

## Australian Mobile market

### CY06 mobile market review- the Biggest Loser

- **Mobile revenue growth** of 9% remained relatively robust during the year ending December 2006, although this was inflated by Telstra's abnormal equipment revenue contribution during the year. The more representative Service revenues (exc. equipment sales) were up +7.6% in 2006, slightly down from 2005.
- **Spiraling SACs and increasing capital intensity** (industry capex up 23% in 2006) as a result of a mature 2G market and a costly 3G migration, are having a negative impact on the returns of an already over-capitalized industry. We remain sceptical that the initial 3G ARPU is anything else than an early adopter phenomenon and therefore likely to be rapidly diluted once 3G penetration reaches category of the population with lower disposable income. The 20% decline in Hutchison's 3G ARPU over the last two years would tend to support our view.
- **Market shares winners and losers**- Optus was 'the biggest loser' in 2006 with a 1.4% revenue market share loss and 2.2% over two years, somewhat paying the price for protecting its historically high returns. Telstra lost 1ppt of service revenue market share in 2006 while its subscriber market share remained stable as a result of an aggressive and costly customer acquisition campaign in the Dec-06 half. Vodafone and Hutchison took a combined 3% revenue market share away from Telstra and Optus over the last two years. We expect these trends to continue in 2007 and beyond as we see no industry restructuring scenario which could rationalize the excess of invested capital currently at play in the Australian mobile industry.

#### Telecommunications Services

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Table 1: Australian Mobile market in 2006

	<u>Total Mobile</u>	<u>Service</u>	<u>Total Revenue</u>		<u>Services Revenue</u>		<u>Subscriber</u>		<u>Share of</u>	<u>SACs</u>	<u>EBITDA margins</u>		<u>Capex</u>
	<u>revenue growth</u>	<u>revenue growth</u>	<u>market share gain/ loss</u>		<u>market share gain/ loss</u>		<u>market share gain/ loss</u>		<u>net adds</u>				<u>growth</u>
	CY06	CY06	Dec 04- Dec 06	Dec 05- Dec 06	Dec 04- Dec 06	Dec 05- Dec 06	Dec 04- Dec 06	Dec 05- Dec 06	CY06	1H07	CY06	pcp change	CY06
Telstra	+10.0%	+5.9%	-0.5%	+0.4%	-1.8%	-0.7%	-1.2%	-0.7%	+30.2%	183	+35.0%	-10.0%	+52%
Optus	+4.4%	+3.9%	-2.2%	-1.4%	-2.8%	-1.2%	-2.0%	+0.2%	+37.0%	137	+36.1%	+0.7%	-9%
Vodafone	+12.5%	+13.2%	+1.4%	+0.5%	+1.8%	+0.9%	+1.8%	-0.3%	+12.3%	274	n/a	n/a	+9%
Hutchison	+15.6%	+22.0%	+1.2%	+0.5%	+2.8%	+1.0%	+1.4%	+0.8%	+20.5%		neg	nm	-1%
<b>Total industry</b>	<b>+8.9%</b>	<b>+7.6%</b>											<b>+23%</b>

Source: JPMorgan estimates, Company data.

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## Table of Contents

<b>Implications for TLS, SGT and HTA .....</b>	<b>3</b>
<b>Industry revenue growth.....</b>	<b>4</b>
<b>Total mobile revenue market shares (inc. equipment revenues) .....</b>	<b>5</b>
<b>Service revenue market shares (exc. equipment revenues).....</b>	<b>6</b>
<b>Subscriber market shares .....</b>	<b>7</b>
<b>Share of net adds .....</b>	<b>8</b>
<b>3G migration .....</b>	<b>9</b>
<b>SACs and margins.....</b>	<b>10</b>
<b>Capex.....</b>	<b>11</b>
<b>Notes on our methodology.....</b>	<b>12</b>

## Implications for TLS, SGT and HTA

### Telstra (TLS)

Representing 24% of total revenues and c.20% of EBITDA, mobile is one of Telstra's key earnings drivers. The aggressive 3G migration strategy currently pursued by Telstra is likely to continue to negatively impact mobile and group margins. The current level of handset subsidies spend by Telstra is unlikely to dramatically diminish in the near future as competitive responses from both Optus and Vodafone are likely to maintain acquisition and retention costs at a high level. Abnormal contribution from equipment revenues (up 56%) on the back of aggressive handset subsidies has enabled Telstra to stop the market share leakage temporarily. However Telstra continued to lose service revenue market share, losing 2% and 1% since Dec-04 and Dec-05 respectively.

We remain comfortable with our Mobile revenue CAGR of 6-7% over the next five years as we expect total revenue growth to trend back to service revenue growth over time. In the current context of aggressive mobile marketing spend by Telstra, we remain sceptical about the 5ppt margin turnaround between now and 2010 as implied by the company's long term guidance. We retain our Underweight recommendation on Telstra with a A\$3.97 per share valuation.

### Optus (SGT)

Optus Mobile EBITDA represents 80% of Optus' EBITDA and 26% of Singtel's proportionate EBITDA and is therefore a significant earnings driver for the stock. Although Optus managed to maintain its subscriber market share stable in 2006, more importantly in our view, it lost 1.4ppt of revenue over the last year and 2.2ppt over the last two years. Over the two year period, Optus also lost 3ppt of service revenue market share. Whilst protecting historically high returns has been the priority so far, we believe this revenue market share leakage will require a competitive response from Optus and probably some sacrifice in mobile margins level.

In terms of implication for the Singtel stock, Optus has successfully 'limited the damage' so far, effectively staying above the floor it set to its earnings decline in FY07. However we believe Optus' ability to maintain stable mobile margins in FY07 should not automatically be extrapolated into the future as we believe the protection of Optus' market position is likely to cause mobile margin erosion.

### Hutchison (HTA)

Whilst HTA continued to show good customer acquisition momentum taking 20% of the industry net adds in CY06, the company is facing a problematic combination (i) on one hand rapidly declining 3G ARPU down 10% yoy (ii) on the other Subscriber Acquisition Costs not expected to decline much further as Handset costs have reach a plateau. Consequently we remain Underweight with a A\$0.18 per share valuation.

## Industry revenue growth

- Total revenue growth (inc. equipment revenue) for the Australian mobile industry was 8.9% in 2006, representing a slight acceleration from 8.1% in 2005.
- However this was largely driven by growth in equipment revenues up 19% in 2006 at the industry level. This was solely driven by Telstra whose equipment revenues were up 56% in 2006 or A\$219m. Over the same period, Telstra spent A\$710m in handset subsidies costs compared to A\$395m in 2005, up 80% yoy.
- Service revenues growth (voice & data services but excluding equipment revenues) was actually down to 7.6% in 2006 from 8.3% in 2005. We believe this constitutes a more representative trend in the Australian mobile market where voice and SMS discounting continues to dominate the competitive environment.
- We note however that this level of revenue growth in Australia compares relatively favorably with the Eurozone (+5-6%), reflecting in our view the strength of the Australian economy overall.

Table 2: Revenue growth- total mobile and Service

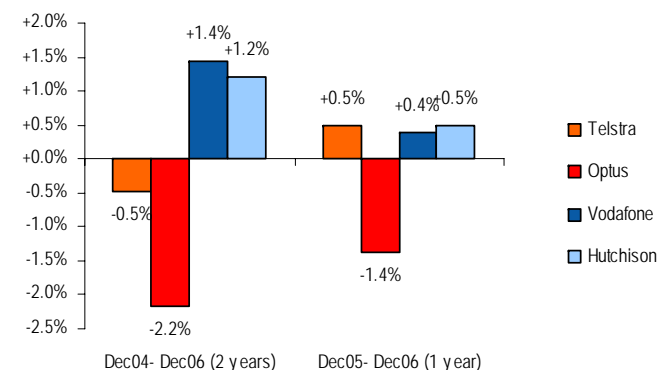
Mobile revenues- in A\$m	1H04 Dec-03	2H04 Jun-04	FY04 Jun-04	1H05 Dec-04	2H05 Jun-05	FY05 Jun-05	1H06 Dec-05	2H06 Jun-06	FY06 Jun-06	1H07 Dec-06	CY04 Dec-04	CY05 Dec-05	CY06 Dec-06	% growth	
														2004-05	2005-06
<b>Total Mobile Revenues (inc. equipment revenues)</b>															
Telstra	2196	2167	4363	2388	2320	4,708	2502	2505	5,007	2798	4,555	4,822	5,303	5.9%	10.0%
Optus	1758	1788	3546	1968	1914	3,882	2061	2007	4,068	2141	3,756	3,975	4,148	5.8%	4.4%
Vodafone	778	827	1604	864	920	1,784	1011	1043	2,054	1129	1,691	1,931	2,172	14.2%	12.5%
Hutchison	217	307	524	461	445	906	472	491	962	569	768	916	1,059	19.3%	15.6%
<b>Total Mobile Market Rev.</b>	<b>4,949</b>	<b>5,089</b>	<b>10,037</b>	<b>5,681</b>	<b>5,598</b>	<b>11,279</b>	<b>6,046</b>	<b>6,045</b>	<b>12,091</b>	<b>6,637</b>	<b>10,770</b>	<b>11,644</b>	<b>12,682</b>	<b>8.1%</b>	<b>8.9%</b>
<b>Service Revenue (excluding equipment revenues)</b>															
Telstra	2010	2001	4,011	2190	2137	4,327	2291	2249	4540	2441	4191	4428	4690	5.7%	5.9%
Optus	1577	1632	3,209	1718	1672	3,390	1785	1730	3515	1862	3350	3457	3592	3.2%	3.9%
Vodafone	704	748	1,451	782	833	1,614	917	943	1860	1037	1529	1749	1980	14.4%	13.2%
Hutchison	152	217	369	306	364	671	394	424	818	501	523	758	925	44.9%	22.0%
<b>Total Mobile Service Rev.</b>	<b>4443</b>	<b>4598</b>	<b>9,040</b>	<b>4996</b>	<b>5006</b>	<b>10,002</b>	<b>5386</b>	<b>5346</b>	<b>10,733</b>	<b>5841</b>	<b>9,593</b>	<b>10,392</b>	<b>11187</b>	<b>8.3%</b>	<b>7.6%</b>
<b>Equipment Revenues</b>															
Telstra	186	166	352	198	183	381	211	256	467	357	364	394	613	8.2%	55.6%
Optus	181	156	337	250	242	492	276	277	553	279	406	518	556	27.6%	7.3%
Vodafone	74	79	153	83	87	170	95	99	194	92	162	182	191	12.5%	5.3%
Hutchison	65	90	155	155	80	235	78	67	144	68	245	158	134	-35.4%	-15.2%
<b>Total Mobile Service Rev.</b>	<b>506</b>	<b>491</b>	<b>997</b>	<b>685</b>	<b>592</b>	<b>1,278</b>	<b>660</b>	<b>699</b>	<b>1,359</b>	<b>795</b>	<b>1,176</b>	<b>1,252</b>	<b>1494</b>	<b>6.4%</b>	<b>19.4%</b>

Source: JPMorgan estimates, Company data.

## Total mobile revenue market shares (inc. equipment revenues)

- In terms of total mobile revenue market in 2006, Telstra gained +0.4%, Optus lost 1.4% and Vodafone and Hutchison gained +0.5% each. Over the 2 year period (Dec04 to Dec-06), Telstra lost -0.5%, Optus lost 2.2%, Vodafone 1.4% and Hutchison gained +1.2% total revenue market share.
- Optus clearly stands out as the biggest loser over the last 12 or 24 months with material market share loss.
- Telstra has clawed back in 2006 about half of the market it had lost in the previous years. However this was again biased by abnormal growth in equipment revenues on the back of aggressive handset subsidies.
- Vodafone and Hutchison continued to erode the incumbent's dominance with a combined 3ppt gain over two years

Figure 1: Total mobile revenue market share changes



Source: JPMorgan estimates, Company data.

Table 3: Total mobile revenue market shares (including equipment revenues)

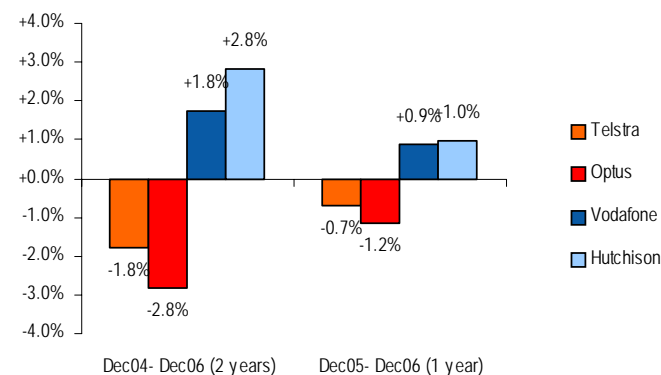
Total mobile revenues	1H04 Dec-03	2H04 Jun-04	FY04 Jun-04	1H05 Dec-04	2H5 Jun-05	FY05 Jun-05	1H06 Dec-05	2H06 Jun-06	FY06 Jun-06	1H07 Dec-06	CY04 Dec-04	CY05 Dec-05	CY06 Dec-06	Change	
														Last 2 years	Last year
<b>Total mobile revenues (inc. equipment revenues- in A\$m)</b>															
Telstra	2196	2167	4363	2388	2320	4,708	2502	2505	5,007	2798	4,555	4,822	5,303		
Optus	1758	1788	3546	1968	1914	3,882	2061	2007	4,068	2141	3,756	3,975	4,148		
Vodafone	778	827	1604	864	920	1,784	1011	1043	2,054	1129	1,691	1,931	2,172		
Hutchison	217	307	524	461	445	906	472	491	962	569	768	916	1,059		
<b>Total</b>	<b>4,949</b>	<b>5,089</b>	<b>10,037</b>	<b>5,681</b>	<b>5,598</b>	<b>11,279</b>	<b>6,046</b>	<b>6,045</b>	<b>12,091</b>	<b>6,637</b>	<b>10,770</b>	<b>11,644</b>	<b>12,682</b>		
<b>Total mobile revenue market share (inc. equipment rev.)</b>															
Telstra	44.4%	42.6%	43.5%	42.0%	41.4%	41.7%	41.4%	41.4%	41.4%	42.2%	42.3%	41.4%	41.8%	-0.5%	+0.4%
Optus	35.5%	35.1%	35.3%	34.6%	34.2%	34.4%	34.1%	33.2%	33.6%	32.3%	34.9%	34.1%	32.7%	-2.2%	-1.4%
Vodafone	15.7%	16.2%	16.0%	15.2%	16.4%	15.8%	16.7%	17.2%	17.0%	17.0%	15.7%	16.6%	17.1%	+1.4%	+0.5%
Hutchison	4.4%	6.0%	5.2%	8.1%	7.9%	8.0%	7.8%	8.1%	8.0%	8.6%	7.1%	7.9%	8.4%	+1.2%	+0.5%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	-	-

Source: JPMorgan estimates, Company data.

## Service revenue market shares (exc. equipment revenues)

- When excluding equipment revenues, Telstra lost -1.8% and -0.6% of market share over the last 24 and 12 months respectively.
- Optus remains the biggest loser with market share loss of 1.1% in 2006. Over a two year period, Optus lost 3ppt of service revenue market share. We believe this reflects Optus' particularly high exposure to cap plans and mobile termination revenues with termination rate cut from 21 to 12cps within 3 years.
- Hutchison has been the primary beneficiary of Optus' loss with a 3ppt gain over two years. Vodafone also gained 2ppt over the same period

Figure 2: Service Revenue Market share changes



Source: JPMorgan estimates, Company data.

Table 4: Service revenue market shares (excluding equipment revenues)

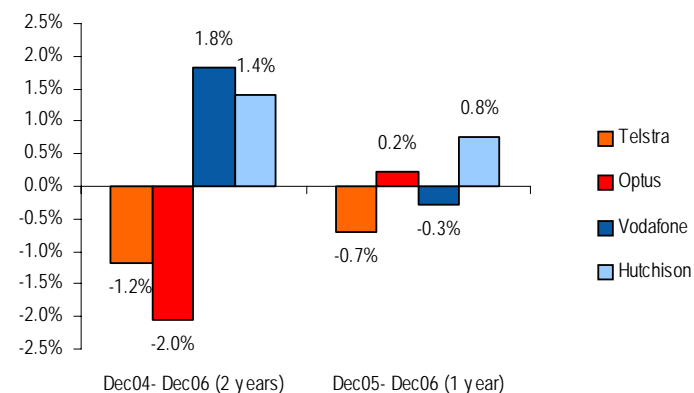
Service revenues	1H04 Dec-03	2H04 Jun-04	FY04 Jun-04	1H05 Dec-04	2H5 Jun-05	FY05 Jun-05	1H06 Dec-05	2H06 Jun-06	FY06 Jun-06	1H07 Dec-06	CY04 Dec-04	CY05 Dec-05	CY06 Dec-06	Change Last 2 years	Last year
Service revenues (exc. Equipment revenues- in A\$m)															
Telstra	2010	2001	4,011	2190	2137	4,327	2291	2249	4540	2441	4191	4428	4690		
Optus	1577	1632	3,209	1718	1672	3,390	1785	1730	3515	1862	3350	3457	3592		
Vodafone	704	748	1,451	782	833	1,614	917	943	1860	1037	1529	1749	1980		
Hutchison	152	217	369	306	364	671	394	424	818	501	523	758	925		
<b>Total</b>	<b>4443</b>	<b>4598</b>	<b>9,040</b>	<b>4996</b>	<b>5006</b>	<b>10,002</b>	<b>5386</b>	<b>5346</b>	<b>10,733</b>	<b>5841</b>	<b>9,593</b>	<b>10,392</b>	<b>11187</b>		
% growth				12.5%	8.9%	10.6%	7.8%	6.8%	7.3%	8.4%		8.3%	7.6%		
Service revenues market shares (exc. Equipment revenues)															
Telstra	45.2%	43.5%	44.4%	43.8%	42.7%	43.3%	42.5%	42.1%	42.3%	41.8%	43.7%	42.6%	41.9%	-1.8%	-0.7%
Optus	35.5%	35.5%	35.5%	34.4%	33.4%	33.9%	33.1%	32.4%	32.8%	31.9%	34.9%	33.3%	32.1%	-2.8%	-1.2%
Vodafone	15.8%	16.3%	16.1%	15.6%	16.6%	16.1%	17.0%	17.6%	17.3%	17.8%	15.9%	16.8%	17.7%	+1.8%	+0.9%
Hutchison	3.4%	4.7%	4.1%	6.1%	7.3%	6.7%	7.3%	7.9%	7.6%	8.6%	5.5%	7.3%	8.3%	+2.8%	+1.0%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	-	-

Source: JPMorgan estimates, Company data.

## Subscriber market shares

- Whilst we do not overly emphasize subscriber market share because of the various bias (double counting, inactive subscribers, multi-SIM, etc.), it does however constitute a measure of relative customer acquisition momentum.
- In 2006, Telstra lost 0.7% ppt market share to Hutchison while both Optus and Vodafone's share were stable.
- However, over a 2 year period, Optus' lost 2ppt which implies that Optus lost significant market share in 2005.
- Both Vodafone and Hutchison continued to take material market share away from Telstra and Optus over the two year period

Figure 3: Subscribers Market share changes



Source: JPMorgan estimates, Company data.

Table 5: Subscriber market shares

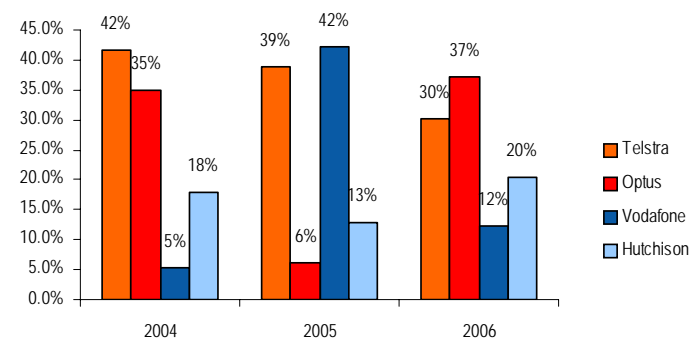
Subscribers	1H04	2H04	FY04	1H05	2H5	FY05	1H06	2H06	FY06	1H07	CY04	CY05	CY06	Change	
	Dec-03	Jun-04		Dec-04	Jun-05		Dec-05	Jun-06		Dec-06				Dec-04	Dec-05
<b>Subscribers (in 000s)</b>															
Telstra	6985	7604	7604	7983	8227	8227	8582	8529	8529	8892	7983	8582	8892	909	310
Optus	5365	5721	5721	6202	6026	6026	6297	6555	6555	6677	6202	6297	6677	475	380
Vodafone	2676	2498	2498	2804	3169	3169	3454	3420	3420	3580	2804	3454	3580	776	126
Hutchison	412	627	627	839	950	950	1035	1131	1131	1245	839	1035	1245	406	210
<b>Total Australian Mobile Subscribers</b>	<b>15,438</b>	<b>16,450</b>	<b>16,450</b>	<b>17,828</b>	<b>18,372</b>	<b>18,372</b>	<b>19,368</b>	<b>19,635</b>	<b>19,635</b>	<b>20,394</b>	<b>17,828</b>	<b>19,368</b>	<b>20,394</b>	<b>2566</b>	<b>1026</b>
Penetration Rate											88.2%	94.6%	98.3%		
<b>Subscribers market share</b>															
Telstra	45.2%	46.2%	46.2%	44.8%	44.8%	44.8%	44.3%	43.4%	43.4%	43.6%	44.8%	44.3%	43.6%	-1.2%	-0.7%
Optus	34.8%	34.8%	34.8%	34.8%	32.8%	32.8%	32.5%	33.4%	33.4%	32.7%	34.8%	32.5%	32.7%	-2.0%	0.2%
Vodafone	17.3%	15.2%	15.2%	15.7%	17.2%	17.2%	17.8%	17.4%	17.4%	17.6%	15.7%	17.8%	17.6%	1.8%	-0.3%
Hutchison	2.7%	3.8%	3.8%	4.7%	5.2%	5.2%	5.3%	5.8%	5.8%	6.1%	4.7%	5.3%	6.1%	1.4%	0.8%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	-	-

Source: JPMorgan estimates, Company data.

## Share of net adds

- It was a story of two halves for Telstra with the June 06 half seeing net customer attrition of 53k and the December half during which it took 48% of net adds on the back of its aggressive use of handset subsidies.
- Optus rebounded in 2006 from an abysmal 2005 performance (partly due to a restatement of the base) by taking the biggest share of the industry net adds in 2006- 37%.
- Hutchison maintained its good customer acquisition momentum taking 20% of net adds for the year
- In a sign of rapidly saturating market, the industry added just over 1m subscribers in 2006 compared to 2.4 and 1.5m in 2004 and 2005 respectively.

Figure 4: Share of net adds



Source: JPMorgan estimates, Company data.

Table 6: Subscriber- share of net adds

Subscribers net adds	1H04 Dec-03	2H04 Jun-04	FY04 Jun-04	1H05 Dec-04	2H5 Jun-05	FY05 Jun-05	1H06 Dec-05	2H06 Jun-06	FY06 Jun-06	1H07 Dec-06	CY04 Dec-04	CY05 Dec-05	CY06 Dec-06	Change Since Dec-05	Change Since Dec-06
<b>Subscribers Net Additions (in 000s)</b>															
Telstra Net Ads				379	244	623	355	-53	302	363	998	599	310		
Optus Net Ads				481	-176	305	271	258	529	122	837	95	380		
Vodafone Net Ads				306	365	671	285	-34	251	160	128	650	126		
Hutchison Net Ads				213	111	324	85	96	181	114	427	196	210		
<b>Total Industry Net Ads</b>				<b>1,379</b>	<b>544</b>	<b>1923</b>	<b>996</b>	<b>267</b>	<b>1263</b>	<b>759</b>	<b>2390</b>	<b>1540</b>	<b>1026</b>		
<b>Share of Net Additions</b>															
Telstra				27.5%	44.9%	32.4%	35.6%	-19.9%	23.9%	47.8%	41.8%	38.9%	30.2%		Down
Optus				34.9%	-32.4%	15.9%	27.2%	96.6%	41.9%	16.1%	35.0%	6.2%	37.0%		Up
Vodafone				22.2%	67.1%	34.9%	28.6%	-12.7%	19.9%	21.1%	5.4%	42.2%	12.3%		Down
Hutchison				15.4%	20.4%	16.8%	8.5%	36.0%	14.3%	15.0%	17.9%	12.7%	20.5%		Up
<b>Total Industry Net Ads</b>				<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>		

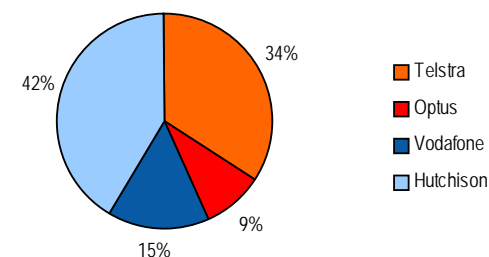
Source: JPMorgan estimates, Company data.



## 3G migration

- 3G subscribers represented 15% of the total industry as of December 2006 vs 4% a year before. 3G migration in 2006 was accelerated by:
  - Telstra's decision to aggressively use Handset subsidies to lift 3G take up. Telstra migrated 1m 3G subscribers within 12 months.
  - Hutchison's decision to shut down its CDMA network and migrate c.380k 2G subscribers onto 3G
- Telstra claimed a A\$20 ARPU uplift in its 3G subscriber base compared to 2G. While this is in line with Hutchison experience (3 ARPU of A\$67 compared to 2G of c.47), we note that 3 ARPU was down 10% yoy. We believe that the initial 3G ARPU uplift will erode as 3G penetration reaches beyond the early adopters/ high income category of the population.

Figure 5: 3G Subscribers market share



Source: JPMorgan estimates, Company data.

Table 7: 3G subscribers and market share

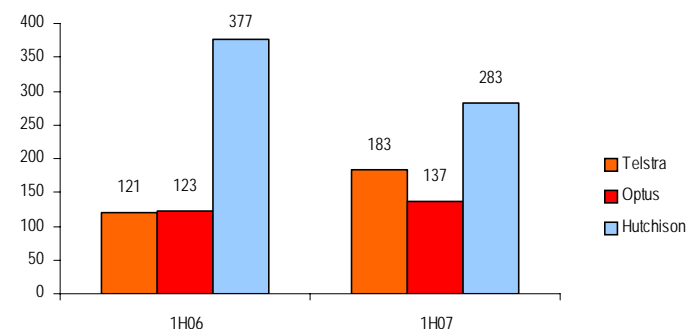
3G subscribers	FY05 Jun-05	1H06 Dec-05	2H06 Jun-06	FY06 Jun-06	1H07 Dec-06		CY04 Dec-04	CY05 Dec-05	CY06 Dec-06
<b>3G Subscribers</b>									
Telstra	-	20	317	317	1024		-	20	1024
Optus	-	-	184	184	276		-	-	276
Vodafone	-	100	347	347	450		-	100	450
Hutchison	532	654	1044	1044	1245			654	1245
<b>Total 3G Subscribers</b>	<b>532</b>	<b>774</b>	<b>1892</b>	<b>1892</b>	<b>2995</b>			<b>774</b>	<b>2995</b>
<b>As a % of Total mobile subscribers</b>	<b>3%</b>	<b>4%</b>	<b>10%</b>	<b>10%</b>	<b>15%</b>			<b>4%</b>	<b>15%</b>
<b>3G Market Share</b>									
Telstra	-	2.6%	16.8%	16.8%	34.2%			2.6%	34.2%
Optus	-	-	9.7%	9.7%	9.2%			-	9.2%
Vodafone	-	12.9%	18.3%	18.3%	15.0%			12.9%	15.0%
Hutchison	100%	84.5%	55.2%	55.2%	41.6%			84.5%	41.6%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>			<b>100.0%</b>	<b>100.0%</b>

Source: JPMorgan estimates, Company data.

## SACs and margins

- **SACs-** Telstra and Optus' SACs were up 51% and 10% respectively in 1H07 as 3G acquisition cost drive blended SACs higher. Broadly speaking, 3G SACs are approximately two times higher than 2G.
- While Hutchison SACs were significantly down on pcp, the company has warned that Handset costs had reach a plateau and therefore SACs are expected to remain flat in 2007.
- **Margins-** Telstra's aggressive 3G customer acquisition had a dramatic impact on profitability with EBITDA margins down 10ppt year on year. By contrast, Optus' more conservative approach to 3G migration has left its EBITDA margins relatively stable at 36%.
- As 3G migration continues, we expect the higher and *plateauing* 3G SACs to negatively impact mobile margins in 2007 and beyond.

Figure 6: Australian Mobile SACs



Source: JPMorgan estimates, Company data.

Table 8: SACs in the Australian mobile market

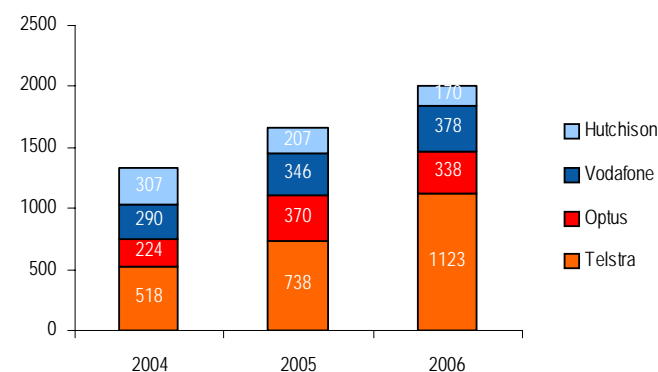
Subscribers	FY05 Jun-05	1H06 Dec-05	2H06 Jun-06	FY06 Jun-06	1H07 Dec-06	CY05 Dec-05	CY06 Dec-06
SAC							
Telstra	120	121	153	137	183	121	160
Optus	133.5	123	127	125	137	128	132
Vodafone	-	-	-	-	-	-	-
Hutchison	416	377	265	321	283	402	274
<b>Total Australian Mobile SACs</b>							

Source: JPMorgan estimates, Company data.

## Capex

- Mobile capex in 2006 just exceeded A\$2bn, up 21% yoy. Over the last 2 years, the total industry capex has increased by more than 50%.
- Telstra represented 56% of the total industry spend for 2006, largely driven by the NextG capex bill (c. A\$1bn).
- By comparison Optus' mobile capex bill was down by 9% yoy, reflecting the delayed spend with Optus only recently announcing an acceleration in its 3G spend
- Hutchison's capex spend was flat in 2006 as the company continues to spend to extend geographical coverage. We estimate that Vodafone spend for 2006 would have been marginally up on 2005.
- Overall, migration to 3G is causing the industry to spend material incremental capex without necessarily getting any evidence that the temporary uplift in 3G ARPU will stick.

Figure 7: Australian Mobile Capex 2004-2006



Source: JPMorgan estimates, Company data.

Table 9: Australian mobile Capex

Capex in A\$m	1H04 Dec-03	2H04 Jun-04	FY04 Jun-04	1H05 Dec-04	2H5 Jun-05	FY05 Jun-05	1H06 Dec-05	2H06 Jun-06	FY06 Jun-06	1H07 Dec-06	CY04 Dec-04	CY05 Dec-05	CY06 Dec-06	Change	
														% total	% growth
Capex															
Telstra	143	273	416	245	252	497	486	557	1043	566	518	738	1123	56%	+52%
Optus	143	137	280	87	186	273	184	197	381	141	224	370	338	17%	-9%
Vodafone	-	-	-	-	-	-	-	-	-	-	290	346	378	19%	+9%
Hutchison	146	199	345	108	148	256	59	76	135	128	307	207	204	8%	-1%
<b>Total Australian Mobile Capex</b>											<b>1339</b>	<b>1661</b>	<b>2043</b>	<b>100%</b>	<b>+23%</b>

Source: JPMorgan estimates, Company data.

## Notes on our methodology

- Our analysis of the Australian mobile market is based on reported data by the four mobile network operators at either the half year (TLS, HTA) or quarterly (Optus and Vodafone)
- The data reported by the four mobile carriers is now largely consistent:
  - Total mobile revenues aggregate service and equipment revenues. Vodafone's ARPU does not include equipment revenues and we therefore extrapolate the quarterly and half yearly number from Vodafone's statutory audited accounts.
  - Service revenues now include for all carriers both outbound and inbound revenues. Telstra used to report only inbound revenues but this is not the case any more.
  - Service revenues also include wholesale revenues i.e. revenues derived from resale or MVNOs agreement such as Virgin
  - Subscriber counts include restating of the customer base for some carriers as a result of reviews of inactive customers, change in inactivity period, etc.
  - Subscriber Acquisition Costs include both Handset subsidies as well as Promotional and Marketing costs. Historically and pre-IFRS, Telstra in particular used to amortize acquisition but this is not the case anymore. Half year SACs for Optus are derived using reported quarterly data weighted by the customer additions for the quarter.
  - Capex is cash capex as reported by the carriers. Vodafone December year-end is extrapolated using the reported capex figure in the statutory accounts
- Our analysis focuses on half years and Calendar Years (CY). The figures for 2006, 2005 and 2004 are aggregated using Half year and Quarterly numbers for the various companies are simply aggregated to derive calendar years numbers.
- All population statistics are from the latest Australian Bureau of Statistics survey

### Companies Recommended in This Report (all prices in this report as of market close on 05 March 2007)

Hutchison Telecommunications (Australia) (HTA.AX/A\$0.22/Underweight), Singapore Telecom (STEL.SI/S\$3.14/Overweight), Telstra Corporation (TLS.AX/A\$4.07/Underweight)

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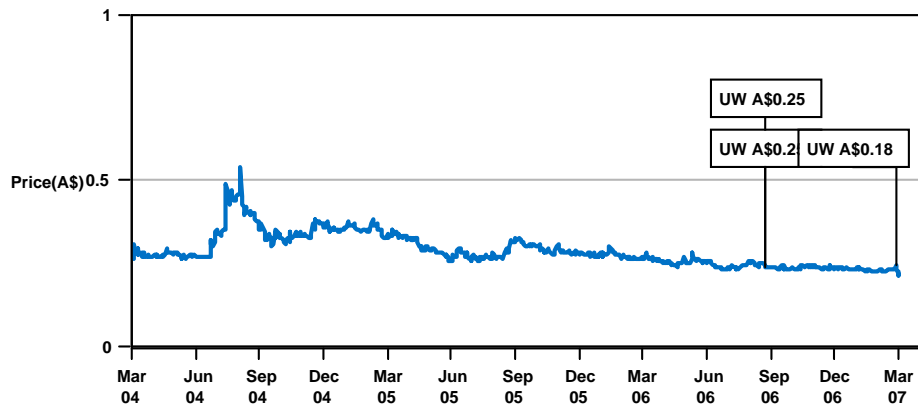
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Hutchison Telecommunications (Australia) (HTA.AX) Price Chart



Date	Rating	Share Price (A\$)	Price Target (A\$)
23-Aug-06	UW	0.24	0.25

Source: Reuters and JPMorgan; price data adjusted for stock splits and dividends.  
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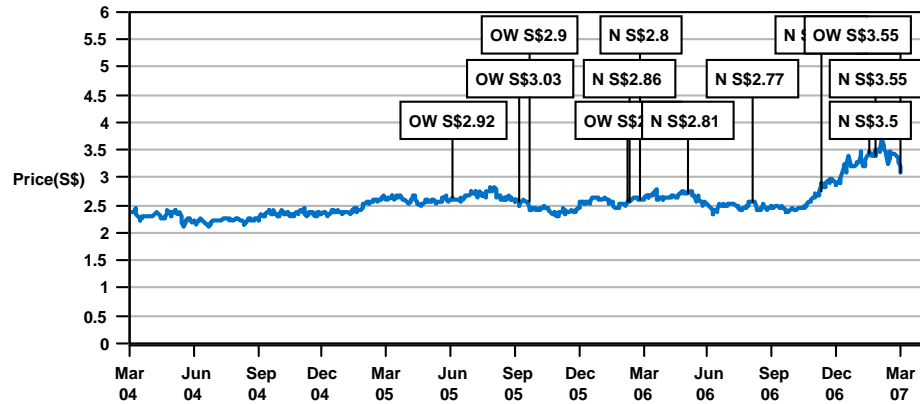
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**Singapore Telecom (STEL.SI) Price Chart**



Date	Rating	Share Price (S\$)	Price Target (S\$)
03-Jun-05	OW	2.63	2.92
09-Feb-06	N	2.57	2.86
02-Mar-07	OW	3.08	3.55

Source: Reuters and JPMorgan; price data adjusted for stock splits and dividends.  
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 JPMorgan ratings: OW = Overweight, N = Neutral, UW = Underweight.

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**Telstra Corporation (TLS.AX) Price Chart**



Date	Rating	Share Price (A\$)	Price Target (A\$)
15-Jun-06	N	3.71	3.92
18-Jan-07	UW	4.39	3.92

Source: Reuters and JPMorgan; price data adjusted for stock splits and dividends.  
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