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

Annual Report
31 July 2012

TPG Telecom Limited and its controlled entities

Annual Report

For the year ended 31 July 2012

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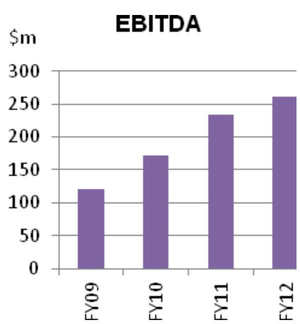
Chairman's report
For the year ended 31 July 2012

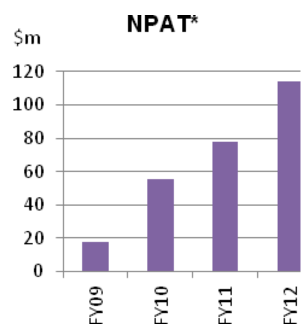
The year ended 31 July 2012 ("FY12") was another year of strong growth for the TPG Telecom Group. Normalised[(1)] Net Profit After Tax ("NPAT") for the year was $114.2m, an increase over FY11 of 46%. Reported NPAT of $91.0m increased by 16%.

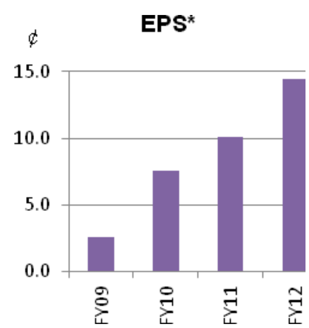
Earnings before interest, tax, depreciation and amortisation ("EBITDA") for the year increased by 12% to $261.4m, slightly above the top-end of the EBITDA guidance range for the year of $250m-$260m.

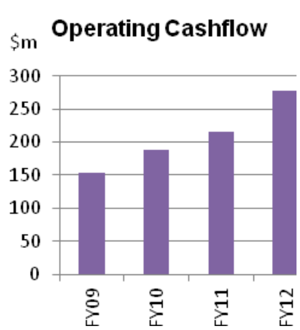
Normalised[(1)] earnings per share ("EPS") increased by 43% to 14.4 cents per share. Normalised[(1)] EPS, further adjusted to also exclude the impact of intangible amortisation expense, was 17.4 cents per share.

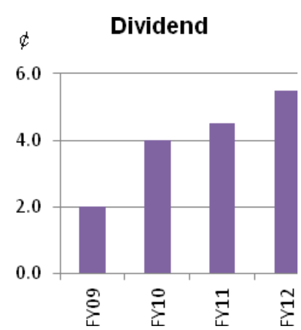
These strong results represent the Group's 4th consecutive year of growth in all key profit measures as shown in the charts below.











(*in the above charts FY12 NPAT and EPS are normalised[(1)])

(1) Normalised FY12 NPAT of $114.2m is arrived at by adjusting the Group's reported NPAT of $91.0m to exclude a $23.2m one-off tax expense incurred by the Group as a result of a retrospective change in tax legislation that was enacted in June 2012. The Company apprised the market of this anticipated expense through ASX announcements on 5 March and 27 June 2012.

Normalised EPS is arrived at by dividing normalised NPAT by the same weighted average number of shares used in calculating the Group's reported EPS.

The purpose of providing these normalised measures is to remove the distortion of the Group's NPAT and EPS results created by the one-off impact of the retrospective legislation change.

TPG Telecom Limited and its controlled entities
Chairman's report (continued)
For the year ended 31 July 2012

Consumer business

The Group grew its consumer broadband subscriber base by 28,000 in the 2nd half of the year taking total net additions for FY12 to 47,000. The growth in the year was driven by a 114,000 increase in customers subscribing to TPG's ADSL2+ with Home Phone bundle plans, partially offset by a decline in standalone on-net (52,000) and off-net (15,000) subscribers.

TPG's mobile subscriber growth for the 2nd half was 33,000, taking the Group's total net mobile customer additions for FY12 to 54,000.

As at 31 July 2012 the Group had 595,000 broadband subscribers and 255,000 mobile subscribers.

Corporate business

The Group's Corporate division, operating under the PIPE Networks brand, had an excellent year delivering strong EBITDA growth to $110.8m, a 30% increase over FY11.

As at 31 July 2012 PIPE's domestic fibre network spanned 2,572 km, which represents a 725km (39%) expansion during FY12. This expansion has also added a further 350 new buildings to the network bringing PIPE's current total of on-net buildings to over 1,400.

In October 2012 PIPE will also celebrate the 3rd anniversary of the go-live date of its Sydney to Guam submarine cable PPC-1. Due to growing internet traffic volumes, PIPE is in the process of upgrading PPC-1 which will significantly increase its active international capacity and enable the deployment of up to 100Gb/s wavelengths for both subsea and terrestrial application. Further incremental upgrades in the future will have the potential of increasing the cable's capacity to 6Tb/s and beyond. Customer services are now carried across PPC-1 and other cable systems to multiple destinations in the US plus locations in Tokyo, Singapore, Hong Kong, Manila, Papua New Guinea and Auckland.

Cashflow

The Group had another excellent year in terms of cashflow generation; $277.2m cash was generated from operations (pre-tax). After tax, interest and capital expenditure, the Group had free cashflow of $150.0m.

This free cashflow enabled the Group to repay $85m of debt in the year, fund the acquisition of an established cloud business, purchase shares in iiNet, and pay an increased dividend whilst suspending its dividend re-investment plan.

The Group's gross debt as at 31 July 2012 was down to $149m, representing a debt to annual EBITDA leverage ratio of less than 0.6 times with $185m of debt having been repaid in the past two financial years. This relatively low leverage ratio gives the Group significant borrowing capacity for future potential growth if required.

Dividend

The Company will pay a 2.75 cents per share (fully franked) final FY12 dividend on 20 November 2012 to shareholders on the register at 16 October 2012, bringing total FY12 dividends to 5.5 cents per share (fully franked), an increase of 22% over FY11.

TPG Telecom Limited and its controlled entities
Directors' report
For the year ended 31 July 2012

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 2012, and the auditor's report thereon.

Contents of directors' report **Page**

TPG Telecom Limited and its controlled entities
Directors' report
For the year ended 31 July 2012

1. Directors

Details of the directors of the Company who held office at any time during or since the end of the financial year are as follows:

Name, qualifications and independence status	***Age***	***Experience, special responsibilities and other directorships***
Current Directors		
David Teoh Executive Chairman Chief Executive Officer	57	David was the founder and Managing Director of the TPG group of companies, one of the largest privately owned internet businesses in Australia. TPG Telecom Ltd (2008-current).
Robert D Millner Non-Executive Director F.A.I.C.D.	61	TPG Telecom Ltd (2000-current), Washington H Soul Pattinson and Company Ltd (1984-current), New Hope Corporation Ltd (1995-current), Souls Private Equity Ltd (2004-2012), Brickworks Ltd (1997-current), BKI Investment Company Ltd (2003-current), Australian Pharmaceutical Industries Ltd (2000-current) and Milton Corporation Ltd (1998-current). Former Chairman, resigned position in 2008. Member of Audit & Risk and Remuneration Committees.
Denis Ledbury Independent Non-Executive Director B.Bus. A.I.C.D.	62	Denis was the Managing Director of TPG Telecom between 2000 and 2005, and was associated with the NBN group of companies for over 24 years (the last 14 as Chief Executive Officer). TPG Telecom Ltd (2000-current). Chairman of Audit & Risk and Remuneration Committees.
Alan J Latimer Executive Director B.Com CA G.A.I.C.D	58	Prior to becoming an Executive Director of TPG Telecom Alan was the Chief Financial Officer of the TPG group of companies. He has also previously worked with a number of large international IT and financial companies. TPG Telecom Ltd (2008-current), Chariot Ltd (2007-2008).
Joseph Pang Independent Non-Executive Director FCA	59	Joseph has worked in financial roles in the UK, Canada and Hong Kong prior to starting his own Management and Financial Consulting Service in Australia. TPG Telecom Ltd (2008-current). Member of Audit & Risk and Remuneration Committees.
Shane Teoh Non-Executive Director B.Com LLB	26	TPG Telecom Ltd (appointed 11 October 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 directors' meetings held during the financial year (including meetings of committees of directors) and the number of meetings attended by each of the directors of the Company were as follows:

Director	**Board Meetings**		**Audit & Risk Committee Meetings**		**Remuneration Committee Meetings**	
	A	**B**	**A**	**B**	**A**	**B**
D Teoh	14	14	-	-	-	-
R Millner	14	14	2	2	3	3
D Ledbury	14	14	2	2	3	3
A Latimer	14	14	2	2	2	3
J Pang	14	14	2	2	3	3
S Teoh	-	-	-	-	-	-

A – Number of meetings attended.

B – Number of meetings held during the time the director held office during the year.

4. Corporate governance statement

The Board of TPG Telecom Limited ('the Company') determines the most appropriate corporate governance arrangements having regard to the best interests of the Company and its shareholders, and consistent with its responsibilities to other stakeholders.
This statement outlines the Company's main corporate governance practices, which comply with the Australian Securities Exchange ("ASX") Corporate Governance Principles and Recommendations ("ASX Recommendations"), unless otherwise stated.

Principle 1 Lay solid foundations for management and oversight

The Board's primary role is the protection and enhancement of long-term shareholder value. To fulfil this role the Board is responsible for the overall corporate governance of the Group including formulating its strategic direction, setting remuneration, appointing, removing and creating succession policies for directors and senior executives, establishing and monitoring the achievement of management's goals, ensuring the integrity of risk management, internal control, legal compliance and management information systems, and approving and monitoring capital expenditure.

The Board delegates to senior management responsibility for the implementation of the strategic direction of the Company.

The Board Charter, which defines the functions reserved for the Board as is required by ASX Recommendation 1.1., can be found on the Company's website at www.tpg.com.au/about/investorrelations.php.

The performance of the executive directors is reviewed by the non-executive directors on the Board. The performance of other senior executives is reviewed by the Chief Executive Officer (ASX Recommendations 1.2 and 1.3).

4. Corporate governance statement (continued)

Principle 2 Structure the Board to add value

The Board considers that the number of directors and the composition of the Board are important for the success of the Company.

The Board considers that the appropriate number of directors in the current circumstances is six, with four being non-executive directors of whom two are independent.

Details of the experience and background of all directors are set out on page 6 of this Annual Report.

Independence of directors
The Board believes that maximum value for shareholders is best served with the current Board composition. The Board currently comprises six directors, two of whom are independent.

The executive directors are David Teoh and Alan Latimer. The Board is of the view that the benefit of the depth of experience and understanding that both directors have of the Company, and of the industry in which the Company operates, outweighs the requirement for independent non-executive directors.

Robert Millner, a non-executive director, is not independent as he is a director of a major shareholder, Washington H Soul Pattinson and Company Limited. Robert has specific historical, financial and business knowledge of the Company, the benefit of which in the opinion of the Board outweighs the requirement for independence at this time.

Shane Teoh, a non-executive director, is not independent due to his family relationship with a major shareholder. The benefit of Shane's legal qualification, experience in commercial and legal matters and detailed knowledge of the Company and of the industry in which it operates, outweighs, in the opinion of the Board, the requirement for independence at this time.

The Board believes that each director brings an independent mind and judgement to bear on all Board decisions, notwithstanding that the Chairman and a majority of the Board are not independent (which is not in line with ASX Recommendation 2.1). All directors are able to and do review and challenge the assumptions and performance of management to ensure decisions taken are in the best interest of the Company.

Chairman of the Board
The Chairman is an executive director and Chief Executive Officer of the Company. Nevertheless, the Board believes that David Teoh, in this dual role, does bring the quality and independent judgement to all relevant issues that are required of the Chairman. As Chief Executive Officer, Mr Teoh consults the Board on matters that are sensitive, extraordinary or of a strategic nature.

Nominations Committee
The Board acts as the Nominations Committee and as such has responsibility for the selection and appointment of directors, undertaking evaluation of the Board's performance and developing and implementing a plan for identifying, assessing and enhancing directors' competencies (ASX Recommendation 2.4).

The process for evaluating the performance of the Board, its committees and individual directors involves the Chairman conducting individual interviews with each of the directors at which time they are able to make comment or raise issues they have in relation to the Board's operations (ASX Recommendation 2.5).

Access to Company information and independent professional advice
Directors may request additional information as and when they consider it appropriate or necessary to discharge their obligations as directors of the Company. This includes access to internal senior executives or external advisors as and when appropriate. A director must consult the Chairman first before accessing external independent advice, and provide a copy of the advice received to other members of the Board (ASX Recommendation 2.6).

4. Corporate governance statement (continued)

Principle 3 Promote ethical and responsible decision-making

The Company is committed to maintaining the highest standards in dealing with all of its stakeholders, both internally and externally. The Company has adopted a written Code of Conduct to assist directors and staff in understanding their responsibilities to ensure the Company conducts its business in accordance with all applicable laws and regulations and in a way that enhances the Company's reputation (ASX Recommendation 3.1). The Code of Conduct is also reflected in internal policies and procedures which reinforce the Company's commitment to complying with all applicable laws and regulations.

A copy of the Code of Conduct can be found on the Company's website at www.tpg.com.au/about/investorrelations.php (ASX Recommendation 3.5).

Policy regarding trading in securities

The Company has established a written Securities Trading Policy which identifies the principles by which the Company balances the investment interests of directors, senior executives and employees with the requirements for ensuring such trades only take place when all information relevant to making such investment decisions is fully disclosed to the market

Directors and senior executives are only permitted to deal in Company shares during a six week period following the release of the Company's half-year and annual results to the ASX, the annual general meeting or any major announcement. Notwithstanding this, the Board may in certain circumstances permit dealings during other periods.

Where the dealing relates to the acquisition of shares pursuant to an employee rights or option plan, through a dividend re-investment plan, or through conversion of convertible securities, these dealings are specifically excluded from this policy. Subsequent dealing in the underlying securities is, however, restricted as outlined in the policy.

Directors must notify the Company Secretary in writing of all transactions in accordance with the requirements of Sections 205F and 205G of the Corporations Act 2002. The Company will notify the ASX of the details of any transaction, on behalf of the directors.

A copy of the Securities Trading Policy can be found on the Company's website at http://www.tpg.com.au/about/investorrelations.php.

Diversity Policy

The Company has not established a separate written Diversity Policy as required by ASX Recommendation 3.2.

However, the existing 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.

TPG Telecom Limited and its controlled entities
Directors' report
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4. Corporate governance statement (continued)

Principle 3 Promote ethical and responsible decision-making (continued)

The following guidelines have been established to ensure compliance with the Code of Conduct, and in turn ASX Recommendation 3.2.

- Selection of new staff, development, promotion and remuneration is on the basis of performance and capability;
- Training and development is offered across the Group including external technical courses, mentoring and secondments, in order to develop a diverse and skilled workforce;
- Flexibility is provided as appropriate in working hours to accommodate personal and family commitments; and
- Reporting to Senior Management by managers and supervisors takes place in relation to employment issues, and review and analysis of exit interviews is undertaken to identify any discrimination related issues.

Aside from the guidelines set out above the Company has not established measurable objectives for achieving gender diversity in the workforce.

Female Representation
As at 31 July 2012 the proportion of females employed in the Group was as follows (ASX Recommendation 3.4)

	31 July 2012		31 July 2011	
	Number	**%**	**Number**	**%**
Board	0	0%	0	0%
Key Management Personnel	1	16.7%	1	16.7%
Other Management	13	21.0%	10	18.2%
Workforce	749	45.1%	703	45.2%

Principle 4 Safeguarding integrity in financial reporting

The Board has responsibility for ensuring the integrity of the financial statements and related notes and that the financial statements provide a true and fair view of the Company's financial position. To assist the Board in fulfilling this responsibility, the Board has established an Audit & Risk Committee which has the responsibility for providing assurance that the financial statements and related notes are complete, are in accordance with applicable accounting standards, and provide a true and fair view.

Audit & Risk Committee

The Audit & Risk Committee is comprised of three non-executive directors, two of whom are independent, and is chaired by Mr Denis Ledbury. Details of all members of the Audit & Risk Committee during the year, and their qualifications, are set out on page 6 of this Annual Report (ASX Recommendation 4.1, 4.2 & 4.4).

The Board has adopted a formal charter which details the function and responsibility of the Audit & Risk Committee to ensure the integrity of the financial statements and independence of the external auditor (ASX Recommendation 4.3). A copy of the charter can be found on the Company's website at http://www.tpg.com.au/about/investorrelations.php.

TPG Telecom Limited and its controlled entities
Directors' report
For the year ended 31 July 2012

4. Corporate governance statement (continued)

Principle 4 Safeguarding integrity in financial reporting (continued)

The Audit & Risk Committee's responsibilities include ensuring the integrity of the financial reporting process, the risk management system, internal reporting and controls, management of strategic and major financial and operational risks, and the external audit process, based on sound principles of accountability, transparency and responsibility.

The external auditors, other directors, and the Chief Financial Officer are invited to Audit & Risk Committee meetings at the discretion of the Chairman of the Committee. The Committee meets at least twice a year. It met twice during the year and the Committee members' attendance record is disclosed in the table of directors' meetings on page 7 of this Annual Report (ASX Recommendation 4.4).

Auditor selection and appointment

The Audit & Risk Committee will annually review the audit process including assessment of auditor independence. Any non-audit work requires the prior approval of the Committee, which approval will only be given where it can be established that it will not compromise the independence of the audit.

Principle 5 Make timely and balanced disclosure

Continuous disclosure

The Company believes that shareholders and the wider business community should be informed of all material information concerning the Company in a timely and accurate manner.

Accordingly, the Company has established a Market Disclosure Policy to ensure that the share market is properly informed of matters that may have a material impact on the price at which the Company's securities are traded (ASX Recommendation 5.1 and 5.2).

A copy of the Market Disclosure Policy can be found on the Company's website at http://www.tpg.com.au/about/investorrelations.php.

Principle 6 Respect the rights of shareholders

The Board aims to ensure that shareholders are informed of all major developments affecting the Company.

The Company posts its annual report and major announcements on its website under the Investor Relations section (http://www.tpg.com.au/about/investorrelations.php) and provides a link via the website to the ASX website so that all ASX releases, including notices of meetings, presentations, and analyst and media briefings, can be accessed (ASX Recommendation 6.1.).

Historical information is also available to shareholders on the Company's website including prior years' Annual Reports.

Shareholders are encouraged to participate at general meetings, either in person or by proxy, and are specifically offered the opportunity of receiving communications via email (ASX Recommendation 6.1 and 6.2).

4. Corporate governance statement (continued)

Principle 7 Recognise and manage risk

The Company has in place strategies and controls in relation to the management of financial risk, which include identifying and measuring financial risk, developing strategies to minimise the identified risks, and monitoring implementation.

The Chief Executive Officer and Chief Financial Officer are required to provide assurance to the Board as to the contents of the annual financial statements, including compliance with accounting standards, that they are founded on a sound system of financial risk management, and that the accounts represent a true and fair view of the Company's financial position (ASX Recommendation 7.3).

The Company has established a business risk framework based on AS/NZS 4360:2004 to ensure management, control and oversight of the major business risks of the Company. The framework takes into account various risks including operational, financial, compliance, technical, and strategic risks and provides a means of evaluation and reporting on the management of risk. As part of this process a risk management committee has been established to ensure oversight of the Company's business risk, and to report to the Audit & Risk Committee on the effectiveness of the risk management controls (ASX Recommendation 7.1, 7.2 & 7.4).

Principle 8 Remunerate fairly and responsibly

The Remuneration Committee reviews and makes recommendations to the Board on remuneration packages and policies applicable to executives and directors.

The Remuneration Committee comprises three non-executive directors, two of whom are independent, and is chaired by Mr Denis Ledbury. The Committee meets as required and at least twice a year. It met three times during the current year and the Committee members' attendance record is disclosed in the table of directors' meetings on page 7 of this Annual Report. Other directors are invited to attend these meetings at the discretion of the Committee Chairman.

Non-executive directors' fees may not exceed $500,000 per annum, as voted upon by shareholders at the 2004 AGM. In addition, non-executive directors will not be entitled to a retirement benefit, nor are any directors entitled to participate in share, option or rights plans except with the approval of shareholders.

For further information, refer to the Remuneration Report below (ASX Recommendation 8.2 & 8.3).

4.1 Remuneration report – audited

4.1.1 Principles of compensation

Remuneration is also referred to as compensation throughout this report.

Key management personnel have authority and responsibility for planning, directing and controlling the activities of the Company and of the Group, including the activities of directors of the Company and other executives. Key management personnel comprise the directors of the Company, and executives of the Company and of the Group, including the five most highly remunerated Company and Group executives.

Compensation 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 appropriateness of compensation packages relative to trends in comparable companies and to the objectives of the Group's compensation strategy.

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

4. Corporate governance statement (continued)

4.1 Remuneration report – audited (continued)

4.1.1 Principles of compensation (continued)

The compensation structures take into account the following:

- the capability and experience of the key management personnel
- the key management personnel's ability to affect the Group's performance
- the Group's performance
- the amount of incentives within each key management person's compensation

Compensation packages include a mix of fixed and variable compensation, and short-term and long-term performance-based incentives.
In addition to their salaries, key management personnel may also be provided with non-cash benefits.

Fixed compensation

Fixed compensation consists of base compensation (which includes FBT charges related to employee benefits such as motor vehicles), as well as employer contributions to superannuation funds. Compensation levels are reviewed annually by the Remuneration Committee through a process that considers individual performance and overall performance of the Group.

Performance-linked compensation

a) Long-term

Former

A former incentive plan which was terminated during 2008 included a long-term component under which shares allocated to certain employees vested at 20% per annum at the end of each of the five years following allocation, provided the employee continued to be employed by the Group. At 31 July 2012 certain key management personnel still had unvested shares under this former incentive plan, as set out below in 4.1.3.1.

Current

The Board introduced a new long-term incentive structure during the year ended 31 July 2012, in the form of a Performance Rights Plan. Under the rules of the Performance Rights Plan, participants may be granted rights to acquire fully paid ordinary share in the Company for no consideration, subject to certain performance conditions.

The first grant of Performance Rights under the new plan took place on 9 March 2012. The key terms of the Performance Rights issued under this grant are as follows:

- One third of the Performance Rights granted will vest each year following the release of the Group's audited financial statements for the financial years ending 31 July 2012, 2013 and 2014, subject to the satisfaction of certain 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 Company has met its financial objectives for the financial year immediately preceding the relevant vesting date.

Any Performance Rights which do not vest, automatically lapse.

Details of the Performance Rights that have been granted to key management personnel during the year ended 31 July 2012 are set out in table 4.1.3.1 below.

4.1 Remuneration report – audited (continued)

4.1.1 Principles of compensation (continued)

Performance-linked compensation (continued)

b) Short-term

Certain short-term cash bonuses were paid during the year, including to certain key management personnel, to award individual performance. Bonuses awarded to the executive directors were determined by the Remuneration Committee at the start of the financial year, to be paid at the end of the financial year if the Group achieved certain financial targets, which were achieved. Bonuses awarded to other key management personnel were determined by the Executive Chairman in conjunction with the Remuneration Committee. Bonuses awarded to other staff were made at the discretion of the Executive Chairman.

Link of Remuneration to Group Financial Performance

In determining the short-term incentive component of executives' remuneration, consideration is given to the Group's performance, including against its financial targets. The Remuneration Committee believes that the current remuneration structures have been effective as evidenced by the Group's strong profit growth since 2008.

The table below shows the Group's Earnings per Share (EPS) and dividends paid (or declared) in respect of the last 5 years.

	2008	2009	2010	2011	2012
EPS (cents)	(3.9)	2.6	7.6	10.1	11.5
Ordinary dividends paid or declared (cents per share)	0.0	2.0	4.0	4.5	5.5

Non-monetary benefits

Key management personnel can also receive non-monetary benefits as part of the terms and conditions of their appointment. Non-monetary benefits typically include motor vehicles and annual leave entitlements. The Group pays fringe benefits tax on such benefits where applicable.

Service contracts

No key management personnel employment contract has a fixed term, and no key management personnel employment contract contains any provision for termination benefits other than as required by law.

No key management personnel employment contract has a notice period of greater than one month, except for the Group's employment contract with Mr D Teoh, which provides that the contract may be terminated by either party giving three months notice.

Non-executive directors

Total compensation for all non-executive directors, last voted upon by shareholders at the 2004 AGM, is not to exceed $500,000 per annum. Non-executive directors do not receive performance related compensation. Directors' fees cover all main board activities and membership of committees.

4.1 Remuneration report – audited (continued)

4.1.2 Directors' and executive officers' remuneration

The key management personnel as at 31 July 2012 were as follows:

Mr D Teoh	Executive Chairman & Chief Executive Officer
Mr A Latimer	Executive Director, Finance & Corporate Services
Mr R Millner	Non-Executive Director
Mr D Ledbury	Non-Executive Director
Mr J Pang	Non-Executive Director
Ms M De Ville	Chief Information Officer
Mr S Banfield	Chief Financial Officer & Company Secretary
Mr C Levy	General Manager, Consumer
Mr J Paine	National Technical & Strategy Manager
Mr W Springer	General Manager, Corporate Sales

Mr S Teoh's appointment as a non-executive director of the Company occurred subsequent to the 31 July 2012 year-end, on 11 October 2012.

4.1 Remuneration report – audited (continued)

4.1.2 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 table below:

Directors		Short-term				Post-employment			Share-based payments				
		Salary & fees $	(A) STI cash bonus $	Non-monetary benefits $	Total $	Superannuation benefits $	Other long term $	Termination benefits $	(B) Performance Rights $	(C) Shares $	Total $	Proportion of remuneration performance related %	Value of Rights as proportion of remuneration %
Executive Directors													
Mr D Teoh, Chairman	2012	611,538	800,000	222,246	1,633,784	46,346	71,665	-	-	-	1,751,795	46%	-
	2011	459,632	400,000	169,225	1,028,857	37,558	35,547	-	-	-	1,101,962	36%	-
Mr A Latimer	2012	256,584	200,000	8,903	465,487	22,270	6,961	-	-	-	494,718	40%	-
	2011	233,553	180,000	22,705	436,258	22,955	2,469	-	-	-	461,682	39%	-
Non-executive Directors													
Mr D Ledbury	2012	67,500	-	-	67,500	6,075	-	-	-	-	73,575	-	-
	2011	67,500	-	-	67,500	6,075	-	-	-	-	73,575	-	-
Mr R Millner	2012	65,000	-	-	65,000	5,850	-	-	-	-	70,850	-	-
	2011	65,000	-	-	65,000	5,850	-	-	-	-	70,850	-	-
Mr J Pang	2012	65,000	-	-	65,000	5,850	-	-	-	-	70,850	-	-
	2011	65,000	-	-	65,000	5,850	-	-	-	-	70,850	-	-

Mr S Teoh's appointment as a non-executive director occurred subsequent to the year-end and hence he did not receive any remuneration for the year ended 31 July 2012.

TPG Telecom Limited and its controlled entities
Directors' report

For the year ended 31 July 2012

4.1 Remuneration report – audited (continued)

4.1.2 Directors' and executive officers' remuneration (continued)

		Short-term				Post-employment			Share-based payments				
Directors		Salary & fees $	(A) STI cash bonus $	Non-monetary benefits $	Total $	Superannuation benefits $	Other long term $	Termination benefits $	(B) Performance Rights $	(C) Shares $	Total $	Proportion of remuneration performance related %	Value of Rights as proportion of remuneration %
Ms M De Ville	2012	211,609	10,000	2,989	224,598	19,891	3,226	-	-	2,708	250,423	5%	-
	2011	211,009	20,000	9,081	240,090	20,791	3,814	-	-	2,707	267,402	8%	-
Mr S Banfield	2012	183,917	85,000	8,481	277,398	24,127	4,621	-	42,766	8,473	357,385	38%	12%
	2011	174,231	100,000	(2,393)	271,838	24,681	4,780	-	-	8,472	309,771	35%	-
Mr C Levy	2012	183,677	135,000	2,029	320,706	28,627	4,215	-	57,021	7,667	418,236	48%	14%
	2011	174,231	100,000	4,073	278,304	24,681	4,369	-	-	7,666	315,020	34%	-
Mr J Paine	2012	188,515	85,000	6,942	280,457	23,850	3,004	-	42,766	-	350,077	36%	12%
	2011	185,705	100,000	6,783	292,488	24,936	6,533	-	-	-	323,957	31%	-
Mr W Springer	2012	183,400	85,000	7,418	275,818	23,400	2,923	-	42,766	-	344,907	37%	12%
	2011	178,628	100,000	3,901	282,529	24,309	10,397	-	-	-	317,235	32%	-
Mr J Sinclair (ceased	2012	264,724	60,000	(24,980)	299,744	25,910	(10,483)	40,000	-	-	355,171	17%	-
employment 20 July 2012)	2011	181,284	250,000	20,108	451,392	38,816	10,483	-	-	-	500,691	50%	-

TPG Telecom Limited and its controlled entities
Directors' report
For the year ended 31 July 2012

4.1 Remuneration report – audited (continued)
4.1.2 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 2012 and 31 July 2011 were for performance during those years.

B. Certain executives received Performance Rights during the year ended 31 July 2012 as part of their remuneration. The fair value of the Rights was 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 weighted average fair value of the Rights granted during the year was $1.4733. The share price at date of grant was $1.56. 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 the reporting date. Although no Rights vested during the year ended 31 July 2012, the value reflected in the remuneration table is the proportion of the fair value that has been expensed to-date in the Group's accounts in respect of each executive.

C. Certain executives received shares as part of their remuneration under a former incentive plan that ceased to operate in 2008. The fair value of the shares was the market value of the shares purchased for the executive under the scheme. The fair value is allocated to each reporting period evenly over the period from grant date to vesting date subject to certain events which trigger vesting.

4.1.3 Equity instruments
4.1.3.1 Shares, options and rights over equity instruments granted as compensation

Details of Performance Rights that were granted to key management personnel during the financial year ended 31 July 2012 are set out below. All Rights had a grant date of 9 March 2012, were provided at no cost to the recipients, and have an exercise price of $nil.

	Number of Rights granted during 2012	Number of Rights forfeited during 2012	Number of Rights vested during 2012	Number of Rights held as at 31 July 2012	Fair value per Right at grant date ($)
Mr S Banfield	75,000	-	-	75,000	$1.4733
Mr C Levy	100,000	-	-	100,000	$1.4733
Mr J Paine	75,000	-	-	75,000	$1.4733
Mr W Springer	75,000	-	-	75,000	$1.4733
Mr J Sinclair	150,000	150,000	-	-	$1.4733

There has been no vesting or granting of any options or rights since the year-end. There were no options or rights outstanding during the previous financial year.

The shares in the table below were granted on 13 December 2007 under a former incentive plan that ceased to operate in 2008. The table shows the number of shares that vested during the year and the number of unvested shares at the year end. The unvested shares will continue to vest over a period of 3 years if certain performance conditions are met, in accordance with the rules described in 4.1.1(a).

4.1 Remuneration report – audited (continued)

4.1.3 Equity instruments (continued)

4.1.3.1 Shares, options and rights over equity instruments granted as compensation (continued)

	Number of unvested shares as at 31 July 2011	Number of shares vested during 2012	Number of unvested shares as at 31 July 2012	Fair value per share at grant date ($)
Mr S Banfield	35,619	19,996	15,623	$0.42373
Mr C Levy	32,534	18,115	14,419	$0.42322
Ms M De Ville	9,890	6,283	3,607	$0.43096

4.1.3.2 Modification of terms of equity-settled share-based payment transactions

No terms of equity-settled share-based payment transactions (including options and rights granted as compensation to a key management person) have been altered or modified by the issuing entity during the reporting period or the prior period.

4.1.3.3 Exercise of options granted as compensation

No rights or options were exercised, nor were available to be exercised during the reporting period.

5. Principal activities

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

6. Operating and financial review

Commentary on the Group's operating and financial performance is provided in the Chairman's Report on pages 3 to 4.

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 $'000	Franked/ unfranked	Date of payment
Final 2011 ordinary	2.25	17,637	Franked	22 Nov 2011
Interim 2012 ordinary	2.75	21,830	Franked	22 May 2012
Total amount		**39,467**		

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 FY12 dividend of 2.75 cents per ordinary share, payable on 20 November 2012 to shareholders on the register at 16 October 2012.

The financial effect of this dividend has not been brought to account in the financial statements for the year ended 31 July 2012 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

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 R Millner	7,374,175
Mr D Ledbury	150,000
Mr A Latimer	500,000
Mr J Pang	88,812
Mr S Teoh	90,251

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 of the five most highly remunerated officers of the Group as part of their remuneration:

	Number of rights granted
Mr S Banfield	75,000
Mr C Levy	100,000
Mr J Paine	75,000
Mr W Springer	75,000
Mr J Sinclair	150,000

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

Unissued shares under options

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

Shares issued on exercise of options

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 2012 (2011: Nil).

12. Indemnification and insurance of officers and auditors

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 $48,276 (2011: $41,935) 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 the auditor of the Company, KPMG, and its related practices for audit and non-audit services provided during the year are set out below.

	2012 $	2011 $
Audit services:		
Auditors of the Company:		
Audit and review of financial reports	405,012	378,800
Services other than statutory audit:		
Other regulatory audit services:		
Telecommunications USO return	8,000	13,500
Bank covenant compliance certificate	7,500	7,500
Other services:		
Taxation advisory services	32,321	103,822
	47,821	124,822

14. Lead auditor's independence declaration

The Lead auditor's independence declaration is set out on page 87 and forms part of the directors' report for the financial year ended 31 July 2012.

15. Rounding off

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

This report is made with a resolution of the directors.

David Teoh
Chairman

Dated at Sydney this 11th day of October, 2012.

Consolidated income statement

For the year ended 31 July 2012

In thousands of AUD	Note	2012	2011
Revenue	7	663,139	574,513
Dividend income		1,438	667
Telecommunications expense		(307,066)	(260,305)
Employee benefits expense		(58,660)	(48,345)
Other expenses		(37,445)	(32,502)
Earnings before interest, tax, depreciation and amortisation (EBITDA)		**261,406**	**234,028**
Depreciation of plant and equipment	19	(47,063)	(46,399)
Amortisation of intangibles	20	(33,957)	(47,037)
Results from operating activities		**180,386**	**140,592**
Finance income		718	1,206
Finance expenses		(17,863)	(28,555)
Net financing costs	9	**(17,145)**	**(27,349)**
Profit before income tax		**163,241**	**113,243**
Income tax expense (i)	10	(72,277)	(35,081)
Profit for the year attributable to owners of the company		**90,964**	**78,162**
Earnings per share:			
Basic and diluted earnings per share (cents)	11	11.5	10.1

(i) Income tax expense for FY12 includes a one-off tax expense of $23,206k that arose as a result of a retrospective change in tax legislation enacted in June 2012 that caused the Group to lose the right to claim tax deductions for its acquired customer base amortisation.

Consolidated statement of comprehensive income

For the year ended 31 July 2012

In thousands of AUD	***Note***	**2012**	**2011**
Profit for the year		**90,964**	**78,162**
Foreign exchange translation differences		6	(50)
Net change in fair value of available-for-sale financial assets, net of tax	***16***	9,744	982
Other comprehensive income, net of tax		**9,750**	**932**
Total comprehensive income attributable to owners of the company		**100,714**	**79,094**

Consolidated statement of financial position

As at 31 July 2012

In thousands of AUD	*Note*	31 July 2012	31 July 2011
Assets			
Cash and cash equivalents	*12*	13,767	9,525
Trade and other receivables	*13*	38,013	30,310
Inventories	*14*	363	262
Investments	*16*	47,619	11,293
Prepayments and other assets	*15*	7,515	6,655
Total Current Assets		**107,277**	**58,045**
Trade and other receivables	*13*	6,049	-
Property, plant and equipment	*19*	323,915	314,440
Intangible assets	*20*	523,225	541,448
Prepayments and other assets	*15*	434	809
Total Non-Current Assets		**853,623**	**856,697**
Total Assets		**960,900**	**914,742**
Liabilities			
Trade and other payables	*21*	85,376	72,957
Loans and borrowings	*22*	357	76,214
Current tax liabilities	*17*	39,542	19,482
Employee benefits	*23*	4,606	3,865
Provisions	*24*	2,347	2,000
Accrued Interest		276	380
Deferred income and other liabilities	*25*	44,443	36,312
Total Current Liabilities		**176,947**	**211,210**
Loans and borrowings	*22*	144,360	149,474
Deferred tax liabilities	*18*	15,140	7,362
Employee benefits	*23*	743	603
Provisions	*24*	6,671	6,912
Deferred income and other liabilities	*25*	26,262	23,320
Total Non-Current Liabilities		**193,176**	**187,671**
Total Liabilities		**370,123**	**398,881**
Net Assets		**590,777**	**515,861**
Equity			
Share Capital	*26*	516,907	502,874
Reserves		10,497	1,111
Retained earnings		63,373	11,876
Total Equity		**590,777**	**515,861**

The notes on pages 28 to 83 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity
For the year ended 31 July 2012

In thousands of AUD	*Note*	Share capital	Foreign currency translation reserve	Treasury share reserve	Fair value reserve	Total reserves	Retained earnings	Total equity
		Attributable to owners of the Company						
Balance as at 1 August 2010		**478,814**	**150**	**(157)**	**110**	**103**	**(33,480)**	**445,437**
Profit for the year		-	-	-	-	-	78,162	78,162
Foreign currency translation differences		-	(50)	-	-	(50)	-	(50)
Net change in fair value of available-for-sale financial assets, net of tax	*16*	-	-	-	982	982	-	982
Total comprehensive income for the period		**-**	**(50)**	**-**	**982**	**932**	**78,162**	**79,094**
Share based payment transactions		-	-	76	-	76	-	76
Transaction costs, net of tax	*26*	(26)	-	-	-	-	-	(26)
Dividends paid to shareholders	*26*	24,086	-	-	-	-	(32,806)	(8,720)
Total contributions by and distributions to owners		**24,060**	**-**	**76**	**-**	**76**	**(32,806)**	**(8,670)**
Balance as at 31 July 2011		**502,874**	**100**	**(81)**	**1,092**	**1,111**	**11,876**	**515,861**
Balance as at 1 August 2011		**502,874**	**100**	**(81)**	**1,092**	**1,111**	**11,876**	**515,861**
Profit for the year		-	-	-	-	-	90,964	90,964
Foreign currency translation differences		-	6	-	-	6	-	6
Net change in fair value of available-for-sale financial assets, net of tax	*16*	-	-	-	9,744	9,744	-	9,744
Total comprehensive income for the period		**-**	**6**	**-**	**9,744**	**9,750**	**90,964**	**100,714**
Share based payment transactions		-	-	(364)	-	(364)	-	(364)
Issue of ordinary shares	*26*	607	-	-	-	-	-	607
Transaction costs, net of tax	*26*	(24)	-	-	-	-	-	(24)
Dividends paid to shareholders	*26*	13,450	-	-	-	-	(39,467)	(26,017)
Total contributions by and distributions to owners		**14,033**	**-**	**(364)**	**-**	**(364)**	**(39,467)**	**(25,798)**
Balance as at 31 July 2012		**516,907**	**106**	**(445)**	**10,836**	**10,497**	**63,373**	**590,777**

The notes on pages 28 to 83 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows
For the year ended 31 July 2012

In thousands of AUD	*Note*	2012	2011
Cash flows from operating activities			
Cash receipts from customers		726,940	632,745
Cash paid to suppliers and employees		(449,765)	(417,559)
Cash generated from operations		277,175	215,186
Income taxes paid		(47,703)	(47,538)
Net cash from operating activities		**229,472**	**167,648**
Cash flows from investing activities			
Acquisition of property, plant and equipment		(64,610)	(43,254)
Acquisition of subsidiaries, net of cash acquired	*36*	(11,313)	-
Costs incurred on acquisition of subsidiaries	*36*	(132)	-
Acquisition of investments	*16*	(22,406)	-
Dividends received		1,438	667
Net cash used in investing activities		**(97,023)**	**(42,587)**
Cash flows from financing activities			
Transaction costs related to issue of shares		(34)	(37)
Transaction costs related to loans & borrowings		(1,290)	-
Payment of finance lease liabilities		(843)	(415)
Proceeds from borrowings	*22*	25,000	10,000
Repayment of borrowings	*22*	(109,548)	(110,000)
Interest received		349	1,206
Interest paid		(15,179)	(24,625)
Dividends paid, net of Dividend Reinvestment Plan		(26,017)	(8,720)
Net cash used in financing activities		**(127,562)**	**(132,591)**
Net increase/(decrease) in cash and cash equivalents		4,887	(7,530)
Cash and cash equivalents at beginning of the year	*12*	9,525	17,112
Effect of exchange rate fluctuations		(645)	(57)
Cash and cash equivalents at end of the year	*12*	**13,767**	**9,525**

Index to notes to the consolidated financial statements

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 2012, comprise the Company and its subsidiaries (together referred to as the 'Group').

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 11 October 2012.

(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 4.

Notwithstanding the fact that the classifications within the 31 July 2012 consolidated statement of financial position show a net current liability position, the accounts have been prepared on a going concern basis as there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable based on its Board approved cashflow projections, and also the undrawn debt facility available to it (refer note 22).

(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 Class Order 98/100 dated 10 July 1998, and in accordance with that Class Order all financial information presented in Australian dollars has been rounded to the nearest thousand 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 in the period in which the estimate is revised and in any future periods affected.

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

- note 3(m)(iii) and note 7 – Revenue recognition for network capacity sales
- note 20 – measurement of the recoverable amounts of cash-generating units containing goodwill
- note 27 – valuation of financial instruments
- note 36 – business combinations

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently across the Group.

(a) Basis of consolidation

(i) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

Acquisitions on or after 1 July 2009

For acquisitions on or after 1 July 2009, the Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

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

When share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards) and relate to past services, then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquiree's awards and the extent to which the replacement awards relate to past and/or future service.

Acquisitions pre 1 July 2009

For acquisitions pre 1 July 2009, goodwill represents the excess of the cost of the acquisition over the Group's interest in the recognised amount (generally fair value) of the identifiable assets, liabilities and contingent liabilities of the acquiree.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connection with business combinations were capitalised as part of the cost of the acquisition.

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result of such transactions. The adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary.

3. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(ii) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that 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, including goodwill and fair value adjustments arising on acquisition, 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.

3. Significant accounting policies (continued)

(d) Financial Instruments

(i) Non-derivative financial assets

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

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 on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

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

The Group has the following non-derivative financial assets:

Loans and receivables
Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.
Loans and receivables comprise trade and other receivables.

Cash and cash equivalents
Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less.

Available-for-sale financial assets
Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any other category of financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see note 3(h)(i)), are recognised in other comprehensive income and presented within equity in the fair value reserve in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss.

Available-for-sale financial assets comprise equity securities.

(ii) Non-derivative financial liabilities

The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

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

Financial assets and liabilities are offset and the net amount presented in the statement of financial position only when the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.
Non-derivative financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest rate method.
Non-derivative financial liabilities comprise loans and borrowings, bank overdrafts and trade and other payables.
Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

3. Significant accounting policies (continued)

(d) Financial Instruments (continued)

(iii) Share capital

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.

(e) Property, plant and equipment

(i) Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see accounting policy (h)). 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) 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) Subsequent costs

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred, if it is probable that the future economic benefits embodied within the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

(iv) 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:

• Plant and equipment	2.5 - 25 years
• Buildings	40 years
• Leasehold improvements	8 years
• Leased assets	5 - 10 years

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

3. Significant accounting policies (continued)

(f) Intangible assets

(i) Goodwill

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets. For the measurement of goodwill at initial recognition, see note 3(a)(i).

Subsequent to its initial recognition, goodwill is measured at cost less accumulated impairment losses.

(ii) Other intangible assets

Other intangible assets that are acquired by the Group and have finite useful lives are stated at cost less accumulated amortisation (see below) and impairment losses (see accounting policy (h)).

The various categories of other intangible assets in the Group's accounts are as follows:

- **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.

- **Trademark**
  On acquisition of a subsidiary, trademarks of the acquired subsidiary are valued and brought to account as intangible assets. The valuation of a trademark is calculated using the Relief from Royalty Method.

- **Internally-generated software**
  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.

- **Indefeasible right 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.

- **Development costs**
  Operating costs incurred in developing or acquiring income producing assets are recognised as an asset and amortised using the straight line method from the date of initial recognition over the period during which the future economic benefits are expected to be obtained.

- **Capitalised subscriber costs**
  Capitalised subscriber costs, comprising dealer connection commissions, fulfilment costs and sim-cards are recognised as an asset and amortised using the straight line method from the date of initial recognition over the period during which the future economic benefits are expected to be obtained, being the contract period.

3. Significant accounting policies (continued)

(f) Intangible assets (continued)

(iii) 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.

(iv) 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:

• Goodwill	- Indefinite life
• Acquired customer bases & reacquired rights	- Amortised on a reducing balance basis in line with the expected economic benefits to be derived from the acquired customer base
• Trademark	- Indefinite life
• Internally-generated software	- 5 years
• Indefeasible right of use (IRU) of capacity	- Amortised over the life of the IRU
• Development costs	- 2 - 20 years
• Capitalised subscriber costs	- 2 years

(g) 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.

(h) Impairment

A financial 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 cash flows of that asset.

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

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.

3. Significant accounting policies (continued)

(h) Impairment (continued)

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/group of units and then to reduce the carrying amount of the other assets in the units/group of 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. Impairment testing of significant receivables that are not assessed as impaired individually is performed by placing them into portfolios of significant receivables with similar risk profiles and undertaking a collective assessment of 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 cash flows 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.

(i) Employee benefits

(i) Long-term service benefits

The Group's net 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 the Commonwealth Government bonds at the balance sheet date which have maturity dates approximating to the terms of the Group's obligations.

3. Significant accounting policies (continued)

(i) Employee benefits (continued)

(ii) Wages, salaries, annual leave and non-monetary benefits

Liabilities for employee benefits for wages, salaries and annual leave 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. Non-accumulating non-monetary benefits such as medical care, cars and free or subsidised goods and services, are expensed based on cost to the Group as the benefits are taken by the employees.

(iii) Performance Rights Plan

The Group has in place a Performance Rights Plan that provides for selected employees to be granted rights to acquire 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 treasury share 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 treasury share 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.

(iv) Employee share scheme

The Group has in place an Employee Share Scheme that provides for selected employees to receive ordinary shares in the Company. 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 treasury share 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 treasury share reserve.

(v) Superannuation

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

(j) 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.

(k) Provisions

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 cash flows 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.

(l) Trade and other payables

Trade and other payables are stated at their amortised cost. Trade payables are non-interest bearing and are normally settled on 30-60 day terms.

3. Significant accounting policies (continued)

(m) Revenue

All revenue is recognised at fair value of the consideration received or receivable, net of the amount of goods and services tax (GST).

(i) Rendering of services

Revenue from the rendering of telecommunications services includes the provision of data, internet, voice, telehousing and other services.

Revenue from the rendering of data, internet and telehousing services to consumers and corporate customers is recognised on a straight-line basis over the period the service is provided. 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.

Revenue from the sale of goods 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) Network capacity sales

Where a sale of network capacity relates to a specific separable asset, the sale is accounted for as a lease and the Group is considered to be the lessor in the arrangement.

Where a sale which has been identified as a lease also contains the following characteristics, it is accounted for as a finance lease:

(i) the purchaser's right of use is exclusive and irrevocable;
(ii) the terms of the contract are for the major part of the asset's useful economic life;
(iii) the attributable costs or carrying value can be measured reliably; and
(iv) no significant risks are retained by the Group.

Finance lease sales are accounted for by recognising in revenue the net gain on disposal of the specific asset at the time the asset is de-recognised.

Lease sales that do not satisfy the above criteria are accounted for as operating leases, with revenue recognised over the period of the contract on a straight-line basis.

Where a sale of network capacity is deemed not to relate to a specific separable asset, the sale is accounted for as the rendering of a service and accounted for as described in (m)(i) above.

3. Significant accounting policies (continued)

(m) Revenue (continued)

(iv) 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.

(n) Expenses

(i) Lease payments

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.

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.

Determining whether an arrangement contains a lease
At inception of an arrangement, including sales of capacity described in note 3(m) above, 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.

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.

(ii) Finance income and expenses

Net financing costs comprise interest payable on borrowings calculated using the effective interest method and interest receivable on funds invested. 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 are incurred and included in net financing costs.

Interest income is recognised in the income statement as it accrues, using the effective interest method. The interest expense component of finance lease payments is recognised in the income statement using the effective interest method.

3. Significant accounting policies (continued)

(o) Income tax

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 items recognised directly in equity, in which case it is recognised in equity.

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 affect 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 levies by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets 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 have 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.

(p) 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.
Segment results that are reported to the Executive Chairman include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise dividend income, corporate expenses and listing fees.

3. Significant accounting policies (continued)

(q) 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.

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

(r) Earnings per share

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 ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting both the profit or loss attributable to ordinary shareholders of the Company, and the weighted average number of ordinary shares outstanding, for the effects of all dilutive potential ordinary shares, being share options.

(s) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 August 2011, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except for AASB 9 Financial Instruments, which becomes mandatory for the Group's 2016 consolidated financial statements and could change the classification and measurement of financial assets. The Group does not plan to adopt this standard early and the extent of the impact has not been determined.

4. 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.

Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction. The market value of items of plant, equipment, fixtures and fittings is based on the quoted market prices for similar items.

Intangible assets

The fair value of patents and trademarks acquired in a business combination is based on the discounted estimated royalty payments that have been avoided as a result of the patent or trademark being owned. The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

Inventories

The fair value of inventories acquired in a business combination is determined based on their estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, 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 cash flow 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 cash flows, 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.

5. Financial risk management

Overview

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 (including note 27).

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. The Group's Audit & Risk Committee is assisted in its oversight role by the Risk Management Committee. The Risk Management Committee undertakes reviews of risk management controls and procedures, the results of which are reported to the Group's Audit & Risk Committee.

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.

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer, the industry in which the customers operate, 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.
- Geographically, the Group's credit risk is concentrated in Australia.

5. Financial risk management (continued)

Credit risk (continued)

Trade and other receivables (continued)

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 Group's review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer. These limits are reviewed regularly. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis.

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, retail or end-user customer, geographic location, industry, ageing profile, maturity, and existence of previous financial difficulties.

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

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 cash flow 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.

The Group maintains a bank overdraft facility of $15.3 million (2011: $10.6 million) which was fully unutilised at 31 July 2012 (2011: fully unutilised). In addition, the Group had $151.0 million of its debt facility available for drawdown as at 31 July 2012 (2011: $48.0 million).

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 the return.

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) and the Philippine peso (PHP).

The Group has to-date not hedged its exposure to these non-functional currencies as the exposure is not considered to be a significant risk to the Group.

Interest rate risk

The Group has adopted a policy of hedging its exposure to changes in interest rates on its core borrowings. An interest rate cap agreement was entered into on 30 April 2010 to hedge 75 percent of the maximum value of loans available under the Syndicated Debt Facility Agreement entered into on 12 March 2010. At 31 July 2012, the maximum value of loans available under the facility was $300 million and the amount drawn down was $149 million.

5. Financial risk management (continued)

Equity price risk

Equity price risk arises from the Group's investments in available-for-sale equity securities. Material investments are managed on an individual basis with the goal of maximising returns.

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 monitors the level of dividends to ordinary shareholders.

It is a policy of the Board to encourage employees of the Group to hold ordinary shares in the Company.

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 end of the reporting date was as follows:

In thousands of AUD	**2012**	**2011**
Total loans and borrowings	149,000	232,000
Less: cash and cash equivalents	(13,767)	(9,525)
Net debt	**135,233**	**222,475**
Total equity	**590,777**	**515,861**
Net debt to equity ratio at 31 July	**0.23**	**0.43**

6. Segment reporting

The Group identifies its operating segments based on the internal reports that are reviewed and used by the Executive Chairman (the chief operating decision maker) in assessing performance and in determining the allocation of resources.

The operating segments previously identified by the Group were the Consumer, Corporate and PIPE Networks segments. However, following further integration of the Group's operations during the year ended 31 July 2012, the results of PIPE Networks are now recognised within the Corporate segment and are presented as such in this segment note (with the prior year comparatives having also been re-stated for comparability).

Subsequent to its acquisition, the results from operations of IntraPower Limited are also included within the Corporate segment.

The Group's Consumer segment provides retail telecommunications services to residential and small business customers. The Group's Corporate segment provides telecommunications services to corporate, government, and wholesale customers.

In the following table, expenses in the 'Unallocated' column comprise professional fees incurred in relation to business combinations, plus other corporate costs and listing fees.

6. Segment Reporting (continued)

	Information about reportable segments						Reconciliation to profit for the year			
	Consumer		**Corporate***		**Total results**		**Unallocated**		**Consolidated results for the year**	
In thousands of AUD	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Revenue	403,233	374,250	259,906	200,263	663,139	574,513	-	-	663,139	574,513
Dividend income	-	-	-	-	-	-	1,438	667	1,438	667
Telecommunications expense	(205,953)	(181,038)	(101,113)	(79,267)	(307,066)	(260,305)	-	-	(307,066)	(260,305)
Employee benefits expense	(23,242)	(20,892)	(35,418)	(27,453)	(58,660)	(48,345)	-	-	(58,660)	(48,345)
Other expenses	(24,571)	(23,618)	(12,591)	(8,044)	(37,162)	(31,662)	(283)	(840)	(37,445)	(32,502)
EBITDA	**149,467**	**148,702**	**110,784**	**85,499**	**260,251**	**234,201**	**1,155**	**(173)**	**261,406**	**234,028**
Depreciation of plant and equipment	(17,425)	(18,496)	(29,638)	(27,903)	(47,063)	(46,399)	-	-	(47,063)	(46,399)
Results from Segment activities	**132,042**	**130,206**	**81,146**	**57,596**	**213,188**	**187,802**	**1,155**	**(173)**	**214,343**	**187,629**
Amortisation of intangibles									(33,957)	(47,037)
Results from operating activities									**180,386**	**140,592**
Net financing costs									(17,145)	(27,349)
Profit before income tax									**163,241**	**113,243**
Income tax expense									(72,277)	(35,081)
Profit for the year									**90,964**	**78,162**

* As explained on page 46, comparative figures have been re-stated to include Pipe Networks within the Corporate Segment.

Geographic Information

All of the Group's revenues are derived from Australian based entities, except for $7.7 million (2011: $7.3 million) derived from overseas customers.

All of the Group's non-current assets are located in Australia, except for assets amounting to $129.7 million (2011: $137.6 million) that are located either overseas or in international waters.

7. Revenue

In thousands of AUD	2012	2011
Revenue comprises the following:		
Rendering of services	587,692	523,160
Sale of goods	7,505	5,425
Network capacity sales, recognised as:		
- operating leases	47,265	39,516
- finance leases	20,677	6,412
	663,139	**574,513**

8. Auditors' remuneration

In AUD

	2012	2011
Audit and review services		
Auditors of the Company – KPMG Australia		
Audit and review of financial statements	405,012	378,800
Other regulatory audit services	15,500	21,000
	420,512	399,800
Other services		
Auditors of the Company – KPMG Australia		
Taxation	32,321	103,822
	452,833	503,622

9. Finance income and expense

Recognised in the income statement

In thousands of AUD	**2012**	**2011**
Interest income	718	1,206
Interest expense	(14,965)	(24,486)
Unwinding of discount on provisions	(110)	(110)
Borrowing costs	(2,788)	(3,959)
Net finance expense	**(17,145)**	**(27,349)**

Recognised in equity

In thousands of AUD	**2012**	**2011**
Foreign currency translation differences on retranslation of foreign operations	6	(50)
Net change in fair value of available-for-sale financial assets	9,744	982
Net finance income recognised directly in equity, net of tax, attributable to owners of the company	9,750	932

10. Income tax expense

In thousands of AUD		**2012**	**2011**
Current tax expense			
Current year		53,373	37,006
Adjustments for prior years		(195)	104
Adjustment arising from change in legislation	*(i)*	14,964	-
		68,142	37,110
Deferred tax expense			
Origination and reversal of temporary differences		(4,967)	(2,029)
Adjustments for prior years		860	-
Adjustment arising from change in legislation	*(i)*	8,242	-
		4,135	(2,029)
Income tax expense		**72,277**	**35,081**

Numerical reconciliation between tax expense and pre-tax accounting profit

In thousands of AUD		**2012**	**2011**
Profit before tax		163,241	113,243
Income tax expense using the domestic corporation tax rate of 30%		48,972	33,973
Increase in income tax expense due to:			
Non-deductible expenses		73	1,144
Adjustment arising from change in legislation	*(i)*	23,206	-
Income tax expense on profit before tax		72,251	35,117
Under/(over) provided in prior year		26	(36)
Income tax expense		**72,277**	**35,081**

10. Income tax expense (continued)

(i) In May 2010 the Government enacted tax consolidation legislation amendments related to 'rights to future income'. The Group has 'rights to future income' assets in its balance sheet reflected as acquired customer bases within intangible assets. These May 2010 legislation amendments enabled the Group to claim tax deductions related to the amortisation of its acquired customer bases.

These amendments were reflected in the Group's FY10 financial statements through the recognition of a one-off reduction in tax expense in the income statement of $3.1m, and by the fact that no deferred tax liability was created in the acquisition balance sheet relating to the acquired PIPE Networks customer base (a $20.1m deferred tax liability would otherwise have been created with the offset being that goodwill arising on the acquisition of PIPE Networks would have been higher by $20.1m).

In June 2012 the Government enacted new legislation reversing the May 2010 amendments both retrospectively and prospectively, thereby causing the Group to lose the right to claim tax deductions for its acquired customer base amortisation.

As a result the Group has had to recognise in the current year accounts an additional current tax liability of $15.0m, additional deferred tax liabilities of $8.2m, and consequently a one-off increase in tax expense in the income statement of $23.2m.

It is important to note that if the Government had not enacted the May 2010 tax consolidation amendments, then $20.1m of this $23.2m adjustment would never have impacted upon the Group's income statement as the acquisition balance sheet for the PIPE Networks acquisition would have reflected a deferred tax liability for this amount. This now, however, has to be recognised in the income statement as accounting standards do not allow an acquisition balance sheet to be amended after greater than 12 months.

11. Earnings per share

	2012 Cents	2011 Cents
Basic and diluted earnings per share	11.5	10.1

	2012 Number	2011 Number
Weighted average number of shares used in calculating basic and diluted earnings per share:		
Ordinary shares on issue at 1 August	783,481,644	767,849,104
Effect of shares issued under the Dividend Reinvestment Plan	6,825,024	6,864,647
Effect of shares issued on acquisition of IntraPower Limited	357,323	-
Weighted average number of ordinary shares at 31 July	**790,663,991**	**774,713,751**

In thousands of AUD	2012	2011
Profit attributable to ordinary shareholders used in calculating basic and diluted earnings per share	90,964	78,162

12. Cash and cash equivalents

In thousands of AUD	2012	2011
Bank balances	13,760	9,519
Cash	7	6
Cash and cash equivalents	13,767	9,525

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 27.

13. Trade and other receivables

In thousands of AUD	2012	2011
Current		
Trade receivables	28,434	28,383
Accrued income and other receivables	16,663	7,170
Less: Provision for impairment losses	(7,084)	(5,243)
	38,013	30,310
Non-Current		
Accrued income and other receivables	6,049	-

The Group's exposure to credit and currency risk and impairment losses related to trade and other receivables is disclosed in note 27.

14. Inventories

In thousands of AUD	2012	2011
Customer equipment inventory	363	262

15. Prepayments and other assets

In thousands of AUD	2012	2011
Current		
Prepayments	7,515	6,655
Non-current		
Security deposits	434	809

16. Investments

In thousands of AUD	2012	2011
Current		
Available-for-sale financial assets	47,619	11,293

Available-for-sale financial assets represent investments in ASX listed equity securities. During the year ended 31 July 2012, the Company paid $22.4 million to acquire new ASX listed equity shares. The balance of the increase during the year ($13.91 million; 2011: $1.40 million) represents the favourable movement in the fair values of the investments held during the period, as reflected in the fair value reserve movement in the consolidated statement of changes in equity.

Sensitivity analysis – equity price risk
A two percent increase in share price as at the reporting date would have increased equity by $667 thousand after tax. An equal change in the opposite direction would have decreased equity by $667 thousand after tax.

17. Current tax liabilities

The current tax liability for the Group of $39.542 million (2011: $19.482 million) represents the remaining amount of income tax payable in respect of year ended 31 July 2012.

18. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
In thousands of AUD	2012	2011	2012	2011	2012	2011
Receivables	(1,927)	(1,633)	-	-	(1,927)	(1,633)
Inventories	(140)	-	-	-	(140)	-
Investments	-	-	4,644	471	4,644	471
Property, plant and equipment	(1,722)	(1,819)	11,299	8,928	9,577	7,109
Intangible assets	-	-	17,475	12,616	17,475	12,616
Payables	(96)	(261)	18	-	(78)	(261)
Provisions	(4,868)	(4,338)	448	39	(4,420)	(4,299)
Employee benefits	(1,747)	(1,543)	-	-	(1,747)	(1,543)
Unearned revenue	(6,237)	(2,551)	295	412	(5,942)	(2,139)
Equity raising costs	(546)	(647)	-	-	(546)	(647)
Tax loss carry-forwards recognised	(959)	-	-	-	(959)	-
Other items	(1,419)	(2,379)	622	67	(797)	(2,312)
Tax (assets)/liabilities	(19,661)	(15,171)	34,801	22,533	15,140	7,362
Set off of tax	19,661	15,171	(19,661)	(15,171)	-	-
Net tax liabilities	**-**	**-**	**15,140**	**7,362**	**15,140**	**7,362**

18. Deferred tax assets and liabilities (continued)

Movement in temporary differences during the year

In thousands of AUD	Balance 1 August 2010	Recognised in profit or loss	Recognised in equity	Balance 31 July 2011	Recognised in profit or loss	Recognised in equity	Acquired in business combinations	Balance 31 July 2012
Receivables	(2,643)	1,010	-	(1,633)	(55)	-	(239)	(1,927)
Inventories	(117)	117	-	-	(140)	-	-	(140)
Investments	47	-	424	471	-	4,173	-	4,644
Property, plant and equipment	4,565	2,544	-	7,109	2,468	-	-	9,577
Intangible assets	21,334	(8,718)	-	12,616	3,072	-	1,787	17,475
Payables	(1,462)	1,201		(261)	183	-	-	(78)
Provisions	(3,761)	(538)	-	(4,299)	(101)	-	(20)	(4,420)
Employee benefits	(1,388)	(155)	-	(1,543)	(26)	-	(178)	(1,747)
Unearned revenue	(1,545)	(594)	-	(2,139)	(3,472)	-	(331)	(5,942)
Equity raising costs	(575)	(61)	(11)	(647)	101	-	-	(546)
Other items	(3,528)	1,216	-	(2,312)	1,557	-	(42)	(797)
Tax loss carry-forwards	(1,949)	1949	-	-	548	-	(1,507)	(959)
	8,978	**(2,029)**	**413**	**7,362**	**4,135**	**4,173**	**(530)**	**15,140**

19. Property, plant and equipment

In thousands of AUD	***Note***	**Plant and equipment**	**Land & Buildings**	**Leasehold improvements**	**Leased assets**	**Total**
Cost						
Balance at 1 August 2010		424,414	3,209	2,820	2,584	433,027
Additions		49,943	-	114	-	50,057
Disposals		(1,720)	-	-	-	(1,720)
Effect of movements in exchange rates		(227)	(114)	-	-	(341)
Balance at 31 July 2011		472,410	3,095	2,934	2,584	481,023
Balance at 1 August 2011		**472,410**	**3,095**	**2,934**	**2,584**	**481,023**
Acquisitions through business combinations	***36***	1,979	-	-	-	1,979
Additions		59,334	-	79	-	59,413
Disposals		(4,929)	-	-	-	(4,929)
Effect of movements in exchange rates		128	53	-	-	181
Balance at 31 July 2012		**528,922**	**3,148**	**3,013**	**2,584**	**537,667**

19. Property, plant and equipment (continued)

In thousands of AUD	Plant and equipment	Land & Buildings	Leasehold improvements	Leased assets	Total
Depreciation and impairment losses					
Balance at 1 August 2010	118,906	126	284	1,040	120,356
Depreciation charge for the year	45,594	89	589	127	46,399
Disposals	(102)	-	-	-	(102)
Effect of movements in exchange rates	(58)	(12)	-	-	(70)
Balance at 31 July 2011	164,340	203	873	1,167	166,583
Balance at 1 August 2011	**164,340**	**203**	**873**	**1,167**	**166,583**
Depreciation charge for the year	46,290	92	497	184	47,063
Disposals	-	-	-	-	-
Effect of movements in exchange rates	98	8	-	-	106
Balance at 31 July 2012	**210,728**	**303**	**1,370**	**1,351**	**213,752**
Carrying amounts					
At 1 August 2010	305,508	3,083	2,536	1,544	**312,671**
At 31 July 2011	308,070	2,892	2,061	1,417	**314,440**
At 1 August 2011	308,070	2,892	2,061	1,417	**314,440**
At 31 July 2012	**318,194**	**2,845**	**1,643**	**1,233**	**323,915**

19. Property, plant and equipment (continued)

Leased plant and equipment

The Group leases plant and equipment under a number of finance lease agreements. At the end of each of the leases the Group has the option to purchase the plant and equipment at a beneficial price. At 31 July 2012 the net carrying amount of leased plant and equipment was $1.233 million (2011: $1.417 million). The leased plant and equipment secures lease obligations (see note 22).

20. Intangible assets

Current

In thousands of AUD	**2012**	**2011**
Carrying amount at 1 August	**-**	382
Additions	**-**	-
Amortisation for the year	**-**	(382)
Carrying amount at 31 July	-	-

20. Intangible assets (continued)

Non-current	Non-Amortising		Amortising				
In thousands of AUD	Goodwill	Trademark	Acquired customer bases	Internally generated software	Indefeasible right of use of capacity	Development costs	Total
Cost							
Balance 1 August 2010	382,357	20,068	230,800	8,037	61,888	1,459	704,609
Additions	-	-	-	-	-	-	-
Balance 31 July 2011	382,357	20,068	230,800	8,037	61,888	1,459	704,609
Balance 1 August 2011	382,357	20,068	230,800	8,037	61,888	1,459	704,609
Acquisitions through business combinations	9,164	-	6,124	-	-	-	15,288
Additions	-	-	-	-	446	-	446
Balance 31 July 2012	**391,521**	**20,068**	**236,924**	**8,037**	**62,334**	**1,459**	**720,343**
Amortisation and Impairment							
Balance 1 August 2010	-	-	106,173	3,676	5,724	933	116,506
Amortisation for the year	-	-	40,381	1,617	4,563	94	46,655
Balance 31 July 2011	-	-	146,554	5,293	10,287	1,027	163,161
Balance 1 August 2011	-	-	146,554	5,293	10,287	1,027	163,161
Amortisation for the year	-	-	27,659	1,617	4,587	94	33,957
Balance 31 July 2012	**-**	**-**	**174,213**	**6,910**	**14,874**	**1,121**	**197,118**
Carrying amounts							
At 1 August 2010	382,357	20,068	124,627	4,361	56,164	526	588,103
At 31 July 2011	382,357	20,068	84,246	2,744	51,601	432	541,448
At 1 August 2011	382,357	20,068	84,246	2,744	51,601	432	541,448
At 31 July 2012	**391,521**	**20,068**	**62,711**	**1,127**	**47,460**	**338**	**523,225**

20. Intangible assets (continued)

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. The Group has two separate CGUs, being the Consumer and Corporate CGUs. Total goodwill at 31 July 2012 is $391,521,000 (2011: $382,357,000), and is allocated predominantly to the Consumer CGU as it is the principal beneficiary of the acquisitions from which the goodwill has arisen.

The recoverable amount of goodwill has been determined based on value-in-use calculations.

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 in the current year were the budgeted cashflows for the year to 31 July 2013, extrapolated based on revenue and margin growth assumptions to cover a 5 year period and incorporating a terminal value. The assumed growth rate in cashflows was 2% per annum in years 2 to 5 based on the long-term industry growth rate (2011: 2%). In the terminal phase beyond year 5 the growth rate used was also 2% (2011: 2%). A pre-tax discount rate of 14% (2011: 15%) has been used in discounting the projected cashflows, which is based on the Group's WACC adjusted to reflect an estimate of specific risks assumed in the cashflow projections. Sensitivity analysis on these assumptions has been performed which indicated that a reasonably possible movement in the assumptions would not create an impairment.

21. Trade and other payables

In thousands of AUD	**2012**	**2011**
Trade creditors	49,141	41,132
Other creditors and accruals	36,235	31,825
	85,376	72,957

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 27.

22. 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 27.

In thousands of AUD		2012	2011
Current liabilities			
Gross secured bank loans		-	80,000
Less: Unamortised borrowing costs		-	(3,989)
Secured bank loans	*(i)*	-	76,011
Finance lease liabilities		357	203
		357	**76,214**
Non-current liabilities			
Gross secured bank loans		149,000	152,000
Less: Unamortised borrowing costs		(5,129)	(2,542)
Secured bank loans	*(i)*	143,871	149,458
Finance lease liabilities		489	16
		144,360	**149,474**

(i) On 7 December 2011 the Group entered into an Amendment and Restatement Deed relating to its existing Syndicated Facility Agreement.

Under the terms of the Deed the termination date of the facility was extended to 15 March 2015, and the obligation to make any compulsory repayments before the termination date was removed. All of the Group's outstanding bank debt has therefore been re-classified to non-current as at 31 July 2012.

The amended facility has a limit of $300 million, of which $151 million was undrawn as at 31 July 2012. The Group's $20 million working capital facility has also been retained.

During the year ended 31 July 2012, the Group made debt repayments of $84.5 million, of which $83 million was against this facility, net of a drawdown of $25 million.

The outstanding loan balance as at the year end is shown in the statement of financial position net of unamortised borrowing costs of $5.1 million (2011: $6.5 million).

The bank loan facility is 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 Inc (Philippines)
Orchid Human Resources Pty Ltd
TPG (NZ) Pty Ltd
IntraPower Pty Ltd
IP Service Xchange Pty Ltd
Trusted Cloud Pty Ltd

22. Loans and borrowings (continued)

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

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

				2012		2011	
In thousands of AUD	Currency	Nominal interest rate	Year of maturity	Face value	Carrying amount	Face value	Carrying amount
Secured bank loan	AUD	BBSY + margin (1)	2015	143,871	143,871	225,469	225,469
Finance lease liabilities	AUD	6% - 9%	2013-2016	952	846	224	219
				144,823	144,717	225,693	225,688

(1) Margin is variable and is determined quarterly according to gearing ratio.

Finance lease liabilities

Finance lease liabilities of the Group are payable as follows:

In thousands of AUD	Minimum lease payments 2012	Interest 2012	Principal 2012	Minimum lease payments 2011	Interest 2011	Principal 2011
Less than one year	408	51	357	207	(4)	203
Between one and five years	544	55	489	17	(1)	16
	952	106	846	224	(5)	219

23. Employee benefits

In thousands of AUD	2012	2011
Current		
Liability for annual leave	3,305	2,807
Liability for long service leave	1,301	1,058
	4,606	3,865
Non Current		
Liability for long service leave	743	603

23. Employee benefits (continued)

Share based payments

(i) Performance Rights Plan

The Board introduced a new long-term incentive structure during the current year, in the form of a Performance Rights Plan. Under the rules of the Performance Rights Plan, participants may be granted rights to acquire fully paid ordinary share in the Company for no consideration, subject to certain performance conditions.

The first grant of Performance Rights under the new plan took place on 9 March 2012. The key terms of the Performance Rights issued under this grant are as follows:

- One third of the Performance Rights granted will vest each year following the release of the Group's audited financial statements for the financial years ending 31 July 2012, 2013 and 2014, subject to the satisfaction of certain 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 Company has met its financial objectives for the financial year immediately preceding the relevant vesting date.

Any Performance Rights which do not vest, automatically lapse.

The number of Rights granted and outstanding during the current year are set out below:

	No. of Rights
Balance at start of year	-
Granted during the year	1,129,000
Forfeited during the year	(150,000)
Vested during the year	-
Balance at end of year	979,000
Exercisable at end of year	-

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 of the Rights granted on 9 March 2012 was $1.4733. The share price at date of grant was $1.56.

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 expensed consequently was $586,145 (2011: $nil).

(ii) Employee Share Scheme

The Group has in place an Employee Share Scheme that provides for selected employees to receive ordinary shares in the Company. 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 treasury share 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 treasury share reserve.

Under the share scheme the employee receives the voting rights and dividend entitlement to shares purchased under the scheme, however they are unable to access the shares until they satisfy the continuity of service criteria. Shares purchased under this scheme vest to the employee at 20% per annum at the end of each of the five years following the purchase, provided they continue to be employed in the Group. If the employee terminates their employment, they forfeit their entitlement to the unvested shares, except in limited circumstances such as medical

23. Employee benefits (continued)

reasons, bona fide retirement or termination other than for gross misconduct.
No amount was paid into the employee share scheme for the purchase of shares in either 2012 or 2011. During the year ended 31 July 2012 $50,000 (2011: $76,000) was recognised as an employee benefit expense in respect of this scheme.

24. Provisions

In thousands of AUD

	Make good costs	Lease increment	Other	Total
Balance 1 August 2011	5,877	1,035	2,000	8,912
Acquired through business combinations	-	75	-	75
Provisions made during the year	-	-	-	-
Provisions used during the year	-	(80)	-	(80)
Unwind of discount	111	-	-	111
Balance 31 July 2012	5,988	1,030	2,000	9,018
Current	-	347	2,000	2,347
Non-current	5,988	683	-	6,671
	5,988	1,030	2,000	9,018

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.

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.

25. Deferred income and other liabilities

In thousands of AUD	2012	2011
Current		
Deferred income	44,443	36,312
Non-current		
Deferred income	26,262	23,320

26. Capital and reserves

Share capital

	Ordinary shares		In thousands of AUD	
	2012	**2011**	**2012**	**2011**
Opening balance	783,481,644	767,849,104	502,874	478,814
Ordinary shares issued during the year:				
Dividend Reinvestment Plan	9,912,535	15,632,540	13,450	24,086
On acquisition of IntraPower Limited	413,962	-	607	-
Transaction costs, net of tax	-	-	(24)	(26)
Closing balance	**793,808,141**	**783,481,644**	**516,907**	**502,874**

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.

Treasury share reserve

The treasury share reserve represents the value of shares held by an equity compensation 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 2012 the Group held 94,784 of the Company's shares (2011:170,458 shares).

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.

26. Capital and reserves (continued)

Dividends

Dividends recognised in the current year were as follows:

In thousands of AUD	Cents per share	Total amount	Franked / unfranked	Date of payment
2012				
Interim 2012 ordinary	2.75	21,830	Franked	22 May 2012
Final 2011 ordinary	2.25	17,637	Franked	22 Nov 2011
Total amount		**39,467**		
2011				
Interim 2011 ordinary	2.25	17,449	Franked	24 May 2011
Final 2010 ordinary	2.00	15,357	Franked	17 Nov 2010
Total amount		**32,806**		

Franked dividends declared or paid during the year were fully franked at the tax rate of 30%.

The directors have declared a fully franked final FY12 dividend of 2.75 cents per share. As the final dividend was not declared or resolved to be paid by the Board of directors as at 31 July 2012, the dividend has not been provided for in the consolidated statement of financial position. The dividend has a record date of 16 October 2012 and will be paid on 20 November 2012.

The directors suspended the Dividend Reinvestment Plan (DRP) with effect from the interim 2012 dividend until further notice and, accordingly, the DRP will not apply to the final FY12 dividend.

Dividend franking account *In thousands of AUD*	2012	2011
30 per cent franking credits available to shareholders of TPG Telecom Limited for subsequent financial years	147,476	96,502

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;
(c) franking credits that will arise from the receipt of dividends recognised as receivables by the tax consolidated group at the year-end; and
(d) franking credits that the entity may be prevented from distributing in subsequent years.

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 recognised as a liability is to reduce it by $9,355,596 (2011: $7,555,002)

27. Financial instruments

Exposure to credit, liquidity and market risks arise in the normal course of the Group's activities. The Group's risk management policies are addressed at note 5.

Credit risk

Exposure to credit risk

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

		Carrying amount	
In thousands of AUD	***Note***	**2012**	**2011**
Trade and other receivables	*13*	38,013	30,310
Cash and cash equivalents	*12*	13,767	9,525
Available-for-sale financial assets	*16*	47,619	11,293
		99,399	51,128

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

		Carrying amount	
In thousands of AUD	***Note***	**2012**	**2011**
Type of customer			
Government		5,290	4,250
Corporate		10,150	13,083
Wholesale		8,416	6,935
Retail		4,578	4,115
	13	28,434	28,383

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 in any particular industry as its customers operate in a wide range of industries.

27. Financial instruments (continued)

Credit risk (continued)

Exposure to credit risk (continued)

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

In thousands of AUD	*Note*	Carrying amount 2012	2011
Geographical region			
Australia		27,614	27,760
New Zealand		53	6
United States		20	75
Other		747	542
	13	28,434	28,383

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

Provision for Impairment losses

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

In thousands of AUD	*Note*	Carrying amount 2012	2011
Ageing of customer			
Not past due		15,424	19,602
Past due 0-30 days		4,223	3,719
Past due 31-60 days		1,266	552
Past due 61-90 days		1,128	652
Past due 91-120 days		1,704	896
Past due 121 days		4,689	2,962
Gross trade receivables	*13*	28,434	28,383
Less: Provision for impairment losses	*13*	(7,084)	(5,243)
Net receivables		21,350	23,140

The provision for impairment losses of the Group at 31 July 2012 of $7.1 million (2011: $5.2 million) represents the risk of non-collection of outstanding debts that are past due and believed to be at risk. The allowance 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 2012 is as follows:

In thousands of AUD	2012	2011
Balance at 1 August	5,243	6,578
Acquired through business combination	447	-
Impairment loss recognised/ (written back)	1,394	(1,335)
Balance at 31 July	7,084	5,243

27. Financial instruments (continued)

Liquidity risk

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

31 July 2012 *In thousands of AUD*	*Note*	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Secured bank loans	*22*	(143,871)	(170,395)	(4,075)	(4,075)	(8,150)	(154,094)	-
Finance lease liabilities	*22*	(846)	(952)	(222)	(205)	(217)	(308)	-
Trade and other payables	*21*	(85,376)	(85,376)	(85,376)	-	-	-	-
		(230,093)	**(256,723)**	**(89,673)**	**(4,280)**	**(8,367)**	**(154,402)**	**-**

31 July 2011 *In thousands of AUD*	*Note*	Carrying amount	Contractual cash flows	6 months or less	6-12 Months	1-2 years	2-5 years	More than 5 years
Secured bank loans	*22*	(225,469)	(259,663)	(49,608)	(48,302)	(161,753)	-	-
Finance lease liabilities	*22*	(219)	(224)	(182)	(25)	(17)	-	-
Trade and other payables	*21*	(72,957)	(72,957)	(72,957)	-	-	-	-
		(298,645)	**(332,844)**	**(122,747)**	**(48,327)**	**(161,770)**	**-**	**-**

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

27. Financial instruments (continued)

Market risk

Currency risk

Exposure to currency risk

The Group is exposed to foreign currency risk on revenues, expenses and financial instruments that are denominated in a currency other than AUD. The Group's exposure to foreign currency risk at balance date was as follows:

	AUD equivalent	NZD	USD	PHP	AUD equivalent	NZD	USD	PHP
In thousands	31 July 2012				31 July 2011			
Trade receivables	656	-	688	-	635	-	699	-
Other financial assets	4,684	-	4,897	429	659	-	198	22,144
Trade payables	(4,027)	(17)	(4,221)	(4)	(2,445)	(115)	(2,574)	(601)
Other financial liabilities	(182)	-	(191)	-	(799)	-	(879)	-
Statement of Financial Position exposure	1,131	(17)	1,173	425	(1,950)	(115)	(2,556)	21,543

In addition to the above, the Group has operating lease commitments denominated in USD (refer note 28).

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2012	2011	2012	2011
NZD	1.27	1.25	1.30	1.25
USD	1.03	1.00	1.05	1.10
PHP	45.02	43.68	43.81	46.23

Sensitivity analysis

A 10 percent strengthening of the Australian dollar against the following currencies at 31 July would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2011.

In thousands of AUD	Equity	Profit or loss
31 July 2012		
NZD	1	-
USD	(102)	(102)
PHP	(1)	-
31 July 2011		
NZD	8	-
USD	211	211
PHP	(42)	-

A 10 percent weakening of the Australian dollar against the above currencies at 31 July would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

27. Financial instruments (continued)

Market risk (continued)

Interest rate risk

Profile

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was as follows:

		Carrying amount	
In thousands of AUD	***Note***	**2012**	**2011**
Fixed rate instruments			
Financial liabilities	*22*	(846)	(219)
Variable rate instruments			
Financial assets	*12*	13,767	9,525
Financial liabilities	*22*	(143,871)	(225,469)
		(130,104)	(215,944)

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.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased/(decreased) the Group's equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2011.

	Group profit/(loss)	
In thousands of AUD	**100bp increase**	**100bp decrease**
31 July 2012		
Variable rate instruments	(1,301)	1,301
Cash flow sensitivity	(1,301)	1,301
31 July 2011		
Variable rate instruments	(2,160)	2,160
Cash flow sensitivity	(2,160)	2,160

27. Financial instruments (continued)

Fair values

Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

In thousands of AUD	*Note*	31 July 2012 Carrying amount	31 July 2012 Fair value	31 July 2011 Carrying amount	31 July 2011 Fair value
Trade debtors and other receivables	*13*	38,013	38,013	30,310	30,310
Cash and cash equivalents	*12*	13,767	13,767	9,525	9,525
Available-for-sale financial assets	*16*	47,619	47,619	11,293	11,293
Secured bank loans	*22*	(143,871)	(143,871)	(225,469)	(225,469)
Finance lease liabilities	*22*	(846)	(846)	(219)	(219)
Trade and other payables	*21*	(85,376)	(85,376)	(72,957)	(72,957)
		(130,694)	(130,694)	(247,517)	(247,517)

The basis for determining the fair values of financial assets and liabilities is disclosed in note 4.

Interest rates used for determining fair value

The interest rates used to discount estimated cash flows, where applicable, are based on the rates implicit in the transaction, and were as follows:

	2012	2011
Loans and borrowings	BBSY + margin	BBSY + margin
Leases	5% to 10%	5% to 10%

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
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Group's only financial instruments which are measured at fair value are available-for-sale financial assets. These are categorised as Level 1 as they are valued on quoted market prices.

28. Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

In thousands of AUD	2012	2011
Less than one year	35,425	29,457
Between one and five years	42,999	56,297
More than five years	32,128	27,251
	110,552	113,005

These operating lease commitments include $23.3 million denominated in USD (2010: $44.9 million).

29. Capital and other commitments

In thousands of AUD	2012	2011
Capital expenditure commitments		
Contracted but not provided for and payable	15,075	8,386

30. Contingencies

The directors are of the opinion that provisions are not required in respect of the below matters, because either it is not probable that a future economic sacrifice of economic benefits will be required, or the amount is not capable of reliable measurement.

Guarantees ,

Under the terms of a Deed of Cross Guarantee (refer note 37) the Company guarantees to each creditor payment in full of any debt in the event of winding up of any of the subsidiaries covered by the Deed.

Litigation

The Company (or its subsidiaries) are parties to various legal cases which have arisen in the ordinary course of the business of the Group.

The directors have provided for costs and settlement of certain cases where such amounts can be reliably estimated. In the opinion of directors, the likelihood of significant cash outflows relating to other cases is considered remote.

In the opinion of the directors, disclosure of further information about these legal cases would be prejudicial to the interests of the Group.

31. Consolidated entities

The following is a list of all entities that formed part of the Group as at 31 July 2012:

	Country of Incorporation	Ownership interest (%)	
		2012	2011
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 Research Pty Ltd	Australia	100	100
TPG Broadband 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 Limited*	New Zealand	-	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	-
IP Service Xchange Pty Ltd	Australia	100	-
Trusted Cloud Pty Ltd	Australia	100	-
Trusted Cloud Solutions Pty Ltd	Australia	100	-
Alchemyit Pty Ltd	Australia	100	-
IP Group Pty Ltd	Australia	100	-
Mercury Connect Pty Ltd	Australia	100	-
VtalkVoip Pty Ltd	Australia	100	-
Intrapower Terrestrial Pty Ltd	Australia	100	-
Hosteddesktop.com Pty Ltd	Australia	100	-
Virtual Desktop Pty Ltd	Australia	100	-
Destra Communications Pty Ltd	Australia	100	-
Numillar IPS Pty Ltd	Australia	88.57	-

* *Non-operating subsidiaries wound up during the year*

32. Reconciliation of cash flows from operating activities

In thousands of AUD	*Note*	2012	2011
Cash flows from operating activities			
Profit for the year after income tax		90,964	78,162
Adjustments for:			
Dividend income		(1,438)	(667)
Depreciation of plant and equipment	*19*	47,063	46,399
Amortisation and impairment of intangibles	*20*	33,957	47,037
Bad and doubtful debts		2,163	(2,905)
Borrowing costs written-off	*9*	2,788	3,959
Employee share plan expense		29	37
Employee share option plan expense		49	75
Unrealised foreign exchange loss/(gain)		(154)	1,237
Interest income	*9*	(718)	(1,206)
Interest expense	*9*	15,075	24,596
Costs relating to mergers and acquisitions	*36*	132	-
Income tax expense/(benefit)	*10*	72,277	35,081
Operating profit before changes in working capital and provisions		262,187	231,805
(Increase)/decrease in trade and other receivables		(11,589)	(4,103)
(Increase)/decrease in inventories		(101)	184
(Increase)/decrease in other assets		3,705	(484)
(Decrease)/increase in trade and other payables		10,910	(17,416)
(Decrease)/increase in other liabilities		11,073	4,187
(Decrease)/increase in employee benefits		881	218
(Decrease)/Increase in provisions		107	795
		277,173	215,186
Income taxes paid		(47,701)	(47,538)
Net cash from operating activities		229,472	167,648

33. Parent entity disclosures

In thousands of AUD	*Note*	Company 2012	Company 2011
Result of the parent entity			
Profit/(Loss) for the period	*(i)*	187,305	(21,343)
Other comprehensive income		-	-
Total comprehensive income for the period		**187,305**	**(21,343)**
(i) Profit/(Loss) for the period comprises:			
Dividend from subsidiaries		200,000	-
Finance expenses		(17,561)	(28,420)
Costs relating to mergers and acquisitions		(32)	(148)
Income tax benefit		5177	7,670
Others		(279)	(445)
Total profit/ (loss) for the period		**187,305**	**(21,343)**
Financial position of parent entity at year end			
Current assets		943	545
Total assets		1,061,189	723,387
Current liabilities		47,176	113,368
Total liabilities		471,980	295,682
Total equity of the parent entity comprising of:			
Share Capital		516,907	502,874
Treasury share reserve		(446)	(81)
Retained accumulated profits/ (losses)		72,748	(75,088)
Total Equity		**589,209**	**427,705**

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 its subsidiaries.
Further details of the Deed of Cross Guarantee and the subsidiaries subject to the deed, are disclosed in Note 37.

34. Related parties

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

Executive directors

Mr David Teoh
Executive Chairman & Chief Executive Officer

Mr Alan Latimer
Executive Director, Finance & Corporate Services

Non-executive directors

Mr Robert Millner
Mr Denis Ledbury
Mr Joseph Pang
Mr Shane Teoh — appointed 11 October 2012

Executives

Mr Craig Levy
General Manager, Consumer

Mr John Paine
National Technical and Strategy Manager

Ms Mandie De Ville
Chief Information Officer

Mr Stephen Banfield
Chief Financial Officer and Company Secretary

Mr Wayne Springer
General Manager, Corporate Sales

Mr Jason Sinclair — resigned with effect from 20 July 2012
Chief Executive Officer, PIPE Networks

34. Related parties (continued)

Key management personnel compensation

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

In AUD	2012	2011
Short-term employee benefits	3,975,492	3,699,815
Post-employment benefits	232,196	258,090
Other long term benefits	86,132	(24,982)
Termination benefits	40,000	58,464
Equity compensation benefits	204,167	18,845
	4,537,987	**4,010,232**

Individual directors' and executives' compensation disclosures

Information regarding individual directors' and executives' compensation is provided in the Remuneration Report section of the Directors' report on pages 12 to 19.

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 2012 was $116,828 (2011: $111,264).

The Group also licences the use of some office space to a company related to Mr S Teoh who was appointed a director of the Company on 11 October 2012. The total licence fee received by the Group for the financial year was $22,702.

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 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.

34. Related parties (continued)

Options and rights over equity instruments

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

	Held as at 31 July 2011	Granted as remuneration in the year	Forfeited in the year	Held as at 31 July 2012	Vested in the year	Vested and exercisable at 31 July 2012
Mr S Banfield	-	75,000	-	75,000	-	-
Mr C Levy	-	100,000	-	100,000	-	-
Mr J Paine	-	75,000	-	75,000	-	-
Mr W Springer	-	75,000	-	75,000	-	-
Mr J Sinclair	-	150,000	150,000	-	-	-

There were no rights over ordinary shares held by key management personnel during the previous financial year.

34. Related parties (continued)

Movements in shares

	Held at 1 August 2011	Purchases	Granted as remuneration	Received under DRP *	Disposals	Held at 31 July 2012
Directors						
Mr D Teoh	286,868,769	-	-	4,756,834	-	291,625,603
Mr A Latimer	760,372	-	-	12,608	-	772,980
Mr R Millner	7,057,154	200,000	-	117,021	-	7,374,175
Mr D Ledbury	150,000	-	-	-	-	150,000
Mr J Pang	87,363	-	-	1,449	-	88,812
Executives						
Mr C Levy	663,929	-	18,115	-	-	682,044
Mr J Paine	3,781,020	-	-	62,697	-	3,843,717
Mr J Sinclair	30,000	-	-	-	-	NA
Ms M De Ville	121,512	-	6,283	-	-	127,795
Mr S Banfield	350,000	-	19,996	-	(109,996)	260,000
Mr W Springer	1,354,902	-	-	-	(260,000)	1,094,902

	Held at 1 August 2010	Purchases	Granted as remuneration or on exercise of options	Received under DRP *	Disposals	Held at 31 July 2011
Directors						
Mr D Teoh	279,109,400	-	-	7,759,369	-	286,868,769
Mr A Latimer	1,174,108	-	-	26,552	(440,288)	760,372
Mr R Millner	6,466,269	400,000	-	190,885	-	7,057,154
Mr D Ledbury	150,000	-	-	-	-	150,000
Mr J Pang	85,000	-	-	2,363	-	87,363
Executives						
Mr C Levy	645,817	-	18,112	-	-	663,929
Mr J Paine	3,678,749	-	-	102,271	-	3,781,020
Mr J Sinclair	30,000	-	-	-	-	30,000
Ms M De Ville	115,233	-	6,279	-	-	121,512
Mr S Banfield	500,000	-	19,993	-	(169,993)	350,000
Mr W Springer	1,595,296	-	-	-	(240,394)	1,354,902

* DRP = Dividend Reinvestment Plan

Mr S Teoh does not appear in the table above as his appointment as a non-executive director occurred subsequent to 31 July 2012.

34. Related parties (continued)

Identity of related parties

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

35. 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.

36. Business combination

The Group acquired control of IntraPower Limited on 3 August 2011 through the successful completion of an off-market takeover offer. Shareholders representing 97% of the total number of IntraPower shares accepted the takeover offer, with the remaining 3% being acquired by way of compulsory acquisition which completed on 14 October 2011.

The acquisition will enable the Group to widen its range of solutions to its retail, corporate and government customers through IntraPower's TrustedCloud platform. The Group also expects to derive cost synergies through network and data centre integration.

During the year ended 31 July 2012, IntraPower Limited contributed revenue of $22 million to the Group.

The following summarises the major classes of consideration transferred, and the amounts of assets acquired and liabilities assumed at the acquisition date:

Consideration transferred

In thousands of AUD	
Cash paid	12,095
Less: Cash acquired	(782)
Cash paid, net of cash acquired	11,313
Equity instruments (413,962 ordinary shares) issued	607
Total consideration, net of cash acquired	**11,920**

Identifiable assets acquired and liabilities assumed

In thousands of AUD	
Cash and cash equivalents	782
Trade and other receivables	2,213
Inventories	58
Prepayments and other assets	664
Property, plant and equipment	1,979
Intangible assets	6,124
Deferred tax assets	2,337
Trade and other payables	(3,568)
Loans and borrowings	(2,864)
Employee benefits and provisions	(637)
Deferred income	(1,103)
Deferred tax liabilities	(1,807)
Deferred settlement of non-controlling interest obligation	(640)
Net identifiable assets acquired	**3,538**

Goodwill on acquisition

Consideration transferred, net of cash acquired	11,920
Less: Net identifiable assets acquired, net of cash acquired	(2,756)
Goodwill on acquisition	**9,164**

36. Business combination (continued)

The Group incurred acquisition related costs of $132,000 relating to external legal fees and due diligence costs. These amounts have been included in other expenses in the consolidated income statement.

37. Deed of cross guarantee

Pursuant to ASIC Class Order 98/1418 (as amended) dated 13 August 1998, the wholly-owned subsidiaries listed 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. The Australian incorporated companies within the IntraPower group (as included in the list below) were joined as parties to the Deed of Cross Guarantee through an Assumption Deed dated 25 January 2012. The subsidiaries subject to the Deed are as follows:

Soul Communications Pty Ltd
Digiplus Investments Pty Ltd
Soul Contracts Pty Ltd
Kooee Communications Pty Ltd
SPTCom Pty Ltd
Kooee Pty Ltd
Digiplus Holdings Pty Ltd
Digiplus Pty Ltd
Digiplus Contracts Pty Ltd
Blue Call Pty Ltd
Soul Pattinson Telecommunications Pty Ltd
Kooee Mobile Pty Ltd
SPT Telecommunications Pty Ltd
TPG Holdings Pty Ltd
TPG Internet Pty Ltd
Value Added Network Pty Ltd
Orchid Human Resources Pty Ltd
TPG Broadband Pty Ltd
TPG Network Pty Ltd
TPG Research Pty Ltd
TPG (NZ) Pty Ltd
Chariot Pty Ltd
Pipe Networks Pty Ltd
Pipe International (Australia) Pty Ltd
Pipe Transmission Pty Ltd
ACN 139 798 404 Pty Ltd
IntraPower Pty Ltd
Trusted Cloud Pty Ltd
IP Group Pty Ltd
Intrapower Terrestrial Pty Ltd
Virtual Desktop Pty Ltd

37. 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 2012 is set out as follows:

Statement of comprehensive income and retained profits

In thousands of AUD	2012	2011
Revenue	659,762	571,888
Dividend income	1,438	667
Telecommunications expense	(301,753)	(256,016)
Employee benefits expense	(48,032)	(39,147)
Other expenses	(48,019)	(42,442)
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**263,396**	**234,950**
Depreciation of plant and equipment	(42,515)	(38,966)
Amortisation of intangibles	(31,489)	(47,042)
Results from operating activities	**189,392**	**148,942**
Finance income	720	1,203
Finance expenses	(17,864)	(28,555)
Net financing costs	**(17,144)**	**(27,352)**
Profit before income tax	**172,248**	**121,590**
Income tax expense	(72,314)	(37,581)
Profit for the year attributable to owners of the company	**99,934**	**84,009**
Other comprehensive income, net of tax	9,744	982
Total comprehensive income for the year	**109,678**	**84,991**
Retained earnings at beginning of year	(290)	(51,493)
Profit for the year	99,934	84,009
Dividends recognised during the year	(39,467)	(32,806)
Retained earnings at end of year	**60,177**	**(290)**

37. Deed of cross guarantee (continued)

Statement of financial position

In thousands of AUD	2012	2011
Assets		
Cash and cash equivalents	13,017	9,040
Trade and other receivables	37,682	29,931
Inventories	363	262
Investments	47,619	11,293
Prepayments and other assets	6,554	5,879
Total Current Assets	**105,235**	**56,405**
Trade and other receivables	6,049	-
Investments in subsidiaries	381	381
Loans to subsidiaries	110,090	113,787
Property, plant and equipment	222,866	209,347
Intangible assets	493,140	508,988
Prepayments and other assets	232	629
Total Non-Current Assets	**832,758**	**833,132**
Total Assets	**937,993**	**889,537**
Liabilities		
Trade and other payables	83,066	71,018
Loans and borrowings	357	76,214
Current tax liabilities	39,408	19,471
Employee benefits	4,606	3,865
Provisions	347	-
Accrued Interest	276	380
Deferred income and other liabilities	30,017	35,606
Total Current Liabilities	**158,077**	**206,554**
Loans and borrowings	143,499	149,474
Deferred tax liabilities	15,140	7,705
Employee benefits	743	515
Provisions	6,671	6,912
Deferred income and other liabilities	26,262	14,637
Total Non-Current Liabilities	**192,315**	**179,243**
Total Liabilities	**350,392**	**385,797**
Net Assets	**587,601**	**503,740**
Equity		
Share Capital	516,907	502,874
Reserves	10,517	1,156
Retained earnings	60,177	(290)
Total Equity	**587,601**	**503,740**

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

   (a) the financial statements and notes set out on pages 23 to 83 and the Remuneration report in section 4.1 of the Directors' report, set out on pages 12 to 19, are in accordance with the Corporations Act 2001, including:

      (i) giving a true and fair view of the financial position of the Company and the Group as at 31 July 2012 and of their 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) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(a); and

   (c) 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 consolidated entities identified in Note 37 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 consolidated entities pursuant to ASIC Class Order 98/1418.

3. The directors have been given the declarations from the chief executive officer and chief financial officer for the financial year ended 31 July 2012 required by Section 295A of the *Corporations Act 2001*.

Dated at Sydney this 11th day of October, 2012.

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 the Group comprising TPG Telecom Limited (the Company) and its controlled entities, which comprises the consolidated statement of financial position as at 31 July 2012, and 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 37 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 of the Group 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.

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 the Group is 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 2012 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 12 to 19 of the directors' report for the year ended 31 July 2012. 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 2012, complies with Section 300A of the *Corporations Act 2001*.

KPMG

KPMG

Anthony Travers
Partner
Sydney

11 October 2012

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 2012 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

Anthony Travers
Partner
Sydney

11 October 2012

TPG Telecom Limited and its controlled entities
ASX additional information
For the year ended 31 July 2012

Additional information required by the Australian Stock Exchange Limited Listing Rules and not disclosed elsewhere in this report is set out below.

Shareholdings (as at 3 October 2012)

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

Shareholder	Number of ordinary shares held	% of capital held
David Teoh and Vicky Teoh	291,625,603	36.74%
Washington H Soul Pattinson and Company Limited	213,400,684	26.88%

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.

Distribution of equity security holders
Number of Equity Security Holders

Category	Ordinary shares
1 - 1,000	1,631
1,001 - 5,000	1,899
5,001 - 10,000	831
10,000 - 100,000	1,216
100,000 and over	147
	5,724

The number of shareholders holding less than a marketable parcel of ordinary shares is 491.

Stock exchange
The Company 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.

TPG Telecom Limited and its controlled entities
ASX additional information (continued)
For the year ended 31 July 2012

Twenty largest shareholders

Name of shareholder	Number of ordinary shares held	Percentage of capital held
WASHINGTON H SOUL PATTINSON AND COMPANY LIMITED	213,400,684	26.88
DAVID TEOH	145,208,418	18.29
VICKY TEOH	144,058,011	18.15
NATIONAL NOMINEES LIMITED	49,146,027	6.19
J P MORGAN NOMINEES AUSTRALIA LIMITED	46,686,166	5.88
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	26,625,380	3.35
WIN CORPORATION PTY LTD	12,400,000	1.56
RBC DEXIA INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <PIPOOOLED A/C>	11,414,038	1.44
CITICORP NOMINEES PTY LIMITED	8,374,157	1.05
BNP PARIBAS NOMS PTY LTD <MASTER CUST DRP>	7,054,862	0.89
FARJOY PTY LTD	6,010,000	0.76
J S MILLNER HOLDINGS PTY LIMITED	5,951,207	0.75
BKI INVESTMENT COMPANY LIMITED	4,420,000	0.56
JP MORGAN NOMINEES AUSTRALIA LIMITED <CASH INCOME A/C>	4,231,537	0.53
MR JOHN ERIC PAINE	3,843,717	0.48
MILTON CORPORATION LIMITED	3,731,553	0.47
CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	3,007,897	0.38
CS FOURTH NOMINEES PTY LTD	2,950,201	0.37
TOTAL PERIPHERALS PTY LTD <SUPER FUND A/C>	2,359,175	0.30
GWYNVILL TRADING PTY LTD	2,250,000	0.28
	703,123,030	**88.58**

Principal Registered Office

63-65 Waterloo Road
Macquarie Park NSW 2113
Telephone: 02 9850 0800

Location of Share Registry

Computershare Investor Services Pty Ltd
Level 3, 60 Carrington Street
Sydney NSW 2000
Telephone: 02 8234 5000