

**HKT** Here To Serve



# 2013 Annual Results

*For the year ended December 31, 2013*

**February 26, 2014 – Hong Kong**

a **PCCW** Group member

# Forward-Looking Statements

This presentation may contain "forward-looking statements" that are not historical in nature. These forward-looking statements, which include, without limitation, statements regarding HKT's future results of operations, financial condition or business prospects, are based on the current beliefs, assumptions, expectations, estimates, and projections of the directors and management of HKT about the business, the industry and the markets in which HKT operates. These statements are not guarantees of future performance and are subject to risks, uncertainties and other factors, some of which are beyond HKT's control and are difficult to predict. Actual results could differ materially from those expressed, implied or forecasted in these forward-looking statements for a variety of factors.

# *Overview*

*Alex Arena*

*Group Managing Director*

(US\$ million)	<u>2012</u>	<u>2013</u>	% change
<i>Adjusted Funds Flow</i>	343	372	+ 8.6%
<i>Adjusted Funds Flow Per Share Stapled Unit (HK cents)</i>	41.64	45.21	

A Final Distribution of 24.21 HK cents per Share Stapled Unit has been declared

# *Financial Review*

*Susanna Hui*

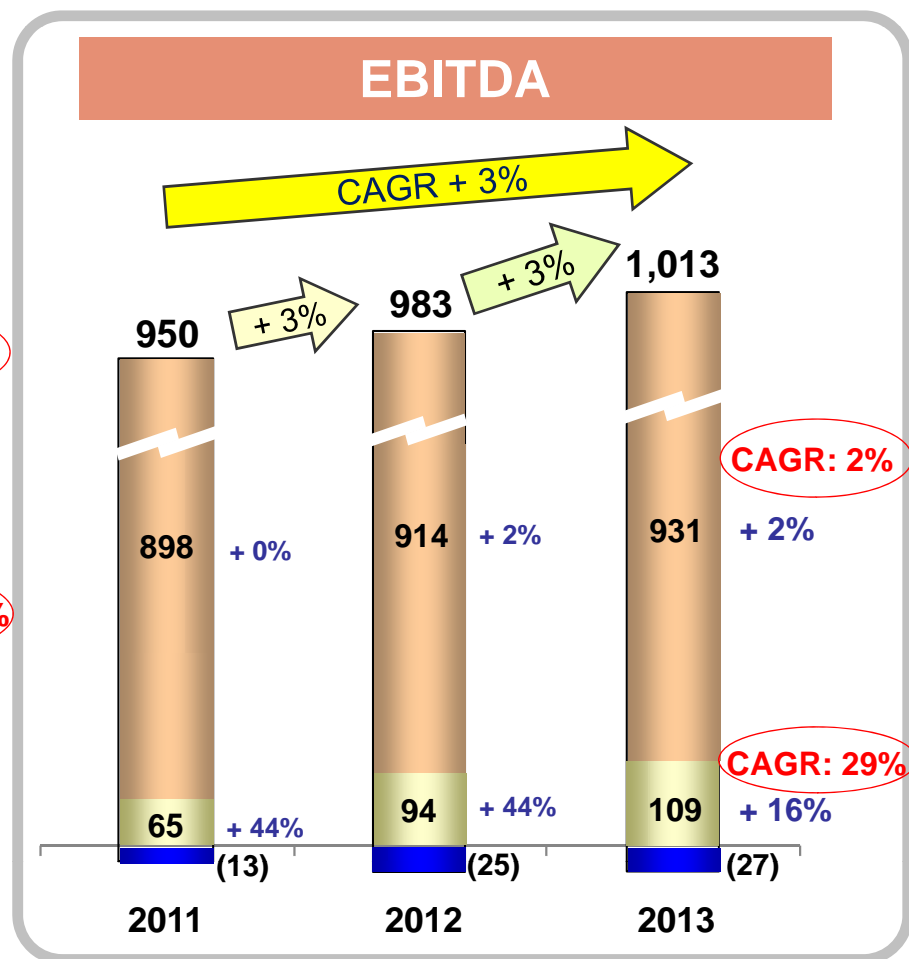
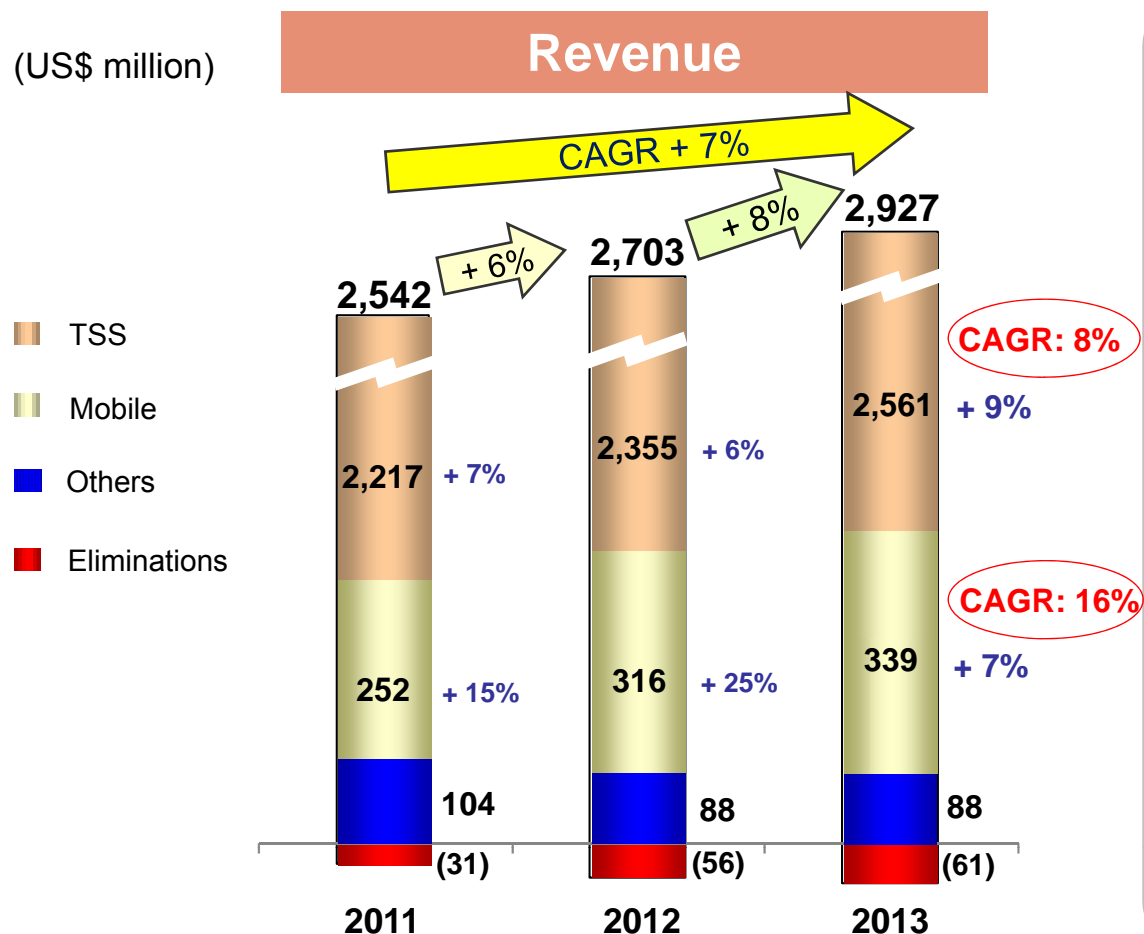
*Group Chief Financial Officer*

## Resilient Growth in EBITDA and AFF

(US\$ million)	<u>2012</u>	<u>2013</u>	% change
<i>Adjusted Funds Flow</i>	343	372	+ 8.6%
<i>Revenue</i>	2,703	2,927	+ 8.3%
<i>EBITDA</i>	983	1,013	+ 3.0%
<i>Profit</i> <i>Attributable to Holders of</i> <i>Share Stapled Units</i>	206	315	+ 52.8%

# Sustained Growth on Solid Fundamentals

(US\$ million)

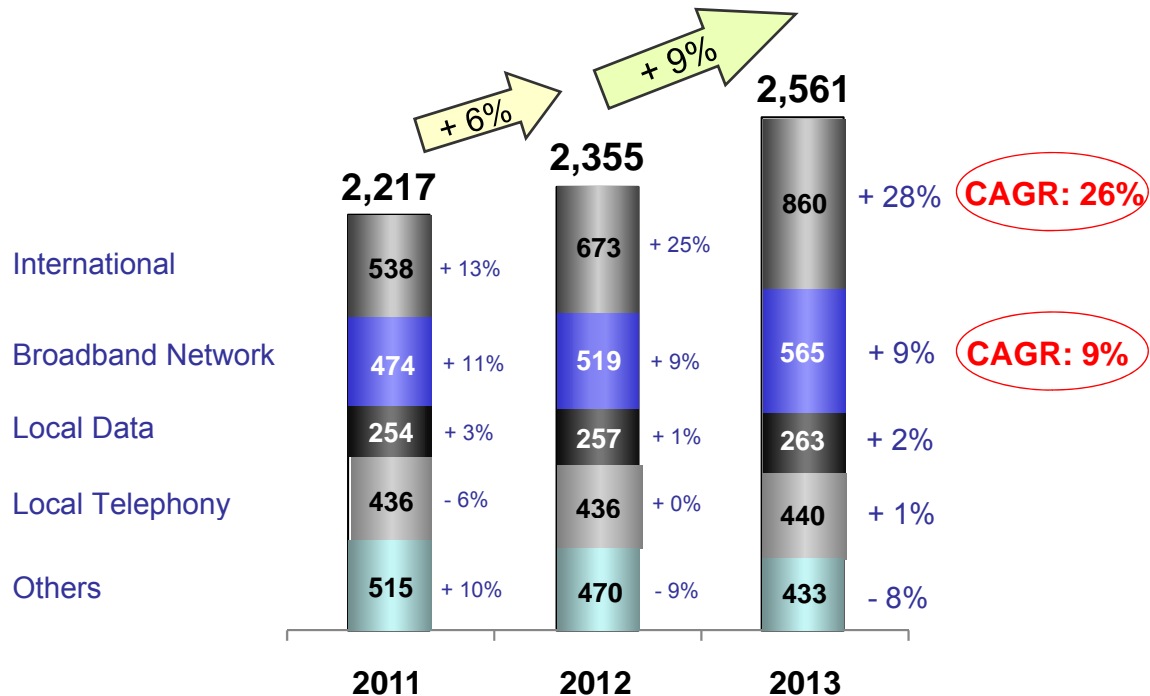


- **TSS delivering steady growth** – TSS revenue and EBITDA increased by 9% and 2% respectively, underpinned by the broadband and international businesses
- **Mobile growth momentum continues** – mobile revenue represented 12% of total HKT revenue (12% in 2012) and mobile EBITDA accounted for 11% of total HKT EBITDA (10% in 2012)

# Revitalized Growth within TSS

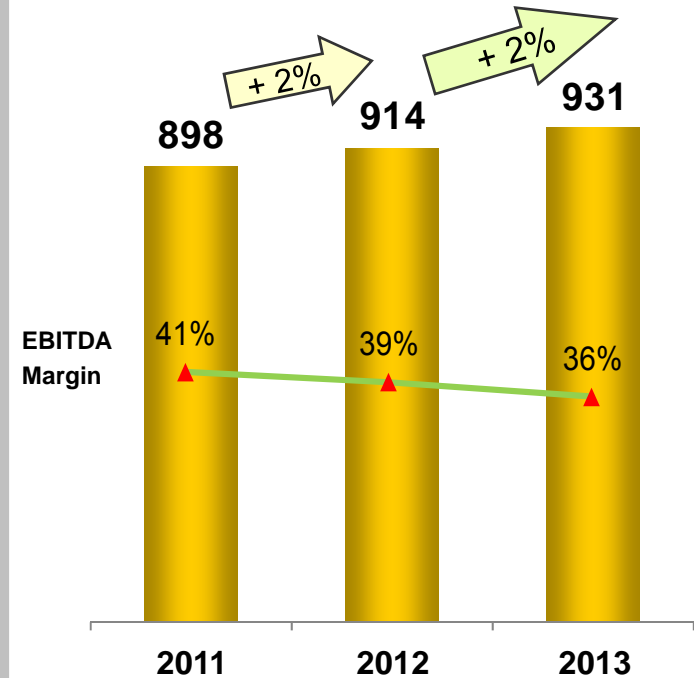
(US\$ million)

## TSS Revenue



- International – strong growth reflecting successful integration and full-year consolidation of the Gateway branded business in Europe and Africa as well as continued voice and data demand from customers
- Broadband – further fiber penetration into customer base driving growth
- Local Data – steady increase in revenue contribution
- Local Telephony – growth in retail fixed-line revenue driven by higher ARPU eye customer base
- Others – impacted by lower CPE sales

## TSS EBITDA



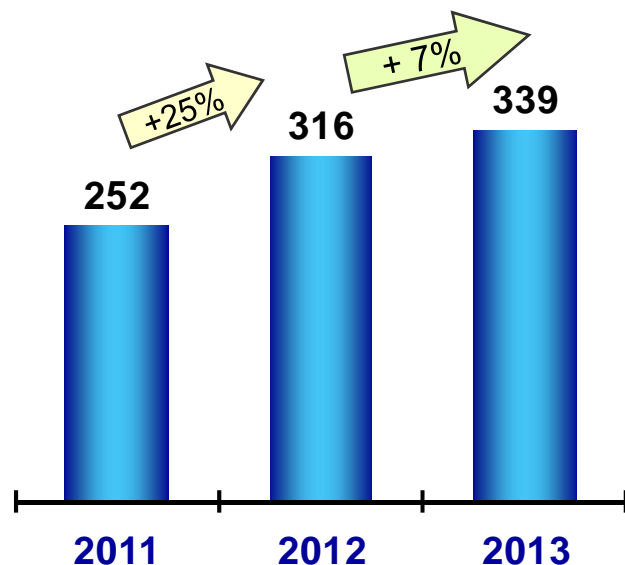
- EBITDA growth fueled by continued fiber sign-ups and upgrades
- Demonstrates strong market position and resilience of fixed line business



# Continued Momentum in Mobile Business

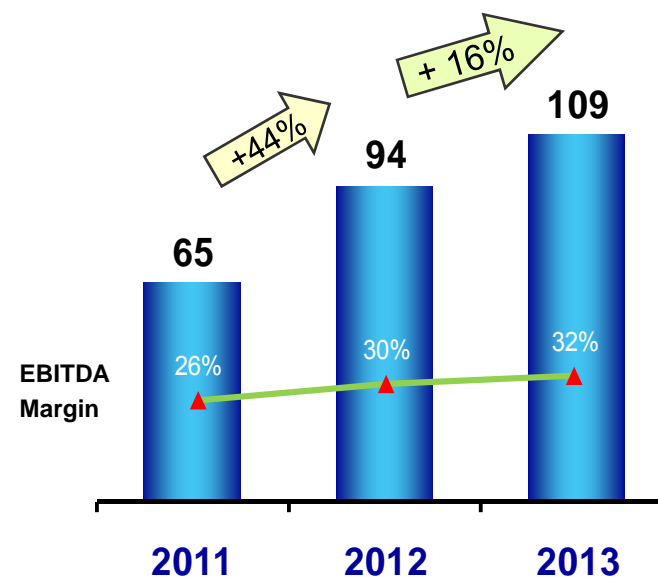
(US\$ million)

## Mobile Revenue



- Total mobile revenue up 7% driven by increase in service revenue and 18% data revenue growth
- Blended post-paid exit ARPU increased 2% from HK\$206 to HK\$210
- Slower growth due to increasing number of SIM only activations but is cashflow favorable

## Mobile EBITDA

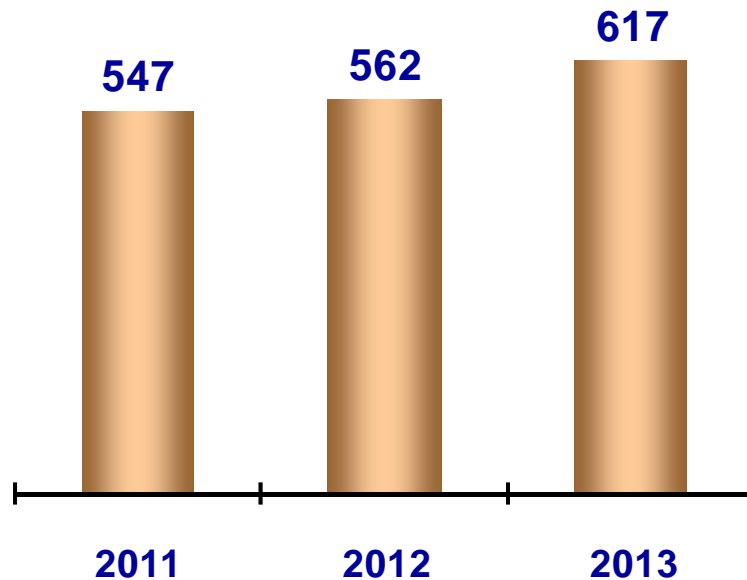


- Continued growth in EBITDA by 16% in 2013

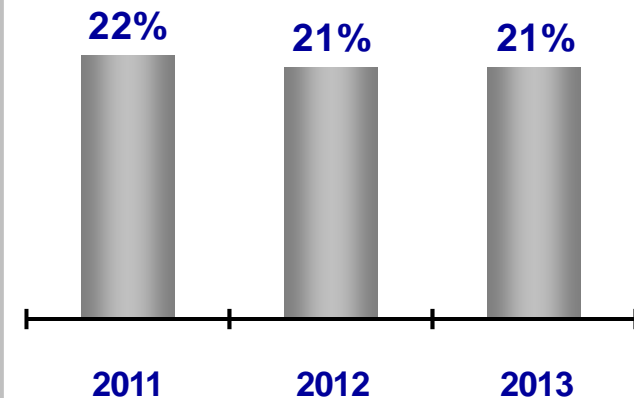
# Investing Prudently for Growth

(US\$ million)

## Operating Expenses



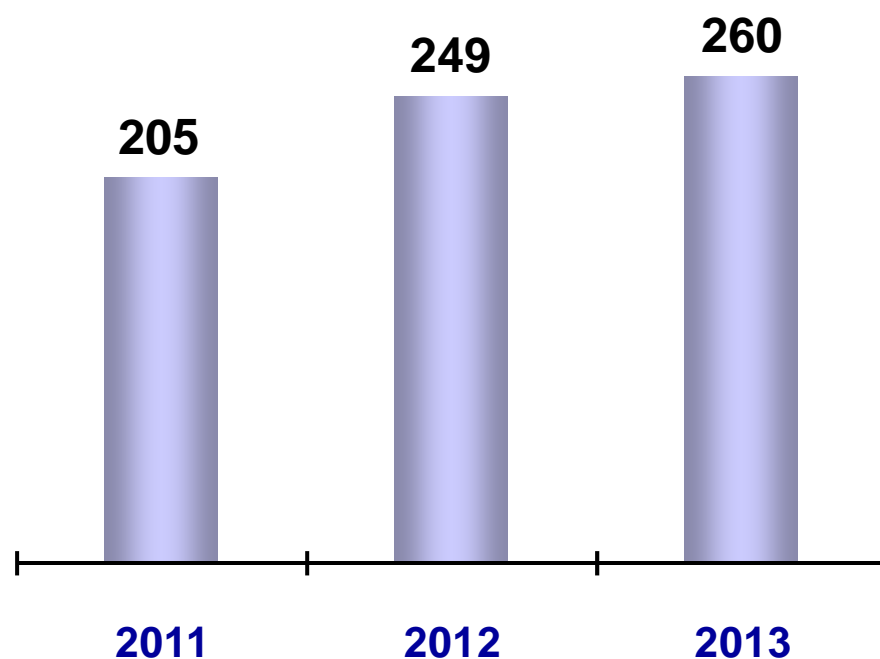
## Opex to Revenue Ratio



- Opex increased by 10% in 2013 – a combined result of the expansion in business and inflationary pressure on staff costs and rental expenses
- Contribution from the new business beginning to materialize
- Will continue to drive operating efficiency

# Demand-Driven Capex

(US\$ million)



- Focused on demand driven spending for fiber upgrades and to meet increasing mobile data usage
- Capex to revenue ratio continues to remain within the below 10% guidance

Capex to Revenue Ratio:      8%                      9%                      9%

# Adjusted Funds Flow

(US\$ million)	FY 2011	FY 2012	FY 2013	YoY
<b>EBITDA</b>	<b>950</b>	<b>983</b>	<b>1,013</b>	<b>+ 3.0%</b>
Less cash outflows in respect of:				
Customer acquisition costs and licence fees	(181)	(220)	(205)	
Capital expenditures	(201)	(244)	(254)	
<b>Adjusted Funds Flow before tax paid, net finance costs paid and changes in working capital</b>	<b>568</b>	<b>519</b>	<b>554</b>	<b>+ 6.8%</b>
Adjusted for:				
Tax payment	(17)	(26)	(42)	
Net finance costs paid	(170)	(93)	(88)	
Changes in working capital	(75)	(57)	(52)	
<b>Adjusted Funds Flow for the year</b>	<b>306</b>	<b>343</b>	<b>372</b>	<b>+ 8.6%</b>
<b>Adjusted Funds Flow per Share Stapled Unit (HK cents)</b>	<b>37.20</b>	<b>41.64</b>	<b>45.21</b>	
Interim Distribution (HK cents)	NA	20.06	21.00	
<b>Final Distribution (HK cents)</b>	<b>3.36</b>	<b>21.58</b>	<b>24.21</b>	
<b>Total Distribution for the year (HK cents)</b>	<b>3.36</b>	<b>41.64</b>	<b>45.21</b>	

# Income Statement

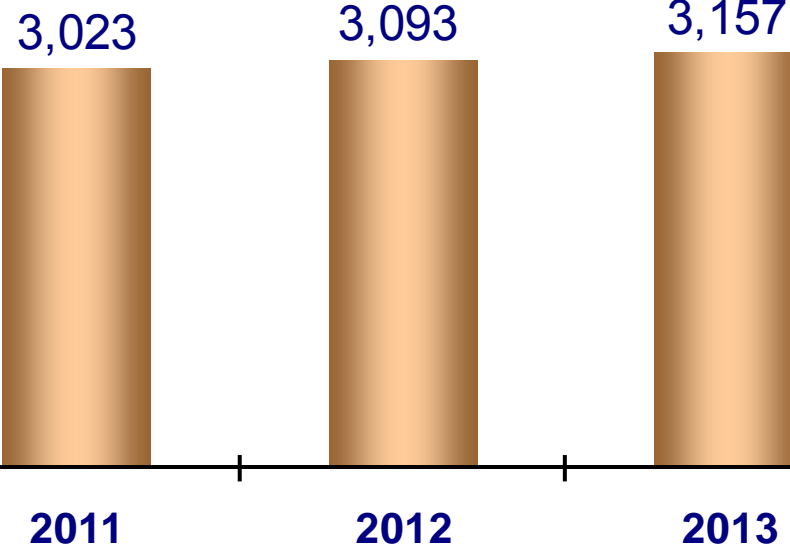
(US\$ million)	<u>2012</u>	<u>2013</u>	
<b>Turnover</b>	<b>2,703</b>	<b>2,927</b>	<b>+ 8.3%</b>
Cost of sales	(1,158)	(1,297)	
Opex	(562)	(617)	
<b>EBITDA</b>	<b>983</b>	<b>1,013</b>	<b>+ 3.0%</b>
<b>Depreciation &amp; Amortization expenses</b>	<b>(601)</b>	<b>(603)</b>	
Gain on disposal of fixed assets	—	2	
Net other gains	2	11	
<b>Net finance costs</b>	<b>(103)</b>	<b>(107)</b>	
Share of results of an associate & JVs	(10)	6	
Profit before income tax	271	322	<b>+ 18.9%</b>
<b>Income tax</b>	<b>(58)</b>	<b>(2)</b>	
<i>Effective tax rate</i>	<b>22%</b>	<b>1%</b>	
Profit for the year	213	320	
Attributable to:			
<b>Holders of Share Stapled Units</b>	<b>206</b>	<b>315</b>	<b>+ 52.8%</b>
Non-controlling interests	7	5	

# Sound Financial Position

## HKT Gross Debt <sup>(1),(2)</sup>

(US\$ million)

BBB/Baa2  
Investment  
Grade Rating



HKT Gross Debt / EBITDA<sup>(3)</sup>

3.2x

3.1x

3.1x

(1) HKT denotes HKT Trust and HKT Limited

(2) Gross debt refers to the principal amount of short-term and long-term borrowings

(3) Based on gross debt as at period end divided by EBITDA for the 12-month period

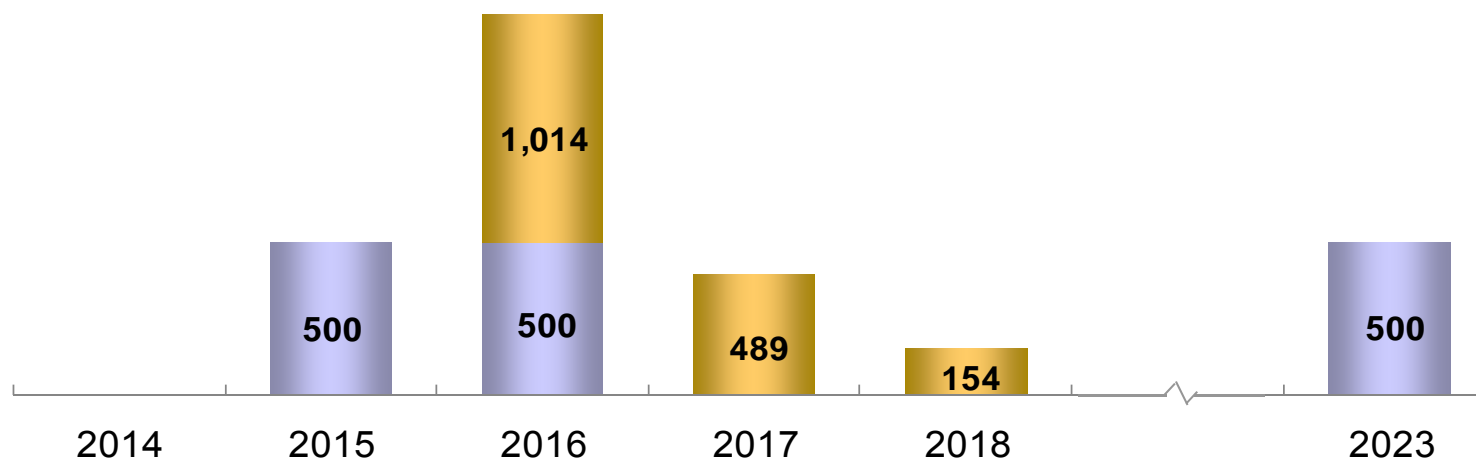
# Balanced Debt Maturity Profile and Mix

(US\$ million)

■ Bank Loans

■ US\$ Bonds

*As at December 31, 2013*



- Next debt repayment only due in 2015
- Maintain significant liquidity of US\$609 million in undrawn banking facilities
- Effective interest rate was approx. 3% in 2013

# ***Business Review***

***Alex Arena***

*Group Managing Director*

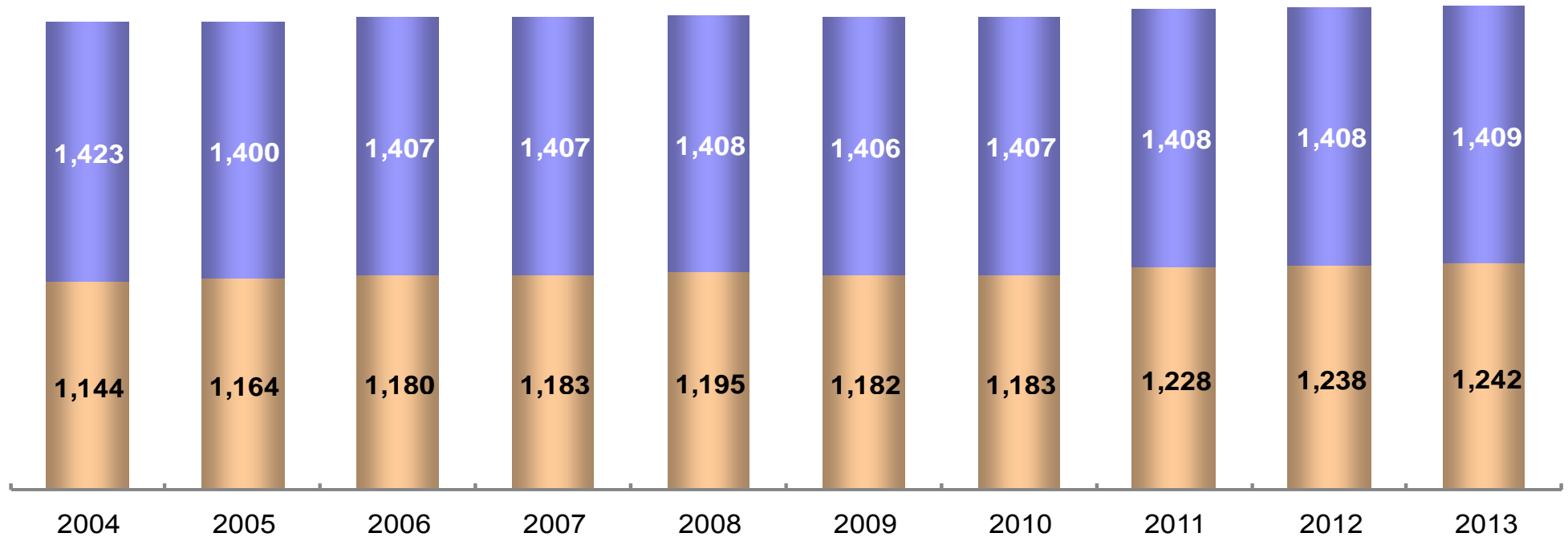


# Stable Fixed-line Business

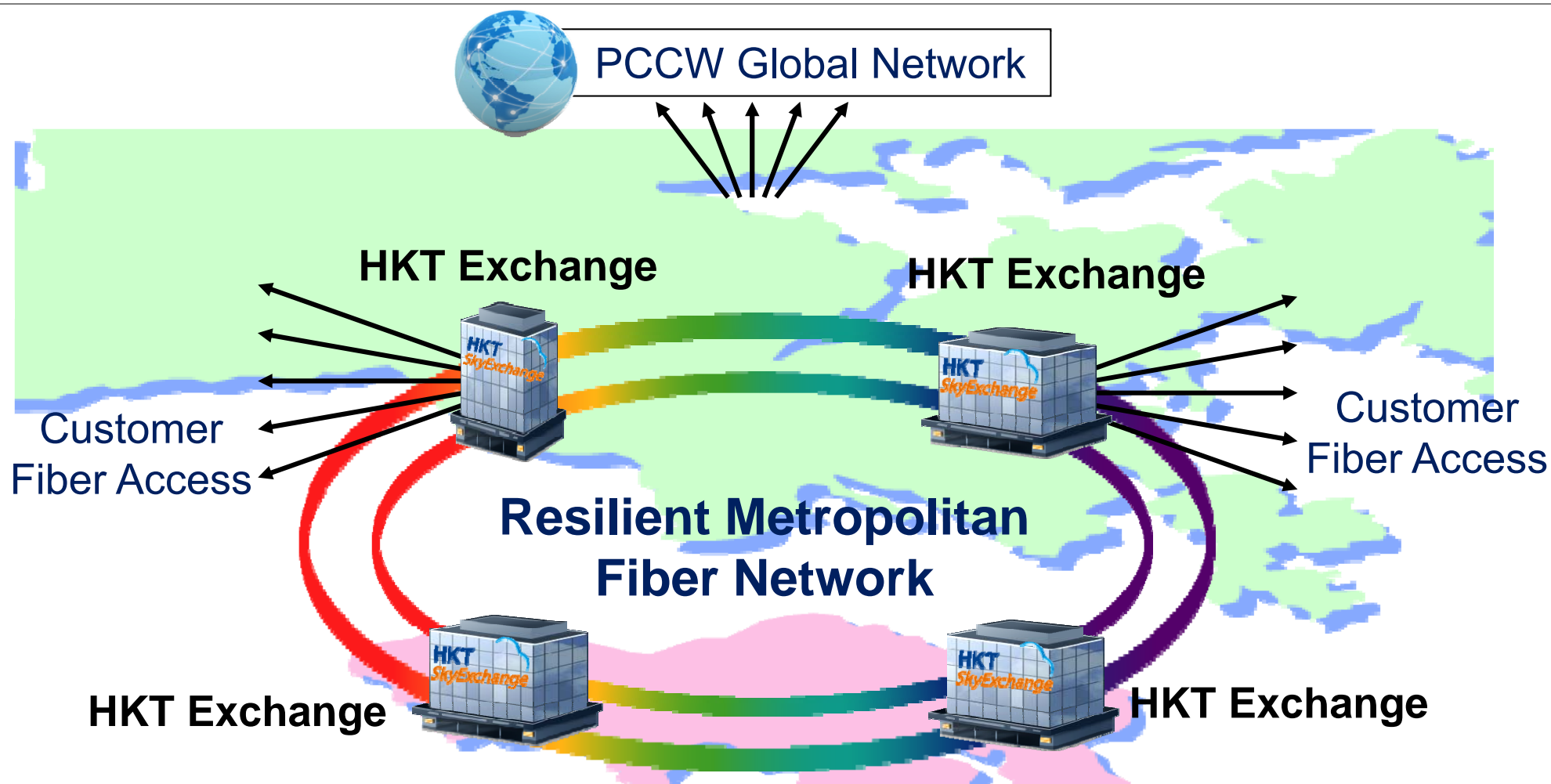
## Solid Customer Base Maintained Since 2004

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- Business Lines
- Residential Lines



# Complementing Fixed-line with Cloud Services



- Abundant Resilient Fiber Network Connectivity
- High Bandwidth, Low Latency, Secure Network for Cloud Applications

# Our Cloud Service Offerings



## SME Public Cloud

- ❑ Launched in November 2012
- ❑ Key features / functions to SMEs



Cloud  
Storage



Advanced  
Email

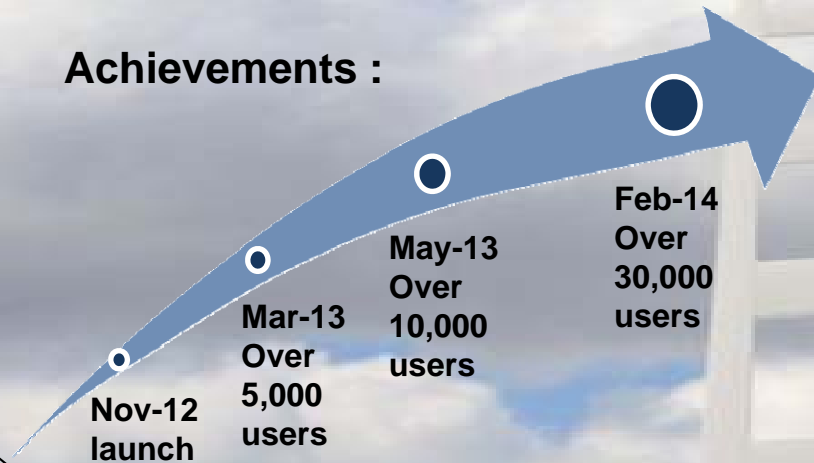


Web  
Meeting



Anti-DDoS

### Achievements :



## Enterprise Public Cloud

- ❑ Launched in June 2013
- ❑ Key features / functions
  - ❑ Multi-tenants based platform with virtual partitions enables maximum manageability & privacy
  - ❑ Multi-layered firewall policy setting enables highest level of security
  - ❑ Co-located with HKT data network core nodes & Internet platform for maximum throughput

### Achievements :

Signed up major customers in various key industries



Aviation



Catering



Publishing



Manufacturing



Security  
trading



Global food  
trading

# Cloud Platform also Enables HKT FMI Applications

## Examples:

### FMI Call Recording

Call Recording Service offers same user experience on Fixed and Mobile phones



- \* Customers can record calls without changing existing usage behavior across different communication devices
- \* Centralized records for easy management and control
- \* All call records are encrypted to meet stringent security standards

### Mobile Catalogue



Customers

- Product Visual
- Instant Quotation



Sales

- Paperless, just bring the tablet
- Search Hot Products
- Consistent information
- Send Quotations

- Centralized information update via Web Portal
- Cloud-based, instant update across all salesmen



Sales Admin

- Report by WebUI
- Product List
- Transactions
- Sales report

# Ubiquitous Access Cloud Platform



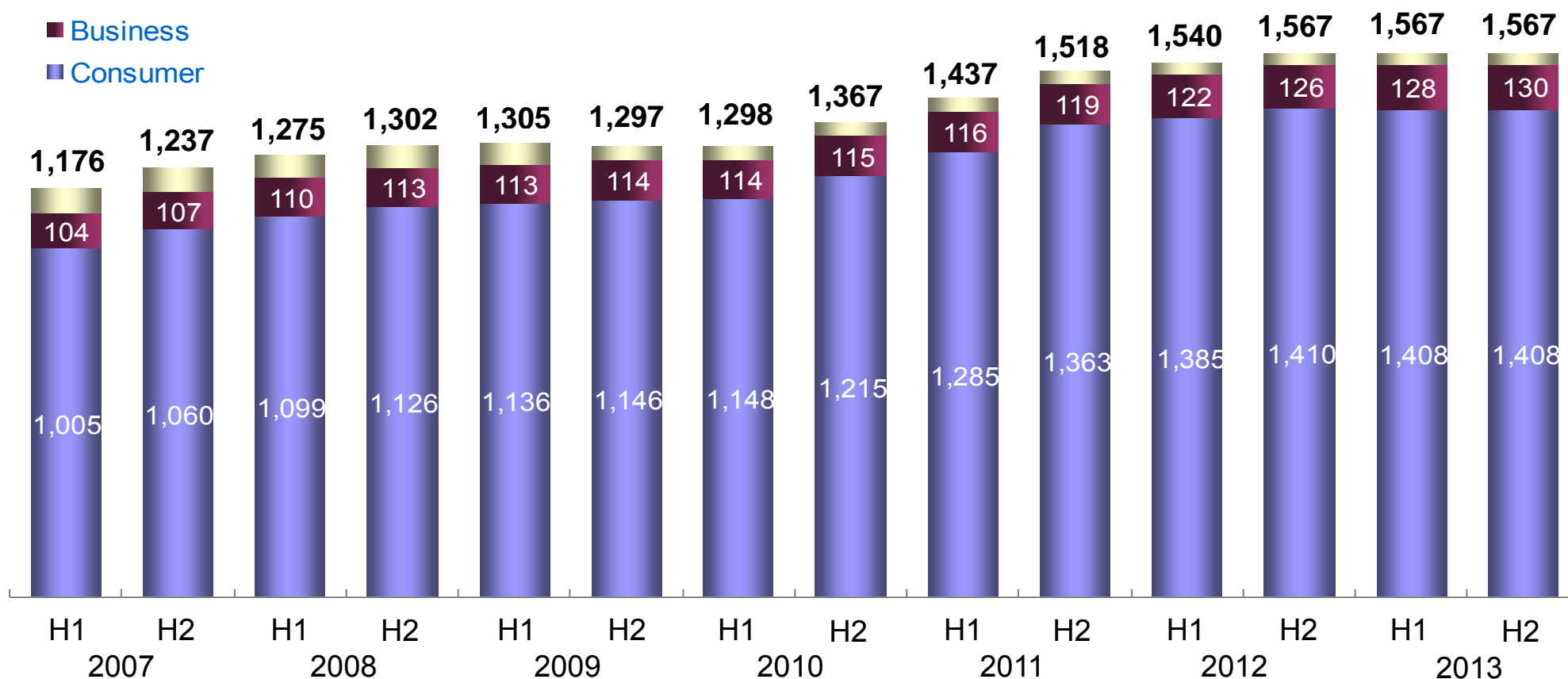
**HKT's Cloud Platform is Designed to Enable Access Through Multiple Devices Either in the Office, out of the Office or at Home**

# Consolidated Position in Broadband

- Consolidated broadband market position with churn rate of around 1%
- Industry dynamic has shifted from market share gain to value creation and ARPU growth

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■ Wholesale  
■ Business  
■ Consumer





# Wide Coverage of our Fiber Network



**真正「光纖入屋」寬頻**  
締造光纖城市 活現生活

**四大光纖優勢 唯您體驗**

- 真正「光纖入屋」寬頻覆蓋無間伸延
- 完美結合uHub雲端儲存服務
- now TV超高清提升電視娛樂享受
- 全面強化一站式智能家居服務

[www.netvigator.com](http://www.netvigator.com)

詳情請向銷售員查詢

**HKT**  
摯誠為你

**PCCW**  
電訊盈科  
香港電訊 - 電訊盈科集團成員

**FTTB-ready (86.6%)\***  
(supporting speeds of up to  
100Mbps)

**1.5M or above  
(98%)**

**FTTH-ready (79%)\*\***  
(supporting speeds up to  
1000Mbps)

(as of January 2014)

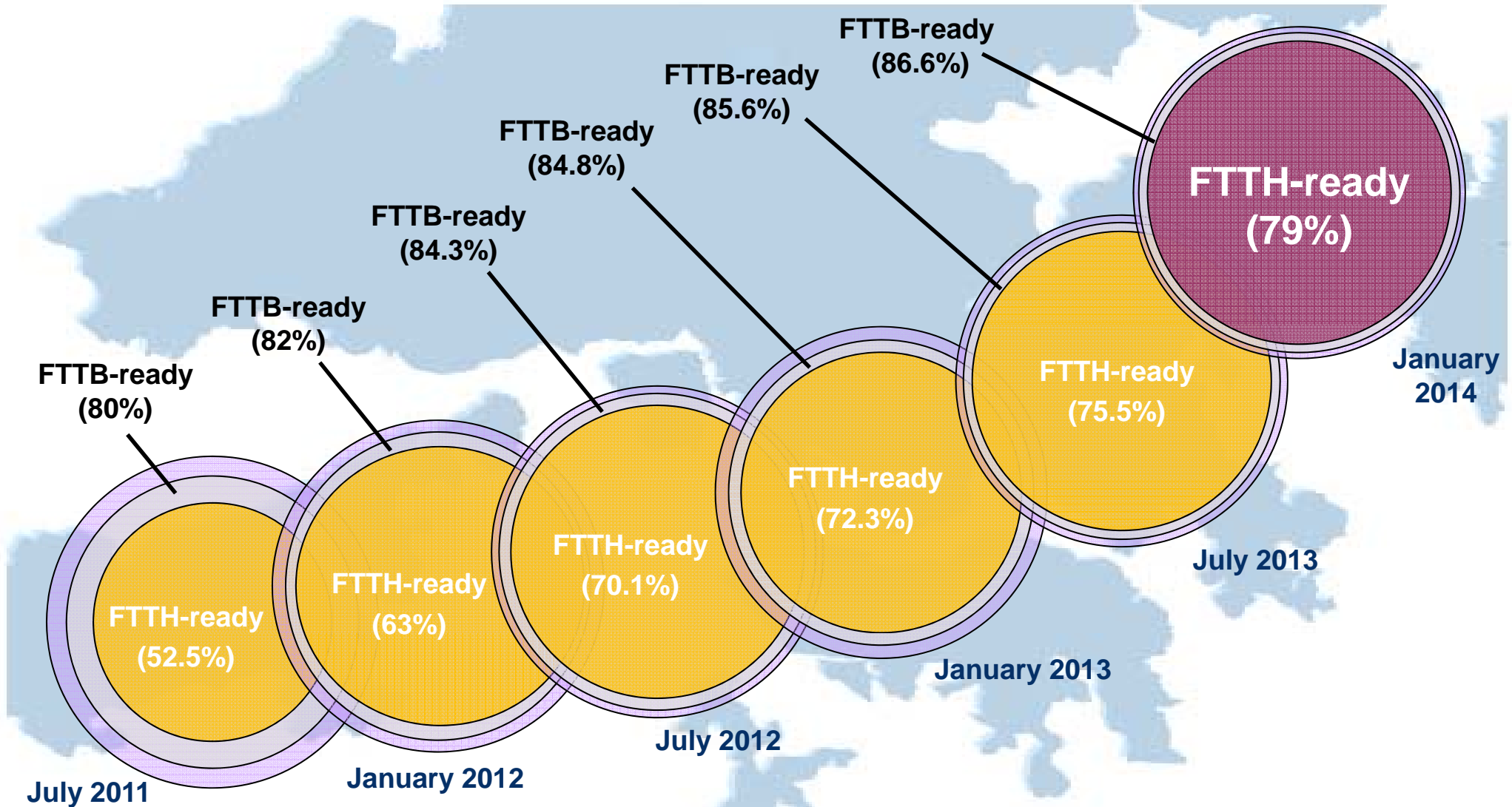
\* FTTB-ready means FTTH service can be available within 29 days of receiving a service order, building management access permitting

\*\* FTTH-ready means FTTH service can be available within 4 days of receiving a service order

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a **PCCW** Group member

# Rapid Expansion of our Fiber Network



**Rapid Rollout of our FTTx Network within Three Years**



# Continued Growth of Fiber Customers

**真正「光纖入屋」寬頻**  
締造光纖城市 活現生活

四大光纖優勢 唯您體驗

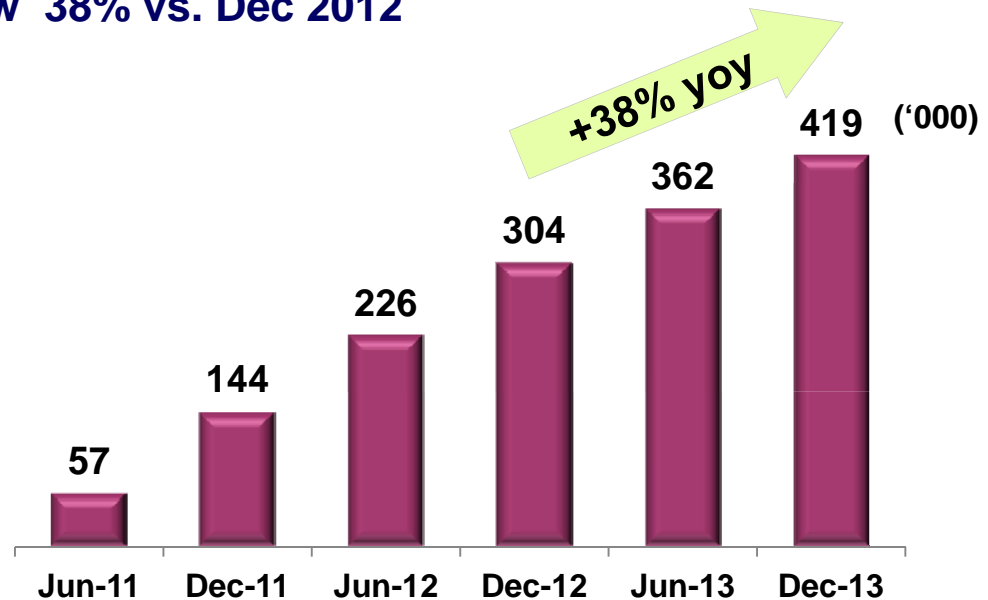
- 真正「光纖入屋」寬頻覆蓋無間伸延
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HKT 誠誠為你

PCCW 電訊盈科

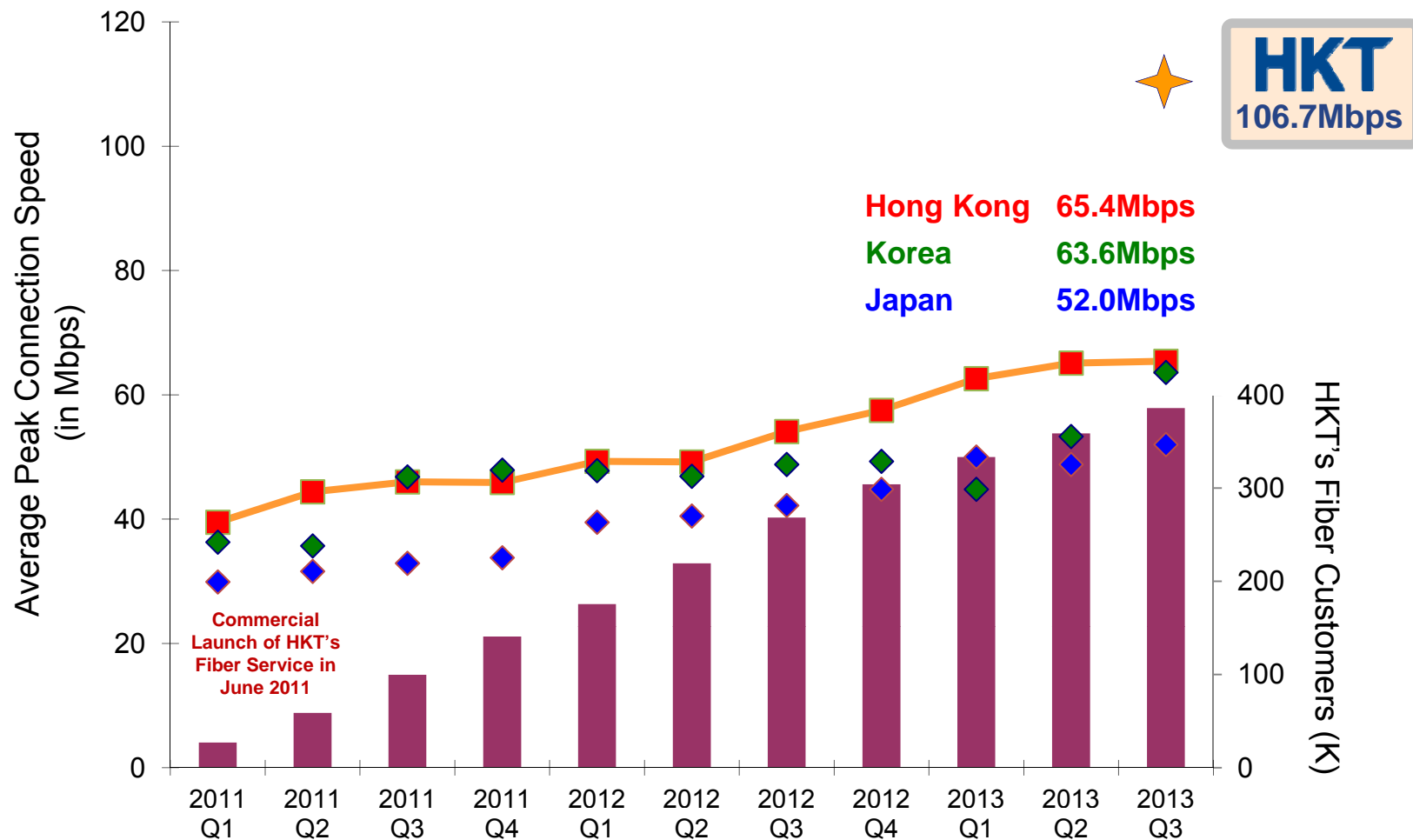
- Fiber-To-The-Home (FTTH) Service continued to attract new customers and existing customers for service upgrade
- 419K customers enjoying FTTH service as of Dec 2013, grew 38% vs. Dec 2012



- Growing fiber customer base creates future upgrade opportunity to higher speed, higher price service plans
- 548K customer enjoying high speed service (FTTH and VDSL) as of Dec 2013

# Hong Kong Remains No.1 in the World for Internet Speed

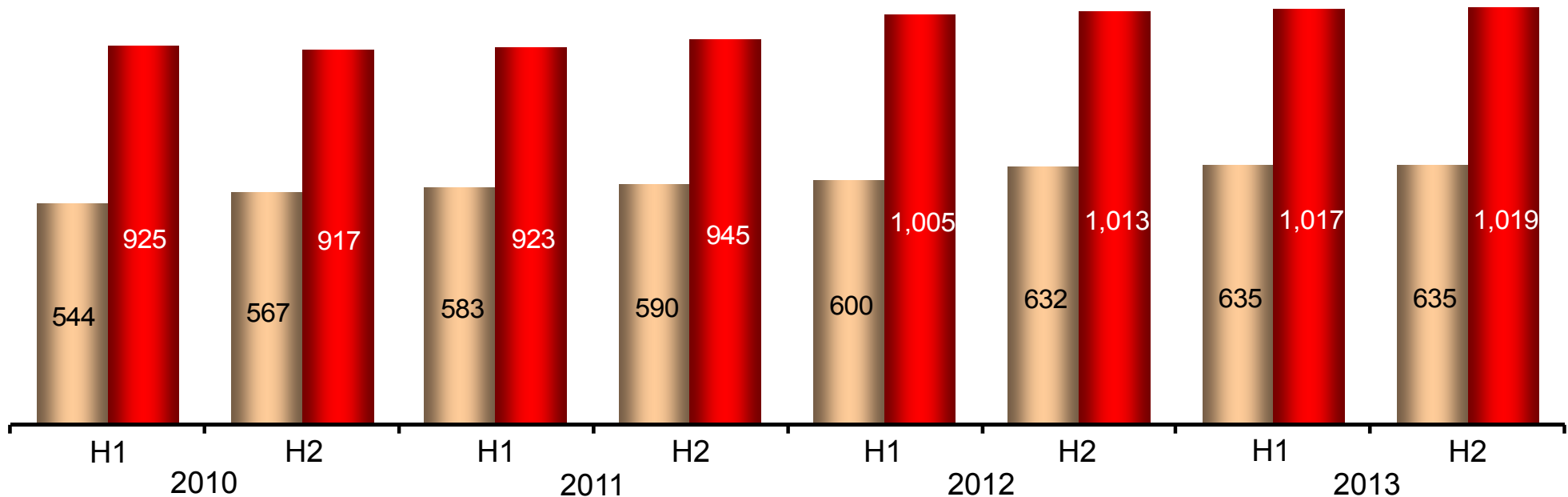
**HKT's FTTH Customers Achieving A.P.C.S.<sup>(1)</sup> of 106.7Mbps<sup>(2)</sup> in Q3 2013**



# Mobile Business Continues to Perform

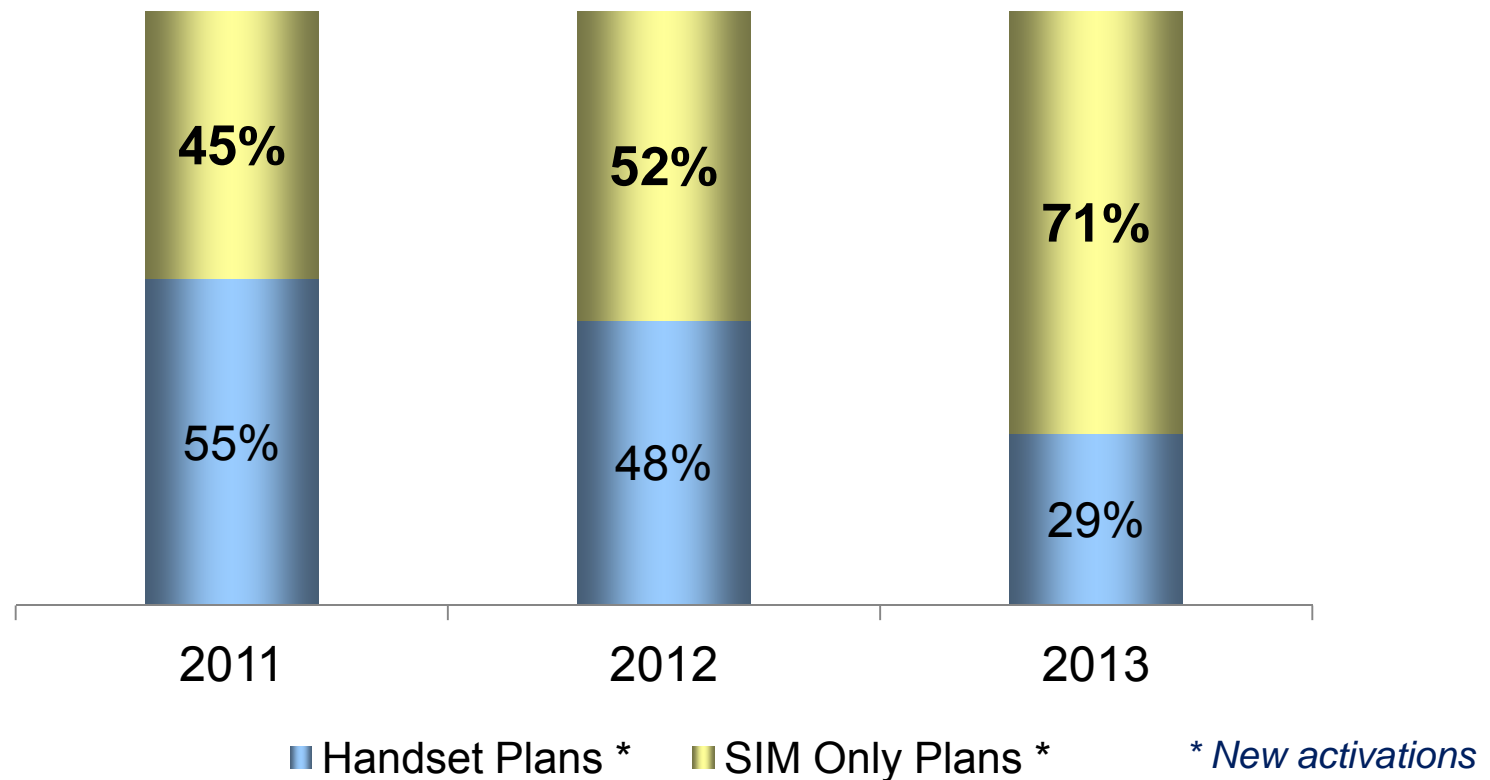
- Total customer base reached 1.654M, up 0.5% yoy
- Post-paid customer base reached 1.019M, up 0.6% yoy
- Post-paid exit ARPU increased 2% yoy to HK\$210 from HK\$206
- Focus on SIM only connections

■ Prepaid  
■ Post-paid  
(‘000)



**Focusing resources on profitability and cashflow**

# Market Conditions Necessitate SIM Only Plans

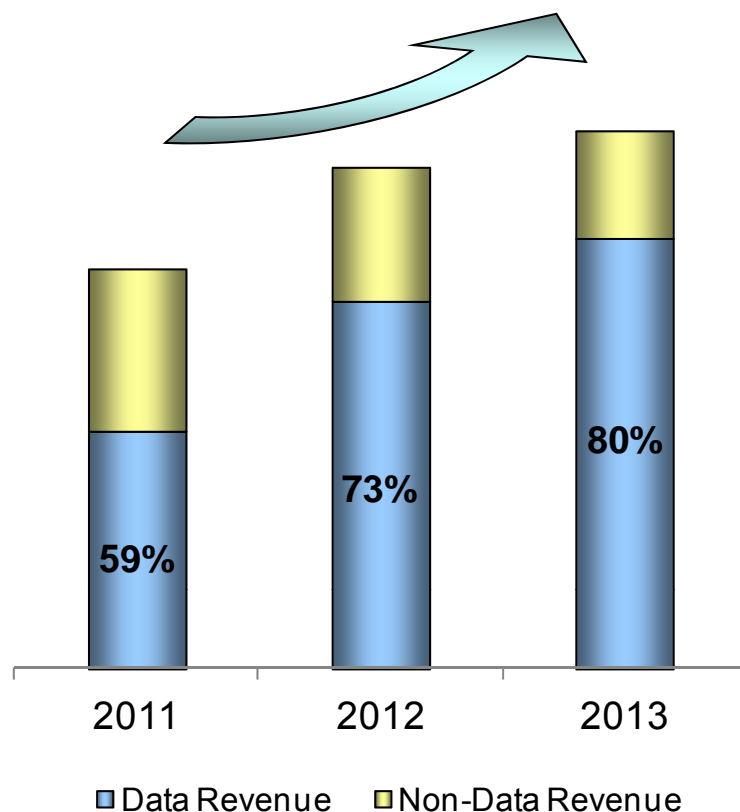


**Increased SIM Only connections help control handset subsidies and customer acquisition costs**

# Continued Data Revenue Growth

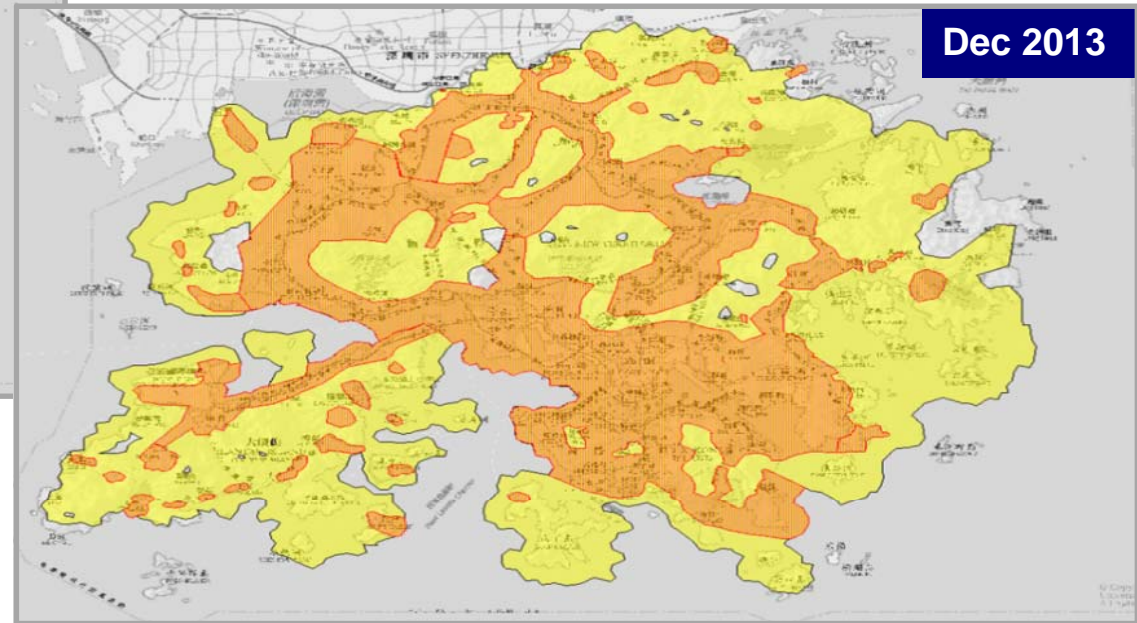
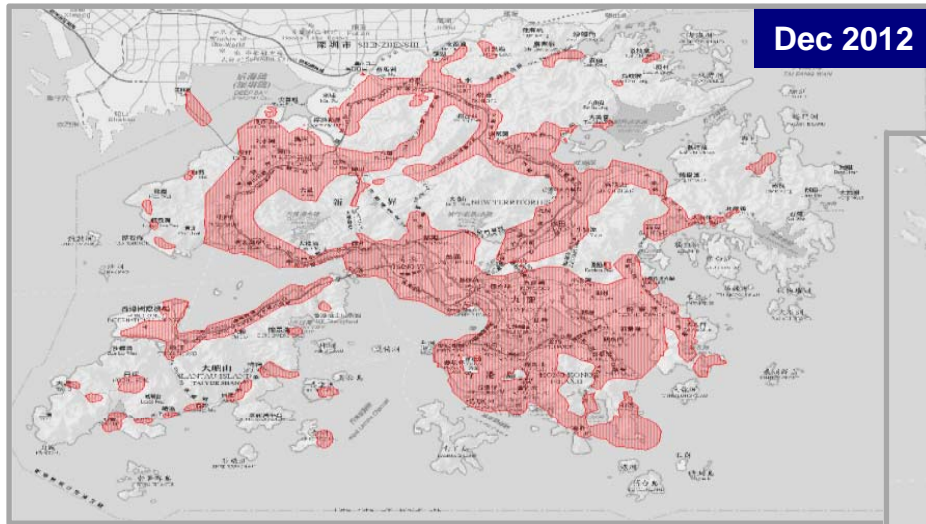
Data revenue now accounting for 80% of service revenue

## Service Revenue



- Increasing mobile service revenue contributed by data revenue which grew 18% yoy as a result of the successful acquisition and retention of quality smart device customers
- Over 80% of post-paid customer base are smart device users

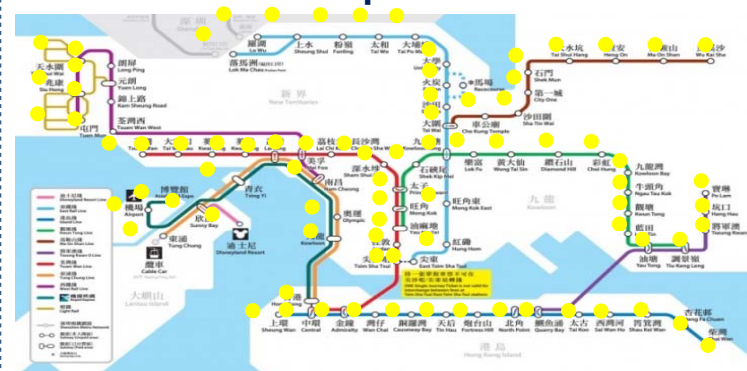
# Enhanced 4G LTE Network



## Launch of 4G LTE 150Mbps Network

- Offer a powerful dual-band 1800MHz and 2600MHz 4G LTE network that provides comprehensive outdoor and indoor coverage
- Enhanced 4G LTE network up to 150Mbps offering fastest possible mobile experience

## 4G LTE Network Expansion to the entire MTR Lines



### Urban lines

- Island line
- Kwun Tong line
- Tseung Kwan O line
- Tsuen Wan line
- Tung Chung line
- Airport Express line
- Disneyland line

### Ex-KCRC lines

- East Rail
- West Rail
- Ma On Shan line



# Market Leader in NFC Mobile Payment Service

First in Hong Kong to Launch NFC Mobile Payment Service



Jun 2013



恒生銀行  
HANG SENG BANK

Launch SIM-based NFC  
mobile payment services  
with Hang Seng Bank

Oct 2013



OCTOPUS  
Mobile SIM  
八達通流動電話卡

Launch Octopus Mobile  
Payment Service

Dec 11, 2013



Announce partnership with  
JETCO to significantly  
expand NFC Mobile  
Payment Service

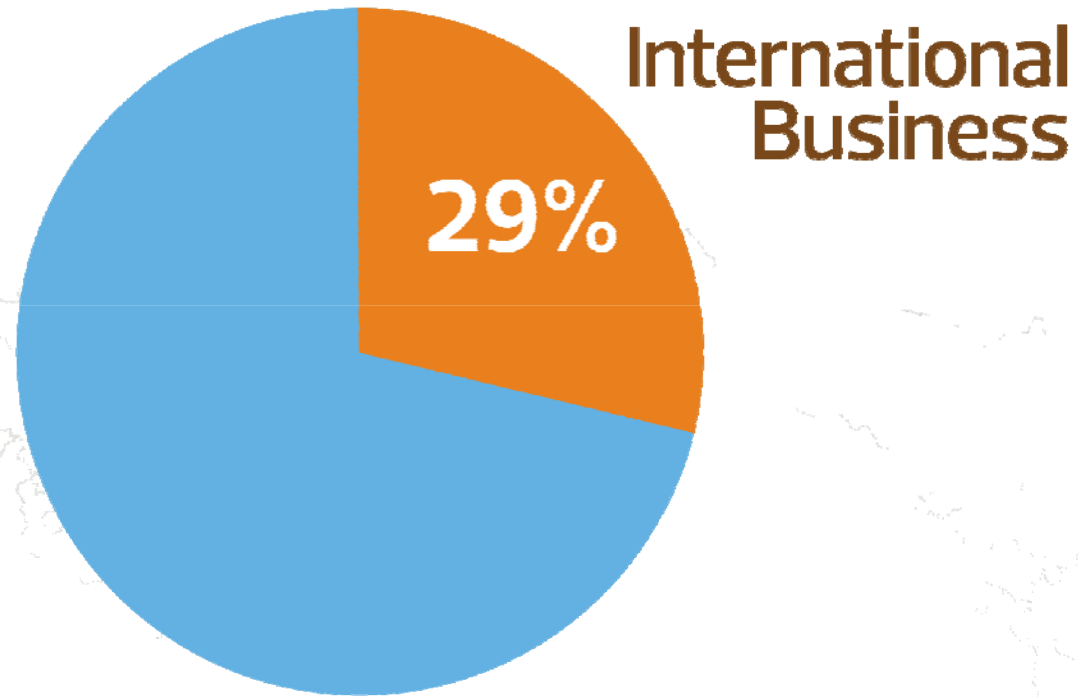
Dec 17, 2013



Announce partnership with  
HSBC to further develop  
NFC Mobile Payment  
Service



## Growth Beyond Hong Kong

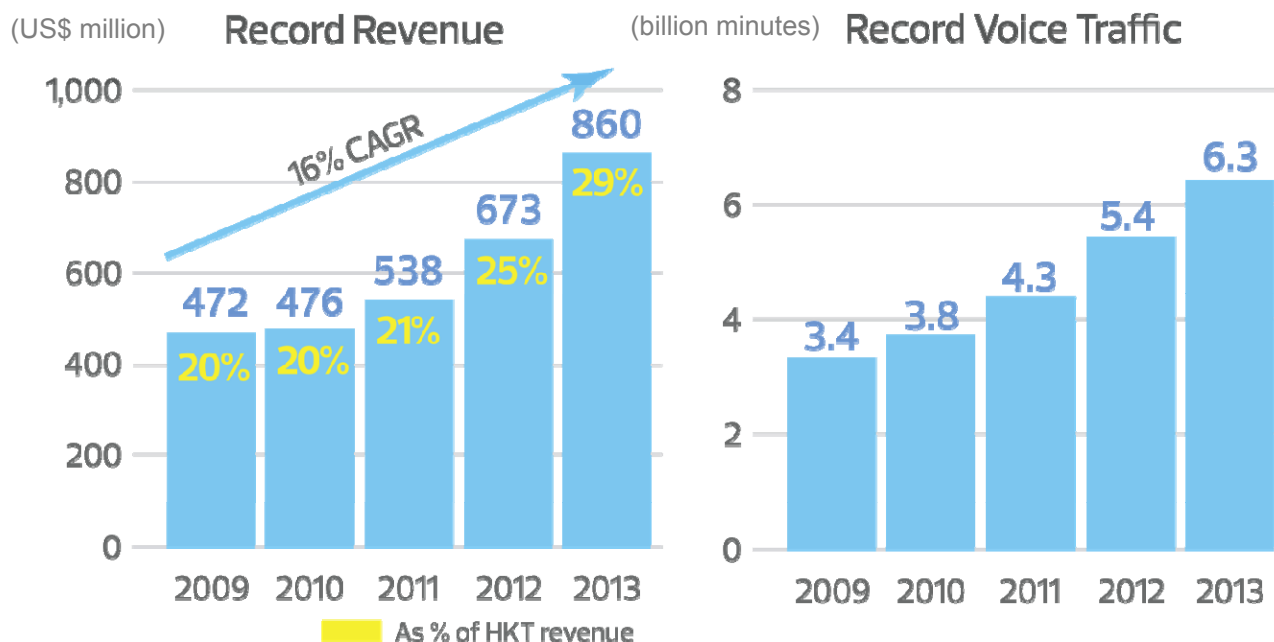


International Revenue as % of total HKT Revenue in 2013



# International – Sizeable and Growing Business

- Record revenue of US\$860 million in 2013
- Handled 6.3 billion voice minutes in 2013
- Consistently top 10 carrier of IP traffic globally

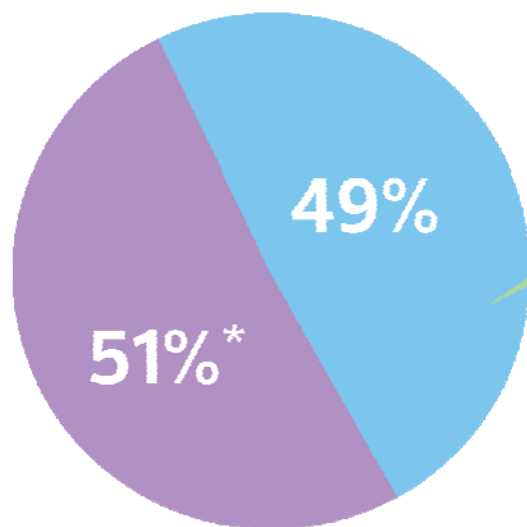


★ Global IPv4 Internet Index Ratings	
IPv4 Peering Base – Global	
1 ↑ 6	★ Google
2 ↓ 1	★ Level 3
3 ↑ 2	★ Hurricane Electric
4 ↓ 2	★ RETN Limited
5 ↓ 2	★ KPN
6 ↓ 2	★ Abovenet
7 ↓ 1	★ CenturyLink
8 ↑ 1	★ PCCW Global
9 ↑ 1	★ London Internet Exchange
10 ↓ 2	★ Deutsche Telekom

Source: Renesys – Jan 28, 2014

# International – Well Diversified Business

Balanced mix of voice and data revenue  
with focus on higher margin,  
higher growth data business

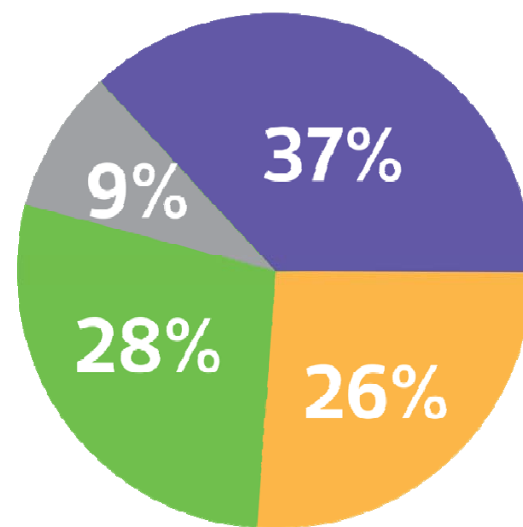


Data  
Voice

\*Excl. retail IDD revenue

– Grew by 17% in 2013  
– Enterprise data  
growth accelerating

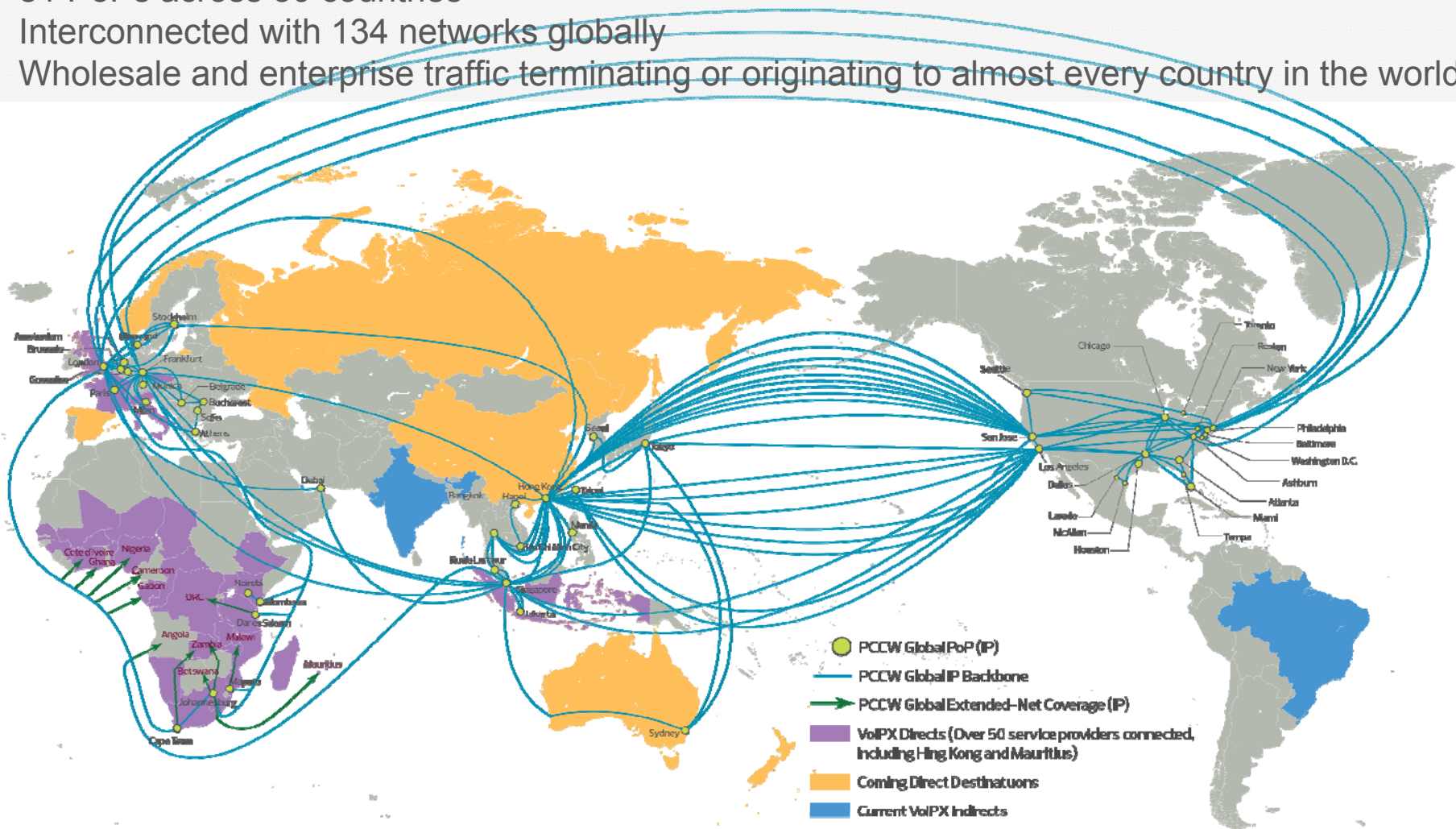
Well diversified business  
geographically – Data



Asia  
Americas  
Europe and Africa  
Others

# International – Global Network Coverage

- 81 PoPs across 30 countries
- Interconnected with 134 networks globally
- Wholesale and enterprise traffic terminating or originating to almost every country in the world



Building a Platform to Sustain Growth

# Underpinning our Business with Customer Service Excellence

- Our focus on improved customer service is being recognized, for example:

The Customer Service Grand Award in the 2013 Hong Kong Awards for Industries, which is organized by the Hong Kong Retail Management Association



And over 20 other customer service awards were received during 2013

- We are being rewarded by higher customer loyalty and improved financial performance