

CEO's Message

In 2008, Hutchison continued to perform very strongly with significant increases in revenue from non-voice services and significant improvements to our financial position.



Despite aggressive competition in the mobile market in 2008, including high handset subsidies and significant advertising, 3 maintained its position as a value and innovation leader.

Continued momentum in customer growth

Through strong sales and maintaining an industry-leading low post-paid churn rate, the customer base grew by 458,000 to reach 2.036 million at 31 December 2008.

While the number of new handset customers continued to grow, a large part of our customer growth was fuelled by the growth of the mobile broadband subscriber base.

Strengthening financials in a competitive market

In 2008, revenue continued to increase strongly, with a significant contribution from non-voice services.

Revenue grew from \$1.318 billion in 2007 to \$1.623 billion in 2008, an increase of 23.1%. Non-voice revenue increased 65% to \$464.2 million.

Pleasingly, total margin increased 27.4% to \$1.2 billion in the year and Average Revenue Per User (ARPU) was \$66.54, with 31.2% of each bill comprising of non-voice services.

Underpinned by strong operations, our financial position strengthened significantly with EBITDA improving by \$86.0 million to \$200.0 million, and the net loss position improving by \$122.0 million to \$163.1 million.

During the year customer acquisition costs were reduced to \$236 from \$263 in 2007. Capital expenditure of \$200.2 million was 25.3% lower than 2007.

With strong customer growth, revenue and margin, the Company was EBIT positive during the fourth quarter of 2008.

3G services continues growth trend

Mobile Broadband subscriptions continued to grow strongly in 2008 and reached a total of 526,000 by the end of the year. The launch of 3 Prepaid Mobile Broadband in November helped drive increases towards the end of the year and our expectation is that it will be a significant product for 3 in 2009.



Non-voice services

Contributed 31.2% of ARPU

Mobile Broadband growth

Up 169.7% on 2007

Consumer demand for non-voice services continued to increase in 2008. Customers generated over 199 million internet access and Planet 3 events, and 68.4% of 3's customers paid for these services each month, with customers continuing to enjoy a range of content from news, sports and entertainment on Planet 3. Driving use of non-voice services, 3 added a choice of selected free content to our Cap plans in July and also increased the breadth and depth of content with products including Project Runway added to the Mobile TV offering. Open internet access and social networking services, such as Skype and Facebook are increasingly popular.

Non-voice services accounted for 31.2% of ARPU in 2008, driven notably by Mobile Broadband.

Award winning

3 won several prestigious awards in 2008, highlighting our increasing focus on customer service and value.

At the 2008 Australian Telecoms Awards, 3 received two awards - one for 'Best Mobile Operator' (which we also received in 2006) and one for 'Best Communications Retailer' for our 3 Stores (for the second year running).

We were also recognised for the strength of our people and culture, receiving two Cultural Transformation Awards from Human Synergistics - one for our Australian business and another for our contact centre in Mumbai, India.

In the products and services area, 3 received *Money* magazine's Best of the Best award for 'Best Broadband Plans - Mobile'. The award was received for our \$15 / 1GB Mobile Broadband plan.

A focus on the customer

During the year we maintained an industry low level of post-paid external churn (1.2%). An increased focus on improving customer service and retention added to improvements in customer satisfaction.

3's award-winning self-care system called 'My3' continued to evolve with increased customer uptake of the service. 3's Service Centres, which were opened in 2007, continued to improve turnaround times for repairs.

During the year, we became the first signatory to the Telecommunications Consumer Protections Code, underlining our commitment to our focus on quality customer experiences in sales, service and support.

Outlook

In 2009, we are well placed to continue growing as a value player in the mobile market and as a leader in the mobile broadband market.

Hutchison is mindful of the slowing economy, in particular the signs of a consumer-led slowdown. We will continue to review the areas of potential impact. Since we provide excellent value for money and consumers are traditionally more sensitive to price during economic downturns, we currently believe we are well positioned to continue to grow.

During 2009, we will continue to enhance the 3 network including bringing 3G services to 96% of the population through network expansion and roaming access to parts of Telstra's 850MHz network.

2009 will also see a 50-50 joint venture between Hutchison and Vodafone Australia established (subject to shareholder, ACCC and other regulatory approvals). The proposed merger will create a much larger scale business with approximately 6 million customers, revenues of approximately \$4 billion and a market share of 27%.

The proposed merger will also produce a stronger mobile operator better positioned to compete in the Australian telecommunications market as a significant value player and invest in new technologies to continue driving customer-led innovation.

In summary, 2008 has seen double-digit growth in our customer base, revenue and margin, resulting in continued improvements in the Company's financial position. This strong trajectory has placed us in a very exciting position to further improve the value of Hutchison Telecoms via a new joint venture.

Nigel Dews
Chief Executive Officer