

HKT Here To Serve



2014 Interim Results

For the six months ended June 30, 2014

August 5, 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>H1'13</u>	<u>H1'14</u>	% change
<i>Adjusted Funds Flow</i>	190	204	+ 7%

The Board has declared an Interim Distribution of 21 HK cents per Share Stapled Unit

Financial Review

Susanna Hui

Group Chief Financial Officer

Solid Growth in EBITDA and AFF

(US\$ million)	<u>H1'13</u>	<u>H1'14 *</u>	% change
<i>Adjusted Funds Flow</i>	190	204	+ 7%

<i>Revenue</i>	1,419	1,605	+ 13%
<i>EBITDA</i>	492	567	+ 15%
<i>EBITDA Margin</i>	35%	35%	
<i>Profit</i> <i>Attributable to Holders of</i> <i>Share Stapled Units</i>	153	180	+ 18%

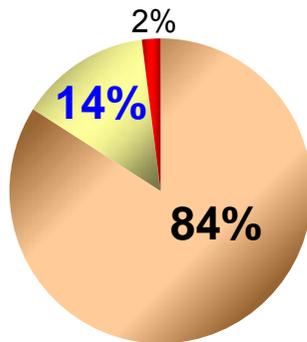
* Consolidated the CSL results since May 2014

For the year ended December 31, 2013		
(US\$ million)	HKT	CSL
Revenue	2,927	1,097
EBITDA	1,013	451
AFF / Normalized AFF	372	105

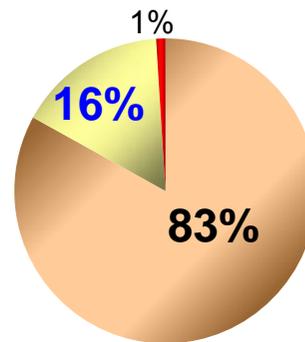
Mobile Contributions to Gain Greater Prominence

Revenue

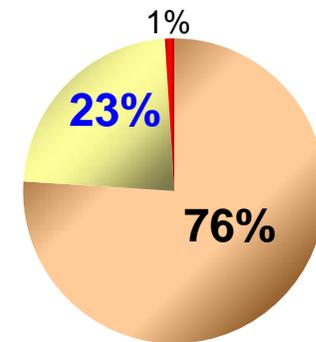
- TSS
- Mobile
- Others & Eliminations



H1'12

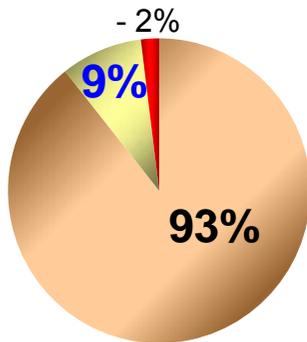


H1'13

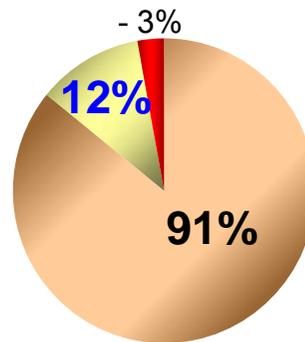


H1'14

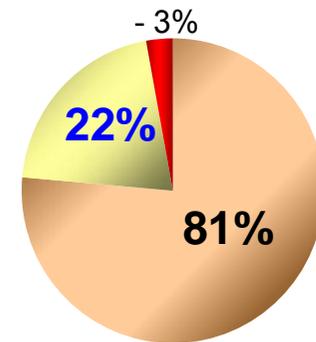
EBITDA



H1'12



H1'13

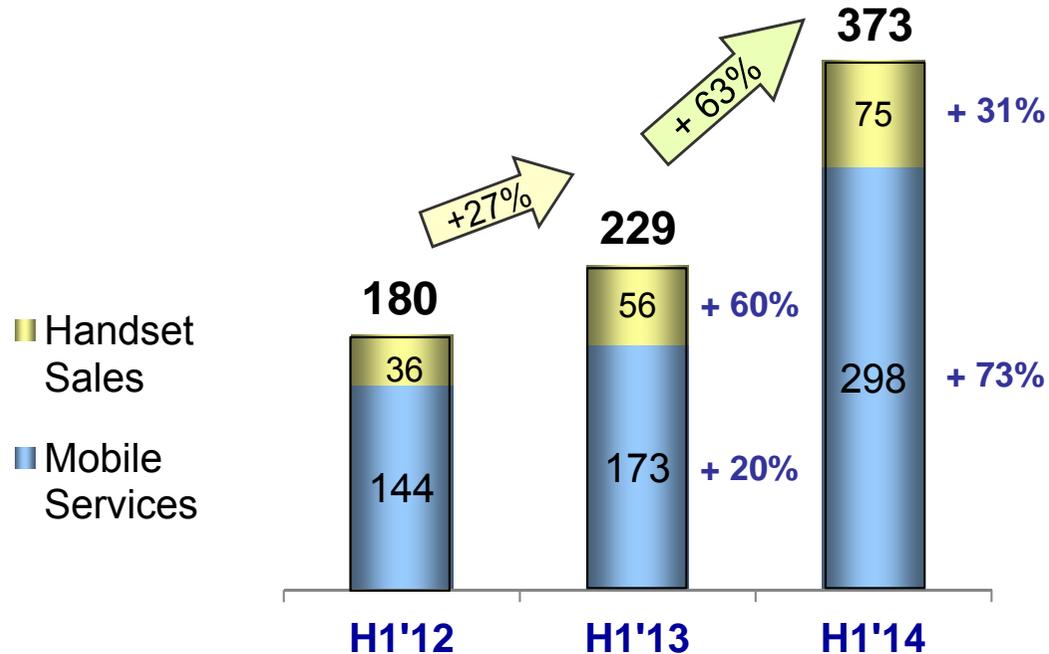


H1'14

Resumes Market Leadership in Mobile

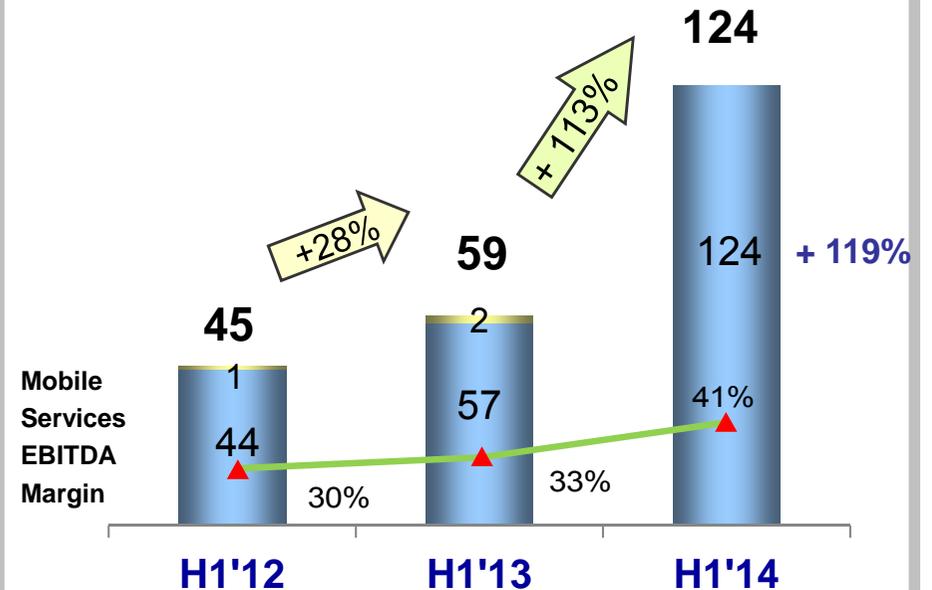
(US\$ million)

Mobile Revenue



- Mobile business included CSL results since May 2014
- Resumes market leadership with subscriber base of 4.512M
- Total mobile revenue up 63% driven by 73% increase in mobile services revenue
- Blended post-paid exit ARPU improved to HK\$216 from HK\$209 a year ago

Mobile EBITDA

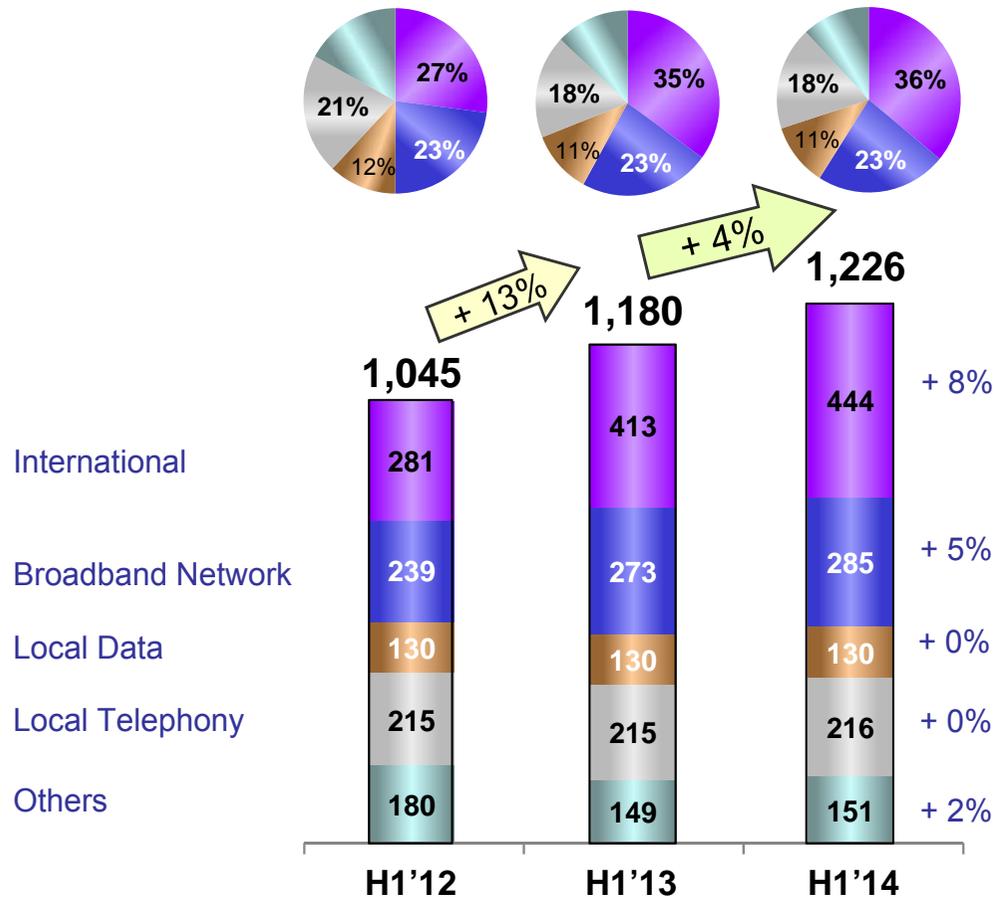


- EBITDA grew by 113% in H1'14
- Margin of mobile services expanded to 41% demonstrating the benefits of the enlarged scale

Sustained Growth within TSS

(US\$ million)

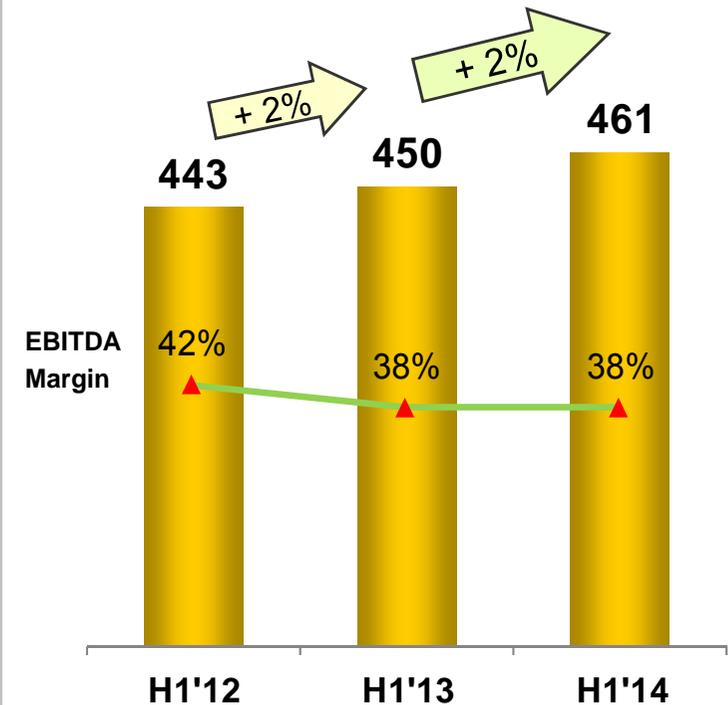
TSS Revenue



- **International** – continued growth reflecting voice and data demand from international customers
- **Broadband** – uninterrupted growth for six consecutive years

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

TSS EBITDA

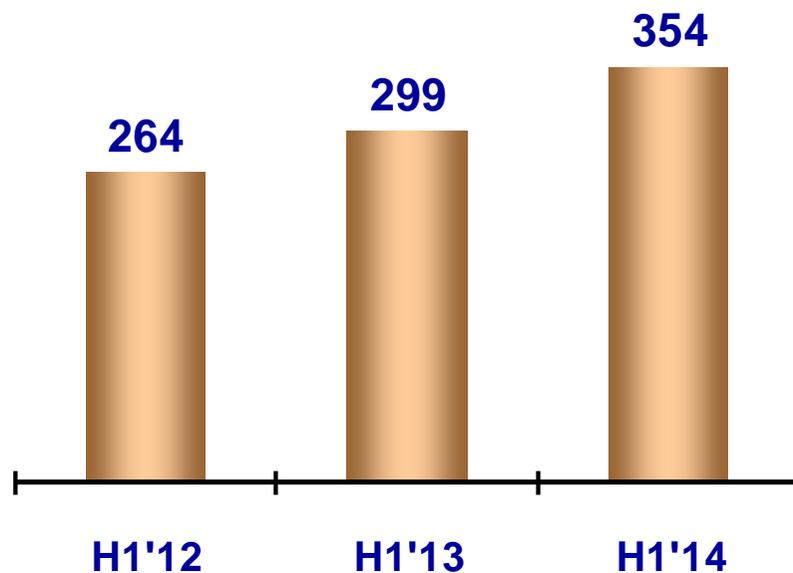


- EBITDA margin maintained amidst the shift in revenue mix

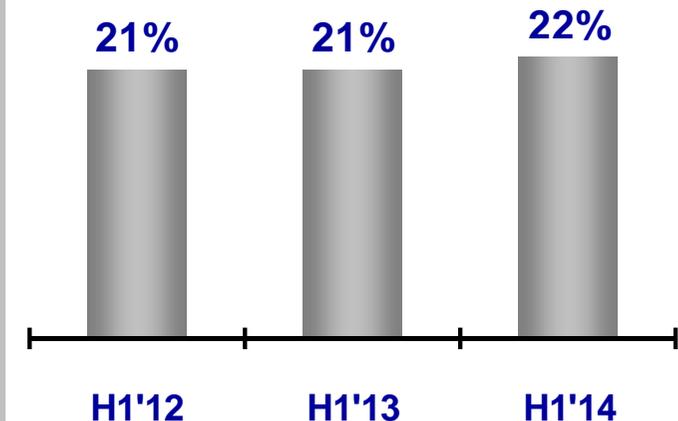
More Synergies Expected in Coming Periods

(US\$ million)

Operating Expenses



Opex to Revenue Ratio



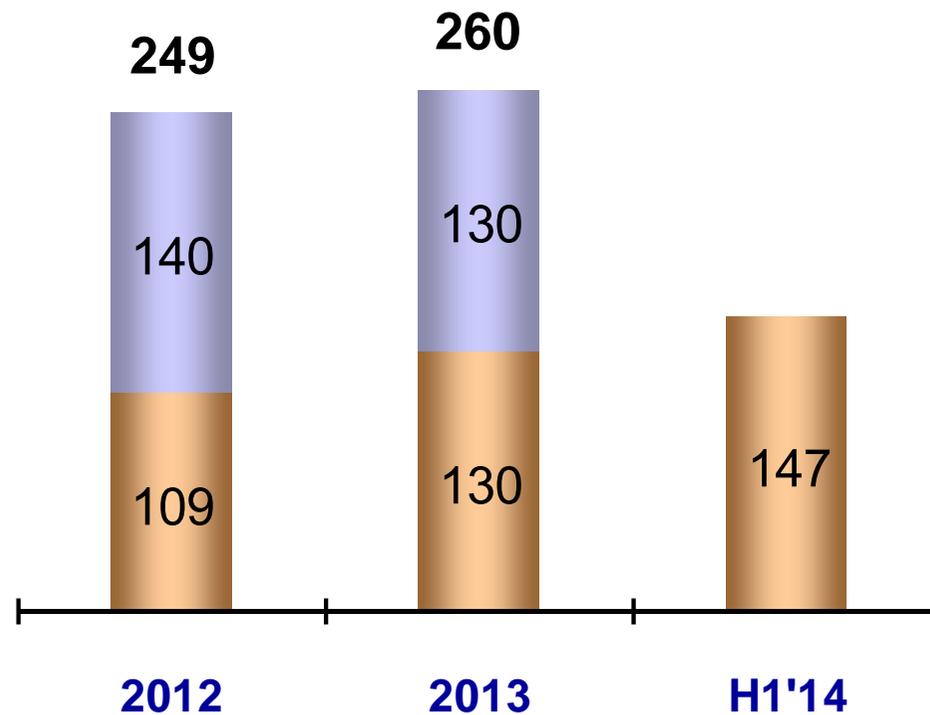
- Opex increased by 18% in H1'14, largely due to the CSL acquisition
- Expect the synergies realized from increased scale and rationalization of the operations to manifest more evidently over the course of the next 18-24 months

Disciplined Capex to Benefit from Synergies

(US\$ million)

H2

H1



- Increase in capex due to CSL integration but synergies expected
- Maintain 10% capex to revenue ratio guidance

Capex to Revenue Ratio: 9%

9%

9%

Adjusted Funds Flow

(US\$ million)	H1'13	H2'13	H1'14	YoY
EBITDA	492	521	567	+ 15%
Less cash outflows in respect of:				
Customer acquisition costs and licence fees	(91)	(114)	(98)	
Capital expenditures	(127)	(127)	(146)	
Adjusted Funds Flow before tax paid, net finance costs paid and changes in working capital	274	280	323	+ 18%
Adjusted for:				
Tax payment	(14)	(28)	(10)	
Net finance costs paid	(31)	(57)	(47)	
Changes in working capital	(39)	(13)	(62)	
Adjusted Funds Flow for the period	190	182	204	+ 7%
Adjusted Funds Flow per Share Stapled Unit (HK cents)	23.13	22.08	24.78 / 21.00*	
Interim/Final Distribution per Share Stapled Unit (HK cents)	21.00	24.21	21.00*	

* Based on an enlarged basis of 7,571,742,334 Share Stapled Units in issue after the Rights Issue

Income Statement

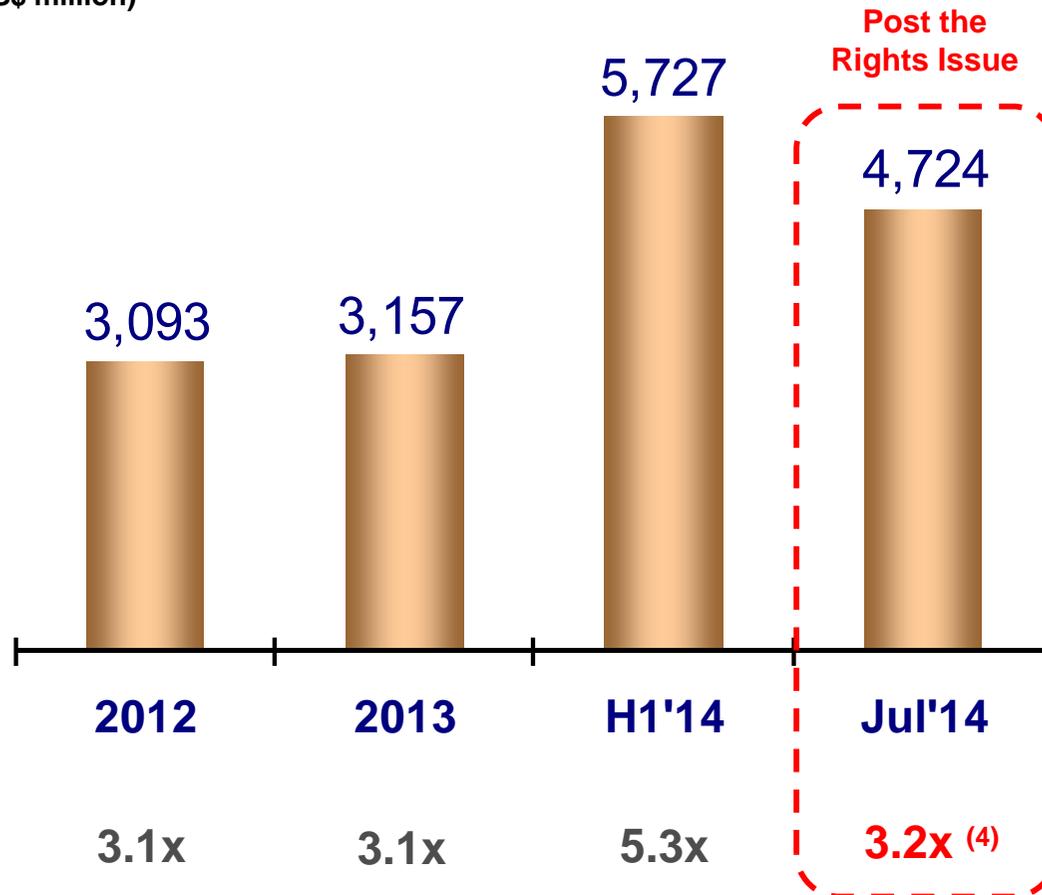
(US\$ million)

	<u>H1'13</u>	<u>H1'14</u>	
Turnover	1,419	1,605	+ 13%
Cost of sales	(628)	(684)	
Opex	(299)	(354)	
EBITDA	492	567	+ 15%
Depreciation & Amortization expenses	(308)	(301)	
Gain on disposal of fixed assets	1	–	
Net other gains	6	5	
Net finance costs	(58)	(58)	
Share of results of an associate & JVs	1	–	
Profit before income tax	134	213	+ 59%
Income tax	21	(31)	
<i>Effective tax rate</i>	<i>NA</i>	<i>15%</i>	
Profit for the period	155	182	
Attributable to:			
Holder of Share Stapled Units	153	180	+ 18%
Non-controlling interests	2	2	

Solid Financial Position Maintained

HKT Gross Debt (1),(2)

(US\$ million)



**BBB/Baa2
Investment
Grade Rating**

(Moody's and Standard & Poor's revised the rating outlook from Negative to Stable after the Rights Issue)

HKT Gross Debt / EBITDA⁽³⁾

(1) HKT denotes HKT Trust and HKT Limited

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

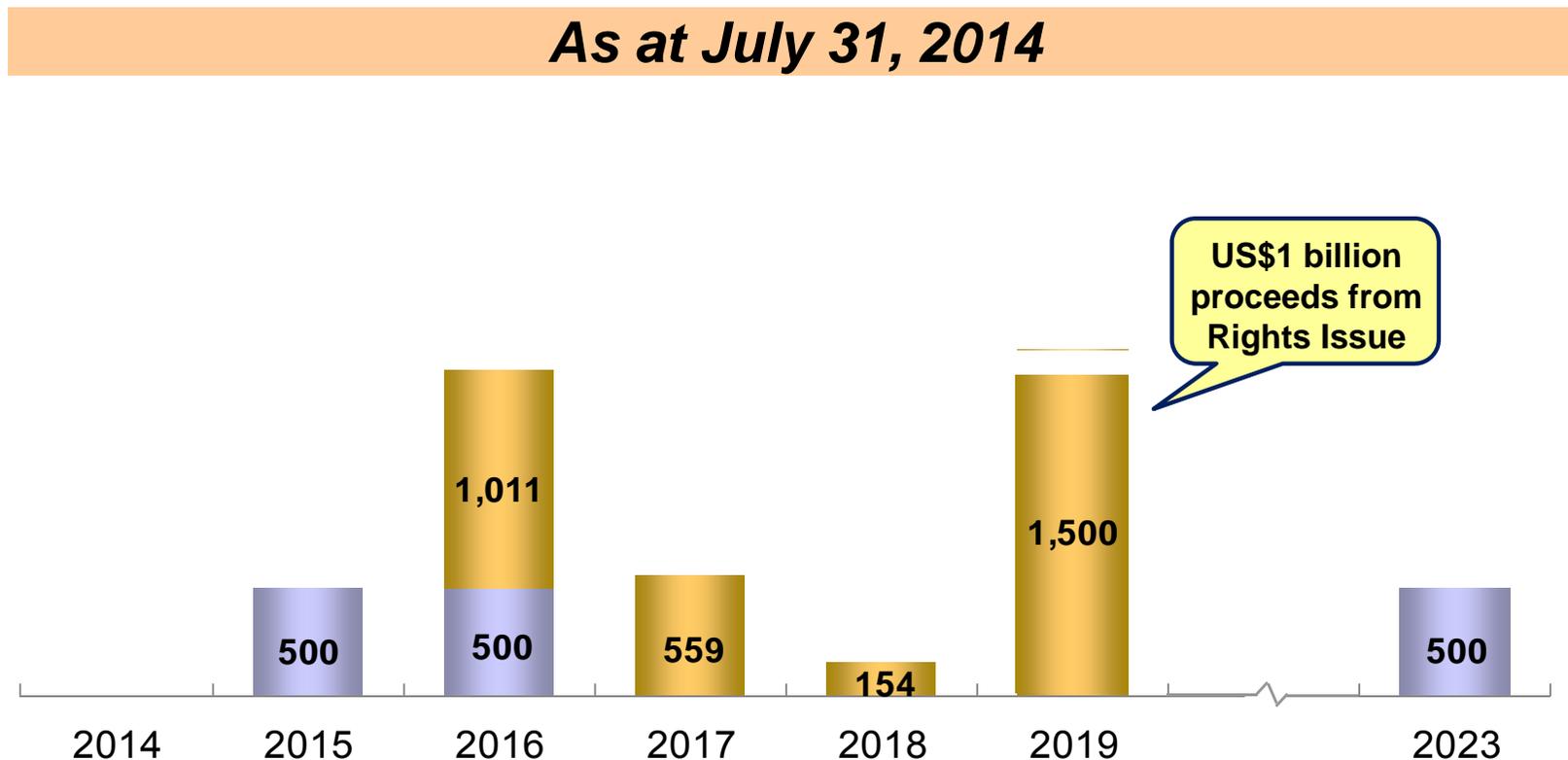
(3) Based on gross debt as at period end divided by EBITDA for the 12-month period

(4) Based on gross debt as at July 31, 2014 divided by HKT FY13 EBITDA and CSL FY13 EBITDA

Debt Maturity Profile

(US\$ million)

Bank Loans
US\$ Bonds



- Refinanced the commercial banking facility in relation to the CSL acquisition by way of the drawdown of US\$1.5 billion in 5-year banking facilities and the US\$1 billion proceeds raised from the rights issue
- Maintain liquidity of approximately US\$540 million in undrawn banking facilities as of July 31, 2014
- Effective interest rate has been further improved to below 3% in H1'14

Business Review

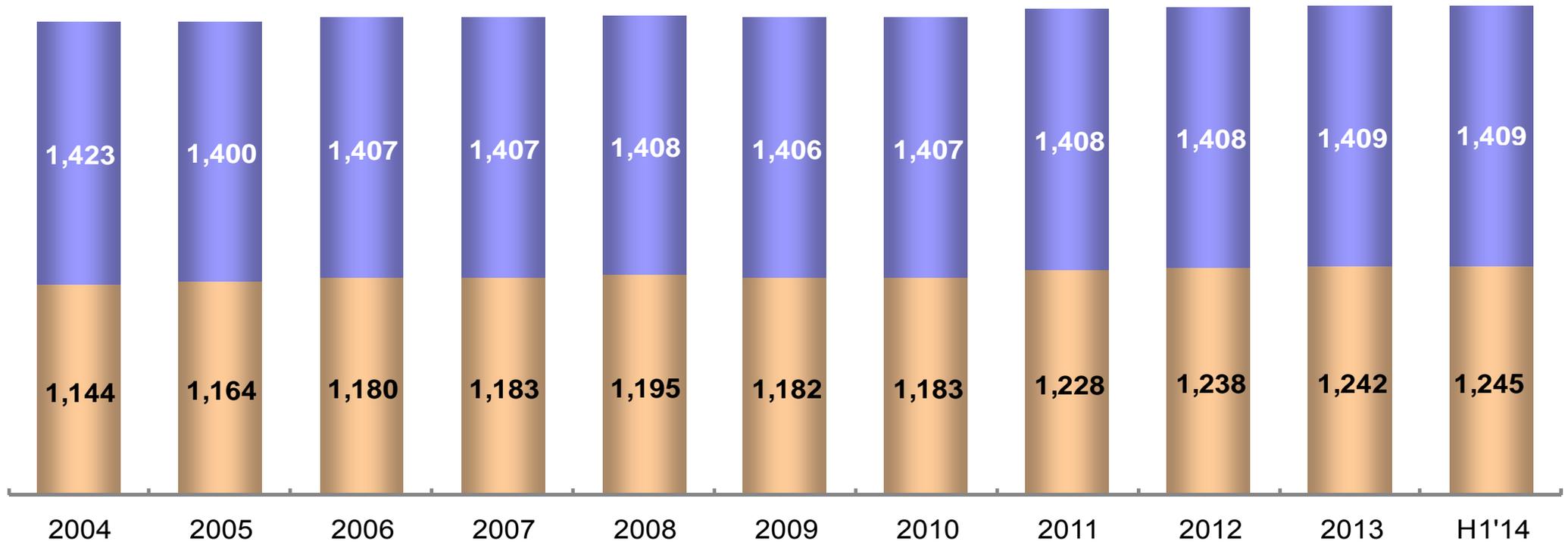
Alex Arena

Group Managing Director

Stable Fixed-line Business

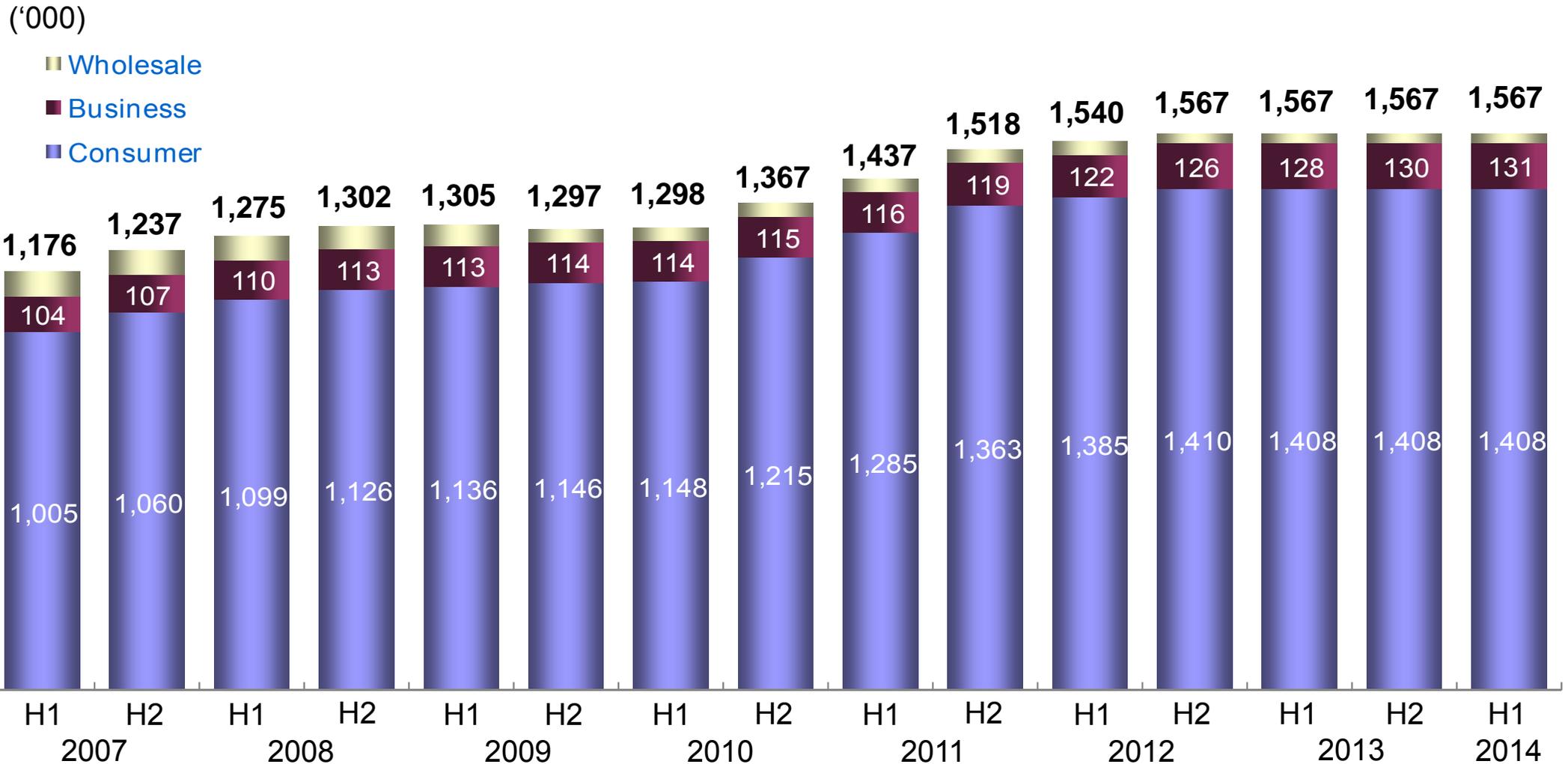
Solid Customer Base Maintained Since 2004

('000) ■ Business Lines ■ Residential Lines



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



Wide Coverage of our Fiber Network



科技瞬息萬變
網上行不斷拓展網絡及提升服務
為你今日及未來的生活需要
做好準備!

網上行光纖入屋，以穩定流暢的本地及海外頻寬
全面支援雲端、智能家居等多媒體的應用，為你提供優質的上網體驗!

今日 已為你準備全城最矚目的
寬頻及流動通訊優惠!



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或 登入www.netigator.com了解詳情

此優惠僅供指定地區客戶使用。網上推廣活動由Hong Kong Telecommunications (HKT) Limited提供。

HKT

電訊盈科集團成員

FTTB-ready (86.9%)*
(supporting speeds of up to
100Mbps)

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

**FTTH-ready
(79.9%)****
(supporting speeds up to
1000Mbps)

(as of July 2014)

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

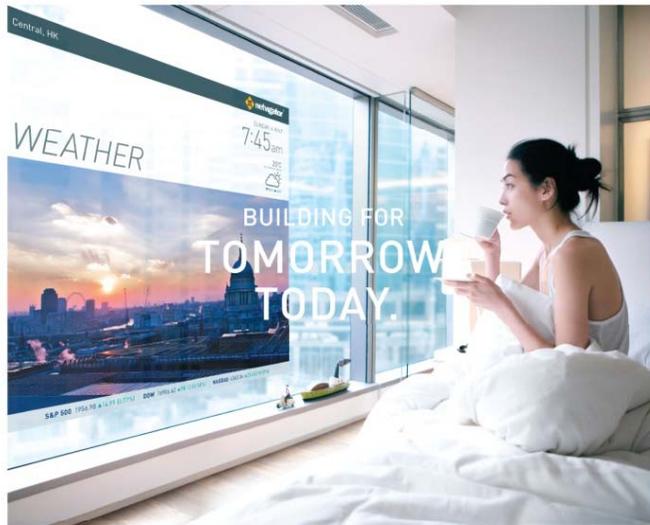
** FTTH-ready means FTTH service can be available within 4 days of receiving a service order

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a **PCCW** Group member

Continued Growth of Fiber Customers

網上行



網上行光纖入屋，以穩定流暢的本地及海外頻寬
全面支援雲端、智能家居等多媒體的應用，為你提供優質的上網體驗！

今日 已為你準備全城最優目的
寬頻及流動通訊優惠！



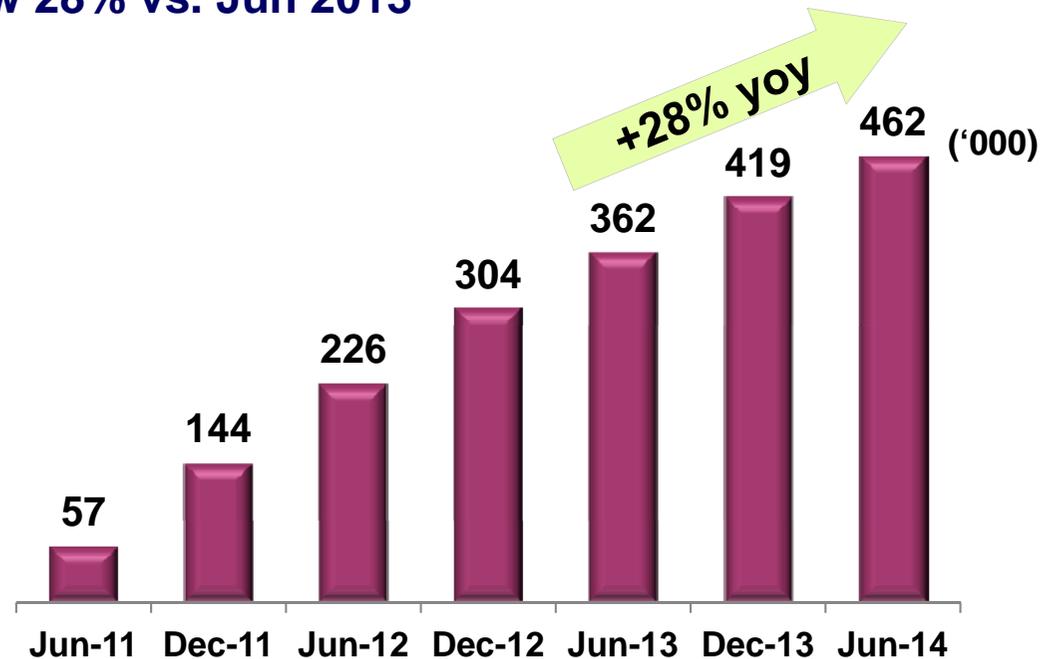
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此乃廣告，並非提供投資建議。請參閱有關詳情。HKT Limited 2014

HKT

電訊盈科集團成員

- Fiber-To-The-Home (FTTH) Service continued to attract new customers and existing customers for service upgrade
- 462K customers enjoying FTTH service as of Jun 2014, grew 28% vs. Jun 2013



- Growing fiber customer base creates future upgrade opportunity to higher speed, higher price service plans
- 583K customer enjoying high speed service (FTTH and VDSL) as of Jun 2014

HKT Here TO Serve

a PCCW Group member

International Business Continues to Grow

Invested in the
AAE-1

undersea cable, interconnects Hong Kong, Asia, the Middle East, Africa and Europe with a target ready for service date in

2016.



On to

TOP 15

as ranked by Renesys not only for

IPv4 but also for

IPv6



on target for more than

7 billion

of wholesale voice traffic this year

Our Global television distribution network

GTVN



aimed at television and content producers now has more than

20 PoPs

delivering wholesale content to worldwide domestic distribution headends



Our Mobile Business Now

CSL Acquisition Completed on May 14, 2014

- **Total customer base of 4.512M**
 - **Post-paid customer base of 3.183M**
- **Post-paid exit ARPU of HK\$216**
- **Mobile data represents 68% of total services revenue**
- **76% of post-paid customers are smart-device users**
- **IDD and roaming represent 18% of total services revenue**

** Figures stated as at June 30, 2014 or for the six months ended June 30, 2014*

What We Have Done Since Acquisition on May 14, 2014



Staff Integration Complete



Finalized and Launched Branding



Rationalized Shop Networks



Started Network Integration



Unified and Simplified Service Plans and Pricing

Staff Integration Complete



1500+

CSL Staff Acceptance Rate of over 94%

Launched Multi-Brand Strategy



Multi-brand strategy allows full coverage of the market according to customer's affordability and service requirements

Rationalized Shop Networks



 **HKT**
(31 Shops)

 **1010**
(10 Shops)

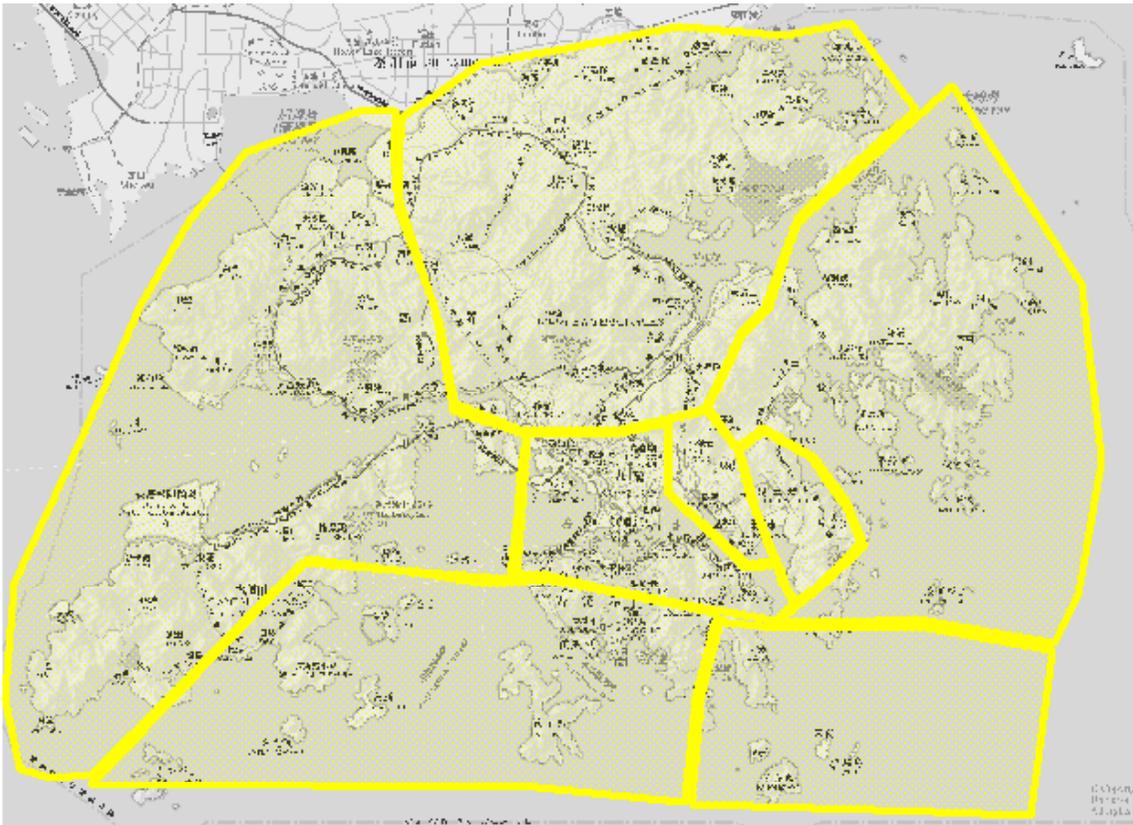
 **csl.**
as simple as business
(43 Shops)

 **新世界傳動網**
New World Mobility
(53 Shops)

* Shop numbers as at July 7, 2014

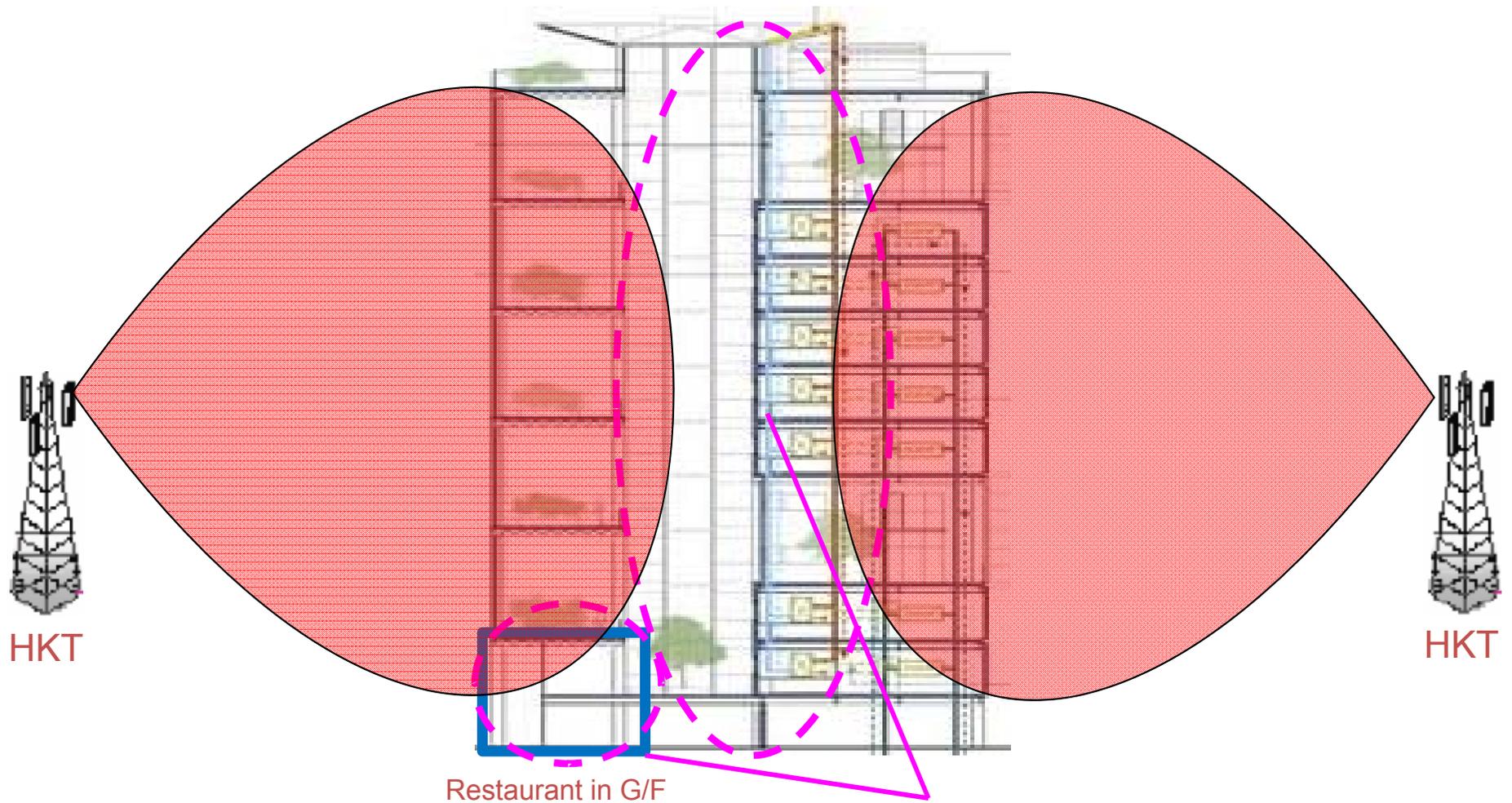
Deployment of MOCN Technology

- Progressively deploying Multiple Operator Core Network (“MOCN”) technology to integrate the networks
 - Focusing on the 900MHz network initially resulting in significantly improved network experience for legacy HKT customers in certain locations and particularly for indoor coverage



Location	Activation Date
Sai Kung	19 Jun
Tsuen Kwan O	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

Previous Coverage of HKT

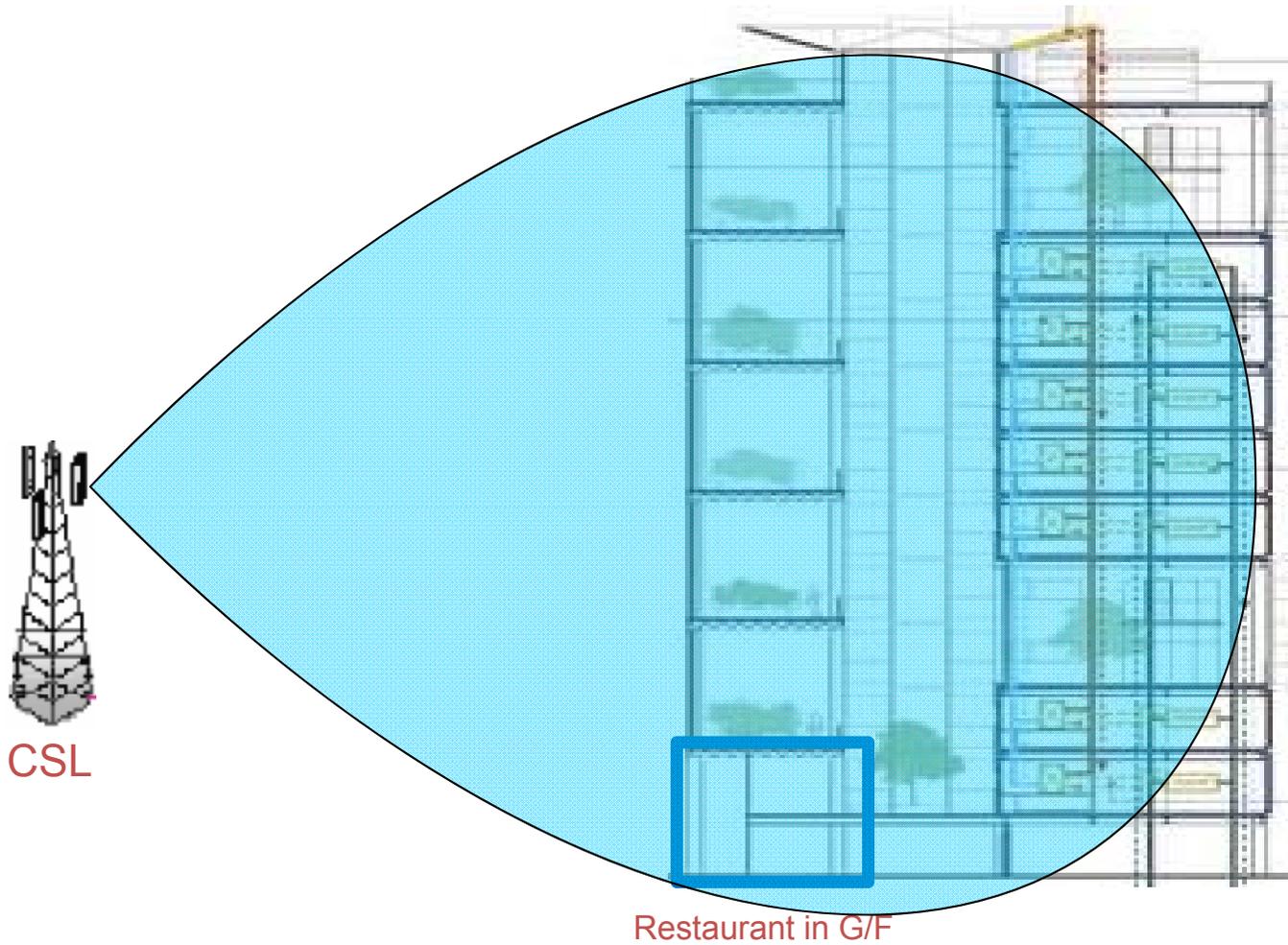


Previous HKT Coverage with L1800/U2100/U2600

** Strong coverage*

Previous HKT coverage (without U900) was insufficient for deep indoor area penetration

Previous Coverage of CSL



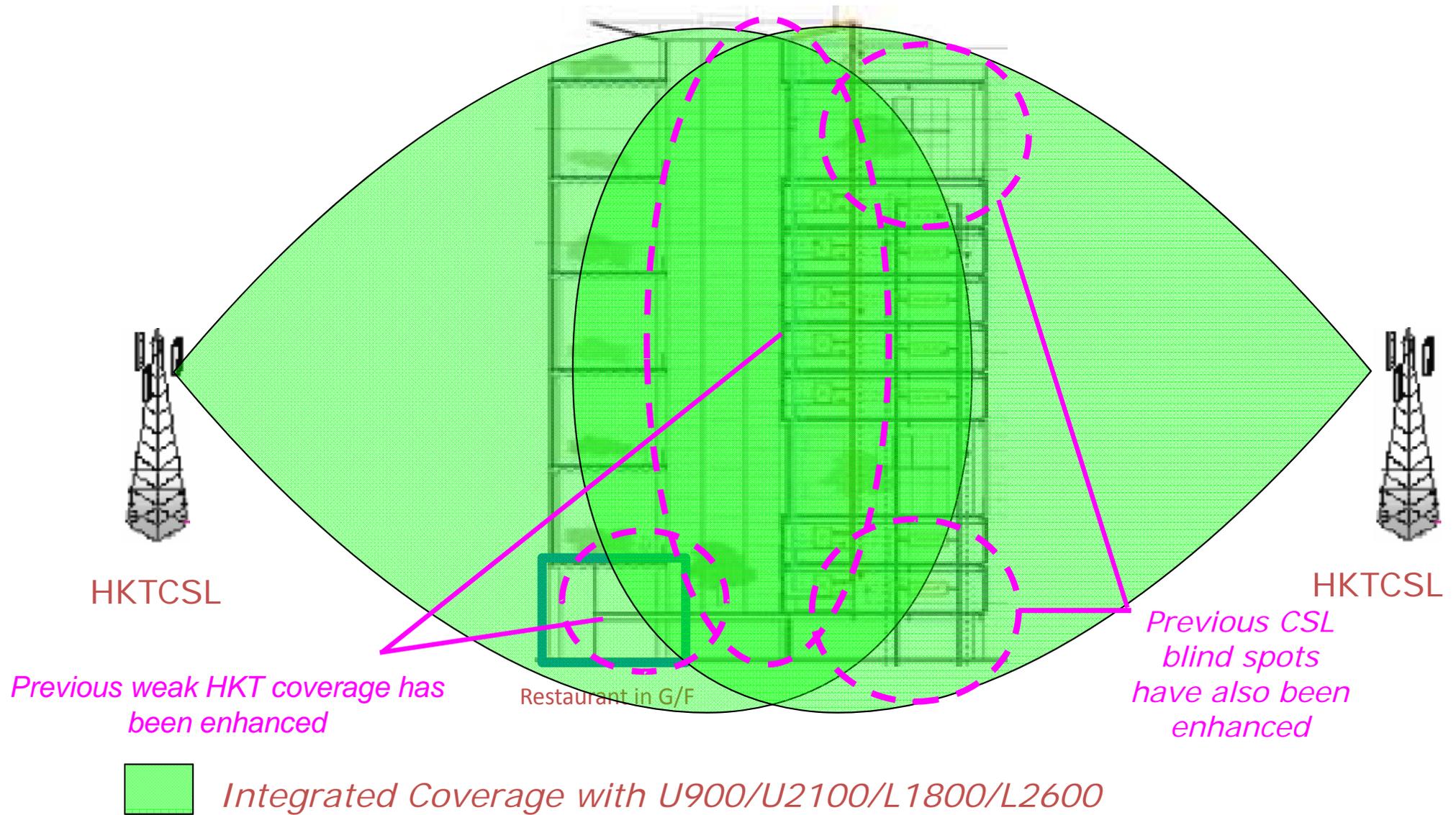
With deeper propagation of U900, CSL needed less sites to provide deep indoor coverage



Previous CSL Coverage with U900/U2100/L1800/L2600

** Strong coverage*

Integrated Coverage of HKTCSL



Enhanced Customer Experience

- CSL customers are experiencing enhanced network coverage and performance in many key locations across Hong Kong where the CSL network did not previously have cell sites located

Hang Seng HQ



Dah Sing Financial Centre



Asia Society



- CSL customers have also gained access to HKT's extensive Wi-Fi network with over 14,600 hotspots including exclusive MTR station coverage



Unified Pricing Plans

- CSL plans retained although a number of low volume plans have been removed
- PCCW-HKT mobile tariffs have been aligned
- Unified pricing plans reduces complication while still offering significant choice for customers based on their requirements

Original Tariffs



23



23

PCCW HKT

6

Total

52

Unified Tariffs



14



13

Total

27



Simplified Pricing Structure

1. Fixed price

2. Choice of bandwidth

500MB / 1GB / 2GB / 5GB / 10GB

No speed limitation

3. Unlimited voice

4. Value added services



Unlimited
Wi-Fi



KingKing
App



Octopus
Mobile
Payments



10GB uHub
Cloud
Storage



nowTV
on mobile

Overall Status



Core Fixed-line business meeting expectations



Successful integration of CSL with some early wins being recorded