



China Unicom (Hong Kong) Limited

2016 Interim Results Announcement

Edited Presentation Transcript

Speaker: Mr. WANG Xiaochu, Chairman & CEO

Slide 4: Agenda

Ladies and gentlemen, good afternoon, it's my great pleasure to discuss the interim results of China Unicom. In today's presentation, I will report the overall results, and Mr. Lu Yimin and Mr. Li Fushen will discuss the operating and financial performance, followed by the Q&A session.

Slide 5: Highlights

The results of the first half of 2016 can be summarized as below:

Firstly, the Company has strived to mitigate the underlying shortcomings, with positive business momentum emerging.

Secondly, the mobile business has set to accelerate as 4G gaining edge.

Thirdly, the Company sustained growth in fixed-line business amid fierce competition, leveraging high bandwidth and video offerings.

Fourthly, we fostered scale development of key innovative business to create new growth drivers.

Fifthly, enhanced by “Focus Strategy” & “Cooperation”, our network advantages have been further strengthened despite substantial reduction in CAPEX.

Slide 6: Positive Business Momentum Emerging

To promote long-term sustainable development, the Company braved short-term profit pressure, strengthened its fundamental capabilities, and increased cost initiatives as appropriate to strive for a gradual turnaround. The Company achieved initial success in turning around the unfavorable conditions in business development and saw the emergence of positive business momentum.

In the first half of 2016, service revenue bottomed out and increased by 1.4% year-on-year and 6.0% half-on-half.

EBITDA and net profit were down by 18% and 80% respectively year-on-year. However, compared to the second half of last year, EBITDA and net profit showed substantial improvement.

Benefitted from the gradual improvement in service revenue and the substantial decline in CAPEX, free cash flow improved significantly and reached RMB23.8 billion.

Slide 7: Strived to Mitigate Underlying Shortcomings

In the first half, the Company strived to mitigate the underlying shortcomings.

To upgrade its network, the Company focused on 4G and broadband to fully enhance the network capability and customers’ perception. In terms of terminal, the Company leveraged “All Network Access” terminals to achieve breakthrough in the terminal supply bottleneck. The market share of 4G handset compatible with China Unicom standards reached to 63%. Meanwhile, the Company also strengthened its comprehensive service system and IT support to improve NPS, and reduce complaint rate. As for the mechanism upgrade, we sped up delegation and simplification of administration, upheld the alignment of responsibility, authority and rewards to lift the corporate vibrancy.

In the second half, the Company will continue to strengthen its competitiveness in terms of products, branding, and business innovation. The Company strives to enhance its fundamentals to accelerate the turnaround of business and revenue and drive the gradual turnaround of the future financial performance.

Slide 8: Mobile Business Gaining Momentum

Rome wasn't built in a day. With the firm execution of “Focus Strategy”, the Company achieved initial success in overcoming operational challenges in mobile business. The decline of mobile service revenue narrowed from -9.7% in the first half of last year to -0.6% during the period. The mobile service revenue of July achieved positive year-on-year growth of 2.6%.

In the second half of 2016, the Company will continue to strengthen the 4G network edges in key areas and achieve leading 4G network quality in key cities by the end of August. Meanwhile, the Company will grow its business through market segmentation, strengthen integrated offerings and conduct data traffic operation and target marketing, in order to accelerate migration of 2G/3G subscribers to 4G and mobile business development.

Slide 9: Effectively Deploy Premium Network

In the first half of 2016, through “Focus Strategy” and cooperation, the Company swiftly enhanced its network capabilities despite decline of CAPEX by 39% year-on-year.

In the second half, the Company will further deepen implementation of Focus Strategy, and cooperation to deploy the premium network with estimated CAPEX at RMB 75 billion for 2016.

In terms of 4G, the number of base station will reach over 680,000 by the end of the year and we will achieve contiguous coverage in cities and towns nationwide with 97% mobile data traffic under 4G coverage and leading 4G network quality and customers' perception in key cities.

In terms of fibre broadband, the Company will proactively promote fibre broadband upgrade and sustain the network leadership in Northern China with “All Fibre Network” and 100Mbps access capability ready generally in city areas. In Southern China, the Company will focus on upgrade in high-value areas to enhance its competitiveness.

Slide 10: Actively Promote Open Cooperation

The Company actively promoted open cooperation in various aspects to enhance its capabilities in its network, development and operation.

It pushed forward strategic cooperation with China Telecom and formulated projects for sharing around 60,000 4G base stations and around 14,500km transmission fibre cables. In the meantime, the Company also promoted 6-mode all-access terminals together with China Telecom and unified the standards for 4K smart set-top box and broadband service to further enhance service quality and redefine the industry dynamics. The two companies have also initiated comprehensive cooperation in operational maintenance, innovative business, interconnection, international roaming, etc.

Slide 11: Tower Sharing to Enhance Long-term Value

The Company has proactively taken advantage of the tower sharing to accelerate network deployment and save CAPEX, enhancing long term value.

In the first half of 2016, the tower usage fee amounted to RMB 7.7 billion. According to the internal estimate, the tower usage fee has exceeded the saving in depreciation and maintenance expenses by around 10-15% and will pressure on profit in the short-term.

With the co-use rate to increase, the co-use discount is expected to rise gradually. As one of the major shareholders of the TowerCo, the Company expects to benefit from the upside potential of the TowerCo’s future profits and value enhancement.

Slide 12: Firm Execution of Strategy in Future

In the first half, with the effort in all levels, the Company initially turned around the passive situation of operational downturn last year and revenue & profit continued to grow quarter-on-quarter in the first half.

The Company's most difficult period will soon be over, and we will persist in our strategic focus and further deepen implementation of "Focus, Cooperation, Innovation", and strive to accelerate development and enhance corporate value.

Next, we will have President Lu Yimin to present the operating performance of the Company.

Speaker: Mr. LU Yimin, Executive Director & President

Slide 13: Agenda

Thank you Chairman Wang. Now please allow me to report the operating performance of the Company in the first half of 2016.

Slide 14: Revenue Breakdown

This table shows the revenue breakdown and the changes. I will explain in further details in the following.

Slide 15: Improving 4G Edge to Drive Mobile Business Turnaround

First of all, let us take a look at the mobile business.

In the first half, we continued to improve our 4G edges. The number of 4G subscribers saw a net increase of 28.26 million, reaching 72.42 million. The downward trend of mobile billing subscribers for consecutive months last year was turned around, and registered a net addition of 8.39 million.

In the second half, the mobile business growth is set to accelerate. The Company will reinforce execution, speed up migration of 2G/3G subscribers to 4G, strengthen data traffic operation with focus on video application, boost capability in terminal operation to drive subscriber upgrade to 4G, deepen chained operation of self-owned outlets to improve sales efficiency, and proactively engage in differentiated and targeted marketing to achieve breakthrough in segment markets.

Slide 16: Rapid Growth in Mobile Data Business

As our 4G network quality, terminal supply and competitiveness fast improved, our mobile data business also grew rapidly.

In the first half, handset internet access revenue jumped 21.3% year-on-year, reaching RMB 34.9 billion. Data usage increased by 102% year-on-year.

4G subscriber DOU was 1.2GB and ARPU was RMB 81.3, which was 1.7 times of the blended mobile ARPU.

Next, the Company will focus on key cities and areas, further promote high-speed 4G+ experience, and leverage targeted marketing of data capacity and contents to enhance customer value.

Slide 17: Fixed-line Business Maintained Steady & Healthy Growth

For the fixed-line business, the Company leveraged fibre network and informatisation service strengths to accelerate the development of growth businesses such as IDC, ICT, VAS and integrated information services, effectively offsetting voice revenue decline. We further strengthened integrated services of fixed-line, mobile and informatisation to enhance interactive promotion.

In the first half, fixed-line service revenue increased by 4.4% year-on-year, reaching RMB 48.2 billion. Within that, other revenue, which included various growth businesses, increased by 18%.

Slide 18: Actively Counter Competitive Challenges in Broadband Market

For fixed-line broadband business, the Company actively countered competitive challenges. In the first half, fixed-line broadband access revenue was RMB 22.2 billion, flat year-on-year. The number of broadband subscribers reached 73.94 million, up by 4.7% year-on-year. Within that, FTTH subscribers grew by 62.3%. “Smart WO Family” penetration was up by 8pp and reached 21%, still with strong growth potential.

In the second half, the Company will proactively strengthen its differentiated competitive edges in “quality plus service”, upgrade network speed for customers, enrich offerings of high-bandwidth content and applications such as 4K high-definition videos, improve end-to-end network user perception and service experience.

Slide 19: Foster Scale Development in Key Innovative Businesses

The Company fostered scale development in key innovative businesses, focusing on platform-based services and industrial Internet, accelerated informatisation deployment in key industries, pushed forward development of IDC and cloud computing, ICT, Internet of Things, Big Data, payment and finance, etc., promoted WO+ open capabilities, and enhanced international expansion capability.

In the first half, IDC and cloud computing revenue was RMB 4.8 billion, up by 38.6% year-on-year; ICT revenue was RMB 3.3 billion, up by 34.2% year-on-year.

Slide 20: 2H2016 Priorities

In the second half, the Company will strive to drive gradual turnaround. Our priorities include:

1. To leverage 4G & Focus Strategy to accelerate mobile business growth
2. To leverage high-quality applications to drive broadband value and sustain growth in fixed-line business
3. To accelerate scale development in key innovative businesses to create new growth drivers
4. To deploy premium network and strengthen support for front-line and customer services
5. To strengthen innovation in systems and mechanisms to lift corporate vibrancy
6. To deepen quality and efficiency enhancement to bolster management capability

Next, I will pass the stage to our CFO, Mr. Li Fushen, to talk about our financial performance.

Speaker: Mr. LI Fushen, Executive Director & CFO

Slide 21: Agenda

Thank you, President Lu. Now let me present our financial performance in the first half of 2016.

Slide 22: Key Financial Information

Operating revenue in the first half decrease by 3.1% year-on-year. Operating expenses increased by 3.1% year-on-year. Operating profit was RMB 3.4 billion, down by 71.7% year-on-year, but it showed significant improvement from the operating loss in the second half of last year. I will explain in further details in the following.

Slide 23: Appropriate Increase in Costs to Drive Business Development

To promote long-term sustainable development, the Company increased cost initiatives as appropriate in the first half to drive business development.

Increase in operating expenses came from two main items:

First, network costs increased by 33.8% year-on-year to RMB 25.6 billion, mainly due to tower usage fee kick-in, increased expenses associated with a larger network scale, energy costs and property rentals.

Second, we increased marketing expenses as appropriate. Selling and marketing cost was RMB 17.1 billion, up by 17.1% year-on-year. Handset subsidy was RMB 1.76 billion, up by 43.5% year-on-year.

Slide 24: Investments Focused on High-value Areas & Businesses

The Company's investment focused on high-value areas and businesses to effectively deploy premium network.

In the first half, 4G network investment was 48% of the total. Net addition of 4G base stations was 190,000, with the total reaching near 590,000. We achieved basic 4G coverage in cities nationwide, in-depth coverage in key cities. Leading advantages in network coverage, quality and speed in core areas gradually emerged. Broadband and data investment was 17% of the total. We sped up fibre broadband network upgrade, and FTTH access port penetration reached 68%, up by 10pp vs end of last year. “All Fibre Network” projects were completed in 8 Northern provinces and 130 cities. Our backhaul latency achieved the lowest in the industry.

Slide 25: Progressive Improvement in Financial Strength

Due to bottom-out in service revenue and substantial reduction in CAPEX, the Company’s free cash flow significantly increased in the first half to RMB 23.8 billion. Liabilities-to-assets ratio decreased by 0.2pp vs end of last year. Because of the absence of FX loss after the repayment of foreign currency debts last year, finance costs decreased by around RMB 760 million year-on-year. The Company’s financial strength gradually improved.

Slide 26: To Elevate Shareholder Value through Quality & Efficiency Enhancement

In the second half, the Company will focus on the implementation of “Focus Strategy”, strive to enhance quality and efficiency, streamline organisation and boost return with targeted and effective investments. We will also speed up cooperation and resources sharing in various areas to enhance resources utilisation, strengthen budget execution and process management to reinforce cost control, deepen centralised treasury management, explore diversified capital deployment, and strengthen internal control with check and balance to prevent risks, striving to enhance shareholder value.

This is the end of my presentation. Thank you.

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Forward-Looking Statement

Certain statements contained in this announcement may be viewed as “forward-looking statements” within the meaning of Section 27A of the U.S. Securities Act of 1933 (as amended) and Section 21E of the U.S. Securities Exchange Act of 1934 (as amended). Such forward-looking statements are subject to known and unknown risks, uncertainties and other factors, which may cause the actual performance, financial condition or results of operations of the Company to be materially different from any future performance, financial condition or results of operations implied by such forward-looking statements. In addition, we do not intend to update these forward-looking statements. Further information regarding these risks, uncertainties and other factors is included in the Company’s most recent Annual Report on Form 20-F filed with the U.S. Securities and Exchange Commission (the “SEC”) and in the Company’s other filings with the SEC.

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