TPG TELECOM LIMITED (ASX: TPM)

FINANCIAL RESULTS COMMENTARY

YEAR ENDED 31 JULY 2017

TPG Telecom reports another year of record profits in FY17

- **Guidance exceeded**
- **Mobile network projects on track**
- **Debt financing secured**

Reported Results

TPG Telecom Limited has announced record results for its year ended 31 July 2017 ("FY17").

- Earnings before interest, tax, depreciation and amortisation ("EBITDA") for the period increased by 5% to $890.8m.
- Net Profit After Tax attributable to shareholders ("NPAT") for the period was $413.8m, an increase over FY16 of 9%.
- Earnings per share ("EPS") increased by 6% to 47.9 cents per share.

Underlying[1] Results

The FY17 reported results include the following irregular items:

- $48.8m profit realised on the sale of equity investments ($35.3m post tax).
- $7.0m non-recurring revenue earned by the Group's Consumer Segment ($4.9m post tax).

Excluding these irregular items and the $74.1m ($70.7m post tax) irregular items that benefitted the FY16 reported EBITDA, the Group's underlying EBITDA for FY17 has increased by $59.7m (8%) to $835.0m, $5m above the top end of the $820-830m guidance range provided in September 2016.

The Group's underlying NPAT grew by $56.3m (16%) in FY17 to $417.3m due primarily to the EBITDA growth plus a $32.4m (pre-tax) decrease in net financing costs due to a reduction in the quantum and cost of the Group's bank debt.

Underlying EPS[2] increased by 12% to 48.3 cents per share.

Segment Results

Following the integration of iiNet's operations during the year, iiNet's results are now recognised within the Group's Corporate and Consumer Segments. The commentary on the segment results that follows reflects this revised segment reporting structure.

The Consumer Segment's EBITDA for FY17 was $530.4m compared to $467.4m for FY16. Irregular items affecting this movement were $7.0m of one-off revenue earned through a key supplier arrangement in FY17 and $6.3m of iiNet integration costs incurred in FY16 not repeated in FY17. Excluding these irregular items the Consumer Segment achieved underlying EBITDA growth of $49.7m, driven by (i) an extra 3 weeks' contribution from iiNet relative to FY16 (~$13.8m), and (ii) organic growth of $35.9m driven by NBN and FTTB subscriber growth and the continued realisation of financial benefits from iiNet integration activities.

The Corporate Segment achieved FY17 EBITDA of $312.8m compared to $300.2m for FY16, representing growth of $12.6m driven by continued strong data and internet sales and margin expansion.

[1] A reconciliation of reported to underlying profits is set out on page 4 of this Financial Results Commentary.
[2] Underlying EPS incorporates the same adjustments as set out for underlying NPAT.

Cashflow, Capital Expenditure and Gearing

The Group delivered another strong cashflow result in FY17 with $869.7m cash generated from operations (pre-tax).

The Group's FY17 Capital Expenditure of $576.3m included $207.5m of mobile spectrum purchases ($124.4m Singapore new entrant and general auctions, $73.1m Australian 1800MHz spectrum and $10m prepayment in relation to Australian 700MHz spectrum). Aside from spectrum purchases there has not yet been any significant mobile network expenditure. This will commence in FY18.

Other FY17 Capital Expenditure of $368.8m was ~$100m higher than the prior year driven by (i) an acceleration in the fibre expansion for the Vodafone fibre contract which is on schedule to be completed on time and within budget during FY18, and (ii) the acquisition of additional international capacity.

Cashflows in the year were also boosted by $124.5m of proceeds from the sale of equity investments. These, together with the free cashflow generated in the year and the $400m equity raise undertaken in April 2017 enabled the Group to reduce its bank debt as at the year-end to $900m, representing a debt to EBITDA leverage ratio of less than 1.1x.

Debt Facilities

As at the year-end the Group had $735m of undrawn debt facilities. Subsequent to the year-end, in September 2017, the Group has increased its total committed debt facilities by a further $750m to $2,385m in order to finance its spectrum commitments and planned mobile network builds.

Under the revised September 2017 debt facility agreement the improved pricing the Group secured when it refinanced in December 2016 was maintained and the maturities of the facilities were extended further. The maturity profile of the facilities is now between 3 and 7 years from September 2017 with a weighted average tenor of 4.5 years.

Over a number of years the Group has been fortunate to have benefitted from a very supportive syndicate of banks and it has been gratifying to receive their renewed support as the Group targets the exceptional opportunity that mobile can bring. In addition to existing lenders, the Group welcomes a number of new lenders to its portfolio of debt providers who bring longer term debt facilities under the same facility agreement as existing lenders.

Mobile Strategy Update

In addition to achieving the important milestone of securing debt financing to support the mobile strategy, the Group has also made strong progress in the implementation of its mobile network rollouts both in Singapore and in Australia.

In Singapore the Group is on track to achieve the first milestone of nationwide outdoor service coverage before the end of 2018. Capex projections are currently looking to be within initial assumptions.

In Australia, where the initial network implementation is concentrated on the country's most densely populated areas, the Group has already entered into agreements with multiple partners to gain access to a large volume of sites to provide coverage of major metropolitan areas. Implementation of some initial site clusters in Sydney, Melbourne and Canberra is currently expected to be complete by mid-2018.

Dividend

The Board is very conscious of shareholder interest in securing returns by way of dividends and is favourably disposed to increasing dividends over time. Balanced against that is the Board's strong belief in the long term benefits that will arise for shareholders following a successful implementation of the Group's mobile strategy.

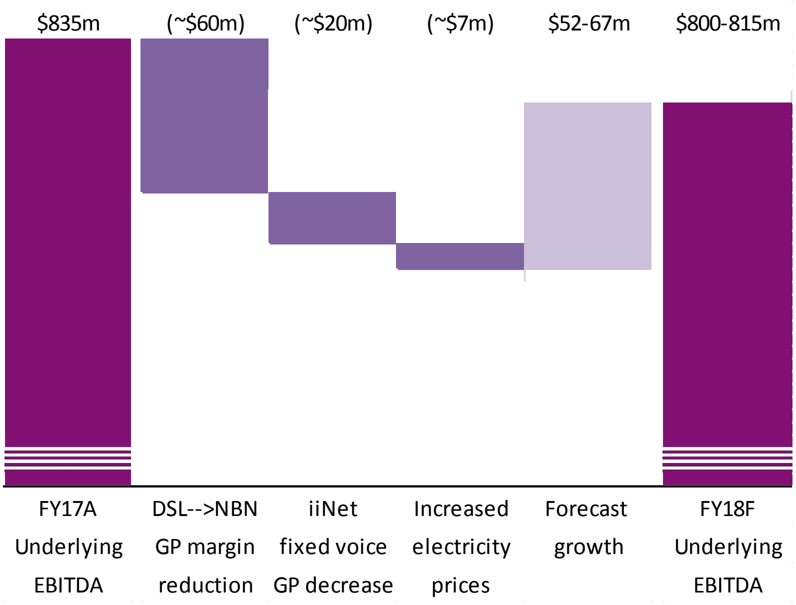
Accordingly, the Board has concluded that it is in the best interests of shareholders that a greater proportion of profits be retained in the Company to be deployed in the mobile rollouts. The Board believes this to be a fiscally prudent approach.

The Board is confident that this course will prove in the long run to be the right decision for shareholders and accordingly have declared a reduced final dividend for FY17 of 2.0 cents per share (fully franked) and have also re-implemented the Company's Dividend Reinvestment Plan for this dividend with a DRP discount of 1.5%.

The final FY17 dividend (payable on 21 November 2017 to shareholders on the register on 17 October 2017) takes total FY17 dividends to 10.0 cents per share fully franked.

FY18 Guidance

The Group is anticipating another year of solid growth in FY18 but expects this to be offset by NBN margin headwinds as reflected in the below chart which shows a bridge between actual underlying FY17 EBITDA and forecast FY18 underlying EBITDA.



The fixed-line residential broadband margin erosion faced by the industry in light of the NBN underlines the importance of the Group's strategy to take advantage of the valuable assets it has assembled to inject itself into the industry's mobile sector, vastly expanding the addressable revenue pool for the Group into the future.

David Teoh
Executive Chairman
19 September 2017

Reconciliation of Reported to Underlying Profits

	FY17		FY16	
$m	EBITDA	NPAT	EBITDA	NPAT
Reported	**890.8**	**413.8**	**849.4**	**379.6**
Less: Profit on sale of equity investments	(48.8)	(35.3)	(17.6)	(12.3)
Less: Gain on previously held interest in iiNet	-	-	(73.1)	(73.1)
Less: One-off revenue	(7.0)	(4.9)	-	-
Add: One-off iiNet acquisition transaction costs	-	-	10.3	10.3
Add: Non-recurring iiNet re-organisation costs	-	-	6.3	4.4
Add: Acquired customer base intangible amortisation	-	43.7	-	52.1
Underlying	**835.0**	**417.3**	**775.3**	**361.0**