



2017
ANNUAL REPORT

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

**Annual Report
Year ended 31 July 2017**

TPG Telecom Limited and its controlled entities

Annual report

For the year ended 31 July 2017

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TPG Telecom Limited and its controlled entities

Chairman's letter

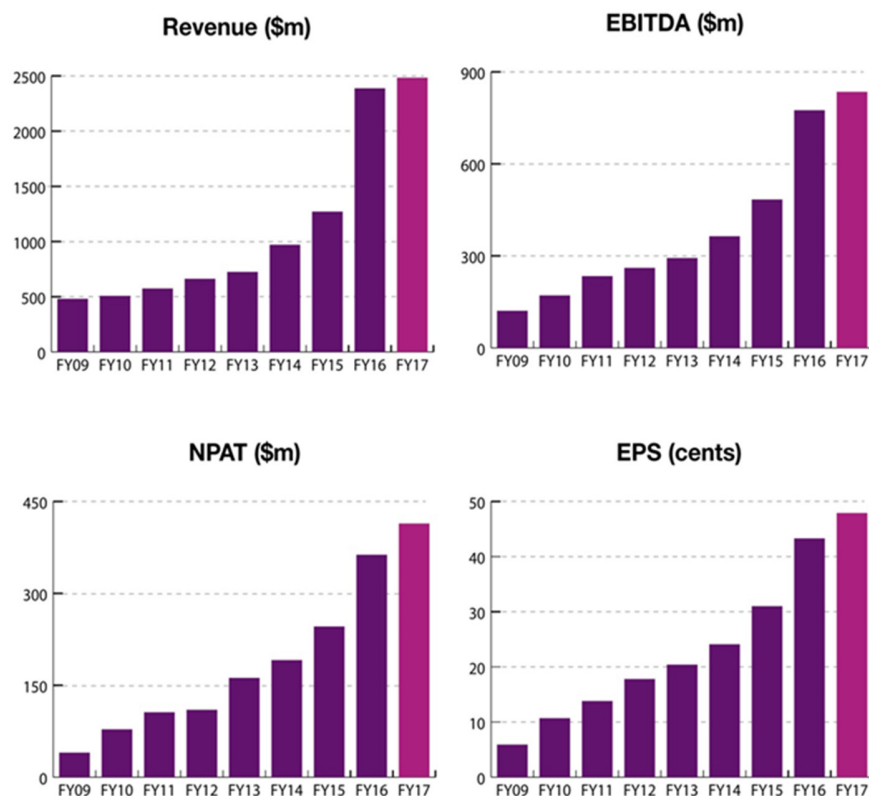
For the year ended 31 July 2017

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 2017 ("FY17").

FY17 was another extremely busy year for the Group. We have been working hard on implementing exciting and important long-term growth strategies in the form of our mobile projects and have at the same time managed to deliver another year of record profits.

A detailed review of the Group's operating and financial performance for the year is provided in the Operating and Financial Review section of the Directors' Report starting on page 8 of this Annual Report but the charts below give an overview of the underlying results for FY17 alongside those of the preceding eight financial years, demonstrating that FY17 was the ninth consecutive year of revenue and profit growth for the Group.



Your Board is proud of this track record but believes that we are still only in the early stages of our business lifecycle. As directors we are absolutely focussed on continuing to maximise the economic returns from the enviable suite of quality assets that the Group has already amassed.

This year has seen us take the initial transformational steps for the next stage of TPG's growth and I am tremendously excited about the opportunities that these projects offer to our Group.

TPG Telecom Limited and its controlled entities

Chairman's letter

For the year ended 31 July 2017

Mobile Projects

Whilst TPG's success to date has come largely in the fixed line segment of the market, we have long recognised the importance of wireless connectivity to the future needs of consumers, and in FY17 we have taken decisive steps towards positioning our Group to become a powerful participant in the mobile sector both in Australia and in Singapore, vastly expanding our future opportunities.

Australian mobile

We see our evolution into a mobile network operator in Australia as a natural incremental extension of our existing business. We are already a large established telecommunications business with multiple strong brands, over two million customers, and existing scalable infrastructure, systems and call centres already in place to support this incremental extension.

We also already have vital mobile network infrastructure components, particularly the enormous backhaul capacity throughout Australia that our Group's fibre network provides. Fibre backhaul is an extremely important component of a mobile network and becomes increasingly important as data demands of mobile users grow.

In April 2017 we were able to acquire 10MHz of nationwide 700MHz spectrum, the premium spectrum currently in use for mobile networks due to its wider coverage and superior in-building penetration. This acquisition, together with the previously acquired complementary spectrum assets in the 2.5GHz and 1800MHz bands, now gives us the spectrum assets to execute on the mobile strategy.

This spectrum purchase means that we now have all the necessary ingredients to build a national mobile network in a cost and time efficient manner. Since the spectrum purchase we have progressed quickly with our mobile network planning and site acquisition in major metropolitan areas and have already entered into agreements with multiple partners to gain access to a large volume of sites. We are hoping to have initial clusters of mobile network sites implemented by the middle of 2018.

Singapore mobile

Although we had no established business presence in Singapore, we believe that the spectrum we acquired during the year at the Info-communications Media Development Authority's new entrant and general spectrum auctions and the favourable regulatory and competitive environments in Singapore create an outstanding opportunity for our Group to make a name for itself in the Singaporean mobile market. We are progressing well with our mobile network build and we are on track to achieve nationwide outdoor service coverage by December 2018.

Conclusion

Our Group has had a very successful period over the past ten years establishing itself as a leading telecommunications provider in Australia with fantastic infrastructure, the second largest fixed broadband market share, and annual EBITDA in excess of \$800m. We believe that we are also uniquely positioned to leverage the infrastructure and customer bases we have built to drive the next phase of growth for the Group through mobile.

TPG Telecom Limited and its controlled entities

Chairman's letter

For the year ended 31 July 2017

The Group's achievements are made possible by the dedication of our hard-working employees. I would like to thank them all again for their efforts this year and look forward to their on-going contribution to the Group's success in FY18 and beyond.

Your directors are all shareholders in the Company and each of us is, of course, disappointed about the margin headwinds that the Group is facing as a result of the building of the NBN network, and the consequential decline in the Company's share price over the past year. However, I am confident that the strategies we are implementing will continue to create excellent value for shareholders over the long term.

On behalf of the Board, I thank all our shareholders for their continued support of the Company, particularly through this period of transformation.

Yours faithfully



David Teoh
Chairman

TPG Telecom Limited and its controlled entities

Directors' report

For the year ended 31 July 2017

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 2017, 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 2017

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, A.I.C.D. 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. 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 2017

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	18	18	-	-	-	-
D Ledbury	18	18	2	2	1	1
R Millner	17	18	2	2	1	1
J Pang	18	18	2	2	1	1
S Teoh	18	18	2 ⁽¹⁾	2 ⁽¹⁾	-	-

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

- (1) Mr S Teoh is not a member of the ARC, but attended these ARC meetings at the invitation of the Chairman.
- (2) The ARC meetings, disclosed above, do not include separate meetings that the ARC Chairman also had with the audit partner during the year.

4. Operating and financial review

4.1 Operating result overview

Reported Results

The Group again achieved record results for its year ended 31 July 2017 ("FY17").

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

Underlying 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 increased by \$59.7m (8%) to \$835.0m, \$5m above the top end of the \$820-830m guidance range provided in September 2016.

TPG Telecom Limited and its controlled entities

Directors' report

For the year ended 31 July 2017

4. Operating and financial review (continued)

4.1 Operating result overview (continued)

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 increased by 12% to 48.3 cents per share.

Reconciliation of Reported to Underlying Profits

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

These results represent the ninth consecutive year of underlying profit growth for the Group.

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.

TPG Telecom Limited and its controlled entities

Directors' report

For the year ended 31 July 2017

4. Operating and financial review (continued)

4.1 Operating result overview (continued)

Cashflow, Capital Expenditure and Gearing

The Group delivered another strong cashflow result in 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 \$742m to \$2,377m (includes a Singapore dollar denominated facility of S\$100m which is translated to AUD using the 31 July 2017 spot rate) 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.

TPG Telecom Limited and its controlled entities

Directors' report

For the year ended 31 July 2017

4. Operating and financial review (continued)

4.1 Operating result overview (continued)

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 has declared a reduced final dividend for FY17 of 2.0 cents per share (fully franked) and has 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.

TPG Telecom Limited and its controlled entities

Directors' report

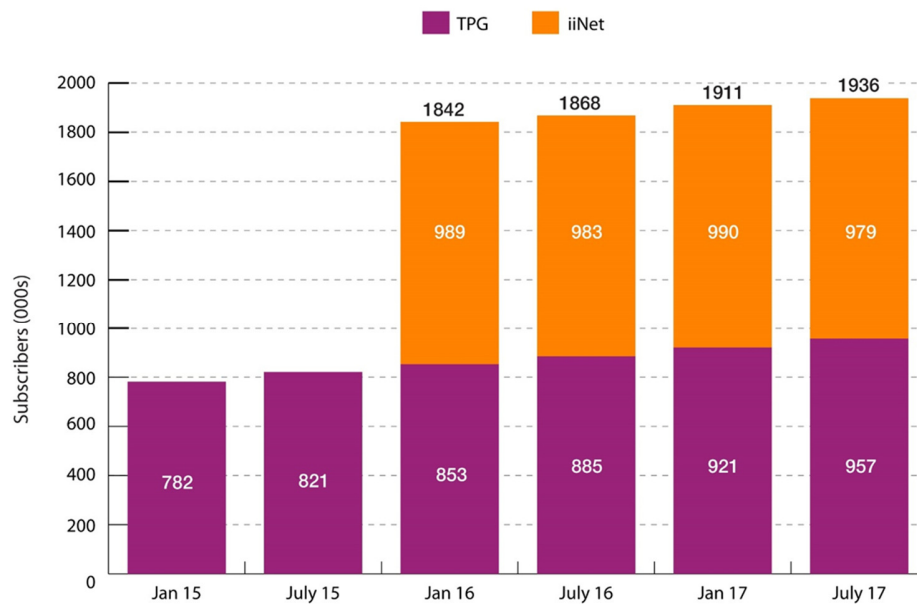
For the year ended 31 July 2017

4. Operating and financial review (continued)

4.2 Customer growth

Group Broadband Subscribers

The Group grew its consumer broadband subscriber base by 68k in FY17 finishing the year with 1.94m subscribers, comprising 957k TPG and 979k iiNet subscribers.



TPG Telecom Limited and its controlled entities

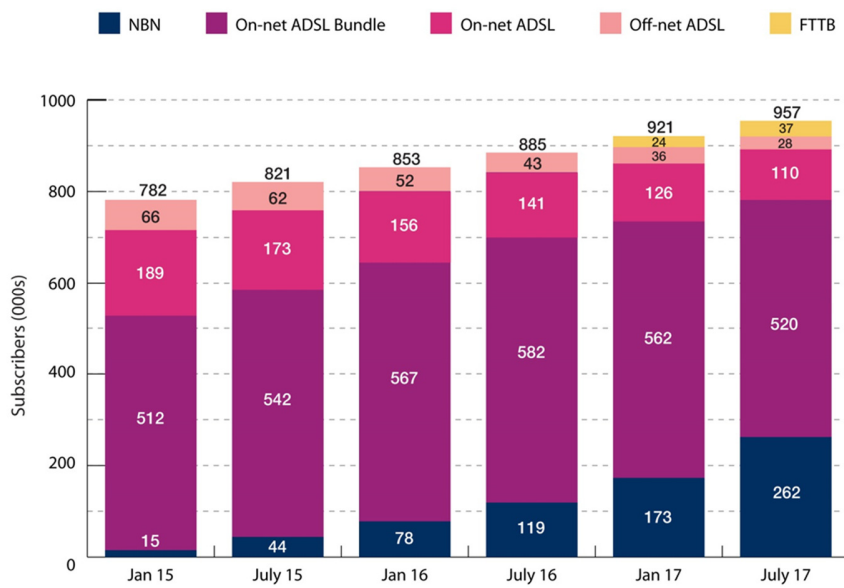
Directors' report

For the year ended 31 July 2017

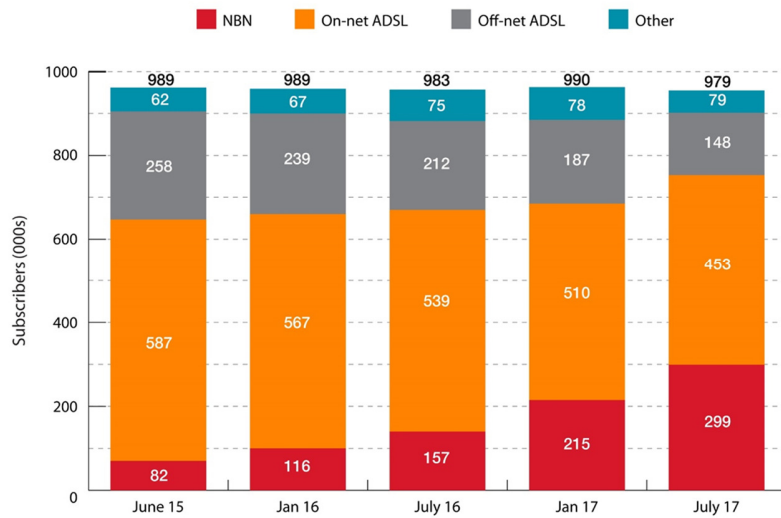
4. Operating and financial review (continued)

4.2 Customer growth (continued)

The TPG Consumer broadband subscriber base grew by 72k in FY17 driven by growth in NBN and FTTB customers.



The iiNet broadband subscriber base declined slightly to 979k as at the end of FY17.



TPG Telecom Limited and its controlled entities

Directors' report

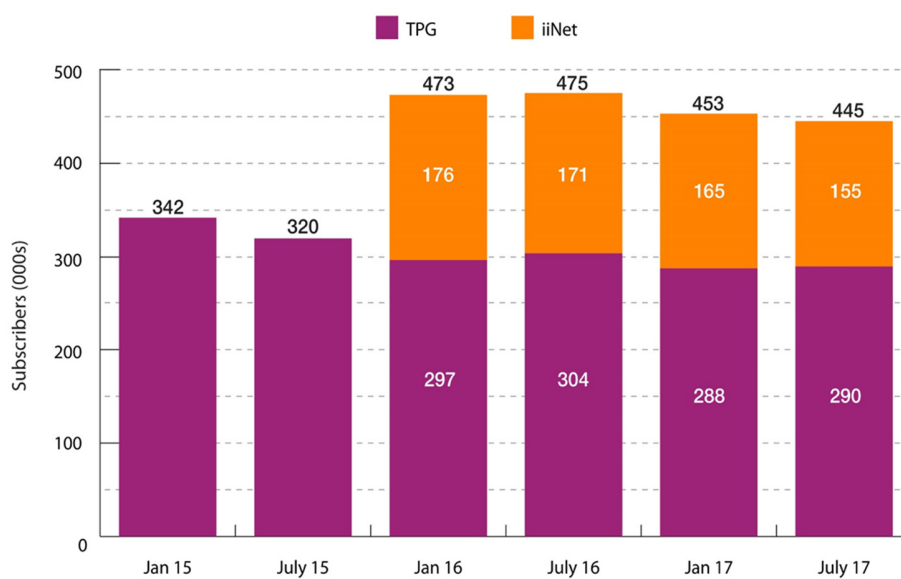
For the year ended 31 July 2017

4. Operating and financial review (continued)

4.2 Customer growth (continued)

Group Mobile Subscribers

The Group had 445k mobile subscribers as at 31 July 2017 comprising 155k iiNet and 290k TPG subscribers.



Corporate Revenues

The Group's Corporate Segment revenues increased to \$743.0m in FY17, up by \$16.4m from the prior year. The composition of the growth is shown in the table below.

\$m	Corporate Segment Revenue			
	Data/Internet	Voice	Legacy iiNet	Total
FY16	487.7	166.9	72.0	726.6
FY17	526.1	147.1	69.8	743.0
FY17 growth	8%	(12%)	(3%)	2%

Data and internet revenues grew by 8% 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 2017

4. Operating and financial review (continued)

4.3 Financial results review

There follows below a review of the key elements of the FY17 results:

	FY17	% of	FY16	% of
	\$m	revenue	\$m	revenue
Revenue				
Consumer	1,747.7	70%	1,661.2	70%
Corporate	743.0	30%	726.6	30%
Total revenue	2,490.7		2,387.8	
Telco costs				
Consumer	(916.4)	52%	(877.5)	53%
Corporate	(287.4)	39%	(286.4)	39%
Total telco costs	(1,203.8)		(1,163.9)	
Employment costs				
Consumer	(147.8)	8%	(168.9)	10%
Corporate	(108.8)	15%	(104.7)	14%
Unallocated	(0.1)	-	-	-
Total employment costs	(256.7)		(273.6)	
Other expenses				
Consumer	(153.1)	9%	(147.4)	9%
Corporate	(34.0)	5%	(35.3)	5%
Unallocated	(1.1)	-	(10.9)	-
Total other expenses	(188.2)		(193.6)	
Other income	48.8	-	92.7	-
EBITDA	890.8	36%	849.4	36%
Depreciation	(141.1)	6%	(136.9)	6%
Amortisation	(103.3)	4%	(115.1)	5%
Operating profit	646.4	26%	597.4	25%
Net financing costs	(50.9)	2%	(83.3)	3%
Profit before tax	595.5	24%	514.1	22%
Income tax	(179.8)	-	(129.5)	-
Profit after tax	415.7	17%	384.6	16%
Attributable to:				
Owners of the Company	413.8		379.6	
Non-controlling interest	1.9		5.0	
Earnings per share (cents)	47.9		45.3	

TPG Telecom Limited and its controlled entities

Directors' report

For the year ended 31 July 2017

4. Operating and financial review (continued)

4.3 Financial results review (continued)

Revenue

a) Consumer

Consumer Segment revenue increased by \$86.5m to \$1,747.7m in FY17.

Approximately \$65.7m of the increase is due to the fact that iiNet customers only contributed 11.25 months of revenue in FY16 compared to a full 12 months in FY17 since the effective date of the iiNet acquisition in FY16 was 24 August 2015.

The 'real' increase in Consumer Segment revenues excluding the additional three weeks' contribution from iiNet was \$20.8m. This increase was driven by an \$80.9m (6%) increase in broadband revenues and \$7.0m of one-off revenue earned through a key supplier arrangement, partially offset by revenue decreases in fixed voice (\$44.8m), mobile (\$5.7m) and other services (\$16.6m).

The growth in broadband revenues was driven by a combination of increased broadband subscriber numbers and higher ARPU (average revenue per user).

Subscribers on the Group's broadband plans increased over the year by 68k (4%) to 1,936k. Included within this growth was a significant change in the composition of the broadband customer base with NBN subscribers increasing by 285k to represent 29% of the total broadband customer base as at the year-end. Offsetting that, ADSL subscribers declined by 258k to represent 65% of the total customer base as at the year-end. Following the re-launch of retail FTTB services in the year the Consumer Segment also finished the financial year with 37k FTTB customers.

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

The \$44.8m 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 \$16.4m (2%) to \$743.0m in FY17. Approximately \$4.9m of this growth is attributable to the additional three weeks' contribution from iiNet corporate customers in FY17.

The \$11.5m 'real' growth in revenue was driven by a \$38.4m (8%) increase in data and internet revenues, partially offset by a \$19.8m decrease in voice revenues and \$7.1m decrease in legacy iiNet corporate customer revenues.

The healthy 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.

TPG Telecom Limited and its controlled entities

Directors' report

For the year ended 31 July 2017

4. Operating and financial review (continued)

4.3 Financial results review (continued)

a) Consumer

Consumer Segment telco costs increased by \$38.9m compared to the previous year but fell as a proportion of revenue from 53% to 52%.

The fact that this cost % has declined is counter-intuitive in a period when NBN services with a high wholesale cost and low margin have grown from 15% to 29% of broadband customers.

However, this movement is explained by (i) the fact that fixed voice revenues whose gross profit margin is lower than broadband at 28% have declined from 12% to 10% of Consumer Segment revenues, (ii) gross profit margin on mobile services increased from 18% to 25% as iiNet ceased offering bundled handsets during FY16, (iii) there were no telco costs associated with the \$7.0m one-off revenue earned in FY17, and (iv) gross profit margin on 'other' revenues increased from 54% to 57%.

Telco costs related to broadband services did in fact increase from 48% to 49% of revenue. This reflects a combination of the substantially higher cost of NBN services as a % of revenue and the benefits of higher margin FTTB services and network cost savings achieved during the year including through the continued integration of iiNet.

b) Corporate

Corporate Segment telco costs remained constant at 39% of revenue.

Employment costs

Consumer Segment employment costs decreased in absolute terms by \$21.1m (notwithstanding an extra 3 weeks' costs from iiNet in FY17) and decreased from 10% to 8% of revenue. This reduction in employment costs reflects efficiencies that have

been achieved through the continued integration of iiNet operations.

Corporate Segment employment costs increased in absolute terms by \$4.1m, but only slightly as a proportion of Corporate Segment revenues from 14.4% to 14.6%.

The Group's total number of employees as at 31 July 2017 was 5,366.

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 remained constant as a proportion of revenue at 9% in FY17 and increased by \$5.7m in absolute terms driven mainly by marketing expenditure.

The Corporate Segment's other expenses remained constant as a proportion of revenue at 5% in FY17 and decreased by \$1.3m in absolute terms.

Other income

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

The prior year had higher other income because of a large one-off accounting gain that arose on the acquisition of iiNet.

TPG Telecom Limited and its controlled entities

Directors' report

For the year ended 31 July 2017

4. Operating and financial review (continued)

4.3 Financial results review (continued)

Depreciation

The Group's depreciation expense increased by \$4.2m in FY17 but remained steady at 6% of revenue. The increase in depreciation is small relative to the steep increase in capital expenditure in FY17 (refer below), but this is explained by the fact that 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.

Amortisation

The Group's FY17 intangible amortisation expense decreased by \$11.8m to \$103.3m. This includes a \$12.1m decrease in amortisation of acquired customer bases which arises from acquisition accounting.

Net financing costs

Net financing costs decreased by \$32.4m in FY17. The main drivers of this decrease are as follows: (i) a lower average debt balance in FY17 compared to FY16 (~\$10m saving), (ii) lower interest rates in FY17 due to decreased leverage and improved pricing (~\$11m saving), (iii) the capitalisation in FY17 of ~\$5m of interest directly attributable to the construction of capital assets and (iv) \$4.6m of non-recurring borrowing costs expensed in FY16 in relation to the debt financing of the iiNet acquisition.

Income tax

The Group's effective income tax rate was 30.2% in FY17, broadly in line with the Australian corporate tax rate of 30%. In FY16 the effective tax rate was much lower at 25.2% principally due to the fact that a \$73.1m accounting gain included within other income in FY16 was not assessable for tax.

Free cashflow

	FY17 \$m	FY16 \$m
Operating cashflow	869.7	759.2
Tax	(147.0)	(138.8)
IRU payments	(27.0)	(21.4)
Capex – BAU	(362.5)	(265.6)
Capex – mobile spectrum	(207.5)	(15.4)
Capex – mobile networks	(6.3)	-
Free cashflow	119.4	318.0

The Group's operating cashflow before tax increased to \$869.7m in FY17. After tax, IRU payments and capital expenditure, the Group generated free cashflow of \$119.4m.

IRU payments

IRU payments of \$27.0m represent payment of liabilities for international capacity acquired by iiNet prior to acquisition. These monthly payments will cease in July 2018 when the liabilities will have been paid in full.

Capital expenditure

'BAU' capital expenditure of \$362.5m includes the builds for the Vodafone fibre contract and for the SEA-US cable. FY17 was the peak year of expenditure on both of these projects which has caused the spike in 'BAU' capex.

Mobile spectrum capex of \$207.5m comprises \$83.1m in Australia (\$73.1m paid for the 1800MHz spectrum acquired at auction in FY16 plus a \$10.0m prepayment made in relation to the 700MHz spectrum acquired at auction in April 2017), and \$124.4m on Singapore spectrum which includes both the spectrum package acquired at the new entrant spectrum auction in December 2016 and the 2.5GHz spectrum acquired at the general spectrum auction in April 2017. Capital expenditure on the

TPG Telecom Limited and its controlled entities

Directors' report

For the year ended 31 July 2017

4. Operating and financial review (continued)

4.3 Financial results review (continued)

implementation of the mobile networks in Australia and Singapore will commence in FY18 – only \$6.3m had been incurred as at the end of FY17.

Non-operating cashflows

	FY17 \$m	FY16 \$m
Free cashflow	119.4	318.0
Investment sale proceeds	124.5	60.0
Investment in equities	-	(3.0)
iiNet acquisition	(5.3)	(1,317.6)
Net capital raise proceeds	396.3	322.5
Debt (repayment)/drawdown	(450.0)	808.8
Debt facility fees	(3.4)	-
Interest payments	(40.7)	(66.5)
Dividend payments	(131.5)	(108.4)
Other	(2.2)	1.7
Increase in cash	7.1	15.5

Investment sale proceeds

The Group disposed of the remaining shares it held in Vocus Communications Limited during the year generating proceeds of \$124.5m at an average sale price of \$8.00/share and realising a pre-tax profit on sale of \$48.8m.

iiNet acquisition

Following the acquisition of iiNet last year, the Group paid a further \$5.3m in related costs in FY17 being a final deferred consideration commitment iiNet had in respect of its acquisition of the Tech2Home Group plus an amount of stamp duty in respect of the transaction.

Net capital raise proceeds

Net capital raise proceeds of \$396.3m comprise \$400.3m raised from an entitlement offer conducted during the year less share issue costs of \$4.0m.

Debt repayment/drawdown

The Group used the proceeds of the capital raise and other cash generated during the year to reduce its bank debt by \$450.0m.

Interest payments

The Group paid \$40.7m of interest in the year (net of \$1.3m interest received) which represents a decrease of \$25.8m over the previous year. The principal drivers of this decrease were a lower average debt balance in FY17 compared to FY16 (~\$10m saving), lower interest rates in FY17 due to decreased leverage and improved pricing (~\$11m saving), and the fact that ~\$5m of FY17 interest payments have been classified as capex to reflect the fact that they have been capitalised as part of the cost of construction of certain capital assets.

Dividends paid

Dividends paid in the year comprise the final FY16 dividend of 7.5 cents per share ("cps") and the interim FY17 dividend of 8.0 cps.

TPG Telecom Limited and its controlled entities

Directors' report

For the year ended 31 July 2017

4. Operating and financial review (continued)

4.3 Financial results review (continued)

Balance sheet

Below is a condensed version of the Group's balance sheet as at the end of FY17, 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.

	FY17 \$m	FY16 \$m
Cash (1)	46.3	39.2
Trade and other receivables	131.6	140.3
Investments (2)	-	139.1
Other current assets	33.3	40.0
Total current assets	211.2	358.6
Property, plant & equipment (3)	1,055.5	895.1
Intangible assets (4)	2,632.5	2,485.2
Investments (2)	2.9	16.3
Other non-current assets	8.9	15.8
Total non-current assets	3,699.8	3,412.4
Deferred income	150.0	142.5
Other current liabilities	417.6	371.4
Total current liabilities	567.6	513.9
Loans and borrowings (1)	872.4	1,350.4
Other non-current liabilities	71.7	127.5
Total non-current liabilities	944.1	1,477.9
Net assets	2,399.3	1,779.2

Balance sheet notes

1. Net debt

Loans and borrowings of \$872.4m are shown in the balance sheet net of prepaid borrowing costs of \$27.6m. Gross borrowings at 31 July 2017 were \$932.5m comprising bank debt of \$900.0m and IRU/finance lease liabilities of \$32.5m. Taking into account the bank debt and the \$46.3m cash balance the Group had net debt at the end of FY17 of \$853.7m.

2. Investments

At 31 July 2016 current investments represented the Group's investment in Vocus Communications Limited shares which were sold in full during FY17. Non-current investments represent the Group's ownership of shares in Covata Limited, the value of which has decreased in FY17 owing to a decline in Covata's share price. The change in fair value of this investment has been recognised in other comprehensive income rather than in the income statement.

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

The Group's PPE balance is \$160.4m higher at 31 July 17 than at 31 July 16. This increase comprises \$301.5m of capital expenditure (mainly network infrastructure investment) during the year less \$141.1m of depreciation expense.

4. Intangible assets

The \$147.3m increase in intangible assets in the year is driven by the Group's purchase of mobile spectrum licences in Australia and Singapore for a total consideration of \$193.3m. The balance of the movement is attributable to payments made during the year for international capacity IRUs (\$36.9m) and other intangible assets (\$20.4m) net of amortisation expense for the year of \$103.3m.

TPG Telecom Limited and its controlled entities

Directors' report

For the year ended 31 July 2017

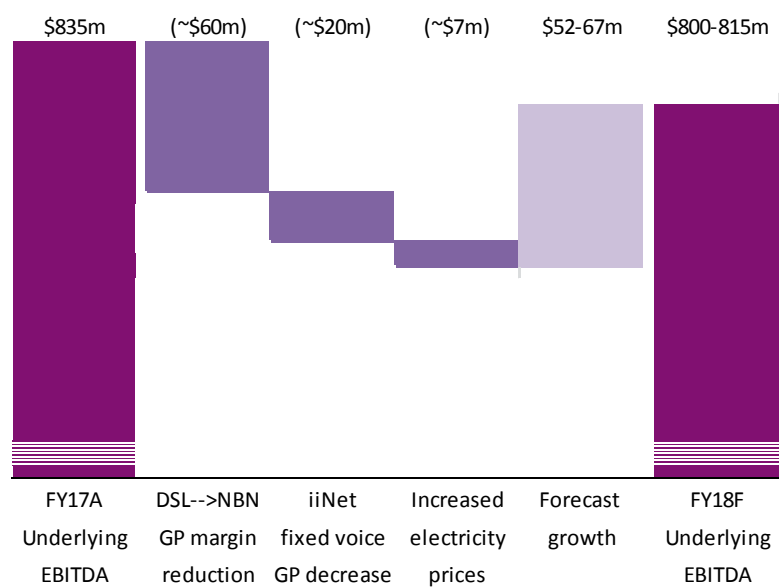
4. Operating and financial review (continued)

4.4 Business outlook

Prospects for FY18

EBITDA 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.

Capital Expenditure Guidance

'Business as usual' capital expenditure for FY18 is expected to be in the range of \$270-310m. This includes the final expenditure for the build for the Vodafone fibre contract but excludes any expenditure in relation to mobile network builds.

Capital expenditure expectations regarding both the Singapore and Australian mobile network builds are unchanged from the guidance previously provided, i.e.:

- Singapore: S\$200-300m over the next two years.
- Australia: \$600m over two to three years.

The first instalment of \$595m for the Australian 700MHz spectrum will also be payable by 31 January 2018.

TPG Telecom Limited and its controlled entities

Directors' report

For the year ended 31 July 2017

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 2017

5. Remuneration report

Foreword from Mr Denis Ledbury, Chairman of the Remuneration Committee

On behalf of the Board I am pleased to present the Directors' Remuneration Report for FY17.

The Group has had another extremely busy year during which management has been focussed on developing and implementing long-term growth strategies through its mobile projects in Australia and Singapore and delivering another year of record profit results in a challenging regulatory and competitive environment.

This set of results for FY17 represents the ninth consecutive year of strong profit growth for the Group.

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

Evidence of this is reflected in:

a) The strong financial performance of the Group

- In FY17 the Group delivered 8% growth in EBITDA, 16% growth in Net Profit After Tax and 12% growth in earnings per share (all underlying – refer to reconciliation of reported to underlying results on page 9).
- FY17 was the ninth consecutive year of underlying profit growth for the Group.
- In addition to the underlying EBITDA growth the Group also delivered material additional one-off profits for shareholders totalling \$55.8m (pre-tax).

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

- The Group's key management personnel ('KMP') have served the Group for an average of 17 years. This rare level of loyalty and commitment creates a continuity that has enabled the Group to successfully implement organic and inorganic growth strategies under a stable management team, which would certainly have been less easily achieved without such continuity.

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

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

In line with our Group's overall approach to business, there is a deliberate emphasis on simplicity and consistency in the remuneration policies we have developed whilst ensuring that they are effective in meeting the objectives of retaining and motivating key employees.

TPG Telecom Limited and its controlled entities

Directors' report

For the year ended 31 July 2017

5. Remuneration report (continued)

As a result of this, our incentive schemes described in the sections below do reflect a lower level of complexity to those disclosed by some other ASX listed companies, with our Group's Remuneration Committee retaining a greater level of discretion in determining the setting and achievement of appropriate performance targets.

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

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

Retention of valuable employees in such a competitive industry is critical. One feature of our performance rights plan described below that has attracted attention in previous years' reports is that 30% of performance rights granted vest simply if the participant has remained employed over the vesting period. If the value of this component of the plan were removed and instead replaced with a commensurate increase to the fixed salaries of our KMP, the KMP fixed salaries would continue to be modest relative to the market. The Remuneration Committee is therefore satisfied that it is in shareholders' interests to retain this feature of the performance rights plan.

I trust that you will find this Remuneration Report simple to understand and informative and hope that you will support the resolution to adopt the Remuneration Report at the 2017 AGM. 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 2017

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 of the Group, as well as explaining the principles underpinning those remuneration structures.

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

5.2 Remuneration principles

Remuneration levels for key management personnel 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
- c) 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 key management personnel is determined by the Executive Chairman in conjunction with the Remuneration Committee. Fixed remuneration reviews for other staff are determined by the Executive Chairman.

TPG Telecom Limited and its controlled entities

Directors' report

For the year ended 31 July 2017

5. Remuneration report – audited (continued)

5.3 Remuneration structure (continued)

(ii) Performance-linked remuneration

Performance-linked remuneration comprises both long-term and short-term incentives as set out below:

a) Long-term incentives

The Group's current long-term incentive structure is in the form of a performance rights plan. Under the rules of the performance rights plan, participants may be granted rights to fully paid ordinary shares in the Company for no consideration, subject to certain performance conditions.

The plan was introduced in FY12 and performance rights have been granted under the plan rules in each financial year since, including in FY17.

All rights granted in FY17 and FY16 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; 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.
- 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. The financial objectives that form part of the vesting conditions described above are determined annually by the Remuneration Committee.

Details of the performance rights that have been granted to key management personnel during the year ended 31 July 2017 and in prior years are set out in table 5.5(i) below.

b) Short-term incentives

Short-term incentive cash bonuses may be paid by the Group, including to key management personnel, 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 key management personnel 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.

Details of the short-term incentives paid to key management personnel during the current reporting period are set out at table 5.4 below.

TPG Telecom Limited and its controlled entities

Directors' report

For the year ended 31 July 2017

5. Remuneration report – audited (continued)

5.3 Remuneration structure (continued)

Link to Group financial performance

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

The Group had another year of strong growth in FY17 with EBITDA and NPAT up by 5% and 9% respectively, generating a 6% increase in EPS.

These FY17 results represent the ninth consecutive year of strong growth. The Group's five year record is set out in the following table.

	FY13	FY14	FY15	FY16	FY17
Revenue (\$m)	725	971	1,271	2,388	2,491
EBITDA (\$m)	293	364	485	849	891
NPAT (\$m)	149	172	224	380	414
EPS (cents)	18.8	21.6	28.2	45.3	47.9

The Remuneration Committee believes that the current remuneration structures described in this report have been effective in motivating and rewarding the achievement of these strong results.

(iii) Service contracts

No key management personnel employment contract has a fixed term, nor do any contain any provision for termination benefits other than as required by law.

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

(iv) Non-executive director fees

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. Actual non-executive director remuneration for the year ended 31 July 2017 was \$400k (2016: \$400k). 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.

TPG Telecom Limited and its controlled entities

Directors' report

For the year ended 31 July 2017

5. Remuneration report – audited (continued)

5.4 Directors' and executive officers' remuneration

The key management personnel 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
Mr W Springer	General Manager, Corporate Products & Pricing
Ms M De Ville	Chief Information Officer
Mr T Moffatt	General Counsel
Mr M Rafferty	Group Executive, Corporate, Government & Wholesale

TPG Telecom Limited and its controlled entities

Directors' report

For the year ended 31 July 2017

5. Remuneration report – audited (continued)

5.4 Directors' and executive officers' remuneration (continued)

Details of the nature and amount of each major element of remuneration of each director of the Company and of other key management personnel of the Group are set out in the tables below:

Directors		Short-term				Post-employment	(note C) Other long term \$'000	Share-based payments \$'000	Total \$'000	Proportion of remuneration performance related %	Share-based payments as proportion of remuneration %
		Salary & fees \$'000	(note A) STI cash bonus \$'000	(note B) Non- monetary benefits \$'000	Total \$'000	Superannuation benefits \$'000					
Executive Director											
Mr D Teoh, Chairman	2017	1,601	1,600	117	3,318	35	10	-	3,363	48%	-
	2016	1,600	1,600	45	3,245	41	27	-	3,313	48%	-
Non-Executive Directors											
Mr D Ledbury	2017	100	-	-	100	10	-	-	110	-	-
	2016	100	-	-	100	10	-	-	110	-	-
Mr R Millner	2017	90	-	-	90	9	-	-	99	-	-
	2016	90	-	-	90	9	-	-	99	-	-
Mr J Pang	2017	90	-	-	90	9	-	-	99	-	-
	2016	90	-	-	90	9	-	-	99	-	-
Mr S Teoh	2017	85	-	-	85	8	-	-	93	-	-
	2016	85	-	-	85	8	-	-	93	-	-

TPG Telecom Limited and its controlled entities

Directors' report

For the year ended 31 July 2017

5. Remuneration report – audited (continued)

5.4 Directors' and executive officers' remuneration (continued)

		Short-term				Post-employment	(note C) Other long term \$'000	Share-based payments	Total \$'000	Proportion of remuneration related %	Share-based payments as proportion of remuneration %
		Salary & fees \$'000	(note A) STI cash bonus \$'000	(note B) Non- monetary benefits \$'000	Total \$'000	Superannuation benefits \$'000		(note D) Performance rights \$'000			
Executives											
Mr S Banfield	2017	297	363	7	667	20	10	230	927	64%	25%
	2016	283	325	15	623	21	2	213	859	63%	25%
Mr C Levy	2017	345	412	14	771	20	12	340	1,143	66%	30%
	2016	321	430	4	755	21	5	304	1,085	68%	28%
Mr W Springer	2017	268	195	(13)	450	19	8	181	658	57%	28%
	2016	250	150	(4)	396	24	4	153	577	53%	27%
Ms M De Ville	2017	258	168	19	445	20	8	177	650	53%	27%
	2016	246	175	9	430	21	4	149	604	54%	25%
Mr T Moffatt	2017	290	313	(8)	595	20	14	217	846	63%	26%
	2016	250	325	3	578	21	2	204	805	66%	25%
Mr M Rafferty	2017	347	325	(6)	666	20	(1)	297	982	63%	30%
	2016	333	450	12	795	20	5	241	1,061	65%	23%

TPG Telecom Limited and its controlled entities

Directors' report

For the year ended 31 July 2017

5. Remuneration report – audited (continued)

5.4 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 2017 and 31 July 2016 were for performance during those years.
- B. The amounts disclosed under 'Non-monetary benefits' reflect exclusively the movement in the annual leave balance of each individual in the period, with the exception of Mr D Teoh whose amount also includes the provision of other fringe benefits (principally a motor vehicle).
- C. The amounts disclosed under 'Other long-term' reflect the movement in the long-service leave balance of each individual in the period.
- D. The share-based payments disclosed under 'Performance Rights' reflect the fair value of each right multiplied by the number of rights granted to each individual, amortised pro-rata over the vesting period of each right. The fair value of each right is calculated at date of grant by subtracting the expected dividend payments per share during the vesting period from the share price at date of grant. The number of rights granted to each key management person is disclosed in 5.5(i) below. The rules of the performance rights plan are explained in 5.3(ii)(a) above.

5.5 Share-based payments

(i) Performance rights granted as remuneration

Details of performance rights that were granted to key management personnel during the financial year ended 31 July 2017 are set out below. All rights were provided at no cost to the recipients and have an exercise price of \$nil.

FY17 Performance rights grant	Number of rights granted during FY17	Number of rights forfeited during FY17	Number of rights vested during FY17	Number of rights held as at 31 July 2017	Fair value per right at grant date (\$)
Mr S Banfield	64,400	-	-	64,400	6.0058
Mr C Levy	74,100	-	-	74,100	6.1655
Mr W Springer	47,900	-	-	47,900	6.0703
Ms M De Ville	42,000	-	-	42,000	6.0939
Mr T Moffatt	51,800	-	-	51,800	6.0906
Mr M Rafferty	65,000	-	-	65,000	6.1412

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 2017

5. Remuneration report – audited (continued)

5.5 Share-based payments (continued)

Details of performance rights that were granted to key management personnel during previous financial years and that remained outstanding at the start of FY17 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.

FY16 Performance rights grant	Number of rights held as at 31 July 2016	Number of rights forfeited during FY17	Number of rights vested during FY17	Number of rights held as at 31 July 2017	Fair value per right at grant date (\$)
Mr S Banfield	30,000	-	7,500	22,500	9.5160
Mr C Levy	45,000	-	11,250	33,750	9.5160
Mr W Springer	25,000	-	6,250	18,750	9.5160
Ms M De Ville	25,000	-	6,250	18,750	9.5160
Mr T Moffatt	28,000	-	7,000	21,000	9.5160
Mr M Rafferty	42,400	-	11,800	30,600	9.5471

FY15 Performance rights grant	Number of rights held as at 31 July 2016	Number of rights forfeited during FY17	Number of rights vested during FY17	Number of rights held as at 31 July 2017	Fair value per right at grant date (\$)
Mr S Banfield	24,000	-	12,000	12,000	5.9433
Mr C Levy	32,000	-	16,000	16,000	5.9433
Mr W Springer	12,000	-	6,000	6,000	5.9433
Ms M De Ville	16,000	-	8,000	8,000	5.9433
Mr T Moffatt	24,000	-	12,000	12,000	5.9433
Mr M Rafferty	24,000	-	12,000	12,000	5.9433

FY14 Performance rights grant	Number of rights held as at 31 July 2016	Number of rights forfeited during FY17	Number of rights vested during FY17	Number of rights held as at 31 July 2017	Fair value per right at grant date (\$)
Mr S Banfield	12,000	-	12,000	-	3.9567
Mr C Levy	17,000	-	17,000	-	3.9567
Mr W Springer	11,000	-	11,000	-	3.9567
Ms M De Ville	3,000	-	3,000	-	3.9567
Mr T Moffatt	11,000	-	11,000	-	3.9567

(ii) Modification of terms of share-based payment transactions

No terms of share-based payment transactions have been altered or modified by the issuing entity during the reporting period or the prior period.

TPG Telecom Limited and its controlled entities

Directors' report

For the year ended 31 July 2017

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 2016 ordinary	7.5	63.6	22 Nov 2016
Interim 2017 ordinary	8.0	<u>67.9</u>	23 May 2017
Total amount		<u>131.5</u>	

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 FY17 dividend of 2.0 cents per ordinary share, payable on 21 November 2017 to shareholders on the register at 17 October 2017. The Board has also re-implemented the Company's Dividend Reinvestment Plan for this dividend with a DRP discount of 1.5%.

The financial effect of this dividend has not been brought to account in the financial statements for the year ended 31 July 2017 and will be recognised in subsequent financial reports.

8. Events subsequent to reporting date

Subsequent to the year-end, in September 2017, the Group has entered into revised debt financing agreements to amend, extend and increase its total committed debt facilities in order to finance its spectrum commitments and planned mobile network builds. Further information regarding this is included within this Directors' Report on page 10 and in note 14 to the financial statements on page 58 of this Annual Report.

Other than this and the final FY17 dividend declared as per note 7 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

There are no material likely developments for the Group to disclose outside of normal business operations at the date of this report.

TPG Telecom Limited and its controlled entities

Directors' report

For the year ended 31 July 2017

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 is as follows:

	Shares in TPG Telecom Limited
Mr D Teoh	317,933,350
Mr D Ledbury	85,109
Mr R Millner	8,235,739
Mr J Pang	102,429
Mr S Teoh	132,456

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 premiums

Since the end of the previous financial year the Group has paid insurance premiums of \$432,362 (2016: \$252,815) 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 insurance premiums relate to:

- costs and expenses that may be incurred by the relevant officers in defending proceedings, whether civil or criminal and whatever their outcome; and
- other liabilities that may arise from their position, with the exception of conduct involving a wilful breach of duty or improper use of information or position to gain a personal advantage.

TPG Telecom Limited and its controlled entities

Directors' report

For the year ended 31 July 2017

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 28 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 20th day of October, 2017



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 2017 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 in black ink that reads 'KPMG'.

KPMG

A handwritten signature in black ink that reads 'Chris Hollis'.

Chris Hollis
Partner
Sydney
20 October 2017

TPG Telecom Limited and its controlled entities

Consolidated income statement

For the year ended 31 July 2017

	<i>Note</i>	2017	2016
		\$m	\$m
Revenue	4	2,490.7	2,387.8
Other income	5	48.8	92.7
Network, carrier and hardware costs		(1,203.8)	(1,163.9)
Employee benefits expense		(256.7)	(273.6)
Other expenses		(188.2)	(193.6)
Earnings before interest, tax, depreciation and amortisation (EBITDA)		890.8	849.4
Depreciation of plant and equipment	11	(141.1)	(136.9)
Amortisation of intangibles	12	(103.3)	(115.1)
Results from operating activities		646.4	597.4
Finance income		1.4	1.3
Finance expenses		(52.3)	(84.6)
Net financing costs	6	(50.9)	(83.3)
Profit before income tax		595.5	514.1
Income tax expense	7	(179.8)	(129.5)
Profit for the year		415.7	384.6
Attributable to:			
Owners of the Company		413.8	379.6
Non-controlling interest		1.9	5.0
		415.7	384.6
Earnings per share:			
Basic and diluted earnings per share (cents)	8	47.9	45.3

The notes on pages 42 to 90 are an integral part of these consolidated financial statements.

TPG Telecom Limited and its controlled entities
 Consolidated statement of comprehensive income
 For the year ended 31 July 2017

	2017	2016
	\$m	\$m
Profit for the year	415.7	384.6
Items that may be reclassified subsequently to profit or loss, net of tax:		
Foreign exchange translation differences	(4.0)	(0.1)
Net loss on cash flow hedges taken to equity	(1.9)	(2.0)
Net change in fair value of available-for-sale financial assets	(19.6)	29.8
Available-for-sale financial assets reclassified to profit or loss	(34.3)	(62.4)
Other comprehensive income, net of tax	(59.8)	(34.7)
Total comprehensive income for the year	355.9	349.9
Attributable to:		
Owners of the Company	354.0	344.9
Non-controlling interest	1.9	5.0
	355.9	349.9

The notes on pages 42 to 90 are an integral part of these consolidated financial statements.

TPG Telecom Limited and its controlled entities

Consolidated statement of financial position

As at 31 July 2017

	Note	31 July 2017 \$m	31 July 2016 \$m
Assets			
Cash and cash equivalents		46.3	39.2
Trade and other receivables	9	131.6	140.3
Inventories		6.4	12.0
Investments	10	-	139.1
Current tax assets		-	3.8
Derivative financial instruments		1.3	5.4
Prepayments and other assets		25.6	18.8
Total Current Assets		211.2	358.6
Investments	10	2.9	16.3
Derivative financial instruments		-	6.4
Property, plant and equipment	11	1,055.5	895.1
Intangible assets	12	2,632.5	2,485.2
Prepayments and other assets		8.9	9.4
Total Non-Current Assets		3,699.8	3,412.4
Total Assets		3,911.0	3,771.0
Liabilities			
Trade and other payables	13	289.4	298.0
Loans and borrowings	14	32.5	27.1
Current tax liabilities		54.4	-
Employee benefits	15	28.2	28.1
Provisions	16	11.7	16.6
Accrued interest		1.4	1.6
Deferred income and other liabilities		150.0	142.5
Total Current Liabilities		567.6	513.9
Loans and borrowings	14	872.4	1,350.4
Deferred tax liabilities	7	10.1	62.7
Employee benefits	15	2.4	2.4
Provisions	16	33.6	36.0
Derivative financial instruments		1.2	-
Deferred income and other liabilities		24.4	26.4
Total Non-Current Liabilities		944.1	1,477.9
Total Liabilities		1,511.7	1,991.8
Net Assets		2,399.3	1,779.2
Equity			
Share capital	17	1,449.4	1,051.9
Reserves		(18.1)	41.2
Retained earnings		963.3	681.0
Equity attributable to owners of the Company		2,394.6	1,774.1
Non-controlling interest		4.7	5.1
Total Equity		2,399.3	1,779.2

The notes on pages 42 to 90 are an integral part of these consolidated financial statements.

TPG Telecom Limited and its controlled entities

Consolidated statement of changes in equity

For the year ended 31 July 2017

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			
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	
Balance as at 1 August 2015	516.9	0.4	(3.4)	79.5	-	76.5	409.8	1,003.2	-	1,003.2
Profit for the year	-	-	-	-	-	-	379.6	379.6	5.0	384.6
Other comprehensive income	-	(0.1)	-	(32.6)	(2.0)	(34.7)	-	(34.7)	-	(34.7)
Total comprehensive income for the year	-	(0.1)	-	(32.6)	(2.0)	(34.7)	379.6	344.9	5.0	349.9
Issue of shares	17	538.1	-	-	-	-	-	538.1	-	538.1
Share issue costs	17	(3.1)	-	-	-	-	-	(3.1)	-	(3.1)
Share-based payment transactions		-	-	(0.6)	-	(0.6)	-	(0.6)	-	(0.6)
Acquisition of non-controlling interest		-	-	-	-	-	-	-	0.1	0.1
Dividends paid to shareholders	18	-	-	-	-	-	(108.4)	(108.4)	-	(108.4)
Balance as at 31 Jul 2016		1,051.9	0.3	(4.0)	46.9	(2.0)	41.2	681.0	5.1	1,779.2
Balance as at 1 August 2016		1,051.9	0.3	(4.0)	46.9	(2.0)	41.2	681.0	5.1	1,779.2
Profit for the year		-	-	-	-	-	413.8	413.8	1.9	415.7
Other comprehensive income		-	(4.0)	-	(53.9)	(1.9)	(59.8)	(59.8)	-	(59.8)
Total comprehensive income for the year		-	(4.0)	-	(53.9)	(1.9)	413.8	354.0	1.9	355.9
Issue of shares	17	400.3	-	-	-	-	-	400.3	-	400.3
Share issue costs	17	(2.8)	-	-	-	-	-	(2.8)	-	(2.8)
Share-based payment transactions		-	-	0.5	-	0.5	-	0.5	-	0.5
Dividends paid to shareholders	18	-	-	-	-	-	(131.5)	(131.5)	(2.3)	(133.8)
Balance as at 31 Jul 2017		1,449.4	(3.7)	(3.5)	(7.0)	(3.9)	(18.1)	963.3	4.7	2,399.3

The notes on pages 42 to 90 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 2017

	<i>Note</i>	2017 \$m	2016 \$m
Cash flows from operating activities			
Cash receipts from customers		2,745.5	2,625.5
Cash paid to suppliers and employees		(1,875.8)	(1,866.3)
Cash generated from operations		869.7	759.2
Income taxes paid		(147.0)	(138.8)
Net cash from operating activities	25	722.7	620.4
Cash flows from investing activities			
Acquisition of property, plant and equipment		(299.9)	(246.9)
Acquisition of intangible assets		(276.4)	(34.1)
Proceeds from disposal of investments	10	124.5	60.0
Acquisition of investments	10	-	(3.0)
Acquisition of subsidiaries, net of cash acquired		-	(1,151.3)
Special dividend paid under Scheme of Arrangement		-	(106.7)
Costs incurred on acquisition of subsidiaries		(1.5)	(8.6)
Payment of contingent consideration	19(c)	(3.8)	-
Dividends received	5	-	2.0
Net cash used in investing activities		(457.1)	(1,488.6)
Cash flows from financing activities			
Payment of finance lease liabilities		(27.0)	(21.4)
Proceeds from borrowings		108.0	1,789.7
Repayment of borrowings		(558.0)	(980.9)
Transaction costs related to borrowings		(3.4)	(51.0)
Issue of shares		400.3	326.9
Share issue costs		(4.0)	(4.4)
Interest received		1.3	1.0
Interest paid		(42.0)	(67.5)
Dividends paid	18	(131.5)	(108.4)
Dividends paid to non-controlling interest		(2.3)	-
Net cash (used in)/ from financing activities		(258.6)	884.0
Net increase in cash and cash equivalents		7.0	15.8
Cash and cash equivalents at beginning of the year		39.2	23.7
Effect of exchange rate fluctuations		0.1	(0.3)
Cash and cash equivalents at end of the year		46.3	39.2

The notes on pages 42 to 90 are an integral part of these consolidated financial statements.

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2017

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TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2017

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 2017, 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 20 October 2017.

b. Basis of measurement

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

c. Functional and presentation currency

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

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

d. Use of estimates and judgements

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

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2017

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 4 – revenue recognition;
- Note 12(iii) – amortisation of intangible assets with finite useful lives;
- Note 12(iv) – impairment testing for cash-generating units containing goodwill;
- Note 19 – valuation of financial instruments.

e. Prior period comparatives

The prior period comparative for 'Trade receivables' has been slightly re-stated by reclassifying \$4.9m to 'Prepayments and other assets' to more appropriately reflect the nature of those items.

3. Segment reporting

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

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

As at the end of FY17, the Group recognises the following segments:

Consumer Segment

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

Corporate Segment

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

Following the acquisition of iiNet on 24 August 2015, the Group reported iiNet as a separate operating segment in its FY16 Annual Report. However, following the integration of iiNet's operations during the current reporting period, iiNet's results have now been integrated within the Consumer and Corporate Segments based on customer segmentation. Prior year comparatives have been restated accordingly in this note.

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

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2017

3. Segment reporting (continued)

	Note	Consumer	Corporate	Unallocated	Total results
		\$m	\$m	\$m	\$m
For the year ended 31 July 2017					
Revenue		1,747.7	743.0	-	2,490.7
Other income	5	-	-	48.8	48.8
Network, carrier and hardware costs		(916.4)	(287.4)	-	(1,203.8)
Employee benefits expense		(147.8)	(108.8)	(0.1)	(256.7)
Other expenses		(153.1)	(34.0)	(1.1)	(188.2)
Results from segment activities		530.4	312.8	47.6	890.8
For the year ended 31 July 2016					
Revenue		1,661.2	726.6	-	2,387.8
Other income	5	-	-	92.7	92.7
Network, carrier and hardware costs		(877.5)	(286.4)	-	(1,163.9)
Employee benefits expense		(168.9)	(104.7)	-	(273.6)
Other expenses		(147.4)	(35.3)	(10.9)	(193.6)
Results from segment activities		467.4	300.2	81.8	849.4

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

	2017	2016
	\$m	\$m
Total segment results	890.8	849.4
Depreciation of plant and equipment	(141.1)	(136.9)
Amortisation of intangibles	(103.3)	(115.1)
Results from operating activities	646.4	597.4
Net financing costs	(50.9)	(83.3)
Profit before income tax	595.5	514.1

Geographic Information

All of the Group's revenues are derived from Australian based entities, except for \$27.5m (2016: \$15.3m) derived from overseas customers.

A geographic analysis of the Group's non-current assets is set out below:

Country	2017	2016
	\$m	\$m
Australia	3,450.5	3,288.0
Singapore	122.1	-
Other	127.2	124.4
Total	3,699.8	3,412.4

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

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2017

4. Revenue

	2017 \$m	2016 \$m
Rendering of services	2,455.7	2,360.9
Sale of goods	35.0	26.9
	2,490.7	2,387.8

(i) *Rendering of services*

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

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

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

(ii) *Sale of goods*

Revenue from the sale of goods represents sales of customer equipment to consumer and corporate customers. It is recognised (net of rebates, returns, discounts and other allowances) when the significant risks and rewards of ownership have been transferred to the customer, which is ordinarily when the equipment is delivered to the customer.

Where the sale is settled through instalments, interest revenue is recognised over the contract term, using the effective interest method.

(iii) *Revenue arrangements with multiple deliverables*

Where two or more revenue-generating activities or deliverables are sold under a single arrangement, each deliverable considered to be a separate unit of accounting is accounted for separately. When the deliverables in a multiple deliverable arrangement are not considered to be separate units of accounting, the arrangement is accounted for as a single unit.

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

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2017

5. Other income

	2017 \$m	2016 \$m
Gain on previously held interest in iiNet	-	73.1
Profit on sale of investments	48.8	17.6
Dividend income	-	2.0
	48.8	92.7

6. Finance income and expenses

	2017 \$m	2016 \$m
Interest income	1.4	1.3
Interest expense	(37.8)	(66.0)
Unwinding of discounts on provisions	(0.3)	(0.5)
Borrowing costs	(14.2)	(18.1)
Net financing costs	(50.9)	(83.3)

7. Taxes

Income tax expense

	2017 \$m	2016 \$m
Current tax expense	206.0	135.3
Deferred tax expense		
Origination and reversal of temporary differences	(24.3)	(5.7)
Adjustments in respect of prior years	(1.9)	(0.1)
	(26.2)	(5.8)
Income tax expense	179.8	129.5

Numerical reconciliation between tax expense and pre-tax accounting profit

Profit before tax	595.5	514.1
Income tax using Australian tax rate of 30%	178.7	154.2
Non-deductible and non-assessable items	0.6	(25.0)
Adjustments in respect of prior years	0.5	0.3
Income tax expense	179.8	129.5

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2017

7. Taxes (continued)

Deferred tax assets and liabilities

Movement in temporary differences during the year

	Balance 31 July 2015 \$m	Recognised in profit or loss \$m	Recognised in equity \$m	Acquired in business combination \$m	Balance 31 July 2016 \$m	Recognised in profit or loss \$m	Recognised in equity \$m	Balance 31 July 2017 \$m
Deferred tax liabilities								
Investments	33.9	2.0	(13.9)	-	22.0	(2.0)	(23.0)	(3.0)
Property, plant and equipment	9.6	4.0	-	(0.2)	13.4	(4.5)	-	8.9
Intangible assets	8.8	(16.4)	-	95.0	87.4	(19.4)	-	68.0
Other items	(0.6)	(7.8)	(1.1)	2.7	(6.8)	1.1	(1.6)	(7.3)
	51.7	(18.2)	(15.0)	97.5	116.0	(24.8)	(24.6)	66.6
Deferred tax assets								
Receivables	(3.4)	4.0	-	(8.5)	(7.9)	(1.9)	-	(9.8)
Inventories	(0.4)	0.2	-	(0.7)	(0.9)	-	-	(0.9)
Derivative financial assets	-	-	(0.9)	-	(0.9)	1.4	(0.6)	(0.1)
Provisions	(15.0)	2.0	-	(8.6)	(21.6)	(1.2)	-	(22.8)
Employee benefits	(4.9)	0.1	-	(3.9)	(8.7)	(0.3)	-	(9.0)
Unearned revenue	(10.7)	(0.4)	-	0.8	(10.3)	(0.6)	-	(10.9)
Equity raising costs	(0.2)	(1.1)	-	-	(1.3)	0.5	(1.2)	(2.0)
Tax losses carried forward	-	7.6	-	(9.3)	(1.7)	0.7	-	(1.0)
	(34.6)	12.4	(0.9)	(30.2)	(53.3)	(1.4)	(1.8)	(56.5)
Net deferred tax liabilities	17.1	(5.8)	(15.9)	67.3	62.7	(26.2)	(26.4)	10.1

The Company has not recognised deferred tax assets on unutilised capital losses of \$15.7m (2016: \$18.7m).

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2017

7. Taxes (continued)

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to a business combination, or items recognised directly in equity, in which case it is recognised in equity or in other comprehensive income.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: initial recognition of goodwill, the initial recognition of assets or liabilities that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

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

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

Tax consolidation

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

8. Earnings per share

	2017	2016
	Cents	Cents
Basic and diluted earnings per share	47.9	45.3
	2017	2016
	\$m	\$m
Profit attributable to owners of the Company used in calculating basic and diluted earnings per share	413.8	379.6
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share	864,306,858	838,078,074

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 2017

9. Trade and other receivables

	2017 \$m	2016 \$m
Current		
Trade receivables	142.9	141.2
Accrued income and other receivables	29.9	32.4
Less: Provision for impairment losses	(41.2)	(33.3)
	131.6	140.3

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

10. Investments

Available-for-sale financial assets	2017 \$m	2016 \$m
Current		
Carrying amount as at 1 August	139.1	151.6
Disposals	(124.5)	(60.0)
Change in fair value	(14.6)	47.5
Carrying amount as at 31 July	-	139.1
Non-Current		
Carrying amount as at 1 August	16.3	115.6
Acquisitions	-	3.0
Deemed disposal on acquisition of iiNet	-	(97.3)
Change in fair value	(13.4)	(5.0)
Carrying amount as at 31 July	2.9	16.3

The Group's investments comprise available-for-sale financial assets, being ASX listed securities. They are measured at fair value and are valued at quoted market prices. They are categorised as Level 1 under the fair value hierarchy of AASB 7. Refer note 19(ii) for accounting policy on recognition and measurement.

Sensitivity analysis – equity price risk

A two percent increase in the share price of the Company's ASX listed equity investments as at the reporting date would have increased equity by \$0.04m after tax. An equal change in the opposite direction would have decreased equity by \$0.04m after tax.

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2017

11. Property, plant and equipment

	Network infrastructure \$m	Land & Buildings \$m	Leasehold improvements \$m	Total \$m
Cost				
Balance at 1 August 2015	1,016.3	9.7	6.5	1,032.5
Acquisitions through business combinations	172.5	-	5.9	178.4
Additions	233.4	27.7	1.7	262.8
Disposals	(1.9)	-	(0.4)	(2.3)
Balance at 31 July 2016	1,420.3	37.4	13.7	1,471.4
Balance at 1 August 2016	1,420.3	37.4	13.7	1,471.4
Additions	296.1	5.3	0.2	301.6
Disposals	(0.1)	-	-	(0.1)
Balance at 31 July 2017	1,716.3	42.7	13.9	1,772.9
Depreciation and impairment losses				
Balance at 1 August 2015	434.6	0.8	4.3	439.7
Depreciation charge for the year	133.3	1.3	2.3	136.9
Disposals	(0.2)	-	(0.1)	(0.3)
Balance at 31 July 2016	567.7	2.1	6.5	576.3
Balance at 1 August 2016	567.7	2.1	6.5	576.3
Depreciation charge for the year	138.5	1.0	1.6	141.1
Disposals	-	-	-	-
Balance at 31 July 2017	706.2	3.1	8.1	717.4
Carrying amounts				
At 31 July 2016	852.6	35.3	7.2	895.1
At 31 July 2017	1,010.1	39.6	5.8	1,055.5

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2017

11. Property, plant and equipment (continued)

(i) Recognition and measurement

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

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

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

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

(ii) Subsequent costs

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

(iii) Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment.

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

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

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

TPG Telecom Limited and its controlled entities

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For the year ended 31 July 2017

12. Intangible assets

	Non-Amortising		Amortising				Total
	Goodwill \$m	Brands \$m	Acquired customer bases \$m	Indefeasible rights of use of capacity \$m	Spectrum licences \$m	Other intangibles \$m	\$m
Cost							
Balance 1 August 2015	546.1	20.1	163.7	106.4	13.5	9.6	859.4
Additions	-	-	-	20.2	15.4	12.4	48.0
Acquisitions through business combinations	1,364.9	70.5	316.8	52.3	-	62.2	1,866.7
Balance 31 July 2016	1,911.0	90.6	480.5	178.9	28.9	84.2	2,774.1
Balance 1 August 2016	1,911.0	90.6	480.5	178.9	28.9	84.2	2,774.1
Additions	-	-	-	36.9	197.9	20.4	255.2
Effect of movements in exchange rates	-	-	-	-	(4.6)	-	(4.6)
Balance 31 July 2017	1,911.0	90.6	480.5	215.8	222.2	104.6	3,024.7
Amortisation and Impairment							
Balance 1 August 2015	-	-	134.9	33.9	0.9	4.1	173.8
Amortisation for the year	-	-	74.5	10.6	1.3	28.7	115.1
Balance 31 July 2016	-	-	209.4	44.5	2.2	32.8	288.9
Balance 1 August 2016	-	-	209.4	44.5	2.2	32.8	288.9
Amortisation for the year	-	-	62.4	11.6	3.7	25.6	103.3
Balance 31 July 2017	-	-	271.8	56.1	5.9	58.4	392.2
Carrying amounts							
At 31 July 2016	1,911.0	90.6	271.1	134.4	26.7	51.4	2,485.2
At 31 July 2017	1,911.0	90.6	208.7	159.7	216.3	46.2	2,632.5

Amortising intangibles are removed from cost in the analysis in the year after they become fully amortised.

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For the year ended 31 July 2017

12. Intangible assets (continued)

(i) Recognition and measurement

a. Intangible assets with indefinite useful lives:

Goodwill

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

Brands

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

b. Intangible assets with definite useful lives:

Acquired customer bases

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

Indefeasible rights of use of capacity

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

Spectrum licences

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

Other intangible assets

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

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

(ii) Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2017

12. Intangible assets (continued)

(iii) Amortisation

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

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

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

(iv) Impairment tests for cash generating units containing goodwill

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

As at 31 July 2016, the Group had three CGUs, being the TPG Consumer, TPG Corporate and iiNet CGUs. Following the integration of iiNet during the year, iiNet's assets have been re-allocated to the Consumer and Corporate CGUs based on the relative value of projected cashflows of the iiNet consumer and corporate operations.

The set-up of operations in Singapore has also created a new CGU for the Group. The Group therefore now has a three CGU structure, being the Consumer, Corporate and Singapore CGUs.

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

	2017			2016		
	Goodwill	Brands	Total	Goodwill	Brands	Total
	\$m	\$m	\$m	\$m	\$m	\$m
Consumer	1,615.5	83.6	1,699.1	387.1	20.1	407.2
Corporate	295.5	7.0	302.5	159.0	-	159.0
iiNet	-	-	-	1,364.9	70.5	1,435.4
Total	1,911.0	90.6	2,001.6	1,911.0	90.6	2,001.6

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For the year ended 31 July 2017

12. Intangible assets (continued)

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

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

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%.
- **Discount rate:** A pre-tax discount rate of 12% 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.

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For the year ended 31 July 2017

13. Trade and other payables

	2017	2016
	\$m	\$m
Trade creditors	185.5	212.2
Other creditors and accruals	103.9	85.8
	289.4	298.0

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

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

14. Loans and borrowings

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

	2017	2016
	\$m	\$m
Current		
Indefeasible right of use (IRU) lease liabilities	32.5	26.5
Other finance lease liabilities	-	0.6
	32.5	27.1
Non-Current		
Gross secured bank loans	900.0	1,350.0
Less: Unamortised borrowing costs	(27.6)	(34.2)
	872.4	1,315.8
IRU lease liabilities	-	34.5
Other finance lease liabilities	-	0.1
	872.4	1,350.4

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2017

14. Loans and borrowings (continued)

As at 31 July 2017 the Group had a debt facility of \$1,635.0m of which \$900.0m was drawn.

The outstanding loan balance as at year end is shown in the statement of financial position net of unamortised borrowing costs of \$27.6m.

In December 2016, the Group entered into agreements to amend and extend these facilities, securing improved pricing and terms and extending the tenor of the facilities by one year.

Refinancing since the year-end

Subsequent to the year-end, in order to finance its planned mobile network builds, the Group has entered into further new agreements to increase, amend and extend its debt facilities. The facilities have been increased by \$742m to \$2,377m (includes a Singapore dollar denominated facility of S\$100m which is translated to AUD using the 31 July 2017 spot rate) and the tenor of the facilities has been extended such that the maturity profile of the facilities is now between 3 and 7 years, with a weighted average of 4.5 years.

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

As at 31 July 2017, the debt facilities were secured by a fixed and floating charge over all of the assets of the Group, with the exception of the assets of the following subsidiaries:

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

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15. Employee benefits

	2017 \$m	2016 \$m
Current		
Liability for annual leave	15.1	15.0
Liability for long service leave	13.1	13.1
	28.2	28.1
Non-Current		
Liability for long service leave	2.4	2.4

(i) Current employee benefits

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

(ii) Non-Current employee benefits

The Group's obligation in respect of long-term service is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates, and is discounted using the rates attached to corporate bonds at the balance sheet date which have maturity dates approximating to the terms of the Group's obligations.

(iii) Performance rights plan

The Group has in place a performance rights plan that provides for selected employees to be granted rights to fully paid ordinary shares in the Company for no consideration, subject to certain performance conditions. Under this scheme funds are transferred to a trust which acts as an agent and purchases shares for the benefit of the selected employees. A share-based payments reserve is recognised for the funds transferred to the trust. An employee expense is recognised over the period during which the employees become unconditionally entitled to the shares with a corresponding decrease in the share-based payments reserve. The employee expense is based on the fair value at date of grant of the rights. The fair value is calculated by subtracting the expected dividend payments per share during the vesting period from the share price at date of grant.

The plan was introduced in FY12 and performance rights have been granted under the plan rules in each financial year since, including in FY17.

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2017

15. Employee benefits (continued)

All rights granted in FY17 and FY16 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:
 - o 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; and
 - o 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.
- 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.

The number of rights granted or outstanding during the year ended 31 July 2017 are set out below:

	Number of Rights
Balance as at 1 August 2016	1,065,300
Granted during the year	973,700
Forfeited during the year	(95,000)
Vested during the year	<u>(440,700)</u>
Balance as at 31 July 2017	<u>1,503,300</u>

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

Date of grant	Weighted average fair value	Share price
21 December 2015	\$9.5160	\$9.92
16 December 2016	\$6.3395	\$6.76
31 July 2017	\$5.4400	\$5.64

At the year-end an estimate of how many rights are likely to vest based on the continuous employment and financial performance conditions has been updated. The fair value of the number of rights expected to vest has been expensed in proportion to how far through the vesting period the rights are at that date. The amount consequently expensed in the year was \$4.3m (2016: \$3.6m).

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15. Employee benefits (continued)

(iv) Superannuation

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

The Group contributed \$15.3m to defined contribution superannuation plans during the current year (2016: \$17.5m).

16. Provisions

	Make good costs \$m	Lease increment \$m	Onerous leases \$m	Other \$m	Total \$m
Balance as at 1 August 2016	32.0	1.0	13.0	6.6	52.6
Provisions made during the year	6.1	-	0.3	0.4	6.8
Provisions used during the year	(0.3)	(0.2)	(9.7)	(4.2)	(14.4)
Unwind of discount	0.3	-	-	-	0.3
Balance as at 31 July 2017	38.1	0.8	3.6	2.8	45.3
Current	6.6	0.1	2.2	2.8	11.7
Non-current	31.5	0.7	1.4	-	33.6

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.

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17. Capital and reserves

Share capital

	Ordinary shares		\$m	
	2017	2016	2017	2016
Balance as at 1 August	848,473,118	793,808,141	1,051.9	516.9
Ordinary shares issued during the year:				
- Consideration for acquisition of iiNet	-	23,212,554	-	211.2
- Institutional share placement	-	28,846,154	-	300.0
- Share purchase plan	-	2,606,269	-	26.9
- Institutional entitlement offer	15,242,739	-	80.0	-
- Retail entitlement offer	61,003,591	-	320.3	-
Share issue costs (net of tax)	-	-	(2.8)	(3.1)
Balance as at 31 July	924,719,448	848,473,118	1,449.4	1,051.9

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects. The Company does not have authorised capital or par value in respect of its issued shares. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

Foreign currency translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations where their functional currency is different to the presentation currency of the reporting entity.

Share-based payments reserve

The share-based payments reserve comprises the cost of performance rights granted to eligible employees (refer note 15 (iii)) less any payments made to the employee share trust for the purpose of acquiring shares to fulfil the Group's obligations on vesting of the performance rights. At 31 July 2017 the number of Company shares held in the employee share trust for the Group was 309,300 (2016: 350,000).

Fair value reserve

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

Cash flow hedge reserve

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

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18. Dividends

Dividends recognised in the current year were as follows:

	Cents per share	Total Amount \$m	Date of payment
2017			
Interim 2017 ordinary	8.0	67.9	23 May 2017
Final 2016 ordinary	7.5	63.6	22 Nov 2016
Total amount		131.5	
2016			
Interim 2016 ordinary	7.0	59.4	24 May 2016
Final 2015 ordinary	6.0	49.0	17 Nov 2015
Total amount		108.4	

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 FY17 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 2017, the dividend has not been provided for in the consolidated statement of financial position. The dividend has a record date of 17 October 2017 and will be paid on 21 November 2017. The Company's Dividend Reinvestment Plan (DRP) has been re-implemented for this dividend. The DRP allows shareholders to elect to receive all or part of their dividend in the form of TPG Telecom shares. The issue price of the shares will be the average of the daily volume weighted average market price for the Company's shares sold on the ASX on each of the 5 consecutive trading days commencing the second trading day after the record date. For the FY17 final dividend, a 1.5% discount to the price will apply.

Dividend franking account

	2017 \$m	2016 \$m
30 per cent franking credits available to shareholders of the Company for subsequent financial years	579.8	437.1

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;
- (b) franking debits that will arise from the payment of dividends recognised as a liability at the year-end; and
- (c) 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 \$7.9m (2016: \$27.3m).

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19. Financial instruments and risk management

Financial Instruments

Non-derivative financial instruments

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

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

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

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

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

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

Loans and receivables

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

Available-for-sale financial assets

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

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

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

TPG Telecom Limited and its controlled entities

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19. Financial instruments and risk management (continued)

Derivative financial instruments and hedging

The Group uses derivative financial instruments such as forward currency contracts to manage its risks associated with foreign currency fluctuations. 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. 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 2017

19. Financial instruments and risk management (continued)

Risk management

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

- credit risk
- liquidity risk
- market risk

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

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

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

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

Credit risk

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

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

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

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

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2017

19. Financial instruments and risk management (continued)

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

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

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

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

	<i>Note</i>	2017 \$m	2016 \$m
Trade and other receivables	9	142.9	141.2
Cash and cash equivalents		46.3	39.2
		189.2	180.4

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

	<i>Note</i>	2017 \$m	2016 \$m
Type of customer			
Wholesale		33.9	39.2
Corporate		42.6	32.4
Retail		66.4	69.6
	9	142.9	141.2

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

	<i>Note</i>	2017 \$m	2016 \$m
Geographical region			
Australia		141.3	139.0
Other		1.6	2.2
	9	142.9	141.2

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 2017

19. Financial instruments and risk management (continued)

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

	<i>Note</i>	2017	2016
		\$m	\$m
Ageing of customer debt			
Not past due		83.3	85.2
Past due 1-30 days		35.2	37.7
Past due 31-60 days		6.6	5.1
Past due 61-90 days		3.9	3.5
Past due 91-120 days		2.4	2.0
Past due 121 days		11.5	7.7
Gross trade receivables	9	142.9	141.2
Less: Provision for impairment losses	9	(41.2)	(33.3)
Net receivables		101.7	107.9

The provision for impairment losses of the Group at 31 July 2017 of \$41.2m (2016: \$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. The movement in the provision for impairment losses during the year ended 31 July 2017 is as follows:

	<i>Note</i>	2017	2016
		\$m	\$m
Balance at 1 August		33.3	17.1
Acquired through business combination		-	28.1
Impairment loss recognised/(written back)		7.9	(11.9)
Balance at 31 July	9	41.2	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 \$1,635.0m available to it during the year, of which \$900.0m was utilised as at 31 July 2017 (refer note 14).

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2017

19. Financial instruments and risk management (continued)

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

31 July 2017	Note	Carrying amount \$m	Contractual cashflows \$m	6 months or less \$m	6-12 months \$m	1-2 years \$m	2-5 years \$m
Non-derivative financial liabilities							
Secured bank loans	14	(900.0)	(966.2)	(13.8)	(14.1)	(28.5)	(909.8)
IRU lease liabilities	14	(32.5)	(33.6)	(16.8)	(16.8)	-	-
Trade and other payables	13	(289.4)	(289.4)	(289.4)	-	-	-
		(1,221.9)	(1,289.2)	(320.0)	(30.9)	(28.5)	(909.8)
Derivative financial liabilities							
Foreign currency forward contracts (settled gross)							
- Outflow		-	(73.7)	(58.0)	(15.7)	-	-
- Inflow		0.1	75.7	58.2	17.5	-	-
Total derivative financial liabilities		0.1	2.0	0.2	1.8	-	-
Total		(1,221.8)	(1,287.2)	(319.8)	(29.1)	(28.5)	(909.8)
31 July 2016							
	Note	Carrying amount \$m	Contractual cashflows \$m	6 months or less \$m	6-12 months \$m	1-2 years \$m	2-5 years \$m
Non-derivative financial liabilities							
Secured bank loans	14	(1,350.0)	(1,500.6)	(26.4)	(24.9)	(50.3)	(1,399.0)
IRU and other finance lease liabilities	14	(61.7)	(65.9)	(15.3)	(14.8)	(35.8)	-
Trade and other payables	13	(298.0)	(298.0)	(298.0)	-	-	-
		(1,709.7)	(1,864.5)	(339.7)	(39.7)	(86.1)	(1,399.0)
Derivative financial liabilities							
Foreign currency forward contracts (settled gross)							
- Outflow		-	(54.4)	(12.1)	(12.2)	(30.1)	-
- Inflow		11.8	65.6	14.7	14.8	36.1	-
Total derivative financial liabilities		11.8	11.2	2.6	2.6	6.0	-
Total		(1,697.9)	(1,853.3)	(337.1)	(37.1)	(80.1)	(1,399.0)

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

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For the year ended 31 July 2017

19. Financial instruments and risk management (continued)

Market risk

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

a) Currency risk

The Group is exposed to currency risk on revenues, expenses, receivables and borrowings 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).

The Group has hedged its exposure to its USD-denominated finance lease liabilities as follows:

	<i>Note</i>	2017 \$m	2016 \$m
IRU lease liabilities	14	(32.5)	(61.0)
Add: Highly probable forecast transactions		(1.1)	(4.2)
Total exposure on IRU lease liabilities		(33.6)	(65.2)
Forward exchange contracts		33.6	64.4
Net exposure		-	(0.8)

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

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

b) Interest rate risk

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

	<i>Note</i>	2017 \$m	2016 \$m
Fixed rate instruments			
Financial liabilities	14	(32.5)	(61.7)
Variable rate instruments			
Financial assets		46.3	39.2
Financial liabilities	14	(900.0)	(1,350.0)
		(853.7)	(1,310.8)

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2017

19. Financial instruments and risk management (continued)

Fair value sensitivity analysis for fixed rate instruments

As at 31 July 2017, 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.

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 2017, of \$8.5m (2016: \$13.1m) (assumes that all other variables, in particular foreign currency rates, remain constant).

Fair values versus carrying amounts

As at 31 July 2017, 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).

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Notes to the consolidated financial statements

For the year ended 31 July 2017

19. Financial instruments and risk management (continued)

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

	31 July 2017			31 July 2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Financial assets						
Investments	2.9	-	-	155.4	-	-
Foreign currency forward contracts	-	1.3	-	-	11.8	-
Financial liabilities						
Foreign currency forward contracts	-	(1.2)	-	-	-	-
Provision for contingent consideration	-	-	-	-	-	(3.8)

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

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.

The fair value of the contingent consideration is determined using the discounted cash flow method and hence it is categorised as Level 3.

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:

	2017	2016
	\$m	\$m
Total loans and borrowings	900.0	1,350.0
Less: cash and cash equivalents	(46.3)	(39.2)
Net debt	853.7	1,310.8
Total equity	2,399.3	1,779.2
Net debt to equity ratio at 31 July	0.4	0.7

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2017

20. Operating lease commitments

Non-cancellable operating lease rentals are payable as follows:

	2017	2016
	\$m	\$m
Less than one year	42.2	43.2
Between one and five years	81.2	95.7
More than five years	11.6	14.6
	135.0	153.5

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

21. Capital and other commitments

	2017	2016
	\$m	\$m
Capital expenditure commitments contracted but not provided for in the financial statements	1,482.9	343.7

Capital commitments at 31 July 2017 are comprised mainly of commitments in respect of:

- IRU agreements for international capacity (US\$81.3m*);
- Spectrum licences purchased in FY17, payable in the following instalments: January 2018 (\$595m), January 2019 (\$352m), January 2020 (\$352m); and
- Domestic fibre construction projects.

*translated into AUD at the prevailing spot rate at 31 July 2017 of \$0.80.

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2017

22. Consolidated entities

The following is a list of all entities that formed part of the Group as at 31 July 2017:

Name of Entity	Country of incorporation	Ownership interest as at 31 July	
		2017 %	2016 %
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
Koee Communications Pty Ltd	Australia	100	100
Koee Pty Ltd	Australia	100	100
Koee 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 2017

22. Consolidated entities (continued)

Name of Entity	Country of incorporation	Ownership interest as at 31 July	
		2017 %	2016 %
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 2017

22. Consolidated entities (continued)

Name of Entity	Country of incorporation	Ownership interest as at 31 July	
		2017 %	2016 %
Subsidiaries (continued)			
Tech2 Business Solutions Pty Ltd	Australia	60	60
iHug Pty Ltd	Australia	100	100
Adam Internet Holdings Pty Ltd	Australia	100	100
Adam Internet Pty Ltd	Australia	100	100
iiNet (OzEmail) Pty Ltd	Australia	100	100
TPG Telecom Pte Ltd	Singapore	100	100

23. Deed of cross guarantee

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

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

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

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

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

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

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23. Deed of cross guarantee (continued)

A consolidated statement of comprehensive income and consolidated statement of financial position, comprising the Company and the controlled entities which are a party to the Deed of Cross Guarantee, after eliminating all transactions between parties to the Deed, at 31 July 2017 is set out as follows:

Statement of comprehensive income and retained profits

	2017 \$m	2016 \$m
Revenue	2,444.0	2,328.0
Other income	48.8	92.7
Network, carrier and hardware costs	(1,175.1)	(1,128.2)
Employee benefits expense	(253.7)	(266.5)
Other expenses	(177.1)	(183.6)
Earnings before interest, tax, depreciation and amortisation (EBITDA)	886.9	842.4
Depreciation of plant and equipment	(135.0)	(130.9)
Amortisation of intangibles	(100.0)	(112.0)
Results from operating activities	651.9	599.5
Finance income	1.4	1.3
Finance expenses	(52.3)	(84.6)
Net financing costs	(50.9)	(83.3)
Profit before income tax	601.0	516.2
Income tax expense	(176.6)	(130.5)
Profit for the year attributable to owners of the company	424.4	385.7
Other comprehensive income, net of tax	(59.3)	(34.7)
Total comprehensive income for the year	365.1	351.0
Retained earnings at beginning of year	710.0	432.7
Profit for the year	424.4	385.7
Dividends recognised during the year	(131.5)	(108.4)
Retained earnings at end of year	1,002.9	710.0

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

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23. Deed of cross guarantee (continued)

Statement of financial position

	31 July 2017	31 July 2016
	\$m	\$m
Assets		
Cash and cash equivalents	35.9	31.3
Trade and other receivables	117.6	136.2
Inventories	6.1	11.7
Investments	-	139.1
Current tax assets	-	3.7
Derivative financial instruments	1.3	5.4
Prepayments and other assets	23.8	12.5
Total Current Assets	184.7	339.9
Investments	2.9	16.3
Derivative financial instruments	-	6.4
Loans to subsidiaries	290.5	148.9
Property, plant and equipment	973.6	798.6
Intangible assets	2,470.7	2,462.1
Prepayments and other assets	7.9	8.3
Total Non-Current Assets	3,745.6	3,440.6
Total Assets	3,930.3	3,780.5
Liabilities		
Trade and other payables	279.2	287.8
Loans and borrowings	32.5	27.1
Current tax liabilities	50.9	-
Employee benefits	27.4	27.4
Provisions	9.3	14.0
Accrued interest	1.4	1.6
Deferred income and other liabilities	148.7	141.2
Total Current Liabilities	549.4	499.1
Loans and borrowings	872.4	1,350.1
Deferred tax liabilities	12.7	63.9
Employee benefits	2.1	2.2
Provisions	33.6	36.0
Derivative financial instruments	1.2	-
Deferred income and other liabilities	24.4	26.4
Total Non-Current Liabilities	946.4	1,478.6
Total Liabilities	1,495.8	1,977.7
Net Assets	2,434.5	1,802.8
Equity		
Share capital	1,449.4	1,051.9
Reserves	(17.8)	40.9
Retained earnings	1,002.9	710.0
Total Equity	2,434.5	1,802.8

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2017

24. Parent entity disclosures

	2017 \$m	2016 \$m
Result of the parent entity		
Profit/(Loss) for the period	(35.6)	308.4
<i>Comprising:</i>		
Dividend from subsidiaries	-	300.0
Gain on previously held interest in iiNet	-	73.1
Finance expenses	(51.0)	(78.5)
Costs relating to mergers and acquisitions	-	(10.3)
Income tax benefit	10.4	23.5
Other	5.0	0.6
Total profit for the period	(35.6)	308.4
Financial position of parent entity at year end		
Current assets	12.0	3.9
Total assets	3,823.4	3,537.2
Current liabilities	54.6	3.8
Total liabilities	2,209.9	2,145.1
Total equity of the parent entity		
Share capital	1,449.4	1,051.9
Reserves	(10.5)	(1.6)
Retained earnings	174.6	341.8
Total Equity	1,613.5	1,392.1

Parent entity guarantees

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

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

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

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25. Reconciliation of cashflows from operating activities

	<i>Note</i>	2017	2016
		\$m	\$m
Cash flows from operating activities			
Profit for the year after income tax		415.7	384.6
<i>Adjustments for:</i>			
Dividend income	5	-	(2.0)
Depreciation of plant and equipment	11	141.1	136.9
Amortisation and impairment of intangibles	12	103.3	115.1
Bad and doubtful debts		9.0	10.2
Amortisation of borrowing costs	6	14.2	18.1
Performance rights plan expense	15	4.3	3.6
Unrealised foreign exchange loss		1.1	1.9
Interest income	6	(1.4)	(1.3)
Interest expense	6	38.1	66.5
Gain on previously held interest in iiNet	5	-	(73.1)
Profit on sale of investments	5	(48.8)	(17.6)
Costs relating to mergers and acquisitions		1.5	8.6
Income tax expense	7	179.8	129.5
Operating profit before changes in working capital and provisions		857.9	781.0
Changes in:			
- Trade and other receivables		(0.3)	(9.7)
- Inventories		5.6	3.9
- Other assets		3.8	(2.7)
- Trade and other payables		7.1	(8.9)
- Other liabilities		(1.1)	4.6
- Employee benefits		0.2	(0.8)
- Provisions		(3.5)	(8.2)
		869.7	759.2
Income taxes paid		(147.0)	(138.8)
Net cash from operating activities		722.7	620.4

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2017

26. Related parties

The following were key management personnel of the Group during the reporting period and, unless otherwise indicated, were key management personnel for the entire period:

Executive director

Mr David Teoh
Executive Chairman & Chief Executive Officer

Non-executive directors

Mr Denis Ledbury
Mr Robert Millner
Mr Joseph Pang
Mr Shane Teoh

Executives

Mr Stephen Banfield
Chief Financial Officer and Company Secretary

Mr Craig Levy
Chief Operating Officer

Mr Wayne Springer
General Manager, Corporate Products & Pricing

Ms Mandie De Ville
Chief Information Officer

Mr Tony Moffatt
General Counsel

Mr Mark Rafferty
Group Executive, Corporate, Government & Wholesale

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2017

26. Related parties (continued)

Key management personnel remuneration

The key management personnel remuneration included in employee benefits is as follows:

	2017 \$m	2016 \$m
Short-term employee benefits	7.3	7.1
Post-employment benefits	0.2	0.2
Other long term benefits	0.1	0.1
Share-based benefits	1.4	1.3
	9.0	8.7

Individual directors' and executives' remuneration disclosures

Information regarding individual directors' and executives' remuneration is provided in the Remuneration Report section of the Directors' report on pages 23 to 32.

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 FY17 was \$1.3m (2016: \$1.3m).

Apart from the details disclosed in this note, 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 key management personnel and their related parties

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

Other key management personnel transactions with the Company or its controlled entities

From time to time, key management personnel 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

Notes to the consolidated financial statements

For the year ended 31 July 2017

26. Related parties (continued)

Movement in shares

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

	Held at 1 August 2016	Purchases	Granted as remuneration	Disposals	Held at 31 July 2017
Directors					
D Teoh	291,625,603	26,307,747	-	-	317,933,350
D Ledbury	75,000	10,109	-	-	85,109
R Millner	7,439,983	795,756	-	-	8,235,739
J Pang	90,264	12,165	-	-	102,429
S Teoh	116,723	15,733	-	-	132,456
Executives					
S Banfield	263,000	-	31,500	(79,500)	215,000
C Levy	297,500	10,000	44,250	(10,000)	341,750
W Springer	177,902	43,259	23,250	-	244,411
M De Ville	163,402	24,349	17,250	-	205,001
T Moffatt	664,571	-	30,000	-	694,571
M Rafferty	12,000	-	23,800	(12,500)	23,300
	Held at 1 August 2015	Purchases	Granted as remuneration	Disposals	Held at 31 July 2016
Directors					
D Teoh	291,625,603	-	-	-	291,625,603
D Ledbury	100,000	-	-	(25,000)	75,000
R Millner	7,434,175	5,808	-	-	7,439,983
J Pang	88,812	1,452	-	-	90,264
S Teoh	90,251	26,472	-	-	116,723
Executives					
S Banfield	237,000	-	44,000	(18,000)	263,000
C Levy	271,000	-	60,000	(33,500)	297,500
W Springer	230,902	-	37,000	(90,000)	177,902
M De Ville	146,402	-	17,000	-	163,402
T Moffatt	631,571	-	43,000	(10,000)	664,571
M Rafferty	-	-	12,000	-	12,000

Identity of related parties

The Group has no related party relationships other than with its key management personnel.

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2017

27. Subsequent events

Subsequent to the year-end:

- the Board has declared a final dividend for FY17 of 2.0 cents (refer note 18).
- the Group has entered into revised debt financing agreements (refer note 14).

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.

28. Auditors' remuneration

	2017 \$'000	2016 \$'000
Audit and review services		
Auditors of the Company – KPMG Australia		
- Audit and review of financial statements	925	1,059
- Other regulatory audit services	8	8
	933	1,067
Other services		
Auditors of the Company – KPMG Australia		
- Taxation and other services	120	119
	1,053	1,186

29. Significant accounting policies

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

a. Basis of consolidation

(i) Business combinations

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

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

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2017

29. Significant accounting policies (continued)

(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.

b. Foreign currency transactions

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

c. Foreign operations

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

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

d. Cash and cash equivalents

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

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2017

29. Significant accounting policies (continued)

e. Leases

(i) Determining whether an arrangement contains a lease

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

(ii) Leased assets

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

(iii) Lease payments

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

At inception or upon reassessment of the arrangement, the Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values.

f. Inventories

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

g. Impairment

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

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

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2017

29. Significant accounting policies (continued)

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement unless an asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through profit or loss.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the other assets in the units on a pro rata basis.

(i) Calculation of recoverable amount

Impairment of receivables is not recognised until objective evidence is available that a loss event has occurred. Significant receivables are individually assessed for impairment. Non-significant receivables are not individually assessed. Instead, impairment testing is performed by placing non-significant receivables in portfolios of similar risk profiles, based on objective evidence from historical experience adjusted for any effects of conditions existing at each balance sheet date.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cashflows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment

Impairment losses, other than in respect of goodwill, are reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimate used to determine the recoverable amount. An impairment loss in respect of goodwill cannot be reversed.

An impairment loss in respect of a receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

h. Borrowing costs

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

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2017

29. Significant accounting policies (continued)

i. Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense. Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

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

j. New standards and interpretations not yet adopted

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

Financial instruments (Revised AASB 9)

AASB 9 will be applicable to the Group from 1 August 2018. The revised standard contains a new classification and measurement approach for financial assets. AASB 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI), and fair value through profit or loss (FVTPL). The standard eliminates the existing categories of: held to maturity, loans and receivables and available for sale.

Based on its preliminary assessment, the Group does not believe that the new classification requirements, if applied at 31 July 2017, would have had a material impact on its accounting for trade receivables and investments in equity securities that are managed on a fair value basis. At 31 July 2017, the Group had equity investments classified as available-for-sale with a fair value of \$2.9m that are held for long-term strategic purposes. If these investments continue to be held for the same purpose at initial application of AASB 9, the Group may elect then to classify them as FVOCI or FVTPL. The Group has not yet made a decision in this regard. In the former case, all fair value gains and losses would be reported in other comprehensive income, no impairment losses would be recognised in the income statement and no gains or losses would be reclassified to the income statement on disposal. In the latter case, all fair value gains and losses would be recognised in the income statement as they arise, increasing volatility in the Group's results.

Under the revised standard, impairment of financial assets will be calculated using an expected credit loss model replacing the current 'incurred loss' model. AASB 9 will also provide simpler hedge accounting requirements and will help align accounting treatment more closely to the Group's risk management strategy.

The Group's assessment of the impact of this standard on its consolidated financial statements is on-going and the likely impact on adoption is not yet known.

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2017

29. Significant accounting policies (continued)

Revenue from contracts with customers (AASB 15)

AASB 15 will be applicable to the Group from 1 August 2018. The standard contains a single model that applies to all contracts with customers. Under that model an entity must determine the various performance obligations under the contract, allocate the total contract price amongst the performance obligations, and recognise revenue when the performance obligations are satisfied.

The Group has undertaken a detailed review including:

- reviewing material contracts to determine the transaction price and to consider the appropriate allocation of the transaction price to the performance obligations;
- identifying costs that are incremental to obtaining a new contract; and
- identifying costs that qualify as fulfilment costs.

The Group's assessment of the impact of this standard on its consolidated financial statements is on-going and the likely impact on adoption is not yet known. However, the following expected implications have already been noted:

- For certain products, set-up revenue charged to customers and connection costs incurred by the Group, both of which are currently recognised on installation, will instead be spread over the life of the contract.
- Incremental sales commission costs incurred in acquiring new contracts, which are currently recognised on contract inception, will be spread over the life of the contract.

Leases (AASB 16)

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

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

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

The Group's assessment of the impact of adopting AASB 16 on its consolidated financial statements is on-going and the quantitative effect will depend on, amongst other things, additional leases that the Group enters into up until date of adoption of the new standard, the transition method chosen and, the extent to which the Group uses the practical expedients available under the standard.

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2017

29. Significant accounting policies (continued)

k. Determination of fair values

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

Material assets acquired through business combinations

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

Trade and other receivables

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

Equity and debt securities

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

Non-derivative financial liabilities

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

TPG Telecom Limited and its controlled entities

Directors' declaration

For the year ended 31 July 2017

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 37 to 90 and the Remuneration report in section 5 of the Directors' report, set out on pages 23 to 32, 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 2017 and of its performance for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
 - (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. There are reasonable grounds to believe that the Company and the group entities identified in note 23 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those group entities pursuant to the ASIC Corporations (Wholly-owned Companies) Instrument 2016/785.
3. The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the chief executive officer and chief financial officer for the financial year ended 31 July 2017.
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 20th day of October, 2017.

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 2017 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 2017
- Consolidated income statement, Consolidated statement of comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

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

Basis for opinion

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

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

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



Key Audit Matters

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

- Revenue recognition
- Carrying value of goodwill

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

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

Revenue recognition (\$2,490.7m)	
Refer to Note 4 Revenue	
The key audit matter	How the matter was addressed in our audit
<p>The majority of TPG’s revenue relates to the provision of telecommunication services for consumer, corporate and wholesale customers. We focused on the telecommunication services revenue as a key audit matter due to the fact that 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. This requires the involvement of our IT specialists, increases the complexity of our audit and resulting audit effort.</p> <p>The competitive market that TPG operates in 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.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> • Involving our IT specialists to test the IT environment in which the billing systems and multi-level sub-systems reside, including the change control procedures for systems that bill revenue streams; • Testing the end-to-end reconciliations from the business support system to the billing systems and then to the general ledger. This included analysing significant journals processed between the billing system and the general ledger for consistency; • Performing sample tests on the accuracy of customer bill generation by checking customer agreed rate and charge plans to sources such as customer terms and conditions contained in their contracts; • Assessing Average Revenue per User (ARPU) KPI’s used by management to monitor performance, by significant product category type, through comparison with advertised pricing plans during the year and those from prior year and budgets; • Assessing revenue for major corporate and wholesale customers by checking revenue back to customer contracts ; and • Assessing new plans introduced during the current year to consider the application of revenue recognition in accordance with TPG’s accounting policies and against the criteria in the accounting standards.



Carrying value of goodwill (\$1,911.0m)	
Refer to Note 12 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 used to support carrying values that are inherently subjective and require a significant level of judgement to assess; and • the industry TPG operates in is being impacted by changes in technology such as the introduction of the national broadband network, a competitive market with constantly changing price points which create a risk that business forecasts, which are the basis 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 TPG applied in their recoverability assessment including:</p> <ul style="list-style-type: none"> • key assumptions relating to forecast market demand, ARPUs and service costs including forecasts of TPG's broadband market share, pricing and margins; • discount rates applied to forecast cash flows as well as the assumptions underlying the forecast growth and terminal growth rates; and • determination of CGUs following the full integration of iiNet. <p>In assessing this Key Audit Matter, we involved senior audit team members and our valuation specialists, who understand TPG's business, the telecommunications industry and the economic environment in which it operates</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> • challenging TPG's key assumptions such as forecast market demand for telecommunication services, ARPUs and service costs including forecasts of TPG's broadband market share, pricing and margins by: <ul style="list-style-type: none"> • comparing key underlying data in valuation models to forecasts prepared by senior management; • 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, to identify those assumptions that are at higher risk of bias or inconsistency in application and to focus our further procedures; and • assessing TPG's historical forecasting accuracy as an indication of risk in future forecasts. • assessing the calculation methodology, forecast growth rates and terminal growth rates to accounting standard requirements and published analysts' growth rates and industry reports. This procedure was performed with assistance from our valuation specialists; • assessing the inputs for TPG's discount rate against publicly available data of a group of comparable entities. This procedure was performed with assistance from our valuation specialists; • considering TPG's determination of their CGUs based on our understanding of the operations of the Group's business, impact of iiNet acquisition in the prior year, and how independent cash inflows were generated, against the requirements of the accounting standards. • assessing the quantitative and qualitative disclosures in relation to this matter by comparing these disclosures to the accounting standards and our understanding of the issue.



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/ar2.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 2017, 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 25 to 32 of the Directors' report for the year ended 31 July 2017.

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 in black ink that reads 'KPMG'.

KPMG

A handwritten signature in black ink that reads 'Chris Hollis'.

Chris Hollis
Partner
Sydney
20 October 2017

TPG Telecom Limited and its controlled entities

ASX additional information

For the year ended 31 July 2017

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 2017.

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	317,933,350	34.38
Washington H Soul Pattinson and Company Limited	232,575,734	25.15

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	14,207
1,001 - 5,000	13,374
5,001 - 10,000	2,953
10,001 - 100,000	2,323
100,001 and over	153
	<u>33,010</u>

The number of shareholders holding less than a marketable parcel of ordinary shares is 1,924.

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 2017

Twenty largest shareholders (as at 30 September 2017)

Name of shareholder	Number of ordinary shares held	% of capital held
WASHINGTON H SOUL PATTINSON AND COMPANY LIMITED	232,575,734	25.15
TSH HOLDINGS PTY LTD	78,048,498	8.44
VICTORIA HOLDINGS PTY LTD	77,170,861	8.35
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	66,398,784	7.18
DAVID TEOH	47,476,499	5.13
VICKY TEOH	47,100,369	5.09
J P MORGAN NOMINEES AUSTRALIA LIMITED	37,101,980	4.01
TSH HOLDINGS PTY LTD	32,730,000	3.54
VICTORIA HOLDINGS PTY LTD	32,730,000	3.54
CITICORP NOMINEES PTY LIMITED	28,910,328	3.13
NATIONAL NOMINEES LIMITED	17,535,655	1.90
BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	11,712,482	1.27
WIN CORPORATION PTY LTD	10,898,473	1.18
UBS NOMINEES PTY LTD	8,716,938	0.94
CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	7,131,615	0.77
J S MILLNER HOLDINGS PTY LIMITED	6,868,936	0.74
FARJOY PTY LTD	6,254,236	0.68
BNP PARIBAS NOMS PTY LTD <DRP>	6,226,337	0.67
BKI INVESTMENT COMPANY LIMITED	4,819,251	0.52
AUSTRALIAN FOUNDATION INVESTMENT COMPANY LIMITED	4,700,000	0.51
	765,106,976	82.74

Principal Registered Office

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Share Registry

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