

Chairman's Message

With continued support from CK Hutchison Holdings Limited and its joint shareholder Vodafone Group Plc, VHA achieved a steady EBITDA result.



Hutchison Telecommunications (Australia) Limited ("HTAL" or the "Company") (ASX: HTA) accounts for its investment in Vodafone Hutchison Australia Pty Limited ("VHA") using the equity method of accounting. Under this method, revenue from VHA's ordinary activities is not included in HTAL's consolidated revenues from ordinary activities.

In 2019, VHA achieved market-leading customer sentiment and maintained a broadly stable underlying financial performance. This is despite facing significant regulatory challenges including the Australian Competition and Consumer Commission's ("ACCC") opposition to VHA's proposed merger with TPG Telecom Limited ("TPG Telecom", ASX: TPM) and the Federal Government's 5G vendor restrictions.

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Key 2019 achievements and highlights of VHA:

- Progressed 5G with selection of Nokia as network vendor;
- Highest Net Promoter Score (NPS) of the major Mobile Network Operators;
- Continued to improve rate of customer complaints to the Telecommunications Industry Ombudsman ("TIO") with less than half the industry average;
- Recognised for its customer focus with two major industry awards;
- Reached 100,000 Vodafone NBN fixed customers; and
- VHA continued to progress regulatory approval of the merger with TPG Telecom by commencing Federal Court proceedings seeking competition approval of the merger.

2019 financial results

In a challenging regulatory environment and amidst continued aggressive competition, VHA produced a steady underlying financial performance.

VHA postpaid customer base was steady at 3.4 million, a 1.1% YoY decrease from 3.5 million. VHA maintained its base with its strong mobile network, generous data inclusions and best-in-market \$5 Roaming product.

VHA prepaid customer base was 2.0 million, an 8.6% YoY decrease

from 2.2 million, amidst very intense competition in the segment.

VHA's Mobile Virtual Network Operator (MVNO) customer base was 310,000, a 12.9% YoY decrease from 356,000.

VHA's fixed customer base was 114,000, a YoY increase of 245.5% from 33,000. VHA launched fixed services via the National Broadband Network in April 2018 and has been steadily growing its customer base.

HTAL's share of VHA total revenue decreased 2.8% YoY to \$1,761.7 million from \$1,813.2 million, due to the change in customer base.

VHA ARPU (Average Revenue Per User) was \$33.35, which represented a 4.9% YoY decrease from \$35.05, driven by increased competition.

HTAL's share of VHA's EBITDA increased 6.9% YoY to \$589.4 million from \$551.1 million. This is driven by a positive \$71.0 million impact from the IFRS16 accounting change. The underlying decline of \$38.3 million was due to a decline in revenue partially mitigated by continued focus on managing costs. In a year-on-year comparison without IFRS16, HTAL's share of VHA EBITDA would have been \$518.4 million, a 5.9% decrease.

HTAL's share of VHA net loss was \$159.1 million, a YoY increase from \$5.0 million, driven by the EBITDA result, lower commission capitalisation, increased depreciation and amortisation, and interest costs. In a year-on-year comparison without IFRS16, HTAL's share of VHA net loss would have been \$135.1 million.

VHA-TPG Telecom merger case heard in Federal Court

On 24 June 2019, following the ACCC's 8 May 2019 announcement that it would not provide competition clearance to the proposed merger between the two companies, VHA and TPG Telecom filed a legal action in the Federal Court of Australia seeking a declaration that the merger is not prohibited under Section 50 of the *Competition and Consumer Act 2010*.

The case was heard by Justice Middleton in Melbourne between 10 September and 1 October 2019.

On 13 February 2020, the Federal Court ruled that the proposed merger between VHA and TPG Telecom would not substantially lessen competition and should be allowed to proceed. VHA, along with TPG Telecom, will work to complete the merger in mid-2020, subject to the remaining regulatory and shareholder approvals and any appeal by the ACCC.

VHA is also undertaking a restructure of its debt facilities as a condition of the Scheme Implementation Deed and subject to the merger proceeding. The refinancing is expected to complete concurrently with the implementation of the merger.

VHA takes the next big step in 5G

In December 2019, VHA took another significant step in its 5G journey with the announcement that it has partnered with Nokia to roll out its 5G mobile network and deliver the benefits of the next generation of mobile networks to its customers.

The partnership builds on years of collaboration and enables VHA to deliver its commercial 5G services.

VHA will switch on its first commercial 5G sites in the first half of 2020, when it transforms an existing test network in the Sydney suburb of Parramatta into its first live 5G site.

VHA continues to lead customer sentiment, lowest complaints rate

VHA continued its track record as an industry leader in customer service in 2019 with the highest NPS of the mobile network operators, while its rate of customer complaints to the TIO was less than half the industry average.

VHA won a Canstar Blue award for Provider of the Year for SIM Only mobile plans and was recognised at the ACOMM industry awards for Best Mobile Solution for its endless data and no lock-in contracts.

VHA's \$5 Roaming product, which is available in more than 80 global destinations, continues to be a key driver of customer acquisitions and upgrades.

The Vodafone NBN customer base more than tripled during 2019, with customers attracted to VHA's 4G back up and promotional offers to connect to the top tier NBN speed for a market-leading price.

VHA also became the first telco to partner with Amazon Prime to offer customers on selected plans a twelve-month Amazon Prime membership.

To further its digital transformation strategy, VHA welcomed the new Chief Information Officer and Director of Business Enablement, Rob James in September 2019. With responsibility for IT, Mr James' appointment enables the IT team, which previously sat with Network, to focus exclusively on IT strategy and key projects.

To raise brand awareness among key market segments, VHA continued its sponsorships with Rugby Australia, Supercars, Adelaide Strikers and the Sydney Gay and Lesbian Mardi Gras. Star cricketer Steve Smith and Supercars champion Jamie Whincup continued in the role of VHA brand ambassadors.

Vodafone Foundation expands positive impact

In 2019, Vodafone Foundation continued to help improve the health and wellbeing of Australians through its technology-driven partnerships with the Garvan Institute of Medical Research and Hello Sunday Morning.

In 2019, the Foundation's DreamLab app, which helps solve cancer using the processing power of idle smartphones while users sleep, launched in Italy and Romania, bringing the app to five Vodafone markets. DreamLab's 350,000 users donated their computing power to help complete two more discoveries in half the time.

Vodafone Foundation also funded a pilot program with Infoxchange, to examine ways the AskIzzy app might better support people experiencing family and domestic violence.

Outlook

Intense competition in the Australian telecommunications market is expected to continue to impact industry revenues and ARPU's throughout 2020. VHA will continue its focus on reducing costs to manage its financial performance.

VHA will also continue its strategy of striking a balance between maintaining a sustainable business model, whilst delivering value to Australian customers.

On 13 February 2020 the Federal Court ruled that the proposed merger between VHA and TPG Telecom would not substantially lessen competition and should be allowed to proceed. VHA will work towards implementation of the proposed merger which remains subject to an appeal, as well as shareholder and other regulatory approvals.

The merger would create a third fully-integrated telecommunications company with the scale to compete head-to-head across the whole telecommunications market in Australia. It would also provide investment certainty for the future, including for the company's 5G rollout.

While the merger process continues, VHA will continue to work towards the launch of 5G mobile services in 2020 and take opportunities to deliver increased value propositions to mobile and fixed customers.

HTAL remains committed to its investment in VHA and will continue to support VHA in the future.

Additional matters

On 5 March 2020 the ACCC announced that it would not appeal the decision of the Federal Court and we are pleased that definitive Australian competition clearance for the proposed merger between VHA and TPG has now been obtained.

After the COVID-19 outbreak in early 2020, HTAL is paying close attention to the development of, and the disruption to business and economic activities caused by the outbreak and its potential impact on the financial position, cash flows and operating results. Given the dynamic nature of the COVID-19 outbreak, it is not practicable to provide a reasonable estimate of its impacts on HTAL's financial position, cash flows and operating results at the date of this annual report.



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