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

Annual report
31 July 2006

Contents

SP Telemedia Limited and its controlled entities
Directors' report

For the year ended 31 July 2006

The directors present their report together with the financial report of SP Telemedia Limited ('the Company') and of the consolidated entity, being the Company and its controlled entities, for the financial year ended 31 July 2006 and the auditor's report thereon.

SP Telemedia Limited and its controlled entities
Directors' report (continued)
For the year ended 31 July 2006

1. Directors

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

Name, qualifications and independence status	*Age*	*Experience, special responsibilities and other directorships*
RD Millner Chairperson Non-Executive Director	55	Washington H Soul Pattinson Ltd (1984-current), New Hope Corporation Ltd (1995-current), SP Telemedia Ltd (2000-current), Souls Private Equity Ltd (2004-current), Brickworks Ltd (1997-current), Brickworks Investment Company Ltd (2003-current), Australian Pharmaceutical Industries Ltd (2000-current), Milton Corporation Ltd (1998-current), Choiseul Investments Ltd (1995-current), Clover Corporation (1999-2002), KH Foods Ltd (1994-2004). Member of Remuneration committee.
MJ Millner Deputy Chairperson Non-Executive Director	53	Washington H Soul Pattinson Ltd (1997-current), SP Telemedia Ltd (2000-current), Brickworks Ltd (1998-current), Choiseul Investments Ltd (2001-current), KH Foods Ltd (1997-2006), Ruralco Ltd (2003-2006), Australian Food & Fibre Ltd (2000-2004). Member of Remuneration and Audit committees.
PR Robinson Non-Executive Director B Comm	54	Washington H Soul Pattinson Ltd (1984-current), SP Telemedia Ltd (2000-current), KH Foods Ltd (1997-current), New Hope Corporation Ltd (1997-current), Clover Corporation Ltd (1997-current), Australian Pharmaceutical Industries Ltd (2000-current). Member of Remuneration and Audit committees.
DJ Fairfull Non-Executive Director B Comm CPA ACIS ASIA	64	Washington H Soul Pattinson Ltd (1997-current), SP Telemedia Ltd (2000-current), KH Foods Ltd (1997-2004), New Hope Corporation Ltd (1997-current), Clover Corporation Ltd (2002-2004), Australian Pharmaceutical Industries Ltd (2000-current), Souls Private Equity Ltd (2004-current), Stockland Ltd (1990-current), B Digital Ltd (2005-current), Gazal Corporation Ltd (1987-2004). Member of Remuneration committee.
D Ledbury Non-Executive Director B Bus AICD	56	SP Telemedia Ltd (2000-current), B Digital Ltd (2005-current).
WP Cleaves Independent Non-Executive Director Solicitor & Barrister	71	SP Telemedia Ltd (2004-current), B Digital Ltd (2005-current). Chairman of the Audit committee.
A Gordon Non-Executive Director	35	SP Telemedia Ltd (appointed Director 11th August 2006), Executive Chairman of WIN Corporation Pty Ltd, SELECTV Broadcasting Limited (2006-current)

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Directors' report (continued)

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2. Company secretary

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

3. Directors' meetings

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

Director	Board Meetings		Audit Committee Meetings		Remuneration Committee Meetings	
	A	**B**	**A**	**B**	**A**	**B**
RD Millner	**13**	**13**	**-**	**-**	**1**	**1**
MJ Millner	**13**	**13**	**2**	**2**	**1**	**1**
PR Robinson	**13**	**13**	**2**	**2**	**1**	**1**
DJ Fairfull	**12**	**13**	**-**	**-**	**1**	**1**
D Ledbury	**13**	**13**	**-**	**-**	**-**	**-**
P Cleaves	**13**	**13**	**2**	**2**	**-**	**-**

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

SP Telemedia Limited and its controlled entities
Directors' report (continued)
For the year ended 31 July 2006

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

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

- The composition of the board does not strictly comply with the recommendation that a majority of directors be "independent". This is because:

  - Mr R Millner, Mr M Millner, Mr P Robinson and Mr D Fairfull are directors of the company's major shareholder (44.5%) Washington H Soul Pattinson Limited; and

  - Mr D Ledbury was employed as the managing director of the company within the last three years; and

  - Mr A Gordon is a director of a significant shareholder in the company (12.3%), WIN Corporation Pty Ltd.

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

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

4.1 Board of directors

Role of the board

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

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

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

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

SP Telemedia Limited and its controlled entities
Directors' report (continued)
For the year ended 31 July 2006

4.1 Board of directors (continued)

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

Composition of the Board

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

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

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

The names of the directors of the Company in office at the date of this report are set out in the Directors' report on page 4 of this report. The composition of the board is determined using the following principles:
- a minimum of six directors, with a broad range of expertise both nationally and internationally
- a majority of directors having extensive knowledge of the Company's industries, and those which do not, have extensive expertise in significant aspects of auditing and financial reporting, or risk management of large companies
- enough directors to serve on various committees without overburdening the directors or making it difficult for them to fully discharge their responsibilities

An independent director is a director who is not a member of management (a non-executive director) and who:
- holds less than five per cent of the voting shares of the Company and is not an officer of, or otherwise associated, directly or indirectly, with a shareholder of more than five per cent of the voting shares of the Company
- has not within the last 3 years been employed in an executive capacity by the Company or another group member, or been a director after ceasing to hold any such employment
- within the last 3 years has not been a principal or employee of a material professional adviser or a material consultant to the Company or another group member
- is not a material supplier or customer of the Company or another group member, or an officer of or otherwise associated, directly or indirectly, with a material supplier or customer

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Directors' report (continued)
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4.1 Board of directors (continued)

- has no material contractual relationship with the Company or another group member other than as a director of the Company
- is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Company.

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

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

The members of the remuneration committee during the year were:
- R Millner
- M Millner
- P Robinson
- D Fairfull

The Chief Executive Officers are invited to remuneration committee meetings, as required, to discuss senior executives' performance and remuneration packages but do not attend meetings involving matters pertaining to them.

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

4.4 Remuneration report

4.4.1 Principles of compensation - audited

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

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

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

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

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

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

Fixed compensation

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

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

Performance-linked compensation

Performance linked compensation includes both short-term and long-term incentives and is designed to reward key management personnel for meeting or exceeding their financial and personal objectives. The short-term incentive is provided in the form of cash, while the long-term incentive is provided as ordinary shares of the Company under the rules of the executive bonus share scheme (see note 22 to financial statements). The payment of cash bonuses and shares under the executive bonus share scheme are subject to board discretion.

4.4 Remuneration report (continued)

4.4.1 Principles of compensation – audited (continued)

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

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

Other benefits

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

Service contracts

The consolidated entity has entered into service contracts with Mr M Simmons, Mr J Eather, Mr S Legge and Ms D Wright. The contracts commenced 1 July 2005 and are for a three year period following which their employment will continue on the same terms and conditions until a new contract is negotiated.

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

Non-executive directors

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

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

For the year ended 31 July 2006

4.4 Remuneration report (continued)

4.4.2 Directors' and executive officers' remuneration (Consolidated) - audited

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

		Short-term				Post-employment		Share-based payments	Share-based payments		S300A (1)(e)(i) Proportion of remuneration performance related %	S300A (1)(e)(vi) Value of options as proportion of remuneration %
		Salary & fees $	STI cash bonus $(A)	Non-monetary benefits $	Total $	Super-annuation benefits $	Termination benefits $	Options $(B)	Shares $(B)	Total $		
Directors												
Non-executive												
Mr R Millner, Chairman	2006	70,000	-	-	70,000	6,300	-	-	-	76,300	-	-
	2005	70,000	-	-	70,000	6,300	-	-	-	76,300	-	-
Mr M Millner	2006	55,000	-	-	55,000	4,950	-	-	-	59,950	-	-
	2005	55,000	-	-	55,000	4,950	-	-	-	59,950	-	-
Mr P Robinson	2006	45,000	-	-	45,000	4,050	-	-	-	49,050	-	-
	2005	45,000	-	-	45,000	4,050	-	-	-	49,050	-	-
Mr D Fairfull	2006	167,749	-	-	167,749	15,097	-	-	-	182,846	-	-
	2005	52,365	-	-	52,365	4,713	-	-	-	57,078	-	-
Mr W Cleaves	2006	131,685	-	-	131,685	11,852	-	-	-	143,537	-	-
	2005	48,417	-	-	48,417	4,358	-	-	-	52,775	-	-
Mr D Ledbury*	2006	143,768	-	19,400	163,168	12,939	410,042	-	-	586,149	-	-
	2005	403,351	50,000	24,011	477,362	62,257	-	-	-	539,619	9.3%	-
Total of Directors	2006	613,202	-	19,400	632,602	55,188	410,042	-	-	1,097,832		
	2005	674,133	50,000	24,011	748,144	86,628	-	-	-	834,772		

** D Ledbury was managing director for the 2005 financial year and retired from this position effective 1 August 2005*

SP Telemedia Limited and its controlled entities
Directors' report (continued)
For the year ended 31 July 2006
4.4 Remuneration report (continued)
4.4.2 Directors' and executive officers' remuneration (Consolidated) - audited (continued)

		Short-term				Post-employment	Termination benefits	Share-based payments	Share-based payments		S300A (1)(e)(i) Proportion of re-muneration performance related %	S300A (1)(e)(i) Value of options as a proportion of remuneration %
		Salary & fees $	STI cash bonus $(A)	Non-monetary benefits $	Total	Super-annuation benefits $	$	Options $(B)	Shares $(B)	Total $		
Executives												
Mr M Simmons	2006	415,488	80,000	22,789	518,277	69,289	-	-	18,267	605,833	16.2%	-
	2005	328,613	80,000	21,829	430,442	72,725	-	-	-	503,167	15.9%	-
Mr J Eather	2006	418,033	80,000	22,405	520,438	69,304	-	-	18,267	608,009	16.2%	-
	2005	321,118	80,000	20,103	421,221	55,870	-	-	-	477,091	16.8%	-
Mr S Legge	2006	314,372	50,000	4,548	368,920	50,566	-	-	11,417	430,903	14.3%	-
	2005	270,241	50,000	5,380	325,621	44,228	-	-	-	369,849	13.5%	-
Ms D Wright	2006	209,299	25,000	23,992	258,291	32,555	-	-	5,708	296,554	10.4%	-
	2005	157,524	25,000	15,590	198,114	25,377	-	-	-	223,491	11.2%	-
Mr S Mitchinson	2006	183,323	-	-	183,323	16,499	-	31,202	-	231,024	-	13.5%
	2005	-	-	-	-	-	-	-	-	-	-	-
Mrs K Langtry	2006	175,009	-	-	175,009	15,751	-	28,608	-	219,368	-	13.0%
	2005	-	-	-	-	-	-	-	-	-	-	-
Mr G Savva	2006	282,581	-	-	282,581	24,808	-	8,287	-	315,676	-	2.6%
	2005	-	-	-	-	-	-	-	-	-	-	-
Mr W Pye	2006	211,029	2,956	5,458	219,443	37,507	-	-	-	256,950	1.2%	-
	2005	-	-	-	-	-	-	-	-	-	-	-
Former												
Mr P George, Managing Director B Digital Ltd (21/4/05 –7/2/06)	2006	263,993	-	-	263,993	21,369	-	220,000	-	505,362	-	43.5%
	2005	113,077	-	-	113,077	10,177	-	-	-	123,254	-	-
Total compensation: key management personnel (consolidated)	2006	3,086,329	237,956	98,592	3,422,877	392,836	410,042	288,097	53,659	4,567,511		
	2005	1,864,706	285,000	86,913	2,236,619	295,005	-	-	-	2,531,624		

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Directors' report (continued)
For the year ended 31 July 2006

4.4 Remuneration report (continued)

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

A. The short-term incentive bonus is for performance during the 31 July 2005 financial year using the criteria set out on page 9. The amount was finally determined on 20 December 2005 after performance reviews were completed and approved by the remuneration committee.

B. Mr M Simmons, Mr J Eather, Mr S Legge and Ms D Wright received shares as part of their remuneration under the executive bonus share scheme. The fair value of the shares was the market value of the shares purchased under the scheme for the executive. The fair value is allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed is the portion of the fair value of the options allocated to this reporting period.

Mr M Mitchinson, Mrs K Langtry, Mr G Savva and Mr P George received share options as part of their remuneration under B Digital Limited's executive share option plan. The fair value of the options is calculated at the date of grant using the Black-Scholes pricing model and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed is the portion of the fair value of the options allocated to this reporting period. In valuing the options, market conditions have been taken into account.

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

Grant Date	Expiry Date	Fair value per option	Exercise price	Price of shares on grant date	Expected volatility	Risk free interest rate	Exercise price (A)
Mr P George 13 September 2005	30 June 2015	44c	0.01c	44c	49%	5.1%	-
Other executives 13 September 2005	30 June 2015	40c	0.01c	40c	49%	5.1%	-

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

(B) The measurement dates for the assessment of the fair values of the options granted was 26th April 2005 for Mr P George and 28th June 2005 for the other executives.

4.4.3 Analysis of bonuses included in remuneration - unaudited

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

	Long term incentive bonus		
	Included in remuneration $ (A)	% vested in year	% forfeited in year
Executives			
Mr M Simmons	18,267	-	-
Mr J Eather	18,267	-	-
Mr S Legge	11,417	-	-
Ms D Wright	5,708	-	-

(A) Amounts included in remuneration for the financial year represents the proportion of the benefits accrued to 31 July 2006 assuming all continuity of service criteria are satisfied.

SP Telemedia Limited and its controlled entities
Directors' report (continued)
For the year ended 31 July 2006

4.4 Remuneration report (continued)

4.4.4 Equity instruments – audited

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

4.4.4.1 Options and rights over equity instruments granted as compensation

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

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

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

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

4.4.4.2 Modification of terms of equity-settled share-based payment transactions

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

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Directors' report (continued)
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4.4 Remuneration report (continued)

4.4.4.3 Exercise of options granted as compensation

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

	Number of shares	Amount paid $/share (A)
Executives		
Mr P George	500,000	-

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

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

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

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

	Options granted		% vested in year	% Forfeited in year (A)	Financial years in which grant vests	Value yet to vest $	
	Number	Date				Min	Max (B)
Executives							
Mr P George	1,000,000	13 September 2005	50%	Nil	31 July 2006	Nil	Nil
Mr S Mitchinson	173,200	13 September 2005	Nil	Nil	31 July 2006/07/08	Nil	37,922
Mrs K Langtry	158,800	13 September 2005	Nil	Nil	31 July 2006/07/08	Nil	34,769
Mr G Savva	46,000	13 September 2005	Nil	Nil	31 July 2006/07/08	Nil	10,072

(A) The % forfeited in the year represents the reduction from the maximum number of options available to vest due to the highest level performance criteria not being achieved. As at 31 July 2006, Mr P George had 500,000 options yet to vest. On 11th August 2006 Mr P George forfeited these remaining unexercised options.

(B) The maximum value of options yet to vest is not determinable as it depends on the market price of shares of the Company on the Australian Stock Exchange at the date the option is exercised. The maximum values presented above are based on the assumptions that the share price on the date the option is exercised does not exceed $0.40 for the grants issued. These share prices represent a maximum price included in the volatility assumptions within the valuation of the options.

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4.4 Remuneration report (continued)

4.4.4.5 Analysis of movements in options - unaudited

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

	Value of Options			
	Granted in year $ (A)	Exercised in year $ (B)	Forfeited in year $ (C)	Total option value in year $
Mr P George	440,000	220,000	-	660,000
Mr S Mitchinson	69,124	-	-	69,124
Mrs K Langtry	63,377	-	-	63,377
Mr G Savva	18,359	-	-	18,359
	590,860	220,000	-	810,860

(A) The value of options granted in the year is the fair value of the options calculated at grant date using the Black-Scholes option pricing model. The total value of the options granted is included in the table above. This amount is allocated to remuneration over the vesting period (i.e. in years 1 August 2005 to 31 July 2008).

(B) The value of options exercised during the year is calculated as the market price of shares of the Company on the Australian Stock Exchange at grant date as the shares issued from the exercise of the options are issued for no consideration.

(C) As at 31 July 2006 Mr P George had 500,000 options yet to vest. On 11th August 2006 Mr P George forfeited these remaining unexercised options.

4.5 Audit committee

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

The members of the audit committee during the year were:
- Mr W Cleaves (Chairperson) – Independent Non-Executive
- Mr M Millner
- Mr P Robinson

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

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Directors' report (continued)
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4.5 Audit committee (continued)

The chief executive officers and the chief financial officer declared in writing to the board that the financial records of the Company for the financial year have been properly maintained, the Company's financial reports for the financial year ended 31 July 2006 comply with accounting standards and present a true and fair view of the Company's financial condition and operational results. This statement is required annually.

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

The responsibilities of the audit committee include:
- reviewing the annual, half- and other financial information distributed externally. This includes approving new accounting policies to ensure compliance with Australian Equivalents to International Reporting Standards (AIFRS), and assessing whether the financial information is adequate for shareholder needs
- assessing corporate risk assessment processes
- reviewing the Company's policies and procedures for convergence with Australian Equivalents to International Reporting Standards (AIFRS) for reporting periods beginning on 1 August 2005
- assessing the performance and objectivity of the internal audit function
- assessing whether non-audit services provided by the external auditor are consistent with maintaining the external auditor's independence. Each reporting period the external auditor provides an independence declaration in relation to the audit or review
- providing advice to the board in respect of whether the provision of the non-audit services by the external auditor is compatible with the general standard of independence of auditors imposed by the Corporations Act 2001
- assessing the adequacy of the internal control framework and the Company's code of ethical standards
- organising, reviewing and reporting on any special reviews or investigations deemed necessary by the board
- monitoring the procedures to ensure compliance with the Corporations Act 2001 and the ASX Listing Rules and all other regulatory requirements
- addressing any matters outstanding with auditors, Australian Taxation Office, Australian Securities and Investments Commission, ASX and financial institutions.

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

4.6 Risk management

Oversight of the risk management system

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

Risk management and compliance and control

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

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

Comprehensive practices have been established to ensure:

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

SP Telemedia Limited and its controlled entities
Directors' report (continued)
For the year ended 31 July 2006

4.6 Risk management (continued)

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

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

Convergence with Australian equivalents to International Financial Reporting Standards (AIFRS) has been a key financial reporting project during the financial year ended 31 July 2006. Details of the impact of transition from previous Australian Generally Accepted Accounting Principles (AGAAP) to AIFRS on the financial report for the financial year ended 31 July 2006 is included in note 37 to the financial statements.

Environmental regulation

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

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

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

Conflict of interest
Directors must keep the board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. Where the board believes that a significant conflict exists for a director on a board matter, the director concerned does not receive the relevant board papers and is not present at the meeting whilst the item is considered. Details of director related entity transactions with the Company and consolidated entity are set out in note 33 to the financial statements.

SP Telemedia Limited and its controlled entities
Directors' report (continued)
For the year ended 31 July 2006

4.7 Ethical standards (continued)

Code of conduct (continued)

Trading in general Company securities by directors and employees

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

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

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

4.8 Communication with shareholders

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

In summary, the Continuous Disclosure Policy operates as follows:

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

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

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

5. Principal activities

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

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

SP Telemedia Limited and its controlled entities
Directors' report (continued)
For the year ended 31 July 2006

6. Operating and financial review

Overview of the consolidated entity

SP Telemedia Limited reported a Net Profit after Tax attributable to equity holders of $8.2 million for the year compared to $15.8 million last year.

Despite the reduction in Reported Earnings for the 2006 financial year, Directors have shown confidence in the future earnings of the Company by maintaining the final fully franked dividend at 1.2 cents per share.

This in effect represents an increase in dividend payable of 15% to $4.863 million compared to the final dividend paid last year. Share capital increased during the year by the issue of 50 million shares to WIN Television representing a 12.3% interest in the Company.

When combined with the interim dividend of 1.2 cents per share (fully franked) ($4.242 million) total dividends amount to $9.1 million.

SP Telemedia Limited's reported Net Profit was impacted by a number of significant one-off items, including:

- The first time adoption of AIFRS;
- Non-recurring management restructure and operational rationalisation in B Digital Limited (in which SP Telemedia has a 46% equity interest);
- Losses incurred within the SOUL Voice (SPTCom Pty Ltd) business, which is now trading profitably;
- Non-recurring major write-offs by B Digital on its investment in the B Shop joint venture.
- Other non-recurring significant items in B Digital, including write-off of assets and receivables recorded in prior periods.

Net Profit after Tax attributable to equity holders but before significant items (Normalised Earnings) was $17.023 million which is 1% down on last year's result of $17.230 million.

The financial results for this year compared to last financial year are summarised below:

SP Telemedia Limited and its controlled entities
Directors' report (continued)
For the year ended 31 July 2006
6. Operating and financial review (continued)

In thousands of AUD	FY06 Reported	FY06 Normalised	FY05 Reported	FY05 Normalised
Revenue & other income	490,588	490,588	224,300	224,300
Gross Profit	151,625	151,625	80,158	80,158
Expenses	115,021	110,919	45,664	45,664
Share of JV profits/(losses)	(3,905)	3,778	1,529	1,529
EBITDA	32,699	44,484	36,023	36,023
Earnings before Tax	5,716	29,907	21,568	26,394
Group Net Profit after tax	2,761	22,400	17,168	20,546
Net Profit after Tax attributable to equity holders of the company	**8,166**	**17,023**	**15,778**	**17,230**
Company Contributions				
SOUL Media (NBN Group)	7,852	7,852	7,824	7,824
SOUL Data (SPT Group)	6,845	6,845	7,647	7,647
SOUL Voice (SPTCom P/L)	(3,129)	(3,129)	(2,609)	(2,609)
B Digital	(3,402)	5,455	2,916	4,368
SOT NPAT	**8,166**	**17,023**	**15,778**	**17,230**

The Earnings per Share (EPS) for the current financial year has been effected by the increase in the share capital of the Company following the issue of shares to WIN Television to acquire the remaining 50% interest in the two joint venture companies SPT and Kooee. EPS for the current and last year is as follows:

	Reported	Normalised
EPS FY06	2.3	4.8
EPS FY05	4.6	5.0

SP Telemedia Limited and its controlled entities
Directors' report (continued)
For the year ended 31 July 2006
6. Operating and financial review (continued)

The consolidated entity's Reported Earnings after tax are reconciled to Normalised Earnings as follows:

In thousands of AUD		**FY06**	**FY05**
Reported Net Profit after Tax attributable to Members of the parent company		8,166	15,778
Amortisation of Non-Current Intangibles and Significant Items			
i)	Amortisation of Non-Current Intangibles	3,930	1,452
ii)	Employee share option expense (B Digital)	191	-
iii)	Joint Venture Losses – B Shop (B Digital)	3,477	-
iv)	Assets recognised in a prior period written off (B Digital)	271	-
v)	Restructuring Costs (B Digital)	326	-
vi)	Other items in B Digital	662	-
Net Profit after Tax before Amortisation and Significant Items		$17,023	$17,230

NOTES:

i) Amortisation of Non-Current Intangible assets acquired upon the Company's investment in B Digital.

ii) New AIFRS accounting policy requires the expensing of employee share options in B Digital.

iii) Write-off of investment loans, and losses in B Shop Joint Venture by B Digital.

iv) Receivables and assets recorded by B Digital last financial year which are not recoverable.

v) Redundancy payments and other costs incurred by B Digital in a management restructure and rationalisation of operations.

vi) Aggregated significant matters adjusted in B Digital.

6. Operating and financial review (continued)

SOUL Media (NBN Television)

Whist the financial year was a difficult one from a market revenue perspective the Company's television operations are well placed to benefit from any upswing in the advertising market.

Media operations contributed an EBITDA of $18.145 million, up 3.5% on last year, whilst NPAT of $7.852 million was marginally up on last year. This result was achieved on the back of a 1% increase in revenues. Television advertising market growth for Northern NSW for this period was marginally higher at 1.4%, with NBN achieving a 42.5% share of market revenue, slightly down on the prior year.

Television ratings in this period have been exceptional, with NBN finishing the 2005 calendar year with audience growth, and the highest market audience share of any station in Australia. This result has been improved upon in 2006, with NBN's year to date performance reflecting an 8% increase in viewing, and a 2.7 point increase in audience share – the highest increase recorded by any station in Australia for the year to date. NBN's year to date audience share of 34.2% is over 4 points higher than the National average for Nine Network stations in capital cities, and is again Australia's highest audience share. The Seven Network affiliate in this market Prime, is averaging just 24.4%, some 10 points behind NBN, and is the lowest share for any Seven Network or affiliate across Australia. NBN has not lost a week of official ratings since the 2004 Athens Olympics. The strength of this result is based around the continued dominance of NBN's locally produced Hour of News, which has grown its audience year to date by some 8%, as has A Current Affair which screens at 7pm weeknights. These results auger well for the upcoming 12 month period.

The media operations have also expanded in the last six months into new media production and event production, and it is anticipated that these initiatives will deliver strong new revenue streams in future years.

SOUL Telecommunications

While the focus for the year under review has been on the integration of the B Digital and SPTCom (*SOUL Voice* – the former Comindico operation) businesses, there have been other major achievements that will continue to impact positively on the company's future earnings:

- The introduction and marketing of the new "Soul" brand, with a major national advertising and promotional campaign being conducted.

- New voice contracts for SPTCom's IP Network have resulted in *SOUL Voice* recording profits after tax for the first time in June and July 2006.

- Launch of a new IP network product in 2006 to the SME market, which will target a previously untapped market.

- The formation of 'Ausalliance' with Austar and Unwired for the delivery of broadband products and services to regional Australia. This alliance will introduce alternative competitive broadband infrastructure to regional Australia which is a key objective of the Federal Government's Broadband "Connect Australia" program. Ausalliance is hopeful of being a major beneficiary of Connect Australia funding.

- Acquisition of a 43% interest in B Digital in May 2005 and subsequent increase to a 46% investment in October 2005.

SP Telemedia Limited and its controlled entities
Directors' report (continued)
For the year ended 31 July 2006
6. Operating and financial review (continued)

- The Company has secured a number of major new contracts in Queensland, Victoria and the ACT which will provide excellent platforms for further growth in these states and territory.

- The NSW State Government Network was formally accepted on 1st March and the significant opportunities arising from this major network build will begin to flow over the next 18 months including potential new voice opportunities.

- The Company acquired the remaining 50% interest in the SPT and Kooee joint ventures previously owned by WIN Television in July 2006 taking the Company's holding to 100% of the SPT Joint Venture, and 50% of the Kooee Joint Venture.

SP Telemedia has announced an offer to acquire the shares in B Digital Limited that it does not already own. The offer price for B Digital is 16 cents per share. This offer became possible when Soul entered into a pre-bid agreement with a company connected with Nick Katzohambos, B Digital's second largest shareholder. Mr. Kotzohambos, who through his company owns 20.8% of B Digital's ordinary shares, has granted Soul an option over 3% of the company's B Digital shares and has indicated his intention to accept the offer for the remainder of his shares in the absence of a higher offer.

Soul currently owns 45.8% of B Digital's ordinary shares. We believe this offer is a logical step and is in the interests of both companies and their shareholders.

SP Telemedia Limited and its controlled entities
Directors' report (continued)
For the year ended 31 July 2006

7. Dividends

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

	Cents per share	Total amount $'000	Franked/ unfranked	Date of payment
Declared and paid during the year 2006				
Interim 2006 ordinary	1.2	4,248	Franked	23 May 2006
Final 2005 ordinary	1.2	4,240	Franked	17 November 2005
Total amount		8,488		

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

Declared after end of year

After the balance sheet date the directors have declared a fully franked dividend of 1.2 cents per ordinary share payable 22 November 2006.

The financial effect of this dividend has not been brought to account in the financial statements for the year ended 31 July 2006 and will be recognised in subsequent financial reports.

SP Telemedia Limited and its controlled entities
Directors' report (continued)
For the year ended 31 July 2006

8. Events subsequent to reporting date

Since the end of the financial year the company has made a bid for the remaining 54% of the share capital in B Digital Limited that it does not already own. The offer is for 16 cents per ordinary share in B Digital Limited and closes 10 November 2006.

Other than the matter discussed above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity, in future financial years.

9. Likely developments

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

10. Directors' interests

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

	Shares in SP Telemedia Ltd	Shares in Washington H Soul Pattinson Ltd	Shares in B Digital Ltd
Mr R Millner	1,792,411	16,174,025	-
Mr M Millner	1,763,522	15,809,005	-
Mr P Robinson	123,556	74,210	-
Mr D Fairfull	144,445	60,000	-
Mr D Ledbury	178,223	30,000	50,000
Mr W Cleaves	49,889	-	15,000
Mr A Gordon	-	-	-

11. Share options

Shares issued on exercise of options

During or since the end of the financial year, the Company issued ordinary shares as a result of the exercise of options as follows (there were no amounts unpaid on the shares issued):

Number of shares	Amount paid on each share
1,840,715	$0.167

SP Telemedia Limited and its controlled entities
Directors' report (continued)
For the year ended 31 July 2006

12. Indemnification and insurance of officers and auditors

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

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

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

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

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

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

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

- all non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the audit committee to ensure they do not impact the integrity and objectivity of the auditor; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in Professional Statement F1 *Professional independence*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Details of the amounts paid to the auditor of the Company, KPMG, and its related practices for audit and non-audit services provided during the year are set out in note 5 to the financial statements.

SP Telemedia Limited and its controlled entities
Directors' report (continued)
For the year ended 31 July 2006

14. Lead auditor's independence declaration
The Lead auditor's independence declaration is set out on page 97 and forms part of the directors' report for financial year ended 31July 2006.

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

This report is made with a resolution of the directors:

R Millner
Director

Dated at Sydney this 25th day of October 2006.

SP Telemedia Limited and its controlled entities
Income statements
For the year ended 31 July 2006

In thousands of AUD	*Note*	Consolidated 2006	Consolidated 2005	The Company 2006	The Company 2005
Revenue		490,571	224,300	-	-
Cost of sales		(338,963)	(144,142)	-	-
Gross profit		151,608	80,158	-	-
Other income	3	17	-	11,798	97,143
Selling & Distribution expenses		(89,214)	(24,217)	-	-
Administrative expenses		(39,041)	(30,840)	(177)	(125)
Intangible amortisation		(12,651)	(4,903)	-	-
Profit from operating activities	2	10,719	20,198	11,621	97,018
Financial income	6	3,093	1,920	1,780	1,199
Financial expenses	6	(4,191)	(2,079)	(702)	(189)
Net financing costs		(1,098)	(159)	1,078	1,010
Share of profit/(loss) of associates	15	(3,905)	1,529	-	-
Profit before tax		5,716	21,568	12,699	98,028
Income tax expense	7	(2,955)	(4,400)	(270)	(266)
Profit after tax for the year		2,761	17,168	12,429	97,762
Attributable to:					
Equity holders of the parent		8,166	15,778	12,429	97,762
Minority interest		(5,405)	1,390	-	-
Profit for the year		2,761	17,168	12,429	97,762
Earnings per share for profit attributable to the ordinary equity holders of the Company:					
Basic earnings per share from continuing operations	8	2.3	4.6		
Diluted earnings per share from continuing operations	8	2.3	4.6		
Dividends per share					
Ordinary shares	25	2.4	2.2		

The income statements are to be read in conjunction with the notes of the financial statements set out on pages 33 to 93

SP Telemedia Limited and its controlled entities Statements of recognised income and expense

For the year ended 31 July 2006

	Consolidated		The Company	
In thousands of AUD	**2006**	**2005**	**2006**	**2005**
Foreign exchange translation differences	(116)	(32)	-	-
Revaluation increment on acquisition of controlling interest in associate, formerly equity accounted, recognised in equity	1,864	-	-	-
Net income recognised directly in equity	1,748	(32)	-	-
Profit for the period	2,761	17,168	12,429	97,762
Total recognised income and expense for the period	4,509	17,136	12,429	97,762
Attributable to:				
Equity holders of the parent	9,977	15,763	12,429	97,762
Minority interest	(5,468)	1,373	-	-
Total recognised income and expense for the period	4,509	17,136	12,429	97,762

Other movements in equity arising from transactions with owners as owners are set out in note 25.

The statements of recognised income and expense are to be read in conjunction with the notes to the financial statements set out on pages 33 to 93.

SP Telemedia Limited and its controlled entities
Balance sheets
As at 31 July 2006

		Consolidated		The Company	
In thousands of AUD	*Note*	**2006**	**2005**	**2006**	**2005**
Assets					
Cash and cash equivalents	9	19,161	19,002	5	18
Trade and other receivables	10	94,349	71,235	5	164
Inventories	11	2,614	2,004	-	-
Intangibles	19	36,690	36,898	-	-
Assets held for sale	17	500	-	-	-
Current tax asset	14	36	104	15	104
Other	12	5,409	3,058	28	30
Total current assets		**158,759**	**132,301**	**53**	**316**
Receivables	10	440	20,696	75,723	35,265
Investments	13	47	47	310,644	302,517
Investments accounted for using the equity method	15	-	12,001	-	-
Deferred tax assets	16	4,493	3,089	760	1,030
Property, plant and equipment	18	148,796	99,161	-	-
Intangible assets	19	225,289	199,686	-	-
Other	12	5,337	7,494	-	-
Total non-current assets		**384,402**	**342,174**	**387,127**	**338,812**
Total assets		**543,161**	**474,475**	**387,180**	**339,128**
Liabilities					
Bank overdraft	9	6	-	6	-
Trade and other payables	20	81,964	73,470	224	1,749
Interest-bearing loans and borrowings	21	40,353	3,490	-	-
Employee benefits	22	4,002	3,597	-	-
Income tax payable	14	4,209	4,643	-	-
Provisions	23	224	121	-	-
Other	24	36,665	37,519	-	-
Total current liabilities		**167,423**	**122,840**	**230**	**1,749**
Interest-bearing loans and borrowings	21	39,517	42,903	14,240	6,122
Deferred tax liabilities	16	6,273	9,837	-	-
Employee benefits	22	2,580	2,422	-	-
Provisions	23	1,484	1,445	2,046	2,046
Other	24	7,621	353	-	-
Total non-current liabilities		**57,475**	**56,960**	**16,286**	**8,168**
Total liabilities		**224,898**	**179,800**	**16,516**	**9,917**
Net assets		**318,263**	**294,675**	**370,664**	**329,211**
Equity					
Issued capital	25	272,883	235,140	272,883	235,140
Reserves	25	1,929	80	(230)	-
Retained earnings	25	21,679	22,001	98,011	94,071
Total equity attributable to equity holders of the parent		296,491	257,221	370,664	329,211
Minority interest	25	21,772	37,454	-	-
Total equity	25	**318,263**	**294,675**	**370,664**	**329,211**

The balance sheets are to be read in conjunction with the notes to the financial statements set out on pages 33 to 93.

SP Telemedia Limited and its controlled entities
Statements of cash flows

For the year ended 31 July 2006

In thousands of AUD	*Note*	Consolidated 2006	Consolidated 2005	The Company 2006	The Company 2005
Cash flows from operating activities					
Cash receipts from customers		558,167	229,056	-	30
Cash paid to suppliers and employees		(529,348)	(201,037)	(59)	(315)
Cash generated from operations		28,819	28,019	(59)	(285)
Interest paid		(3,623)	(1,970)	-	-
Interest received		2,641	1,447	24	711
Income taxes received/(paid)		(9,508)	(4,717)	89	(47)
Net cash from operating activities	32	**18,329**	**22,779**	**54**	**379**
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment		117	107	-	-
Dividends received		-	250	3,798	-
Acquisition of subsidiary, net of cash acquired		(8,119)	(123,703)	(8,128)	(123,668)
Acquisition of property, plant and equipment		(13,425)	(8,177)	-	-
Security deposits		4,625	(554)	-	-
Loans to related parties		(20,109)	(5,156)	-	(6,307)
Loans from related parties		-	13,750	14,093	16,886
Net cash from investing activities		**(36,911)**	**(123,483)**	**9,763**	**(113,089)**
Cash flows from financing activities					
Proceeds from the issue of share capital		243	51,752	243	51,752
Payment of transaction costs		(1,590)	(4,385)	(1,590)	(4,385)
Proceeds from borrowings		5,000	26,000	-	-
Repayment of borrowings		(600)	(17,751)	-	-
Loans from parent entity		29,079	-	-	-
Payment of finance lease liabilities		(412)	-	-	-
Dividends paid		(12,985)	(19,994)	(8,489)	(5,994)
Net cash from financing activities		**18,735**	**35,622**	**(9,836)**	**41,373**
Net increase in cash and cash equivalents		153	(65,082)	(19)	(71,337)
Cash and cash equivalents at 1 August		19,002	84,106	18	71,355
Effect of exchange rate fluctuations on cash held		-	(22)	-	-
Cash and cash equivalents at 31 July	9	**19,155**	**19,002**	**(1)**	**18**

The statements of cash flows are to be read in conjunction with the notes to the financial statements set out on pages 33 to 93.

SP Telemedia Limited and its controlled entities
Notes to the consolidated financial statements

1. Significant accounting policies

SP Telemedia Limited and its controlled entities
Notes to the consolidated financial statements (continued)

SP Telemedia Limited and its controlled entities
Notes to the consolidated financial statements

1. Significant accounting policies

SP Telemedia Limited (the 'Company') is a company domiciled in Australia. The consolidated financial report of the Company for the financial year ended 31 July 2006 comprise the Company and its subsidiaries (together referred to as the 'consolidated entity') and the consolidated entity's interest in associates and jointly controlled entities.

The financial report was authorised for issue by the directors on 25th October 2006.

(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ('AASBs') adopted by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001. International Financial Reporting Standards ('IFRSs') form the basis of Australian Accounting Standards ('AASBs') adopted by the AASB, and for the purpose of this report are called Australian equivalents to IFRS ('AIFRS') to distinguish from previous Australian GAAP. The financial reports of the consolidated entity and the Company also comply with IFRSs and interpretations adopted by the International Accounting Standards Board.

This is the consolidated entity's first financial report prepared in accordance with Australian Accounting Standards, being AIFRS and IFRS, and AASB 1 *First-Time Adoption of Australian Equivalents to International Financial Reporting Standards* has been applied. An explanation of how the transition to AIFRS has affected the reported financial position, financial performance and cash flows of the consolidated entity and the Company is provided in note 37.

(b) Basis of preparation

The financial report is presented in Australian dollars.

The consolidated entity plans to adopt AASB 7, AASB 2005-9 and AASB 2005-10 in the 2007 financial year.

The initial application of AASB 7 and AASB 2005-10 is not expected to have an impact on the financial results of the Company and the consolidated entity as the standard and the amendment are concerned only with disclosures.

The initial application of AASB 2005-9 could have an impact on the financial results of the Company and the consolidated entity as the amendment could result in liabilities being recognised for financial guarantee contracts that have been provided by the Company and the consolidated entity. However, the quantification of the impact is not known or reasonably estimable in the current financial year as an exercise to quantify the financial impact has not been undertaken by the Company and the consolidated entity to date.

The financial report is prepared on the historical cost basis.

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 (updated by CO 05/641 effective 28 July 2005 and CO 06/51 effective 31 January 2006) and in accordance with that Class Order, amounts in the financial report and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

1. Significant accounting policies (continued)

(b) Basis of preparation (continued)

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. These accounting policies have been consistently applied by each entity in the consolidated entity.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial report and in preparing an opening AIFRS balance sheet at 1 August 2004 for the purposes of the transition to Australian Accounting Standards – AIFRS.

The accounting policies have been applied consistently by all entities in the consolidated entity.

(c) Basis of consolidation

(i) Subsidiaries

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

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

(ii) Associates

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

In the Company's financial statements, investments in associates are carried at fair value, with resulting revaluation gains and losses recognised in equity.

SP Telemedia Limited and its controlled entities
Notes to the consolidated financial statements

1. Significant accounting policies (continued)

(iv) Transactions eliminated on consolidation

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

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

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

(d) Foreign currency transactions

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

(e) Property, plant and equipment

(i) Owned assets

Items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation (see page 39) and impairment losses (see accounting policy j). The cost of self-constructed assets includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads.

SP Telemedia Limited and its controlled entities
Notes to the consolidated financial statements

1. Significant accounting policies (continued)

(e) Property, plant and equipment (continued)

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

(ii) Leased assets

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

(iii) Subsequent costs

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

(iv) Depreciation

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

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

- Property,plant and equipment 2.5-20 years
- Leasehold improvements 8 years

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

SP Telemedia Limited and its controlled entities
Notes to the consolidated financial statements

1. Significant accounting policies (continued)

(f) Intangible assets

(i) Goodwill

Business combinations

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

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

(ii) Television licence

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

(iii) Capitalised subscriber costs

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

SP Telemedia Limited and its controlled entities
Notes to the consolidated financial statements

1. Significant accounting policies (continued)

(f) Intangible assets (continued)

(iv) Other intangible assets

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

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

(v) Subsequent expenditure

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

(vi) Amortisation

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

- Television licence - indefinite life
- Customer contracts - 4 years
- Entitlements to airtime commission – 24 months

SP Telemedia Limited and its controlled entities
Notes to the consolidated financial statements

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

(g) Trade and other receivables

(i) Other trade and other receivables

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

(h) Inventories

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

(i) Cash and cash equivalents

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

(j) Impairment

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

SP Telemedia Limited and its controlled entities
Notes to the consolidated financial statements

1. Significant accounting policies (continued)

(j) Impairment (continued)

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

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

Goodwill and indefinite-lived intangible assets were tested for impairment at 1 August 2004, the date of transition to AIFRSs, even though no indication of impairment existed.

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is recognised in profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

(i) Calculation of recoverable amount

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

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

(ii) Reversals of impairment

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

An impairment loss in respect of goodwill is not reversed.

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

SP Telemedia Limited and its controlled entities
Notes to the consolidated financial statements

1. Significant accounting policies (continued)

(j) Impairment (continued)

(ii) Reversals of impairment (continued)

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

(iii) Derecognition of financial assets and liabilities

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

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

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

(k) Share capital

(i) Transaction costs

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

(l) Interest-bearing borrowings

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

SP Telemedia Limited and its controlled entities
Notes to the consolidated financial statements

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

(m) Employee benefits

(i) Long-term service benefits

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

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

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

(iii) Executive share option plan

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

(iv) General employee share plan

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

(v) Executive Bonus Share Scheme

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

(vi) Profit share and bonus plan

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

(vii) Superannuation

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

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

(n) Provisions

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

(o) Trade and other payables

Trade and other payables are stated at their amortised cost.

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

(p) Revenue

(i) Goods sold and services rendered

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

(ii) Sale of goods

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

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

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

(iii) Rendering of services

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

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

(iv) Income in advance

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

SP Telemedia Limited and its controlled entities
Notes to the consolidated financial statements

1. Significant accounting policies (continued)

(q) Expenses

(i) Operating lease payments

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

(ii) Finance lease payments

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

(iii) Net financing costs

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

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

(r) Income tax

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

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

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

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

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

SP Telemedia Limited and its controlled entities
Notes to the consolidated financial statements

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

(r) Income tax (continued)

Tax consolidation

A subsidiary, B Digital Limited and its wholly-owned Australian resident entities have formed a tax-consolidated group with effect from 1 July 2003 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is B Digital Limited.

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

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

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

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

Nature of tax funding arrangements and tax sharing arrangements

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

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

1. Significant accounting policies (continued)

(r) Income tax (continued)

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

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

(s) Segment reporting

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

(t) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet.

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

SP Telemedia Limited and its controlled entities
Notes to the consolidated financial statements

1. Significant accounting policies (continued)

(u) Accounting estimates and judgements

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

Key sources of estimation uncertainty

Note 19 contains information about the assumptions and their risk factors relating to goodwill impairment.

Impairment of goodwill and intangibles with indefinite useful lives

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

2. Segment reporting

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

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

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

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

Business segments

The consolidated entity comprises the following main business segments:

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

Geographical segments

The consolidated entity operates predominately in Australia.

2. Segment reporting (continued)

Business segments

In thousands of AUD	Media		Telecommunications		Eliminations/Unallocated		Consolidated	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**
Revenue from external customers:	79,776	79,709	410,795	144,591	-	-	490,571	224,300
Inter-segment revenue	2,518	1,928	10,020	2,566	(12,538)	(4,494)	-	-
Total revenue	82,294	81,637	420,815	147,157	(12,538)	(4,494	490,571	224,300
Segment result	13,302	13,461	(2,375)	11,343	(208)	(4,606)	10,719	20,198
Profit from operating activities							10,719	20,198
Net financing costs							(1,098)	(159)
Share of profit/(loss) of associates							(3,905)	1,529
Income tax expense							(2,955)	(4,400)
Profit for the period							2,761	17,168
Segment assets	165,580	161,370	377,644	345,628	(63)	(44,571)	543,161	462,427
Investment in associates	-	47	-	12,001	-	-	-	12,048
Total assets	165,580	161,417	377,644	357,630	(63)	(44,571)	543,161	474,475

SP Telemedia Limited and its controlled entities
Notes to the consolidated financial statements

2. Segment reporting (continued)

Business segments (continued)

	Media		Telecommunications		Eliminations/Unallocated		Consolidated	
In thousands of AUD	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**
Segment liabilities	63,128	62,817	246,721	152,069	(84,951)	(35,086)	224,898	179,800
Total liabilities							224,898	179,800
Cash flows from operating activities	10,912	14,018	7,362	7,636	54	1,125	18,329	22,779
Cash flows from investing activities	(16,601)	(10,645)	(26,349)	(43,354)	6,039	(69,484)	(36,911)	(123,483)
Cash flows from financing activities	5,000	(5,024)	19,773	26,773	(6,038)	13,873	18,735	35,622
Capital expenditure on fixed assets and intangible assets	4,136	197,375	100,351	121,855	-	-	104,487	319,230

SP Telemedia Limited and its controlled entities
Notes to the consolidated financial statements

3. Other Income

In thousands of AUD	Consolidated 2006	Consolidated 2005	The Company 2006	The Company 2005
Dividends	-	-	11,798	8,000
Net gain on disposal of non-current assets	17	-	-	89,143
	17	-	11,798	97,143

4. Expenses

In thousands of AUD	Consolidated 2006	Consolidated 2005	The Company 2006	The Company 2005
Profit before income tax includes the following specific expenses:				
Depreciation	13,596	9,390	-	-
Amortisation	12,651	4,903	-	-
Employee benefits	55,947	29,879	-	-

5. Auditors' remuneration

	Consolidated 2006	Consolidated 2005	The Company 2006	The Company 2005
Audit services				
Auditors of the Company				
KPMG Australia:				
Audit and review of financial reports	295,932	315,623	-	-
Other auditors				
Audit and review of financial reports	15,507	124,880	-	-
	311,439	440,503	-	-
Other services				
Auditors of the Company				
KPMG Australia				
Other assurance services	82,000	287,498	-	-
Taxation	18,000	-	-	-
Other auditors				
Taxation	203,000	-	-	-
Due diligence services	-	45,365	-	-
	303,000	332,863	-	-

6. Net financing costs

In thousands of AUD	Consolidated 2006	Consolidated 2005	The Company 2006	The Company 2005
Interest income	3,093	1,920	1,780	1,199
Interest expense	(4,191)	(2,079)	(702)	(189)
Net financing income/(costs)	(1,098)	(159)	1,078	1,010

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7. Income tax expense

Recognised in the income statement

In thousands of AUD	Consolidated 2006	Consolidated 2005	The Company 2006	The Company 2005
Current tax expense				
Current year	10,251	6,233	-	266
Adjustments for prior years	(320)	-	-	-
	9,931	6,233	-	266
Deferred tax expense				
Origination and reversal of temporary differences	(5,493)	(577)	270	2
Benefit of tax losses recognised	(1,483)	(1,256)	-	(2)
	(6,976)	(1,833)	270	-
Total income tax expense in income statement	2,955	4,400	270	266

Numerical reconciliation between tax expense and pre-tax net profit

In thousands of AUD	Consolidated 2006	Consolidated 2005	The Company 2006	The Company 2005
Profit before tax	5,716	21,568	12,699	98,028
Income tax using the domestic corporation tax rate of 30% (2005: 30%)	1,715	6,470	3,810	29,408
Increase/(decrease) in income tax expense due to:				
Non-deductible expenses	1,550	190	-	-
Rebatable dividends received	-	-	(3,540)	(2,400)
Non taxable gain on sale of investment	-	-	-	(26,742)
Share of joint venture entities net profit	10	119	-	-
Effect of tax losses recognised	-	(2,379)	-	-
	3,275	4,400	270	266
Under / (over) provided in prior years	(320)	-	-	-
Income tax expense on pre-tax net profit	2,955	4,400	270	266

Deferred tax recognised directly in equity

In thousands of AUD	*Note*	Consolidated 2006	Consolidated 2005	The Company 2006	The Company 2005
Relating to equity raising costs		-	470	-	470

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8. Earnings per share

	2006 Cents	2005 Cents
Basic earnings per share	2.3	4.6
Diluted earnings per share	2.3	4.6

Weighted average number of shares used as the denominator	2006 Number	2005 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	357,214,196	341,600,310
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	357,214,196	343,449,907

In thousands of AUD	2006 $'000	2005 $'000
Reconciliations of earnings used in calculating earnings per share		
Basic earnings per share		
Net profit	2,761	17,168
Net loss attributable to outside equity interest	(5,405)	1,390
Earnings used in calculating basic earnings per share	8,166	15,778
Diluted earnings per share		
Net Profit	2,761	17,168
Net loss attributable to outside equity interest	(5,405)	1,390
Earnings used in calculating diluted earnings per share	8,166	15,778

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9. Cash and cash equivalents

In thousands of AUD

	Consolidated		The Company	
Current	**2006**	**2005**	**2006**	**2005**
Bank balances	19,142	19,000	5	18
Cash	19	2	-	-
Cash and cash equivalents	19,161	19,002	5	18
Bank overdraft	(6)	-	(6)	-
Cash and cash equivalents in the statement of cashflows	19,155	19,002	(1)	18

10. Trade and other receivables

	Consolidated		The Company	
In thousands of AUD	**2006**	**2005**	**2006**	**2005**
Current				
Trade receivables	77,511	75,355	-	-
Less: Provision for impairment losses	(6,151)	(8,329)	-	-
Accrued income	6,555	1,247	-	-
Other receivables	16,434	2,954	5	164
Loan to joint venture entities	-	8	-	-
	94,349	71,235	5	164
Non-current				
Other receivables	6	10,603	-	-
Loans to related entities	324	256	-	-
Loans to key management personnel	110	110	-	-
Loan to joint venture entities	-	9,727	-	-
Loans to controlled entities	-	-	75,723	35,265
	440	20,696	75,723	35,265

11. Inventories

	Consolidated		The Company	
In thousands of AUD	**2006**	**2005**	**2006**	**2005**
Handsets, SIMS, accessories and tapes	2,614	2,004	-	-

12. Other Assets

	Consolidated		The Company	
In thousands of AUD	**2006**	**2005**	**2006**	**2005**
Current				
Prepayments	5,400	3,058	28	30
Other	9	-	-	-
	5,409	3,058	28	30
Non-current				
Term Deposits	4,150	1,651	-	-
Security deposits	1,187	5,843	-	-
	5,337	7,494	-	-

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13. Investments

In thousands of AUD	Consolidated 2006	Consolidated 2005	The Company 2006	The Company 2005
Non-current investments				
Investments in controlled entities- at cost	-	-	310,644	302,517
Investments in other corporations	47	47	-	-
	47	47	310,644	302,517

14. Current tax assets and liabilities

The current tax asset for the consolidated entity of $36,000 (2005:$104,000) and the company of $15,000 (2005: $104,000) represent the amount of income taxes recoverable in respect of current and prior financial periods and that arise from the payment of tax in excess of the amounts due to the relevant tax authority.

The current tax liability for the consolidated entity of $4,209,000 (2005: $4,643,000]) represent the amount of income taxes payable in respect of current and prior financial periods.

15. Investments accounted for using the equity method

In the financial statements of the company, investments in associates are accounted for using the equity method. The consolidated entity had the following investments in associates during the period:

Name	Principal activities	Reporting date	Ownership interest Consolidated 2006 %	Ownership interest Consolidated 2005 %	Investment carrying amount Consolidated 2006 $'000	Investment carrying amount Consolidated 2005 $'000
SPT Telecommunications Pty Ltd	Telecommunications Carrier	31 July	**100**	50	**-**	7,396
Kooee Pty Ltd	Telecommunications Retailer	30 June	**100**	50	**-**	419
B Shop Telecommunications Pty Ltd	Telecommunications Retailer	30 June	**-**	50	**-**	4,186
					-	12,001

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15. Investments accounted for using the equity method (continued)

	Revenues (100%)	Profit/(loss) (100%)	Share of associates net profit/(loss) recognised	Total assets (100%)	Total liabilities (100%)	Net assets as reported by associates (100%)	Share of associate's net assets equity accounted
2006							
SPT Telecommunications	38,997	(126)	(63)	-	-	-	-
B Shop Telecommunications Pty Ltd	22,011	(5,429)	(4,183)	-	-	-	-
Kooee Pty Ltd	19,304	(217)	341	-	-	-	-
	80,312	(5,772)	(3,905)	-	-	-	-
2005							
SPT Telecommunications	38,007	3,150	1,567	39,748	24,976	14,772	7,396
B Shop Telecommunications Pty Ltd	4,647	(370)	(302)	3,682	1,895	1,787	4,186
Kooee Pty Ltd	28,836	984	264	2,711	975	1,736	419
	71,490	3,764	1,529	46,141	27,846	18,295	12,001

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

	$ '000
Assets of B Shop:	
Cash at bank/on hand	112
Security deposits, bonds and sundry debtors	76
Inventory	1,144
Property, plant & equipment	500
	1,832
Liabilities of B Shop:	
Creditors	323
Taxes payable	88
Finance agreements	21
Provisions	416
	848
Net identifiable assets acquired	984
Purchase consideration	
Cash on settlement	200
Loans and advances extinguished	784
	984

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

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15. Investments accounted for using the equity method (continued)

In thousands of AUD	Consolidated	
	2006	**2005**
Contingent liabilities		
Share of associates' contingent liabilities in respect of bank guarantees	-	2,522
Commitments		
Share of associates' capital commitments	-	2,074

16. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

Consolidated

In thousands of AUD	*Assets* 2006	*Assets* 2005	*Liabilities* 2006	*Liabilities* 2005	*Net* 2006	*Net* 2005
Property, plant and equipment	1,248	1,223	3,512	3,721	(2,264)	(2,498)
Intangible assets	-	-	18,231	19,657	(18,231)	(19,657)
Investments	380	-	14	2,083	366	(2,083)
Receivables	1,159	2,004	3,652	4,398	(2,493)	(2,394)
Inventories	50	20	52	55	(2)	(35)
Other assets	-	-	-	48	-	(48)
Interest-bearing loans and borrowings	61	177	107	367	(46)	(190)
Employee benefits	1,726	1,676	-	32	1,726	1,644
Payables	248	307	-	-	248	307
Provisions	750	533	-	-	750	533
Other items	640	900	-	-	640	900
Unearned revenue	9,072	8,258	-	-	9,072	8,258
Tax value of loss carry-forwards recognised	8,454	8,515	-	-	8,454	8,515
Tax (assets) / liabilities	23,788	23,613	25,568	30,361	(1,780)	(6,748)
Set off of tax	(19,295)	(20,524)	(19,295)	(20,524)	-	-
Net tax (assets) / liabilities	4,493	3,089	6,273	9,837	(1,780)	(6,748)

The Company

In thousands of AUD	*Assets* 2006	*Assets* 2005	*Liabilities* 2006	*Liabilities* 2005	*Net* 2006	*Net* 2005
Employee benefits	*8*	-	-	-	*8*	-
Tax value of loss carry-forwards recognised	*121*	*130*	-	-	*121*	*130*
Equity raising costs	*631*	*900*	-	-	*631*	*900*
Tax (assets) / liabilities	*760*	*1,030*	-	-	*760*	*1,030*
Set off of tax	-	-	-	-	-	-
Net tax (assets) / liabilities	*760*	*1,030*	-	-	*760*	*1,030*

At 31 July 2006, a deferred tax liability of $27,648,000 (2005: $27,648,000) relating to an investment in a subsidiary has not been recognised because the Company controls whether the liability will be incurred and it is satisfied that it will not be incurred in the foreseeable future.

17. Assets classified as held for sale

The assets acquired in the formerly held jointly controlled entity, B Shop Telecommunications Pty Ltd are presented as held for sale following a decision in August 2006 to sell the assets to an independent retail operator. The assets held for sale consist of fit outs, fixtures and fittings for 33 retail stores which are carried at a fair value of $500,000 in the accounts at 31 July 2006.

18. Property, Plant and equipment

	Consolidated					
In thousands of AUD	Land	Plant and equipment	Leasehold improvements	Leased assets	Buildings	Total
Cost						
Balance at 1 August 2004	60	30,409	-			**30,469**
Acquisitions through business combinations	5,565	58,926		794	6,666	**72,107**
Additions	-	12,604	1,262	-	1	**13,867**
Disposals	-	(8,830)	-	(1)	-	**(8,831)**
Balance at 31 July 2005	5,625	93,109	1,418	793	6,667	**107,612**
Balance at 1 August 2005	5,625	93,109	1,418	793	6,667	**107,612**
Acquisitions through business combinations	-	49,295	500	-	-	**49,795**
Additions	-	14,272	83	28	9	**14,392**
Disposals	-	(593)	-	-	-	**(593)**
Assets classified as held for resale	-	-	(500)	-	-	**(500)**
Writedowns/write-offs	-	(869)	(285)	-	-	**(1,154)**
Balance at 31 July 2006	5,625	155,214	1,216	821	6,676	**169,552**

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18. Property, plant and equipment – (continued)

		Consolidated					
	Note	Land	Plant and equipment	Leasehold improvements	Leased assets	Buildings	Total
In thousands of AUD							
Depreciation and impairment losses							
Balance at 1 August 2004		-	7,525	-	-	-	**7,525**
Depreciation/amortisation charge for the year		-	9,027	128	88	147	**9,390**
Disposals		-	(8,464)	-	-	-	**(8,464)**
Balance at 31 July 2005		-	8,088	128	88	147	**8,451**
Balance at 1 August 2005		-	8,088	128	88	147	**8,451**
Depreciation charge for the year		-	12,683	217	339	152	**13,391**
Amortisation		-	205	-	-	-	**205**
Writedowns/write-offs		-	(869)	-	-	-	**(869)**
Disposals		-	(422)	-	-	-	**(422)**
Balance at 31 July 2006		-	19,685	345	427	299	**20,756**
Carrying amounts							
At 1 August 2004		60	22,884	-	-	-	**22,944**
At 31 July 2005		5,625	85,021	1,290	705	6,520	**99,161**
At 1 August 2005		5,625	85,021	1,290	705	6,520	**99,161**
At 31 July 2006		5,625	135,529	871	394	6,377	**148,796**

SP Telemedia Limited and its controlled entities
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18. Property, plant and equipment (continued)

Leased plant and machinery

The consolidated entity leases production equipment under a number of finance lease agreements. At the end of each of the leases the consolidated entity has the option to purchase the equipment at a beneficial price. At 31 July 2006, the net carrying amount of leased plant and machinery was $393,000 (2005: $705,000). The leased equipment secures lease obligations (see note 21).

19. Intangible assets

	Consolidated		The Company	
In thousands of AUD	2006	2005	2006	2005
Current				
Net capitalised subscriber costs	36,690	36,898	-	-
	36,690	36,898	-	-

Non current

	Goodwill	Acquired customer base	TV licence	Development costs	Total
Cost					
Balance at 1 August 2004	-	-	-	-	-
Acquisitions through business combinations	56,930	22,023	125,000	636	204,589
Other acquisitions	-	-	-	-	-
Balance 31 July 2005	56,930	22,023	125,000	636	204,589
Balance 1 August 2005	56,930	22,023	125,000	636	204,589
Acquisitions through business combinations	30,313	6,318	-	1,119	37,750
Other acquisitions	-	-	-	504	504
Balance 31 July 2006	87,243	28,341	125,000	2,259	242,843
Amortisation and Impairment					
Balance at 1 August 2004	-	-	-	-	-
Amortisation for the year	-	4,826	-	77	4,903
Balance 31 July 2005	-	4,826	-	77	4,903
Balance 1 August 2005	-	4,826	-	77	4,903
Amortisation for the year	-	12,519	-	132	12,651
Balance 31 July 2006	-	17,345	-	209	17,554
Carrying amounts					
At 1 August 2004	-	-	-	-	-
At 31 July 2005	56,930	17,197	125,000	559	199,686
At 1 August 2005	56,930	17,197	125,000	559	199,686
At 31 July 2006	87,243	10,996	125,000	2,050	225,289

19. Intangible assets (continued)

Amortisation

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

	Consolidated		The Company	
In thousands of AUD	2006	2005	2006	2005
Intangible amortisation	12,651	4,903	-	-

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

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

	Consolidated	
In thousands of AUD	2006	2005
NBN Television		
- Goodwill	25,782	25,782
- Television licence	125,000	125,000
SPT Telecommunications - Goodwill	28,881	-
B Digital Limited - Goodwill	32,580	31,148
	212,24:	181,930

The recoverable amount of the NBN television cash-generating unit is based on value in use calculations. Those calculations use cash flow projections based on actual operating results and the three-year business plan. Cash flows for a further seven-year period are extrapolated using a range of growth rates of between two and six percent and are appropriate because of the stability of the unit's earnings. Pre-tax discount rates of between nine and fourteen percent has been used in discounting the projected cash flows. The key assumptions used in determining the future cashflows were revenue and costs growth. A matrix approach was used whereby the cashflow generated by the unit was assessed using a range of revenue and cost growth percentages.

The recoverable amount of the B Digital cash-generating unit is based on value in use calculations. Those calculations use cash flow projections based on actual operating results and the three-year business plan. Cash flows for a further two-year period are extrapolated using a growth rate of two percent. A pre-tax discount rate of twelve percent has been used in discounting the projected cash flows. The key assumptions used in determining the future cashflows were revenue growth and gross margins achieved. These have been determined based on historical trends adjusted for the impact of new agreements.

The recoverable amount of the SPT Telecommunications cash-generating unit is based on value in use calculations. Those calculations use cash flow projections based on actual operating results and the three-year business plan. Cash flows for a further seven-year period are extrapolated using a growth rate of five percent. A pre-tax discount rate of twelve percent has been used in discounting the projected cash flows. The key assumptions used in determining the future cashflows were revenue growth and gross margins achieved. These have been determined based historical market growth trends adjusted for expectations from recently completed network builds as well as recent contract wins.

SP Telemedia Limited and its controlled entities
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20. Trade and other payables

In thousands of AUD	Consolidated 2006	Consolidated 2005	The Company 2006	The Company 2005
Amounts owed to director related entities	50	1,749	-	1,749
Other trade payables and accrued expenses	47,276	51,713	224	-
Non-trade payables and accrued expenses	34,638	20,008	-	-
	81,964	73,470	224	1,749

21. Interest-bearing loans and borrowings

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

In thousands of AUD	*Note*	Consolidated 2006	Consolidated 2005	The Company 2006	The Company 2005
Current liabilities					
Current portion of secured bank loans	*(i)*	2,300	2,900	-	-
Finance lease liabilities		185	576	-	-
Loan from parent entity	*(ii)*	29,740	-	-	-
Unsecured loan		8,128	14	-	-
		40,353	3,490	-	-
Non-current liabilities					
Secured bank loans	*(i)*	39,500	34,500	-	-
Finance lease liabilities		17	-	-	-
Loans from controlled entities	*34*	-	-	14,240	6,122
Loan from related parties		-	8,403	-	-
		39,517	42,903	14,240	6,122

(i) The bank loans are secured by interlocking debt and interest guarantees by SP Telemedia Limited, NBN Enterprises Pty Limited, NBN Limited and Soul Pattinson Telecommunications Pty Limited.

(ii) The parent entity loan is a loan from the consolidated entity's majority shareholder, Washington H Soul Pattinson Limited. Interest is charged at the current bank bill swap rate plus 0.5 percent. This loan has no fixed repayment date but has been classified as current as there is an intention to obtain additional bank finance to repay this loan.

21. Interest-bearing loans and borrowings (continued)

Financing facilities

In thousands of AUD	Consolidated 2006	Consolidated 2005	The Company 2006	The Company 2005
Secured bill acceptance facility	42,850	42,850	-	-
Equipment finance facility	750	750	-	-
	43,600	43,600	-	-
Facilities utilised at reporting date				
Secured bill acceptance facility	41,800	37,400	-	-
Equipment finance facility	-	-	-	-
	41,800	37,400	-	-
Facilities not utilised at reporting date				
Secured bill acceptance facility	1,050	5,450	-	-
Equipment finance facility	750	750	-	-
	1,800	6,200	-	-

Financing arrangements

Secured bill acceptance facility

The unused secured bill and equipment facility may be drawn-down at anytime. The secured bills are subject to both fixed and floating interest rates. Of the bills that are at a fixed interest rate $4,000,000 expires 31 July 2009.

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21. Interest-bearing loans and borrowings (continued)

Finance lease facility

The consolidated entity's lease liabilities are secured by leased assets of $393,000 (2005: $705,000) as in the event of default, the leased assets revert to the lessor.

Finance lease liabilities

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

	Consolidated					
	Minimum lease payments	**Interest**	**Principal**	**Minimum lease payments**	**Interest**	**Principal**
In thousands of AUD	**2006**	**2006**	**2006**	**2005**	**2005**	**2005**
Less than one year	191	(6)	185	443	(35)	408
Between one and five years	17	-	17	173	(5)	168
	208	(6)	202	616	(40)	576

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

The consolidated entity leases computer equipment under finance leases expiring from one to three years. At the end of the lease term, the consolidated entity has the option to purchase the equipment at market value.

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22. Employee benefits

In thousands of AUD

	Consolidated		The Company	
Current	**2006**	**2005**	**2006**	**2005**
Liability for annual leave	4,002	3,597	-	-
Non Current				
Liability for long-service leave	2,580	2,422	-	-

Share based payments

(i) Executive Share Option Plan

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

The ESOP provides for 49 (2005: 49) executives to receive options over ordinary shares of B Digital Limited. The number of options issued to each executive commensurated with market rates assessed for their respective roles. This was independently assessed as part of the total remuneration package to the executive.

All options expire on the earlier of their expiry date or termination of the executive's employment. Options may be exercised earlier than the expiry dates or where certain events occur such as where a takeover bid results in a bidder acquiring a relevant interest in mare than half of the issue shares in the company or where the executive ceases to be employed for a limited number of reasons (such as death, total disability, redundancy or retirement) or where the board exercises a discretion for an earlier exercise.

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

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

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

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

SP Telemedia Limited and its controlled entities
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22. Employee benefits (continued)

Once the number of options available under the performance hurdle has been determined, the number that may actually be exercised will be determined by reference to the following service hurdles:

- 50% of the options eligible for exercise upon satisfaction of the service hurdle will become available for exercise (i.e. vest) on 30 June 2007, provided the executive is still employed by a member of the consolidated entity on that date: and

- the remaining 50% of the options eligible for exercise upon satisfaction of the service hurdle will become available for exercise on 30 June 2008, provided the executive is still employed by a member of the consolidated entity on that date.

Options do not vest until the service criteria have been achieved. Each option is convertible to one ordinary share. As the options are low exercise price options, any options that are eligible for vesting will require the executive to pay $1 for the exercise of options, regardless of the number exercised.

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

	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
In thousands of options	**2006**	**2006**	**2005**	**2005**
Outstanding at the beginning of the period	-	3,259	-	-
Cancelled during the period	-	(587)	-	-
Exercised during the period	-	(735)	-	-
Granted during the period	-	-	-	3,259
Outstanding at the end of the period	-	1,937	-	3,259
Exercisable at the end of the period	-	1,937	-	3,259

The options have an expiry date of 30 June 2015.

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

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22. Employee benefits (continued)

Fair value of share options and assumptions	Key mgmt personnel 2006	Peter George 2006	Key mgmt personnel 2005	Peter George 2005
Fair value at measurement date per option	0.399	0.440	-	-
Share price (i)	0.399	0.440	-	-
Exercise price (ii)	-	-	-	-
Expected volatility (expressed as weighted average volatility used in the modelling Black-Scholes formula)	49%	49%	-	-
Option life (expressed as weighted average life used in the modelling under Black-Scholes formula)	10	10	-	-
Risk-free interest rate	5.10%	5.10%	-	-

(i) Market share price at grant date
(ii) Any options that are eligible for vesting will be require the executive to pay $1 each time they exercise any number of options

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

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

(ii) Executive Bonus Share Scheme

The consolidated entity has in place an Executive Bonus Share Scheme for selected executives. The scheme was established 6th June 2005. The scheme provides for selected executives to receive ordinary shares in the company.

Under the terms of the scheme a bonus pool is established for the selected executives. The annual bonus pool is equal to 1.6% of the consolidated entity's profit before interest expense, income tax, intangible amortisation and significant items. Half of this bonus pool is paid as a cash bonus to the selected executives while the remaining half must be taken as shares through the bonus share scheme.

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

During the year $255,000 was paid into the executive bonus share scheme for the benefit of 9 employees. As at 31 July 2006 a total of $25,500 had been recognised as an expense with the balance of $229,500 disclosed as a Treasury share reserve.

SP Telemedia Limited and its controlled entities
Notes to the consolidated financial statements

23. Provisions

In thousands of AUD

Consolidated	**Make good costs**	**Unexpired airtime**	**Termin-ation**	**Television licence**	**Lease increment**	**Total**
Balance 1 August 2005	-	*121*	160	1,224	61	1,566
Provisions made during the year	*165*	*8*	-	1,127	136	1,436
Provisions used during the year	-	*(70)*	-	(1,224)	-	(1,294)
Balance 31 August 2006	*165*	*59*	160	1,127	197	1,708
Current	*165*	*59*	-	-	-	224
Non-current	-	-	160	1,127	197	1,484
	165	*59*	160	1,127	197	1,708

The Company	**Indemnity**	**Total**
Balance 1 August 2005	2,046	2,046
Provisions made during the year	-	-
Provisions used during the year	-	-
Balance 31 August 2006	2,046	2,046
Current	-	-
Non-current	2,046	2,046
	2,046	2,046

24. Other liabilities

In thousands of AUD	**Consolidated 2006**	**Consolidated 2005**	**The Company 2006**	**The Company 2005**
Current liabilities				
Unearned revenue	33,548	33,588	-	-
Income in advance	3,117	3,931	-	-
	36,665	37,519	-	-
Non-current liabilities				
Unearned revenue	7,621	353	-	-

25. Capital and reserves

Consolidated *In thousands of AUD*	**Share capital**	**Foreign currency reserve**	**Share option reserve**	**Treasury share reserve**	**Revaluation reserve**	**Retained earnings**	**Total**	**Minority interest**	**Total equity**
Balance at 1 August 2004	119,488	-	-	-	-	12,217	131,705	-	131,705
Total recognised income and expense	-	(15)	-	-	-	15,778	15,763	1,373	17,136
Movement in share option reserve	-	-	95	-	-	-	95	-	95
Arising on acquisition	-	-	-	-	-	-	-	35,793	35,793
Shares issued to minority	-	-	-	-	-	-	-	288	288
Share options exercised	1,751	-	-	-	-	-	1,751	-	1,751
Transaction costs	(1,099)	-	-	-	-	-	(1,099)	-	(1,099)
Shares issued	115,000	-	-	-	-	-	115,000	-	115,000
Dividends to shareholders	-	-	-	-	-	(5,994)	(5,994)	-	(5,994)
Balance at 31 July 2005	**235,140**	**(15)**	**95**	**-**	**-**	**22,001**	**257,221**	**37,454**	**294,675**
Balance at 1 August 2005	235,140	(15)	95	-	-	22,001	257,221	37,454	294,675
Total recognised income and expense	-	(53)	-	-	1,864	8,166	9,977	(5,468)	4,509
Treasury share reserve arising	-	-	-	(230)	-	-	(230)	-	(230)
Movement in share option reserve	-	-	268	-	-	-	268	326	594
Additional interest purchased	-	-	-	-	-	-	-	(6,045)	(6,045)
Share options exercised	307	-	-	-	-	-	307	-	307
Transaction costs	(64)	-	-	-	-	-	(64)	-	(64)
Shares issued	37,500	-	-	-	-	-	37,500	-	37,500
Dividends to shareholders	-		-	-	-	(8,488)	(8,488)	(4,495)	(12,983)
Balance at 31 July 2006	**272,883**	**(68)**	**363**	**(230)**	**1,864**	**21,679**	**296,491**	**21,772**	**318,263**

SP Telemedia Limited and its controlled entities
Notes to the consolidated financial statements

25. Capital and reserves (continued)

Reconciliation of movement in capital and reserves

The Company *In thousands of AUD*	***Note***	**Share capital**	**Treasury share reserve**	**Retained earnings**	**Total equity**
Balance at 1 August 2004		119,488	-	2,303	121,791
Total recognised income and expense		-	-	97,762	97,762
Share options exercised		1,751	-	-	1,751
Transaction costs		(1,099)	-	-	(1,099)
Shares issued		115,000	-	-	115,000
Dividends to shareholders		-	-	(5,994)	(5,994)
Balance at 31 July 2005		235,140	-	94,071	329,211
Balance at 1 August 2005		235,140	-	94,071	329,211
Total recognised income and expense		-	-	12,429	12,429
Treasury share reserve movement		-	(230)	-	(230)
Share options exercised		307	-	-	307
Shares issued		37,500	-	-	37,500
Transaction costs		(64)	-	-	(64)
Dividends to shareholders		-	-	(8,488)	(8,488)
Balance at 31 July 2006		272,883	(230)	98,011	370,664

25. Capital and reserves (continued)

Share capital

In thousands of shares	The Company Ordinary shares 2006	2005
On issue at 1 August	353,367,969	273,664,897
Options exercised	1,840,715	10,485,384
Ordinary shares issued as consideration for purchase of 50% of SPT Telecommunications Pty Ltd and 50% of Kooee Pty Ltd	50,000,000	-
Ordinary shares issued as consideration for purchase of NBN	-	44,217,688
Share placement	-	25,000,000
On issue at 31 July	405,208,684	353,367,969

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

Foreign currency translation reserve

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

Revaluation reserve

The revaluation reserve relates to the value of contracted customers that was recognised on the consolidation of SPT Telecommunication Pty Ltd. This entity was previously equity accounted and the amount recognised in the reserve reflects 50% of the value of contracted customers that has arisen since the consolidated entity's initial investment in this company

Treasury share reserve

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

Share option reserve

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

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25. Capital and reserves (continued)

Dividends

Dividends recognised in the current year by the Company are:

In thousands of AUD	Cents per share	Total amount	Franked / unfranked	Date of payment
2006				
Interim 2006 ordinary	1.2	4,248	Franked	23 May 2006
Final 2005 ordinary	1.2	4,240	Franked	17 November 2005
Total amount		8,488		
2005				
Interim 2005 ordinary	1.0	3,533	Franked	23 May 2005
Final 2004 ordinary	0.75	2,461	Franked	17 November 2004
Total amount		5,994		

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

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

In thousands of AUD	Cents per share	Total amount	Franked / unfranked	Date of payment
Final ordinary	1.2	4,863	Franked	22 November 2006

The financial effect of these dividends have not been brought to account in the financial statements for the financial year ended 31 July 2006 and will be recognised in subsequent financial reports.

Dividends

In thousands of AUD	The Company 2006	2005
Dividend franking account		
30 per cent franking credits available to shareholders of SP Telemedia Limited for subsequent financial years	19,396	8,953

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

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

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends. The impact on the dividend franking account of dividends proposed after the balance sheet date but not recognised as a liability is to reduce it by $2,083,930 (2005: $1,817,321).

26. Financial instruments

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

Credit risk

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

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

Foreign currency risk

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

Finance lease liabilities

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

Trade and other receivables / payables

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

26. Financial instruments (continued)

Effective interest rates and repricing analysis

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

Consolidated		**2006**							**2005**						
In thousands of AUD	*Note*	**Effective interest rate**	**Total**	**6 months or less**	**6-12 months**	**1-2 years**	**2-5 years**	**More than 5 years**	**Effective interest rate**	**Total**	**6 months or less**	**6-12 months**	**1-2 years**	**2-5 years**	**More than 5 years**
Financial assets															
Cash and cash equivalents*		4.38%	19,161	19,161	-	-	-	-	4.42%	19,002	19,002	-	-	-	-
Receivables*		10.00%	142	142	-	-	-	-	8.58%	9,369	5,579	-	-	-	3,790
Financial liabilities															
Unsecured loan		-	-	-	-	-	-	-	13.48%	(14)	(6)	(6)	(2)	-	-
Bank loans		6.83%	(41,800)	(1,006)	(1,000)	(2,000)	(37,800)	-	6.49%	(37,400)	(1,000)	(1,000)	(2,000)	(33,400)	-
Loans from related parties		7.42%	(37,869)	(37,869)	-	-	-	-	10.00%	(8,403)	-	-	(8,403)	-	-
Finance lease liabilities*		9.76%	(202)	(157)	(29)	(16)	-	-	9.76%	(576)	(202)	(349)	(25)	-	-
			(60,574)	(19,729)	(1,029)	(2,016)	(37,800)	-		(18,022)	23,373	(1,355)	(10,430)	(33,400)	3,790

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

Company		**2006**							**2005**						
In thousands of AUD	*Note*	**Effective interest rate**	**Total**	**6 months or less**	**6-12 months**	**1-2 years**	**2-5 years**	**More than 5 years**	**Effective interest rate**	**Total**	**6 months or less**	**6-12 months**	**1-2 years**	**2-5 years**	**More than 5 years**
Financial assets															
Cash and cash equivalents		2.0%	5	5	-	-	-	-	3.65%	18	18	-	-	-	-
Financial liabilities															
Loans from related parties		6.50%	(14,240)	-	-	-	(14,240)	-	6.50%	(6,122)	-	-	-	(6,122)	-
Bank overdraft		7.70%	(6)	(6)	-	-	-	-	-	-	-	-	-	-	-
			(14,241)	(1)	-	-	(14,240)	-		(6,104)	18	-	-	(6,122)	-

SP Telemedia Limited and its controlled entities
Notes to the consolidated financial statements

27. Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	Consolidated		The Company	
In thousands of AUD	2006	2005	2006	2005
Less than one year	6,625	3,271	-	-
Between one and five years	17,981	10,556	-	-
More than five years	5,668	5,000	-	-
	30,274	18,827	-	-

28. Capital and other commitments

	Consolidated		The Company	
In thousands of AUD	2006	2005	2006	2005
Capital expenditure commitments				
Plant and equipment				
Contracted but not provided for and payable:				
Within one year	959	116	-	-

29. Contingencies

Contingent liabilities considered remote

Guarantees

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

(ii) The Company has guaranteed the bank facilities of certain controlled entities.

SP Telemedia Limited and its controlled entities
Notes to the consolidated financial statements

30. Consolidated entities

	Country of Incorporation	Ownership interest 2006	2005
Parent entity			
SP Telemedia Limited	Australia		
Subsidiaries			
Soul Pattinson Telecommunications Pty Limited	Australia	100	100
SPT Telecommunications Pty Limited	Australia	100	50
Kooee Communications Pty Limited	Australia	46	43
Kooee Pty Limited	Australia	73	21
NBN Enterprises Pty Limited	Australia	100	100
NBN Limited	Australia	100	100
NBN Investments Pty Limited	Australia	100	100
NBN Holdings Pty Limited	Australia	100	100
NBN Productions Pty Limited	Australia	100	100
SPTCom Pty Limited	Australia	73	72
Kooee Mobile Pty Limited	Australia	100	100
B Digital Limited	Australia	46	43
B Digital Investments Pty Limited	Australia	46	43
Digiplus Investments Pty Limited	Australia	46	43
Digiplus Holdings Pty Limited	Australia	46	43
Digiplus Pty Limited	Australia	46	43
Digiplus Limited	New Zealand	46	43
Codex Limited	New Zealand	46	43
Digiplus Contracts Pty Limited	Australia	46	43
Blue Call Pty Limited	Australia	46	43

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

SP Telemedia Limited and its controlled entities
Notes to the consolidated financial statements

31. Acquisitions of subsidiaries

Acquisition of NBN Enterprises Pty Ltd

On 1st August 2004 SP Telemedia 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. The operating results of this newly acquired entity have been included in the consolidated statement of financial performance since the date of acquisition. The acquisitions had the following effect on the consolidated entity's assets and liabilities.

Acquiree's net assets at the acquisition date

In thousands of AUD	Recognised values	Fair value adjustments	Carrying amounts
Property, plant and equipment	41,352	6,544	34,808
Intangible assets	125,000	50,361	74,639
Inventories	2		2
Deferred tax asset	12,344		12,344
Receivables	16,903		16,903
Investments	47		47
Other assets	1,211		1,211
Cash and cash equivalents	2,702		2,702
Interest-bearing loans and borrowings	(41,642)		(41,642)
Payables	(15,955)		(15,955)
Deferred tax liabilities	(17,071)	(17,071)	-
Provisions	(4,489)		(4,489)
Net identifiable assets and liabilities	120,404	39,834	80,570
Goodwill on acquisition	25,782		
Consideration	146,186		
Consideration satisfied through shares issued	(65,000)		
Loan to vendor offset	(21,000)		
Cash (acquired)	(2,702)		
Net cash outflow	57,484		

Acquisition of Comindico Australia's assets and business

On 1st December 2004 SP Telemedia Limited acquired the assets and business of Comindico Australia. The operating results of this newly acquired entity have been included in the consolidated statement of financial performance since the date of acquisition. The acquisitions had the following effect on the consolidated entity's assets and liabilities.

Net assets acquired

In thousands of AUD	*Note*	Fair values
Property, plant and equipment		27,546
Prepayments		796
Provisions		(687)
Net identifiable assets and liabilities		27,655
Goodwill on acquisition		-
Consideration paid, satisfied in cash		27,655
Cash (acquired)		-
Net cash outflow		27,655

SP Telemedia Limited and its controlled entities
Notes to the consolidated financial statements

31. Acquisitions of subsidiaries (continued)

Acquisition of Equity in B Digital Ltd

On 21st April 2005 SP Telemedia Limited acquired 43% of the issued share capital of B Digital Limited. The acquisition transaction included (i) The sale of Kooee Communications Pty Ltd to B Digital Ltd in return for 29% of the issued capital of B Digital Ltd and the repayment of a debt satisfied by the issue of new share capital in SPTCom Pty Ltd to the value of $13,750,000 and (ii) The purchase of a further 14% of the share capital of B Digital Ltd for $49,450,000. The operating results of B Digital Ltd have been included in the consolidated statement of financial performance since the date of acquisition. The acquisitions had the following effect on the consolidated entity's assets and liabilities.

Acquiree's net assets at the acquisition date

In thousands of AUD	***Note***	**Recognised values**	**Fair value adjustments**	**Carrying amounts**
Property, plant and equipment		3,243		3,243
Intangible assets		58,226	(31,765)	89,991
Inventories		2,652		2,652
Investments		4,303		4,303
Trade and other receivables		69,837		69,837
Deferred tax assets		18,103		18,103
Other assets		3,044	(1,208)	4,252
Cash and cash equivalents		15,715		15,715
Interest-bearing loans and borrowings		(8,912)		(8,912)
Deferred tax liabilities		(22,590)	(6,607)	(15,983)
Other liabilities		(38,860)		(38,860)
Provisions		(1,153)		(1,153)
Trade and other payables		(42,346)	(139)	(42,207)
Net identifiable assets and liabilities		61,262	(39,719)	100,981
Less Outside equity interests		(34,981)		
		26,281		
Goodwill on acquisition		28,811		
Consideration		55,092		
Consideration satisfied by the sale of shares in controlled entity		(813)		
Cash (acquired)		(15,715)		
Net cash outflow		38,564		

The consolidated entity acquired an additional 24,800,000 ordinary shares (3% of the issued ordinary shares) in B Digital Limited on 31 October 2005. The effect of this acquisition was the recognition of goodwill of $1,468,846, an intangible asset for acquired customer base of $878,373 and a deferred tax liability of $263,515.

SP Telemedia Limited and its controlled entities
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31. Acquisitions of subsidiaries (continued)

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

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

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

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

* Includes transaction fees and stamp duty

Kooee Pty Limited's net assets at the acquisition date

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

* Includes transaction fees and stamp duty

SP Telemedia Limited and its controlled entities
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32. Reconciliation of cash flows from operating activities

	Consolidated		The Company	
In thousands of AUD	2006	2005	2006	2005
Cash flows from operating activities				
Profit for the period	2,761	17,168	12,429	97,762
Adjustments for:				
Depreciation	13,596	9,390	-	-
Amortisation	12,651	4,903	-	-
Interest income	(3,093)	(1,920)	(1,780)	(1,199)
Interest expense	4,191	2,079	702	189
Dividends from controlled entities	-	-	(11,798)	(8,000)
Share of profit of associates net of dividends received	3,905	(1,529)	-	-
Net gain on sale on non-current asset	-	-	-	(89,143)
Income tax expense	2,955	4,400	270	266
Operating profit before changes in working capital and provisions	36,966	34,491	(447)	(125)
Changes in operating assets and liabilities adjusted for effects from purchase of controlled entities during the financial year:				
(Increase)/decrease in trade and other receivables	(8,845)	2,261	159	(154)
(Increase)/decrease in inventories	(610)	650	-	-
(Increase)/decrease in other assets	3,748	(7,888)	2	(6)
(Decrease)/increase in trade and other payables	(4,614)	(1,724)	227	-
(Decrease)/increase in other liabilities	6,414	(988)	-	-
(Decrease)/increase in employee benefits	436	1,921	-	-
(Decrease)/Increase in provisions	(4,676)	(704)	-	-
	28,819	28,019	(59)	(285)
Interest paid	(3,623)	(1,970)	-	-
Income taxes paid	(9,508)	(4,717)	89	(47)
Interest received	2,641	1,447	24	711
Net cash from operating activities	18,329	22,779	54	379

33. Key management personnel disclosures

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

Non-executive directors
Mr Robert Millner, Chairman
Mr Michael Millner
Mr David Fairfull
Mr Peter Robinson
Mr Denis Ledbury
Mr William Cleaves

Executives
Mr Michael Simmons, CEO Telecomunications
Mr Jeff Eather, CEO Media
Mr Steve Legge, Group Chief Operating Officer
Ms Deborah Wright, NBN Station Manager
Mr Steve Mitchinson, General Manager, B Digital
Mr Warrick Pye, Group Sales Manager
Mrs Karen Langtry, Operations Manager, B Digital
Mr George Savva, Group National Dealer Sales Manager, B Digital

33. Key management personnel disclosures for disclosing entities (continued)

Key management personnel compensation (continued)

The key management personnel compensation included in 'employee expenses' (see note 4) are as follows:

In AUD	Consolidated		The Company	
	2006	**2005**	**2006**	**2005**
Short-term employee benefits	3,422,877	2,236,619	-	-
Post-employment benefits	392,836	295,005	-	-
Termination benefits	410,042	-	-	-
Equity compensation benefits	341,756	-	-	-
	4,567,511	2,531,624	-	-

Individual directors and executives compensation disclosures

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

Apart from the details disclosed in this note, no director has entered into a material contract with the Company or the consolidated entity since the end of the previous financial year and there were no material contracts involving directors' interests existing at year-end.

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

As the beginning of the financial year Mr D Ledbury and Mr J Eather had interest free loans of $109,500 each in relation to retirement benefits. On Mr D Ledbury's retirement from his position of managing director on 1st August 2005 he repaid this loan. The loan to Mr J Eather of $109,500 remains at 31 July 2006.

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

A number of these entities transacted with the Company or its subsidiaries in the reporting period. The terms and conditions of the transactions with management persons and their related parties 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.

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

33. Key management personnel disclosures (continued)

Options holdings

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

	Held at 1 August 2005	Granted as compensation	Exercised	Other changes*	Held at 31 July 2006	Vested during the year	Vested and exercisable at 31 July 2006
Options in SP Telemedia Limited							
Directors							
Mr P Robinson	8,000	-	8,000	-	-	-	-
Mr D Fairfull	10,000	-	-	(10,000)	-	-	-
Mr D Ledbury	4,000	-	4,000	-	-	-	-
Mr W Cleaves	2,000	-	2,000	-	-	-	-
Options in B Digital Limited							
Executives							
Mr S Mitchinson	-	173,200	-	-	173,200	173,200	173,200
Mrs K Langtry	-	158,800	-	-	158,800	158,800	158,800
Mr G Savva	-	46,000	-	-	46,000	46,000	46,000

* Other changes represent options that expired or were forfeited during the year.

No options held by key management personnel are vested but not exercisable.

Movements in shares

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

	Held at 1 August 2005	Purchases	Received on exercise of options	Sales	Held at 31 July 2006
Shares in SP Telemedia Limited					
Directors					
Mr R Millner	1,051,557	740,854	-	-	1,792,411
Mr M Millner	1,022,668	740,854	-	-	1,763,522
Mr P Robinson	115,556	-	8,000	-	123,556
Mr D Fairfull	144,445	-	-	-	144,445
Mr D Ledbury	174,223	-	4,000	-	178,223
Mr W Cleaves	28,889	19,000	2,000	-	49,889
Executives					
Mr M Simmons	45,393	-	-	-	45,393
Mr J Eather	108,500	-	-	-	108,500

SP Telemedia Limited and its controlled entities
Notes to the consolidated financial statements

33. Key management personnel disclosures (continued)

Movements in shares

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

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

SP Telemedia Limited and its controlled entities
Notes to the consolidated financial statements

34. Non-key management personnel disclosures

Identity of related parties

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

Other related party transactions

Subsidiaries

Loans are made by the Company to wholly owned subsidiaries.

During the 2006 financial year, the Company loaned $36,428,822 to one of its subsidiaries Soul Pattinson Telecommunications Pty Limited. Interest is charged on the loan at 6.5% with no fixed date for the loan to be repaid. At 31 July 2006, the amount owed to the Company was $65,267,727 (2005: $28,838,905).

During the 2006 financial year, the Company was loaned $4,118,727 by one of its subsidiaries NBN Limited. Interest is charged on the loan at 6.5% with no fixed date for the loan to be repaid. At 31 July 2006, the amount owed by the Company was $14,240,425 (2005: $6,121,698).

During the 2006 financial year, the Company loaned $28,881 to one of its subsidiaries SPTCom Pty Limited. Interest is charged on the loan at 6.5% with no fixed date for the loan to be repaid. At 31 July 2006, the amount owed to the Company was $6,454,095 (2005: $6,425,214).

During the 2006 financial year, the Company loaned $4,000,000 to one of its subsidiaries NBN Enterprises Pty Limited. Interest is charged on the loan at 6.5% with no fixed date for the loan to be repaid. At 31 July 2006, the amount owed to the Company was $4,000,000 (2005: $Nil).

Associates

During the financial year ended 31 July 2006, joint venture entities purchased goods and services from the consolidated entity in the amount of $4,464,137 (2005: $4,739,872). At 31 July 2006 the consolidated entity does not have any equity accounted joint ventures and thus does not have any loan balances with joint ventures. Transactions with joint ventures were priced on an arm's length basis. No dividends were received from joint ventures in the 2006 or 2005 financial years.

Parent Entity

During the 2006 financial year, the Consolidated entity was loaned $29,585,979 by its parent entity Washington H Soul Pattinson Limited. Interest is charged on the loan at 6.7% with no fixed date for the loan to be repaid. At 31 July 2006, the amount owed to the Company was $29,742,002 (2005: Nil).

35. Economic dependency

NBN Limited acquires the majority of the television programs it broadcasts from the Nine Network pursuant to a program supply agreement. The program supply agreement expires 30 June 2007.

The B Digital group has a Service Provider Agreement with Optus Mobile Pty Limited for the supply of fixed line, mobile and internet services for its customers until 30 January 2007 and for the supply of mobile services for the B Mobile customers that expires in February 2009. It also has an agreement with Optus Wholesale Pty Ltd incorporating mobile services, data transmission services and access to Optus' Unbundled Local Loop. These agreements are fundamental to the continued operations of the B Digital group, in particular, the continuity and pricing of services provided by Optus and the ownership of the subscriber base.

36. Subsequent events

Subsequent to the balance sheet date, the company has made a bid for the remaining 54% of the share capital in B Digital Limited that it does not already own. The offer is for 16 cents per ordinary share in B Digital Limited and closes 10 November 2006.

SP Telemedia Limited and its controlled entities
Notes to the consolidated financial statements

37. Explanation of transition to AIFRSs

Reconciliation of equity

	Consolidated						The Company					
	Previous GAAP	Effect of transition to AIFRSs	AIFRSs	Previous GAAP	Effect of transition to AIFRSs	AIFRSs	Previous GAAP	Effect of transition to AIFRSs	AIFRSs	Previous GAAP	Effect of transition to AIFRSs	AIFRSs
In thousands of AUD	1 August 2004			31 July 2005			1 August 2004			31 July 2005		
Assets												
Cash and cash equivalents	85,757	-	85,757	20,653	(1,651)	19,002	71,355	-	71,355	18	-	18
Trade and other receivables	24,541	44	24,585	73,314	(2,079)	71,235	52,436	-	52,436	164	-	164
Inventories	-	-	-	2,004	-	2,004	-	-	-	-	-	-
Other	264	-	264	4,137	(1,079)	3,058	24	-	24	30	-	30
Intangibles	-	-	-	-	36,898	36,898	-	-	-	-	-	-
Income tax receivable	–	-	-	-	104-	104	58	-	58	104	-	104
Total current assets	110,562	44	110,606	100,108	32,193	132,301	123,873	-	123,873	316	-	316
Receivables	-	-	-	6,808	13,888	20,696	-	-	-	35,265		35,265
Investments	-	-	-	47	-	47	-	-	-	-	-	-
Investment in subsidiaries	-	-	-	-	-	-	-	-	-	302,517		302,517
Investments accounted for using the equity method	6,225	9	6,234	11,998	3	12,001	-	-	-	-	-	-
Other	-	-	-	29,915	(22,421)	7,494	-	-		-	-	-
Deferred tax assets	356	469	825	12,640	(9,551)	3,089	130	695	825	130	900	1,030
Property, plant and equipment	22,944	-	22,944	99,161	-	99,161	-	-	-	-	-	-
Other financial	1,096	-	1,096	-	-	-	1,096	-	1,096	-	-	-
Intangible assets	-	-	-	204,551	(4,865)	199,686	-	-	-	-	-	-
Total non-current assets	30,621	478	31,099	365,120	(22,946)	342,174	1,226	695	1,921	337,912	900	338,812
Total assets	141,183	522	141,705	465,228	9,247	474,475	125,099	695	125,794	338,228	900	339,128

SP Telemedia Limited and its controlled entities
Notes to the consolidated financial statements

37. Explanation of transition to AIFRSs (continued)

Reconciliation of equity (continued)

	Consolidated						The Company					
	Previous GAAP	**Effect of transition to AIFRSs**	**AIFRSs**	**Previous GAAP**	**Effect of transition to AIFRSs**	**AIFRSs**	**Previous GAAP**	**Effect of transition to AIFRSs**	**AIFRSs**	**Previous GAAP**	**Effect of transition to AIFRSs**	**AIFRSs**
In thousands of AUD	**1 August 2004**			**31 July 2005**			**1 August 2004**			**31 July 2005**		
Liabilities												
Other	-	-	-	6,697	30,822	37,519	4,003	-	4,003	1,749	-	1,749
Trade and other payables	5,547	-	5,547	73,337	133	73,470	-	-	-	-	-	-
Interest-bearing loans and borrowings	600	-	600	3,260	230	3,490	-	-	-	-	-	-
Employee benefits	26	-	26	3,597	-	3,597	-	-	-	-	-	-
Income tax payable	1,179	-	1,179	4,656	(13)	4,643	-	-	-	-	-	-
Provisions	-	-	-	1,171	(1,050)	121	-	-	-	-	-	-
Total current liabilities	7,352	-	7,352	92,718	30,122	**122,840**	4,003	-	4,003	1,749	(2,046)	1,749
Interest-bearing loans and borrowings	900	-	900	42,665	238	42,903	-	-	-	6,122	-	6,122
Deferred tax liabilities	212	1,672	1,884	9,062	775	9,837	3	(3)	-	-	-	-
Employee benefits	13	-	13	2,422	-	2,422	-	-	-	-	-	-
Provisions	-	-	-	1,384	62	1,445	-	-	-	2,046-	-	2,046
Other	-	-	-	353	-	353	-	-	-	-	-	-
Total non-current liabilities	1,125	1,672	2,797	55,885	1,075	**56,960**	3	(3)	-	8,168	2,046	8,168
Total liabilities	8,477	1,672	10,149	148,603	31,197	**179,800**	4,006	(3)	4,003	9,917	-	9,917
Net assets	132,706	(1,150)	131,556	316,625	(21,950)	**294,675**	121,093	698	121,791	328,311	900	329,211
Equity												
Issued capital	118,615	873	119,488	233,797	1,343	235,140	118,615	873	119,488	233,797	1,343	235,140
Reserves	-	-	-	(14)	94	80	-	-	-			
Retained earnings	14,091	(2,023)	12,068	24,596	(2,595)	22,001	2,478	(175)	2,303	94,514	(443)	94,071
Total equity attributable to equity holders of the parent	**132,706**	**(1,150)**	**131,556**	**258,379**	**(1,158)**	**257,221**	121,093	698	121,791	328,311	900	329,211
Minority interest	-	-	-	58,246	(20,792)	**37,454**	-	-	-	-	-	-
Total equity	132,706	(1,150)	131,556	316,625	(21,950)	294,675	121,093	698	121,791	328,311	900	329,211

SP Telemedia Limited and its controlled entities
Notes to the consolidated financial statements

37. Explanation of transition to AIFRSs (continued)

As stated in significant accounting policies note 1(a), these are the consolidated entity's first consolidated financial statements prepared in accordance with AIFRSs.

The policies set out in the significant accounting policies section of this report have been applied in preparing the financial statements for the financial year ended 31 July 2006, the comparative information presented in these financial statements for the financial year ended 31 July 2005 and in the preparation of an opening AIFRS balance sheet at 1 August 2004 (the consolidated entity's date of transition).

In preparing its opening AIFRS balance sheet, the consolidated entity has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (previous GAAP). An explanation of how the transition from previous GAAP to AIFRSs has affected the consolidated entity's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

Notes to the reconciliation of equity

The impact on deferred tax of the adjustments described below is set out on page 93.

Intangible Assets

Goodwill

Goodwill represents the difference between the cost of a business combination over the net fair value of the identifiable assets, liabilities and contingent liabilities acquired.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash generating units and tested annually for impairment. Goodwill is not amortised under AIFRS. As a consequence, amortisation expense for the 6 months ended 31 January 2005 of $0.5 million, and $2.7 million for the year ended 31 July 2005 has been reversed, resulting in a corresponding increase in goodwill and decrease in accumulated losses at 31 January 2005 and 31 July 2005 respectively.

Other Intangible Assets

AASB 3 "Business Combinations" has been applied to all post transition acquisitions. Other identifiable intangible assets acquired have been stated at cost, being fair value at acquisition date, less accumulated amortisation and impairment losses. Intangible assets separately identified on transition to AIFRS include the acquired customer bases of $22 million and the entitlement to airtime commission of $0.6 million. A deferred tax liability was recognised on acquisition in respect of these intangible assets of $6.8 million with a corresponding increase in goodwill.

Amortisation

Amortisation has been recognised on a straight-line basis over the estimated useful lives of the intangible assets except for that in respect of the acquired B Digital and Digiplus customer base that is being amortised on a systematic basis in line with the customer churn assumptions used to value the contracts. Goodwill and intangible assets with an indefinite life have not been subject to amortisation but tested for impairment annually. Other intangible assets have been amortised from the day they are available for use. The useful lives of intangible assets have been determined as follows:

- acquired customer bases – 4 years
- entitlement to airtime commission - 24 months.

37. Explanation of transition to AIFRSs (continued)

Notes to the reconciliation of equity (continued)
Accounting for subscriber acquisitions

Commission revenue

Under AIFRS, revenue for services that are performed over a contract period are recognised on a straight-line basis over the specified contract period. Therefore activation and retention commission revenues are deferred and amortised over the contract term. Under previous GAAP activation and retention commission revenue is recognised when the fee in respect of the services is earned. This has been when the customer was activated or retained.

Handset revenue and cost of sale

Under AIFRS multiple elements of a single transaction are separately recognised. Accordingly revenue arising from handset sales is separately recognised at the time of delivery and is measured at fair value. Where the handset sale is settled through instalments, interest revenue is recognised over the contract term. As all handset revenue is now separately recognised, all related handset costs are expensed at the time of delivery.

Under previous GAAP those handsets offered as part of the total telecommunication service contract were not separately identified as a handset sale, rather the provision of the telecommunications service, inclusive of the handset, was treated as one transaction.

Subscriber acquisition costs

AIFRS UIG1042 Subscriber Acquisition Costs in the Telecommunication Industry specifically excludes handset costs which are now expensed as discussed above. As commission received is now separately deferred, acquisition costs are capitalised on a gross basis. Subscriber acquisition costs are classified as current assets on the balance sheet.

Under previous GAAP capitalised subscriber costs include handset and other costs directly attributable to the acquisition and retention of subscriber contracts. Where costs attributable to acquisitions exceed associated revenues, costs, net of revenue, were deferred. Subscriber acquisition costs were previously classified as other non current assets.

The effect on the income statement of the consolidated entity for the year ended 31 July 2005 is to increase net profit and a deferred tax asset has been recognised in relation to the deferred income. Also an adjustment to the deferred tax liability relating to deferred subscriber acquisition costs has also arisen. A deferred tax liability has been recognised in relation to the upfront recognition of handset costs.

The effect of the re-classification of subscriber acquisition costs from non current to current assets together with the adjustments noted above is an increase in current assets of $36.6 million, an increase in other current liabilities of $30.8 million and an increase in non-current receivables of $13.9 million at 31 July 2005.

SP Telemedia Limited and its controlled entities
Notes to the consolidated financial statements

37. Explanation of transition to AIFRSs (continued)

Notes to the reconciliation of equity (continued)

Pre-acquisition adjustments

Under AIFRS the acquirer shall recognise any adjustments to the provisional values of the acquiree's identifiable assets and liabilities within twelve months of the acquisition date as if its fair value at acquisition date had been recognised from that date.
Comparative information presented for the periods before the initial accounting for the combination is complete shall be presented as if the initial accounting had been completed from the acquisition date. The effect is to increase goodwill by $578,000, reduce other assets by $1,079,000 and increase trade and other payables by $139,000 at 31 July 2005.

Equity accounted investments

A number of AIFRS adjustments have impacted the balance sheet of the individual joint venture entities. The most significant adjustments being as a result of changes to deferred tax effect accounting and the recognition and amortisation of intangible assets acquired. The effect is to increase equity accounted investments by $9,000 and $10,000 at 1 August 2004 and 31 January 2005 respectively and to decrease equity accounted investments by $441,000 at 31 July 2005.

Share capital – equity raising costs

Under AIFRS a deferred tax asset is recognised in relation to equity raising costs. The equity raising costs are normally tax deductible over a five year period and the deferred tax asset will reverse over the same period. Under previous GAAP these were treated as permanent differences. The effect is to increase share capital by $873,000 at 1 August 2004 and by $1,343,000 at 31 January 2005 and 31 July 2005.

Share options

Under AIFRS, the fair value of options and shares that are equity settled have been recognised as an employee benefit expense with a corresponding increase in equity. Under previous GAAP no expense was recognised for options or shares that are equity settled issued to employees.

The fair value has been measured at grant / issue date taking into account market performance conditions only, and spread over the vesting period during which the employees become unconditionally entitled to the options and shares. For the financial year ended 31 July 2005, employee benefits expense and accumulated losses have increased by $0.4 million in the consolidated entity. There was no financial impact for 31 January 2005 or at 1 August 2004.

Deferred tax accounting

Under previous GAAP the income statement method of tax effect accounting was adopted. Under AIFRS the balance sheet method of tax effect accounting is utilised, and deferred tax must be accounted for in determining fair values at acquisition. This has had the greatest impact for SOT in the tax treatment of acquisitions with an increased deferred tax liability being recognised at acquisition on the intangible assets in respect of customer relationships of $6.6 million and the NBN TV licence of $3.4 million.

Explanation of material adjustments to the cash flow statement for 2005

There are no material differences between the cash flow statement presented under AIFRSs and the cash flow statement presented under previous GAAP.

SP Telemedia Limited and its controlled entities
Notes to the consolidated financial statements

37. Explanation of transition to AIFRSs (continued)

Reconciliation of profit for 2005

In thousands of AUD	Consolidated Previous GAAP	Consolidated Effect of Transition to AIFRSs	Consolidated AIFRSs	The Company Previous GAAP	The Company Effect of Transition to AIFRSs	The Company AIFRSs
Revenue	225,174	(874)	224,300	-	-	-
Cost of sales	(145,133)	991	(144,142)	-	-	-
Gross profit	80,041	117	80,158	-	-	-
Other income	-	-		**97,143**	-	**97,143**
Selling & Distribution expenses	(24,217)	-	(24,217)	-	-	-
Administrative expenses	(31,082)	242	(30,840)	**(126)**	**1**	**(125)**
Intangible amortisation	-	(4,903)	(4,903)	-	-	-
Goodwill amortisation	(2,696)	2,696	-	-	-	-
Operating profit before financing costs	22,046	(1,848)	20,198	**97,017**	**1**	**97,018**
Financial income	1,785	135	1,920	**1,199**	-	**1,199**
Financial expenses	(2,384)	305	(2,079)	**(189)**	-	**(189)**
Net financing costs	(599)	440	(159)	**1,010**	-	**1,010**
Share of profit of associates	1,806	(277)	1,529	-	-	-
Profit before tax	23,253	(1,685)	21,568	**98,027**	**1**	**98,028**
Income tax expense	(7,011)	2,611	(4,400)	**3**	**(269)**	**(266)**
Profit for the period	16,242	926	17,168	**98,030**	**(268)**	**97,762**
Attributable to:						
Equity holders of the parent	16,499	(721)	15,778	**98,030**	**(268)**	**97,762**
Minority interest	(257)	1,647	1,390	-	-	-
Profit for the period	16,242	926	17,168	**98,030**	**(268)**	**97,762**
Basic earnings per share (cents)	4.8	(0.2)	4.6			
Diluted earnings per share (cents)	4.8	(0.2)	4.6			

Directors' declaration

1 In the opinion of the directors of SP Telemedia Limited ('the Company'):

(a) the financial statements and notes including the remuneration disclosures that are contained in the Remuneration report in the Directors' report, set out on pages 30 to 93, are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the financial position of the Company and the consolidated entity as at 31 July 2006 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date; and

(ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and

(b) the remuneration disclosures that are contained in the Remuneration report in the Directors' report comply with Australian Accounting Standard AASB 124 *Related Party Disclosures* and ASIC Class Order 06/105 *Calculation of director and executive remuneration/* Corporations Act Regulation 2M.6.04.

(c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2 There are reasonable grounds to believe that the Company and the controlled entities identified in Note 33 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those controlled entities pursuant to ASIC Class Order 98/1418.

3 The directors have been given the declarations by the chief executive officer and chief financial officer for the financial year ended 31 July 2006 pursuant to Section 295A of the Corporations Act 2001.

Dated at Sydney this 25th day of October 2006.

Signed in accordance with a resolution of the directors:

R Millner
Director

KPMG

Independent audit report to the members of SP Telemedia Limited

Scope

The financial report and directors' responsibility

The financial report comprises the income statements, statements of recognised income and expense, balance sheets, statements of cash flows, accompanying notes to the financial statements [notes 1 to 37] and the directors' declaration for both SP Telemedia Limited (the 'Company') and SP Telemedia Limited and its controlled entities (the 'consolidated entity'), for the financial year ended 31 July 2006. The consolidated entity comprises both the Company and the entities it controlled during that financial year.

As permitted by the Corporations Regulations 2001, the Company has disclosed information about the remuneration of directors and executives ("remuneration disclosures"), required by Australian Accounting Standard AASB 124 Related Party Disclosures, under the heading "Remuneration report" in sections 4.4.1, 4.4.2, 4.4.4.1, 4.4.4.2 and 4.4.4.3 of the directors' report and not in the financial report.

The Remuneration report also contains information in sections 4.4.3, 4.4.4.4 and 4.4.4.5 not required by Australian Accounting Standard AASB 124 which is not subject to our audit.

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. The directors are responsible for preparing the relevant reconciling information regarding the adjustments required under the Australian Accounting Standard AASB 1 First-time Adoption of Australian equivalents to International Financial Reporting Standards. The directors are also responsible for the remuneration disclosures contained in the directors' 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 and that the remuneration disclosures comply with AASB 124. 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, Australian 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, of their performance as represented by the results of their operations and cash flows and whether the remuneration disclosures comply with Australian Accounting Standard AASB 124.

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.

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.

KPMG

Audit opinion

1. In our opinion, the financial report of SP Telemedia Limited is in accordance with:
   - (a) the Corporations Act 2001, including:
     - (i) giving a true and fair view of the Company's and consolidated entity's financial position as at 31 July 2006 and of their performance for the financial year ended on that date; and
     - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and
   - (b) other mandatory financial reporting requirements in Australia.

2. The remuneration disclosures that are contained in sections 4.4.1, 4.4.2, 4.4.4.1, 4.4.4.2 and 4.4.4.3 of Remuneration Report in the Director's report comply with Australian Accounting Standard AASB 124 Related Party Disclosures.

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KPMG

KPMG

Kevin Leighton
Partner

Sydney
25 October 2006

KPMG

Lead auditor's independence declaration under Section 307C of the Corporations Act 2001

To: the directors of SP Telemedia Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 31 July 2006 there have been:

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

KPMG

KPMG

Kevin Leighton
Partner

Sydney

25 October 2006

ASX Additional information

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

Shareholdings (as at 29 September 2006)

Substantial shareholders

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

Shareholder	Number
Washington H Soul Pattinson and Company Limited	180,144,838
WIN Corporation Pty Limited	51,591,173
Perpetual Limited	43,660,710

Voting rights

Ordinary shares

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

Distribution of equity security holders

	NUMBER OF EQUITY SECURITY HOLDERS
Category	**Ordinary shares**
1 - 1,000	313
1,001 - 5,000	1,245
5,001 - 10,000	898
10,000 - 100,000	1,654
100,000 and over	140
	4,250

The number of shareholders holding less than a marketable parcel of ordinary shares is 114.

Stock Exchange

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

Other information

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

ASX Additional information (continued)

Twenty largest shareholders

Name	Number of ordinary shares held	Percentage of capital held
Washington H Soul Pattinson and Company Limited	180,144,838	44.46
WIN Corporation Pty Limited	51,591,173	12.73
RBC Dexia Investor Services Australia Nominees Pty Limited (PIPOOLED A/c)	30,722,921	7.58
RBC Dexia Investor Services Australia Nominees Pty Limited (PIIC A/c)	10,466,504	2.58
Equity Trustees Limited	7,616,271	1.88
J P Morgan Nominees Australia Limited	6,805,941	1.68
Cogent Nominees Pty Limited	6,002,629	1.48
Farjoy Pty Limited	3,834,943	0.95
Citicorp Nominees Pty Limited	3,346,866	0.83
Brickworks Investment Company Limited	3,322,223	0.82
J S Millner Holdings Pty Limited	2,253,654	0.56
Mr. Noel Francis Mitchell	2,110,000	0.52
Queensland Investment Corporation	1,927,243	0.48
Milton Corporation Limited	1,776,588	0.44
ANZ Nominees Limited	1,741,771	0.43
Invia Custodian Pty Limited	1,685,429	0.42
Choiseul Investments Limited	1,680,517	0.41
Fortis Clearing Nominees Pty Ltd	1,595,235	0.39
National Nominees Limited	1,482,683	0.37
Dixson Trust Pty Limited	1,408,382	0.35
	321,515,811	**79.35**

Principle Registered Office

11-17 Mosbri Crescent
Newcastle
NSW 2300
Telephone 02 4929 2933

Locations of Share Registries

Computershare Registry Services Pty Limited
Level 3
60 Carrington Street
Sydney
NSW 1115
Telephone 02 8234 5000