TPG TELECOM LIMITED (ASX: TPM)

FINANCIAL RESULTS COMMENTARY

YEAR ENDED 31 JULY 2018

TPG Telecom exceeds guidance and reports another year of underlying EBITDA growth in FY18

Reported Results

TPG Telecom Limited has today announced its results for its year ended 31 July 2018 ("FY18"), which include:

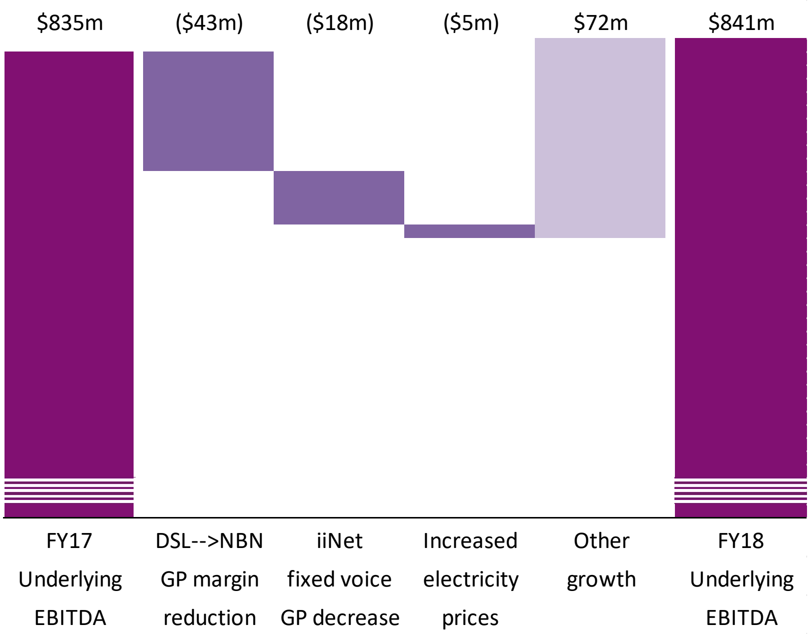
- Earnings before interest, tax, depreciation and amortisation ("EBITDA") for the period of $841.1m;
- Net Profit After Tax attributable to shareholders ("NPAT") for the period of $396.9m; and
- Earnings per share ("EPS") of 42.8 cents per share.

Underlying[1] Results

The FY18 EBITDA result includes no material irregular items and is therefore representative of underlying EBITDA for the period. By contrast, as reported last year, the FY17 EBITDA result benefitted from $55.8m of favourable non-recurring items (predominantly a profit realised on sale of an investment). Therefore, although there is a $49.7m decrease in reported EBITDA between FY17 and FY18, underlying EBITDA in fact increased by $6.1m in FY18 from $835.0m to $841.1m, making FY18 the 10th consecutive year of underlying EBITDA growth for the Group.

As shown in the chart below, this modest underlying EBITDA increase in FY18 has been achieved despite the significant headwinds that were experienced during the year from the migration of DSL customers to lower margin NBN services, loss of gross profit from home phone services as customers migrate to NBN bundled services and electricity price increases.

Bridge between underlying FY17 and FY18 EBITDA



[1] A reconciliation of reported to underlying profits is set out on page 3 of this Financial Results Commentary.

The adverse profit impacts of the headwinds shown in the chart above were all in line with, or slightly less than, expectations, whilst the strong $72m of other EBITDA growth achieved relative to FY17 was pleasing. The main contributors to this growth came from the Corporate Segment, TPG FTTB ('fibre to the building') services, and cost savings from the ongoing integration of iiNet.

Segment Results

The Consumer Segment's EBITDA for FY18 was $513.1m compared to $530.4m for FY17. As reported last year, the FY17 result included $7.0m one-off revenue, excluding which the underlying movement is a $10.3m decrease from FY17 to FY18. This movement comprises a $32.3m decrease in gross profit partially offset by a $22.0m decrease in employment and overhead costs. The gross profit decline is driven by broadband gross margin erosion and loss of home phone voice revenue, both due to the NBN rollout. The significant decrease in employment and overhead costs reflects the results of further integration of iiNet operations within the broader group.

The Corporate Segment achieved EBITDA of $330.1m for FY18 compared to $312.8m for FY17, a $17.3m year-on year growth. It should be noted that $3.5m of EBITDA related to FTTB that was included in the Corporate Segment's FY17 EBITDA is recognised within the Consumer Segment in FY18 meaning that the comparable EBITDA growth for the segment was in fact $20.8m. This EBITDA growth has been driven by continued strong data and internet sales, and increased revenue from the VHA fibre contract offsetting ongoing declines in voice revenues.

Cashflow, Capital Expenditure and Gearing

The Group delivered another strong cashflow result in FY18 with $868.3m cash generated from operations (pre-tax).

Total capital expenditure for the year of $956.3m included $597.3m of spectrum payments (includes a $594.8m instalment for the 2x10MHz of 700MHz spectrum acquired at auction last year) and $101.0m invested in the mobile network builds in Singapore and Australia. The remaining 'business as usual' capital expenditure of $258.0m was $104.5m lower than FY17 as the fibre expansion for the Vodafone fibre contract was substantially completed during the year.

At the end of FY18 the Group had net debt of $1,266.4m, which represents a leverage ratio of ~1.5x EBITDA, and had undrawn headroom of over $1 billion in its debt facilities to fund its remaining planned mobile network investments in Australia and Singapore.

Mobile Network Rollout Update

In Australia, the Group's small cell network rollout is continuing in major capital cities and densely populated metropolitan areas. If the merger with Vodafone Hutchison Australia (VHA) proceeds, TPG's small cell network would be complementary to VHA's mobile network bringing greater strength to the combined group through increased coverage and capacity in densely populated areas.

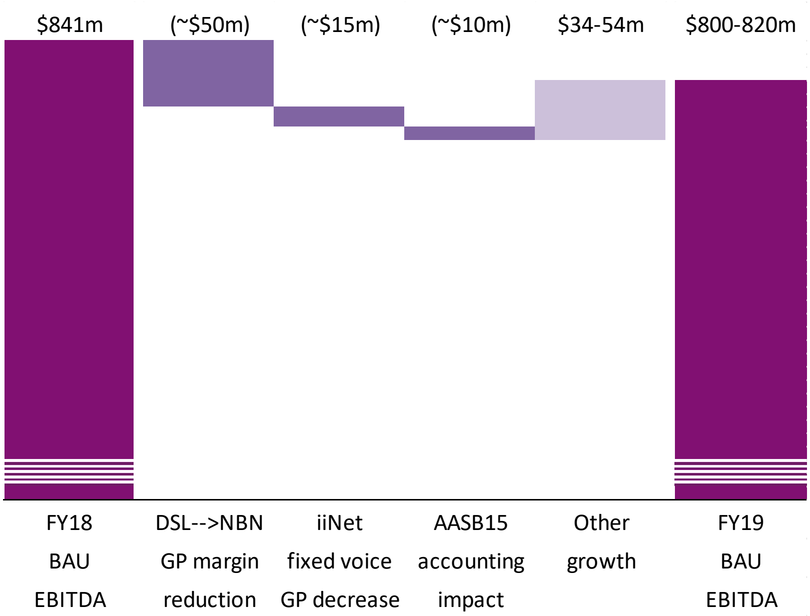
In Singapore, the Group remains on track to achieve its milestone of outdoor service coverage by the end of 2018 with the production network already covering in excess of 90% of outdoor areas.

Dividend

The Board of Directors has declared a final FY18 dividend in line with the interim FY18 dividend of 2.0 cents per share (fully franked), payable on 20 November 2018 to shareholders on the register on 16 October 2018.

FY19 Guidance

The Group is anticipating another year of EBITDA growth from its 'business as usual' (BAU) operations in FY19 but, as reflected in the chart below which shows a bridge between actual FY18 EBITDA and forecast FY19 EBITDA from BAU operations, expects this to be offset by further gross profit margin headwinds as DSL and home phone services continue to migrate to the NBN, and by a one-time step reduction in EBITDA caused by adoption of the new AASB15 revenue accounting standard.



'BAU' EBITDA takes no account of start-up mobile operations in Australia and Singapore.

Merger of Equals with Vodafone Hutchison Australia

On 30 August 2018 the Company announced a planned merger of equals with Vodafone Hutchison Australia which, subject to satisfaction of certain conditions precedent, including the approval of the Australian Competition and Consumer Commission, is expected to complete in 2019.

The FY19 guidance provided above takes no account of the potential completion of the merger during the year, nor the associated transaction costs.

David Teoh
Executive Chairman
18 September 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	-	35.7	-	43.7
Underlying	**841.1**	**432.6**	**835.0**	**417.3**