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 2019

Lodged with the ASX under Listing Rule 4.3A

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Financial Year ended 31 July 2019
(Previous corresponding period: Year ended 31 July 2018)

Results for announcement to the market

Reported results

Revenue	down	0.7%	to	$2,477.4m
Profit for the year	down	56.0%	to	$175.0m
Profit for the year attributable to owners of the Company	down	56.1%	to	$173.8m
Earnings per share attributable to owners of the Company (basic and diluted)	down	56.2%	to	18.7 cents
Earnings before interest, tax, impairment, depreciation and amortisation	down	2.1%	to	$809.4m

Underlying results[1]

Underlying revenue	down	0.7%	to	$2,477.4m
Underlying profit for the year	down	12.9%	to	$377.4m
Underlying profit for the year attributable to owners of the Company	down	12.9%	to	$376.2m
Underlying earnings per share attributable to owners of the Company (basic and diluted)	down	13.1%	to	40.5 cents
Underlying earnings before interest, tax, depreciation and amortisation	down	1.0%	to	$818.4m

Dividends

	Amount per security	Franked Amount
FY19		
Interim dividend for FY19	2.0 cents	100%
Final dividend for FY19 (payable 19 November 2019)	2.0 cents	100%
FY18		
Interim dividend for FY18	2.0 cents	100%
Final dividend for FY18	2.0 cents	100%

The record date for determining entitlement to the FY19 final dividend will be 15 October 2019. 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 2019 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.

TPG Telecom Limited and its controlled entities
ASX Appendix 4E

Financial Year ended 31 July 2019

Reconciliation of Reported to Underlying Profits

	FY19		**FY18***	
$m	EBITDA	NPAT	EBITDA	NPAT
Reported	572.6	173.8	826.7	396.4
Add: Transaction costs re planned merger	9.0	6.3	-	-
Add: Impairment expense	236.8	165.7	-	-
Add: Acquired customer base intangible amortisation	-	30.4	-	35.7
Underlying	818.4	376.2	826.7	432.1

* Restated for implementation of AASB 15

Commentary on results

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

TPG Telecom Limited and its controlled entities
Preliminary Financial Report for the year ended 31 July 2019

Consolidated income statement

	Note	FY19 $m	FY18* $m
Revenue	5	2,477.4	2,496.1
Network, carrier and hardware costs		(1,259.6)	(1,244.3)
Employee benefits expense		(224.4)	(242.8)
Other expenses		(184.0)	(182.3)
Earnings before interest, tax, impairment, depreciation and amortisation		**809.4**	**826.7**
Impairment of spectrum and mobile assets	6	(236.8)	-
Depreciation of plant and equipment	8	(133.2)	(138.8)
Amortisation of intangibles	9	(136.1)	(90.4)
Results from operating activities		**303.3**	**597.5**
Finance income		1.8	1.7
Finance expenses	7	(52.5)	(36.1)
Net financing costs		**(50.7)**	**(34.4)**
Profit before income tax		**252.6**	**563.1**
Income tax expense	10	(77.6)	(165.6)
Profit for the year		**175.0**	**397.5**
Attributable to:			
Owners of the Company		173.8	396.4
Non-controlling interest		1.2	1.1
		175.0	**397.5**
Earnings per share attributable to owners of the Company:			
Basic and diluted earnings per share (cents)	18	18.7	42.8

*Restated, see note 2(ii)

Consolidated statement of comprehensive income

	FY19 $m	FY18* $m
Profit for the year	**175.0**	**397.5**
Items that may subsequently be reclassified to the income statement, net of tax:		
Foreign exchange translation differences	8.0	7.0
Net (loss)/gain on cash flow hedges taken to equity	(44.6)	1.0
Items that will not subsequently be reclassified to the income statement, net of tax:		
Net change in fair value of assets measured through other comprehensive income	(0.5)	(0.7)
Total other comprehensive income, net of tax	**(37.1)**	**7.3**
Total comprehensive income for the year	**137.9**	**404.8**
Attributable to:		
Owners of the Company	136.7	403.7
Non-controlling interest	1.2	1.1
	137.9	**404.8**

*Restated, see note 2(ii)

Consolidated statement of financial position

	Note	31 July 2019 $m	31 July 2018* $m
Assets			
Cash and cash equivalents		51.4	82.2
Trade and other receivables and contract assets	*5,11*	128.3	134.2
Deferred contract costs		8.1	10.0
Inventories		5.0	4.9
Derivative financial assets		1.2	0.7
Prepayments and other assets		19.2	14.9
Total Current Assets		**213.2**	**246.9**
Investments	*12*	1.2	1.9
Deferred contract costs		5.4	4.8
Derivative financial assets		0.2	-
Property, plant and equipment	*8*	1,355.1	1,249.0
Spectrum assets	*9*	1,334.6	1,479.7
Goodwill and other intangible assets	*9*	2,350.8	2,411.2
Deferred tax assets		45.4	-
Prepayments and other assets		6.9	7.2
Total Non-Current Assets		**5,099.6**	**5,153.8**
Total Assets		**5,312.8**	**5,400.7**
Liabilities			
Trade and other payables		319.4	320.3
Loans and borrowings and derivative financial liabilities	*14*	14.3	5.5
Spectrum liability	*15*	344.2	344.0
Current tax liabilities		12.7	23.2
Deferred revenue	*5*	158.6	153.6
Employee benefits		29.7	29.7
Provisions		12.7	9.2
Accrued interest		4.0	5.1
Total Current Liabilities		**895.6**	**890.6**
Loans and borrowings and derivative financial liabilities	*14*	1,470.6	1,318.4
Spectrum liability	*15*	-	327.8
Deferred tax liabilities		-	13.6
Deferred revenue	*5*	26.3	26.3
Employee benefits		2.3	2.2
Provisions		30.7	34.0
Total Non-Current Liabilities		**1,529.9**	**1,722.3**
Total Liabilities		**2,425.5**	**2,612.9**
Net Assets		**2,887.3**	**2,787.8**
Equity			
Share capital	*16*	1,465.2	1,465.2
Reserves		(46.6)	(8.2)
Retained earnings		1,463.5	1,326.8
Equity attributable to owners of the Company		**2,882.1**	**2,783.8**
Non-controlling interest		5.2	4.0
Total Equity		**2,887.3**	**2,787.8**

*Restated, see note 2(ii)

Consolidated statement of changes in equity

	Note	Attributable to owners of the Company									
	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**
		$m	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
Balance as at 1 August 2017, as reported		1,449.4	(3.7)	(3.5)	(7.0)	(3.9)	(18.1)	963.3	2,394.6	4.7	2,399.3
Effect of AASB 15 implementation	***2(ii)***	-	-	-	-	-	-	4.1	4.1	-	4.1
Restated balance at 1 August 2017		**1,449.4**	**(3.7)**	**(3.5)**	**(7.0)**	**(3.9)**	**(18.1)**	**967.4**	**2,398.7**	**4.7**	**2,403.4**
Restated profit for the year		-	-	-	-	-	-	396.4	396.4	1.1	397.5
Other comprehensive income, net of tax		-	7.0	-	(0.7)	1.0	7.3	-	7.3	-	7.3
Restated total comprehensive income for the year		**-**	**7.0**	**-**	**(0.7)**	**1.0**	**7.3**	**396.4**	**403.7**	**1.1**	**404.8**
Issue of shares		15.8	-	-	-	-	-	-	15.8	-	15.8
Share-based payment transactions		-	-	2.6	-	-	2.6	-	2.6	-	2.6
Dividends paid to shareholders	***17***	-	-	-	-	-	-	(37.0)	(37.0)	(1.8)	(38.8)
Restated balance as at 31 July 2018		**1,465.2**	**3.3**	**(0.9)**	**(7.7)**	**(2.9)**	**(8.2)**	**1,326.8**	**2,783.8**	**4.0**	**2,787.8**
Restated balance as at 1 August 2018		**1,465.2**	**3.3**	**(0.9)**	**(7.7)**	**(2.9)**	**(8.2)**	**1,326.8**	**2,783.8**	**4.0**	**2,787.8**
Profit for the year		-	-	-	-	-	-	173.8	173.8	1.2	175.0
Other comprehensive income, net of tax		-	8.0	-	(0.5)	(44.6)	(37.1)	-	(37.1)	-	(37.1)
Total comprehensive income for the year		**-**	**8.0**	**-**	**(0.5)**	**(44.6)**	**(37.1)**	**173.8**	**136.7**	**1.2**	**137.9**
Share-based payment transactions		-	-	(1.3)	-	-	(1.3)	-	(1.3)	-	(1.3)
Dividends paid to shareholders	***17***	-	-	-	-	-	-	(37.1)	(37.1)	-	(37.1)
Balance as at 31 July 2019		**1,465.2**	**11.3**	**(2.2)**	**(8.2)**	**(47.5)**	**(46.6)**	**1,463.5**	**2,882.1**	**5.2**	**2,887.3**

Consolidated statement of cash flows

	Note	FY19 $m	FY18 $m
Cash flows from operating activities			
Cash receipts from customers		2,729.3	2,743.2
Cash paid to suppliers and employees		(1,893.0)	(1,874.9)
Cash generated from operations		836.3	868.3
Income taxes paid		(128.6)	(194.5)
Net cash from operating activities		**707.7**	**673.8**
Cash flows from investing activities			
Acquisition of property, plant and equipment		(327.9)	(292.5)
Acquisition of spectrum assets	*15*	(352.4)	(597.3)
Acquisition of other intangible assets		(37.0)	(66.5)
Transaction costs relating to planned business combination		(6.6)	-
Net cash used in investing activities		**(723.9)**	**(956.3)**
Cash flows from financing activities			
Payment of finance lease liabilities		(5.5)	(34.1)
Proceeds from borrowings		292.8	969.4
Repayment of borrowings		(205.0)	(538.6)
Transaction costs related to borrowings		-	(10.8)
Interest received		1.3	1.2
Finance costs paid		(61.5)	(45.8)
Dividends paid		(37.1)	(21.2)
Dividends paid to non-controlling interest		-	(1.8)
Net cash (used in)/from financing activities		**(15.0)**	**318.3**
Net (decrease)/increase in cash and cash equivalents		(31.2)	35.8
Cash and cash equivalents at beginning of the year		82.2	46.3
Effect of exchange rate fluctuations		0.4	0.1
Cash and cash equivalents at end of the year		**51.4**	**82.2**

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 2019 (referred to throughout the report as 'FY19") 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 2018 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 2018, except for the adoption of new standards applicable to the Group from 1 August 2018. The effect of the initial application of AASB 9 *Financial Instruments* and AASB 15 *Revenue from Contracts with Customers* are described below.

(i) Financial instruments (Revised AASB 9)

The revised AASB 9 was applicable to the Group from 1 August 2018. The standard sets out new requirements for classification and measurement of financial assets and financial liabilities. The impact of this revised standard on the Group's consolidated financial statements is not significant and there has been no restatement of prior year comparatives.

Impact on financial assets

a. Classification and measurement
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 previous categories of: held to maturity, loans and receivables, and available for sale.

The Group has the following categories of financial assets: (i) trade receivables and (ii) equity investments.
(i) Trade receivables: Under AASB 9, trade receivables are classified as 'held-to-collect' MAAC assets and measured at amortised cost.
(ii) Equity investments: At 1 August 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 continue to be reported in other comprehensive income, but no impairment losses are recognised in the income statement and no gains or losses are 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 previous 'incurred loss' model. The new impairment model applies to financial assets that are classified as MAAC or FVOCI, but excluding equity investments. The current provisioning system for trade receivables is materially consistent with the prescribed lifetime expected credit loss method and hence no significant impact arises from the adoption of the new standard.

Impact on financial liabilities

The adoption of AASB 9 has not had a significant effect on the Group's accounting policies related to financial liabilities.

Note 2 Significant accounting policies (continued)

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 has adopted the AASB 9 hedge accounting model on initial application of the new standard. All the Group's previous hedge accounting relationships comply with the requirements of AASB 9 and therefore there is no change on adoption of AASB 9.

(ii) Revenue from contracts with customers (AASB 15)

The new AASB 15 was 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.

Changes to accounting policies, significant judgements and estimates arising from adoption of AASB 15:

a. Set-up revenue and connection costs:
For certain products, set-up revenue charged to customers and connection costs incurred by the Group were previously 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 is treated as part of the total contract price and allocated over the identified performance obligations. Connection costs, being costs of fulfilling orders, are capitalised as deferred contract costs and expensed to network, carrier and hardware costs over the life of the contract.

b. Subscriber acquisition costs:
In accordance with AASB Interpretation 1042: Subscriber Acquisition Costs in the Telecommunications Industry, the direct costs of acquiring customer contracts such as sign-on incentives, free equipment and discounted installation costs were previously classified as subscriber acquisition costs within intangible assets and amortised through intangible amortisation.
From the date of initial application of the new standard, costs such as sign-on incentives and free equipment that arise on obtaining customer contracts form part of the total contract price and hence reduce the revenue recognised over the contract term.
Costs such as discounted installation costs are classified as deferred 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 $9.5m was reclassified from intangible assets to contract assets disclosed under 'Trade and other receivables and contract assets' ($5.1m) and deferred contract costs ($4.4m).

c. Sales commission costs:
Incremental sales commission costs incurred in acquiring new contracts were previously expensed on contract inception. Under the new AASB 15 these costs are capitalised as deferred contract costs and expensed to employee benefits expense over the life of the contract.

The impact of initial application of AASB 15 on the Group's consolidated financial statements is set out in the tables below. Tables A and B disclose the impact on the previously reported statements of financial position as at 31 July 2018 and 31 July 2017 respectively. Table C discloses the impact on the previously reported FY18 income statement.

There is no impact on the statement of cash flows arising from the adoption of AASB 15.

Condensed notes to the consolidated financial statements

Note 2 Significant accounting policies (continued)

A. Impact of changes in accounting policies on the statement of financial position as at 31 July 2018:

	As previously reported $m	Adjustment $m	As restated $m
Trade and other receivables and contract assets	129.1	5.1	134.2
Deferred contract costs	-	14.8	14.8
Goodwill and other intangible assets	2,420.7	(9.5)	2,411.2
Other	2,840.5	-	2,840.5
Total Assets	**5,390.3**	**10.4**	**5,400.7**
Deferred revenue	174.6	5.3	179.9
Deferred tax liabilities	12.1	1.5	13.6
Other	2,419.4	-	2,419.4
Total Liabilities	**2,606.1**	**6.8**	**2,612.9**
Retained earnings	1,323.2	3.6	1,326.8
Other	1,461.0	-	1,461.0
Total Equity	**2,784.2**	**3.6**	**2,787.8**

B. Impact of changes in accounting policies on the statement of financial position as at 31 July 2017:

	As previously reported $m	Adjustment $m	As restated $m
Trade and other receivables and contract assets	131.6	5.2	136.8
Deferred contract costs	-	19.1	19.1
Goodwill and other intangible assets	2,416.2	(11.1)	2,405.1
Other	1,363.2	-	1,363.2
Total Assets	**3,911.0**	**13.2**	**3,924.2**
Deferred revenue	174.4	7.5	181.9
Deferred tax liabilities	10.1	1.6	11.7
Other	1,327.2	-	1,327.2
Total Liabilities	**1,511.7**	**9.1**	**1,520.8**
Retained earnings	963.3	4.1	967.4
Other	1,436.0	-	1,436.0
Total Equity	**2,399.3**	**4.1**	**2,403.4**

Condensed notes to the consolidated financial statements

Note 2 Significant accounting policies (continued)

C. Impact of changes in accounting policies on the income statement for the year ended 31 July 2018:

	As previously reported $m	Adjustment $m	As restated $m
Revenue	2,495.2	0.9	2,496.1
Network, carrier and hardware costs	(1,229.4)	(14.9)	(1,244.3)
Employee benefits expense	(242.4)	(0.4)	(242.8)
Other expenses	(182.3)	-	(182.3)
EBITDA	**841.1**	**(14.4)**	**826.7**
Depreciation of plant and equipment	(138.8)	-	(138.8)
Amortisation of intangibles	(104.1)	13.7	(90.4)
Net financing costs	(34.4)	-	(34.4)
Income tax expense	(165.8)	0.2	(165.6)
Profit for the period	**398.0**	**(0.5)**	**397.5**
Other comprehensive income	7.3	-	7.3
Total comprehensive income	**405.3**	**(0.5)**	**404.8**
Basic and diluted earnings per share (cents)	42.8	-	42.8

(iii) New standards and interpretations not yet adopted

Leases (AASB 16)

Introduction
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. Contracts that provide the Group with a right to control the use of an identified asset will be accounted for in the consolidated statement of financial position. The right to use the asset will be recognised as a Right of Use (ROU) asset and the contracted amounts payable over the lease term will be accounted for as a Lease liability.

Identifying leases
The Group has carried out an analysis of contracts including leases currently classified as operating leases; and other service contracts, to identify those that meet the definition of a lease under the new accounting standard. Property contracts including office premises, data centres and buildings forming part of the Group's network and other contracts such as for vehicles, photocopiers, etc. have been identified to meet the definition of a lease under the new accounting standard.

Practical expedients
The Group has elected to adopt the following practical expedients and will not apply the lease accounting model to:

- leases with a remaining term of less than twelve months as at the date of initial adoption;
- contracts with a lease term of twelve months or less; and
- low value assets such as photocopiers.

Initial adoption and measurement
The Group will adopt the 'Modified Retrospective method' for transition to the new standard. Lease liabilities will be measured at the present value of lease payments payable over the lease term as at 1 August 2019. ROU assets will be measured as if the new standard had been applicable on the lease commencement date. There will be no restatement of comparative information and transition adjustments will be carried out through retained earnings as at 1 August 2019.

Condensed notes to the consolidated financial statements

Note 2 Significant accounting policies (continued)

The following practical expedients have been used in the initial measurement of lease liabilities and ROU assets:

- The Group relies on its previous assessment of whether leases were onerous under AASB 137 – Provisions, Contingent liabilities and Contingent assets, immediately before the date of initial application as an alternative to performing an impairment review under AASB 136 – Impairment of assets, on adoption.
- The Group uses a single discount rate for a portfolio of similar leases.
- The Group has elected to exclude initial direct costs attributable to obtaining a lease from the measurement of its ROU asset at the date of initial application.
- The Group has elected to use hindsight in arriving at the ROU assets and has used its current assessment of the lease term.

The Group expects to recognise lease liabilities of between $95m and $110m and ROU assets of between $90m and $105m on adoption of the new standard on 1 August 2019. Deferred tax assets of between $1.5m and $6m will also be recognised. The net impact, including deferred tax and other adjustments will be adjusted through retained earnings.

Subsequent measurement of lease liabilities and ROU assets
At each reporting date, the carrying amount of lease liabilities and ROU assets will be adjusted for changes in: contractual payment amounts, incremental borrowing rates, and outcomes of impairment testing.

In addition to the impact on the statement of consolidated financial position described above, the following impacts are expected from FY20 and beyond:

Impact on statement of comprehensive income:
Currently operating lease rentals are expensed on a straight-line basis over the lease term within 'Network, carrier and hardware costs' or 'Other expenses'. On adoption of the new standard, lease expenses will be recognised through depreciation of ROU assets and interest expense on lease liabilities. As a result:

- Earnings before interest, tax, depreciation and amortisation will increase;
- Depreciation expense will increase; and
- Interest expense will be higher in the initial phase of a lease and will reduce gradually towards the end of the term.

Impact on statement of cashflows:
Currently, operating lease payments are included in cashflows from operating activities. On adoption of the new standard, they will be classified as cashflows from financing activities as repayment of lease liabilities and interest payment.

Significant judgements and estimates

- The new standard requires an assessment of the likelihood of exercising renewal options on a lease-by-lease basis. The lease term would include the non-cancellable period plus extension terms for which the Group is reasonably certain to exercise options.
- The Group uses its weighted average cost of borrowing as an estimate of its incremental rate of borrowing.

Condensed notes to the consolidated financial statements

Note 3 Estimates

The preparation of the preliminary financial report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing the preliminary financial report, significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were consistent with those applied in the Group's 2018 Annual Report, except for new significant judgements and key sources of estimation uncertainty related to:
- the application of AASB 15 as described in note 2; and
- impairment of spectrum and mobile assets as described in note 6.

Note 4 Segment reporting

The Group determines and presents operating segments based on the information that is internally provided to the Executive Chairman and Chief Executive Officer, 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. For all operating segments, discrete financial information is available and their operating results are regularly reviewed by the Group's Executive Chairman and Chief Executive Officer to make decisions about resources to be allocated to each segment and assess their performance.

The Group currently 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.

Unallocated
In FY19, 'Unallocated' includes:
- transaction costs for the planned merger with VHA of $9.0m (FY18: nil);
- operating costs for Australian mobile sites of $2.7m (FY18: nil);
- start-up expenses in relation to the Group's Singapore operations of $2.7m (FY18: $1.4m); and
- other corporate costs of $0.6m (FY18: $0.7m).

Condensed notes to the consolidated financial statements

Note 4 Segment reporting (continued)

	Consumer	Corporate	Unallocated	Total results
For the year ended 31 July 2019	$m	$m	$m	$m
Revenue	1,719.0	758.4	-	2,477.4
Network, carrier and hardware costs	(1,003.6)	(253.3)	(2.7)	(1,259.6)
Employee benefits expense	(122.3)	(100.9)	(1.2)	(224.4)
Other expenses	(135.8)	(37.1)	(11.1)	(184.0)
Results from segment activities	**457.3**	**367.1**	**(15.0)**	**809.4**
For the year ended 31 July 2018 *	$m	$m	$m	$m
Revenue	1,742.3	753.8	-	2,496.1
Network, carrier and hardware costs	(964.3)	(280.0)	-	(1,244.3)
Employee benefits expense	(133.9)	(108.6)	(0.3)	(242.8)
Other expenses	(145.0)	(35.5)	(1.8)	(182.3)
Results from segment activities	**499.1**	**329.7**	**(2.1)**	**826.7**

* Prior period comparatives have been restated on implementation of AASB15, see note 2(ii).

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

	FY19 $m	FY18 $m
Total segment results	**809.4**	**826.7**
Impairment of spectrum and mobile assets	(236.8)	-
Depreciation of plant and equipment	(133.2)	(138.8)
Amortisation of intangibles	(136.1)	(90.4)
Results from operating activities	**303.3**	**597.5**
Net financing costs	(50.7)	(34.4)
Profit before income tax	**252.6**	**563.1**

Geographic Information

All of the Group's revenues are derived from Australian based entities, except for $30.5m (FY18: $32.8m) derived from overseas customers.

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

Country	**FY19 $m**	**FY18 $m**
Australia	4,549.0	4,713.0
Singapore	307.8	203.0
Other	242.8	237.8
Total	**5,099.6**	**5,153.8**

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

Condensed notes to the consolidated financial statements

Note 5 Revenue

The Group derives its revenue primarily from the provision of services to customers. The following table provides a breakdown of major product categories by segment.

	Consumer		Corporate		Total	
	FY19 $m	FY18 $m	FY19 $m	FY18 $m	FY19 $m	FY18 $m
Major product categories						
Data & Internet*	1,459.1	1,425.3	643.0	623.4	2,096.5	2,048.7
Voice	71.1	114.9	115.4	130.4	188.5	245.3
Mobile	108.1	111.6	-	-	108.1	111.6
Other	80.7	90.5	-	-	84.3	90.5
Total	**1,719.0**	**1,742.3**	**758.4**	**753.8**	**2,477.4**	**2,496.1**

* Includes, for the Consumer Division, revenue from bundled home phone voice.

The following table provides information about receivables, contract assets and liabilities from contracts with customers.

	31 July 2019 $m	31 July 2018 $m
Included in 'Trade and other receivables and contract assets'		
- Trade receivables	106.0	128.8
- Contract assets	44.5	34.4
Deferred revenue liability	(184.9)	(179.9)

Accounting policy changes and the impact of the initial adoption of AASB 15 on the Group's preliminary financial statements are disclosed in note 2(ii).

Note 6 Impairment of spectrum and mobile assets

On 29 January 2019, the Company announced that, as a consequence of the Government's ban on use of Huawei equipment in 5G mobile networks, it had decided to cease its Australian mobile network rollout.

Having ceased the mobile network rollout, the Group now has no business plan or strategy for using its spectrum licences and other mobile network assets on a standalone basis and, accordingly, it has been necessary to reassess the carrying value of these assets.

It is expected that, in the event that the planned merger with Vodafone Hutchison Australia (VHA) proceeds, the Group's spectrum and mobile assets 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 expected use by and value to the merged entity of these assets may not be taken into account in determining their current value to the Group.

Pursuant to an impairment review conducted as at 31 January 2019, management estimated the recoverable amount of all of the relevant assets on a 'fair value less costs of disposal' basis (which is categorised as a level 3 method in the fair value hierarchy set out in note 13). As at 31 July 2019, the review was extended to amounts incurred and capitalised for the project during 2H19 that were already committed when the network rollout was ceased.

Note 6 Impairment of spectrum and mobile assets (continued)

The aggregate impact arising from both the reviews is that an impairment expense of $236.8m has been recognised in the current reporting period, comprising the following:

	Note	Impaired at 31 January 2019 $m	Further impairment $m	Total impairment at 31 July 2019 $m
Spectrum licences	*9*	91.8	-	91.8
Mobile network assets	*8*	76.0	8.7	84.7
Capitalised interest, related to				
- spectrum licences	*9*	57.5	-	57.5
- mobile network assets	*8*	2.1	-	2.1
Other intangibles	*9*	-	0.7	0.7
Total		**227.4**	**9.4**	**236.8**

Further details regarding each of these components are provided below.

Spectrum licences

The Group has Australian spectrum licences that had not, as at the date that the mobile network rollout was ceased, 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.

Following the Group's decision to cease the mobile network rollout, the carrying value of these assets were reassessed on a fair value less costs of disposal basis. The key factors considered in assessing the valuation of the licences were:

- the original price paid at auction for each of the spectrum licences;
- a comparison of current market conditions and participants with those prevailing at the time of the relevant auctions;
- whether there were any more recent, directly comparable spectrum auctions; and
- the remaining licence term of each spectrum licence.

Determination of the fair value of these spectrum licences is an area of significant estimation uncertainty given the lack of recent market data for relevant spectrum licence sales in the Australian regulatory context. It was determined that the most relevant value is the price paid at auction by the Group, adjusted for the licence period that has expired.

Pursuant to this assessment, the Group impaired the carrying value of its spectrum licences by $91.8m.
Due to there being no plan for the use of the spectrum licences, commencing from the start of 2H19, the licences are being amortised in the Group's accounts on a straight-line basis over the remaining term of each licence. There is no further objective evidence of impairment of these licences as at 31 July 2019.

Mobile network assets

As at 31 July 2019, the Group had incurred capital expenditure of approximately $120m in design, planning, acquisition and construction costs relating to its Australian mobile network. A significant component of this capital expenditure relates to the acquisition and installation of Huawei equipment.

Following the Group's decision to cease the mobile network rollout, the Group reassessed the carrying value of these mobile network assets. Key factors considered in assessing their fair value were:

- the fact that Huawei equipment is banned from use in any 5G networks in Australia;
- the limited alternative uses of the Huawei equipment; and
- the alternative uses of the non-Huawei assets.

Note 6 Impairment of spectrum and mobile assets (continued)

There is also a high level of estimation uncertainty in the valuation adopted for these assets due to the absence of directly comparable transactions that provide evidence as to the value to third parties of the various network components.

Pursuant to this assessment, the Group impaired the carrying value of the mobile network assets by $84.7m.

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 was being capitalised into 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 and the change in the expected use of these assets, the Group ceased capitalising interest expense relating to its Australian spectrum and associated mobile network assets from the date of the decision. Interest capitalised up until this date comprised:
- Interest on deferred 700MHz spectrum payment instalments: $33.2m
- Debt facility interest: $26.4m.

Given the cessation of the mobile network construction, both amounts (total $59.6m) were written-off in the current reporting period as the recoverable amount of the spectrum and network assets was below the carrying value of the assets including the capitalised interest.

Other intangibles

Bank charges incidental to acquisition of spectrum licences of $0.7m had been capitalised prior to the Group's decision to cease the mobile network rollout. These capitalised bank charges have been written-off in the current reporting period.

Note 7 Finance expenses

	FY19 $m	FY18 $m
Debt facility interest	52.3	40.2
Interest re deferred spectrum instalments	24.8	16.6
Other interest	0.6	1.3
Borrowing costs	16.9	17.5
Amounts capitalised*	(42.1)	(39.5)
Net finance expenses	**52.5**	**36.1**

* Finance expenses directly attributable to the construction of the Group's fibre and mobile networks and acquisition of mobile spectrum licences have been, in accordance with the Group's accounting policies, capitalised as part of the cost of the relevant assets. Following the cessation of the Australian mobile network rollout, interest capitalised in relation to the acquisition of Australian spectrum and mobile assets has been written off (refer note 6) and no further interest capitalisation has occurred in relation to this project from the date the rollout ceased at the end of January 2019.

Condensed notes to the consolidated financial statements

Note 8 Property, plant and equipment

	Network & IT infrastructure $m	Land & Buildings $m	Leasehold improvements $m	Total $m
Cost				
Balance at 1 August 2017	1,716.3	42.7	13.9	1,772.9
Additions	325.2	4.6	1.0	330.8
Disposals	(0.1)	-	-	(0.1)
Effect of movements in exchange rates	1.6	-	-	1.6
Balance at 31 July 2018	**2,043.0**	**47.3**	**14.9**	**2,105.2**
Balance at 1 August 2018	**2,043.0**	**47.3**	**14.9**	**2,105.2**
Additions	315.3	0.3	1.9	317.5
Transfers	4.8	-	-	4.8
Disposals	(0.2)	-	-	(0.2)
Effect of movements in exchange rates	5.0	-	-	5.0
Balance at 31 July 2019	**2,367.9**	**47.6**	**16.8**	**2,432.3**
Depreciation and impairment losses				
Balance at 1 August 2017	706.2	3.1	8.1	717.4
Depreciation charge for the year	136.3	1.1	1.3	138.7
Disposals	0.1	-	-	0.1
Balance at 31 July 2018	**842.6**	**4.2**	**9.4**	**856.2**
Balance at 1 August 2018	842.6	4.2	9.4	856.2
Depreciation charge for the year	129.3	1.1	2.8	133.2
Impairment (Refer note 6)	86.8	-	-	86.8
Effect of movements in exchange rates	1.0	-	-	1.0
Balance at 31 July 2019	**1,059.7**	**5.3**	**12.2**	**1,077.2**
Carrying amounts				
At 31 July 2018	1,200.4	43.1	5.5	1,249.0
At 31 July 2019	**1,308.2**	**42.3**	**4.6**	**1,355.1**

Condensed notes to the consolidated financial statements

Note 9 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 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, as reported	**1,911.0**	**90.6**	**480.5**	**251.2**	**169.3**	**2,902.6**	**1,494.1**	**4,396.7**
AASB 15 adjustments	-	-	-	-	(12.8)	(12.8)	-	(12.8)
Restated balance 31 July 2018	**1,911.0**	**90.6**	**480.5**	**251.2**	**156.5**	**2,889.8**	**1,494.1**	**4,383.9**
Balance 1 August 2018	1,911.0	90.6	480.5	251.2	156.5	2,889.8	1,494.1	4,383.9
Additions	-	-	-	25.5	51.1	76.6	-	76.6
Transfers	-	-	-	-	(4.8)	(4.8)	-	(4.8)
Effect of movements in exchange rates	-	-	-	-	-	-	8.8	8.8
Balance 31 July 2019	**1,911.0**	**90.6**	**480.5**	**276.7**	**202.8**	**2,961.6**	**1,502.9**	**4,464.5**
Amortisation and Impairment								
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, as reported	**-**	**-**	**322.8**	**71.1**	**88.0**	**481.9**	**14.4**	**496.3**
AASB 15 adjustments	-	-	-	-	(3.3)	(3.3)	-	(3.3)
Restated balance 31 July 2018	**-**	**-**	**322.8**	**71.1**	**84.7**	**478.6**	**14.4**	**493.0**
Balance 1 August 2018	-	-	322.8	71.1	84.7	478.6	14.4	493.0
Amortisation for the year	-	-	43.5	17.1	13.4	74.0	62.1	136.1
Impairment (Refer note 6)	-	-	-	-	58.2	58.2	91.8	150.0
Balance 31 July 2019	**-**	**-**	**366.3**	**88.2**	**156.3**	**610.8**	**168.3**	**779.1**
Carrying amounts								
At 31 July 2018, restated	1,911.0	90.6	157.7	180.1	71.8	2,411.2	1,479.7	3,890.9
At 31 July 2019	**1,911.0**	**90.6**	**114.2**	**188.5**	**46.5**	**2,350.8**	**1,334.6**	**3,685.4**

~ 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 10 Income tax

	FY19 $m	FY18 $m
Current tax expense	**120.5**	**165.4**
Deferred tax expense		
Origination and reversal of temporary differences	(43.7)	(1.1)
Adjustments in respect of prior years	0.8	1.3
	(42.9)	**0.2**
Income tax expense	**77.6**	**165.6**

Numerical reconciliation between tax expense and pre-tax accounting profit

	FY19 $m	FY18 $m
Profit before income tax	252.5	563.1
Income tax using Australian tax rate of 30%	75.8	168.9
Different tax rates in other jurisdictions	0.4	0.2
Non-deductible and non-assessable items	1.4	(3.5)
Income tax expense	**77.6**	**165.6**

Note 11 Trade and other receivables and contract assets

	FY19 $m	FY18 $m
Trade receivables	106.0	128.8
Contract assets and other receivables	48.1	38.7
Less: Provision for impairment losses and credit notes	(25.8)	(33.3)
	128.3	**134.2**

Condensed notes to the consolidated financial statements

Note 12 Investments

	FY19 $m	FY18 $m
Measured at fair value through other comprehensive income		
Non-Current		
Carrying amount as at 1 August	1.9	2.9
Change in fair value	(0.7)	(1.0)
Carrying amount as at 31 July	**1.2**	**1.9**

The Group's investments comprise ASX-listed securities.

Joint venture with Vodafone Hutchison Australia (VHA)
In October 2018, the Company and VHA formed a 50:50 Joint Venture company, Mobile JV Pty Limited. The initial scope of the joint venture is to acquire, hold and licence 3.6GHz spectrum. The joint venture entity will be accounted for using the equity method. It had no material balances to report as at 31 July 2019.

Mobile JV successfully bid for twelve 5MHz lots in the 3.6GHz spectrum auction concluded in December 2018. Mobile JV will pay $263.3m in early 2020 for the lots purchased. The Group's share of the purchase price is reflected in the capital commitments set out in note 20.

Note 13 Hierarchy of financial instruments measured at fair value

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).

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

	31 July 2019			31 July 2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
	$m	$m	$m	$m	$m	$m
Financial assets						
Investments	1.2	-	-	1.9	-	-
Derivative financial assets						
Foreign currency forward contracts	-	1.4	-	-	0.7	-
Financial liabilities						
Derivative financial liabilities						
Interest rate swap contracts	-	(68.6)	-	-	(4.8)	-
Foreign currency forward contracts	-	-	-	-	(0.1)	-

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

Interest rate swap contracts are categorised as Level 2 as they are valued at the present value of the estimated future cash flows. Estimates of future floating rate cash flows are based on quoted swap rates, futures prices and interbank borrowing rates. The fair value estimate is subject to a credit risk adjustment that reflects the credit risk of the Group and of the counterparty.

Condensed notes to the consolidated financial statements

Note 13 Hierarchy of financial instruments measured at fair value (continued)

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.

Note 14 Loans and borrowings and derivative financial liabilities

	FY19 $m	FY18 $m
Current		
Finance lease liabilities	6.8	5.5
Derivative financial liabilities	7.5	-
	14.3	**5.5**
Non-Current		
Gross secured bank loans	1,424.7	1,330.7
Less: Unamortised borrowing costs	(20.7)	(29.6)
	1,404.0	1,301.1
Finance lease liabilities	5.5	12.4
Derivative financial liabilities	61.1	4.9
	1,470.6	**1,318.4**

As at 31 July 2019, the Group had debt facilities of $2,391.0m (including a Singapore dollar denominated facility of SGD100m which is translated to AUD using the 31 July 2019 spot rate) of which $1,424.7m was drawn down.
As at 31 July 2019, the maturity profile of the facilities is now between 1.2 and 5.2 years, with a weighted average of 2.6 years.
The outstanding loans balance as at the reporting date is shown in the statement of financial position net of unamortised borrowing costs of $20.7m.
In January 2018, the Group 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.

Note 15 Spectrum liability

	FY19 $m	FY18 $m
Balance at the start of the year	671.8	-
Present value of spectrum liabilities assumed	-	655.2
Instalment paid on 31 January 2019	(352.4)	-
Interest accrued during the year	24.8	16.6
Balance at the end of the year	**344.2**	**671.8**
Current	344.2	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 of which only the final instalment of $352.4m remains payable on 31 January 2020. The total payable for the spectrum licence amounts to $1,309.6m and implies total interest expense for the deferred payment instalments of $49.6m. The licence period commenced from 1 April 2018.

Condensed notes to the consolidated financial statements

Note 16 Share capital

	Ordinary shares		$m	
	FY19	FY18	FY19	FY18
Balance as at 1 August	927,811,493	924,719,448	1,465.2	1,449.4
Ordinary shares issued during the year				
- Dividend reinvestment plan	-	3,092,045	-	15.8
Balance as at 31 July	**927,811,493**	**927,811,493**	**1,465.2**	**1,465.2**

Note 17 Dividends

Dividends recognised in the year were as follows:

	Cents per share	Total Amount ($m)	Date of payment
FY19			
Interim FY19 ordinary	2.0	18.6	21 May 2019
Final FY18 ordinary	2.0	18.5	20 Nov 2018
Total amount		**37.1**	
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**	

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 FY19 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 2019, the dividend has not been provided for in the consolidated statement of financial position. The dividend has a record date of 15 October 2019 and will be paid on 19 November 2019. The Dividend Reinvestment Plan (DRP) is currently suspended until further notice.

Note 18 Earnings per share

	FY19 Cents	FY18 Cents
Basic and diluted earnings per share	18.7	42.8
	FY19 $m	**FY18 $m**
Profit attributable to owners of the Company used in calculating basic and diluted earnings per share	173.8	396.4
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share	927,811,493	926,209,453

Condensed notes to the consolidated financial statements

Note 19 Net tangible assets

	FY19 Cents	FY18 Cents
Net tangible asset backing per ordinary share	(86.0)	(119.1)

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.

Note 20 Capital commitments

	FY19 $m	FY18 $m
Contracted but not provided for in the financial statements	265.1	163.8

Capital commitments at 31 July 2019 include the following individually material items:
- 3.6GHz spectrum payment due in March 2020: $131.7m (refer note 12);
- IRU agreements for international capacity: US$36.0m*.

*Translated into AUD at the prevailing spot rate at 31 July 2019 of 1.452.

Note 21 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 agreed a proposed merger of equals to establish a fully integrated telecommunications operator in Australia.

If the merger proceeds:
- it 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.
- 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 including shareholder and regulatory approvals.
- On 8 May 2019, the ACCC announced it had decided to oppose the proposed merger.
- On 24 May 2019 proceedings were lodged with the Federal Court of Australia by the merger parties seeking orders that the proposed merger will not have the effect, or likely effect, of substantially lessening competition.
- The Federal Court hearing is scheduled to commence on 10 September 2019 and complete within three weeks.

There is no impact from the planned merger on the FY19 financial statements except for transaction costs of $9.0m incurred during the year.

Condensed notes to the consolidated financial statements

Note 22 Subsequent events

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 23 Unaudited financial information

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