

DIRECTORS:

ROBERT D. MILLNER
Chairman of Directors
Director since 2000

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

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

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

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

SECRETARY:

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

AUDITORS:

PRICEWATERHOUSECOOPERS
Chartered Accountants

REGISTERED OFFICE:

11-17 Mosbri Crescent
NEWCASTLE NSW 2300

SHARE REGISTER:

Computershare Registry Services Pty. Limited
Level 3, 60 Carrington Street, Sydney, N.S.W. 1115
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S P Telecommunications Limited and its Controlled Entities
ABN 46 093 058 069

Chairman's Review

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

2003 has seen the Company maintain its strong growth, reporting a Net Profit Before Tax of \$7.782M, more than double last year's result of \$3.004M.

Profit After Tax of \$5.809M was 161% greater than last year's result of \$2.222M, and the Company held a cash balance of just over \$13M.

During the financial year, a large portion of the Company's profit growth has resulted from the management and operation of the SPT Telecommunications Pty Limited (SPT) and Kooee Pty Limited (Kooee) Joint Ventures. As these operations are equity accounted, the company's statutory accounts do not include any aggregation of revenues and expenses resulting from its joint venture operations, but the Board has included a separate table in its Directors' Report that enables a more detailed analysis of the Company's growth.

Network expansion through the SPT Joint Venture has resulted in a broadband network that runs from Melbourne to Cairns, with over 180 points of presence (POP's) or interconnect. This now makes it one of the largest Regional Access Networks in Australia.

These POP's have been built on the back of customer contracts, ensuring any capital outlays are matched by revenue streams, and once established provide an opportunity to connect new customers with little or no additional capital expenditure. This has resulted in increasing gross profit margins, and an expanded market potential. During the year new sales representatives have been added in Sydney, Melbourne, Canberra and Brisbane to capitalise on this expanded Network infrastructure.

Significant contract wins during the period included the NSW Department of Education and Training (DET), with an additional 383 sites on top of the 786 awarded by tender in the previous year. This project represents one of the largest Private Networks ever constructed in Australia, and at present some 45% of sites are "on-line" with the balance to complete by the end of December.

The Company also announced a 10 year contract worth in excess of \$7M with Country Energy. This contract will begin generating income in December of this year.

The Company's retail telephony arm, Kooee, entered into a joint venture agreement in May of this year with WIN Television. This joint venture created the opportunity to expand the Kooee business throughout regional areas on the eastern seaboard of Australia, with a population potential of 7 million people. Kooee's domestic and business retail telephony products and services are primarily sold through a "reseller" arrangement with Primus Telecoms, and a new 3 year contract has been agreed with Primus with effect from 1st August 2003. This new arrangement has the potential to significantly increase the returns on revenue currently being received.

Despite only three years of operations, the strong growth in both profitability and cash flow has seen the Company declare its first dividend of 0.5 cents per share. It is a strong indication of the Company's sound financial position and its prospects for ongoing business and financial growth.

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

For the year ended 31 July 2003

Directors' Report

Your directors present their report on the consolidated entity consisting of S P Telecommunications Limited and the entities it controlled at the end of, or during, the year ended 31 July 2003.

Directors

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

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

Principal activities

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

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

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

Dividends

There were no dividends declared or paid during the financial year. On the 9th October 2003, the Directors declared the Company's first dividend of a half a cent (0.5c), fully franked.

Review of operations

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

	Segment revenues		Segment results	
	2003	2002	2003	2002
	\$'000	\$'000	\$'000	\$'000
Telecommunications	30,484	25,178	7,782	3,004
Profit from ordinary activities before income tax expense			7,782	3,004
Income tax expense			(1,973)	(782)
Profit from ordinary activities after income tax			5,809	2,222
Net profit			5,809	2,222

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

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

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

Aggregation of revenue and expenses from joint venture operations under management

		2003		2002
	Consolidated Entity \$'000	Joint Venture Entities \$'000	Total \$'000	Total \$'000
Revenue from ordinary activities under management	30,484	20,970	51,454	25,348
Other expenses	21,515	16,713	38,228	20,732
EBITDA	8,969	4,257	13,226	4,616
Depreciation	2,461	147	2,608	1,668
Borrowing costs	154	98	252	91
Profit from ordinary activities	6,354	4,012	10,366	2,857
(Profit)/loss attributable to outside equity interests	-	(2,034)	(2,034)	147
Profit attributable to members of the parent entity	6,354	1,978	8,332	3,004
Income tax attributable to members of the parent entity	(1,973)	(550)	(2,523)	(782)
Net profit attributable to members of the parent entity	4,381	1,428	5,809	2,222

Earnings per share	2003	2002
	Cents	Cents
Basic earnings per share	3.2	1.2
Diluted earnings per share	3.0	1.2

Significant changes in the state of affairs

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

Kooee Communications Pty Limited acquired a 50% share in a joint venture entity, Kooee Pty Limited. The joint venture entity operates as a reseller of retail telecommunications products and services. Details of the acquisition are outlined in Note 27.

Matters subsequent to the end of the financial year

Kooee Communications Pty Limited entered into a new 3 year contract with Primus Telecoms, on the 1st August 2003. This new arrangement has the potential to significantly increase the returns on revenue currently being received.

Likely developments and expected results of operations

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

Environmental Regulations

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

Information on directors

Particulars of directors' interests in shares and options of:

Director	Experience	Special responsibilities	SP Telecommunications Limited		WHSP Limited*
			Shares	Options	
R D Millner	Chairman of WHSP Ltd., Brickworks Ltd., Keith Harris & Co. Ltd., API Ltd, Choiseul Investments Ltd., NBN Group, and chairman of S P Telecommunications Group since 2000.	Chairman	120,000	8,000	15,807,355
M J Millner	Director of WHSP Ltd., Brickworks Ltd., Keith Harris & Co. Ltd., Australian Food & Fibre Ltd., NBN Group, and Director of S P Telecommunications Group since 2000.	Deputy Chairman Non-Executive Director	80,000	8,000	15,442,335
P R Robinson <i>B Comm</i>	Executive Director of WHSP Ltd., Director of Keith Harris & Co. Ltd., API Ltd. and Clover Corporation Ltd., Non-Executive Director of New Hope Collieries, the NBN Group and Director of the S P Telecommunications Limited Group since 2000.	Non-Executive Director	80,000	8,000	74,210

*Washington H. Soul Pattinson & Company Limited

Information on directors (continued)

Director	Experience	Special responsibilities	Particulars of directors' interests in shares and options of:		
			SP Telecommunications Limited	WHSP Limited*	
D J Fairfull <i>B Comm</i> <i>CPA</i> <i>ACIS</i> <i>ASIA</i>	Director of WHSP Ltd., Gazal Corporation Ltd., Keith Harris & Co. Ltd., the NBN Group, API Ltd. & Stockland Trust, Director of S P Telecommunications Group since 2000.	Non-Executive Director	100,000	10,000	40,000
D Ledbury <i>B Bus</i> <i>AICD</i>	Director of the NBN Group, Commercial Television Australia Pty Ltd, Regional Broadcasters Australia Pty Ltd., and Director of S P Telecommunications Group since 2000.	Executive Director	40,000	1,104,000	30,000

Meetings of directors

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

	Full meetings of directors		Meetings of committees					
			Audit		Nomination		Remuneration	
	A	B	A	B	A	B	A	B
Robert D. Millner	6	6	2	2	1	1	1	1
Michael J. Millner	6	6	2	2	1	1	1	1
Peter R. Robinson	6	6	2	2	1	1	1	1
David J. Fairfull	6	6	2	2	*	*	1	1
Denis Ledbury	6	6	*	*	*	*	*	*

A = Number of meetings attended

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

* = Not a member of the relevant committee

* Washington H. Soul Pattinson & Company Limited

Retirement, election and continuation in office of directors

Mr Michael Millner and Mr Peter Robinson retired as directors on 12th November 2002 at the Annual General Meeting, and were re-elected.

Mr David Fairfull is the director retiring by rotation who, being eligible, offers himself for re-election.

Directors' and executives' emoluments

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

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

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

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

Non-executive directors of S P Telecommunications Limited

Name	Directors' base fee \$	Super-annuation \$	Total \$
Robert D. Millner	35,000	2,800	37,800
Michael J. Millner	25,000	2,000	27,000
Peter R. Robinson	25,000	2,000	27,000
David J. Fairfull	25,000	-	25,000

Executive directors of S P Telecommunications Limited

Name	Base salary \$	Non-cash benefits \$	Super-annuation \$	Total \$
Denis Ledbury	92,937	7,763	8,777	109,477

Executives of S P Telecommunications Limited (excluding directors)

Name	Base salary \$	Non-cash benefits \$	Super-annuation \$	Total \$
Mr M Simmons	175,069	15,709	16,714	207,492
Mr R Peacock	95,848	7,934	8,550	112,332
Mr S Legge	92,357	5,986	8,759	107,102
Mr J Eather	23,332	2,182	2,157	27,671

Executives of the consolidated entity

Name	Base salary \$	Non-cash benefits \$	Super-annuation \$	Total \$
Mr M Simmons	175,069	15,709	16,714	207,492
Mr R Peacock	95,848	7,934	8,550	112,332
Mr S Legge	92,357	5,986	8,759	107,102
Mr J Eather	23,332	2,182	2,157	27,671

Shares under option

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

	Date options granted	Number under option	Issue price of shares	Expiry date
S P Telecommunications Limited Employee Share Option Plan	10 th May 2001	100,000	25 cents	10 th May 2006

All options expire on the 10th May 2006.

Shares issued on exercise of options

During or since the end of the financial year, the Company issued ordinary shares as the result of the exercise of options as follows:

Date options granted	Issue price of shares	Number of shares issued
10 th May 2001	25 cents	3,900,000

There were no amounts unpaid on the shares.

Insurance of officers

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

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

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

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

Proceedings on behalf of company

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

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

Rounding of amounts

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

Dated at Sydney this 8th day of October, 2003.

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

R.D. Millner

M.J. Millner

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

For the year ended 31 July 2003

	Notes	Consolidated		Company	
		2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Revenue from ordinary activities (excluding shares of equity accounted net profits of associates)	3	29,701	24,468	-	-
Cost of sales	4	20,634	(19,343)	-	-
Gross profit		9,067	5,125	-	-
Other revenues from ordinary activities	3	783	710	263	427
Selling and distribution expenses		(544)	(551)	-	-
Administration expenses		(2,798)	(2,042)	(78)	4
Borrowing costs	4	(154)	(91)	-	-
Share of net profit/(loss) of joint venture accounted for using the equity method		1,428	(147)	-	-
Profit from ordinary activities before income tax expense		7,782	3,004	185	431
Income tax expense	5(a)	(1,973)	(782)	(55)	(105)
Profit from ordinary activities after income tax expense		5,809	2,222	130	326
Total revenues, expenses and valuation adjustments attributable to members of S P Telecommunications Limited recognised directly in equity		-	-	-	-
Total changes in equity other than those resulting from transactions with owners as owners	17	5,809	2,222	130	326
		Cents	Cents		
Basic earnings per share	31	3.2	1.2		
Diluted earnings per share	31	3.0	1.2		

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

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

As at 31 July 2003

		Consolidated		Company	
	Notes	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Current assets					
Cash assets	6	13,210	14,325	2,499	7,062
Receivables	7	4,903	2,734	28,814	24,286
Inventories	8	24	19	-	-
Other	9	269	623	21	14
Total current assets		18,406	17,701	31,334	31,362
Non-current assets					
Investments accounted for using the equity method	10	1,781	353	-	-
Other financial assets	11	-	-	-	-
Property, plant and equipment	12	24,803	20,803	-	-
Deferred tax assets	5(d)	238	238	2	2
Total non-current assets		26,822	21,394	2	2
Total assets		45,228	39,095	31,336	31,364
Current liabilities					
Payables	13	3,619	3,646	8	92
Interest bearing liabilities	14	600	600	-	-
Current tax liabilities	5(b)	1,619	715	(29)	92
Provisions	15	35	26	-	-
Total current liabilities		5,873	4,987	(21)	184
Non-current liabilities					
Interest bearing liabilities	14	1,500	2,100	-	-
Deferred tax liabilities	5(c)	241	255	-	-
Provisions	15	12	7	-	-
Total non-current liabilities		1,753	2,362	-	-
Total liabilities		7,626	7,349	(21)	184
Net assets		37,602	31,746	31,357	31,180
Equity					
Contributed equity	16	30,854	30,807	30,854	30,807
Retained profits	17	6,748	939	503	373
Total equity		37,602	31,746	31,357	31,180

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

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

For the year ended 31 July 2003

	Notes	Consolidated		Company	
		2003	2002	2003	2002
		\$'000	\$'000	\$'000	\$'000
Cash flows from operating activities					
Receipts from customers		30,054	23,714	-	-
Payments to suppliers and employees		(22,594)	(20,808)	(104)	(85)
Interest received		650	593	263	427
Borrowing costs	4	(154)	(91)	-	-
Income taxes paid		(1,083)	(59)	(176)	(15)
Net cash inflow (outflow) from operating activities	30(b)	6,873	3,349	(17)	327
Cash flows from investing activities					
Payments for property, plant and equipment		(6,935)	(4,794)	-	-
Payments for investments		-	(500)	-	-
Loans to related parties		(500)	-	(4,528)	(7,155)
Repayment of loans to related parties		-	-	(65)	-
Net cash (outflow) from investing activities		(7,435)	(5,294)	(4,593)	(7,155)
Cash flows from financing activities					
Proceeds from issues of shares and other equity securities		47	32	47	32
Proceeds from borrowings		-	3,000	-	-
Share issue transaction costs		-	15	-	15
Repayment of borrowings		(600)	(300)	-	-
Net cash inflow (outflow) from financing activities		(553)	2,747	47	47
Net increase/(decrease) in cash held		(1,115)	802	(4,563)	(6,781)
Cash at the beginning of the financial year		14,325	13,523	7,062	13,843
Cash at the end of the financial year	30(a)	13,210	14,325	2,499	7,062

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

S P Telecommunications Limited and its Controlled Entities

Notes to the financial statements

Note 1. Statement Of Significant Accounting Policies

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

(a) Basis of preparation

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

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

As a result of applying the new accounting standard AASB 1044 Provisions, Contingent Liabilities and Contingent Assets for the first time, certain liabilities have been reclassified from current provisions to current payables.

The consolidated accounts include those of the parent entity and all of its controlled entities as listed in note 26. Where controlled entities are acquired during the financial year their results are included only from the date of acquisition and where controlled entities are disposed of during a financial year their results are included to the date of disposal. All intercompany transactions have been eliminated.

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

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

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

(b) Revenue recognition

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

Sale of goods

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

Rendering of services

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

Interest revenue

Interest revenue is recognised as it accrues.

Resale revenues

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

S P Telecommunications Limited and its Controlled Entities

Notes to the financial statements

(c) Goods and services tax

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

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

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

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

(d) Foreign currency

Transactions

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

(e) Borrowing costs

Borrowing costs represent interest relating to borrowings.

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

(f) Taxation – Note 5

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

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

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

(g) Acquisition of assets

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

Subsequent additional costs

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

S P Telecommunications Limited and its Controlled Entities

Notes to the financial statements

(h) Receivables – Note 7

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

Trade debtors

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

(i) Inventories – Note 8

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

(j) Investments – Notes 10 & 11

Controlled entities

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

Joint ventures

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

(k) Operating leases

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

(l) Maintenance and repairs

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

(m) Earnings per share

Basic earnings per share

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

Diluted earnings per share

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

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

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

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

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

S P Telecommunications Limited and its Controlled Entities

Notes to the financial statements

(o) Depreciation and amortisation

Complex assets

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

Useful lives

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

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

The depreciation rates used are as follows:

	<u>2003</u>	<u>2002</u>
Property, plant and equipment:	5% – 40%	5% – 40%

(p) Payables

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

(q) Interest bearing liabilities – Note 14

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

(r) Employee entitlements – Note 24

Wages, salaries, annual leave and sick leave

Liabilities for employee benefits for wages, salaries, annual leave and sick leave expected to be settled within 12 months of the year-end represent present obligations resulting from employees' services provided to reporting date, calculated at undiscounted amounts based on remuneration wage and salary rates that the consolidated entity expects to pay as at reporting date including related on-costs

Long service leave

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

(s) Cash

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

(t) Equity-based compensation benefits

Equity-based compensation benefits

Equity-based compensation benefits are provided to employees via the Parent Entity's Employee Share Option Plan. Information relating to this plan is set out in note 24.

No accounting entries are made in relation to the Employee Share Option Plan until options are exercised, at which time the amounts receivable from employees are recognised in the statement of financial position as share capital. The amounts disclosed for remuneration of directors and executives in notes 19 and 20 would include the assessed fair values of options at the date they were exercised.

S P Telecommunications Limited and its Controlled Entities
Notes to the financial statements

Note 2. Segment information

Business Segments

The consolidated entity operates wholly within the telecommunications sector.

Geographical segments

The consolidated entity operates wholly within Australia.

Business Segments	Telecommunications		Consolidated	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
External segment revenue	30,484	25,178	30,484	25,178
Total revenue	30,484	25,178	30,484	25,178
Segment operating profit	6,354	3,151	6,354	3,151
Share of net profit/(loss) of joint venture accounted for using the equity method	1,428	(147)	1,428	(147)
Profit from ordinary activities before income tax			7,782	3,004
Income tax expense			(1,973)	(782)
Profit from ordinary activities after income tax			5,809	2,222
Depreciation and amortisation	2,461	1,667	2,461	1,667
Segment assets	43,447	38,742	43,447	38,742
Equity accounted investments	1,781	353	1,781	353
Consolidated total assets			45,228	39,095
Segment liabilities	7,626	7,349	7,626	7,349
Consolidated total liabilities			7,626	7,349
Acquisitions of property, plant & equipment	6,461	6,095	6,461	6,095

S P Telecommunications Limited and its Controlled Entities
Notes to the financial statements

Note 3. Revenue

	Consolidated		Company	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Revenue from operating activities				
Sale of services	29,701	24,468	-	-
Other Revenues:				
Interest	655	593	263	427
Sundry Income	128	117	-	-
Revenue from ordinary activities	30,484	25,178	263	427

Note 4. Profit from ordinary activities

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

Expenses				
Cost of services sold	20,634	19,343	-	-
Depreciation				
Plant and equipment	2,461	1,667	-	-
Borrowing costs:				
Other parties	154	91	-	-
Net expense from movements in provision for:				
Doubtful Debts	(51)	(27)	-	-
Employee Entitlements	14	21	-	-
Operating lease rental expense	497	660	-	-

S P Telecommunications Limited and its Controlled Entities
Notes to the financial statements

Note 5. Income tax

	Consolidated		Company	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
<i>(a) Income tax expense</i>				
Prima facie income tax expense calculated at 30% on the profit from ordinary activities	2,335	901	55	129
Increase in income tax expense due to:				
Sundry items	21	17	-	-
Decrease in income tax expense due to:				
Share of joint venture entities' net profit	(385)	-	-	-
Recognition of deferred tax balances brought to account	-	(127)	-	(24)
Income tax under/ (over) provided in prior year	2	(9)	-	-
Income tax expense attributable to operating profit	1,973	782	55	105
Income tax expense attributable to operating profit is made up of:				
Current income tax provision	1,985	770	55	107
Deferred income tax provision	(14)	255	-	-
Future income tax benefit	-	(234)	-	(2)
Under/(over) provision in prior year	2	(9)	-	-
	1,973	782	55	105
<i>(b) Current tax liabilities</i>				
Provision for current income tax				
Movements during the year:				
Balance at beginning of the year	715	9	92	-
Current year's income tax expense on operating profit	1,985	770	55	107
Income tax paid – prior year	(717)	(59)	(92)	(15)
Income tax paid – current year	(366)	-	(84)	-
Under/(over) provision in prior year	2	(5)	-	-
	1,619	715	(29)	92

S P Telecommunications Limited and its Controlled Entities
Notes to the financial statements

Note 5. Income tax *(continued)*

Consolidated		Company	
2003	2002	2003	2002
\$'000	\$'000	\$'000	\$'000

(c) Deferred tax liabilities

Provision for deferred income tax

Provision for deferred income tax comprises the estimated expense at the applicable rate of 30% on the following items:

Difference in depreciation of property, plant and equipment for accounting and income tax purposes	220	215	-	-
Expenditure currently deductible for tax but deferred for accounting purposes	20	40	-	-
Sundry Items	1	-	-	-
	241	255	-	-

(d) Deferred tax assets

Future income tax benefit

Future income tax benefit comprises the estimated future benefit at the applicable rate of 30% on the following items:

Provisions and employee entitlements not currently deductible	225	230	-	-
Sundry items	13	8	2	2
	238	238	2	2

Tax Consolidation Legislation

As at the date of this report, the Parent Entity and its wholly-owned subsidiaries have not made a decision with regard to the implementation of the tax consolidation legislation. The impact on the income tax expense and results of the Parent Entity is unlikely to be material. This is not expected to have a material impact on the consolidated assets and liabilities and results. The financial impact of the implementation of the legislation has not been recognised in the financial statements for the year ended 31 July 2003.

Note 6. Cash assets

Cash at bank and on hand	7,460	8,575	2,499	7,062
Short term deposits	5,750	5,750	-	-
	13,210	14,325	2,499	7,062

Short-term deposits – \$2,250,000 (2002: \$2,850,000) represents a security over the consolidated entity's bank loans. In the prior year \$2,600,000 was placed on deposit as a performance guarantee in respect of a supplier, this restriction was removed during the current year.

S P Telecommunications Limited and its Controlled Entities
Notes to the financial statements

Note 7. Receivables

	Consolidated		Company	
	2003	2002	2003	2002
	\$'000	\$'000	\$'000	\$'000
Trade debtors	4,447	3,067	3	3
Less: Provision for doubtful debts	(702)	(735)	-	-
	<u>3,745</u>	<u>2,332</u>	<u>3</u>	<u>3</u>
Other debtors	5	20	-	-
Loans to controlled entities	-	-	28,811	24,283
Amounts owed from related entities	1,153	382	-	-
	<u>4,903</u>	<u>2,734</u>	<u>28,814</u>	<u>24,286</u>

Note 8. Inventories

Stores – at cost	<u>24</u>	<u>19</u>	<u>-</u>	<u>-</u>
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Note 9. Other current assets

Prepayments	<u>269</u>	<u>623</u>	<u>21</u>	<u>14</u>
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Note 10. Investments accounted for using the equity method

Joint venture entities	Note 27	<u>1,781</u>	<u>353</u>	<u>-</u>	<u>-</u>
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Note 11. Other financial assets

Non-current

Other (non-traded) investments

Shares in controlled entities – at cost	<u>-</u>	<u>-</u>	<u>_*</u>	<u>_*</u>
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* S P Telecommunications Limited holds the following investments:

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

S P Telecommunications Limited and its Controlled Entities
Notes to the financial statements

Note 12. Property, plant and equipment

	Consolidated		Company	
	2003	2002	2003	2002
	\$'000	\$'000	\$'000	\$'000
Land and buildings				
Freehold land				
At cost	60	60	-	-
Plant and equipment				
At cost	29,499	23,038	-	-
Less: Accumulated depreciation	(4,756)	(2,295)	-	-
	24,743	20,743	-	-
Total property, plant and equipment	24,803	20,803	-	-

Reconciliations

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

	Freehold Land	Plant & equipment	Total
	\$'000	\$'000	\$'000
Consolidated			
Carrying amount at 1 st August 2002	60	20,743	20,803
Additions	-	6,461	6,461
Depreciation expense	-	(2,461)	(2,461)
Carrying amount at 31 st July 2003	60	24,743	24,803

Note 13. Payables

Trade creditors	2,062	2,469	8	27
Other creditors	443	888	-	-
Amounts owed to related entities	1,114	289	-	-
Other loans – controlled entities	-	-	-	65
	3,619	3,646	8	92

Note 14. Interest bearing liabilities

Current

Bank loan - secured	600	600	-	-
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Non-current

Bank loan - secured	1,500	2,100	-	-
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The bank loan is secured by a short-term deposit (Note 6). The loan is due to mature on 24 January 2007, and has a fixed interest rate of 6.4% per annum.

S P Telecommunications Limited and its Controlled Entities
Notes to the financial statements

Note 15. Provisions

	Consolidated		Company	
	2003	2002	2003	2002
	\$'000	\$'000	\$'000	\$'000
Current				
Employee entitlements	35	26	-	-
	35	26	-	-
Non-current				
Employee entitlements	12	7	-	-

Note 16. Contributed equity

Issued and paid-up share capital

180,371,400 (2002: 180,183,900) ordinary shares, fully paid	30,854	30,807	30,854	30,807
(a) Ordinary shares				
Balance at the beginning of year	30,807	30,760	30,807	30,760
- Transaction costs arising from issue for cash pursuant to prospectus		15		15
- 187,500 (2002: 127,200) from the exercise of options under one for ten offer	47	32	47	32
Balance at the end of the year	30,854	30,807	30,854	30,807

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

On 10th May 2001;

- 8,000,000 options were granted to holders of ordinary shares. Shareholders were entitled to one free option for every 10 shares allotted. Each option is convertible into one ordinary share at any time before 10th May 2006 at a fixed price of 25 cents per share. The number of unissued ordinary shares under these options at 31st July 2003 is 7,628,600.
- 4,000,000 options were granted to employees, under the employee share option plan (refer note 24).
- 10,000,000 options were granted to Washington H. Soul Pattinson Limited with an exercise price of 25 cents per share. These options expire on 10th May 2006.

S P Telecommunications Limited and its Controlled Entities
Notes to the financial statements

Note 17. Retained profits

	Consolidated		Company	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Retained profits/(losses) at the beginning of the financial year	939	(1,283)	373	47
Net profit for the year	5,809	2,222	130	326
Retained profit at the end of the financial year	6,748	939	503	373

Note 18. Dividends

Franking credits available for subsequent financial years based on a tax rate of 30%	2,759	774	163	107
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The above amounts represent the balance of the franking account at the end of the financial year, adjusted for:

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

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

Note 19. Remuneration of directors

Directors' income

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

	Consolidated		Company	
	2003	2002	2003	2002
\$ 20,000 – \$ 29,999			3	3
\$ 30,000 – \$ 39,999			1	1
\$ 80,000 – \$ 89,999			-	1
\$ 100,000 – \$ 109,999			1	-
	\$	\$	\$	\$
Total income paid or payable, or otherwise made available, to all directors of the company and controlled entities from the Company or any related party	226,277	206,545	-	-

S P Telecommunications Limited and its Controlled Entities
Notes to the financial statements

Note 20. Remuneration of executives

		Consolidated		Company	
		2003	2002	2003	2002
The number of Australian based executive officers of the Company and of controlled entities, whose remuneration from the Company or related parties, and from entities in the consolidated entity, falls within the following bands:					
\$	\$				
100,000	– 109,999	2	1	1	1
110,000	– 119,999	1	-	1	-
180,000	– 189,999	-	1	-	1
200,000	– 209,999	1	-	1	-
Total income in respect of the financial year received, or due and receivable, from the Company, entities in the consolidated entity or related parties by executive officers of the Company and of controlled entities whose income is \$100,000 or more		\$	\$	\$	\$
		539,779	287,979	539,779	287,979

Note 21. Remuneration of auditors

Remuneration for audit or review of the financial reports of the parent entity or any entity in the consolidated entity:

Auditor of the parent entity – PricewaterhouseCoopers Australian firm	38,000	33,500	-	-
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S P Telecommunications Limited and its Controlled Entities
Notes to the financial statements

Note 22. Financial instruments

(a) Interest rate risk

Interest rate risk exposures

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

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

	Note	Weighted average interest rate	Fixed Interest Maturing In:				Non-interest bearing \$'000	Total \$'000
			Floating interest rate \$'000	1 year or less \$'000	1 to 5 years \$'000	More than 5 years \$'000		
2003								
<i>Financial assets</i>								
Cash assets	6	4.2%	7,460	5,750	-	-	-	13,210
Receivables	7	-	-	-	-	-	4,903	4,903
			<u>7,460</u>	<u>5,750</u>	<u>-</u>	<u>-</u>	<u>4,903</u>	<u>18,113</u>
<i>Financial liabilities</i>								
Payables	13	-	-	-	-	-	3,176	3,176
Bank loans	14	6.4%	-	600	1,500	-	-	2,100
			<u>-</u>	<u>600</u>	<u>1,500</u>	<u>-</u>	<u>3,176</u>	<u>5,276</u>
2002								
<i>Financial assets</i>								
Cash assets	6	4.5 %	8,575	5,750	-	-	-	14,325
Receivables	7	-	-	-	-	-	2,734	2,734
			<u>8,575</u>	<u>5,750</u>	<u>-</u>	<u>-</u>	<u>2,734</u>	<u>17,059</u>
<i>Financial liabilities</i>								
Payables	13	-	-	-	-	-	3,342	3,342
Bank loans	14	6.4%	-	600	2,100	-	-	2,700
			<u>-</u>	<u>600</u>	<u>2,100</u>	<u>-</u>	<u>3,342</u>	<u>6,042</u>

(b) Credit risk exposure

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

Recognised financial instruments

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

S P Telecommunications Limited and its Controlled Entities
Notes to the financial statements

Note 22. Financial instruments *(continued)*

(c) Net fair values of financial assets and liabilities

Valuation approach

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

Recognised financial instruments

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

Unrecognised financial instruments

There are no unrecognised financial instruments.

Note 23. Commitments for expenditure

	Consolidated		Company	
	2003	2002	2003	2002
	\$'000	\$'000	\$'000	\$'000
Capital commitments				
Commitments for the acquisition of plant and equipment contracted for at the reporting date but not recognised as liabilities, payable:				
Within one year	-	2,316	-	-
Later than one year but not later than 5 years	-	-	-	-
Later than 5 years	-	-	-	-
	-	2,316	-	-
Operating leases				
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:				
Within one year	384	288	-	-
Later than one year but not later than 5 years	970	771	-	-
Later than 5 years	1,135	1,200	-	-
Commitments not recognised in the financial statements	2,489	2,258	-	-

S P Telecommunications Limited and its Controlled Entities
Notes to the financial statements

Note 24. Employee entitlements

	Consolidated		Company	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Employee entitlement liabilities				
Provision for employee entitlements				
Current (note 15)	35	26	-	-
Non-current (note 15)	12	7	-	-
Aggregate employee entitlement liability	47	33	-	-
	Number		Number	
Employee numbers				
Number of employees at the end of the financial year	39	30	-	-

Employee share option plan

The company has an employee share option plan.

Under the plan the number of options granted cannot exceed 5% of the total number of shares. There are currently 4,000,000 options over ordinary shares, issued to 5 executives. Each option is convertible to one ordinary share. There are no voting rights attached to the unissued ordinary shares. Voting rights will be attached to the unissued ordinary shares when the options have been exercised. The exercise price of the options, determined in accordance with the Rules of the plan, is 25 cents per share.

All options expire on the 10th May 2006

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

Grant date	Expiry date	Exercise price	Balance at start of the year Number	Issued during the year Number	Exercised during the year Number	Lapsed during the year Number	Balance at end of the year Number
Consolidated and Company - 2003							
10 May 2001	10 May 2006	25 cents	4,000,000	-	-	-	4,000,000
Consolidated and Company - 2002							
10 May 2001	10 May 2006	25 cents	4,000,000	-	-	-	4,000,000

	Consolidated		Company	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Options vested at the reporting date	4,000,000	4,000,000	4,000,000	4,000,000

Since the end of the financial year, the Company issued 3,900,000 ordinary shares as the result of the exercise of options under the above plan.

S P Telecommunications Limited and its Controlled Entities

Notes to the financial statements

Note 25. Related parties

Directors

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

Details of directors' remuneration benefits are set out in Note 19.

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

Directors' holdings of shares and share options

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

	Consolidated	
	2003	2002
	Number	Number
Acquisitions		
Ordinary Shares	-	40,000
Number Held		
Ordinary shares	420,000	420,000
Options over ordinary shares	1,138,000	1,138,000

Directors' transactions in shares and share options

On 10th May 2001 S P Telecommunications Limited granted options over 4,000,000 unissued shares under the Employee Share Option Plan. Of these options 1,100,000 were granted to Denis Ledbury, all options expire on 10th May 2006.

Directors' transaction with the Company or its controlled entities

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

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

Non-director related parties

The classes of non-director related parties are:

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

Transactions

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

Wholly owned group

Information relating to controlled entities is set out in note 26

All controlled entities are wholly owned

S P Telecommunications Limited and its Controlled Entities
Notes to the financial statements

Note 25. Related parties *(Continued)*

	Consolidated		Company	
	2003	2002	2003	2002
	\$'000	\$'000	\$'000	\$'000
<i>Other related parties</i>				
Aggregate amount of other transactions with non-director related parties:				
Loan advances to:				
Wholly – owned controlled entities	-	-	4,528	7,155
Joint venture entities	500	-	-	-
Loan repayments to:				
Wholly – owned controlled entities	-	-	65	-
 <i>Receivables</i>				
Aggregate amounts receivable from non-director related parties:				
<i>Amounts receivable other than trade debts</i>				
Current				
Wholly – owned controlled entities	-	-	28,810	24,283
Joint venture entities	500	-	-	-
<i>Amounts receivable including trade debts</i>				
Current				
Joint venture entity	192	382	-	-
 <i>Payables</i>				
Aggregate amounts payable to non-director related parties:				
<i>Amounts payable other than trade creditors</i>				
Current				
Wholly – owned controlled entities	-	-	-	65
<i>Amounts payable including trade creditors</i>				
Current				
Commonly controlled entities	392	289	-	-

Ultimate parent entity

The ultimate parent entity of S P Telecommunications Limited is Washington H. Soul Pattinson and Company Limited which at 31st July 2003 owns 56.35% of the issued ordinary shares (2002: 56.40%).

S P Telecommunications Limited and its Controlled Entities
Notes to the financial statements

Note 26. Controlled entities

<i>(a) Particulars in relation to controlled entities</i>	Country of Incorporation	Ordinary Share Consolidated Entity Interest	
		2003 %	2002 %
<i>Name</i>			
<i>Parent entity</i>			
S P Telecommunications Limited			
<i>Controlled Entities</i>			
Soul Pattinson Telecommunications Pty Limited	Australia	100	100
Koee Communications Pty Limited	Australia	100	100

Note 27. Investments accounted for using the equity method

Details of interests in joint venture entities are as follows:

Name	Principal activities	Joint Venture Balance date	Ordinary share Ownership interest		Investment carrying amount			
			Consolidated 2003 %	2002 %	Consolidated 2003 \$'000	2002 \$'000	Company 2003 \$'000	2002 \$'000
SPT Telecommunications Pty Ltd	Telecommunications Carrier	30 June	50	50	1,763	353	-	-
Koee Pty Ltd	Telecommunications Retailer	31 July	50	-	18	-	-	-

Results of joint venture entities

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

Revenues from ordinary activities	7,699	85	-	-
Expenses from ordinary activities	(5,720)	(232)	-	-
Profit/(loss) from ordinary activities before income tax expense	1,978	(147)	-	-
Income tax expense relating to ordinary activities	(550)	-	-	-
Net Profit/(loss)– accounted for using the equity method	1,428	(147)	-	-

Statement of financial position

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

Current assets	3,279	576	-	-
Non-current assets	5,271	15	-	-
Total assets	8,550	591	-	-

S P Telecommunications Limited and its Controlled Entities
Notes to the financial statements

Note 27. Investments accounted for using the equity method (Continued)

	Consolidated		Company	
	2003	2002	2003	2002
	\$'000	\$'000	\$'000	\$'000
Current liabilities	(3,167)	(238)	-	-
Non-Current liabilities	(3,602)	-	-	-
Total liabilities	<u>(6,769)</u>	<u>(238)</u>	<u>-</u>	<u>-</u>
Net assets – accounted for using the equity method	<u>1,781</u>	353	-	-
<i>Movements in carrying amount of joint venture entity</i>				
Carrying amount at beginning of year	353	-	-	-
Investment in joint venture entity acquired during the year	-	500	-	-
Share of joint venture entity net profit/(loss)	1,428	(147)	-	-
Carrying amount at end of year	<u>1,781</u>	<u>353</u>	<u>-</u>	<u>-</u>
<i>Commitments</i>				
Share of associates' capital commitments	<u>575</u>	-	-	-

Note 28. Contingent Liabilities

Litigation

A Supreme court summons was issued in August 2001 seeking payment for equipment purchases, in respect of Soul Pattinson Telecommunications Pty Limited.

The company defended the action, and lodged a cross claim.

The matter was settled to the satisfaction of the Directors.

The settlement is subject to a confidentiality agreement, however there was no adverse impact on the Company's profit as a result of the agreed settlement.

Amount claimed:	-	2,600	-	-
Total estimated contingent liabilities	<u>-</u>	<u>2,600</u>	<u>-</u>	<u>-</u>

Note 29. Economic dependency

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

S P Telecommunications Limited and its Controlled Entities
Notes to the financial statements

Note 30. Notes to the statements of cash flows

Consolidated		Company	
2003	2002	2003	2002
\$'000	\$'000	\$'000	\$'000

(a) Reconciliation of cash

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

Cash at bank and on hand	7,460	8,575	2,499	7,062
Short term deposits	5,750	5,750	-	-
	13,210	14,325	2,499	7,062

(b) Reconciliation of profit from ordinary activities after income tax to net cash provided by operating activities

Profit from ordinary activities after income tax	5,809	2,222	130	326
Add/(less) non-cash items:				
Depreciation	2,461	1,667	-	-
(Decrease)/increase in income taxes payable	904	706	(121)	92
(Increase) in future income tax benefits	-	(238)	-	(2)
(Decrease)/increase in deferred taxes payable	(14)	255	-	-
Share of joint venture entity net (profit)/loss	(1,428)	147	-	-
Net cash provided by operating activities before changes in assets and liabilities	7,732	4,759	9	416
Change in assets and liabilities adjusted for effects of purchase of controlled entities during the financial year:				
(Increase)/decrease in inventories	(5)	18	-	-
(Increase)/decrease in prepayments	354	(234)	(7)	(4)
(Increase)/decrease in trade debtors	(1,828)	(1,427)	-	86
(Decrease)/increase in accounts payable	500	651	(19)	(171)
(Decrease)/increase in provisions	120	(418)	-	-
Net cash provided by operating activities	6,873	3,349	(17)	327

S P Telecommunications Limited and its Controlled Entities
Notes to the financial statements

Note 31. Earnings per share

	Consolidated	
	2003 Cents	2002 Cents
Basic earnings per share	3.2	1.2
Diluted earnings per share	3.0	1.2

	Number	Number
Weighted average number of shares used as the denominator		
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	180,256,267	180,092,700
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	193,058,840	190,808,800

	2003 \$'000	2002 \$'000
Reconciliations of earnings used in calculating earnings per share		
Basic earnings per share		
Net profit	5,809	2,222
Earnings used in calculating basic earnings per share	5,809	2,222
Diluted earnings per share		
Net profit	5,809	2,222
Earnings used in calculating diluted earnings per share	5,809	2,222

Information concerning the classification of securities

(a) Options

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

S P Telecommunications Limited and its Controlled Entities

Directors' declaration

The directors declare that the financial statements and notes set out on pages 9 to 34.

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

In the directors' opinion:

- (a) the financial statements and notes are in accordance with the Corporations Act 2001; and
- (b) there are reasonable grounds to believe that the company and the subsidiaries identified in Note 26 will be able to pay their debts as and when they become due and payable.

Dated at Sydney this 8th day of October 2003.

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

R.D. Millner

M.J. Millner

S P Telecommunications Limited and its Controlled Entities

Independent Audit Report to the Members of S P Telecommunications Limited

Audit opinion

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

gives a true and fair view, as required by the Corporations Act 2001 in Australia, of the financial position of S P Telecommunications Limited and the S P Telecommunications Group (defined below) as at 31 July 2003 and of their performance for the year ended on that date, and

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

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

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for both S P Telecommunications Limited (the company) and the S P Telecommunications Group (the consolidated entity), for the year ended 31 July 2003. The consolidated entity comprises both the company and the entities it controlled during that year.

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

Audit approach

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

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

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

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

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

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

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

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

S P Telecommunications Limited and its Controlled Entities

Independent Audit Report to the Members of S P Telecommunications Limited

Independence

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

PricewaterhouseCoopers

G S Lourey
Partner

W M Russell
Partner

Newcastle
8th October 2003

S P Telecommunications Limited and its controlled entities

Shareholder information

The shareholder information set out below was applicable as at 7th October 2003.

A. Distribution of equity securities

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

	Class of equity security	
	Ordinary shares	
	Shares	Options
1 – 1,000	126	629
1,001 – 5,000	556	647
5,001 – 10,000	893	103
10,001 – 100,000	1,042	65
100,001 and over	69	12
	<u>2,686</u>	<u>1,456</u>

There were 8 holders of less than a marketable parcel of ordinary shares.

B. Equity security holders

Twenty largest quoted equity security holders

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

Name	Ordinary shares	
	Number held	Percentage of issued shares
Washington H. Soul Pattinson & Company Limited	101,633,678	55.15
Equity Trustees Limited	4,669,218	2.53
Citicorp Nominees Pty Limited	3,712,032	2.01
Invia Custodian Pty Limited	2,924,265	1.59
RBC Global Services Australia Nominees Pty Limited (PIPOOLED A/c)	2,719,757	1.48
Brickworks Limited	2,250,000	1.22
Farjoy Pty Limited	2,000,000	1.09
Guardian Trust Australia Ltd (Glebe PLCSF)	1,876,000	1.02
National Nominees Limited	1,316,429	0.71
Mr. Noel Francis Mitchell	1,075,000	0.58
Niblick Pty Ltd	1,002,000	0.54
Choiseul Investments Limited	1,000,000	0.54
Milton Corporation Limited	1,000,000	0.54
Guardian Trust Australia Ltd (Glebe PSCSF)	982,144	0.53
Dixson Trust Pty Limited	942,557	0.51
J P Morgan Nominees Australia Limited	940,868	0.51
ANZ Nominees Limited	749,837	0.41
RBC Global Services Australia Nominees Pty Limited (PIIC A/c)	648,681	0.35
Smoothdale No. 1 Pty Limited	637,500	0.35
Mr. Graeme Lance Robertson	622,000	0.34
	<u>132,701,966</u>	<u>72.00</u>

C. Substantial holders

Substantial holders in the company are set out below:

	Number held	Percentage
Ordinary shares		
Washington H. Soul Pattinson and Company Limited	101,633,678	55.15

S P Telecommunications Limited and its controlled entities

Shareholder information

D. Voting rights

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

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

STOCK EXCHANGE LISTING

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

S P Telecommunications Limited and its Controlled Entities

ABN 46 093 058 069

For the year ended 31 July 2003

CORPORATE GOVERNANCE STATEMENT

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

The Board of Directors

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

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

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

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

Directors are initially appointed by the full Board, subject to election by shareholders at the next Annual General Meeting. Under the Constitution, the company shall by ordinary resolution determine that Directors shall be elected periodically, and the period for which they shall hold office and the rotation in which they shall retire. Directors upon the passing of such resolution shall be deemed to have retired from office and shall be eligible for re-election.

The main responsibilities of the Board of Directors include: -

- The development and approval of corporate strategy
- Reviewing and approving budget, business and financial plans and capital expenditure proposals including acquisitions and divestments
- Monitoring financial performance including approval of the annual and half-year financial reports
- The appointment of the Executive Director and performance assessment
- The appointment of and performance assessment of senior management
- Ensuring significant risks facing the Group are identified and controlled
- Reporting to Shareholders

Chairman

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

Non-Executive Directors

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

Independent Professional Advice

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

Nomination Committee

The nomination committee consists of the non-executive Directors.

The main responsibilities of the committee are to periodically review the membership of the Board, having regard for the Company's particular needs, both present and future. Where necessary, advice is sought from independent consultants. When a director is due for re-election at the next Annual General Meeting that director will not serve on the Nomination Committee during the year preceding re-election.

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

For the year ended 31 July 2003

CORPORATE GOVERNANCE STATEMENT (cont.)

Remuneration Committee

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

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

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

Further information on Directors' remuneration is set out in Note 19 to the financial statements.

Audit Committee

The audit committee consists of the non-executive Directors and the Company Secretary. The audit committee has its own independent Chairman.

The main responsibilities of the audit committee are to: -

- Review and approve the annual and half yearly reports and financial statements and other financial information published by the Company or released to the market.
- Provide assurance to the Board that it is receiving adequate, up to date and reliable information.
- Assist the Board in reviewing the effectiveness of the Company's internal control procedures covering efficiency and reliability of operations, financial reporting and compliance with applicable laws and regulations.
- Assist the Board in reviewing the work of risk management.

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

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

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

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

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

Continuous Disclosure and Shareholder Communication

The Board is committed to ensuring that shareholders are fully informed of all material matters that affect the Group. The dissemination of information is achieved as follows: -

- The Annual report is distributed to all shareholders in October each year.
- Where possible, significant information is posted on the Company's internet website as soon as it is disclosed to the market.

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

For the year ended 31 July 2003

CORPORATE GOVERNANCE STATEMENT (cont.)

Risk Assessment and Management

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

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

Code of Conduct and Ethical Standards

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

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

The policy governing trading in company securities prohibits the purchase and sale of securities during certain time periods, and when individuals are in possession of price sensitive information.