TELECOM

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Accounting implications of ceasing Australian mobile network rollout

TPG Telecom Limited (ASX: TPM) ('TPG' or 'the Group') wishes to update the market about the accounting implications arising from its decision to cease its Australian mobile network rollout, as announced on 29 January 2019.

Spectrum licences

- The Group has Australian spectrum licences that have not to-date been amortised in the Group's accounts.
- In accordance with the Group's accounting policies, amortisation of these licences was to commence when the associated mobile network assets were installed and ready for their intended use.
- Having ceased its mobile network rollout, the Group now has no business plan or strategy for using its spectrum licences on a standalone basis and, accordingly, the carrying value of these licences is required to be reassessed.
- It is expected that, in the event that the merger with VHA proceeds, the spectrum will be complementary to the VHA mobile network.
- However, as the merger remains subject to regulatory and shareholder approval and is, therefore, not certain to proceed, the spectrum's expected use by and value to the merged entity may not be taken into account in determining the current value of the spectrum to the Group.
- Therefore, pursuant to an impairment review undertaken for its 1H19 accounts, the Group will reduce the value of its spectrum licences by ~$92m, primarily reflecting the fact that, as the licences have finite lives, their value necessarily diminishes over time.
- From the start of 2H19, the spectrum licences will be amortised in the Group's accounts on a straight-line basis over the remaining term of each licence.

Mobile network assets

- It is expected that, in the event that the merger with VHA proceeds, the mobile sites built by TPG to-date will be complementary to the VHA mobile network.
- However, as the merger remains subject to regulatory and shareholder approval and is, therefore, not certain to proceed, the mobile sites' expected use by and value to the merged entity may not be taken into account in determining the current value of the assets to the Group.
- In these circumstances, an impairment review of these mobile network assets, undertaken for the Group's 1H19 accounts, has given rise to a write-down of the mobile network capital expenditure incurred to-date of ~$76m.

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Capitalised interest

- In accordance with the Group's accounting policies, interest expense on debt drawn to finance the Group's investments in Australian spectrum and associated mobile network assets has been being capitalised as part of the cost of the relevant assets.
- Capitalisation of the interest expense was to cease at the same time as the related assets began being depreciated.
- Given the decision to cease the mobile network rollout, the Group will cease capitalising interest expense relating to its Australian spectrum and associated mobile network assets from the end of January 2019.
- Interest capitalised up until the date of the decision comprises:
  - Interest on deferred 700MHz spectrum payment installments: ~$33m
  - Debt facility interest: ~$27m.
- Given the cessation of the mobile network construction, both amounts (total ~$60m) will be written-off in the 1H19 accounts.

1H19 results announcement

- The Group will announce its 1H19 results on 19 March 2019.
- Whilst the results for the period will be affected by the one-off, non-cash, asset impairments set out above, the Group's BAU[1] EBITDA guidance for FY19 is unaffected.
- TPG advises that, notwithstanding these impairments, the Group continues to operate comfortably within its banking covenants.

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[1] In its FY18 results presentation (dated 18 September 2018) the Group provided BAU ('Business as usual') EBITDA guidance for FY19 of $800-820m. BAU EBITDA was defined as relating to existing Consumer and Corporate Division operations and excluding any impact (revenue or expense) from mobile network operations in Australia or in Singapore and taking no account of any impact from the planned merger with VHA (including merger transaction costs).

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