

Hutchison Telecommunications (Australia) Limited

2005 Full Year Results

Kevin Russell
Chief Executive Officer
7 March 2006



Telecommunications operations of
Hutchison Whampoa Limited



3 and the 3G Market

- All mobile operators have launched 3G networks
- 3G handset range is broadening and costs are reducing
- 3G services awareness and usage has increased
- Clear endorsement of 3G as the way forward
- For Hutchison, 2005 was about:
 - delivering growth, with improving financials
 - realising a change in customer behaviour
 - continuing to drive mobile market momentum behind 3G



Highlights

- **Service revenue grew by \$235.1 million or 45% to \$758.2 million**
- **Average non-voice revenue per customer per month in the 3G business increased from \$13 to \$19**
- **Average margin contribution per customer per month across the entire customer base strengthened from \$45 to \$48**
- **EBITDA losses improved by \$230.2 million reflecting both revenue growth and reduced operating costs**
- **In February this year our 2G business was rebranded to 3 CDMA. Upgrade of the 3 CDMA customer base to 3G tracking well**



Financial Highlights

<i>(\$million)</i>	Year Ended 31 Dec 05	Year Ended 31 Dec 04	Change
Service revenue ⁽¹⁾	758.2	523.1	45%
Reported EBITDA (loss) ⁽²⁾	(180.1)	(410.3)	56%
NPAT (loss) ⁽³⁾	(547.3)	(690.1)	21%
CAPEX	(207.1)	(307.4)	33%

(1) Service revenue excludes handset revenue, interest income and other income

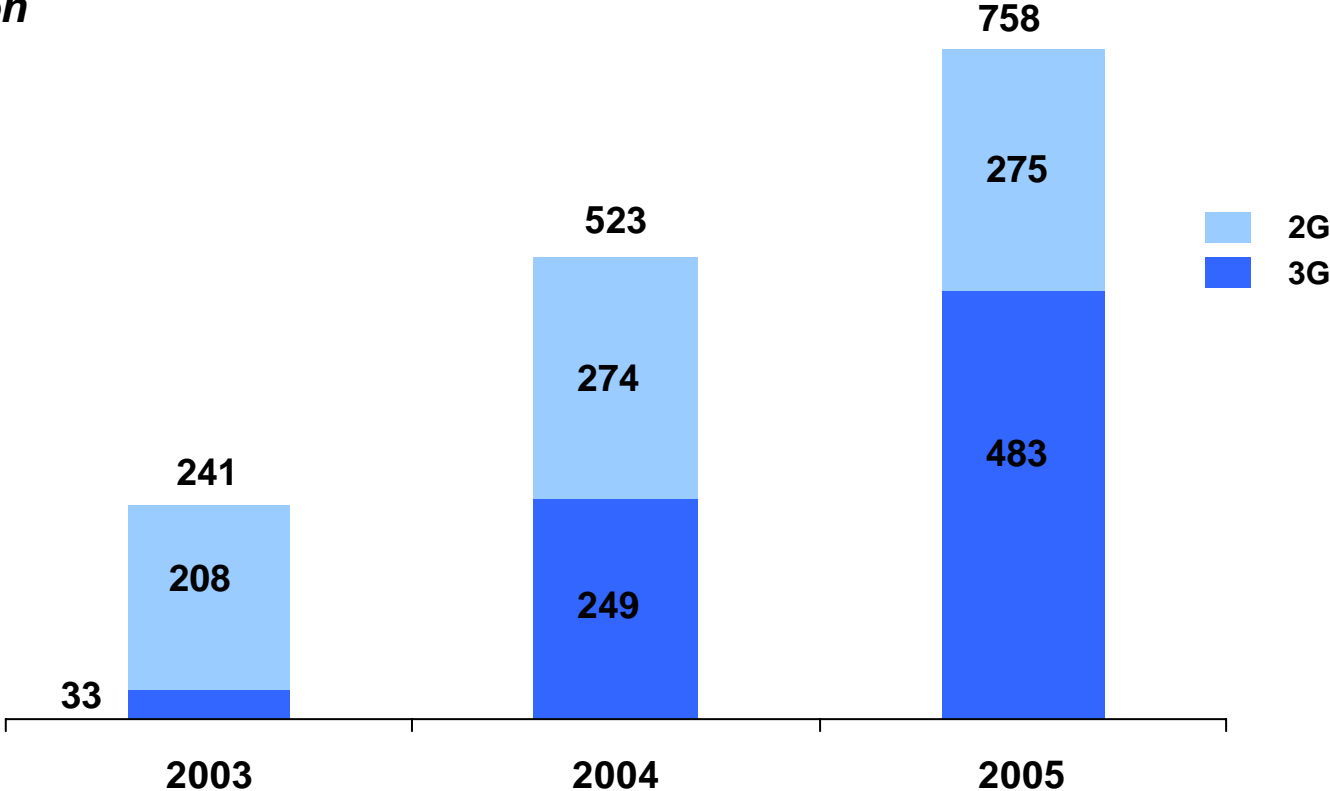
(2) EBITDA includes the immediate expense of all customer acquisition costs

(3) NPAT after minority interest



Service Revenue

\$million

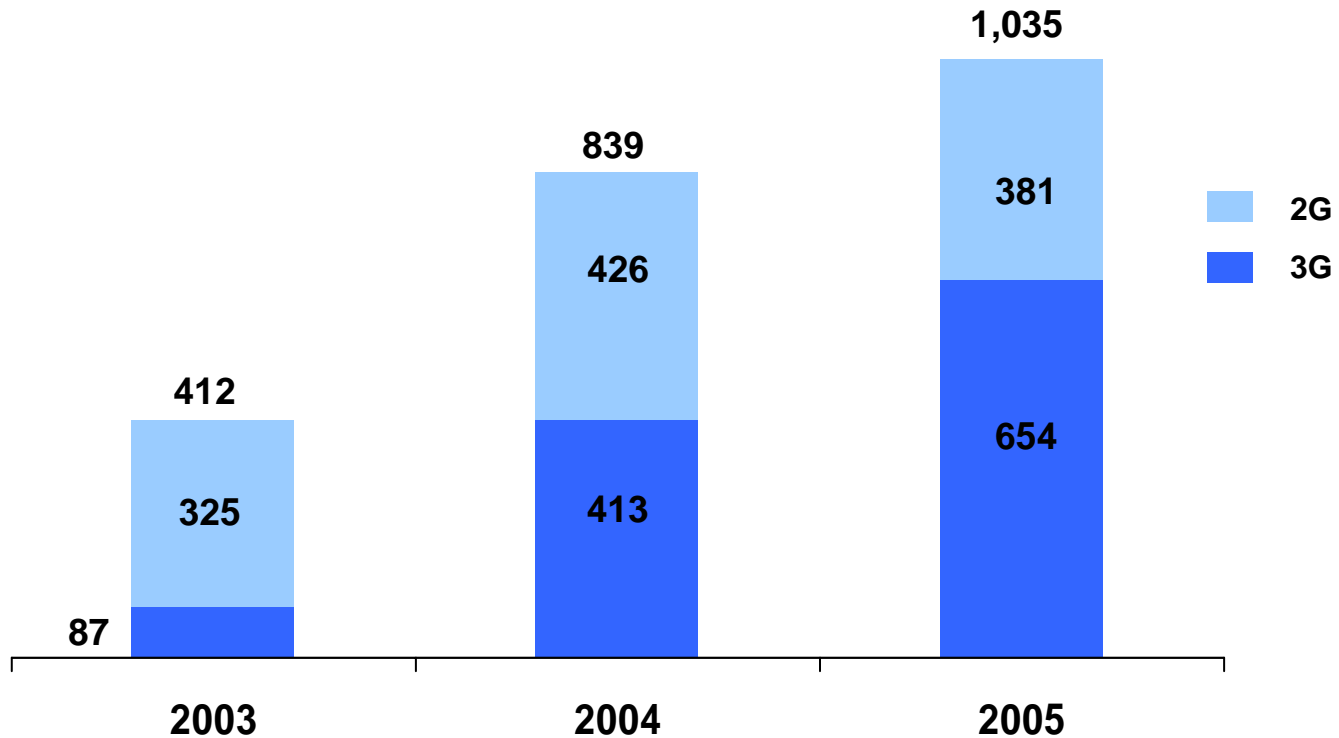


2G revenue growth peaked – 3G market opening up



Customer Base

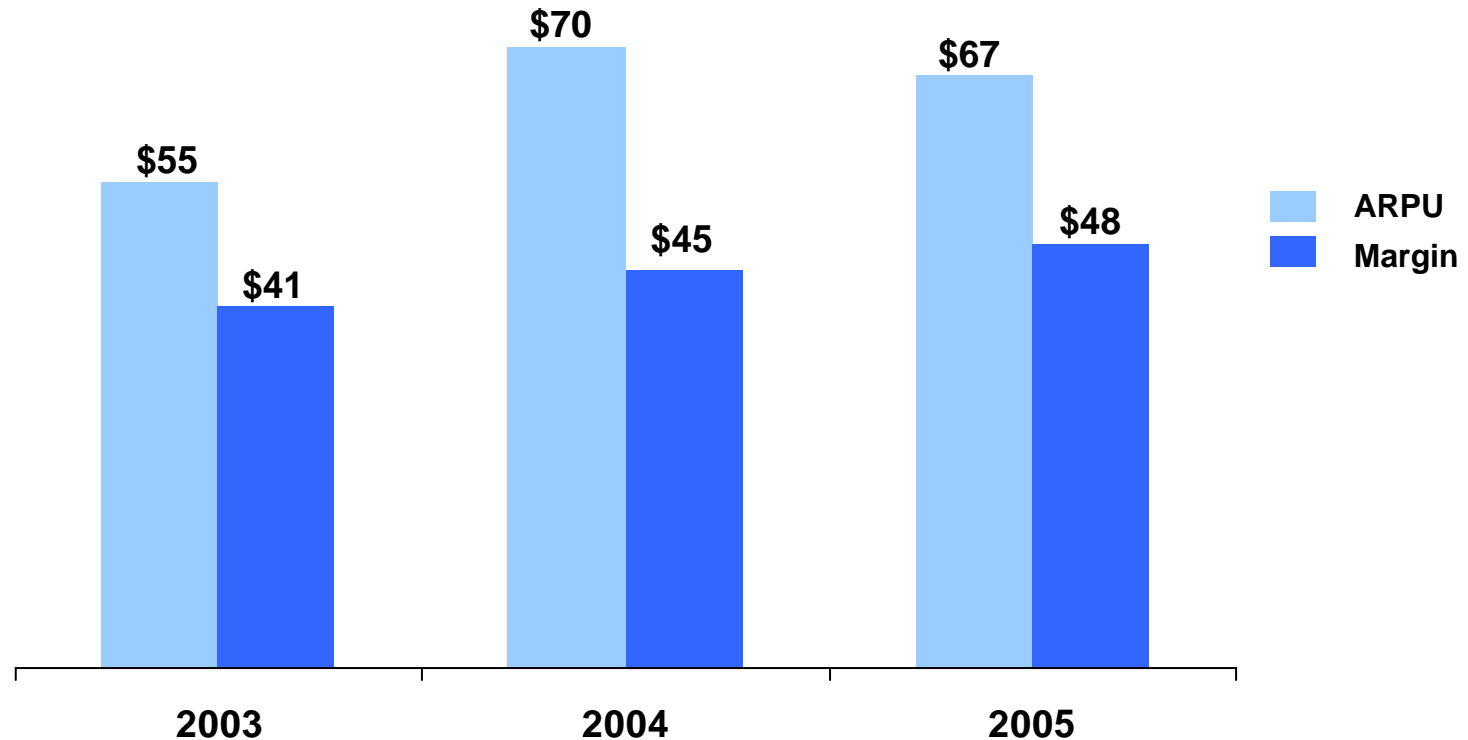
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3G market provides the growth opportunity



ARPU and Margin

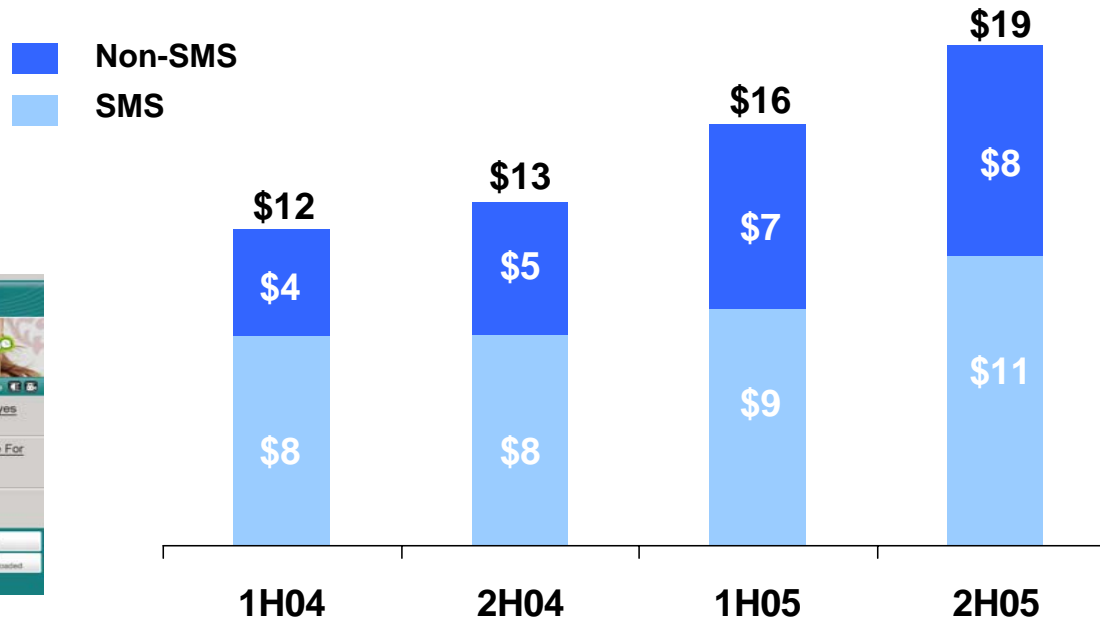
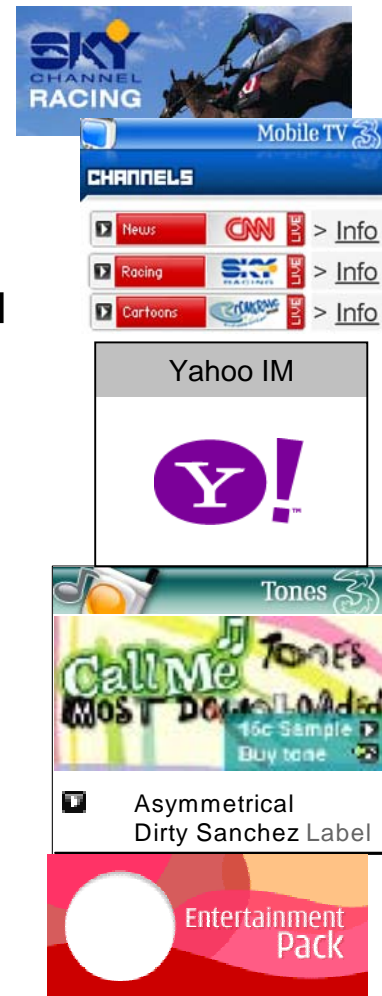
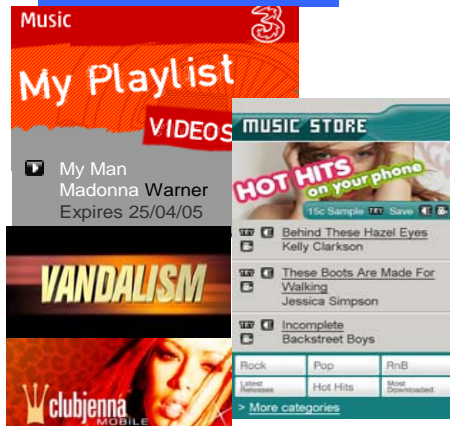


Margins continue to grow supported by increased contribution from non-voice revenue



Continued Growth in 3 Non-Voice

- Non-voice ARPU continues to strengthen
- Non-SMS services usage growing steadily
- 70% of base actively using content services
- 53% of base generating billable content events
- 521,000 monthly subscription services at year end

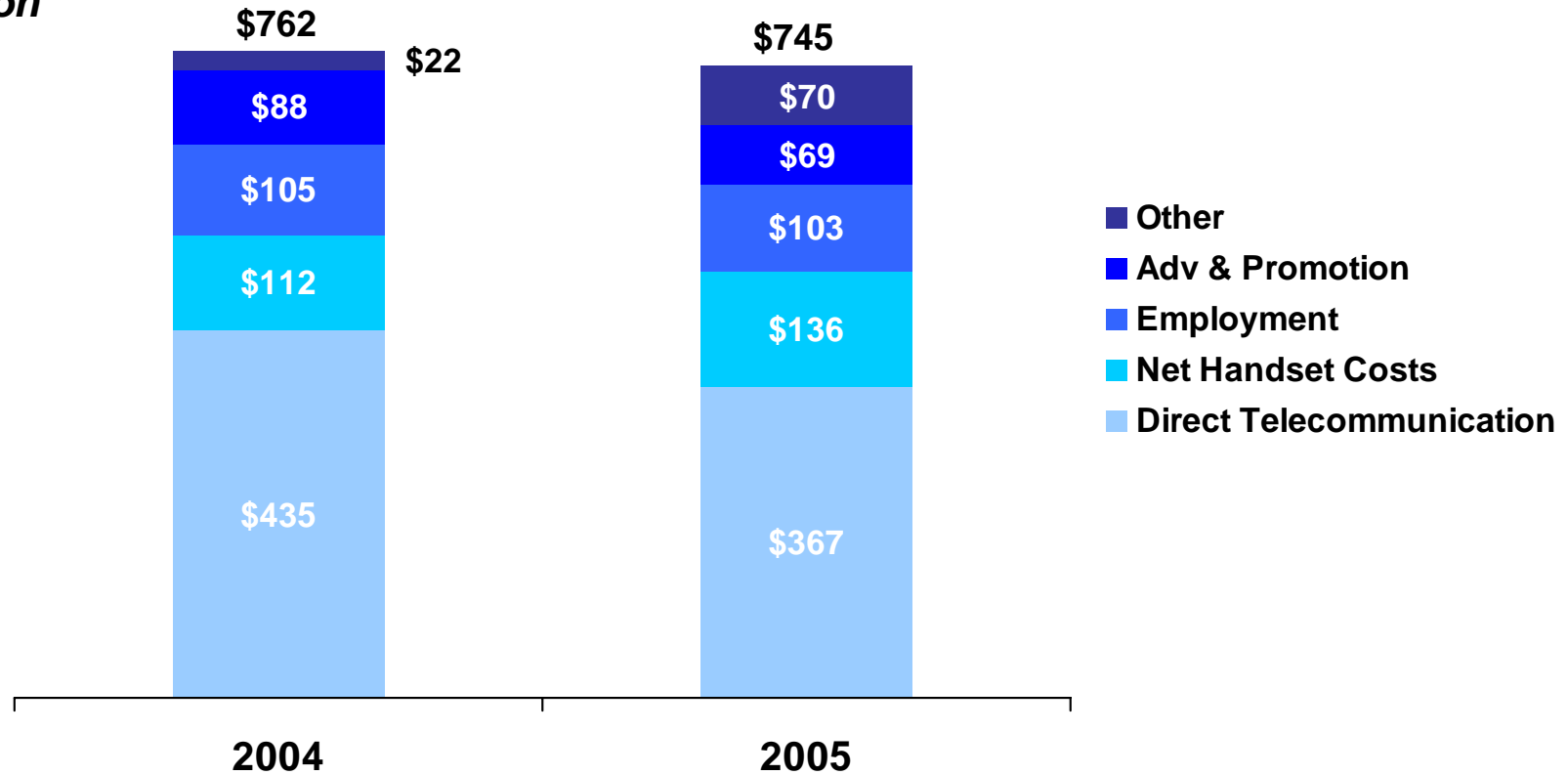


A different business model



Operating Expenditure

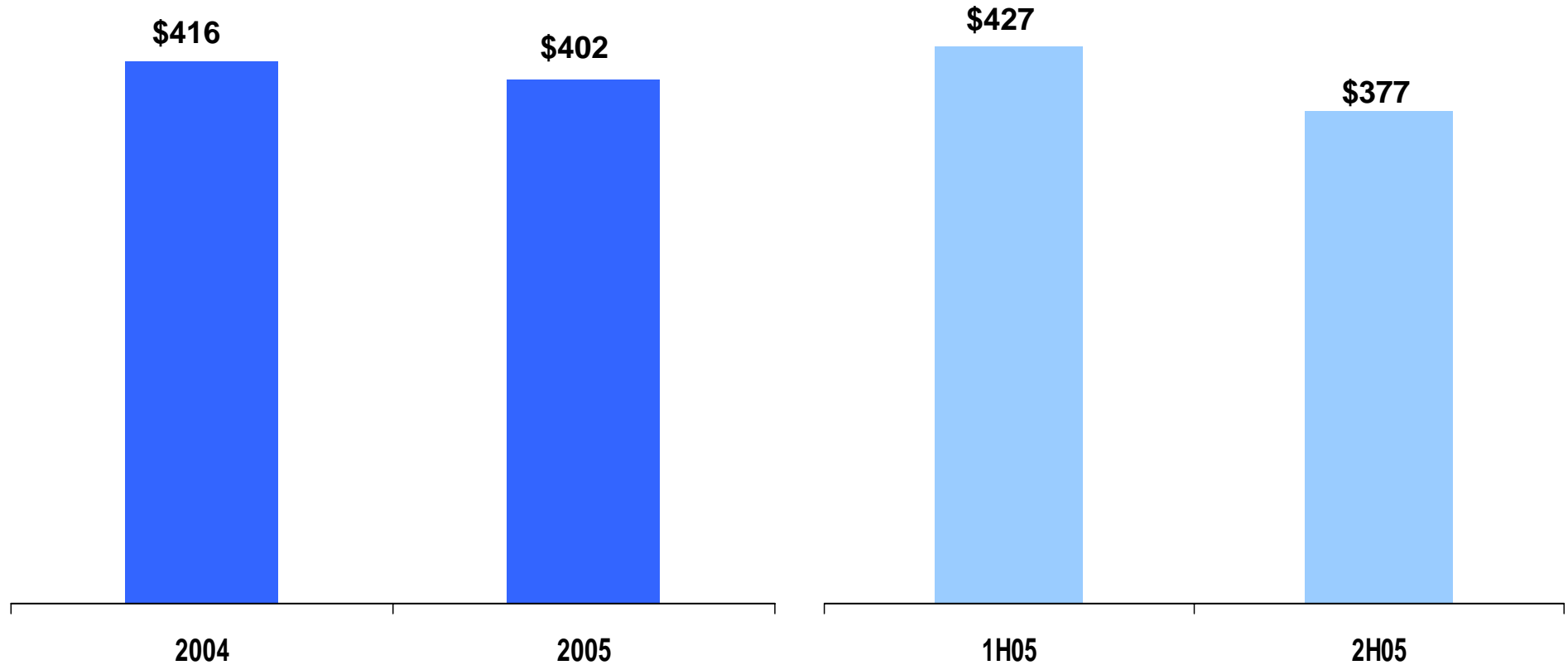
\$million



Cost structure allows operating leverage



3 Customer Acquisition Costs

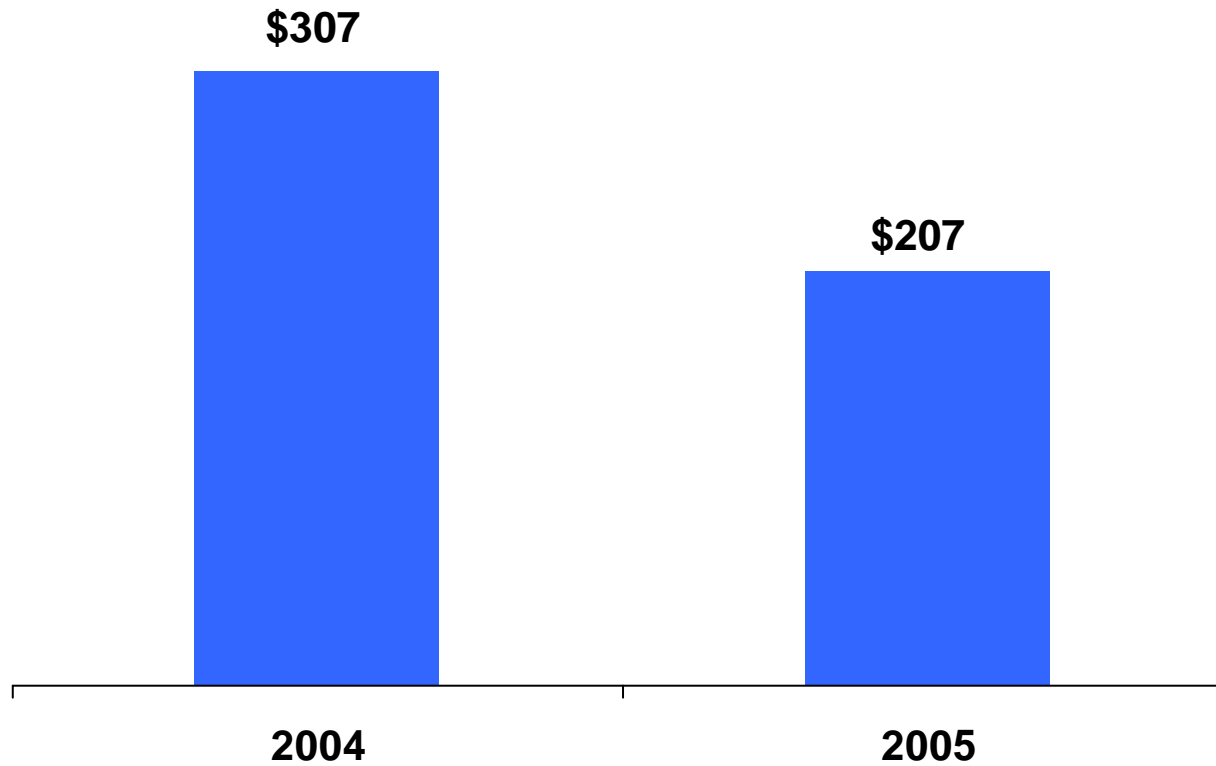


Improving trends in CAC



CAPEX

\$million



Capex requirement is decreasing



3 CDMA Update

- **Customers are more aware of and demanding 3G services**
- **Handset form factor and functionality equivalent to / better than GSM**
- **3 brand recognition is improving**
- **Competitive 3G offerings are embryonic**
- **Enhanced focus on one business**
- **Improved cost efficiency**

The right time is now



What to Expect in 2006

- Continue to lead in setting the mobile industry trends
- Successful migration of margin from 3 CDMA to 3
- Sustainable growth momentum in 3G
- Profitability trends
 - scale benefits in margin
 - operating costs under control

Good business momentum expected in 2006





Hutchison Telecommunications (Australia) Limited

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7 March 2006

Chief Executive Officer's Address

Slide 1 – Introduction

Slide 2 – 3 and the 3G market

2005 was a year where a number of significant trends became clearer, both for the mobile industry and its 3G plans, and also for Hutchison and our **3** service.

All of the incumbent operators launched their 3G networks to some degree or another. The 3G handset range and form factors improved significantly over the year and, importantly, their cost continues to reduce. Awareness of and interest in 3G services increased and, from a broad industry perspective, 3G received an endorsement that shouldn't be under-estimated – when Australia's largest operator announced plans to roll out a single, national 3G network.

For Hutchison, and specifically for **3**, 2005 was a year where we delivered growth and realised many of our expectations for how the customer experience could be improved and also how customer behaviour and usage towards 3G services would develop. It was also a year in which we continued to drive the mobile market momentum behind 3G.

Slide 3 – Highlights

Turning to our results, during the 12 months to 31 December 2005, Hutchison continued to grow strongly, with improved financial performance across key reporting areas. Compared to the previous year:

- Service revenue grew by \$235.1 million, or 45% to \$758.2 million
- Average non-voice revenue per customer per month in the 3G business increased from \$13 to \$19
- Average margin contribution per customer per month across the entire customer base strengthened from \$45 to \$48
- EBITDA losses improved by \$230.2 million reflecting both revenue growth and reduced operating costs

Also, in February this year we rebranded our 2G business to **3 CDMA**. The upgrade of the **3 CDMA** customer base to 3G is tracking well, and I will give you a flavour of this later.

Slide 4 – Financial Highlights

The financial highlights on slide 4 summarise some key financial measures for our combined business.

Service revenue grew by 45% reflecting the continuing growth in the post-paid customer base, including a strengthening contribution from non-voice services.

The company recorded an EBITDA loss of \$180.1 million compared to last year's EBITDA loss of \$410.3 million. The EBITDA loss improved from \$122.6 million in the first half to \$57.5 million in the second half.

Significantly, the year on year improvement in EBITDA of \$230.2 million was consistent with the improvement in service revenue. This largely reflects the fixed cost nature of the business ensuring that a high proportion of incremental revenue growth flows to EBITDA. As a result, the 3G business is well placed to compete aggressively in 2006 as the other 3G market entrants contemplate their own 3G start-up losses and begin to position their 3G offers.

In January this year, the company recorded positive EBITDA for the first time prior to the cost impact of internally upgrading 2G customers to the 3G network.

With lower investment in 2G sales activity, the company's 2G operation reported a positive EBITDA of \$54.9 million, representing a significant improvement over last year's EBITDA loss of \$2.3 million.

The net loss after tax improved by \$142.8 million, principally reflecting the improved EBITDA performance.

Capital expenditure (CAPEX) was \$100.3 million less than the same period last year.

Slide 5 – Service Revenue

Service revenue grew by 45% compared to 2004, reflecting strong growth in the 3G business, which now contributes the majority of the company's revenue stream. 3G service revenue rose by 94% to \$483 million in 2005, and was strongly supported by a growing and significant contribution from non-voice services of \$112.5 million, more than triple the corresponding period in 2004.

Revenue from the 2G business remained steady, reflecting our strategic pull back from 2G and a general slow down in the 2G market.

Slide 6 – Customer Base

By the end of 2005 we had just over one million customers, of which 654,000 customers were using our 3G service - a 58% growth in our 3G customer base. Our 2G customer base declined by just over 10%, reflecting our strategic and deliberate pull back from what we see as an increasingly saturated post-paid 2G market. The second half of 2005 saw the introduction of handsets with improved form factors, but their delivery was delayed with new models from LG and Motorola arriving in the final few weeks of the year.

The momentum created by new handsets at the end of 2005 has spilled over into 2006, both in new 3G sales and **3 CDMA** upgrade activity. Specifically on the **3 CDMA** upgrade project, we have seen a very encouraging response to our upgrade offer and so far this year almost 100,000 **3 CDMA** customers have upgraded to our 3G network.

Today, as a result, we have 806,000 customers using our 3G services, of which 87% are post-paid.

Overall, monthly churn levels in 2005 were at similar levels to 2004. Churn in the 2G business increased as expected following a pull back from active marketing to that base. However, 3G

churn, across both post-paid and pre-paid, reduced from 3% in 2004 to 2.6% in the second half of 2005, helped by the launch of new model handsets in the second half.

Content subscription is also emerging as a factor contributing to the increased 'stickiness' of our 3G customers. There is growing evidence that customers who are active content users have a much lower propensity to churn than the average for the base.

Slide 7 – ARPU and Margin

Non-voice ARPU across both our 2G and 3G customer base increased strongly from \$7 in 2004 to \$12 in 2005. There was a reduction in voice ARPU from \$63 in 2004 to \$55 in 2005 leading to a slight softening of overall ARPU from \$70 in 2004 to \$67 in 2005. The reduction in voice ARPU resulted primarily from the reduction in mobile interconnect rates, which has minimal impact on margin due to the corresponding decrease in mobile interconnect costs. Additionally, a broadening of the 3G customer base into lower minimum spend post-paid plans and into pre-paid had an impact on voice ARPU.

We saw continued margin improvement from \$45 in 2004 to \$48 in 2005. In the 3G environment where there is a much greater array of differing margin services, the margin contribution per customer starts to become a more meaningful key performance indicator than ARPU.

Slide 8 – Continued Growth in 3 Non-Voice

As I mentioned earlier, overall non-voice ARPU increased strongly from \$7 in 2004 to \$12 in 2005. However, specifically in the 3G business, non-voice ARPU grew solidly from \$13 per customer per month in the second half of 2004 to \$19 in the second half of 2005, and now represents 24% of the total ARPU from 3G customers. Revenue from SMS of \$11 still currently underpins the total non-voice ARPU of 3G customers but other non-voice services, including content and high-speed data access, contributed an industry leading \$8 per month in 2005.

I believe our strategy to leverage the capabilities of a W-CDMA 3G network is on track, and customer trends and behaviour towards increasing use of non-voice services continue to be encouraging and indicate future revenue and margin potential.

In December, approximately 70% of the 3G customer base accessed the content portal and 53% had a chargeable content event. By comparison, approximately 73% of our 3G customer base had a chargeable SMS event. It is encouraging to see our penetration rates for 3G customer usage continue to grow as our base grows and we move well past 3G early adopters.

3 has invested in delivering new content services in key areas which generated the most interest and demand from customers, including Mobile TV and music. In 2005, customers accessed live TV from Big Brother, CNN and Sky Racing, watched the Cartoon Network, ABC Kids and music video programme Rage, and downloaded thousands of full length audio and video music tracks from our music product.

Customers also took advantage of being able to watch the world's first live broadcast to a mobile phone of the cricket when **3** showed Channel 9's coverage of the Johnnie Walker Super Series. 3G customers continued to enjoy that coverage with the rest of the **3** Test Series, with over 260,000 live streams accessed with an average viewing time of about 8 minutes. Demand for this service is likely to be high in 2006 as the Ashes comes to Australia, with customers being able to watch all of the action live on their **3** mobile.

Understanding what content our customers like, and how they prefer to pay for it, has been important in enabling customers to get more from their mobile as well as growing non-voice

revenue. In 2005 we focused on bringing 3G customers content on a subscription basis – enabling customers to subscribe to a service for a fixed amount per month without additional data charges. For example, Big Brother at \$5 per month for unlimited access to the live cam service. Because our pricing is simple and transparent, customers subscribe to other services, and by the end of 2005 there were over 500,000 monthly subscription services to products such as News, Sports and Games.

Slide 9 – Operating Expenditure

We tightly managed our operating expenditure in 2005, reflecting our drive towards an industry leading cost structure while still maintaining a positive user experience. As a result, overall running operating expenditure reduced by 2% to \$745.2 million, despite a 23% increase in total customer numbers.

Notably, direct service costs declined by \$68.1 million from \$434.6 million in 2004 to \$366.5 million in 2005. The decline is principally attributable to a full year effect of lower network operating costs resulting from the 3G network sharing deal.

In addition, advertising and promotion costs decreased by \$18.5 million in the 12 months ended 31 December 2005. Our pull back from the 2G post-paid market also facilitated a lower expense in this area.

Slide 10 – 3 Customer Acquisition Costs

Due to the changing mix of sales between 2G and 3G customers, blended customer acquisition cost (CAC) per customer increased from \$337 in 2004 to \$355 in 2005. However, acquisition costs for 3G customers decreased both year on year and in the second half of 2005 compared to the first half, mainly as a result of falling handset buy prices. This trend is expected to continue into 2006.

Slide 11 – CAPEX

Capital expenditure of \$207 million, including contributions to the 3G network joint venture with Telstra, was \$100 million less than the same period last year. The reduction in CAPEX principally reflects a lower requirement for new site rollout. The 3G network footprint has solid breadth and depth with over 2,200 sites in service at the end of the year. Coverage expansion during 2005 strengthened existing areas and brought 3G to new areas such as Canberra, Campbelltown in NSW, and Werribee in Victoria.

Slide 12 – 3 CDMA Update

Recently we announced the rebranding of the 2G CDMA network from Orange to **3 CDMA** and plans to upgrade our customer base to 3G. The compelling logic behind this strategic decision and its timing can be summarised as follows:

- 3G awareness is now growing and 3G demand is increasing
- 3G handset price points are falling, opening up the 2G post-paid mass market
- 3G handset form factors and functionality are equivalent to or better than GSM
- The competitive 3G offerings are embryonic and not an attractive alternative to **3**
- We have an enhanced focus on one business, and
- There are efficiencies and cost improvements arising from operating one network and one brand

The upgrade response has been extremely positive. In January, following a targeted campaign, over 20,000 2G customers internally upgraded to 3G. In February that number was over

65,000. Customer demand for greater certainty of technology direction, attractive handsets and plans, and the potential for using their mobile for more than just making phone calls, has driven customer uptake.

The introduction of the first mass market Nokia, the 6280, on 1 February has certainly proved popular, but customers are also enjoying the ability to choose from a wide range of handsets from other manufacturers including LG, Sony Ericsson and Motorola.

While we have always warned of an increased risk of churn from a 2G base during a technology migration, so far we have not seen adverse trends in churn levels. Special initiatives have been put in place to guide 2G customers through their first few months on 3G, with teams proactively following up with customers to ensure they are happy with their service and understand their bills. With these types of initiatives we hope to maximise the customer experience on **3** and reduce our churn risk.

Our churn has also been stable, we believe, because of the embryonic nature of our competitors' 3G services and the competitive quality of **3**'s offering.

In addition, being able to focus on a single brand has had a significant positive impact to the business. Our employees are focused on a single direction, and we have been able to integrate working teams from the two brands.

Ultimately, there will be cost efficiencies. Once the majority of our 2G base has upgraded to 3G, we will review our plans for continuing to operate our CDMA network.

Slide 13 – What to expect in 2006

We will continue to lead in setting the mobile industry trends. Already we are delivering \$19 of non-voice ARPU from **3** customers, have over 75% of our customers on capped plans, and derive over 80% of our revenue on 3G networks.

At Hutchison, we are focused on **3** and 3G because the future in mobile is 3G. The technology is a multiple more efficient than 2G, 3G's data speeds and capacity efficiencies deliver a greater range of non-voice services that 2G infrastructure cannot effectively support, and 3G has a standardised roadmap with a global commitment to its continued development. Our customer proposition also continues to strengthen, with new products and services, and better ways of pricing, packaging and promoting content to our customers being a clear focus.

We will successfully migrate margin from **3 CDMA** to 3G thereby improving Hutchison's profitability. To date, we have upgraded almost 100,000 **3 CDMA** customers to 3G since the start of January.

In addition, January and February have seen solid sales on **3** delivering an average monthly growth rate higher than that achieved in 2005. Initial signs are that our competitors' 3G launches have only helped fuel **3**'s sales momentum, rather than dampen it.

The handset roadmap for 2006 continues to look encouraging as form factor, range and manufacturers continue to play an important and influential role in the industry. Colour has proved to be extremely popular with our customer base, and is helping us reach out to a broader demographic. Our first pink handset along with two phones designed by Italian fashion designer, Roberto Cavalli, have allowed **3** to reach into the female market more ably than we have done in the past. Helping break through into an older demographic will be ranges from Nokia, as well as Sony Ericsson and Motorola.

In 2006 we anticipate the start of a more rapid market migration of 2G customers to 3G networks, particularly the higher spending customers. This trend opens two key opportunities for Hutchison.

Firstly, once a significant proportion of our 2G customer base has upgraded to 3G, a further rationalisation and improvement in our cost structure with the removal of duplicate 2G infrastructure and associated costs will be possible. Second, as other 2G customers look around to see who is best placed to provide compelling and attractive 3G services as well as the right plans and handset prices, we believe the **3** brand and proposition will be the most attractive in the 3G market.

From a cost perspective, operating expenditure will again be tightly managed and, excluding internal upgrade costs, another year of minimal cost growth is an achievable target. Handset buy prices - a key component of any mobile operator's cost base - will continue to fall and we will continue to benefit from the global scale of the **3** group. Building scale remains a key focus in 2006 as the business heads towards further revenue growth and continued delivery of improved underlying financial performance.

Ongoing, the increasing awareness of 3G this year will also play an important role in growing our business. We expect other operators to increase their marketing of 3G as they begin to open new coverage areas and their 3G service develops.

Usage of non-voice services has continued to grow in the first two months of 2006, and customer acceptance of 3G technology and services is approaching mass market take-up. 3G handset range, price point and feature set have demonstrably improved to a level that starts to question re-investment in a 2G handset for more and more mobile users, driving our strategy to focus on our 3G network. Importantly, new customer acquisition in the traditionally slower months of January and February this year has been very encouraging and with the awareness of 3G and **3** being raised, and our customer base increasing, we are well placed to continue our leadership in Australia's 3G market.

Thank you, I'll now take any questions.