

**HKT** Here <sub>To</sub> Serve



## 2015 Annual Results

*For the year ended December 31, 2015*

**February 25, 2016 – 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)

2014

2015

% change

*Adjusted Funds Flow*

430

525

+ 22%

A Final Distribution of 28.27 HK cents per Share Stapled Unit is recommended,  
subject to approval of unitholders



# ***Financial Review***

***Susanna Hui***

*Group Chief Financial Officer*

# Solid Growth in EBITDA and AFF

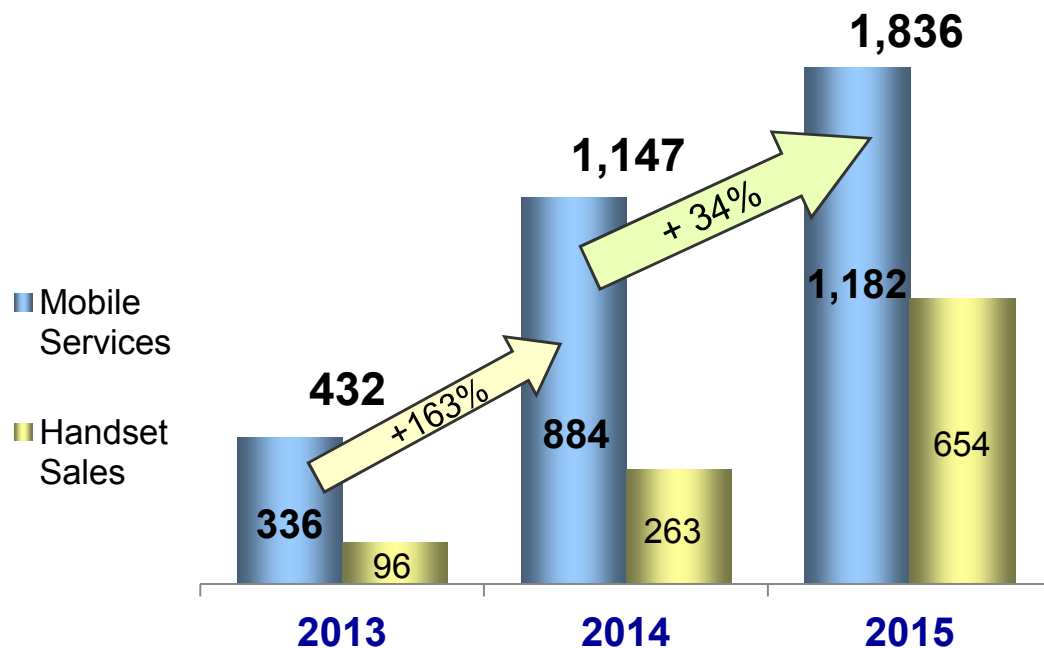
(US\$ million)	<u>2014 *</u>	<u>2015</u>	% change
<i>Adjusted Funds Flow</i>	430	525	+ 22%
<i>Revenue</i>	3,695	4,452	+ 20%
<i>EBITDA</i>	1,313	1,551	+ 18%
<i>EBITDA Margin</i>	36%	35%	
<i>Profit</i>			
<i>Attributable to Holders of Share Stapled Units</i>	383	506	+ 32%

\* Consolidated the CSL results since May 2014

# Leading Mobile Operation Extracting Significant Cost Efficiencies

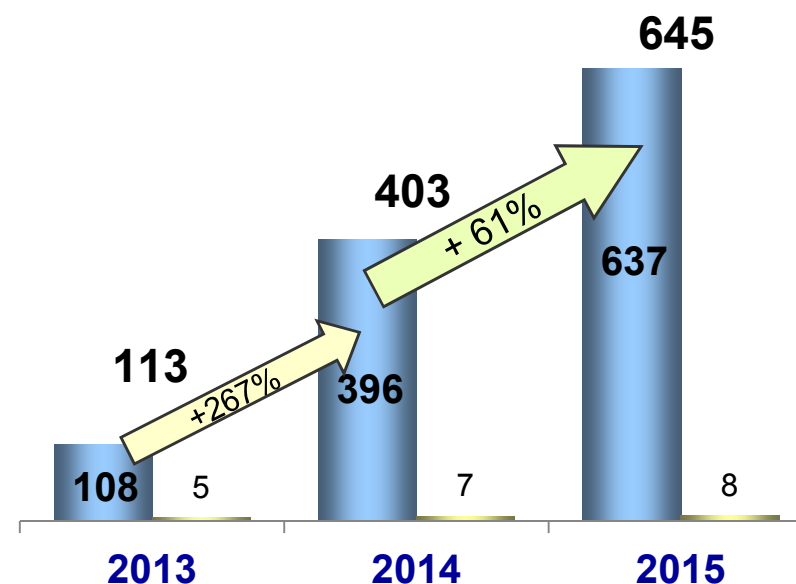
(US\$ million)

## Mobile Revenue



- Strong leadership position with customer base of 4.558M
- Total Mobile revenue up 60% driven by 34% increase in Mobile Services revenue
- Blended post-paid exit ARPU improved to HK\$230 from HK\$219 a year ago
- Handset Sales benefited from our offering of a well diversified portfolio of handsets and extensive retail network

## Mobile EBITDA



Mobile Services EBITDA Margin

32%

45%

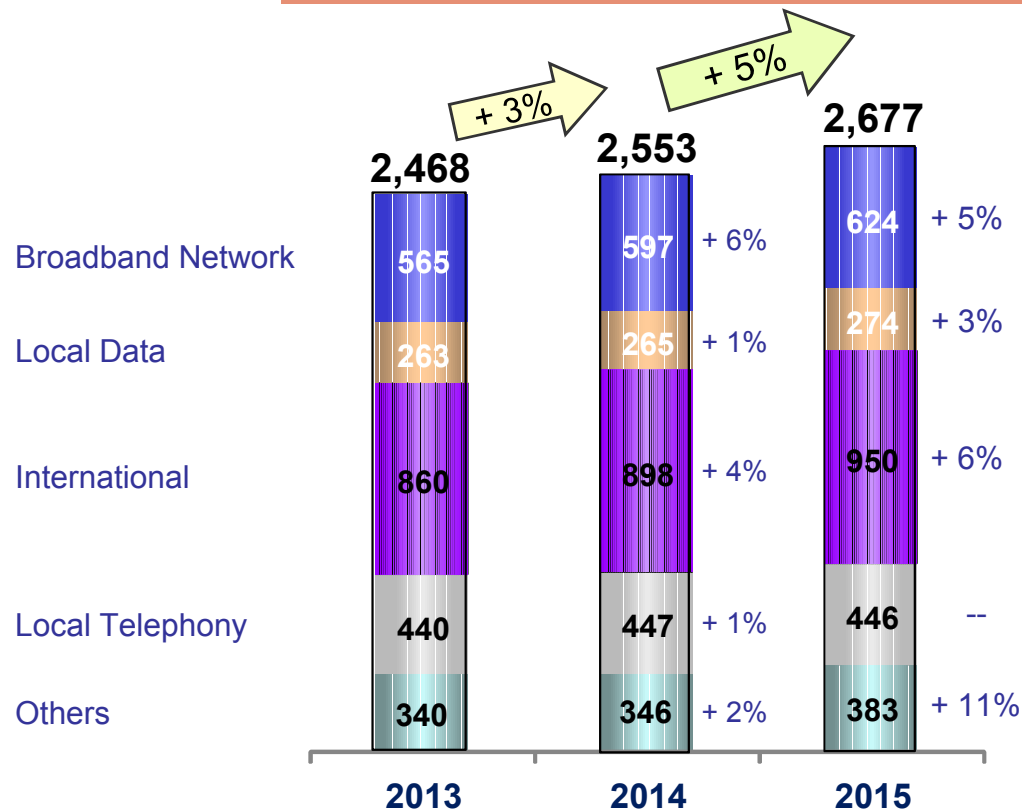
54%

- Mobile Services EBITDA grew by 61% in 2015
- Mobile Services margin expanded to 54% benefiting from the timely release of cost synergies

# TSS Maintains Steady Growth

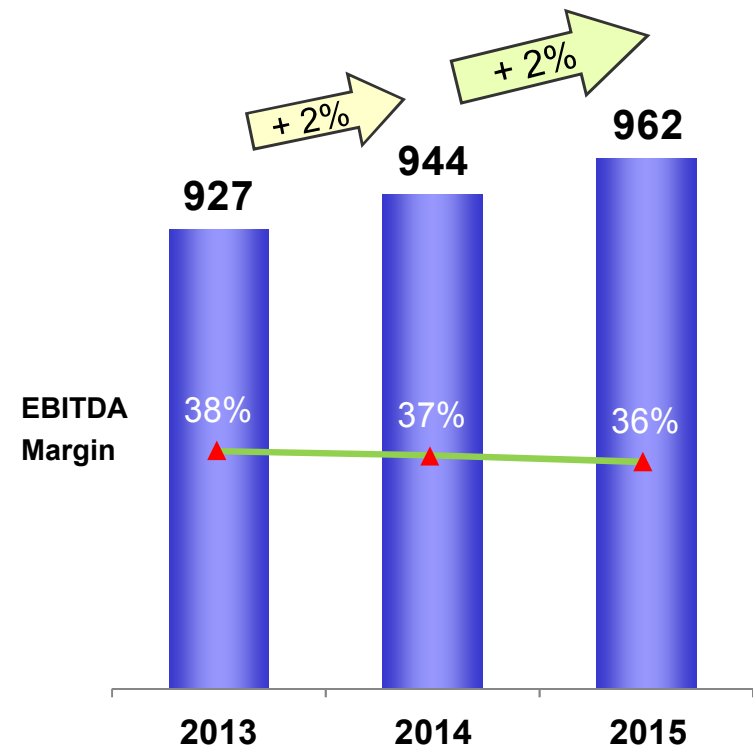
(US\$ million)

## TSS Revenue



- **Broadband** – revenue growth for eight consecutive years, fueled by continued customer upgrades to high speed plans and supported by strong content and value proposition of PCCW's now TV service
- **International** – revenue growth for six consecutive years, reflecting continued strong demand for data connectivity services from international carriers and enterprise customers and upselling of additional VAS such as cyber security solutions and unified cloud-based communication services

## TSS EBITDA

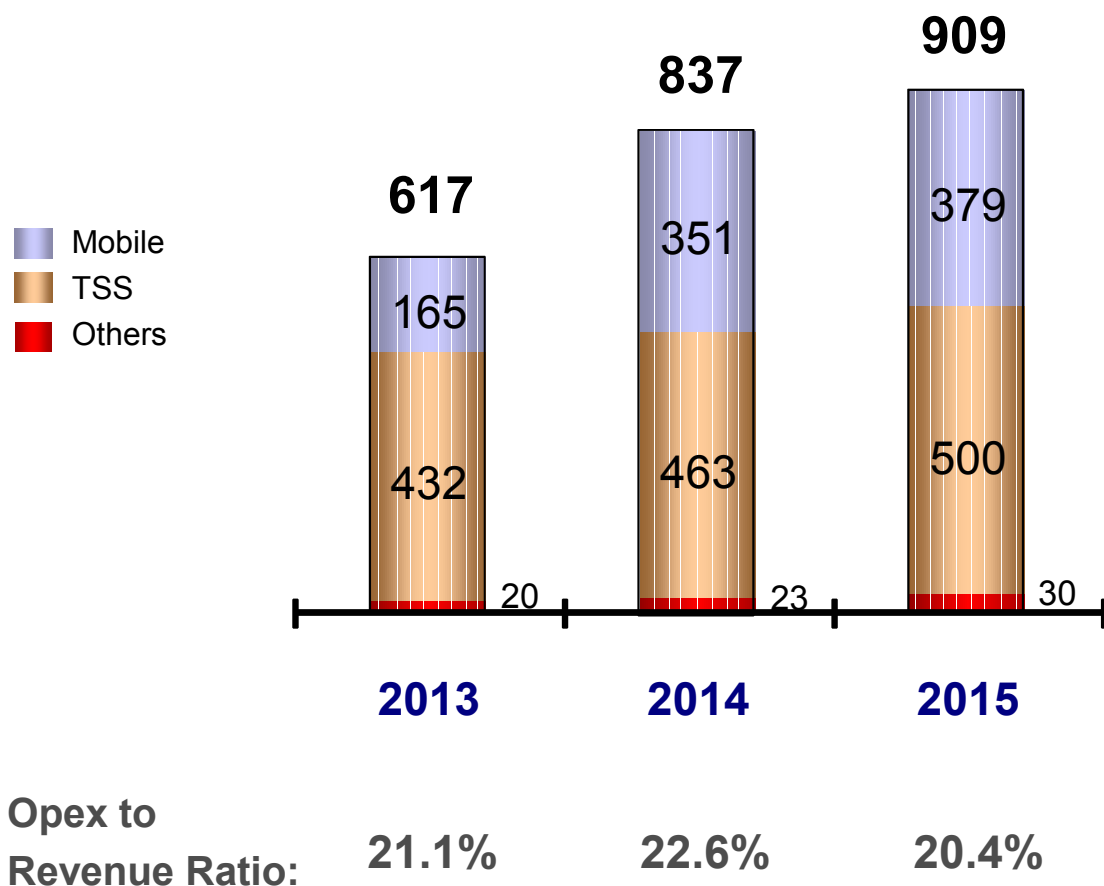


- Steady growth in EBITDA underpinned by balanced mix of businesses

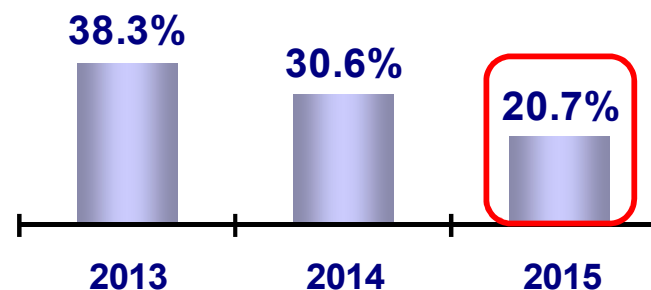
# More Effective Use of Opex to Drive Business

(US\$ million)

## Operating Expenses

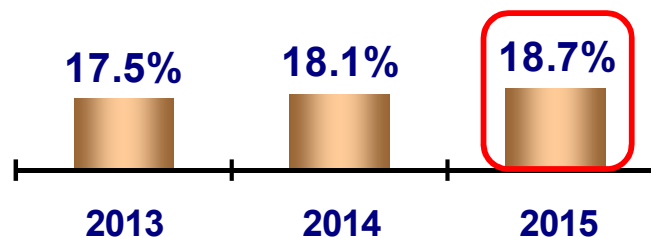


## Mobile Opex to Revenue Ratio



Significant improvement reflecting cost synergies – US\$57M net opex savings realized

## TSS Opex to Revenue Ratio

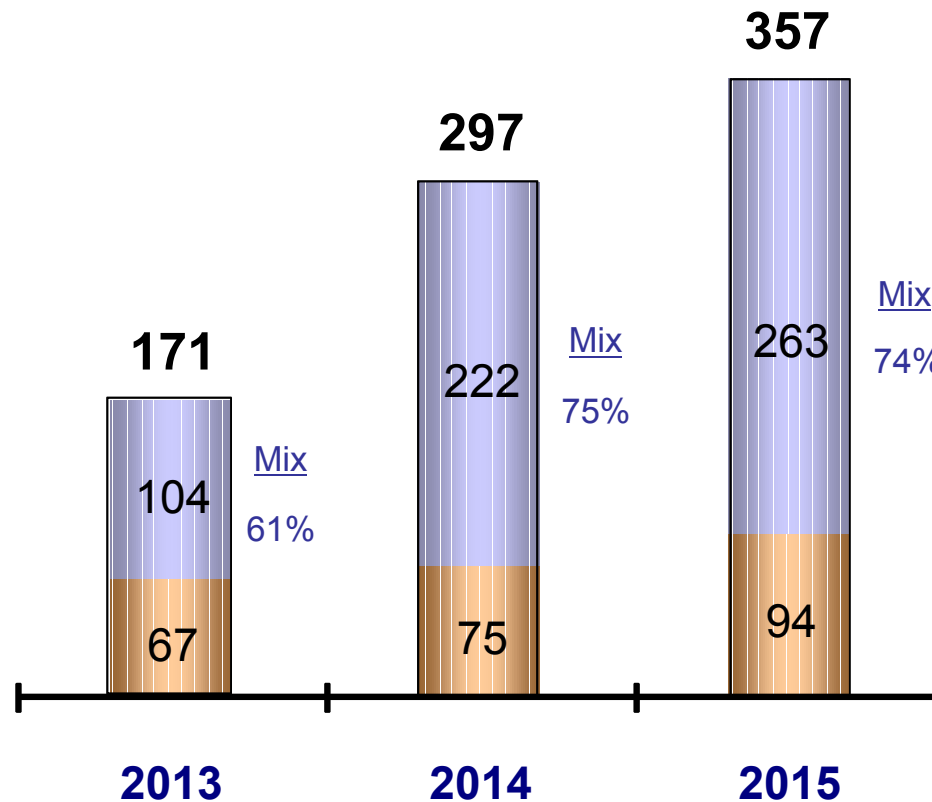


Slight increase due to investments in new business initiatives

# Customer Acquisition Costs Support Business Growth

(US\$ million)

Mobile  
TSS



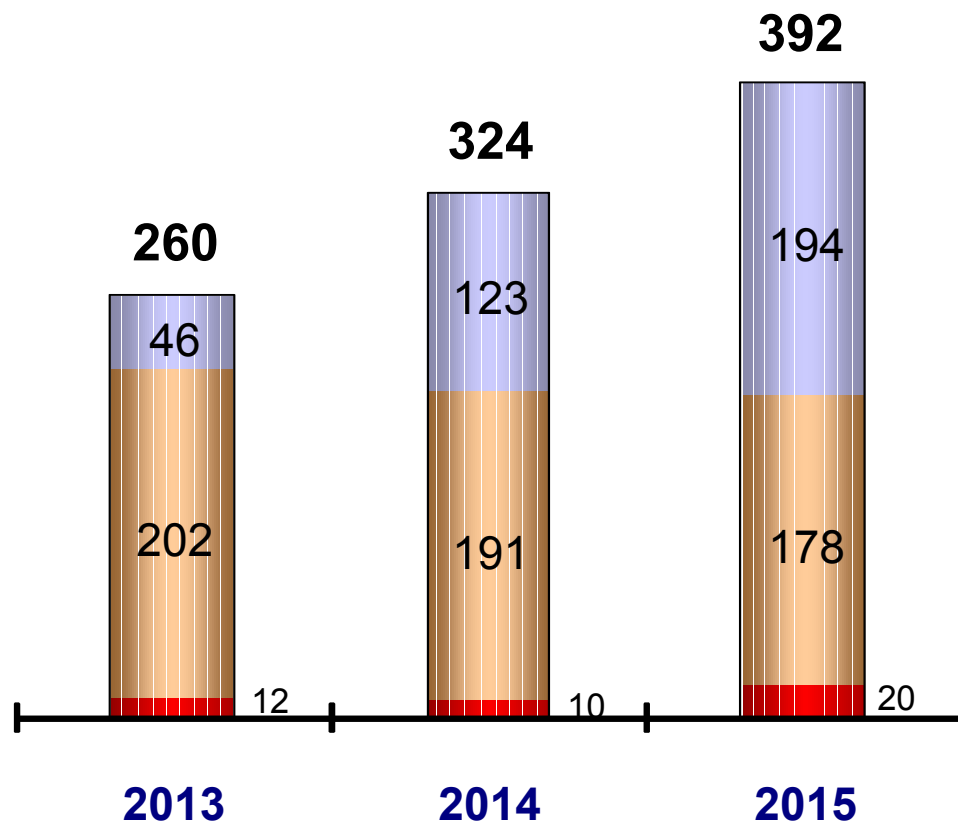
- Mobile CAC driven by enlarged business scale following the CSL acquisition
- Benefits of these investments will accrue in coming periods

CAC to Revenue Ratio: 5.8% 8.0% 8.0%

# Optimizing Capex Investments for Better Networks

(US\$ million)

Mobile  
TSS  
Others



- Maintain 10% capex to revenue ratio guidance
- Increase in Mobile capex due to integration of radio network and coverage improvement
- TSS capex reflected demand for our fiber services and investments in undersea cable capacity

Capex to Revenue Ratio: 8.9%

8.8%

8.8%

# Adjusted Funds Flow

(US\$ million)	2013	2014	2015	YoY
<b>EBITDA</b>	<b>1,013</b>	<b>1,313</b>	<b>1,551</b>	<b>+ 18%</b>
Less cash outflows in respect of:				
Customer acquisition costs and licence fees	(205)	(359)	(426)	
Capital expenditures	(254)	(322)	(389)	
<b>Adjusted Funds Flow before tax paid, net finance costs paid and changes in working capital</b>	<b>554</b>	<b>632</b>	<b>736</b>	<b>+ 16%</b>
Adjusted for:				
Tax payment	(42)	(51)	(47)	
Net finance costs paid	(88)	(102)	(116)	
Changes in working capital	(52)	(49)	(48)	
<b>Adjusted Funds Flow for the year</b>	<b>372</b>	<b>430</b>	<b>525</b>	<b>+ 22%</b>
<b>Adjusted Funds Flow per Share Stapled Unit (HK cents) *</b>	<b>45.21</b>	<b>44.30</b>	<b>54.06</b>	
Interim Distribution (HK cents)	21.00	21.00	25.79	
<b>Final Distribution (HK cents)</b>	<b>24.21</b>	<b>23.30</b>	<b>28.27</b>	
<b>Total Distribution for the year (HK cents)</b>	<b>45.21</b>	<b>44.30</b>	<b>54.06</b>	
<b>Adjusted Funds Flow per Share Stapled Unit (HK cents)</b> based on the weighted average number of Share Stapled Units during the year	<b>43.43</b>	<b>47.32</b>	<b>54.12</b>	<b>+ 14%</b>



# Income Statement

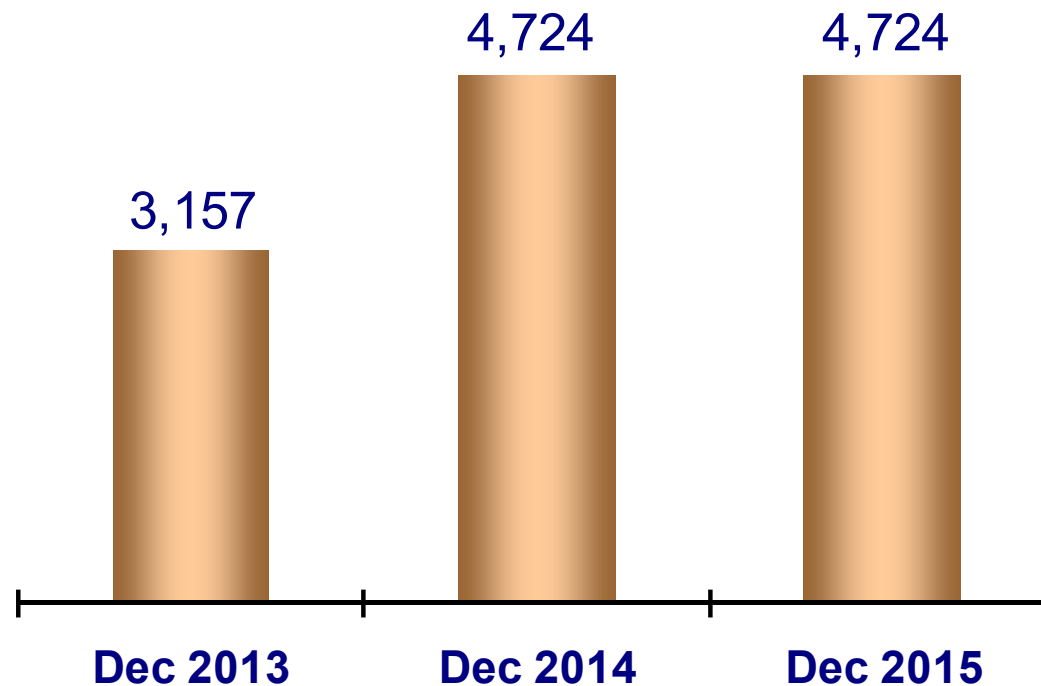
(US\$ million)	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>YoY</u>
<b>Revenue</b>	<b>2,927</b>	<b>3,695</b>	<b>4,452</b>	<b>+ 20%</b>
Cost of sales	(1,297)	(1,545)	(1,992)	
Opex	(617)	(837)	(909)	
<b>EBITDA</b>	<b>1,013</b>	<b>1,313</b>	<b>1,551</b>	<b>+ 18%</b>
<b>Depreciation &amp; Amortization expenses</b>	<b>(603)</b>	<b>(755)</b>	<b>(795)</b>	
Gain on disposal of fixed assets	2	—	1	
Net other gains	11	13	2	
<b>Net finance costs</b>	<b>(107)</b>	<b>(144)</b>	<b>(168)</b>	
Share of results of an associate & JVs	6	(4)	(3)	
Profit before income tax	322	423	588	<b>+ 39%</b>
<b>Income tax</b>	<b>(2)</b>	<b>(31)</b>	<b>(77)</b>	
<i>Effective tax rate</i>	<i>1%</i>	<i>7%</i>	<i>13%</i>	
Profit for the year	320	392	511	
Attributable to:				
<b>Holders of Share Stapled Units</b>	<b>315</b>	<b>383</b>	<b>506</b>	<b>+ 32%</b>
Non-controlling interests	5	9	5	

# Maintaining a Solid Financial Position

## HKT Gross Debt (1),(2)

(US\$ million)

BBB/Baa2  
Investment  
Grade Rating



HKT Gross Debt / EBITDA<sup>(3)</sup>      3.1x      3.2x<sup>(4)</sup>      3.0x

(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

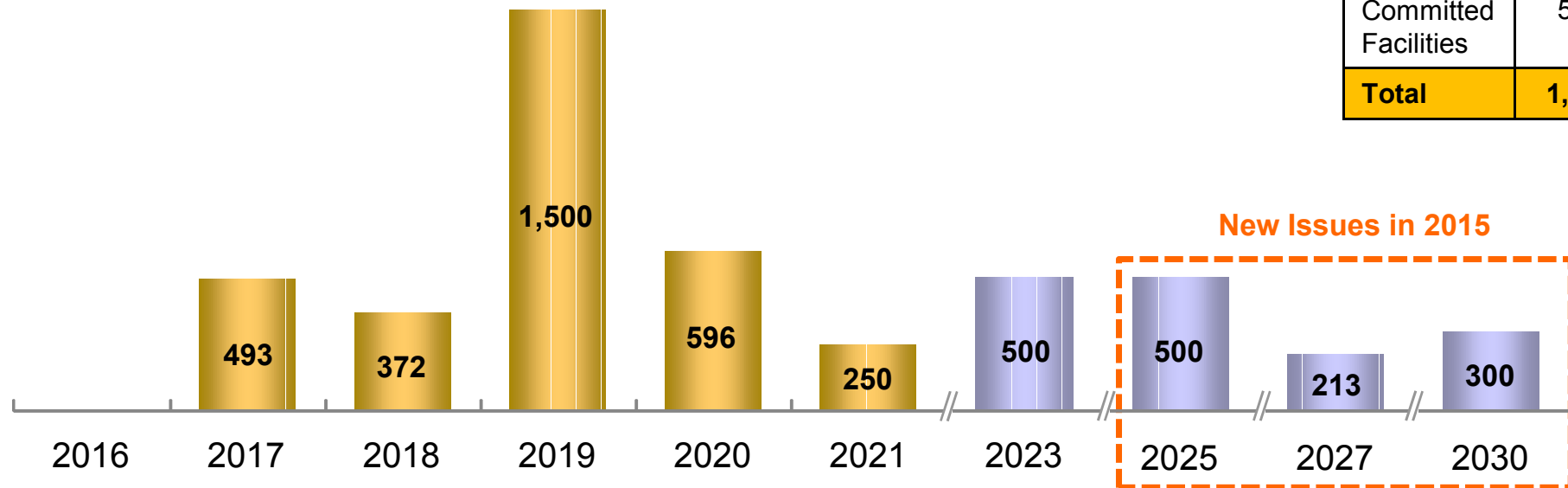
# Debt Maturity Profile

*As of February 2016*

(US\$ million)

■ Bank Loans  
■ Bonds

Cash Balance *	483
Undrawn Committed Facilities	551
<b>Total</b>	<b>1,034</b>



- Refinanced maturing debt and locked in long-term funding through issuance of 15-year, zero-coupon US\$300 million bonds, 10-year, 3.625% US\$500 million bonds and 12-year, 1.65% €200 million bonds
- Average maturity extended to 5 years
- Current liquidity exceeding US\$550 million in undrawn committed banking facilities
- Effective interest rate was 2.8% in 2015

# ***Business Review***

***Alex Arena***

*Group Managing Director*

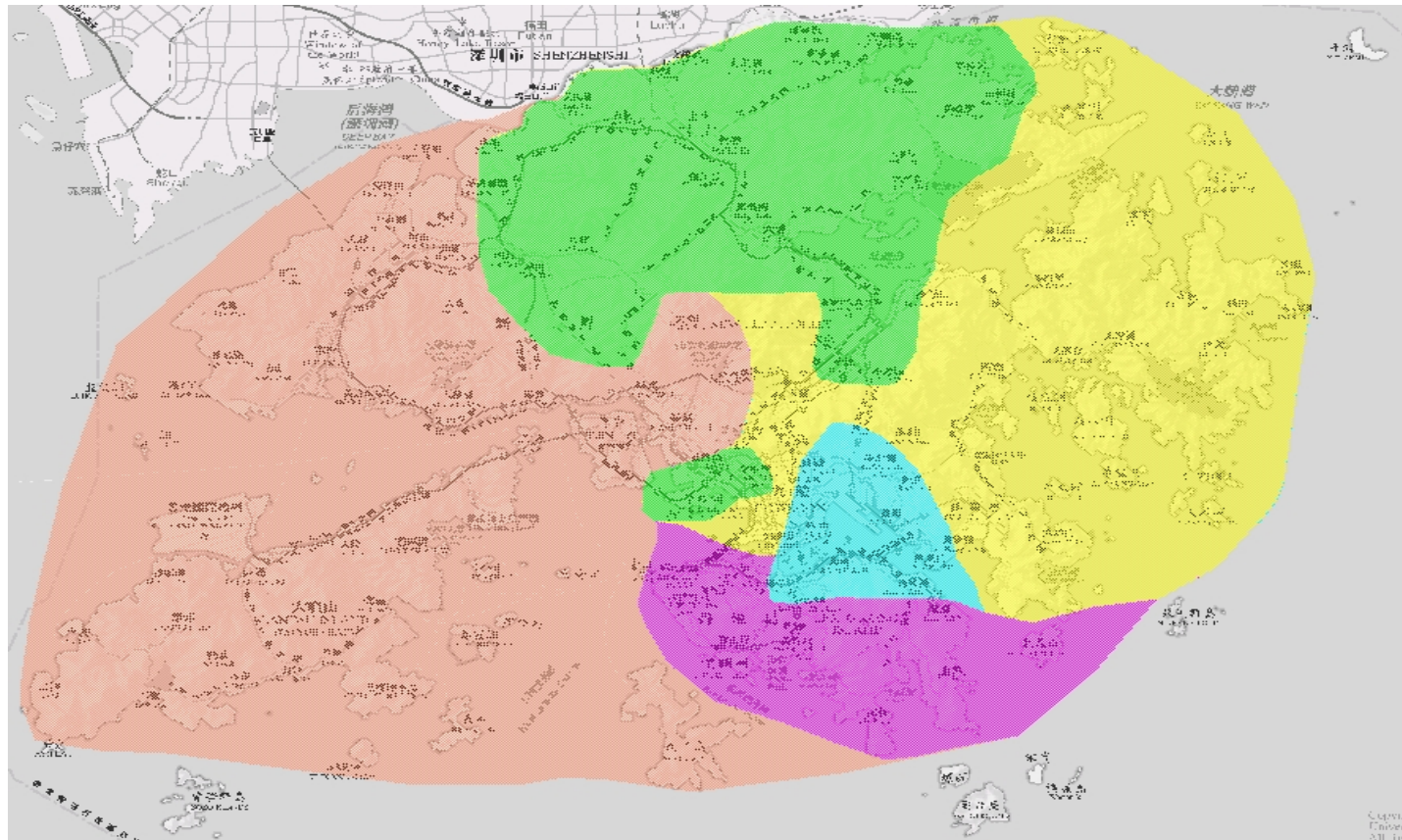
# Sustained Strong Performance in Mobile Business



- **Total customer base of 4.558M**
  - **Post-paid customer base of 3.127M**
- **Post-paid exit ARPU of HK\$230**
- **Mobile data represents 71% of total services revenue**
- **IDD and roaming represent 17% of total services revenue**
- **80% of post-paid customers are smart device users**
- **Post-paid churn rate was 1.4%**

*\* Figures stated as at December 31, 2015 or for the year ended December 31, 2015*

# Radio Network Integration Upgrade Plan



**COMPLETED**



**2014 Q4**



**2015 Q1**



**2015 Q2**



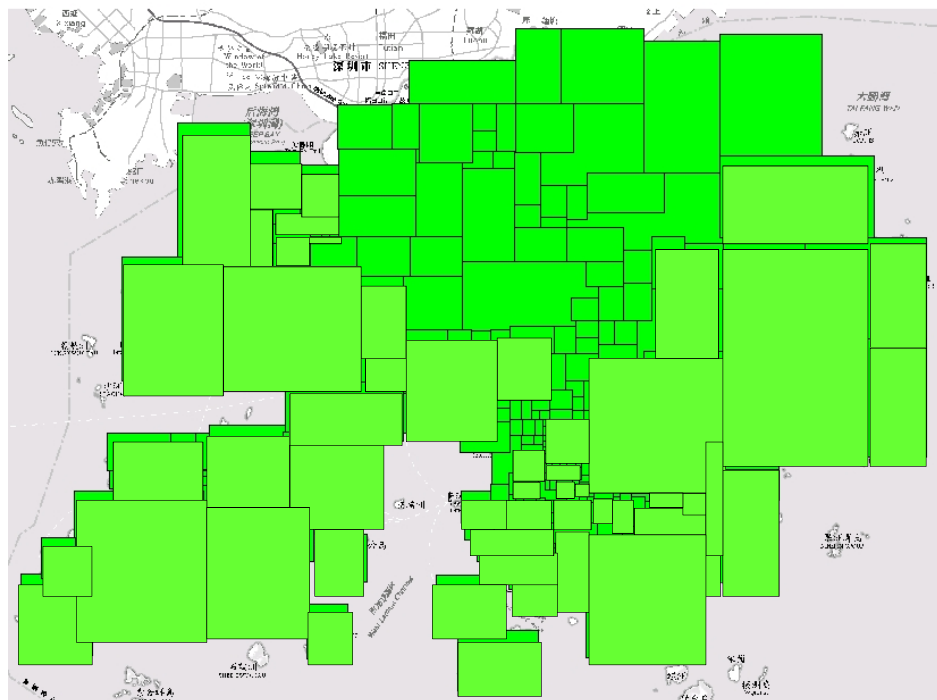
**2015 Q3**



**2015 Q4**

- Cell site integration into one unified radio network completed in Dec 2015
- High traffic CSL cell sites upgraded with HKT's 1000Mbps fiber backhaul

# Cell Site Integration Extracting the Synergies



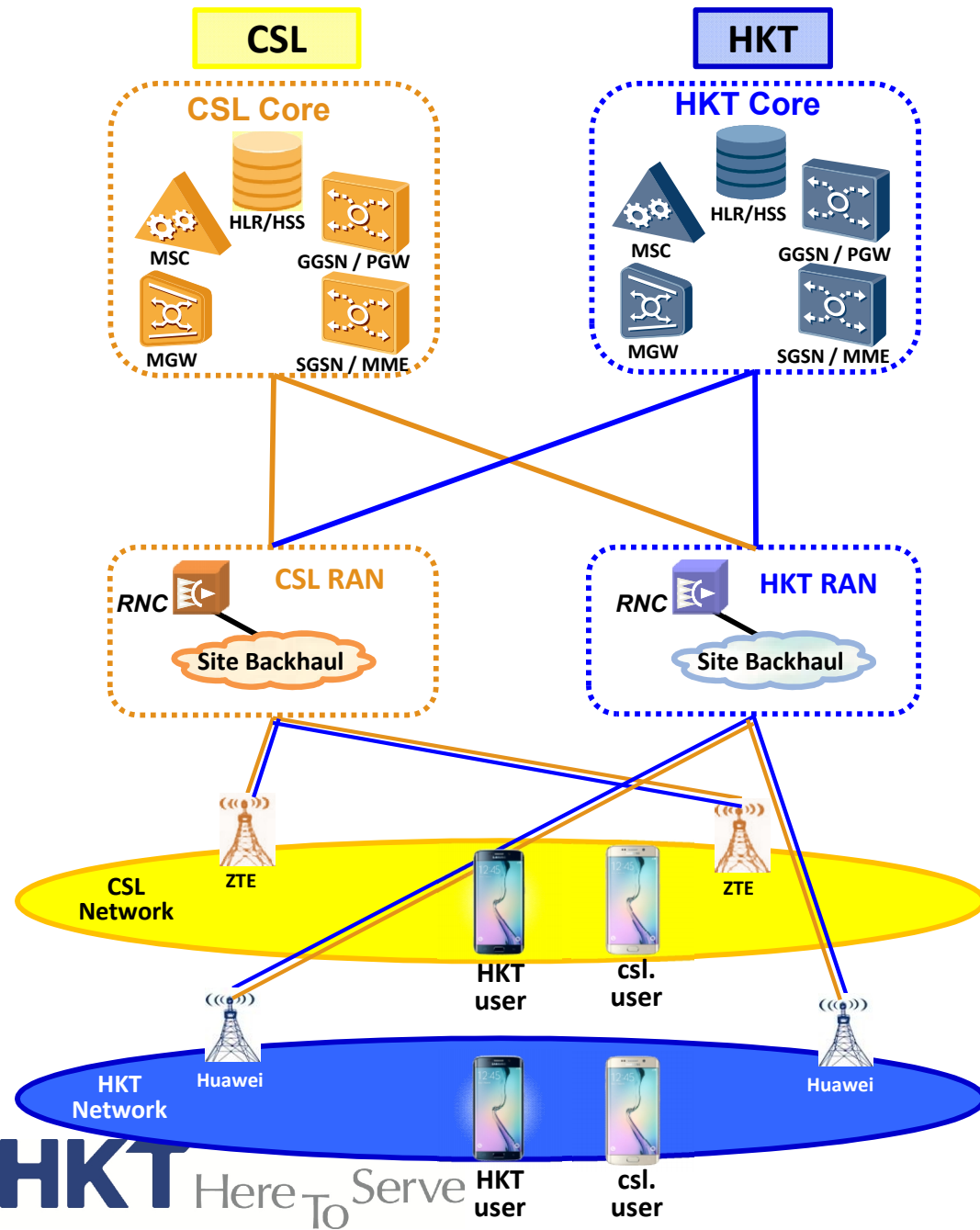
 Integrated Zone

Site Integration Progress (as of Dec 2015)		Total Site Count Before Integration	Number of Integrated Sites *		Before vs. After	Total Site Count After Integration
			Before	After		
	Serving HKT Customers	2,482	2,165	2,527	+362 (15%)	
	Serving CSL Customers	2,191	1,881		+646 (29%)	
	<b>Total :</b>	<b>4,673</b>	<b>4,046</b>	<b>2,527</b>	<b>-1,519</b>	<b>3,154</b>

- **Network optimized to 3,154 sites**, serving both HKT and CSL customers
- **Coverage improvements** – no. of sites serving HKT and CSL customers increased by **362** and **646** respectively
- **Performance enhancement** – activation of LTE900 and LTE-A territory wide
- **Opex saving** – a total **1,519 sites removed** resulting in recurrent cost savings (e.g. site rentals)



# Network Integration (Step 1)

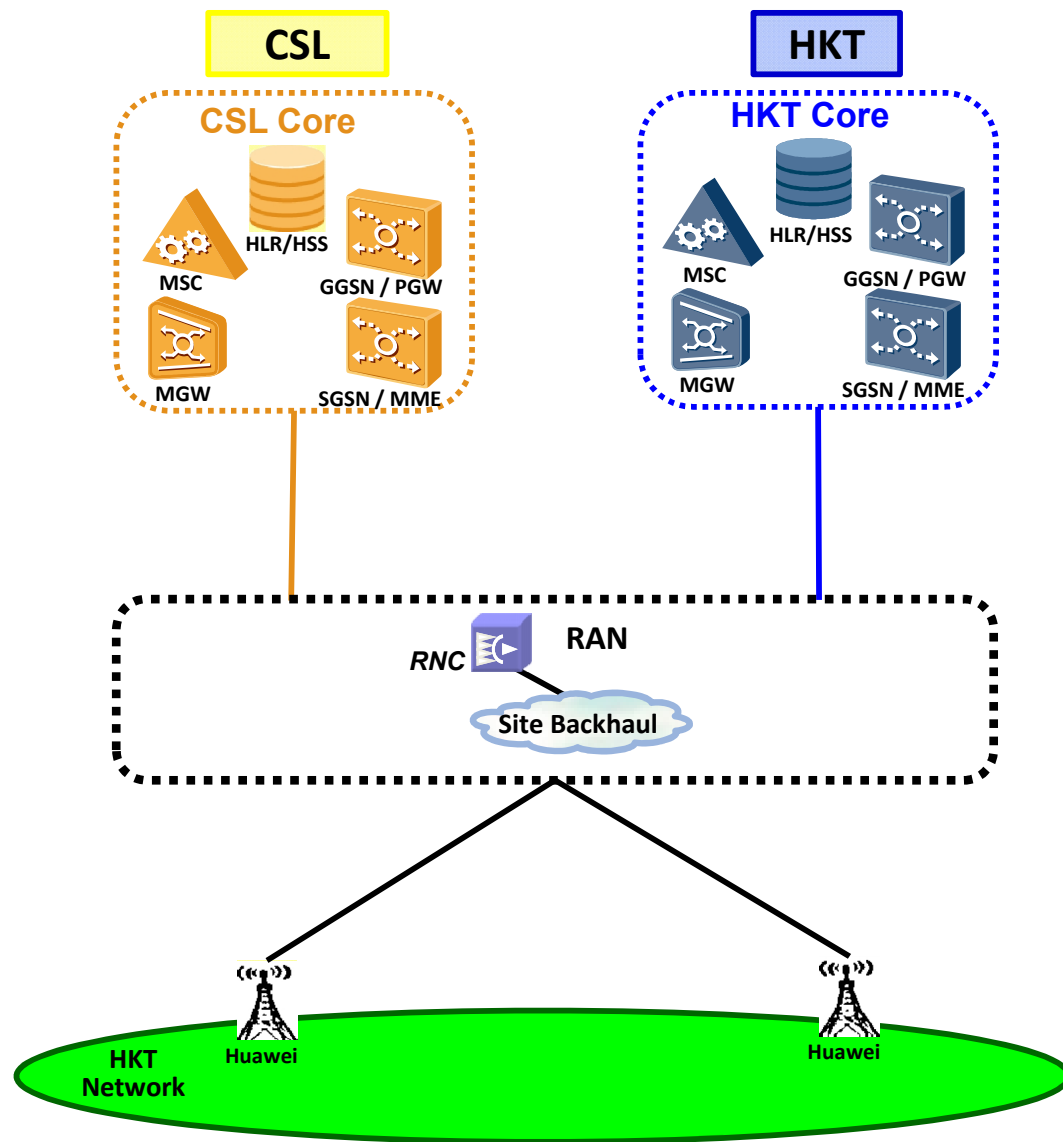


- Mid 2014: HKT and CSL radio networks cross connect with MOCN to allow users to immediately enjoy both networks





# Network Integration (Step 2)



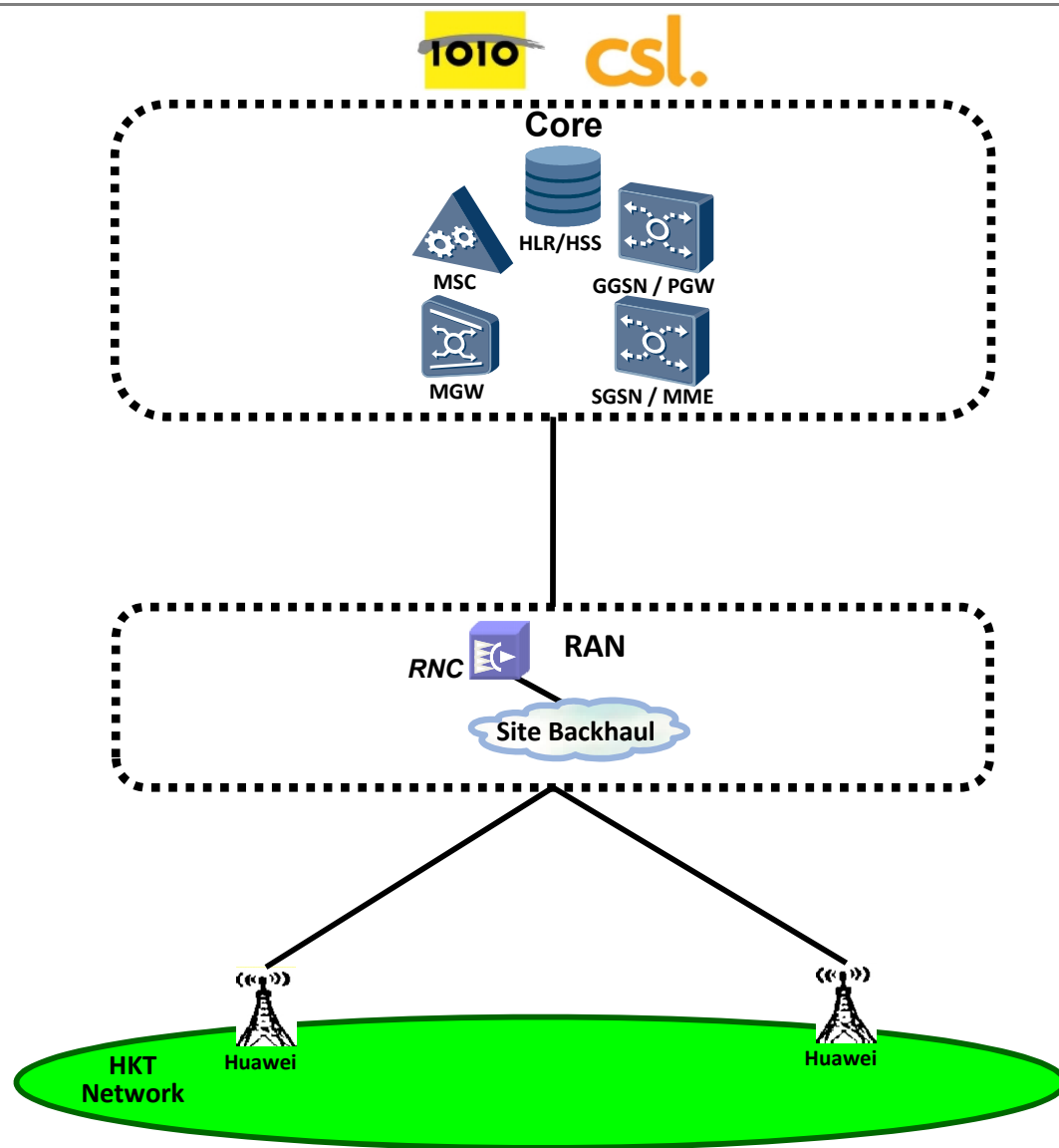
- Mid 2014 – End 2015: both radio networks integrated into a single network with extended coverage



- Mid 2014: HKT and CSL radio networks cross connect with MOCN to allow users to immediately enjoy both networks



# Network Integration (Step 3)



- Mid 2015 – Mid 2016: integrated core network with single VAS platform offering the same service experience



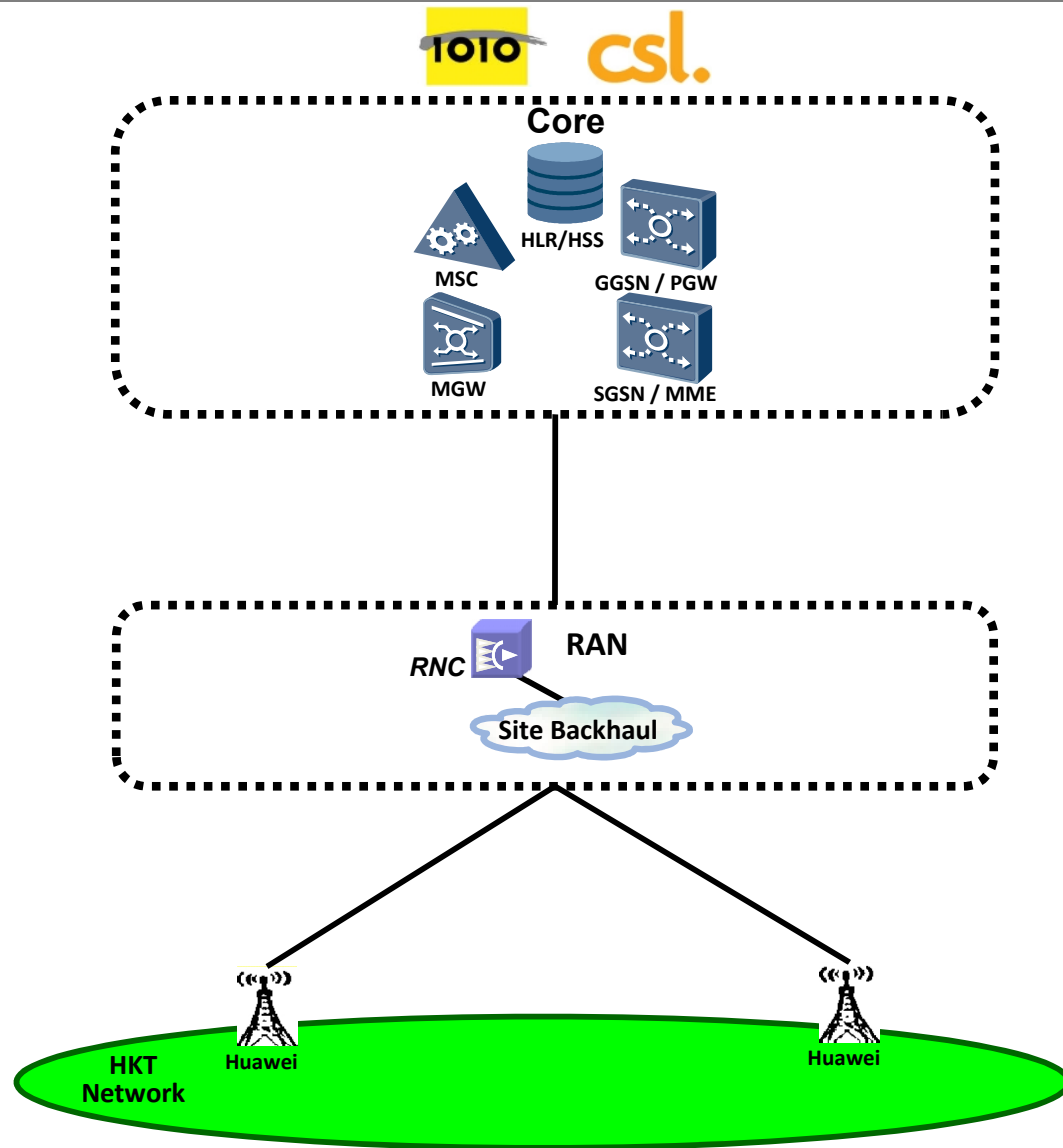
- Mid 2014 – End 2015: both radio networks integrated into a single network with extended coverage



- Mid 2014: HKT and CSL radio networks cross connect with MOCN to allow users to immediately enjoy both networks



# Network Integration (Step 4)



- Integrated billing system by 2017 offering the same user experience to both HKT/CSL customer base



- Mid 2015 – Mid 2016: integrated core network with single VAS platform offering the same service experience



- Mid 2014 – End 2015: both radio networks integrated into a single network with extended coverage



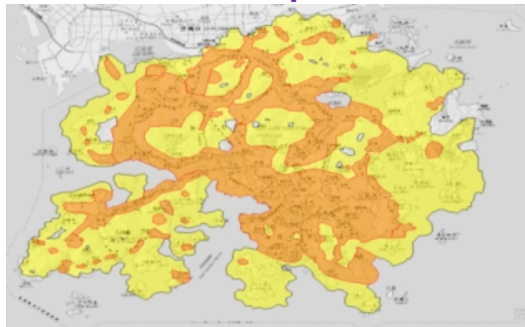
- Mid 2014: HKT and CSL radio networks cross connect with MOCN to allow users to immediately enjoy both networks



# Leading the World in Mobile Broadband Development

**World Leading  
Network Development**

Launch of 150Mbps in Jun 2013



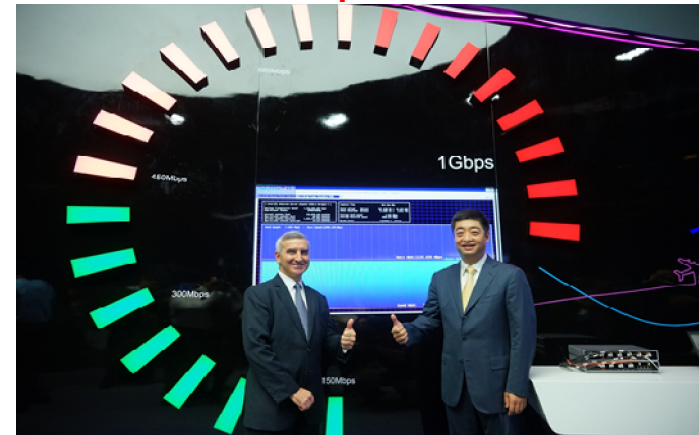
Launch of 300Mbps in Dec 2014



Demo of 450Mbps in Apr 2015



Demo of 1Gbps in Nov 2015



**1Gbps**  
LTE-A 4CC CA  
256 QAM, 4x4 MIMO

**450Mbps**  
LTE-A 3CC CA  
64 QAM, 2x2 MIMO

**300 Mbps**  
LTE-A 2CC CA

**150 Mbps**  
LTE

**100 Mbps**  
LTE

**42 Mbps**  
DC HSPA+

**21 Mbps**  
HSPA+

**7.2 Mbps**  
HSDPA

2007

2008

2009

2010

2011

2012

2013

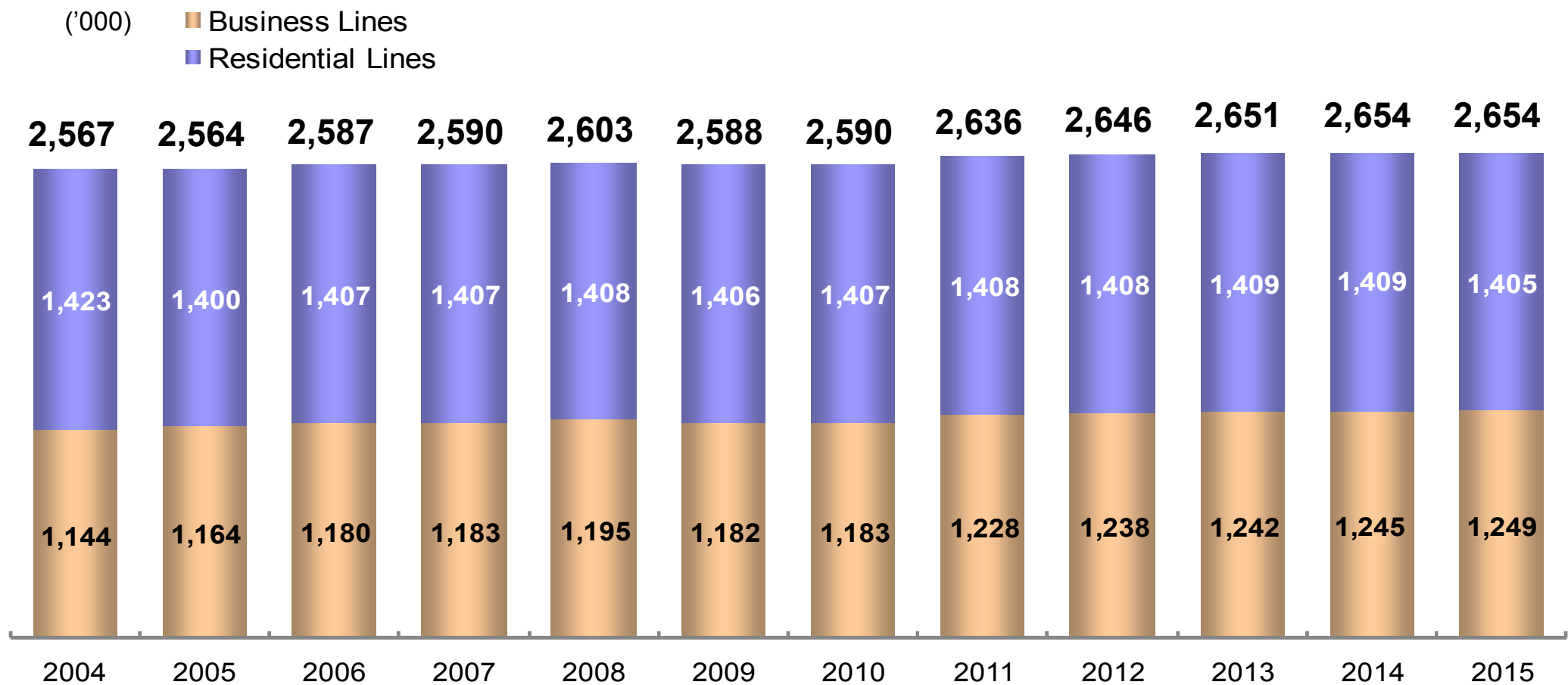
2014

2015

2016

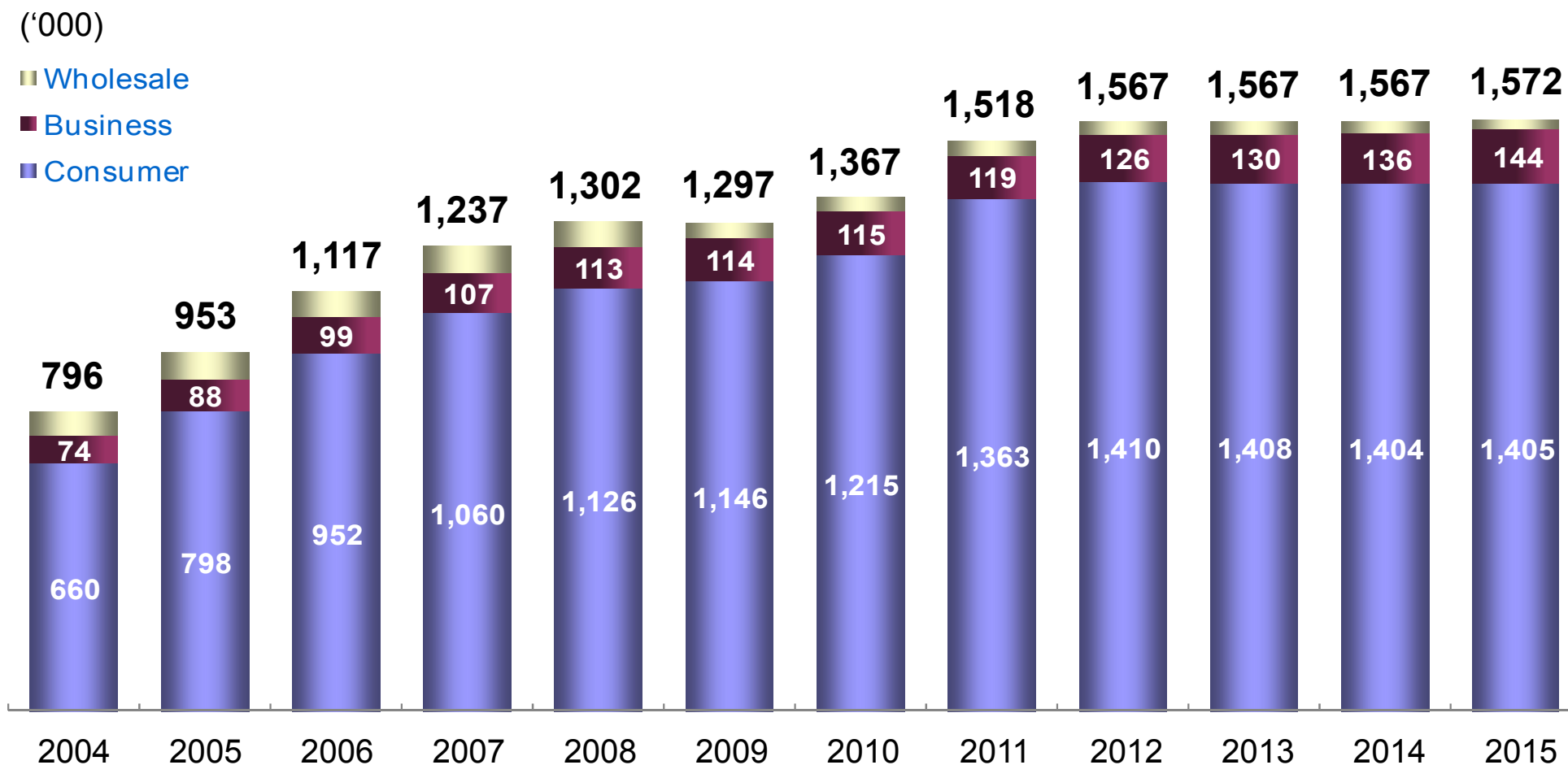
# Stable Fixed-line Business

## Solid Customer Base Maintained Since 2004



# Consolidated Position in Broadband

**Consolidated Broadband Market Position and Kept Churn Around 1%**





# Continued Growth of Fiber Customers



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！

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或 登入www.netvigator.com了解詳情

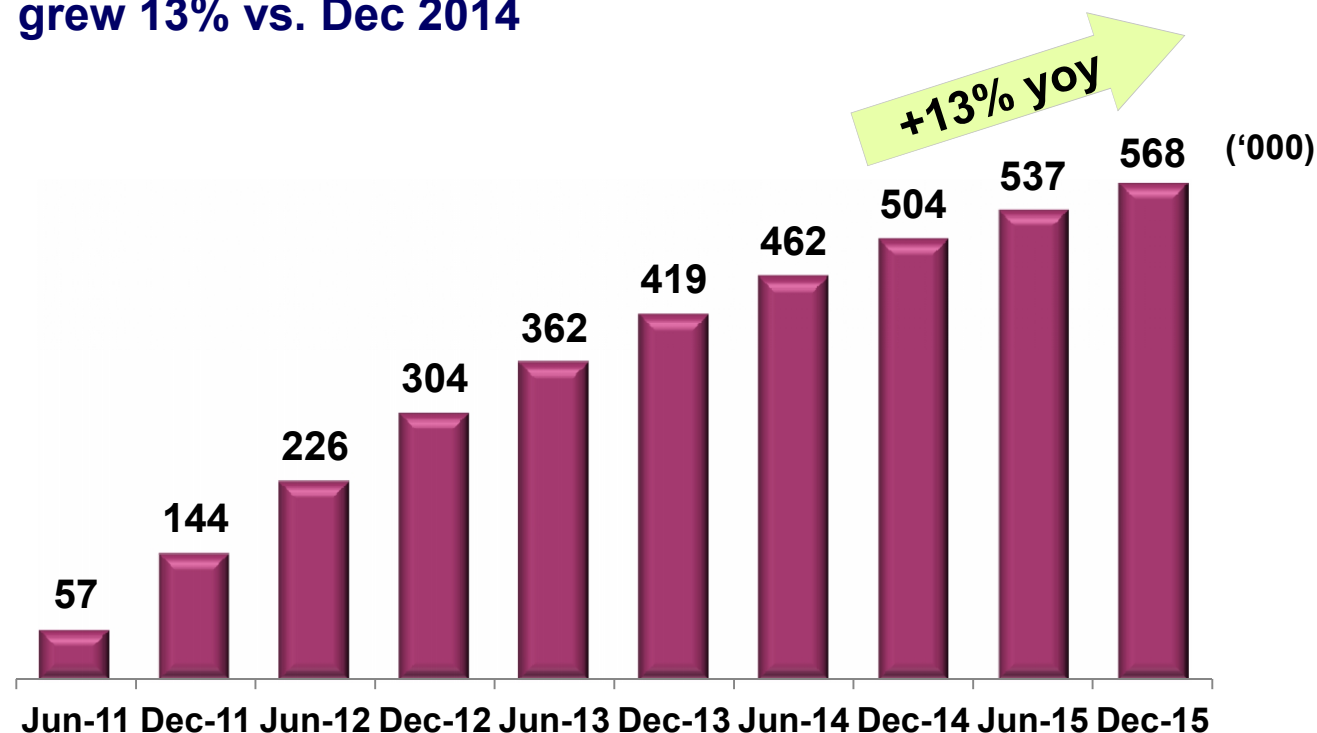
網上行寬頻服務由香港網絡有限公司（HKT）提供。網上行寬頻服務由香港網絡有限公司（HKT）提供。

**HKT**

電訊盈科集團成員

**HKT** Here To Serve

- Fiber-To-The-Home (FTTH) service continued to attract new customers and existing customers for service upgrade
- 568K customers enjoying genuine FTTH service as of Dec 2015, grew 13% vs. Dec 2014

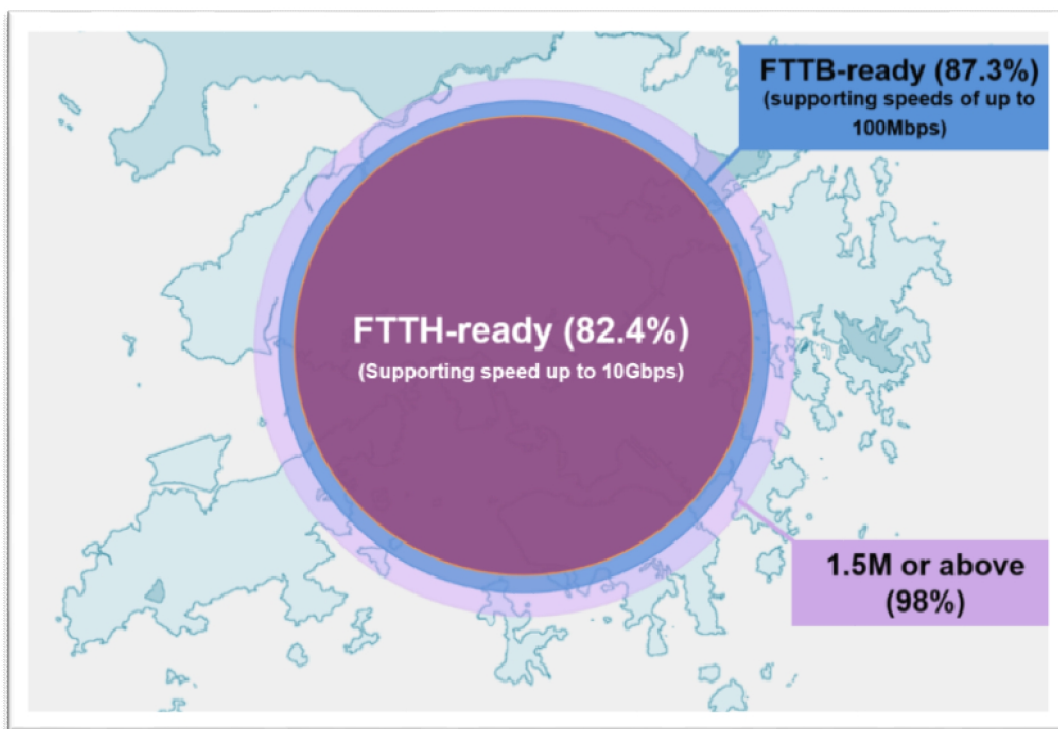


- Growing genuine FTTH customer base creates future upgrade opportunity to higher speed, higher price service plans
- 680K customers enjoying high speed service (FTTH and VDSL) as of Dec 2015

# Best in Class Fiber Network

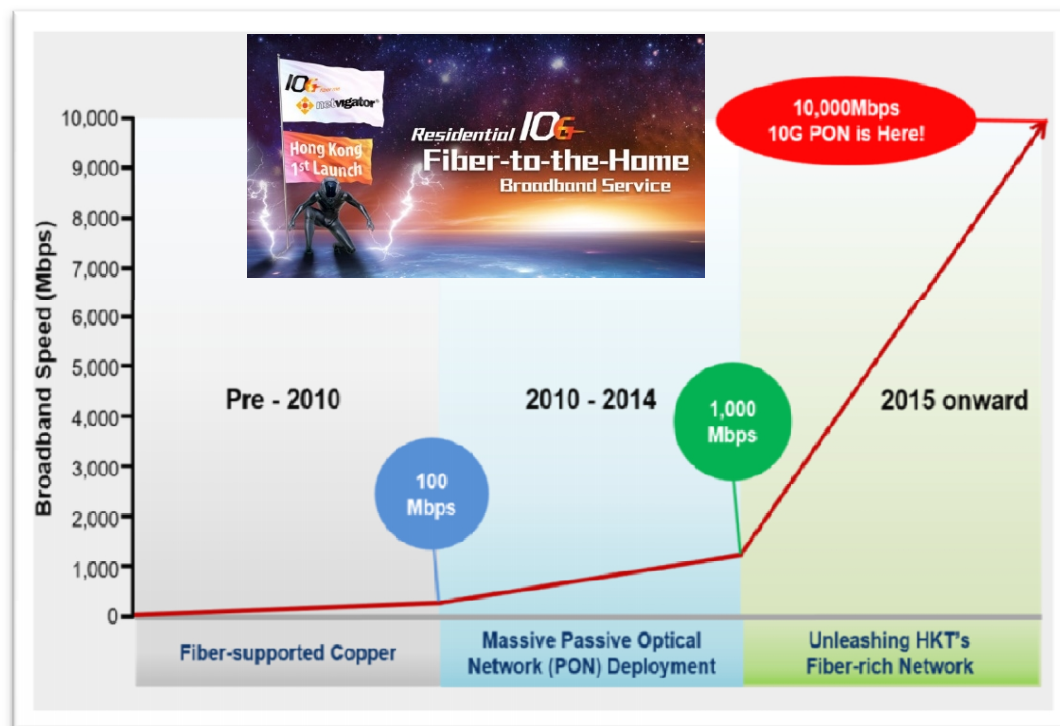
## COVERAGE

Territory-wide Fiber-To-The-Home (FTTH)  
Broadband service



## SPEED

World's First ultra fast residential 10,000Mbps  
10G PON service

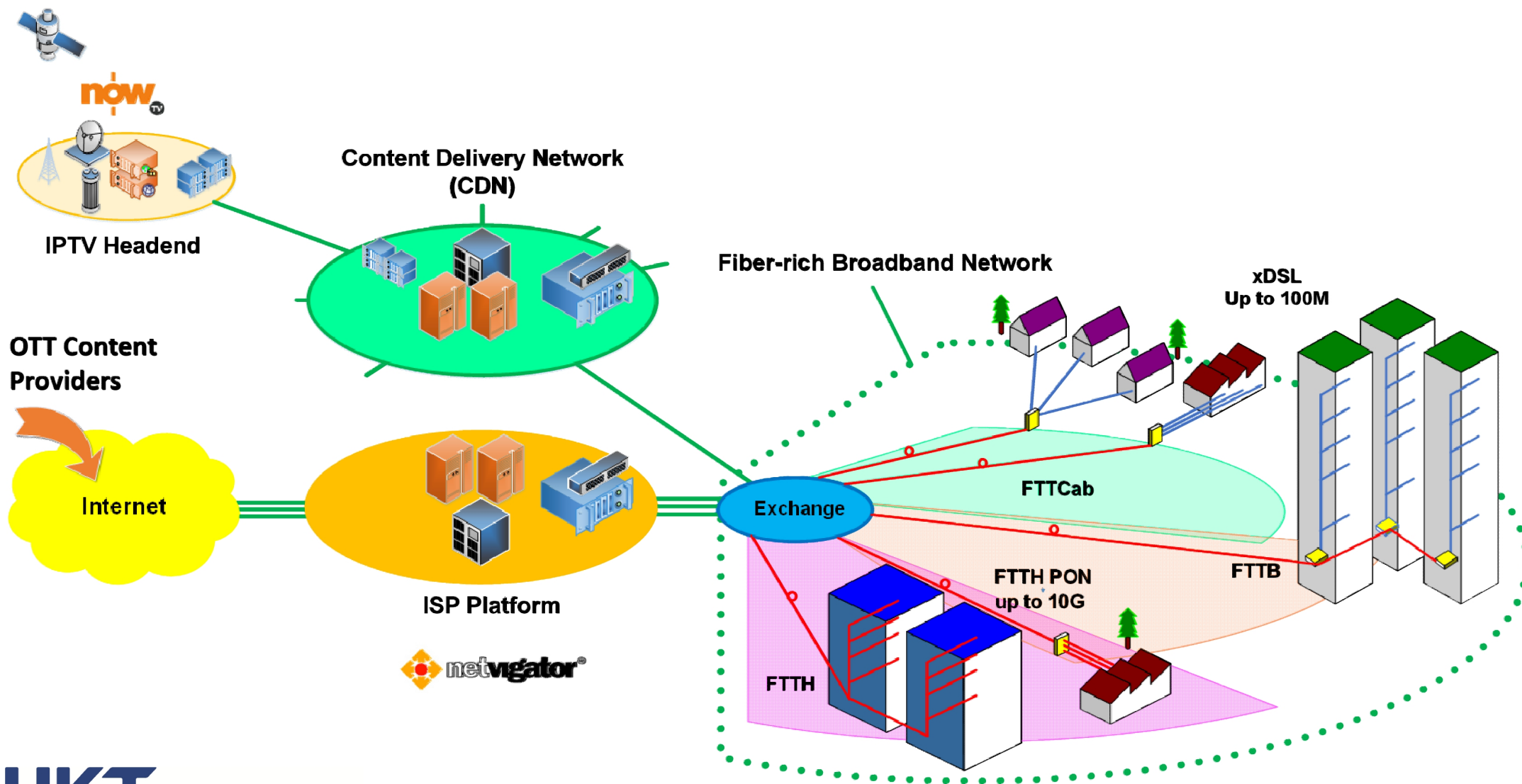


HKT's Fiber Network is Ready in Terms of Both Coverage and Speed



# Fiber-Rich Broadband Infrastructure

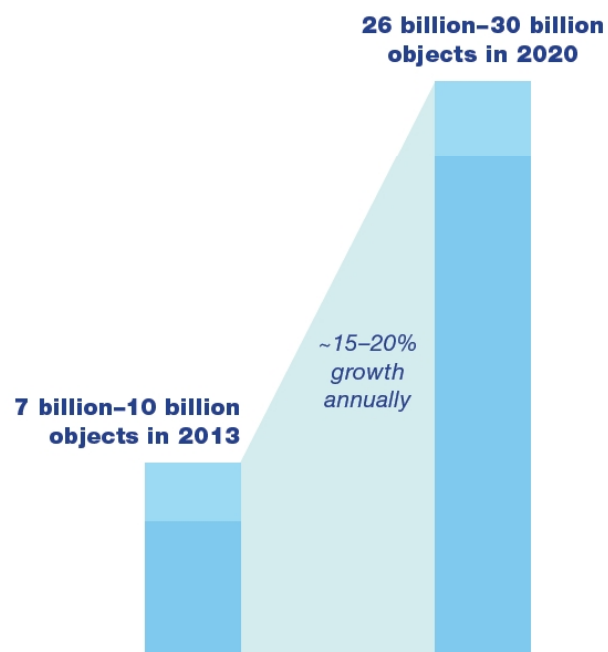
- Single network to support different applications, such as ultra high speed Internet access, Over-The-Top (OTT) video content, IPTV broadcast and VoD services



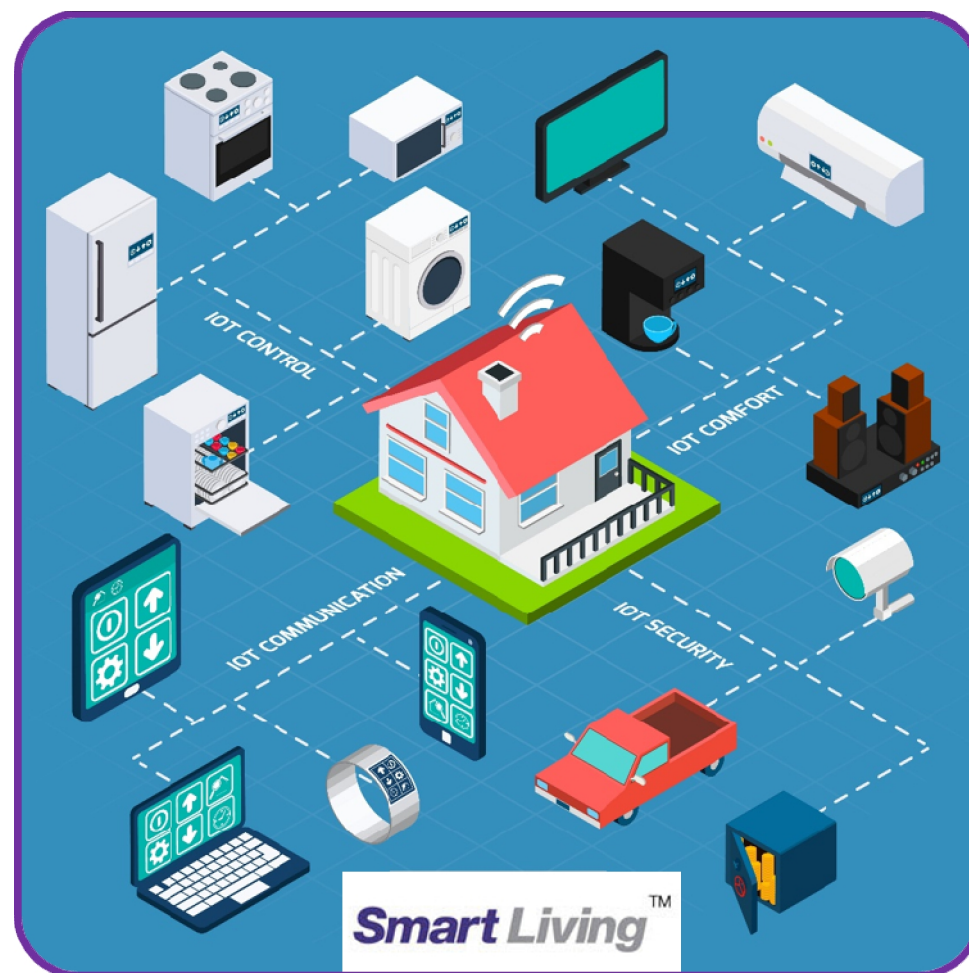
# Internet-of-Things (IoT)

- The same network also forms the basis to connect numerous IoT devices at home for delivering a modern and comfortable Smart Living experience
- The IoT device market size is forecast to reach 26 billion units by 2020

Some 30 billion objects may be connected to the Internet of Things<sup>1</sup> by 2020.

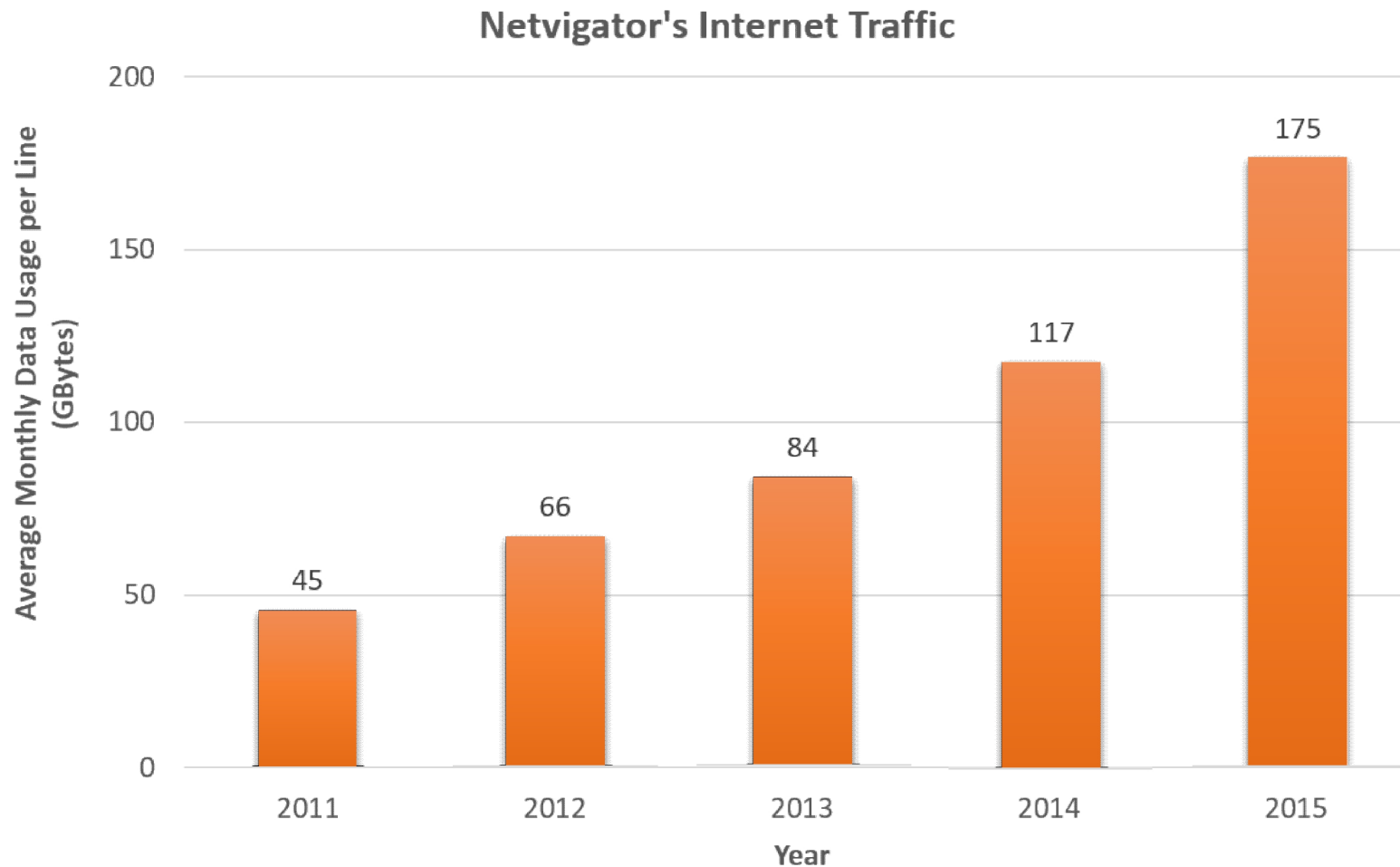


<sup>1</sup>A networking of physical objects via embedded devices that collect and/or transmit information.  
Source: Forecasts derived from ABI Research; expert interviews; Gartner; IDC; McKinsey analysis



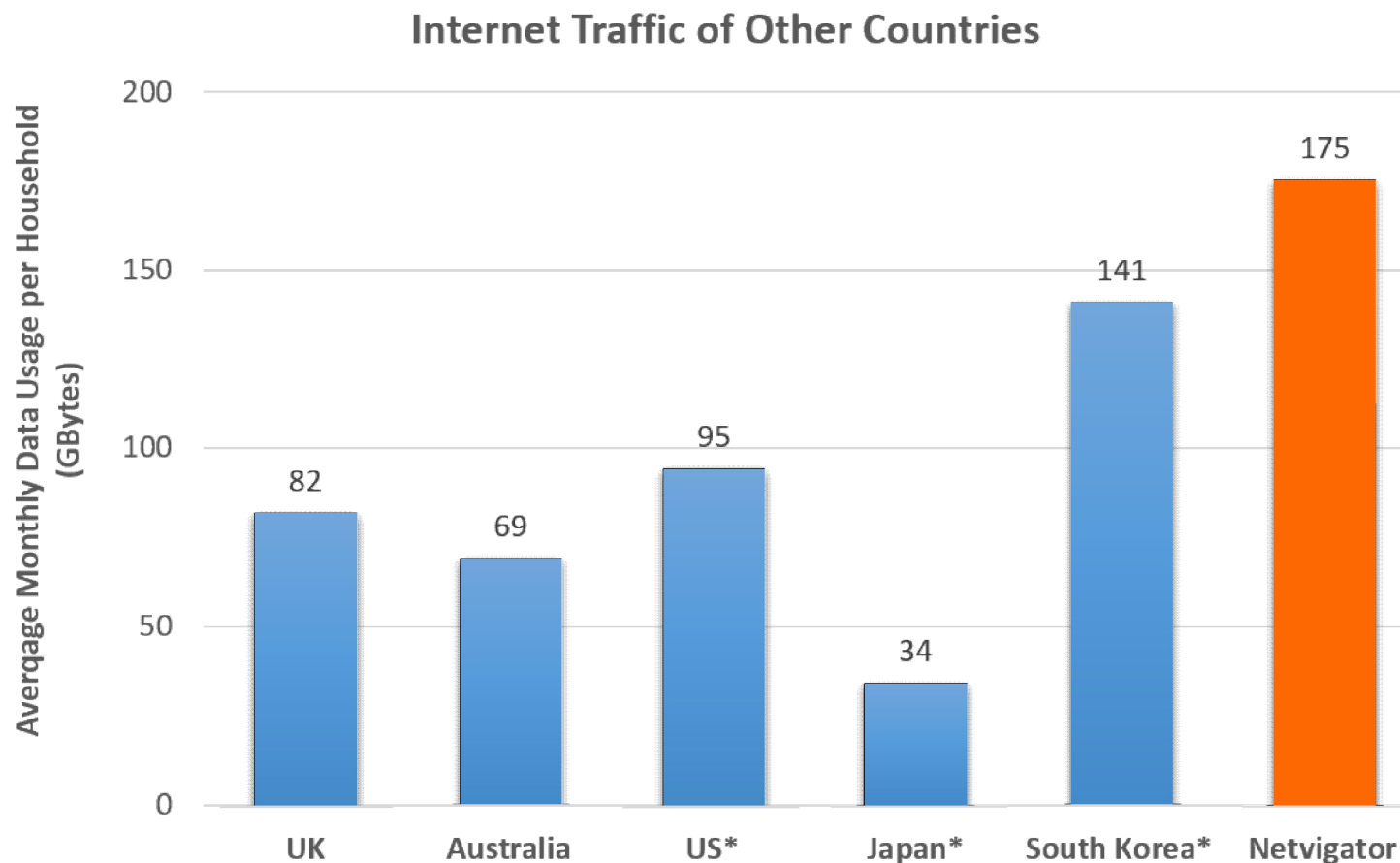
# Netvigator's Internet Traffic Growth

- Internet traffic (excl. IPTV) has grown steadily in past years
- In 2015, the Average Monthly Data Usage per Line has increased 50% YoY reaching 175 GBytes



# Comparison with Other Places in the World

- Netvigator's Internet traffic has already surpassed global leader – South Korea

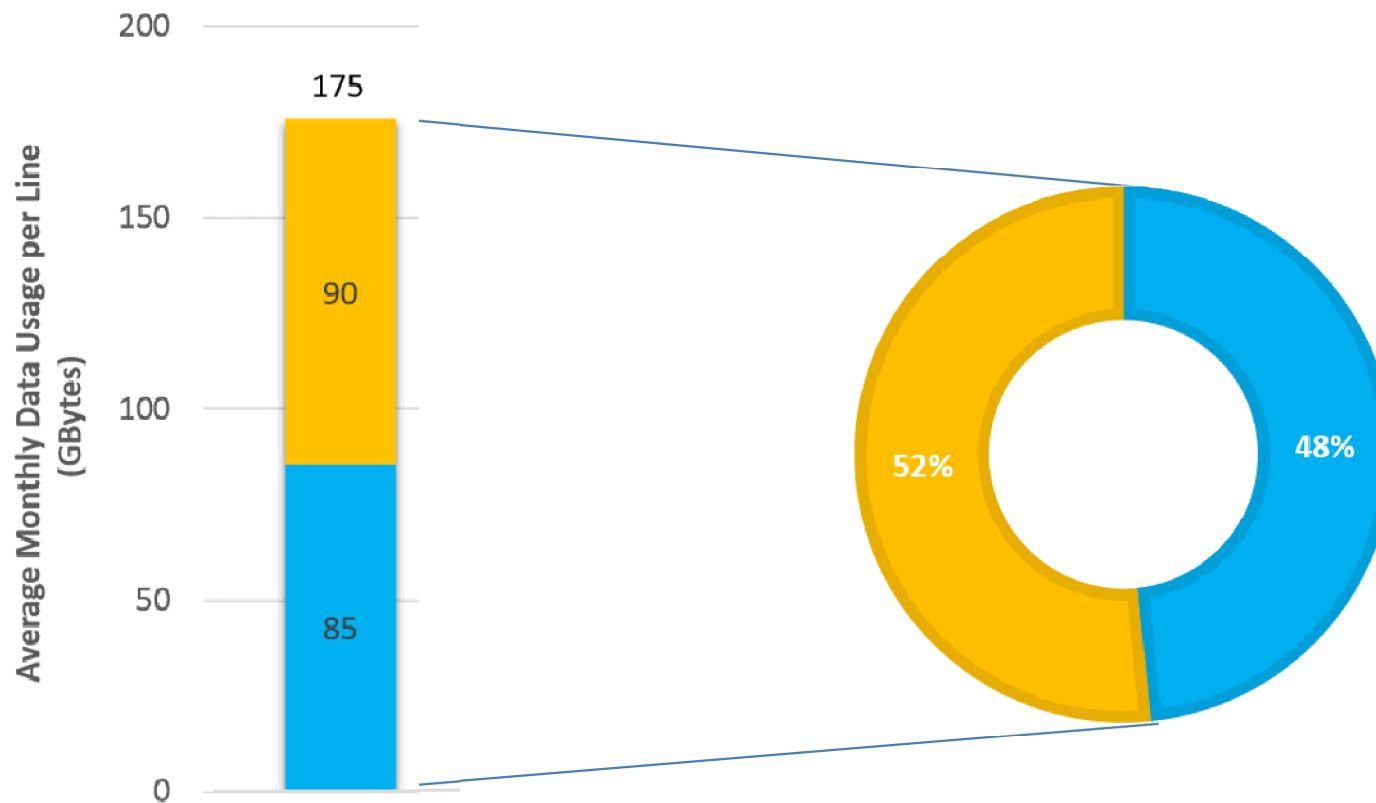


Sources : UK – “OFCOM Connected Nations 2015”, Dec 2015. Australia – “Australia NBN Project 2015”, Oct 2015

\* US, Japan and South Korea – estimated figure based on “CISCO VNI Forecast 2014-2019”, “Connectivity Broadband Market Developments in the EU 2015”.  
Netvigator – 2015 Dec measurement.

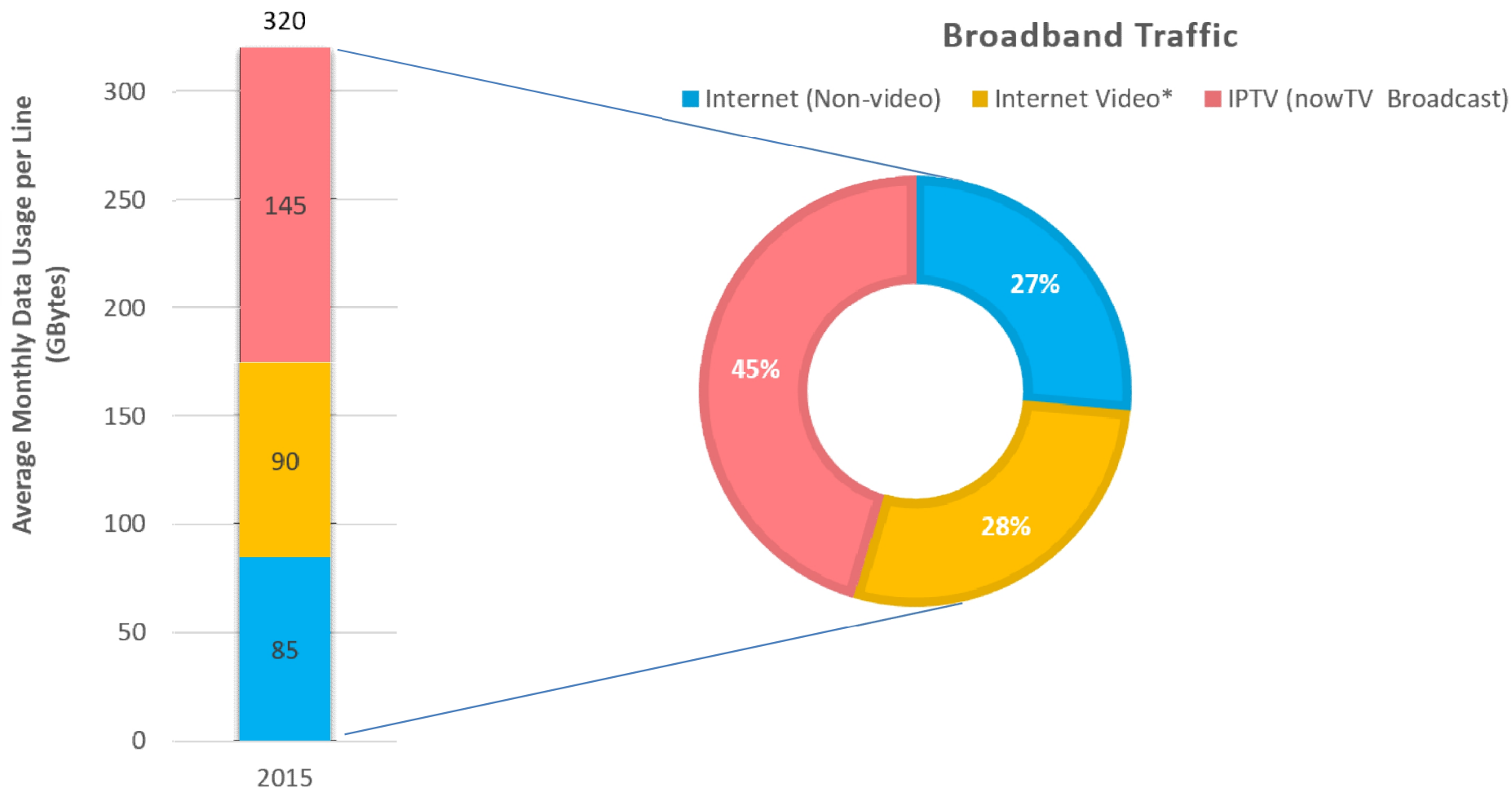
# Internet Video Traffic

- To date, Internet Video streaming e.g. YouTube, OTT videos, nowTV VoD etc, accounts for 52% of Netvigator's Internet traffic



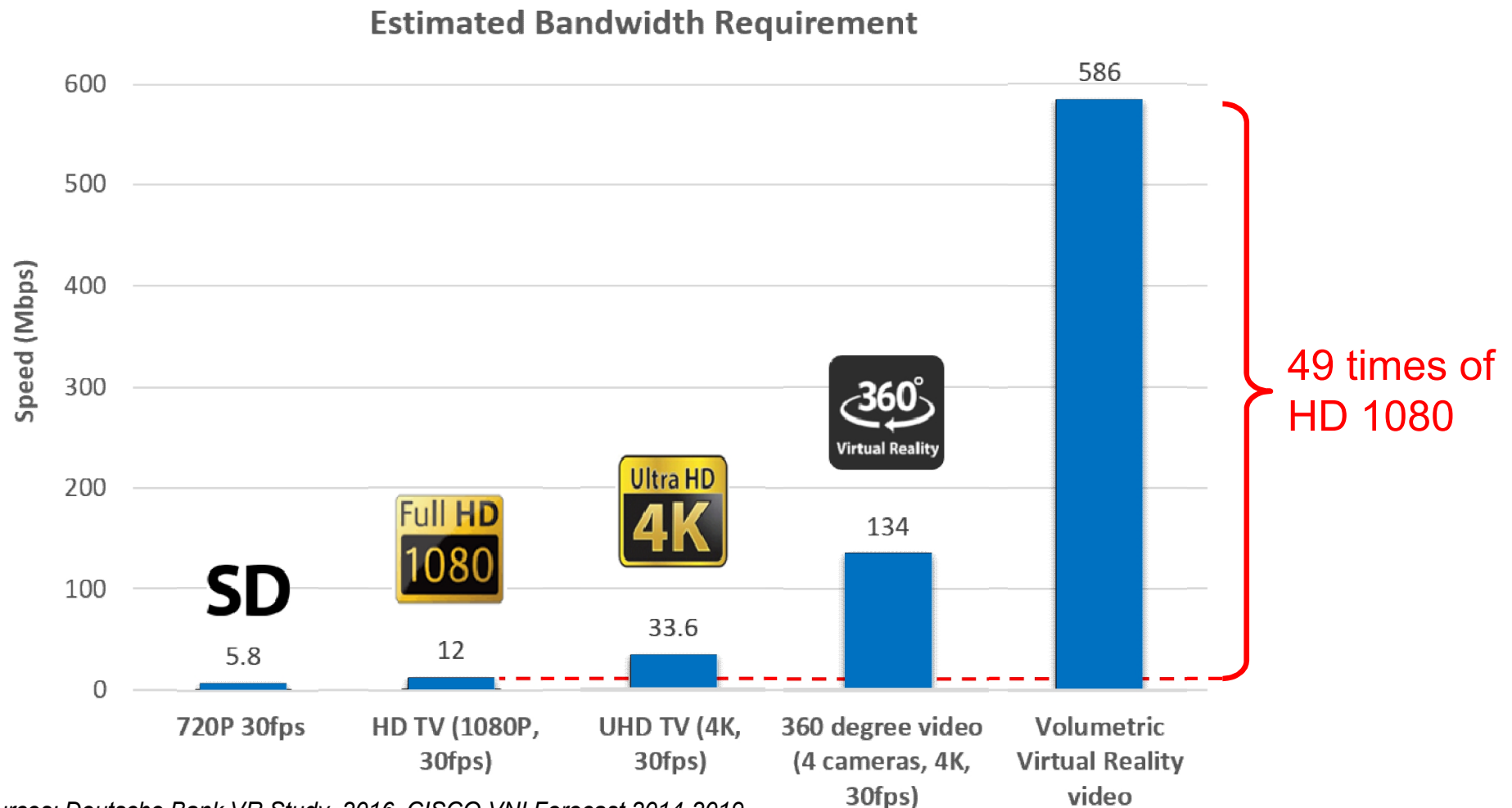
# Overall Video Traffic

- Average IPTV traffic added an additional 145 GBytes on top of the Internet traffic
- Total video traffic (IPTV + Internet Video) amounted to 73% of total broadband traffic



# Video Will be the Main Internet Traffic Driver

- Video traffic is expected to be 80% of Internet traffic by 2019\*
- Our Fiber-Rich Broadband Network has been built to support the emerging heavy bandwidth consumer applications



Sources: Deutsche Bank VR Study, 2016. CISCO VNI Forecast 2014-2019



# The Next Wave – 4K Video

- Only choice the consumer needs to make is the 4K All-In-One Appliance jointly developed by Netvigator and now TV



- Comprehensive – delivering IPTV, DTT and OTT at true 4K UHD quality
- An integrated next generation user interface enabling the user to access rich content offerings with greater ease
- Cutting edge technology
- Designed and built to accommodate new features in future





# Highlights



**Cell Site Integration Completed in 2015 to be followed by Completion of Core Network Integration in 2016**



**Demonstrated Strength and Resiliency across Fixed Line, Broadband and Mobile**



**Our Existing Network Ready to Support Massive Data Consumption from Forthcoming Applications such as Video and Virtual Reality**