

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



# 2017 Annual Results

For the year ended December 31, 2017

*February 6, 2018 – Hong Kong*

a **PCCW** Group member

# Forward Looking Statements

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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

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Alex Arena

Group Managing Director

## Sustained Growth in AFF and Distributions

| (US\$ million)      | 2016 | 2017 | % change |
|---------------------|------|------|----------|
| Adjusted Funds Flow | 600  | 630  | 5%       |

A Final Distribution of 36.75 HK cents per Share Stapled Unit,  
subject to approval of unitholders

# Financial Review

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Susanna Hui

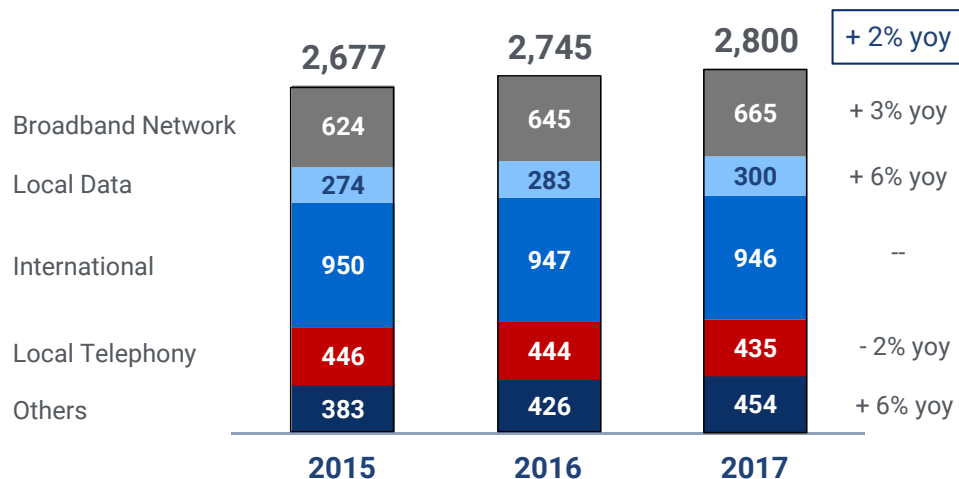
Group Chief Financial Officer

# HKT Continues to Deliver Solid Financial Performance Amidst Highly Competitive Environment

| (US\$ million)                                                  | 2016       | 2017       | % change    |
|-----------------------------------------------------------------|------------|------------|-------------|
| <b>Adjusted Funds Flow</b>                                      | <b>600</b> | <b>630</b> | <b>+ 5%</b> |
| <b>Revenue</b> (excl. Mobile Handset Sales)                     | 3,900      | 3,961      | <b>+ 2%</b> |
| <b>Revenue</b>                                                  | 4,339      | 4,264      | <b>(2)%</b> |
| <b>EBITDA</b>                                                   | 1,626      | 1,666      | <b>+ 2%</b> |
| <i>EBITDA Margin</i>                                            | 37%        | 39%        |             |
| <b>Profit</b><br>Attributable to Holders of Share Stapled Units | <b>627</b> | <b>653</b> | <b>+ 4%</b> |

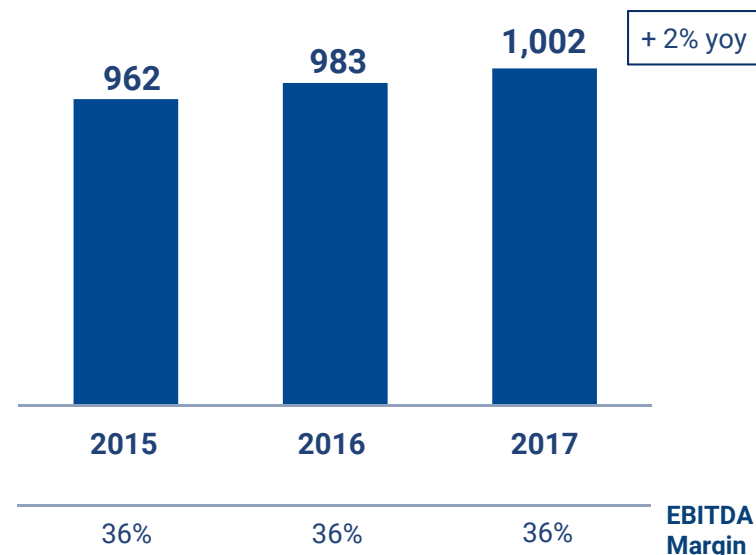
# TSS Strengthens Market Leadership Position

**TSS Revenue** (US\$ million)



- **Broadband** – Achieved 10<sup>th</sup> consecutive year of revenue growth, driven by net customer additions and continued customer take-up and upgrade to FTTH plans
- **Local Data** – Benefited from healthy enterprise demand for cross-border connectivity solutions and network facility management services integrating connectivity, cloud-based storage and ancillary co-location services
- **International** – Transforming to a comprehensive solutions provider that integrates data connectivity and value added services under a simple self-ordering and auto-provisioning process
- **Others** – Increased sales to enterprise customers of network equipment for managed network and infrastructure solutions

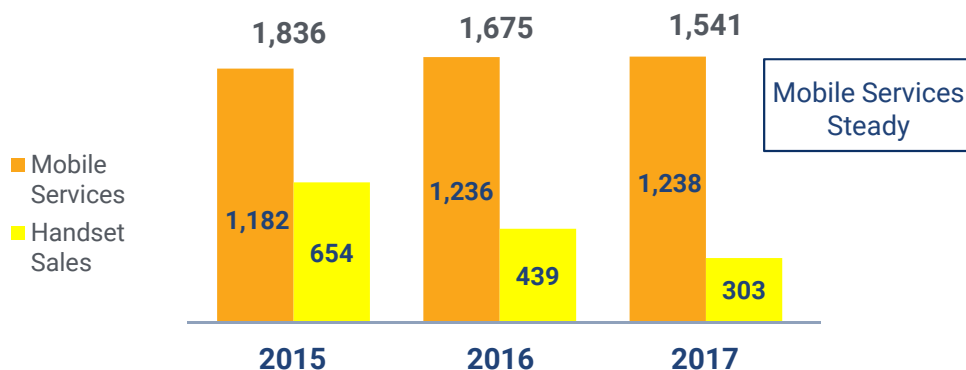
**TSS EBITDA** (US\$ million)



- Steady performance despite fierce market competition
- EBITDA growth underpinned by diversified business portfolio and enhanced operating efficiency

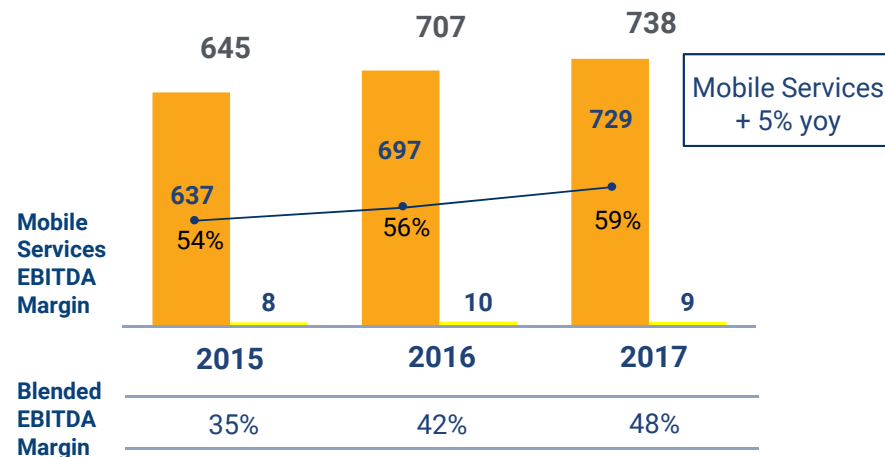
# Mobile Withstood Intense Industry Competition

## Mobile Revenue (US\$ million)



- Mobile Services revenue benefited from continued growth in post-paid customer base, upgrading to premium 1010 service and higher data demand; moderated by continued decline in IDD & roaming revenue and severe price discounting in the market
- Post-paid customers up 3% to 3.217M, and post-paid exit ARPU held firm at HK\$232
- Handset sales fell by 31% reflecting continued lengthening of the replacement cycle for mobile handsets

## Mobile EBITDA (US\$ million)

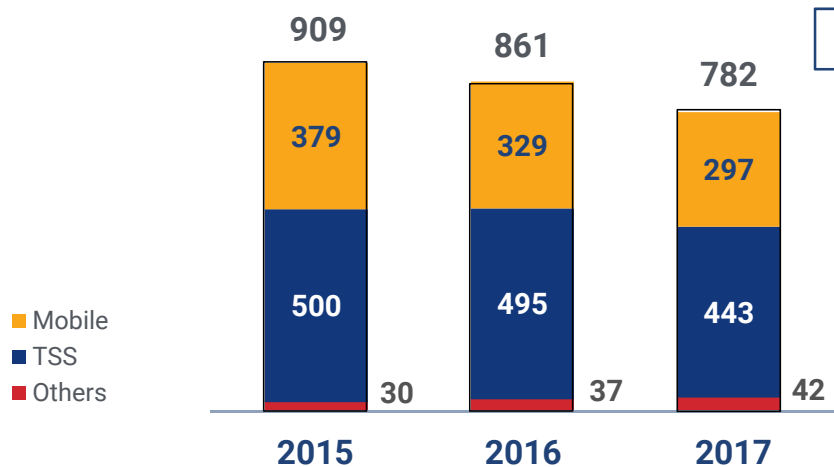


- Total Mobile EBITDA up 4% in 2017, while Mobile Services EBITDA grew by 5%
- Mobile Services EBITDA margin further improved to 59% reflecting full-year impact of cost synergies achieved from CSL integration and additional operational efficiencies during the year



# Operational Focus Extracts Further Cost Efficiencies

## Operating Expenses (US\$ million)

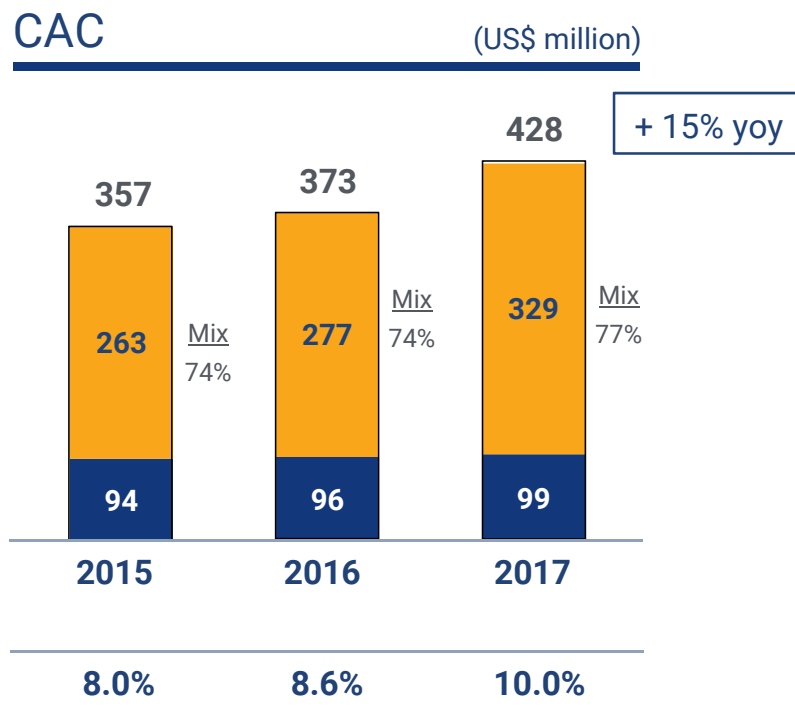


- Opex savings of 9% in 2017, benefiting from the full-year impact of cost synergies from CSL integration and continued improvements in operating efficiencies
- Successfully achieved cost savings in areas such as cell site rental, third-party backhaul, call centre integration, and promotional expenditure

Opex to Revenue Ratio:

|       |       |       |
|-------|-------|-------|
| 20.4% | 19.8% | 18.3% |
|-------|-------|-------|

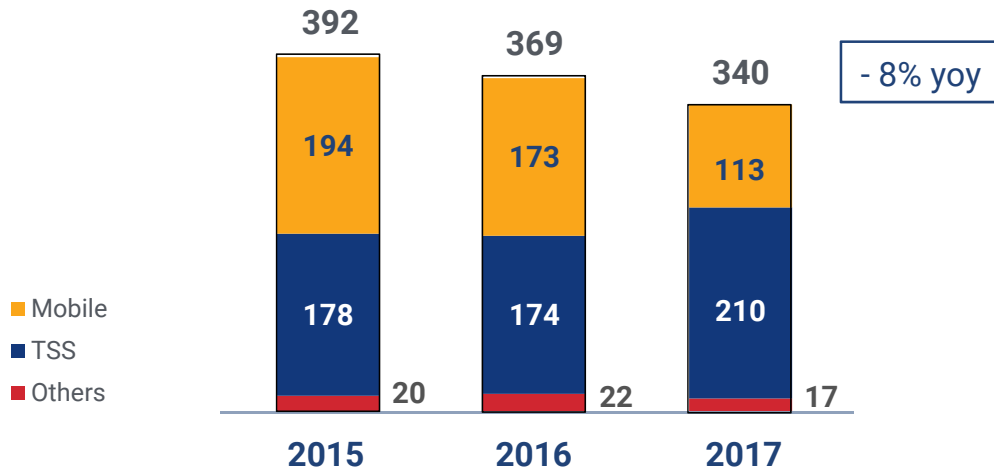
# Customer Acquisition Costs Support Business Growth



- Higher Mobile CAC reflecting higher proportion of handset bundled plans and higher handset unit costs
- Our attractive handset bundled plans reduced churn and lifted new customer acquisitions

# Prudent Capex Investments while Investing for the Future

Capex (US\$ million)



Capex to Revenue Ratio:

|      |      |      |
|------|------|------|
| 2015 | 2016 | 2017 |
| 8.8% | 8.5% | 8.0% |

- Capex to revenue ratio improved to 8.0%, within 10% guidance
- Lower Mobile capex reflecting completion of CSL integration in 2016
- Higher TSS capex to meet greater demand for our fiber broadband and IoT related services, customized network solutions for enterprises as well as continued submarine cable investments

# Adjusted Funds Flow (US\$ million)

|                                                                                                   | 2015         | 2016         | 2017         | YoY<br>Better/ (Worse) |
|---------------------------------------------------------------------------------------------------|--------------|--------------|--------------|------------------------|
| <b>EBITDA</b>                                                                                     | <b>1,551</b> | <b>1,626</b> | <b>1,666</b> | <b>+ 2%</b>            |
| Less cash outflows in respect of:                                                                 |              |              |              |                        |
| Customer acquisition costs and licence fees                                                       | (426)        | (444)        | (476)        |                        |
| Capital expenditures                                                                              | (389)        | (363)        | (333)        |                        |
| <b>Adjusted Funds Flow before tax paid, net finance costs paid and changes in working capital</b> | <b>736</b>   | <b>819</b>   | <b>857</b>   | <b>+ 5%</b>            |
| Adjusted for:                                                                                     |              |              |              |                        |
| Tax payment                                                                                       | (47)         | (71)         | (91)         |                        |
| Net finance costs paid                                                                            | (116)        | (100)        | (106)        |                        |
| Changes in working capital                                                                        | (48)         | (48)         | (30)         |                        |
| <b>Adjusted Funds Flow for the year</b>                                                           | <b>525</b>   | <b>600</b>   | <b>630</b>   | <b>+ 5%</b>            |
| Adjusted Funds Flow per Share Stapled Unit (HK cents)                                             | 54.06        | 61.85        | 64.87        |                        |
| Interim Distribution (HK cents)                                                                   | 25.79        | 27.09        | 28.12        |                        |
| <b>Final Distribution (HK cents)</b>                                                              | <b>28.27</b> | <b>34.76</b> | <b>36.75</b> |                        |
| <b>Total Distribution for the year (HK cents)</b>                                                 | <b>54.06</b> | <b>61.85</b> | <b>64.87</b> |                        |

# Income Statement (US\$ million)

|                                                 | 2015         | 2016         | 2017         | YoY<br>Better/ (Worse) |
|-------------------------------------------------|--------------|--------------|--------------|------------------------|
| <b>Revenue</b>                                  | <b>4,452</b> | <b>4,339</b> | <b>4,264</b> | <b>(2)%</b>            |
| Cost of sales                                   | (1,992)      | (1,852)      | (1,816)      |                        |
| Opex                                            | (909)        | (861)        | (782)        |                        |
| <b>EBITDA</b>                                   | <b>1,551</b> | <b>1,626</b> | <b>1,666</b> | <b>+ 2%</b>            |
| <b>Depreciation &amp; amortization expenses</b> | <b>(795)</b> | <b>(744)</b> | <b>(729)</b> |                        |
| Gain on disposal of fixed assets                | 1            | —            | —            |                        |
| Net other gains / (losses)                      | 2            | (6)          | (19)         |                        |
| <b>Net finance costs</b>                        | <b>(168)</b> | <b>(142)</b> | <b>(138)</b> | <b>+ 3%</b>            |
| Share of results of associates & JVs            | (3)          | (3)          | (1)          |                        |
| Profit before income tax                        | 588          | 731          | 779          | <b>+ 7%</b>            |
| <b>Income tax</b>                               | <b>(77)</b>  | <b>(99)</b>  | <b>(124)</b> |                        |
| <i>Effective tax rate</i>                       | 13%          | 14%          | 16%          |                        |
| <b>Profit for the year</b>                      | <b>511</b>   | <b>632</b>   | <b>655</b>   |                        |
| Attributable to:                                |              |              |              |                        |
| <b>Holders of Share Stapled Units</b>           | <b>506</b>   | <b>627</b>   | <b>653</b>   | <b>+ 4%</b>            |
| <b>Non-controlling interests</b>                | <b>5</b>     | <b>5</b>     | <b>2</b>     |                        |

# Solid Financial Position

## Affirmed by Investment Grade Credit Ratings

**BBB/Baa2  
Investment  
Grade Rating**

| (US\$ million)                      | As of<br>Dec 2015 | As of<br>Dec 2016 | As of<br>Dec 2017 |
|-------------------------------------|-------------------|-------------------|-------------------|
| <b>Gross Debt <sup>(1)</sup></b>    | <b>4,724</b>      | <b>4,974</b>      | <b>5,043</b>      |
| Gross Debt to EBITDA <sup>(2)</sup> | 3.05x             | 3.06x             | 3.03x             |
|                                     |                   |                   |                   |
| <b>Cash Balance <sup>(3)</sup></b>  | <b>483</b>        | <b>427</b>        | <b>470</b>        |
| <b>Undrawn Facilities</b>           | <b>709</b>        | <b>774</b>        | <b>731</b>        |
| <b>Total</b>                        | <b>1,192</b>      | <b>1,201</b>      | <b>1,201</b>      |

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

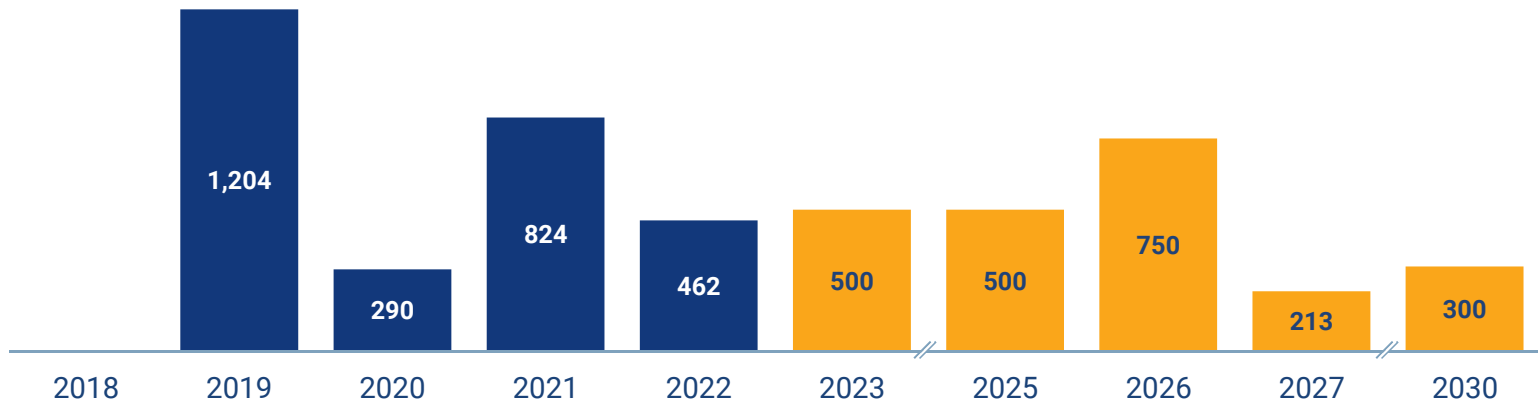
(2) Based on gross debt as at period end divided by EBITDA for the 12-month period

(3) Including short-term deposits

# Debt Maturity Profile

As of December 31, 2017

■ Bank Loans  
■ Bonds  
(US\$ million)



- Current mix of floating and fixed rated debt is approx. 50:50
- Effective interest rate was approx. 2.6% in 2017
- Average maturity was approx. 5 years

# Business Review

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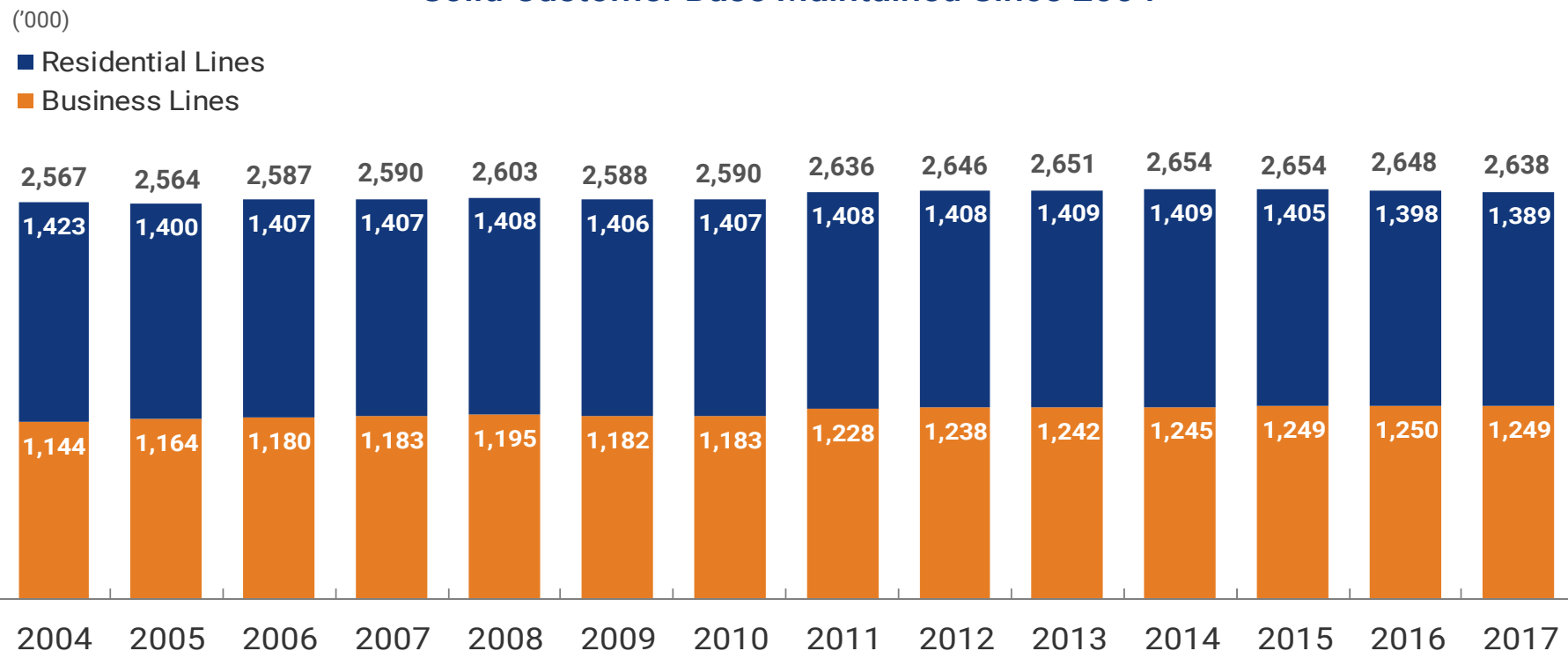
Alex Arena

Group Managing Director



# Stable Fixed-line Business

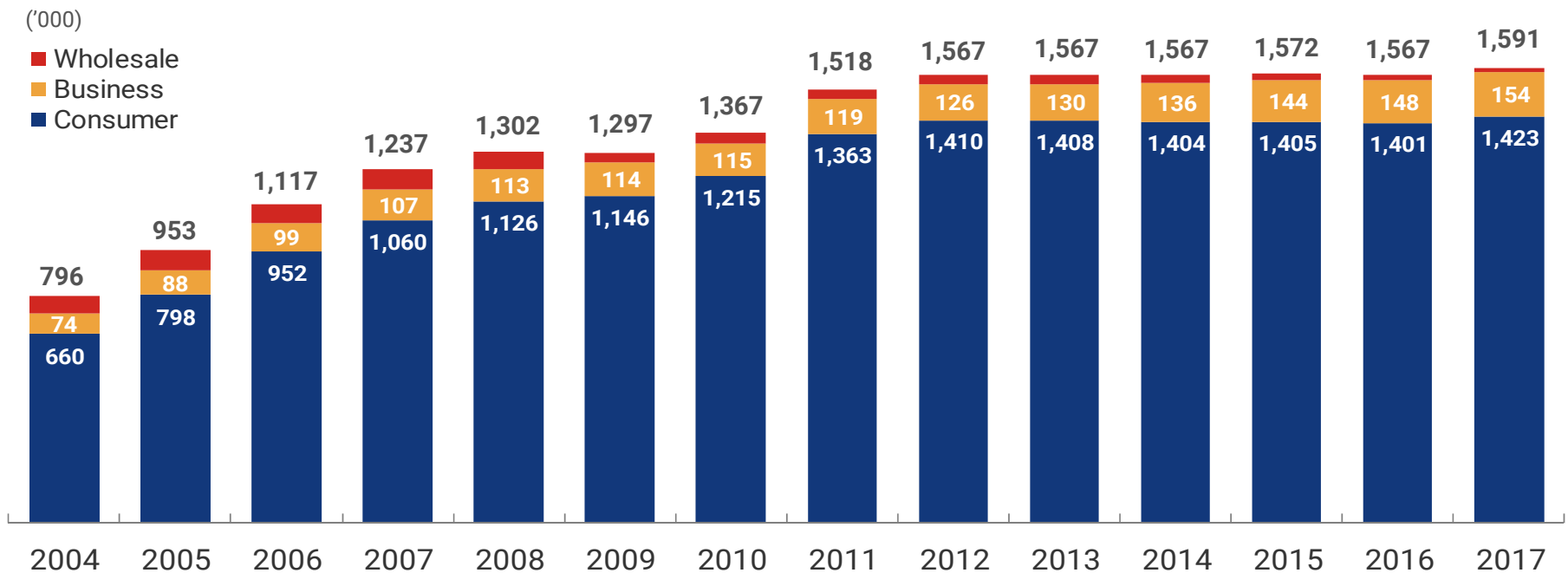
## Solid Customer Base Maintained Since 2004



# Strengthened Position in Broadband

Customer Base Grew by 2% Across Both Business and Consumer Segments

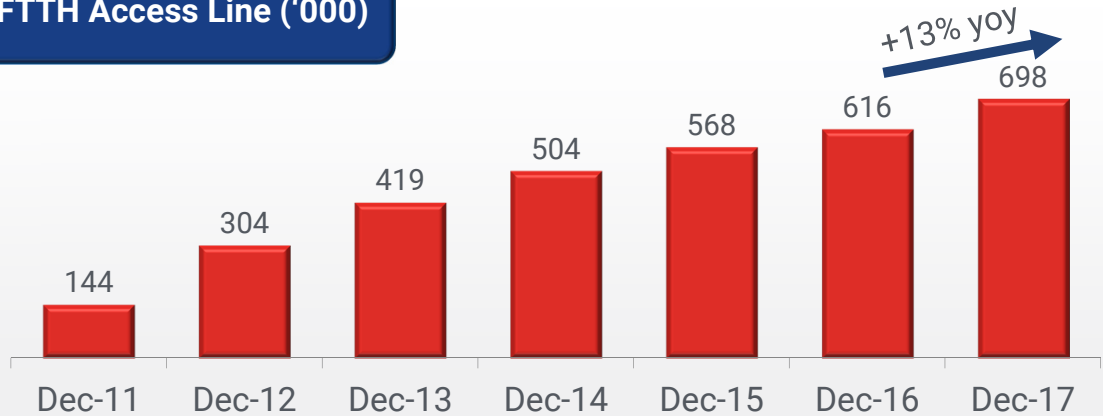
Kept Churn Below 1%



# Continued Growth of FTTH Service

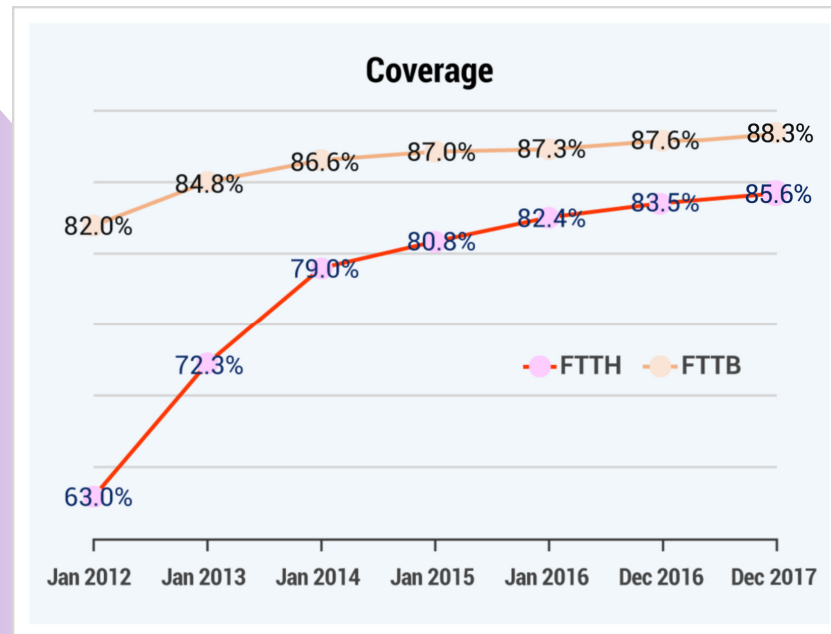
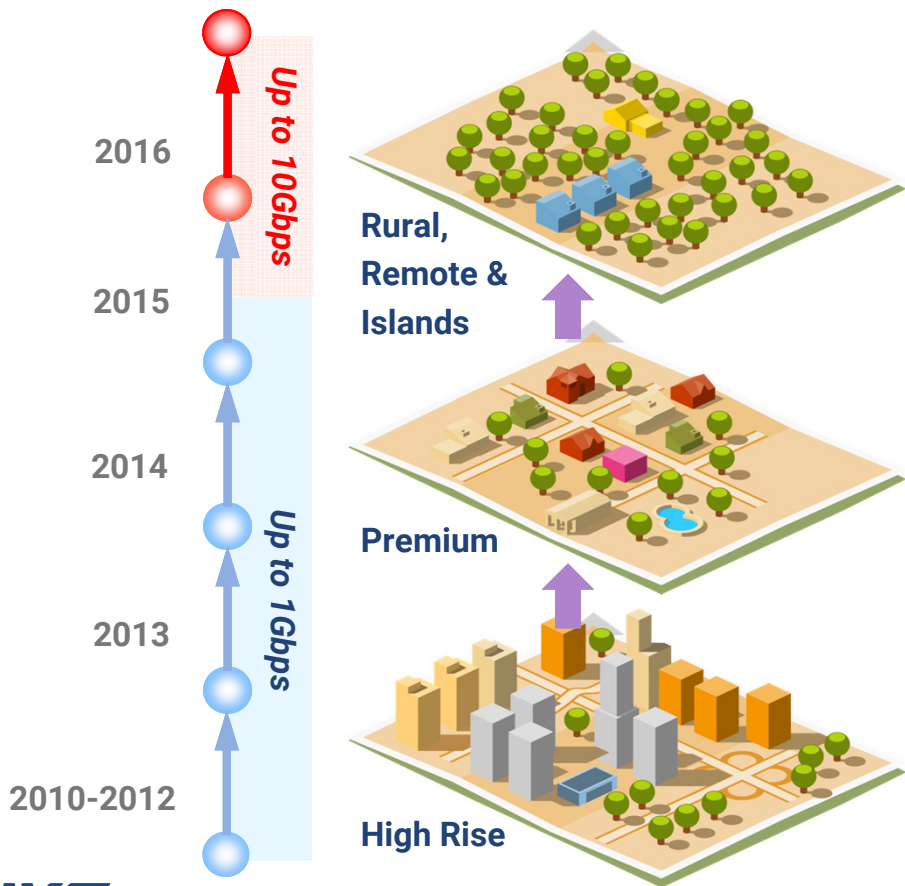


FTTH Access Line ('000)



- Continued increase in customer subscription to our Fiber-To-The-Home (FTTH) service and customer upgrades to higher speed, higher price FTTH plans
- 698K genuine FTTH access lines as of Dec 2017, which represented a net increase of 82K or 13% vs. Dec 2016
- 854K high speed broadband (FTTH and VDSL) access lines as of Dec 2017

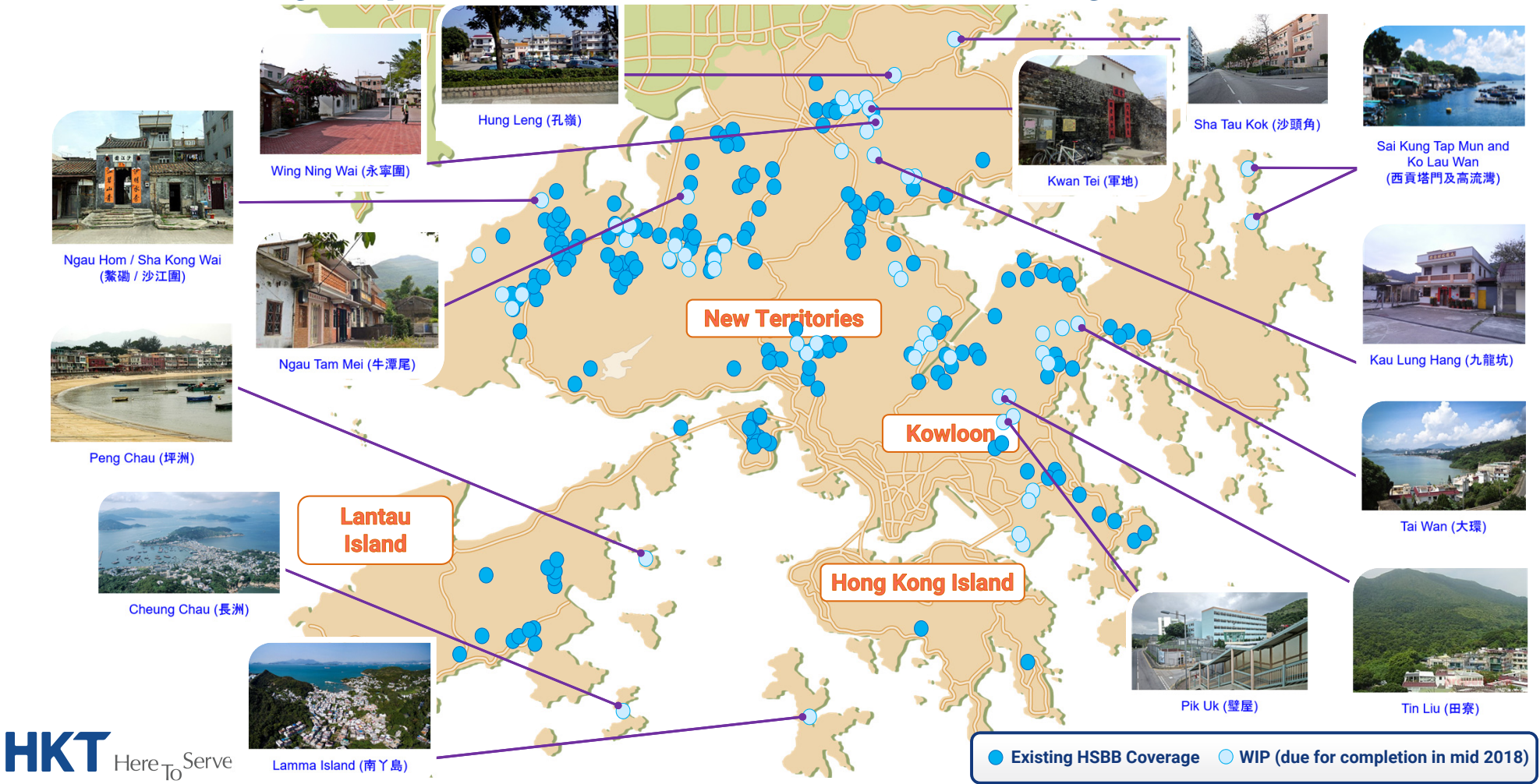
# HKT's Path to Territory-Wide Fiber Broadband



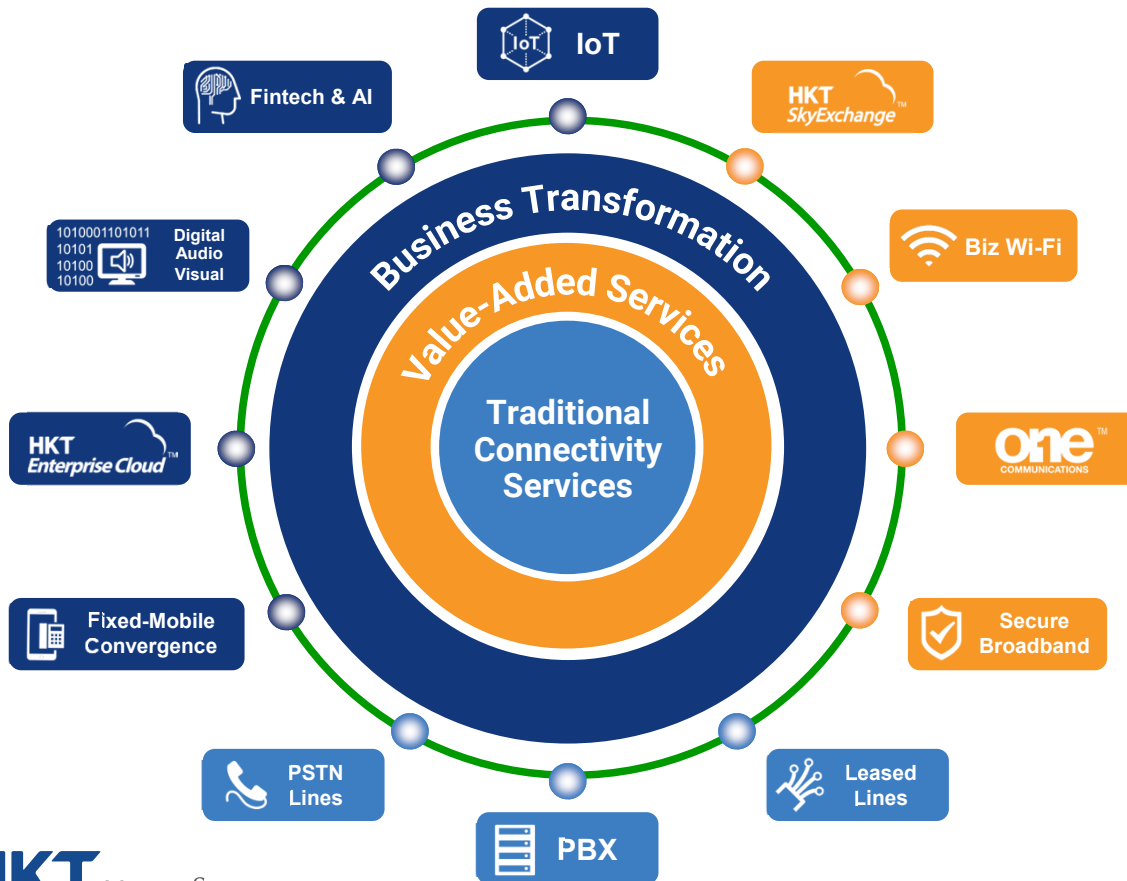
**As of Dec 2017, FTTH Coverage has reached 85.6% and FTTB Coverage was at 88.3%**

**\* FTTH coverage means HKT can provide FTTH service to customer within 4 days**

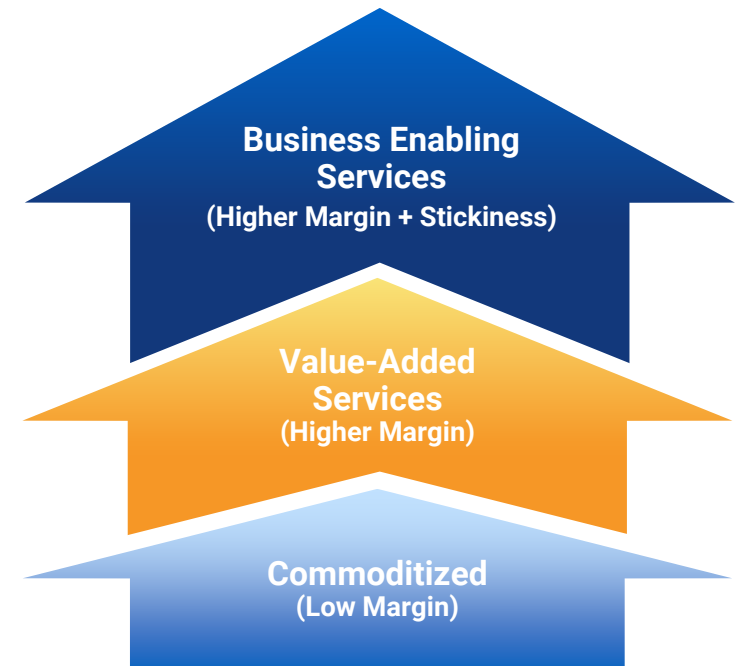
# Rollout of High Speed Broadband Service in Villages & Remote Areas



# Meeting Modern Business Needs



HKT Aims to Provide a Full Suite of Solutions to Meet the Requirements of Enterprise & SME Customers to Assist their Business Transformation





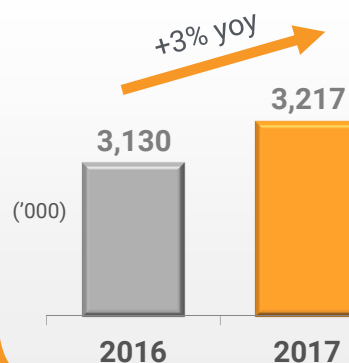
# Consolidated Leadership Position in Mobile



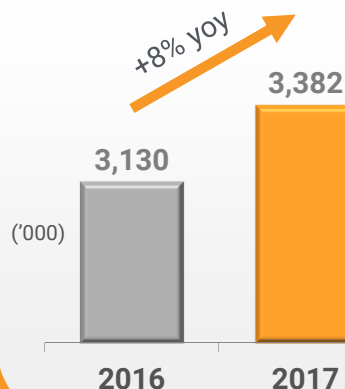
- Total customer base (excl. Club SIM) of 4.407M
  - Post-paid customer base of 3.217M
- Total customer base (incl. Club SIM) of 4.603M
  - Post-paid customer base of 3.382M
- Post-paid exit ARPU of HK\$232
- IDD and roaming represent 13% of total services revenue
- Mobile data represents 82% of total services revenue
- 83% of post-paid customers are smart device users
- Post-paid churn rate was 1.1%

# Mobile Network Leadership Driving Momentum

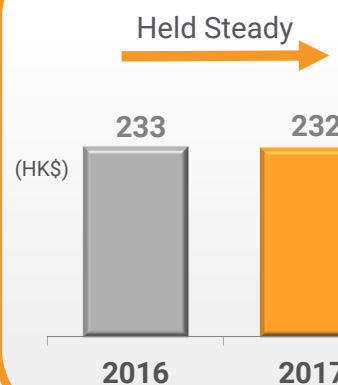
**Post-paid Customers  
(excl. Club SIM)**



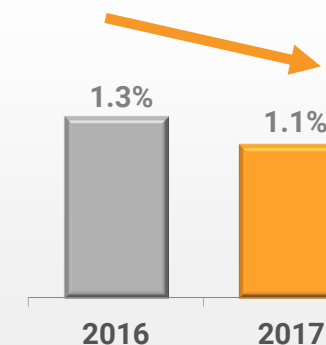
**Post-paid Customers  
(incl. Club SIM)**



**Post-paid Exit ARPU  
(excl. Club SIM)**



**Post-paid Churn Rate  
(excl. Club SIM)**



**Sustained Improvement in Post-paid Customer Base, ARPU and Churn Rate**



# THE CLUB<sup>®</sup>

## A Unified Customer Program that Drives Value to HKT, Customers and Coalition Partners

- The Club Program has been well received in the market since its launch in December 2014
- The Program offers tiered membership benefits including a rewards program where Clubpoints can be earned and redeemed for HKT services and other merchandise
- The Program is a cost-effective means of retaining and acquiring customers
- Has proven to be an effective way to hold pricing and build a loyal customer base



# THE CLUB®

## Some Examples of the Eco-System

### HKT Services



### Food



### Fashion



### Automotive & Transport



### Travel



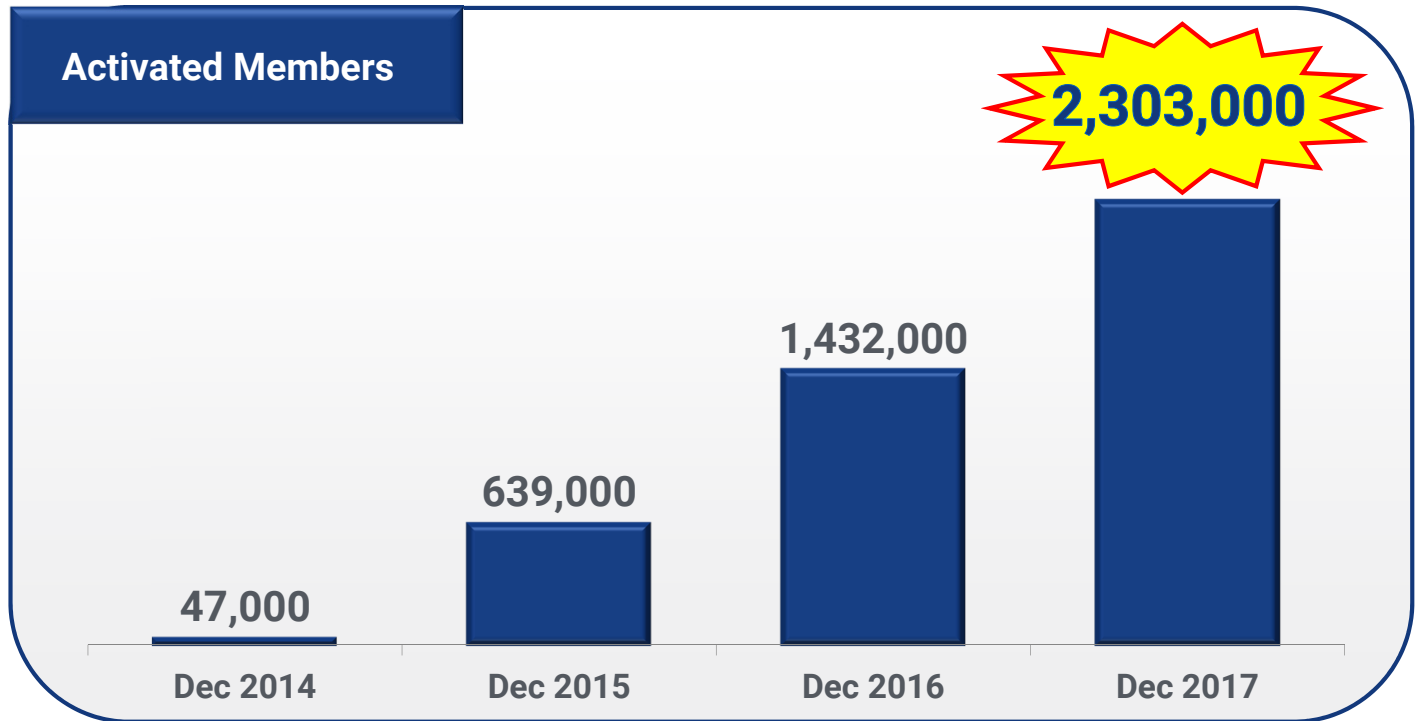
### Lifestyle



In addition, there are already over 1,000 items in the Redemption Catalogue




# THE CLUB<sup>®</sup>

The Club Member Base Has Grown Rapidly over the Past 3 Years



**The Club Program has Achieved Critical Mass**

# Highlights

- ✓ Solid performance demonstrating our operational resilience and proven ability to fend off competitors engaging in aggressive price tactics during a lackluster economic period
- ✓ Broadband and Mobile businesses continue to maintain market leadership positions given our superior technology and relentless drive for product innovation and service excellence
- ✓ Continue to invest in and groom our new businesses such as THE  CLUB<sup>®</sup> program,  mobile payment service and  electric vehicle charging solution

**Building for Tomorrow, Today**