash provided by operating activities	**7,454**	6,873	**4,115**	(17)

Note 29. Earnings per share

	Consolidated	
	2004 Cents	2003 Cents
Basic earnings per share	**4.9**	3.0
Diluted earnings per share	**4.8**	2.8

Prior year comparative figures have been adjusted for the bonus element, as a result of the rights issue during the year ended 31 July 2004.

Weighted average number of shares used as the denominator	**Number**	Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**199,059,246**	180,256,267
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**202,013,051**	193,058,840

Reconciliations of earnings used in calculating earnings per share	**2004 $'000**	**2003 $'000**
Basic earnings per share		
Net profit	9,659	5,809
Earnings used in calculating basic earnings per share	9,659	5,809
Diluted earnings per share		
Net profit	9,659	5,809
Earnings used in calculating diluted earnings per share	9,659	5,809

Information concerning the classification of securities

(a) Options

Options granted to share holders under the S P Telemedia Limited Option Plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share. The options have not been included in the determination of basic earnings per share. Details relating to the options are set out in note 16.

Note 30. Events occurring after reporting date

Change of company name

On 2nd August 2004 S P Telecommunications Limited changed its name to S P Telemedia Limited.

Acquisition of NBN Enterprises Pty Limited

On 1st August 2004 S P Telemedia Limited (formerly S P Telecommunications Limited) acquired all of the issued share capital of NBN Enterprises Pty Limited from Washington H. Soul Pattinson and Company Limited (WHSP). The consideration for the purchase of $145 million was satisfied through the issue of 44,217,688 new shares to WHSP totalling $65 million, and $80 million in cash. The $80 million was settled by payment of $59 million to WHSP, and netting off monies owed to S P Telemedia of $21 million from WHSP, being 20 million shares taken up under the rights issue at $1.05 each. Refer note 7.

S P Telemedia Limited and its Controlled Entities
Directors' declaration

The directors declare that the financial statements and notes set out on pages 12 to 39.

(a) comply with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and

(b) give a true and fair view of the company's and consolidated entity's financial position as at 31st July 2004 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date.

In the directors' opinion:

(a) the financial statements and notes are in accordance with the Corporations Act 2001; and

(b) there are reasonable grounds to believe that the company and the subsidiaries identified in Note 26 will be able to pay their debts as and when they become due and payable.

Dated at Sydney this 13th day of October 2004.

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

R.D. Millner

M.J. Millner

S P Telemedia Limited and its Controlled Entities

Independent Audit Report to the Members of S P Telemedia Limited

Audit opinion

In our opinion, the financial report of S P Telemedia Limited

gives a true and fair view, as required by the Corporations Act 2001 in Australia, of the financial position of S P Telemedia Limited and the S P Telemedia Group (defined below) as at 31 July 2004 and of their performance for the year ended on that date, and

is presented in accordance with the Corporations Act 2001, Accounting Standards and other mandatory financial reporting requirements in Australia, and the Corporations Regulations 2001.

This opinion must be read in conjunction with the rest of our audit report.

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for both S P Telemedia Limited (the company) and the S P Telemedia Group (the consolidated entity), for the year ended 31 July 2004. The consolidated entity comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and

assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

When this audit report is included in an Annual Report, our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

S P Telemedia Limited and its Controlled Entities

Independent Audit Report to the Members of S P Telemedia Limited

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

PricewaterhouseCoopers

G S Lourey
Partner

W M Russell
Partner

Newcastle
13th October 2004

The shareholder information set out below was applicable as at 6th October 2004.

A. Distribution of equity securities

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

	Class of equity security	
	Ordinary shares	
	Shares	Options
1 – 1,000	141	294
1,001 – 5,000	847	298
5,001 – 10,000	761	27
10,001 – 100,000	1,769	25
100,001 and over	139	1
	3,657	645

There were 15 holders of less than a marketable parcel of ordinary shares.

B. Equity security holders

Twenty largest quoted equity security holders

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

	Ordinary shares	
Name	**Number held**	**Percentage of issued shares**
Washington H. Soul Pattinson & Company Limited	175,851,366	53.59
RBC Global Services Australia Nominees Pty Limited (PIPOOLED A/c)	12,096,523	3.69
Equity Trustees Limited	7,930,506	2.42
National Nominees Limited	7,626,936	2.32
Invia Custodian Pty Limited	4,354,500	1.33
J P Morgan Nominees Australia Limited	4,051,652	1.23
Brickworks Securities Pty Limited	3,322,223	1.01
Citicorp Nominees Pty Limited	3,288,612	1.00
Farjoy Pty Limited	3,286,050	1.00
Guardian Trust Australia Ltd (Glebe PLCSF)	3,099,356	0.94
Westpac Custodian Nominees Limited	2,790,719	0.85
Cogent Nominees Pty Limited	2,610,714	0.80
RBC Global Services Australia Nominees Pty Limited (PIIC A/c)	2,517,533	0.77
Milton Corporation Limited	1,556,588	0.47
Mr. Noel Francis Mitchell	1,552,778	0.47
Choiseul Investments Limited	1,550,517	0.47
Dixson Trust Pty Limited	1,408,382	0.43
ANZ Nominees Limited	1,372,553	0.42
AMP Life Limited	1,333,001	0.41
Guardian Trust Australia Ltd (Glebe PSCSF)	1,259,486	0.38
	242,859,995	74.00

C. Substantial holders

Substantial holders in the company are set out below:

	Number held	**Percentage**
Ordinary shares		
Washington H. Soul Pattinson and Company Limited	175,851,366	53.59

D. Voting rights

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

(a) Ordinary shares
On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

(b) Options
No voting rights.

STOCK EXCHANGE LISTING

S P Telemedia Limited shares are listed on the Australian Stock Exchange and trade under the ASX code SOT.

CORPORATE GOVERNANCE STATEMENT

The S P 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 Company's Corporate Governance practices in place throughout the year and has been summarised into sections in line with the 10 essential corporate governance principles specified in the ASX Corporate Governance Council's "Principles of Good Corporate Governance and Best Practice Recommendations".

ASX Principle 1 – Lay solid foundations for management and oversight

The Board is ultimately responsible for the operations, management and performance of the Company. In discharging this responsibility the Board delegates to senior management whose role it is to manage the Company in accordance with the directions and policies set by the Board. The Board monitors the activities of senior management in the performance of their delegated duties.

It is the responsibility of the Board to determine policies, practices, management and the operations of the Company and to ensure that the Company is compliant with statutory, legal and other regulatory obligations.

- Responsibilities of the Board include the following:
- Determining corporate strategies, policies and guidelines for the successful performance of the Company in the present and in the future;
- Monitoring the performance and conduct of the Company;
- Accountability to shareholders;
- Ensuring that risk management procedures and compliance and control systems are in place and operating effectively;
- Monitoring the performance and conduct of senior management, and ensuring adequate succession plans are in place; and
- Ensuring the Company continually builds an honest and ethical culture.

ASX Principle 2 – Structure the Board to add value

- In accordance with the Company's constitution, the Board should comprise no less than 3 or more than 10 Directors.
- The names of the Directors of the Company at the date of this statement are set out in the Directors' Report.
- At the date of this report the Board consists of 5 non-executive and 1 executive directors. Directors' details are contained in the Directors' Report.
- Under ASX Best Practice Recommendations the non executive directors are not independent for the following reasons: -

  Mr. Robert Millner, Mr. Michael Millner, Mr. Peter Robinson and Mr. David Fairfull are all directors of Washington H. Soul Pattinson and Company Limited the parent entity of S P Telemedia Limited.

- Whilst the non-executive directors cannot be considered "independent" in accordance with the ASX Best Practice recommendations, all Directors are expected to bring their independent views and judgement to the Board and, in accordance with the Corporations Act 2001, must inform the Board if they have any interest that could conflict with those of the Company. Where the Board considers that a significant conflict exists it may exercise its discretion to determine whether the Director concerned may be present at the meeting while the item is considered.
- In the discharge of their duties and responsibilities, the Directors individually (as well as the Board) have the right to seek independent professional advice at the Company's expense. However, for advice in respect of individual Directors prior approval of the Chairman is required, which would not be unreasonably withheld. The Chairman is entitled to receive a copy of any such advice obtained.
- The nomination committee consists of the non-executive directors who periodically review the membership of the Board having regard to the Company's particular needs, both present and future. Where a director is due for re-election at the next Annual General Meeting that director will not serve on the Nomination Committee during the year preceding re-election.

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

ASX Principle 3 – Promote ethical and responsible decision making

The Company has an established code of conduct dealing with matters of integrity and ethical standards. All directors, executives and employees are expected to abide by the code of conduct which covers a number of areas including the following:-

- Professional conduct.
- Ethical standards.
- Standards of workplace behaviour and equal opportunity.
- Relationships with customers, suppliers and competitors.
- Confidentiality and continuous disclosure.
- Anti-discrimination and harassment.
- Trading in Company securities.
- The environment.

A summary of the main principles of the S P Telemedia Limited's share trading policy are as follows:-

- The policy relates to trading in shares of the Company and associated entities of the Company that are publicly listed.
- Trading is prohibited when directors and employees are in possession of price sensitive information which is not available to the public.
- The Company has established the following share trading windows each for a period of 6 weeks commencing from:

    1. The release of the Company's annual result to the Australian Stock Exchange.
    2. The release of the Company's half yearly result to the Australian Stock Exchange.
    3. The date of the Annual General Meeting.
    4. The release of a prospectus.

- At times other than those referred to above, directors etc., may trade with the prior approval of the Chairman, or in his absence, two directors.

ASX Principle 4 – Safeguard integrity in financial reporting

S P Telemedia Limited has an established audit committee, which has its own charter outlining the committee's function, composition, authority, responsibilities and reporting. The current members of the audit committee are the non executive directors Mr. D.J. Fairfull (Chairman), Mr. R D Millner, Mr. M.J. Millner and Mr. P.R. Robinson. The executive director, financial controller, company secretary and the internal auditor may attend audit committee meetings by invitation.

The company does not comply with Best Practice Recommendation 4.3 in so far as the audit committee does not have a majority of independent directors.

The external auditors (Pricewaterhouse Coopers) are requested by the audit committee to attend the appropriate meetings to report on the results of their half-year review and full year audit.

The external and internal auditors both have direct access to the audit committee if required.

The function of the audit committee is to assist the Board in fulfilling its statutory and fiduciary responsibilities relating to:

- The external reporting of financial information, including the selection and application of accounting policies;
- The independence and effectiveness of the external auditors;
- The effectiveness of internal control processes and management information systems;
- Compliance with the Corporations Act, ASX Listing Rules and any other applicable requirements; and
- The application and adequacy of risk management systems within the Company.

ASX Principle 5 – Make timely and balanced disclosure

The Company has a Continuous Disclosure Policy to ensure compliance with the ASX Listing Rules and the Corporations Act continuous disclosure requirements. The policy requires timely disclosure through the ASX companies' announcement platform of information concerning the Company that a reasonable person would expect to have a material effect on the price or value of the Company's securities. The Board is responsible for determining disclosure obligations and the Company Secretary is the nominated continuous disclosure officer for the Company.

ASX Principle 6 – Respect the rights of shareholders

- The Board is committed to ensuring that shareholders, the stock market and other interested partners are fully informed of all material matters effecting the Company. The dissemination of information is mainly achieved as follows:-
- An Annual Report is distributed to shareholders in October each year
- The Chairman's Address to the Annual General Meeting is distributed to shareholders in November each year
- Where possible, significant information is posted on the Company's internet website as soon as it is disclosed to the market.
- The external auditor is requested to attend the annual general meeting to answer shareholders questions about the conduct of his audit and the content of the auditor's report.

ASX Principle 7 – Recognise and manage risk

The Company is committed to identifying and managing areas of significant business risk to protect shareholders, employees, earnings and the environment. Arrangements in place include:-

- Regular detailed financial, budgetary and management reporting.
- Procedures to manage financial and operational risks.
- Established organisational structures, procedures and policies dealing with the areas of health and safety, environmental issues, industrial relations and legal and regulatory matters.
- Comprehensive insurance and risk management programs.
- Procedures requiring Board approval for all borrowings, guarantees and capital expenditure beyond minor levels.
- Where applicable, the utilisation of specialised staff and external advisors.

ASX Principle 8 – Encourage enhanced performance

The non-executive directors review the performance of the Executive Director and senior executive staff annually. The Executive Director continually monitors senior executive performance and the Executive Director's performance is subject to continuous monitoring by the full board.

The Chairman reviews the performance of non-executive directors with any unsatisfactory performance referred to the remainder of the Board.

The efficiency, effectiveness and operations of the board are continuously subject to informal monitoring by the Chairman and the board as a whole.

ASX Principle 9 – Remunerate fairly and responsibly

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

Non executive directors' fees are reviewed annually by the full Board after taking into consideration the Company's performance, market rates, level of responsibility and the recommendations of the Remuneration Committee. The aggregate amount of fees which may be paid to non-executive directors is subject to the approval of shareholders at the Annual General Meeting and is currently set at $250,000 per annum.

The Company does not have any equity based remuneration arrangements in place.

Further information of Directors' and executives' remuneration is set out in the Notes to the financial statements.

ASX Principle 10 – Recognise the legitimate interest of stakeholders

In this Corporate Governance Statement reference has already been made to the Code of Conduct under which the Company operates. The Code is designed to comply with the legal and other obligations of legitimate stakeholders and other interested parties and to foster a culture of compliance.

End statement