

BUILDING FOR
TOMORROW,
TODAY.

2014 Annual Results

For the year ended December 31, 2014

February 10, 2015 – Hong Kong

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)

2013

2014

% change

Adjusted Funds Flow

372

430

+ 16%

A Final Distribution of 23.30 HK cents per Share Stapled Unit is recommended,
subject to approval of unitholders

Delivering on CSL Integration



Branding



Rationalized Retail Channels



Revamped Pricing Plans



Network Enhancement



Network Integration

Financial Review

Susanna Hui

Group Chief Financial Officer

Solid Growth in EBITDA and AFF

| (US\$ million) | <u>2013</u> | <u>2014 *</u> | % change |
|---|-------------|---------------|----------|
| <i>Adjusted Funds Flow</i> | 372 | 430 | + 16% |
| <i>Revenue</i> | 2,927 | 3,695 | + 26% |
| <i>EBITDA</i> | 1,013 | 1,313 | + 30% |
| <i>EBITDA Margin</i> | 35% | 36% | |
| <i>Profit</i> | | | |
| <i>Attributable to Holders of Share Stapled Units</i> | 315 | 383 | + 22% |

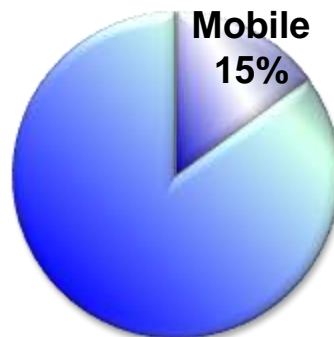
* Consolidated the CSL results since May 2014

Mobile Business Rising to the Fore

HKT Revenue

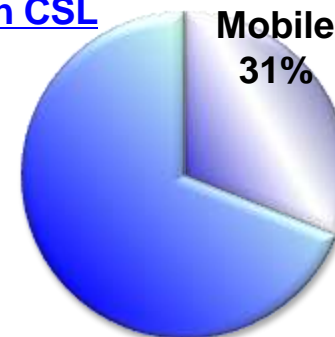


2012



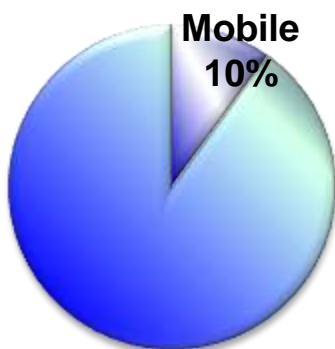
2013

With CSL



2014

HKT EBITDA

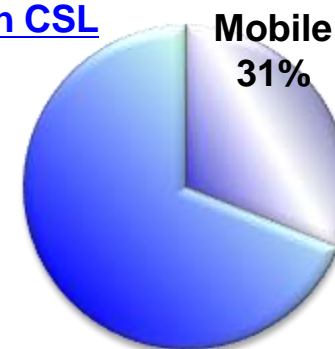


2012



2013

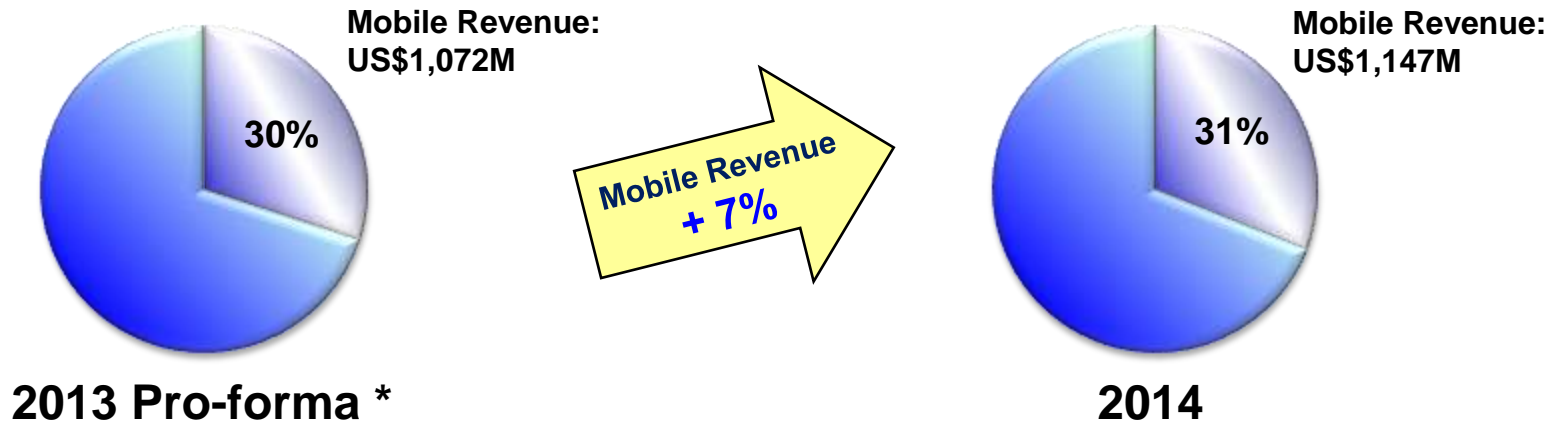
With CSL



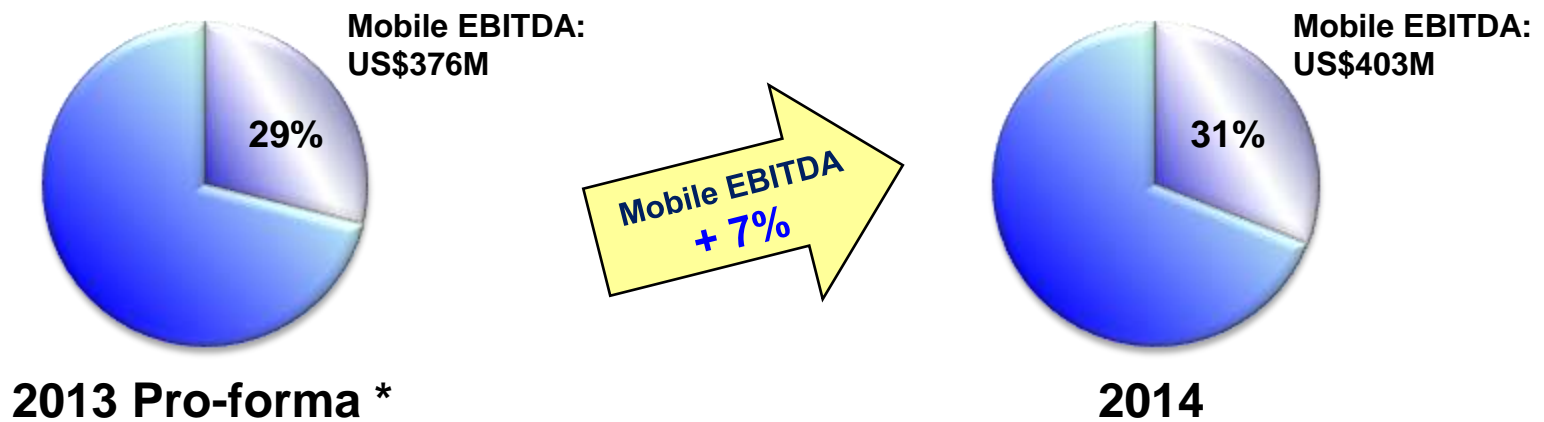
2014

Pro-forma Comparison Shows Solid Mobile Growth

HKT Revenue



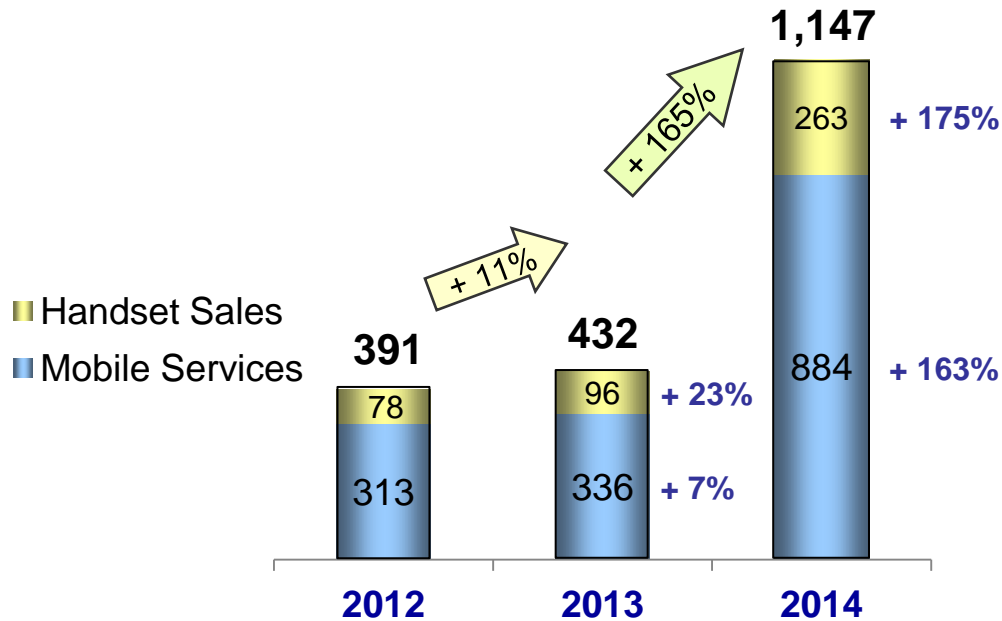
HKT EBITDA



Benefiting from Market Leadership in Mobile

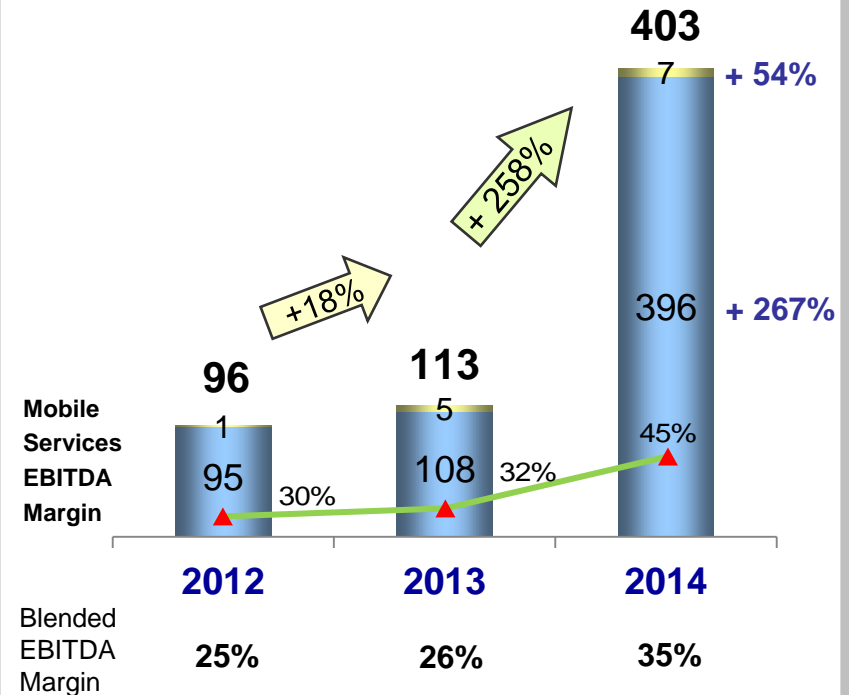
(US\$ million)

Mobile Revenue



- Mobile business included CSL results since May 2014
- Taking market leadership with customer base of 4.585M
- Total mobile revenue up 165% driven by 163% increase in mobile services revenue
- Blended post-paid exit ARPU improved to HK\$219 from HK\$210 a year ago
- Strong handset sales driven by new models

Mobile EBITDA

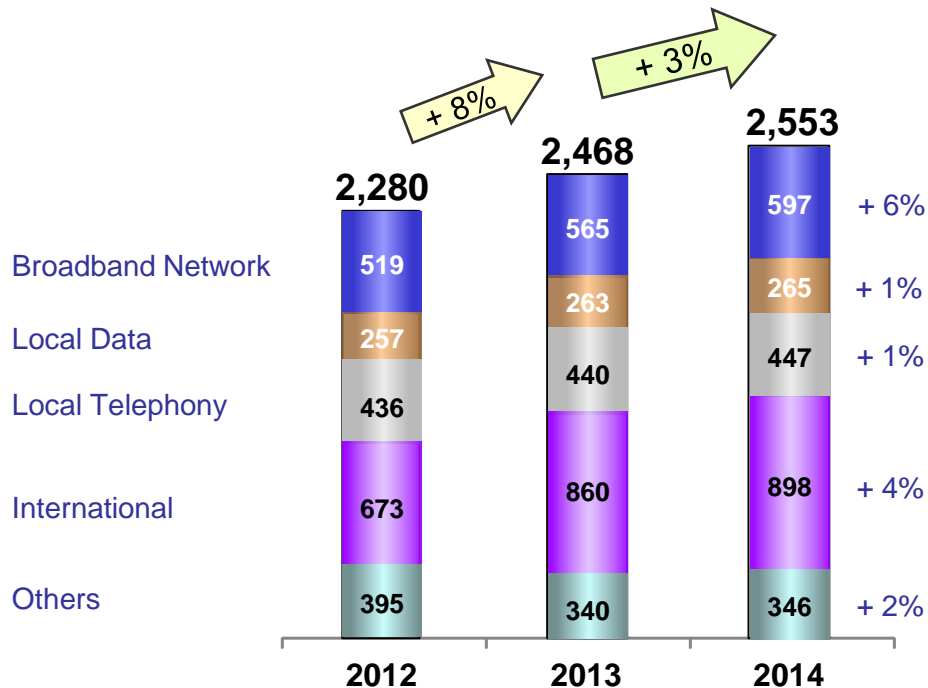


- EBITDA grew by 258% in 2014
- Margin of mobile services expanded to 45% reflecting the benefits of the enlarged scale and premium customer base
- Result evidences early fruit of synergy

Sustained Growth within TSS

(US\$ million)

TSS Revenue

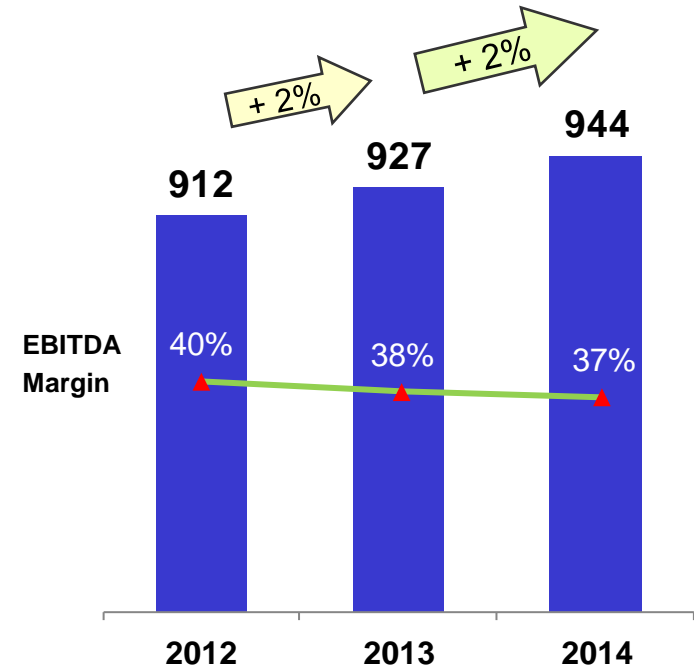


- **Broadband** – uninterrupted growth for seven consecutive years

| YoY Growth | FY08 | FY09 | FY10 | FY11 | FY12 | FY13 | FY14 |
|---------------|-------|------|------|-------|------|------|------|
| Broadband Rev | + 11% | + 3% | + 8% | + 11% | + 9% | + 9% | +6% |

- **International** – organic growth due to solid demand for wholesale voice and data connectivity services

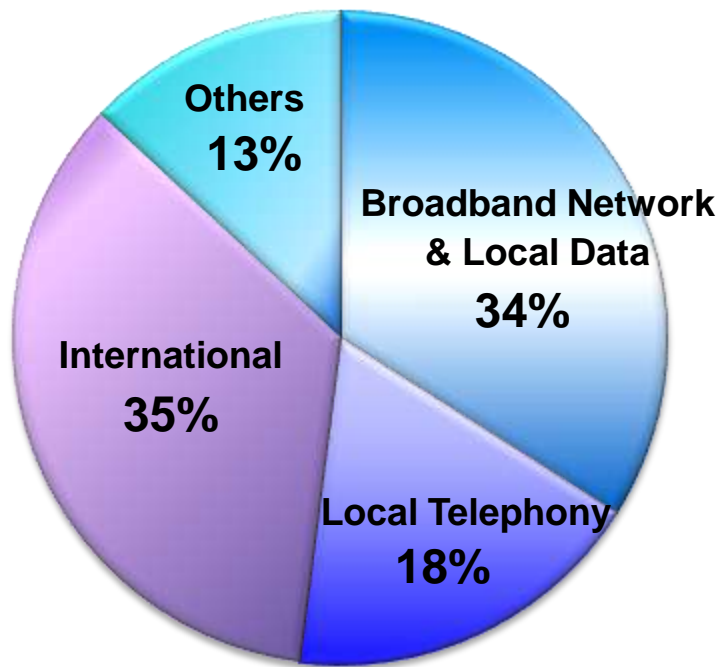
TSS EBITDA



- Steady growth in EBITDA underpinned by balanced mix of businesses

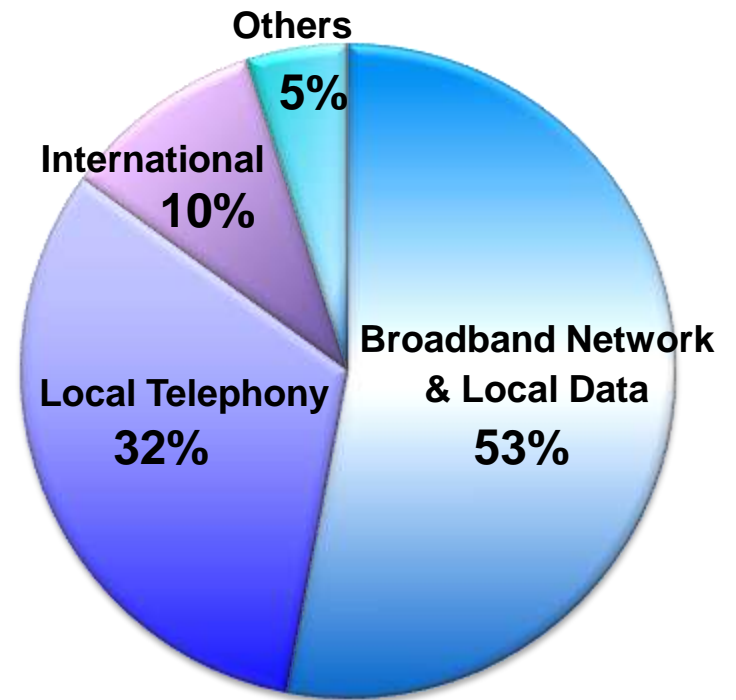
TSS – Balanced Mix of Businesses

TSS Revenue



2014

TSS EBITDA

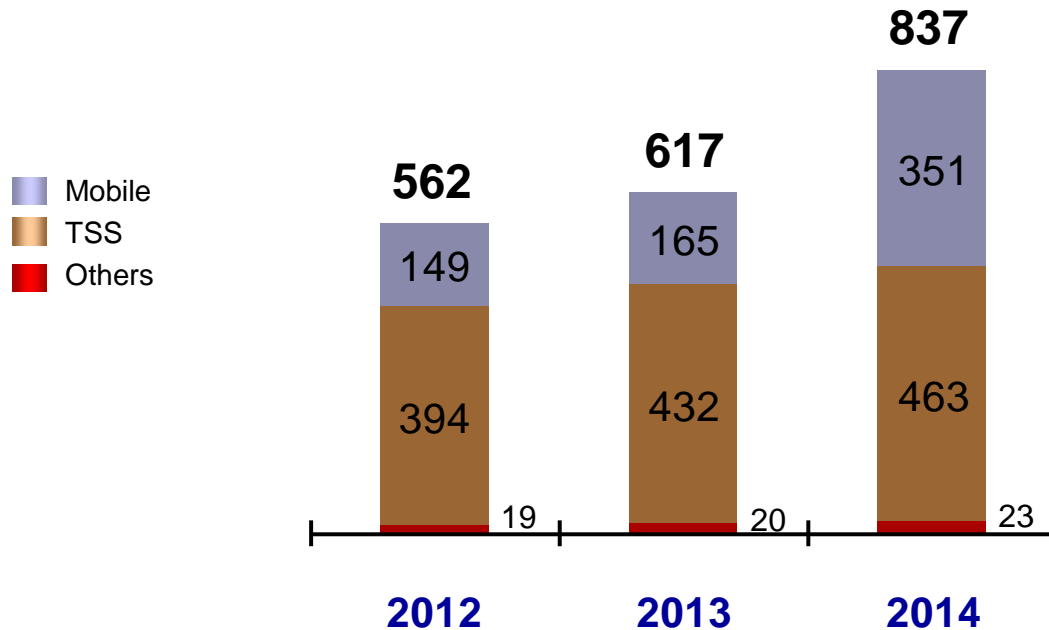


2014

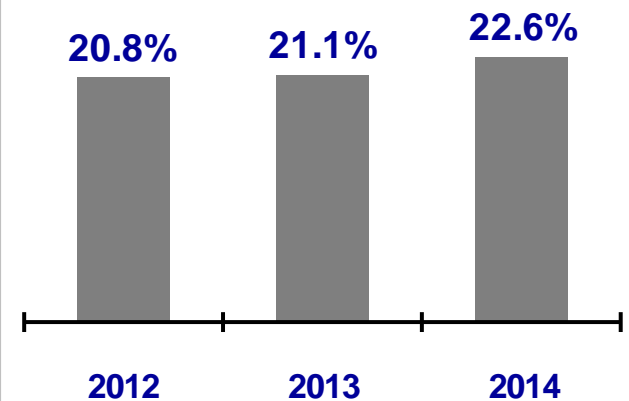
More Synergies Expected in Coming Periods

(US\$ million)

Operating Expenses



Opex to Revenue Ratio

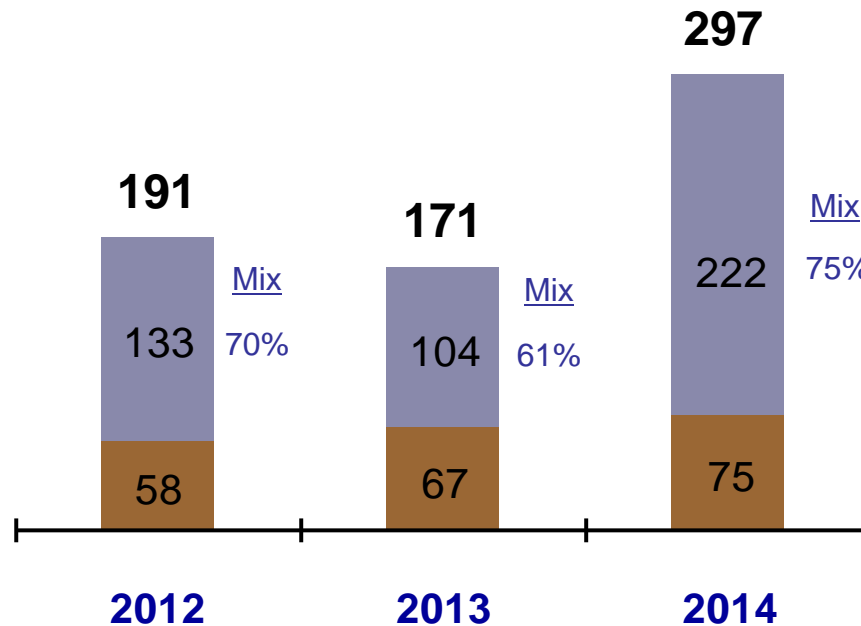


- Opex increased by 36% in 2014, largely due to enlarged Mobile business and one-off CSL integration expenses
- More synergies expected in the next 12-18 months

Customer Acquisition Costs

(US\$ million)

■ Mobile
■ TSS



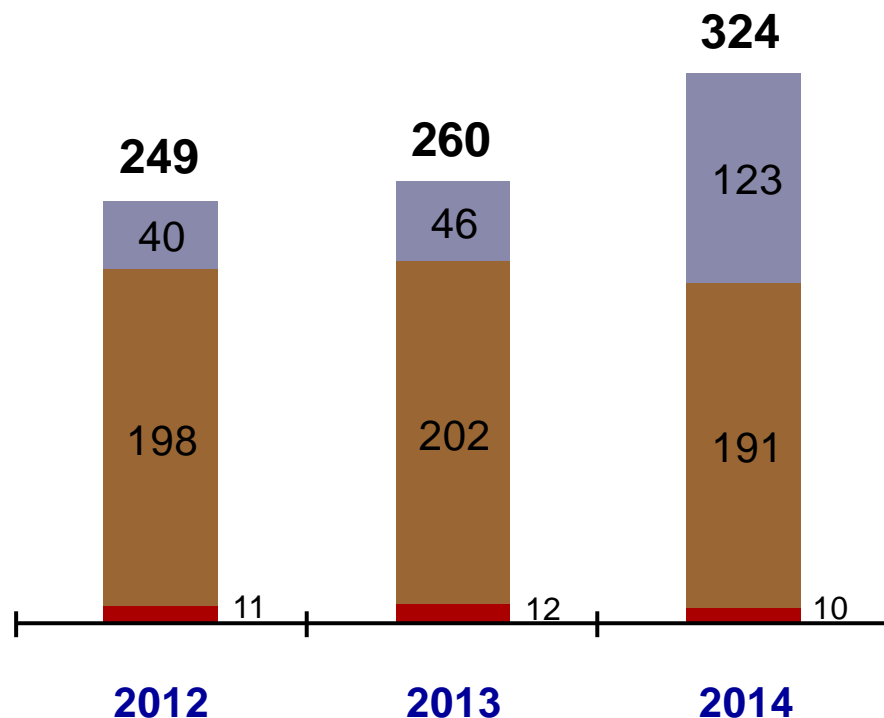
- Increase in CAC driven by enlarged scale of Mobile business as well as the launch of several popular handsets in 2014
- Benefits of these investments will accrue in coming periods

CAC to Revenue Ratio: 7.1% 5.8% 8.0%

Capex Efficiency Continues to Improve from Enhanced Scale and Fixed-Mobile Network Integration

(US\$ million)

Mobile
TSS
Others



- Maintain 10% capex to revenue ratio guidance
- Capex efficiency continues to improve from enhanced scale and fixed-mobile network integration
- Increase in capex due to CSL integration

Capex to Revenue Ratio: 9.2% 8.9% 8.8%

Adjusted Funds Flow

| (US\$ million) | 2012 | 2013 | 2014 | YoY |
|---|--------------|--------------|--------------|--------------|
| EBITDA | 983 | 1,013 | 1,313 | + 30% |
| Less cash outflows in respect of: | | | | |
| Customer acquisition costs and licence fees | (220) | (205) | (359) | |
| Capital expenditures | (244) | (254) | (322) | |
| Adjusted Funds Flow before tax paid, net finance costs paid and changes in working capital | 519 | 554 | 632 | + 14% |
| Adjusted for: | | | | |
| Tax payment | (26) | (42) | (51) | |
| Net finance costs paid | (93) | (88) | (102) | |
| Changes in working capital | (57) | (52) | (49) | |
| Adjusted Funds Flow for the year | 343 | 372 | 430 | + 16% |
| Adjusted Funds Flow per Share Stapled Unit (HK cents) * | 41.64 | 45.21 | 44.30 | |
| Interim Distribution (HK cents) | 20.06 | 21.00 | 21.00 | |
| Final Distribution (HK cents) | 21.58 | 24.21 | 23.30 | |
| Total Distribution for the year (HK cents) | 41.64 | 45.21 | 44.30 | |
| Adjusted Funds Flow per Share Stapled Unit (HK cents) based on the weighted average number of Share Stapled Units during the year | 39.99 | 43.43 | 47.32 | + 9% |

* Calculated by dividing the adjusted funds flow for the period by the number of Share Stapled Units in issue at period end

Income Statement

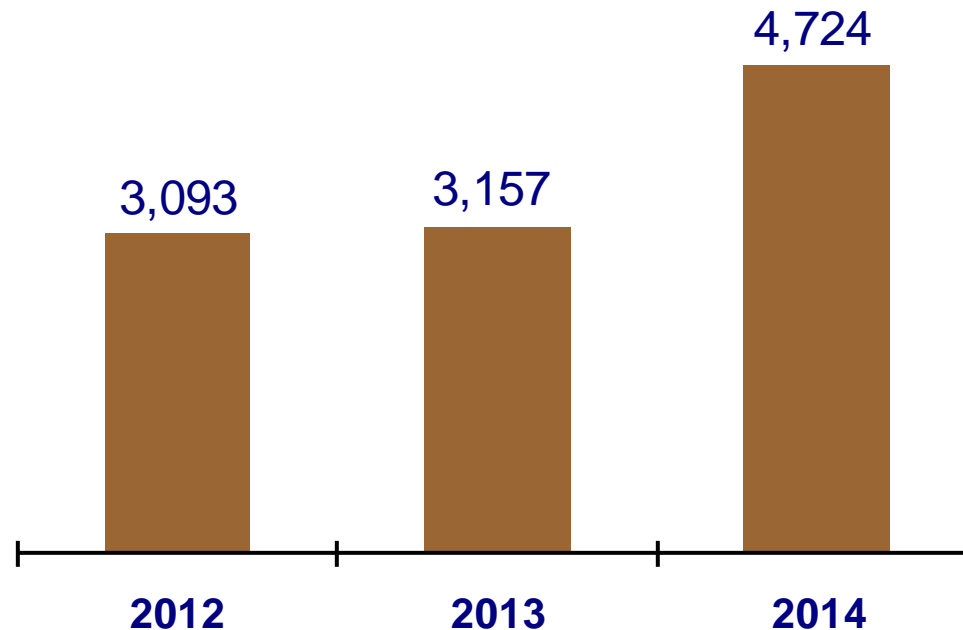
| (US\$ million) | <u>2013</u> | <u>2014</u> | |
|---|--------------|--------------|--------------|
| Turnover | 2,927 | 3,695 | + 26% |
| Cost of sales | (1,297) | (1,545) | |
| Opex | (617) | (837) | |
| EBITDA | 1,013 | 1,313 | + 30% |
| Depreciation & Amortization expenses | (603) | (755) | |
| Gain on disposal of fixed assets | 2 | -- | |
| Net other gains | 11 | 13 | |
| Net finance costs | (107) | (144) | |
| Share of results of an associate & JVs | 6 | (4) | |
| Profit before income tax | 322 | 423 | + 31% |
| Income tax | (2) | (31) | |
| <i>Effective tax rate</i> | <i>1%</i> | <i>7%</i> | |
| Profit for the year | 320 | 392 | |
| Attributable to: | | | |
| Holders of Share Stapled Units | 315 | 383 | + 22% |
| Non-controlling interests | 5 | 9 | |

Maintaining a Solid Financial Position

HKT Gross Debt (1),(2)

(US\$ million)

BBB/Baa2
Investment
Grade Rating



HKT Gross Debt / EBITDA⁽³⁾

3.1x

3.1x

3.2x ⁽⁴⁾

(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

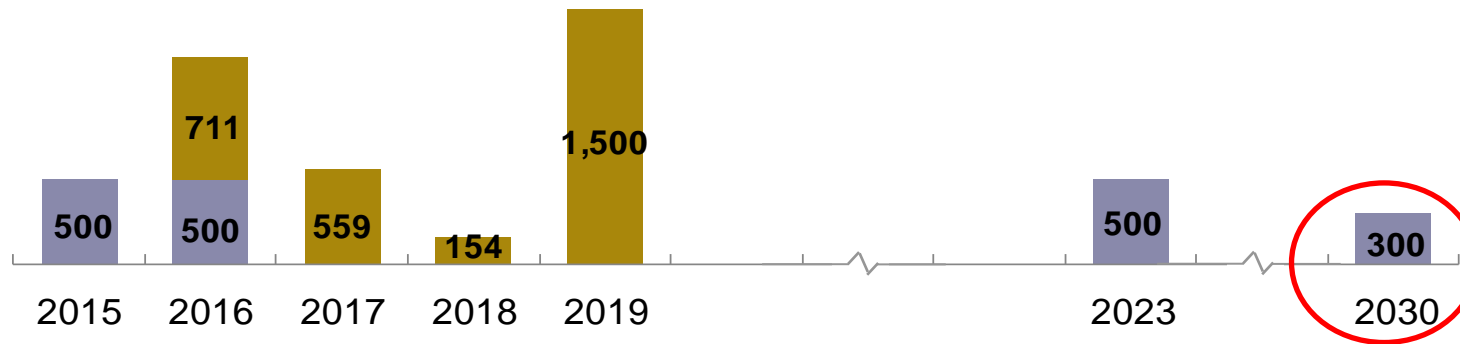
(4) Based on gross debt as at period end divided by HKT FY13 EBITDA and CSL FY13 EBITDA

Debt Maturity Profile

As at February 10, 2015

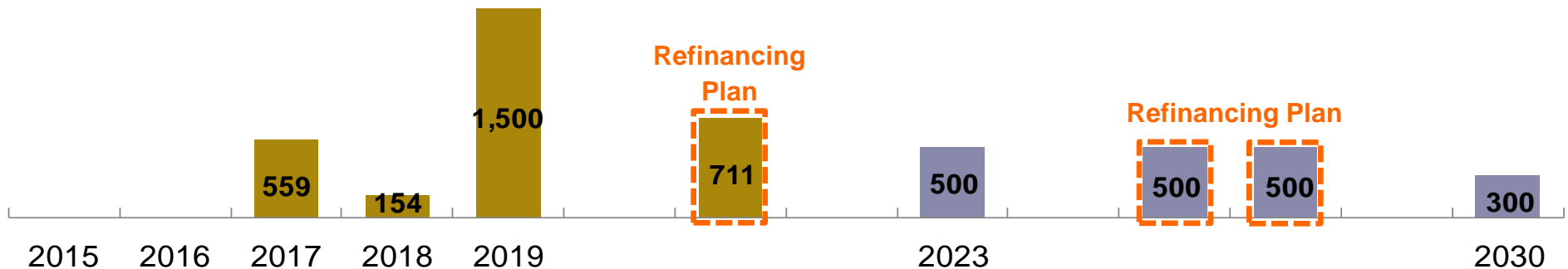
(US\$ million)

Bank Loans
US\$ Bonds



| US\$ million | |
|--------------------|--------------|
| Cash Balance * | 463 |
| Undrawn Facilities | 842 |
| Total | 1,305 |

Target after Refinancing



- Proactively extended the maturity profile to 2030 through issuance of a 15-year, zero-coupon US\$300 million bond , allowing us to lock in long-term funding at attractive cost
- Refinancing plan to extend maturity to 6 years
- Current liquidity exceeding US\$800 million in undrawn banking facilities
- Effective interest rate further improved from 3% to 2.5% in 2014

Business Review

Alex Arena

Group Managing Director

Financial Results Underpinned by Rapid Progress on Integration

Strong Performance in Mobile Business across All Areas

- **Total customer base of 4.585M**
 - **Post-paid customer base of 3.178M**
- **Post-paid exit ARPU of HK\$219**
- **Mobile data represents 68% of total services revenue**
- **IDD and roaming represent 19% of total services revenue**
- **79% of post-paid customers are smart device users**
- **Post-paid churn rate was 1.5%**

** Figures stated as at December 31, 2014 or for the year ended December 31, 2014*

Delivering on CSL Integration



Branding



Rationalized Retail Channels



Revamped Pricing Plans



Network Enhancement



Network Integration

Branding



Rationalized Retail Channels

**Strengthening sales proposition
by consolidating retail channels and extending shop reach**



HKT

29 Shops



9 Shops



csl.

41 Shops



55 Shops

Revamped Pricing Plans

Simplified Pricing Structure

- Fixed price
- Choice of bandwidth
 - No speed limitation
- Unlimited voice
- Unlimited Wi-Fi
- Value added services



Adjusted Tariff Plans

- CSL plans retained although a number of low volume plans have been removed; PCCW-HKT mobile tariffs have been aligned
- New tariff plans introduced with the launch of iPhone 6/6 Plus
- MTR / Tunnel / Mobile Licence / Admin fee increased from HK\$12 to HK\$18



Mobile Network Improvements after CSL Acquisition

6 network enhancements (Quick Wins) applied since CSL acquisition to combine the strengths of HKT and CSL networks and improve overall customer experience

Quick Win 1

U900 MOCN Activation for HKT Customers

Quick Win 2

Backhaul Upgrade to CSL Cell Sites

Quick Win 3

Coverage Enhancement for HKT and CSL Customers

Quick Win 4

Micro-cell Coverage for CSL Customers

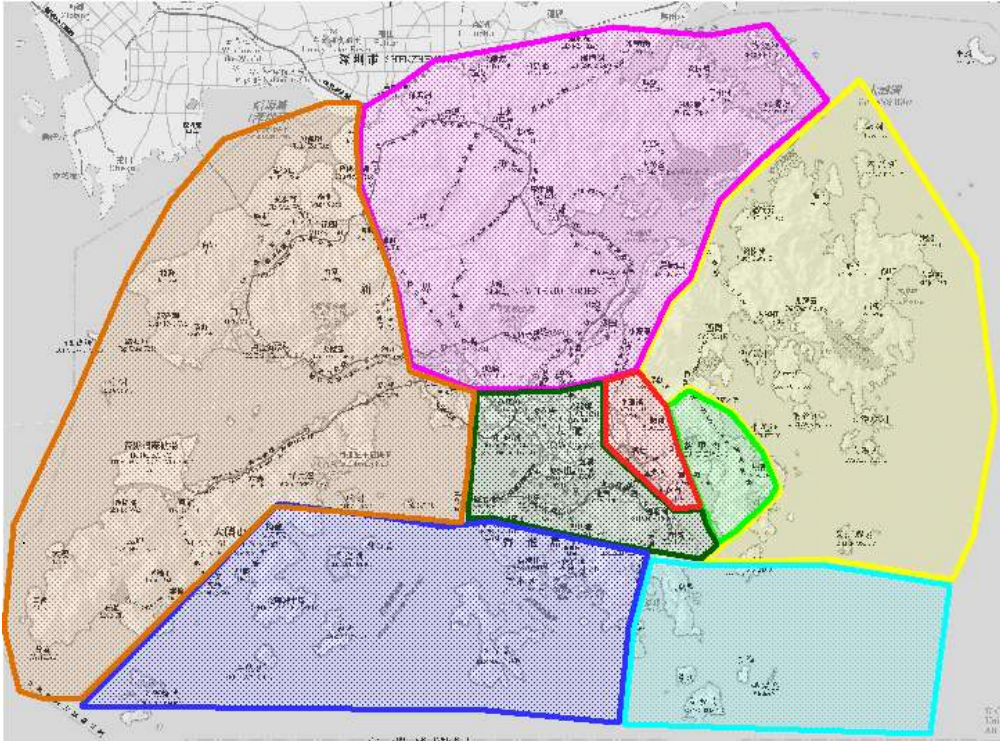
Quick Win 5

U2100 MOCN Activation for CSL Customers

Quick Win 6

Expansion of MTR Capacity for CSL Customers

QW1 – U900 MOCN Activation for HKT Customers



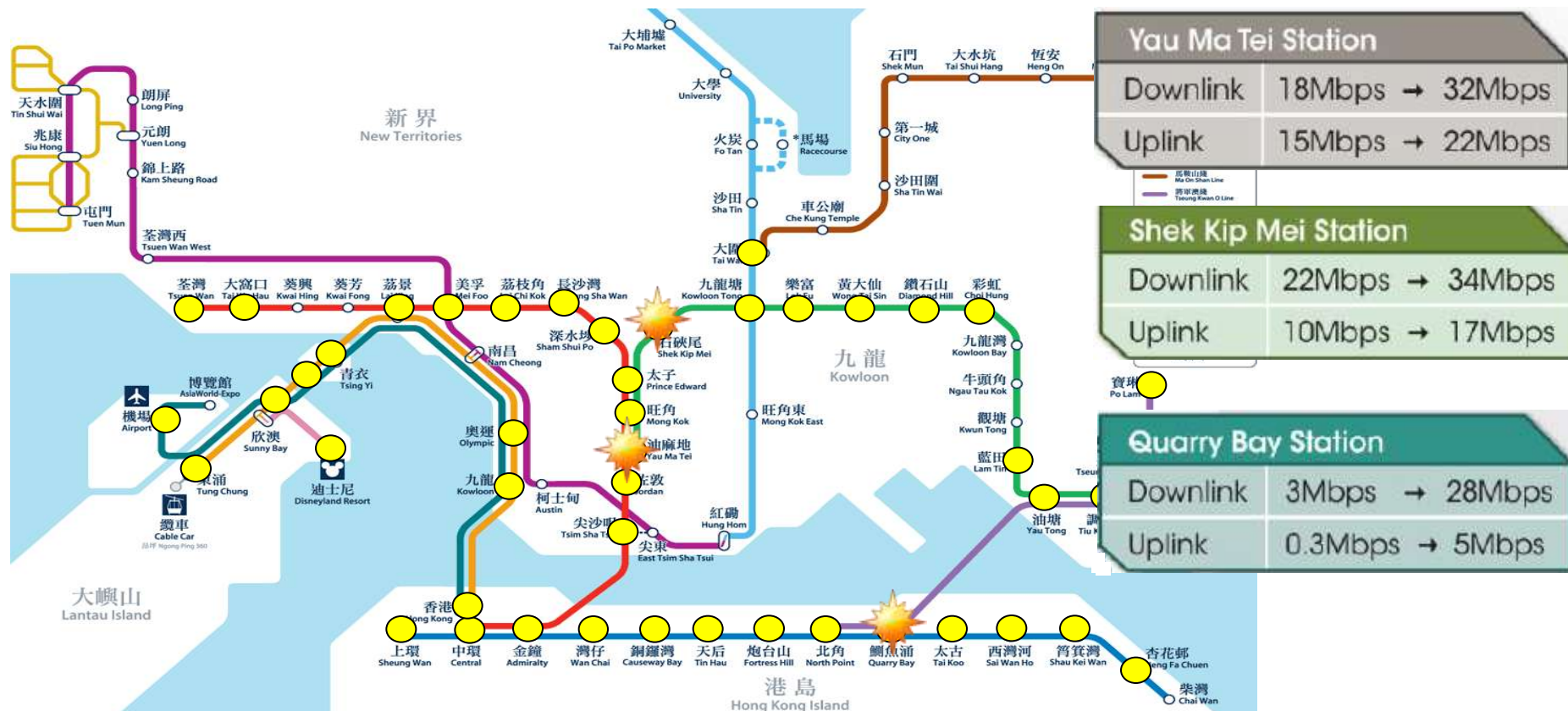
U900 MOCN Activation Progress

| Location | Plan | Status |
|-----------------------------|--------|--------|
| Sai Kung | 19 Jun | ✓ |
| TKO | 24 Jun | ✓ |
| Shek O | 30 Jun | ✓ |
| HK South | 11 Jul | ✓ |
| NT North | 18 Jul | ✓ |
| NT West | 25 Jul | ✓ |
| KLN East | 31 Jul | ✓ |
| KLN West & Hong Kong Island | 4 Aug | ✓ |

Significantly enhanced indoor coverage and quality for HKT customers within **65 days**

QW2 – Backhaul Upgrade to CSL Cell Sites

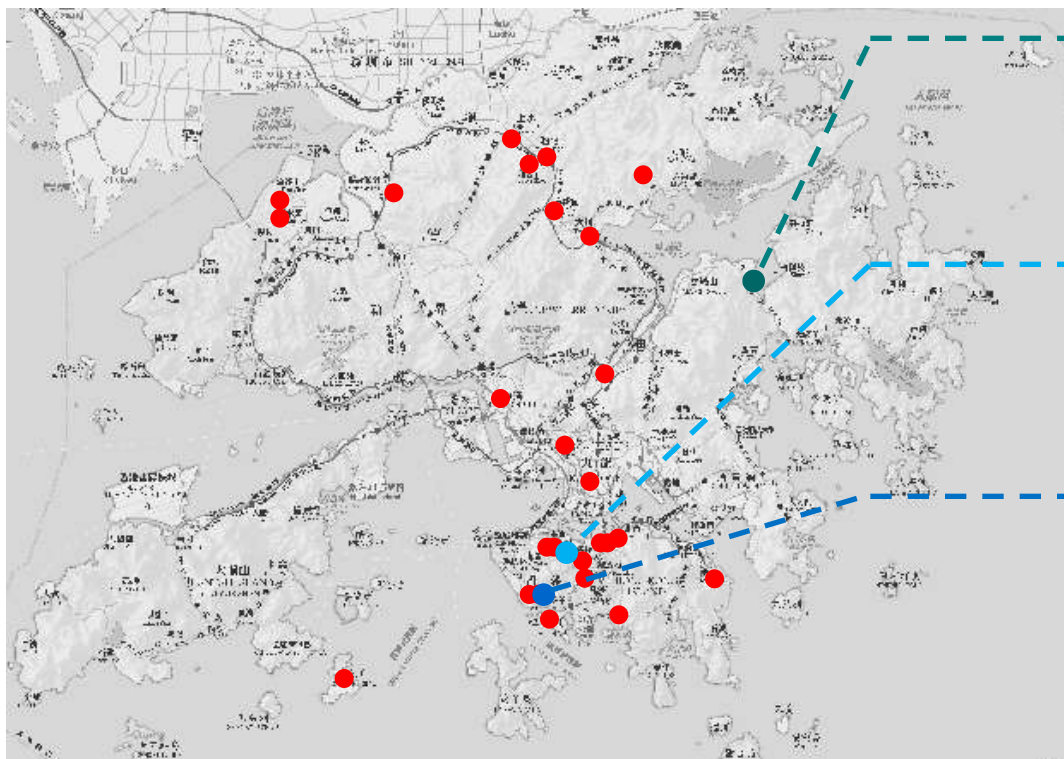
Improved Experience for CSL Customers



All CSL cell sites in MTR stations are now served by HKT fiber backhaul.
Completed within **33 days**

QW2 – Backhaul Upgrade to CSL Cell Sites

Improved Experience for CSL Customers



Tseng Tau Tsuen

| | |
|----------|------------------|
| Downlink | 1.8Mbps → 25Mbps |
| Uplink | 0.2Mbps → 13Mbps |

Rumsey Street

| | |
|----------|-----------------|
| Downlink | 15Mbps → 35Mbps |
| Uplink | 9Mbps → 15Mbps |

Wah Fu

| | |
|----------|-----------------|
| Downlink | 3Mbps → 18Mbps |
| Uplink | 0.6Mbps → 5Mbps |

Throughput traffic increased significantly after fiber backhaul upgrade
Completed all 92 sites with backhaul issues in **60 days**

QW3 – Coverage Enhancement for HKT and CSL Customers

Accelerate coverage enhancement by new site sharing at distinct coverage locations

Heng Sang HQ



Dorsett Regency Hotel



Town Gas Office



iclub Hotel



Dah Sing Financial Centre



Asia Society



Residential Building
(Tuen Mun)



Mira Moon Hotel
(Wan Chai)



Oi Tung Estate and Aldrich Garden
(Shau Kei Wan)

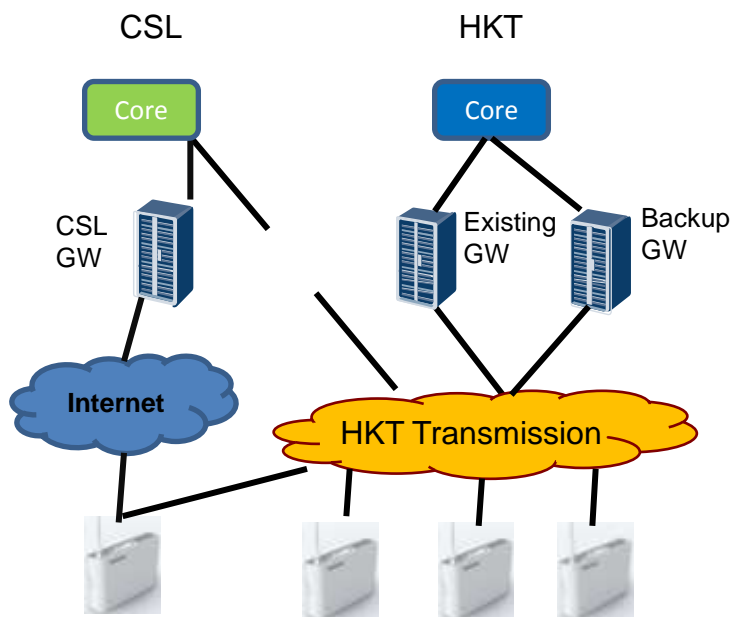


HK University

Set up 50 new sites for CSL network within 50 days

QW4 – Micro-cell Coverage for CSL Customers

Strategy to Tackle Special Coverage

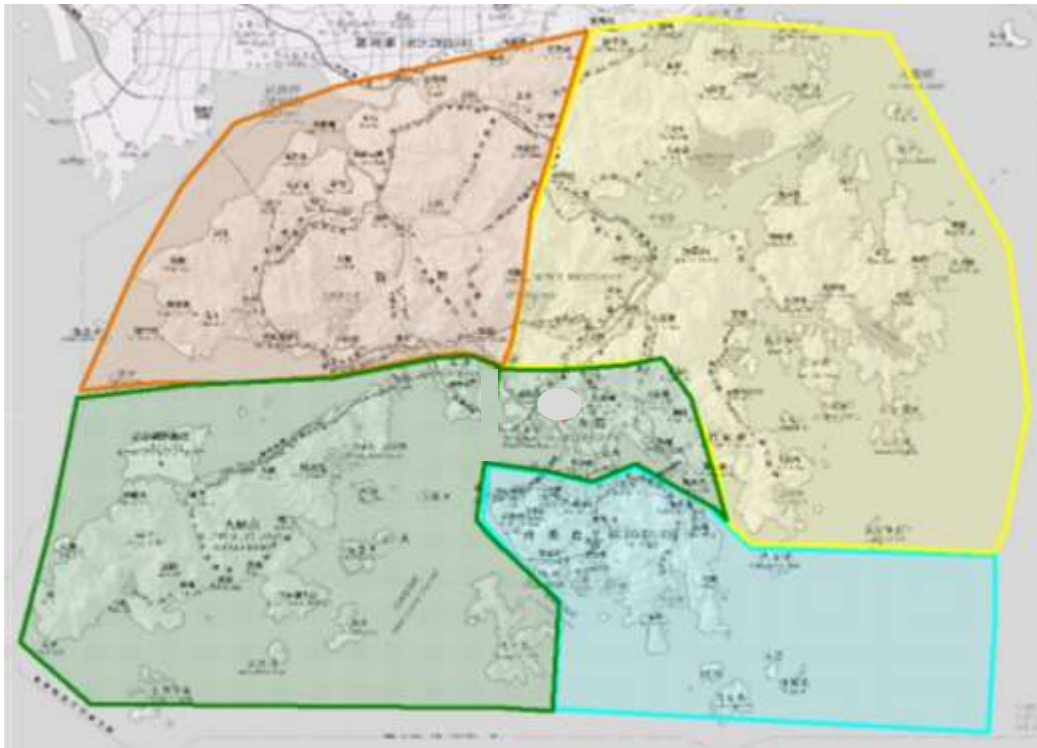


| Project Plan | Plan | Actual |
|---|--------|--------|
| Setup Gateway (GW) with CSL Core | 20-Jun | ✓ |
| Relocate CSL GW | 26-Jun | ✓ |
| Transmission Configuration | 26 Jun | ✓ |
| IOT Testing | 27 Jun | ✓ |
| Patch for Interworking | 30-Jun | ✓ |
| Friendly User Trial (card level redundancy can be provided) | 1-Jul | ✓ |
| Backup GW | 30-Jul | ✓ |
| Massive Deployment | 31-Jul | ✓ |

Launched new micro-cell service to CSL customers within **40 days**

QW5 – U2100 MOCN Activation for CSL Customers

Extend CSL network coverage at HKT sites by U2100 MOCN technology



U2100 MOCN Activation

| Region | Plan | Status |
|------------------|--------|--------|
| Lai Chi Kok | 23 Sep | ✓ |
| NT West | 7 Oct | ✓ |
| NT East | 14 Oct | ✓ |
| Kowloon & Island | 21 Oct | ✓ |
| Hong Kong Island | 28 Oct | ✓ |

CSL customers can now access HKT distinct coverage locations

QW6 – Expansion of MTR Capacity for CSL Customers

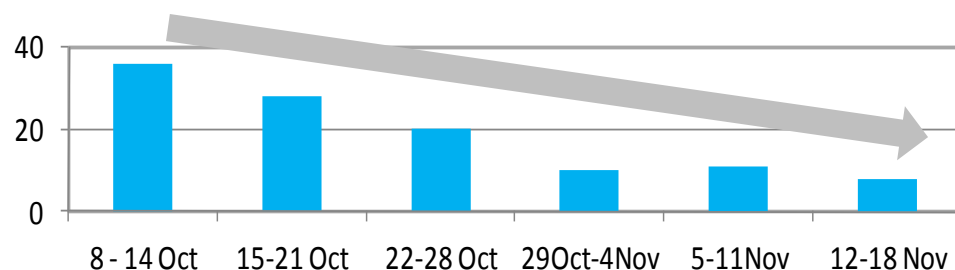


| MTR Line | TCD | Status |
|----------------|--------------|-------------|
| Island line | Nov 6, 2014 | Done |
| TKO Line | Dec 5, 2014 | Done |
| Tsuen Wan Line | Jan 31, 2015 | Done |
| Kwun Tong Line | Feb 15, 2015 | In progress |

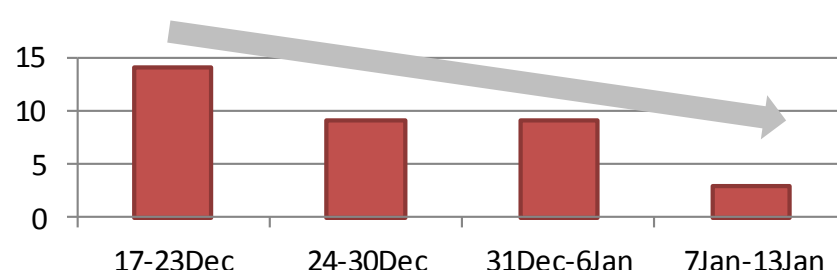
● In progress

● Completed

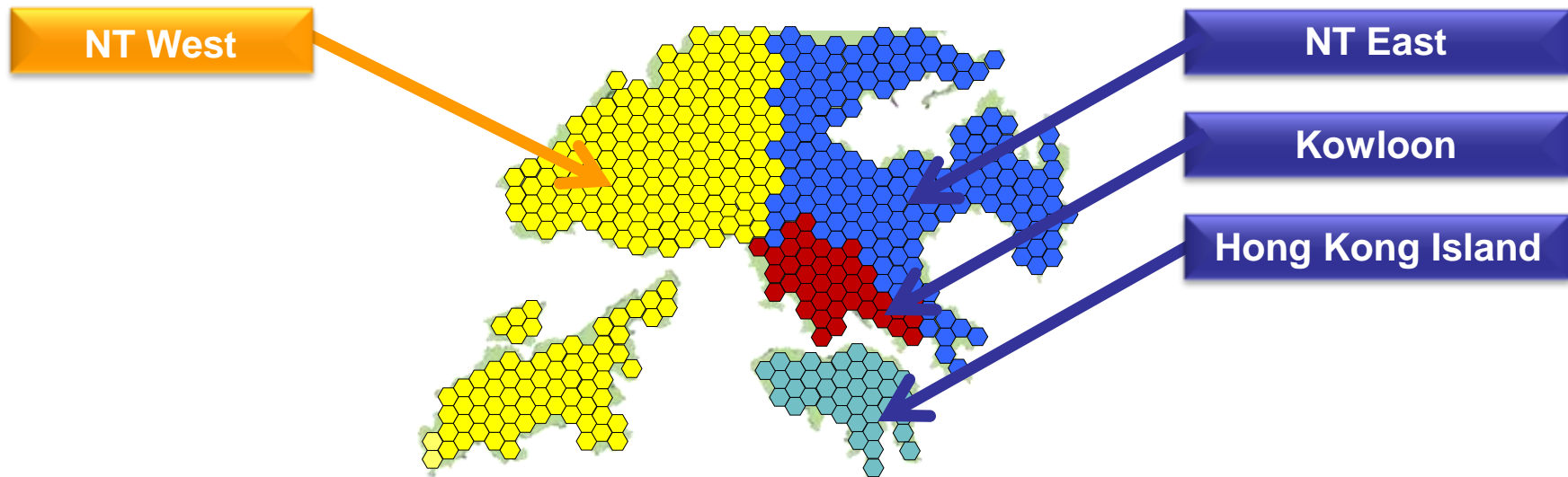
Complaints in MTR Island Line



Complaints in MTR Tsuen Wan Line



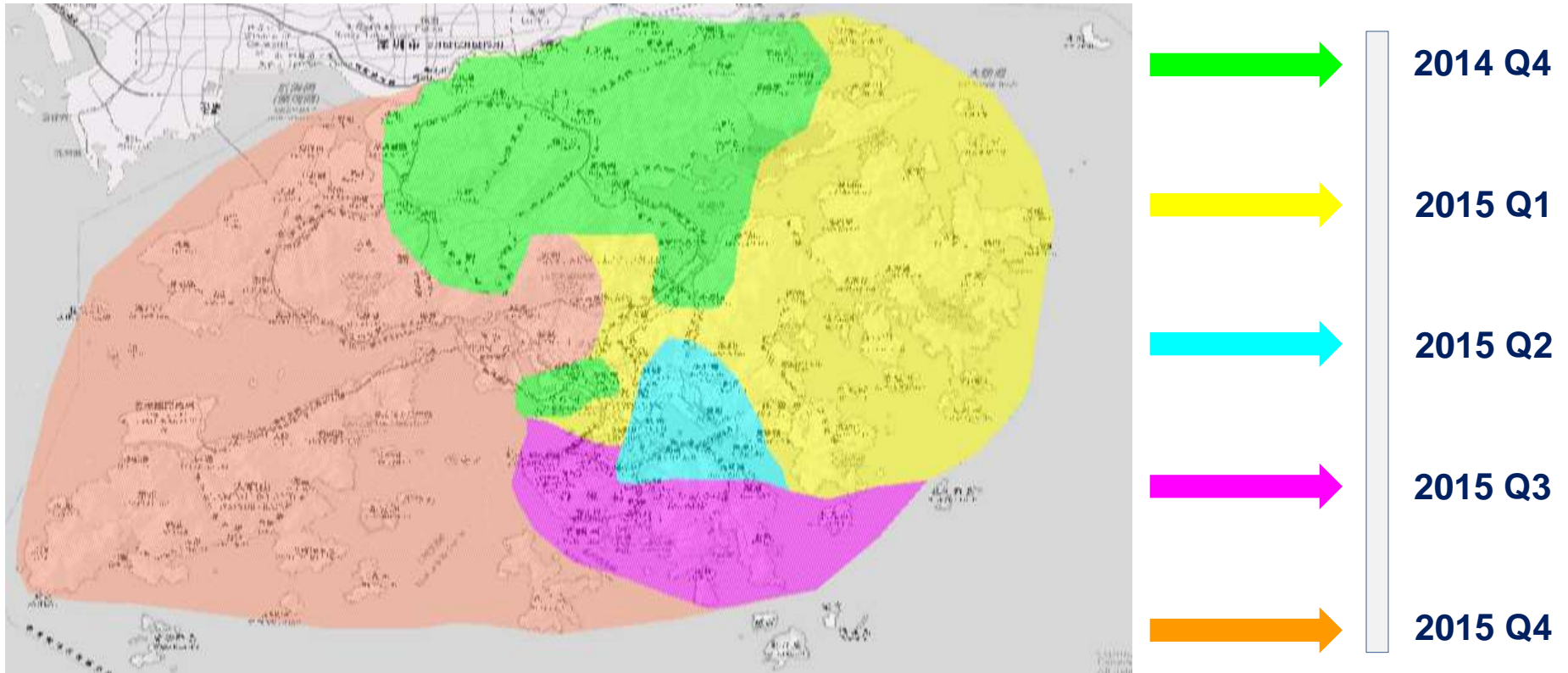
Network Integration Plan



Key Targets:

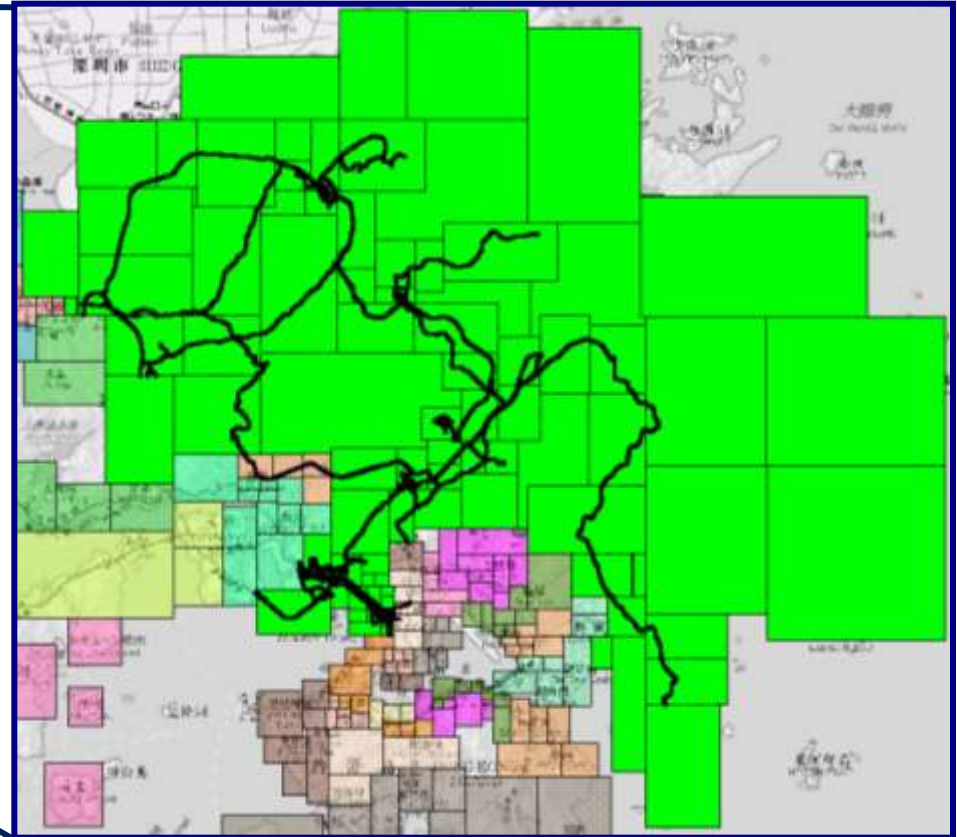
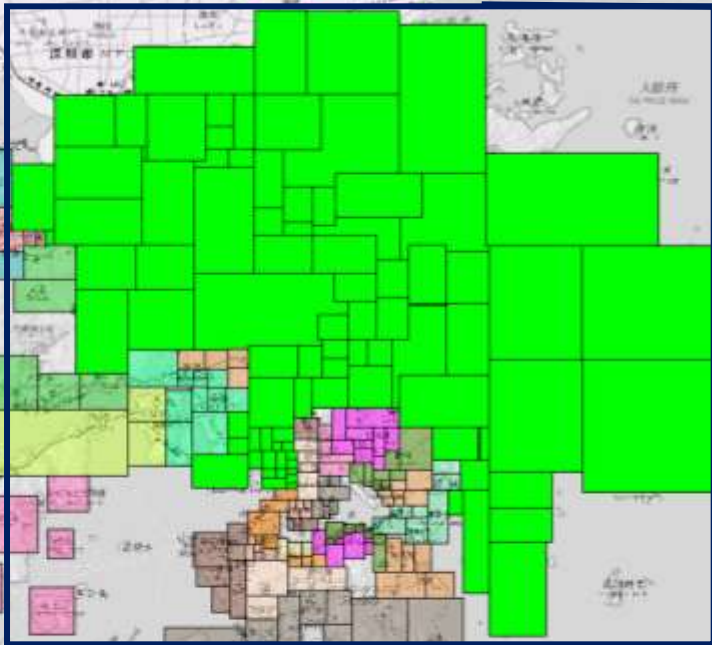
- Choose the best sites from both HKT and CSL networks to remove surplus sites and enhance coverage
- Upgrade CSL's cell site transmission by HKT's 1000Mbps fiber lines
- Upgrade 4G network to LTE-A supporting faster mobile broadband network speed of up to 300Mbps

Network Integration Upgrade Plan



- Divide Hong Kong into clusters and grouped into zones
- Network will be upgraded in different zones according to plan
- Target to complete entire network integration by end 2015

Progress of Cell Site Integration



No of Sites activated

| Green Zone | Before | After |
|-------------------|--------|-------|
| For HKT Customers | 620 | 780 |
| For CSL Customers | 540 | |
| Total | 1160 | |

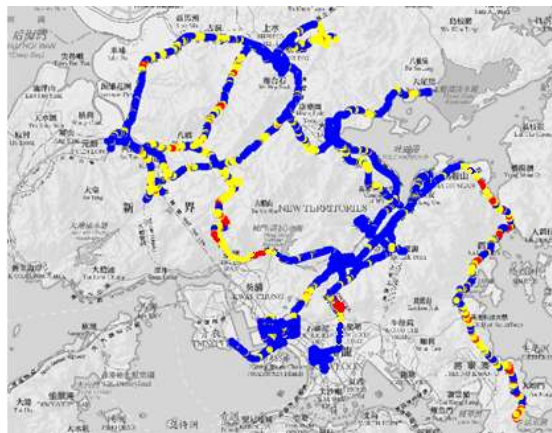
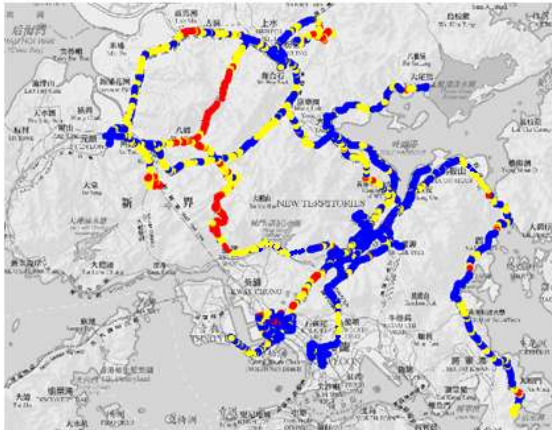
- No of sites served HKT customers increased by 160
- No of sites served CSL customers increased by 240
- Total 380 sites in process of site termination
(i.e. about 33% of cell-sites closed)

Performance Improvement in Green Zone

Both 4G and 3G coverage improved significantly

Before

After



Good 65% → 88%

Fair 27% → 12%

Weak 8% → 0%

- > - 100dbm (Good)
- - 100dbm to - 120dbm (Fair)
- < - 120dbm (Weak)

Good 80% → 86%

Fair 18% → 14%

Weak 2% → 0%

- > - 85dbm (Good)
- - 85dbm to - 105dbm (Fair)
- < - 105dbm (Weak)

4G
Performance

3G
Performance

LTE-Advanced 300Mbps Network Launch

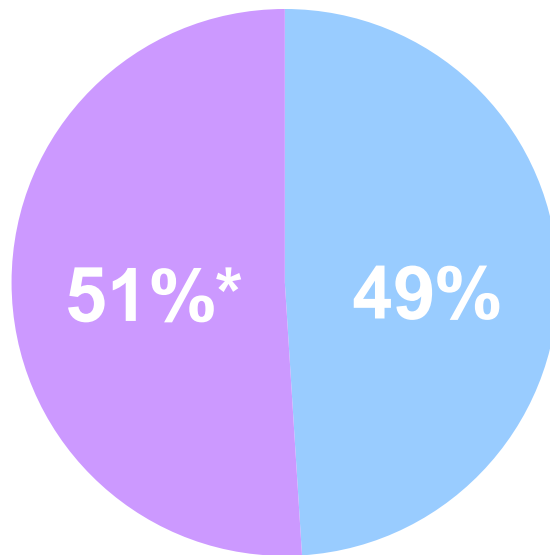
**First in Hong Kong to upgrade mobile network to
4G LTE-Advanced at 300Mbps (LTE-A 300M)**

- The only mobile network operating two 20MHz contiguous frequency spectrum in both 1800MHz and 2600MHz bands
- Customers can enjoy mobile broadband network speed of up to 300Mbps with compatible Cat 6 terminal devices
- **Locations with LTE-A 300M Ready**
 - New Territories including Shatin, Tai Po, Fanling, Sheung Shui, Lok Ma Chau, Kam Tin and Shek Kong
 - Kowloon West areas including Lai Chi Kok, Mei Foo, Cheung Sha Wan and Sham Shui Po
 - MTR West Island Line
 - iSquare shopping mall
 - Designated cs.l. shops



International Business Continues to Strengthen

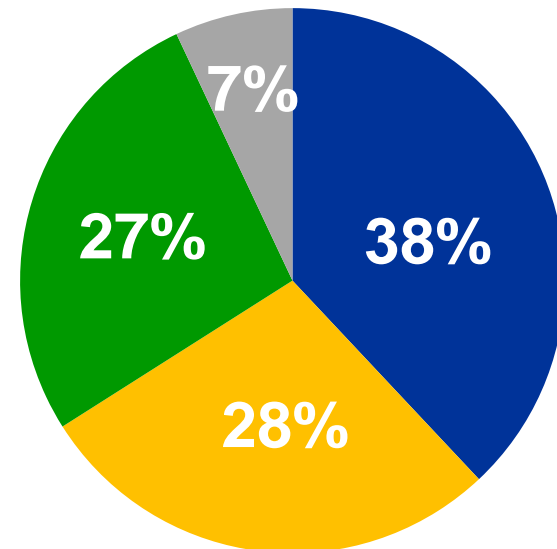
Balanced mix of voice and data revenue
with focus on higher margin,
higher growth data business



■ Data
■ Voice

** Excl. retail IDD revenue*

Data business – Well diversified
business geographically



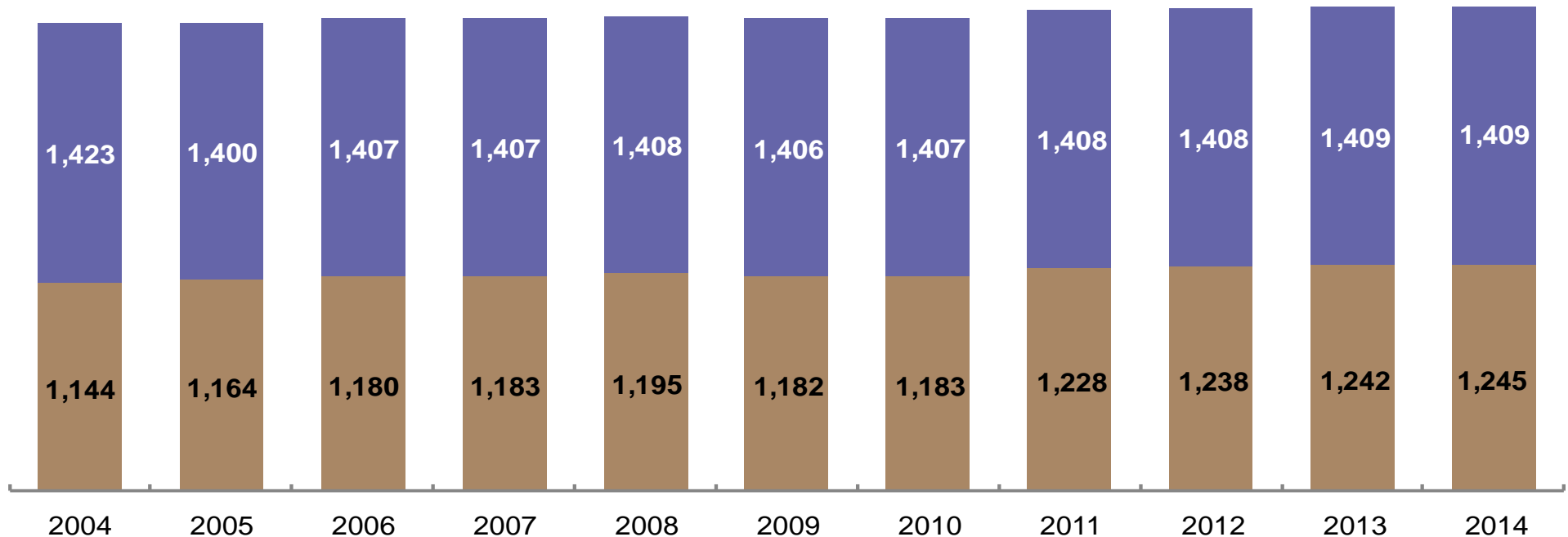
■ Asia
■ Americas
■ Europe and Africa
■ Others

Stable Fixed-line Business

Solid Customer Base Maintained Since 2004

('000)

■ Business Lines
■ Residential Lines



Fixed Mobile Integration (FMI) Solutions

Bringing Together our Superior Fixed & Mobile Networks

Mobile Service + Fixed Network

Secure Call Recording

Call recording for fixed and mobile numbers by a single, centralized & encrypted platform



Instant BCP (Business Continuity Plan)

BCP activation on-the-spot from fixed lines to mobile numbers



Private Fixed & Mobile Connectivity Service

Single, end-to-end secure private fixed network extending to remote locations



Cloud Services

Corporate Instant Messaging

Secure corporate instant messaging service for security & service reliability



Mobile Office

Extend enterprise office to anywhere via Cloud-based office admin application & enterprise cloud storage



Business Process Mobilization

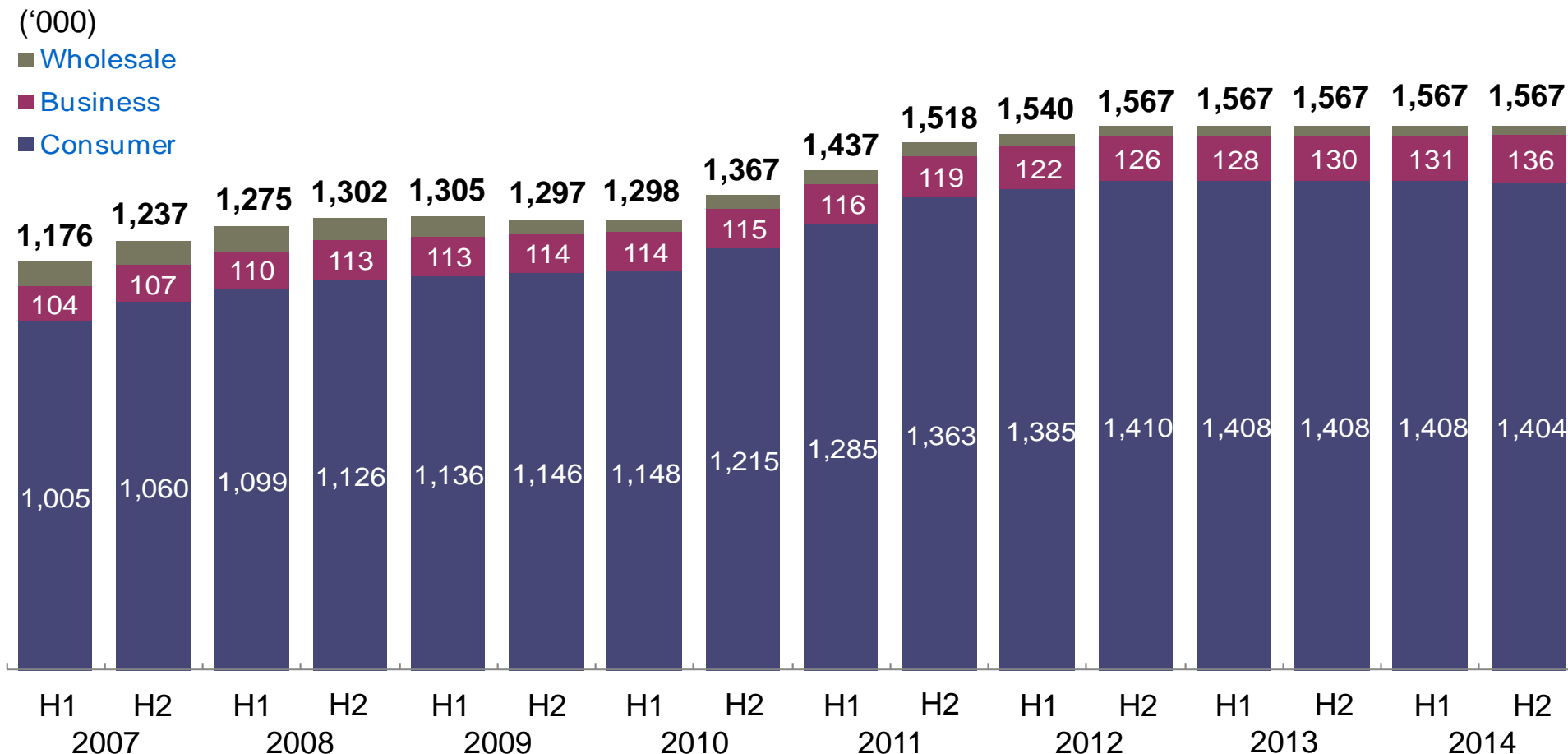
Mobility & Cloud enabled business processes to boost enterprise productivity



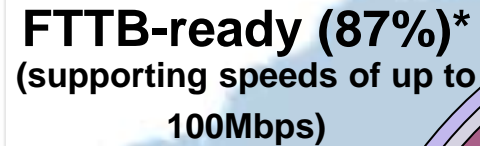
HKT delivers a full range of unique, end-to-end and secure FMI solutions to enterprises

Consolidated Position in Broadband

- Consolidated broadband market position with churn rate of around 1%
- Market conditions became more challenging in H2'14 because of economic slowdown, reduced spending in the market and competitors' price discounting



Wide Availability of our Fiber Network



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

**FTTH-ready
(80.8%)**
(supporting speeds up to
1000Mbps)**

(as of January 2015)

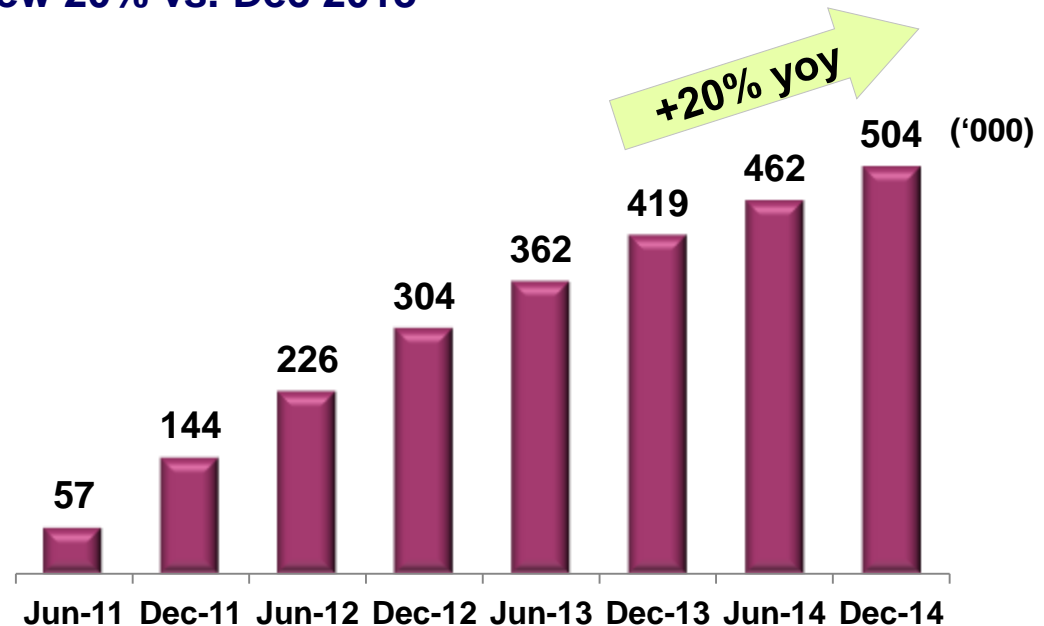
* FTTB-ready means FTTH service can be available within 29 days of receiving a service order, building management access permitting

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

Continued Growth of Fiber Customers

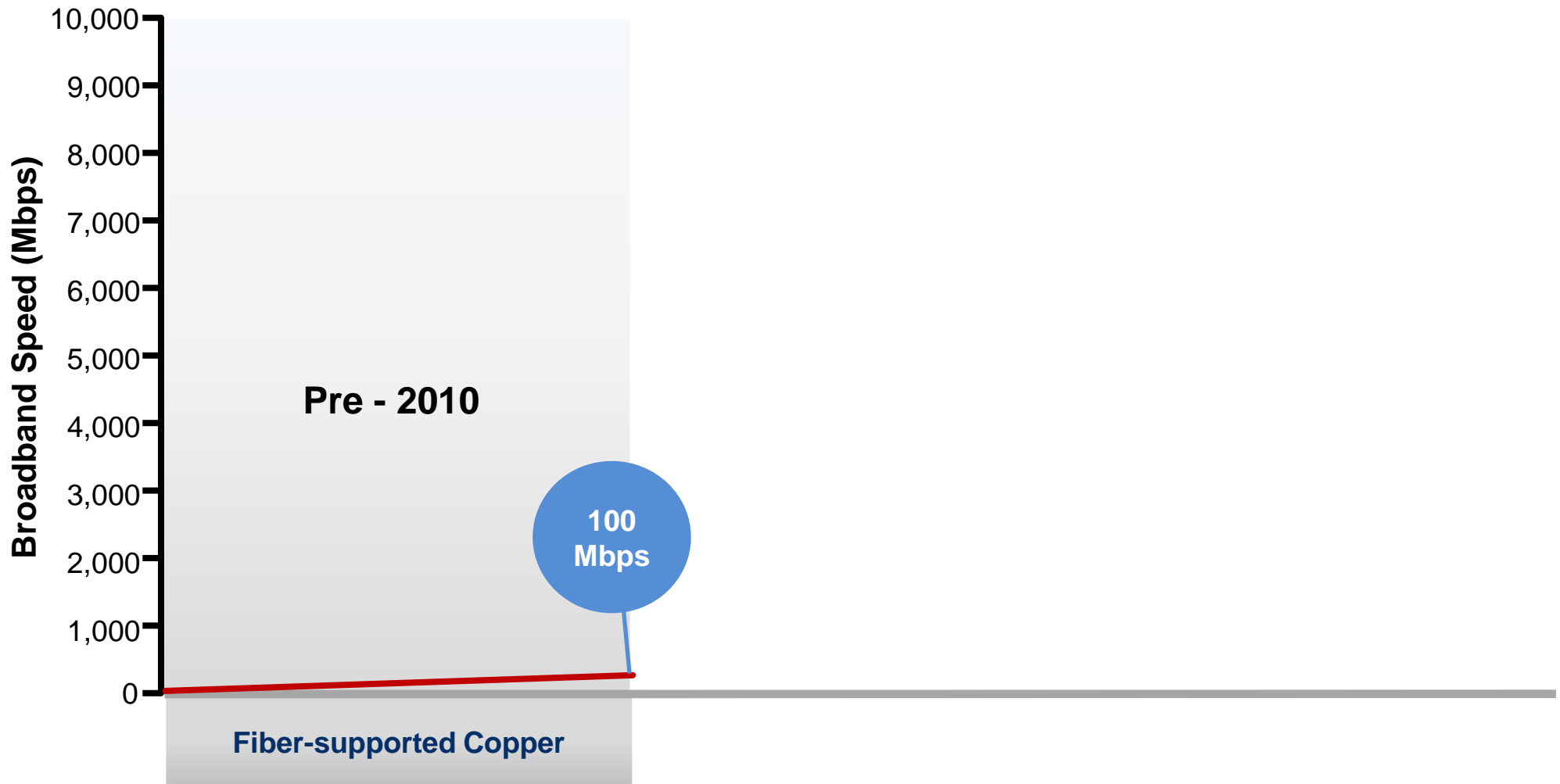


- Fiber-To-The-Home (FTTH) service continued to attract new customers and existing customers for service upgrade
- 504K customers enjoying FTTH service as of Dec 2014, grew 20% vs. Dec 2013

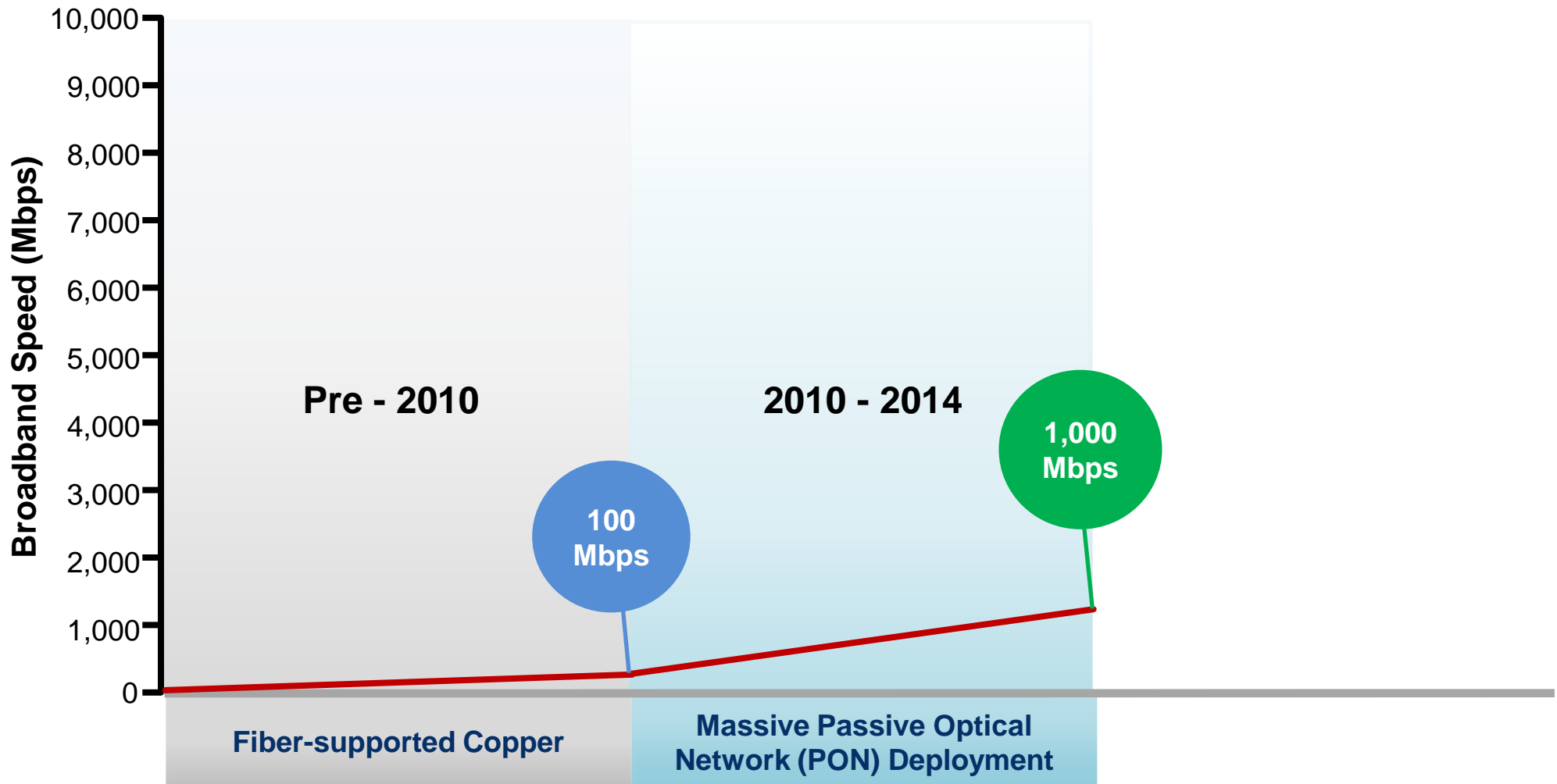


- Growing fiber customer base creates future upgrade opportunity to higher speed, higher price service plans
- 618K customer enjoying high speed service (FTTH and VDSL) as of Dec 2014

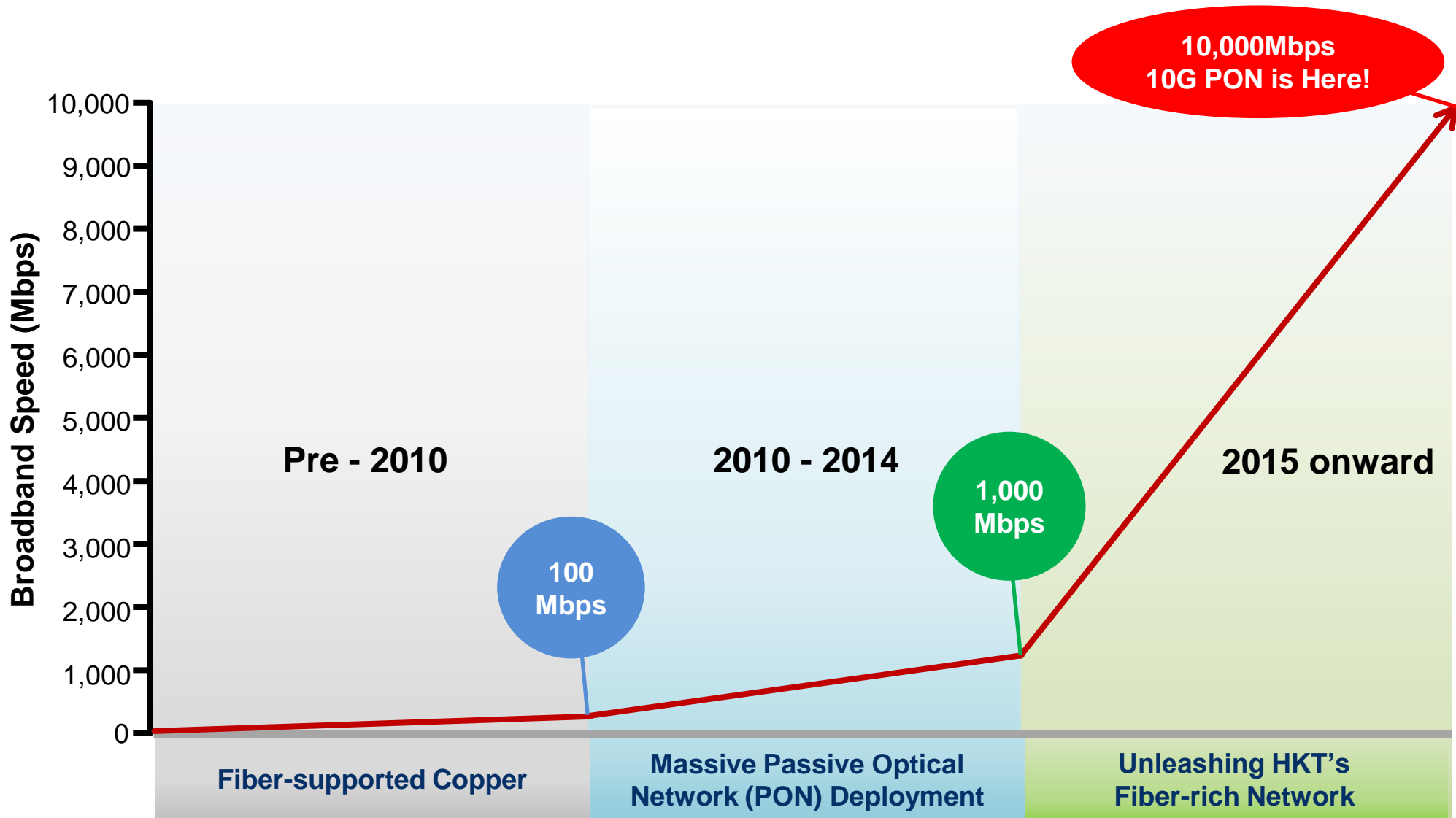
HKT's Fiber Broadband Roadmap



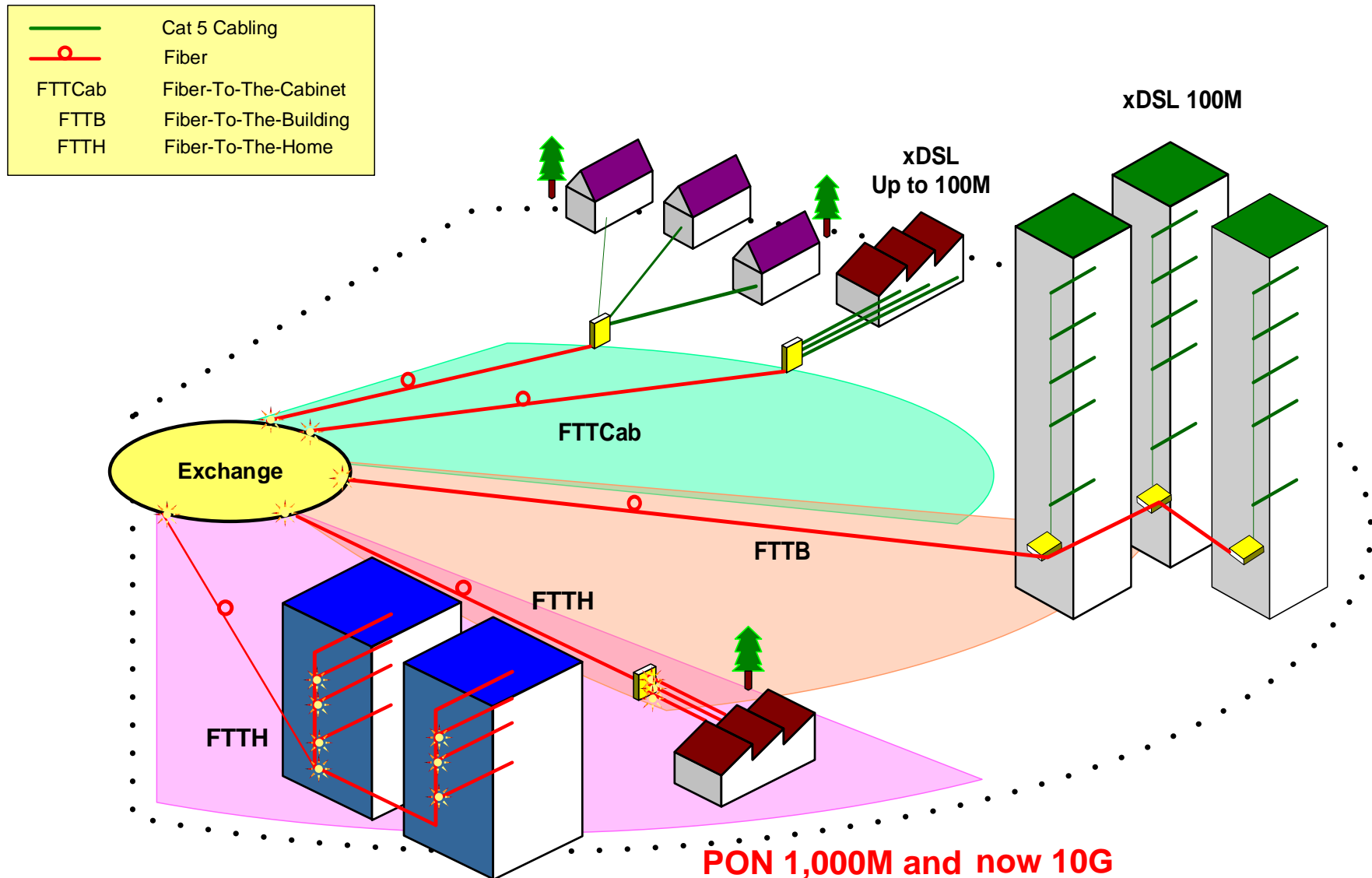
HKT's Fiber Broadband Roadmap



HKT's Fiber Broadband Roadmap



HKT's Fiber Broadband Evolution



10G PON is Here!

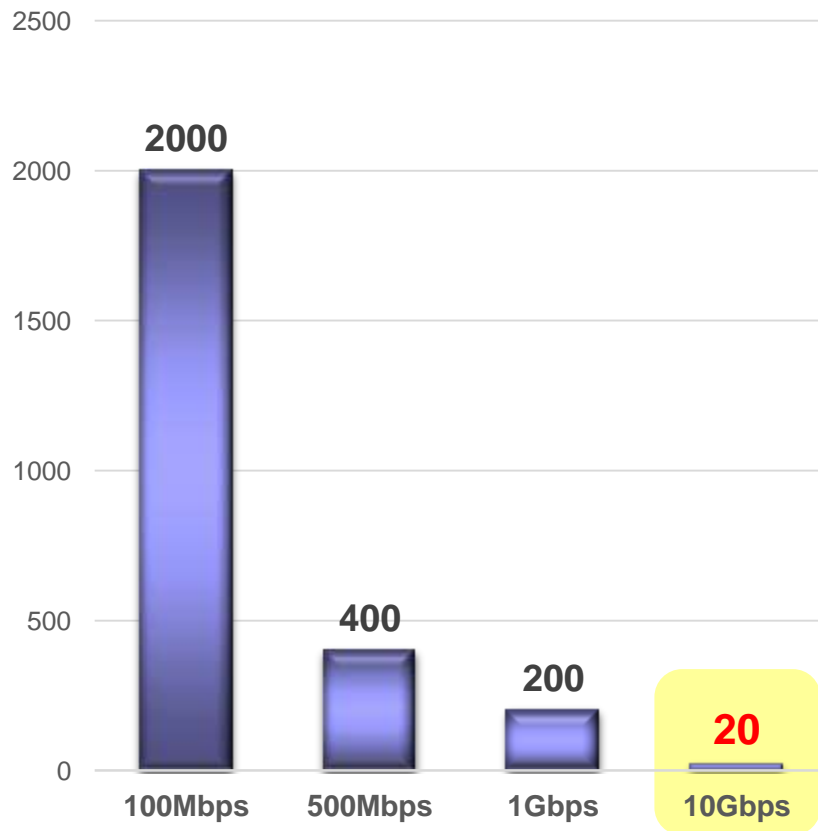


10G PON is Here!



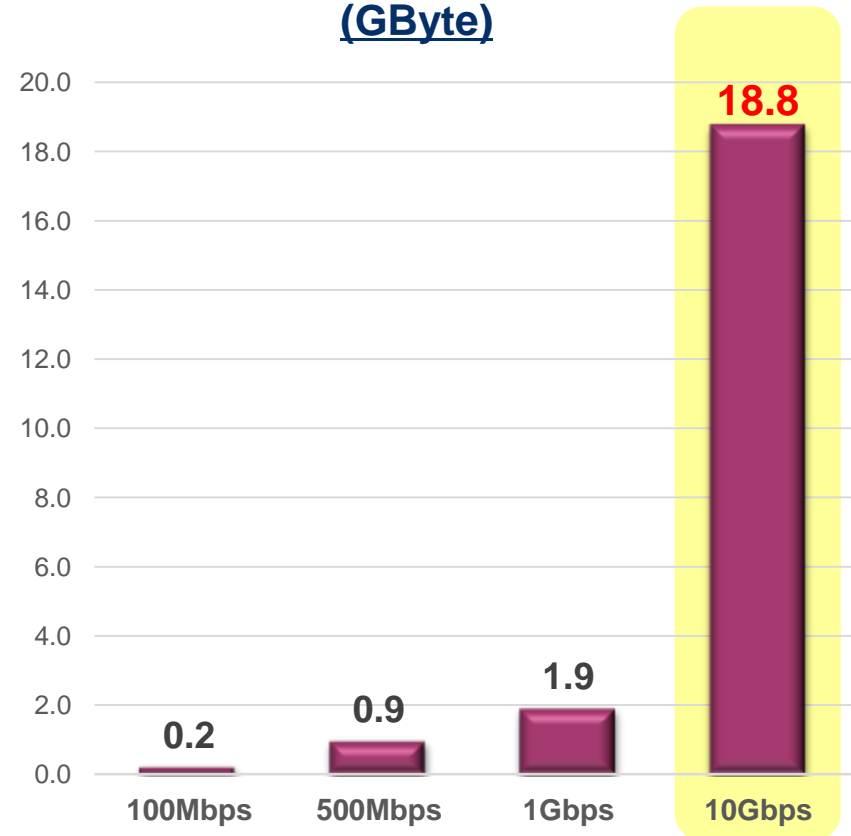
10G PON Download 25GB File 100 Times Faster than 100Mbps

Download Time (sec)



* Estimated download time when transmitting a file of 25GB size based on theoretical calculation.

File size for 15sec Download (GByte)



* The amount of material downloaded after 15sec of transmission based on theoretical calculation.

10G PON Rollout Strategy

1. **HKT's past investment means we have a fiber-rich asset today**
 - 10Gbps is a small incremental investment and demand driven
2. **1H 2015 will be pilot stage**
3. **Commercial launch in Q3 2015 will cover all of Hong Kong within HKT's FTTH-Ready footprint (i.e. already 80.8%)**
4. **Existing FTTH customers will be able to upgrade without additional installation work**
 - Only a modem change is required at the customer premises
5. **In addition to 10Gbps broadband speed, HKT's modem will provide Wi-Fi connectivity on 802.11ac to deliver 1Gbps wireless broadband**

HKT – Redefining Broadband (Fixed and Mobile)

Strong Financial Performance Underpinned by Solid Operating Performance



Mobile business on track to deliver cost saving announced when we acquired CSL



International business continues to strengthen



Stable Fixed-line business



Consolidated position in Broadband business and Enriching Service Offering with 10G PON