2011
ANNUAL REPORT

TPG Telecom Limited ABN 46 093 058 069

TPG TELECOM

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

Annual Report
31 July 2011

TPG Telecom Limited and its controlled entities

Annual Report

For the year ended 31 July 2011

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Chairman's report
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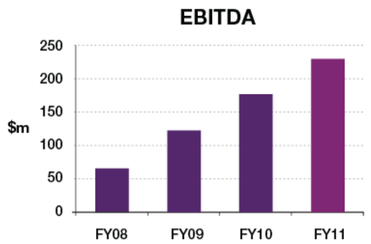
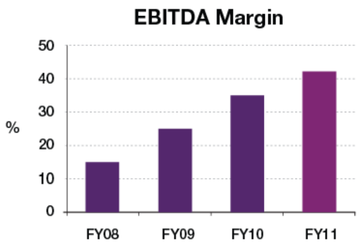
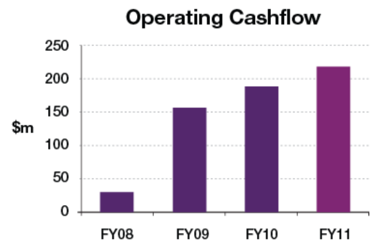
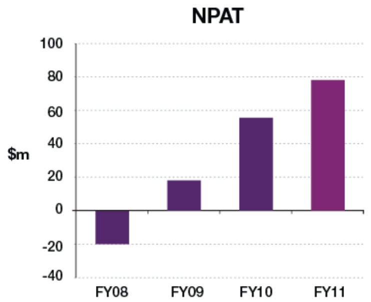
FY11 was another very successful year for the Group, and this is reflected in its financial results which include a 37% increase in Earnings before interest, tax, depreciation and amortisation ("EBITDA") to $234.0m, a 40% increase in Net Profit After Tax ("NPAT") to $78.2m, and a 33% increase in earnings per share ("EPS") to 10.1 cents per share.

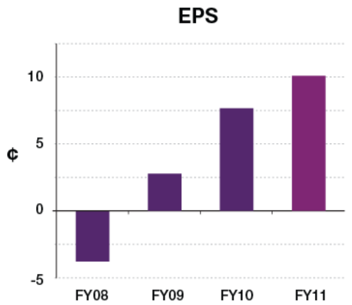
This result was the third consecutive year, since FY08, of strong growth in all key profit measures as shown in the charts below.

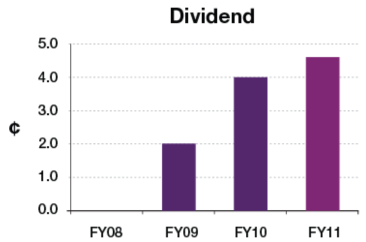






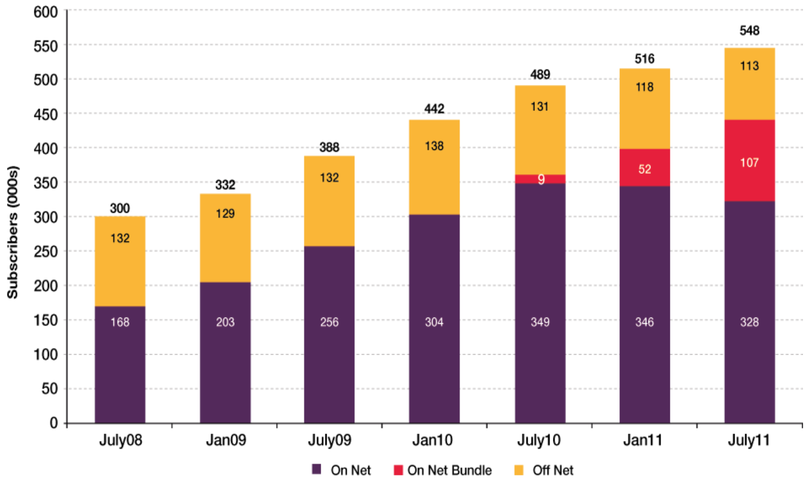






The FY11 results include the first full 12 months' contribution from PIPE Networks, but also include strong organic earnings growth across all of the Group's core continuing operations.

Strong organic subscriber growth in the Group's core consumer broadband business has continued with a net increase in the year of 59,000 subscribers (comprising 77,000 On-Net growth, partially offset by a decline in lower margin Off-Net subscribers). The On-Net broadband and home phone bundle has been the major growth driver in FY11, adding 98,000 subscribers during the year. As at 31 July 2011 the Group's total consumer broadband subscribers had increased to 548,000.



TPG Telecom Limited and its controlled entities
Chairman's report (continued)
For the year ended 31 July 2011

The TPG consumer mobile offering to consumers also continued to be successful, gaining 36,000 subscribers during the year, such that the Group ended the year with 201,000 mobile subscribers.

The PIPE Networks business has also continued to grow strongly. Its first full 12 months as part of the Group has contributed $57.2m to the FY11 EBITDA result, which has been driven by continued strong domestic revenue growth. During the year PIPE signed a number of significant customer contracts, one of the most notable of which was a contract to provide domestic fibre to Vodafone Hutchison Australia. The network rollout required to service this contract, which is progressing well to schedule, will increase PIPE's domestic fibre footprint by approximately 60% over the 2 year rollout period.

The Group's strong cashflow enabled it to reduce its bank debt by $100m during the year. At 31 July 2011, the Group's bank debt had been reduced to $232 million, which equates to a debt to annual EBITDA leverage ratio of less than 1.0 times, down from approximately 2.0 times at the time of the acquisition of PIPE in March 2010.

In July 2011 TPG announced a takeover offer for all of the shares in IntraPower Limited. The takeover offer valued IntraPower at approximately $12.8m and, having already been accepted by IntraPower shareholders representing 97% of total IntraPower shares, the acquisition will formally complete when the compulsory acquisition of the remaining 3% takes place in October 2011.

IntraPower brings to the Group immediate expertise in cloud computing, an established cloud computing customer base, and its „Trusted Cloud' platform is a first class cloud computing platform, having won an Australian Telecommunications User Group ("ATUG") award for the best communications initiative for small business for FY11. The cloud computing technology will complement the Group's extensive network infrastructure and enable further products and services to be offered to the Group's customers.

TPG's Board of Directors has declared a final FY11 dividend of 2.25 cents per share (fully franked), payable on 22 November 2011 to shareholders on the register at 18 October 2011, bringing total FY11 dividends to 4.5 cents per share. For this dividend, the directors again invite shareholders to reinvest in the Company through its Dividend Reinvestment Plan, for which the discount will be 2.0%.

Looking forward to FY12, another year of strong organic profit growth is expected. The Board has announced that it expects EBITDA for FY12 to be in the range of $250m - $260m.

TPG Telecom Limited and its controlled entities
Directors' report
For the year ended 31 July 2011

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 2011 and the auditor's report thereon.

Contents of directors' report

TPG Telecom Limited and its controlled entities
Directors' report (continued)
For the year ended 31 July 2011

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 Chairman Executive Director Chief Executive Officer	56	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.	60	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-current), 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 Committee.
Denis Ledbury Independent Non-Executive Director B.Bus. A.I.C.D.	61	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	57	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). Member of Remuneration Committee.
Joseph Pang Independent Non-Executive Director FCA	58	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.

2. Company secretary

Mr Stephen Banfield was appointed Company Secretary on 24 October 2007. Mr Banfield 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	-	-	-	-
RD Millner	13	14	2	2	-	-
D Ledbury	13	14	2	2	2	2
A Latimer	14	14	-	-	2	2
J Pang	14	14	2	2	2	2

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 http://www.tpg.com.au under Investor Relations.

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 five, with three 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 five 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.

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).

TPG Telecom Limited and its controlled entities
Directors' report (continued)
For the year ended 31 July 2011

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 under Investor Relations (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 www.tpg.com.au/Investor Relations.

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 (continued)
For the year ended 31 July 2011

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 secondment 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 2011 the proportion of females employed in the Group was as follows (ASX Recommendation 3.4)

	Number	**%**
Board	0	0 %
Key Management Personnel	1	16.7 %
Other Management	10	18.2 %
Workforce	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 under Investor Relations.

TPG Telecom Limited and its controlled entities
Directors' report (continued)
For the year ended 31 July 2011

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 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 Continuous 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 Continuous Disclosure Policy can be found on the Company's website at http://www.tpg.com.au under Investor Relations.

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), 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 directors, two of whom are independent non-executive directors. The Committee meets as required and at least twice a year. It met twice during the year and 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

No long-term incentives were granted during the year ended 31 July 2011. However, the following two former incentive plans have still had an impact on the remuneration of certain key management personnel for the periods disclosed in this remuneration report:

(i) 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 2011 certain key management personnel still had unvested shares under this former incentive plan, as set out below in 4.1.3.1.

(ii) Between July and November 2009 a number of share options were granted to employees, all of which vested and were exercised during the year ended 31 July 2010.

The Board is currently considering a new long-term incentive structure which will be introduced during the year ending 31 July 2012.

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. 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.

TPG Telecom Limited and its controlled entities
Directors' report (continued)
For the year ended 31 July 2011

4.1 Remuneration report – audited (continued)
4.1.1 Principles of compensation (continued)
Performance-linked compensation (continued)

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

	2007	2008	2009	2010	2011
EPS (cents)	1.7*	(3.9)	2.6	7.6	10.1
Ordinary dividends paid or declared (cents per share)	2.4	0.0	2.0	4.0	4.5

* Excludes media interests disposed of during 2007

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.

4.1.2 Directors' and executive officers' remuneration

The key management personnel as at 31 July 2011 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
Mr C Levy	General Manager, Marketing & Consumer Sales
Mr J Paine	National Technical & Strategy Manager
Mr J Sinclair	Chief Executive Officer, PIPE Networks
Mr W Springer	General Manager, Corporate Sales

For the year ended 31 July 2011

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 Group, and of other key management personnel of the Group (who include the five highest remunerated executives) are set out in the table below:

Directors		Short-term				Post-employment			Share-based payments				
		Salary & fees $	STI cash bonus $(A)	Non-monetary benefits $	Total $	Superannuation benefits $	Other long term $	Termination benefits $	Options $(B)	Shares $(B)	Total $	S300A (1)(e)(i) Proportion of remuneration performance related %	S300A (1)(e)(vi) Value of options as proportion of remuneration %
Executive Directors													
Mr D Teoh, Chairman	2011	459,632	400,000	169,225	1,028,857	37,558	35,547	-	-	-	1,101,962	36%	-
	2010	303,940	350,000	76,604	730,544	133,423	21,678	-	1,427,131	-	2,312,776	77%	62%
Mr A Latimer	2011	233,553	180,000	22,705	436,258	22,955	2,469	-	-	-	461,682	39%	-
	2010	179,391	180,000	2,950	362,341	32,345	5,796	-	1,427,131	-	1,827,613	88%	78%
Non-executive Directors													
Mr D Ledbury	2011	67,500	-	-	67,500	6,075	-	-	-	-	73,575	-	-
	2010	60,000	-	-	60,000	5,400	-	-	-	-	65,400	-	-
Mr R Millner	2011	65,000	-	-	65,000	5,850	-	-	-	-	70,850	-	-
	2010	57,500	-	-	57,500	5,175	-	-	-	-	62,675	-	-
Mr J Pang	2011	65,000	-	-	65,000	5,850	-	-	-	-	70,850	-	-
	2010	57,500	-	-	57,500	5,175	-	-	-	-	62,675	-	-

TPG Telecom Limited and its controlled entities
Directors' report (continued)
For the year ended 31 July 2011
4.1 Remuneration report – audited (continued)
4.1.2 Directors' and executive officers' remuneration (continued)

		Short-term				Post-employment			Share-based payments				
Executives		Salary & fees $	STI cash bonus $(A)	Non-monetary benefits $	Total $	Superannuation benefits $	Other long term $	Termination benefits $	Options $(B)	Shares $(C)	Total $	S300A (1)(e)(i) Proportion of remuneration performance related %	S300A (1)(e)(vi) Value of options as proportion of remuneration %
Ms M De Ville	2011	211,009	20,000	9,081	240,090	20,791	3,814	-	-	2,707	267,402	8%	-
	2010	211,009	-	1,623	212,632	18,991	3,515	-	-	2,707	237,845	1%	-
Mr S Banfield	2011	174,231	100,000	(2,393)	271,838	24,681	4,780	-	-	8,472	309.771	35%	-
	2010	165,000	85,000	3,023	253,023	22,500	2,748	-	-	8,472	286,743	33%	-
Mr C Levy	2011	174,231	100,000	4,073	278,304	24,681	4,369	-	-	7,666	315,020	34%	-
	2010	165,000	85,000	-	250,000	22,500	2,748	-	-	7,666	282,914	33%	-
Mr J Paine	2011	185,705	100,000	6,783	292,488	24,936	6,533	-	-	-	323,957	31%	-
	2010	154,577	120,000	503	275,080	24,703	2,846	-	-	-	302,629	40%	-
Mr W Springer (recognised in KMP	2011	178,628	100,000	3,901	282,529	24,309	10,397	-	-	-	317,235	32%	-
from 1 August 2010)	2010	-	-	-	-	-	-	-	-	-	-	-	-
Mr J Sinclair (employer subsidiary	2011	181,284	250,000	20,108	451,392	38,816	10,483	-	-	-	500,691	50%	-
acquired 17 March 2010)	2010	67,257	50,000	2,936	120,193	10,553	-	-	-	53,022	183,768	56%	-
Former													
Mr W Piestrzynski (ceased	2011	255,374	30,000	(66,525)	218,849	13,333	(61,436)	58,464	-	-	229,210	13%	-
employment 18 February 2011)	2010	228,581	130,000	2,405	360,986	32,272	4,298	-	-	-	397,556	33%	-
Mr B Slattery (employer subsidiary	2011	91,724	-	(90,014)	1,710	8,255	(41,938)	-	-	-	(31,973)*	-	-
acquired 17 March 2010, resigned 30 Sept 2010)	2010	123,379	91,743	38,687	253,809	19,361	5,625	-	-	-	278,795	33%	-

* Mr Slattery's total remuneration for the year, as disclosed in the table above, is negative due to the fact that the long-service leave that he had accrued was not payable to him upon his resignation.

TPG Telecom Limited and its controlled entities
Directors' report (continued)
For the year ended 31 July 2011

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 2011 and 31 July 2010 were for performance during those years.

B. The two executive directors were granted share options following approval by shareholders at the November 2009 AGM. The fair value of the options was calculated using a Black Scholes model. All options were exercisable immediately upon grant and as a result the related expense was recognised fully in the financial results for the year ended 31 July 2010.

C. Certain executives received shares as part of their remuneration under the 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.

Mr J Sinclair was granted shares in the Company in July 2010 which vested immediately.

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

There were no options or rights granted during the financial year ended 31 July 2011.

Details of share options that were granted to key management personnel during the financial year ended 31 July 2010 (following approval from shareholders at the 2009 AGM) are detailed below:

	Number of options granted during 2010	Grant date	Fair value per option at grant date ($)	Exercise price per option ($)	Expiry date	Number of options vested during 2010
Mr D Teoh	1,000,000	25 Nov 2009	$1.4271	$0.18	30 June 2010	1,000,000
Mr A Latimer	1,000,000	25 Nov 2009	$1.4271	$0.18	30 June 2010	1,000,000

The above options were provided at no cost to the recipients.

Details of ordinary shares in the Company that were granted as compensation to key management personnel during the reporting period are as follows:

On 30 July 2010 30,000 ordinary shares in the Company were granted to Mr J Sinclair. The shares had a fair value at date of grant of $1.7674 each and all vested immediately, with the related expense being fully recognised in the financial results for the year ended 31 July 2010. Aside from this there were no other shares granted to key management personnel during the years ending 31 July 2011 or 31 July 2010.

Details of ordinary shares in the Company that vested to key management personnel during the reporting period are as follows:

The shares in the table below were granted on 13 December 2007 under former incentive plans 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 in accordance with the rules described in 4.1.1(a).

TPG Telecom Limited and its controlled entities
Directors' report (continued)
For the year ended 31 July 2011

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 2010	Number of shares vested during 2011	Number of unvested shares as at 31 July 2011	Fair value per share at grant date ($)
Mr S Banfield	55,612	19,993	35,619	$0.42373
Mr C Levy	50,646	18,112	32,534	$0.42322
Ms M De Ville	16,169	6,279	9,890	$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

During the financial year ended 31 July 2010, the following shares were issued upon the exercise of options previously granted as compensation:

	Number of Shares issued
Executives	
Mr V Piestrzynski	1,000,000
Mr J Paine	700,000
Mr C Levy	500,000
Mr S Banfield	500,000
Mr S McCullough	150,000
Executive Directors	
Mr D Teoh	1,000,000
Mr AJ Latimer	1,000,000

All outstanding options were exercised during the year ended 31 July 2010 such that there were none outstanding as at 31 July 2010.

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.

TPG Telecom Limited and its controlled entities
Directors' report (continued)
For the year ended 31 July 2011

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
Declared and paid during the year ended 31 July 2011				
Final 2010 ordinary	2.00	15,357	Franked	17 Nov 2010
Interim 2011 ordinary	2.25	17,449	Franked	24 May 2011
Total amount		32,806		

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

Declared after end of year

After the balance sheet date the directors have declared a fully franked final FY11 dividend of 2.25 cents per ordinary share, payable on 22 November 2011 to shareholders on the register at 18 October 2011.

The financial effect of this dividend has not been brought to account in the financial statements for the year ended 31 July 2011 and will be recognised in subsequent financial reports.

8. Events subsequent to reporting date

Takeover of IntraPower Limited

On 14 July 2011 the Company entered into a Takeover Bid Implementation Agreement with IntraPower Limited, under which the Company proposed to acquire all outstanding shares in IntraPower, via an off market takeover offer, for $0.30 per IntraPower share in cash, or $0.15 in cash plus 0.089 TPG Telecom Limited shares per IntraPower share.

The value of the all cash offer was $12.792 million.

The takeover offer opened on 29 July 2011, and closed on 29 August 2011 with offer acceptances having been received in relation to shares representing 97.36% of the total number of IntraPower shares.

The consideration for these shares was paid on 19 September 2011, by way of a cash payment of $11.758 million and the issue of 412,694 TPG Telecom Limited shares.

The Company commenced the compulsory acquisition of the remaining 2.64% of IntraPower shares on 31 August 2011, the consideration for which will be paid following the completion of the compulsory acquisition in October 2011.

On 14 July 2011 the Company also entered into Pre-bid acceptance agreements with certain IntraPower shareholders under which the shareholders, who represented 8,485,410 IntraPower shares (19.90%), agreed to accept the takeover offer, thereby giving the Company an option to acquire these shares. At the 31 July 2011 balance date these options were deemed to have no material value.

As at the date of this report, no assessment has been made of the fair values at date of acquisition of the assets of the acquired business.

TPG Telecom Limited and its controlled entities
Directors' report (continued)
For the year ended 31 July 2011

8. Events subsequent to reporting date (continued)

Other than as noted above, 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

Other than the matters discussed, there are no material likely developments for the Group 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	286,868,770
Mr RD Millner	7,057,154
Mr D Ledbury	150,000
Mr A Latimer	760,372
Mr J Pang	87,363

11. Share options

Options granted to directors and executives of the Group

During the year ended 31 July 2010, following approval from shareholders at the November 2009 AGM, the Group granted options over unissued ordinary shares in the Company to the following:

	Number of options granted
Mr D Teoh	1,000,000
Mr A Latimer	1,000,000

No options have been granted subsequent to the above.

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 either during or subsequent to the year ended 31 July 2011 (2010: 8,105,000). The amount paid for each of the shares issued in 2010 was $0.18. There are no amounts unpaid on the issued shares.

TPG Telecom Limited and its controlled entities
Directors' report (continued)
For the year ended 31 July 2011

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 $41,935 (2010:$42,755) in respect of directors' and officers' liability insurance contracts, 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.

	2011 $	2010 $
Audit services:		
Auditors of the Company:		
Audit and review of financial reports	378,800	432,850
	378,800	432,850
Services other than statutory audit:		
Other regulatory audit services:		
Telecommunications USO return	13,500	13,500
Bank covenant compliance certificate	7,500	7,500
Other services:		
Taxation advisory services	103,822	55,000
	124,822	76,000

TPG Telecom Limited and its controlled entities
Directors' report (continued)
For the year ended 31 July 2011

14. Lead auditor's independence declaration

The Lead auditor's independence declaration is set out on page 86 and forms part of the directors' report for the financial year ended 31 July 2011.

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 financial report 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 6th day of October, 2011.

Consolidated Income Statement

For the year ended 31 July 2011

In thousands of AUD	**Note**	**2011**	**2010**
Revenue	*7*	574,513	508,017
Dividend Income		667	207
Telecommunications expense		(260,305)	(258,391)
Employee benefits expense		(48,345)	(43,257)
Other expenses	*8*	(32,502)	(35,522)
Earnings before interest, tax, depreciation and amortisation (EBITDA)		**234,028**	**171,054**
Depreciation of plant and equipment	*20*	(46,399)	(35,443)
Amortisation of intangibles	*21*	(47,037)	(44,557)
Results from operating activities		**140,592**	**91,054**
Finance income		1,206	1,861
Finance expenses		(28,555)	(15,076)
Net financing costs	*10*	**(27,349)**	**(13,215)**
Profit before income tax		**113,243**	**77,839**
Income tax expense	*11*	(35,081)	(22,113)
Profit for the year attributable to owners of the company		**78,162**	**55,726**
Earnings per share:			
Basic earnings per share (cents)	*12*	**10.1**	7.6
Diluted earnings per share (cents)	*12*	**10.1**	7.6

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

Consolidated Statement of Comprehensive Income

For the year ended 31 July 2011

In thousands of AUD	2011	2010
Profit for the year	**78,162**	**55,726**
Foreign exchange translation differences	(50)	73
Net change in fair value of available-for-sale financial assets, net of tax	982	110
Other comprehensive income, net of tax	**932**	**183**
Total comprehensive income attributable to owners of the company	**79,094**	**55,909**

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

Consolidated Statement of Financial Position

As at 31 July 2011

In thousands of AUD	*Note*	2011	2010
Assets			
Cash and cash equivalents	*13*	9,525	17,112
Trade and other receivables	*14*	30,310	23,302
Inventories	*15*	262	446
Intangible assets	*21*	-	382
Investments	*17*	11,293	9,890
Prepayments and other assets	*16*	6,655	5,997
Total Current Assets		**58,045**	**57,129**
Property, plant and equipment	*20*	314,440	312,671
Intangible assets	*21*	541,448	588,103
Prepayments and other assets	*16*	809	1,096
Total Non-Current Assets		**856,697**	**901,870**
Total Assets		**914,742**	**958,999**
Liabilities			
Trade and other payables	*22*	72,957	84,491
Loans and borrowings	*23*	76,214	76,595
Current tax liabilities	*18*	19,482	29,845
Employee benefits	*24*	3,865	3,629
Provisions	*25*	2,000	2,000
Accrued Interest		380	412
Deferred income and other liabilities	*26*	36,312	33,494
Total Current Liabilities		**211,210**	**230,466**
Loans and borrowings	*23*	149,474	245,884
Deferred tax liabilities	*19*	7,362	8,978
Employee benefits	*24*	603	621
Provisions	*25*	6,912	6,117
Deferred income and other liabilities	*26*	23,320	21,496
Total Non-Current Liabilities		**187,671**	**283,096**
Total Liabilities		**398,881**	**513,562**
Net Assets		**515,861**	**445,437**
Equity			
Share Capital	*27*	502,874	478,814
Reserves		(55,326)	(56,334)
Retained earnings		68,313	22,957
Total Equity		**515,861**	**445,437**

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 2011

In thousands of AUD	*Note*	Share capital	Foreign currency translation reserve	Share option reserve	Treasury share reserve	Fair value reserve	Revaluation reserve	Minority interest acquisition reserve	Total reserves	Retained earnings	Total equity
		Attributable to owners of the Company									
Balance as at 1 August 2009		**389,747**	**77**	**2,227**	**(385)**	**-**	**439**	**(56,437)**	**(54,079)**	**(10,870)**	**324,798**
Profit for the year		-	-	-	-	-	-	-	-	55,726	55,726
Foreign currency translation differences	*10*	-	73	-	-	-	-	-	73	-	73
Net change in fair value of available-for-sale financial assets, net of tax	*10*	-	-	-	-	110	-	-	110	-	110
Total comprehensive income for the period		**-**	**73**	**-**	**-**	**110**	**-**	**-**	**183**	**55,726**	**55,909**
Share based payment transactions		-	-	2,852	-	-	-	-	2,852	-	2,852
Share options exercised	*27*	7,379		(5,079)					(5,079)		2,300
Movement in treasury share reserve		-	-	-	228	-	-	-	228	-	228
Transfers between reserves		-	-	-	-	-	(439)	-	(439)	439	-
Issue of ordinary shares	*27*	66,185	-	-	-	-	-	-	-	-	66,185
Transaction costs, net of tax	*27*	(1,486)	-	-	-	-	-	-	-	-	(1,486)
Dividends paid to shareholders	*27*	16,989	-	-	-	-	-	-	-	(22,338)	(5,349)
Total contributions by and distributions to owners		**89,067**	**-**	**(2,227)**	**228**	**-**	**(439)**	**-**	**(2,438)**	**(21,899)**	**64,730**
Balance as at 31 July 2010		**478,814**	**150**	**-**	**(157)**	**110**	**-**	**(56,437)**	**(56,334)**	**22,957**	**445,437**
Balance as at 1 August 2010		**478,814**	**150**	**-**	**(157)**	**110**	**-**	**(56,437)**	**(56,334)**	**22,957**	**445,437**
Profit for the year		-	-	-	-	-	-	-	-	78,162	78,162
Foreign currency translation differences	*10*	-	(50)	-	-	-	-	-	(50)	-	(50)
Net change in fair value of available-for-sale financial assets, net of tax	*10*	-	-	-	-	982	-	-	982	-	982
Total comprehensive income for the period		**-**	**(50)**	**-**	**-**	**982**	**-**	**-**	**932**	**78,162**	**79,094**
Movement in treasury share reserve		-	-	-	76	-	-	-	76	-	76
Transaction costs, net of tax	*27*	(26)	-	-	-	-	-	-	-	-	(26)
Dividends paid to shareholders	*27*	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**	**-**	**(56,437)**	**(55,326)**	**68,313**	**515,861**

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 2011

In thousands of AUD	***Note***	**2011**	**2010**
Cash flows from operating activities			
Cash receipts from customers		632,745	573,481
Cash paid to suppliers and employees		(417,559)	(384,403)
Cash generated from operations		215,186	189,078
Income taxes paid		(47,538)	(16,768)
Net cash from operating activities		**167,648**	**172,310**
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		-	32
Acquisition of property, plant and equipment		(43,254)	(68,203)
Acquisition of subsidiaries, net of cash acquired	***37***	-	(371,034)
Costs incurred on acquisition of subsidiaries		-	(2,961)
Proceeds from sale of investments		-	5,781
Dividends received		667	207
Net cash used in investing activities		**(42,587)**	**(436,178)**
Cash flows from financing activities			
Issue of shares		-	66,185
Proceeds from exercise of share options		-	2,068
Transaction costs related to issue of shares		(37)	(2,145)
Transaction costs related to loans & borrowings		-	(11,467)
Payment of network capacity and finance lease liabilities		(415)	(8,268)
Proceeds from borrowings	***23***	10,000	354,489
Repayment of borrowings	***23***	(110,000)	(119,989)
Interest received		1,206	1,674
Interest paid		(24,625)	(13,249)
Dividends paid		(8,720)	(5,349)
Net cash (used in)/ from financing activities		**(132,591)**	**263,949**
Net (decrease)/increase in cash and cash equivalents		(7,530)	81
Cash and cash equivalents at beginning of the year	***13***	17,112	17,179
Effect of exchange rate fluctuations		(57)	(148)
Cash and cash equivalents at end of the year	***13***	**9,525**	**17,112**

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

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 report as at, and for the year ended 31 July 2011, comprises 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 6 October 2011.

(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 2011 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 23).

(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 21 – measurement of the recoverable amounts of cash-generating units containing goodwill
- note 28 – valuation of financial instruments
- note 37 – 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 between 1 July 2004 and 1 July 2009

For acquisitions between 1 July 2004 and 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, and an appropriate proportion of production overheads.

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 the current and comparative periods are as follows:

• Plant and equipment	2.5 - 20 years
• Leasehold improvements	8 years
• Leased assets	5 - 10 years
• Buildings	40 years
• Domestic fibre optic cable	20 years
• International fibre optic cable	25 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 base**

  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 cost, being 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 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) Employee share option plan

The fair value of share options granted to employees, classed as equity settled share based payments, is recognised as an employee expense, together with a corresponding increase in equity, over the vesting period of the options. Their fair value is calculated using the Black Scholes methodology.

(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 Company and other controlled entities contribute 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 internally is provided to the CEO, 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 CEO 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 CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise corporate costs 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 2010, 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 2014 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 28).

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.

- Approximately 14% (2010: 28%) of the Group's trade receivables are attributable to retail customers. 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 $10.6 million (2010: $11.5 million) which was fully unutilised at 31 July 2011 (2010: fully unutilised). In addition, the Group had $48.0 million of its debt facility available for drawdown as at 31 July 2011.

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 2011, the maximum value of loans available under the facility was $280 million and the amount drawn down was $232 million.

5. Financial risk management (continued)

Other market price risk

Equity price risk arises from 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 of directors 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 the 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	2011	2010
Total loans and borrowings	225,688	322,479
Less: cash and cash equivalents	(9,525)	(17,112)
Net debt	**216,163**	**305,367**
Total equity	**515,861**	**445,437**
Net debt to equity ratio at 31 July	**0.42**	**0.69**

6. Segment reporting

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

Following the integration of the PIPE Networks business, the Group now recognises three primary operating segments; the Consumer, Corporate and PIPE Networks segments.

The Consumer segment provides telecommunications services to retail customers.

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

The PIPE Networks segment provides telecommunications infrastructure and services in Australia, and international telecommunications and internet transmission capacity between Australia, Guam, USA and Asia via its submarine cable system known as PPC-1.

The accounting policies of all reportable segments are the same as described in Notes 2 and 3.

In the following table, costs in the „Unallocated' column comprise corporate costs and listing fees. The prior year comparatives also include fees associated with the acquisition of PIPE Networks Limited and professional advisor fees related to a due diligence exercise that the Group undertook on an acquisition opportunity that did not proceed.

6. Segment Reporting (continued)

	Information about reportable segments								Reconciliation to profit for the year			
	Consumer		Corporate		Pipe Networks		Total results		Unallocated		Consolidated results for the year	
In thousands of AUD	2011	2010	2011	2010	2011	2010*	2011	2010	2011	2010	2011	2010
Revenue	**374,250**	**367,412**	**108,910**	**111,466**	**91,353**	**29,140**	**574,513**	**508,017**	-	-	574,513	508,017
Dividend Income	-	-	-	-	-	-	-	-	667	207	667	207
Telecommunications expense	(181,038)	(189,150)	(56,270)	(61,989)	(22,997)	(7,253)	(260,305)	(258,391)	-	-	(260,305)	(258,391)
Employee benefits expense	(20,892)	(21,973)	(17,525)	(17,341)	(9,928)	(3,943)	(48,345)	(43,257)	-	-	(48,345)	(43,257)
Other expenses	(23,618)	(21,880)	(6,837)	(5,313)	(1,207)	(2,571)	(31,662)	(29,764)	(840)	(5,758)	(32,502)	(35,522)
EBITDA	**148,702**	**134,409**	**28,278**	**26,823**	**57,221**	**15,373**	**234,201**	**176,605**	**(173)**	**(5,551)**	**234,028**	**171,054**
Depreciation of plant and equipment	(18,496)	(13,490)	(16,337)	(17,843)	(11,566)	(4,110)	(46,399)	(35,443)	-	-	(46,399)	(35,443)
Results from Segment activities	**130,206**	**120,919**	**11,941**	**8,980**	**45,655**	**11,263**	**187,802**	**141,162**	**(173)**	**(5,551)**	**187,629**	**135,611**
Amortisation of intangibles											(47,037)	(44,557)
Results from operating activities											**140,592**	**91,054**
Net financing costs											(27,349)	(13,215)
Profit before income tax											**113,243**	**77,839**
Income tax expense											(35,081)	(22,113)
Profit for the year											**78,162**	**55,726**

* 4 ½ months

Geographic Information

All of the Group's revenues are derived from Australian based entities, except for $7.3 million (2010: $2.5 million) derived from overseas customers.

All of the Group's non-current assets are located in Australia, except for assets amounting to $137.6 million (2010: $145.5 million) that are located either overseas or in international waters.

7. Revenue

In thousands of AUD	2011	2010
Revenue comprises the following:		
Rendering of services	523,160	488,235
Sale of goods	5,425	7,104
Network capacity sales, recognised as:		
- operating leases	39,516	12,678
- finance leases	6,412	-
	574,513	**508,017**

8. Expenses

In thousands of AUD	2011	2010
Other expenses include the following specific items:		
Expenses incurred in the acquisition of PIPE Networks Limited	68	3,135
Due diligence expenses incurred in relation to an acquisition opportunity that did not proceed	73	2,549

9. Auditors' remuneration

In AUD

	2011	2010
Audit services		
Auditors of the Company – KPMG Australia		
Audit and review of financial reports	378,800	432,850
Other regulatory audit services	21,000	21,000
	399,800	453,850
Other services		
Auditors of the Company – KPMG Australia		
Taxation	103,822	55,000
	503,622	508,850

10. Finance income and expense

Recognised in profit or loss

In thousands of AUD	**2011**	**2010**
Interest income	1,206	1,861
Interest expense	(24,486)	(13,656)
Unwinding of discount on provisions	(110)	(110)
Borrowing costs	(3,959)	(1,310)
Net finance expense	(27,349)	(13,215)

Recognised in equity

In thousands of AUD	**2011**	**2010**
Foreign currency translation differences on retranslation of foreign operations	(50)	73
Net change in fair value of available-for-sale financial assets	982	110
Net finance income recognised directly in equity, net of tax, attributable to owners of the company	932	183

11. Income tax expense

Recognised in the income statement

In thousands of AUD	**2011**	**2010**
Current tax expense		
Current year	37,006	28,466
Adjustments for prior years	104	-
	37,110	28,466
Deferred tax expense		
Origination and reversal of temporary differences	(2,029)	(6,353)
Income tax expense	**35,081**	**22,113**

Numerical reconciliation between tax expense and pre-tax accounting profit

In thousands of AUD	**2011**	**2010**
Profit before tax	113,243	77,839
Income tax expense using the domestic corporation tax rate of 30% (2010: 30%)	33,973	23,351
Increase/(decrease) in income tax expense due to:		
Non-deductible expenses	1,144	1,844
Adjustments in respect of tax deductions for prior year subscriber bases acquired	-	(3,082)
Income tax expense on profit before tax	35,117	22,113
Over provided in prior year	(36)	-
Income tax expense	**35,081**	**22,113**

12. Earnings per share

	2011 Cents	2010 Cents
Basic and diluted earnings per share	**10.1**	7.6

	2011 Number	2010 Number
Weighted average number of shares used in calculating basic and diluted earnings per share		
Ordinary shares on issue at 1 August	767,849,104	703,600,974
Effect of shares issued under the Dividend Reinvestment Plan	6,864,647	4,072,719
Effect of Institutional share placement	-	19,212,653
Effect of share options exercised	-	8,324,275
Effect of issue under Share Purchase Plan	-	311,231
Weighted average number of ordinary shares at 31 July	774,713,751	735,521,852

In thousands of AUD	2011	2010
Profit attributable to ordinary shareholders		
Profit for the year	**78,162**	55,726
Profit attributable to ordinary shareholders used in calculating **basic and diluted** earnings per share	**78,162**	55,726

13. Cash and cash equivalents

In thousands of AUD	2011	2010
Current		
Bank balances	9,519	17,105
Cash	6	7
Cash and cash equivalents	9,525	17,112

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 28.

14. Trade and other receivables

In thousands of AUD	2011	2010
Current		
Trade receivables	28,383	21,069
Accrued income and other receivables	7,170	8,811
Less: Provision for impairment losses	(5,243)	(6,578)
	30,310	23,302

The Group's exposure to credit and currency risk and impairment losses related to trade and other receivables are disclosed in note 28.

15. Inventories

In thousands of AUD	2011	2010
Customer equipment inventory	262	446

16. Prepayments and other assets

In thousands of AUD	2011	2010
Current		
Prepayments	6,655	5,997
Non-current		
Security deposits	809	1,096

17. Investments

In thousands of AUD	*Note*	2011	2010
Current			
Available-for-sale financial assets		11,293	9,890

Available-for-sale financial assets represent investments in ASX listed equity securities.

Sensitivity analysis – equity price risk
A two percent increase in share price as at the reporting date would have increased equity by $158 thousand after tax. An equal change in the opposite direction would have decreased equity by $158 thousand after tax.

18. Current tax liabilities

The current tax liability for the Group of $19.482 million (2010: $29.845 million) represents the remaining amount of income tax payable in respect of year ended 31 July 2011

19. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
In thousands of AUD	2011	2010	2011	2010	2011	2010
Receivables	(1,633)	(2,643)	-	-	(1,633)	(2,643)
Inventories	-	(117)	-	-	-	(117)
Investments	-	-	471	47	471	47
Property, plant and equipment	(1,819)	(2,003)	8,928	6,568	7,109	4,565
Intangible assets	-	-	12,616	21,334	12,616	21,334
Payables	(261)	(1,490)	-	28	(261)	(1,462)
Provisions	(4,338)	(3,761)	39	-	(4,299)	(3,761)
Employee benefits	(1,543)	(1,388)	-	-	(1,543)	(1,388)
Unearned revenue	(2,551)	(1,786)	412	241	(2,139)	(1,545)
Equity raising costs	(647)	(575)	-	-	(647)	(575)
Tax loss carry-forwards recognised	-	(1,949)	-	-	-	(1,949)
Other items	(2,379)	(5,414)	67	1,886	(2,312)	(3,528)
Tax (assets)/liabilities	(15,171)	(21,126)	22,533	30,104	7,362	8,978
Set off of tax	15,171	21,126	(15,171)	(21,126)	-	-
Net tax liabilities	**-**	**-**	**7,362**	**8,978**	**7,362**	**8,978**

19. Deferred tax assets and liabilities (continued)

Movement in temporary differences during the year

In thousands of AUD	Balance 1 August 2009	Recognised in profit or loss	Recognised in equity	Acquired in business combinations	Balance 31 July 2010	Recognised in profit or loss	Recognised in equity	Balance 31 July 2011
Receivables	(1,208)	(1,168)	-	(267)	(2,643)	1,010	-	(1,633)
Inventories	(236)	119	-	-	(117)	117	-	-
Investments	-	-	47	-	47	-	424	471
Property, plant and equipment	4,794	901	-	(1,130)	4,565	2,544	-	7,109
Intangible assets	18,874	(6,856)	(187)	9,503	21,334	(8,718)	-	12,616
Payables	(1,613)	152	-	(1)	(1,462)	1,201		(261)
Provisions	(2,094)	(771)	-	(896)	(3,761)	(538)	-	(4,299)
Employee benefits	(1,047)	(176)	-	(165)	(1,388)	(155)	-	(1,543)
Unearned revenue	(1,009)	(536)	-	-	(1,545)	(594)	-	(2,139)
Equity raising costs	-	41	(616)	-	(575)	(61)	(11)	(647)
Interest-bearing loans and borrowings	538	(538)	-	-	-	-	-	-
Other items	(423)	540	-	(3,645)	(3,528)	1,216	-	(2,312)
Tax loss carry-forwards	(3,888)	1,939	-	-	(1,949)	1949	-	-
	12,688	**(6,353)**	**(756)**	**3,399**	**8,978**	**(2,029)**	**413**	**7,362**

20. Property, plant and equipment

In thousands of AUD	*Note*	Land	Plant and equipment	Leasehold improvements	Leased assets	Buildings	Total
Cost							
Balance at 1 August 2009		60	216,728	119	2,584	1,035	220,526
Acquisitions through business combinations	7	-	169,739	2,404	-	2,152	174,295
Additions		-	38,650	297	-	-	38,947
Disposals		-	(523)	-	-	-	(523)
Write-downs and write-offs		-	(118)	-	-	-	(118)
Effect of movements in exchange rates		-	(62)	-	-	(38)	(100)
Balance at 31 July 2010		**60**	**424,414**	**2,820**	**2,584**	**3,149**	**433,027**
Balance at 1 August 2010		**60**	**424,414**	**2,820**	**2,584**	**3,149**	**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		**60**	**472,410**	**2,934**	**2,584**	**3,035**	**481,023**

20. Property, plant and equipment (continued)

In thousands of AUD	Land	Plant and equipment	Leasehold improvements	Leased assets	Buildings	Total
Depreciation and impairment losses						
Balance at 1 August 2009	-	84,093	78	906	41	85,118
Depreciation charge for the year	-	35,043	206	134	60	35,443
Disposals	-	(44)	-	-	-	(44)
Write-downs and write-offs	-	(118)	-	-	-	(118)
Effect of movements in exchange rates	-	(68)	-	-	25	(43)
Balance at 31 July 2010	**-**	**118,906**	**284**	**1,040**	**126**	**120,356**
Balance at 1 August 2010	-	118,906	284	1,040	126	120,356
Depreciation charge for the year	-	45,594	589	127	89	46,399
Disposals	-	(102)	-	-	-	(102)
Effect of movements in exchange rates	-	(58)	-	-	(12)	(70)
Balance at 31 July 2011	**-**	**164,340**	**873**	**1,167**	**203**	**166,583**
Carrying amounts						
At 1 August 2009	60	132,635	41	1,678	994	**135,408**
At 31 July 2010	60	305,508	2,536	1,544	3,023	**312,671**
At 1 August 2010	60	305,508	2,536	1,544	3,023	**312,671**
At 31 July 2011	**60**	**308,070**	**2,061**	**1,417**	**2,832**	**314,440**

20. 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 2011 the net carrying amount of leased plant and equipment was $1.417 million (2010: $1.544 million). The leased plant and equipment secures lease obligations (see note 23).

21. Intangible assets

In thousands of AUD	2011	2010
Current		
Capitalised deferred subscriber acquisition costs		
Balance 1 August	4,685	25,456
Written-off	(4,685)	(20,771)
Balance 31 July	-	4,685
Amortisation		
Balance 1 August	4,303	18,141
Amortisation	382	6,882
Written-off	(4,685)	(20,720)
Balance 31 July	-	4,303
Carrying amounts		
At beginning of year	382	7,315
At end of year	-	382

21. Intangible assets (continued)

In thousands of AUD **Non-current**	Note	Goodwill	Acquired customer bases	Reacquired rights	Trademark	Internally generated software	Indefeasible right of use of capacity	Development costs	Total
Cost									
Balance 1 August 2009		241,918	112,465	-	20,068	7,837	26,069	1,459	409,816
Acquisitions through business combinations	37	140,439	114,419	3,916	-	200	34,786	-	293,760
Additions		-	-	-	-	-	1,033	-	1,033
Balance 31 July 2010		382,357	226,884	3,916	20,068	8,037	61,888	1,459	704,609
Balance 1 August 2010		382,357	226,884	3,916	20,068	8,037	61,888	1,459	704,609
Additions		-	-	-	-	-	-	-	-
Balance 31 July 2011		**382,357**	**226,884**	**3,916**	**20,068**	**8,037**	**61,888**	**1,459**	**704,609**
Amortisation and Impairment									
Balance 1 August 2009		-	73,172	-	-	2,089	2,731	839	78,831
Amortisation for the year		-	32,181	820	-	1,587	2,993	94	37,675
Balance 31 July 2010		-	105,353	820	-	3,676	5,724	933	116,506
Balance 1 August 2010		-	105,353	820	-	3,676	5,724	933	116,506
Amortisation for the year		-	38,381	2,000	-	1,617	4,563	94	46,655
Balance 31 July 2011		**-**	**143,734**	**2,820**	**-**	**5,293**	**10,287**	**1,027**	**163,161**
Carrying amounts									
At 1 August 2009		241,918	39,293	-	20,068	5,748	23,338	620	330,985
At 31 July 2010		382,357	121,531	3,096	20,068	4,361	56,164	526	588,103
At 1 August 2010		382,357	121,531	3,096	20,068	4,361	56,164	526	588,103
At 31 July 2011		382,357	83,150	1,096	20,068	2,744	51,601	432	541,448

21. 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 four separate CGUs, being the Consumer, Corporate, PIPE domestic and PIPE international CGUs. Total goodwill at 31 July 2011 is $382,357,000 (2010: $382,357,000), and is allocated fully to the Consumer CGU as it is the principal beneficiary of the acquisitions from which the goodwill has arisen.

The recoverable amount of the goodwill in the Consumer CGU has been determined based on a value in use calculation.

Value in use is determined by discounting the projected future cashflows generated from the continuing use of the assets in the Consumer CGU. The cashflow projections utilised in the current year were the forecast cashflows for the 3 years to 31 July 2014, 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 4 to 5 based on the long-term industry growth rate (2010: 2%). In the terminal phase beyond year 5 the growth rate used was also 2% (2010: 2%). A pre-tax discount rate of 15% (2010: 17%) 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.

22. Trade and other payables

In thousands of AUD	**2011**	**2010**
Trade creditors	41,132	46,270
Other creditors and accruals	31,825	38,221
	72,957	84,491

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 28.

23. 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 28.

In thousands of AUD		2011	2010
Current liabilities			
Gross secured bank loans		80,000	80,000
Less: Unamortised borrowing costs		(3,989)	(3,819)
Secured bank loans	*(i)*	76,011	76,181
Finance lease liabilities		203	414
		76,214	76,595
Non-current liabilities			
Gross secured bank loans		152,000	252,000
Less: Unamortised borrowing costs		(2,542)	(6,338)
Secured bank loans	*(i)*	149,458	245,662
Finance lease liabilities		16	222
		149,474	245,884

(i) On 12 March 2010 the Group entered into a new $360 million Syndicated Debt Facility Agreement which expires on 12 March 2013. $354 million was initially drawn down, the funds being used to finance, together with cash raised through a share placement, the acquisition of PIPE, and to pay back TPG's and PIPE's existing debt facilities totalling $98 million.

During the year ended 31 July 2011, the Group repaid $100 million of the facility (2010: $22 million), net of a drawdown of $10 million. The total debt balance at 31 July 2011 was $232 million.

The outstanding loan balance as at the year end is shown in the statement of financial position net of unamortised borrowing costs of $6.5 million (2010: $10.2 million).

As at 31 July 2011, $48 million of the debt facility is available for drawdown. The Group is making permanent compulsory repayments against the facility of $20 million per quarter.

The Group also maintains a bank overdraft facility of $10.6 million (2010: $11.5 million) which was fully unutilised at 31 July 2011 (2010: fully unutilised).

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
Digiplus Limited (NZ)
Blue Call Pty Ltd
Orchid Cybertech Services Inc (Philippines)
Orchid Human Resources Pty Ltd
TPG (NZ) Pty Ltd

23. Loans and borrowings (continued)

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

In thousands of AUD	Currency	Nominal interest rate	Year of maturity	2011 Face value	2011 Carrying amount	2010 Face value	2010 Carrying amount
Secured bank loan	AUD	BBSY + margin (1)	2013 (2)	225,469	225,469	321,843	321,843
Finance lease liabilities	AUD	6.9%	2011-2013	224	219	659	636
				225,693	225,688	322,502	322,479

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

(2) The Group has a repayment schedule of $20 million every quarter until January 2013, with the balance of the facility being repayable on 12 March 2013.

Finance lease liabilities

Finance lease liabilities of the Group are payable as follows:

In thousands of AUD	Minimum lease payments 2011	Interest 2011	Principal 2011	Minimum lease payments 2010	Interest 2010	Principal 2010
Less than one year	207	(4)	203	459	(21)	438
Between one and five years	17	(1)	16	200	(2)	198
	224	(5)	219	659	(23)	636

24. Employee benefits

In thousands of AUD	2011	2010
Current		
Liability for annual leave	2,807	2,695
Liability for long service leave	1,058	934
	3,865	3,629
Non Current		
Liability for long service leave	603	621

Included in employee benefits expense for the year ended 31 July 2011 are share based payments totalling $0.112 million (2010: $2.928 million)

24. Employee benefits (continued)

Share based payments

(i) Employee Share Option Plan

On 8 July 2009, 10.875 million share options were granted to employees. On 25 November 2009, a further 2.0 million share options were granted to the two executive directors. All options granted were immediately exercisable with a latest exercise date of 30 June 2010. All options were to be settled by physical delivery of shares. All outstanding options were exercised by the last exercise date of 30 June 2010 with the exception of 100,000 which lapsed. The fair value of services received in return for share options granted is based on the fair value of share options granted. Expected volatility is estimated by considering historic average share price volatility. The fair value of the options was measured using a Black Scholes model with the following inputs:

	Options issued on 25 Nov 2009	Options issued on 8 July 2009
Share price at grant date	$1.60	$0.38
Exercise price	$0.18	$0.18
Expected volatility	55.2%	66.3%
Option life	0.50 years	0.27 years
Expected dividends	-	-
Risk-free interest rate	5.75%	5.5%
Fair value at grant date	$1.4271	$0.20484

The number and weighted average exercise price of the share options outstanding during 2010 are shown below:

	Weighted average exercise price 2010	Number of options 2010
Balance at start of year	$0.18	10,875,000
Granted during the year	$0.18	2,000,000
Forfeited during the year		-
Exercised during the year	$0.18	(12,775,000)
Expired during the year	$0.18	(100,000)
Balance at end of year		-
Exercisable at end of year		-

(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 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 2011 or 2010. In 2010 65,000 previously unallocated shares were allocated to 5 employees. During the year ended 31 July 2011 $76,000 (2010: $228,000) was recognised as an employee benefit expense in respect of this scheme.

25. Provisions

In thousands of AUD

	Make good costs	Lease increment	Other	Total
Balance 1 August 2010	5,767	350	2,000	8,117
Provisions made during the year	-	699	-	699
Provisions used during the year	-	(14)	-	(14)
Unwind of discount	110	-	-	110
Balance 31 July 2011	5,877	1,035	2,000	8,912
Current	-	-	2,000	2,000
Non-current	5,877	1,035	-	6,912
	5,877	1,035	2,000	8,912

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.

26. Deferred income and other liabilities

In thousands of AUD	2011	2010
Current		
Deferred income	36,312	33,494
Non-current		
Deferred income	23,320	21,496

27. Capital and reserves

Share capital

	Company Ordinary shares		Company In thousands of AUD	
	2011	**2010**	**2011**	**2010**
On issue at 1 August	767,849,104	703,600,974	478,814	389,747
Ordinary shares issued during the year				
Institutional share placement (i)	-	41,009,464	-	65,000
Share Purchase Plan (ii)	-	747,365	-	1,185
Exercise of options	-	12,775,000	-	7,379
Dividend Reinvestment Plan	15,632,540	9,716,301	24,086	16,989
Transaction costs, net of tax	-	-	(26)	(1,486)
On issue at 31 July	**783,481,644**	**767,849,104**	**502,874**	**478,814**

(i) On 4 February 2010 the Company completed an institutional placement to raise $65.0 million through the issue of 41.0 million new ordinary shares at $1.585.

(ii) In February 2010, the Company raised $1.2 million under a Share Purchase Plan offered to its shareholders.

The Company does not have authorised capital or par value in respect of its issued shares. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

Foreign currency translation reserve

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

Share option reserve

The share option reserve is used to recognise the fair value of options issued but not exercised.

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 2011 the Group held 170,458 of the Company's shares (2010: 246,131 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.

Revaluation reserve

The revaluation reserve relates to the value of contracted customers that was recognised on the consolidation of SPT Telecommunications Pty Ltd. This entity was previously equity accounted and the amount recognised in the reserve reflects 50% of the increment in value of contracted customers that were previously equity accounted.

27. Capital and reserves (continued)

Minority interest acquisition reserve

The minority interest acquisition reserve represents the surplus of the acquisition price over the minority interest acquired.

Dividends

Dividends recognised in the current year by the Company are as follows:

In thousands of AUD	Cents per share	Total amount	Franked / unfranked	Date of payment
2011				
Interim 2011 ordinary	2.25	17,449	Franked	24 May 2011
Final 2010 ordinary	2.00	15,357	Franked	17 Nov 2010
		32,806		
2010				
Interim 2010 ordinary	2.0	15,220	Franked	27 May 2010
Final 2009 ordinary	1.0	7,118	Franked	18 Nov 2009
Total amount		22,338		

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 FY11 dividend of 2.25 cents per share. As the final dividend was not declared or resolved to be paid by the Board of directors as at 31 July 2011, the dividend has not been provided for in the consolidated statement of financial position. The dividend has a record date of 18 October 2011 and will be paid on 22 November 2011.

For each of the dividends in the table above, a Dividend Reinvestment Plan (DRP) was made available with a discount of 2.5% (final 2009, interim and final 2010) or 2.0% (interim and final 2011).

Dividend franking account *In thousands of AUD*	2011	2010
30 per cent franking credits available to shareholders of TPG Telecom Limited for subsequent financial years	96,502	73,112

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 $7,555,002 (2010: $6,581,564)

28. 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***	**2011**	**2010**
Trade and other receivables	*14*	30,310	23,302
Cash and cash equivalents	*13*	9,525	17,112
Available-for-sale financial assets	*17*	11,293	9,890
Forward exchange contracts		-	(173)
		51,128	50,131

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***	**2011**	**2010**
Type of customer			
Government		4,250	4,862
Corporate	*	13,083	4,561
Wholesale		6,935	5,785
Retail		4,115	5,861
	14	28,383	21,069

* The 2011 Corporate trade receivables balance includes an amount of $7.9 million relating to a customer that was invoiced this amount shortly prior to the year-end and settled the amount subsequent to the year-end.

Approximately 14% of the Group's trade receivables are attributable to retail customers (2010: 28%). The Group minimises concentrations 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.

28. 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 2011	Carrying amount 2010
Geographical region			
Australia		27,760	20,236
New Zealand		6	25
United States		75	94
Other		542	714
	14	28,383	21,069

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 2011	Carrying amount 2010
Ageing of customer			
Not past due		19,602	9,733
Past due 0-30 days		3,719	5,924
Past due 31-60 days		552	1,229
Past due 61-90 days		652	812
Past due 91-120 days		896	435
Past due 121 days		2,962	2,936
Gross trade receivables	*14*	28,383	21,069
Less: Provision for impairment losses	*14*	(5,243)	(6,578)
Net receivables		23,140	14,491

The provision for impairment losses of the Group at 31 July 2011 of $5.2 million (2010: $6.6 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 2011 is as follows:

In thousands of AUD	2011	2010
Balance at 1 August	6,578	7,819
Impairment loss written back	(1,335)	(1,241)
Balance at 31 July	5,243	6,578

28. 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 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
Non-derivative financial liabilities								
Secured bank loans	23	(225,469)	(259,663)	(49,608)	(48,302)	(161,753)	-	-
Finance lease liabilities	23	(219)	(224)	(182)	(25)	(17)	-	-
Trade and other payables	22	(72,957)	(72,957)	(72,957)	-	-	-	-
		(298,645)	**(332,844)**	**(122,747)**	**(48,327)**	**(161,770)**	**-**	**-**

31 July 2010 *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	23	(321,843)	(383,425)	(53,309)	(51,897)	(99,149)	(179,070)	-
Finance lease liabilities	23	(636)	(659)	(231)	(227)	(184)	(17)	-
Trade and other payables*	22	(84,730)	(84,730)	(84,730)	-	-	-	-
Derivative financial liabilities								
Forward exchange contracts								
Outflow		(173)	(11,271)	(11,271)	-	-	-	-
Inflow		-	11,098	11,098	-	-	-	-
		(407,382)	(468,987)	(138,443)	(52,124)	(99,333)	(179,087)	-

* Excludes derivatives (shown separately)

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

28. 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 2011				31 July 2010			
Trade receivables	635	-	699	-	462	-	416	-
Other financial assets	659	-	198	22,144	1,778	-	1,297	13,943
Trade payables	(2,445)	(115)	(2,574)	(601)	(6,902)	(7)	(6,194)	(905)
Other financial liabilities	(799)	-	(879)	-	(903)	-	(814)	-
Gross Statement of Financial Position exposure	(1,950)	(115)	(2,556)	21,543	(5,565)	(7)	(5,295)	13,038
Forward exchange contracts	-	-	-	-	(11,098)	-	(10,000)	-
Net exposure	(1,950)	(115)	(2,556)	21,543	(16,663)	(7)	(15,295)	13,038

In addition to the above, the Group has operating lease commitments denominated in USD (refer note 29).

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2011	2010	2011	2010
NZD	1.25	1.26	1.25	1.25
USD	1.00	0.86	1.10	0.90
PHP	43.68	40.26	46.23	41.13

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 2010.

In thousands of AUD	Equity	Profit or loss
31 July 2011		
NZD	8	-
USD	211	211
PHP	(42)	-
31 July 2010		
NZD	1	-
USD	1,543	1,543
PHP	(29)	-

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.

28. 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:

In thousands of AUD	*Note*	Carrying amount 2011	2010
Fixed rate instruments			
Financial liabilities	*23*	(219)	(636)
Variable rate instruments			
Financial assets	*13*	9,525	17,112
Financial liabilities	*23*	(225,469)	(321,843)
		(215,944)	(304,731)

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 2010.

	Group profit/ (loss)	
In thousands of AUD	100bp increase	100bp decrease
31 July 2011		
Variable rate instruments	(2,160)	2,160
Cash flow sensitivity	(2,160)	2,160
31 July 2010		
Variable rate instruments	(3,047)	3,047
Cash flow sensitivity	(3,047)	3,047

28. 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 2011 Carrying amount	31 July 2011 Fair value	31 July 2010 Carrying amount	31 July 2010 Fair value
Trade debtors and other receivables	*14*	30,310	30,310	23,302	23,302
Cash and cash equivalents	*13*	9,525	9,525	17,112	17,112
Available-for-sale financial assets	*17*	11,293	11,293	9,890	9,890
Secured bank loans	*23*	(225,469)	(225,469)	(321,843)	(321,843)
Finance lease liabilities	*23*	(219)	(219)	(636)	(636)
Trade and other payables*	*22*	(72,957)	(72,957)	(84,318)	(84,318)
Forward exchange contracts		-	-	(173)	(173)
		(247,517)	(247,517)	(356,666)	(356,666)

* Excludes derivatives (shown separately)

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:

	2011	2010
Loans and borrowings	BBSY + margin	BBSY + margin
Leases	5% to 10%	5% to 10%
Forward exchange contracts	-	4% to 7%

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.

29. Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

In thousands of AUD	2011	2010
Less than one year	29,457	26,969
Between one and five years	56,297	71,458
More than five years	27,251	17,198
	113,005	115,625

These operating lease commitments include $44.9 million denominated in USD (2010: $62.9 million).

30. Capital and other commitments

In thousands of AUD	2011	2010
Capital expenditure commitments		
Contracted but not provided for and payable:		
Within one year	8,386	6,900

31. 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 38) 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.

32. Consolidated entities

The following is a list of all entities that formed part of the Group as at 31 July 2011:

		Country of Incorporation	Ownership interest (%)	
			2011	2010
	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	100
(1)	Codex 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
(1)	PSSC Pty Ltd	Australia	-	100

(1) Non-operating subsidiaries wound up during the year

33. Reconciliation of cash flows from operating activities

In thousands of AUD	*Note*	2011	2010
Cash flows from operating activities			
Profit/(loss) for the year after income tax		78,162	55,726
Adjustments for:			
Dividend income		(667)	(207)
Depreciation of plant and equipment	*20*	46,399	35,443
Amortisation and impairment of intangibles	*21*	47,037	44,557
Bad and doubtful debts		(2,905)	1,992
Amortisation of prepaid advertising		-	1,833
Borrowing costs written-off	*10*	3,959	1,310
Employee share plan expense		37	40
Employee share option plan expense		75	2,890
Unrealised foreign exchange loss/(gain)		1,237	133
Interest income	*10*	(1,206)	(1,861)
Interest expense	*10*	24,596	13,766
Costs relating to mergers and acquisitions		-	5,684
Net loss/(gain) on sale on non-current assets		-	(20)
Income tax expense/(benefit)	*11*	35,081	22,113
Operating profit before changes in working capital and provisions		231,805	183,399
Changes in operating assets and liabilities adjusted for effects from purchase of controlled entities during the financial year:			
(Increase)/decrease in trade and other receivables		(4,103)	10,207
(Increase)/decrease in inventories		184	259
(Increase)/decrease in other assets		(484)	2,955
(Increase)/decrease in intangible assets		-	51
(Decrease)/increase in trade and other payables		(17,416)	(12,875)
(Decrease)/increase in other liabilities		4,187	2,479
(Decrease)/increase in employee benefits		218	525
(Decrease)/Increase in provisions		795	2,078
		215,186	189,078
Income taxes paid		(47,538)	(16,768)
Net cash from operating activities		167,648	172,310

34. Parent entity disclosures

In thousands of AUD	*Note*	Company 2011	Company 2010
Result of the parent entity			
Loss for the period	*(i)*	(21,343)	(15,955)
Other comprehensive income		-	-
Total comprehensive income for the period		**(21,343)**	**(15,955)**
(i) Loss for the period comprises:			
Finance expenses		(28,420)	(14,660)
Costs relating to mergers and acquisitions		(148)	(5,684)
Income tax benefit		7,670	5,872
Others		(445)	(1,483)
Total loss for the period		**(21,343)**	**(15,955)**
Financial position of parent entity at year end			
Current assets		545	1,316
Total assets		723,387	854,469
Current liabilities		113,368	117,936
Total liabilities		295,682	396,751
Total equity of the parent entity comprising of:			
Share Capital		502,874	478,814
Treasury share reserve		(81)	(157)
Retained accumulated losses		(75,088)	(20,939)
Total Equity		**427,705**	**457,718**

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 38.

35. 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

Executives

Mr Craig Levy *General Manager, Marketing & Consumer Sales*	
Mr Jason Sinclair *Chief Executive Officer, PIPE Networks*	Subsidiary employer acquired 17 March 2010
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 Witold Piestrzynski *Chief Operating Officer*	Ceased employment 18 February 2011
Mr Wayne Springer *General Manager, Corporate Sales*	Recognised in key management personnel from 1 August 2010
Mr Bevan Slattery *Chief Executive Officer, PIPE Networks*	Subsidiary employer acquired 17 March 2010 Resigned with effect from 30 September 2010

35. Related parties (continued)

Key management personnel compensation

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

In AUD	2011	2010
Short-term employee benefits	3,699,815	3,175,569
Post-employment benefits	258,090	349,332
Other long term benefits	(24,982)	46,926
Termination benefits	58,464	20,192
Equity compensation benefits	18,845	2,926,129
	4,010,232	6,518,148

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 18.

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 2011 was $111,264 (2010: $105,966).

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.

35. Related parties (continued)

Options and rights over equity instruments

There were no rights or options over shares in the Company outstanding at the start of the financial year ended 31 July 2011 and none were granted during the year. Details of the movement during the year ended 31 July 2010 in the number of options over ordinary shares in the Company held directly, indirectly or beneficially, by each key management person, including their related parties, are set out below:

	Held at 1 August 2009	Granted as compensation	Exercised	Expired	Held at 31 July 2010	Vested during the year	Vested and exercisable at 31 July 2010
Directors							
Mr D Teoh	-	1,000,000	1,000,000	-	-	1,000,000	-
Mr A Latimer	-	1,000,000	1,000,000	-	-	1,000,000	-
Executives							
Mr C Levy	500,000	-	500,000	-	-	-	-
Mr J Paine	700,000	-	700,000	-	-	-	-
Ms M De Ville	100,000	-	100,000	-	-	-	-
Mr S Banfield	500,000	-	500,000	-	-	-	-

35. Related parties (continued)

Movements in shares

	Held at 1 August 2010	Purchases	Granted as remuneration	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 Piestrzynski*	2,803,352	-	-	-	(2,400,000)	n/a
Mr W Springer	1,595,296	-	-	-	(240,394)	1,354,902

	Held at 1 August 2009	Purchases	Granted as remuneration or on exercise of options	Received under DRP **	Disposals	Held at 31 July 2010
Directors						
Mr D Teoh	273,383,415	-	1,000,000	4,725,985	-	279,109,400
Mr AJ Latimer	1,322,844	-	1,000,000	21,264	(1,170,000)	1,174,108
Mr R Millner	6,223,244	133,352	-	109,673	-	6,466,269
Mr D Ledbury	311,709	-	-	2,494	(164,203)	150,000
Mr J Pang	-	85,000	-	-	-	85,000
Executives						
Mr C Levy	116,705	99,000	518,112	-	(88,000)	645,817
Mr J Paine	3,114,767	-	700,000	63,982	(200,000)	3,678,749
Mr J Sinclair	-	-	30,000	-	-	30,000
Ms M De Ville	8,954	-	106,279	-	-	115.233
Mr S Banfield	24,368	-	519,991	-	(44,359)	500,000
Mr W Piestrzynski	2,303,352	-	1,000,000	-	(500,000)	2,803,352

* Ceased employment on 18 February 2011
** DRP = Dividend Reinvestment Plan

35. Related parties (continued)

Identity of related parties

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

36. Subsequent events

Takeover of IntraPower Limited

On 14 July 2011 the Company entered into a Takeover Bid Implementation Agreement with IntraPower Limited, under which the Company proposed to acquire all outstanding shares in IntraPower, via an off market takeover offer, for $0.30 per IntraPower share in cash, or $0.15 in cash plus 0.089 TPG Telecom Limited shares per IntraPower share.

The value of the all cash offer was $12.792 million.

The takeover offer opened on 29 July 2011, and closed on 29 August 2011 with offer acceptances having been received in relation to shares representing 97.36% of the total number of IntraPower shares.

The consideration for these shares was paid on 19 September 2011, by way of a cash payment of $11.758 million and the issue of 412,694 TPG Telecom Limited shares.

The Company commenced the compulsory acquisition of the remaining 2.64% of IntraPower shares on 31 August 2011, the consideration for which will be paid following the completion of the compulsory acquisition in October 2011.

On 14 July 2011 the Company also entered into Pre-bid acceptance agreements with certain IntraPower shareholders under which the shareholders, who represented 8,485,410 IntraPower shares (19.90%), agreed to accept the takeover offer, thereby giving the Company an option to acquire these shares. At the 31 July 2011 balance date these options were deemed to have no material value.

As at the date of this report, no assessment has been made of the fair values at date of acquisition of the assets of the acquired business.

Other than as noted above, 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 Company, the results of those operations, or the state of affairs of the Company in future financial years.

37. Business combinations

The Group acquired 100% of Pipe Networks Limited on 17 March 2010.

The goodwill that arose on acquisition was primarily attributable to the synergies expected to be achieved from integrating PIPE into the Group's operations.

The Group incurred acquisition related costs of $3.1 million relating to external legal fees and due diligence costs. These legal fees and due diligence costs have been included in Other expenses in the Consolidated Income Statement for 2010.

The fair values of the identifiable assets and liabilities of PIPE as at the date of acquisition are shown in the table below:

In thousands of AUD	**Pre-acquisition carrying amounts**	**Fair value adjustments**	**Recognised values on acquisition**
Property, plant and equipment	190,032	(15,737)	174,295
Intangible assets	34,786	118,535	153,321
Deferred tax assets	6,409	2,848	9,257
Trade and other receivables	5,219	-	5,219
Cash and cash equivalents	2,059	-	2,059
Prepayments	1,874	-	1,874
Investments	13,313	3,986	17,299
Other assets	2,031	-	2,031
Interest-bearing loans and borrowings	(39,576)	-	(39,576)
Current tax liabilities	(8,533)	-	(8,533)
Provisions	(2,910)	-	(2,910)
Employee benefits	(122)	-	(122)
Deferred tax liabilities	(4,262)	(8,394)	(12,656)
Deferred revenue	(21,648)	2,052	(19,596)
Trade and other payables	(49,308)	-	(49,308)
Net identifiable assets and liabilities	129,364	103,290	232,654
Goodwill on acquisition			**140,439**
Total Consideration paid in cash			**373,093**
Less: Cash acquired			(2,059)
Consideration paid, net of cash acquired			**371,034**

38. 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 PIPE group (as included in the list below) were joined as parties to the Deed of Cross Guarantee through an Assumption Deed dated 6 May 2010.

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
Digiplus Limited (NZ)
Chariot Pty Ltd
Pipe Networks Pty Ltd
Pipe International (Australia) Pty Ltd
Pipe Transmission Pty Ltd
ACN 139 798 404 Pty Ltd

38. 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 2011 is set out as follows:

Statement of comprehensive income and retained profits

In thousands of AUD	2011	2010
Revenue	571,888	506,144
Dividend Income	667	207
Telecommunications expense	(256,016)	(256,939)
Employee benefits expense	(39,147)	(35,740)
Other expenses	(42,442)	(42,721)
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**234,950**	**170,951**
Depreciation of plant and equipment	(38,966)	(32,405)
Amortisation of intangibles	(47,042)	(44,557)
Results from operating activities	**148,942**	**93,989**
Finance income	1,203	1,860
Finance expenses	(28,555)	(15,076)
Net financing costs	**(27,352)**	**(13,216)**
Profit before income tax	**121,590**	**80,773**
Income tax expense	(37,581)	(22,851)
Profit for the year attributable to owners of the company	**84,009**	**57,922**
Other comprehensive income, net of tax	982	110
Total comprehensive income for the year	**84,991**	**58,032**
Retained earnings at beginning of year	4,944	(30,640)
Profit for the year	84,009	57,922
Dividends recognised during the year	(32,806)	(22,338)
Retained earnings at end of year	**56,147**	**4,944**

38. Deed of cross guarantee (continued)

Statement of financial position

In thousands of AUD	2011	2010
Assets		
Cash and cash equivalents	9,040	15,514
Trade and other receivables	29,931	23,059
Inventories	262	446
Intangible assets	-	382
Investments	11,293	9,890
Prepayments and other assets	5,879	5,166
Total Current Assets	**56,405**	**54,457**
Investments in subsidiaries	381	381
Loans to subsidiaries	113,787	115,679
Property, plant and equipment	209,347	202,055
Intangible assets	508,988	553,181
Prepayments and other assets	629	980
Total Non-Current Assets	**833,132**	**872,276**
Total Assets	**889,537**	**926,733**
Liabilities		
Trade and other payables	71,018	79,207
Loans and borrowings	76,214	76,595
Current tax liabilities	19,471	29,856
Employee benefits	3,865	3,549
Accrued Interest	380	412
Deferred income and other liabilities	35,606	32,898
Total Current Liabilities	**206,554**	**222,517**
Loans and borrowings	149,474	245,884
Deferred tax liabilities	7,705	10,479
Employee benefits	515	621
Provisions	6,912	6,117
Deferred income and other liabilities	14,637	13,705
Total Non-Current Liabilities	**179,243**	**276,806**
Total Liabilities	**385,797**	**499,323**
Net Assets	**503,740**	**427,410**
Equity		
Share Capital	502,875	478,814
Reserves	(55,282)	(56,348)
Retained earnings	56,147	4,944
Total Equity	**503,740**	**427,410**

TPG Telecom Limited and its controlled entities
Directors' declaration
For the year ended 31 July 2011

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 18, 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 2011 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 38 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 2011 required by Section 295A of the *Corporations Act 2001*.

Dated at Sydney this 6th day of October, 2011.

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 2011, 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 38 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.

KPMG

Independence

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

Auditor's opinion

In our opinion:

(a) the financial report of 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 2011 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 18 of the directors' report for the year ended 31 July 2011. 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 2011, complies with Section 300A of the *Corporations Act 2001*.

KPMG

KPMG

Anthony Travers

Anthony Travers
Partner

Sydney

6 October 2011

KPMG

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 2011 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

6 October 2011

TPG Telecom Limited and its controlled entities
ASX additional information
For the year ended 31 July 2011

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 28 September 2011)

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	286,868,770	36.60
Washington H Soul Pattinson and Company Limited	209,919,812	26.78

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	1,574
1,001 - 5,000	1,942
5,001 - 10,000	856
10,000 - 100,000	1,256
100,000 and over	153
	5,781

The number of shareholders holding less than a marketable parcel of ordinary shares is 653.

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 2011

Twenty largest shareholders

Name of shareholder	Number of ordinary shares held	Percentage of capital held
WASHINGTON H SOUL PATTINSON AND COMPANY LIMITED	209,919,812	26.78
DAVID TEOH	142,839,860	18.22
VICKY TEOH	141,708,217	18.08
J P MORGAN NOMINEES AUSTRALIA LIMITED	48,595,421	6.20
NATIONAL NOMINEES LIMITED	43,396,874	5.54
WIN CORPORATION PTY LTD	21,530,923	2.75
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	21,203,239	2.70
RBC DEXIA INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <PIPOOOLED A/C>	12,871,468	1.64
FARJOY PTY LTD	9,010,000	1.15
CITICORP NOMINEES PTY LIMITED	6,888,556	0.88
COGENT NOMINEES PTY LIMITED	6,175,774	0.79
J S MILLNER HOLDINGS PTY LIMITED	5,854,134	0.75
JP MORGAN NOMINEES AUSTRALIA LIMITED <CASH INCOME A/C>	4,458,138	0.57
BKI INVESTMENT COMPANY LIMITED	4,420,000	0.56
MR JOHN ERIC PAINE	3,781,020	0.48
MILTON CORPORATION LIMITED	3,731,553	0.48
TOTAL PERIPHERALS PTY LTD <SUPER FUND A/C>	2,320,693	0.30
MS SENG BEE TEOH + MR SIN MONG WONG	2,276,755	0.29
GWYNVILL TRADING PTY LTD	2,250,000	0.29
MR KOK YEONG MOEY	1,758,953	0.22
	694,991,390	**88.67**

Principal Registered Office

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

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