5 March 2020

Market Announcements Office
Australian Securities Exchange
Level 4, 20 Bridge Street
Sydney, NSW, 2000

ELECTRONIC LODGEMENT

Dear Sir / Madam

TPG Telecom Limited (ASX: TPM) HY20 Financial Results Commentary

Please find attached a commentary on TPG Telecom Limited's financial results for the half-year ended 31 January 2020.

Authorised for lodgement with the ASX by:

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TPG TELECOM LIMITED (ASX: TPM)

FINANCIAL RESULTS COMMENTARY

HALF-YEAR ENDED 31 JANUARY 2020

TPG Telecom upgrades FY20 EBITDA guidance

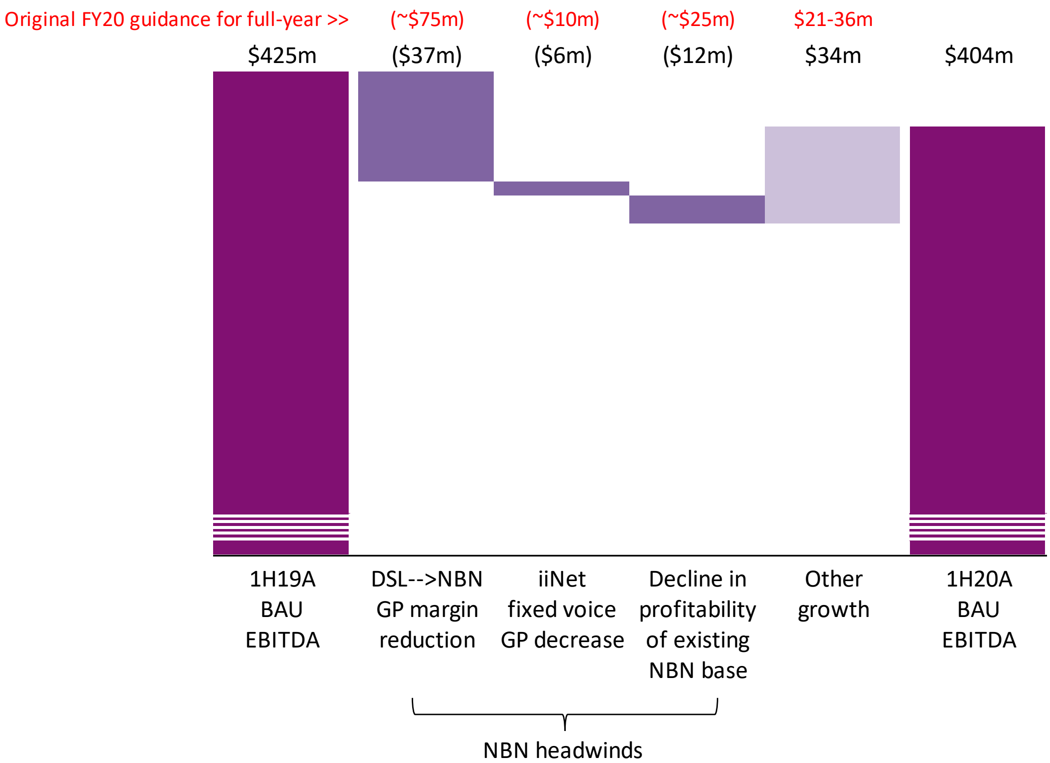
TPG Telecom Limited has today announced its results for the half-year ended 31 January 2020 ("1H20"). Reported net profit for 1H20 was up substantially (by 206%) compared to the previous corresponding period due to 1H19 having been adversely impacted by a $227.4m (pre-tax) impairment expense arising from the cessation of the Australian mobile network build.

Excluding the impairment, net profit for 1H20 was down by 30% compared to 1H19 because of $53.7m of Australian spectrum amortisation affecting 1H20 which wasn't in 1H19, and a $19.6m increase in net financing costs due primarily to the cessation of interest capitalisation associated with the Australian mobile network.

'Business as Usual' (BAU)[1] EBITDA

1H20 reported EBITDA included $6.0m of one-off transaction fees relating to the planned merger with Vodafone Hutchison Australia ("VHA") and a non-recurring benefit of $3.3m within the Corporate Division's results. Reported EBITDA for the period also benefitted by $10.2m from the implementation of AASB16 from the start of 1H20.

Excluding these items, as well as Singapore start-up losses of $1.8m and Australian mobile network operating costs of $3.3m, 'business as usual' (BAU) EBITDA (the same basis on which FY20 guidance of $735-750m was provided) was $404.2m for 1H20, 5% lower than the equivalent $425.2m for 1H19. The chart below sets out a bridge between 1H19 and 1H20 BAU EBITDA.



[1] A reconciliation of reported to BAU profits is set out on page 4 of this Financial Results Commentary.

As shown in the chart, the combined NBN headwinds of $55m faced in the half-year were exactly half of the $110m combined NBN headwinds that were anticipated in the FY20 full-year guidance. However, the headwinds for the first half were approximately $7m less than we had forecast for the first half, predominantly due to NBN finally introducing some wholesale pricing relief for NBN12 services in October 2019.

Regarding other EBITDA growth, the Group's performance for 1H20 was stronger than forecast with $34m growth in the half almost at the top end of what was guided to for the whole year. The main contributors to the $34m growth in the first half came from a $10.5m increase in Corporate Division EBITDA, further Consumer Division (excl. Tech2) overhead savings of $11.1m, a $5.4m increase in EBITDA contribution from Tech2 and organic Consumer Division broadband (FTTB and NBN) subscriber growth.

BAU[2] Segment Results

$m		Consumer	Corporate	Other	Total
Revenue	1H20	872.4	373.0	-	1,245.4
	1H19	852.6	383.2	-	1,235.8
Gross profit	1H20	330.8	258.1	-	588.9
	1H19	370.6	251.5	-	622.1
Gross profit %	1H20	38%	69%	-	47%
	1H19	43%	66%	-	50%
EBITDA	1H20	211.4	193.0	(0.2)	404.2
	1H19	243.0	182.5	(0.3)	425.2
EBITDA %	1H20	24%	52%	-	32%
	1H19	29%	48%	-	34%

The Consumer Segment's EBITDA for 1H20 was $211.4m compared to $243.0m for 1H19. This movement comprised a $39.8m decrease in gross profit, partially offset by an $8.2m decrease in overhead costs. The gross profit decrease was driven by the NBN headwinds which overshadowed two positives within the result: an overall increase in broadband subscribers of 14k in the half compared to net negative movement of 9k in 1H19, and Tech2's gross profit being up by $7.9m compared to 1H19.

The Corporate Segment achieved EBITDA of $193.0m for 1H20, up by $10.5m from the $182.5m in 1H19, driven by continued strong improvement in margins. Gross profit was up by $6.6m at a gross profit margin that increased from 66% to 69% driven by the continued favourable change in revenue mix towards on-net fibre services. The gross profit growth in the period was complemented by efficiency savings that delivered a $3.9m decrease in overhead costs, resulting in an EBITDA margin increase from 48% to 52%.

Cashflow, Capital Expenditure and Gearing

The Group had another strong operating cashflow performance in the half with 1H20 operating cashflow after tax of $339.1m.

Total capital expenditure for the half-year of $546.0m included the final $352.4m instalment for the Australian 700MHz spectrum acquired at auction in 2017 and $68.9m for the Singapore mobile network build. The remaining 'business as usual' capital expenditure of $124.7m was within expectations but $26.3m higher than 1H19, reflecting a step-up in fibre builds for corporate customers supporting the margin expansion within that segment.

At the end of 1H20 the Group had net debt (including outstanding 3.6GHz spectrum commitment due in March 2020) of $1,869.1m which represents a leverage ratio of ~2.4x underlying last 12 months EBITDA.

[2] A reconciliation of reported to BAU profits is set out on page 4 of this Financial Results Commentary.

Singapore Update

Preparations for the commercial launch of mobile services in Singapore on the Group's new mobile network have progressed well in the period. Over 400 thousand users have to-date been onboarded to the free trial service. Paid services are expected to be launched in the coming weeks.

The network has excellent outdoor and indoor coverage (outdoor coverage most recently measured at 99.89% in January 2020) and progress has continued to be made in covering tunnels and the MRT. In February 2020, the Company also submitted an application with the IMDA for a national 5G licence. The Company's network has been designed to be very quickly and simply upgradable to 5G.

VHA Merger Update

On 13 February 2020, the Federal Court ruled that the Company's planned merger with Vodafone Hutchison Australia (VHA) (which had first been announced on 30 August 2018) would not substantially lessen competition. If the ACCC wishes to appeal, it must do so by 12 March 2020. Absent an appeal, this decision clears one of the conditions precedent to completion of the merger. However, there do remain other regulatory conditions that must be met before the merger can proceed, including CFIUS and FIRB. We are currently targeting completion of the merger in mid-2020.

Dividend

The Board of Directors has declared an interim FY20 dividend of 3.0 cents per share (fully franked), payable on 19 May 2020 to shareholders on the register on 14 April 2020. The Dividend Reinvestment Plan remains suspended until further notice.

FY20 Guidance

In light of the first half performance, the directors have upgraded the guidance for BAU[3] EBITDA for the Group for the full-year FY20 to now be in the range of $775-785m, as shown in the table below.

	1H20 Actual $m	FY20 Guidance Original $m	FY20 Guidance Updated $m
BAU EBITDA	404.2	735-750	775-785
BAU Capex	124.7	200-240	200-240

David Teoh
Executive Chairman
5 March 2020

[3] BAU relates to existing Consumer and Corporate Division operations. It excludes Singapore and Australian mobile and takes no account of any impact from the planned merger with VHA, including merger transaction costs. BAU EBITDA guidance is provided on an excluding AASB16 basis.

Reconciliation of Reported to Underlying & BAU Results

	1H20		1H19	
$m	EBITDA	NPAT	EBITDA	NPAT
Reported	**406.6**	**143.6**	**192.6**	**46.9**
Add: Transaction costs re planned merger	6.0	4.2	4.4	3.1
Less: Corporate Division one-off benefit	(3.3)	(2.3)	-	-
Add: Impairment expense	-	-	227.4	159.2
Add: Acquired customer base intangible amortisation	-	11.9	-	16.0
(Less)/Add: AASB 16 impact	(10.2)	0.5	-	-
Underlying	**399.1**	**157.9**	**424.4**	**225.2**
Add: Singapore mobile start-up losses	1.8		0.8	
Add: Australian mobile network opex	3.3		-	
Business as Usual ('BAU')	**404.2**		**425.2**	