

2019 ANNUAL REPORT



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

**Annual Report
Year ended 31 July 2019**

TPG Telecom Limited and its controlled entities

Annual report

For the year ended 31 July 2019

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TPG Telecom Limited and its controlled entities

Chairman's letter

For the year ended 31 July 2019

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 2019 ("FY19").

FY19 was a difficult year for our Group with two major regulatory decisions adversely impacting our ability to deliver on our long-term strategies.

First, the Australian Government's decision to prohibit the use of Huawei equipment in 5G networks. A key feature of our innovative mobile network design that we had been rolling out in Australia was its simple upgrade path to 5G using Huawei equipment. With that upgrade path blocked and no suitable alternative technical solution available, it made no commercial sense to continue to invest shareholder funds in a network that could not be upgraded to 5G and we therefore abandoned our Australian mobile network rollout during the year.

Second, the decision by the ACCC to oppose our Group's planned merger with Vodafone Hutchison Australia ("VHA"). Given our firm belief that the proposed merger would greatly enhance competition in the Australian telecommunications industry, the merger parties launched proceedings in the Federal Court seeking orders that the proposed merger will not, and is not likely to, substantially lessen competition. The proceedings were heard in September and the judge expects to deliver his judgment by February 2020. We remain hopeful that the merger will be permitted to proceed.

Over the past couple of years, a huge amount of time, resource and shareholder funds has been invested in our Australian mobile project and in the merger transaction. In relation to the mobile project, we believe that the mobile sites that we had installed prior to ceasing the rollout would be complementary to the VHA network and they, and the spectrum licences that we hold, are undoubtedly valuable assets. We also believe that the investment in the merger transaction has been sensible, given the Board's view that the merger, if it is permitted to proceed, will be beneficial for TPG shareholders and allow us to become a more formidable competitor to Telstra and Optus.

It is important, of course, not to allow regulatory challenges to overshadow some significant achievements by the Group during FY19.

- Despite facing headwinds of \$76m in the year caused by the Government's NBN rollout, the Group's underlying FY19 EBITDA for its core business declined by only \$4.3m and exceeded budget and guidance, due to organic growth achievements.
- Cost optimisation efforts delivered a further \$21m (8%) reduction in our already lean Consumer Division employment and overhead costs following savings of a similar magnitude in FY18.
- Corporate Division EBITDA increased by \$37.4m (11%) with EBITDA margin expanded from 44% to 48% reflecting the benefits of the Group's investment in fibre infrastructure.
- TPG's NBN services were recognised by independent ACCC surveys as being number one for average download speeds delivered and for reliability, and the Group maintained its position as the second largest provider of NBN services with a market share of 22%.
- Our Singapore mobile network outdoor service coverage surpassed 99%. A free service trial was subsequently launched with over 300k trial users onboarded at the time of writing.

TPG Telecom Limited and its controlled entities

Chairman's letter

For the year ended 31 July 2019

The NBN rollout is expected to continue to create significant margin headwinds for the Group over the next couple of years. However, we expect to be well positioned for growth once the headwinds subside following the end of the NBN rollout with our lean cost structure enabling us to continue to be an effective competitor in residential broadband, our extensive fibre infrastructure supporting ongoing Corporate Division growth and an exciting greenfield opportunity in Singapore. All of this would, of course, be greatly supplemented by the opportunity in mobile that the planned merger would give us.

The enthusiasm for the merger is also widely shared by our wonderful group of employees. I would like to congratulate them on their achievements and thank them for all their efforts again in FY19 as well as for their patience during the extended merger approval process.

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 2019

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 2019, 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 2019

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 2019

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 | 11 | 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 results overview

Reported Results

The Group's reported results for its year ended 31 July 2019 ("FY19") included:

- Earnings before interest, tax, depreciation and amortisation ("EBITDA") before impairment for the period of \$809.4m;
- Net Profit After Tax attributable to shareholders ("NPAT") for the period of \$173.8m; and
- Earnings per share ("EPS") of 18.7 cents per share.

Underlying Results

The Group's FY19 reported results were heavily impacted by the Group's decision to cease the rollout of its Australian mobile network in January 2019, which gave rise to an impairment expense of \$236.8m and a significant increase in amortisation and interest expense relating to the Group's Australian spectrum licences.

The FY19 results also included \$9.0m of one-off transaction costs relating to the Group's planned merger with Vodafone Hutchison Australia ("VHA"). Excluding the impairment expense and merger transaction costs, the Group's underlying EBITDA for the year was \$818.4m, a 1% decrease on FY18.

Reconciliation of Reported to Underlying Profits

| \$m | FY19 | | FY18* | |
|---|--------|-------|--------|-------|
| | EBITDA | NPAT | EBITDA | NPAT |
| Reported | 572.6 | 173.8 | 826.7 | 396.4 |
| Add: Transaction costs re planned merger | 9.0 | 6.3 | - | - |
| Add: Impairment expense | 236.8 | 165.7 | - | - |
| Add: Acquired customer base intangible amortisation | - | 30.4 | - | 35.7 |
| Underlying | 818.4 | 376.2 | 826.7 | 432.1 |

* Restated for implementation of AASB 15

TPG Telecom Limited and its controlled entities

Directors' report

For the year ended 31 July 2019

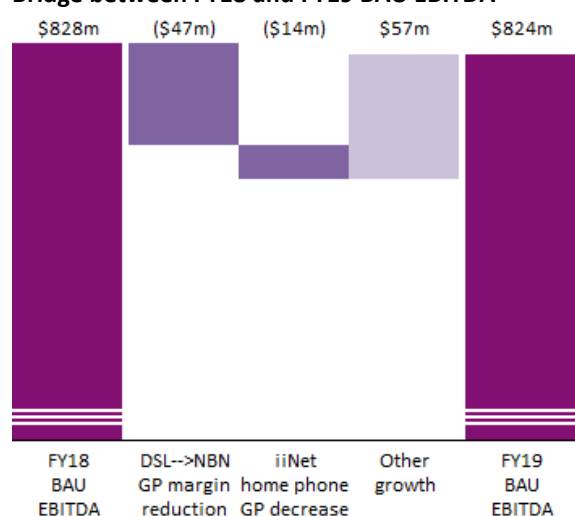
4. Operating and financial review (continued)

4.1 Operating results overview (continued)

At the beginning of the FY19 financial year the Group provided EBITDA guidance of \$800-820m for its 'business as usual' (BAU) operations, which excluded merger transaction costs and any impact of its mobile network operations in Australia and Singapore. Actual EBITDA for the year on that comparable basis was above the top end of the guidance range at \$823.8m.

As shown in the chart below, EBITDA continued to be adversely impacted by the loss of margin as DSL and home phone customers migrate to low margin NBN services.

Bridge between FY18 and FY19 BAU EBITDA



The adverse profit impacts of the headwinds shown in the chart above were within the expectations set with the FY19 guidance at the start of the year. The \$57m of other EBITDA growth achieved relative to FY18 was driven by growth in the Corporate Division (including an uplift in contribution from the VHA fibre contract) and the continued realisation of operating expense efficiencies across the Group.

Segment Results

| \$m | | Consumer | Corporate | Other | Total |
|----------|------|----------|-----------|-------|---------|
| Revenue | FY19 | 1,719.0 | 758.4 | - | 2,477.4 |
| | FY18 | 1,742.3 | 753.8 | - | 2,496.1 |
| EBITDA | FY19 | 457.3 | 367.1 | (6.0) | 818.4 |
| | FY18 | 499.1 | 329.7 | (2.1) | 826.7 |
| EBITDA % | FY19 | 27% | 48% | - | 33% |
| | FY18 | 29% | 44% | - | 33% |

The Consumer Segment's EBITDA for FY19 was \$457.3m compared to \$499.1m for FY18. This movement comprised a \$62.6m decrease in gross profit, partially offset by a \$20.8m decrease in employment and overhead costs. The gross profit decline was 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 ongoing operating cost optimisation work.

TPG Telecom Limited and its controlled entities

Directors' report

For the year ended 31 July 2019

4. Operating and financial review (continued)

4.1 Operating results overview (continued)

The Corporate Segment achieved EBITDA of \$367.1m for FY19 compared to \$329.7m for FY18. This \$37.4m increase was driven by a significant step up in the contribution from the contract to provide fibre services to VHA, complemented by other on-net fibre sales. The continued shift towards revenue delivered on the Group's owned fibre infrastructure helped lift the Corporate Segment EBITDA margin to 48% in FY19 compared to 44% in FY18.

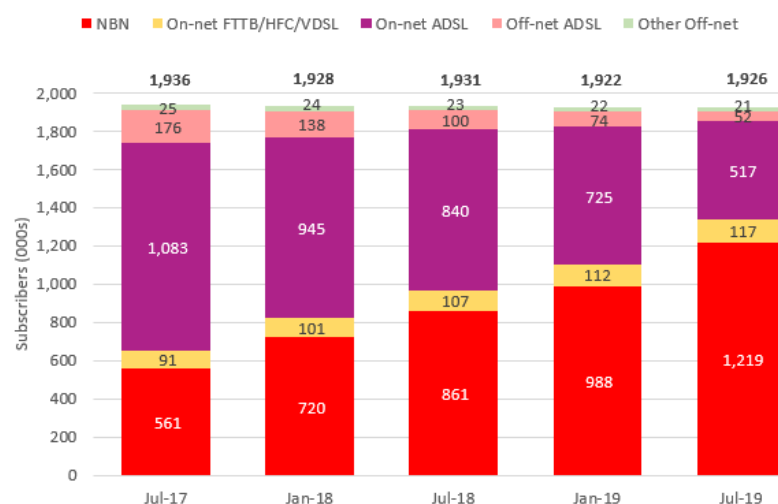
Cashflow, Capital Expenditure and Gearing

The Group's net operating cashflows before tax were again strong, exceeding EBITDA at \$836.3m. Total capital expenditure for the year of \$717.3m included a \$352.4m instalment for the 2x10MHz of 700MHz spectrum acquired at auction in 2017, \$86.1m invested in the (now ceased) Australian mobile network build, and \$80.1m in the Singapore mobile network build. The remaining 'business as usual' capital expenditure of \$198.7m was \$59.3m lower than FY18, within the guidance range of \$180-220m provided at the start of FY19, and primarily consisted of further expansion of the Group's fibre network infrastructure. At the end of FY19 the Group had net debt (including remaining spectrum liabilities payable in early 2020) of \$1.94 billion which represents a leverage ratio of ~2.4x underlying FY19 EBITDA.

4.2 Customer growth

Group broadband subscribers

The Group ended FY19 with 1,926k 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 358k to 1,219k, representing 63% of the total broadband customer base as at the year-end. Offsetting that, ADSL subscribers declined by 371k to 569k, representing 30% of the total customer base as at the year-end. The number of customers using the Group's on-net FTTB, HFC and VDSL services grew by 10k to 117k as at the year-end.



TPG Telecom Limited and its controlled entities

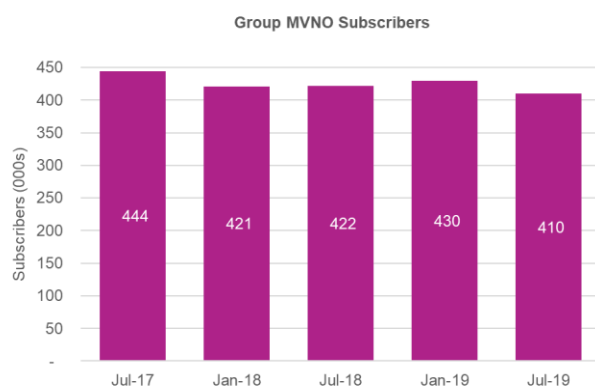
Directors' report

For the year ended 31 July 2019

4. Operating and financial review (continued)

4.2 Customer growth (continued)

Group MVNO subscribers



The Group had 410k mobile subscribers as at 31 July 2019 under its mobile virtual network operator (MVNO) arrangements with VHA and Optus.

Corporate revenues

The Group's Corporate Segment revenues increased to \$758.4m in FY19, up by \$4.6m from the prior year. The composition of the growth is shown in the table below.

| | Corporate Segment Revenue | | | |
|-------------|---------------------------|--------|--------------|-------|
| \$m | Data/Internet | Voice | Legacy iiNet | Total |
| FY19 | 592.2 | 115.4 | 50.8 | 758.4 |
| FY18 | 562.7 | 130.4 | 60.7 | 753.8 |
| FY19 growth | 29.5 | (15.0) | (9.9) | 4.6 |

Data and internet revenues grew by \$29.5m (5%) 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 2019

4. Operating and financial review (continued)

4.3 Financial results review

There follows below a review of the key elements of the FY19 results:

| | FY19 | <i>% of</i> | FY18 | <i>% of</i> |
|---|------------------|----------------|------------------|----------------|
| | \$m | <i>revenue</i> | \$m | <i>revenue</i> |
| Revenue | | | | |
| Consumer | 1,719.0 | 69% | 1,742.3 | 70% |
| Corporate | 758.4 | 31% | 753.8 | 30% |
| Total revenue | 2,477.4 | | 2,496.1 | |
| Telco costs | | | | |
| Consumer | (1,003.6) | 58% | (964.3) | 55% |
| Corporate | (253.3) | 33% | (280.0) | 37% |
| Unallocated | (2.7) | - | - | - |
| Total telco costs | (1,259.6) | | (1,244.3) | |
| Employment costs | | | | |
| Consumer | (122.3) | 7% | (133.9) | 8% |
| Corporate | (100.9) | 13% | (108.6) | 14% |
| Unallocated | (1.2) | - | (0.3) | - |
| Total employment costs | (224.4) | | (242.8) | |
| Other expenses | | | | |
| Consumer | (135.8) | 8% | (145.0) | 8% |
| Corporate | (37.1) | 5% | (35.5) | 5% |
| Unallocated | (11.1) | - | (1.8) | - |
| Total other expenses | (184.0) | | (182.3) | |
| Earnings before interest, tax, impairment, depreciation and amortisation | 809.4 | 33% | 826.7 | 33% |
| Impairment | (236.8) | 10% | - | - |
| Depreciation | (133.2) | 5% | (138.8) | 6% |
| Amortisation | (136.1) | 6% | (90.4) | 4% |
| Operating profit | 303.3 | 12% | 597.5 | 24% |
| Net financing costs | (50.7) | 2% | (34.4) | 1% |
| Profit before tax | 252.6 | 10% | 563.1 | 23% |
| Income tax | (77.6) | - | (165.6) | - |
| Profit after tax | 175.0 | 7% | 397.5 | 16% |
| Attributable to: | | | | |
| Owners of the Company | 173.8 | | 396.4 | |
| Non-controlling interest | 1.2 | | 1.1 | |
| Earnings per share (cents) | 18.7 | | 42.8 | |

TPG Telecom Limited and its controlled entities

Directors' report

For the year ended 31 July 2019

4. Operating and financial review (continued)

4.3 Financial results review (continued)

Revenue

a) Consumer

Consumer Segment revenue decreased by \$23.3m to \$1,719.0m in FY19.

This movement comprised a \$33.8m (2%) increase in broadband revenues, a \$43.8m (38%) decrease in fixed voice revenue, and a \$13.3m (7%) decrease in other revenues.

Subscribers on the Group's broadband plans declined very slightly over the year by 5k (0.3%) to 1,926k. Included within this movement was a continuation of the transformation of the composition of the broadband customer base with NBN subscribers increasing by 358k to represent 63% of the total broadband customer base as at the year-end. Offsetting that, ADSL subscribers declined by 371k to represent 30% of the total customer base as at the year-end. The number of customers using the Group's on-net FTTB, HFC and VDSL services grew by 10k to 117k as at the year-end.

The increase in broadband revenues despite the small decrease in subscriber numbers is explained by the fact that ARPU for broadband customers continued to increase in the year due to NBN services having a higher ARPU than the DSL services they are replacing.

The \$43.8m 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 \$4.6m to \$758.4m in FY19. This growth in revenue was driven by a \$29.5m (5%) increase in data and internet revenues, partially offset by a \$15.0m decrease in voice revenues and \$9.9m 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 \$39.3m compared to the previous year and increased as a proportion of revenue from 55% to 58%.

The increase in this cost % reflects the fact that NBN services with a high wholesale cost and low margin have grown from 45% to 63% of the Group's broadband customer base during the year.

b) Corporate

Corporate Segment telco costs decreased from 37% to 33% 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 2019

4. Operating and financial review (continued)

4.3 Financial results review (continued)

Employment costs

Consumer Segment employment costs decreased by \$11.6m in FY19 and from 7.7% to 7.1% of revenue. Corporate Segment employment costs decreased by \$7.7m, and from 14.4% to 13.3% of Corporate Segment revenues. This reduction in employment costs principally reflects ongoing efficiencies that have been achieved through the continued integration of iiNet operations and increased automation of business processes.

The Group's total number of employees as at 31 July 2019 was 4,776.

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 \$9.2m in FY19 declining from 8.3% to 7.9% as a proportion of Consumer Segment revenue.

The Corporate Segment's other expenses remained constant as a proportion of revenue at 5% in FY19 and increased by \$1.6m.

Unallocated other expenses of \$11.1m include \$9.0m of transaction fees related to the Group's planned merger with VHA.

Impairment

On 29 January 2019, the Company announced that, as a consequence of the Government's ban on use of Huawei equipment in 5G mobile networks, it had decided to cease its Australian mobile network rollout.

Having ceased the mobile network rollout, the Group now has no business plan or strategy for using its spectrum licences and other mobile network assets on a standalone basis and, accordingly, it has been necessary to reassess the carrying value of these assets.

It is expected that, in the event that the planned merger with Vodafone Hutchison Australia (VHA) proceeds, the Group's spectrum and mobile assets will be complementary to the VHA mobile network. However, as the merger remains subject to regulatory and shareholder approval and is, therefore, not certain to proceed, the expected use by, and value to, the merged entity of these assets may not be taken into account in determining their current value to the Group.

Accordingly, pursuant to an impairment review undertaken of all of the Group's Australian spectrum and mobile assets an impairment expense of \$236.8m has been recognised in the FY19 income statement.

Depreciation

The Group's depreciation expense decreased by \$5.6m in FY19 despite the fact that capital expenditure in the year exceeded depreciation expense. This is principally 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; (ii) capital expenditure on the mobile network rollout in Singapore will not start to be depreciated until the network is ready to deliver commercial services; and (iii) capital expenditure incurred on the mobile network rollout in Australia prior to the project being terminated, has been mostly written-off within the impairment expense described above.

Amortisation

The Group's FY19 intangible amortisation expense of \$136.1m was \$45.7m higher than the prior year. This was principally due to the fact that, up until the date that the Australian mobile network rollout ceased, the Group's Australian mobile spectrum licences had not been amortised in the Group's accounts. In accordance with the Group's accounting policies, amortisation of these licences

TPG Telecom Limited and its controlled entities

Directors' report

For the year ended 31 July 2019

4. Operating and financial review (continued)

4.3 Financial results review (continued)

was to commence when the associated mobile network assets were installed and ready for their intended use. Following the decision to cease the rollout, straight-line amortisation of the licences over their remaining licence terms began from the end of January 2019. This gave rise to a \$53.6m increase in spectrum licence amortisation in FY19.

Net financing costs

Net financing costs increased by \$16.3m (47%) in FY19. The drivers of this movement were: (i) a \$12.1m increase in debt facility interest due to increased borrowings compared to the prior year; (ii) an \$8.2m increase in interest expense on the deferred 700MHz spectrum payment instalments; (iii) a \$2.6m increase in the capitalisation of interest directly attributable to the purchase and/or construction of assets, and (iv) \$1.3m decrease in other interest and borrowing costs. Following the cessation of the Australian mobile network rollout, interest capitalised in relation to the acquisition of Australian spectrum and mobile assets has been written-off as part of the impairment expense described above and no further interest capitalisation has occurred in relation to the Australian mobile project from the date the rollout ceased at the end of January 2019.

Income tax

The Group's effective income tax rate was 30.7% in FY19, broadly in line with the Australian corporate tax rate of 30%.

Free cashflow

| | FY19 \$m | FY18 \$m |
|-------------------------------|---------------|----------------|
| Operating cashflow | 836.3 | 868.3 |
| Tax | (128.6) | (194.5) |
| IRU / finance lease payments | (5.5) | (34.1) |
| Capex - BAU | (198.7) | (258.0) |
| Capex - mobile spectrum | (352.4) | (597.3) |
| Capex - mobile networks (Aus) | (86.1) | (38.7) |
| Capex - mobile networks (Sg) | (80.1) | (62.3) |
| Free cashflow | (15.1) | (316.6) |

The Group achieved another year of strong cashflow performance with operating cashflow for FY19 of \$836.3m again exceeding EBITDA. Tax payments in FY19 were significantly lower than the prior year because FY18 included tax paid on the capital gain realised on the sale of investments in FY17.

Capital expenditure

Business as usual ('BAU') capital expenditure of \$198.7m was \$59.3m lower than last year principally due to the substantial completion in the prior year of the build for the VHA fibre contract.

Mobile spectrum capex of \$352.4m in FY19 reflects the payment during the year of the second instalment for the Australian 700MHz spectrum acquired at auction in April 2017. The first instalment of \$597.3m was paid in FY18 and the third and final instalment of \$352.4m is payable in January 2020. A further \$86.1m of capex was also incurred in FY19 in relation to the Australian mobile network rollout up until the project ceased. This expenditure on spectrum and mobile assets in Australia was partly impaired as part of the impairment review that was undertaken following the cessation of the project as described above.

Capex for the mobile network build in Singapore in FY19 was \$80.1m taking the aggregate capex incurred on the project up to \$147m (excluding spectrum).

Non-operating cashflows

| | FY19 \$m | FY18 \$m |
|------------------------------------|---------------|-------------|
| Free cashflow | (15.1) | (316.6) |
| Costs re planned merger | (6.6) | - |
| Net drawdown of bank debt | 87.8 | 430.8 |
| Debt facility fees | - | (10.8) |
| Interest payments (net) | (60.2) | (44.6) |
| Dividend payments | (37.1) | (23.0) |
| Other | 0.4 | 0.1 |
| (Decrease)/increase in cash | (30.8) | 35.9 |

TPG Telecom Limited and its controlled entities

Directors' report

For the year ended 31 July 2019

4. Operating and financial review (continued)

4.3 Financial results review (continued)

The spectrum payment made in the year gave rise to overall negative free cashflow for the Group in FY19 which was funded through a net drawdown on the Group's debt facilities by an amount of \$87.8m. The increase in debt gave rise to an increase in interest payments to \$60.2m.

Dividends paid

Dividends paid in the year of \$37.1m comprise the final FY18 dividend and the interim FY19 dividend of 2.0 cents per share ("cps") each.

Balance sheet

Below is a condensed version of the Group's balance sheet as at the end of FY19, 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.

| | FY19 \$m | FY18 \$m |
|--------------------------------------|----------------|----------------|
| Cash (1) | 51.4 | 82.2 |
| Trade and other receivables | 128.3 | 134.2 |
| Other current assets | 33.5 | 30.5 |
| Total current assets | 213.2 | 246.9 |
| Property, plant & equipment (2) | 1,355.1 | 1,249.0 |
| Spectrum assets (3) | 1,334.6 | 1,479.7 |
| Intangible assets | 2,350.8 | 2,411.2 |
| Other non-current assets (4) | 59.1 | 13.9 |
| Total non-current assets | 5,099.6 | 5,153.8 |
| Deferred income | 158.6 | 153.6 |
| Loans and borrowings (1) | 14.3 | 5.5 |
| Spectrum liability (3) | 344.2 | 344.0 |
| Other current liabilities | 378.5 | 387.5 |
| Total current liabilities | 895.6 | 890.6 |
| Loans and borrowings (1) | 1,470.6 | 1,318.4 |
| Spectrum liability (3) | - | 327.8 |
| Other non-current liabilities | 59.3 | 76.1 |
| Total non-current liabilities | 1,529.9 | 1,722.3 |
| Net assets | 2,887.3 | 2,787.8 |

Balance sheet notes

1. Net debt

Current and non-current loans and borrowings totalling \$1,484.9m are shown in the balance sheet net of prepaid borrowing costs of \$20.7m. Gross borrowings at 31 July 2019 were \$1,505.6m comprising bank debt of \$1,424.7m, finance lease liabilities of \$12.3m and a derivative financial liability (an out of the money interest rate swap) of \$68.6m. Taking into account the \$51.4m cash balance, the Group had net debt at the end of FY19 of \$1,454.2m.

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

The Group's PPE balance is \$106.1m higher at 31 July 19 than at 31 July 18. This movement is made up predominantly of \$317.5m of capital expenditure (mainly network infrastructure investment) during the year less \$133.2m of depreciation expense and the impairment of Australian mobile network assets of \$86.8m.

3. Spectrum assets and liabilities

The \$145.1m decrease in the book value of spectrum assets in the year is attributable to the \$91.8m impairment expense booked following the cessation of the Australian mobile network build in January 2019 and the amortisation of the spectrum from the date the network build ceased through to the end of the reporting period.

The final instalment of \$352.4m for the 700MHz spectrum licence, payable in January 2020, is disclosed as a spectrum liability on the balance sheet at its discounted present value of \$344.2m.

4. Other non-current assets

The \$45.2m increase in other non-current assets is driven by a deferred tax asset of \$45.4m arising primarily from the recognition of the impairment expense in the year.

TPG Telecom Limited and its controlled entities

Directors' report

For the year ended 31 July 2019

4. Operating and financial review (continued)

4.4 Business outlook

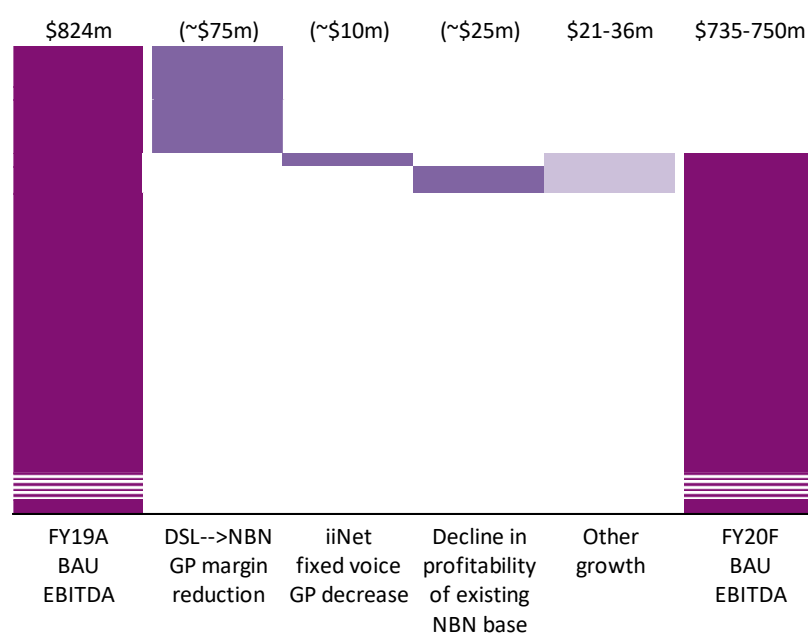
Prospects for FY20

EBITDA Guidance

FY20 is expected to be the year that the Group experiences the greatest financial impact from customer migration to NBN, with combined headwinds from residential DSL and home phone customers moving to NBN expected to be around \$85m. In addition, the annualisation of the deterioration of profitability of existing NBN customers experienced in 2H19 as a result of increased NBN wholesale cost per user is forecast to create a further NBN headwind for FY20 of approximately \$25m.

By the end of FY20 the Group expects to have less than 15% of its residential broadband customer base remaining on ADSL.

Operating cost efficiency programs across the Group are expected to continue to deliver savings and another year of growth is forecast for the Group's Corporate Division but, in this peak year of NBN headwinds, organic growth for FY20 is not expected to be sufficient to offset the headwinds, with BAU¹ EBITDA expected to be in the range of \$735-750m.



¹ BAU EBITDA relates to existing Consumer and Corporate Division operations. It excludes Singapore EBITDA and Australian mobile network operating costs and takes no account of any impact from the planned merger with VHA, including merger transaction costs. BAU EBITDA guidance is provided on an excluding AASB16 basis. AASB16 will be effective from the start of FY20 and is expected to have the effect of increasing EBITDA by moving certain operating lease expenditure out of EBITDA and into depreciation and financing costs.

TPG Telecom Limited and its controlled entities

Directors' report

For the year ended 31 July 2019

4. Operating and financial review (continued)

4.4 Business outlook (continued)

Merger of Equals 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 agreed a proposed merger of equals to establish a fully integrated telecommunications operator in Australia.

If the merger proceeds:

- it 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.
- 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 including shareholder and regulatory approvals.

- On 8 May 2019, the ACCC announced it had decided to oppose the proposed merger.
- On 24 May 2019 proceedings were lodged with the Federal Court of Australia by the merger parties seeking orders that the proposed merger will not have the effect, or likely effect, of substantially lessening competition.
- The Federal Court hearing was held between 10 September and 1 October 2019 and the Group is currently awaiting judgment. The judge has indicated that his decision can be expected by February 2020.

TPG Telecom Limited and its controlled entities

Directors' report

For the year ended 31 July 2019

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 2019

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 FY19.

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.

As set out elsewhere in this Annual Report, FY19 presented a number of significant challenges for the Group including the impact of the Government's Huawei ban on the Group's mobile strategy in Australia, the decision by the ACCC to oppose the Group's planned merger with VHA, and the continued margin erosion caused by the Government's NBN rollout.

Such significant changes to business conditions and the flow-on impact on strategies require a work-force to be extremely adaptable, and the spirit and performance of the Group's employees, led very capably by our Executive Chairman and CEO, David Teoh, and his senior management team, in the face of these challenges has been commendable.

All of the aforementioned challenges made for a more demanding year than ever for the Group's employees. In that context, it is important to recognise some of their significant achievements during FY19, as set out below:

- Although the implementation of the planned merger with VHA has been delayed by regulatory approval processes, the merger agreement negotiated with VHA which was signed and announced in the first month of FY19 has the potential to deliver excellent long-term value for shareholders.
- Although the Government's Huawei ban has served to undermine the value of the Group's Australian mobile network assets, the design, planning and construction of the 900 sites built up until the rollout was ceased in January 2019 was a tremendous achievement. These sites will be valuable to the merged group if the merger proceeds.
- Despite incurring headwinds of \$76m in the year caused by the Government's NBN rollout, the Group's underlying FY19 EBITDA for its core business declined by only \$4.3m and exceeded budget and guidance, due in large part to organic growth achievements delivered by the employee group.
- Corporate Division EBITDA increased by \$37.4m (11%) with EBITDA margin expanded from 44% to 48%.
- Our Singapore mobile network outdoor service coverage surpassed 99%. A free service trial was subsequently launched with over 300k trial users onboarded by October 2019.

Remuneration structure adjustments in FY19

The Remuneration Committee believes firmly in the benefits of equity-based remuneration and that the Group's performance rights plan has been an effective tool for incentivising and retaining key employees since the inception of the plan in FY12.

TPG Telecom Limited and its controlled entities

Directors' report

For the year ended 31 July 2019

5. Remuneration report (continued)

However, following the announcement on 30 August 2018 of the Company's planned merger with VHA, the Remuneration Committee determined that it was not appropriate to grant any further equity-based remuneration to employees pending completion of the merger transaction, under which all of the Company's equity is to be acquired by VHA.

This meant that the annual grant of performance rights under the Group's performance rights plan was suspended for FY19.

Executive remuneration outcomes in FY19

The Group's delivery on its strategic objectives and its financial performance were adversely impacted in FY19 by a number of factors that were largely beyond the control of management:

- The Government's ban of use of Huawei equipment for 5G networks led to a decision by the Board to cease the Group's mobile network strategy in Australia;
- The decision by the ACCC to oppose the merger with VHA meant that it was not possible to complete the merger with VHA in FY19;
- The \$76m headwinds from the Government's NBN rollout were too great to be fully offset by the Group's organic growth achievements.

It is important that a Remuneration Committee strike an appropriate balance between recognising within management remuneration:

- a) the failure to achieve objectives and the impact on shareholder value;
- b) the degree to which factors responsible for missed objectives were beyond management control; and
- c) the efforts by management to maximise shareholder value in the environment created by the external factors.

I believe that the Remuneration Committee has dealt sensibly with these challenges in FY19 with management appropriately rewarded for their efforts and achievements but with the amount of remuneration granted to the CEO below prior year levels in light of some of the disappointing outcomes in the year.

I trust that you will find this Remuneration Report simple to understand and informative. I hope that you will support the resolution to adopt the Remuneration Report at the 2019 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

For the year ended 31 July 2019

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 2019

5. Remuneration report – audited (continued)

5.3 Remuneration structure (continued)

a) *Performance Rights Plan*

Following the announcement on 30 August 2018 of the Company's planned merger with VHA, the Remuneration Committee determined that it was not appropriate to grant any further equity-based remuneration to employees pending completion of the merger transaction, under which all of the Company's equity is to be acquired by VHA. This meant that the annual grant of performance rights under the Group's performance rights plan was suspended for FY19.

However, despite there being no new rights granted during the year, the performance rights plan continued to operate in respect of rights issued in earlier years that were yet to vest at the start of FY19.

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 were granted under the plan rules in each financial year thereafter up to and including 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.

Note 2

The financial objectives that form part of the vesting conditions described above are determined annually by the Remuneration Committee. For FY19, the financial objective set by the Remuneration Committee was achievement of the Group's Board approved FY19 financial budget. The Group's actual performance for FY19 exceeded its financial budget. This is reflected in the fact that the Group achieved EBITDA above the top end of its 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 FY19 audited financial statements will be permitted to vest.

TPG Telecom Limited and its controlled entities

Directors' report

For the year ended 31 July 2019

5. Remuneration report – audited (continued)

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.

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 (resigned with effect from 6 May 2019) |

(i) FY19 Remuneration awarded to David Teoh, Executive Chairman & Chief Executive Officer

In FY19, 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 at the start of the year for determining David's eligibility to receive his annual bonus were a mix of financial and strategic objectives. For FY19 the objectives were:

- 1) Delivery of FY19 financial results for the Group that were in line with or ahead of the Group's FY19 budget;
- 2) Delivery on mobile strategy in Singapore;
- 3) Delivery on mobile strategy in Australia; and
- 4) Completion of merger with VHA.

It was determined that David fully satisfied objectives 1 and 2. Unfortunately, objectives 3 and 4 were impeded during the year by external factors beyond David's control. The Government's ban of use of Huawei equipment for 5G networks lead to a decision by the Board to cease the mobile network strategy in Australia and the decision by the ACCC to oppose the merger with VHA meant that it was not possible to complete the merger in FY19.

The fact that failure to achieve objectives 3 and 4 was due largely to factors beyond David's control was taken into consideration in determining the proportion of the maximum bonus to be awarded. It was determined overall to award David 85% of his maximum bonus.

David continues to be, as noted in previous years' reports, a businessman of rare and exceptional acumen and skills who is widely regarded as one of the leading strategists in the telecommunications industry. The

TPG Telecom Limited and its controlled entities

Directors' report

For the year ended 31 July 2019

5. Remuneration report – audited (continued)

Remuneration Committee's own analysis of David's overall remuneration placed him this year around the 80th percentile for CEO remuneration of ASX listed companies with a similar market capitalisation. The Remuneration Committee continues to believe 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.

(ii) FY19 Remuneration awarded to non-executive directors

Non-executive director remuneration in FY19 remained unchanged for the fifth 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) FY19 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.

As noted in previous years' reports, the Group's KMPs' fixed salaries have historically been set at a discount to the market rate for similar roles in comparable companies, with the executives being compensated with a relatively generous annual bonus scheme. Taking into account feedback from various stakeholders, it was decided to align KMPs' fixed salaries more closely with the market from the start of FY19 and reduce the KMPs' eligible bonus pool by a commensurate amount.

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. This limit was reduced from 1.5% to 1.4% in FY19 following the decision to align KMPs' fixed salaries more closely with the market. 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 1.4% of the Group's annual EBITDA.

The annual cash bonus awarded to each of the KMP in FY19 was 40% of their salary on average (FY18: 104%). 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.
- Other individual goals unique to the role each of the executives plays in the Group's operations.

TPG Telecom Limited and its controlled entities

Directors' report

For the year ended 31 July 2019

5. Remuneration report – audited (continued)

The Remuneration Committee believes firmly in the benefits of equity-based remuneration and that the Group's performance rights plan has been an effective tool for incentivising and retaining key employees since its introduction in FY12. However, following the announcement on 30 August 2018 of the Company's planned merger with VHA, the Remuneration Committee determined that it was not appropriate to grant any further equity-based remuneration to employees pending completion of the merger transaction, under which all of the Company's equity was to be acquired by VHA. This meant that the annual grant of performance rights under the Group's performance rights plan was suspended for FY19.

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 were granted in previous years and have a vesting date immediately following the release of the FY19 audited financial statements will be permitted to vest.

(iv) Service Contracts

No KMP employment contract in place during FY19 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 FY19 had a notice period of greater than three months.

(v) 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.

The table below sets out a summary of the Group's financial performance over the past ten financial years. The exceptional growth achieved over this extended period has unfortunately not been able to be sustained over the past two financial years due to two principal reasons:

First, the headwinds the Group has faced from the forced migration of the Group's residential broadband customer base to the Government's NBN. As set out elsewhere in this report, the NBN headwinds the Group faced in FY19 were \$76m.

Second, the cessation of the Australian mobile network build in January 2019 due to the Government's ban on use of Huawei equipment for 5G networks gave rise to an impairment expense in FY19 of \$237m, and the resulting requirement to start amortising the Group's spectrum licences with no associated earnings has driven the FY19 decline in underlying EPS.

The Board believes that a decline in underlying EBITDA for FY19 of only 1% is a very respectable achievement in the context of the above challenges.

| | FY10 | FY11 | FY12 | FY13 | FY14 | FY15 | FY16 | FY17 | FY18 | FY19 |
|--------------------------------------|------|------|------|------|------|-------|-------|-------|-------|------------------|
| Revenue (\$m) | 508 | 575 | 663 | 725 | 971 | 1,271 | 2,388 | 2,491 | 2,496 | 2,477 |
| Reported EBITDA (\$m) | 171 | 234 | 262 | 293 | 364 | 485 | 849 | 891 | 827 | 809 ² |
| Impairment (\$m) | - | - | - | - | - | - | - | - | - | 237 |
| Reported EPS (cents) | 7.6 | 10.1 | 11.5 | 18.8 | 21.6 | 28.2 | 45.3 | 47.9 | 42.8 | 18.7 |
| Underlying ¹ EBITDA (\$m) | 171 | 234 | 262 | 293 | 364 | 485 | 775 | 835 | 827 | 818 |
| Underlying ¹ NPAT (\$m) | 78 | 105 | 110 | 162 | 191 | 247 | 361 | 417 | 432 | 376 |
| Underlying ¹ EPS (cents) | 10.7 | 13.6 | 14.0 | 20.4 | 24.0 | 31.1 | 43.1 | 48.3 | 46.7 | 40.5 |
| Closing share price (\$) | 1.79 | 1.43 | 1.93 | 3.64 | 5.33 | 9.34 | 12.37 | 5.46 | 5.76 | 6.98 |
| Dividends (cps) | 4.0 | 4.5 | 5.5 | 7.5 | 9.25 | 11.5 | 14.5 | 10.0 | 4.0 | 4.0 |

¹ Underlying EBITDA and NPAT for FY19 and FY18 are as set out on page 7 of this annual report. Underlying EBITDA and NPAT for FY17, FY16 and FY15 are as set out in the annual reports for each of those years. For the years before FY15, underlying EBITDA is the same as reported EBITDA and the only difference between underlying and reported NPAT is an adjustment each year to exclude the post-tax effect of acquired customer base intangible amortisation. Underlying EPS is based on underlying NPAT. ² Excludes impairment expense.

TPG Telecom Limited and its controlled entities

Directors' report

For the year ended 31 July 2019

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 | Movement on long-service leave balance \$'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 | FY19 | 1,610 | 1,360 | 69 | 3,039 | 25 | 27 | - | 3,091 | 44% | - |
| | FY18 | 1,610 | 1,600 | 145 | 3,355 | 25 | 27 | - | 3,407 | 47% | - |
| Non-Executive Directors | | | | | | | | | | | |
| Mr D Ledbury | FY19 | 100 | - | - | 100 | 10 | - | - | 110 | - | - |
| | FY18 | 100 | - | - | 100 | 10 | - | - | 110 | - | - |
| Mr R Millner | FY19 | 90 | - | - | 90 | 9 | - | - | 99 | - | - |
| | FY18 | 90 | - | - | 90 | 9 | - | - | 99 | - | - |
| Mr J Pang | FY19 | 90 | - | - | 90 | 9 | - | - | 99 | - | - |
| | FY18 | 90 | - | - | 90 | 9 | - | - | 99 | - | - |
| Mr S Teoh | FY19 | 85 | - | - | 85 | 8 | - | - | 93 | - | - |
| | FY18 | 85 | - | - | 85 | 8 | - | - | 93 | - | - |

TPG Telecom Limited and its controlled entities

Directors' report

For the year ended 31 July 2019

5. Remuneration report – audited (continued)

5.5 Directors' and executive officers' remuneration (continued)

| Executives | | Short-term | | | | Post-employment | Movement on long-service leave balance \$'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 | Movement on annual leave balance \$'000 | Total \$'000 | Superannuation benefits \$'000 | | (note C) Performance rights \$'000 | | | |
| Mr S Banfield | FY19 | 601 | 215 | 67 | 883 | 22 | 95 | 214 | 1,214 | 35% | 18% |
| | FY18 | 300 | 412 | (3) | 709 | 20 | 5 | 313 | 1,047 | 69% | 30% |
| Mr C Levy | FY19 | 601 | 260 | 46 | 907 | 22 | 68 | 263 | 1,260 | 42% | 21% |
| | FY18 | 350 | 412 | - | 762 | 20 | 4 | 368 | 1,154 | 68% | 32% |
| Ms M De Ville | FY19 | 346 | 130 | 37 | 513 | 23 | 25 | 142 | 703 | 39% | 20% |
| | FY18 | 260 | 168 | (5) | 423 | 20 | 4 | 207 | 654 | 57% | 32% |
| Mr T Moffatt | FY19 | 500 | 215 | - | 715 | 22 | 53 | 172 | 962 | 40% | 18% |
| | FY18 | 300 | 313 | 9 | 622 | 20 | 5 | 250 | 897 | 63% | 28% |
| Mr M Rafferty ⁽¹⁾ | FY19 | 568 | - | (5) | 563 | 18 | (40) | (112) | 429 | - | - |
| | FY18 | 352 | 325 | (3) | 674 | 23 | (11) | 338 | 1,024 | 65% | 33% |

(1) Mr M Rafferty's FY19 remuneration is for the period up to 6 May 2019, being the effective date of his resignation. His FY19 salary includes payout of his unused leave balances.

TPG Telecom Limited and its controlled entities

Directors' report

For the year ended 31 July 2019

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 2019 and 31 July 2018 were for performance during those years.
- B. The amounts disclosed under 'Non-monetary benefits' for Mr D Teoh reflect the movement in his annual leave balance and the provision of other fringe benefits (principally a motor vehicle).
- C. 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 C 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 | FY19 | 214 | 271 | 57 | 1,214 | 1,271 |
| | FY18 | 313 | 185 | (128) | 1,047 | 919 |
| Mr C Levy | FY19 | 263 | 340 | 77 | 1,260 | 1,337 |
| | FY18 | 368 | 238 | (130) | 1,154 | 1,024 |
| Ms M De Ville | FY19 | 142 | 186 | 44 | 703 | 747 |
| | FY18 | 207 | 129 | (78) | 654 | 576 |
| Mr T Moffatt | FY19 | 172 | 223 | 51 | 962 | 1,013 |
| | FY18 | 250 | 166 | (84) | 897 | 813 |

The favourable variance of 'take home' pay to statutory remuneration in FY19 reflects the fact that on the FY19 vesting date in October 2018 the Company's share price had climbed to \$7.51, as compared to the FY18 vesting date when the share price was \$5.21 (both prices reflect the volume weighted average price on the day).

TPG Telecom Limited and its controlled entities

Directors' report

For the year ended 31 July 2019

5. Remuneration report – audited (continued)

5.6 Share-based payments

As explained in 5.3(ii)(a) above, there were no performance rights granted to KMP during FY19. Details of performance rights that were granted to KMP during previous financial years and that remained outstanding at the start of FY19 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.

| FY18 Performance rights grant | Number of rights held as at 31 July 2018 | Number of rights forfeited during FY19 | Number of rights vested during FY19 | Number of rights held as at 31 July 2019 | Fair value per right at grant date (\$) |
|--------------------------------------|---|---|--|---|--|
| Mr S Banfield | 50,000 | - | 12,500 | 37,500 | 5.6000 |
| Mr C Levy | 62,000 | - | 15,500 | 46,500 | 5.6000 |
| Ms M De Ville | 32,000 | - | 8,000 | 24,000 | 5.6000 |
| Mr T Moffatt | 39,000 | - | 9,750 | 29,250 | 5.6000 |
| Mr M Rafferty | 62,000 | 46,500 | 15,500 | - | 5.6000 |

| FY17 Performance rights grant | Number of rights held as at 31 July 2018 | Number of rights forfeited during FY19 | Number of rights vested during FY19 | Number of rights held as at 31 July 2019 | Fair value per right at grant date (\$) |
|--------------------------------------|---|---|--|---|--|
| Mr S Banfield | 48,300 | - | 16,100 | 32,200 | 6.0058 |
| Mr C Levy | 55,575 | - | 18,525 | 37,050 | 6.1655 |
| Ms M De Ville | 31,500 | - | 10,500 | 21,000 | 6.0939 |
| Mr T Moffatt | 38,850 | - | 12,950 | 25,900 | 6.0906 |
| Mr M Rafferty | 48,750 | 32,500 | 16,250 | - | 6.1412 |

| FY16 Performance rights grant | Number of rights held as at 31 July 2018 | Number of rights forfeited during FY19 | Number of rights vested during FY19 | Number of rights held as at 31 July 2019 | Fair value per right at grant date (\$) |
|--------------------------------------|---|---|--|---|--|
| Mr S Banfield | 15,000 | - | 7,500 | 7,500 | 9.5160 |
| Mr C Levy | 22,500 | - | 11,250 | 11,250 | 9.5160 |
| Ms M De Ville | 12,500 | - | 6,250 | 6,250 | 9.5160 |
| Mr T Moffatt | 14,000 | - | 7,000 | 7,000 | 9.5160 |
| Mr M Rafferty | 18,800 | 7,000 | 11,800 | - | 9.5471 |

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

TPG Telecom Limited and its controlled entities

Directors' report

For the year ended 31 July 2019

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 2018 | Vested as remuneration | Other changes | Held at 31 July 2019 |
|-------------------|-----------------------------|---------------------------|------------------|----------------------------|
| Directors | | | | |
| D Teoh | 318,315,607 | - | - | 318,315,607 |
| D Ledbury | 85,109 | - | - | 85,109 |
| R Millner | 8,300,009 | - | - | 8,300,009 |
| J Pang | 103,231 | - | - | 103,231 |
| S Teoh | 133,258 | - | - | 133,258 |
| Executives | | | | |
| S Banfield | 245,000 | 36,100 | (20,000) | 261,100 |
| C Levy | 367,525 | 45,275 | (40,000) | 372,800 |
| M De Ville | 229,751 | 24,750 | - | 254,501 |
| T Moffatt | 719,521 | 29,700 | (10,000) | 739,221 |

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 FY19 was \$1.5m (FY18: \$1.4m).

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 2019

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 2018 ordinary | 2.0 | 18.5 | 20 Nov 2018 |
| Interim 2019 ordinary | 2.0 | 18.6 | 21 May 2019 |
| Total amount | | 37.1 | |

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 FY19 dividend of 2.0 cents per ordinary share, payable on 19 November 2019 to shareholders on the register at 15 October 2019. 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 2019 and will be recognised in subsequent financial reports.

8. Events subsequent to reporting date

The Federal Court hearing to consider whether the planned merger between the Company and VHA would have the effect, or likely effect, of substantially lessening competition, was held between 10 September and 1 October 2019. The judge has indicated that his decision can be expected by February 2020.

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.

TPG Telecom Limited and its controlled entities

Directors' report

For the year ended 31 July 2019

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.

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 29 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 18th day of October, 2019



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 2019 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 'KPMG' in black ink.

KPMG

A handwritten signature of 'Chris Hollis' in black ink.

Chris Hollis
Partner
Sydney
18 October 2019

TPG Telecom Limited and its controlled entities

Consolidated income statement

For the year ended 31 July 2019

| | <i>Note</i> | FY19 \$m | FY18* \$m |
|---|-------------|--------------------|---------------------|
| Revenue | 4 | 2,477.4 | 2,496.1 |
| Network, carrier and hardware costs | | (1,259.6) | (1,244.3) |
| Employee benefits expense | | (224.4) | (242.8) |
| Other expenses | | (184.0) | (182.3) |
| Earnings before interest, tax, impairment, depreciation and amortisation | | 809.4 | 826.7 |
| Impairment of spectrum and mobile assets | 6 | (236.8) | - |
| Depreciation of plant and equipment | 12 | (133.2) | (138.8) |
| Amortisation of intangibles | 13 | (136.1) | (90.4) |
| Results from operating activities | | 303.3 | 597.5 |
| Finance income | | 1.8 | 1.7 |
| Finance expenses | | (52.5) | (36.1) |
| Net financing costs | 7 | (50.7) | (34.4) |
| Profit before income tax | | 252.6 | 563.1 |
| Income tax expense | 8 | (77.6) | (165.6) |
| Profit for the year | | 175.0 | 397.5 |
| Attributable to: | | | |
| Owners of the Company | | 173.8 | 396.4 |
| Non-controlling interest | | 1.2 | 1.1 |
| | | 175.0 | 397.5 |
| Earnings per share attributable to owners of the Company: | | | |
| Basic and diluted earnings per share (cents) | 9 | 18.7 | 42.8 |

*Restated, see note 31(a)

TPG Telecom Limited and its controlled entities
 Consolidated statement of comprehensive income
 For the year ended 31 July 2019

| | FY19 \$m | FY18* \$m |
|--|---------------|--------------|
| Profit for the year | 175.0 | 397.5 |
| Items that may subsequently be reclassified to the income statement, net of tax: | | |
| Foreign exchange translation differences | 8.0 | 7.0 |
| Net (loss)/gain on cash flow hedges taken to equity | (44.6) | 1.0 |
| Items that will not subsequently be reclassified to the income statement, net of tax: | | |
| Net change in fair value of assets measured through other comprehensive income | (0.5) | (0.7) |
| Total other comprehensive income, net of tax | (37.1) | 7.3 |
| Total comprehensive income for the year | 137.9 | 404.8 |
| Attributable to: | | |
| Owners of the Company | 136.7 | 403.7 |
| Non-controlling interest | 1.2 | 1.1 |
| | 137.9 | 404.8 |

*Restated, see note 31(a)

TPG Telecom Limited and its controlled entities

Consolidated statement of financial position

As at 31 July 2019

| | <i>Note</i> | 31 July 2019 \$m | 31 July 2018* \$m |
|---|-------------|---------------------|----------------------|
| Assets | | | |
| Cash and cash equivalents | | 51.4 | 82.2 |
| Trade and other receivables and contract assets | 10 | 128.3 | 134.2 |
| Deferred contract costs | 5 | 8.1 | 10.0 |
| Inventories | | 5.0 | 4.9 |
| Derivative financial assets | | 1.2 | 0.7 |
| Prepayments and other assets | | 19.2 | 14.9 |
| Total Current Assets | | 213.2 | 246.9 |
| Investments | 11 | 1.2 | 1.9 |
| Deferred contract costs | 5 | 5.4 | 4.8 |
| Derivative financial assets | | 0.2 | - |
| Property, plant and equipment | 12 | 1,355.1 | 1,249.0 |
| Spectrum assets | 13 | 1,334.6 | 1,479.7 |
| Goodwill and other intangible assets | 13 | 2,350.8 | 2,411.2 |
| Deferred tax assets | 8 | 45.4 | - |
| Prepayments and other assets | | 6.9 | 7.2 |
| Total Non-Current Assets | | 5,099.6 | 5,153.8 |
| Total Assets | | 5,312.8 | 5,400.7 |
| Liabilities | | | |
| Trade and other payables | 14 | 319.4 | 320.3 |
| Loans and borrowings and derivative financial liabilities | 15 | 14.3 | 5.5 |
| Spectrum liability | 16 | 344.2 | 344.0 |
| Current tax liabilities | | 12.7 | 23.2 |
| Deferred revenue | | 158.6 | 153.6 |
| Employee benefits | 17 | 29.7 | 29.7 |
| Provisions | 18 | 12.7 | 9.2 |
| Accrued interest | | 4.0 | 5.1 |
| Total Current Liabilities | | 895.6 | 890.6 |
| Loans and borrowings and derivative financial liabilities | 15 | 1,470.6 | 1,318.4 |
| Spectrum liability | 16 | - | 327.8 |
| Deferred tax liabilities | 8 | - | 13.6 |
| Deferred revenue | | 26.3 | 26.3 |
| Employee benefits | 17 | 2.3 | 2.2 |
| Provisions | 18 | 30.7 | 34.0 |
| Total Non-Current Liabilities | | 1,529.9 | 1,722.3 |
| Total Liabilities | | 2,425.5 | 2,612.9 |
| Net Assets | | 2,887.3 | 2,787.8 |
| Equity | | | |
| Share capital | 19 | 1,465.2 | 1,465.2 |
| Reserves | | (46.6) | (8.2) |
| Retained earnings | | 1,463.5 | 1,326.8 |
| Equity attributable to owners of the Company | | 2,882.1 | 2,783.8 |
| Non-controlling interest | | 5.2 | 4.0 |
| Total Equity | | 2,887.3 | 2,787.8 |

*Restated, see note 31(a)

TPG Telecom Limited and its controlled entities

Consolidated statement of changes in equity

For the year ended 31 July 2019

| 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 | |
| Balance as at 1 August 2017, as reported | 1,449.4 | (3.7) | (3.5) | (7.0) | (3.9) | (18.1) | 963.3 | 2,394.6 | 4.7 | 2,399.3 |
| Effect of AASB 15 implementation | - | - | - | - | - | - | 4.1 | 4.1 | - | 4.1 |
| Restated balance at 1 August 2017 | 1,449.4 | (3.7) | (3.5) | (7.0) | (3.9) | (18.1) | 967.4 | 2,398.7 | 4.7 | 2,403.4 |
| Restated profit for the year | - | - | - | - | - | - | 396.4 | 396.4 | 1.1 | 397.5 |
| Other comprehensive income, net of tax | - | 7.0 | - | (0.7) | 1.0 | 7.3 | - | 7.3 | - | 7.3 |
| Restated total comprehensive income for the year | - | 7.0 | - | (0.7) | 1.0 | 7.3 | 396.4 | 403.7 | 1.1 | 404.8 |
| Issue of shares | 15.8 | - | - | - | - | - | - | 15.8 | - | 15.8 |
| Share-based payment transactions | - | - | 2.6 | - | - | 2.6 | - | 2.6 | - | 2.6 |
| Dividends paid to shareholders | - | - | - | - | - | - | (37.0) | (37.0) | (1.8) | (38.8) |
| Restated balance as at 31 July 2018 | 1,465.2 | 3.3 | (0.9) | (7.7) | (2.9) | (8.2) | 1,326.8 | 2,783.8 | 4.0 | 2,787.8 |
| Restated balance as at 1 August 2018 | 1,465.2 | 3.3 | (0.9) | (7.7) | (2.9) | (8.2) | 1,326.8 | 2,783.8 | 4.0 | 2,787.8 |
| Profit for the year | - | - | - | - | - | - | 173.8 | 173.8 | 1.2 | 175.0 |
| Other comprehensive income, net of tax | - | 8.0 | - | (0.5) | (44.6) | (37.1) | - | (37.1) | - | (37.1) |
| Total comprehensive income for the year | - | 8.0 | - | (0.5) | (44.6) | (37.1) | 173.8 | 136.7 | 1.2 | 137.9 |
| Share-based payment transactions | - | - | (1.3) | - | - | (1.3) | - | (1.3) | - | (1.3) |
| Dividends paid to shareholders | - | - | - | - | - | - | (37.1) | (37.1) | - | (37.1) |
| Balance as at 31 July 2019 | 1,465.2 | 11.3 | (2.2) | (8.2) | (47.5) | (46.6) | 1,463.5 | 2,882.1 | 5.2 | 2,887.3 |

The notes on pages 39 to 89 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 2019

| | <i>Note</i> | FY19 \$m | FY18 \$m |
|--|-------------|--------------------|--------------------|
| Cash flows from operating activities | | | |
| Cash receipts from customers | | 2,729.3 | 2,743.2 |
| Cash paid to suppliers and employees | | (1,893.0) | (1,874.9) |
| Cash generated from operations | | 836.3 | 868.3 |
| Income taxes paid | | (128.6) | (194.5) |
| Net cash from operating activities | 27 | 707.7 | 673.8 |
| Cash flows from investing activities | | | |
| Acquisition of property, plant and equipment | | (327.9) | (292.5) |
| Acquisition of spectrum assets | 16 | (352.4) | (597.3) |
| Acquisition of other intangible assets | | (37.0) | (66.5) |
| Transaction costs relating to planned business combination | | (6.6) | - |
| Net cash used in investing activities | | (723.9) | (956.3) |
| Cash flows from financing activities | | | |
| Payment of finance lease liabilities | | (5.5) | (34.1) |
| Proceeds from borrowings | | 292.8 | 969.4 |
| Repayment of borrowings | | (205.0) | (538.6) |
| Transaction costs related to borrowings | | - | (10.8) |
| Interest received | | 1.3 | 1.2 |
| Finance costs paid | | (61.5) | (45.8) |
| Dividends paid | 20 | (37.1) | (21.2) |
| Dividends paid to non-controlling interest | | - | (1.8) |
| Net cash (used in)/from financing activities | | (15.0) | 318.3 |
| Net (decrease)/increase in cash and cash equivalents | | (31.2) | 35.8 |
| Cash and cash equivalents at beginning of the year | | 82.2 | 46.3 |
| Effect of exchange rate fluctuations | | 0.4 | 0.1 |
| Cash and cash equivalents at end of the year | | 51.4 | 82.2 |

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2019

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TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2019

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 2019 (referred to throughout this report as "FY19"), 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 18 October 2019.

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 21.

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 2019

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 6 – impairment of spectrum and mobile assets;
- Note 12(d) – impairment of property, plant and equipment;
- Note 13(c) – amortisation of intangible assets with finite useful lives;
- Note 13(d) & (e) – impairment testing for intangible assets; and
- Note 31(a)(ii) – initial application of AASB 15.

3. Segment reporting

The Group determines and presents operating segments based on the information that is internally provided to the Executive Chairman and Chief Executive Officer, 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. For all operating segments, discrete financial information is available and their operating results are regularly reviewed by the Group's Executive Chairman and Chief Executive Officer to make decisions about resources to be allocated to each segment and assess their performance.

The Group currently recognises the following segments:

Consumer

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

Corporate

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

Unallocated

In FY19, 'Unallocated' includes:

- transaction costs for the planned merger with VHA of \$9.0m (FY18: nil);
- operating costs for Australian mobile sites of \$2.7m (FY18: nil);
- start-up expenses in relation to the Group's Singapore operations of \$2.7m (FY18: \$1.4m); and
- other corporate costs of \$0.6m (FY18: \$0.7m).

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2019

3. Segment reporting (continued)

| | Consumer | Corporate | Unallocated | Total results |
|--|--------------|--------------|---------------|---------------|
| For the year ended 31 July 2019 | \$m | \$m | \$m | \$m |
| Revenue | 1,719.0 | 758.4 | - | 2,477.4 |
| Network, carrier and hardware costs | (1,003.6) | (253.3) | (2.7) | (1,259.6) |
| Employee benefits expense | (122.3) | (100.9) | (1.2) | (224.4) |
| Other expenses | (135.8) | (37.1) | (11.1) | (184.0) |
| Results from segment activities | 457.3 | 367.1 | (15.0) | 809.4 |
| For the year ended 31 July 2018 * | \$m | \$m | \$m | \$m |
| Revenue | 1,742.3 | 753.8 | - | 2,496.1 |
| Network, carrier and hardware costs | (964.3) | (280.0) | - | (1,244.3) |
| Employee benefits expense | (133.9) | (108.6) | (0.3) | (242.8) |
| Other expenses | (145.0) | (35.5) | (1.8) | (182.3) |
| Results from segment activities | 499.1 | 329.7 | (2.1) | 826.7 |

* Prior period comparatives have been restated on implementation of AASB15, see note 31(a)(ii).

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

| | FY19 \$m | FY18 \$m |
|--|--------------|--------------|
| Total segment results | 809.4 | 826.7 |
| Impairment of spectrum and mobile assets | (236.8) | - |
| Depreciation of plant and equipment | (133.2) | (138.8) |
| Amortisation of intangibles | (136.1) | (90.4) |
| Results from operating activities | 303.3 | 597.5 |
| Net financing costs | (50.7) | (34.4) |
| Profit before income tax | 252.6 | 563.1 |

Geographic Information

All of the Group's revenues are derived from Australian based entities, except for \$30.5m (FY18: \$32.8m) derived from overseas customers. A geographic analysis of the Group's non-current assets is set out below:

| Country | FY19 \$m | FY18 \$m |
|--------------|----------------|----------------|
| Australia | 4,549.0 | 4,713.0 |
| Singapore | 307.8 | 203.0 |
| Other | 242.8 | 237.8 |
| Total | 5,099.6 | 5,153.8 |

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

TPG Telecom Limited and its controlled entities

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For the year ended 31 July 2019

4. Revenue

Revenue is measured based on the consideration specified in a contract with a customer. The Group recognises revenue when it transfers control over a product or service to a customer.

The Group determines various performance obligations under a contract, allocates the total contract price amongst the performance obligations based on their standalone selling prices, and recognise revenue when the performance obligations are satisfied.

Performance obligations that arise from contracts with customers comprise:

- Rendering of telecommunications services including provision of data, internet, voice, telehousing, network capacity and other services. The Group recognises revenue as services are provided over time.
- Sale of equipment to customer. Revenue is recognised when the equipment is delivered to the customer.

a. Major product categories:

The following table provides a breakdown of major product categories by segment.

| | Consumer | | Corporate | | Total | |
|------------------|----------------|----------------|--------------|--------------|----------------|----------------|
| | FY19 \$m | FY18 \$m | FY19 \$m | FY18 \$m | FY19 \$m | FY18 \$m |
| Data & Internet* | 1,459.1 | 1,425.3 | 643.0 | 623.4 | 2,096.5 | 2,048.7 |
| Voice | 71.1 | 114.9 | 115.4 | 130.4 | 188.5 | 245.3 |
| Mobile | 108.1 | 111.6 | - | - | 108.1 | 111.6 |
| Other | 80.7 | 90.5 | - | - | 84.3 | 90.5 |
| Total | 1,719.0 | 1,742.3 | 758.4 | 753.8 | 2,477.4 | 2,496.1 |

* Includes, for the Consumer Division, revenue from bundled home phone voice.

b. Contract balances

The following table provides information about receivables, contract assets, and liabilities from contracts with customers.

| | 31 July 2019 \$m | 31 July 2018 \$m |
|---|---------------------|---------------------|
| Included in 'Trade and other receivables and contract assets' | | |
| - Trade receivables | 106.0 | 128.8 |
| - Contract assets | 44.5 | 34.4 |
| Deferred revenue liability | (184.9) | (179.9) |

Contract assets primarily relate to the Group's rights to consideration for work completed but not billed at the end of the current reporting period. These amounts are transferred to Trade receivables when the rights become unconditional.

Deferred revenue liability primarily relates to the advance consideration received from customers for which revenue will be recognised on fulfilment of performance obligations under the customer contracts.

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2019

4. Revenue (continued)

c. Remaining performance obligations

The Group has applied the practical expedient of not disclosing information about the amount of transaction price allocated to the remaining (unfulfilled) performance obligations as the Group has a right to consideration in an amount that corresponds directly with the value to the customer of the Group's performance completed to date.

d. Effect of applying AASB 15

The effect of initially applying AASB 15 on the Group's revenue from contracts with customers is described in Note 31(a)(ii).

5. Deferred contract costs

| | 31 July 2019 | 31 July 2018 |
|--------------|--------------|--------------|
| | \$m | \$m |
| Current | 8.1 | 10.0 |
| Non-current | 5.4 | 4.8 |
| Total | 13.5 | 14.8 |

Deferred contract costs comprise the following:

- Incremental costs incurred to acquire customer orders, such as sales commission, are recognised as deferred contract costs and expensed to employee benefits expense over the contract term.
- Costs incurred to fulfil customer orders, such as connection costs and discounted installation charges, are recognised as deferred contract costs and expensed through network, carrier and hardware costs over the contract term.

TPG Telecom Limited and its controlled entities

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6. Impairment of spectrum and mobile assets

On 29 January 2019, the Company announced that, as a consequence of the Government's ban on use of Huawei equipment in 5G mobile networks, it had decided to cease its Australian mobile network rollout.

Having ceased the mobile network rollout, the Group now has no business plan or strategy for using its spectrum licences and other mobile network assets on a standalone basis and, accordingly, it has been necessary to reassess the carrying value of these assets.

It is expected that, in the event that the planned merger with Vodafone Hutchison Australia (VHA) proceeds, the Group's spectrum and mobile assets will be complementary to the VHA mobile network. However, as the merger remains subject to regulatory and shareholder approval and is, therefore, not certain to proceed, the expected use by, and value to, the merged entity of these assets may not be taken into account in determining their current value to the Group.

Following the announcement, management conducted an impairment review and estimated the recoverable amount of all of the relevant assets on a 'fair value less costs of disposal' basis (which is categorised as a level 3 method in the fair value hierarchy set out in note 21).

The impairment review resulted in an impairment expense of \$236.8m being recognised in the current reporting period, comprising the following:

| | Note | FY19 |
|----------------------------------|-------------|--------------|
| | | \$m |
| Spectrum licences | 13 | 91.8 |
| Mobile network assets | 12 | 84.7 |
| Capitalised interest, related to | | |
| - spectrum licences | 13 | 57.5 |
| - mobile network assets | 12 | 2.1 |
| Other intangibles | 13 | 0.7 |
| Total impairment expense | | 236.8 |

Further details regarding each of these components are provided below.

Spectrum licences

The Group has Australian spectrum licences that had not, as at the date that the mobile network rollout was ceased, been amortised in the Group's accounts. In accordance with the Group's accounting policies, amortisation of these licences was to commence when the associated mobile network assets were installed and ready for their intended use.

Following the Group's decision to cease the mobile network rollout, the carrying value of these assets were reassessed on a fair value less costs of disposal basis. The key factors considered in assessing the valuation of the licences were:

- the original price paid at auction for each of the spectrum licences;
- a comparison of current market conditions and participants with those prevailing at the time of the relevant auctions;
- whether there were any more recent, directly comparable spectrum auctions; and
- the remaining licence term of each spectrum licence.

TPG Telecom Limited and its controlled entities

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For the year ended 31 July 2019

6. Impairment of spectrum and mobile assets (continued)

Determination of the fair value of these spectrum licences is an area of significant estimation uncertainty given the lack of recent market data for relevant spectrum licence sales in the Australian regulatory context. It was determined that the most relevant value is the price paid at auction by the Group, adjusted for the licence period that has expired.

Pursuant to this assessment, the Group impaired the carrying value of its spectrum licences by \$91.8m reflecting the licence period that had expired up to the date of the announcement.

Due to there being no plan for the use of the spectrum licences, commencing from the start of 2H19, the licences are being amortised in the Group's accounts on a straight-line basis over the remaining term of each licence.

Mobile network assets

As at 31 July 2019, the Group had incurred capital expenditure of approximately \$125m in design, planning, acquisition and construction costs relating to its Australian mobile network. A significant component of this capital expenditure relates to the acquisition and installation of Huawei equipment.

Following the Group's decision to cease the mobile network rollout, the Group reassessed the carrying value of these mobile network assets. Key factors considered in assessing their fair value were:

- the fact that Huawei equipment is banned from use in any 5G networks in Australia;
- the limited alternative uses of the Huawei equipment; and
- the alternative uses of the non-Huawei assets.

There is also a high level of estimation uncertainty in the valuation adopted for these assets due to the absence of directly comparable transactions that provide evidence as to the value to third parties of the various network components.

Pursuant to this assessment, the Group impaired the carrying value of the mobile network assets by \$84.7m.

Capitalised interest

In accordance with the Group's accounting policies, interest expense on debt drawn to finance the Group's investments in Australian spectrum and associated mobile network assets was being capitalised into the cost of the relevant assets. Capitalisation of the interest expense was to cease at the same time as the related assets began being depreciated.

Given the decision to cease the mobile network rollout and the change in the expected use of these assets, the Group ceased capitalising interest expense relating to its Australian spectrum and associated mobile network assets from the date of the decision. Interest capitalised up until this date comprised:

- Interest on deferred 700MHz spectrum payment instalments: \$33.2m
- Debt facility interest: \$26.4m.

Given the cessation of the mobile network construction, both amounts (total \$59.6m) were written-off in the current reporting period as the recoverable amount of the spectrum and network assets was below the carrying value of the assets including the capitalised interest.

TPG Telecom Limited and its controlled entities

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For the year ended 31 July 2019

6. Impairment of spectrum and mobile assets (continued)

Other intangibles

Bank charges incidental to acquisition of spectrum licences of \$0.7m had been capitalised prior to the Group's decision to cease the mobile network rollout. These capitalised bank charges have been written-off in the current reporting period.

7. Finance income and expenses

| | FY19 \$m | FY18 \$m |
|---|----------------------|----------------------|
| Interest income | 1.8 | 1.7 |
| Interest expense | | |
| - Debt facility interest | (52.3) | (40.2) |
| - Interest re deferred spectrum instalments | (24.8) | (16.6) |
| - Unwinding of discounts on provisions | (0.5) | (0.3) |
| - Other interest | (0.1) | (1.0) |
| - Amounts capitalised* | 42.1 | 39.5 |
| | <u>(35.6)</u> | <u>(18.6)</u> |
| Borrowing costs | (16.9) | (17.5) |
| Net financing costs | <u>(50.7)</u> | <u>(34.4)</u> |

* Finance expenses directly attributable to the construction of the Group's fibre and mobile networks and acquisition of mobile spectrum licences have been, in accordance with the Group's accounting policies, capitalised as part of the cost of the relevant assets. Following the cessation of the Australian mobile network rollout, interest capitalised in relation to the acquisition of Australian spectrum and mobile assets has been written off (refer note 6) and no further interest capitalisation has occurred in relation to this project from the date the rollout ceased at the end of January 2019.

8. Taxes

Income tax expense

| | FY19 \$m | FY18 \$m |
|---|--------------------|---------------------|
| Current tax expense | 120.5 | 165.4 |
| Deferred tax expense | | |
| Origination and reversal of temporary differences | (43.7) | (1.1) |
| Adjustments in respect of prior years | 0.8 | 1.3 |
| | <u>(42.9)</u> | <u>0.2</u> |
| Income tax expense | <u>77.6</u> | <u>165.6</u> |

Numerical reconciliation between tax expense and pre-tax accounting profit

| | | |
|---|--------------------|---------------------|
| Profit before income tax | 252.6 | 563.1 |
| Income tax using Australian tax rate of 30% | 75.8 | 168.9 |
| Different tax rates in other jurisdictions | 0.4 | 0.2 |
| Non-deductible and non-assessable items | 1.4 | (3.5) |
| Income tax expense | <u>77.6</u> | <u>165.6</u> |

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

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8. Taxes (continued)

Deferred tax assets and liabilities

Movement in temporary differences during the year

| | Balance 31 July 2017 \$m | Recognised in profit or loss \$m | Recognised in equity \$m | Balance 31 July 2018 \$m | Recognised in profit or loss \$m | Recognised in equity \$m | Balance 31 July 2019 \$m |
|-------------------------------------|--------------------------------|--|--------------------------------|--------------------------------|--|--------------------------------|--------------------------------|
| Deferred tax liabilities | | | | | | | |
| Intangible assets | 68.0 | 1.9 | - | 69.9 | (31.9) | - | 38.0 |
| Other items | (7.3) | 3.9 | 2.7 | (0.7) | (1.6) | 3.3 | 1.0 |
| | 60.7 | 5.8 | 2.7 | 69.2 | (33.5) | 3.3 | 39.0 |
| Deferred tax assets | | | | | | | |
| Property, plant and equipment | 8.9 | (1.0) | - | 7.9 | (13.7) | - | (5.8) |
| Receivables | (8.2) | 1.5 | 0.1 | (6.6) | 2.6 | - | (4.0) |
| Inventories | (0.9) | - | - | (0.9) | - | - | (0.9) |
| Derivative financial assets | (0.1) | (0.4) | (0.7) | (1.2) | 0.2 | (19.1) | (20.1) |
| Investments | (3.0) | - | (0.3) | (3.3) | - | (0.3) | (3.6) |
| Provisions | (13.6) | 0.8 | - | (12.8) | - | - | (12.8) |
| Trade and other payables | (9.2) | (6.1) | - | (15.3) | (0.7) | - | (16.0) |
| Employee benefits | (9.0) | (0.3) | - | (9.3) | (0.1) | - | (9.4) |
| Unearned revenue | (10.9) | 3.3 | - | (7.6) | 1.6 | - | (6.0) |
| Equity raising costs | (2.0) | 0.6 | (0.1) | (1.5) | 0.5 | - | (1.0) |
| Tax losses carried forward | (1.0) | (4.0) | - | (5.0) | 0.2 | - | (4.8) |
| | (49.0) | (5.6) | (1.0) | (55.6) | (9.4) | (19.4) | (84.4) |
| Net deferred tax liabilities | 11.7 | 0.2 | 1.7 | 13.6 | (42.9) | (16.1) | (45.4) |

The Company has not recognised deferred tax assets on unutilised capital losses of \$15.7m (FY18: \$15.7m).

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8. 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 do not relate to 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.

9. Earnings per share

| | FY19 Cents | FY18 Cents |
|--|-----------------------------|-----------------------------|
| Basic and diluted earnings per share | 18.7 | 42.8 |
| | FY19 \$m | FY18 \$m |
| Profit attributable to owners of the Company used in calculating basic and diluted earnings per share | 173.8 | 396.4 |
| Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share | 927,811,493 | 926,209,453 |

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 2019

10. Trade and other receivables and contract assets

| | FY19 \$m | FY18 \$m |
|--|--------------|--------------|
| Trade receivables | 106.0 | 128.8 |
| Contract assets and other receivables | 48.1 | 38.7 |
| Less: Provision for impairment losses and credit notes | (25.8) | (33.3) |
| | 128.3 | 134.2 |

The Group's exposure to credit and currency risk and impairment losses related to trade and other receivables is disclosed in note 21.

11. Investments

| | FY19 \$m | FY18 \$m |
|---|-------------|-------------|
| Measured at fair value through other comprehensive income | | |
| Non-Current | | |
| Carrying amount as at 1 August | 1.9 | 2.9 |
| Change in fair value | (0.7) | (1.0) |
| Carrying amount as at 31 July | 1.2 | 1.9 |

The Group's investments comprise ASX-listed securities.

Joint venture with Vodafone Hutchison Australia (VHA)

In October 2018, the Company and VHA formed a 50:50 Joint Venture company, Mobile JV Pty Limited. The initial scope of the joint venture is to acquire, hold and licence 3.6GHz spectrum. The joint venture entity will be accounted for using the equity method. It had no material balances to report as at 31 July 2019.

Mobile JV successfully bid for twelve 5MHz lots in the 3.6GHz spectrum auction which concluded in December 2018. Mobile JV will pay \$263.3m in March 2020 for the lots purchased. The Group's share of the purchase price is reflected in the capital commitments set out in note 23.

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2019

12. Property, plant and equipment

| | Network & IT infrastructure \$m | Land & Buildings \$m | Leasehold improvements \$m | Total \$m |
|---|---------------------------------------|----------------------------|----------------------------------|----------------|
| Cost | | | | |
| 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 |
| Balance at 1 August 2018 | 2,043.0 | 47.3 | 14.9 | 2,105.2 |
| Additions | 315.3 | 0.3 | 1.9 | 317.5 |
| Transfers | 4.8 | - | - | 4.8 |
| Disposals | (0.2) | - | - | (0.2) |
| Effect of movements in exchange rates | 5.0 | - | - | 5.0 |
| Balance at 31 July 2019 | 2,367.9 | 47.6 | 16.8 | 2,432.3 |
| Depreciation and impairment losses | | | | |
| 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 |
| Balance at 1 August 2018 | 842.6 | 4.2 | 9.4 | 856.2 |
| Depreciation charge for the year | 129.3 | 1.1 | 2.8 | 133.2 |
| Impairment (Refer note 6) | 86.8 | - | - | 86.8 |
| Effect of movements in exchange rates | 1.0 | - | - | 1.0 |
| Balance at 31 July 2019 | 1,059.7 | 5.3 | 12.2 | 1,077.2 |
| Carrying amounts | | | | |
| At 31 July 2018 | 1,200.4 | 43.1 | 5.5 | 1,249.0 |
| At 31 July 2019 | 1,308.2 | 42.3 | 4.6 | 1,355.1 |

a. Recognition and measurement

Items of property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses (see note 6). 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.

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12 Property, plant and equipment (continued)

b. Subsequent costs

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

c. Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful life 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.

d. Impairment

At each reporting date, the Group reviews the carrying amounts of its non-financial assets, including property, plant and equipment, to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset is the greater of its 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 (CGU) to which the asset belongs. CGUs are determined according to the lowest level of groups of assets that generate largely independent cashflows.

An impairment loss is recognised whenever the carrying amount of the asset or its CGU 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 CGUs are allocated first to reduce the carrying amount of any goodwill allocated to CGUs and then to reduce the carrying amount of other assets in the CGU on a pro rata basis.

Impairment losses 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 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.

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13. 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 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, as reported | 1,911.0 | 90.6 | 480.5 | 251.2 | 169.3 | 2,902.6 | 1,494.1 | 4,396.7 |
| AASB 15 adjustments | - | - | - | - | (12.8) | (12.8) | - | (12.8) |
| Restated balance 31 July 2018 | 1,911.0 | 90.6 | 480.5 | 251.2 | 156.5 | 2,889.8 | 1,494.1 | 4,383.9 |
| Balance 1 August 2018 | 1,911.0 | 90.6 | 480.5 | 251.2 | 156.5 | 2,889.8 | 1,494.1 | 4,383.9 |
| Additions | - | - | - | 25.5 | 51.1 | 76.6 | - | 76.6 |
| Transfers | - | - | - | - | (4.8) | (4.8) | - | (4.8) |
| Effect of movements in exchange rates | - | - | - | - | - | - | 8.8 | 8.8 |
| Balance 31 July 2019 | 1,911.0 | 90.6 | 480.5 | 276.7 | 202.8 | 2,961.6 | 1,502.9 | 4,464.5 |
| Amortisation and Impairment | | | | | | | | |
| 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, as reported | - | - | 322.8 | 71.1 | 88.0 | 481.9 | 14.4 | 496.3 |
| AASB 15 adjustments | - | - | - | - | (3.3) | (3.3) | - | (3.3) |
| Restated balance 31 July 2018 | - | - | 322.8 | 71.1 | 84.7 | 478.6 | 14.4 | 493.0 |
| Balance 1 August 2018 | - | - | 322.8 | 71.1 | 84.7 | 478.6 | 14.4 | 493.0 |
| Amortisation for the year | - | - | 43.5 | 17.1 | 13.4 | 74.0 | 62.1 | 136.1 |
| Impairment (Refer note 6) | - | - | - | - | 58.2 | 58.2 | 91.8 | 150.0 |
| Balance 31 July 2019 | - | - | 366.3 | 88.2 | 156.3 | 610.8 | 168.3 | 779.1 |
| Carrying amounts | | | | | | | | |
| At 31 July 2018, restated | 1,911.0 | 90.6 | 157.7 | 180.1 | 71.8 | 2,411.2 | 1,479.7 | 3,890.9 |
| At 31 July 2019 | 1,911.0 | 90.6 | 114.2 | 188.5 | 46.5 | 2,350.8 | 1,334.6 | 3,685.4 |

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

* Other intangible assets include software, 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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13. Intangible assets (continued)

a. Recognition and measurement

(i) 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 31(c)(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.

(ii) 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, 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.

b. 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.

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2019

13. Intangible assets (continued)

c. 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. Subsequent to impairment (refer note 6), spectrum licences are being amortised on a straight-line basis over the remaining licence term.
- Other intangible assets with finite useful lives - Amortised over the expected useful life.

d. Impairment tests for intangible assets with indefinite useful lives

Intangible assets that have indefinite useful lives are tested annually for impairment.

For the purpose of impairment testing, indefinite life intangible assets are allocated to the Group's CGUs.

As at 31 July 2018, the Group had four CGUs, being the Consumer, Corporate, Singapore and Australia Mobile CGUs. During FY19 the Group announced that it had decided to cease its Australian mobile network rollout. There is currently no business plan or strategy for using the spectrum licences and other mobile network assets on a standalone basis.

The allocation of indefinite life intangible assets to the CGUs is as set out in the table below. Goodwill is allocated to the CGU that is expected to benefit from the synergies of the acquisition.

| | FY19 | | | FY18 | | |
|------------------|----------------|-------------|----------------|----------------|-------------|----------------|
| | 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.

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2019

13. Intangible assets (continued)

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

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.

e. Impairment tests for intangible assets with definite useful lives

The Group adopts the same process as detailed for property, plant and equipment in note 12(d) above to test impairment of intangible assets having a definite life.

14. Trade and other payables

| | FY19 | FY18 |
|------------------------------|--------------|--------------|
| | \$m | \$m |
| Trade creditors | 195.3 | 205.6 |
| Other creditors and accruals | 124.1 | 114.7 |
| | 319.4 | 320.3 |

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 21.

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2019

15. Loans and borrowings and derivative financial liabilities

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings and derivative financial liabilities. For more information about the Group's exposure to interest rate and foreign currency risk, see note 21.

| | FY19 \$m | FY18 \$m |
|-----------------------------------|----------------|----------------|
| Current | | |
| Finance lease liabilities | 6.8 | 5.5 |
| Derivative financial liabilities | 7.5 | - |
| | 14.3 | 5.5 |
| Non-Current | | |
| Gross secured bank loans | 1,424.7 | 1,330.7 |
| Less: Unamortised borrowing costs | (20.7) | (29.6) |
| | 1,404.0 | 1,301.1 |
| Finance lease liabilities | 5.5 | 12.4 |
| Derivative financial liabilities | 61.1 | 4.9 |
| | 1,470.6 | 1,318.4 |

As at 31 July 2019, the Group had debt facilities of \$2,391.0m (including a Singapore dollar denominated facility of SGD100m which is translated to AUD using the 31 July 2019 spot rate) of which \$1,424.7m was drawn down. As at 31 July 2019, the maturity profile of the facilities was between 1.2 and 5.2 years, with a weighted average of 2.6 years. The outstanding loans balance as at the reporting date is shown in the statement of financial position net of unamortised borrowing costs of \$20.7m.

In January 2018, the Group 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.

The interest rate payable under the debt facility is based on BBSY (or SIBOR for Singapore dollar denominated facility) rates plus a margin determined quarterly according to the Group's gearing ratio.

As at 31 July 2019, 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:

| | |
|--|------------------------------------|
| Koeee 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 | TPG JV Company Pty Ltd |

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2019

15. Loans and borrowings and derivative financial liabilities (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 2018 | | 1,306.2 | 17.9 | 1,465.2 | 1,326.8 | 4.0 | 4,120.1 |
| Changes from financing cash flows | | | | | | | |
| Payment of finance lease liabilities | | - | (5.5) | - | - | - | (5.5) |
| Proceeds from borrowings | | 292.8 | - | - | - | - | 292.8 |
| Repayment of borrowings | | (205.0) | - | - | - | - | (205.0) |
| Interest received | | 1.3 | - | - | - | - | 1.3 |
| Interest paid | | (61.4) | (0.1) | - | - | - | (61.5) |
| Dividends paid | 20 | - | - | - | (37.1) | - | (37.1) |
| Total changes from financing cash flows | | 27.7 | (5.6) | - | (37.1) | - | (15.0) |
| Other changes | | | | | | | |
| Liability-related | | 74.1 | - | - | - | - | 74.1 |
| Equity-related | | - | - | - | 173.8 | 1.2 | 175.0 |
| Balance as at 31 July 2019 | | 1,408.0 | 12.3 | 1,465.2 | 1,463.5 | 5.2 | 4,354.2 |

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2019

16. Spectrum liability

| | FY19 \$m | FY18 \$m |
|---|--------------|--------------|
| Balance at the start of the year | 671.8 | - |
| Present value of spectrum liabilities assumed | - | 655.2 |
| Instalment paid on 31 January 2019 | (352.4) | - |
| Interest accrued during the year | 24.8 | 16.6 |
| Balance at the end of the year | 344.2 | 671.8 |
| Current | 344.2 | 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 of which only the final instalment of \$352.4m remains payable on 31 January 2020. The total payable for the spectrum licence amounts to \$1,309.6m and implies total interest expense for the deferred payment instalments of \$49.6m. The licence period commenced from 1 April 2018.

17. Employee benefits

| | FY19 \$m | FY18 \$m |
|----------------------------------|-------------|-------------|
| Current | | |
| Liability for annual leave | 15.0 | 15.1 |
| Liability for long service leave | 14.7 | 14.6 |
| | 29.7 | 29.7 |
| Non-Current | | |
| Liability for long service leave | 2.3 | 2.2 |

a. 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.

b. 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

Notes to the consolidated financial statements

For the year ended 31 July 2019

17. Employee benefits (continued)

c. Performance rights plan

The Group has in place a performance rights plan as detailed in Section 5.3 of the Remuneration Report. No new performance rights were granted during FY19. However, the performance rights plan continued to operate in respect of rights issued in earlier years that were yet to vest at the start of FY19.

The number of rights outstanding during the year ended 31 July 2019 are set out below:

| | Number of Rights |
|-----------------------------------|-------------------------|
| Balance as at 1 August 2018 | 1,839,575 |
| Granted during the year | - |
| Forfeited during the year | (138,350) |
| Vested during the year | (638,400) |
| Balance as at 31 July 2019 | <u>1,062,825</u> |

The fair value of the rights at date of grant are 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 previous reporting period are as follows:

| Date of grant | Weighted average | |
|------------------|------------------|-------------|
| | fair value | Share price |
| 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 \$2.9m (2018: \$4.7m).

d. 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 \$14.6m to defined contribution superannuation plans during the current year (FY18: \$14.7m).

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2019

18. Provisions

| | Make good costs | Lease increment | Onerous leases | Other | Total |
|-----------------------------------|--------------------|--------------------|-------------------|------------|-------------|
| | \$m | \$m | \$m | \$m | \$m |
| Balance as at 1 August 2018 | 37.4 | 0.7 | 2.3 | 2.8 | 43.2 |
| Provisions made during the year | 1.5 | - | - | - | 1.5 |
| Provisions used during the year | (1.4) | (0.1) | (0.3) | - | (1.8) |
| Unwind of discount | 0.5 | - | - | - | 0.5 |
| Balance as at 31 July 2019 | 38.0 | 0.6 | 2.0 | 2.8 | 43.4 |
| Current | 8.4 | 0.2 | 1.3 | 2.8 | 12.7 |
| Non-current | 29.6 | 0.4 | 0.7 | - | 30.7 |

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 2019

19. Capital and reserves

Share capital

| | Ordinary shares | | \$m | |
|--|--------------------|--------------------|----------------|----------------|
| | FY19 | FY18 | FY19 | FY18 |
| Balance as at 1 August | 927,811,493 | 924,719,448 | 1,465.2 | 1,449.4 |
| Ordinary shares issued during the year | | | | |
| - Dividend reinvestment plan | - | 3,092,045 | - | 15.8 |
| Balance as at 31 July | 927,811,493 | 927,811,493 | 1,465.2 | 1,465.2 |

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 17c) 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 2019 the number of Company shares held in the employee share trust for the Group was nil. (FY18: nil).

Fair value reserve

The fair value reserve comprises the cumulative net change in fair value of the Group's investments in equity securities 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 2019

20. Dividends

Dividends recognised in the current year were as follows:

| | Cents per share | Total Amount \$m | Date of payment |
|-----------------------|--------------------|------------------------|--------------------|
| FY19 | | | |
| Interim FY19 ordinary | 2.0 | 18.6 | 21 May 2019 |
| Final FY18 ordinary | 2.0 | 18.5 | 20 Nov 2018 |
| Total amount | | 37.1 | |
| 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 | |

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 FY19 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 2019, the dividend has not been provided for in the consolidated statement of financial position. The dividend has a record date of 15 October 2019 and will be paid on 19 November 2019. The Dividend Reinvestment Plan (DRP) is currently suspended until further notice.

Dividend franking account

| | FY19 \$m | FY18 \$m |
|--|-------------|-------------|
| 30 per cent franking credits available to shareholders of the Company for subsequent financial years | 813.2 | 711.0 |

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 (2018: \$8.0m).

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2019

21. Financial instruments and risk management

Financial Instruments

Non-derivative financial instruments

The Group classifies non-derivative financial assets into the following categories: measured at amortised cost (MAAC), and fair value through other comprehensive income (FVOCI).

a. *Non-derivative financial assets and financial liabilities – recognition and derecognition*

The Group initially recognises MAAC assets 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.

b. *Non-derivative financial assets - measurement*

MAAC assets

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 MAAC assets category comprises trade and other receivables.

FVOCI 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 are recognised in other comprehensive income and accumulated in the fair value reserve. When these assets are derecognised, the accumulated gain or loss in the fair value reserve is not reclassified to the income statement. The FVOCI category comprises equity securities.

c. *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 2019

21. 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 2019

21. 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 2019

21. 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 uses an 'expected credit loss' (ECL) model as prescribed by AASB 9 to estimate the impairment provision required on its financial assets that are classified as MAAC or FVOCI, but excluding equity investments. The Group uses the lifetime expected credit loss method in respect of trade and other receivables and contract assets.

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> | FY19 \$m | FY18 \$m |
|---|-------------|--------------|--------------|
| Trade and other receivables and contract assets | 10 | 154.1 | 167.5 |
| Cash and cash equivalents | | 51.4 | 82.2 |
| | | 205.5 | 249.7 |

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

| | <i>Note</i> | FY19 \$m | FY18 \$m |
|-------------------------|-------------|--------------|--------------|
| Type of customer | | | |
| Wholesale | | 32.8 | 30.9 |
| Corporate | | 30.5 | 45.3 |
| Retail | | 90.8 | 91.3 |
| | 10 | 154.1 | 167.5 |

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

| | <i>Note</i> | FY19 \$m | FY18 \$m |
|----------------------------|-------------|--------------|--------------|
| Geographical region | | | |
| Australia | | 152.8 | 166.1 |
| Other | | 1.3 | 1.4 |
| | 10 | 154.1 | 167.5 |

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 2019

21. Financial instruments and risk management (continued)

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

| | Note | FY19 \$m | FY18 \$m |
|---------------------------------------|-------------|---------------------------|---------------------------|
| Ageing of customer debt | | | |
| Not past due | | 110.2 | 110.0 |
| Past due 1-30 days | | 28.5 | 34.3 |
| Past due 31-60 days | | 6.0 | 5.7 |
| Past due 61-90 days | | 2.2 | 1.6 |
| Past due 91-120 days | | 1.5 | 3.1 |
| Past due 121 days | | 5.7 | 12.8 |
| Gross trade receivables | 10 | 154.1 | 167.5 |
| Less: Provision for impairment losses | 10 | (25.8) | (33.3) |
| Net receivables | | 128.3 | 134.2 |

The provision for impairment losses of the Group at 31 July 2019 of \$25.8m (FY18: \$33.3m) 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.

An impairment loss is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

The movement in the provision for impairment losses during the year ended 31 July 2019 is as follows:

| | Note | FY19 \$m | FY18 \$m |
|---|-------------|---------------------------|---------------------------|
| Balance at 1 August | | 33.3 | 41.2 |
| Impairment loss (written back)/recognised | | (7.5) | (7.9) |
| Balance at 31 July | 10 | 25.8 | 33.3 |

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 \$2,391.0m available to it during the year, of which \$1,424.7m was utilised as at 31 July 2019 (refer note 15).

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2019

21. 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:

| FY19 | 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 | 15 | (1,424.7) | (1,581.0) | (22.5) | (27.2) | (173.3) | (1,025.5) | (332.5) |
| Finance lease liabilities | 15 | (12.3) | (12.4) | (3.7) | (3.1) | (5.0) | (0.6) | - |
| Spectrum liabilities | 16 | (344.2) | (352.4) | (352.4) | - | - | - | - |
| Trade and other payables | 14 | (319.4) | (319.4) | (319.4) | - | - | - | - |
| | | (2,100.6) | (2,265.2) | (698.0) | (30.3) | (178.3) | (1,026.1) | (332.5) |
| Derivative financial liabilities | | | | | | | | |
| Interest rate swap (settled net) | | (68.6) | (70.3) | - | (7.6) | (15.4) | (41.7) | (5.6) |
| Foreign currency forward contracts (settled gross) | | | | | | | | |
| - Outflow | | | (44.9) | (35.4) | (5.0) | (3.5) | (1.0) | - |
| - Inflow | | 1.4 | 46.3 | 36.2 | 5.3 | 3.7 | 1.1 | - |
| Total derivative financial liabilities | | (67.2) | (68.9) | 0.8 | (7.3) | (15.2) | (41.6) | (5.6) |
| Total | | (2,167.8) | (2,334.1) | (697.2) | (37.6) | (193.5) | (1,067.7) | (338.1) |
| 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 | 15 | (1,330.7) | (1,581.1) | (25.8) | (25.4) | (57.5) | (1,122.8) | (349.6) |
| Finance lease liabilities | 15 | (17.9) | (18.0) | (2.5) | (3.1) | (6.8) | (5.6) | - |
| Spectrum liabilities | 16 | (671.8) | (704.8) | (352.4) | - | (352.4) | - | - |
| Trade and other payables | 14 | (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 | 49.8 | 34.0 | 5.0 | 6.3 | 4.5 | - |
| Total derivative financial liabilities | | (4.2) | (4.2) | 0.6 | - | (2.1) | (5.1) | 2.4 |
| Total | | (2,344.9) | (2,628.4) | (700.4) | (28.5) | (418.8) | (1,133.5) | (347.2) |

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

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2019

21. 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 2019, 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 an 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:

| | Note | FY19 \$m | FY18 \$m |
|----------------------------------|------|------------------|------------------|
| Fixed rate instruments | | | |
| Finance lease liabilities | 15 | (12.3) | (17.9) |
| Variable rate instruments | | | |
| Cash and cash equivalents | | 51.4 | 82.2 |
| Secured bank loans | 15 | (1,424.7) | (1,330.7) |
| | | (1,373.3) | (1,248.5) |

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 2019, 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.

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2019

21. 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 2019, of \$13.7m (FY18: \$12.5m) (assumes that all other variables, in particular foreign currency rates, remain constant).

Fair values versus carrying amounts

As at 31 July 2019, 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:

| | 31 July 2019 | | | 31 July 2018 | | |
|------------------------------------|--------------|---------|---------|--------------|---------|---------|
| | Level 1 | Level 2 | Level 3 | Level 1 | Level 2 | Level 3 |
| | \$m | \$m | \$m | \$m | \$m | \$m |
| Financial assets | | | | | | |
| Investments | 1.2 | - | - | 1.9 | - | - |
| Derivative financial assets | | | | | | |
| Foreign currency forward contracts | - | 1.4 | - | - | 0.7 | - |
| Financial liabilities | | | | | | |
| Derivative financial liabilities | | | | | | |
| Interest rate swap contracts | - | (68.6) | - | - | (4.8) | - |
| Foreign currency forward contracts | - | - | - | - | (0.1) | - |

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2019

21. 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:

| | FY19 | FY18 |
|--|----------------|----------------|
| | \$m | \$m |
| Secured bank loans | 1,424.7 | 1,330.7 |
| Finance lease liabilities | 12.3 | 17.9 |
| Derivative financial liabilities | 68.6 | 4.9 |
| | 1,505.6 | 1,353.5 |
| Less: cash and cash equivalents | (51.4) | (82.2) |
| Net debt | 1,454.2 | 1,271.3 |
| Total equity | 2,887.3 | 2,787.8 |
| Net debt to equity ratio at 31 July | 0.5 | 0.5 |

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2019

22. 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:

| | FY19 \$m | FY18 \$m |
|----------------------------|--------------|--------------|
| Less than one year | 32.5 | 35.6 |
| Between one and five years | 97.0 | 87.2 |
| More than five years | 10.7 | 13.5 |
| | 140.2 | 136.3 |

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.

23. Capital and other commitments

| | FY19 \$m | FY18 \$m |
|---|-------------|-------------|
| Contracted but not provided for in the financial statements | 265.1 | 163.8 |

Capital commitments at 31 July 2019 include the following individually material items:

- 3.6GHz spectrum payment due in March 2020: \$131.7m (refer note 11);
- IRU agreement for international capacity: US\$36.0m*

*Translated into AUD at the prevailing spot rate at 31 July 2019 of 1.452.

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2019

24. Consolidated entities

The following is a list of all entities that formed part of the Group as at 31 July 2019:

| Name of Entity | Country of incorporation | Ownership interest as at 31 July | |
|---|--------------------------|----------------------------------|--------|
| | | 2019 % | 2018 % |
| 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 2019

24. Consolidated entities (continued)

| Name of Entity | Country of Incorporation | Ownership interest as at 31 July | |
|---|--------------------------|----------------------------------|--------|
| | | 2019 % | 2018 % |
| 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 2019

24. Consolidated entities (continued)

| Name of Entity | Country of incorporation | Ownership interest as at 31 July | |
|----------------------------------|--------------------------|----------------------------------|--------|
| | | 2019 % | 2018 % |
| 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 |
| TPG JV Company Pty Ltd | Australia | 100 | - |

25. 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 24 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 | TPG JV Company 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 2019

25. 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 2019 is set out as follows:

Statement of comprehensive income and retained profits

| | FY19 \$m | FY18 \$m |
|---|----------------|----------------|
| Revenue | 2,434.0 | 2,442.5 |
| Network, carrier and hardware costs | (1,236.4) | (1,212.4) |
| Employee benefits expense | (168.1) | (189.4) |
| Other expenses | (206.2) | (213.9) |
| Earnings before interest, tax, impairment, depreciation and amortisation | 823.3 | 826.8 |
| Impairment of spectrum and mobile assets | (236.8) | - |
| Depreciation of plant and equipment | (126.9) | (132.5) |
| Amortisation of intangibles | (131.8) | (86.2) |
| Results from operating activities | 327.8 | 608.1 |
| Finance income | 1.8 | 1.6 |
| Finance expenses | (52.5) | (36.2) |
| Net financing costs | (50.7) | (34.6) |
| Profit before income tax | 277.1 | 573.5 |
| Income tax expense | (81.9) | (169.0) |
| Profit for the year attributable to owners of the company | 195.2 | 404.5 |
| Other comprehensive income, net of tax | (44.5) | 6.8 |
| Total comprehensive income for the year | 150.7 | 411.3 |
| Retained earnings at beginning of year | 1,393.7 | 1,026.2 |
| Profit for the year | 195.2 | 404.5 |
| Dividends recognised during the year | (37.1) | (37.0) |
| Retained earnings at end of year | 1,551.8 | 1,393.7 |

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2019

25. Deed of cross guarantee (continued)

Statement of financial position

| | 31 July 2019 | 31 July 2018 |
|---|----------------|----------------|
| | \$m | \$m |
| Assets | | |
| Cash and cash equivalents | 44.9 | 62.8 |
| Trade and other receivables and contract assets | 114.5 | 118.5 |
| Deferred contract costs | 8.1 | 10.0 |
| Inventories | 4.6 | 4.4 |
| Derivative financial assets | 1.2 | 0.7 |
| Prepayments and other assets | 17.0 | 12.9 |
| Total Current Assets | 190.3 | 209.3 |
| Investments | 20.3 | 21.0 |
| Loans to subsidiaries | 479.6 | 386.4 |
| Deferred contract costs | 5.4 | 4.8 |
| Derivative financial assets | 0.2 | - |
| Property, plant and equipment | 1,119.6 | 1,101.0 |
| Spectrum assets | 1,196.6 | 1,350.6 |
| Goodwill and other intangible assets | 2,306.3 | 2,367.3 |
| Deferred tax assets | 40.1 | - |
| Prepayments and other assets | 5.1 | 5.6 |
| Total Non-Current Assets | 5,173.2 | 5,236.7 |
| Total Assets | 5,363.5 | 5,446.0 |
| Liabilities | | |
| Trade and other payables | 298.2 | 303.9 |
| Loans and borrowings and derivative financial liabilities | 14.3 | 5.5 |
| Spectrum liability | 344.2 | 344.0 |
| Current tax liabilities | 14.7 | 20.2 |
| Deferred revenue | 157.4 | 152.1 |
| Employee benefits | 28.4 | 28.4 |
| Provisions | 10.4 | 7.0 |
| Accrued interest | 4.0 | 5.1 |
| Total Current Liabilities | 871.6 | 866.2 |
| Loans and borrowings and derivative financial liabilities | 1,470.6 | 1,318.4 |
| Spectrum liability | - | 327.8 |
| Deferred tax liabilities | - | 21.1 |
| Deferred revenue | 26.3 | 26.3 |
| Employee benefits | 1.8 | 1.9 |
| Provisions | 30.5 | 33.9 |
| Total Non-Current Liabilities | 1,529.2 | 1,729.4 |
| Total Liabilities | 2,400.8 | 2,595.6 |
| Net Assets | 2,962.7 | 2,850.4 |
| Equity | | |
| Share capital | 1,465.2 | 1,465.2 |
| Reserves | (54.3) | (8.5) |
| Retained earnings | 1,551.8 | 1,393.7 |
| Total Equity | 2,962.7 | 2,850.4 |

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2019

26. Parent entity disclosures

| | FY19 \$m | FY18 \$m |
|--|----------------|----------------|
| Result of the parent entity | | |
| (Loss)/ Profit for the period | (42.1) | 1,178.7 |
| <i>Comprising:</i> | | |
| Dividend from subsidiaries | - | 1,200.0 |
| Costs relating to planned business combination | (9.0) | - |
| Finance expenses | (60.2) | (39.0) |
| Income tax benefit | 18.1 | 9.1 |
| Other | 9.0 | 8.6 |
| Total (loss)/ profit for the period | (42.1) | 1,178.7 |
| Financial position of parent entity at year end | | |
| Current assets | 0.6 | 2.3 |
| Total assets | 6,553.6 | 5,936.2 |
| Current liabilities | 6.6 | 28.2 |
| Total liabilities | 3,906.1 | 3,166.7 |
| Total equity of the parent entity | | |
| Share capital | 1,465.2 | 1,465.2 |
| Reserves | (58.5) | (12.0) |
| Retained earnings | 1,240.8 | 1,316.3 |
| Total Equity | 2,647.5 | 2,769.5 |

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 25.

TPG Telecom Limited and its controlled entities
Notes to the consolidated financial statements
For the year ended 31 July 2019

27. Reconciliation of cash flows from operating activities

| | <i>Note</i> | FY19 \$m | FY18 \$m |
|--|-------------|--------------------|--------------------|
| Cash flows from operating activities | | | |
| Profit for the year after income tax | | 175.0 | 397.5 |
| <i>Adjustments for:</i> | | | |
| Depreciation of plant and equipment | 12 | 133.2 | 138.8 |
| Amortisation of intangibles | 13 | 136.1 | 90.4 |
| Impairment of spectrum and mobile assets | 6 | 236.8 | - |
| Bad and doubtful debts | | 7.1 | 4.9 |
| Amortisation of borrowing costs | 7 | 16.9 | 17.5 |
| Performance rights plan expense | 17c | 2.9 | 4.7 |
| Unrealised foreign exchange loss | | (2.1) | (2.2) |
| Interest income | 7 | (1.8) | (1.7) |
| Interest expense | 7 | 35.6 | 18.6 |
| Costs relating to mergers and acquisitions | | 9.0 | - |
| Income tax expense | 8 | 77.6 | 165.6 |
| Operating profit before changes in working capital and provisions | | 826.3 | 834.1 |
| Changes in: | | | |
| - Trade and other receivables and contract assets | | 5.9 | 2.7 |
| - Inventories | | (0.1) | 1.5 |
| - Other assets | | (7.4) | 17.2 |
| - Trade and other payables | | (0.9) | 14.1 |
| - Other liabilities | | 12.2 | (0.4) |
| - Employee benefits | | 0.1 | 1.2 |
| - Provisions | | 0.2 | (2.1) |
| | | 836.3 | 868.3 |
| Income taxes paid | | (128.6) | (194.5) |
| Net cash from operating activities | | 707.7 | 673.8 |

28. 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.

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2019

29. Auditors' remuneration

| | FY19 \$'000 | FY18 \$'000 |
|---|----------------|----------------|
| Audit and review services | | |
| Auditors of the Company – KPMG, Australia | | |
| - Audit and review of financial statements | 924 | 954 |
| - Other regulatory audit services | 8 | 8 |
| Network firms of KPMG | | |
| - Audit of financial statements | 15 | 15 |
| | 947 | 977 |
| Other services | | |
| KPMG, Australia | | |
| - Fees related to proposed VHA merger transaction | 1,189 | - |
| - Taxation and other services | 105 | 106 |
| | 2,234 | 1,083 |

30. Subsequent events

The Federal Court hearing to consider whether the planned merger between the Company and VHA would have the effect, or likely effect, of substantially lessening competition, was held between 10 September and 1 October 2019. The judge has indicated that his decision can be expected by February 2020.

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.

31. 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. This is the first set of the Group's annual financial statements in which AASB 9 *Financial Instruments* and AASB 15 *Revenue from Contracts with Customers* have been applied.

a. Adoption of new Accounting Standards

(i) Financial instruments (Revised AASB 9)

The revised AASB 9 is applicable to the Group from 1 August 2018. The standard sets out new requirements for classification and measurement of financial assets and financial liabilities. The impact of this revised standard on the Group's consolidated financial statements is not significant and there has been no restatement of prior year comparatives.

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2019

31. Significant accounting policies (continued)

Impact on financial assets

1) Classification and measurement

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 previous categories of: held to maturity, loans and receivables, and available for sale.

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

- (i) Trade receivables: Under AASB 9, trade receivables are classified as 'held-to-collect' MAAC assets and measured at amortised cost.
- (ii) Equity investments: At 1 August 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 continue to be reported in other comprehensive income, but no impairment losses are recognised in the income statement and no gains or losses are reclassified to the income statement on disposal.

2) Impairment

Under the revised standard, impairment of financial assets will be calculated using an 'expected credit loss' (ECL) model replacing the previous 'incurred loss' model. The new impairment model applies to financial assets that are classified as MAAC or FVOCI, but excluding equity investments. The current provisioning system for trade receivables is materially consistent with the prescribed lifetime expected credit loss method and hence no significant impact arises from the adoption of the new standard.

Impact on financial liabilities

The adoption of AASB 9 has not had a significant effect on the Group's accounting policies related to financial liabilities.

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 has adopted the AASB 9 hedge accounting model on initial application of the new standard. All the Group's previous hedge accounting relationships comply with the requirements of AASB 9 and therefore there is no change on adoption of AASB 9.

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

The new AASB 15 is 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.

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2019

31. Significant accounting policies (continued)

Changes to accounting policies, significant judgements and estimates arising from adoption of AASB 15:

1) Set-up revenue and connection costs:

For certain products, set-up revenue charged to customers and connection costs incurred by the Group were previously 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 is treated as part of the total contract price and allocated over the identified performance obligations. Connection costs, being costs of fulfilling orders, are capitalised as deferred contract costs and expensed to network, carrier and hardware costs over the life of the contract.

2) Subscriber acquisition costs:

In accordance with AASB Interpretation 1042: Subscriber Acquisition Costs in the Telecommunications Industry, the direct costs of acquiring customer contracts such as sign-on incentives, free equipment and discounted installation costs were previously classified as subscriber acquisition costs within intangible assets and amortised through intangible amortisation.

From the date of initial application of the new standard, costs such as sign-on incentives and free equipment that arise on obtaining customer contracts form part of the total contract price and hence reduce the revenue recognised over the contract term.

Costs such as discounted installation costs are classified as deferred 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 \$9.5m was reclassified from intangible assets to contract assets disclosed under 'Trade and other receivables and contract assets' (\$5.1m) and deferred contract costs (\$4.4m).

3) Sales commission costs:

Incremental sales commission costs incurred in acquiring new contracts were previously expensed on contract inception. Under the new AASB 15 these costs are capitalised as deferred contract costs and expensed to employee benefits expense over the life of the contract.

The impact of initial application of AASB 15 on the Group's consolidated financial statements is set out in the tables below. Tables A and B disclose the impact on the previously reported statements of financial position as at 31 July 2018 and 31 July 2017 respectively. Table C discloses the impact on the previously reported FY18 income statement.

There is no impact on the statement of cash flows arising from the adoption of AASB 15.

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2019

31. Significant accounting policies (continued)

A. Impact of changes in accounting policies on the statement of financial position as at 31 July 2018:

| | As previously reported \$m | Adjustment \$m | As restated \$m |
|---|----------------------------------|-------------------|--------------------|
| Trade and other receivables and contract assets | 129.1 | 5.1 | 134.2 |
| Deferred contract costs | - | 14.8 | 14.8 |
| Goodwill and other intangible assets | 2,420.7 | (9.5) | 2,411.2 |
| Other | 2,840.5 | - | 2,840.5 |
| Total Assets | 5,390.3 | 10.4 | 5,400.7 |
| Deferred revenue | 174.6 | 5.3 | 179.9 |
| Deferred tax liabilities | 12.1 | 1.5 | 13.6 |
| Other | 2,419.4 | - | 2,419.4 |
| Total Liabilities | 2,606.1 | 6.8 | 2,612.9 |
| Retained earnings | 1,323.2 | 3.6 | 1,326.8 |
| Other | 1,461.0 | - | 1,461.0 |
| Total Equity | 2,784.2 | 3.6 | 2,787.8 |

B. Impact of changes in accounting policies on the statement of financial position as at 31 July 2017:

| | As previously reported \$m | Adjustment \$m | As restated \$m |
|---|----------------------------------|-------------------|--------------------|
| Trade and other receivables and contract assets | 131.6 | 5.2 | 136.8 |
| Deferred contract costs | - | 19.1 | 19.1 |
| Goodwill and other intangible assets | 2,416.2 | (11.1) | 2,405.1 |
| Other | 1,363.2 | - | 1,363.2 |
| Total Assets | 3,911.0 | 13.2 | 3,924.2 |
| Deferred revenue | 174.4 | 7.5 | 181.9 |
| Deferred tax liabilities | 10.1 | 1.6 | 11.7 |
| Other | 1,327.2 | - | 1,327.2 |
| Total Liabilities | 1,511.7 | 9.1 | 1,520.8 |
| Retained earnings | 963.3 | 4.1 | 967.4 |
| Other | 1,436.0 | - | 1,436.0 |
| Total Equity | 2,399.3 | 4.1 | 2,403.4 |

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2019

31. Significant accounting policies (continued)

C. Impact of changes in accounting policies on the income statement for the year ended 31 July 2018:

| | As previously reported | Adjustment | As restated |
|--|---------------------------|---------------|--------------|
| | \$m | \$m | \$m |
| Revenue | 2,495.2 | 0.9 | 2,496.1 |
| Network, carrier and hardware costs | (1,229.4) | (14.9) | (1,244.3) |
| Employee benefits expense | (242.4) | (0.4) | (242.8) |
| Other expenses | (182.3) | - | (182.3) |
| EBITDA | 841.1 | (14.4) | 826.7 |
| Depreciation of plant and equipment | (138.8) | - | (138.8) |
| Amortisation of intangibles | (104.1) | 13.7 | (90.4) |
| Net financing costs | (34.4) | - | (34.4) |
| Income tax expense | (165.8) | 0.2 | (165.6) |
| Profit for the period | 398.0 | (0.5) | 397.5 |
| Other comprehensive income | 7.3 | - | 7.3 |
| Total comprehensive income | 405.3 | (0.5) | 404.8 |
| Basic and diluted earnings per share (cents) | 42.8 | - | 42.8 |

b. New standards and interpretations not yet adopted

Leases (AASB 16)

Introduction

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. Contracts that provide the Group with a right to control the use of an identified asset will be accounted for in the consolidated statement of financial position. The right to use the asset will be recognised as a Right of Use (ROU) asset and the contracted amounts payable over the lease term will be accounted for as a Lease liability.

Identifying leases

The Group has carried out an analysis of contracts including leases currently classified as operating leases; and other service contracts, to identify those that meet the definition of a lease under the new accounting standard. Property contracts including office premises, data centres and buildings forming part of the Group's network and other contracts such as for vehicles, photocopiers, etc. have been identified to meet the definition of a lease under the new accounting standard.

The Group has elected to adopt the following practical expedients and will not apply the lease accounting model to:

- leases with a remaining term of less than twelve months as at the date of initial adoption;
- contracts with a lease term of twelve months or less; and
- low value assets such as photocopiers.

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2019

31. Significant accounting policies (continued)

Initial adoption and measurement

The Group will adopt the 'Modified Retrospective method' for transition to the new standard. Lease liabilities will be measured at the present value of lease payments payable over the lease term as at 1 August 2019. ROU assets will be measured as if the new standard had been applicable on the lease commencement date. There will be no restatement of comparative information and transition adjustments will be carried out through retained earnings as at 1 August 2019.

The following practical expedients have been used in the initial measurement of lease liabilities and ROU assets:

- The Group relies on its previous assessment of whether leases were onerous under AASB 137 – Provisions, Contingent liabilities and Contingent assets, immediately before the date of initial application as an alternative to performing an impairment review under AASB 136 – Impairment of assets, on adoption.
- The Group uses a single discount rate for a portfolio of similar leases.
- The Group has elected to exclude initial direct costs attributable to obtaining a lease from the measurement of its ROU asset at the date of initial application.
- The Group has elected to use hindsight in arriving at the ROU assets and has used its current assessment of the lease term.

The Group expects to recognise lease liabilities of between \$95m and \$110m and ROU assets of between \$90m and \$105m on adoption of the new standard on 1 August 2019. Deferred tax assets of between \$1.5m and \$6m will also be recognised. The net impact, including deferred tax and other adjustments will be adjusted through retained earnings.

Subsequent measurement of lease liabilities and ROU assets

At each reporting date, the carrying amount of lease liabilities and ROU assets will be adjusted for changes in: contractual payment amounts, incremental borrowing rates, and outcomes of impairment testing.

In addition to the impact on the statement of consolidated financial position described above, the following impacts are expected from FY20 and beyond:

Impact on statement of comprehensive income:

Currently operating lease rentals are expensed on a straight-line basis over the lease term within 'Network, carrier and hardware costs' or 'Other expenses'. On adoption of the new standard, lease expenses will be recognised through depreciation of ROU assets and interest expense on lease liabilities. As a result:

- Earnings before interest, tax, depreciation and amortisation will increase;
- Depreciation expense will increase; and
- Interest expense will be higher in the initial phase of a lease and will reduce gradually towards the end of the term.

Impact on statement of cashflows:

Currently, operating lease payments are included in cashflows from operating activities. On adoption of the new standard, they will be classified as cashflows from financing activities as repayment of lease liabilities and interest payment.

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2019

31. Significant accounting policies (continued)

Significant judgements and estimates:

- The new standard requires an assessment of the likelihood of exercising renewal options on a lease-by-lease basis. The lease term would include the non-cancellable period plus extension terms for which the Group is reasonably certain to exercise options.
- The Group uses its weighted average cost of borrowing as an estimate of its incremental rate of borrowing.

c. 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. 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.

d. Foreign currency transactions

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

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2019

31. Significant accounting policies (continued)

e. 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.

f. 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.

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

h. Inventories

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

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2019

31. Significant accounting policies (continued)

i. 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.

j. 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.

TPG Telecom Limited and its controlled entities

Directors' declaration

For the year ended 31 July 2019

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 34 to 89 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 2019 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 25 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 2019.
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 18th day of October, 2019.

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 2019 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 2019;
- 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; and
- 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 systems and controls
- Carrying value of goodwill
- Impairment of spectrum assets

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 (\$2,477.4m)

Refer to **Note 4 Revenue**

The key audit matter

The majority of TPG'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 inherent risks associated with complex IT systems.

TPG 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 recognise revenue. The competitive market that the Group operates in also results in frequent changes to the pricing of telecommunication services plans. This increases the audit data points and therefore complexity for revenue recognition due to multiple price points, terms and conditions.

Testing these systems and associated controls requires the involvement of our IT specialists and increases the complexity of our audit procedures.

How the matter was addressed in our audit

Working with our IT specialists, our procedures included:

- Testing the key manual and automated general IT controls within the billing systems and multi-level sub-systems. The controls tested included access controls to programs and data, computer operations controls and change control procedures for these systems;
- Testing the end-to-end reconciliation control which reconciles the movement of transaction data from the business supporting systems to the billing systems and then to the general ledger. This included analysing significant journals processed between the billing systems and the general ledger for accuracy and consistency; and
- Testing the system configuration for calculating automated customer bill generation. This included performing sample tests, including test calls, of accuracy by checking customer agreed rates and charge plans in the systems to sources such as published rate cards.



| Carrying value of goodwill (\$1,911.0m) | |
|---|---|
| Refer to Note 13 Intangible Assets | |
| The key audit matter | How the matter was addressed in our audit |
| <p>The carrying value of TPG’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 TPG’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 being impacted by changes in technology, such as the introduction of the National Broadband Network, and a competitive market with frequently changing market price points. These conditions create a risk that business forecasts used for the assessment of recoverability may not be achieved. <p>Our consideration of TPG’s recoverability assessment of the carrying value of goodwill involves evaluating the output of valuation models for each cash generating unit (CGU). We focussed 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 (AMPU), service costs and broadband market share; 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 with knowledge of 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, service costs and broadband market share 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 TPG’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; and ● assessing the Group’s historical forecasting accuracy as an indication of risk in future forecasts. ● working with our valuation specialists, we assessed the 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 telecommunication sector; ● we assessed the quantitative and qualitative disclosures in relation to this matter by comparing these disclosures to the accounting standards and our understanding. |



Impairment of spectrum assets (\$91.8m)

Refer to **Note 6 Impairment of spectrum assets**

The key audit matter

The impairment of TPG's spectrum assets is a Key Audit Matter due to the complexity of auditing the judgements used by management to determine the recoverable value of these assets. The Group has prepared an assessment of the recoverable amount of its spectrum assets using the fair value less costs of disposal method. The audit complexity is increased by the minimal publicly available information for comparable market transactions involving spectrum assets due to the unique regulatory and license conditions that exist in Australia.

Our consideration of TPG's assessment of the carrying value of spectrum assets has focussed on the significant and key judgements TPG applied in determining the recoverable amounts of these assets including:

- assessing current market conditions and participants and a comparison to those prevailing at the time of the relevant spectrum auctions; and
- whether there are any more recent, directly comparable spectrum auctions.

In assessing this Key Audit Matter, we involved senior audit team members and our valuation specialists with knowledge of the telecommunications industry and the economic environment in which it operates.

How the matter was addressed in our audit

Our procedures included:

- challenging TPG's assessment of the relevant market conditions;
- challenging TPG's assessment of forecast market demand for mobile spectrum including consideration of the alternative technologies employing the relevant spectrum;
- challenging TPG's assessment of whether there are any more relevant, directly comparable spectrum auctions;
- recalculating the impairment charge and comparing to the recorded amount; and
- assessing the quantitative and qualitative disclosures in relation to this matter by comparing these disclosures to the requirements of the accounting standards and our understanding of the issue.

These procedures were performed with assistance from our valuation specialists.

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 and will 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. 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 this 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.auasb.gov.au/auditors_files/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 2019, 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 2019.

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
18 October 2019

TPG Telecom Limited and its controlled entities

ASX additional information

For the year ended 31 July 2019

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 2019.

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 | 11,796 |
| 1,001 - 5,000 | 8,515 |
| 5,001 - 10,000 | 1,728 |
| 10,001 - 100,000 | 1,481 |
| 100,001 and over | 122 |
| | <u>23,642</u> |

The number of shareholders holding less than a marketable parcel of ordinary shares is 897.

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 2019

Twenty largest shareholders (as at 30 September 2019)

| 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 | 96,764,177 | 10.43 |
| TSH HOLDINGS PTY LTD | 78,048,498 | 8.41 |
| VICTORIA HOLDINGS PTY LTD | 77,170,861 | 8.32 |
| J P MORGAN NOMINEES AUSTRALIA PTY LIMITED | 75,604,378 | 8.15 |
| DAVID TEOH | 47,663,106 | 5.14 |
| VICKY TEOH | 47,285,497 | 5.10 |
| TSH HOLDINGS PTY LTD | 32,730,000 | 3.53 |
| VICTORIA HOLDINGS PTY LTD | 32,730,000 | 3.53 |
| CITICORP NOMINEES PTY LIMITED | 29,773,406 | 3.21 |
| NATIONAL NOMINEES LIMITED | 14,382,957 | 1.55 |
| BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C> | 8,991,186 | 0.97 |
| J S MILLNER HOLDINGS PTY LIMITED | 6,922,699 | 0.75 |
| WIN CORPORATION PTY LTD | 6,811,430 | 0.73 |
| FARJOY PTY LTD | 6,254,236 | 0.67 |
| BNP PARIBAS NOMS PTY LTD <DRP> | 5,549,323 | 0.60 |
| BKI INVESTMENT COMPANY LIMITED | 4,819,251 | 0.52 |
| MILONISS PTY LTD <TONI ANNE PAINE DISC A/C> | 3,758,767 | 0.41 |
| MILTON CORPORATION LIMITED | 3,148,725 | 0.34 |
| AUSTRALIAN FOUNDATION INVESTMENT COMPANY LIMITED | 3,000,000 | 0.32 |
| | 815,804,618 | 87.93 |

Principal Registered Office

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Share Registry

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