



TPG Telecom Limited
ABN 46 093 058 069
and its controlled entities

**ASX Appendix 4D and
Half Year Financial Report
31 January 2016**

Lodged with the ASX under Listing Rule 4.2A

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TPG Telecom Limited
ASX Appendix 4D

Half Year ended 31 January 2016

(Previous corresponding period: Half Year ended 31 January 2015)

Results for announcement to the market

Earnings

| | | | | \$m |
|--|----|-----|----|------------|
| Revenue | up | 84% | to | 1,153.0 |
| Earnings before interest, tax, depreciation and amortisation (EBITDA) | up | 85% | to | 437.3 |
| Profit for the period | up | 91% | to | 203.8 |
| Profit for the period attributable to owners of the Company | up | 90% | to | 202.5 |
| Earnings per share attributable to owners of the Company (basic and diluted) | up | 83% | to | 24.5 cents |

Dividends

| | Amount per security | Franked amount per security |
|---|----------------------------|------------------------------------|
| | cents | cents |
| This period: | | |
| Final dividend for FY15 | 6.0 | 6.0 |
| Interim dividend for FY16 (payable 24 May 2016) | 7.0 | 7.0 |
| Previous corresponding period: | | |
| Final dividend for FY14 | 4.75 | 4.75 |
| Interim dividend for FY15 | 5.50 | 5.50 |

For the FY16 interim dividend the record date for determining entitlement to the dividend will be 19 April 2016. The Dividend Reinvestment Plan (DRP) is currently suspended until further notice.

Net Tangible Assets

| | 31 Jan 2016 | 31 Jan 2015 |
|--|--------------------|--------------------|
| Net tangible (liabilities)/assets per security | \$(1.00) | \$0.26 |

Net tangible assets per security have decreased due to the fact that the acquisition of iiNet in August 2015 gave rise to a substantial increase in intangible assets.

Commentary on results

The Company has provided a commentary on the results in its Review of operations which accompanies this report.

TPG Telecom Limited and its controlled entities

Directors' report

For the half-year ended 31 January 2016

The directors present their report together with the condensed consolidated financial report for the half-year ended 31 January 2016.

Directors

The names of directors of the Company in office at any time during, or since the end of the half-year are set out below:

| Name | Period of directorship |
|---|-------------------------------|
| David Teoh <i>Executive Chairman</i> <i>Chief Executive Officer</i> | Director since 2008 |
| Denis Ledbury <i>Non-Executive Director</i> | Director since 2000 |
| Robert Millner <i>Non-Executive Director</i> | Director since 2000 |
| Joseph Pang <i>Non-Executive Director</i> | Director since 2008 |
| Shane Teoh <i>Non-Executive Director</i> | Director since 2012 |

Review of operations

Reported Results

Reported financial results for the TPG Telecom Limited Group for the half year ended 31 January 2016 ("1H16") include the following highlights:

- Earnings before interest, tax, depreciation and amortisation ("EBITDA") for the period increased by 85% to \$437.3m.
- Net Profit After Tax ("NPAT") for the period was \$202.5m, an increase over 1H15 of 90%.
- Earnings per share ("EPS") increased by 83% to 24.5 cents per share.
- Interim dividend per share increased by 27% to 7.0 cents per share.

Underlying Results

The 1H16 reported results include the following irregular items:

- \$73.1m gain on the Group's previously held interest in iiNet (\$73.1m post tax).

TPG Telecom Limited and its controlled entities

Directors' report (continued)

For the half-year ended 31 January 2016

Review of operations (continued)

- \$9.7m profit realised on a part-disposal of the Group's interest in Vocus (\$6.8m post tax).
- \$10.3m transaction fees relating to the Group's acquisition of iiNet (\$10.3m post tax).
- \$4.0m restructuring costs arising from iiNet integration activities (\$2.8m post tax).

Excluding these irregular items, the Group's underlying EBITDA for the period is \$368.8m, up by \$132.6m (56%) over 1H15.

This EBITDA growth includes a maiden contribution from iiNet of \$111.1m for the five and a quarter months post acquisition.

Notwithstanding the increased financing costs arising from the predominantly debt financed acquisition of iiNet, the Group's underlying NPAT¹ grew by \$43.1m (36%) in 1H16 to \$162.3m.

Underlying EPS¹ increased by 31% to 19.6 cents per share.

TPG Consumer Division

The TPG Consumer Division's EBITDA for 1H16 was \$125.6m compared to \$117.0m for 1H15.

Neither period was affected by any irregular items so the \$8.6m (7%) 1H16 increase reflects organic growth driven by ongoing organic broadband subscriber growth (up by 32k in the half-year) and three months of lower access costs arising from the ACCC's fixed access determination.

As at 31 January 2016 the TPG Consumer Division had 853k broadband subscribers and 297k mobile subscribers.

TPG Corporate Division

The TPG Corporate Division achieved 1H16 EBITDA of \$131.9m compared to \$117.7m for 1H15.

This \$14.2m (12%) growth was achieved despite a negative \$4.5m accounting impact on the Division's EBITDA for the period arising from the consolidation of iiNet², excluding which the Division's EBITDA growth would have been \$18.7m (16%). This growth reflects strong Corporate Division sales in the period accompanied by continued margin expansion.

¹ Underlying NPAT and EPS incorporate the same adjustments as described for Underlying EBITDA and are also adjusted to exclude the impact of acquired customer base intangible amortisation.

² Prior to the iiNet acquisition the TPG Corporate Division earned revenue from delivery of services to iiNet, the cost of which iiNet capitalised as an intangible asset and amortised in its accounts. Therefore, when this revenue is eliminated on consolidation in the Group's post acquisition accounts there is no offsetting cost elimination within the Group's EBITDA. Instead the corresponding intangible asset has been de-recognised in iiNet's accounts resulting in a reduction in intangible amortisation.

TPG Telecom Limited and its controlled entities

Directors' report (continued)

For the half-year ended 31 January 2016

Review of operations (continued)

iiNet

iiNet contributed EBITDA of \$107.1m for the five and a quarter months post acquisition inclusive of \$4.0m of restructuring costs arising from integration activities, without which the EBITDA result would have been \$111.1m. By comparison, iiNet reported \$97.0m underlying EBITDA for 1H15³.

The principal drivers of the 1H16 EBITDA growth were (i) realisation of post-acquisition integration benefits, (ii) three months of lower access costs arising from the ACCC's fixed access determination, and (iii) an increased contribution from Tech2.

iiNet's total broadband subscribers on 31 January 2016 were 989k, in line with the 30 June 2015 number reported by iiNet, with 34k NBN growth in the period.

Cashflow and Gearing

The Group delivered another strong cashflow result in 1H16 with \$339.9m cash generated from operations (pre-tax). After tax, capital expenditure and IRU lease payments, the Group had free cashflow of \$130.9m.

The Group had bank debt at the end of the half year of \$1,460m and a net debt to annualised EBITDA leverage ratio of ~2.1x⁴.

Dividend

In light of the Group's strong cashflow and earnings growth, the Board of Directors has declared an increase to the interim FY16 dividend by 27% to 7.0 cents per share (fully franked), payable on 24 May 2016 to shareholders on the register on 19 April 2016.

FY16 Guidance

The directors forecast underlying EBITDA for the Group for the full year FY16 to be in the range of \$770m to \$775m as reflected in the table below.

| | 1H16 Actual \$m | FY16 Guidance \$m |
|-------------------------------|-----------------------|-------------------------|
| Underlying EBITDA | 368.8 | 770 to 775 |
| Acquisition/integration costs | 14.3 | |
| Non-recurring gains | 82.8 | |
| Reported EBITDA | 437.3 | |

³ iiNet underlying 1H15 EBITDA as disclosed in iiNet's HY15 accounts.

⁴ Based on annualised 1H16 underlying EBITDA and including IRU debt within net debt.

TPG Telecom Limited and its controlled entities

Directors' report (continued)

For the half-year ended 31 January 2016

Lead Auditor's Independence Declaration

The lead auditor's independence declaration is set out on page 26 and forms part of the directors' report for the half-year ended 31 January 2016.

Rounding off

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and, in accordance with that Class Order, amounts in the consolidated financial statements and directors' report have been rounded off to the nearest hundred thousand dollars, unless otherwise stated.

Dated at Sydney this 22nd day of March 2016.

Signed in accordance with a resolution of the directors:



David Teoh
Chairman

TPG Telecom Limited and its controlled entities

Consolidated interim income statement

For the half-year ended 31 January 2016

| | <i>Note</i> | 31 Jan 2016 \$m | 31 Jan 2015 \$m |
|--|--------------|--------------------------------|--------------------------------|
| Revenue | 6 | 1,153.0 | 627.3 |
| Other income | 7 | 83.2 | 1.7 |
| Network, carrier and hardware costs | | (571.4) | (290.3) |
| Employee benefits expense | | (136.7) | (68.4) |
| Other expenses | 16(a) | (90.8) | (34.1) |
| Earnings before interest, tax, depreciation and amortisation (EBITDA) | | 437.3 | 236.2 |
| Depreciation of plant and equipment | | (67.1) | (51.4) |
| Amortisation of intangibles | 11 | (58.3) | (23.7) |
| Results from operating activities | | 311.9 | 161.1 |
| Finance income | | 0.6 | 0.7 |
| Finance expenses | | (47.5) | (9.6) |
| Net financing costs | | (46.9) | (8.9) |
| Profit before income tax | | 265.0 | 152.2 |
| Income tax expense | 8 | (61.2) | (45.5) |
| Profit for the period | | 203.8 | 106.7 |
| Attributable to: | | | |
| Owners of the Company | | 202.5 | 106.7 |
| Non-controlling interest | | 1.3 | - |
| | | 203.8 | 106.7 |
| Earnings per share attributable to owners of the Company: | | | |
| Basic and diluted earnings per share (cents) | 14 | 24.5 | 13.4 |

TPG Telecom Limited and its controlled entities
Consolidated interim statement of comprehensive income

For the half-year ended 31 January 2016

| | 31 Jan 2016 \$m | 31 Jan 2015 \$m |
|---|--------------------------------|--------------------------------|
| Profit for the period | 203.8 | 106.7 |
| Items that may be reclassified subsequently to profit or loss, net of tax: | | |
| Foreign exchange translation differences | - | 0.3 |
| Net loss on cash flow hedges taken to equity | (2.0) | - |
| Net change in fair value of available-for-sale financial assets | 20.0 | 10.9 |
| Available-for-sale financial assets reclassified to profit or loss | (56.8) | - |
| Other comprehensive income, net of tax | (38.8) | 11.2 |
| Total comprehensive income for the period | 165.0 | 117.9 |
| Attributable to: | | |
| Owners of the Company | 163.7 | 117.9 |
| Non-controlling interest | 1.3 | - |
| | 165.0 | 117.9 |

TPG Telecom Limited and its controlled entities
Consolidated interim statement of financial position

As at 31 January 2016

| | Note | 31 Jan 2016 \$m | 31 July 2015 \$m |
|---|------|-----------------------|------------------------|
| Assets | | | |
| Cash and cash equivalents | | 38.8 | 23.7 |
| Trade and other receivables | | 153.0 | 63.8 |
| Inventories | | 17.3 | 5.8 |
| Investments | 9,10 | 135.2 | 151.6 |
| Derivative financial instruments | 10 | 8.2 | - |
| Prepayments and other assets | | 15.2 | 9.0 |
| Total Current Assets | | 367.7 | 253.9 |
| Trade and other receivables | | 1.6 | - |
| Investments | 9,10 | 19.5 | 115.6 |
| Derivative financial instruments | 10 | 16.1 | - |
| Property, plant and equipment | | 818.4 | 592.8 |
| Intangible assets | 11 | 2,486.0 | 685.6 |
| Prepayments and other assets | | 6.7 | 5.9 |
| Total Non-Current Assets | | 3,348.3 | 1,399.9 |
| Total Assets | | 3,716.0 | 1,653.8 |
| Liabilities | | | |
| Trade and other payables | | 257.5 | 153.8 |
| Loans and borrowings | 12 | 26.6 | 0.1 |
| Current tax liabilities | | 0.5 | 12.3 |
| Employee benefits | | 27.1 | 14.4 |
| Provisions | | 15.5 | 10.5 |
| Accrued interest | | 1.8 | 4.3 |
| Deferred income and other liabilities | | 142.3 | 62.7 |
| Total Current Liabilities | | 471.3 | 258.1 |
| Loans and borrowings | 12 | 1,470.9 | 327.7 |
| Deferred tax liabilities | | 57.8 | 17.1 |
| Employee benefits | | 2.6 | 2.0 |
| Provisions | | 36.0 | 21.4 |
| Deferred income and other liabilities | | 25.8 | 24.3 |
| Total Non-Current Liabilities | | 1,593.1 | 392.5 |
| Total Liabilities | | 2,064.4 | 650.6 |
| Net Assets | | 1,651.6 | 1,003.2 |
| Equity | | | |
| Share capital | 13 | 1,051.9 | 516.9 |
| Reserves | | 35.2 | 76.5 |
| Retained earnings | | 563.3 | 409.8 |
| Equity attributable to owners of the Company | | 1,650.4 | 1,003.2 |
| Non-controlling interest | | 1.2 | - |
| Total Equity | | 1,651.6 | 1,003.2 |

The condensed notes on pages 12 to 22 are an integral part of these consolidated interim financial statements.

TPG Telecom Limited and its controlled entities

Consolidated interim statement of changes in equity

For the half-year ended 31 January 2016

| Note | Attributable to owners of the Company | | | | | | | | Non-controlling interest | Total equity |
|------|---------------------------------------|--------------------------------------|------------------------------|--------------------|-------------------------|----------------|-------------------|----------------|--------------------------|----------------|
| | Share Capital | Foreign currency translation reserve | Share based payments reserve | Fair value reserve | Cash flow hedge reserve | Total reserves | Retained earnings | Total | | |
| | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | | |
| | 516.9 | 0.1 | 0.4 | 47.9 | - | 48.4 | 267.1 | 832.4 | - | 832.4 |
| | - | - | - | - | - | - | 106.7 | 106.7 | - | 106.7 |
| | - | 0.3 | - | - | - | 0.3 | - | 0.3 | - | 0.3 |
| | - | - | - | 10.9 | - | 10.9 | - | 10.9 | - | 10.9 |
| | - | 0.3 | - | 10.9 | - | 11.2 | 106.7 | 117.9 | - | 117.9 |
| | - | - | (4.7) | - | - | (4.7) | - | (4.7) | - | (4.7) |
| 15 | - | - | - | - | - | - | (37.7) | (37.7) | - | (37.7) |
| | - | - | (4.7) | - | - | (4.7) | (37.7) | (42.4) | - | (42.4) |
| | 516.9 | 0.4 | (4.3) | 58.8 | - | 54.9 | 336.1 | 907.9 | - | 907.9 |
| | 516.9 | 0.4 | (3.4) | 79.5 | - | 76.5 | 409.8 | 1,003.2 | - | 1,003.2 |
| | - | - | - | - | - | - | 202.5 | 202.5 | 1.3 | 203.8 |
| | - | - | - | - | (2.0) | (2.0) | - | (2.0) | - | (2.0) |
| | - | - | - | (36.8) | - | (36.8) | - | (36.8) | - | (36.8) |
| | - | - | - | (36.8) | (2.0) | (38.8) | 202.5 | 163.7 | 1.3 | 165.0 |
| 13 | 538.1 | - | - | - | - | - | - | 538.1 | - | 538.1 |
| | - | - | (2.5) | - | - | (2.5) | - | (2.5) | - | (2.5) |
| 13 | (3.1) | - | - | - | - | - | - | (3.1) | - | (3.1) |
| 16 | - | - | - | - | - | - | - | - | (0.1) | (0.1) |
| 15 | - | - | - | - | - | - | (49.0) | (49.0) | - | (49.0) |
| | 535.0 | - | (2.5) | - | - | (2.5) | (49.0) | 483.5 | (0.1) | 483.4 |
| | 1,051.9 | 0.4 | (5.9) | 42.7 | (2.0) | 35.2 | 563.3 | 1,650.4 | 1.2 | 1,651.6 |

TPG Telecom Limited and its controlled entities

Consolidated interim statement of cash flows

For the half-year ended 31 January 2016

| | <i>Note</i> | 31 Jan 2016 \$m | 31 Jan 2015 \$m |
|---|--------------|--------------------------------|--------------------------------|
| Cash flows resulting from operating activities | | | |
| Cash receipts from customers | | 1,363.0 | 687.3 |
| Cash paid to suppliers and employees | | (1,023.1) | (449.2) |
| Cash generated from operations | | 339.9 | 238.1 |
| Income taxes paid | | (66.2) | (43.7) |
| Net cash from operating activities | | 273.7 | 194.4 |
| Cash flows resulting from investing activities | | | |
| Acquisition of property, plant and equipment | | (125.4) | (68.1) |
| Acquisition of intangible assets | | (8.0) | (16.1) |
| Disposal of investments | 9 | 45.7 | - |
| Acquisition of investments | | - | (24.9) |
| Acquisition of subsidiaries, net of cash acquired | 12,16 | (1,151.3) | - |
| Special dividend paid under Scheme of Arrangement | 12,16 | (106.7) | - |
| Costs incurred on acquisition of subsidiaries | 12 | (8.6) | - |
| Dividends received | 7 | 0.4 | 1.7 |
| Net cash used in investing activities | | (1,353.9) | (107.4) |
| Cash flows resulting from financing activities | | | |
| Payment of finance lease liabilities | | (9.4) | (0.1) |
| Proceeds from borrowings | | 1,879.7 | 75.0 |
| Repayment of borrowings | | (960.9) | (105.0) |
| Transaction cost related to borrowings | 12 | (51.0) | - |
| Issue of shares | | 326.9 | - |
| Share issue costs | 13 | (4.4) | - |
| Interest received | | 0.4 | 0.5 |
| Interest paid | | (36.9) | (7.8) |
| Dividends paid | 15 | (49.0) | (37.7) |
| Net cash from/(used in) financing activities | | 1,095.4 | (75.1) |
| Net increase in cash and cash equivalents | | 15.2 | 11.9 |
| Cash and cash equivalents at beginning of the period | | 23.7 | 23.8 |
| Effect of exchange rate fluctuations | | (0.1) | 0.4 |
| Cash and cash equivalents at 31 January | | 38.8 | 36.1 |

TPG Telecom Limited and its controlled entities

Condensed notes to the consolidated interim financial statements

For the half-year ended 31 January 2016

1. Reporting entity

TPG Telecom Limited (the 'Company') is a company domiciled in Australia. The condensed consolidated interim financial report of the Company for the six months ended 31 January 2016 comprises the accounts of the Company and its subsidiaries (together referred to as the 'Group').

2. Basis of preparation

The condensed consolidated interim financial report is a general purpose financial report which has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

The condensed consolidated interim financial report does not include all of the information required for a full annual financial report, and should be read in conjunction with the consolidated annual financial report of the Group for the year ended 31 July 2015, which is available on the Company's website at www.tpg.com.au/about/investorrelations.

The condensed consolidated interim financial report was approved by the Board of Directors on 22 March 2016.

The Group is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and, in accordance with that Class Order, amounts in the financial report and directors' report have been rounded off to the nearest hundred thousand dollars, unless otherwise stated.

3. Significant accounting policies

Accounting policies applied by the Group in this condensed consolidated interim financial report are the same as those applied by the Group in its consolidated annual financial report for the year ended 31 July 2015. There have been no new or revised Accounting Standards or Interpretations that have become effective for annual reporting periods beginning from 1 August 2015.

4. Estimates

The preparation of the interim 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 this condensed consolidated interim financial report, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial report as at and for the year ended 31 July 2015.

TPG Telecom Limited and its controlled entities

Condensed notes to the consolidated interim financial statements

For the half-year ended 31 January 2016

5. 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.

As at the end of the previous reporting period, the Group had two operating segments, being its Consumer and Corporate segments.

As a result of the acquisition of iiNet during the half year ended 31 January 2016, the number of operating segments recognised by the Group and disclosed in this report has now increased to three. They are as follows:

TPG Consumer

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

TPG Corporate

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

iiNet

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

Geographic Information

All of the Group's revenues are derived from Australian based entities, except for \$6.6m (2015: \$5.2m) derived from overseas customers.

All of the Group's non-current assets are located in Australia, except for assets amounting to \$113.6m (2015: \$115.9m) that are located either overseas or in international waters.

TPG Telecom Limited and its controlled entities
Condensed notes to the consolidated interim financial statements

For the half-year ended 31 January 2016

5. Segment reporting (continued)

| | TPG Consumer | TPG Corporate | iiNet | Unallocated | Total results |
|---|-----------------|------------------|--------------|-------------|------------------|
| For the half year ended 31 January 2016 | \$m | \$m | \$m | \$m | \$m |
| Revenue | 330.9 | 325.2 | 496.9 | - | 1,153.0 |
| Other income | - | - | - | 83.2 | 83.2 |
| Network, carrier and hardware costs | (162.9) | (128.5) | (280.0) | - | (571.4) |
| Employee benefits expense | (22.9) | (50.7) | (63.1) | - | (136.7) |
| Other expenses | (19.5) | (14.1) | (46.7) | (10.5) | (90.8) |
| Results from segment activities | 125.6 | 131.9 | 107.1 | 72.7 | 437.3 |

For the half year ended 31 January 2015

| | | | | | |
|--|--------------|--------------|----------|------------|--------------|
| Revenue | 308.0 | 319.3 | - | - | 627.3 |
| Other income | - | - | - | 1.7 | 1.7 |
| Network, carrier and hardware costs | (150.9) | (139.4) | - | - | (290.3) |
| Employee benefits expense | (19.7) | (48.7) | - | - | (68.4) |
| Other expenses | (20.4) | (13.5) | - | (0.2) | (34.1) |
| Results from segment activities | 117.0 | 117.7 | - | 1.5 | 236.2 |

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

| | Half year ended | |
|--|--------------------|--------------------|
| | 31 Jan 2016 \$m | 31 Jan 2015 \$m |
| Total segment results | 437.3 | 236.2 |
| Depreciation of plant and equipment | (67.1) | (51.4) |
| Amortisation of intangibles | (58.3) | (23.7) |
| Results from operating activities | 311.9 | 161.1 |
| Net financing costs | (46.9) | (8.9) |
| Profit before income tax | 265.0 | 152.2 |

TPG Telecom Limited and its controlled entities
Condensed notes to the consolidated interim financial statements

For the half-year ended 31 January 2016

6. Revenue

| | 31 Jan 2016 | Restated¹ |
|--|--------------------|-----------------------------|
| | \$m | 31 Jan 2015 |
| | | \$m |
| Rendering of services | 1,085.6 | 571.6 |
| Sale of goods | 17.4 | 4.6 |
| Network capacity sales, recognised as: | | |
| - operating leases | 50.0 | 50.5 |
| - finance leases | - | 0.6 |
| | 1,153.0 | 627.3 |

¹ \$24.7m of revenue previously classified under “Rendering of services” in the prior period figures has been reclassified as operating lease revenue in the re-stated prior period comparatives above. This reclassification does not change the overall revenue figure and has been done simply to more accurately reflect the split of products that have the characteristics of an operating lease.

7. Other income

| | 31 Jan 2016 | 31 Jan 2015 |
|---|--------------------|--------------------|
| | \$m | \$m |
| Gain on previously held interest in iiNet | 73.1 | - |
| Profit on sale of investments | 9.7 | - |
| Dividend income | 0.4 | 1.7 |
| | 83.2 | 1.7 |

8. Income tax expense

| | 31 Jan 2016 | 31 Jan 2015 |
|---|--------------------|--------------------|
| | \$m | \$m |
| Current tax expense | | |
| Current period | 65.1 | 51.5 |
| Adjustments for prior periods | 0.4 | - |
| | 65.5 | 51.5 |
| Deferred tax expense | | |
| Origination and reversal of temporary differences | (4.3) | (6.0) |
| Income tax expense | 61.2 | 45.5 |

TPG Telecom Limited and its controlled entities
Condensed notes to the consolidated interim financial statements

For the half-year ended 31 January 2016

8. Income tax expense (continued)

Numerical reconciliation between tax expense and pre-tax accounting profit

| | 31 Jan 2016 \$m | 31 Jan 2015 \$m |
|---|--------------------|--------------------|
| Profit before income tax | 265.0 | 152.2 |
| Income tax using tax rate of 30% | 79.5 | 45.7 |
| Increase in income tax expense due to: | | |
| Non-deductible and non-assessable items | (18.5) | (0.1) |
| Under/(Over) provided in prior periods | 0.2 | (0.1) |
| Income tax expense | 61.2 | 45.5 |

9. Investments

| | Note | 31 Jan 2016 \$m | 31 July 2015 \$m |
|--|------|--------------------|---------------------|
| Available-for-sale financial assets | | | |
| Current | | | |
| Carrying amount at 1 August | | 151.6 | 99.2 |
| Less: reclassified as non-current | | - | (77.7) |
| Acquisitions | | - | 113.0 |
| Disposals | | (45.7) | - |
| Change in fair value | | 29.3 | 17.1 |
| Carrying amount at end of period | | 135.2 | 151.6 |
| Non-current | | | |
| Carrying amount at 1 August | | 115.6 | 7.3 |
| Add: reclassified from current | | - | 77.7 |
| Acquisitions | | - | 2.6 |
| Deemed disposal on acquisition of iiNet | 16 | (97.3) | - |
| Change in fair value | | 1.2 | 28.0 |
| Carrying amount at end of period | | 19.5 | 115.6 |

TPG Telecom Limited and its controlled entities

Condensed notes to the consolidated interim financial statements

For the half-year ended 31 January 2016

10. Classification of financial instruments

Fair value hierarchy

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 Jan 2016 | | | 31 July 2015 | | |
|------------------------------------|-------------|---------|---------|--------------|---------|---------|
| | Level 1 | Level 2 | Level 3 | Level 1 | Level 2 | Level 3 |
| Financial assets | | | | | | |
| Investments | 154.7 | - | - | 267.2 | - | - |
| Foreign currency forward contracts | - | 24.3 | - | - | - | - |
| Financial liabilities | | | | | | |
| Contingent consideration | - | - | (3.7) | - | - | - |

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

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.

The fair value of the contingent consideration is determined using the discounted cash flow method and hence it is categorised as Level 3.

11. Intangible assets

| | Note | Non-Amortising | | Acquired customer bases \$m | Amortising | | Total \$m |
|--|------|-----------------|---------------|--------------------------------|---|----------------------------|----------------|
| | | Goodwill \$m | Brands \$m | | Indefeasible rights of use of capacity \$m | Other intangibles * \$m | |
| Balance 1 August 2015 | | 546.1 | 20.1 | 28.8 | 72.5 | 18.1 | 685.6 |
| Additions | | - | - | - | 0.8 | 8.5 | 9.3 |
| Acquisitions through business combinations | 16 | 1,347.9 | 70.5 | 316.6 | 52.3 | 62.1 | 1,849.4 |
| Amortisation for the period | | - | - | (38.0) | (5.8) | (14.5) | (58.3) |
| Balance 31 January 2016 | | 1,894.0 | 90.6 | 307.4 | 119.8 | 74.2 | 2,486.0 |

* Other intangible assets include software, subscriber acquisition costs, spectrum, licences and development costs.

TPG Telecom Limited and its controlled entities

Condensed notes to the consolidated interim financial statements

For the half-year ended 31 January 2016

12. Loans and borrowings

| | 31 Jan 2016 \$m | 31 July 2015 \$m |
|---|--------------------|---------------------|
| Current | | |
| Indefeasible right of use (IRU) lease liabilities | 24.0 | - |
| Other finance lease liabilities | 2.6 | 0.1 |
| | 26.6 | 0.1 |
| Non-current | | |
| Gross secured bank loans | 1,460.0 | 329.0 |
| Less: Unamortised borrowing costs | (39.9) | (1.3) |
| | 1,420.1 | 327.7 |
| IRU lease liabilities | 50.7 | - |
| Other finance lease liabilities | 0.1 | - |
| | 1,470.9 | 327.7 |

During the half-year ended 31 January 2016, in order to fund the acquisition of iiNet, the Group entered into revised debt facility agreements with a syndicate of banks. The facilities were used to fund the acquisition and to refinance the Group's and iiNet's existing bank debt.

Explanation of the movement in the gross bank loan balance during the period is set out below:

| | <i>Note</i> | \$m |
|--|-------------|----------------|
| Balance as at 1 August 2015 | | 329.0 |
| Loan drawdowns required to fund acquisition of iiNet: | | |
| - Cash consideration, net of cash acquired | | 1,151.3 |
| - Special dividend paid to iiNet shareholders | 16 | 106.7 |
| - Acquisition transaction costs | | 8.6 |
| - Transaction costs relating to new debt facility | | 51.0 |
| - iiNet bank debt acquired | 16 | 212.1 |
| Total loan drawdowns required to fund acquisition of iiNet | | 1,529.7 |
| Loan repayments from proceeds of issue of shares | | (322.5) |
| Other repayments made | | (76.2) |
| Balance as at 31 January 2016 | | 1,460.0 |

As at 31 January 2016 the Group has a debt facility of \$1,635m of which \$1,460m is drawn down. The debt facility has a maturity profile of between two and five years.

The outstanding loan balance as at the reporting date is shown in the statement of financial position net of unamortised borrowing costs of \$39.9m.

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Condensed notes to the consolidated interim financial statements

For the half-year ended 31 January 2016

13. Share capital

| | Ordinary shares | | \$m | |
|--|--------------------|--------------------|----------------|--------------|
| | 31 Jan 2016 | 31 July 2015 | 31 Jan 2016 | 31 July 2015 |
| Balance at start of period | 793,808,141 | 793,808,141 | 516.9 | 516.9 |
| Ordinary shares issued during the period | | | | |
| - Consideration for acquisition of iiNet | 23,212,554 | - | 211.2 | - |
| - Institutional share placement | 28,846,154 | - | 300.0 | - |
| - Issued under share purchase plan | 2,606,269 | - | 26.9 | - |
| Transaction costs (net of tax) | - | - | (3.1) | - |
| Balance at end of period | 848,473,118 | 793,808,141 | 1,051.9 | 516.9 |

14. Earnings per share

| | 31 Jan 2016 Cents | 31 Jan 2015 Cents |
|--------------------------------------|----------------------|----------------------|
| Basic and diluted earnings per share | 24.5 | 13.4 |

| | 31 Jan 2016 \$m | 31 Jan 2015 \$m |
|---|--------------------|--------------------|
| Profit attributable to owners of the company used in calculating basic and diluted earnings per share | 202.5 | 106.7 |

| | 31 Jan 2016 | 31 Jan 2015 |
|--|-------------|-------------|
| Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share | 827,796,018 | 793,808,141 |

15. Dividends

Dividends recognised in the current period were as follows:

| | Cents per share | Total amount \$m | Date of payment |
|-----------------------|--------------------|------------------------|-----------------|
| 2016 | | | |
| Final 2015 ordinary | 6.0 | 49.0 | 17 Nov 2015 |
| 2015 | | | |
| Interim 2015 ordinary | 5.50 | 43.7 | 19 May 2015 |
| Final 2014 ordinary | 4.75 | 37.7 | 18 Nov 2014 |

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

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Condensed notes to the consolidated interim financial statements

For the half-year ended 31 January 2016

15. Dividends (continued)

On 22 March 2016 the directors have declared a fully franked interim 2016 dividend of 7.0 cents per share. The dividend has a record date of 19 April 2016 and will be paid on 24 May 2016. As the interim dividend was not declared or resolved to be paid by the Board of directors as at 31 January 2016, the dividend has not been provided for in the consolidated interim statement of financial position.

The Dividend Reinvestment Plan (DRP) is currently suspended until further notice.

16. Business combinations

During the period the Group completed its acquisition of iiNet Limited.

The acquisition combines two businesses that are highly complementary for a number of reasons, including their respective market positioning and geographic presence, and should deliver scale benefits for the combined group.

The acquisition was implemented through a scheme of arrangement under which the Group acquired the 93.75% of share capital in iiNet that it did not already own.

The scheme was approved by the Federal court on 21 August 2015, became effective on the date of change of control, which was 24 August 2015, and was completed when the consideration was transferred to iiNet shareholders on 7 September 2015.

The consideration transferred to iiNet shareholders comprised:

- Cash consideration: \$1,156.8m; and
- Share consideration: 23,212,554 TPG Telecom Limited shares with an acquisition date fair value of \$211.2m. This valuation was determined by reference to TPG's volume weighted average share price on 24 August 2015.

In addition, immediately prior to completion, iiNet shareholders were paid a discretionary special dividend amounting to \$106.7m (net of \$7.0m which was paid to the Group) which was funded through a loan to iiNet by the Group.

The provisional fair values of the identifiable assets and liabilities of iiNet as at the date of acquisition are set out below. The balances are provisional as they are subject to further valuation considerations by management following this preliminary assessment. The provisional fair values will be finalised in the financial statements of the Group for the year ending 31 July 2016.

TPG Telecom Limited and its controlled entities
Condensed notes to the consolidated interim financial statements

For the half-year ended 31 January 2016

16. Business combinations (continued)

| Identifiable assets acquired and liabilities assumed | \$m |
|---|-----------------------|
| Trade and other receivables | 108.3 |
| Provision for doubtful debts | (20.8) |
| Inventories | 11.7 |
| Derivative financial assets | 27.1 |
| Prepayments and other assets | 8.1 |
| Property, plant and equipment | 171.4 |
| Brand | 70.5 |
| Customer base | 316.6 |
| IRU assets | 52.3 |
| Other intangible assets | 62.1 |
| Income tax receivable | 12.4 |
| Minority interest acquired | 0.1 |
| Trade and other payables | (127.8) |
| Liability for special dividend | (106.7) |
| Loans payable | (212.1) |
| IRU lease liabilities | (83.0) |
| Finance lease liabilities | (4.2) |
| Employee benefits and provisions | (14.8) |
| Provisions | (20.6) |
| Deferred income | (74.5) |
| Derivative financial liabilities | (0.6) |
| Deferred tax liabilities (net) | (63.6) |
| Net identifiable assets acquired | <u>111.9</u> |
| Consideration transferred | |
| Cash paid | 1,156.8 |
| Less: Cash acquired | <u>(5.5)</u> |
| Net cash consideration paid | 1,151.3 |
| Issue of shares | 211.2 |
| Fair value of previously held interest in iiNet | <u>97.3</u> |
| Total consideration, net of cash acquired | <u>1,459.8</u> |
| Goodwill on acquisition | |
| Consideration transferred, net of cash acquired | 1,459.8 |
| Less: Net identifiable assets acquired | <u>(111.9)</u> |
| Goodwill on acquisition | <u>1,347.9</u> |

TPG Telecom Limited and its controlled entities

Condensed notes to the consolidated interim financial statements

For the half-year ended 31 January 2016

16. Business combinations (continued)

The goodwill arising on the acquisition is primarily attributable to the synergies expected to be achieved from integrating iiNet into the Group's operations.

For the half year ended 31 January 2016, iiNet contributed revenue of \$496.9m and profit after tax of \$47.5m to the Group's results (excluding acquisition costs and amortisation of acquisition intangibles) for the five and a quarter months post acquisition. Management estimates that if iiNet had have been owned by the Group for the full six month period, it would have contributed revenue of \$567.0m and profit after tax of \$51.0m to the Group's results.

16 (a) Transaction costs related to business combinations

During the period, the Group incurred transaction costs of \$10.3m related to the acquisition of iiNet. These costs have been included in other expenses in the consolidated income statement.

17. Capital commitments

| | 31 Jan 2016 \$m | 31 July 2015 \$m |
|---|--------------------|---------------------|
| Contracted but not provided for in the financial statements | 225.3 | 162.1 |

Capital commitments at 31 January 2016 include US\$119.6m* in respect of IRU agreements for international capacity contracted to be incurred over the next 6 years.

*translated into AUD at the prevailing spot rate at 31 January 2016 of \$0.71.

18. Subsequent events

Purchase of spectrum

On 5 February 2016 the Company announced that it was a successful bidder in the auction for spectrum in the 1800MHz band.

TPG will pay \$84.7m for the lots that it has purchased, with \$15.4m to be paid in the current financial year and the balance to be paid in early 2017.

TPG Telecom Limited and its controlled entities

Directors' declaration

For the half-year ended 31 January 2016

In the opinion of the directors of TPG Telecom Limited ("the Company"):

1. the financial statements and notes set out on pages 7 to 22, are in accordance with the *Corporations Act 2001* including:
 - a. giving a true and fair view of the financial position of the Group as at 31 January 2016 and of its performance for the half-year ended on that date; and
 - b. complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and
2. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Dated at Sydney this 22nd day of March 2016.

Signed in accordance with a resolution of the directors:



David Teoh
Chairman



Independent auditor's review report to the members of TPG Telecom Limited

We have reviewed the accompanying condensed consolidated half-year financial report of TPG Telecom Limited, which comprises the consolidated interim statement of financial position as at 31 January 2016, consolidated interim income statement, consolidated interim statement of comprehensive income, consolidated interim statement of changes in equity and consolidated interim statement of cash flows for the half-year ended on that date, notes 1 to 18 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year period.

Directors' responsibility for the half-year financial report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 January 2016 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of TPG Telecom Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of TPG Telecom Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 31 January 2016 and of its performance for the half-year ended on that date; and
- (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A handwritten signature in black ink, appearing to be 'KPMG'.

KPMG

A handwritten signature in black ink, appearing to be 'Chris Hollis'.

Chris Hollis
Partner

Sydney

22 March 2016



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of TPG Telecom Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 January 2016 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the review.

A handwritten signature in black ink that reads 'KPMG'.

KPMG

A handwritten signature in black ink that reads 'Chris Hollis'.

Chris Hollis
Partner

Sydney

22 March 2016