

SmarTone Telecommunications Holdings Limited

FY16 Annual Results Presentation
For the year ended 30 June 2016

26 August 2016

Disclaimer

It is not the intention to provide, and no reliance should be placed on these materials as providing, a complete or comprehensive analysis of the financial or trading positions or prospects of SmarTone Telecommunications Holdings Limited. Neither SmarTone Telecommunications Holdings Limited or any of its directors, officers, employees, agents, affiliates, advisers or representatives accepts any liability whatsoever in negligence or otherwise for any loss howsoever arising from any information or opinions presented or contained in these materials or otherwise arising in connection with these materials. The information presented or contained in these materials is subject to change without notice . No representations or warranties are made on the accuracy, completeness or correctness of the information or materials.

The information presented or contained in these the material is for reference only and does not constitute a distribution, an offer to sell or a solicitation of an offer to buy any securities in any jurisdiction.

Statements contained in these materials which are not historical facts, including statements about the beliefs and expectations of SmarTone Telecommunications Holdings Limited, are forward-looking statements. These statements are based on current plans, beliefs, expectations, estimates and projections of the company and undue reliance should not be placed on them. Forward-looking statements speak only as of the date they are made, and SmarTone Telecommunications Holdings Limited has no obligation to update any of them publicly in light of new information or future events. Forward-looking statements involve inherent risks, uncertainties, assumptions and other factors beyond the control of SmarTone Telecommunications Holdings Limited. If these risks or uncertainties ever materialise or the assumptions prove incorrect, or if a number of important factors occur or do not occur, actual results of SmarTone Telecommunications Holdings Limited may differ materially from those expressed or implied or forecasted in any of these forward-looking statements.

Agenda

- Result highlights
- Financial review
- Business review
- Outlook
- Appendix – financial information

Result highlights

Anna Yip

Chief Executive Officer

FY16 overview

- Mobile service business remained stable despite weak economy and intense competition
- Focused on continual improvement in productivity in both OPEX and CAPEX
- Achieved healthy growth in Group service EBIT and margin
- Launched “We’re for smiles” brand campaign underpinned with innovative services and flexible approach to customer care

Financial highlights

- Group service revenue at \$5,471m, and service revenue net of handset subsidy amortisation was stable at \$4,795m
- Postpaid mobile ARPU increased 2% to \$301
- Reduction in OPEX and Depreciation and Amortisation of \$251m
- Group service EBIT increased 18% to \$1,014 million and EBIT margin increased from 15% to 19%
- Handset EBIT fell 77% to \$90 million, reverting to historical levels
- Net profit dropped 15% to \$797m
- Proposed final dividend of \$0.33 per share
 - Full year dividend \$0.60 per share
 - Effective payout ratio of 80%

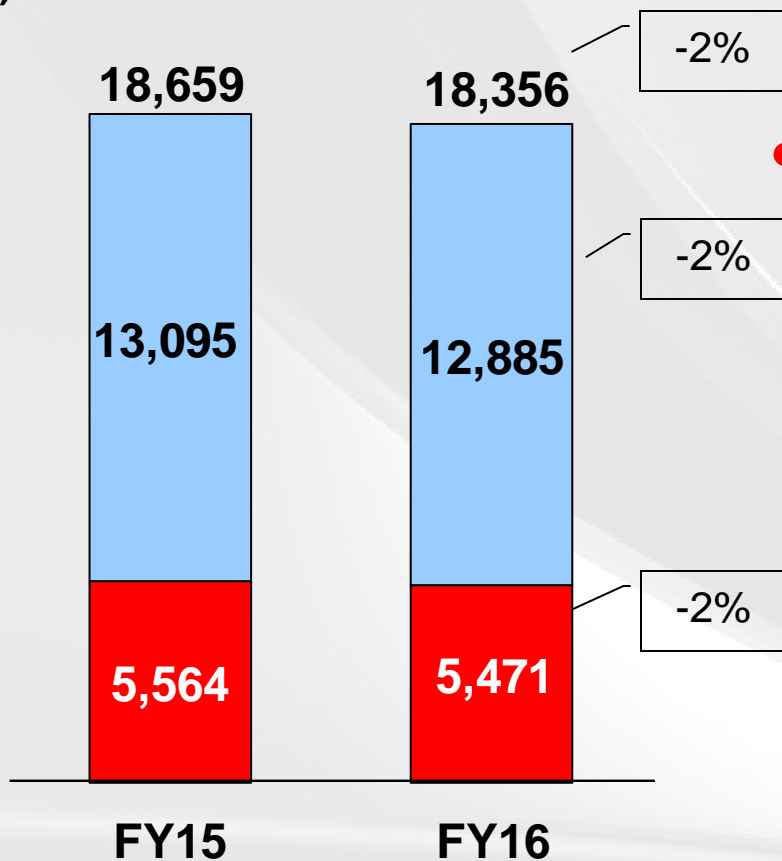
Financial review

Patrick Chan

Chief Financial Officer

Group revenue

(\$m)



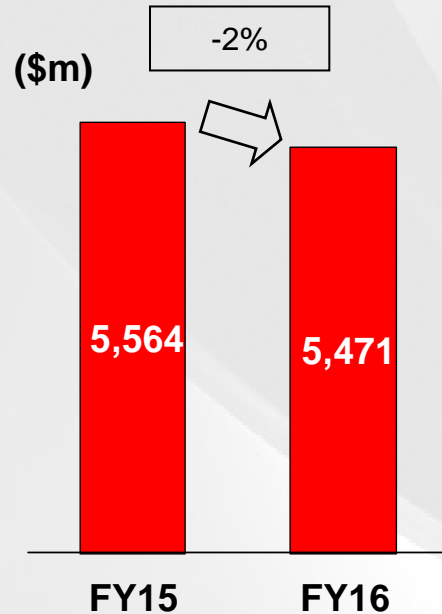
- Group revenue declined 2%
- Service revenue fell 2%
- Handset & accessory sales down 2%

■ Service revenue

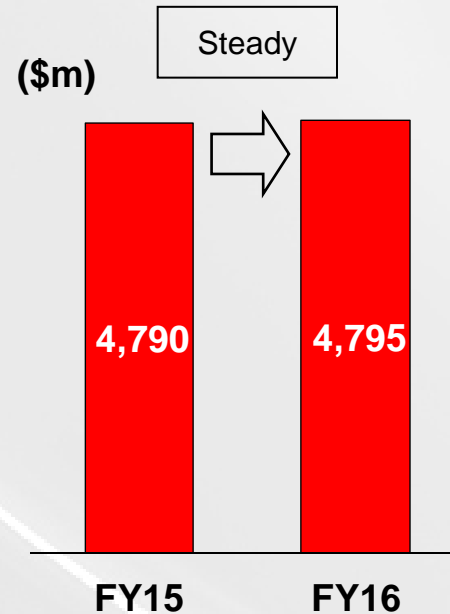
■ Handset & accessory sales

Group service revenue

Group service revenue

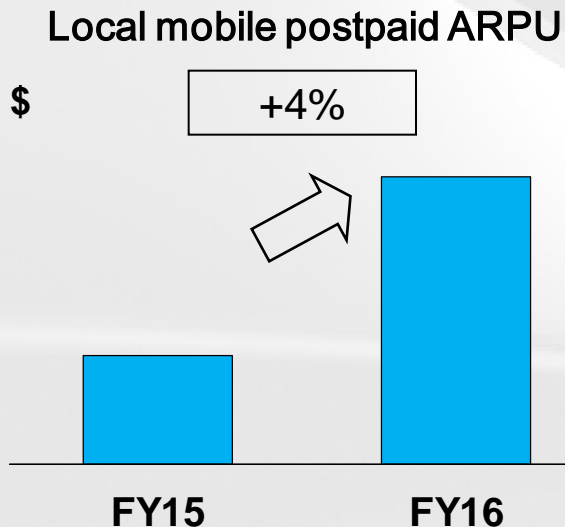
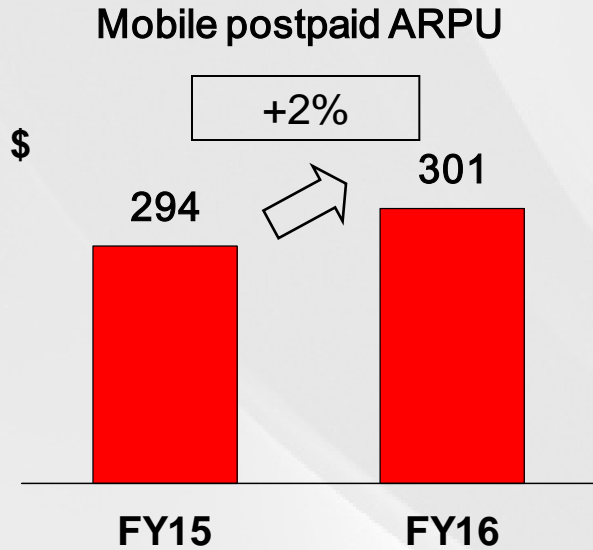


Group service revenue
net of handset subsidy amortisation



- Group service revenue fell 2% as growth in local mobile postpaid revenue was offset by migration to SIM-only plans, decline in roaming and prepaid revenue
- Group service revenue net of handset subsidy amortisation steady

Improving mobile postpaid ARPU

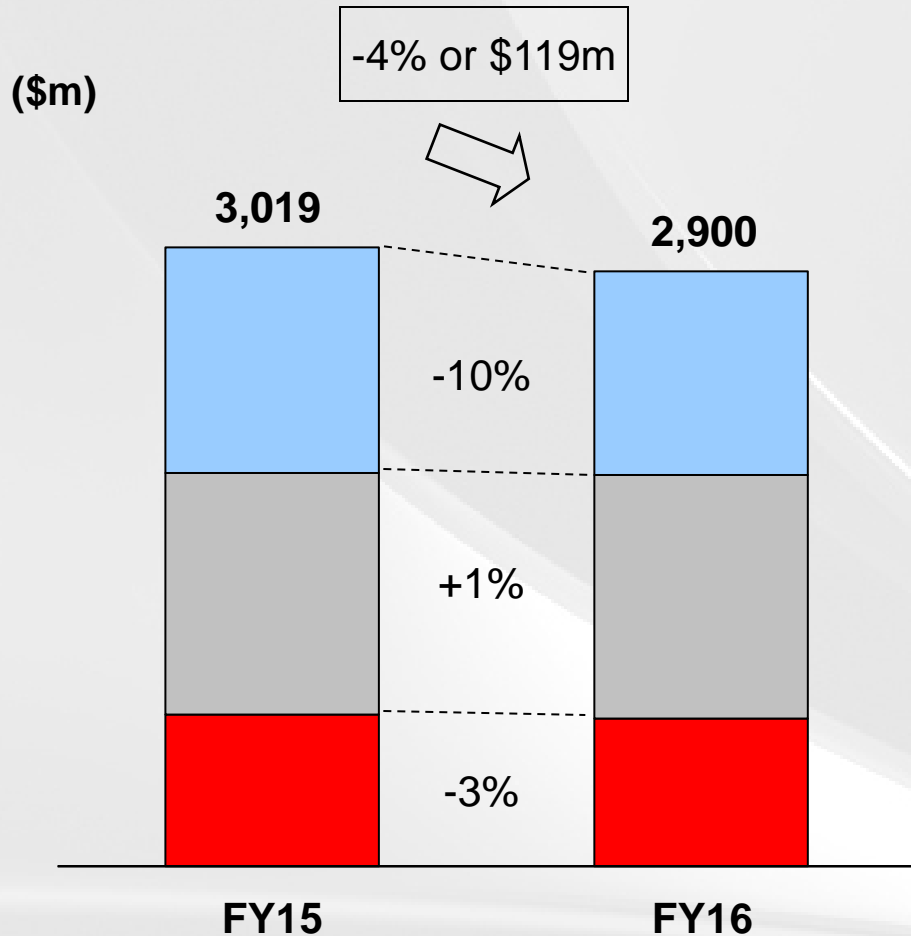


- Improving mobile postpaid ARPU
 - Mobile postpaid ARPU up 2%
 - Local mobile postpaid ARPU up 4%
- Average mobile postpaid churn rate unchanged at 0.9%
- Total customer no. increased marginally from 1.96m to 1.97m

Vigilant control over costs

- Cost reduction of \$251m achieved
 - OPEX fell \$119m or 4%
 - Depreciation and Amortisation decreased \$132m or 8%
- Achieved productivity increase while upholding quality service

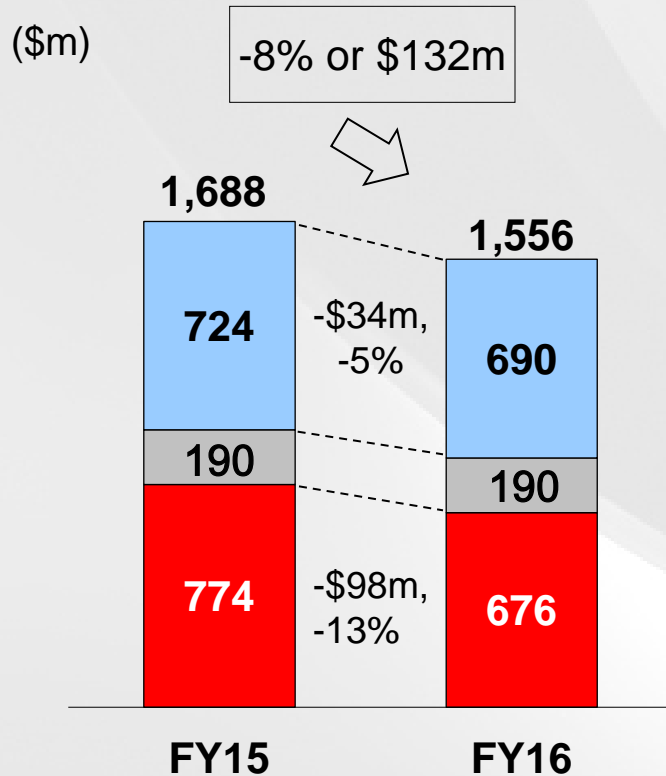
Reduction in operating costs



- Staff costs down 3%
- Network costs up 1% despite increasing data usage
 - Average 5.6GB per user per month, up 32% from Jun 2015
- Other OPEX fell 10%
 - Lower cost of services provided, sales and marketing expenses and general administrative expenses

■ Staff costs ■ Network costs ■ Other OPEX

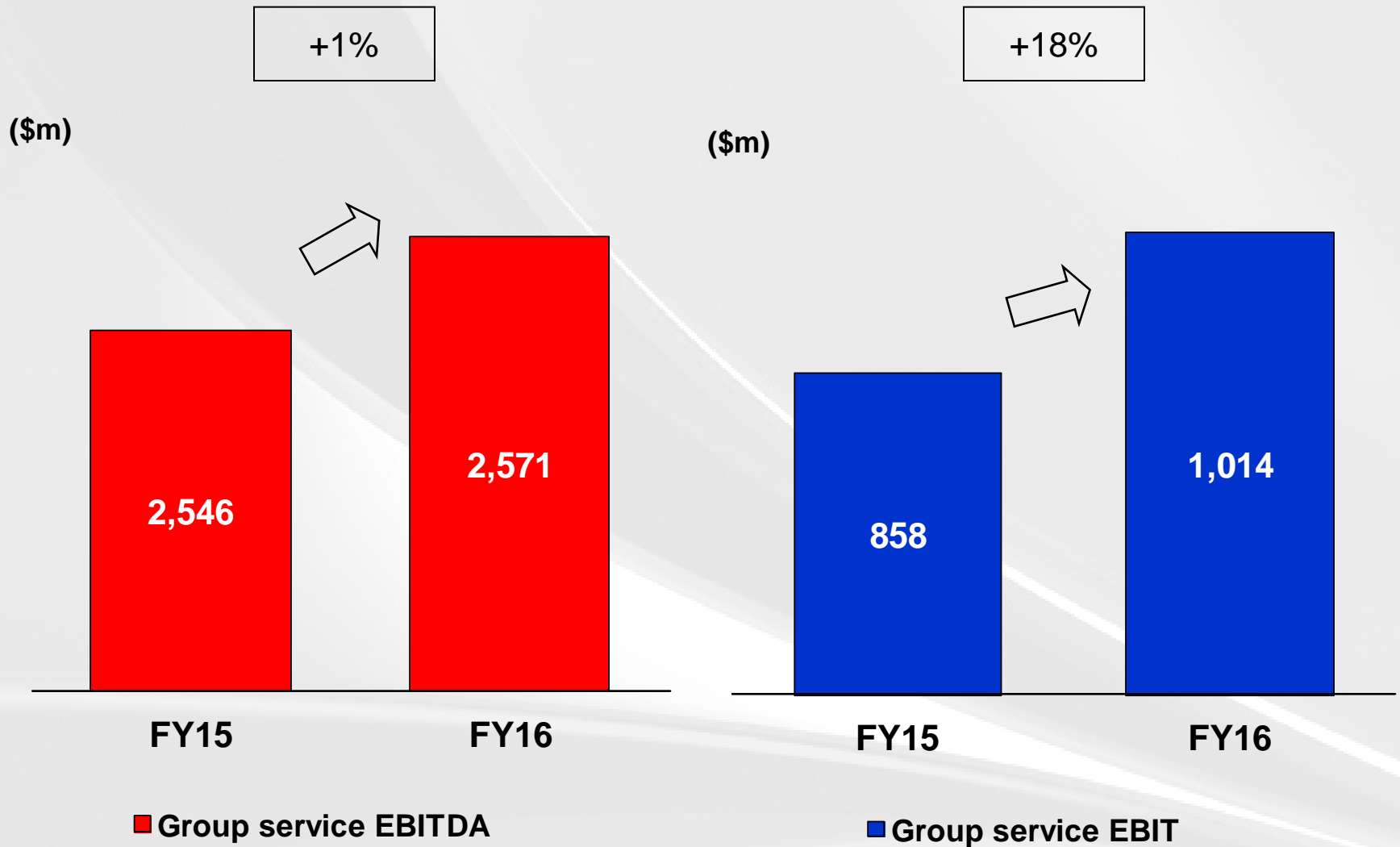
Lower depreciation & amortisation



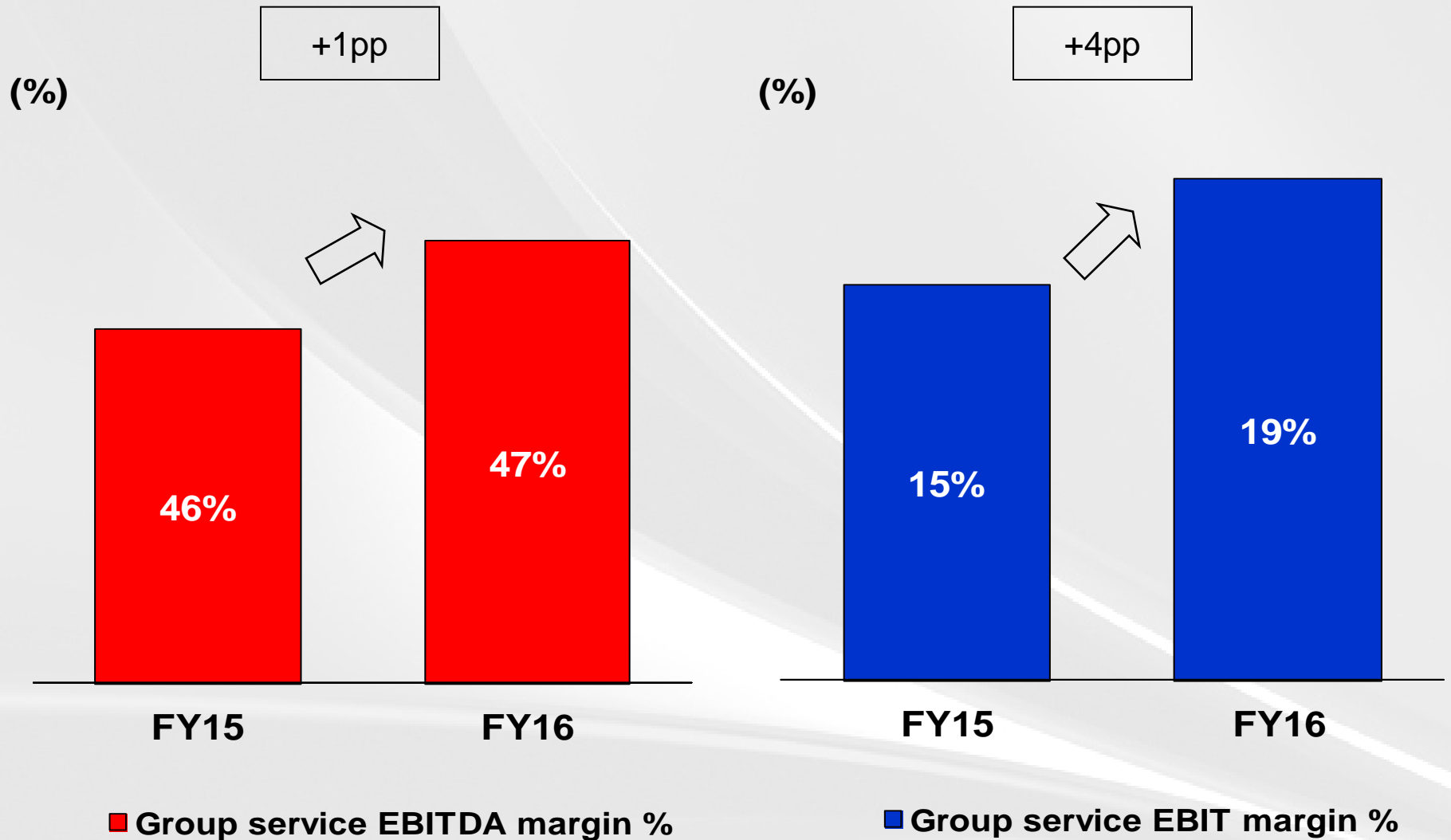
- Handset subsidy amortisation
- Amortisation of licence fee
- Depreciation & disposal loss

- Depreciation & Amortisation dropped \$132m or 8%
- Fixed asset depreciation decreased \$34m or 5%, due to lower CAPEX
- Handset subsidy amortisation fell \$98m or 13%, due to continuing customer migration to SIM-only plans

Improving service EBITDA and EBIT

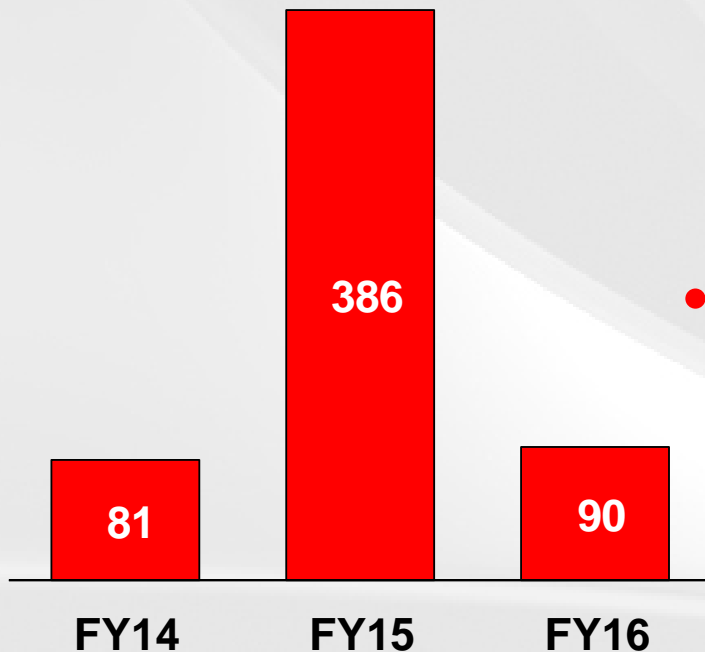


Improving service margins



Handset EBIT back to historical level

(\$m)

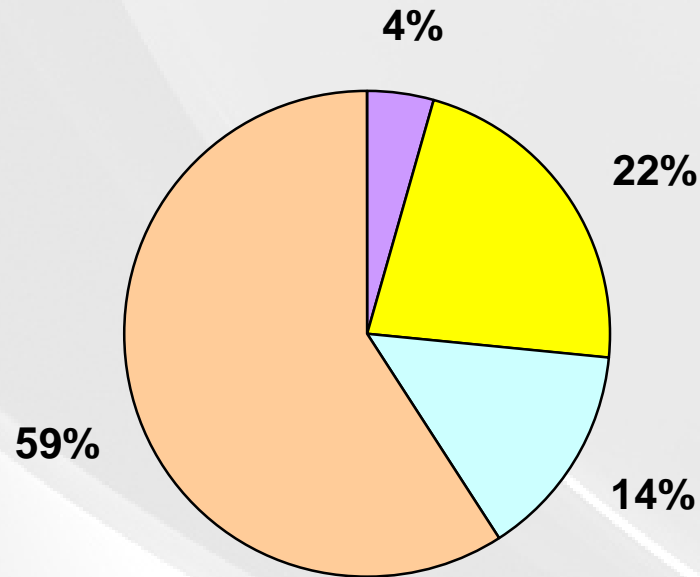


- Surge in FY15 handset EBIT due to popular smartphones
 - FY16 handset EBIT fell \$296m, -77%
- FY16 EBIT in line with historical level

Strong balance sheet

- Long term funding in place for renewal and additional 2100MHz spectrum
- Cash resources and bond holdings stable at over \$4.1b
- Cash and bonds, net of borrowings, marginally increased from \$1.2b to \$1.3b

Stable debt maturity profile



■ Within 1 year ■ After 1 year but within 2 years
■ After 2 years but within 5 years ■ After 5 years

- Long-term funding in place
- Over 50% of debt repayable after 5 years

Business review

Anna Yip

Chief Executive Officer

Strategy for continual growth

- Reinforce the SmarTone brand with
 - Innovative products and services that meet specific segment needs
 - Flexible approach to customer care
 - Enhanced and expanded loyalty reward program
 - Superior network performance
- Utilise digital technology to enhance customer experience

Well-positioned to monetise continuing strong growth in data usage

Launch new brand proposition to further differentiate from competition

- Brand proposition “We’re for Smiles” to reinforce SmarTone’s commitment in delighting customers
- Promote brand campaign across customer touch points

Thematic TVC



Flexi-switch TVC



Online



Outdoor & In-store



Social



Viral videos with online KOL



Introduce targeted products and services to meet customer needs

Plans tailored for different segments

Family Plan

Recover unused top-up data
1 from 1 month to the next
Enjoy 3 additional offers with handset purchase
5 SIMs to share

Introducing SuperCare Family Plans
Make the most of your data with added flexibility

Youth Plan



Offering travelers peace of mind



旅遊數據咭
Prepaid Travel Data Card \$228
7日任用
Use all you want for 7 days

台灣 Taiwan 日本 Japan 印尼 Indonesia
新加坡 Singapore 馬來西亞 Malaysia 一插即用 Plug and use
網絡共享 Allow sharing

通行亞洲5大旅遊熱點
Applicable for use in 5 popular destinations in Asia

Smarfone

Security and Protection

Over 100,000,000
calls blocked



Provide outstanding customer care

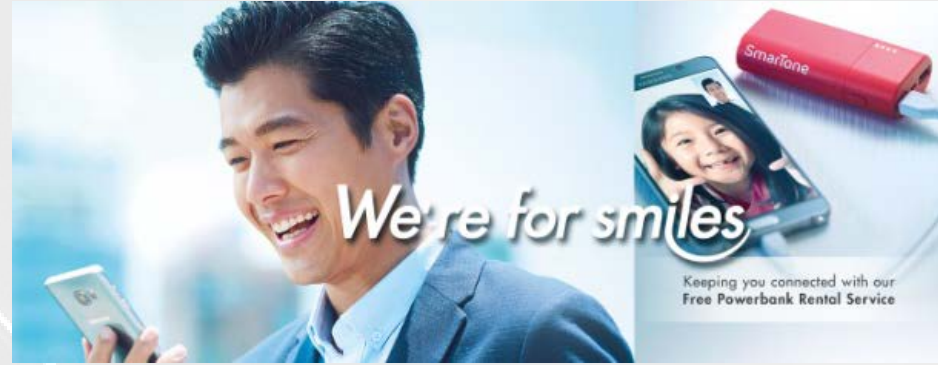
Flexi-switch

You're free to have a change of heart

Flexi-switch lets you change your plan once after you've signed up



Free Powerbank Rental



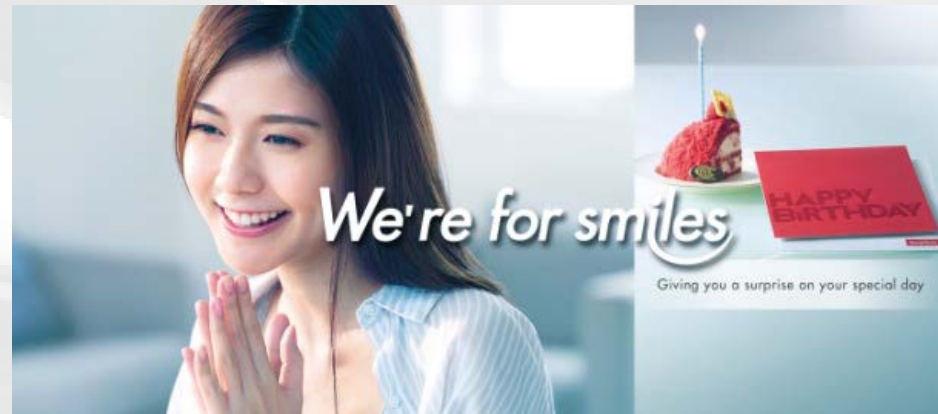
24x7 Live Chat

SmarTone

Live Chat

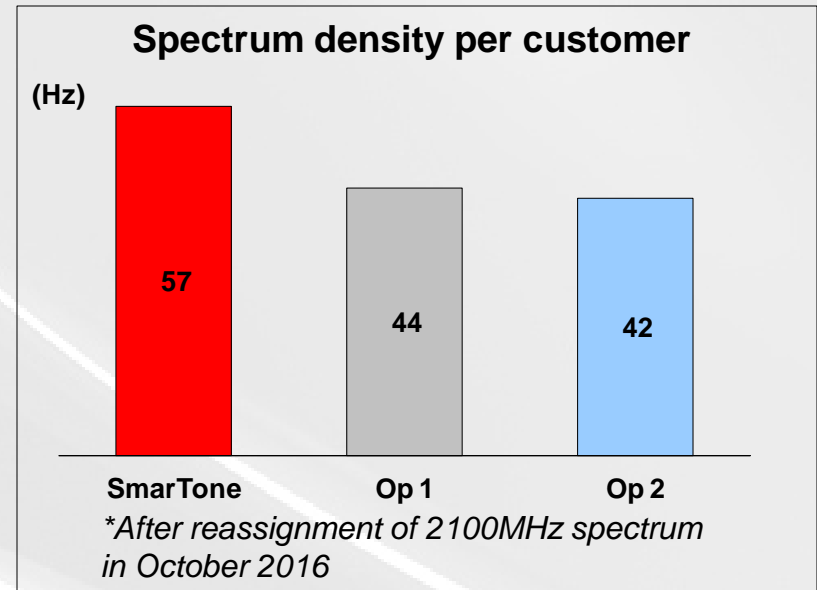


PriorityPlus & SuperCare Delight



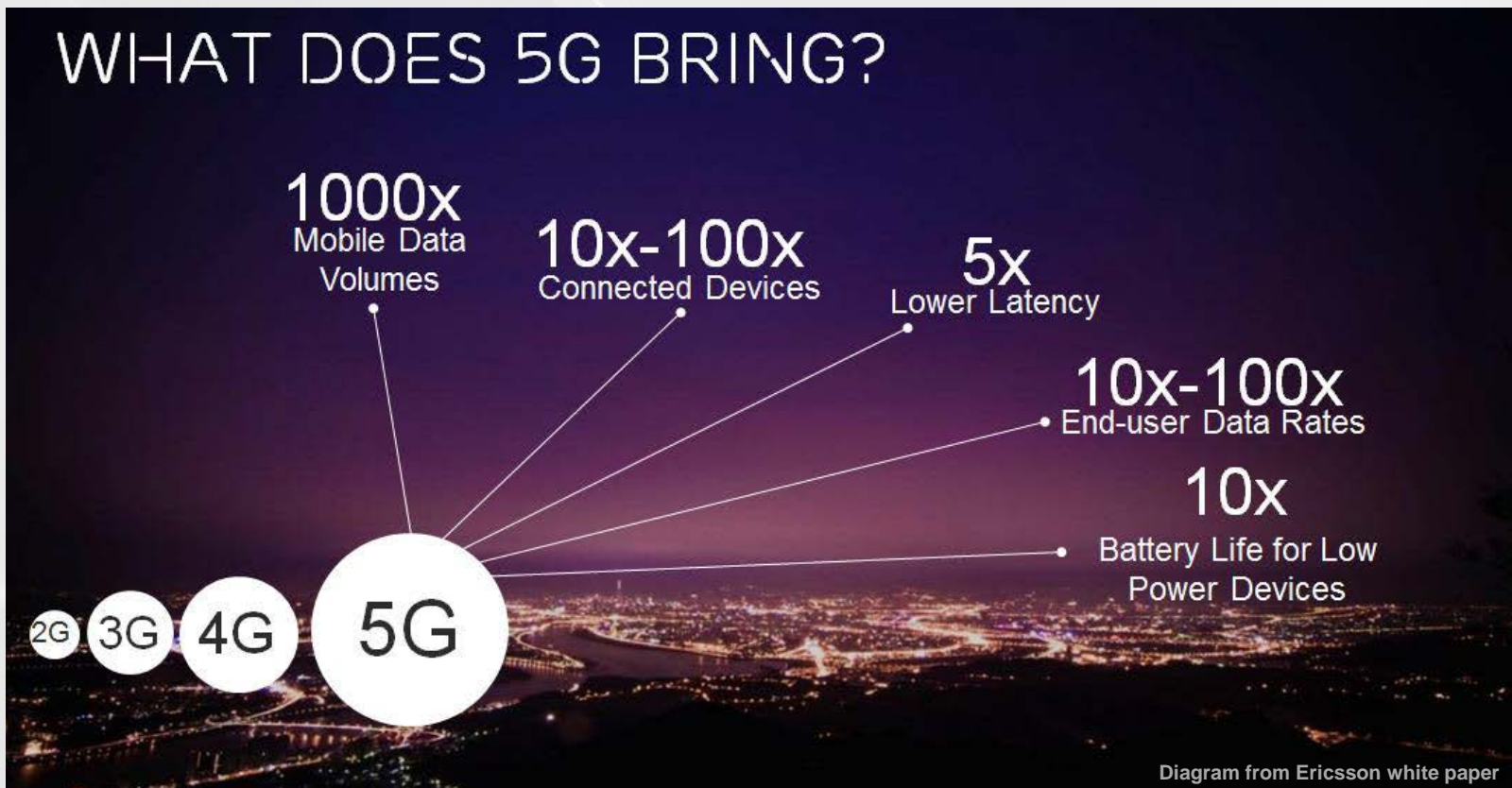
Deliver superior network performance

- Continual investment in spectrum and technology to expand capacity and provide ultra-fast connectivity
 - Offer highest spectrum density per customer
 - Employ multi-band frequencies, Carrier Aggregation, 256QAM, 4x4 MIMO, etc
 - Utilise big-data analytics for end-to-end network optimisation
 - Implement small cells at traffic hotspots



Evolution to 5G

- Ground-breaking enhancements in data speed, capacity density and network latency
- Support for bandwidth hungry applications and massive connectivity
- Evolution towards 5G enables SmarTone to be a frontrunner in capturing future business opportunities



Network transformation to pave way for 5G

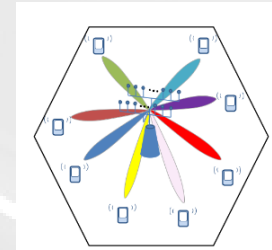
- Early trials of 5G use cases and technology enablers for 5G starting Q4 2016
- Implement a dynamic cloud-enabled core network architecture
- Deploy pre-5G technologies (e.g. LAA; higher order MIMO; small cells) to enhance network capacity and user experience



IoT



LAA



**Higher order
MIMO**

Outlook

Anna Yip

Chief Executive Officer

Outlook

- Continuing macroeconomic and market challenges : weak economy and intense competition
- SmarTone will continue to innovate on customer experiences, products and services to widen our lead on competition
- Maintain vigilant cost control and reinforce drive for efficiency
- Focus on disciplined investment in CAPEX
 - Guidance for FY17 : \$550m to \$600m

Q&A

Appendix – financial Information

Group Profit & Loss

(\$m)	FY15	FY16
Revenues	18,659	18,356
Cost of inventories sold	(12,708)	(12,795)
Staff costs	(741)	(722)
Other operating expenses	(2,279)	(2,179)
EBITDA	2,932	2,661
Depreciation, amortisation & disposal	(1,688)	(1,556)
EBIT	1,244	1,104
Net finance costs	(113)	(142)
Profit before income tax	1,131	962
Income tax expense	(195)	(175)
Profit after income tax	935	787
Non-controlling interests	0	10
Net profit	935	797
ROCE ⁽¹⁾	17%	15%
ROE ⁽²⁾	27%	19%

(1) $ROCE = EBIT / \text{Average capital employed (total assets less current liabilities)}$

(2) $\text{Net profit} / \text{Average shareholders' equity}$

Group Balance Sheet

(\$m)	Jun 15	Jun 16
Fixed assets	3,340	3,236
Held-to-maturity debt securities ⁽¹⁾	-	870
Intangible assets	2,319	1,757
Other non-current assets	120	136
Cash & bank balances ⁽¹⁾	4,145	3,242
Other current assets	891	1,162
Bank borrowings ⁽¹⁾	(1,443)	(1,320)
Notes payable ⁽¹⁾	(1,526)	(1,530)
Customer prepayments and deposits	(773)	(400)
Other current liabilities	(2,611)	(2,411)
Other non-current liabilities	(553)	(378)
Net assets	3,908	4,364
Share capital	106	108
Reserves	3,745	4,209
Total equity attributable to equity holders	3,851	4,317
Non-controlling interests	57	47
Total equity	3,908	4,364
⁽¹⁾ <i>Cash & bank balances</i>	4,145	3,242
<i>Held-to-maturity debt securities</i>	-	870
<i>Bank Borrowings</i>	(1,443)	(1,320)
<i>Notes payable</i>	(1,526)	(1,530)
<i>Net cash balance</i>	1,176	1,262
⁽²⁾ <i>Shares in issue at balance sheet date (million)</i>	1,057	1,081
⁽³⁾ <i>Net book value per share</i>	\$3.6	\$4.0

Smartone