TPG Telecom Limited

ABN 46 093 058 069

and its controlled entities

ASX Appendix 4E and Preliminary Financial Report for the year ended 31 July 2018

Lodged with the ASX under Listing Rule 4.3A

Contents | **Page**

TPG Telecom Limited and its controlled entities
ASX Appendix 4E

Financial Year ended 31 July 2018
(Previous corresponding period: Year ended 31 July 2017)

Results for announcement to the market

Earnings - reported

				$m
Revenue	up	0.2%	to	2,495.2
Profit for the year	down	4.3%	to	398.0
Profit for the year attributable to owners of the Company	down	4.1%	to	396.9
Earnings per share attributable to owners of the Company (basic and diluted)	down	10.6%	to	42.8 cents
Earnings before interest, tax, depreciation and amortisation (EBITDA)	down	5.6%	to	841.1

Earnings - underlying[1]

				$m
Underlying revenue	up	0.5%	to	2,495.2
Underlying profit for the year	up	3.5%	to	433.7
Underlying profit for the year attributable to owners of the Company	up	3.7%	to	432.6
Underlying earnings per share attributable to owners of the Company (basic and diluted)	down	3.3%	to	46.7 cents
Underlying earnings before interest, tax, depreciation and amortisation (EBITDA)	up	0.7%	to	841.1

Dividends

	Amount per security	Franked Amount
FY18		
Interim dividend for FY18	2.0 cents	100%
Final dividend for FY18 (payable 20 November 2018)	2.0 cents	100%
FY17		
Interim dividend for FY17	8.0 cents	100%
Final dividend for FY17	2.0 cents	100%

The record date for determining entitlement to the FY18 final dividend will be 16 October 2018. The Dividend Reinvestment Plan (DRP) is currently suspended until further notice.

[1] Refer next page for reconciliation between reported and underlying results. The above table of underlying results comprises non-IFRS financial information that has not been subject to audit or review but is extracted or derived from the financial report for the period ended 31 July 2018 that is in the process of being audited by the Group's auditors, KPMG. The table of underlying results is provided because, in the opinion of the directors, it provides additional information about the underlying performance of the Group by excluding material non-recurring and/or non-cash items.

Financial Year ended 31 July 2018

Reconciliation of Reported to Underlying Profits

	FY18		FY17	
$m	EBITDA	NPAT	EBITDA	NPAT
Reported	**841.1**	**396.9**	**890.8**	**413.8**
Less: Profit on sale of equity investments	-	-	(48.8)	(35.3)
Less: One-off Consumer Segment revenue	-	-	(7.0)	(4.9)
Add: Acquired customer base intangible amortisation (non-cash)	-	35.7	-	43.7
Underlying	**841.1**	**432.6**	**835.0**	**417.3**

Commentary on results

The Company has provided a commentary on the results in its Financial Results Commentary which accompanies this report.

Consolidated income statement

	Note	FY18 $m	FY17 $m
Revenue	*4*	2,495.2	2,490.7
Other income	*9*	-	48.8
Network, carrier and hardware costs		(1,229.4)	(1,203.8)
Employee benefits expense		(242.4)	(256.7)
Other expenses		(182.3)	(188.2)
Earnings before interest, tax, depreciation and amortisation (EBITDA)		**841.1**	**890.8**
Depreciation of plant and equipment		(138.8)	(141.1)
Amortisation of intangibles	*6*	(104.1)	(103.3)
Results from operating activities		**598.2**	**646.4**
Finance income		1.7	1.4
Finance expenses	*5*	(36.1)	(52.3)
Net financing costs		**(34.4)**	**(50.9)**
Profit before income tax		**563.8**	**595.5**
Income tax expense	*7*	(165.8)	(179.8)
Profit for the year		**398.0**	**415.7**
Attributable to:			
Owners of the Company		396.9	413.8
Non-controlling interest		1.1	1.9
		398.0	**415.7**
Earnings per share:			
Basic and diluted earnings per share (cents)	*14*	42.8	47.9

Consolidated statement of comprehensive income

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

Consolidated statement of financial position

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

The condensed notes on pages 9 to 20 are an integral part of these consolidated financial statements.

TPG Telecom Limited and its controlled entities
Preliminary Financial Report for the year ended 31 July 2018

Consolidated statement of changes in equity

	Note	Share Capital	Foreign currency translation reserve	Share based payments reserve	Fair value reserve	Cash flow hedge reserve	Total reserves	Retained earnings	Total	Non-controlling interest	Total equity
		Attributable to owners of the Company									
		$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
Balance as at 1 August 2016		1,051.9	0.3	(4.0)	46.9	(2.0)	41.2	681.0	1,774.1	5.1	1,779.2
Profit for the year		-	-	-	-	-	-	413.8	413.8	1.9	415.7
Other comprehensive income		-	(4.0)	-	(53.9)	(1.9)	(59.8)	-	(59.8)	-	(59.8)
Total comprehensive income for the year		**-**	**(4.0)**	**-**	**(53.9)**	**(1.9)**	**(59.8)**	**413.8**	**354.0**	**1.9**	**355.9**
Issue of shares	*12*	400.3	-	-	-	-	-	-	400.3	-	400.3
Share issue costs	*12*	(2.8)	-	-	-	-	-	-	(2.8)	-	(2.8)
Share-based payment transactions		-	-	0.5	-	-	0.5	-	0.5	-	0.5
Dividends paid to shareholders	*13*	-	-	-	-	-	-	(131.5)	(131.5)	(2.3)	(133.8)
Balance as at 31 July 2017		**1,449.4**	**(3.7)**	**(3.5)**	**(7.0)**	**(3.9)**	**(18.1)**	**963.3**	**2,394.6**	**4.7**	**2,399.3**
Balance as at 1 August 2017		1,449.4	(3.7)	(3.5)	(7.0)	(3.9)	(18.1)	963.3	2,394.6	4.7	2,399.3
Profit for the year		-	-	-	-	-	-	396.9	396.9	1.1	398.0
Other comprehensive income		-	7.0	-	(0.7)	1.0	7.3	-	7.3	-	7.3
Total comprehensive income for the year		**-**	**7.0**	**-**	**(0.7)**	**1.0**	**7.3**	**396.9**	**404.2**	**1.1**	**405.3**
Issue of shares	*12*	15.8	-	-	-	-	-	-	15.8	-	15.8
Share-based payment transactions		-	-	2.6	-	-	2.6	-	2.6	-	2.6
Dividends paid to shareholders	*13*	-	-	-	-	-	-	(37.0)	(37.0)	(1.8)	(38.8)
Balance as at 31 July 2018		**1,465.2**	**3.3**	**(0.9)**	**(7.7)**	**(2.9)**	**(8.2)**	**1,323.2**	**2,780.2**	**4.0**	**2,784.2**

Consolidated statement of cash flows

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

Condensed notes to the consolidated financial statements

Note 1 Basis of preparation of financial report

This preliminary financial report for the year ended 31 July 2018 (referred to throughout the report as 'FY18") has been prepared in accordance with Australian Accounting Standards (including Australian Interpretations) adopted by the Australian Accounting Standards Board and the *Corporations Act 2001*.

The preliminary financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 July 2017 and any public announcements made by TPG Telecom Limited during the reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

Note 2 Significant accounting policies

Accounting policies applied by the Group in this preliminary financial report are the same as those applied by the Group in its consolidated annual financial report for the year ended 31 July 2017. In the current 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 set out below:

1. Financial instruments (Revised AASB 9)

The revised AASB 9 will be applicable to the Group from 1 August 2018. The Group's assessment of the impact of this revised standard on its consolidated financial statements is that it is not likely to be significant.

Impact on Financial assets

a. Classification and measurement

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

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

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

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

b. Impairment

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

Condensed notes to the consolidated financial statements

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

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

2. Revenue from contracts with customers (AASB 15)

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

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

- **Set-up revenue and connection costs in Consumer broadband contracts:**
  For certain products, set-up revenue charged to customers and connection costs incurred by the Group are currently recognised on installation. As set-up revenue does not satisfy the definition of a performance obligation under the new standard, from the date of initial application, it will be treated as part of the total contract price and allocated over the identified performance obligations. Connection costs, being costs of fulfilling orders, will be capitalised as contract costs and expensed to network, carrier and hardware costs over the life of the contract.

- **Subscriber acquisition costs:**
  Certain customer acquisition costs such as sign-on incentives, free equipment and discounted installation costs are currently classified as subscriber acquisition costs within intangible assets and amortised through intangible amortisation.
  From the date of initial application of the new standard, costs of this nature that arise on obtaining customer contracts will either form part of the total contract price and hence reduce the revenue recognised over the contract term, or (in the case of discounted installation costs) be classified as contract costs and amortised through network, carrier and hardware costs over the contract term.
  The unamortised balance of these items as at 1 August 2018 of $9.7m will be reclassified from intangible assets to other receivables ($5.3m) and contract costs ($4.4m).

- **Sales commission costs:**
  Incremental sales commission costs incurred in acquiring new contracts are currently expensed on contract inception. Under the new AASB 15 these costs will be capitalised as contract costs and expensed to employee benefits expense over the life of the contract.

The estimated impact that the above changes would have made on the FY18 accounts is as follows:
- Revenue would have been lower by $4.3m, network, carrier and hardware costs would have been higher by $9.7m, employee benefit expense would have been higher by $0.3m and intangible amortisation would have been lower by $13.6m resulting in a lower EBITDA by $14.3m and a lower NPAT by $0.5m.

Condensed notes to the consolidated financial statements

Transition:

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

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

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

3. 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 2017 Annual Report, which currently give rise to recurring expenses within operating expenses, will in future be recognised on the balance sheet as 'Right of use assets';
- a corresponding lease liability reflecting the Group's commitment to make payments to third parties under these contracts will also be recognised on the balance sheet;
- the Group will depreciate the 'Right of use assets' with a charge to the income statement over the shorter of the assets' useful lives and the lease term;
- the Group will recognise an interest expense on the liability as a finance cost in the income statement;
- the profile of the overall expense in the income statement will change as the interest expense will be more front-loaded compared to a straight-line operating lease rental expense.

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

Transition:

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

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

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

Condensed notes to the consolidated financial statements

Note 3 Segment reporting

The Group identifies its operating segments based on the internal reports that are reviewed and used by the Executive Chairman (the chief operating decision maker) in assessing performance and in determining the allocation of resources.

The Group recognises the following segments:

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

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

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.

Condensed notes to the consolidated financial statements

Note 3 Segment reporting (continued)

	Note	Consumer	Corporate	Unallocated	Total results
For the year ended 31 July 2018		$m	$m	$m	$m
Revenue		1,741.4	753.8	-	2,495.2
Other income		-	-	-	-
Network, carrier and hardware costs		(949.4)	(280.0)	-	(1,229.4)
Employee benefits expense		(133.9)	(108.2)	(0.3)	(242.4)
Other expenses		(145.0)	(35.5)	(1.8)	(182.3)
Results from segment activities		**513.1**	**330.1**	**(2.1)**	**841.1**
For the year ended 31 July 2017		$m	$m	$m	$m
Revenue		1,747.7	743.0	-	2,490.7
Other income	*9*	-	-	48.8	48.8
Network, carrier and hardware costs		(916.4)	(287.4)	-	(1,203.8)
Employee benefits expense		(147.8)	(108.8)	(0.1)	(256.7)
Other expenses		(153.1)	(34.0)	(1.1)	(188.2)
Results from segment activities		**530.4**	**312.8**	**47.6**	**890.8**

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

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

Geographic Information

All of the Group's revenues are derived from Australian based entities, except for $32.8m (FY17: $27.5m) derived from overseas customers. An analysis of the Group's non-current assets based on the geographic location is set out below:

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

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

Condensed notes to the consolidated financial statements

Note 4 Revenue

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

Note 5 Finance expenses

	FY18 $m	FY17 $m
Interest expense	18.6	38.1
Borrowing costs	17.5	14.2
	36.1	**52.3**

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

Condensed notes to the consolidated financial statements

Note 6 Intangible assets

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

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

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

Condensed notes to the consolidated financial statements

Note 7 Income tax

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

Numerical reconciliation between tax expense and pre-tax accounting profit

	FY18 $m	FY17 $m
Profit before income tax	563.8	595.5
Income tax using Australian tax rate of 30%	169.1	178.7
Different tax rates in other jurisdictions	0.2	-
Non-deductible and non-assessable items	(3.5)	0.6
Adjustments in respect of prior years	-	0.5
Income tax expense	**165.8**	**179.8**

Note 8 Trade and other receivables

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

Condensed notes to the consolidated financial statements

Note 9 Investments

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

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

Note 10 Loans and borrowings

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

In September 2017, in order to finance its planned mobile network builds, the Group entered into new agreements to increase, amend and extend its debt facilities. The facility limit was increased by $750.0m to $2,385.0m (includes a Singapore dollar denominated facility of S$100m which is translated to AUD using the 31 July 2018 spot rate) and the tenor of the facilities was extended such that as at 31 July 2018, the maturity profile of the facilities is now between 2.2 and 6.2 years, with a weighted average of 3.6 years. As at 31 July 2018 $1,330.7m of the debt facilities were drawn down leaving $1,054.3m undrawn.

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

The Group has entered into interest rate swap contracts to hedge the interest rate risk on $800m of its debt facilities. These contracts will enable the Group to convert its borrowings from floating rates to fixed rates for 5 years starting from December 2019.

Condensed notes to the consolidated financial statements

Note 11 Spectrum liability

	FY18 $m	FY17 $m
Balance as at 1 August 2017	-	-
Present value of spectrum acquired	655.2	-
Interest accrued during the year	16.6	-
Balance as at 31 July 2018	671.8	-
Current	344.0	-
Non-current	327.8	-

The Group acquired a licence for two lots of 10MHz of 700MHz spectrum at an auction in April 2017 for a purchase price of $1.260 billion, payable in three annual instalments starting from 31 January 2018. The licence was available for use from 1 April 2018. $10.0m of the first instalment was prepaid in FY17 and the balance of $594.8m was paid on 31 January 2018. The present value of the remaining two instalments of $655.2m is disclosed in the table above.
The second and third instalments, payable on 31 January 2019 and 31 January 2020, amount to $352.4m each. The total amount payable for the spectrum licence will amount to $1,309.6m and implies an interest for deferred payment of $49.6m. This interest expense is accrued over the remaining two instalments on a straight-line basis.

Note 12 Share capital

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

Note 13 Dividends

Dividends recognised in the year were as follows:

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

Condensed notes to the consolidated financial statements

Note 13 Dividends (continued)

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

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

Note 14 Earnings per share

	FY18 Cents	FY17 Cents
Basic and diluted earnings per share	42.8	47.9
	FY18 $m	**FY17 $m**
Profit attributable to owners of the Company used in calculating basic and diluted earnings per share	396.9	413.8
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share	926,209,453	864,306,858

Note 15 Net tangible assets

	FY18 Cents	FY17 Cents
Net tangible asset backing per ordinary share	(120.5)	(27.0)

Net tangible assets are calculated by deducting the value of intangible assets from the net assets of the Group. It should be noted that valuable assets owned by the Group such as mobile spectrum licences and IRUs for bandwidth capacity are classified as intangible assets and are therefore excluded from the Group's net tangible assets.

Condensed notes to the consolidated financial statements

Note 16 Capital commitments

	FY18 $m	FY17 $m
Contracted but not provided for in the financial statements	163.8	1,482.9

Capital commitments at 31 July 2018 are comprised mainly of commitments in respect of:
- IRU agreements for international capacity (US$54.5m*);
- Domestic fibre construction projects;
- Mobile network builds

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

Note 17 Subsequent events

Proposed merger with Vodafone Hutchison Australia
On 30 August 2018, the Company and Vodafone Hutchison Australia ("VHA") entered into a Scheme Implementation Deed under which the companies have agreed a proposed merger of equals to establish a fully integrated telecommunications operator in Australia.
The merger will be implemented via a TPG Scheme of Arrangement, with the new merged group listed on the Australian Securities Exchange ("ASX") and renamed "TPG Telecom Limited" in conjunction with implementation of the scheme. Following completion of the merger, TPG shareholders will own 49.9% of the equity of the Merged Group, with VHA shareholders owning the remaining 50.1%.
The merger is subject to a number of conditions such as the approval of the Australian Competition and Consumer Commission and it is anticipated that the merger will complete during 2019.
Further details about the planned merger are set out in market announcements made to the ASX on 30 August.

Joint Venture and 5G Spectrum Auction
In parallel to the merger agreement, the Company and VHA have signed a separate Joint Venture Agreement. The scope of the joint venture is to acquire, hold and licence 3.6 GHz spectrum. The joint venture will register as a participant in the 3.6GHz spectrum auction expected to commence in late November 2018. The Joint Venture Agreement is ongoing and will not terminate if the merger fails to proceed.

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

Other than the above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

Note 18 Unaudited financial information

The information contained in this preliminary financial report is based on accounts which are in the process of being audited.