Hutchison Telecoms

**Hutchison Telecommunications (Australia) Limited**
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ASX Market Announcements

Australian Securities Exchange

Date: 23 February 2017

**Subject: Preliminary Final 2016 Annual Results**

Please find attached the Company's results for the year to 31 December 2016 in the form of Appendix 4E, together with the audit report referred to in the Appendix 4E.

The Annual General Meeting of the Company will be held at 10 am on 28 April 2017.

Yours faithfully

Louise Sexton
Company Secretary

# Hutchison Telecommunications (Australia) Limited

## Appendix 4E

## Preliminary final report

## for the year ended 31 December 2016

# Hutchison Telecommunications (Australia) Limited

ABN 15 003 677 227

ASX Appendix 4E

Preliminary final report

31 December 2016

## Contents



Lodged with the ASX under Listing Rule 4.3A.

These preliminary financial statements do not include all the notes of the type normally included in an annual financial report. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 31 December 2015 and any public announcements made by Hutchison Telecommunications (Australia) Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

## Results for announcement to the market

Hutchison Telecommunications (Australia) Limited ("HTAL") reports a $63.5 million loss for the year ended 31 December 2016, compared with a loss of $182.9 million in the prior year. HTAL's share of Vodafone Hutchison Australia Pty Limited's ("VHA") net loss included in HTAL's results for the year was $68.0 million for the year ended 31 December 2016 compared with a net loss of $187.5 million in 2015.

HTAL's revenue from ordinary activities represents interest income received on loans to VHA. HTAL's revenue from ordinary activities for the year ended 31 December 2016 decreased from $6.0 million in 2015 to $5.8 million.

| | | | $ '000 |
|---|---|---|---|
| **Revenue** from ordinary activities | ↓ | 4% | 5,807 |
| **Loss** from ordinary activities after tax attributable to members | ↑ | 65% | (63,453) |
| **Net loss** for the year attributable to members | ↑ | 65% | (63,453) |

| **Dividends / distributions** | Amount per security | Franked amount per security |
|---|---|---|
| Final dividend | Nil | Nil |
| Interim dividend | Nil | Nil |

| | |
|---|---|
| **Record date** for determining entitlements to the dividend | **n/a** |

## Review of HTAL's results

HTAL accounts for its investment in 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.

HTAL's loss for the year ended 31 December 2016 reduced to $63.5 million, a $119.4 million improvement from the prior year. The VHA results (including revenue and operating costs) are included in the "share of net losses of a joint venture accounted for using the equity method" in HTAL's consolidated statement of profit or loss and other comprehensive income.

HTAL's revenue from ordinary activities represents interest income received on loans to VHA. HTAL recorded revenue from operating activities of $5.8 million, decreased from $6.0 million in 2015 as a result of decreased shareholder loans provided to VHA and the low interest environment.

No dividend was declared or paid by HTAL during the year.

## VHA Performance

*This section outlines the operating performance of VHA attributable to HTAL. References to VHA's financial results reflect the 50% share of VHA attributable to HTAL. References to customer metrics reflect the total customer base of VHA.*

During 2016, VHA achieved continuity of growth, despite competition for mobile customers intensifying in the Australian telecommunications sector both in the products on offer and on the public policy and regulatory front.

With strong support from HTAL and its joint shareholder Vodafone Group Plc, VHA has continued to achieve solid growth through its strategic focus on a strong network, "worry-free" products and excellence in customer service.

Key achievements and highlights:

- Continued growth in customer numbers, EBITDA and underlying revenue;
- Improved company Net Promoter Score;
- Top-performing network in Australia's major cities for aggregate voice and data in the CommsDay P3 network benchmark tests;
- Expansion of international roaming products, 40% increase in roaming revenue;
- Growth in the Enterprise segment;
- Opening of VHA's new national headquarters, "Vodafone Central";
- Cash flow positive;
- Improved loss position.

### 2016 financial results

VHA achieved another solid financial performance in 2016, recording further growth in customer base and EBITDA, and decrease in net loss.

HTAL's share of VHA's EBITDA increased 12.2% to $456.1 million for the full year from $406.4 million in 2015, driven by growth in customer base and ARPU, and commercial optimisation.

In a year on year comparison, HTAL's share of VHA total revenue increased 5.7% and gross ARPU increased 3.6% if incoming revenue impacted by the Australian Competition and Consumer Commission's reduction of industry mobile termination rates (MTR) is excluded.

Driven entirely by the changes in MTR, which were effective 1 January 2016, HTAL's share of VHA revenue declined 8.4% to $1,672.6 million and gross ARPU decreased 12.4% to $45.87.

VHA turned free cash flow positive for the first time since 2010. Operating free cash flow also increased.

HTAL's share of VHA net loss declined 63.7% to $68.0 million driven by the increase in EBITDA, and reduction in depreciation and interest.

**Growing the VHA business**

VHA's customer base continued to grow with VHA adding 125,000 customers during 2016. Total network customers are up 2.3% to 5.56 million on the back of a 3.2% lift in postpaid customers and 21.4% growth in MVNO customers. In an increasingly competitive market, VHA prepaid handset ARPU and revenue grew year on year, despite a slight decline in prepaid customer base. VHA has also expanded its operations with the purchase of Lebara's Australian mobile business assets. With this acquisition, VHA took over Lebara's mobile customer base and procured the right to use the Lebara brand in Australia. Lebara Mobile has a strong brand presence and loyal customer base, particularly in migrant communities, and VHA sees opportunities to grow this business further.

VHA also increased its retail presence with the opening of 18 new stores around the country.

**Building a network for the future**

Following VHA's multi-billion investment in its network over recent years, VHA continues to be recognised for its network performance. VHA was ranked as the network with the best combined voice and data performance in major cities with a population over 100,000 in the independent CommsDay P3 network benchmark tests released in December 2016. Of the three Australian mobile networks, VHA also achieved the biggest improvement from 2015. During 2016, VHA continued to expand and upgrade its network, adding 111 new sites and performing over 2,200 upgrades across the country. VHA's 4G services now reach more than 22 million Australians. Its network expansion program includes more than 100 new sites to be built in regional areas by the end of 2017 through VHA investment and the Australian Government's Mobile Black Spot Program. The rollout of VHA's fibre transmission network is progressing well, with 500 sites now connected. VHA also continues preparations for the future launch of 5G, the next generation mobile network. VHA conducted two successful 5G demonstrations, including Australia's first live public trial, in collaboration with two of its technology partners.

**Delivering a worry-free mobile experience**

VHA has continued to drive connections, customer retention and revenue through its "worry-free" product platform. VHA expanded its popular $5 Roaming product, allowing customers to use their plan inclusions in almost 60 countries for an extra $5 per day. It also extended its $0 Roaming to New Zealand trial and launched pre-paid international roaming add-ons. VHA's roaming propositions delivered an increase in roaming revenue and Net Promoter Score (NPS) among roamers.

There has been a strong response to VHA's MyMix product which allows prepaid customers to select a level of data and call inclusions, and a recharge period of their choice. VHA's product offering is underpinned by Australia's only money-back Network Satisfaction Guarantee, which reinforces VHA's confidence in its network.

**Increasing customer sentiment and reducing complaints**

VHA customers' willingness to recommend VHA products and services to others has reached its highest levels in more than six years. In one of the biggest indicators of the significant shift in customer sentiment, VHA's brand NPS rose 13 points from January to December 2016. VHA also continues its focus on reducing customer complaints to the Telecommunications Industry Ombudsman, recording a complaints ratio 22% lower than the industry average in the December quarter.

**Driving competition in Enterprise**

VHA's Enterprise strategy, which focusses on small to medium businesses, is working well with the unit achieving growth in business connections and revenue in 2016. By delivering personalised value and leveraging its global strengths, the unit is building a loyal customer base with a very high willingness of business customers to recommend VHA products and services to others.

**Leading the charge for a fairer telco playing field**

VHA's public policy agenda is a key component of VHA's strategy and business purpose. The Australian mobile market is unique internationally, and is characterised by an extreme geography and a strong incumbent which has benefited significantly from a legacy fixed network and significant ongoing government and industry funding and subsidies. This has led to an extensive mobile competition divide between metropolitan and regional areas, and a monopoly in 60 per cent of the mobile coverage area in Australia. In 2016, VHA accelerated its campaign to bring increased competition to regional and rural areas through telecommunications policy and regulatory reform, and welcomed several significant developments in the second half of the year.

The Australian Competition and Consumer Commission ("ACCC") commenced an inquiry into whether a domestic roaming declaration would be in the long term interest of Australian mobile users. Domestic roaming is an infrastructure sharing solution which allows mobile customers to use the network of another operator when outside their network provider's footprint. It is used extensively overseas and has been regulated in most western economies with a large land area and low population density. VHA lodged a comprehensive submission to the ACCC arguing that domestic roaming is Australia's greatest opportunity to deliver choice of provider to Australians in regional, rural and remote areas. VHA's submission, which is supported by extensive international experience and expert economic opinion, argues the incumbent's 1.4 million square kilometre monopoly has been created by a natural monopoly and substantial direct and indirect government subsidies. In light of the experience in international markets including the USA, Canada and France, VHA argues regulated domestic roaming would also drive investment in new regional infrastructure.

The ACCC is also undertaking a market study into the state of competition within the Australian telecommunications market, and VHA is participating in this process.

The Australian Government has tasked the Productivity Commission with a review of the Universal Service Obligation (USO), which currently sees around $300 million per year in industry and public funding provided to the incumbent for its copper network and payphones. This follows calls for reform from VHA and other bodies and regional parties, including the Australian Regional Telecommunications Review Committee and Infrastructure Australia. In December 2016, the Productivity Commission released its draft report which stated the USO is 'past its use-by date', and highlighted concerns about the lack of accountability and transparency required of the funding recipient.

**Employees key to VHA success**

To drive increased employee collaboration and engagement, VHA has relocated its Sydney-based corporate offices in November 2016 to purpose-built headquarters at 177 Pacific Highway, North Sydney. As the anchor tenant with signage rights, the move has seen the Vodafone brand return to the Sydney skyline. With a focus on technology-enabled flexible working, "Vodafone Central" features a variety of working spaces and cutting-edge technology in all rooms allowing employees inside and out of the building to be 'in the room'. These facilities empower employees to work the way in which they can produce the best outcomes for VHA customers and the business. The new headquarters brought together VHA's approximately one thousand Sydney-based corporate staff from its former North Sydney and Chatswood offices.

Building on its suite of policies and initiatives to support employees, which includes an industry-leading paid parental leave scheme and ten days' of annual domestic violence leave, VHA has introduced a Super Bump. To help address the superannuation inequality between women and men, all female employees with a minimum of twelve months' continuous service will receive an additional super contribution of $500 per annum.

**Making a difference through mobile**

In November 2016, the Vodafone Foundation marked the first anniversary of its DreamLab app which uses the processing power of idle smartphones to help the Garvan Institute of Medical Research with vital cancer research. Since launch, the app has been downloaded more than 75,000 times and has processed almost 50% of a research project to help identify personalised and more effective treatments for cancer patients. In addition to breast, ovarian, pancreatic and prostate cancer research, DreamLab is now supporting lung cancer, brain cancer, melanoma and sarcoma projects.

The Vodafone Foundation is also a proud supporter of Hello Sunday Morning (HSM), a non-profit organisation which encourages Australians to think about their relationship with alcohol. HSM's Daybreak smartphone app has been shown to reduce harmful levels of drinking by 50% amongst users. Over the past three years, the number of Australians using HSM has increased 360% to over 120,000, and HSM's national brand awareness has increased 142%.

## Outlook

VHA is well-positioned to continue its growth in 2017. The strength of the VHA business is based on its network, customer propositions and customer service delivery, and it will continue to build on the momentum in these areas of recent years. VHA's strategy is underpinned by its company purpose – to give customers the freedom and choice to connect the way they want.

During 2017, VHA will launch fixed broadband services via the National Broadband Network to complement its mobile network. The move is in response to strong demand from customers seeking a bundled mobile and fixed broadband solution from VHA. VHA's entrance into the fixed broadband market will mirror its approach to mobile, which has seen it achieve consistent, steady and sustainable growth. Enterprise will continue to be a key focus for VHA as it looks to grow its customer base, market share and revenue in this segment through its mobile strategy and the launch of fixed broadband services. VHA will take a strategic approach to network expansion and enhancement, retail expansion and marketing activities by leveraging new opportunities to reach existing and potential new customers. To build capability and flexibility in its network, VHA has launched a major five-year program to virtualise its core and IP networks. It will also deliver a Voice Over WiFi product which will allow mobile customers to make and receive voice calls and SMS/MMS over a fixed internet service. VHA will also continue its focus on delivering products tailored to customer needs, and a seamless, simple customer experience. VHA will also continue its policy and regulatory agenda to bring increased competition and choice to regional Australian customers.

HTAL remains committed to its investment in VHA, and will continue to support VHA's growth in the future.

## VHA financial and operating metrics

| | 2016 | 2015 | YoY change |
|---|---|---|---|
| **The items below represent the 50% share of VHA attributable to HTAL** | | | |
| Total revenue ($m) | 1,672.6 | 1,825.8 | (8.4%) |
| Gross service revenue[1] ($m) | 1,417.9 | 1,571.4 | (9.8%) |
| Net service revenue[2] ($m) | 1,181.3 | 1,375.2 | (14.1%) |
| EBITDA ($m) | 456.1 | 406.4 | 12.2% |
| Share of net loss of VHA[3] ($m) | (68.0) | (187.5) | 63.7% |
| **The items below represent totals for VHA** | | | |
| - Postpaid customers ('000) | 3,354 | 3,249 | 3.2% |
| - Prepaid customers ('000) | 1,652 | 1,730 | (4.5%) |
| VHA customers subtotal ('000) | 5,006 | 4,979 | 0.5% |
| - MVNO customers ('000) | 556 | 458 | 21.4% |
| Total network customers ('000) | 5,562 | 5,437 | 2.3% |
| | | | |
| Gross ARPU[4] ($) | 45.87 | 52.38 | (12.4%) |
| Net ARPU[5] ($) | 37.97 | 45.68 | (16.9%) |

[1] **Gross service revenue** represents total monthly amount billed to the customer excluding any handset/device charges, plus incoming mobile termination revenue.

[2] **Net service revenue** represents gross service revenue excluding amounts attributable to a handset/device in postpaid contract bundled plans. The amount attributable to a handset/device is based on the price differential between a contract bundled plan and a comparable SIM-only plan at the time of acquisition or re-sign.

[3] Reconciliation for the **Share of net loss of VHA** is set out on page 25.

[4] **Gross ARPU** represents a rolling 12 month average gross service revenue per user per month at the end of the period excluding MVNOs.

[5] **Net ARPU** represents a rolling 12 month average net service revenue per user per month at the end of the period excluding MVNOs.

## Consolidated statement of profit or loss and other comprehensive income
## For the year ended 31 December 2016

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| **Revenue** | 5,807 | 6,028 |
| Other operating items | (1,246) | (1,299) |
| Finance costs | - | (4) |
| Share of net losses of a joint venture accounted for using the equity method | (68,014) | (187,523) |
| **Loss before income tax** | (63,453) | (182,798) |
| Income tax expense | - | (70) |
| **Loss for the year** | (63,453) | (182,868) |
| **Other comprehensive income (loss)** | | |
| Items that may be reclassified subsequently to profit or loss: | | |
| Changes in the fair value of cash flow hedges (share of joint venture) | 413 | (825) |
| **Other comprehensive income (loss) for the year, net of tax** | 413 | (825) |
| **Total comprehensive loss for the year attributable to members of Hutchison Telecommunications (Australia) Limited** | (63,040) | (183,693) |

*The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.*

## Consolidated statement of financial position
## As at 31 December 2016

| | 2016<br>$'000 | 2015<br>$'000 |
|---|---|---|
| **ASSETS** | | |
| **Current Assets** | | |
| Cash and cash equivalents | 4,469 | 5,318 |
| Other financial assets | 48,906 | 136,676 |
| Trade receivables | 6 | 5 |
| Total Current Assets | 53,381 | 141,999 |
| **Non-current Assets** | | |
| Other financial assets | - | 11,801 |
| Investment accounted for using the equity method | 209,714 | 277,315 |
| Total Non-current Assets | 209,714 | 289,116 |
| **Total Assets** | 263,095 | 431,115 |
| **LIABILITIES** | | |
| **Current Liabilities** | | |
| Payables | 277 | 257 |
| Other financial liabilities | 136,862 | 241,862 |
| Total Current Liabilities | 137,139 | 242,119 |
| **Total Liabilities** | 137,139 | 242,119 |
| **Net Assets** | 125,956 | 188,996 |
| **EQUITY** | | |
| Contributed equity | 4,204,488 | 4,204,488 |
| Reserves | 70,857 | 70,444 |
| Accumulated losses | (4,149,389) | (4,085,936) |
| **Total Equity** | 125,956 | 188,996 |

*The above consolidated statement of financial position should be read in conjunction with the accompanying notes.*

# Consolidated statement of changes in equity
# For the year ended 31 December 2016

| | Attributable to members of Hutchison Telecommunications (Australia) Limited | | | | | |
|---|---|---|---|---|---|---|
| | | Reserves | | | | |
| | Contributed equity $'000 | Capital redemption $'000 | Cash flow hedging $'000 | Share-based payments $'000 | Accumulated losses $'000 | Total equity $'000 |
| **Balance at 1 January 2015** | 4,204,488 | 54,887 | 502 | 15,880 | (3,903,068) | 372,689 |
| Loss for the year | - | - | - | - | (182,868) | (182,868) |
| Share of joint venture's changes in the fair value of cash flow hedges | - | - | (825) | - | - | (825) |
| **Total comprehensive loss for the year** | - | - | (825) | - | (182,868) | (183,693) |
| **Balance at 31 December 2015 and 1 January 2016** | 4,204,488 | 54,887 | (323) | 15,880 | (4,085,936) | 188,996 |
| Loss for the year | - | - | - | - | (63,453) | (63,453) |
| Share of joint venture's changes in the fair value of cash flow hedges | - | - | 413 | - | - | 413 |
| **Total comprehensive income (loss) for the year** | - | - | 413 | - | (63,453) | (63,040) |
| **Balance at 31 December 2016** | 4,204,488 | 54,887 | 90 | 15,880 | (4,149,389) | 125,956 |

*The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes*.

## Consolidated statement of cash flows
## For the year ended 31 December 2016

| | 2016<br>$'000 | 2015<br>$'000 |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Payments to suppliers and employees (inclusive of GST) | (1,226) | (1,120) |
| Interest received | 5,377 | 4,627 |
| Finance costs paid | - | (4) |
| **Net cash inflows from operating activities** | 4,151 | 3,503 |
| **Cash Flows from Investing Activities** | | |
| Loans to joint venture | - | (100,000) |
| Repayment of loans from joint venture | 100,000 | - |
| **Net cash inflows (outflows) from investing activities** | 100,000 | (100,000) |
| **Cash Flows from Financing Activities** | | |
| Proceeds from borrowings - entities within the CKHH Group | - | 100,000 |
| Repayment of borrowings – entity within the CKHH Group | (105,000) | - |
| **Net cash (outflows) inflows from financing activities** | (105,000) | 100,000 |
| **Net (decrease) increase in cash and cash equivalents** | (849) | 3,503 |
| Cash and cash equivalents at 1 January | 5,318 | 1,815 |
| **Cash and cash equivalents at 31 December** | 4,469 | 5,318 |

*The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.*

## Notes to the consolidated financial statements
## For the year ended 31 December 2016

### Note 1 – Summary of significant accounting policies

Hutchison Telecommunications (Australia) Limited (the "Company") is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Stock Exchange. The Consolidated Entity consists of the Company and its subsidiaries (the "Group" or "Consolidated Entity" or "HTAL") made up to 31 December 2016.

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

#### (a) Basis of preparation

These preliminary financial statements for the year ended 31 December 2016 has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations issued by the Australian Accounting Standards Board, and comply with other requirements of the law.

These financial statements do not include all the notes of the type normally included in an annual financial report. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 31 December 2015 and any public announcements made by the Company, during the reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*. The accounting policies adopted are consistent with those of the previous financial year.

For financial reporting purposes the Consolidated Entity is considered a 'for-profit' entity.

#### Statement of compliance

Accounting Standards include Australian equivalents to International Financial Reporting Standards ("AIFRS"). Compliance with AIFRS ensures that the financial statements and notes of the Consolidated Entity comply with International Financial Reporting Standards ("IFRS").

As a consequence of the financial reporting relief provided by ASIC Class Orders 10/654 and 10/655, the consolidated financial statements are presented without parent entity financial statements.

#### Going concern disclosures

As at 31 December 2016, the Consolidated Entity has a deficiency of net current assets of $84 million (2015: net current assets deficiency of $100 million). Included in the Consolidated Entity's current liabilities is an amount of $137 million (2015: $242 million) which relates to an interest free financing facility provided from a subsidiary of the ultimate parent entity, CK Hutchison Holdings Limited ("CKHH"), which is repayable on demand. The Consolidated Entity has unused financing facilities of $1,463 million at 31 December 2016. CKHH has confirmed its current intention is to provide sufficient financial support to enable the Consolidated Entity to meet its financial obligations as and when they fall due for a minimum period of twelve months from the date of signing the financial statements. Consequently, the directors have prepared the financial statements on a going-concern basis.

#### Historical cost convention

These preliminary financial statements have been prepared under the historical cost convention as modified by the revaluation of certain financial assets and liabilities (including derivative instruments) which are stated at fair value, as explained in the significant accounting policies set out below.

## (b) Principles of consolidation

*(i) Subsidiaries*

A subsidiary is an entity over which the Group has control. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

*(ii) Joint arrangements*

A joint arrangement is an arrangement of which two or more parties have joint control and over which none of the participating parties has unilateral control.

Investments in joint arrangements are classified either as joint operations or joint ventures, depending on the contractual rights and obligations each investor has under the relevant contract. Joint operations arise where the investors have rights to the assets and obligations for the liabilities of an arrangement. A joint operator accounts for its share of the assets, liabilities, revenue and expenses. Joint ventures arise where the investors have rights to the net assets of the arrangement. Joint ventures are accounted for under the equity method.

The results and net assets of joint ventures are incorporated in these accounts using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for under AASB 5, *Non-current assets held for sale and discontinued operations*. The total carrying amount of such investments is reduced to recognise any identified impairment loss in the value of individual investments.

As at 31 December 2016, HTAL has only one joint venture.

*(iii) Equity method*

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from joint ventures are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

### (c) Foreign currency translation

*(i) Functional and presentation currency*

Items included in the financial statements of each of the Consolidated Entity's subsidiaries are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Australian dollars, which is Hutchison Telecommunications (Australia) Limited's functional and presentation currency.

*(ii) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss and other comprehensive income, except when deferred in equity as qualifying cash flow hedges as set out in note 1(i)(ii).

### (d) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid. Revenue is recognised as described below:

*Interest income*

Interest income is recognised using the effective interest method.

### (e) Income tax

The current tax payable or recoverable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of profit or loss and other comprehensive income because some items of income or expense are taxable or deductible in different years or may never be taxable or deductible. The Consolidated Entity's liability for current tax is calculated using Australian tax rates (and laws) that have been enacted or substantively enacted by the statement of financial position date.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax assets are recognised for deductible temporary difference and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the associated entity is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised, based on tax rates (and laws) that have been enacted or substantively enacted by the statement of financial position date.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Tax is charged or credited to the statement of profit or loss and other comprehensive income, except when it relates to items charged or credited directly to equity, in which case the tax is also recognised directly in equity.

Hutchison Telecommunications (Australia) Limited and its wholly owned Australian subsidiaries have not implemented the tax consolidation legislation.

**(f) Impairment of assets**

Goodwill and intangible assets that have an indefinite useful life are tested for impairment annually and when there is an indication that they may be impaired. Other assets are tested for impairment whenever there is any indication that the carrying value of these assets may not be recoverable. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. The recoverable amount is the higher of an asset's fair value less costs to dispose and value in use. Such impairment loss is recognised in the statement of profit or loss and other comprehensive income.

**(g) Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

**(h) Trade receivables**

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Appropriate allowance for estimated irrecoverable amounts are recognised in the statement of profit or loss and other comprehensive income when there is objective evidence that the assets is impaired.

**(i) Derivative financial instruments and hedging activities**

Derivative financial instruments are utilised by the Group in the management of its foreign currency and interest rate exposures. The Group's policy is not to utilise derivative financial instruments for trading or speculative purposes.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to fair value at each reporting date. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Consolidated Entity designates certain derivatives as; (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or (2) hedges of highly probable forecast transactions (cash flow hedges).

The Consolidated Entity documents at the inception of the hedging transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Consolidated Entity also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

*(i) Fair value hedge*

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the statement of profit or loss and other comprehensive income, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

*(ii) Cash flow hedge*

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the statement of profit or loss and other comprehensive income within other income or other expenses.

Amounts accumulated in equity are recycled in the statement of profit or loss and other comprehensive income in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the measurement of the initial cost or carrying amount of the asset or liability.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the statement of profit or loss and other comprehensive income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the statement of profit or loss and other comprehensive income.

**(j) Fair value estimation**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal market at the measurement date under current market conditions. Fair value is an exit price regardless of whether that price is directly observable in active markets or estimated using another valuation technique.

The fair value of forward exchange contracts is determined using forward exchange market rates at the statement of financial position date.

### (k) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Lease income from operating leases is recognised in income on a straight-line basis over the lease term.

### (l) Goodwill

Goodwill is initially measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the fair value of the net identifiable assets acquired and the liabilities assumed. If, after reassessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in the statement of profit or loss and other comprehensive income as a bargain purchase gain.

Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates/joint ventures is included in investments in associates. Goodwill is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

### (m) Payables

These amounts represent liabilities for goods and services provided to the Consolidated Entity prior to the end of the financial period and which are unpaid. The amounts are unsecured and are usually paid or payable within 30 days of recognition.

### (n) Employee benefits

*(i) Wages and salaries, and leave provisions*

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of short-term employee benefits, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of long term employee benefits are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to the reporting date.

*(ii) Retirement benefits*

Retirement benefits are delivered under the Retail Employees Superannuation Trust, although employees have an option to choose other funds. This fund is a defined contribution fund and is based on employer and employee contributions made to the fund.

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

### (o) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

### (p) Earnings per share

*(i) Basic earnings per share*

Basic earnings per share is calculated by dividing:

- the profit attributable to ordinary equity holders of the Consolidated Entity;
- by the weighted average number of ordinary shares outstanding during the financial year.

*(ii) Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares; and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

### (q) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included within other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

### (r) Segments reporting

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available.

Operating segments have been identified based on the information provided to the chief operating decision maker. Operating segments that meet the quantitative criteria as prescribed by *AASB 8 Operating Segments* are reported separately.

### (s) Critical accounting estimates and assumptions

The preparation of financial statements often requires the use of judgements to select specific accounting methods and policies from several acceptable alternatives. Furthermore, significant estimates and assumptions concerning the future may be required in selecting and applying those methods and policies in the accounts. The Group bases its estimates and judgements on historical experience and various other assumptions that it believes are reasonable under the circumstances. Actual results may differ from these estimates and judgements under different assumptions or conditions.

*(i) Impairment of investments in controlled entities and joint venture*

In accordance with the Consolidated Entity's accounting policy, the investments in controlled entities and the joint venture are periodically tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amount of the Company's investment in controlled entities, and the recoverable amount of the Consolidated Entity's investment in its joint venture are determined as the higher of the fair value less cost of disposal or value in use methodology. The underlying calculation is based on the approved business plan for VHA. These calculations require the use of estimates and assumptions.

A discounted cash flow calculation is undertaken on the approved business plan. A terminal value is calculated on the cash flows. The cash flows are then discounted using a suitable discount rate consistent with recent internal assessments of the Consolidated Entity’s weighted average cost of capital. The resulting net present value is compared to the balance of the Consolidated Entity's equity accounted for investment in a joint venture.

The Directors believe that the carrying values of the Consolidated Entity's investment in joint venture as at 31 December 2016 is appropriate and are not aware of any events or changes since the year end which may potentially impair the carrying values of the Consolidated Entity’s investments in joint venture as at the statement of financial position date.

*(ii) Recovery of deferred tax assets*

Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that future taxable profits will be available to utilise those temporary differences. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of taxable profits generated in the foreseeable future together with future tax planning strategies.

*(iii) Joint venture accounting adjustments*

Depreciation of operating assets constitutes a substantial operating cost for the joint venture. The cost of fixed assets is charged as a depreciation expense over the estimated useful lives of the respective assets using the straight-line method and this is reflected in the “share of net losses of a joint venture accounted for using the equity method” in HTAL’s consolidated statement of profit or loss and other comprehensive income. The Directors are of the view that the estimated useful lives of network assets within the joint venture should be extended to reflect the experience of the group. Accordingly, adjustments to the useful lives of assets have been made when the Group’s 50% interest in joint venture VHA is incorporated into the Group’s consolidated financial statements. This is to reflect the use of the Group’s fixed assets useful lives.

### (t) Rounding of amounts to nearest thousand dollars

The Consolidated Entity is of a kind referred to Corporations (Rounding in Financial/Directors’ Reports) Instrument 2016/191 issued by the Australian Securities and Investments Commission, relating to the “rounding off” of amounts in the Directors’ report and financial statements. Amounts in the financial statements have been rounded off in accordance with that Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar or cent.

### (u) Parent entity financial information

The financial information for the parent entity has been prepared on the same basis as the consolidated financial statement, except investments in subsidiaries and joint venture entities are accounted for at cost in the financial statements of HTAL.

### (v) New accounting standards and interpretations

The Consolidated Entity has adopted all of the new and revised effective / applicable standards, amendments and interpretations issued by the Australian Accounting Standards Board ("AASB") that are relevant to the Consolidated Entity's operations and mandatory for annual periods beginning on or after 1 January 2016.

The Consolidated Entity has applied the following standards and amendments for first time in their annual reporting period commencing 1 January 2016:

| Reference | Standard(s) |
|---|---|
| AASB 2014-4 | Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation [AASB 116 & AASB 138] |
| AASB 2014-9 | Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements [AASB 1, 127 & 128] |
| AASB 2014-10 | Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an investor and its Associate or Joint Venture [AASB 10 & AASB 128] |
| AASB 2015-1 | Amendments to Australian Accounting Standards – Annual improvement to Australian Accounting Standards 2012-2014 Cycle |
| AASB 2015-2 | Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101 |
| AASB 2015-4 | Amendments to Australian Accounting Standards – Financial Reporting Requirements for Australian Groups with a Foreign Parent |

The adoption of the standards and amendments listed above in future periods is not expected to result in substantial changes to the Group's accounting policies.

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2016 reporting periods and have not been early adopted by the Group. The Group is still assessing the impact of the new standards and interpretations set out below on the financial statements.

| Reference | Nature of change | Application date |
|---|---|---|
| AASB 9 | AASB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. | 1 January 2018 |
| AASB 15 | The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption. | 1 January 2018 |
| AASB 16 | AASB 16 was issued in February 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. | 1 January 2019 |

## Note 2 – Earnings per share

| | 2016 Cents | 2015 Cents |
|---|---|---|
| **(a) Basic earnings per share** | | |
| Loss attributable to the ordinary equity holders of the Consolidated Entity | (0.47) | (1.35) |
| **(b) Diluted earnings per share** | | |
| Loss attributable to the ordinary equity holders of the Consolidated Entity | (0.47) | (1.35) |

| **(c) Earnings used in calculating earnings per share** | 2016 $'000 | 2015 $'000 |
|---|---|---|
| *Basic earnings per share* | | |
| Loss attributable to the ordinary equity holders of the Consolidated Entity used in calculating basic earnings per share | (63,453) | (182,868) |
| *Diluted earnings per share* | | |
| Loss attributable to the ordinary equity holders of the Consolidated Entity used in calculating diluted earnings per share | (63,453) | (182,868) |

| **(d) Weighted average number of shares used as the denominator** | 2016 Number | 2015 Number |
|---|---|---|
| Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share | 13,572,508,577 | 13,572,508,577 |
| Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share | 13,572,508,577 | 13,572,508,577 |

There were no (2015: nil) options outstanding at 31 December 2016 that are anti-dilutive and accordingly there was no impact on the earnings per share calculation for the year ended 31 December 2016.

## Note 3 – Operating segment

The Consolidated Entity has identified its operating segment based on the internal reports that are reviewed and used by the executive management team (the chief operating decision makers) in assessing performance and in determining the allocation of resources.

In 2016, the Consolidated Entity continued to invest in an operator within the telecommunications industry.

The chief operating decision maker of the Consolidated Entity receives information to manage its operations and investment based on one operating segment, an investor in an operator of telecommunication services. As such, the Consolidated Entity believes it is appropriate that there is one operating segment, investment in telecommunication services.

Key financial information used by the chief operating decision maker of the Consolidated Entity when evaluating the investment in telecommunication services operating segment includes:

| **HTAL's share of the following items of VHA*** | 2016<br>$m | 2015<br>$m |
|---|---|---|
| Total Revenue | 1,673 | 1,826 |
| Net Losses | 68 | 188 |

Further information reviewed by the chief operating decision maker with regards to the performance of the Consolidated Entity's investment in VHA is disclosed on page 25.

* after joint venture accounting adjustments

## Supplementary Appendix 4E information

**Additional dividend/distribution information**
Details of dividends/distributions declared or paid during or subsequent to the year ended 31 December 2016 are as follows:

| | |
|---|---|
| Dividends/distributions declared or paid | N/A |
| Dividend/distribution reinvestment plans | N/A |

**Accumulated Losses**

| | 2016<br>$'000 | 2015<br>$'000 |
|---|---|---|
| Accumulated losses at 1 January | (4,085,936) | (3,903,068) |
| Loss attributable to the member of Hutchison Telecommunications (Australia) Limited | (63,453) | (182,868) |
| Accumulated losses at 31 December | (4,149,389) | (4,085,936) |

**Net Tangible Assets Backing**

| | 2016 | 2015 |
|---|---|---|
| Net tangible assets backing per ordinary share | $0.01 | $0.01 |

**Controlled entities acquired or disposed of**

There was no acquisition of controlled entities during the year ended 31 December 2016.

**Associates and Joint Venture entities**

**Joint Venture**
HTAL owns a 50% interest in a joint venture with Vodafone Group Plc named Vodafone Hutchison Australia Pty Limited ("VHA"), which is involved in providing telecommunication services in Australia. The interest in VHA is held by a controlled entity, Hutchison 3G Australia Holdings Pty Limited ("H3GAH"), is accounted for in the consolidated financial statements using the equity method.

The aggregate share of losses from VHA for the year ended 31 December 2016 is $68.0 million (2015: $187.5 million share of losses).

Summarised financial information of the joint venture, based on its Australian Accounting Standards financial statements and a reconciliation to the carrying amount of the investment in the consolidated financial statements are set out below:

| | 2016 | 2015 |
|---|---|---|
| | $'000 | $'000 |
| Current assets | 2,129,475 | 1,071,542 |
| Non-current assets | 5,883,456 | 7,112,468 |
| Current liabilities | (6,460,885) | (3,302,339) |
| Non-current liabilities | (2,166,636) | (5,255,325) |
| **Net Assets** | (614,590) | (373,654) |
| Proportion of the Consolidated Entity's ownership | 50% | 50% |
| Share of the joint venture's net assets | (307,295) | (186,827) |
| Goodwill | 165,321 | 165,321 |
| Joint venture accounting adjustments | 351,688 | 298,821 |
| **Carrying amount of the investment** | 209,714 | 277,315 |

The carrying value of HTAL's investment in VHA is predicated on the ongoing financial support from both of VHA's shareholders. At 31 December 2016, HTAL's share of VHA's net current assets deficiency is $2,165.7 million (2015: net current assets deficiency of $1,115.4 million). The increase is mainly driven by reclassification of VHA's Syndicated Bifurcated Facility from non-current liabilities to current liabilities as the facility is due to expire within the 2017 financial year. Both of VHA's ultimate shareholders, CKHH and Vodafone Group Plc have confirmed their current intention to jointly provide financial support to enable VHA to meet its financial obligations as and when they fall due for a minimum period of twelve months from the date of signing the VHA financial statements.

**Summarised statement of profit or loss and other comprehensive income of VHA**

| | 2016 | 2015 |
|---|---|---|
| | $'000 | $'000 |
| Revenues | 3,345,174 | 3,651,553 |
| Expenses | (3,586,936) | (4,081,721) |
| Loss before income tax | (241,762) | (430,168) |
| Income tax expense | - | - |
| **Loss for the year** | (241,762) | (430,168) |
| | | |
| Other comprehensive income (loss) | | |
| Changes in the fair value of cash flow hedges, net of tax | 826 | (1,650) |
| **Total comprehensive loss** | (240,936) | (431,818) |
| | | |
| 50% share of VHA's loss for the year | (120,881) | (215,084) |
| Joint venture accounting adjustments | 52,867 | 27,561 |
| **Share of joint venture's loss** | (68,014) | (187,523) |
| | | |
| **VHA's financial statements include the following specific items:** | | |
| Cash and cash equivalents | 271,129 | 291,608 |
| Current financial liabilities | 5,385,142 | 2,194,060 |
| Non-current financial liabilities | 2,050,058 | 5,137,296 |
| Depreciation and amortisation^ | 793,464 | 827,880 |
| Interest income | 4,435 | 3,120 |
| Finance costs | 364,846 | 418,243 |

^ Depreciation and amortisation under HTAL accounting policies are $687.7 million for year ended 31 December 2016 (2015: $772.8 million). The differences in accounting policies are primarily related to differences in the economic useful lives of property, plant and equipment.

**Information relating to the joint venture is set out below:**

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| **Reconciliation of interest in a joint venture** | | |
| Investment brought forward at 1 January | 277,315 | 465,663 |
| Loss for the year | (68,014) | (187,523) |
| Share of change in fair value of cash flow hedges, net of tax | 413 | (825) |
| **Interest in a joint venture at 31 December** | 209,714 | 277,315 |
| | | |
| **VHA's commitments** | | |
| Operating leases | 1,260,650 | 1,053,111 |
| Other commitments | 352,759 | 476,257 |
| Capital commitments | 326,532 | 271,802 |
| | | |
| **VHA's contingent liabilities** | 60,887 | 67,265 |

**Foreign Accounting standards**

For foreign entities only, details of the accounting standards used in compiling the report e.g. International Accounting Standards

N/A

**Audit**

This report is based on accounts which have been audited. The audit report, which is unqualified, will be made available with the Company's financial report.

# Independent auditor's report

To the shareholders of Hutchison Telecommunications (Australia) Limited

## *Report on the audit of the financial report*

### Our opinion

In our opinion:

The accompanying financial report of Hutchison Telecommunications (Australia) Limited (the Company) and its controlled entities (together the Group or HTAL) is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 31 December 2016 and of its financial performance for the year then ended

(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

***What we have audited***

The financial report comprises:

- the consolidated statement of financial position as at 31 December 2016
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the consolidated statement of profit or loss and other comprehensive income for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration.

### Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

***Independence***
We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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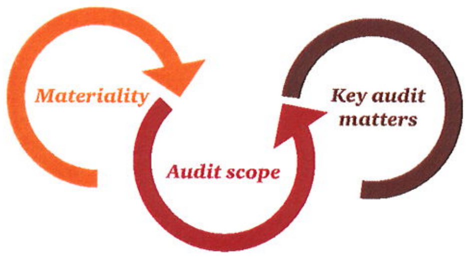
## *Our audit approach*

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates. The Group's business activities are predominantly conducted through its 50% joint venture investment in Vodafone Hutchison Australia Pty Limited (VHA), a telecommunications service provider operating in Australia. The Group's share of the results of VHA are included in the Group's financial report as described in Note 1(b). The investment in VHA contributed more than 93% of the Group's loss before tax and 80% of the Group's total assets in the 2016 financial report.




### *Materiality*

- For the purpose of our audit we used overall Group materiality of $8.8 million, which represents approximately 5% of the Group's loss before tax (based on an average of the current year and preceding two years).
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.
- We chose Group loss before tax because, in our view, it is the benchmark against which the performance of the Group is most commonly measured. Due to fluctuations in profit and loss from year to year, we chose a three year average.
- We utilised a 5% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.

### *Audit Scope*

- Our audit focused on where the directors made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.
- We used component auditors to perform an audit of the financial information of VHA and conducted audit procedures over the remaining balances of the Group in order to obtain sufficient appropriate audit evidence as a basis for our opinion on the Group financial report as a whole. We provided instructions to the component auditor on the type of work that needed to be performed and what information on VHA's audit that we wanted them to report to us. We determined the level of involvement we needed to have in the audit work at VHA, including regular communication with the other PwC team on the audit of VHA, and performed audit procedures over the remaining balances within HTAL to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole.

## *Key audit matters*

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. We communicated the key audit matters to the Audit and Risk Committee. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context.

| *Key audit matter* | *How our audit addressed the key audit matter* |
|---|---|
| ***Estimate of useful life of network assets of VHA***<br><br>Depreciation of network assets constitutes a substantial operating cost for the joint venture. The cost of those assets is charged as a depreciation expense over the estimated useful lives of the respective assets (using the straight-line method) and this is reflected in the "share of net losses of a joint venture accounted for using the equity method" in HTAL's consolidated statement of profit or loss and other comprehensive income. The Directors reassess the estimate of the expected useful lives of the assets within the joint venture. Accordingly, adjustments to the useful lives of assets have been made when the Group's 50% interest in the joint venture VHA is incorporated into the Group's consolidated financial report each year. This is to reflect the use of the Group's network assets useful lives as described in Note 1(s) (iii) of the financial statements.<br>The Directors' estimate of the useful lives of network assets was a key audit matter as it requires the Directors' judgement to make a collective assessment on the likely future use of the network assets based on historical experience with similar assets and the potential impact of anticipated technological changes on existing assets. The estimation is impacted by company-specific factors along with broader industry considerations which results in useful lives of identical types of assets differing from company to company. | We tested the accuracy of the calculation for the adjustment to useful lives. The adjustment was consistent with our expectations on the basis of extended useful lives for these network assets.<br><br>We tested the Directors' estimated useful lives of network assets, being 20 years. We discussed the adjustments with the Directors, who explained that the rationale for making the adjustments was to reflect a longer useful life of these assets, consistent with the experience of the Group and Hutchison Whampoa Limited (a shareholder of HTAL) and their assessment of the impact of anticipated technology developments.<br><br>We evaluated the assessment of the useful life of network assets. In particular, we:<br><br>• considered the Group's view of the impact of technological developments on existing assets. We noted that the introduction of new generation communication standards such as 4G/LTE did not necessarily result in a complete obsolescence of the existing 3G network assets as they remain integral to ensuring the operational effectiveness of the telecommunications network.<br><br>• considered the nature of the telecommunications industry where there are varying practices with regards to useful lives adopted by operators. We compared the estimate of useful lives against other telecommunication operators in Australia and overseas, and the Australian Taxation Office suggested useful lives of 8 – 25 years. We noted that the Group's estimate of useful life of these assets is within a consistent range. |
| ***Recoverable amount of investment in joint venture***<br><br>As explained in Note 1(b) of the financial report HTAL holds a 50% investment in a joint venture, VHA, a telecommunications service provider in Australia. As at 31 December 2016, the carrying value of the investment accounted for using the equity method of accounting amounted to $210 | We tested the composition of the Directors' future cash flow forecasts used in the impairment assessment of HTAL's investment in VHA. In particular, we compared the cash flow forecasts with VHA's historical performance and proposed future development based on VHA's financial plan. In order to assess the Group's ability to make reliable forecasts, we compared the current year actual results to the FY16 approved budget |

| *Key audit matter* | *How our audit addressed the key audit matter* |
|---|---|
| million.<br><br>An impairment assessment was prepared by the Directors using a value in use model (the Model) to estimate the value of the investment. The Model was based on estimated future cash flows from the VHA investment discounted to the present value. The forecast cash flows of VHA reflect the Group's view of its current underlying and future financial performance which strongly correlates with the estimated future cash flows from HTAL's investment in VHA.<br><br>Considering whether the carrying amount of the investment in the joint venture in VHA is recoverable was a key audit matter due to the size of the balance and the level of judgement by Directors in determining the key assumptions in the Model. The continuing losses arising from HTAL's interest in VHA also gave rise to a higher risk of impairment of the investment. The areas that were most judgmental were the key assumptions used in the model being the long term revenue and market share growth rates. | included in the prior year model and considered if any of the forecasts included assumptions that, with hindsight, had been optimistic. We found that actual performance was materially consistent with forecast performance.<br><br>We challenged the key assumptions made with respect to long term revenue and market share growth rate in the impairment assessment. Specifically:<br><br>• We considered the long term revenue and market share growth rate against our internally developed range of benchmarks which were based on observable industry data and found that the long term growth rate assumption of 2.6% is marginally higher than the RBA mid-point long term inflation target of 2.5%. However it is considered reasonable when measured against other companies within the market, where a range of 2.5% - 3.0% has been observed. The assumptions were consistent with forecast industry performance metrics adjusted for the current business performance and longer term strategy.<br><br>• We stress tested the Model by making adjustments to the long term revenue and market share growth rates used in the model within a reasonably foreseeable range. In this stress testing of the Model where the above adjustments were made, we found that no impairment would be required under these various scenarios.<br><br>As a final check, we compared the Group's net assets as at 31 December 2016 of $126 million to its market capitalisation of $1.09 billion, indicating there is no impairment. |

## *Other information*

The directors are responsible for the other information. The other information comprises the VHA Key Operational Highlights 2016, Financial Summary, Chairman's message, Board of Directors, Corporate Governance, Shareholder Information, Corporate Directory, Director's Report and Corporate Governance Report included in the Group's annual report for the year ended 31 December 2016 but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## *Responsibilities of the directors 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 gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

## *Auditor's responsibilities for the audit of the financial report*

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_files/ar2.pdf

This description forms part of our auditor's report.

# ***Report on the remuneration report***

## *Our opinion on the remuneration report*

We have audited the remuneration report included in pages 9 to 10 of the directors' report for the year ended 31 December 2016.

In our opinion, the remuneration report of Hutchison Telecommunications (Australia) Limited for the year ended 31 December 2016 complies with section 300A of the *Corporations Act 2001*.

## *Responsibilities*

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 Australian Auditing Standards.

PricewaterhouseCoopers

PricewaterhouseCoopers

DS Wiadrowski

DS Wiadrowski
Partner

Sydney
23 February 2017