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

Annual Report
Year ended 31 July 2016

TPG Telecom Limited and its controlled entities

Annual report

For the year ended 31 July 2016

Contents

TPG Telecom Limited and its controlled entities

Chairman's letter

For the year ended 31 July 2016

Dear Shareholders

On behalf of the Board of Directors, I am pleased to present to you the TPG Telecom Limited Annual Report for the financial year ended 31 July 2016 ("FY16").

Financial Performance

FY16 was another successful year for the Group. Continued organic growth and the integration of iiNet into the business have resulted in further increases in revenue, profits and dividends for shareholders. FY16 represents the eighth consecutive year that this has been the case.

A detailed review of the Group's operating and financial performance for the year is provided in the Operating and Financial Review section of the Directors' Report starting on page 7 of this Annual Report, and set out below are some of the key financial highlights and earnings attributable to shareholders from the year.

	FY16	FY15	Movement
Revenue ($m)	2,387.8	1,270.6	+88%
EBITDA ($m)	849.4	484.5	+75%
NPAT ($m)	379.6	224.1	+69%
EPS (cents/share)	45.3	28.2	+61%
Dividends (cents/share)	14.5	11.5	+26%

iiNet Acquisition

At the beginning of FY16 we completed the acquisition of iiNet and consequently there has been significant focus during the year on integrating the businesses to improve the efficiency of the combined organisation.

Whilst there is still much to do I am pleased to report that the integration is progressing well. Employees from both sides of the merger have risen to the challenge of the integration and have continued to deliver the premium levels of customer service for which iiNet has gained a strong reputation.

Moving Forward

Our Group has achieved outstanding growth over the last eight years and has a tremendously exciting future ahead of it.

Chief among our competitive advantages is our extensive network infrastructure which enables our Group to offer market leading on-net products to a broad range of customers right across the country as well as overseas utilising our vast international capacity.

We have the second largest fixed broadband customer base in Australia and an opportunity to continue to grow it as a leading provider of NBN services as well as through providing super-fast broadband services over our 'fibre to the building' network.

Our continued growth will be assisted by our multiple well known and highly regarded brands supported by our top class customer service.

The Group has a significant opportunity to expand its corporate market share both through the strength of its expanding direct sales team and through its valuable wholesale customer relationships.

In addition, we have an efficient operating cost model with experienced management and over 6,000 dedicated personnel across Australia, New Zealand, the Philippines and South Africa.

We have ahead of us numerous exciting opportunities to consider and strategies to implement using these expansive assets and strengths which I am confident will continue to create excellent value for our shareholders over the long term.

In Memoriam – John Paine

The Board and employees of the Group were deeply saddened by the passing in January 2016 of Mr John Paine, the Group's National Technical & Strategy Manager and one of the Group's longest serving and finest employees. John was instrumental in the growth of the TPG business and, as part of the senior management team for many years, the value of his contribution cannot be overstated. He is missed greatly by his friends and colleagues.

Conclusion

The Group's achievements are made possible by the dedication of our hard-working employees. I would like to thank them all again for their efforts this year and look forward to their ongoing contribution to the Group's success in FY17 and beyond.

On behalf of the Board, I also thank all our shareholders for their continued support of the Company.

Yours faithfully

David Teoh
Chairman

TPG Telecom Limited and its controlled entities

Directors' report

For the year ended 31 July 2016

The directors present their report together with the financial report of the Group, being TPG Telecom Limited ('the Company') and its controlled entities, for the financial year ended 31 July 2016, and the auditor's report thereon.

Contents of directors' report

1. Board of Directors

Details of directors of the Company who held office at any time during or since the end of the previous year are set out below:

CURRENT

David Teoh Executive Chairman Chief Executive Officer	David is the founder and Chief Executive Officer of the TPG group of companies. He has served as Executive Chairman of the Company since 2008. Special Responsibilities: Chairman of the Board
Denis Ledbury Non-Executive Director B.Bus, A.I.C.D. Independent	Denis has served as a Director of the Company since 2000 and was the Managing Director of the Company between 2000 and 2005. Denis was also associated with the NBN television group of companies for over 24 years, the last 14 of which as Chief Executive Officer. Special Responsibilities: Chairman of the Remuneration and Audit & Risk Committee
Robert Millner Non-Executive Director F.A.I.C.D.	Robert has served as a Non-Executive Director of the Company since 2000 and was the Chairman until 2008. Robert has over 30 years' experience as a Company Director and is currently a Director of the following listed companies: Apex Healthcare Berhad, Australian Pharmaceutical Industries Limited, Brickworks Limited, BKI Investment Company Limited, Milton Corporation Limited, New Hope Corporation Limited and Washington H. Soul Pattinson and Company Limited. Special Responsibilities: Member of the Remuneration and Audit & Risk Committee
Joseph Pang Non-Executive Director FCA Independent	Joseph has served as a Non-Executive Director of the Company since 2008.Joseph worked in financial roles in the UK, Canada and Hong Kong prior to starting his own management and financial consulting service in Australia. Special Responsibilities: Member of the Remuneration and Audit & Risk Committee
Shane Teoh Non-Executive Director B.Com, LLB	Shane has served as a Non-Executive Director of the Company since 2012. Shane holds a Bachelor of Commerce and a Bachelor of Laws from the University of New South Wales. He is managing director of Total Forms Pty Ltd, a leading developer of accounting and taxation software in Australia.

2. Company secretary

Mr Stephen Banfield was appointed Company Secretary on 24 October 2007. Stephen holds a BA (Hons) degree and is a member of the Institute of Chartered Accountants in England and Wales.

3. Directors' meetings

The number of Board and committee meetings held during the financial year and the number of meetings attended by each of the directors as a member of the Board or relevant committee were as follows:

Director	Board Meetings		Audit & Risk Committee Meetings		Remuneration Committee Meetings	
	A	**B**	**A**	**B**	**A**	**B**
D Teoh	17	17	-	-	-	-
D Ledbury	16	17	2	2	1	1
R Millner	17	17	2	2	1	1
J Pang	17	17	2	2	1	1
S Teoh	17	17	-	-	-	-

A: Number of meetings attended.

B: Number of meetings held while a member.

4. Operating and financial review

4.1 Operating result overview

Reported Results

The Group again achieved record financial results for the year ended 31 July 2016 ("FY16"), highlights of which are as follows:

- Earnings before interest, tax, depreciation and amortisation ("EBITDA") for the year increased by 75% to $849.4m.
- Net Profit After Tax ("NPAT") attributable to shareholders for the year was $379.6m, an increase over FY15 of 69%.
- Earnings per share ("EPS") increased by 61% to 45.3 cents per share.
- Pre-tax operating cashflow increased by 54% to $759.2m.
- Dividends per share paid or declared in respect of FY16 increased by 26% to 14.5 cents (fully franked).

Underlying Results

The FY16 reported results include the following irregular items:

- $73.1m gain on the Group's previously held interest in iiNet ($73.1m post tax).
- $17.6m profit realised on a part-disposal of shares held as an investment by the Group ($12.3m post tax).
- $10.3m transaction fees relating to the Group's acquisition of iiNet ($10.3m post tax).
- $6.3m restructuring costs arising from iiNet integration activities ($4.4m post tax).

4. Operating and financial review (continued)

4.1 Operating result overview (continued)

Excluding these irregular items, the Group's underlying EBITDA for the year was $775.3m, up by $290.0m (60%) over FY15.

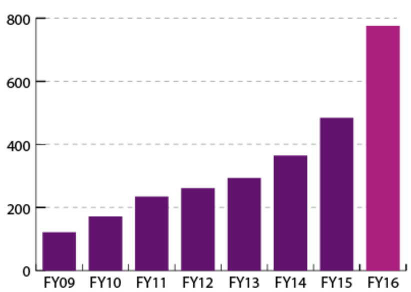
This EBITDA growth includes a maiden contribution from iiNet of $248.9m for the eleven and a quarter months post acquisition.

Notwithstanding the increased financing costs arising from the predominantly debt financed acquisition of iiNet, the Group's underlying NPAT[1] grew by $114.0m (46%) in FY16 to $361.0m.

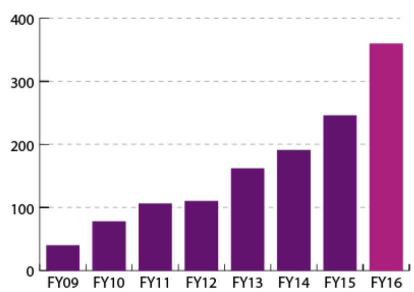
Underlying EPS[1] increased by 39% to 43.1 cents per share.

These results represent the eighth consecutive year of strong growth for the Group.

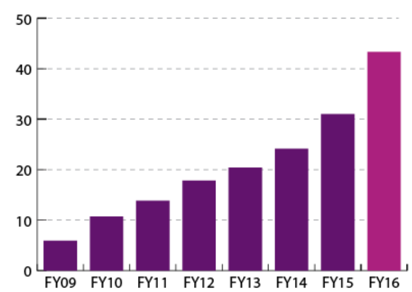
EBITDA ($m)



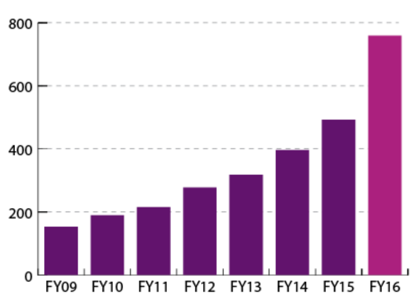
NPAT ($m)



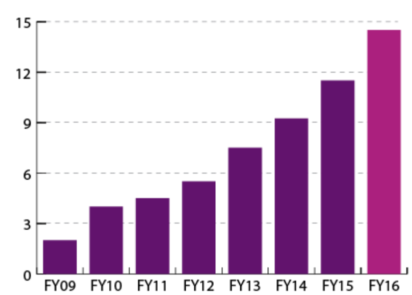
EPS (cents)



Operating Cash Flow (pre-tax) ($m)



Dividends Per Share (cents)



[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.

4. Operating and financial review (continued)

4.1 Operating result overview (continued)

TPG Consumer Division

The TPG Consumer Division's EBITDA for FY16 was $255.7m compared to $239.7m for FY15. Growth in FY16 was driven by ongoing organic broadband subscriber growth (up by 64k in the year) and nine months of lower access costs arising from the ACCC's fixed line services final access determination.

As at 31 July 2016 the TPG Consumer Division had 885k broadband subscribers and 304k mobile subscribers.

TPG Corporate Division

The Group's Corporate Division achieved EBITDA of $269.3m for the year compared to $242.3m for FY15. This $27.0m (11%) growth was achieved despite a negative $10.1m accounting impact on the Division's EBITDA for the year arising from the consolidation of iiNet[2], excluding which the division's EBITDA growth would have been $37.1m (15%).

iiNet

iiNet contributed EBITDA of $242.6m for the eleven and a quarter months post acquisition inclusive of $6.3m of restructuring costs arising from integration activities, without which the EBITDA result would have been $248.9m. By comparison, iiNet reported $201.7m underlying EBITDA for FY15[3].

The principal drivers of the FY16 EBITDA growth were (i) realisation of post-acquisition integration benefits, (ii) nine months of lower access costs arising from the ACCC's fixed line services final access determination, and (iii) an increased contribution from Tech2.

iiNet's broadband subscribers on 31 July 2016 were 983k.

Cashflow and Gearing

The Group delivered another strong cashflow result in FY16 with $759.2m cash generated from operations (pre-tax) and free cashflow after tax, capital expenditure and IRU lease payments of $318.0m.

The Group had bank debt at the end of the year of $1,350m and a net debt to EBITDA leverage ratio of ~1.8x[4].

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[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.

[3] iiNet underlying FY15 EBITDA as disclosed in iiNet's FY15 accounts.

[4] Based on underlying FY16 EBITDA and including IRU debt within net debt.

TPG Telecom Limited and its controlled entities

Directors' report

For the year ended 31 July 2016

4. Operating and financial review (continued)

4.1 Operating result overview (continued)

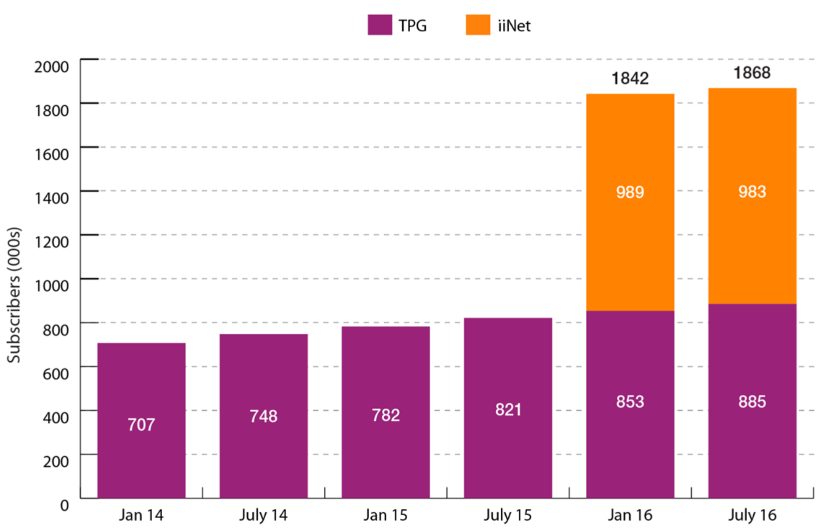
Dividends

In light of the Group's strong FY16 cashflow and earnings growth, the Board of Directors has declared an increased final FY16 dividend of 7.5 cents per share (fully franked) payable on 22 November 2016 to shareholders on the register at 18 October 2016, bringing total FY16 dividends to 14.5 cents per share (fully franked), an increase of 26% over FY15.

4.2 Customer growth

Group Broadband Subscribers

The acquisition of iiNet increased the Group's consumer broadband subscribers to over 1.8m and by the end of FY16 the Group had a total of 1.87m consumer broadband subscribers, comprising 885k TPG and 983k iiNet subscribers.



TPG Telecom Limited and its controlled entities

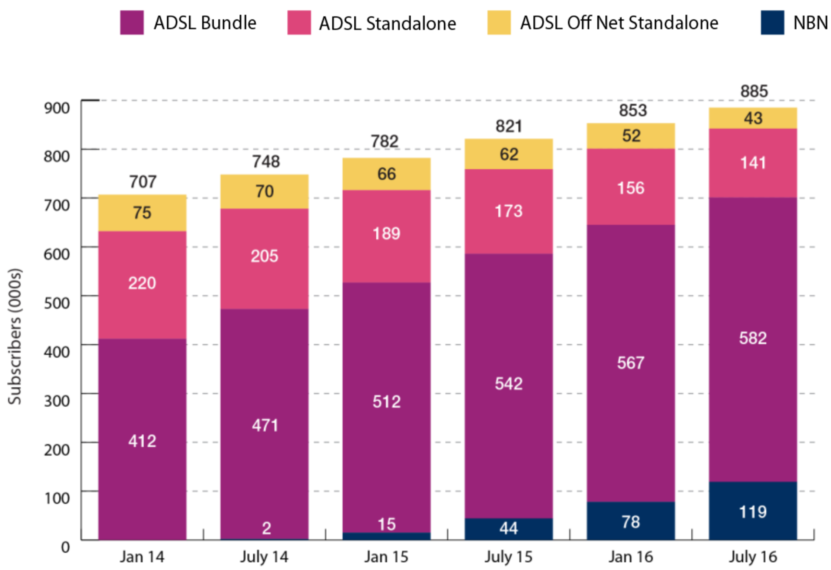
Directors' report

For the year ended 31 July 2016

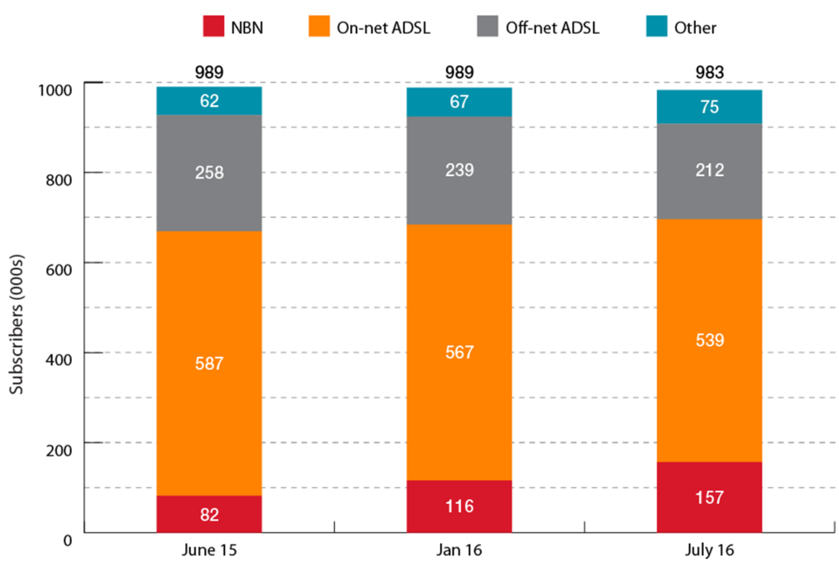
4. Operating and financial review (continued)

4.2 Customer growth (continued)

The TPG Consumer Division achieved further organic growth of its broadband subscriber base in FY16 with a net increase of 64k subscribers driven by growth in NBN customers.



At the date of acquisition by the Group, iiNet had 989k broadband subscribers. This declined slightly to 983k as at the end of FY16.

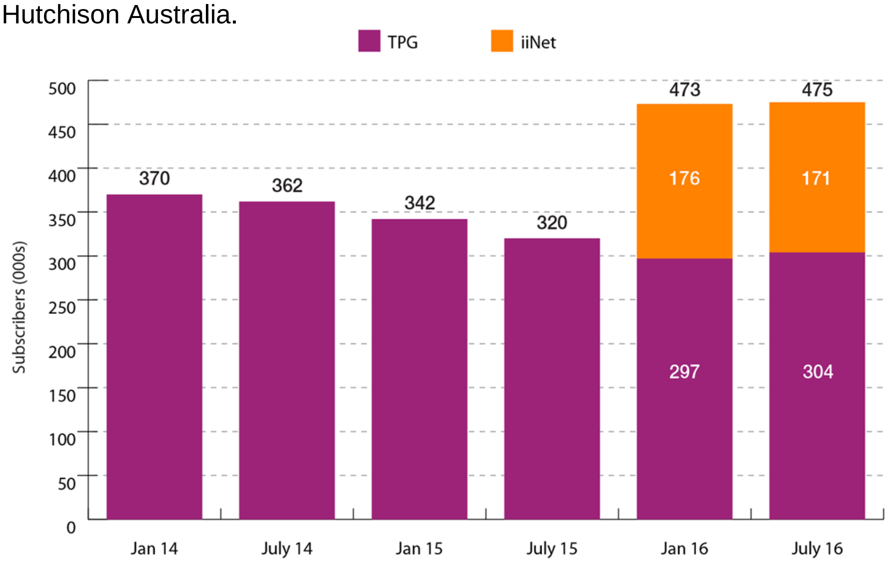


4. Operating and financial review (continued)

4.2 Customer growth (continued)

Group Mobile Subscribers

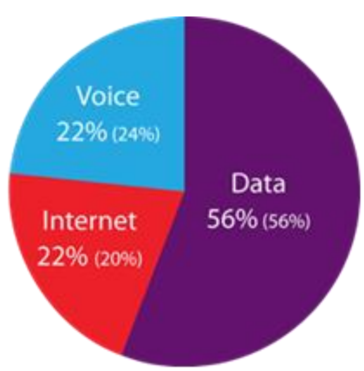
The Group had 475k mobile subscribers as at 31 July 2016 including 171k iiNet subscribers. During the year TPG migrated over 200k of its mobile subscribers to its new MVNO arrangement with Vodafone Hutchison Australia.



TPG Corporate Division

The TPG Corporate Division achieved revenues of $654.6m in FY16, up by $12.1m from the prior year. This growth was achieved despite a negative $10.1m accounting impact arising from the consolidation of iiNet (prior to acquisition iiNet was a substantial customer of the TPG Corporate division. Post-acquisition these revenues are eliminated on consolidation).

The split of annualised revenues at the end of the year by customer and product category is set out below (prior year figures in brackets).



4. Operating and financial review (continued)

4.3 Network infrastructure update

At the core of the Group's business is its extensive network infrastructure which continued to grow rapidly during the year through customer driven expansion bolstered with infrastructure assets acquired through the iiNet acquisition. The Group's network infrastructure now includes:

International network
- PPC-1, our 7,000km submarine cable connecting Sydney to Guam, and onward to the US and Asia
- Significant capacity on the Southern Cross Cable connecting Australia to the US
- Investment in the SEA-US cable between Guam and the US (due to be completed in 2017)
- International links into New Zealand, Singapore, Hong Kong, Japan and the US.

National Core Network
- Over 21,000km of metro and inter-capital fibre network
- More than 400 national network points of presence servicing metro and regional areas
- Connected to 117 NBN Points of Interconnect (remaining 4 in progress)
- National voice network interconnected in all 65 Call Collection Areas.

Customer Access Networks
- Thousands of on-net fibre buildings in metro and regional areas.
- Over 400 DSLAM enabled exchanges, offering ADSL and Mid-Band Ethernet services
- Regional HFC networks in Ballarat, Mildura and Geelong
- Extensive VDSL network in ACT.

Wireless Networks and Spectrum
- City WiFi networks in Adelaide, Ballarat, Bendigo, Canberra and Melbourne
- WiMax network in metro and regional South Australia
- Point to point microwave services.

During the year the Group was a successful bidder in the auction for spectrum in the 1800 MHz band. The Group acquired two 2x5 MHz lots (i.e. 10 MHz of spectrum) in each of the following regions: Darwin, South Queensland, Northern NSW, Canberra, Southern NSW, Regional Victoria, Regional South Australia, and Tasmania. In addition, it was the winning bidder for one lot of 2x5 MHz (i.e. 5 MHz) in each of Adelaide and Western NSW.

The total amount payable for the spectrum acquired is $87m, $15m of which was paid prior to the year-end with the balance payable in April 2017.

Fixed line broadband has to-date been the backbone of the Group's growth but wireless connectivity will play an increasing role in the future needs of Australian telecommunications consumers. This investment in spectrum, which is complementary to the Group's fibre network expansion, will have significant long-term benefits for the Group.

TPG Telecom Limited and its controlled entities

Directors' report

For the year ended 31 July 2016

4. Operating and financial review (continued)

4.4 Financial results review

There follows below a review of the key elements of the FY16 results:

	FY16 $m	*% of revenue*	FY15 $m	*% of revenue*
Revenue				
TPG Consumer	674.3	*28%*	628.1	*49%*
TPG Corporate	654.6	*27%*	642.5	*51%*
iiNet	1,058.9	*45%*	-	-
Total revenue	**2,387.8**		**1,270.6**	
Telco costs				
TPG Consumer	(330.3)	*49%*	(308.4)	*49%*
TPG Corporate	(256.5)	*39%*	(272.1)	*42%*
iiNet	(577.1)	*55%*	-	-
Total telco costs	**(1,163.9)**		**(580.5)**	
Employment costs				
TPG Consumer	(45.0)	*7%*	(39.9)	*6%*
TPG Corporate	(100.4)	*15%*	(99.2)	*15%*
iiNet	(128.2)	*12%*	-	-
Total employment costs	**(273.6)**		**(139.1)**	
Other expenses				
TPG Consumer	(43.3)	*6%*	(40.1)	*6%*
TPG Corporate	(28.4)	*4%*	(28.9)	*4%*
iiNet	(111.0)	*10%*	-	-
Unallocated	(10.9)	-	(1.3)	-
Total other expenses	**(193.6)**		**(70.3)**	
Other income	92.7	-	3.8	-
EBITDA	**849.4**	***36%***	**484.5**	***38%***
Depreciation	(136.9)	*6%*	(102.4)	*8%*
Amortisation	(115.1)	*5%*	(43.3)	*3%*
Operating profit	**597.4**	***25%***	**338.8**	***31%***
Net financing costs	(83.3)	*3%*	(19.8)	*2%*
Profit before tax	**514.1**	***22%***	**319.0**	***25%***
Income tax	(129.5)	-	(94.9)	-
Profit after tax	**384.6**	***16%***	**224.1**	***18%***
Earnings per share (cents)	**45.3**		**28.2**	

4. Operating and financial review (continued)

4.4 Financial results review (continued)

Revenue

a) TPG Consumer

TPG Consumer Division revenue increased by $46.2m (7%) to $674.3m in FY16.

This increase was driven by a $60.6m (11%) increase in broadband revenues, partially offset by a $14.4m decrease in mobile revenues.

The growth in broadband revenues was driven by a combination of increased broadband subscriber numbers and higher ARPU (average revenue per user).

Subscribers on the Group's broadband plans increased over the year by 64k (8%) to 885k driven by 75k growth in NBN services.

Monthly ARPU for broadband customers continued to increase in the year due to more expensive NBN services (ARPU ~$67) replacing DSL services (on-net ARPU ~$59).

Note that ARPU is calculated using GST exclusive recurring charges only including revenue from bundled home phone services and excludes one-off charges such as installation fees and equipment sales.

b) TPG Corporate

Corporate revenue increased by $12.1m (2%) to $654.6m in FY16.

However, prior to the acquisition of iiNet the TPG Corporate Division was earning wholesale revenues from iiNet which have been eliminated on consolidation of iiNet causing a $10.1m detrimental impact on the Corporate Division's reported revenues for the eleven and a quarter months post acquisition period in FY16.

Without this negative accounting impact the Corporate Division's revenues would have increased by $22.2m (3%).

This organic revenue growth has been achieved in an environment where expensive, lower margin off-net customer revenues are being replaced by on-net services that are less expensive for our customers but more profitable for the Group. This helps drive profit growth in the Corporate Division.

c) iiNet

iiNet revenues of $1,058.9m were for the eleven and a quarter months post acquisition period in FY16. The composition of this revenue by service type was 66% broadband, 19% fixed voice, 5% mobile and 10% other.

Network, carrier and hardware costs (Telco costs)

Telco costs comprise all of the direct operating costs incurred to deliver the Group's telecommunications services to customers, including amounts paid to other carriers, and the non-staff costs of operating and maintaining the Group's own network.

a) TPG Consumer

TPG Consumer Division telco costs increased by $21.9m compared to the previous year but remained constant as a proportion of revenue at 49%.

b) TPG Corporate

TPG Corporate Division telco costs decreased as a proportion of revenue in FY16 from 42% to 39%. This has been achieved in an environment of sharply reduced pricing in corporate business and reflects the benefits to the Group of its past and ongoing investment in network infrastructure. This has enabled higher operating margins to be generated due to the increasing proportion of customer services that are delivered over the Group's owned infrastructure rather than on circuits leased from other carriers.

4. Operating and financial review (continued)

4.4 Financial results review (continued)

c) iiNet

iiNet telco costs represent 55% of iiNet revenues. The main reason for this being higher as a proportion of revenue than in the TPG Consumer and Corporate Divisions is the higher proportion of off-net services delivered by iiNet.

Employment costs

TPG Consumer Division employment costs grew in absolute terms in the year by $5.1m (13%) and increased from 6.4% to 6.7% of revenue largely driven by an increase in headcount.

TPG Corporate Division employment costs stayed constant as a proportion of Corporate Division revenue in FY16 at 15% and increased just slightly in absolute terms by $1.2m (1.2%).

iiNet employment costs of $128.2m include non-recurring costs of $6.3m incurred as part of post-acquisition re-organisation and integration activities.

The Group's total headcount at 31 July 2016 was 5,083, a 1,973 increase in the year driven by the acquisition of iiNet.

Other expenses

Other expenses include all of the overheads incurred by the Group in running the business, as well as marketing costs.
The TPG Consumer Division's other expenses remained constant as a proportion of revenue at 6% in FY16 and increased by $3.2m in absolute terms driven mainly by marketing expenditure.
The TPG Corporate Division's other expenses remained constant as a proportion of revenue at 4% in FY16 and decreased by $0.5m in absolute terms.
iiNet's other expenses represent 10% of revenue. The principal reason for this being higher than the other divisions is the fact that it includes the cost of iiNet's out-sourced call centre operations.

Other income

Other income in FY16 of $92.7m comprises the following:

(i) a $73.1m accounting gain on the Group's previously held interest in iiNet which represents the difference between the market value on acquisition of the stake in iiNet that the Group held at the date of acquisition and the amount the Group originally paid for that stake;

(ii) a $17.6m profit on disposal of shares held as an investment by the Group; and

(iii) $2.0m dividend income from the Group's ASX listed investments, down from $3.8m in FY15.

Depreciation

The Group's depreciation expense increased by $34.5m in FY16 largely driven by the acquisition of iiNet.

Amortisation

The Group's FY16 intangible amortisation expense increased by $71.8m to $115.1m. This includes $74.5m (up by $43.0m) of amortisation of acquired customer bases which arises from acquisition accounting and is a "non-cash" expense.

Net financing costs

Net financing costs increased by $63.5m as a result of the Group's increased bank debt that arose from the Group's debt financed acquisition of iiNet.

Income tax

The Group's effective income tax rate was 25.2% in FY16, down from 29.7% in FY15. The decrease is principally due to the fact that the $73.1m accounting gain included within other income is not assessable for tax.

4. Operating and financial review (continued)

4.4 Financial results review (continued)

Free cashflow

	FY16 $m	FY15 $m
Operating cashflow	759.2	492.8
Tax	(138.8)	(110.9)
IRU payments	(21.4)	-
Capital expenditure*	(281.0)	(153.8)
Free cashflow	**318.0**	**228.1**

* includes payments for property, plant and equipment plus intangible assets.

The Group's operating cashflow before tax increased to $759.2m in FY16. After tax, IRU payments and capital expenditure, the Group generated free cashflow of $318.0m.

IRU payments

IRU payments of $21.4m represent payment of liabilities for international capacity acquired by iiNet prior to acquisition.

Capital expenditure

Capital expenditure for FY16 of $281.0m is $127.2m higher than in the prior year. This increase includes one-off payments for the acquisition of a data centre property in Sydney ($27m) and for the purchase of spectrum ($15m). The balance of the increase is driven by expansion of the Group's fibre network (i) to connect corporate customers, (ii) for the Group's 'fibre to the building' (FTTB) project and (iii) for the build for the Vodafone Hutchison Australia contract.

Non-operating cashflows

	FY16 $m	FY15 $m
Free cashflow	318.0	228.1
Investment in equities	(3.0)	(115.6)
Investment disposal proceeds	60.0	-
iiNet acquisition	(1,317.6)	-
Net cap raise proceeds	322.5	-
Debt drawdown/(repay't)	808.8	(21.0)
Interest payments	(66.5)	(14.3)
Dividend payments	(108.4)	(81.4)
Other	1.7	4.1
Increase in cash	**15.5**	**(0.1)**

Investments

The Group paid $3.0m in the year to increase its strategic investment in Covata Limited (in which the Group held an interest of approximately 14.5% at 31 July 2016). The Group disposed of part of its investment in Vocus Communications Limited during the year realising proceeds of $60.0m.

iiNet acquisition

The total cash outflow of $1,317.6m in respect of the acquisition of iiNet comprises (i) cash consideration of $1,151.3m (net of $5.5m cash acquired from iiNet), (ii) $106.7m special dividend paid to iiNet shareholders, (iii) acquisition transaction costs of $8.6m, and (iv) $51.0m transaction costs relating to the new debt facility established to finance the acquisition.

4. Operating and financial review (continued)

4.4 Financial results review (continued)

Net capital raise proceeds

Net capital raise proceeds of $322.5m comprise $300m raised from an institutional share placement and $26.9m raised from a share purchase plan conducted during the year less share issue costs of $4.4m.

Debt repayment/drawdown

The Group drew down on a net $808.8m of bank debt during FY16 as a consequence of (i) $1,317.6m drawn down to fund the iiNet acquisition cash consideration and transaction costs, (ii) $322.5m repaid from the net capital raise proceeds, and (iii) $186.2m repaid from cash generated during the year.

Interest payments

The Group paid $66.5m of interest in the year (net of $1.0m interest received) which represents an increase of $52.2m over the previous year. This is due to the higher debt outstanding following the acquisition of iiNet.

Dividends paid

Dividends paid in the year comprise the final FY15 dividend of 6.0 cents per share ("cps") and the interim FY16 dividend of 7.0 cps.

Subsequent to the year-end, the Board of directors has declared a 7.5 cps final dividend for FY16 taking the total dividends paid or declared in respect of FY16 to 14.5 cps, a 26% increase over FY15.

4. Operating and financial review (continued)

4.4 Financial results review (continued)

Balance sheet

Below is a condensed version of the Group's balance sheet as at the end of FY16, summarised in a manner to highlight a few key points. Please refer to the full financial statements contained in this annual report for a comprehensive balance sheet.

	FY16 $m	FY15 $m
Cash (1)	39.2	23.7
Trade and other receivables	145.2	63.8
Investments (2)	139.1	151.6
Other current assets	35.1	14.8
Total current assets	**358.6**	**253.9**
Property, plant & equipment (3)	895.1	592.8
Intangible assets (4)	2,485.2	685.6
Investments (2)	16.3	115.6
Other non-current assets	15.8	5.9
Total non-current assets	**3,412.4**	**1,399.9**
Deferred income	142.5	62.7
Other current liabilities	371.4	195.4
Total current liabilities	**513.9**	**258.1**
Loans and borrowings (1)	1,350.4	327.7
Other non-current liabilities	127.5	64.8
Total non-current liabilities	**1,477.9**	**392.5**
Net assets	**1,779.2**	**1,003.2**

Balance sheet notes

The significant increase in most balance sheet amounts is primarily attributable to the first-time inclusion of iiNet within the FY16 balance sheet. Other specific explanations of movements are set out below.

1. Net debt
Loans and borrowings of $1,350.4m are shown in the balance sheet net of prepaid borrowing costs of $34.2m. Gross borrowings at 31 July 2016 were $1,411.7m comprising bank debt of $1,350.0m and IRU/finance lease liabilities of $61.7m. Taking into account the bank debt and the $39.2m cash balance the Group had net debt at the end of FY16 of $1,310.8m.

2. Investments
At 31 July 2016 current investments represented the Group's investment in Vocus Communications Limited shares and non-current investments represent the Group's ownership of shares in Covata Limited. In the prior year non-current investments also included the Group's investment in iiNet shares which was de-recognised upon the acquisition of iiNet.
The decline in value of current investments in the year reflects the part-disposal of Vocus shares during the year.

3. Property, plant & equipment ("PPE")
The Group's PPE balance is $302.3m higher at 31 July 16 than at 31 July 15. This increase comprises $178.4m of fixed assets acquired as part of the iiNet acquisition, capital expenditure (mainly network infrastructure investment) during the year of $260.8m less $136.9m of depreciation expense.

4. Intangible assets
The $1,799.6m increase in intangible assets in the year comprises goodwill recognised on the acquisition of iiNet ($1,364.9m), the acquired iiNet customer base ($316.8m), other iiNet intangible assets acquired ($185.0m), payments made during the year for international capacity IRUs ($20.2m), spectrum ($15.3m) and other intangible assets ($12.5m) net of amortisation expense for the year ($115.1m).

4. Operating and financial review (continued)

4.5 Business outlook

Prospects for FY17

In FY17 the Group will continue to focus its efforts on growing its consumer and corporate customer bases profitably by delivering market leading telecommunications services. In order to enhance its prospects for future growth the Group will also continue to invest in expanding its network infrastructure. There will also be continued focus on the integration of the iiNet business into the Group's operations with particular emphasis on systems consolidation and automation.

The directors anticipate continued organic growth for the Group in FY17 with underlying EBITDA for the Group for FY17 forecast to be in the range of $820m to $830m as reflected in the table below.

	FY16 Actual $m	FY17 Guidance $m
Underlying EBITDA	775.3	820 to 830
Acquisition/integration costs	(16.6)	
Non-recurring gains	90.7	
Reported EBITDA	849.4	

FY17 capital expenditure is expected to be in the range of $370m to $420m. This range includes $72m for 1800 MHz spectrum, $50m for committed international capacity purchases with the balance primarily related to ongoing fibre network expansion for customer contracts and for the continuing FTTB rollout.

Principal business risks

Like other businesses, the Group is exposed to a number of risks which may affect future financial performance. The material business risks identified by the Group and how they are addressed are set out below.

1. Competitive environment

Increased competition or consolidation in the industry could impact the Group's financial performance by affecting its ability to grow its customer base and/or its ability to make money from its service offerings.

The Group attempts to mitigate this risk by continually reviewing its customer offerings, their pricing relative to the market and customer needs. This is combined with constant reviews of the Group's cost structures with the objective of optimising costs to ensure the Group is best placed to continue providing value leading services.

2. Business interruption

A significant disruption of the Group's business through network or systems failure could cause financial loss for the Group and increased customer churn. The Group maintains business interruption insurance and continually invests in its network and systems to improve their resilience and performance.

4. Operating and financial review (continued)

4.5 Business outlook (continued)

3. Regulatory environment

Changes in regulation can significantly impact the Group's business. In addition, failure to comply with regulatory requirements could create financial loss for the Group. The Group attempts to mitigate this risk through close monitoring of regulatory developments, engaging where necessary with the relevant regulatory bodies, and monitoring its own compliance with existing regulations.

4. Data security

Failures or breaches of data protection and systems security can cause reputational damage, regulatory impositions and financial loss. Australian Privacy Principles (APPs) now govern privacy and data protection throughout Australia and significantly enhance privacy and data protection regulation.

The Group has policies regarding information security and risk protection measures in place to ensure adherence to APPs and to provide safeguards to company and customer information. These measures include restricted access to company premises and areas housing equipment, restricted access to systems and network devices, strict change control measures, anti-virus software and firewall protection at various network points.

Environmental and other sustainability risks

The environmental and sustainability risks that attach to the Group's business are relatively benign. The Group operates in the telecommunications industry which, whilst a consumer of electrical power, is generally considered to provide net reductions to adverse environmental impacts. This is achieved by the increasing technological capabilities that can be relied on by consumers and businesses so as to achieve significantly reduced travel and paper consumption. The Group aims to reduce its impact on the environment by employing power saving measures, such as switching off electrical equipment when it is not being used, and by minimising the amount of travel undertaken by employees.

The Company recognises the importance of having a skilled and experienced workforce. Most of the Group's employees work in office and high technology environments where industrial risks are minimal. Management employs appropriate measures to minimise employee and social risks by providing a safe and comfortable working environment, providing suitable training, complying with gender equality requirements and by ensuring appropriate remuneration structures are in place.

The Company's Code of Conduct provides that the Company will treat all employees and potential employees according to their skills, qualifications, competencies and potential, and will not discriminate on the basis of race, religion, gender, sexual preference, age, marital status or disability.

5. Remuneration report - audited

This remuneration report sets out the remuneration structures of the directors of the Company and of other key management personnel of the Group, as well as explaining the principles underpinning those remuneration structures.

For the purpose of this report, key management personnel are defined as those individuals who have authority and responsibility for planning, directing and controlling the activities of the Group. Key management personnel include the directors of the Company and key Group executives including the five most highly remunerated.

5.1 Remuneration principles

Remuneration levels for key management personnel of the Group are designed to attract and retain appropriately qualified and experienced directors and executives. The Remuneration Committee considers the suitability of remuneration packages relative to trends in comparable companies and to the objectives of the Group's remuneration strategy.

The remuneration structures explained below are designed to attract suitably qualified candidates, to reward the achievement of strategic objectives and to achieve the broader outcome of creation of value for shareholders by:

a) providing competitive remuneration packages to attract and retain high calibre executives;
b) ensuring that a significant proportion of executives' remuneration is performance-linked; and
c) setting performance hurdles for the achievement of performance-linked incentives at a sufficiently demanding level as to ensure value creation for shareholders.

5.2 Remuneration structure

Remuneration packages include a mix of fixed and performance-linked remuneration.

(i) Fixed remuneration

Fixed remuneration consists of base salary, employer contributions to superannuation funds, and non-monetary benefits which typically only comprise annual leave entitlements but may also include such benefits as the provision of a motor vehicle. The Group pays fringe-benefits tax on such non-monetary benefits where applicable.

Fixed remuneration levels are reviewed annually through a process that considers individual performance, overall performance of the Group, and remuneration levels for similar roles in comparable companies. The fixed remuneration of executive directors is determined by the Remuneration Committee. The fixed remuneration of other key management personnel is determined by the Executive Chairman in conjunction with the Remuneration Committee. Fixed remuneration reviews for other staff are determined by the Executive Chairman.

5. Remuneration report – audited (continued)

5.2 Remuneration structure (continued)

(ii) Performance-linked remuneration

Performance-linked remuneration comprises both long-term and short-term incentives as set out below:

a) Long-term incentives

The Group's current long-term incentive structure is in the form of a performance rights plan. Under the rules of the performance rights plan, participants may be granted rights to fully paid ordinary shares in the Company for no consideration, subject to certain performance conditions.

The plan was introduced in FY12 and there have been five lots of rights granted to-date, one lot being granted in each of FY12, FY13, FY14, FY15 and FY16.

All rights granted up to and including FY15 have the same key terms which are as follows:

- One third of the performance rights granted will vest following the release of the Group's audited financial statements for each of the three financial years ending after the date of grant, subject to the satisfaction of performance conditions.
- At each vesting date:
  - 30% of the performance rights that are due to vest on that date will vest if the rights holder has been continuously employed by the Group up until and including the relevant vesting date; and
  - 70% of the performance rights that are due to vest on that date will vest if the rights holder has been continuously employed by the Group up until and including the relevant vesting date and the Group has met its financial objectives for the financial year immediately preceding the relevant vesting date.
- Any performance rights which do not vest, automatically lapse.

For the rights granted in FY16, the rules were amended so that the rights are scheduled to vest in four equal instalments over four years instead of over three years. The rules are otherwise consistent with the above.
The financial objectives that form part of the vesting conditions described above are determined annually by the Remuneration Committee.
Details of the performance rights that have been granted to key management personnel during the year ended 31 July 2016 and in prior years are set out in table 5.4(i) below.

b) Short-term incentives

Short-term incentive cash bonuses may be paid by the Group, including to key management personnel, depending on the Group's performance and to reward individual performance. Bonuses awarded to the executive directors are determined by the Remuneration Committee. Bonuses awarded to other key management personnel are determined by the Executive Chairman in conjunction with the Remuneration Committee. Bonuses awarded to other staff are made at the discretion of the Executive Chairman.
Details of the short-term incentives paid to key management personnel during the current reporting period are set out at table 5.3 below.

5. Remuneration report – audited (continued)

5.2 Remuneration structure (continued)

Link to Group financial performance

In determining the short-term incentive component of key management personnel remuneration, consideration is given to the Group's performance, including against its financial targets.
The Group had another year of strong growth in FY16 with EBITDA and NPAT up by 75% and 69% respectively, generating a 61% increase in EPS, whilst declared dividends for the FY16 year are up by 26%.

These FY16 results represent the eighth consecutive year of strong growth. The Group's five year record is set out in the following table.

	2012	2013	2014	2015	2016
Revenue ($m)	663	725	971	1,271	2,388
EBITDA ($m)	261	293	364	485	849
NPAT ($m)	91	149	172	224	380
EPS (cents)	11.5	18.8	21.6	28.2	45.3
DPS (cents)	5.5	7.5	9.25	11.5	14.5

The Remuneration Committee believes that the current remuneration structures described in this report have been effective in motivating and rewarding the achievement of these strong results.

(iii) Service contracts

No key management personnel employment contract has a fixed term, nor do any contain any provision for termination benefits other than as required by law.

No key management personnel employment contract has a notice period of greater than five weeks, except for the Group's employment contracts with Mr D Teoh and Mr M Rafferty, both of which provide that the contract may be terminated by either party giving three months' notice.

(iv) Non-executive director fees

The aggregate remuneration of non-executive directors was last voted upon by shareholders at the 2004 AGM, when an aggregate limit of $500k per annum was approved. Actual non-executive director remuneration for the year ended 31 July 2016 was $400k (2015: $400k). Non-executive directors do not receive performance-linked remuneration nor are they entitled to any retirement benefit other than statutory superannuation payments. Directors' fees cover all main board activities and membership of committees.

5. Remuneration report – audited (continued)

5.3 Directors' and executive officers' remuneration

The key management personnel of the Company and of the Group during the year were as follows:

Mr D Teoh	Executive Chairman & Chief Executive Officer
Mr D Ledbury	Non-Executive Director
Mr R Millner	Non-Executive Director
Mr J Pang	Non-Executive Director
Mr S Teoh	Non-Executive Director
Mr S Banfield	Chief Financial Officer & Company Secretary
Mr C Levy	Chief Operating Officer
Mr W Springer	General Manager, Corporate Products & Pricing
Ms M De Ville	Chief Information Officer
Mr T Moffatt	General Counsel
Mr M Rafferty	Group Executive, Corporate, Government & Wholesale

TPG Telecom Limited and its controlled entities

Directors' report

For the year ended 31 July 2016

5. Remuneration report – audited (continued)

5.3 Directors' and executive officers' remuneration (continued)

Details of the nature and amount of each major element of remuneration of each director of the Company and of other key management personnel of the Group are set out in the tables below:

		Short-term				Post-employment					
Directors		Salary & fees $'000	(note A) STI cash bonus $'000	(note B) Non-monetary benefits $'000	Total $'000	Superannuation benefits $'000	(note C) Other long term $'000	Share-based payments $'000	Total $'000	Proportion of remuneration performance related %	Share-based payments as proportion of remuneration %
Executive Director											
Mr D Teoh, Chairman	2016	1,600	1,600	45	3,245	41	27	-	3,313	48%	-
	2015	1,480	979	570	3,029	40	248	-	3,317	30%	-
Non-Executive Directors											
Mr D Ledbury	2016	100	-	-	100	10	-	-	110	-	-
	2015	100	-	-	100	10	-	-	110	-	-
Mr R Millner	2016	90	-	-	90	9	-	-	99	-	-
	2015	90	-	-	90	9	-	-	99	-	-
Mr J Pang	2016	90	-	-	90	9	-	-	99	-	-
	2015	90	-	-	90	9	-	-	99	-	-
Mr S Teoh	2016	85	-	-	85	8	-	-	93	-	-
	2015	85	-	-	85	8	-	-	93	-	-

TPG Telecom Limited and its controlled entities

Directors' report

For the year ended 31 July 2016

5. Remuneration report – audited (continued)

5.3 Directors' and executive officers' remuneration (continued)

Executives		Short-term				Post-employment		Share-based payments			
		Salary & fees $'000	(note A) STI cash bonus $'000	(note B) Non-monetary benefits $'000	Total $'000	Superannuation benefits $'000	(note C) Other long term $'000	(note D) Performance rights $'000	Total $'000	Proportion of remuneration performance related %	Share-based payments as proportion of remuneration %
Mr S Banfield	2016	280	325	18	623	21	2	213	859	63%	25%
	2015	275	240	10	525	19	9	172	725	57%	24%
Mr C Levy	2016	320	430	5	755	21	5	304	1,085	68%	28%
	2015	315	260	16	591	19	3	235	848	58%	28%
Mr W Springer	2016	248	150	(2)	396	24	4	153	577	53%	27%
	2015	248	110	3	361	23	2	121	507	46%	24%
Ms M De Ville	2016	245	175	10	430	21	4	149	604	54%	25%
	2015	237	85	16	338	20	10	83	451	37%	18%
Mr T Moffatt	2016	250	325	3	578	21	2	204	805	66%	25%
	2015	248	210	2	460	19	6	167	652	58%	26%
Mr M Rafferty	2016	313	450	32	795	20	5	241	1,061	65%	23%
	2015	317	300	20	637	19	5	94	755	52%	12%

TPG Telecom Limited and its controlled entities

Directors' report

For the year ended 31 July 2016

5. Remuneration report – audited (continued)

5.3 Directors' and executive officers' remuneration (continued)

Notes in relation to the table of directors' and executive officers' remuneration

A. The short-term incentive bonuses paid during the years ended 31 July 2016 and 31 July 2015 were for performance during those years.

B. The amounts disclosed under 'Non-monetary benefits' reflect exclusively the movement in the annual leave balance of each individual in the period, with the exception of Mr D Teoh whose amount also includes the provision of other fringe benefits (principally a motor vehicle).

C. The amounts disclosed under 'Other long-term' reflect the movement in the long-service leave balance of each individual in the period.

D. The share-based payments disclosed under 'Performance Rights' reflect the fair value of each right multiplied by the number of rights granted to each individual, amortised pro-rata over the vesting period of each right. The fair value of each right is calculated at date of grant by subtracting the expected dividend payments per share during the vesting period from the share price at date of grant. The number of rights granted to each key management person is disclosed in 5.4(i) below. The rules of the performance rights plan are explained in 5.2(ii)(a) above.

5.4 Share-based payments

(i) Performance rights granted as remuneration

Details of performance rights that were granted to key management personnel during the financial year ended 31 July 2016 are set out below. All rights had a grant date of 21 December 2015, were provided at no cost to the recipients and have an exercise price of $nil.

FY16 Performance rights grant	Number of rights granted during FY16	Number of rights forfeited during FY16	Number of rights vested during FY16	Number of rights held as at 31 July 2016	Fair value per right at grant date ($)
Mr S Banfield	30,000	-	-	30,000	9.5160
Mr C Levy	45,000	-	-	45,000	9.5160
Mr W Springer	25,000	-	-	25,000	9.5160
Ms M De Ville	25,000	-	-	25,000	9.5160
Mr T Moffatt	28,000	-	-	28,000	9.5160
Mr M Rafferty[1]	42,400	-	-	42,400	9.5471

There has been no vesting or granting of any rights since the year-end.

[1] All rights are subject to the rules described in 5.2(ii) (a) above with the exception of 14,400 of the rights granted to Mr Rafferty during FY16 which are scheduled to vest over 3 years rather than 4 years to align with the timing of a specific deliverable.

TPG Telecom Limited and its controlled entities

Directors' report

For the year ended 31 July 2016

5. Remuneration report – audited (continued)

5.4 Share-based payments (continued)

Details of performance rights that were granted to key management personnel during previous financial years and that remained outstanding at the start of FY16 are set out below. All rights in the table below were provided at no cost to the recipients and have an exercise price of $nil. The rights were granted on 16 December 2014 (FY15 grant), 22 November 2013 (FY14 grant) and 24 December 2012 (FY13 grant).

FY15 Performance rights grant	Number of rights held as at 31 July 2015	Number of rights forfeited during FY16	Number of rights vested during FY16	Number of rights held as at 31 July 2016	Fair value per right at grant date ($)
Mr S Banfield	36,000	-	12,000	24,000	5.9433
Mr C Levy	48,000	-	16,000	32,000	5.9433
Mr W Springer	18,000	-	6,000	12,000	5.9433
Ms M De Ville	24,000	-	8,000	16,000	5.9433
Mr T Moffatt	36,000	-	12,000	24,000	5.9433
Mr M Rafferty	36,000	-	12,000	24,000	5.9433

FY14 Performance rights grant	Number of rights held as at 31 July 2015	Number of rights forfeited during FY16	Number of rights vested during FY16	Number of rights held as at 31 July 2016	Fair value per right at grant date ($)
Mr S Banfield	24,000	-	12,000	12,000	3.9567
Mr C Levy	34,000	-	17,000	17,000	3.9567
Mr W Springer	22,000	-	11,000	11,000	3.9567
Ms M De Ville	6,000	-	3,000	3,000	3.9567
Mr T Moffatt	22,000	-	11,000	11,000	3.9567

FY13 Performance rights grant	Number of rights held as at 31 July 2015	Number of rights forfeited during FY16	Number of rights vested during FY16	Number of rights held as at 31 July 2016	Fair value per right at grant date ($)
Mr S Banfield	20,000	-	20,000	-	2.3267
Mr C Levy	27,000	-	27,000	-	2.3267
Mr W Springer	20,000	-	20,000	-	2.3267
Ms M De Ville	6,000	-	6,000	-	2.3267
Mr T Moffatt	20,000	-	20,000	-	2.3267

(ii) Modification of terms of share-based payment transactions

No terms of share-based payment transactions have been altered or modified by the issuing entity during the reporting period or the prior period.

6. Principal activities

During the financial year the principal activities of the Group continued to be the provision of consumer, wholesale and corporate telecommunications services.

7. Dividends

Dividends paid or declared by the Company since the end of the previous financial year were as follows:

	Cents per share	Total amount $m	Date of payment
Final 2015 ordinary	6.0	49.0	17 Nov 2015
Interim 2016 ordinary	7.0	59.4	24 May 2016
Total amount		**108.4**	

Dividends declared and paid during the year were fully franked at the rate of 30 per cent.

After the balance sheet date the directors have declared a fully franked final FY16 dividend of 7.5 cents per ordinary share, payable on 22 November 2016 to shareholders on the register at 18 October 2016.

The financial effect of this dividend has not been brought to account in the financial statements for the year ended 31 July 2016 and will be recognised in subsequent financial reports.

8. Events subsequent to reporting date

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.

9. Likely developments

The Group has lodged an Expression of Interest to bid for a spectrum licence in Singapore. Although there is no certainty that the Group will be the successful bidder, if it does secure a licence, the Group will invest capital and resources in building a mobile network in Singapore.

Other than the above. there are no material likely developments for the Group to disclose outside of normal business operations at the date of this report.

10. Directors' interests

The relevant interest of each director in the shares and options over such instruments issued by the companies within the Group and other related bodies corporate, as notified by the directors to the Australian Stock Exchange in accordance with S205G(1) of the *Corporations Act 2001*, at the date of this report is as follows:

	Shares in TPG Telecom Limited
Mr D Teoh	291,625,603
Mr D Ledbury	75,000
Mr R Millner	7,539,983
Mr J Pang	90,264
Mr S Teoh	116,723

11. Share options and rights

Rights granted to directors and executives of the Group

During the financial year, the Group granted rights over ordinary shares in the Company to the following five most highly remunerated officers of the Group as part of their remuneration:

	Number of rights granted
Mr S Banfield	30,000
Mr C Levy	45,000
Ms M De Ville	25,000
Mr T Moffatt	28,000
Mr M Rafferty	42,400

All rights were granted during the financial year. No rights or options have been granted since the end of the financial year.

Options

At the date of this report there are no unissued ordinary shares of the Company under option.

The Company issued no ordinary shares as a result of the exercise of options (nor were any options available to be exercised) either during or subsequent to the year ended 31 July 2016 (2015: Nil).

12. Indemnification and insurance of officers and directors

Indemnification

The Company has agreed to indemnify all directors and officers of the Company against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as a director or as an officer of the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

Insurance premiums

Since the end of the previous financial year the Group has paid insurance premiums of $252,815 (2015: $131,125) in respect of directors' and officers' liability insurance for current and former directors and officers, including senior executives of the Company and directors, senior executives and secretaries of its controlled entities. The insurance premiums relate to:

- costs and expenses that may be incurred by the relevant officers in defending proceedings, whether civil or criminal and whatever their outcome; and
- other liabilities that may arise from their position, with the exception of conduct involving a wilful breach of duty or improper use of information or position to gain a personal advantage.

13. Non-audit services

During the year KPMG, the Company's auditor, has performed certain other services in addition to their statutory duties.

The Board has considered the non-audit services provided during the year by the auditor and is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Audit & Risk Committee to ensure they do not impact the integrity and objectivity of the auditor; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Details of the amounts paid to KPMG and its related practices for audit and non-audit services provided during the year are set out in note 29 to the financial statements.

TPG Telecom Limited and its controlled entities

Directors' report

For the year ended 31 July 2016

14. Rounding off

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Director's Reports) instrument 2016/191 dated 24 March 2016 and, in accordance with that instrument, all financial information presented in Australian dollars has been rounded to the nearest hundred thousand dollars, unless otherwise stated.

This report is made with a resolution of the directors.

David Teoh
Chairman

Dated at Sydney this 20th day of October, 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 audit for the financial year ended 31 July 2016 there have been:

(i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Chris Hollis
Partner
Sydney

20 October 2016

TPG Telecom Limited and its controlled entities

Consolidated income statement

For the year ended 31 July 2016

	Note	2016 $m	2015 $m
Revenue	*4*	2,387.8	1,270.6
Other income	*5*	92.7	3.8
Network, carrier and hardware costs		(1,163.9)	(580.5)
Employee benefits expense		(273.6)	(139.1)
Other expenses	*24(a)*	(193.6)	(70.3)
Earnings before interest, tax, depreciation and amortisation (EBITDA)		**849.4**	**484.5**
Depreciation of plant and equipment	*11*	(136.9)	(102.4)
Amortisation of intangibles	*12*	(115.1)	(43.3)
Results from operating activities		**597.4**	**338.8**
Finance income		1.3	1.1
Finance expenses		(84.6)	(20.9)
Net financing costs	*6*	**(83.3)**	**(19.8)**
Profit before income tax		**514.1**	**319.0**
Income tax expense	*7*	(129.5)	(94.9)
Profit for the year		**384.6**	**224.1**
Attributable to:			
Owners of the Company		379.6	224.1
Non-controlling interest		5.0	-
		384.6	**224.1**
Earnings per share:			
Basic and diluted earnings per share (cents)	*8*	45.3	28.2

The notes on pages 40 to 90 are an integral part of these consolidated financial statements.

TPG Telecom Limited and its controlled entities

Consolidated statement of comprehensive income

For the year ended 31 July 2016

	2016 $m	2015 $m
Profit for the year	**384.6**	**224.1**
Items that may be reclassified subsequently to profit or loss, net of tax:		
Foreign exchange translation differences	(0.1)	0.3
Net loss on cash flow hedges taken to equity	(2.0)	-
Net change in fair value of available-for-sale financial assets	29.8	31.6
Available-for-sale financial assets reclassified to profit or loss	(62.4)	-
Other comprehensive income, net of tax	**(34.7)**	**31.9**
Total comprehensive income for the year	**349.9**	**256.0**
Attributable to:		
Owners of the Company	344.9	256.0
Non-controlling interest	5.0	-
	349.9	**256.0**

The notes on pages 40 to 90 are an integral part of these consolidated financial statements.

TPG Telecom Limited and its controlled entities

Consolidated statement of financial position

As at 31 July 2016

	Note	31 July 2016 $m	31 July 2015 $m
Assets			
Cash and cash equivalents		39.2	23.7
Trade and other receivables	*9*	145.2	63.8
Inventories		12.0	5.8
Investments	*10*	139.1	151.6
Current tax assets		3.8	-
Derivative financial instruments		5.4	-
Prepayments and other assets		13.9	9.0
Total Current Assets		**358.6**	**253.9**
Investments	*10*	16.3	115.6
Derivative financial instruments		6.4	-
Property, plant and equipment	*11*	895.1	592.8
Intangible assets	*12*	2,485.2	685.6
Prepayments and other assets		9.4	5.9
Total Non-Current Assets		**3,412.4**	**1,399.9**
Total Assets		**3,771.0**	**1,653.8**
Liabilities			
Trade and other payables	*13*	298.0	153.8
Loans and borrowings	*14*	27.1	0.1
Current tax liabilities		-	12.3
Employee benefits	*15*	28.1	14.4
Provisions	*16*	16.6	10.5
Accrued interest		1.6	4.3
Deferred income and other liabilities		142.5	62.7
Total Current Liabilities		**513.9**	**258.1**
Loans and borrowings	*14*	1,350.4	327.7
Deferred tax liabilities	*7*	62.7	17.1
Employee benefits	*15*	2.4	2.0
Provisions	*16*	36.0	21.4
Deferred income and other liabilities		26.4	24.3
Total Non-Current Liabilities		**1,477.9**	**392.5**
Total Liabilities		**1,991.8**	**650.6**
Net Assets		**1,779.2**	**1,003.2**
Equity			
Share capital	*17*	1,051.9	516.9
Reserves		41.2	76.5
Retained earnings		681.0	409.8
Equity attributable to owners of the Company		**1,774.1**	**1,003.2**
Non-controlling interest		5.1	-
Total Equity		**1,779.2**	**1,003.2**

The notes on pages 40 to 90 are an integral part of these consolidated financial statements.

TPG Telecom Limited and its controlled entities

Consolidated statement of changes in equity

For the year ended 31 July 2016

	Note	Attributable to owners of the Company									
		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 2014		516.9	0.1	0.4	47.9	-	48.4	267.1	832.4	-	832.4
Profit for the year		-	-	-	-	-	-	224.1	224.1	-	224.1
Other Comprehensive income		-	0.3	-	31.6	-	31.9	-	31.9	-	31.9
Total comprehensive income for the period		**-**	**0.3**	**-**	**31.6**	**-**	**31.9**	**224.1**	**256.0**	**-**	**256.0**
Share-based payment transactions		-	-	(3.8)	-	-	(3.8)	-	(3.8)	-	(3.8)
Dividends paid to shareholders	*18*	-	-	-	-	-	-	(81.4)	(81.4)	-	(81.4)
Balance as at 31 July 2015		**516.9**	**0.4**	**(3.4)**	**79.5**	**-**	**76.5**	**409.8**	**1,003.2**	**-**	**1,003.2**
Balance as at 1 August 2015		516.9	0.4	(3.4)	79.5	-	76.5	409.8	1,003.2	-	1,003.2
Profit for the year		-	-	-	-	-	-	379.6	379.6	5.0	384.6
Other comprehensive income		-	(0.1)	-	(32.6)	(2.0)	(34.7)	-	(34.7)	-	(34.7)
Total comprehensive income for the period		**-**	**(0.1)**	**-**	**(32.6)**	**(2.0)**	**(34.7)**	**379.6**	**344.9**	**5.0**	**349.9**
Issue of shares	*17*	538.1	-	-	-	-	-	-	538.1	-	538.1
Share-based payment transactions		-	-	(0.6)	-	-	(0.6)	-	(0.6)	-	(0.6)
Share issue costs	*17*	(3.1)	-	-	-	-	-	-	(3.1)	-	(3.1)
Acquisition of non-controlling interest		-	-	-	-	-	-	-	-	0.1	0.1
Dividends paid to shareholders	*18*	-	-	-	-	-	-	(108.4)	(108.4)	-	(108.4)
Balance as at 31 Jul 2016		**1,051.9**	**0.3**	**(4.0)**	**46.9**	**(2.0)**	**41.2**	**681.0**	**1,774.1**	**5.1**	**1,779.2**

The notes on pages 40 to 90 are an integral part of these consolidated financial statements.

TPG Telecom Limited and its controlled entities

Consolidated statement of cash flows

For the year ended 31 July 2016

	Note	2016 $m	2015 $m
Cash flows from operating activities			
Cash receipts from customers		2,625.5	1,403.3
Cash paid to suppliers and employees		(1,866.3)	(910.5)
Cash generated from operations		759.2	492.8
Income taxes paid		(138.8)	(110.9)
Net cash from operating activities	***26***	**620.4**	**381.9**
Cash flows from investing activities			
Acquisition of property, plant and equipment		(246.9)	(135.4)
Acquisition of intangibles		(34.1)	(18.4)
Disposal of investments	***10***	60.0	-
Acquisition of investments	***10***	(3.0)	(115.6)
Acquisition of subsidiaries, net of cash acquired	***14,24***	(1,151.3)	-
Special dividend paid under Scheme of Arrangement	***14,24***	(106.7)	-
Costs incurred on acquisition of subsidiaries	***14***	(8.6)	-
Dividends received	***5***	2.0	3.8
Net cash used in investing activities		**(1,488.6)**	**(265.6)**
Cash flows from financing activities			
Payment of finance lease liabilities		(21.4)	(0.2)
Proceeds from borrowings		1,789.7	175.0
Repayment of borrowings		(980.9)	(196.0)
Transaction costs related to loans & borrowings	***14***	(51.0)	-
Issue of shares		326.9	-
Share issue costs		(4.4)	-
Interest received		1.0	0.6
Interest paid		(67.5)	(14.9)
Dividends paid	***18***	(108.4)	(81.4)
Net cash from/(used in) financing activities		**884.0**	**(116.9)**
Net increase/(decrease) in cash and cash equivalents		15.8	(0.6)
Cash and cash equivalents at beginning of the year		23.7	23.8
Effect of exchange rate fluctuations		(0.3)	0.5
Cash and cash equivalents at end of the year		**39.2**	**23.7**

The notes on pages 40 to 90 are an integral part of these consolidated financial statements.

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2016

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TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2016

1. Reporting entity

TPG Telecom Limited (the 'Company') is a company domiciled in Australia. The address of the Company's registered office is 65 Waterloo Road, Macquarie Park, NSW 2113. The consolidated financial statements as at, and for the year ended 31 July 2016, comprise the accounts of the Company and its subsidiaries (together referred to as the 'Group').The Group is a for-profit entity and is primarily involved in the provision of consumer, wholesale, government and corporate telecommunications services.

2. Basis of preparation

a. Statement of compliance

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*.The consolidated financial statements comply with International Financial Reporting Standards (IFRSs) adopted by the International Accounting Standards Board (IASB).

The consolidated financial statements were approved by the Board of Directors on 20 October 2016.

b. Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis with the exception of assets and liabilities acquired through business combinations and financial instruments which are measured at fair value. The methods used to measure fair values are discussed further at note 30(k).

c. Functional and presentation currency

These consolidated financial statements are presented in Australian dollars, which is the functional currency of the majority of the subsidiaries of the Group.

The Group is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 dated 24 March 2016 and, in accordance with that instrument, all financial information presented in Australian dollars has been rounded to the nearest hundred thousand dollars unless otherwise stated.

d. Use of estimates and judgements

Preparation of the consolidated financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively.

2. Basis of preparation (continued)

In particular, information about significant areas of estimation uncertainties and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is provided in the following notes:

- Note 4 – revenue recognition;
- Note 12(iii) – amortisation of intangible assets with finite useful lives;
- Note 12(iv) – impairment testing for cash-generating units containing goodwill;
- Note 19 – valuation of financial instruments;
- Note 24 – acquisition of subsidiary.

3. Segment reporting

The Group determines and presents operating segments based on the information that is internally provided to the Executive Chairman, 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, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are regularly reviewed by the Group's Executive Chairman to make decisions about resources to be allocated to each segment and assess its performance, and for which discrete financial information is available.

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 year ended 31 July 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.

Results for the year for each operating segment are set out in the table on the next page. In the table, expenses in the 'Unallocated' column comprise professional fees incurred in relation to business combinations plus other corporate costs.

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2016

3. Segment reporting (continued)

	Note	TPG Consumer	TPG Corporate	iiNet	Unallocated	Total results
For the year ended 31 July 2016		$m	$m	$m	$m	$m
Revenue		674.3	654.6	1,058.9	-	2,387.8
Other income	*5*	-	-	-	92.7	92.7
Network, carrier and hardware costs		(330.3)	(256.5)	(577.1)	-	(1,163.9)
Employee benefits expense		(45.0)	(100.4)	(128.2)	-	(273.6)
Other expenses		(43.3)	(28.4)	(111.0)	(10.9)	(193.6)
Results from segment activities		**255.7**	**269.3**	**242.6**	**81.8**	**849.4**
For the year ended 31 July 2015						
Revenue		628.1	642.5	-	-	1270.6
Other income	*5*	-	-	-	3.8	3.8
Network, carrier and hardware costs		(308.4)	(272.1)	-	-	(580.5)
Employee benefits expense		(39.9)	(99.2)	-	-	(139.1)
Other expenses		(40.1)	(28.9)	-	(1.3)	(70.3)
Results from segment activities		**239.7**	**242.3**	**-**	**2.5**	**484.5**

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

	2016 $m	2015 $m
Total segment results	**849.4**	**484.5**
Depreciation of plant and equipment	(136.9)	(102.4)
Amortisation of intangibles	(115.1)	(43.3)
Results from operating activities	**597.4**	**338.8**
Net financing costs	(83.3)	(19.8)
Profit before income tax	**514.1**	**319.0**

Geographic Information

All of the Group's revenues are derived from Australian based entities, except for $15.3m (2015:$10.8m) derived from overseas customers.

All of the Group's non-current assets are located in Australia, except for assets amounting to $124.4m (2015:$115.9m) that are located either overseas or in international waters.

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2016

4. Revenue

	2016 $m	2015 $m
Rendering of services	2,360.9	1,261.5
Sale of goods	26.9	9.1
	2,387.8	**1,270.6**

(i) Rendering of services

Revenue from the rendering of telecommunications services includes the provision of data, internet, voice, telehousing, network capacity and other services to consumers and corporate customers. It is recognised on a straight-line basis over the period the service is provided. Usage revenue for voice services is recognised at completion of the call.

Where revenue for services is invoiced to customers in advance, the amount that is unearned at a reporting date is recognised in the statement of financial position as deferred income, and its recognition in the income statement is deferred until the period to which the invoiced amount relates.

Installation and set-up fee revenue is recognised on a straight line basis over the period of the contract to which it relates.

(ii) Sale of goods

Revenue from the sale of goods represents sales of customer equipment to consumer and corporate customers. It is recognised (net of rebates, returns, discounts and other allowances) when the significant risks and rewards of ownership have been transferred to the customer, which is ordinarily when the equipment is delivered to the customer.

Where the sale is settled through instalments, interest revenue is recognised over the contract term, using the effective interest method.

(iii) Revenue arrangements with multiple deliverables

Where two or more revenue-generating activities or deliverables are sold under a single arrangement, each deliverable considered to be a separate unit of accounting is accounted for separately. When the deliverables in a multiple deliverable arrangement are not considered to be separate units of accounting, the arrangement is accounted for as a single unit.

The consideration from the revenue arrangement is allocated to its separate units based on the relative selling prices of each unit. If no third party evidence exists for the selling price, then the item is measured based on the best estimate of the selling price of that unit. The revenue allocated to each unit is then recognised in accordance with the revenue recognition policies described above.

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2016

5. Other income

	2016 $m	2015 $m
Gain on previously held interest in iiNet	73.1	-
Profit on sale of investments	17.6	-
Dividend income	2.0	3.8
	92.7	**3.8**

6. Finance income and expenses

	2016 $m	2015 $m
Interest income	1.3	1.1
Interest expense	(66.0)	(14.0)
Unwinding of discount on provisions	(0.5)	(0.6)
Borrowing costs	(18.1)	(6.3)
Net financing costs	**(83.3)**	**(19.8)**

Net financing costs comprise interest payable on borrowings and finance leases, borrowing costs expensed during the year relating to loans and borrowings, unwinding of discount on provisions and interest income on funds invested.

7. Taxes

Income tax expense

	2016 $m	2015 $m
Current tax expense	**135.3**	**107.7**
Deferred tax expense		
Origination and reversal of temporary differences	(5.7)	(12.6)
Adjustments for prior years	(0.1)	(0.2)
	(5.8)	**(12.8)**
Income tax expense	**129.5**	**94.9**

Reconciliation between tax expense and pre-tax accounting profit

	2016 $m	2015 $m
Profit before tax	514.1	319.0
Income tax using tax rate of 30%	154.2	95.7
Non deductible and non assessable items	(25.0)	(0.7)
Adjustments for prior years	0.3	(0.1)
Income tax expense	**129.5**	**94.9**

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2016

7. Taxes (continued)

Deferred tax assets and liabilities
Movement in temporary differences during the year

	Balance 31 July 2014 $m	Recognised in profit or loss $m	Recognised in equity $m	Acquired in business combination $m	Balance 31 July 2015 $m	Recognised in profit or loss $m	Recognised in equity $m	Acquired in business combination $m	Balance 31 July 2016 $m
Deferred tax liabilities									
Investments	20.5	-	13.4	-	33.9	2.0	(13.9)	-	22.0
Property, plant and equipment	9.9	(0.3)	-	-	9.6	4.0	-	(0.2)	13.4
Intangible assets	18.3	(9.5)	-	-	8.8	(16.4)	-	95.0	87.4
Other items	0.4	(1.0)	-	-	(0.6)	(7.8)	(1.1)	2.7	(6.8)
	49.1	**(10.8)**	**13.4**	**-**	**51.7**	**(18.2)**	**(15.0)**	**97.5**	**116.0**
Deferred tax assets									
Receivables	(0.4)	(1.5)	-	(1.5)	(3.4)	4.0	-	(8.5)	(7.9)
Inventories	(0.3)	(0.1)	-	-	(0.4)	0.2	-	(0.7)	(0.9)
Derivative financial assets	-	-	-	-	-	-	(0.9)	-	(0.9)
Provisions	(14.4)	(0.6)	-	-	(15.0)	2.0	-	(8.6)	(21.6)
Employee benefits	(4.6)	(0.3)	-	-	(4.9)	0.1	-	(3.9)	(8.7)
Unearned revenue	(10.8)	0.1	-	-	(10.7)	(0.4)	-	0.8	(10.3)
Equity raising costs	(0.3)	0.1	-	-	(0.2)	(1.1)	-	-	(1.3)
Tax loss carry-forwards	(0.2)	0.2	-	-	-	7.6	-	(9.3)	(1.7)
	(31.0)	**(2.1)**	**-**	**(1.5)**	**(34.6)**	**12.4**	**(0.9)**	**(30.2)**	**(53.3)**
Net deferred tax liabilities	**18.1**	**(12.9)**	**13.4**	**(1.5)**	**17.1**	**(5.8)**	**(15.9)**	**67.3**	**62.7**

The company has not recognised deferred tax assets on unutilised capital losses of $18.7m.

7. Taxes (continued)

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to a business combination, or items recognised directly in equity, in which case it is recognised in equity or in other comprehensive income.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: initial recognition of goodwill, the initial recognition of assets or liabilities that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Tax consolidation

The Company and its wholly-owned Australian resident entities formed a tax-consolidated group with effect from 1 August 2006 and have therefore been taxed as a single entity from that date. The head entity within the tax-consolidated group is TPG Telecom Limited.

8. Earnings per share

	2016 Cents	2015 Cents
Basic and diluted earnings per share	45.3	28.2

	2016 $m	2015 $m
Profit attributable to owners of the company used in calculating basic and diluted earnings per share	379.6	224.1
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share	838,078,074	793,808,141

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to owners of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the weighted average number of ordinary shares outstanding, for the effects of all dilutive potential ordinary shares.

9. Trade and other receivables

	2016 $m	2015 $m
Current		
Trade receivables	146.1	62.0
Accrued income and other receivables	32.4	18.9
Less: Provision for impairment losses	(33.3)	(17.1)
	145.2	**63.8**

The Group's exposure to credit and currency risk and impairment losses related to trade and other receivables is disclosed in note 19.

10. Investments

Available-for-sale financial assets	2016 $m	2015 $m
Current		
Carrying amount at 1 August	151.6	99.2
Less: reclassified as non-current	-	(77.7)
Acquisitions	-	113.0
Disposals	(60.0)	-
Change in fair value	47.5	17.1
Carrying amount at 31 July	**139.1**	**151.6**
Non-Current		
Carrying amount at 1 August	115.6	7.3
Add: reclassified from current	-	77.7
Acquisitions	3.0	2.6
Deemed disposal on acquisition of iiNet	(97.3)	-
Change in fair value	(5.0)	28.0
Carrying amount at 31 July	**16.3**	**115.6**

The Group's investments comprise available-for-sale financial assets, being ASX listed securities. They are measured at fair value and are valued at quoted market prices. They are categorised as Level 1 under the fair value hierarchy of AASB 7. Refer note 19(ii) for accounting policy on recognition and measurement.

Sensitivity analysis – equity price risk

A two percent increase in the share price of ASX listed equity investments as at the reporting date would have increased equity by $2.2m after tax. An equal change in the opposite direction would have decreased equity by $2.2m after tax.

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2016

11. Property, plant and equipment

	Note	Network infrastructure $m	Land & Buildings $m	Leasehold improvements $m	Total $m
Cost					
Balance at 1 August 2014		880.2	4.9	5.2	890.3
Additions		135.4	4.6	0.8	140.8
Disposals		-	-	-	-
Effect of movements in exchange rates		0.7	0.2	0.5	1.4
Balance at 31 July 2015		**1,016.3**	**9.7**	**6.5**	**1,032.5**
Balance at 1 August 2015		1,016.3	9.7	6.5	1,032.5
Acquisitions through business combinations	***24***	172.5	-	5.9	178.4
Additions		233.4	27.7	1.7	262.8
Disposals		(1.9)	-	(0.4)	(2.3)
Effect of movements in exchange rates		-	-	-	-
Balance at 31 July 2016		**1,420.3**	**37.4**	**13.7**	**1,471.4**
Depreciation and impairment losses					
Balance at 1 August 2014		332.8	0.6	2.9	336.3
Depreciation charge for the year		101.2	0.1	1.1	102.4
Disposals		-	-	-	-
Effect of movements in exchange rates		0.6	0.1	0.3	1.0
Balance at 31 July 2015		**434.6**	**0.8**	**4.3**	**439.7**
Balance at 1 August 2015		434.6	0.8	4.3	439.7
Depreciation charge for the year		133.3	1.3	2.3	136.9
Disposals		(0.2)	-	(0.1)	(0.3)
Effect of movements in exchange rates		-	-	-	-
Balance at 31 July 2016		**567.7**	**2.1**	**6.5**	**576.3**
Carrying amounts					
At 31 July 2015		581.7	8.9	2.2	592.8
At 31 July 2016		**852.6**	**35.3**	**7.2**	**895.1**

11. Property, plant and equipment (continued)

(i) Recognition and measurement

Items of property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses (see note 30(g)). Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

The gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within other expenses in profit or loss.

(ii) Subsequent costs

Subsequent costs are added to existing assets if it is probable that future economic benefits will flow to the Group.

(iii) Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment.

The estimated useful lives used in both the current and comparative periods are as follows:

- Network infrastructure — 3 - 25 years
- Buildings — 40 years
- Leasehold improvements — 8 years

The residual value, the useful life and the depreciation method applied to an asset are reassessed at least annually.

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Notes to the consolidated financial statements

For the year ended 31 July 2016

12. Intangible assets

	Note	Non-Amortising		Amortising			Total
		Goodwill	Brands	Acquired customer bases	Indefeasible rights of use of capacity	Others intangibles	
		$m	$m	$m	$m	$m	$m
Cost							
Balance 1 August 2014		549.1	20.1	247.9	100.5	10.4	928.0
Additions		-	-	-	5.9	13.6	19.5
Acquisitions through business combinations		(3.0)	-	-	-	-	(3.0)
Balance 31 July 2015		**546.1**	**20.1**	**247.9**	**106.4**	**24.0**	**944.5**
Balance 1 August 2015		546.1	20.1	247.9	106.4	24.0	944.5
Additions		-	-	-	20.2	27.8	48.0
Acquisitions through business combinations	*24*	1,364.9	70.5	316.8	52.3	62.2	1,866.7
Balance 31 July 2016		**1,911.0**	**90.6**	**564.7**	**178.9**	**114.0**	**2,859.2**
Amortisation and Impairment							
Balance 1 August 2014		-	-	187.6	25.6	2.4	215.6
Amortisation for the year		-	-	31.5	8.3	3.5	43.3
Balance 31 July 2015		-	-	**219.1**	**33.9**	**5.9**	**258.9**
Balance 1 August 2015		-	-	219.1	33.9	5.9	258.9
Amortisation for the year		-	-	74.5	10.6	30.0	115.1
Balance 31 July 2016		-	-	**293.6**	**44.5**	**35.9**	**374.0**
Carrying amounts							
At 31 July 2015		546.1	20.1	28.8	72.5	18.1	685.6
At 31 July 2016		**1,911.0**	**90.6**	**271.1**	**134.4**	**78.1**	**2,485.2**

Amortising intangibles are removed from cost in the analysis in the year after they become fully amortised.

12. Intangible assets (continued)

(i) Recognition and measurement

a. Intangible assets with indefinite useful lives:

Goodwill

Goodwill arising on acquisition of subsidiaries is measured at cost less accumulated impairment losses. For the measurement of goodwill at initial recognition, see note 30(a)(i).

Brands

On acquisition of a subsidiary, brands of the acquired subsidiary are valued and brought to account as intangible assets. The value is calculated using the Relief from Royalty Method.

b. Intangible assets with definite useful lives:

Acquired customer bases

On acquisition of a subsidiary, customer contracts and relationships of the acquired subsidiary are valued at the expected future economic benefits (based on discounted cashflow projections) and brought to account as intangible assets.

Indefeasible rights of use of capacity

Indefeasible rights of use (IRUs) of acquired network capacity are brought to account as intangible assets at the present value of the future cashflows payable for the right. IRUs of acquired subsidiaries are accounted for at their fair value as at the date of acquisition.

Other intangible assets

Other intangible assets comprise software, subscriber acquisition costs, spectrum, other licences and operating costs that are incurred in developing or acquiring income producing assets. Other intangible assets are stated at cost less accumulated amortisation and any accumulated impairment losses.
On acquisition of a subsidiary, internally developed software and systems are valued and brought to account as intangible assets. The software is valued at its amortised replacement cost.

(ii) Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

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12. Intangible assets (continued)

(iii) Amortisation

Amortisation is charged to the income statement on a straight-line basis, unless otherwise stated, over the estimated useful lives of intangible assets unless such lives are indefinite. Goodwill and intangible assets with an indefinite useful life are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use.

The estimated useful lives used in both the current and comparative periods are as follows:

- Acquired customer bases - Amortised on a reducing balance basis in line with the expected economic benefits to be derived
- Indefeasible rights of use (IRU) of capacity - Amortised over the life of the IRU
- Other intangible assets with finite useful lives - Amortised using the straight line method over the expected useful life

(iv) Impairment tests for cash generating units containing goodwill

For the purpose of impairment testing, goodwill is allocated to the Group's cash generating units (CGUs). CGUs are determined according to the lowest level of groups of assets that generate largely independent cashflows. As at 31 July 2015, the Group had two CGUs, being the Consumer and Corporate CGUs. Following the acquisition of iiNet, the Group now has a three CGU structure, being the TPG Consumer, TPG Corporate and iiNet CGUs.

Indefinite life intangible assets comprise goodwill and brands and are allocated to the CGUs as set out in the table below. Goodwill is allocated to the CGU that is expected to benefit from the synergies of the acquisition.

	2016			2015		
	Goodwill	**Brands**	**Total**	**Goodwill**	**Brands**	**Total**
	$m	**$m**	**$m**	**$m**	**$m**	**$m**
Consumer	387.1	20.1	407.2	387.1	20.1	407.2
Corporate	159.0	-	159.0	159.0	-	159.0
iiNet	1,364.9	70.5	1,435.4	-	-	-
Total	**1,911.0**	**90.6**	**2,001.6**	**546.1**	**20.1**	**566.2**

Determining whether goodwill is impaired involves estimating the value-in-use of the CGUs to which the goodwill has been allocated.

Value-in-use is determined by discounting the projected future cashflows generated from the continuing use of the assets in the relevant CGU.

The cashflow projections utilised for this purpose comprise projections for a five year period (including FY17 budgets as approved by the Board of directors) plus a terminal value. The projections are

12. Intangible assets (continued)

prepared by senior management using assumptions which include a long-term growth rate of 2% per annum based on the long-term industry growth rate (2015: 2%), including for the terminal phase beyond year 5.

A pre-tax discount rate of 12% (2015: 12.5%) has been used in discounting the projected cashflows of each CGU, which is based on the Group's WACC adjusted to reflect an estimate of specific risks assumed in the cashflow projections.

Sensitivity analysis on all key assumptions employed in the value-in-use calculations has been performed. From this it was concluded that no reasonable possible movement in any of the key assumptions would give rise to any impairment in any of the CGUs.

13. Trade and other payables

	2016 $m	2015 $m
Trade creditors	212.2	76.3
Other creditors and accruals	85.8	77.5
	298.0	**153.8**

Trade payables are non-interest bearing and are normally settled on 30-60 day terms.
The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 19.

14. Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate and foreign currency risk, see note 19.

	2016 $m	2015 $m
Current		
Indefeasible right of use (IRU) lease liabilities	26.5	-
Other finance lease liabilities	0.6	0.1
	27.1	**0.1**
Non-Current		
Gross secured bank loans	1,350.0	329.0
Less: Unamortised borrowing costs	(34.2)	(1.3)
	1,315.8	327.7
IRU lease liabilities	34.5	-
Other finance lease liabilities	0.1	-
	1,350.4	**327.7**

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14. Loans and borrowings (continued)

During the year ended 31 July 2016, the Group entered into revised debt facility agreements with a syndicate of banks in order to fund the acquisition of iiNet, refinance the Group's and iiNet's existing bank debt and fund the continuing operations of the Group.

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

	Note		$m
Balance as at 1 August 2015			**329.0**
Loan drawdowns required to fund acquisition of iiNet:			
• Cash consideration, net of cash acquired	***24***	1,151.3	
• Special dividend paid to iiNet shareholders	***24***	106.7	
• Acquisition transaction costs		8.6	
• Transaction costs relating to new debt facility		51.0	
• iiNet bank debt acquired	***24***	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			(186.2)
Balance as at 31 July 2016			**1,350.0**

As at 31 July 2016 the Group had a debt facility of $1,635m of which $1,350m is drawn down.

The outstanding loan balance as at year end is shown in the statement of financial position net of unamortised borrowing costs of $34.2m (2015: $1.3m).

The interest rate payable under the debt facility is based on BBSY rates plus a margin determined quarterly according to gearing ratio.

As at 31 July 2016, the debt facility was secured by a fixed and floating charge over all of the assets of the Group, with the exception of the assets of the following subsidiaries:

Chariot Pty Ltd
Kooee Pty Ltd
Digiplus Contracts Pty Ltd
Blue Call Pty Ltd
Orchid Cybertech Services Incorporated
Orchid Human Resources Pty Ltd
TPG (NZ) Pty Ltd
IntraPower Pty Ltd
IP Service Xchange Pty Ltd
Trusted Cloud Pty Ltd
Trusted Cloud Solutions Pty Ltd
Alchemyit Pty Ltd
IP Group Pty Ltd
Mercury Connect Pty Ltd
VtalkVoip Pty Ltd
Intrapower Terrestrial Pty Ltd
Hosteddesktop.com Pty Ltd
Virtual Desktop Pty Ltd
Destra Communications Pty Ltd
iiNet (New Zealand) AKL Ltd
Neighbourhood Cable Unit Trust
The Tech2 Group Pty Ltd
Tech2 Business Solutions Pty Ltd
Tech2Home (Proprietary) Ltd
Tech2Home Pty Ltd
Tech2Home (Communications) Pty Ltd
Gizmo Corporation Pty Ltd
TPG Telecom Pte Ltd

15. Employee benefits

	2016 $m	2015 $m
Current		
Liability for annual leave	15.0	8.2
Liability for long service leave	13.1	6.2
	28.1	**14.4**
Non-Current		
Liability for long service leave	**2.4**	**2.0**

(i) Current employee benefits

Liabilities for employee benefits that are expected to be settled within 12 months of the reporting date represent present obligations resulting from employees' services provided up to the reporting date, and are calculated at undiscounted amounts based on remuneration wage and salary rates that the Group expects to pay as at reporting date including related on-costs such as workers compensation insurance and payroll tax.

(ii) Non-Current employee benefits

The Group's obligation in respect of long-term service is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates, and is discounted using the rates attached to corporate bonds at the balance sheet date which have maturity dates approximating to the terms of the Group's obligations.

(iii) Performance rights plan

The Group has in place a performance rights plan that provides for selected employees to be granted rights to fully paid ordinary shares in the Company for no consideration, subject to certain performance conditions. Under this scheme funds are transferred to a trust which acts as an agent and purchases shares for the benefit of the selected employees. A share-based payments reserve is recognised for the funds transferred to the scheme. An employee expense is recognised over the period during which the employees become unconditionally entitled to the shares with a corresponding decrease in the share-based payments reserve. The employee expense is based on the fair value at date of grant of the rights. The fair value is calculated by subtracting the expected dividend payments per share during the vesting period from the share price at date of grant.

The plan was introduced in FY12 and there have been five lots of rights granted to-date, one lot being granted in each of FY12, FY13, FY14, FY15 and FY16.

All rights granted up to and including FY15 have the same key terms which are as follows:

15. Employee benefits (continued)

- One third of the performance rights granted will vest following the release of the Group's audited financial statements for each of the three financial years ending after the date of grant, subject to the satisfaction of performance conditions.
- At each vesting date:
  - 30% of the performance rights that are due to vest on that date will vest if the rights holder has been continuously employed by the Group up until and including the relevant vesting date; and
  - 70% of the performance rights that are due to vest on that date will vest if the rights holder has been continuously employed by the Group up until and including the relevant vesting date and the Group has met its financial objectives for the financial year immediately preceding the relevant vesting date.
- Any performance rights which do not vest, automatically lapse.

For the rights granted in FY16, the rules were amended so that the rights are scheduled to vest in four equal instalments over four years instead of over three years. The rules are otherwise consistent with the above.

The number of rights granted or outstanding during the year ended 31 July 2016 are set out below:

	Number of Rights
Balance as at 1 August 2015	945,000
Granted during the year	617,100
Forfeited during the year	-
Vested during the year	(496,800)
Balance as at 31 July 2016	**1,065,300**

The fair value of the rights at date of grant was calculated by subtracting the expected dividend payments per share during the vesting period from the share price at date of grant. The weighted average fair value and share price as at each date of grant are as follows:

Date of grant	**Weighted average fair value**	**Share price**
24 December 2012	$2.3267	$2.48
22 November 2013	$3.9567	$4.15
18 December 2013	$4.5767	$4.77
16 December 2014	$5.9433	$6.20
21 December 2015	$9.5160	$9.92

At the year-end an estimate of how many rights are likely to vest based on the continuous employment and financial performance conditions has been updated. The fair value of the number of rights expected to vest has been expensed in proportion to how far through the vesting period the rights are at that date. The amount consequently expensed in the year was $3.6m (2015:$2.1m).

Under the above share-based payment scheme, funds are transferred by the Company to a trust which acts as an agent and purchases shares for the benefit of the selected employees. A share-based

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15. Employee benefits (continued)

payments reserve is recognised for the funds transferred to the trust. An employee expense is recognised over the vesting period of the rights with a corresponding decrease in the share-based payments reserve.

(iv) Superannuation

The Group contributes to several defined contribution superannuation plans. Contributions are recognised as an expense in the income statement on an accruals basis.

The Group contributed $17.5m to defined contribution superannuation plans during the current year (2015: $8.2m).

16. Provisions

	Make good costs $m	Lease increment $m	Onerous leases $m	Other $m	Total $m
Balance as at 1 August 2015	19.3	1.1	8.0	3.5	31.9
Acquired through business combinations	11.0	-	11.3	3.8	26.1
Provisions made during the year	1.7	-	0.8	0.9	3.4
Provisions used during the year	(0.5)	(0.1)	(7.1)	(1.6)	(9.3)
Unwind of discount	0.5	-	-	-	0.5
Balance as at 31 July 2016	**32.0**	**1.0**	**13.0**	**6.6**	**52.6**
Current	4.5	0.2	5.3	6.6	16.6
Non-current	27.5	0.8	7.7	-	36.0

A provision is recognised in the statement of financial position when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cashflows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The unwinding of the discount is recognised as a finance expense.

Make good costs

The make good costs provision relates to the Group’s estimated costs to make good leased premises. The provision is based on the estimated cost per leased site using historical costs for sites made good previously.

16. Provisions (continued)

Lease increment

Where the Group has contracted lease agreements that contain incremental lease payments over the term of the lease, a provision is recognised for the increased lease payments so that lease expenditure is recognised on a straight line basis over the lease term.

Onerous leases

Where the Group has contractual obligations with costs exceeding the expected economic benefits owing from the arrangement, a provision is immediately recognised for the excess cost component.

Other

The $3.8m ‘other’ provision acquired though business combinations in the year represents contingent consideration payable to the minority shareholders of Tech2 Group Pty Ltd (‘Tech2’) in accordance with the iiNet Group’s 2014 acquisition of a 60% interest in Tech2. This payment amount was contingent on FY16 performance targets for Tech2 which have been achieved, and as a result was paid in full after the year-end in September 2016.

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17. Capital and reserves

Share capital

	Ordinary shares		$m	
	2016	**2015**	**2016**	**2015**
Balance as at 1 August	793,808,141	793,808,141	516.9	516.9
Ordinary shares issued during the year:				
- Consideration for acquisition of iiNet	23,212,554	-	211.2	-
- Institutional share placement	28,846,154	-	300.0	-
- Share purchase plan	2,606,269	-	26.9	-
Share issue costs (net of tax)	-	-	(3.1)	-
Balance as at 31 July	**848,473,118**	**793,808,141**	**1,051.9**	**516.9**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects. The Company does not have authorised capital or par value in respect of its issued shares. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

Foreign currency translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations where their functional currency is different to the presentation currency of the reporting entity.

Share-based payments reserve

The share-based payments reserve represents the value of shares held by a share-based remuneration plan that the Company is required to include in the consolidated financial statements. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments. At 31 July 2016 the number of Company shares held by the Group was 350,000 (2015: 403,008).

Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets until the investments are derecognised or impaired.

Cash flow hedge reserve

The cash flow hedge reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges, pending subsequent recognition in profit or loss as the hedged cash flows or items affect profit or loss.

18. Dividends

Dividends recognised in the current year were as follows:

	Cents per share	Total Amount $m	Date of payment
2016			
Interim 2016 ordinary	7.00	59.4	24 May 2016
Final 2015 ordinary	6.00	49.0	17 Nov 2015
Total amount		**108.4**	
2015			
Interim 2015 ordinary	5.50	43.7	19 May 2015
Final 2014 ordinary	4.75	37.7	18 Nov 2014
Total amount		**81.4**	

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 FY16 dividend of 7.5 cents per share. As the final dividend was not declared or resolved to be paid by the Board of directors as at 31 July 2016, the dividend has not been provided for in the consolidated statement of financial position. The dividend has a record date of 18 October 2016 and will be paid on 22 November 2016.

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

Dividend franking account

	2016 $m	2015 $m
30 per cent franking credits available to shareholders of the Company for subsequent financial years	437.1	322.9

The above available amounts are based on the balance of the dividend franking account at year-end adjusted for:

(a) franking credits that will arise from the payment of the current tax liabilities;
(b) franking debits that will arise from the payment of dividends recognised as a liability at the year-end; and
(c) franking credits transferred in on business combinations.

The ability to utilise the franking credits is dependent upon the ability of the Company to pay dividends. The impact on the dividend franking account of dividends proposed after the balance sheet date but not yet recognised as a liability is to reduce it by $27.3m (2015:$20.4m).

19. Financial instruments and risk management

Financial Instruments

Non-derivative financial instruments

The Group classifies non-derivative financial assets into the following categories: loans and receivables, and available-for-sale financial assets.

(i) Non-derivative financial assets and financial liabilities – recognition and derecognition

The Group initially recognises loans and receivables and debt securities issued on the date when they are originated. All other financial assets and financial liabilities are initially recognised on the trade date.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred and it does not retain control over the transferred asset.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

(ii) Non-derivative financial assets - measurement

Loans and receivables

These assets are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method. The loans and receivables category comprises trade and other receivables.

Available-for-sale financial assets

These assets are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, are recognised in other comprehensive income and accumulated in the fair value reserve. When these assets are derecognised, the gain or loss in equity is transferred to profit or loss. The available-for-sale financial assets category comprises equity securities.

(iii) Non-derivative financial liabilities - measurement

Non-derivative financial liabilities are initially recognised at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method. The non-derivative financial liabilities category comprises loans and borrowings, and trade and other payables.

19. Financial instruments and risk management (continued)

Derivative financial instruments and hedging

The Group uses derivative financial instruments such as forward currency contracts to manage its risks associated with foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured to fair value. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Any gains or losses arising from changes in the fair value of derivatives, except for those that qualify for hedge accounting, are taken to the Consolidated income statement. The fair values of forward currency contracts are calculated by reference to current forward exchange rates. Non-performance risk is taken into account when valuing derivatives. Hedges that meet the strict criteria for hedge accounting are accounted for as follows:

Cash flow hedges are hedges of the Group's exposure to variability in cash flows that are either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment. The effective portion of the gain or loss on the hedging instrument is recognised directly in Other Comprehensive Income, while the ineffective portion is recognised in the Consolidated income statement. Amounts taken to Other Comprehensive Income are transferred to the Consolidated income statement when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognised, or when a forecast transaction occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability. The Group tests the designated cash flow hedge for effectiveness and ineffectiveness at each reporting date both retrospectively and prospectively. If the hedging instrument no longer meets the criteria for hedge accounting then hedge accounting is discontinued prospectively. If the forecast transaction or firm commitment is no longer expected to occur, amounts recognised in equity are transferred to the Consolidated income statement.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked (due to it being ineffective), amounts previously recognised in Other Comprehensive Income remain in Other Comprehensive Income until the forecast transaction occurs.

19. Financial instruments and risk management (continued)

Risk management

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Group's exposure to each of the above risks, its objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout this financial report.

The Board of directors has overall responsibility for the establishment and oversight of the risk management framework.

Risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and in the Group's activities. The Group aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group's Audit & Risk Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

The Group's exposure to credit risk is influenced by the individual characteristics of each customer, the industry and the geographical region in which the customers operate.

The Group minimises concentration of credit risk by undertaking transactions with a large number of customers. By industry, the Group is not subject to a concentration of credit risk as its customers operate in a wide range of industries.

The Group has established a credit policy for its corporate customers under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The review includes obtaining external ratings, when available, and in some cases bank references.

Credit limits may be established for each customer. These limits are reviewed regularly. Customers that

19. Financial instruments and risk management (continued)

fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis or on other specific terms considered by management to be satisfactory.

In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or legal entity, whether they are a wholesale or retail customer, geographic location, industry, ageing profile, and existence of previous financial difficulties.

The Group has established a provision for impairment that represents management's estimate of incurred losses in respect of trade and other receivables.

The carrying amount of the Group's financial assets represents the maximum credit exposure from those assets. The Group's maximum exposure to credit risk at the reporting date was as follows:

	Note	2016 $m	2015 $m
Trade and other receivables	*9*	146.1	62.0
Cash and cash equivalents		39.2	23.7
		185.3	**85.7**

The Group's maximum exposure to credit risk for trade receivables at the reporting date by customer type was as follows:

	Note	2016 $m	2015 $m
Type of customer			
Wholesale		44.1	35.0
Corporate		32.4	17.2
Retail		69.6	9.8
	9	**146.1**	**62.0**

The Group's maximum exposure to credit risk for trade receivables at the reporting date by geographical region was as follows:

	Note	2016 $m	2015 $m
Geographical region			
Australia		143.9	61.1
Other		2.2	0.9
	9	**146.1**	**62.0**

Geographically, the Group is subject to a concentration of credit risk as predominantly all of its revenue is generated in Australia.

19. Financial instruments and risk management (continued)

The ageing of the Group's trade receivables at the reporting date was as follows:

	Note	2016 $m	2015 $m
Ageing of customer			
Not past due		90.1	30.3
Past due 0-30 days		37.7	22.2
Past due 31-60 days		5.1	4.0
Past due 61-90 days		3.5	1.0
Past due 91-120 days		2.0	0.8
Past due 121 days		7.7	3.7
Gross trade receivables	*9*	146.1	62.0
Less: Provision for impairment losses	*9*	(33.3)	(17.1)
Net receivables		**112.8**	**44.9**

The provision for impairment losses of the Group at 31 July 2016 of $33.3m (2015:$17.1m) represents the risk of non-collection of outstanding debts that are past due and believed to be at risk of non-collection. The provision is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible. At this point the amount is considered irrecoverable and is written off against the financial asset directly. The movement in the provision for impairment losses during the year ended 31 July 2016 is as follows:

	Note	2016 $m	2015 $m
Balance at 1 August		17.1	15.8
Acquired through business combination	*24*	28.1	-
Impairment loss (written back)/ recognised		(11.9)	1.3
Balance at 31 July	*9*	**33.3**	**17.1**

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages the cashflow projections of subsidiaries to optimise its return on cash. The Group ensures that it has sufficient cash on demand to meet expected operational expenses including the servicing of financial obligations.

In addition to its cash reserves, the Group had a debt facility of $1,635.0m available to it during the year (of which $1,350.0m was utilised as at 31 July 2016) (refer note 14).

19. Financial instruments and risk management (continued)

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

31 July 2016	Note	Carrying amount $m	Contractual cashflows $m	6 months or less $m	6-12 months $m	1-2 years $m	2-5 years $m
Non-derivative financial liabilities							
Secured bank loans	*14*	(1,350.0)	(1,500.6)	(26.4)	(24.9)	(50.3)	(1,399.0)
Finance lease liabilities		(61.7)	(65.9)	(15.3)	(14.8)	(35.8)	-
Trade and other payables	*13*	(298.0)	(298.0)	(298.0)	-	-	-
		(1,709.7)	**(1,864.5)**	**(339.7)**	**(39.7)**	**(86.1)**	**(1,399.0)**
Derivative financial liabilities							
Foreign currency forward contracts (settled gross)							
- Outflow		-	(65.6)	(14.7)	(14.8)	(36.1)	-
- Inflow		-	54.4	12.1	12.2	30.1	-
Total derivative financial liabilities		-	(11.2)	(2.6)	(2.6)	(6.0)	-
Total		**(1,709.7)**	**(1,875.7)**	**(342.3)**	**(42.3)**	**(92.1)**	**(1,399.0)**

31 July 2015	Note	Carrying amount $m	Contractual cashflows $m	6 months or less $m	6-12 months $m	1-2 years $m	2-5 years $m
Non-derivative financial liabilities							
Secured bank loans	*14*	(329.0)	(347.6)	(5.9)	(5.9)	(335.8)	-
Finance lease liabilities		(0.1)	(0.1)	(0.1)	-	-	-
Trade and other payables	*13*	(153.8)	(153.8)	(153.8)	-	-	-
		(482.9)	**(501.5)**	**(159.8)**	**(5.9)**	**(335.8)**	**-**

It is not expected that the cashflows included in the maturity analysis above could occur significantly earlier, or at significantly different amounts.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising return.

a) Currency risk

The Group is exposed to currency risk on revenues, expenses, receivables and borrowings that are denominated in a currency other than its functional currency, the Australian dollar (AUD). These other currencies include primarily the United States dollar (USD), the New Zealand dollar (NZD), Philippine peso (PHP), the Hong Kong dollar (HKD) and South African Rand (ZAR).

19. Financial instruments and risk management (continued)

The Group has hedged its exposure to its USD-denominated finance lease liabilities as follows:

	Note	2016 $m	2015 $m
IRU lease liabilities	*14*	(61.0)	-
Add: Highly probable forecast transactions		(4.2)	-
Total exposure on IRU lease liabilities		**(65.2)**	**-**
Forward exchange contracts		64.4	-
Net exposure		**(0.8)**	**-**

Exposure to other non-functional currencies has not been hedged and is not considered to be a significant risk to the Group.

b) *Interest rate risk*

At the reporting date the Group's interest-bearing financial instruments were as follows:

	Note	2016 $m	2015 $m
Fixed rate instruments			
Financial liabilities	*14*	(61.7)	(0.1)
Variable rate instruments			
Financial assets		39.2	23.7
Financial liabilities	*14*	(1,350.0)	(329.0)
		(1,310.8)	**(305.3)**

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

Cashflow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates would cause a movement in the Group's annualised interest expense, based on the balance of its variable rate instruments as at 31 July 2016, of $13.1m (2015: $3.1m) (assumes that all other variables, in particular foreign currency rates, remain constant).

Fair values versus carrying amounts

As at 31 July 2016, the fair values of the Group's financial assets and liabilities approximate their carrying amounts shown in the statement of financial position.

19. Financial instruments and risk management (continued)

Interest rates used for determining fair value

The interest rates used to discount estimated cashflows, where applicable, are based on the rates implicit in the transaction. In the case of Loans and borrowings, interest rate is based on BBSY rates plus a margin determined quarterly according to gearing ratio.

c) Equity price risk

The Group is exposed to equity price risk because of its investments in available-for-sale equity securities. Material investments are managed on an individual basis with the goal of maximising returns.

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 July 2016			31 July 2015		
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Financial assets						
Investments	155.4	-	-	267.2	-	-
Foreign currency forward contracts	-	11.8	-	-	-	-
Financial liabilities						
Provision for contingent consideration	-	-	(3.8)	-	-	-

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.

19. Financial instruments and risk management (continued)

Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board monitors return on capital, which the Group defines as profit from operating activities divided by total shareholders' equity. The Board of directors also determines the level of dividends to be paid to shareholders.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings, and the advantages and security afforded by a sound capital position.

From time to time the Group may purchase its own shares on market for the purpose of issuing shares under employee share plans. The Group does not currently have a defined share buy-back plan.

There were no changes in the Group's approach to capital management during the year.

The Group's net debt to equity ratio at the reporting date was as follows:

	2016 $m	2015 $m
Total loans and borrowings	1,350.0	329.0
Less: cash and cash equivalents	(39.2)	(23.7)
Net debt	**1,310.8**	**305.3**
Total equity	**1,779.2**	**1,003.2**
Net debt to equity ratio at 31 July	**0.7**	**0.3**

20. Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2016 $m	2015 $m
Less than one year	43.2	31.4
Between one and five years	95.7	83.5
More than five years	14.6	28.5
	153.5	**143.4**

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

21. Capital and other commitments

	2016 $m	2015 $m
Capital expenditure commitments contracted but not provided for in the financial statements	343.7	162.1

Capital commitments at 31 July 2016 are comprised mainly of commitments in respect of:

- IRU agreements for international capacity (US$108m*);
- Spectrum licences purchased in FY16, payable in April 2017 ($72m); and
- Domestic fibre construction projects.

*translated into AUD at the prevailing spot rate at 31 July 2016 of $0.76.

TPG Telecom Limited and its controlled entities

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22. Consolidated entities

The following is a list of all entities that formed part of the Group as at 31 July 2016:

		Ownership interest as at 31 July	
Name of Entity	**Country of incorporation**	**2016 %**	**2015 %**
Parent entity			
TPG Telecom Limited	Australia		
Subsidiaries			
TPG Holdings Pty Ltd	Australia	100	100
TPG Internet Pty Ltd	Australia	100	100
Value Added Network Pty Ltd	Australia	100	100
TPG Network Pty Ltd	Australia	100	100
TPG Energy Pty Ltd	Australia	100	100
FTTB Wholesale Pty Ltd	Australia	100	100
TPG (NZ) Pty Ltd	New Zealand	100	100
Orchid Cybertech Services Incorporated	Philippines	99.99	99.99
Orchid Human Resources Pty Ltd	Australia	100	100
Chariot Pty Ltd	Australia	100	100
Soul Pattinson Telecommunications Pty Ltd	Australia	100	100
SPT Telecommunications Pty Ltd	Australia	100	100
SPTCom Pty Ltd	Australia	100	100
Kooee Communications Pty Ltd	Australia	100	100
Kooee Pty Ltd	Australia	100	100
Kooee Mobile Pty Ltd	Australia	100	100
Soul Communications Pty Ltd	Australia	100	100
Soul Contracts Pty Ltd	Australia	100	100
Digiplus Investments Pty Ltd	Australia	100	100
Digiplus Holdings Pty Ltd	Australia	100	100
Digiplus Pty Ltd	Australia	100	100
Digiplus Contracts Pty Ltd	Australia	100	100
Blue Call Pty Ltd	Australia	100	100
PIPE Networks Pty Ltd	Australia	100	100
PIPE Transmission Pty Ltd	Australia	100	100
PIPE International (Australia) Pty Ltd	Australia	100	100
PPC 1 Limited	Bermuda	100	100
PPC 1 (US) Incorporated	USA	100	100
ACN 139 798 404 Pty Ltd	Australia	100	100
IntraPower Pty Ltd	Australia	100	100
IP Service Xchange Pty Ltd	Australia	100	100
Trusted Cloud Pty Ltd	Australia	100	100

22. Consolidated entities (continued)

Name of Entity	Country of incorporation	Ownership interest as at 31 July 2016 %	2015 %
Subsidiaries (continued)			
Trusted Cloud Solutions Pty Ltd	Australia	100	100
Alchemyit Pty Ltd	Australia	100	100
IP Group Pty Ltd	Australia	100	100
Mercury Connect Pty Ltd	Australia	100	100
VtalkVoip Pty Ltd	Australia	100	100
Intrapower Terrestrial Pty Ltd	Australia	100	100
Hosteddesktop.com Pty Ltd	Australia	100	100
Virtual Desktop Pty Ltd	Australia	100	100
Destra Communications Pty Ltd	Australia	100	100
Numillar IPS Pty Ltd	Australia	88.57	88.57
Telecom New Zealand Australia Pty Ltd	Australia	100	100
AAPT Limited	Australia	100	100
Connect Internet Solutions Pty Limited	Australia	100	100
PowerTel Limited	Australia	100	100
Request Broadband Pty Ltd	Australia	100	100
Telecom Enterprises Australia Pty Limited	Australia	100	100
iiNet Limited	Australia	100	-
Chime Communications Pty Ltd	Australia	100	-
Internode Pty Ltd	Australia	100	-
Agile Pty Ltd	Australia	100	-
Westnet Pty Ltd	Australia	100	-
iiNet (New Zealand) AKL Ltd	New Zealand	100	-
Jiva Pty Ltd	Australia	100	-
Netspace Online Systems Pty Ltd	Australia	100	-
iiNet Labs Pty Ltd	Australia	100	-
TransACT Communications Pty Ltd	Australia	100	-
TransACT Broadcasting Pty Ltd	Australia	100	-
TransACT Capital Communications Pty Ltd	Australia	100	-
TransFlicks Pty Ltd	Australia	100	-
TransACT Victoria Holdings Pty Ltd	Australia	100	-
Cable Licence Holdings Pty Ltd	Australia	100	-
ACN 088 889 230 Pty Ltd	Australia	100	-
TransACT Victoria Communications Pty Ltd	Australia	100	-
Neighbourhood Cable Unit Trust	Australia	100	-
Connect West Pty Ltd	Australia	100	-
The Tech2 Group Pty Ltd	Australia	60	-
Tech2Home Proprietary Ltd	New Zealand	60	-
Tech2Home Pty Ltd	Australia	60	-
Gizmo Corporation Pty Ltd	Australia	60	-
Tech2Home(Communications) Pty Ltd	Australia	60	-
Tech2 Business Solutions Pty Ltd	Australia	60	-

TPG Telecom Limited and its controlled entities

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22. Consolidated entities (continued)

Name of Entity	Country of incorporation	Ownership interest as at 31 July 2016 %	2015 %
Subsidiaries (continued)			
iHug Pty Ltd	Australia	100	-
Adam Internet Holdings Pty Ltd	Australia	100	-
Adam Internet Pty Ltd	Australia	100	-
iiNet (OzEmail) Pty Ltd	Australia	100	-
TPG Telecom Pte Ltd	Singapore	100	-

23. Deed of cross guarantee

Pursuant to ASIC Class Order 98/1418 (as amended) dated 13 August 1998, the wholly-owned subsidiaries as mentioned below are relieved from the *Corporations Act 2001* requirements for preparation, audit, and lodgement of financial reports and directors' reports.

It is a condition of the Class Order that the Company and each of the subsidiaries enter into a Deed of Cross Guarantee. The effect of the Deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the *Corporations Act 2001*. If a winding up occurs under other provisions of the Act, the Company will only be liable in the event that after six months any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event that the Company is wound up.

The Deed of Cross Guarantee was entered into on 25 June 2008. All the subsidiaries listed in Note 22 above are subject to the Deed except for the following:

Orchid Cybertech Services Incorporated
PPC 1 Limited
PPC 1 (US) Incorporated
Trusted Cloud Solutions Pty Ltd
Alchemyit Pty Ltd
IP Service Xchange Pty Ltd
The Tech2 Group Pty Ltd
Tech2Home Pty Ltd
Tech2Home (Communications) Pty Ltd
TPG Telecom Pte Ltd
Mercury Connect Pty Ltd
VtalkVoip Pty Ltd
Hosteddesktop.com Pty Ltd
Destra Communications Pty Ltd
Numillar IPS Pty Ltd
Neighbourhood Cable Unit Trust
Tech2Home Proprietary Ltd
Gizmo Corporation Pty Ltd
Tech2 Business Solutions Pty Ltd

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23. Deed of cross guarantee (continued)

A consolidated statement of comprehensive income and consolidated statement of financial position, comprising the Company and controlled entities which are a party to the Deed, after eliminating all transactions between parties to the Deed of Cross Guarantee, at 31 July 2016 is set out as follows:

Statement of comprehensive income and retained profits

	2016 $m	2015 $m
Revenue	2,328.0	1,266.4
Other income	92.7	3.8
Network, carrier and hardware costs	(1,128.2)	(599.8)
Employee benefits expense	(266.5)	(117.2)
Other expenses	(183.6)	(65.5)
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**842.4**	**487.7**
Depreciation of plant and equipment	(130.9)	(97.1)
Amortisation of intangibles	(112.0)	(40.8)
Results from operating activities	**599.5**	**349.8**
Finance income	1.3	1.2
Finance expenses	(84.6)	(20.9)
Net financing costs	**(83.3)**	**(19.7)**
Profit before income tax	**516.2**	**330.1**
Income tax expense	(130.5)	(94.7)
Profit for the year attributable to owners of the company	**385.7**	**235.4**
Other comprehensive income, net of tax	(34.7)	31.9
Total comprehensive income for the year	**351.0**	**267.3**
Retained earnings at beginning of year	432.7	278.7
Profit for the year	385.7	235.4
Dividends recognised during the year	(108.4)	(81.4)
Retained earnings at end of year	**710.0**	**432.7**

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2016

23. Deed of cross guarantee (continued)

Statement of financial position

	31 July 2016 $m	31 July 2015 $m
Assets		
Cash and cash equivalents	31.3	21.4
Trade and other receivables	136.2	63.7
Inventories	11.7	5.8
Investments	139.1	151.6
Current tax assets	3.7	-
Derivative financial instruments	5.4	-
Prepayments and other assets	12.5	7.7
Total Current Assets	**339.9**	**250.2**
Investments	16.3	115.6
Derivative financial instruments	6.4	-
Loans to subsidiaries	148.9	135.4
Property, plant and equipment	798.6	500.3
Intangible assets	2,462.1	662.2
Prepayments and other assets	8.3	5.3
Total Non-Current Assets	**3,440.6**	**1,418.8**
Total Assets	**3,780.5**	**1,669.0**
Liabilities		
Trade and other payables	287.8	149.5
Loans and borrowings	27.1	0.1
Current tax liabilities	-	12.3
Employee benefits	27.4	14.4
Provisions	14.0	7.5
Accrued interest	1.6	4.3
Deferred income and other liabilities	141.2	62.7
Total Current Liabilities	**499.1**	**250.8**
Loans and borrowings	1,350.1	327.7
Deferred tax liabilities	63.9	17.1
Employee benefits	2.2	2.0
Provisions	36.0	21.4
Deferred income and other liabilities	26.4	24.3
Total Non-Current Liabilities	**1,478.6**	**392.5**
Total Liabilities	**1,977.7**	**643.3**
Net Assets	**1,802.8**	**1,025.7**
Equity		
Share capital	1,051.9	516.9
Reserves	40.9	76.1
Retained earnings	710.0	432.7
Total Equity	**1,802.8**	**1,025.7**

24. Acquisition of subsidiary

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.

During 2H16 acquisition accounting was completed, as a result of which a number of adjustments were made to the provisional value of identifiable assets and liabilities disclosed in the HY16 accounts. Set out on the next page are the finalised fair values of the identifiable assets and liabilities of iiNet as at the date of acquisition.

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24. Acquisition of subsidiary (continued)

Identifiable assets acquired and liabilities assumed

	$m
Trade and other receivables	108.2
Provision for doubtful debts	(28.1)
Inventories	10.1
Derivative financial assets	27.0
Prepayments and other assets	8.0
Property, plant and equipment	178.4
Brand	70.5
Customer base	316.8
IRU assets	52.3
Other intangible assets	62.2
Income tax receivable	12.4
Minority interest acquired	(0.1)
Trade and other payables	(133.4)
Liability for special dividend	(106.7)
Loans payable	(212.1)
IRU lease liabilities	(83.0)
Finance lease liabilities	(4.2)
Employee benefits and provisions	(14.9)
Provisions	(26.1)
Deferred income	(74.5)
Derivative financial liabilities	(0.6)
Deferred tax liabilities (net)	(67.3)
Net identifiable assets acquired	**94.9**

Consideration transferred	
Cash paid	1,156.8
Less: Cash acquired	(5.5)
Net cash consideration paid	1,151.3
Issue of shares	211.2
Fair value of previously held interest in iiNet	97.3
Total consideration, net of cash acquired	**1,459.8**

Goodwill on acquisition	
Consideration transferred, net of cash acquired	1,459.8
Less: Net identifiable assets acquired, net of cash acquired	(94.9)
Goodwill on acquisition	**1,364.9**

24. Acquisition of subsidiary (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 year ended 31 July 2016, iiNet contributed revenue of $1,058.9m and profit after tax of $122.0m to the Group's results (excluding acquisition costs and amortisation of acquisition intangibles) for the eleven and a quarter months post acquisition. Management estimates that if iiNet had have been owned by the Group for the full twelve month period, it would have contributed revenue of $1,130.0m and profit after tax of $124.0m to the Group's results.

24 (a). Transaction costs related to acquisition of subsidiary

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.

TPG Telecom Limited and its controlled entities

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25. Parent entity disclosures

	2016 $m	2015 $m
Result of the parent entity		
Profit for the period	308.4	216.4
Comprising:		
Dividend from subsidiaries	300.0	232.0
Gain on previously held interest in iiNet	73.1	-
Finance expenses	(78.5)	(20.3)
Costs relating to mergers and acquisitions	(10.3)	(0.8)
Income tax benefit	23.5	6.0
Other	0.6	(0.5)
Total profit for the period	**308.4**	**216.4**
Financial position of parent entity at year end		
Current assets	3.9	1.2
Total assets	3,537.2	1,413.7
Current liabilities	3.8	16.4
Total liabilities	2,145.1	751.5
Total equity of the parent entity		
Share capital	1,051.9	516.9
Reserves	(1.6)	3.6
Retained earnings	341.8	141.7
Total Equity	**1,392.1**	**662.2**

Parent entity guarantees

The parent entity has entered into a Deed of Cross Guarantee with the effect that the Company guarantees debts in respect of certain subsidiaries.

Further details of the Deed of Cross Guarantee and the subsidiaries subject to the deed, are disclosed in note 23.

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26. Reconciliation of cashflows from operating activities

	Note	2016 $m	2015 $m
Cash flows from operating activities			
Profit for the year after income tax		384.6	224.1
Adjustments for:			
Dividend income	***5***	(2.0)	(3.8)
Depreciation of plant and equipment	***11***	136.9	102.4
Amortisation and impairment of intangibles	***12***	115.1	43.3
Bad and doubtful debts		10.2	1.3
Amortisation of borrowing costs	***6***	18.1	6.3
Performance rights plan expense	***15***	3.6	2.1
Unrealised foreign exchange loss		1.9	(1.8)
Interest income	***6***	(1.3)	(1.1)
Interest expense	***6***	66.5	14.6
Gain on previously held interest in iiNet	***5***	(73.1)	-
Profit on sale of investments	***5***	(17.6)	-
Costs relating to mergers and acquisitions	***14***	8.6	-
Income tax expense	***7***	129.5	94.9
Operating profit before changes in working capital and provisions		**781.0**	**482.3**
Changes in:			
- Trade and other receivables		(9.7)	10.5
- Inventories		3.9	(3.1)
- Other assets		(2.7)	5.2
- Trade and other payables		(8.9)	4.4
- Other liabilities		4.6	(3.1)
- Employee benefits		(0.8)	1.1
- Provisions		(8.2)	(4.5)
		759.2	492.8
Income taxes paid		(138.8)	(110.9)
Net cash from operating activities		**620.4**	**381.9**

27. Related parties

The following were key management personnel of the Group during the reporting period and, unless otherwise indicated, were key management personnel for the entire period:

Executive director

Mr David Teoh
Executive Chairman & Chief Executive Officer

Non-executive directors

Mr Denis Ledbury

Mr Robert Millner

Mr Joseph Pang

Mr Shane Teoh

Executives

Mr Stephen Banfield
Chief Financial Officer and Company Secretary

Mr Craig Levy
Chief Operating Officer

Mr Wayne Springer
General Manager, Corporate Products & Pricing

Ms Mandie De Ville
Chief Information Officer

Mr Tony Moffatt
General Counsel

Mr Mark Rafferty
General Executive, Corporate, Government & Wholesale

27. Related parties (continued)

Key management personnel remuneration

The key management personnel remuneration included in employee benefits is as follows:

	2016 $m	2015 $m
Short-term employee benefits	7.1	7.2
Post-employment benefits	0.2	0.2
Other long term benefits	0.1	0.2
Share-based benefits	1.3	0.9
	8.7	**8.5**

Individual directors' and executives' remuneration disclosures

Information regarding individual directors' and executives' remuneration is provided in the Remuneration Report section of the Directors' report on pages 22 to 29.

During the year the Group rented office premises from companies related to a director of the Company, Mr D Teoh. The total rent charged for the financial year 2016 was $1.3m (2015:$0.8m).

Apart from the details disclosed in this note, no director has entered into a material contract with the Company or the Group since the end of the previous financial year and there were no material contracts involving directors' interests existing at year-end.

Loans to key management personnel and their related parties

There were no loans in existence between the Group and any key management personnel or their related parties at any time during or since the financial year.

Other key management personnel transactions with the Company or its controlled entities

From time to time, key management personnel of the Company or its controlled entities, or their related entities, may purchase goods or services from the Group. These purchases are on the same terms and conditions as those entered into by other Group employees or customers and are trivial or domestic in nature.

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27. Related parties (continued)

Movement in shares

The movement during the reporting period in the number of ordinary shares in the Company held directly, indirectly or beneficially by each key management person, including by their related parties, is as follows:

	Held at 1 August 2015	Purchases	Granted as remuneration	Disposals	Held at 31 July 2016
Directors					
D Teoh	291,625,603	-	-	-	291,625,603
D Ledbury	100,000	-	-	(25,000)	75,000
R Millner	7,434,175	5,808	-	-	7,439,983
J Pang	88,812	1,452	-	-	90,264
S Teoh	90,251	26,472	-	-	116,723
Executives					
S Banfield	237,000	-	44,000	(18,000)	263,000
C Levy	271,000	-	60,000	(33,500)	297,500
W Springer	230,902	-	37,000	(90,000)	177,902
M De Ville	146,402	-	17,000	-	163,402
T Moffatt	631,571	-	43,000	(10,000)	664,571
M Rafferty	-	-	12,000	-	12,000

	Held at 1 August 2014	Purchases	Granted as remuneration	Disposals	Held at 31 July 2015
Directors					
D Teoh	291,625,603	-	-	-	291,625,603
D Ledbury	100,000	-	-	-	100,000
R Millner	7,374,175	60,000	-	-	7,434,175
J Pang	88,812	-	-	-	88,812
S Teoh	90,251	-	-	-	90,251
Executives					
Mr S Banfield	200,000	-	57,000	(20,000)	237,000
Mr J Paine	3,913,717	-	55,000	-	3,968,717
Mr C Levy	493,666	-	77,334	(300,000)	271,000
Mr W Springer	174,902	-	56,000	-	230,902
Ms M De Ville	137,402	-	9,000	-	146,402
Mr T Moffatt	575,571	-	56,000	-	631,571
M Rafferty	-	-	-	-	-

Identity of related parties

The Group has no related party relationships other than with its key management personnel.

28. 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.

29. Auditors' remuneration

	2016 $'000	2015 $'000
Audit and review services		
Auditors of the Company – KPMG Australia		
- Audit and review of financial statements	1,059	667
- Other regulatory audit services	8	8
	1,067	**675**
Other services		
Auditors of the Company – KPMG Australia		
- Taxation and other services	119	124
	1,186	**799**

30. Significant accounting policies

The accounting policies as set out below have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently across the Group. In the current financial year, there are no new or revised Standards/ Interpretations issued by the Australian Accounting Standards Board (AASB) that are effective for the current reporting period and that are relevant to the Group.

a. Basis of consolidation

(i) Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group (refer (ii) below). The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Valuation techniques adopted for measuring assets acquired are explained at (k) below. Goodwill is measured as the excess of consideration transferred as compared to the value of identifiable net assets acquired. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

30. Significant accounting policies (continued)

(ii) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Such changes have been made with effect from the date of acquisition.

(iii) Transactions eliminated on consolidation

Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

b. Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Australian dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Australian dollars at foreign exchange rates ruling at the dates the fair value was determined.

c. *Foreign* operations

The assets and liabilities of foreign operations are translated to Australian dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Australian dollars at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income and presented in the foreign currency translation reserve in equity.

d. Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less and includes bank overdrafts that are repayable on demand and form an integral part of the Group’s cash management.

30. Significant accounting policies (continued)

e. Leases

(i) Determining whether an arrangement contains a lease

At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Group the right to control the use of the underlying asset.

(ii) Leased assets

Leases in the terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Other leases are operating leases and are not recognised in the Group’s statement of financial position.

(iii) Lease payments

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

At inception or upon reassessment of the arrangement, the Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values.

f. Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated selling expenses.

g. Impairment

Any financial asset that is not classified as an ‘at fair value through profit or loss’ asset, is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cashflows of that asset.

At each reporting date, the Group reviews the carrying amounts of its non-financial assets, other than inventories and deferred tax assets, to determine whether there is any indication of impairment. If any such indication exists, then the asset’s recoverable amount is estimated. Goodwill and intangible assets that have indefinite useful lives or that are not yet available for use are tested annually for impairment.

30. Significant accounting policies (continued)

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement unless an asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through profit or loss.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the other assets in the units on a pro rata basis.

(i) Calculation of recoverable amount

Impairment of receivables is not recognised until objective evidence is available that a loss event has occurred. Significant receivables are individually assessed for impairment. Non-significant receivables are not individually assessed. Instead, impairment testing is performed by placing non-significant receivables in portfolios of similar risk profiles, based on objective evidence from historical experience adjusted for any effects of conditions existing at each balance sheet date.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cashflows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment

Impairment losses, other than in respect of goodwill, are reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimate used to determine the recoverable amount. An impairment loss in respect of goodwill cannot be reversed.

An impairment loss in respect of a receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

h. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised as part of the cost of the asset. Borrowing costs relating to loans and borrowings are capitalised and amortised over the term of the loan. All other borrowing costs are expensed in the period they occur.

30. Significant accounting policies (continued)

i. Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense. Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

Cashflows are included in the statement of cash flows on a gross basis. The GST components of cashflows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cashflows.

j. New standards and interpretations not yet adopted

In the current reporting period, there are no new or revised Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are effective for the current reporting period and are relevant to the Group.
Standards that have been issued but are not effective yet, and have not been early adopted by the Group are as follows:

Financial instruments (Revised AASB 9)
Issued in December 2014, AASB 9 will be applicable to the Group from 1 August 2018. The revised standard provides guidance on classification and measurement of financial assets, including a third measurement category for debt instruments. Impairment of financial assets will be calculated using an expected credit loss model. Simpler hedge accounting requirements will help to align accounting treatment more closely to the risk management strategy.

Revenue from contracts with customers (AASB 15)
The standard contains a single model that applies to contracts with customers. It provides two approaches to recognising revenue - at a point in time, or over time. The model features a contract-based five step analysis of transactions to determine whether, how much and when revenue is recognised. This standard is applicable to the Group from 1 August 2018.

Leases (AASB 16)
Applicable to the Group from 1 August 2019, AASB 16 will significantly change the accounting for leases. The distinction between operating and finance leases will cease and all leases would be recognised as assets in the statement of financial position with a corresponding liability equal to the present value of unavoidable lease payments. Lease payments on operating leases that are currently treated as operating costs will be replaced with a depreciation charge and an interest expense incurred on the lease liability.

The Group is currently assessing the impact of the above standards on its financial results.

TPG Telecom Limited and its controlled entities

Notes to the consolidated financial statements

For the year ended 31 July 2016

30. Significant accounting policies (continued)

k. Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Material assets acquired through business combinations

Asset acquired	Valuation technique
Property, plant and equipment	Fair values are based on quoted market prices for similar items when available, and depreciated replacement cost when appropriate. Depreciated replacement cost reflects adjustments for physical deterioration as well as functional and economic obsolescence.
Intangible assets	The fair value of brands is based on the discounted estimated royalty payments that have been avoided as a result of the trademark being owned. The fair value of other intangible assets is based on the discounted cashflows expected to be derived from the use of the assets.
Inventories	Fair value is determined based on estimated selling price in the ordinary course of business less the estimated costs of sale.

Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cashflows, discounted at the market rate of interest at the reporting date.

Equity and debt securities

The fair value of equity and debt securities is determined by reference to their quoted closing bid price at the reporting date, or if unquoted, by using valuation techniques including market multiples and discounted cashflow analysis.

Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cashflows, discounted at the market rate of interest at the reporting date. For finance leases, the market rate of interest is determined by reference to similar lease agreements.

TPG Telecom Limited and its controlled entities

Directors' declaration

For the year ended 31 July 2016

1. In the opinion of the directors of TPG Telecom Limited ('the Company'):

(a) the consolidated financial statements and notes that are set out on pages 35 to 90 and the Remuneration report in section 5 of the Directors' report, set out on pages 22 to 29, are in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 31 July 2016 and of its performance for the financial year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2. There are reasonable grounds to believe that the Company and the group entities identified in note 23 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those group entities pursuant to ASIC Class Order 98/1418.

3. The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the chief executive officer and chief financial officer for the financial year ended 31 July 2016.

4. The directors draw attention to note 2(a) to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Dated at Sydney this 20th day of October, 2016.

Signed in accordance with a resolution of the directors.

David Teoh
Chairman

KPMG

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

Report on the financial report

We have audited the accompanying financial report of TPG Telecom Limited (the Company), which comprises the consolidated statement of financial position as at 31 July 2016, and the consolidated income statement and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 30 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 year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation of the 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 financial report that is free from material misstatement, whether due to fraud or error. In note 2(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Group's financial position and of its performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

KPMG

Independence

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

Auditor's opinion

In our opinion:

(a) the financial report of TPG Telecom Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Company's financial position as at 31 July 2016 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(a).

Report on the remuneration report

We have audited the Remuneration Report included in pages 22 to 29 of the directors' report for the year ended 31 July 2016. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the remuneration report of TPG Telecom Limited for the year ended 31 July 2016, complies with Section 300A of the *Corporations Act 2001*.

KPMG

Chris Hollis
Partner
Sydney

20 October 2016

TPG Telecom Limited and its controlled entities

ASX additional information

For the year ended 31 July 2016

Additional information required by the Australian Stock Exchange Limited Listing Rules and not disclosed elsewhere in this report is set out below. The shareholding information is current as at 30 September 2016.

Substantial shareholders

The number of shares held by substantial shareholders and their associates are set out below:

Name of shareholder	Number of ordinary shares held	% of capital held
David Teoh and Vicky Teoh	291,625,603	34.37
Washington H Soul Pattinson and Company Limited	213,402,136	25.15

Distribution of equity security holders

An analysis of the number of shareholders by size of holding is set out below:

Number of shares held	Number of holders
1 - 1,000	9,718
1,001 - 5,000	7,972
5,001 - 10,000	1,643
10,001 - 100,000	1,402
100,001 and over	128
	20,863

The number of shareholders holding less than a marketable parcel of ordinary shares is 735.

Voting rights (ordinary shares)

On a show of hands every member present at a meeting in person or by proxy shall have one vote, and upon a poll each share shall have one vote.

Stock exchange

TPG Telecom Limited is listed on the Australian Stock Exchange. The home exchange is Sydney, and the ASX code is TPM.

Other information

TPG Telecom Limited, incorporated and domiciled in Australia, is a publicly listed company limited by shares.

ASX additional information

For the year ended 31 July 2016

Twenty largest shareholders (as at 30 September 2016)

Name of shareholder	Number of ordinary shares held	% of capital held
WASHINGTON H SOUL PATTINSON AND COMPANY LIMITED	213,402,136	25.15
TSH HOLDINGS PTY LTD	101,645,893	11.98
VICTORIA HOLDINGS PTY LTD	100,840,608	11.88
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	66,011,730	7.78
DAVID TEOH	43,562,525	5.13
VICKY TEOH	43,217,403	5.09
J P MORGAN NOMINEES AUSTRALIA LIMITED	43,022,773	5.07
NATIONAL NOMINEES LIMITED	35,579,541	4.19
CITICORP NOMINEES PTY LIMITED	19,724,325	2.32
WIN CORPORATION PTY LTD	10,000,000	1.18
RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED (BKCUST A/C)	9,937,160	1.17
CITICORP NOMINEES PTY LIMITED (COLONIAL FIRST STATE INV A/C)	9,028,039	1.06
BNP PARIBAS NOMS PTY LTD (DRP)	8,901,946	1.05
J S MILLNER HOLDINGS PTY LIMITED	6,302,659	0.74
FARJOY PTY LTD	6,011,452	0.71
AUSTRALIAN FOUNDATION INVESTMENT COMPANY LIMITED	5,340,000	0.63
BKI INVESTMENT COMPANY LIMITED	4,420,000	0.52
MR JOHN ERIC PAINE	3,758,767	0.44
MILTON CORPORATION LIMITED	3,731,553	0.44
NATIONAL NOMINEES LIMITED <DB A/C>	3,685,725	0.43
	738,124,235	**86.99**

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