Hutchison Telecommunications (Australia) Limited
2008 Full Year Results
19 August 2008
Chief Executive's Address

During this call I will take you through the financial results for Hutchison Telecoms for the half year to 30 June 2008.

Unless stated otherwise, all comparisons are on the previous corresponding period.

Turning to our Financial Highlights on Slide 2,

Our momentum from 2007 carried strongly into the first half of 2008. We added 230,000 customers (net of churn), achieved a further significant increase in revenue and delivered double-digit growth in the key financial measures of the business.

Our total revenue increased 23.7% to $760.9 million.

This strong top line growth has been achieved in combination with strong margin growth. Total margin is up 28.0% to $539.7 million. Additionally, average monthly margin increased to $90.0 million, also up 28.0% on the June 2007 result.

EBITDA and EBIT have also improved significantly with this strong operating performance. EBITDA increased to $90.3 million, a 187.6% improvement on the prior corresponding period. EBIT improved to a $31.1 million loss from an $88 million loss, a 64.7% reduction.

Net loss was less than half the June 2007 result, at $85.4 million, $111.9 million lower.

In Slide 3, we provide details of our Operating Highlights.

We have continued to build scale with strong momentum in sales, in part benefiting from the significant market shift to 3G in the past year. We have grown by 230,000 subscribers, bringing our closing active customer base to 1.81 million.

From reported results, we can see this puts us among the highest customer growth in the industry, despite the fact we sell in areas covering about 60% of the population.

The proportion of **3**'s customer base that is postpaid is the highest in the industry, at 90.7%, and churn remains the lowest of published results, at 1.1%, reflecting our continued investment in customer service and retention activity.

Demand for non-voice services is demonstrated by the massive increase in mobile broadband subscribers and a 35% increase in internet access and Planet 3 events. The percentage of our customer base using billed 3G services increased to 64.7%.

This increased usage contributed to a higher non-voice ARPU of $19.67, a 15% increase on the prior corresponding period. Non-voice ARPU now contributes 29.0% of total ARPU.

Slide 4 shows a table of our Key Financial results.

The underlying momentum in our business is clear from the double-digit improvements shown here. Of particular note are the EBITDA and EBIT results for which I will provide more detail in following slides.

At the end of 2007, it was clear that the Company had begun to realize the benefit of the recapitalisation of the balance sheet. The finance cost for this half year reduced to $54.3 million, down from $109.3 million in the prior corresponding period. Based on current interest rates, the recapitalisation is delivering interest savings of $290 million on an annual basis.

CAPEX is tracking to be in line with 2006 levels for the full year.

Turning to Slide 5,

You can see the continuing strong growth of both total revenue and margin.

Within the 23.7% increase in total revenue there has been a substantial contribution from increased usage of non-voice services, including mobile broadband services to access the internet. This has driven a 28.0% increase in total margin and importantly, the margin percentage improved 2.1 percentage points to 78.9%.

Slide 6 shows the half year growth in the key financial measures: EBITDA, EBIT and NPAT, as we progress on our path to profitability. This clearly shows the bottom-line impact of the strong growth in customer numbers and margin while operating expenditure increased at a lower rate.

We have had very strong customer growth in the half with an associated increase in acquisition cost. In addition, roaming costs have continued to increase.

Turning now to more detail on the costs in Slide 7,

Against strong customer growth of 28.7%, total running operating expenditure increased by 14.7% compared with the first half of 2007. Direct costs of providing telecommunications services increased by $51.9 million. Domestic roaming charges were a significant part of this increase, which we will address through the network initiatives announced earlier today. I'll provide more details of that in a few slides.

The costs relating to net customer growth (largely devices and employees) have increased as a result of strong sales and greater retention activity within the context of a tight labour market.

Turning to Slide 8,

Per unit customer acquisition cost has continued to trend downwards, due to the impact of Mobile Broadband modems in the mix of devices we sell.

Slide 9 shows the strong growth in our customer base. High value cap plans, leading mobile broadband offers and a focus on customer retention resulted in a 28.7% increase in our total customer base to 1.81 million subscribers. This represents net customer growth of 403,000 over the last 12 months and 230,000 for the 6 months to June 2008.

Turning to Slide 10,

The number of Mobile Broadband subscriptions (which is the number of customers subscribing to either a handset data plan, mobile broadband modem, an X-Series plan or mobile web via a handset) grew to 346,000. Our focus on providing access to the internet at affordable prices has been instrumental in this 322% increase in uptake of our data services.

Increasing the speed and capacity of our HSPA network has significantly improved the customer experience when accessing the internet and Planet 3.

On Slide 11, we show margin and ARPU per customer.

We continue to report margin per customer as this is the most useful metric in an industry with capped plans and falling interconnect rates. We are pleased to report that margin per customer across the whole base has remained steady at $52 per month. This has been achieved through an increase in non-voice usage and despite a 40% decrease in mobile termination rates in 2007.

Slide 12 shows total monthly non-voice ARPU.

Non-voice ARPU was up 15.1% to $19.67. This is 29.0% of the total monthly ARPU. 3G services ARPU, which is non-voice ARPU excluding SMS, increased 27.7% to $9.07. SMS usage and ARPU also remained strong.

On Slide 13 we provide an update on our non-voice usage.

Growth in non-voice usage has come from accessing the internet through a modem or handset and our content portal, Planet 3. During the first half of 2008, customers generated 82.6 million internet access and Planet 3 events, up from 61 million in the prior corresponding period.

The percentage of customers using billed 3G services each month continues to grow, with penetration up to 64.7% this half.

Slide 14 updates the capex numbers.

We expect to be on track for capital expenditure comparable with 2006 in the full year, including any impact of the new network initiatives.

Now to Slide 15 which details our network plans.

As announced today, we are expanding our 3G coverage to reach 96% of the population during the second quarter next year through building into new coverage areas and new 3G roaming on parts of Telstra's 850MHz network.

The new site build is commencing this year in areas of high roaming, including Newcastle and the Central Coast in NSW and the Mornington Peninsula in Victoria. Around 50 additional sites will be complete by the end of this year.

3G roaming on parts of Telstra's 850MHz network is in addition to our existing 2G roaming on parts of Telstra's GSM network (already covering 96% of the population).

The network expansion will deliver an improved customer experience along with a reduction in roaming costs.

Finally, turning to Slide 16

In 2008, we have continued to grow strongly in a highly aggressive market. Customer growth in the second half to date has been even stronger which will result in good margin growth with some shorter term acquisition cost impact.

In the remainder of the second half, we will continue to provide customers with a range of high-value voice and data plans for the latest 3G HSPA-enabled handsets and USB modems and we expect our net subsidy position to improve.

The strong uptake in Mobile Broadband is expected to continue.

The upgrade of the HSPA network to 7.2 Mbps will continue during the second half of 2008 and be substantially complete in the first half of 2009, providing peak speeds of up to 6.4 Mbps. We expect an increase in the range of mobile broadband devices and smart-phones at lower prices, providing a catalyst to further increase the use of mobile data.

Wholesale roaming costs also reduce from September 2008, following the re-negotiation of our roaming deal with Telstra.

We expect to have completed key initiatives to provide our customers with access to 3G services in areas covering 96% of the population during the second quarter of 2009.

Telecom Corporation of New Zealand's option to increase its shareholding to 19.94% of the Company at an exercise price of $300 million remains in place until 31 December 2008.

Finally, we restate our expectation that the Company will exit the year EBIT positive on a monthly basis and we look forward to a continued strong performance in the second half.

Thank you, I will now take questions.

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