



2018
ANNUAL REPORT

**TPG Telecom Limited
and its controlled entities
ABN 46 093 058 069**

**Annual Report
Year ended 31 July 2018**

TPG Telecom Limited and its controlled entities

Annual report

For the year ended 31 July 2018

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TPG Telecom Limited and its controlled entities

Chairman's letter

For the year ended 31 July 2018

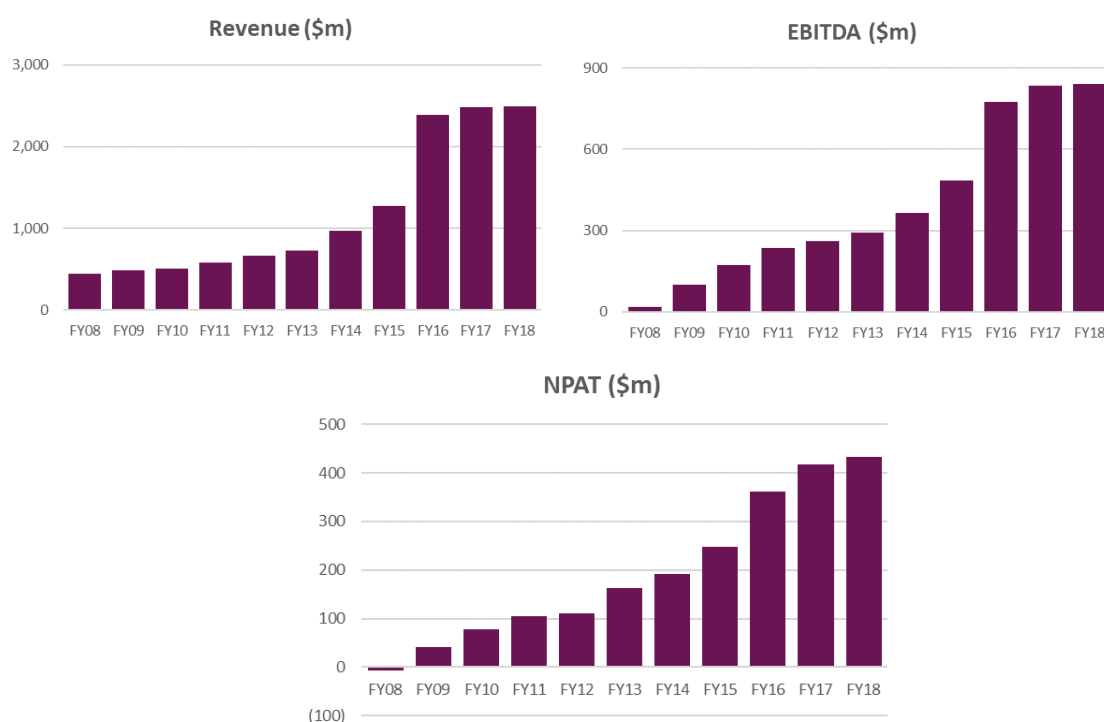
Dear Shareholders

On behalf of the Board of Directors, I am pleased to present to you the TPG Telecom Limited Annual Report for the financial year ended 31 July 2018 ("FY18").

The Australian telecommunications industry continues to experience an exceptionally challenging period as the rollout of the NBN affects industry structure and profitability. Throughout this turbulent period, it is important that TPG remain focussed on implementing its long-term strategies in order to build a platform for long-term growth while simultaneously continuing to compete hard in the market place and optimise costs to ensure that shareholder returns are also maximised in the short-term.

We believe that we have been successful in meeting these challenges in FY18:

- We made exciting progress with the implementation of our major long-term strategic initiatives through our mobile network builds in Singapore and in Australia. Our outdoor coverage in Singapore is on track to be completed before the end of 2018, and our innovative small cell network rollout is underway across a number of major cities throughout Australia;
- We negotiated a tremendous deal for shareholders to, subject to regulatory approvals, merge our business with that of Vodafone Hutchison Australia (VHA); and
- We delivered a tenth consecutive year of underlying revenue, EBITDA and NPAT growth.



Although this year's earnings growth was more modest than in prior years, it remains a strong achievement given the current challenges in the market place and the substantial focus we have placed on our longer-term mobile projects during the year and is a credit to the many hardworking staff in the TPG team.

TPG Telecom Limited and its controlled entities

Chairman's letter

For the year ended 31 July 2018

Further highlights of our achievements in FY18 include the following:

- We competed hard but rationally for customers in the Australian fixed broadband market as the industry continues its transition to the NBN, maintaining an NBN market share of over 20% and increasing the number of customers using our on-net fibre-to-the building services to fifty thousand.
- We continued to achieve strong cost optimisation gains to offset partially the gross margin declines brought about by the NBN, to maximise returns for shareholders and to make the Company as fit as possible to continue to compete strongly in the future.
- We achieved these cost savings without adversely affecting our strong customer service performance, with Net Promoter Score (NPS) results across all brands continuing to improve and the NPS result for our premium iiNet brand returning an exceptional result of greater than positive 50 for the year.
- We substantially completed our fibre network expansion for the delivery of the VHA fibre contract. This and other enterprise, government and wholesale sales helped drive continued strong growth in data and internet revenues and profits in our Corporate Division.
- We entered into an exciting agreement with Adelaide City to connect our fibre network to over a thousand buildings in Adelaide capable of delivering 10 Gbps services and vastly increased the coverage area of our market leading Fibre1000 product leveraging our expanded fibre network to help continue the growth of our Corporate Division over the coming years.

Your Board is immensely proud of what our Group has achieved over the past decade as we have firmly established TPG as a leading challenger telecommunications company with the second largest fixed broadband customer base in Australia, a thriving enterprise, government and wholesale business, extensive valuable network infrastructure, innovative products, strong brands, a highly enviable cost structure and a dedicated and talented workforce.

The merger with VHA, if approved, will create a step change in the evolution of our Group which will benefit shareholders and customers alike. Together we will become a more formidable competitor to Telstra and Optus, our complementary fixed and mobile infrastructure enabling us to deliver more competitive value propositions to Australian consumers coupled with the high levels of customer service that differentiates us in the marketplace.

We are extremely excited about the prospects of the Merged Group going forward and we have been delighted with the enthusiasm with which the proposed merger has been embraced by our fantastic group of employees whom I would like to thank again for another year of dedication and hard work.

On behalf of the Board I would also like to thank all our shareholders for their continued support of the Company.

Yours faithfully



David Teoh
Chairman

TPG Telecom Limited and its controlled entities

Directors' report

For the year ended 31 July 2018

The directors present their report together with the financial report of the Group, being TPG Telecom Limited ('the Company') and its controlled entities, for the financial year ended 31 July 2018, and the auditor's report thereon.

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TPG Telecom Limited and its controlled entities

Directors' report

For the year ended 31 July 2018

1. Board of Directors

Details of directors of the Company who held office at any time during or since the end of the previous year are set out below:

CURRENT

| | |
|---|--|
| David Teoh Executive Chairman Chief Executive Officer | David is the founder and Chief Executive Officer of the TPG group of companies. He has served as Executive Chairman of the Company since 2008. Special Responsibilities: Chairman of the Board |
| Denis Ledbury Non-Executive Director B.Bus Independent | Denis has served as a Director of the Company since 2000 and was the Managing Director of the Company between 2000 and 2005. Denis was also associated with the NBN television group of companies for over 24 years, the last 14 of which as Chief Executive Officer. Special Responsibilities: Chairman of the Remuneration and Audit & Risk Committee |
| Robert Millner Non-Executive Director F.A.I.C.D. | Robert has served as a Non-Executive Director of the Company since 2000 and was the Chairman until 2008. Robert has over 30 years' experience as a Company Director and is currently a Director of the following listed companies: Apex Healthcare Berhad, Australian Pharmaceutical Industries Limited, Brickworks Limited, BKI Investment Company Limited, Milton Corporation Limited, New Hope Corporation Limited and Washington H. Soul Pattinson and Company Limited. Robert was also an interim Director at Hunter Hall Global Value Limited from April 2017 to June 2017. Special Responsibilities: Member of the Remuneration and Audit & Risk Committee |
| Joseph Pang Non-Executive Director FCA Independent | Joseph has served as a Non-Executive Director of the Company since 2008. Joseph worked in financial roles in the UK, Canada and Hong Kong prior to starting his own management and financial consulting service in Australia. Special Responsibilities: Member of the Remuneration and Audit & Risk Committee |
| Shane Teoh Non-Executive Director B.Com, LLB | Shane has served as a Non-Executive Director of the Company since 2012. Shane holds a Bachelor of Commerce and a Bachelor of Laws from the University of New South Wales. He is managing director of Total Forms Pty Ltd, a leading developer of accounting and taxation software in Australia. |

2. Company secretary

Mr Stephen Banfield was appointed Company Secretary on 24 October 2007. Stephen holds a BA (Hons) degree and is a member of the Institute of Chartered Accountants in England and Wales.

TPG Telecom Limited and its controlled entities

Directors' report

For the year ended 31 July 2018

3. Directors' meetings

The number of Board and committee meetings held during the financial year and the number of meetings attended by each of the directors as a member of the Board or relevant committee were as follows:

| Director | Board Meetings | | Audit & Risk Committee (ARC) Meetings | | Remuneration Committee Meetings | |
|-----------|----------------|----|---------------------------------------|---|---------------------------------|---|
| | A | B | A | B | A | B |
| D Teoh | 13 | 13 | - | - | - | - |
| D Ledbury | 13 | 13 | 2 | 2 | 1 | 1 |
| R Millner | 13 | 13 | 2 | 2 | 1 | 1 |
| J Pang | 12 | 13 | 2 | 2 | 1 | 1 |
| S Teoh | 13 | 13 | - | - | - | - |

A: Number of meetings attended. B: Number of meetings held while a member

The ARC meetings, disclosed above, do not include separate meetings that the ARC Chairman also had with the audit partner during the year.

4. Operating and financial review

4.1 Operating result overview

Reported Results

The Group's reported results for its year ended 31 July 2018 ("FY18") included:

- Earnings before interest, tax, depreciation and amortisation ("EBITDA") for the period of \$841.1m;
- Net Profit After Tax ("NPAT") attributable to shareholders for the period of \$396.9m; and
- Earnings per share ("EPS") of 42.8 cents per share.

Underlying Results

The FY18 EBITDA result includes no material irregular items and is therefore representative of underlying EBITDA for the period. By contrast, as reported last year, the FY17 EBITDA result benefitted from \$55.8m of favourable non-recurring items (predominantly a profit realised on sale of an investment). Therefore, although there is a \$49.7m decrease in reported EBITDA between FY17 and FY18, underlying EBITDA in fact increased by \$6.1m in FY18 from \$835.0m to \$841.1m, making FY18 the 10th consecutive year of underlying EBITDA growth for the Group.

Reconciliation of Reported to Underlying Profits

| \$m | FY18 | | FY17 | |
|--|--------------|--------------|--------------|--------------|
| | EBIDA | NPAT | EBITDA | NPAT |
| Reported | 841.1 | 396.9 | 890.8 | 413.8 |
| <i>Less: Profit on sale of equity investments</i> | - | - | (48.8) | (35.3) |
| <i>Less: One-off revenue</i> | - | - | (7.0) | (4.9) |
| <i>Add: Acquired customer base intangible amortisation</i> | - | 35.7 | - | 43.7 |
| Underlying | 841.1 | 432.6 | 835.0 | 417.3 |

TPG Telecom Limited and its controlled entities

Directors' report

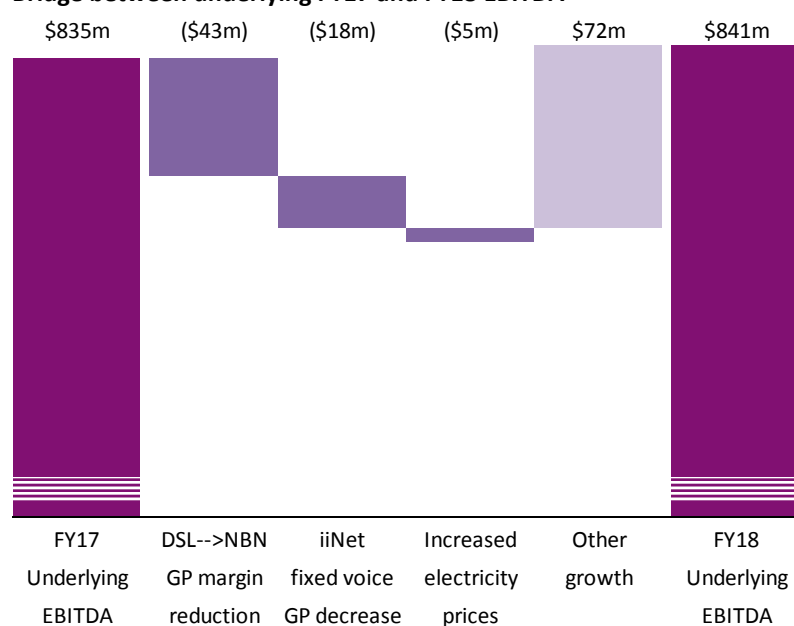
For the year ended 31 July 2018

4. Operating and financial review (continued)

4.1 Operating result overview (continued)

As shown in the chart below, this modest underlying EBITDA increase in FY18 has been achieved despite the significant headwinds that were experienced during the year from the migration of DSL customers to lower margin NBN services, loss of gross profit from home phone services as customers migrate to NBN bundled services and electricity price increases.

Bridge between underlying FY17 and FY18 EBITDA



The adverse profit impacts of the headwinds shown in the chart above were all in line with, or slightly less than, expectations, whilst the strong \$72m of other EBITDA growth achieved relative to FY17 was pleasing. The main contributors to this growth came from the Corporate Segment, TPG FTTB ('fibre to the building') services, and cost savings from the ongoing integration of iiNet.

Segment Results

The Consumer Segment's EBITDA for FY18 was \$513.1m compared to \$530.4m for FY17. As reported last year, the FY17 result included \$7.0m one-off revenue, excluding which the underlying movement is a \$10.3m decrease from FY17 to FY18. This movement comprises a \$32.3m decrease in gross profit partially offset by a \$22.0m decrease in employment and overhead costs. The gross profit decline is driven by broadband gross margin erosion and loss of home phone voice revenue, both due to the NBN rollout. The significant decrease in employment and overhead costs reflects the results of further integration of iiNet operations within the broader group.

The Corporate Segment achieved EBITDA of \$330.1m for FY18 compared to \$312.8m for FY17, a \$17.3m year-on-year growth. It should be noted that \$3.5m of EBITDA related to FTTB that was included in the Corporate Segment's FY17 EBITDA is recognised with the Consumer Segment in FY18 meaning that the comparable EBITDA growth for the segment was in fact \$20.8m. This EBITDA growth has been driven by continued strong data and internet sales, and increased revenue from the VHA fibre contract offsetting ongoing declines in voice revenues.

TPG Telecom Limited and its controlled entities

Directors' report

For the year ended 31 July 2018

4. Operating and financial review (continued)

4.1 Operating result overview (continued)

Cashflow, Capital Expenditure and Gearing

The Group delivered another strong cashflow result in FY18 with \$868.3m cash generated from operations (pre-tax).

Total capital expenditure for the year of \$956.3m included \$597.3m of spectrum payments (includes a \$594.8m instalment for the 2x10MHz of 700MHz spectrum acquired at auction last year) and \$101.0m invested in the mobile network builds in Singapore and Australia. The remaining 'business as usual' capital expenditure of \$258.0m was \$104.5m lower than FY17 as the fibre expansion for the Vodafone fibre contract was substantially completed during the year.

At the end of FY18 the Group had net debt of \$1,266.4m, which represents a leverage ratio of ~1.5x EBITDA, and had undrawn headroom of over \$1 billion in its debt facilities to fund its remaining planned mobile network investments in Australia and Singapore.

Mobile Network Rollout Update

In Australia, the Group's small cell network rollout is continuing in major capital cities and densely populated metropolitan areas. If the merger with Vodafone Hutchison Australia (VHA) proceeds, TPG's small cell network would be complementary to VHA's mobile network bringing greater strength to the combined group through increased coverage and capacity in densely populated areas.

In Singapore, the Group remains on track to achieve its milestone of outdoor service coverage by the end of 2018 with the majority of sites now live on the production network.

Dividend

The Board of Directors has declared a final FY18 dividend in line with the interim FY18 dividend of 2.0 cents per share (fully franked), payable on 20 November 2018 to shareholders on the register on 16 October 2018.

TPG Telecom Limited and its controlled entities

Directors' report

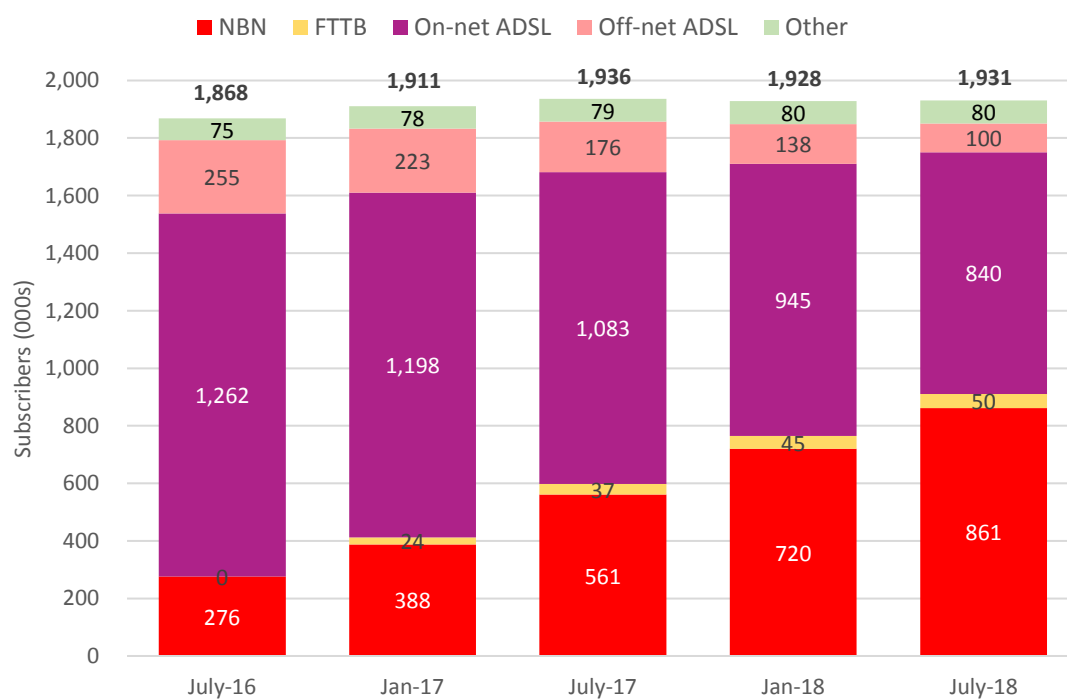
For the year ended 31 July 2018

4. Operating and financial review (continued)

4.2 Customer growth

Group Broadband Subscribers

The Group ended FY18 with 1.93m broadband subscribers, a 5k (0.3%) decline in the year. Included within this movement was a significant change in the composition of the broadband customer base with NBN subscribers increasing by 300k to 861k, representing 45% of the total broadband customer base as at the year-end. Offsetting that, ADSL subscribers declined by 319k to 940k, representing 49% of the total customer base as at the year-end. The number of customers using the Group's on-net FTTB services grew by 13k to 50k as at the year-end.



TPG Telecom Limited and its controlled entities

Directors' report

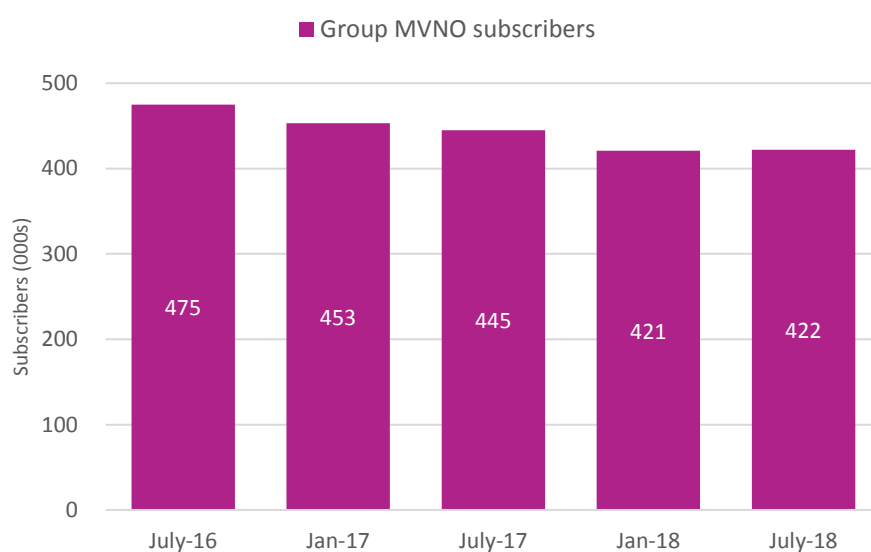
For the year ended 31 July 2018

4. Operating and financial review (continued)

4.2 Customer growth (continued)

Group MVNO Subscribers

The Group had 422k mobile subscribers as at 31 July 2018 under its mobile virtual network operator (MVNO) arrangements with Vodafone and Optus.



Corporate Revenues

The Group's Corporate Segment revenues increased to \$753.8m in FY18, up by \$10.8m from the prior year. The composition of the growth is shown in the table below.

| \$m | Corporate Segment Revenue | | | |
|--------------|---------------------------|--------|--------------|-------|
| | Data/Internet | Voice | Legacy iiNet | Total |
| FY17 revenue | 526.1 | 147.1 | 69.8 | 743.0 |
| FY18 revenue | 562.7 | 130.4 | 60.7 | 753.8 |
| FY18 growth | 36.6 | (16.7) | (9.1) | 10.8 |

Data and internet revenues grew by \$36.6m (7%) reflecting the strength of the Corporate Segment's data and internet product suite leveraging the Group's extensive fibre network.

The decline in voice revenues reflects a continuing industry trend of decline in fixed voice usage.

The decrease in legacy iiNet revenues reflects the fact that new corporate sales are predominantly made under the TPG and AAPT brands rather than under iiNet.

TPG Telecom Limited and its controlled entities

Directors' report

For the year ended 31 July 2018

4. Operating and financial review (continued)

4.3 Financial results review

There follows below a review of the key elements of the FY18 results:

| | FY18 | <i>% of</i> | FY17 | <i>% of</i> |
|-----------------------------------|------------------|----------------|------------------|----------------|
| | \$m | <i>revenue</i> | \$m | <i>revenue</i> |
| Revenue | | | | |
| Consumer | 1,741.4 | 70% | 1,747.7 | 70% |
| Corporate | 753.8 | 30% | 743.0 | 30% |
| Total revenue | 2,495.2 | | 2,490.7 | |
| Telco costs | | | | |
| Consumer | (949.4) | 55% | (916.4) | 52% |
| Corporate | (280.0) | 37% | (287.4) | 39% |
| Total telco costs | (1,229.4) | | (1,203.8) | |
| Employment costs | | | | |
| Consumer | (133.9) | 8% | (147.8) | 8% |
| Corporate | (108.2) | 14% | (108.8) | 15% |
| Unallocated | (0.3) | - | (0.1) | - |
| Total employment costs | (242.4) | | (256.7) | |
| Other expenses | | | | |
| Consumer | (145.0) | 8% | (153.1) | 9% |
| Corporate | (35.5) | 5% | (34.0) | 5% |
| Unallocated | (1.8) | - | (1.1) | - |
| Total other expenses | (182.3) | | (188.2) | |
| Other income | - | - | 48.8 | - |
| EBITDA | 841.1 | 34% | 890.8 | 36% |
| Depreciation | (138.8) | 6% | (141.1) | 6% |
| Amortisation | (104.1) | 4% | (103.3) | 4% |
| Operating profit | 598.2 | 24% | 646.4 | 26% |
| Net financing costs | (34.4) | 1% | (50.9) | 2% |
| Profit before tax | 563.8 | 23% | 595.5 | 24% |
| Income tax | (165.8) | - | (179.8) | - |
| Profit after tax | 398.0 | 16% | 415.7 | 17% |
| Attributable to: | | | | |
| Owners of the Company | 396.9 | | 413.8 | |
| Non-controlling interest | 1.1 | | 1.9 | |
| Earnings per share (cents) | 42.8 | | 47.9 | |

TPG Telecom Limited and its controlled entities

Directors' report

For the year ended 31 July 2018

4. Operating and financial review (continued)

4.3 Financial results review (continued)

Revenue

a) Consumer

Consumer Segment revenue decreased by \$6.3m to \$1,741.4m in FY18.

This movement was predominantly the result of a \$51.2m increase in broadband revenues, a \$50.5m decrease in fixed voice revenue, and a \$7.0m one-off revenue item disclosed last year that benefitted the FY17 result.

Subscribers on the Group's broadband plans declined very slightly over the year by 5k (0.3%) to 1,931k. Included within this movement was a significant change in the composition of the broadband customer base with NBN subscribers increasing by 300k to represent 45% of the total broadband customer base as at the year-end. Offsetting that, ADSL subscribers declined by 319k to represent 49% of the total customer base as at the year-end. The number of customers using the Group's on-net FTTB services grew by 13k to 50k as at the year-end.

Monthly ARPU for broadband customers continued to increase in the year due to the fact that NBN services have a higher price point than the DSL services they are replacing.

The \$50.5m decline in revenue from fixed voice services reflects both the fact that across the industry usage of home phones is declining and the fact that standalone home phone services are being replaced by NBN services which bundle data and voice.

b) Corporate

Corporate revenue increased by \$10.8m to \$753.8m in FY18. This growth in revenue was driven by a \$36.6m (7%) increase in data and internet revenues, partially offset by a \$16.7m decrease in voice revenues and \$9.1m decrease in legacy iiNet corporate customer revenues.

The increase in data and internet revenues reflects the strength of the Corporate Segment's data and internet product suite leveraging the Group's extensive fibre network.

The decline in voice revenues reflects a continuing industry trend of decline in fixed voice usage. The decrease in legacy iiNet revenues reflects the fact that new corporate sales are predominantly made under the TPG and AAPT brands rather than under iiNet.

Network, carrier and hardware costs (Telco costs)

Telco costs comprise all of the direct operating costs incurred to deliver the Group's telecommunications services to customers, including amounts paid to other carriers, and the non-staff costs of operating and maintaining the Group's own network.

a) Consumer

Consumer Segment telco costs increased by \$33.0m compared to the previous year and increased as a proportion of revenue from 52% to 55%.

The increase in this cost % reflects the fact that NBN services with a high wholesale cost and low margin have grown from 29% to 45% of the Group's broadband customer base during the year.

b) Corporate

Corporate Segment telco costs decreased from 39% to 37% of revenue reflecting the fact that revenue growth was driven by on-net data and internet revenues delivered using the Group's extensive fibre network.

TPG Telecom Limited and its controlled entities

Directors' report

For the year ended 31 July 2018

4. Operating and financial review (continued)

4.3 Financial results review (continued)

Employment costs

Consumer Segment employment costs decreased by \$13.9m in FY18 and from 8.5% to 7.7% of revenue. This reduction in employment costs principally reflects ongoing efficiencies that have been achieved through the continued integration of iiNet operations.

Corporate Segment employment costs decreased by \$0.6m, and from 14.6% to 14.4% of Corporate Segment revenues.

The Group's total number of employees as at 31 July 2018 was 5,056.

Other expenses

Other expenses include all of the overheads incurred by the Group in running the business, as well as marketing costs.

The Consumer Segment's other expenses decreased by \$8.1m in FY18 declining from 8.8% to 8.3% as a proportion of Consumer Segment revenue.

The Corporate Segment's other expenses remained constant as a proportion of revenue at 5% in FY18 and increased by just \$1.5m.

Other income

Other income in FY17 of \$48.8m represented a one-off profit on disposal of shares held as an investment by the Group.

Depreciation

The Group's depreciation expense decreased by \$2.3m in FY18 despite the fact that capital expenditure in the year exceeded depreciation expense. This is explained by the fact that (i) a large proportion of new capital expenditure has been spent on fibre infrastructure which has a long

useful life, while expenditure on hardware assets such as DSLAMs, which have much shorter useful lives, has declined substantially; and (ii) capital expenditure on the mobile network rollouts will not start to be depreciated until the networks are ready to deliver commercial services.

Amortisation

The Group's FY18 intangible amortisation expense of \$104.1m was almost exactly in line with prior year despite the significant investment in spectrum licence assets during the year. The spectrum licences will not start to be amortised until the associated network assets are ready for their intended use.

Net financing costs

Net financing costs decreased by \$16.5m in FY18. The average debt balance over the year was roughly in line with the prior year so the principal drivers of the movement in interest expense were (i) \$16.6m of interest expense accrued relating to the deferred spectrum instalments, offset by (ii) the capitalisation in FY18 of ~\$39m of interest directly attributable to the construction of capital assets (\$33m greater than in FY17).

Income tax

The Group's effective income tax rate was 29.4% in FY18, broadly in line with the Australian corporate tax rate of 30%.

TPG Telecom Limited and its controlled entities

Directors' report

For the year ended 31 July 2018

4. Operating and financial review (continued)

4.3 Financial results review (continued)

Free cashflow

| | FY18 | FY17 |
|-------------------------------|----------------|--------------|
| | \$m | \$m |
| Operating cashflow | 868.3 | 869.7 |
| Tax | (194.5) | (147.0) |
| IRU payments | (34.1) | (27.0) |
| Capex - BAU | (258.0) | (362.5) |
| Capex - mobile spectrum (Aus) | (597.3) | (83.1) |
| Capex - mobile spectrum (Sg) | - | (124.4) |
| Capex - mobile networks (Aus) | (38.7) | (1.9) |
| Capex - mobile networks (Sg) | (62.3) | (4.4) |
| Free cashflow | (316.6) | 119.4 |

The Group achieved another year of strong cashflow performance with operating cashflow for FY18 of \$868.3m again exceeding EBITDA. Tax payments in FY18 were abnormally high because they included tax paid on the capital gain realised on the sale of investments in FY17.

IRU payments

IRU payments of \$34.1m represent principally payment of finance lease liabilities for international capacity acquired by iiNet prior to its acquisition by the Group. These monthly payments ended in July 2018 as the liabilities have now been repaid in full.

Capital expenditure

Business as usual ('BAU') capital expenditure of \$258.0m is over \$100m lower than last year principally because the past few years have included substantial expenditure for the Vodafone fibre contract which was substantially completed during FY18.

Mobile spectrum capex of \$597.3m in FY18 reflects the payment during the year of the first instalment for the 700MHz spectrum acquired at auction in April 2017. In FY18 \$38.7m of capex was incurred in relation to the small cell mobile network rollout in Australia and \$62.3m in relation to the Singapore mobile network rollout.

Non-operating cashflows

| | FY18 | FY17 |
|----------------------------|-------------|------------|
| | \$m | \$m |
| Free cashflow | (316.6) | 119.4 |
| Debt drawdown/(repayment) | 430.8 | (450.0) |
| Debt facility fees | (10.8) | (3.4) |
| Interest payments | (44.6) | (40.7) |
| Dividend payments | (23.0) | (131.5) |
| Investment sale proceeds | - | 124.5 |
| Net capital raise proceeds | - | 396.3 |
| Other | 0.1 | (7.5) |
| Increase in cash | 35.9 | 7.1 |

Debt drawdown, facility fees and interest

The 700MHz spectrum payment made in the year gave rise to overall negative free cashflow for the Group in FY18 which was funded through a drawdown on the Group's debt facilities by an amount of \$430.8m.

The Group's debt facilities were amended, extended and increased at the start of the financial year in order to finance the Group's spectrum commitments and mobile network investment plans, at a cost of \$10.8m. Interest payments made under the facilities totalled \$44.6m in the year (net of \$1.2m of interest received).

Dividends paid

Dividends paid in the year comprise the final FY17 dividend and the interim FY18 dividend of 2.0 cents per share ("cps") each. The reduction in dividends paid reflect the Board's fiscally prudent decision to retain a greater proportion of profits in the Company for deployment in the mobile network rollouts.

Investment sale proceeds

In the prior year the Group generated proceeds of \$124.5m from the sale of an investment (which gave rise to the profit on sale of \$48.8m referred to in 'other income' above).

TPG Telecom Limited and its controlled entities

Directors' report

For the year ended 31 July 2018

4. Operating and financial review (continued)

4.3 Financial results review (continued)

Balance sheet

Below is a condensed version of the Group's balance sheet as at the end of FY18, summarised in a manner to highlight a few key points. Please refer to the full financial statements contained in this annual report for a comprehensive balance sheet.

| | FY18 \$m | FY17 \$m |
|--------------------------------------|----------------|----------------|
| Cash (1) | 82.2 | 46.3 |
| Trade and other receivables | 129.1 | 131.6 |
| Other current assets | 20.5 | 33.3 |
| Total current assets | 231.8 | 211.2 |
| Property, plant & equipment (2) | 1,249.0 | 1,055.5 |
| Spectrum assets (3) | 1,479.7 | 216.6 |
| Intangible assets | 2,420.7 | 2,416.2 |
| Other non-current assets | 9.1 | 12.8 |
| Total non-current assets | 5,158.5 | 3,699.8 |
| Deferred income | 148.3 | 150.0 |
| Loans and borrowings (1) | 5.5 | - |
| Spectrum liability (3) | 344.3 | - |
| Other current liabilities | 387.2 | 417.6 |
| Total current liabilities | 885.3 | 567.6 |
| Loans and borrowings (1) | 1,313.5 | 872.4 |
| Spectrum liability (3) | 327.8 | - |
| Other non-current liabilities | 79.5 | 71.7 |
| Total non-current liabilities | 1,720.8 | 944.1 |
| Net assets | 2,784.2 | 2,399.3 |

Balance sheet notes

1. Net debt

Current and non-current loans and borrowings totalling \$1,319.0m are shown in the balance sheet net of prepaid borrowing costs of \$29.6m. Gross borrowings at 31 July 2018 were \$1,348.6m comprising bank debt of \$1,330.7m and finance lease liabilities of \$17.9m. Taking also into account the \$82.2m cash balance the Group had net debt at the end of FY18 of \$1,266.4m.

2. Property, plant & equipment ("PPE")

The Group's PPE balance is \$193.5m higher at 31 July 18 than at 31 July 17. This increase comprises \$332.2m of capital expenditure (mainly network infrastructure investment) during the year less \$138.8m of depreciation expense.

3. Spectrum assets and liabilities

The \$1,267.9m increase in spectrum assets in the year is driven by the Group's purchase of its 700MHz spectrum licence at auction in FY17, for which the Group took ownership of the licence from 1 April 2018.

The first instalment for the licence of \$595m was paid during the year and the outstanding instalments of \$352m each, payable in January 2019 and January 2020, are disclosed as spectrum liabilities on the balance sheet at their discounted present values of \$344.3m and \$327.8m respectively.

TPG Telecom Limited and its controlled entities

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For the year ended 31 July 2018

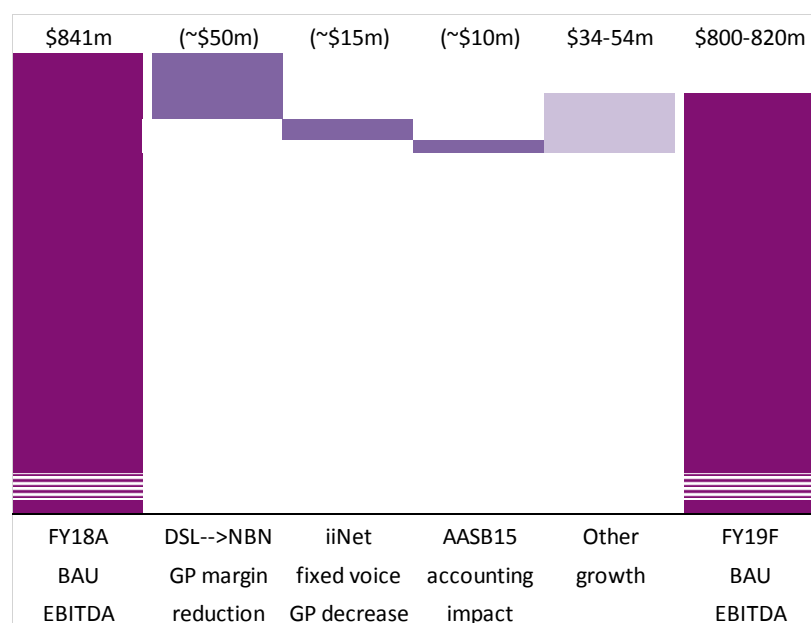
4. Operating and financial review (continued)

4.4 Business outlook

Prospects for FY19

EBITDA Guidance

The Group is anticipating another year of EBITDA growth from its 'business as usual' (BAU) operations in FY19 but, as reflected in the chart below which shows a bridge between actual FY18 EBITDA and forecast FY19 EBITDA from BAU operations, expects this to be offset by further gross profit margin headwinds as DSL and home phone services continue to migrate to the NBN, and by a one-time step reduction in EBITDA caused by adoption of the new AASB 15 revenue accounting standard under which certain subscriber acquisition costs previously expensed within intangible amortisation will in future be recognised above the EBITDA line.



'BAU' EBITDA takes no account of start-up mobile operations in Australia and Singapore.

Merger of Equals with Vodafone Hutchison Australia

On 30 August 2018 the Company announced a planned merger of equals with Vodafone Hutchison Australia (VHA) which, subject to satisfaction of certain conditions precedent, including the approval of the Australian Competition and Consumer Commission, is expected to complete in 2019.

The FY19 guidance provided above takes no account of the potential completion of the merger during the year, nor the associated transaction costs.

TPG Telecom Limited and its controlled entities

Directors' report

For the year ended 31 July 2018

4. Operating and financial review (continued)

4.4 Business outlook (continued)

Principal business risks

Like other businesses, the Group is exposed to a number of risks which may affect future financial performance. The material business risks identified by the Group and how they are addressed are set out below.

1. *Competitive environment*

Increased competition, for example as a result of the NBN rollout, could impact the Group's financial performance by affecting its ability to grow its customer base and/or its ability to make money from its service offerings.

The Group attempts to mitigate this risk by continually reviewing its customer offerings, their pricing relative to the market and customer needs. This is combined with constant reviews of the Group's cost structures with the objective of optimising costs to ensure the Group is best placed to continue providing value leading services.

2. *Business interruption*

A significant disruption of the Group's business through network or systems failure could cause financial loss for the Group and increased customer churn. The Group maintains business interruption insurance and continually invests in its network and systems to improve their resilience and performance.

3. *Regulatory environment*

Changes in regulation can significantly impact the Group's business. In addition, failure to comply with regulatory requirements could create financial loss for the Group. The Group attempts to mitigate this risk through close monitoring of regulatory developments, engaging where necessary with the relevant regulatory bodies, and monitoring its own compliance with existing regulations.

4. *Data security*

Failures or breaches of data protection and systems security can cause reputational damage, regulatory impositions and financial loss. Australian Privacy Principles (APPs) now govern privacy and data protection throughout Australia and significantly enhance privacy and data protection regulation.

The Group has policies regarding information security and risk protection measures in place to ensure adherence to APPs and to provide safeguards to company and customer information. These measures include restricted access to company premises and areas housing equipment, restricted access to systems and network devices, strict change control measures, anti-virus software and firewall protection at various network points.

Environmental and other sustainability risks

Environmental and other sustainability risks are addressed in the Group's Sustainability Report which can be found on the Company's website at www.tpg.com.au/about/investorrelations.

TPG Telecom Limited and its controlled entities

Directors' report

For the year ended 31 July 2018

5. Remuneration report

Foreword from Mr Denis Ledbury, Chairman of the Remuneration Committee

On behalf of the Board I am pleased to present the Remuneration Report for FY18.

The objectives of our remuneration structures are to attract, motivate and retain high calibre executive employees necessary to lead the organisation and deliver on long-term shareholder returns.

The Board strongly believes that the remuneration structures it has employed consistently over many years have been successful in helping achieve our objectives and delivering excellent value to shareholders. We were therefore disappointed to receive votes against the remuneration report at the 2017 AGM totalling 29.8% of votes cast.

We have sought to take this shareholder feedback into account, particularly in relation to the disclosures contained within this year's report, by providing additional commentary around matters on which shareholders indicated a desire for greater transparency.

The Group's employees, led very capably by our Executive Chairman and CEO, David Teoh, and his senior management team have had another extremely industrious year implementing our major long-term strategies in the form of our mobile network builds in Australia and Singapore. At the same time the team has managed to deliver a tenth consecutive year of record underlying EBITDA and NPAT.

This tenth year of underlying EBITDA and NPAT growth, though lower than in previous years, is a considerable achievement given the challenges that are currently facing the industry from the margin erosion caused by the government's NBN rollout.

The mobile network builds in Australia and Singapore are large, complex, and ambitious projects which demand an enormous amount of hard work and dedication from our teams, and I congratulate David, the senior management team and all our employees for all that has been achieved in FY18.

Of course, alongside all the above, David and his team have also delivered a tremendous outcome for shareholders through the negotiation of the planned merger of equals with VHA. I believe that the merger, should it be approved, and the implementation of our mobile network projects will lead to a new exciting chapter in the future of our Group which will generate excellent long-term value for the Company's shareholders.

One of the most important ingredients to the past and future success of the Group is the recruitment, development, motivation and retention of high calibre employees. The Board firmly believes that the remuneration structures that the Group has developed have not only helped achieve this but have also delivered excellent value for shareholders. Evidence of this is reflected in:

a) The strong financial performance of the Group

- In FY18 the Group delivered a tenth consecutive year of record underlying profits.

b) The exceptional stability of the Group's key management personnel ('KMP')

- All our executive KMP have served the Group for over 10 years. This rare level of loyalty and commitment creates a continuity that has enabled the Group to successfully implement organic and inorganic growth strategies under a stable management team, which would certainly have been less easily achieved without such continuity.

TPG Telecom Limited and its controlled entities

Directors' report

For the year ended 31 July 2018

5. Remuneration report (continued)

c) The modest overall level of KMP remuneration relative to peers

- Internally compiled analysis comparing the remuneration of our Group's KMP to that disclosed by industry and ASX peers (by market cap) shows our Group's KMP remuneration to be not only modest in overall dollar terms but also more heavily weighted towards performance related remuneration than the comparator group.
- The performance related remuneration of our Group's KMP in FY18 was on average 60% of total remuneration compared to less than 50% for the comparator group.

In line with our Group's overall approach to business, there is a deliberate emphasis on simplicity and consistency in the remuneration policies we have developed whilst ensuring that they are effective in meeting the objectives of retaining and motivating key employees. As a result of this, our incentive schemes described in the sections below do reflect a lower level of complexity to those disclosed by some other ASX listed companies, with our Group's Remuneration Committee retaining a greater level of discretion in determining the setting and achievement of appropriate performance targets.

We believe that this approach reduces the risk of employees working to achieve prescribed "remuneration targets" rather than overall objectives that are in the longer-term interests of shareholders, and it gives the Remuneration Committee valuable flexibility in the fast-moving environment in which the Group operates.

When combined with the strict discipline that the Remuneration Committee has consistently displayed in keeping overall remuneration at modest levels, the approach has delivered and, I believe, will continue to deliver good outcomes in the retention of talent and delivery of value for shareholders.

I trust that you will find this Remuneration Report simple to understand and informative, supported by the increased disclosures we have included this year. I hope that you will support the resolution to adopt the Remuneration Report at the 2018 AGM and I will be available at the AGM to answer any questions that you may have regarding the work of the Remuneration Committee.

Denis Ledbury

Remuneration Committee Chairman

TPG Telecom Limited and its controlled entities

Directors' report

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5. Remuneration report – audited

5.1 Introduction

This remuneration report sets out the remuneration structures of the directors of the Company and of other key management personnel ('KMP') of the Group, and explains the principles underpinning those remuneration structures.

For the purpose of this report, KMP are defined as those individuals who have authority and responsibility for planning, directing and controlling the activities of the Group. KMP include the directors of the Company and key Group executives including the five most highly remunerated.

5.2 Remuneration principles

Remuneration levels for KMP of the Group are designed to attract and retain appropriately qualified and experienced directors and executives. The Remuneration Committee considers the suitability of remuneration packages relative to trends in comparable companies and to the objectives of the Group's remuneration strategy.

The remuneration structures explained below are designed to attract suitably qualified candidates, to reward the achievement of strategic objectives and to achieve the broader outcome of creation of value for shareholders by:

- a) providing competitive remuneration packages to attract and retain high calibre executives;
- b) ensuring that a significant proportion of executives' remuneration is performance-linked; and setting performance hurdles for the achievement of performance-linked incentives at a sufficiently demanding level as to ensure value creation for shareholders.

5.3 Remuneration structure

Remuneration packages include a mix of fixed and performance-linked remuneration.

(i) Fixed remuneration

Fixed remuneration consists of base salary, employer contributions to superannuation funds, and non-monetary benefits which typically only comprise annual leave entitlements but may also include such benefits as the provision of a motor vehicle. The Group pays fringe-benefits tax on such non-monetary benefits where applicable.

Fixed remuneration levels are reviewed annually through a process that considers individual performance, overall performance of the Group, and remuneration levels for similar roles in comparable companies. The fixed remuneration of executive directors is determined by the Remuneration Committee. The fixed remuneration of other KMP is determined by the Executive Chairman in conjunction with the Remuneration Committee. Fixed remuneration reviews for other staff are determined by the Executive Chairman.

(ii) Performance-linked remuneration

Performance-linked remuneration provided by the Group currently includes a performance rights plan and cash bonuses.

TPG Telecom Limited and its controlled entities

Directors' report

For the year ended 31 July 2018

5. Remuneration report – audited (continued)

5.3 Remuneration structure (continued)

a) Performance Rights Plan

Under the rules of the performance rights plan, participants may be granted rights to fully paid ordinary shares in the Company for no consideration, subject to certain performance conditions. The plan was introduced in FY12 and performance rights have been granted under the plan rules in each financial year since, including in FY18. All rights granted from FY16 onwards have the same key terms which are as follows:

- One quarter of the performance rights granted will vest following the release of the Group's audited financial statements for each of the four financial years ending after the date of grant, subject to the satisfaction of performance conditions.
- At each vesting date:
 - 30% of the performance rights that are due to vest on that date will vest if the rights holder has been continuously employed by the Group up until and including the relevant vesting date (refer note 1 below); and
 - 70% of the performance rights that are due to vest on that date will vest if the rights holder has been continuously employed by the Group up until and including the relevant vesting date and the Group has met its financial objectives for the financial year immediately preceding the relevant vesting date (refer note 2 below).
- Any performance rights which do not vest, automatically lapse.

For the rights granted prior to FY16, the rules were consistent with the above except for the vesting period was only three years.

Note 1

This feature of our performance rights plan is designed to promote the retention of our most valuable employees, which is critical in the competitive industry in which the Group operates. If the value of this component of the plan were removed and instead replaced with a commensurate increase to the fixed salaries of our KMP, the KMP fixed salaries would continue to be modest relative to the market. The Remuneration Committee is therefore satisfied that it is in shareholders' interests to retain this feature of the performance rights plan.

Note 2

The financial objectives that form part of the vesting conditions described above are determined annually by the Remuneration Committee. For FY18, the financial objective set by the Remuneration Committee was achievement of the Group's Board approved FY18 financial budget. The Group's actual performance for FY18 exceeded its financial budget. This is reflected in the fact that the Group upgraded its profit guidance mid-way through the year with its full year result ultimately exceeding the top end of the upgraded guidance range. As a result, the Remuneration Committee has determined that 100% of performance rights that have a vesting date immediately following the release of the FY18 audited financial statements will be permitted to vest.

b) Cash bonuses

Cash bonuses may be paid by the Group, including to KMP, depending on the Group's performance and to reward individual performance. Bonuses awarded to executive directors are determined by the Remuneration Committee. Bonuses awarded to other KMP are determined by the Executive Chairman in conjunction with the Remuneration Committee. Bonuses awarded to other staff are made at the discretion of the Executive Chairman.

TPG Telecom Limited and its controlled entities

Directors' report

For the year ended 31 July 2018

5. Remuneration report – audited (continued)

5.4 KMP remuneration detail

The KMP of the Company and of the Group during the year were as follows:

| | |
|---------------|--|
| Mr D Teoh | Executive Chairman & Chief Executive Officer |
| Mr D Ledbury | Non-Executive Director |
| Mr R Millner | Non-Executive Director |
| Mr J Pang | Non-Executive Director |
| Mr S Teoh | Non-Executive Director |
| Mr S Banfield | Chief Financial Officer & Company Secretary |
| Mr C Levy | Chief Operating Officer |
| Ms M De Ville | Chief Information Officer |
| Mr T Moffatt | General Counsel |
| Mr M Rafferty | Group Executive, Corporate, Government & Wholesale |

(i) FY18 Remuneration awarded to David Teoh, Executive Chairman & Chief Executive Officer

In FY18, David Teoh's remuneration comprised:

- Fixed salary of \$1,635,000 including super; and
- An annual bonus of up to 100% of his base salary.

David's fixed salary was unchanged from the prior year and has not been increased since 2014.

The objectives set by the Remuneration Committee for determining David's eligibility to receive his annual bonus are a mix of financial and strategic objectives. In FY18 the objectives were:

- Delivery of FY18 financial results for the Group that were in line with or ahead of the Group's FY18 budget;
- and
- Delivery on mobile strategy in Singapore and Australia.

It was determined that David had achieved both objectives fully in FY18 and he was accordingly rewarded 100% of the maximum bonus for which he was eligible.

David is a businessman of rare and exceptional acumen and skills who is widely regarded as one of the leading strategists in the telecommunications industry. It is difficult to place a value on David's contribution to the Group but, in contrast with the exceptional contribution he makes, the level of his remuneration can by no means be considered exceptional. From the Remuneration Committee's own analysis David's base salary and overall remuneration place him around the 50th percentile for CEO remuneration of ASX listed companies with a similar market capitalisation. The Remuneration Committee believes that this represents excellent value for shareholders relative to David's contribution to the Group.

There is no long-term incentive component to David's remuneration nor any deferral or clawback provisions attached to his annual bonus. These features that are common to many CEO remuneration structures are not considered necessary by the Remuneration Committee given David's position as the Company's largest shareholder with a very material interest in the Company. There can be no doubt that David's interests are already very well aligned with those of the Company's shareholders generally and with such a significant existing equity interest in the Company it is not considered necessary by the Board to incentivise David with any additional equity component to his remuneration.

TPG Telecom Limited and its controlled entities

Directors' report

For the year ended 31 July 2018

5. Remuneration report – audited (continued)

5.4 KMP remuneration detail (continued)

(ii) FY18 Remuneration awarded to non-executive directors

Non-executive director remuneration in FY18 remained unchanged for the fourth consecutive year, at \$400k in aggregate. This relatively modest Board remuneration is another aspect of the Group's remuneration structures that represents excellent value for shareholders. The aggregate remuneration of non-executive directors was last voted upon by shareholders at the 2004 AGM, when an aggregate limit of \$500k per annum was approved. Non-executive directors do not receive performance-linked remuneration nor are they entitled to any retirement benefit other than statutory superannuation payments. Directors' fees cover all main board activities and membership of committees.

(iii) FY18 Remuneration awarded to other KMP

The remuneration of each of the other KMP comprises:

- Fixed salary
- Annual cash bonus
- Participation in the Performance Rights Plan.

None of the KMPs' fixed salaries were increased during the FY18 year. The fixed salary of each of these executives, as reflected in the remuneration table in section 5.5 below, is set at a level which, according to internally performed benchmarking, is modest relative to comparatives from other ASX listed companies of a similar market capitalisation.

The Remuneration Committee has sought to optimise outcomes for shareholders by keeping fixed salaries at modest levels and compensating the executives with a relatively generous potential annual bonus.

Shareholders can take comfort that executive bonuses will not spike to unreasonable levels by the fact that the Board has in force a set limit across the Group of annual bonus and performance rights expense as a % of EBITDA, currently set at 1.5%. That is to say that, the aggregate annual expense of all bonuses and performance rights across the Group including amounts awarded to the CEO and to other KMP cannot exceed 1.5% of the Group's annual EBITDA. Total bonus and performance rights expense has been below this 1.5% of EBITDA annual cap every year for the past 5 years.

The annual cash bonus awarded to each of the KMP in FY18 was 104% of their salary on average. The criteria for assessing their individual performances included:

- Contribution to financial performance in the current financial year.
- Contribution to important strategic projects which may not have an immediate financial impact (for example the mobile projects in Australia and Singapore).
- Other individual goals unique to the role each of the executives plays in the Group's operations.

For the reasons described in section 5.3(ii)(a) above, the Remuneration Committee has determined that 100% of the performance rights held by these executives that have a vesting date immediately following the release of the FY18 audited financial statements will be permitted to vest.

TPG Telecom Limited and its controlled entities

Directors' report

For the year ended 31 July 2018

5. Remuneration report – audited (continued)

5.4 KMP remuneration detail (continued)

(iv) Link to Group financial performance

In determining the short-term incentive component of KMP remuneration, consideration is given to the Group's performance, including against its financial targets.

In FY18, notwithstanding the adverse margin pressure created for the industry by the rollout of the NBN, the Group managed to achieve a tenth consecutive year of underlying growth in revenue, EBITDA and NPAT. In line with expectations, underlying EPS fell slightly in FY18 reflecting that fact that the capital raise undertaken in FY17 raised funds for the construction of the Group's mobile network builds, which, whilst progressing well, have not yet been completed and have therefore not yet started contributing to the Group's earnings.

The Group's ten-year financial record is set out in the table below.

| | FY09 | FY10 | FY11 | FY12 | FY13 | FY14 | FY15 | FY16 | FY17 | FY18 |
|--------------------------------------|------|------|------|------|------|------|-------|-------|-------|-------------------|
| Revenue (\$m) | 481 | 508 | 575 | 663 | 725 | 971 | 1,271 | 2,388 | 2,491 | 2,495 |
| Underlying ¹ EBITDA (\$m) | 99 | 171 | 234 | 262 | 293 | 364 | 485 | 775 | 835 | 841 |
| Underlying ¹ NPAT (\$m) | 40 | 78 | 105 | 110 | 162 | 191 | 247 | 361 | 417 | 433 |
| Underlying ¹ EPS (cents) | 5.7 | 10.7 | 13.6 | 14.0 | 20.4 | 24.0 | 31.1 | 43.1 | 48.3 | 46.7 |
| Closing share price (\$) | 0.52 | 1.79 | 1.43 | 1.93 | 3.64 | 5.33 | 9.34 | 12.37 | 5.46 | 5.76 ² |
| Dividends (cps) | 2.0 | 4.0 | 4.5 | 5.5 | 7.5 | 9.25 | 11.5 | 14.5 | 10.0 | 4.0 |

The Remuneration Committee believes that the Group's exceptional track-record of earnings growth over the past ten years reflects very well on the success of the remuneration structures described in this report, especially given the consistency of the KMP over that timeframe.

(v) Service Contracts

No KMP employment contract in place during FY18 has a fixed term, nor do any contain any provision for termination benefits other than as required by law.

No KMP employment contract in place during FY18 had a notice period of greater than five weeks, except for the Group's employment contracts with Mr D Teoh and Mr M Rafferty, both of which provide that the contract may be terminated by either party giving three months' notice.

¹ Underlying EBITDA, NPAT and EPS is as set out in the annual reports from FY15 onwards. For the years before FY15, underlying EBITDA is the same as reported EBITDA and the only difference between underlying and reported NPAT and EPS is an adjustment each year to exclude the post-tax effect of acquired customer base intangible amortisation.

² Share price post year-end increased to \$7.78 as at 18 October 2018.

TPG Telecom Limited and its controlled entities

Directors' report

For the year ended 31 July 2018

5. Remuneration report – audited (continued)

5.5 Directors' and executive officers' remuneration

The tables below set out the statutory remuneration disclosures for each director of the Company and for other KMP of the Group. The amounts shown reflect the expense recognised in the Group's financial statements.

| Directors | | Short-term | | | | Post-employment | (note C) Other long term \$'000 | Share-based payments \$'000 | Total \$'000 | Proportion of remuneration performance related % | Share-based payments as proportion of remuneration % |
|--------------------------------|------|----------------------------|---|--|-----------------|--------------------------------------|---------------------------------------|-----------------------------------|-----------------|--|--|
| | | Salary & fees \$'000 | (note A) STI cash bonus \$'000 | (note B) Non- monetary benefits \$'000 | Total \$'000 | Superannuation benefits \$'000 | | | | | |
| Executive Director | | | | | | | | | | | |
| Mr D Teoh, Chairman | FY18 | 1,610 | 1,600 | 145 | 3,355 | 25 | 27 | | 3,407 | 47% | |
| | FY17 | 1,601 | 1,600 | 117 | 3,318 | 35 | 10 | - | 3,363 | 48% | - |
| Non-Executive Directors | | | | | | | | | | | |
| Mr D Ledbury | FY18 | 100 | - | - | 100 | 10 | - | - | 110 | - | - |
| | FY17 | 100 | - | - | 100 | 10 | - | - | 110 | - | - |
| Mr R Millner | FY18 | 90 | - | - | 90 | 9 | - | - | 99 | - | - |
| | FY17 | 90 | - | - | 90 | 9 | - | - | 99 | - | - |
| Mr J Pang | FY18 | 90 | - | - | 90 | 9 | - | - | 99 | - | - |
| | FY17 | 90 | - | - | 90 | 9 | - | - | 99 | - | - |
| Mr S Teoh | FY18 | 85 | - | - | 85 | 8 | - | - | 93 | - | - |
| | FY17 | 85 | - | - | 85 | 8 | - | - | 93 | - | - |

TPG Telecom Limited and its controlled entities

Directors' report

For the year ended 31 July 2018

5. Remuneration report – audited (continued)

5.5 Directors' and executive officers' remuneration (continued)

| Executives | | Short-term | | | | Post-employment | (note C) Other long term \$'000 | Share-based payments | Total \$'000 | Proportion of remuneration related % | Share-based payments as proportion of remuneration % |
|------------------------------|------|-------------------------|---|--|-----------------|--------------------------------------|--|---|-----------------|---|--|
| | | Salary & fees \$'000 | (note A) STI cash bonus \$'000 | (note B) Non- monetary benefits \$'000 | Total \$'000 | Superannuation benefits \$'000 | | (note D) Performance rights \$'000 | | | |
| Mr S Banfield | FY18 | 300 | 412 | (3) | 709 | 20 | 5 | 313 | 1,047 | 69% | 30% |
| | FY17 | 297 | 363 | 7 | 667 | 20 | 10 | 230 | 927 | 64% | 25% |
| Mr C Levy | FY18 | 350 | 412 | - | 762 | 20 | 4 | 368 | 1,154 | 68% | 32% |
| | FY17 | 345 | 412 | 14 | 771 | 20 | 12 | 340 | 1,143 | 66% | 30% |
| Ms M De Ville | FY18 | 260 | 168 | (5) | 423 | 20 | 4 | 207 | 654 | 57% | 32% |
| | FY17 | 258 | 168 | 19 | 445 | 20 | 8 | 177 | 650 | 53% | 27% |
| Mr T Moffatt | FY18 | 300 | 313 | 9 | 622 | 20 | 5 | 250 | 897 | 63% | 28% |
| | FY17 | 290 | 313 | (8) | 595 | 20 | 14 | 217 | 846 | 63% | 26% |
| Mr M Rafferty | FY18 | 352 | 325 | (3) | 674 | 23 | (11) | 338 | 1,024 | 65% | 33% |
| | FY17 | 347 | 325 | (6) | 666 | 20 | (1) | 297 | 982 | 63% | 30% |
| Mr W Springer ⁽¹⁾ | FY18 | - | - | - | - | - | - | - | - | - | - |
| | FY17 | 268 | 195 | (13) | 450 | 19 | 8 | 181 | 658 | 57% | 28% |

(1) Mr W Springer was de-recognised as a KMP in FY18 as a consequence of his re-deployment to an operational role outside of the definition of a KMP

TPG Telecom Limited and its controlled entities

Directors' report

For the year ended 31 July 2018

5. Remuneration report – audited (continued)

5.5 Directors' and executive officers' remuneration (continued)

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

- A. The short-term incentive bonuses paid during the years ended 31 July 2018 and 31 July 2017 were for performance during those years.
- B. The amounts disclosed under 'Non-monetary benefits' reflect exclusively the movement in the annual leave balance of each individual in the period, with the exception of Mr D Teoh whose amount also includes the provision of other fringe benefits (principally a motor vehicle).
- C. The amounts disclosed under 'Other long-term' reflect the movement in the long-service leave balance of each individual in the period.
- D. The share-based payments disclosed under 'Performance Rights' reflect the fair value of each right multiplied by the number of rights granted to each individual, amortised pro-rata over the vesting period of each right. The fair value of each right is calculated at date of grant by subtracting the expected dividend payments per share during the vesting period from the share price at date of grant. The number of rights granted to each KMP is disclosed in 5.6 below. The rules of the performance rights plan are explained in 5.3(ii)(a) above.

Alternative 'non-statutory' remuneration calculations

The Remuneration tables on the pages above disclose the value of each KMP's remuneration as calculated in accordance with accounting standards. As explained in note D to the tables above, the value of share-based payments reflects the proportion of the value of the performance rights, as valued at the date they were granted, that was amortised through the Group's Income Statement in the relevant financial year. This amount can differ significantly from the actual value of the share-based payments that the KMP actually received in the financial year. Therefore, as requested by certain shareholder groups, we have provided below a table showing an alternative calculation of each KMP's 'take home pay'. The table shows the difference in the values under both methodologies and the impact of this difference on each KMP's total disclosed remuneration. For the purpose of the table below, the actual value of the share-based payments that the KMP actually received in the financial year is calculated by multiplying the number of performance rights that vested during the financial year by the share price on the vesting date.

| | | Share based payments per statutory remuneration table \$'000 | Value of performance rights that vested during the year \$'000 | Difference \$'000 | Total remuneration per statutory remuneration table \$'000 | Total remuneration per alternative calculation (Take home pay) \$'000 |
|---------------|------|---|---|----------------------|---|--|
| Mr S Banfield | FY18 | 313 | 185 | (128) | 1,047 | 919 |
| | FY17 | 230 | 227 | (3) | 927 | 924 |
| Mr C Levy | FY18 | 368 | 238 | (130) | 1,154 | 1,024 |
| | FY17 | 340 | 319 | (21) | 1,143 | 1,122 |
| Ms M De Ville | FY18 | 207 | 129 | (78) | 654 | 576 |
| | FY17 | 177 | 125 | (52) | 650 | 598 |
| Mr T Moffatt | FY18 | 250 | 166 | (84) | 897 | 813 |
| | FY17 | 217 | 217 | - | 846 | 846 |
| Mr M Rafferty | FY18 | 338 | 209 | (129) | 1,024 | 895 |
| | FY17 | 297 | 172 | (125) | 982 | 857 |

The table above demonstrates that in FY18 the 'take home pay' of each KMP was less than the value of their remuneration set out in the statutory remuneration tables.

TPG Telecom Limited and its controlled entities

Directors' report

For the year ended 31 July 2018

5. Remuneration report – audited (continued)

5.6 Share-based payments

Details of performance rights that were granted to KMP during the financial year ended 31 July 2018 are set out below. All rights were provided at no cost to the recipients and have an exercise price of \$nil.

| FY18 Performance rights grant | Number of rights granted during FY18 | Number of rights forfeited during FY18 | Number of rights vested during FY18 | Number of rights held as at 31 July 2018 | Fair value per right at grant date (\$) |
|--------------------------------------|---|---|--|---|--|
| Mr S Banfield | 50,000 | - | - | 50,000 | 5.6000 |
| Mr C Levy | 62,000 | - | - | 62,000 | 5.6000 |
| Ms M De Ville | 32,000 | - | - | 32,000 | 5.6000 |
| Mr T Moffatt | 39,000 | - | - | 39,000 | 5.6000 |
| Mr M Rafferty | 62,000 | - | - | 62,000 | 5.6000 |

There has been no vesting or granting of any rights since the year-end.

Details of performance rights that were granted to KMP during previous financial years and that remained outstanding at the start of FY18 are set out below. All rights in the tables below were provided at no cost to the recipients and have an exercise price of \$nil.

| FY17 Performance rights grant | Number of rights held as at 31 July 2017 | Number of rights forfeited during FY18 | Number of rights vested during FY18 | Number of rights held as at 31 July 2018 | Fair value per right at grant date (\$) |
|--------------------------------------|---|---|--|---|--|
| Mr S Banfield | 64,400 | - | 16,100 | 48,300 | 6.0058 |
| Mr C Levy | 74,100 | - | 18,525 | 55,575 | 6.1655 |
| Ms M De Ville | 42,000 | - | 10,500 | 31,500 | 6.0939 |
| Mr T Moffatt | 51,800 | - | 12,950 | 38,850 | 6.0906 |
| Mr M Rafferty | 65,000 | - | 16,250 | 48,750 | 6.1412 |

| FY16 Performance rights grant | Number of rights held as at 31 July 2017 | Number of rights forfeited during FY18 | Number of rights vested during FY18 | Number of rights held as at 31 July 2018 | Fair value per right at grant date (\$) |
|--------------------------------------|---|---|--|---|--|
| Mr S Banfield | 22,500 | - | 7,500 | 15,000 | 9.5160 |
| Mr C Levy | 33,750 | - | 11,250 | 22,500 | 9.5160 |
| Ms M De Ville | 18,750 | - | 6,250 | 12,500 | 9.5160 |
| Mr T Moffatt | 21,000 | - | 7,000 | 14,000 | 9.5160 |
| Mr M Rafferty | 30,600 | - | 11,800 | 18,800 | 9.5471 |

| FY15 Performance rights grant | Number of rights held as at 31 July 2017 | Number of rights forfeited during FY18 | Number of rights vested during FY18 | Number of rights held as at 31 July 2018 | Fair value per right at grant date (\$) |
|--------------------------------------|---|---|--|---|--|
| Mr S Banfield | 12,000 | - | 12,000 | - | 5.9433 |
| Mr C Levy | 16,000 | - | 16,000 | - | 5.9433 |
| Ms M De Ville | 8,000 | - | 8,000 | - | 5.9433 |
| Mr T Moffatt | 12,000 | - | 12,000 | - | 5.9433 |
| Mr M Rafferty | 12,000 | - | 12,000 | - | 5.9433 |

TPG Telecom Limited and its controlled entities

Directors' report

For the year ended 31 July 2018

5. Remuneration report – audited (continued)

5.7 KMP shareholdings

The movement during the reporting period in the number of ordinary shares in the Company held directly, indirectly or beneficially by each KMP, including by their related parties, is as follows:

| | Held at 1 August 2017 | Vested as remuneration | Other changes | Held at 31 July 2018 |
|-------------------|-----------------------------|---------------------------|------------------|----------------------------|
| Directors | | | | |
| D Teoh | 317,933,350 | - | 382,257 | 318,315,607 |
| D Ledbury | 85,109 | - | - | 85,109 |
| R Millner | 8,235,739 | - | 64,270 | 8,300,009 |
| J Pang | 102,429 | - | 802 | 103,231 |
| S Teoh | 132,456 | - | 802 | 133,258 |
| Executives | | | | |
| S Banfield | 215,000 | 35,600 | (5,600) | 245,000 |
| C Levy | 341,750 | 45,775 | (20,000) | 367,525 |
| M De Ville | 205,001 | 24,750 | - | 229,751 |
| T Moffatt | 694,571 | 31,950 | (7,000) | 719,521 |
| M Rafferty | 23,300 | 40,050 | (58,600) | 4,750 |

5.8 Transactions with KMP

During the year the Group rented office premises from companies related to a director of the Company, Mr D Teoh. The total rent charged for FY18 was \$1.4m (FY17: \$1.3m).

Apart from the above, no director has entered into a material contract with the Company or the Group since the end of the previous financial year and there were no material contracts involving directors' interests existing at year-end.

Loans to KMP and their related parties

There were no loans in existence between the Group and any KMP or their related parties at any time during or since the financial year.

Other KMP transactions with the Company or its controlled entities

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

TPG Telecom Limited and its controlled entities

Directors' report

For the year ended 31 July 2018

6. Principal activities

During the financial year the principal activities of the Group continued to be the provision of consumer, wholesale and corporate telecommunications services.

7. Dividends

Dividends paid or declared by the Company since the end of the previous financial year were as follows:

| | Cents per share | \$m | Date of payment |
|-----------------------|-----------------|-------------|-----------------|
| Final 2017 ordinary | 2.0 | 18.5 | 21 Nov 2017 |
| Interim 2018 ordinary | 2.0 | 18.5 | 22 May 2018 |
| Total amount | | 37.0 | |

Dividends declared and paid during the year were fully franked at the rate of 30 per cent.

After the balance sheet date the directors have declared a fully franked final FY18 dividend of 2.0 cents per ordinary share, payable on 20 November 2018 to shareholders on the register at 16 October 2018. The Dividend Reinvestment Plan (DRP) is currently suspended until further notice.

The financial effect of this dividend has not been brought to account in the financial statements for the year ended 31 July 2018 and will be recognised in subsequent financial reports.

8. Events subsequent to reporting date

Proposed merger with Vodafone Hutchison Australia

On 30 August 2018, the Company and Vodafone Hutchison Australia ("VHA") entered into a Scheme Implementation Deed under which the companies have agreed a proposed merger of equals to establish a fully integrated telecommunications operator in Australia.

The merger will be implemented via a TPG Scheme of Arrangement, with the new merged group listed on the Australian Securities Exchange ("ASX") and renamed "TPG Telecom Limited" in conjunction with implementation of the scheme.

Following completion of the merger, TPG shareholders will own 49.9% of the equity of the Merged Group, with VHA shareholders owning the remaining 50.1%.

The merger is subject to a number of conditions such as the approval of the Australian Competition and Consumer Commission and it is anticipated that the merger will complete during 2019.

Further details about the planned merger are set out in market announcements made to the ASX on 30 August 2018.

Joint Venture and 5G Spectrum Auction

In parallel to the merger agreement, the Company and VHA have signed a separate 50:50 Joint Venture Agreement. The scope of the joint venture is to acquire, hold and licence 3.6 GHz spectrum. The joint venture has registered as a participant in the 3.6GHz spectrum auction expected to commence in late November 2018. The Joint Venture Agreement is ongoing and will not terminate if the merger fails to proceed.

TPG Telecom Limited and its controlled entities

Directors' report

For the year ended 31 July 2018

8. Events subsequent to reporting date (continued)

Separation of Singapore mobile operations

Separately, on or prior to the implementation of the merger, the Company intends to undertake a separation of its Singapore mobile operations by way of an in-specie distribution of shares in the Singapore operation to TPG shareholders.

Other than the 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 Group, the results of those operations, or the state of affairs of the Group in future financial years.

9. Likely developments

Other than the possible completion of the planned merger of equals with VHA, there are no material likely developments for the Group to disclose outside of normal business operations 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 Group 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 are as disclosed in section 5.7 above.

11. Indemnification and insurance of officers and directors

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 a director or as an officer 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.

Insurance policies

The Group maintains policies in respect of directors' and officers' liability insurance for current and former directors and officers, including senior executives of the Company and directors, senior executives and secretaries of its controlled entities. The terms of the insurance contract prohibit disclosure of the premiums payable and other terms of the policies.

TPG Telecom Limited and its controlled entities

Directors' report

For the year ended 31 July 2018

12. 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 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 & Risk Committee to ensure they do not impact the integrity and objectivity of the auditor; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Details of the amounts paid to KPMG and its related practices for audit and non-audit services provided during the year are set out in note 27 to the financial statements.

13. Rounding off

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Director's Reports) instrument 2016/191 dated 24 March 2016 and, in accordance with that instrument, all financial information presented in Australian dollars has been rounded to the nearest hundred thousand dollars, unless otherwise stated.

This report is made with a resolution of the directors.



David Teoh
Chairman

Dated at Sydney this 19th day of October, 2018



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

To the Directors of TPG Telecom Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of TPG Telecom Limited for the financial year ended 31 July 2018 there have been:

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

A handwritten signature of the KPMG firm, written in black ink.

KPMG

A handwritten signature of Chris Hollis, written in black ink.

Chris Hollis
Partner
Sydney
19 October 2018

TPG Telecom Limited and its controlled entities

Consolidated income statement

For the year ended 31 July 2018

| | <i>Note</i> | FY18 \$m | FY17 \$m |
|--|-------------|--------------------|--------------------|
| Revenue | 4 | 2,495.2 | 2,490.7 |
| Other income | 9 | - | 48.8 |
| Network, carrier and hardware costs | | (1,229.4) | (1,203.8) |
| Employee benefits expense | | (242.4) | (256.7) |
| Other expenses | | (182.3) | (188.2) |
| Earnings before interest, tax, depreciation and amortisation (EBITDA) | | 841.1 | 890.8 |
| Depreciation of plant and equipment | 10 | (138.8) | (141.1) |
| Amortisation of intangibles | 11 | (104.1) | (103.3) |
| Results from operating activities | | 598.2 | 646.4 |
| Finance income | | 1.7 | 1.4 |
| Finance expenses | | (36.1) | (52.3) |
| Net financing costs | 5 | (34.4) | (50.9) |
| Profit before income tax | | 563.8 | 595.5 |
| Income tax expense | 6 | (165.8) | (179.8) |
| Profit for the year | | 398.0 | 415.7 |
| Attributable to: | | | |
| Owners of the Company | | 396.9 | 413.8 |
| Non-controlling interest | | 1.1 | 1.9 |
| | | 398.0 | 415.7 |
| Earnings per share: | | | |
| Basic and diluted earnings per share (cents) | 7 | 42.8 | 47.9 |

TPG Telecom Limited and its controlled entities
 Consolidated statement of comprehensive income
 For the year ended 31 July 2018

| | FY18 \$m | FY17 \$m |
|---|--------------|---------------|
| Profit for the year | 398.0 | 415.7 |
| Items that may be reclassified subsequently to profit or loss, net of tax: | | |
| Foreign exchange translation differences | 7.0 | (4.0) |
| Net gain/(loss) on cash flow hedges taken to equity | 1.0 | (1.9) |
| Net change in fair value of available-for-sale financial assets | (0.7) | (19.6) |
| Available-for-sale financial assets reclassified to profit or loss | - | (34.3) |
| Other comprehensive income, net of tax | 7.3 | (59.8) |
| Total comprehensive income for the year | 405.3 | 355.9 |
| Attributable to: | | |
| Owners of the Company | 404.2 | 354.0 |
| Non-controlling interest | 1.1 | 1.9 |
| | 405.3 | 355.9 |

TPG Telecom Limited and its controlled entities

Consolidated statement of financial position

As at 31 July 2018

| | Note | 31 July 2018 \$m | 31 July 2017 \$m |
|---|------|---------------------|---------------------|
| Assets | | | |
| Cash and cash equivalents | | 82.2 | 46.3 |
| Trade and other receivables | 8 | 129.1 | 131.6 |
| Inventories | | 4.9 | 6.4 |
| Derivative financial instruments | | 0.7 | 1.3 |
| Prepayments and other assets | | 14.9 | 25.6 |
| Total Current Assets | | 231.8 | 211.2 |
| Investments | 9 | 1.9 | 2.9 |
| Property, plant and equipment | 10 | 1,249.0 | 1,055.5 |
| Spectrum assets | 11 | 1,479.7 | 216.3 |
| Goodwill and other intangible assets | 11 | 2,420.7 | 2,416.2 |
| Prepayments and other assets | | 7.2 | 8.9 |
| Total Non-Current Assets | | 5,158.5 | 3,699.8 |
| Total Assets | | 5,390.3 | 3,911.0 |
| Liabilities | | | |
| Trade and other payables | 12 | 320.3 | 289.4 |
| Loans and borrowings | 13 | 5.5 | 32.5 |
| Spectrum liability | 14 | 344.0 | - |
| Current tax liabilities | | 23.2 | 54.4 |
| Employee benefits | 15 | 29.7 | 28.2 |
| Provisions | 16 | 9.2 | 11.7 |
| Accrued interest | | 5.1 | 1.4 |
| Deferred income and other liabilities | | 148.3 | 150.0 |
| Total Current Liabilities | | 885.3 | 567.6 |
| Loans and borrowings | 13 | 1,313.5 | 872.4 |
| Spectrum liability | 14 | 327.8 | - |
| Deferred tax liabilities | 6 | 12.1 | 10.1 |
| Employee benefits | 15 | 2.2 | 2.4 |
| Provisions | 16 | 34.0 | 33.6 |
| Derivative financial instruments | | 4.9 | 1.2 |
| Deferred income and other liabilities | | 26.3 | 24.4 |
| Total Non-Current Liabilities | | 1,720.8 | 944.1 |
| Total Liabilities | | 2,606.1 | 1,511.7 |
| Net Assets | | 2,784.2 | 2,399.3 |
| Equity | | | |
| Share capital | 17 | 1,465.2 | 1,449.4 |
| Reserves | | (8.2) | (18.1) |
| Retained earnings | | 1,323.2 | 963.3 |
| Equity attributable to owners of the Company | | 2,780.2 | 2,394.6 |
| Non-controlling interest | | 4.0 | 4.7 |
| Total Equity | | 2,784.2 | 2,399.3 |

The notes on pages 40 to 87 are an integral part of these consolidated financial statements.

TPG Telecom Limited and its controlled entities

Consolidated statement of changes in equity

For the year ended 31 July 2018

| Note | Attributable to owners of the Company | | | | | | | | Non-controlling interest | Total equity |
|--|---------------------------------------|--------------------------------------|------------------------------|--------------------|-------------------------|----------------|-------------------|----------------|--------------------------|----------------|
| | Share capital | Foreign currency translation reserve | Share based payments reserve | Fair value reserve | Cash flow hedge reserve | Total reserves | Retained earnings | Total | | |
| | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m |
| Balance as at 1 August 2016 | 1,051.9 | 0.3 | (4.0) | 46.9 | (2.0) | 41.2 | 681.0 | 1,774.1 | 5.1 | 1,779.2 |
| Profit for the year | - | - | - | - | - | - | 413.8 | 413.8 | 1.9 | 415.7 |
| Other comprehensive income | - | (4.0) | - | (53.9) | (1.9) | (59.8) | - | (59.8) | - | (59.8) |
| Total comprehensive income for the year | - | (4.0) | - | (53.9) | (1.9) | (59.8) | 413.8 | 354.0 | 1.9 | 355.9 |
| Issue of shares | 17 400.3 | - | - | - | - | - | - | 400.3 | - | 400.3 |
| Share issue costs | 17 (2.8) | - | - | - | - | - | - | (2.8) | - | (2.8) |
| Share-based payment transactions | - | - | 0.5 | - | - | 0.5 | - | 0.5 | - | 0.5 |
| Dividends paid to shareholders | 18 - | - | - | - | - | - | (131.5) | (131.5) | (2.3) | (133.8) |
| Balance as at 31 Jul 2017 | 1,449.4 | (3.7) | (3.5) | (7.0) | (3.9) | (18.1) | 963.3 | 2,394.6 | 4.7 | 2,399.3 |
| Balance as at 1 August 2017 | 1,449.4 | (3.7) | (3.5) | (7.0) | (3.9) | (18.1) | 963.3 | 2,394.6 | 4.7 | 2,399.3 |
| Profit for the year | - | - | - | - | - | - | 396.9 | 396.9 | 1.1 | 398.0 |
| Other comprehensive income | - | 7.0 | - | (0.7) | 1.0 | 7.3 | - | 7.3 | - | 7.3 |
| Total comprehensive income for the year | - | 7.0 | - | (0.7) | 1.0 | 7.3 | 396.9 | 404.2 | 1.1 | 405.3 |
| Issue of shares | 17 15.8 | - | - | - | - | - | - | 15.8 | - | 15.8 |
| Share-based payment transactions | - | - | 2.6 | - | - | 2.6 | - | 2.6 | - | 2.6 |
| Dividends paid to shareholders | 18 - | - | - | - | - | - | (37.0) | (37.0) | (1.8) | (38.8) |
| Balance as at 31 Jul 2018 | 1,465.2 | 3.3 | (0.9) | (7.7) | (2.9) | (8.2) | 1,323.2 | 2,780.2 | 4.0 | 2,784.2 |

The notes on pages 40 to 87 are an integral part of these consolidated financial statements.

TPG Telecom Limited and its controlled entities

Consolidated statement of cash flows

For the year ended 31 July 2018

| | <i>Note</i> | FY18 \$m | FY17 \$m |
|---|-------------|--------------------|--------------------|
| Cash flows from operating activities | | | |
| Cash receipts from customers | | 2,743.2 | 2,745.5 |
| Cash paid to suppliers and employees | | (1,874.9) | (1,875.8) |
| Cash generated from operations | | 868.3 | 869.7 |
| Income taxes paid | | (194.5) | (147.0) |
| Net cash from operating activities | 25 | 673.8 | 722.7 |
| Cash flows from investing activities | | | |
| Acquisition of property, plant and equipment | | (292.5) | (299.9) |
| Acquisition of spectrum assets | | (597.3) | (199.8) |
| Acquisition of other intangible assets | | (66.5) | (76.6) |
| Proceeds from disposal of investments | 9 | - | 124.5 |
| Costs incurred on acquisition of subsidiaries | | - | (1.5) |
| Payment of contingent consideration | | - | (3.8) |
| Net cash used in investing activities | | (956.3) | (457.1) |
| Cash flows from financing activities | | | |
| Payment of finance lease liabilities | | (34.1) | (27.0) |
| Proceeds from borrowings | | 969.4 | 108.0 |
| Repayment of borrowings | | (538.6) | (558.0) |
| Transaction costs related to borrowings | | (10.8) | (3.4) |
| Issue of shares | | - | 400.3 |
| Share issue costs | | - | (4.0) |
| Interest received | | 1.2 | 1.3 |
| Interest paid | | (45.8) | (42.0) |
| Dividends paid | 18 | (21.2) | (131.5) |
| Dividends paid to non-controlling interest | | (1.8) | (2.3) |
| Net cash from/(used in) financing activities | | 318.3 | (258.6) |
| Net increase in cash and cash equivalents | | 35.8 | 7.0 |
| Cash and cash equivalents at beginning of the year | | 46.3 | 39.2 |
| Effect of exchange rate fluctuations | | 0.1 | 0.1 |
| Cash and cash equivalents at end of the year | | 82.2 | 46.3 |

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2018

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TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2018

1. Reporting entity

TPG Telecom Limited (the 'Company') is a company domiciled in Australia. The address of the Company's registered office is 65 Waterloo Road, Macquarie Park, NSW 2113. The consolidated financial statements as at, and for the year ended 31 July 2018 (referred to throughout this report as "FY18"), comprise the accounts of the Company and its subsidiaries (together referred to as the 'Group'). The Group is a for-profit entity and is primarily involved in the provision of consumer, wholesale, government and corporate telecommunications services.

2. Basis of preparation

a. Statement of compliance

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. The consolidated financial statements comply with International Financial Reporting Standards (IFRSs) adopted by the International Accounting Standards Board (IASB).

The consolidated financial statements were approved by the Board of Directors on 19 October 2018.

b. Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis with the exception of investments, derivatives and financial instruments which are measured at fair value. The methods used to measure fair values are discussed further at note 29(k).

c. Functional and presentation currency

These consolidated financial statements are presented in Australian dollars, which is the functional currency of the majority of the subsidiaries of the Group.

The Group is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 dated 24 March 2016 and, in accordance with that instrument, all financial information presented in Australian dollars has been rounded to the nearest hundred thousand dollars unless otherwise stated.

d. Use of estimates and judgements

Preparation of the consolidated financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively.

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2018

2. Basis of preparation (continued)

In particular, information about significant areas of estimation uncertainties and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is provided in the following notes:

- Note 11(iii) – amortisation of intangible assets with finite useful lives;
- Note 11(iv) – impairment testing for cash-generating units containing goodwill;

3. Segment reporting

The Group determines and presents operating segments based on the information that is internally provided to the Executive Chairman, who is the Group's chief operating decision maker.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses. All operating segments' operating results are regularly reviewed by the Group's Executive Chairman to make decisions about resources to be allocated to each segment and assess its performance, and for which discrete financial information is available.

As at the end of FY18, the Group recognises the following segments:

Consumer Segment

The Consumer Segment provides telecommunications and technology services to residential and small business customers.

Corporate Segment

The Corporate Segment provides telecommunications services to corporate, government, and wholesale customers.

Results for the year for each operating segment are set out in the table on the next page. In the table, expenses in the 'Unallocated' column in the current year comprise start-up expenses in relation to the Group's Singapore operations and other corporate costs.

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2018

3. Segment reporting (continued)

| | Note | Consumer | Corporate | Unallocated | Total results |
|--|------|--------------|--------------|--------------|---------------|
| FY18 | | \$m | \$m | \$m | \$m |
| Revenue | | 1,741.4 | 753.8 | - | 2,495.2 |
| Other income | | - | - | - | - |
| Network, carrier and hardware costs | | (949.4) | (280.0) | - | (1,229.4) |
| Employee benefits expense | | (133.9) | (108.2) | (0.3) | (242.4) |
| Other expenses | | (145.0) | (35.5) | (1.8) | (182.3) |
| Results from segment activities | | 513.1 | 330.1 | (2.1) | 841.1 |
| FY17 | | \$m | \$m | \$m | \$m |
| Revenue | | 1,747.7 | 743.0 | - | 2,490.7 |
| Other income | | - | - | 48.8 | 48.8 |
| Network, carrier and hardware costs | | (916.4) | (287.4) | - | (1,203.8) |
| Employee benefits expense | | (147.8) | (108.8) | (0.1) | (256.7) |
| Other expenses | | (153.1) | (34.0) | (1.1) | (188.2) |
| Results from segment activities | | 530.4 | 312.8 | 47.6 | 890.8 |

Reconciliation of segment results to the Group's profit before income tax is as follows:

| | FY18 | FY17 |
|--|--------------|--------------|
| | \$m | \$m |
| Total segment results | 841.1 | 890.8 |
| Depreciation of plant and equipment | (138.8) | (141.1) |
| Amortisation of intangibles | (104.1) | (103.3) |
| Results from operating activities | 598.2 | 646.4 |
| Net financing costs | (34.4) | (50.9) |
| Profit before income tax | 563.8 | 595.5 |

Geographic Information

All of the Group's revenues are derived from Australian based entities, except for \$32.8m (FY17: \$27.5m) derived from overseas customers.

An analysis of the Group's non-current assets based on geographic location is set out below:

| Country | FY18 | FY17 |
|--------------|----------------|----------------|
| | \$m | \$m |
| Australia | 4,717.7 | 3,356.6 |
| Singapore | 203.0 | 122.1 |
| Other | 237.8 | 221.1 |
| Total | 5,158.5 | 3,699.8 |

'Other' predominantly relates to submarine cables located in international waters.

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2018

4. Revenue

| | FY18 \$m | FY17 \$m |
|-----------------------|----------------|----------------|
| Rendering of services | 2,453.4 | 2,455.7 |
| Sale of goods | 41.8 | 35.0 |
| | 2,495.2 | 2,490.7 |

(i) *Rendering of services*

Revenue from the rendering of telecommunications services includes the provision of data, internet, voice, telehousing, network capacity and other services to consumers and corporate customers. It is recognised on a straight-line basis over the period the service is provided. Usage revenue for voice services is recognised at completion of the call.

Where revenue for services is invoiced to customers in advance, the amount that is unearned at a reporting date is recognised in the statement of financial position as deferred income, and its recognition in the income statement is deferred until the period to which the invoiced amount relates.

Installation and set-up fee revenue is recognised on a straight-line basis over the period of the contract to which it relates.

(ii) *Sale of goods*

Revenue from the sale of goods represents sales of customer equipment to consumer and corporate customers. It is recognised (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 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) *Revenue arrangements with multiple deliverables*

Where two or more revenue-generating activities or deliverables are sold under a single arrangement, each deliverable is accounted for separately.

The consideration from the revenue arrangement is allocated to its separate deliverables based on the relative selling prices. If no third party evidence exists for the selling price, then the item is measured based on the best estimate of the selling price. The revenue allocated to each deliverable is then recognised in accordance with the revenue recognition policies described above.

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2018

5. Finance income and expenses

| | FY18 | FY17 |
|--------------------------------------|---------------|---------------|
| | \$m | \$m |
| Interest income | 1.7 | 1.4 |
| Interest expense | (18.3) | (37.8) |
| Unwinding of discounts on provisions | (0.3) | (0.3) |
| Borrowing costs | (17.5) | (14.2) |
| Net financing costs | (34.4) | (50.9) |

Interest expense in the current year excludes \$39.5m of interest incurred in the year that is directly attributable to the construction of the Group's fibre and mobile networks and acquisition of mobile spectrum which, in accordance with the Group's accounting policies, has been capitalised as part of the cost of the network.

6. Taxes

Income tax expense

| | FY18 | FY17 |
|---|--------------|---------------|
| | \$m | \$m |
| Current tax expense | 165.4 | 206.0 |
| Deferred tax expense | | |
| Origination and reversal of temporary differences | (0.9) | (24.3) |
| Adjustments in respect of prior years | 1.3 | (1.9) |
| | 0.4 | (26.2) |
| Income tax expense | 165.8 | 179.8 |

Numerical reconciliation between tax expense and pre-tax accounting profit

| | | |
|---|--------------|--------------|
| Profit before tax | 563.8 | 595.5 |
| Income tax using Australian tax rate of 30% | 169.1 | 178.7 |
| Different tax rates in other jurisdictions | 0.2 | - |
| Non-deductible and non-assessable items | (3.5) | 0.6 |
| Adjustments in respect of prior years | - | 0.5 |
| Income tax expense | 165.8 | 179.8 |

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2018

6. Taxes (continued)

Deferred tax assets and liabilities

Movement in temporary differences during the year

| | Balance 31 July 2016 \$m | Recognised in profit or loss \$m | Recognised in equity \$m | Balance 31 July 2017 \$m | Recognised in profit or loss \$m | Recognised in equity \$m | Balance 31 July 2018 \$m |
|-------------------------------------|--------------------------------|--|--------------------------------|--------------------------------|--|--------------------------------|--------------------------------|
| Deferred tax liabilities | | | | | | | |
| Property, plant and equipment | 13.4 | (4.5) | - | 8.9 | (1.0) | - | 7.9 |
| Intangible assets | 87.4 | (19.4) | - | 68.0 | 1.9 | - | 69.9 |
| | 100.8 | (23.9) | - | 76.9 | 0.9 | - | 77.8 |
| Deferred tax assets | | | | | | | |
| Receivables | (7.9) | (1.9) | - | (9.8) | 1.7 | - | (8.1) |
| Inventories | (0.9) | - | - | (0.9) | - | - | (0.9) |
| Derivative financial assets | (0.9) | 1.4 | (0.6) | (0.1) | (0.4) | (0.7) | (1.2) |
| Investments | 22.0 | (2.0) | (23.0) | (3.0) | - | (0.3) | (3.3) |
| Provisions | (15.8) | 2.2 | - | (13.6) | 0.8 | - | (12.8) |
| Trade and other payables | (5.8) | (3.4) | - | (9.2) | (6.1) | - | (15.3) |
| Employee benefits | (8.7) | (0.3) | - | (9.0) | (0.3) | - | (9.3) |
| Unearned revenue | (10.3) | (0.6) | - | (10.9) | 3.3 | - | (7.6) |
| Equity raising costs | (1.3) | 0.5 | (1.2) | (2.0) | 0.6 | (0.1) | (1.5) |
| Tax losses carried forward | (1.7) | 0.7 | - | (1.0) | (4.0) | - | (5.0) |
| Other items | (6.8) | 1.1 | (1.6) | (7.3) | 3.9 | 2.7 | (0.7) |
| | (38.1) | (2.3) | (26.4) | (66.8) | (0.5) | 1.6 | (65.7) |
| Net deferred tax liabilities | 62.7 | (26.2) | (26.4) | 10.1 | 0.4 | 1.6 | 12.1 |

The Company has not recognised deferred tax assets on unutilised capital losses of \$15.7m (FY17: \$15.7m).

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Notes to the consolidated financial statements

For the year ended 31 July 2018

6. Taxes (continued)

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 a business combination, or items recognised directly in equity, in which case it is recognised in equity or in other comprehensive income.

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 is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Tax consolidation

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

7. Earnings per share

| | FY18 | FY17 |
|--|-------------|-------------|
| Basic and diluted earnings per share (cents) | 42.8 | 47.9 |
| Profit attributable to owners of the Company used in calculating basic and diluted earnings per share (\$m) | 396.9 | 413.8 |
| Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share (No.) | 926,209,453 | 864,306,858 |

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to owners of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, of which there were none at the end of the current or previous reporting period.

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2018

8. Trade and other receivables

| | FY18 \$m | FY17 \$m |
|---------------------------------------|--------------|--------------|
| Current | | |
| Trade receivables | 128.8 | 142.9 |
| Accrued income and other receivables | 33.6 | 29.9 |
| Less: Provision for impairment losses | (33.3) | (41.2) |
| | 129.1 | 131.6 |

The Group's exposure to credit and currency risk and impairment losses related to trade and other receivables is disclosed in note 19.

9. Investments

| Available-for-sale financial assets | FY18 \$m | FY17 \$m |
|--------------------------------------|-------------|-------------|
| Current | | |
| Carrying amount as at 1 August | - | 139.1 |
| Disposals | - | (124.5) |
| Change in fair value | - | (14.6) |
| Carrying amount as at 31 July | - | - |
| Non-Current | | |
| Carrying amount as at 1 August | 2.9 | 16.3 |
| Change in fair value | (1.0) | (13.4) |
| Carrying amount as at 31 July | 1.9 | 2.9 |

The Group realised a profit of \$48.8m on sale of investments in FY17.

The Group's investments comprise available-for-sale financial assets, being ASX listed securities. They are measured at fair value and are valued at quoted market prices. They are categorised as Level 1 under the fair value hierarchy of AASB 13. Refer note 19(ii) for accounting policy on recognition and measurement.

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2018

10. Property, plant and equipment

| | Network infrastructure \$m | Land & Buildings \$m | Leasehold improvements \$m | Total \$m |
|---|----------------------------------|----------------------------|----------------------------------|----------------|
| Cost | | | | |
| Balance at 1 August 2016 | 1,420.3 | 37.4 | 13.7 | 1,471.4 |
| Additions | 296.1 | 5.3 | 0.2 | 301.6 |
| Disposals | (0.1) | - | - | (0.1) |
| Balance at 31 July 2017 | 1,716.3 | 42.7 | 13.9 | 1,772.9 |
| Balance at 1 August 2017 | 1,716.3 | 42.7 | 13.9 | 1,772.9 |
| Additions | 325.2 | 4.6 | 1.0 | 330.8 |
| Disposals | (0.1) | - | - | (0.1) |
| Effect of movements in exchange rates | 1.6 | - | - | 1.6 |
| Balance at 31 July 2018 | 2,043.0 | 47.3 | 14.9 | 2,105.2 |
| Depreciation and impairment losses | | | | |
| Balance at 1 August 2016 | 567.7 | 2.1 | 6.5 | 576.3 |
| Depreciation charge for the year | 138.5 | 1.0 | 1.6 | 141.1 |
| Balance at 31 July 2017 | 706.2 | 3.1 | 8.1 | 717.4 |
| Balance at 1 August 2017 | 706.2 | 3.1 | 8.1 | 717.4 |
| Depreciation charge for the year | 136.3 | 1.1 | 1.3 | 138.7 |
| Disposals | 0.1 | - | - | 0.1 |
| Balance at 31 July 2018 | 842.6 | 4.2 | 9.4 | 856.2 |
| Carrying amounts | | | | |
| At 31 July 2017 | 1,010.1 | 39.6 | 5.8 | 1,055.5 |
| At 31 July 2018 | 1,200.4 | 43.1 | 5.5 | 1,249.0 |

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2018

10. Property, plant and equipment (continued)

(i) Recognition and measurement

Items of property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses (see note 29(g)). Cost includes all expenditure that is directly attributable to bringing the asset to the location and condition necessary for its intended use. The cost of self-constructed assets includes the cost of materials, direct labour, and the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located.

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets form part of the cost of the asset.

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.

The gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of the item being disposed and are recognised net within other expenses in the income statement.

(ii) Subsequent costs

Subsequent costs are added to existing assets if it is probable that future economic benefits will flow to the Group.

(iii) 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.

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

- Network infrastructure 3 - 25 years
- Buildings 40 years
- Leasehold improvements 8 years

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

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2018

11. Intangible assets

| | Goodwill~ \$m | Brands~ \$m | Acquired customer bases \$m | Indefeasible rights of use of capacity \$m | Other intangibles* \$m | Sub - total \$m | Spectrum licences \$m | Total \$m |
|---------------------------------------|------------------|----------------|--------------------------------------|---|------------------------------|--------------------|-----------------------------|----------------|
| Cost | | | | | | | | |
| Balance 1 August 2016 | 1,911.0 | 90.6 | 480.5 | 178.9 | 84.2 | 2,745.2 | 28.9 | 2,774.1 |
| Additions | - | - | - | 36.9 | 20.4 | 57.3 | 197.9 | 255.2 |
| Effect of movements in exchange rates | - | - | - | - | - | - | (4.6) | (4.6) |
| Balance 31 July 2017 | 1,911.0 | 90.6 | 480.5 | 215.8 | 104.6 | 2,802.5 | 222.2 | 3,024.7 |
| Balance 1 August 2017 | 1,911.0 | 90.6 | 480.5 | 215.8 | 104.6 | 2,802.5 | 222.2 | 3,024.7 |
| Additions | - | - | - | 35.4 | 64.7 | 100.1 | 1,262.8 | 1,362.9 |
| Effect of movements in exchange rates | - | - | - | - | - | - | 9.1 | 9.1 |
| Balance 31 July 2018 | 1,911.0 | 90.6 | 480.5 | 251.2 | 169.3 | 2,902.6 | 1,494.1 | 4,396.7 |
| Amortisation and Impairment | | | | | | | | |
| Balance 1 August 2016 | - | - | 209.4 | 44.5 | 32.8 | 286.7 | 2.2 | 288.9 |
| Amortisation for the year | - | - | 62.4 | 11.6 | 25.6 | 99.6 | 3.7 | 103.3 |
| Balance 31 July 2017 | - | - | 271.8 | 56.1 | 58.4 | 386.3 | 5.9 | 392.2 |
| Balance 1 August 2017 | - | - | 271.8 | 56.1 | 58.4 | 386.3 | 5.9 | 392.2 |
| Amortisation for the year | - | - | 51.0 | 15.0 | 29.6 | 95.6 | 8.5 | 104.1 |
| Balance 31 July 2018 | - | - | 322.8 | 71.1 | 88.0 | 481.9 | 14.4 | 496.3 |
| Carrying amounts | | | | | | | | |
| At 31 July 2017 | 1,911.0 | 90.6 | 208.7 | 159.7 | 46.2 | 2,416.2 | 216.3 | 2,632.5 |
| At 31 July 2018 | 1,911.0 | 90.6 | 157.7 | 180.1 | 81.3 | 2,420.7 | 1,479.7 | 3,900.4 |

~ Goodwill and Brands are non-amortising intangible assets as they have indefinite useful lives.

* Other intangible assets include software, subscriber acquisition costs, capitalised interest, development costs and other licences. Amortising intangibles are removed from cost in the analysis in the year after they become fully amortised.

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Notes to the consolidated financial statements

For the year ended 31 July 2018

11. Intangible assets (continued)

(i) Recognition and measurement

a. Intangible assets with indefinite useful lives:

Goodwill

Goodwill arising on acquisition of subsidiaries is measured at cost less accumulated impairment losses. For the measurement of goodwill at initial recognition, see note 29(a)(i).

Brands

On acquisition of a subsidiary, brands of the acquired subsidiary are valued and brought to account as intangible assets. The value is calculated using the Relief from Royalty Method.

b. Intangible assets with definite useful lives:

Acquired customer bases

On acquisition of a subsidiary, customer contracts and relationships of the acquired subsidiary are valued based on their expected future economic benefits (using discounted cashflow projections) and brought to account as intangible assets.

Indefeasible rights of use of capacity

Indefeasible rights of use (IRUs) of acquired network capacity are brought to account as intangible assets at the present value of the future cashflows payable for the right. IRUs of acquired subsidiaries are accounted for at their fair value as at the date of acquisition.

Spectrum licences

Spectrum licences are stated at cost less accumulated amortisation and any accumulated impairment losses.

Other intangible assets

Other intangible assets comprise software, subscriber acquisition costs, licences other than spectrum licences, operating costs that are incurred in developing or acquiring income producing assets, and capitalised interest related to the acquisition of intangible assets. Other intangible assets are stated at cost less accumulated amortisation and any accumulated impairment losses.

On acquisition of a subsidiary, internally developed software and systems are valued and brought to account as intangible assets. The software is valued at its amortised replacement cost.

(ii) 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.

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For the year ended 31 July 2018

11. Intangible assets (continued)

(iii) Amortisation

Unless otherwise stated, amortisation is charged to the income statement on a straight-line basis, over the estimated useful lives of intangible assets. Goodwill and intangible assets with an indefinite useful life are systematically tested for impairment at each balance sheet date.

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

- Acquired customer bases - Amortised on a reducing balance basis in line with the expected economic benefits to be derived.
- Indefeasible rights of use (IRU) of capacity - Amortised over the life of the IRU.
- Spectrum licences - Amortised over the licence term starting from the date the related network is ready for its intended use.
- Other intangible assets with finite useful lives - Amortised over the expected useful life.

(iv) Impairment tests for cash generating units containing goodwill

For the purpose of impairment testing, goodwill is allocated to the Group's cash generating units (CGUs). CGUs are determined according to the lowest level of groups of assets that generate largely independent cashflows.

As at 31 July 2017, the Group had three CGUs, being the Consumer, Corporate and Singapore CGUs. During FY18, the Group has commenced building its own mobile network in Australia, in support of which it acquired a 700MHz spectrum licence. The Australian mobile network is under construction and is not yet generating revenue. The assets of this start-up division, including the spectrum licence, have therefore been carved out as a separate CGU as at 31 July 2018.

Indefinite life intangible assets comprise goodwill and brands allocated to the CGUs as set out in the table below. Goodwill is allocated to the CGU that is expected to benefit from the synergies of the acquisition.

| | FY18 | | | FY17 | | |
|------------------|----------------|-------------|----------------|----------------|-------------|----------------|
| | Goodwill | Brands | Total | Goodwill | Brands | Total |
| | \$m | \$m | \$m | \$m | \$m | \$m |
| Consumer | 1,615.5 | 83.6 | 1,699.1 | 1,615.5 | 83.6 | 1,699.1 |
| Corporate | 295.5 | 7.0 | 302.5 | 295.5 | 7.0 | 302.5 |
| Singapore | - | - | - | - | - | - |
| Australia Mobile | - | - | - | - | - | - |
| Total | 1,911.0 | 90.6 | 2,001.6 | 1,911.0 | 90.6 | 2,001.6 |

Determining whether goodwill is impaired involves estimating the value-in-use of the CGUs to which the goodwill has been allocated.

Value-in-use is determined by discounting the projected future cashflows generated from the continuing use of the assets in the relevant CGU.

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For the year ended 31 July 2018

11. Intangible assets (continued)

The cashflow projections utilised for this purpose comprise projections prepared by senior management for a five year period plus a terminal value.

Key assumptions involved in the value-in-use calculations include:

- **Gross profit:** expected customer growth rates, average revenue per user, direct costs to deliver customer services and product mix changes. These assumptions are determined based both on an extrapolation of historical trends and on expected trends of future market developments.
- **Overheads:** forecast employee headcount and wage inflation, marketing costs and other overheads required to support the growth assumed in the gross profit projections.
- **Capital expenditure:** forecast capital expenditure required to maintain and expand network infrastructure to support the future growth assumed in the gross profit projections.
- **Long-term growth rate:** the terminal value calculation includes a long-term growth rate of 2.5% which is reflective of the long-term industry outlook.
- **Discount rate:** A pre-tax discount rate of 12.0% has been used in discounting the projected cashflows of each CGU, which is based on the Group's weighted average cost of capital adjusted to reflect an estimate of specific risks assumed in the cashflow projections.

Sensitivity analysis on all of the key assumptions employed in the value-in-use calculations has been performed. From this it was concluded that no reasonable possible movement in any of the key assumptions would give rise to any impairment in any of the CGUs.

12. Trade and other payables

| | FY18 | FY17 |
|------------------------------|--------------|--------------|
| | \$m | \$m |
| Trade creditors | 205.6 | 185.5 |
| Other creditors and accruals | 114.7 | 103.9 |
| | 320.3 | 289.4 |

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

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 19.

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13. Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate and foreign currency risk, see note 19.

| | FY18 \$m | FY17 \$m |
|---|----------------|--------------|
| Current | | |
| Indefeasible right of use (IRU) lease liabilities | - | 32.5 |
| Other finance lease liabilities | 5.5 | - |
| | 5.5 | 32.5 |
| Non-Current | | |
| Gross secured bank loans | 1,330.7 | 900.0 |
| Less: Unamortised borrowing costs | (29.6) | (27.6) |
| | 1,301.1 | 872.4 |
| Other finance lease liabilities | 12.4 | - |
| | 1,313.5 | 872.4 |

In September 2017, in order to finance its planned mobile network builds, the Group entered into new agreements to increase, amend and extend its debt facilities. The limit of the facilities was increased by \$750.0m to \$2,385.0m (includes a Singapore dollar denominated facility of SGD100m which is translated to AUD using the 31 July 2018 spot rate) and the tenor of the facilities was extended such that as at 31 July 2018, the maturity profile of the facilities is now between 2.2 and 6.2 years, with a weighted average of 3.6 years. As at 31 July 2018 \$1,330.7m of the debt facilities were drawn down leaving \$1,054.3m undrawn.

The Group incurred establishment fees of \$10.8m for amending its debt facilities. The outstanding loan balance as at the reporting date is shown in the statement of financial position net of unamortised borrowing costs of \$29.6m.

The interest rate payable under the debt facility is based on BBSY rates plus a margin determined quarterly according to the Group's gearing ratio.

As at 31 July 2018, the debt facilities were secured by a fixed and floating charge over all of the assets of the Group, with the exception of the assets of the following subsidiaries:

| | |
|--|------------------------------------|
| Kooee Pty Ltd | Intrapower Terrestrial Pty Ltd |
| Digiplus Contracts Pty Ltd | Hosteddesktop.com Pty Ltd |
| Blue Call Pty Ltd | Virtual Desktop Pty Ltd |
| Orchid Cybertech Services Incorporated | Destra Communications Pty Ltd |
| Orchid Human Resources Pty Ltd | iiNet (New Zealand) AKL Ltd |
| TPG (NZ) Pty Ltd | Neighbourhood Cable Unit Trust |
| IntraPower Pty Ltd | The Tech2 Group Pty Ltd |
| IP Service Xchange Pty Ltd | Tech2 Business Solutions Pty Ltd |
| Trusted Cloud Pty Ltd | Tech2Home (Proprietary) Ltd |
| Trusted Cloud Solutions Pty Ltd | Tech2Home Pty Ltd |
| Alchemyit Pty Ltd | Tech2Home (Communications) Pty Ltd |
| IP Group Pty Ltd | Gizmo Corporation Pty Ltd |
| Mercury Connect Pty Ltd | TPG Telecom Pte Ltd |
| VtalkVoip Pty Ltd | |

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For the year ended 31 July 2018

13. Loans and borrowings (continued)

Reconciliation of movements of liabilities to cash flows arising from financing activities

| Note | Liabilities | | Equity | | Non-controlling interest | Total |
|--|-------------------------------|---------------------------|----------------|-------------------|--------------------------|----------------|
| | Bank Loans & accrued interest | Finance lease liabilities | Share capital | Retained earnings | | |
| | \$m | \$m | \$m | \$m | | |
| Balance as at 1 August 2017 | 873.8 | 32.5 | 1,449.4 | 963.3 | 4.7 | 3,323.7 |
| Changes from financing cash flows | | | | | | |
| Payment of finance lease liabilities | - | (34.1) | - | - | - | (34.1) |
| Proceeds from borrowings | 969.4 | - | - | - | - | 969.4 |
| Repayment of borrowings | (538.6) | - | - | - | - | (538.6) |
| Transaction costs related to borrowings | (10.8) | - | - | - | - | (10.8) |
| Interest received | 1.2 | - | - | - | - | 1.2 |
| Interest paid | (44.7) | (1.1) | - | - | - | (45.8) |
| Dividends paid (including DRP) | 17,18 - | - | 15.8 | (37.0) | - | (21.2) |
| Dividends paid to non-controlling interest | - | - | - | - | (1.8) | (1.8) |
| Total changes from financing cash flows | 376.5 | (35.2) | 15.8 | (37.0) | (1.8) | 318.3 |
| Other changes | | | | | | |
| Liability-related | 55.9 | 20.6 | - | - | - | 76.5 |
| Equity-related | - | - | - | 396.9 | 1.1 | 398.0 |
| Balance as at 31 July 2018 | 1,306.2 | 17.9 | 1,465.2 | 1,323.2 | 4.0 | 4,116.5 |

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For the year ended 31 July 2018

14. Spectrum liability

| | FY18 \$m | FY17 \$m |
|------------------------------------|--------------|-------------|
| Balance as at 1 August | - | - |
| Present value of spectrum acquired | 655.2 | - |
| Interest accrued during the year | 16.6 | - |
| Balance as at 31 July | 671.8 | - |
| Current | 344.0 | - |
| Non-current | 327.8 | - |

The Group acquired a licence for two lots of 10MHz of 700MHz spectrum at an auction in April 2017 for a purchase price of \$1.260 billion, payable in three annual instalments starting from 31 January 2018. The licence was available for use from 1 April 2018. \$10.0m of the first instalment was prepaid in FY17 and the balance of \$594.8m was paid on 31 January 2018. The present value of the remaining two instalments of \$655.2m is disclosed in the table above.

The second and third instalments, payable on 31 January 2019 and 31 January 2020, amount to \$352.4m each. The total amount payable for the spectrum licence will amount to \$1,309.6m and implies an interest for deferred payment of \$49.6m. This interest expense is being accrued over the remaining two instalments on a straight-line basis.

15. Employee benefits

| | FY18 \$m | FY17 \$m |
|----------------------------------|-------------|-------------|
| Current | | |
| Liability for annual leave | 15.1 | 15.1 |
| Liability for long service leave | 14.6 | 13.1 |
| | 29.7 | 28.2 |
| Non-Current | | |
| Liability for long service leave | 2.2 | 2.4 |

(i) Current employee benefits

Liabilities for employee benefits that are due within 12 months of the reporting date represent present obligations resulting from employees' services provided up to the reporting date, and are calculated at undiscounted amounts based on remuneration wage and salary rates that the Group expects to pay as at reporting date including related on-costs such as workers' compensation insurance and payroll tax.

(ii) Non-Current employee benefits

The Group's 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 corporate bonds at the balance sheet date which have maturity dates approximating to the terms of the Group's obligations.

TPG Telecom Limited and its controlled entities

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For the year ended 31 July 2018

15. Employee benefits (continued)

(iii) Performance rights plan

The Group has in place a performance rights plan as detailed in Section 5.3 of the Remuneration Report. The number of rights granted or outstanding during the year ended 31 July 2018 are set out below:

| | Number of Rights |
|-----------------------------------|-----------------------------|
| Balance as at 1 August 2017 | 1,503,300 |
| Granted during the year | 872,600 |
| Forfeited during the year | (8,300) |
| Vested during the year | (528,025) |
| Balance as at 31 July 2018 | <u>1,839,575</u> |

The fair value of the rights at date of grant was calculated by subtracting the expected dividend payments per share during the vesting period from the share price at date of grant. The weighted average fair value and share price at date of grant of rights granted during the current and previous reporting periods are as follows:

| Date of grant | Weighted average | |
|----------------------|-------------------------|--------------------|
| | fair value | Share price |
| 16 December 2016 | \$6.3395 | \$6.76 |
| 31 July 2017 | \$5.4400 | \$5.64 |
| 22 December 2017 | \$6.3570 | \$6.46 |
| 23 March 2018 | \$5.6000 | \$5.70 |

At the year-end an estimate of how many rights are likely to vest based on the continuous employment and financial performance conditions has been updated. The fair value of the number of rights expected to vest has been expensed in proportion to how far through the vesting period the rights are at that date. The amount consequently expensed in the year was \$4.7m (2017: \$4.3m).

(iv) Superannuation

The Group contributes to several defined contribution superannuation plans. Contributions are recognised as an expense in the income statement on an accruals basis.

The Group contributed \$14.7m to defined contribution superannuation plans during the current year (FY17: \$15.3m).

TPG Telecom Limited and its controlled entities

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For the year ended 31 July 2018

16. Provisions

| | Make good costs | Lease increment | Onerous leases | Other | Total |
|-----------------------------------|--------------------|--------------------|-------------------|------------|-------------|
| | \$m | \$m | \$m | \$m | \$m |
| Balance as at 1 August 2017 | 38.1 | 0.8 | 3.6 | 2.8 | 45.3 |
| Provisions made during the year | 0.4 | - | - | - | 0.4 |
| Provisions used during the year | (1.4) | (0.1) | (1.3) | - | (2.8) |
| Unwind of discount | 0.3 | - | - | - | 0.3 |
| Balance as at 31 July 2018 | 37.4 | 0.7 | 2.3 | 2.8 | 43.2 |
| Current | 5.0 | 0.1 | 1.3 | 2.8 | 9.2 |
| Non-current | 32.4 | 0.6 | 1.0 | - | 34.0 |

A provision is recognised in the statement of financial position when the Group 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 cashflows 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. The unwinding of the discount is recognised as a finance expense.

Make good costs

The make good costs provision relates to the Group's estimated costs to make good leased premises. The provision is based on the estimated cost per leased site using historical costs for sites made good previously.

Lease increment

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

Onerous leases

Where the Group has contractual obligations with costs exceeding the expected economic benefits from the arrangement, a provision is immediately recognised for the excess cost component.

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2018

17. Capital and reserves

Share capital

| | Ordinary shares | | \$m | |
|---|--------------------|--------------------|----------------|----------------|
| | FY18 | FY17 | FY18 | FY17 |
| Balance as at 1 August | 924,719,448 | 848,473,118 | 1,449.4 | 1,051.9 |
| Ordinary shares issued during the year: | | | | |
| - Institutional entitlement offer | - | 15,242,739 | - | 80.0 |
| - Retail entitlement offer | - | 61,003,591 | - | 320.3 |
| - Dividend reinvestment plan | 3,092,045 | - | 15.8 | - |
| Share issue costs (net of tax) | - | - | - | (2.8) |
| Balance as at 31 July | 927,811,493 | 924,719,448 | 1,465.2 | 1,449.4 |

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects. The Company does not have authorised capital or par value in respect of its issued shares. 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.

Share-based payments reserve

The share-based payments reserve comprises the cost of performance rights granted to eligible employees (refer note 15 (iii)) less any payments made to the employee share trust for the purpose of acquiring shares to fulfil the Group's obligations on vesting of the performance rights. At 31 July 2018 the number of Company shares held in the employee share trust for the Group was nil. (FY17: 309,300).

Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets until the investments are derecognised or impaired.

Cash flow hedge reserve

The cash flow hedge reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges, pending subsequent recognition in the income statement as the hedged cash flows or items affect profit or loss.

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2018

18. Dividends

Dividends recognised in the current year were as follows:

| | Cents per share | Total Amount \$m | Date of payment |
|-----------------------|--------------------|------------------------|--------------------|
| FY18 | | | |
| Interim FY18 ordinary | 2.0 | 18.5 | 22 May 2018 |
| Final FY17 ordinary | 2.0 | 18.5 | 21 Nov 2017 |
| Total amount | | 37.0 | |
| FY17 | | | |
| Interim FY17 ordinary | 8.0 | 67.9 | 23 May 2017 |
| Final FY16 ordinary | 7.5 | 63.6 | 22 Nov 2016 |
| Total amount | | 131.5 | |

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

The directors have declared a fully franked final FY18 dividend of 2.0 cents per share. As the final dividend was not declared or resolved to be paid by the Board of directors as at 31 July 2018, the dividend has not been provided for in the consolidated statement of financial position. The dividend has a record date of 16 October 2018 and will be paid on 20 November 2018. The Dividend Reinvestment Plan (DRP) is currently suspended until further notice.

Dividend franking account

| | FY18 \$m | FY17 \$m |
|--|-------------|-------------|
| 30 per cent franking credits available to shareholders of the Company for subsequent financial years | 711.0 | 563.7 |

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; and
- (b) franking credits transferred in on business combinations.

The ability to utilise the franking credits is dependent upon the ability of the Company to pay dividends. The impact on the dividend franking account of dividends proposed after the balance sheet date but not yet recognised as a liability is to reduce it by \$8.0m (2017: \$7.9m).

TPG Telecom Limited and its controlled entities

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For the year ended 31 July 2018

19. Financial instruments and risk management

Financial Instruments

Non-derivative financial instruments

The Group classifies non-derivative financial assets into the following categories: loans and receivables, and available-for-sale financial assets.

(i) *Non-derivative financial assets and financial liabilities – recognition and derecognition*

The Group initially recognises loans and receivables and debt securities issued on the date when they are originated. All other financial assets and financial liabilities are initially recognised on the trade date.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred and it does not retain control over the transferred asset. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

(ii) *Non-derivative financial assets - measurement*

Loans and receivables

These assets are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method. The loans and receivables category comprises trade and other receivables.

Available-for-sale financial assets

These assets are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, are recognised in other comprehensive income and accumulated in the fair value reserve. When these assets are derecognised, the gain or loss in equity is transferred to profit or loss. The available-for-sale financial assets category comprises equity securities.

(iii) *Non-derivative financial liabilities - measurement*

Non-derivative financial liabilities are initially recognised at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method. The non-derivative financial liabilities category comprises loans and borrowings, spectrum liability and trade and other payables.

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2018

19. Financial instruments and risk management (continued)

Derivative financial instruments and hedging

The Group uses derivative financial instruments, such as forward currency contracts and interest rate swaps to manage the foreign currency and interest rate risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured to fair value. The fair value of forward currency contracts is calculated by reference to current forward exchange rates. The interest rate swaps are valued at the present value of the estimated future cash flows. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Any gains or losses arising from changes in the fair value of derivatives, except for those that qualify for hedge accounting, are taken to the consolidated income statement.

Derivative financial instruments that meet the criteria for hedge accounting are accounted for as follows:

Derivative financial instruments that hedge the Group's exposure to variability in cash flows arising due to a particular risk associated with a recognised asset or liability, a highly probable forecast transaction, or the foreign currency risk in an unrecognised firm commitment, are called cash flow hedges.

The Group tests cash flow hedges for effectiveness at each reporting date both retrospectively and prospectively.

The effective portion of the gain or loss on the hedging instrument is recognised directly in 'other comprehensive income', while the ineffective portion is recognised in the consolidated income statement. Amounts taken to 'other comprehensive income' are:

- transferred to the consolidated income statement when the hedged transaction affects profit or loss, such as, when the hedged financial income or financial expense is recognised, or when a forecast transaction occurs,
- transferred to the initial carrying amount of the non-financial asset or liability where the hedged item is the cost of a non-financial asset or non-financial liability, or
- transferred to the consolidated income statement immediately if the forecast transaction or firm commitment is no longer expected to occur.

If the hedging instrument no longer meets the criteria for hedge accounting then hedge accounting is discontinued prospectively. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked (due to it being ineffective), amounts previously recognised in 'other comprehensive income' remain in 'other comprehensive income' until the forecast transaction occurs.

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2018

19. Financial instruments and risk management (continued)

Risk management

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Group's exposure to each of the above risks, its objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout this financial report.

The Board of directors has overall responsibility for the establishment and oversight of the risk management framework.

Risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and in the Group's activities. The Group aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group's Audit & Risk Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

The Group's exposure to credit risk is influenced by the individual characteristics of each customer, the industry and the geographical region in which the customers operate.

The Group minimises concentration of credit risk by undertaking transactions with a large number of customers. By industry, the Group is not subject to a concentration of credit risk as its customers operate in a wide range of industries.

The Group has established a credit policy for its corporate customers under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The review includes obtaining external ratings, when available, and in some cases bank references.

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2018

19. Financial instruments and risk management (continued)

Credit limits may be established for each customer. These limits are reviewed regularly. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis or on other specific terms considered by management to be satisfactory.

In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or legal entity, whether they are a wholesale or retail customer, geographic location, industry, ageing profile, and existence of previous financial difficulties.

The Group has established a provision for impairment that represents management's estimate of incurred losses in respect of trade and other receivables.

The carrying amount of the Group's financial assets represents the maximum credit exposure from those assets. The Group's maximum exposure to credit risk at the reporting date was as follows:

| | <i>Note</i> | FY18 \$m | FY17 \$m |
|-----------------------------|-------------|---------------------------|---------------------------|
| Trade and other receivables | 8 | 128.8 | 142.9 |
| Cash and cash equivalents | | 82.2 | 46.3 |
| | | 211.0 | 189.2 |

The Group's maximum exposure to credit risk for trade receivables at the reporting date by customer type was as follows:

| | <i>Note</i> | FY18 \$m | FY17 \$m |
|-------------------------|-------------|---------------------------|---------------------------|
| Type of customer | | | |
| Wholesale | | 30.9 | 33.9 |
| Corporate | | 45.3 | 42.6 |
| Retail | | 52.6 | 66.4 |
| | 8 | 128.8 | 142.9 |

The Group's maximum exposure to credit risk for trade receivables at the reporting date by geographical region was as follows:

| | <i>Note</i> | FY18 \$m | FY17 \$m |
|----------------------------|-------------|---------------------------|---------------------------|
| Geographical region | | | |
| Australia | | 127.4 | 141.3 |
| Other | | 1.4 | 1.6 |
| | 8 | 128.8 | 142.9 |

Geographically, the Group is subject to a concentration of credit risk as predominantly all of its revenue is generated in Australia.

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2018

19. Financial instruments and risk management (continued)

The ageing of the Group's trade receivables at the reporting date was as follows:

| | <i>Note</i> | FY18 | FY17 |
|---------------------------------------|-------------|-------------|--------------|
| | | \$m | \$m |
| Ageing of customer debt | | | |
| Not past due | | 71.3 | 83.3 |
| Past due 1-30 days | | 34.3 | 35.2 |
| Past due 31-60 days | | 5.7 | 6.6 |
| Past due 61-90 days | | 1.6 | 3.9 |
| Past due 91-120 days | | 3.1 | 2.4 |
| Past due 121 days | | 12.8 | 11.5 |
| Gross trade receivables | 8 | 128.8 | 142.9 |
| Less: Provision for impairment losses | 8 | (33.3) | (41.2) |
| Net receivables | | 95.5 | 101.7 |

The provision for impairment losses of the Group at 31 July 2018 of \$33.3m (FY17: \$41.2m) represents the risk of non-collection of outstanding debts that are past due and believed to be at risk of non-collection. The provision is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible. At this point the amount is considered irrecoverable and is written off against the financial asset directly. The movement in the provision for impairment losses during the year ended 31 July 2018 is as follows:

| | <i>Note</i> | FY18 | FY17 |
|---|-------------|-------------|-------------|
| | | \$m | \$m |
| Balance at 1 August | | 41.2 | 33.3 |
| Impairment loss (written back)/recognised | | (7.9) | 7.9 |
| Balance at 31 July | 8 | 33.3 | 41.2 |

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages the cashflow requirements of subsidiaries to optimise its return on cash. The Group ensures that it has sufficient cash on demand to meet expected operational expenses including the servicing of financial obligations.

In addition to its cash reserves, the Group had a debt facility of \$2,385.0m available to it during the year, of which \$1,330.7m was utilised as at 31 July 2018 (refer note 13).

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For the year ended 31 July 2018

19. Financial instruments and risk management (continued)

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

| FY18 | Note | Carrying amount \$m | Contractual cashflows \$m | 6 months or less \$m | 6-12 months \$m | 1-2 years \$m | 2-5 years \$m | More than 5 years \$m |
|--|------|------------------------|------------------------------|-------------------------|--------------------|------------------|------------------|--------------------------|
| Non-derivative financial liabilities | | | | | | | | |
| Secured bank loans | 13 | (1,330.7) | (1,581.1) | (25.8) | (25.4) | (57.5) | (1,122.8) | (349.6) |
| Finance lease liabilities | 13 | (17.9) | (18.0) | (2.5) | (3.1) | (6.8) | (5.6) | - |
| Spectrum liabilities | 14 | (671.8) | (704.8) | (352.4) | - | (352.4) | - | - |
| Trade and other payables | 12 | (320.3) | (320.3) | (320.3) | - | - | - | - |
| | | (2,340.7) | (2,624.2) | (701.0) | (28.5) | (416.7) | (1,128.4) | (349.6) |
| Derivative financial liabilities | | | | | | | | |
| Interest rate swap (settled net) | | (4.8) | (4.8) | - | - | (2.1) | (5.1) | 2.4 |
| Foreign currency forward contracts (settled gross) | | | | | | | | |
| - Outflow | | - | (49.2) | (33.4) | (5.0) | (6.3) | (4.5) | - |
| - Inflow | | 0.6 | 49.9 | 34.1 | 5.0 | 6.3 | 4.5 | - |
| Total derivative financial liabilities | | (4.2) | (4.1) | 0.7 | - | (2.1) | (5.1) | 2.4 |
| Total | | (2,344.9) | (2,628.3) | (700.3) | (28.5) | (418.8) | (1,133.5) | (347.2) |
| FY17 | | | | | | | | |
| | Note | Carrying amount \$m | Contractual cashflows \$m | 6 months or less \$m | 6-12 months \$m | 1-2 years \$m | 2-5 years \$m | More than 5 years \$m |
| Non-derivative financial liabilities | | | | | | | | |
| Secured bank loans | 13 | (900.0) | (966.2) | (13.8) | (14.1) | (28.5) | (909.8) | - |
| IRU and other finance lease liabilities | 13 | (32.5) | (33.6) | (16.8) | (16.8) | - | - | - |
| Trade and other payables | 12 | (289.4) | (289.4) | (289.4) | - | - | - | - |
| | | (1,221.9) | (1,289.2) | (320.0) | (30.9) | (28.5) | (909.8) | - |
| Derivative financial liabilities | | | | | | | | |
| Foreign currency forward contracts (settled gross) | | | | | | | | |
| - Outflow | | - | (73.7) | (58.0) | (15.7) | - | - | - |
| - Inflow | | 0.1 | 75.7 | 58.2 | 17.5 | - | - | - |
| Total derivative financial liabilities | | 0.1 | 2.0 | 0.2 | 1.8 | - | - | - |
| Total | | (1,221.8) | (1,287.2) | (319.8) | (29.1) | (28.5) | (909.8) | - |

It is not expected that the cashflows included in the maturity analysis above could occur significantly earlier, or at significantly different amounts.

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19. Financial instruments and risk management (continued)

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising return.

a) Currency risk

The Group is exposed to currency risk on revenues, expenses, receivables and payables that are denominated in a currency other than its functional currency, the Australian dollar (AUD). These other currencies include primarily the United States dollar (USD), the Singapore dollar (SGD), the New Zealand dollar (NZD), Philippine peso (PHP), the Hong Kong dollar (HKD), and the South African Rand (ZAR). As at 31 July 2018, currency risks associated with the Group's foreign currency denominated receivables and payables are not considered to be significant.

The Group hedges its forecast foreign currency exposures on a rolling basis to manage the impact of short term foreign exchange fluctuations on its earnings.

Currency risk in relation to SGD is partly managed by the existence of a SGD denominated debt facility within the Group's debt facilities.

b) Interest rate risk

At the reporting date the Group's interest-bearing financial instruments were as follows:

| | <i>Note</i> | FY18 \$m | FY17 \$m |
|----------------------------------|-------------|--------------------|--------------------|
| Fixed rate instruments | | | |
| Finance lease liabilities | 13 | (17.9) | (32.5) |
| Variable rate instruments | | | |
| Cash and cash equivalents | | 82.2 | 46.3 |
| Secured bank loans | 13 | (1,330.7) | (900.0) |
| | | (1,248.5) | (853.7) |

The Group is exposed to interest rate risk arising from the variable interest rate on its long term borrowings. To manage this risk, the Group has entered into interest rate swap contracts to hedge the interest rate risk on \$800m of its debt facilities. These contracts will enable the Group to convert its borrowings from floating rates to fixed rates for 5 years starting from December 2019.

Fair value sensitivity analysis for fixed rate instruments

As at 31 July 2018, the Group does not have any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

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19. Financial instruments and risk management (continued)

Cashflow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates would cause a movement in the Group's annualised interest expense, based on the balance of its variable rate instruments as at 31 July 2018, of \$12.5m (FY17: \$8.5m) (assumes that all other variables, in particular foreign currency rates, remain constant).

Fair values versus carrying amounts

As at 31 July 2018, the fair values of the Group's financial assets and liabilities approximate their carrying amounts shown in the statement of financial position.

Interest rates used for determining fair value

The interest rates used to discount estimated cashflows, where applicable, are based on the rates implicit in the transaction. In the case of Loans and borrowings, interest rate is based on BBSY rates plus a margin determined according to gearing ratio.

c) Equity price risk

The Group is exposed to equity price risk because of its investments in available-for-sale equity securities. Material investments are managed on an individual basis with the goal of maximising returns.

Classification of financial instruments

Fair value hierarchy

There are three possible valuation methods (or 'levels') for financial instruments which are measured at fair value. Those different levels are as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Group's financial instruments which are measured at fair value are categorised as follows:

| | FY18 | | | FY17 | | |
|------------------------------------|---------|---------|---------|---------|---------|---------|
| | Level 1 | Level 2 | Level 3 | Level 1 | Level 2 | Level 3 |
| | \$m | \$m | \$m | \$m | \$m | \$m |
| Financial assets | | | | | | |
| Investments | 1.9 | - | - | 2.9 | - | - |
| Derivative financial assets | | | | | | |
| Interest rate swap contracts | - | 0.7 | - | - | - | - |
| Foreign currency forward contracts | - | - | - | - | 1.3 | - |
| Financial liabilities | | | | | | |
| Derivative financial liabilities | | | | | | |
| Interest rate swap contracts | - | (4.8) | - | - | - | - |
| Foreign currency forward contracts | - | (0.1) | - | - | (1.2) | - |

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19. Financial instruments and risk management (continued)

The Group's investments, being ASX listed securities, are categorised as Level 1 as they are valued at quoted market prices.

Interest rate swap contracts are categorised as Level 2 as they are valued at the present value of the estimated future cash flows. Estimates of future floating rate cash flows are based on quoted swap rates, futures prices and interbank borrowing rates. The fair value estimate is subject to a credit risk adjustment that reflects the credit risk of the Group and of the counterparty.

Foreign currency forward contracts are categorised as Level 2 as they are measured based on observable spot exchange rates, the yield curves of the respective currencies as well as the currency basis spreads between the respective currencies.

Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board monitors return on capital, which the Group defines as profit from operating activities divided by total shareholders' equity. The Board of directors also determines the level of dividends to be paid to shareholders.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings, and the advantages and security afforded by a sound capital position.

From time to time the Group may purchase its own shares on market for the purpose of issuing shares under employee share plans. The Group does not currently have a defined share buy-back plan.

There were no changes in the Group's approach to capital management during the year.

The Group's net debt to equity ratio at the reporting date was as follows:

| | FY18 | FY17 |
|--|----------------|----------------|
| | \$m | \$m |
| Secured bank loans | 1,330.7 | 900.0 |
| Less: cash and cash equivalents | (82.2) | (46.3) |
| Net debt | 1,248.5 | 853.7 |
| Total equity | 2,784.2 | 2,399.3 |
| Net debt to equity ratio at 31 July | 0.5 | 0.4 |

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20. Operating lease commitments

The Group has entered into commercial leases on premises and office equipment under non-cancellable operating leases.

Non-cancellable operating lease rentals are payable as follows:

| | FY18 \$m | FY17 \$m |
|----------------------------|--------------|--------------|
| Less than one year | 35.6 | 42.2 |
| Between one and five years | 87.2 | 81.2 |
| More than five years | 13.5 | 11.6 |
| | 136.3 | 135.0 |

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 as an integral part of the total lease expense, over the term of the lease.

21. Capital and other commitments

| | FY18 \$m | FY17 \$m |
|---|-------------|-------------|
| Capital expenditure commitments contracted but not provided for in the financial statements | 163.8 | 1,482.9 |

Capital commitments at 31 July 2018 are comprised mainly of commitments in respect of:

- IRU agreements for international capacity (US\$54.5m*);
- Domestic fibre construction projects;
- Mobile network builds.

Capital commitments at 31 July 2017 included \$1.3 billion of spectrum licence payments that have either been paid or shown as a liability in the consolidated statement of financial position as at 31 July 2018.

*translated into AUD at the prevailing spot rate at 31 July 2018 of 0.74.

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2018

22. Consolidated entities

The following is a list of all entities that formed part of the Group as at 31 July 2018:

| Name of Entity | Country of incorporation | Ownership interest as at 31 July | |
|---|--------------------------|----------------------------------|--------|
| | | 2018 % | 2017 % |
| Parent entity | | | |
| TPG Telecom Limited | Australia | | |
| Subsidiaries | | | |
| TPG Holdings Pty Ltd | Australia | 100 | 100 |
| TPG Internet Pty Ltd | Australia | 100 | 100 |
| Value Added Network Pty Ltd | Australia | 100 | 100 |
| TPG Network Pty Ltd | Australia | 100 | 100 |
| TPG Energy Pty Ltd | Australia | 100 | 100 |
| FTTB Wholesale Pty Ltd | Australia | 100 | 100 |
| TPG (NZ) Pty Ltd | New Zealand | 100 | 100 |
| Orchid Cybertech Services Incorporated | Philippines | 99.99 | 99.99 |
| Orchid Human Resources Pty Ltd | Australia | 100 | 100 |
| Chariot Pty Ltd | Australia | 100 | 100 |
| Soul Pattinson Telecommunications Pty Ltd | Australia | 100 | 100 |
| SPT Telecommunications Pty Ltd | Australia | 100 | 100 |
| SPTCom Pty Ltd | Australia | 100 | 100 |
| Koeee Communications Pty Ltd | Australia | 100 | 100 |
| Koeee Pty Ltd | Australia | 100 | 100 |
| Koeee Mobile Pty Ltd | Australia | 100 | 100 |
| Soul Communications Pty Ltd | Australia | 100 | 100 |
| Soul Contracts Pty Ltd | Australia | 100 | 100 |
| Digiplus Investments Pty Ltd | Australia | 100 | 100 |
| Digiplus Holdings Pty Ltd | Australia | 100 | 100 |
| Digiplus Pty Ltd | Australia | 100 | 100 |
| Digiplus Contracts Pty Ltd | Australia | 100 | 100 |
| Blue Call Pty Ltd | Australia | 100 | 100 |
| PIPE Networks Pty Ltd | Australia | 100 | 100 |
| PIPE Transmission Pty Ltd | Australia | 100 | 100 |
| PIPE International (Australia) Pty Ltd | Australia | 100 | 100 |
| PPC 1 Limited | Bermuda | 100 | 100 |
| PPC 1 (US) Incorporated | USA | 100 | 100 |
| ACN 139 798 404 Pty Ltd | Australia | 100 | 100 |
| IntraPower Pty Ltd | Australia | 100 | 100 |
| IP Service Xchange Pty Ltd | Australia | 100 | 100 |
| Trusted Cloud Pty Ltd | Australia | 100 | 100 |

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2018

22. Consolidated entities (continued)

| Name of Entity | Country of incorporation | Ownership interest as at 31 July | |
|---|--------------------------|----------------------------------|--------|
| | | 2018 % | 2017 % |
| Subsidiaries (continued) | | | |
| Trusted Cloud Solutions Pty Ltd | Australia | 100 | 100 |
| Alchemyit Pty Ltd | Australia | 100 | 100 |
| IP Group Pty Ltd | Australia | 100 | 100 |
| Mercury Connect Pty Ltd | Australia | 100 | 100 |
| VtalkVoip Pty Ltd | Australia | 100 | 100 |
| Intrapower Terrestrial Pty Ltd | Australia | 100 | 100 |
| Hosteddesktop.com Pty Ltd | Australia | 100 | 100 |
| Virtual Desktop Pty Ltd | Australia | 100 | 100 |
| Destra Communications Pty Ltd | Australia | 100 | 100 |
| Numillar IPS Pty Ltd | Australia | 88.57 | 88.57 |
| Telecom New Zealand Australia Pty Ltd | Australia | 100 | 100 |
| AAPT Limited | Australia | 100 | 100 |
| Connect Internet Solutions Pty Limited | Australia | 100 | 100 |
| PowerTel Limited | Australia | 100 | 100 |
| Request Broadband Pty Ltd | Australia | 100 | 100 |
| Telecom Enterprises Australia Pty Limited | Australia | 100 | 100 |
| iiNet Limited | Australia | 100 | 100 |
| Chime Communications Pty Ltd | Australia | 100 | 100 |
| Internode Pty Ltd | Australia | 100 | 100 |
| Agile Pty Ltd | Australia | 100 | 100 |
| Westnet Pty Ltd | Australia | 100 | 100 |
| iiNet (New Zealand) AKL Ltd | New Zealand | 100 | 100 |
| Jiva Pty Ltd | Australia | 100 | 100 |
| Netspace Online Systems Pty Ltd | Australia | 100 | 100 |
| iiNet Labs Pty Ltd | Australia | 100 | 100 |
| TransACT Communications Pty Ltd | Australia | 100 | 100 |
| TransACT Broadcasting Pty Ltd | Australia | 100 | 100 |
| TransACT Capital Communications Pty Ltd | Australia | 100 | 100 |
| TransFlicks Pty Ltd | Australia | 100 | 100 |
| TransACT Victoria Holdings Pty Ltd | Australia | 100 | 100 |
| Cable Licence Holdings Pty Ltd | Australia | 100 | 100 |
| ACN 088 889 230 Pty Ltd | Australia | 100 | 100 |
| TransACT Victoria Communications Pty Ltd | Australia | 100 | 100 |
| Neighbourhood Cable Unit Trust | Australia | 100 | 100 |
| Connect West Pty Ltd | Australia | 100 | 100 |
| The Tech2 Group Pty Ltd | Australia | 60 | 60 |
| Tech2Home Proprietary Ltd | New Zealand | 60 | 60 |
| Tech2Home Pty Ltd | Australia | 60 | 60 |
| Gizmo Corporation Pty Ltd | Australia | 60 | 60 |
| Tech2Home(Communications) Pty Ltd | Australia | 60 | 60 |

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2018

22. Consolidated entities (continued)

| Name of Entity | Country of incorporation | Ownership interest as at 31 July | |
|----------------------------------|--------------------------|----------------------------------|--------|
| | | 2018 % | 2017 % |
| Subsidiaries (continued) | | | |
| Tech2 Business Solutions Pty Ltd | Australia | 60 | 60 |
| iHug Pty Ltd | Australia | 100 | 100 |
| Adam Internet Holdings Pty Ltd | Australia | 100 | 100 |
| Adam Internet Pty Ltd | Australia | 100 | 100 |
| iiNet (OzEmail) Pty Ltd | Australia | 100 | 100 |
| TPG Telecom Pte Ltd | Singapore | 100 | 100 |

23. Deed of cross guarantee

Pursuant to the ASIC Corporations (Wholly-owned Companies) Instrument 2016/785 dated on 28 September 2016, the wholly-owned subsidiaries as mentioned below are relieved from the *Corporations Act 2001* requirements for preparation, audit, and lodgement of financial reports and directors' reports.

It is a condition of the instrument that the Company and each of the subsidiaries enter into a Deed of Cross Guarantee. The effect of the Deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the *Corporations Act 2001*. If a winding up occurs under other provisions of the Act, the Company will only be liable in the event that after six months any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event that the Company is wound up.

The Deed of Cross Guarantee was entered into on 25 June 2008. All the subsidiaries listed in Note 22 above are subject to the Deed except for the following:

| | |
|--|------------------------------------|
| Orchid Cybertech Services Incorporated | VtalkVoip Pty Ltd |
| PPC 1 Limited | Hosteddesktop.com Pty Ltd |
| PPC 1 (US) Incorporated | The Tech2 Group Pty Ltd |
| Trusted Cloud Solutions Pty Ltd | Tech2Home Pty Ltd |
| Alchemyit Pty Ltd | Tech2Home (Communications) Pty Ltd |
| IP Service Xchange Pty Ltd | Tech2Home Proprietary Ltd |
| Destra Communications Pty Ltd | Gizmo Corporation Pty Ltd |
| Numillar IPS Pty Ltd | Tech2 Business Solutions Pty Ltd |
| Neighbourhood Cable Unit Trust | TPG Telecom Pte Ltd |
| Mercury Connect Pty Ltd | |

There have been no changes to the parties to the Deed during the current reporting period.

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2018

23. Deed of cross guarantee (continued)

A consolidated statement of comprehensive income and consolidated statement of financial position, comprising the Company and the controlled entities which are a party to the Deed of Cross Guarantee, after eliminating all transactions between parties to the Deed, at 31 July 2018 is set out as follows:

Statement of comprehensive income and retained profits

| | FY18 \$m | FY17 \$m |
|--|----------------|----------------|
| Revenue | 2,441.6 | 2,444.0 |
| Other income | - | 48.8 |
| Network, carrier and hardware costs | (1,197.5) | (1,175.1) |
| Employee benefits expense | (234.2) | (253.7) |
| Other expenses | (168.7) | (177.1) |
| Earnings before interest, tax, depreciation and amortisation (EBITDA) | 841.2 | 886.9 |
| Depreciation of plant and equipment | (132.5) | (135.0) |
| Amortisation of intangibles | (99.9) | (100.0) |
| Results from operating activities | 608.8 | 651.9 |
| Finance income | 1.6 | 1.4 |
| Finance expenses | (36.2) | (52.3) |
| Net financing costs | (34.6) | (50.9) |
| Profit before income tax | 574.2 | 601.0 |
| Income tax expense | (169.2) | (176.6) |
| Profit for the year attributable to owners of the company | 405.0 | 424.4 |
| Other comprehensive income, net of tax | 6.8 | (59.3) |
| Total comprehensive income for the year | 411.8 | 365.1 |
| Retained earnings at beginning of year | 1,002.9 | 710.0 |
| Profit for the year | 405.0 | 424.4 |
| Dividends recognised during the year | (37.0) | (131.5) |
| Retained earnings at end of year | 1,370.9 | 1,002.9 |

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2018

23. Deed of cross guarantee (continued)

Statement of financial position

| | 31 July 2018 | 31 July 2017 |
|---------------------------------------|----------------|----------------|
| | \$m | \$m |
| Assets | | |
| Cash and cash equivalents | 62.8 | 35.9 |
| Trade and other receivables | 113.4 | 117.6 |
| Inventories | 4.4 | 6.1 |
| Derivative financial instruments | 0.7 | 1.3 |
| Prepayments and other assets | 12.9 | 23.8 |
| Total Current Assets | 194.2 | 184.7 |
| Investments | 1.9 | 2.9 |
| Loans to subsidiaries | 386.3 | 290.5 |
| Property, plant and equipment | 1,101.0 | 973.6 |
| Spectrum assets | 1,350.6 | 96.3 |
| Goodwill and other intangible assets | 2,376.8 | 2,374.4 |
| Prepayments and other assets | 5.6 | 7.9 |
| Total Non-Current Assets | 5,222.2 | 3,745.6 |
| Total Assets | 5,416.4 | 3,930.3 |
| Liabilities | | |
| Trade and other payables | 303.9 | 279.2 |
| Loans and borrowings | 5.5 | 32.5 |
| Spectrum liability | 344.0 | - |
| Current tax liabilities | 20.2 | 50.9 |
| Employee benefits | 28.4 | 27.4 |
| Provisions | 7.0 | 9.3 |
| Accrued interest | 5.1 | 1.4 |
| Deferred income and other liabilities | 146.8 | 148.7 |
| Total Current Liabilities | 860.9 | 549.4 |
| Loans and borrowings | 1,313.5 | 872.4 |
| Spectrum liability | 327.8 | - |
| Deferred tax liabilities | 19.6 | 12.7 |
| Employee benefits | 1.9 | 2.1 |
| Provisions | 33.9 | 33.6 |
| Derivative financial instruments | 4.9 | 1.2 |
| Deferred income and other liabilities | 26.3 | 24.4 |
| Total Non-Current Liabilities | 1,727.9 | 946.4 |
| Total Liabilities | 2,588.8 | 1,495.8 |
| Net Assets | 2,827.6 | 2,434.5 |
| Equity | | |
| Share capital | 1,465.2 | 1,449.4 |
| Reserves | (8.5) | (17.8) |
| Retained earnings | 1,370.9 | 1,002.9 |
| Total Equity | 2,827.6 | 2,434.5 |

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2018

24. Parent entity disclosures

| | FY18 \$m | FY17 \$m |
|--|----------------|----------------|
| Result of the parent entity | | |
| Profit/(Loss) for the period | 1,178.7 | (35.6) |
| <i>Comprising:</i> | | |
| Dividend from subsidiaries | 1,200.0 | - |
| Finance expenses | (39.0) | (51.0) |
| Income tax benefit | 9.1 | 10.4 |
| Other | 8.6 | 5.0 |
| Total profit for the period | 1,178.7 | (35.6) |
| Financial position of parent entity at year end | | |
| Current assets | 2.3 | 12.0 |
| Total assets | 5,936.2 | 3,823.4 |
| Current liabilities | 28.2 | 54.6 |
| Total liabilities | 3,166.7 | 2,209.9 |
| Total equity of the parent entity | | |
| Share capital | 1,465.2 | 1,449.4 |
| Reserves | (12.0) | (10.5) |
| Retained earnings | 1,316.3 | 174.6 |
| Total Equity | 2,769.5 | 1,613.5 |

Parent entity guarantees

The parent entity has entered into a Deed of Cross Guarantee with the effect that the Company guarantees debts in respect of certain subsidiaries.

Further details of the Deed of Cross Guarantee, and the subsidiaries subject to the deed, are disclosed in note 23.

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2018

25. Reconciliation of cashflows from operating activities

| | <i>Note</i> | FY18 | FY17 |
|--|-------------|--------------|--------------|
| | | \$m | \$m |
| Cash flows from operating activities | | | |
| Profit for the year after income tax | | 398.0 | 415.7 |
| <i>Adjustments for:</i> | | | |
| Depreciation of plant and equipment | 10 | 138.8 | 141.1 |
| Amortisation and impairment of intangibles | 11 | 104.1 | 103.3 |
| Bad and doubtful debts | | 4.9 | 9.0 |
| Amortisation of borrowing costs | 5 | 17.5 | 14.2 |
| Performance rights plan expense | 15 | 4.7 | 4.3 |
| Unrealised foreign exchange loss | | (2.2) | 1.1 |
| Interest income | 5 | (1.7) | (1.4) |
| Interest expense | 5 | 18.6 | 38.1 |
| Profit on sale of investments | | - | (48.8) |
| Costs relating to mergers and acquisitions | | - | 1.5 |
| Income tax expense | 6 | 165.8 | 179.8 |
| Operating profit before changes in working capital and provisions | | 848.5 | 857.9 |
| Changes in: | | | |
| - Trade and other receivables | | 2.5 | (0.3) |
| - Inventories | | 1.5 | 5.6 |
| - Other assets | | 2.3 | 3.8 |
| - Trade and other payables | | 14.1 | 7.1 |
| - Other liabilities | | 0.3 | (1.1) |
| - Employee benefits | | 1.2 | 0.2 |
| - Provisions | | (2.1) | (3.5) |
| | | 868.3 | 869.7 |
| Income taxes paid | | (194.5) | (147.0) |
| Net cash from operating activities | | 673.8 | 722.7 |

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2018

26. Related parties

The Group has no related party relationships other than with its key management personnel (KMP). Information regarding transactions with KMP including their remuneration is provided in the Remuneration Report section of the Directors' report on pages 19 to 30.

27. Auditors' remuneration

| | FY18 \$'000 | FY17 \$'000 |
|--|----------------|----------------|
| Audit and review services | | |
| Auditors of the Company – KPMG, Australia | | |
| - Audit and review of financial statements | 954 | 940 |
| - Other regulatory audit services | 8 | 8 |
| Network firms of KPMG | | |
| - Audit of financial statements | 15 | 16 |
| | 977 | 964 |
| Other services | | |
| KPMG, Australia | | |
| - Taxation and other services | 106 | 120 |
| | 1,083 | 1,084 |

28. Subsequent events

Proposed merger with Vodafone Hutchison Australia

On 30 August 2018, the Company and Vodafone Hutchison Australia ("VHA") entered into a Scheme Implementation Deed under which the companies have agreed a proposed merger of equals to establish a fully integrated telecommunications operator in Australia.

The merger will be implemented via a TPG Scheme of Arrangement, with the new merged group listed on the Australian Securities Exchange ("ASX") and renamed "TPG Telecom Limited" in conjunction with implementation of the scheme.

Following completion of the merger, TPG shareholders will own 49.9% of the equity of the Merged Group, with VHA shareholders owning the remaining 50.1%.

The merger is subject to a number of conditions such as the approval of the Australian Competition and Consumer Commission and it is anticipated that the merger will complete during 2019.

Further details about the planned merger are set out in market announcements made to the ASX on 30 August 2018.

Joint Venture and 5G Spectrum Auction

In parallel to the merger agreement, the Company and VHA have signed a separate 50:50 Joint Venture Agreement. The scope of the joint venture is to acquire, hold and licence 3.6 GHz spectrum. The joint venture has registered as a participant in the 3.6GHz spectrum auction expected to commence in late November 2018. The Joint Venture Agreement is ongoing and will not terminate if the merger fails to proceed.

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2018

28. Subsequent events (continued)

Separation of Singapore mobile operations

Separately, on or prior to the implementation of the merger, the Company intends to undertake a separation of its Singapore mobile operations by way of an in-specie distribution of shares in the Singapore operation to TPG shareholders.

Other than the 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 Group, the results of those operations, or the state of affairs of the Group in future financial years.

29. Significant accounting policies

The accounting policies as set out below have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently across the Group. In the current financial year, there are no new or revised Standards/ Interpretations issued by the Australian Accounting Standards Board (AASB) that are effective for the current reporting period and that are relevant to the Group.

a. Basis of consolidation

(i) Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group (refer (ii) below). The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Valuation techniques adopted for measuring assets acquired are explained at (k) below. Goodwill is measured as the excess of consideration transferred as compared to the value of identifiable net assets acquired. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

(ii) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Such changes have been made with effect from the date of acquisition.

(iii) Transactions eliminated on consolidation

Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2018

29. Significant accounting policies (continued)

b. Foreign currency transactions

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

c. Foreign operations

The assets and liabilities of foreign operations are translated to Australian dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Australian dollars at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income and presented in the foreign currency translation reserve in equity.

d. Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less and includes bank overdrafts that are repayable on demand and form an integral part of the Group's cash management.

e. Leases

(i) Determining whether an arrangement contains a lease

At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Group the right to control the use of the underlying asset.

(ii) Leased assets

Leases in the terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Other leases are operating leases and are not recognised in the Group's statement of financial position.

(iii) Lease payments

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense 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.

At inception or upon reassessment of the arrangement, the Group separates payments and other

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2018

29. Significant accounting policies (continued)

consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values.

f. Inventories

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

g. Impairment

Any financial asset that is not classified as an 'at fair value through profit or loss' asset, is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cashflows of that asset.

At each reporting date, the Group reviews the carrying amounts of its non-financial assets, other than inventories and deferred tax assets, to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and intangible assets that have indefinite useful lives or that are not yet available for use are tested annually for impairment.

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 and then to reduce the carrying amount of the other assets in the units on a pro rata basis.

(i) Calculation of recoverable amount

Impairment of receivables is not recognised until objective evidence is available that a loss event has occurred. Significant receivables are individually assessed for impairment. 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 cashflows 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 cannot be reversed.

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2018

29. Significant accounting policies (continued)

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.

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.

h. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised as part of the cost of the asset. Borrowing costs relating to loans and borrowings are capitalised and amortised over the term of the loan. All other borrowing costs are expensed in the period they occur.

i. 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 statement of financial position.

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

j. New standards and interpretations not yet adopted

There are no new or revised Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are effective for the current reporting period and are relevant to the Group. Standards that have been issued but are not effective yet, and have not been early adopted by the Group are set out below:

(i) Financial instruments (Revised AASB 9)

The revised AASB 9 will be applicable to the Group from 1 August 2018. The Group's assessment of the impact of this revised standard on its consolidated financial statements is that it is not likely to be significant. However, as we are yet to fully implement the new requirements across the Group there may be additional areas identified that will be reflected in our FY19 reporting.

Impact on Financial assets

a. Classification and measurement

The revised standard contains a new classification and measurement approach for financial assets. AASB 9 contains three principal classification categories for financial assets: measured at amortised cost (MAAC), fair value through other comprehensive income (FVOCI), and fair value through profit or loss (FVTPL). The standard eliminates the existing categories of: held to maturity, loans and receivables, and available for sale.

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2018

29. Significant accounting policies (continued)

Currently, the Group has the following categories of financial assets: (i) trade receivables and (ii) equity investments.

Trade receivables are currently classified under loans and receivables and are measured at amortised cost using the effective interest method. Under AASB 9, trade receivables will be classified as 'Held-to-collect' MAAC assets and will continue to be measured at amortised cost.

At 31 July 2018, the Group had equity investments that are held for long-term strategic purposes valued at \$1.9m, classified as 'available-for-sale' and measured on a FVOCI basis. Upon initial application of AASB 9, the Group has elected to classify these equity investments as FVOCI assets. Consequently, all fair value gains and losses will continue to be reported in other comprehensive income, but no impairment losses will be recognised in the income statement and no gains or losses will be reclassified to the income statement on disposal.

b. Impairment

Under the revised standard, impairment of financial assets will be calculated using an 'expected credit loss' (ECL) model replacing the current 'incurred loss' model. The new impairment model will apply to financial assets that are classified as MAAC or FVOCI, but excluding equity investments. Applying the ECL model to the Group's trade receivables is not expected to have a significant impact on initial application of the revised standard.

Impact on Financial liabilities

AASB 9 largely retains the existing requirements for the classification of financial liabilities. The Group's assessment did not indicate any material impact regarding the classification of financial liabilities at 1 August 2018.

Hedge accounting

AASB 9 also provides simpler hedge accounting requirements and helps align accounting treatment more closely to the Group's risk management strategy. The Group will adopt the AASB 9 hedge accounting model on initial application of the new standard. The types of hedge accounting relationships that the Group has currently designated meet the requirements of AASB 9.

(ii) Revenue from contracts with customers (AASB 15)

The new AASB 15 will be applicable to the Group from 1 August 2018. The standard contains a single model that applies to all contracts with customers. Under that model an entity must determine the various performance obligations under a contract, allocate the total contract price amongst the performance obligations, and recognise revenue when the performance obligations are satisfied. The standard also provides guidance on treatment of contract costs, i.e. incremental costs of acquiring a contract and costs to fulfil the contract.

The Group has undertaken a detailed review of its material contracts to assess the impact of changes introduced by AASB 15.

The Group's assessment of the impact of this standard on its consolidated financial statements is as follows:

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2018

29. Significant accounting policies (continued)

- **Set-up revenue and connection costs in Consumer broadband contracts:**
For certain products, set-up revenue charged to customers and connection costs incurred by the Group are currently recognised on installation. As set-up revenue does not satisfy the definition of a performance obligation under the new standard, from the date of initial application, it will be treated as part of the total contract price and allocated over the identified performance obligations. Connection costs, being costs of fulfilling orders, will be capitalised as contract costs and expensed to network, carrier and hardware costs over the life of the contract.
- **Subscriber acquisition costs:**
Certain customer acquisition costs such as sign-on incentives, free equipment and discounted installation costs are currently classified as subscriber acquisition costs within intangible assets and amortised through intangible amortisation.
From the date of initial application of the new standard, costs of this nature that arise on obtaining customer contracts will either form part of the total contract price and hence reduce the revenue recognised over the contract term, or (in the case of discounted installation costs) be classified as contract costs and amortised through network, carrier and hardware costs over the contract term
The unamortised balance of these items as at 1 August 2018 of \$9.7m will be reclassified from intangible assets to other receivables (\$5.3m) and contract costs (\$4.4m).
- **Sales commission costs:**
Incremental sales commission costs incurred in acquiring new contracts are currently expensed on contract inception. Under the new AASB 15 these costs will be capitalised as contract costs and expensed to employee benefits expense over the life of the contract.

The estimated impact of the above changes on the FY18 accounts are as follows:

- Revenue would have been lower by \$4.3m, network, carrier and hardware costs would have been higher by \$9.7m, employee benefits expense would have been higher by \$0.3m and intangible amortisation would have been lower by \$13.6m resulting in EBITDA being lower by \$14.3m and NPAT being lower by \$0.5m.

Transition:

The Group will adopt the retrospective method for transition to the new standard. Consequently, the prior year comparatives will be restated in its FY19 financial statements. The Group has elected to use the following practical expedients:

- Contracts completed before 1 August 2018 will not be restated, and
- For contracts entered before the date of initial application, the Group will not disclose the amount of the transaction price allocated to remaining performance obligations, nor an explanation of when it expects to recognise that amount as revenue.

The estimated impact detailed above would result in a net increase in retained earnings as at 1 August 2018 by \$5.1m (net of tax).

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2018

29. Significant accounting policies (continued)

(iii) Leases (AASB 16)

AASB 16 will be applicable to the Group from 1 August 2019. AASB 16 introduces a single, on-balance sheet lease accounting model for lessees.

From an initial assessment of the potential impact on its consolidated financial statements, the Group has noted the following:

- a number of lease contracts currently disclosed within note 20 ('Operating lease commitments'), which currently give rise to recurring expenses within operating expenses, will in future be recognised on the balance sheet as 'Right of use assets';
- a corresponding lease liability reflecting the Group's commitment to make payments to third parties under these contracts will also be recognised on the balance sheet;
- the Group will depreciate the 'Right of use assets' with a charge to the income statement over the shorter of the assets' useful lives and the lease term;
- the Group will recognise an interest expense on the liability as a finance cost in the income statement;
- the profile of the overall expense in the income statement will change as the interest expense will be more front-loaded compared to a straight-line operating lease rental expense.

The Group's assessment of the impact of adopting AASB 16 on its consolidated financial statements is on-going and the quantitative effect will depend on amongst other things, the Group's future borrowing rate, the composition of the Group's lease portfolio, the Group's latest assessment of whether it will exercise any lease renewal options and the extent to which the Group chooses to use practical expedients and recognition exemptions.

Transition:

The Group intends using the 'Modified Retrospective method' for transition to the new standard. Therefore, the cumulative effect of adopting AASB 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 August 2019, with no restatement of comparative information.

When applying the modified retrospective approach to leases previously classified as operating leases, the lessee can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition. The Group is assessing the potential impact of using these practical expedients.

The Group is not required to make any adjustments for leases in which it is a lessor except where it is an intermediate lessor in a sub-lease.

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2018

29. Significant accounting policies (continued)

k. Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Material assets acquired through business combinations

| Asset acquired | Valuation technique |
|-------------------------------|---|
| Property, plant and equipment | Fair values are based on quoted market prices for similar items when available, and depreciated replacement cost when appropriate. Depreciated replacement cost reflects adjustments for physical deterioration as well as functional and economic obsolescence. |
| Intangible assets | The fair value of brands is based on the discounted estimated royalty payments that have been avoided as a result of the trademark being owned. The fair value of other intangible assets is based on the discounted cashflows expected to be derived from the use of the assets. |
| Inventories | Fair value is determined based on estimated selling price in the ordinary course of business less the estimated costs of sale. |

Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cashflows, discounted at the market rate of interest at the reporting date.

Equity and debt securities

The fair value of equity and debt securities is determined by reference to their quoted closing bid price at the reporting date, or if unquoted, by using valuation techniques including market multiples and discounted cashflow analysis.

Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cashflows, discounted at the market rate of interest at the reporting date. For finance leases, the market rate of interest is determined by reference to similar lease agreements.

TPG Telecom Limited and its controlled entities

Directors' declaration

For the year ended 31 July 2018

1. In the opinion of the directors of TPG Telecom Limited ('the Company'):
 - (a) the consolidated financial statements and notes that are set out on pages 35 to 87 and the Remuneration report in section 5 of the Directors' report, set out on pages 19 to 30, are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Group's financial position as at 31 July 2018 and of its performance for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
 - (b) 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 group entities identified in note 23 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 group entities pursuant to the ASIC Corporations (Wholly-owned Companies) Instrument 2016/785.
3. The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the chief executive officer and chief financial officer for the financial year ended 31 July 2018.
4. The directors draw attention to note 2(a) to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Dated at Sydney this 19th day of October, 2018.

Signed in accordance with a resolution of the directors.



David Teoh
Chairman



Independent Auditor's Report

To the shareholders of TPG Telecom Limited

Report on the audit of the Financial Report

Opinion

We have audited the **Financial Report** of TPG Telecom Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the **Group's** financial position as at 31 July 2018 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The **Financial Report** comprises:

- Consolidated statement of financial position as at 31 July 2018
- Consolidated income statement, Consolidated statement of comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

The **Group** consists of the Company and the entities it controlled at the year end or from time to time during the financial year.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group in accordance with *the Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.



Key Audit Matters

The **Key Audit Matters** we identified are:

- Revenue IT system processes and controls
- Carrying value of goodwill

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue IT systems and controls (\$2,495.2m)

Refer to **Note 4 Revenue**

| The key audit matter | How the matter was addressed in our audit |
|--|---|
| <p>The majority of Group's revenue relates to the provision of telecommunication services for consumer and corporate customers, which are managed by the Group's complex revenue IT systems and associated controls. We focused on these IT systems and controls as a Key Audit Matter due to the significant audit effort arising from the risks associated with the complex IT systems.</p> <p>The Group has various telecommunication services plans operating on a number of networks and uses a number of highly automated billing systems and multi-level sub systems to record revenue. The competitive market the Group operates in also results in frequent changes to the pricing of telecommunication services plans. This increases the inputs and therefore complexity for revenue recognition due to multiple price points, terms and conditions.</p> <p>Testing the relevant controls in these systems requires the involvement of our IT specialists and increases the complexity of our audit procedures.</p> | <p>Working with our IT specialists our procedures included:</p> <ul style="list-style-type: none"> • Testing the key manual and automated general IT controls within the billing systems and multi-level sub-systems. The controls tested included access to programs and data, computer operations and change control procedures for these systems; • Testing the end-to-end reconciliation control which reconciles the movement of transaction data from the business support systems to the billing systems and then to the general ledger. This included analysing significant journals processed between the billing system and the general ledger for accuracy and consistency; • Testing the system configuration for calculating automated customer bill generations. This included performing sample tests of accuracy by checking customer agreed rate and charge plans in the systems to sources such as published rate cards. |



Carrying value of goodwill (\$1,911.0m)

Refer to **Note 11 Intangible Assets**

| The key audit matter | How the matter was addressed in our audit |
|--|---|
| <p>The carrying value of the Group's goodwill is a Key Audit Matter due to:</p> <ul style="list-style-type: none"> • the size of the asset, \$1,911.0 million, being the Group's largest asset; • the complexity of auditing forward looking estimates underlying the valuation models that are inherently subjective and require a significant level of judgement by us to assess; and • the industry the Group operates in is being impacted by changes in technology, such as the introduction of the National Broadband Network, and a competitive market with frequently changing price points. These conditions create a risk that the business forecasts used for the assessment of recoverability will not be achieved. <p>Our consideration of the Group's recoverability assessment of the carrying value of goodwill involves evaluating the output of valuation models for each cash generating unit (CGU). We focused on the significant judgements the Group applied in their recoverability assessment including:</p> <ul style="list-style-type: none"> • key assumptions relating to Average Margin Per User (AMPUs) and service costs including forecasts of the Group's broadband market share, pricing and margins; and • discount rates applied to forecast cash flows, as well as the assumptions underlying the forecast growth and terminal growth rates. <p>In assessing this Key Audit Matter, we involved senior audit team members and our valuation specialists, who understand the Group's business, the telecommunications industry and the economic environment in which it operates.</p> | <p>Our procedures included:</p> <ul style="list-style-type: none"> • We assessed the Group's key assumptions such as forecast growth rates, terminal growth rates, AMPUs and service costs including forecasts of the Group's broadband market share, pricing and margins by: <ul style="list-style-type: none"> • comparing key underlying data in valuation models to Board approved forecasts; • comparing forecasts of market demand against published analyst views and industry reports; • comparing forecasts for the Group's broadband market share, pricing and margins to historical data and trends observed at year end; • performing sensitivity analysis, by varying key assumptions, such as forecast growth rates, terminal growth rates, margins and discount rates, within a reasonably possible range. This analysis identified those assumptions at higher risk of bias or inconsistency in application and enabled us to focus our further procedures; • assessing the Group's historical forecasting accuracy as an indication of risk in future forecasts. • working with our valuation specialists, we assessed the valuation model calculation methodology, forecast growth rates and terminal growth rates against accounting standard requirements, published analysts' growth rates and industry reports; • working with our valuation specialists, we independently developed discount rate ranges using publicly available market data for comparable entities, adjusted by risk factors specific to the Group and the telecommunications sector; • we assessed the quantitative and qualitative disclosures in relation to this matter by comparing these disclosures to the accounting standard requirements and our understanding. |



Other Information

Other Information is financial and non-financial information in TPG Telecom Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Group and Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: http://www.aasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our Auditor's Report.



Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of TPG Telecom Limited for the year ended 31 July 2018, complies with *Section 300A of the Corporations Act 2001*.

Directors' responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A of the Corporations Act 2001*.

Our responsibilities

We have audited the Remuneration Report included in *pages 21 to 30* of the Directors' report for the year ended 31 July 2018.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.

A handwritten signature of the KPMG firm, written in black ink.

KPMG

A handwritten signature of Chris Hollis, written in black ink.

Chris Hollis
Partner
Sydney
19 October 2018

TPG Telecom Limited and its controlled entities

ASX additional information

For the year ended 31 July 2018

Additional information required by the Australian Stock Exchange Limited Listing Rules and not disclosed elsewhere in this report is set out below. The shareholding information is current as at 30 September 2018.

Substantial shareholders

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

| Name of shareholder | Number of ordinary shares held | % of capital held |
|---|--------------------------------------|----------------------|
| David Teoh and Vicky Teoh | 318,315,607 | 34.31% |
| Washington H Soul Pattinson and Company Limited | 234,396,121 | 25.26% |

Distribution of equity security holders

An analysis of the number of shareholders by size of holding is set out below:

| Number of shares held | Number of holders |
|-----------------------|----------------------|
| 1 - 1,000 | 13,455 |
| 1,001 - 5,000 | 10,048 |
| 5,001 - 10,000 | 2,044 |
| 10,001 - 100,000 | 1,770 |
| 100,001 and over | 140 |
| | <u>27,457</u> |

The number of shareholders holding less than a marketable parcel of ordinary shares is 745.

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.

Stock exchange

TPG Telecom Limited is listed on the Australian Stock Exchange. The home exchange is Sydney, and the ASX code is TPM.

Other information

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

TPG Telecom Limited and its controlled entities

ASX additional information

For the year ended 31 July 2018

Twenty largest shareholders (as at 30 September 2018)

| Name of shareholder | Number of ordinary shares held | % of capital held |
|--|--------------------------------|-------------------|
| WASHINGTON H SOUL PATTINSON AND COMPANY LIMITED | 234,396,121 | 25.26 |
| HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 85,651,956 | 9.23 |
| TSH HOLDINGS PTY LTD | 78,048,498 | 8.41 |
| VICTORIA HOLDINGS PTY LTD | 77,170,861 | 8.32 |
| J P MORGAN NOMINEES AUSTRALIA LIMITED | 53,297,987 | 5.74 |
| DAVID TEOH | 47,663,106 | 5.14 |
| VICKY TEOH | 47,285,497 | 5.10 |
| CITICORP NOMINEES PTY LIMITED | 37,378,308 | 4.03 |
| TSH HOLDINGS PTY LTD | 32,730,000 | 3.53 |
| VICTORIA HOLDINGS PTY LTD | 32,730,000 | 3.53 |
| NATIONAL NOMINEES LIMITED | 12,110,803 | 1.31 |
| BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C> | 10,185,539 | 1.10 |
| CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C> | 9,196,891 | 0.99 |
| WIN CORPORATION PTY LTD | 9,000,000 | 0.97 |
| J S MILLNER HOLDINGS PTY LIMITED | 6,922,699 | 0.75 |
| AUSTRALIAN FOUNDATION INVESTMENT COMPANY LIMITED | 6,500,000 | 0.70 |
| FARJOY PTY LTD | 6,254,236 | 0.67 |
| BKI INVESTMENT COMPANY LIMITED | 4,819,251 | 0.52 |
| BNP PARIBAS NOMS PTY LTD <DRP> | 3,830,035 | 0.41 |
| MILONISS PTY LTD <TONI ANNE PAINE DISC A/C> | 3,758,767 | 0.41 |
| | 798,930,555 | 86.11 |

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