Market Announcements Office
Australian Securities Exchange
Level 4, 20 Bridge Street
Sydney NSW 2000

Sydney, 20 August 2021

TPG Telecom Limited Results for Half Year Ended 30 June 2021 – Financial Commentary

Please find attached for immediate release to the market Financial Commentary concerning TPG Telecom Limited's results for the half year ended 30 June 2021.

Authorised for lodgement with the ASX by:

Trent Czinner
Company Secretary
TPG Telecom Limited
Investor.Relations@tpgtelecom.com.au

TPG Telecom Limited (ASX: TPG) ('the Company')
Financial Results Commentary
Half Year Ended 30 June 2021

Purpose of this document

The merger of the Company and TPG Corporation became effective for accounting purposes on 26 June 2020. The structure and timing of the merger mean that, whilst the TPG Telecom Group's results for the half-year ended 30 June 2021 ('HY21') include a full six months' results for the merged group, the comparatives for the six months ended 30 June 2020 ('HY20') only include four days' contribution from TPG Corporation.

The TPG Telecom directors recognise that this doesn't allow for meaningful comparison of the Group's HY21 and HY20 reported results. This document is, therefore, provided to assist users of the accounts to obtain a better understanding of the underlying performance of the Group by providing a comparison between the Group's reported results for HY21 and the pro forma results for HY20.

The pro forma results for HY20 (which were also previously provided as part of the Group's HY20 results release) are designed to simulate what the Group's results would have been for HY20 if the merger had been effective throughout HY20.

This document should be read in conjunction with the Group's 2021 half-year financial report and investor presentation.

Comparison of HY21 vs HY20 reported results

$m	HY21 Reported Results	HY20 Reported Results	$m change	% change
Revenue	2,630	1,540	1,090	+71%
EBITDA	886	531	355	+67%
EBIT	190	52	138	+265%
Profit/(loss) before tax	109	(143)	252	+176%
Income tax	(33)	226	(259)	(115%)
Net profit after tax	76	83	(7)	(8%)

The substantial increase in the Group's HY21 reported results relative to HY20, down to and including profit before tax is primarily due to the fact that HY20 included only four days' contribution from TPG Corporation, compared to a full six months in HY21.

The comparison of HY21 and HY20 reported net profit after tax is further impacted by the fact that HY20 reported results included a $226m one-off, non-cash, accounting credit to income tax expense.

TPG TELECOM

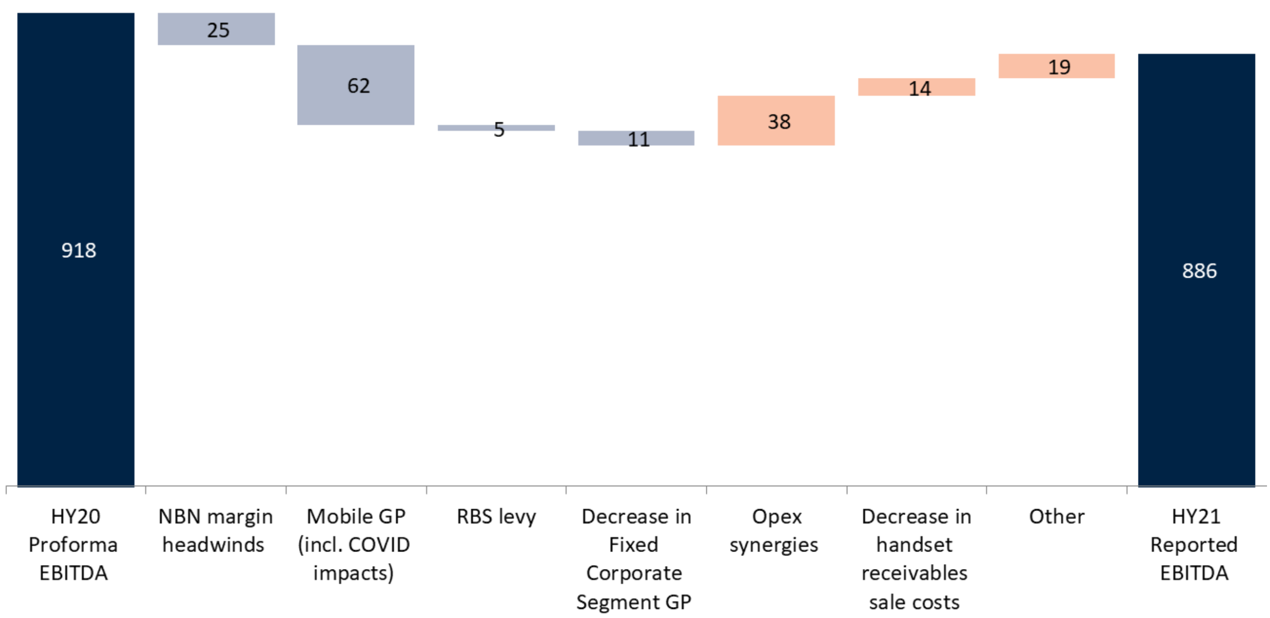
TPG Telecom Limited (ASX: TPG) ('the Company')
Financial Results Commentary
Half Year Ended 30 June 2021

Comparison of HY21 vs HY20 pro forma results

$m	HY21 Reported Results	Add back: acquired customer base amortisation[1]	HY21 Underlying Results	HY20 Pro forma Results[2]	$m change	% change
Revenue	2,630	-	2,630	2,712	(82)	(3%)
EBITDA	886	-	886	918	(32)	(3%)
EBIT	190	80	270	286	(16)	(6%)
Profit before tax	109	80	189	192	(3)	(2%)
Income tax	(33)	(24)	(57)	(52)	(5)	(10%)
Net profit after tax	76	56	132	140	(8)	(6%)

Notes to the table above:
1. The purchase price allocation exercise for the merger accounting gave rise to an acquired customer base intangible asset of $1,689m which will be amortised over future years. As this is a non-cash accounting expense, it is not reflective of underlying performance and is therefore added back for the purpose of this analysis.
2. A detailed reconciliation between HY20 reported and pro forma results is set out in the Group's HY20 results presentation available on the Group's website at tpgtelecom.com.au/investor-relations.

On a pro forma basis, the Group's HY21 EBITDA declined by $32m (3%) compared to HY20. The chart below shows a bridge between HY20 pro forma and HY21 reported EBITDA setting out the main drivers of the net $32m movement.



Commentary on each of the key drivers of the EBITDA movement shown in the chart is set out below:

(a) NBN margin headwinds

Over the past six years, the rollout of the Government's National Broadband Network (NBN) accompanied by the shutdown of legacy copper networks has forced the Group to migrate its fixed broadband customer base off DSL technology onto the NBN.

The high wholesale costs charged by the NBN make these services much less profitable for the Group to deliver than the DSL services they are replacing. In HY21, the Group increased its overall broadband subscriber base by 23k, but the average number of DSL subscribers declined by 237k compared to HY20. This caused a $23m decline in gross profit as the average gross profit contribution from providing an NBN service was $16 per month lower than for a DSL service. As at 30 June 2021, the Group only had 73k DSL subscribers remaining.

The other $2m of NBN headwinds in HY21 was from the Group's fixed voice customers migrating to NBN services.

(b) Decline in mobile gross profit (including COVID impacts)

The Group's mobile customer base declined in HY21, but at a significantly reduced rate of decline compared to 2020, declining by 136k in the six months to 30 June 2021 compared to a decline of 737k in 2020. The reduced number of mobile subscribers is the main driver of the decline in mobile GP in HY21 compared to HY20. Reduced numbers of international visitors and temporary visa holders due to COVID continued to be a major driver of these customer number declines.

The impact of COVID related travel restrictions on roaming and visitor revenue (which impacted the whole of HY21 compared to only roughly three months in HY20) also caused an $11m decline in mobile gross profit in HY21 relative to HY20.

(c) RBS levy

From 1 January 2021, the Group's on-net high-speed broadband services started incurring the new RBS levy. This is the Federal Government's new tax on companies investing in broadband infrastructure, which is expected to cost the Group approximately $11m in 2021 ($5m in HY21).

(d) Fixed Corporate Segment gross profit decline

Corporate Segment gross profit from fixed services was $11m lower in HY21 than in HY20, driven by declines in legacy copper based services and revenues from customers in COVID impacted sectors offsetting growth in on-net fibre and NBN enterprise ethernet services.

(e) Opex synergies

In the February 2021 investor presentation accompanying the Group's 2020 results, the Group advised that it expected to realise operating cost savings arising from merger synergies in 2021 of approximately $70m. In HY21, $38m of operating cost synergies were realised, comprising savings from migrating iiNet mobile customers onto the Group's network, optimising network backhaul and transit arrangements, streamlining other operating expenditure and eliminating certain duplicated costs.

(f) Decrease in handset receivables sale costs

A temporary delay of sales of handset receivables from 1H21 into 2H21 has resulted in a $14m benefit to HY21 EBITDA, due to the avoidance of the associated sale costs. This is also reflected in lower operating cashflow in HY21 (refer cash flow section below). This is a timing matter only and a compensating higher volume of handset receivables sales in 2H21 is expected to have the effect of reversing the HY21 P&L benefit and increasing operating cashflow.

(g) Other

Other EBITDA growth of $19m relative to HY20 was primarily driven by other operating cost savings, device margin and consumer broadband growth.

Segment results

	Consumer		Corporate		Other		Group	
$m	**HY21**	**PF HY20**	**HY21**	**PF HY20**	**HY21**	**PF HY20**	**HY21**	**PF HY20**
Service revenue	1,757	1,875	438	470	-	-	2,195	2,345
Handset revenue	387	348	48	19	-	-	435	367
Total revenue	**2,144**	**2,223**	**486**	**489**	**-**	**-**	**2,630**	**2,712**
Other income	-	-	-	-	8	6	8	6
Telco costs	(845)	(867)	(128)	(140)	-	-	(973)	(1,007)
Cost of handsets	(368)	(345)	(45)	(19)	-	-	(413)	(364)
Gross Profit	**930**	**1,011**	**313**	**330**	**8**	**6**	**1,252**	**1,347**
Overheads	(293)	(345)	(77)	(84)	4	-	(366)	(429)
EBITDA	**638**	**666**	**236**	**246**	**12**	**6**	**886**	**918**
Handset GP ($m)	19	3	3	0			22	3
Service GP ($m)	911	1,008	310	330			1,222	1,338
Service GP %	52%	54%	71%	70%			56%	57%
Overheads %	17%	18%	18%	18%			17%	18%
EBITDA %	30%	30%	49%	50%			34%	34%
EBITDA % (excl handset GP)	35%	35%	53%	52%			39%	39%

Total Consumer segment revenues for HY21 of $2,144m were $79m lower than for the pro forma HY20 period. The main drivers of this were:

- $100m decrease due to mobile subscriber and ARPU decline;
- $31m decrease due to the disposal of Tech2 from the beginning of HY21;
- $12m other decreases (primarily fixed voice); partially offset by
- $25m increase from fixed broadband growth; and
- $39m increase in revenue from mobile handset sales.

Strong operating discipline meant that Consumer segment EBITDA margin remained the same as in HY20 at 30% despite the margin headwinds from DSL to NBN migration.

Total Corporate segment revenues for HY21 of $486m were $3m lower than for the pro forma HY20 period. The main drivers of this were:

- $17m decrease in data and internet revenues;
- $5m decrease in fixed voice revenues;
- $8m decrease in mobile revenues; partly offset by
- $29m increase in revenue from mobile handset sales.

These revenue movements resulted in a Corporate segment EBITDA decrease of $10m, however EBITDA margin (excluding handset GP) increased from 52% to 53%.

Cash flow

A comparison of the Group's reported cash flows for HY21 and HY20 is distorted by the fact that HY20 included only four days' contribution from TPG Corporation, compared to a full six months in HY21. The table below therefore sets out a comparison of HY21 cash flows with both reported and pro forma cash flows for HY20. The pro forma cash flows for HY20 are intended to simulate what the cash flows would have been if the merger had been effective from the start of HY20.

$m	**HY21 Reported**	**HY20 Reported**	**HY20 Pro forma[1]**
Operating cash flow	567	318	693
Tax paid	(4)	-	(56)
Mobile spectrum payments	(22)	(205)	(688)
Other capital expenditure	(413)	(266)	(354)
Merger transaction costs	(1)	(14)	-
Lease principal payments	(68)	(63)	(61)
Financing costs - leases	(31)	(50)	(35)
Financing costs - debt	(62)	(79)	(54)
Dividends paid	(139)	-	-
Net cash flow	**(173)**	**(359)**	**(555)**
Net cash flow before dividends	**(34)**	**(359)**	**(555)**
Operating free cash flow	**28**	**(280)**	**(501)**

1. A detailed reconciliation between HY20 reported and pro forma cashflows is set out in the Group's HY20 results presentation available on the Group's website at tpgtelecom.com.au/investor-relations.
2. HY21 cash flows in table above exclude one-off cashflows of $2m re divestment of Tech2.

Operating cash flow for HY21 of $567m was lower than in the HY20 pro forma period and $319m lower than HY21 EBITDA of $886m due to an adverse movement in working capital. This was primarily driven by the timing of handset receivables sales. As noted in the EBITDA bridge above, this timing issue resulted in a temporary benefit of $14m to the Group's EBITDA in the period.

The $4m tax paid in HY21 represents a final FY20 income tax payment for TPG Corporation relating to the pre-merger period.

The $22m spectrum payment in HY21 represents the first of five equal annual instalments relating to the Group's purchase of 26GHz (millimetre wave) at auction in April 2021.

Other capital expenditure of $413m in the period was $59m higher than the $354m for the proforma HY20 period, reflecting an acceleration of the Group's 5G network upgrade, along with continued investment in the expansion of the Group's fibre network and IT systems development.

Lease payments (principal plus financing cost components) are broadly in line with the pro forma HY20 period.

Debt financing costs were $8m higher in HY21 than for the HY20 pro forma period despite a reduced debt balance and interest rate. This counter-intuitive increase in HY21 is due to the following two factors:

a) Timing of interest payments. Payments covering a period of greater than six months were made in HY21; and
b) One-off costs incurred in HY21 re debt refinancing. During HY21, the Group's $5.25bn debt facilities were refinanced on improved pricing terms and with maturity dates of the facilities extended by one year.

-END-