



China Unicom (Hong Kong) Limited

2018 Interim Results Announcement Presentation Transcript

Speaker: Mr. Wang Xiaochu, Chairman & CEO

Slide 4: Agenda

Good afternoon, ladies and gentlemen. It's my great pleasure to discuss with you China Unicom's results. In today's presentation, I will report the Company's overall results in the first half of 2018, and Mr. Shao Guanglu and Mr. Zhu Keping will further discuss our operating and financial performance, followed by the Q&A session.

Slide 5: Highlights

- In 2018, the Company actively practised new development philosophy. Overall we achieved a great start in the kick-off year of mixed-ownership reform. Highlights of our first-half results are as follows:

First, our profitability continued to grow remarkably driven by deepened implementation of the Strategy of Focus, Innovation and Cooperation.

Second, we sustained fast and effective mobile service growth by innovative business model.

Third, our mixed-ownership reform started delivering notable enhancement in growth momentum, quality and efficiency.

Fourth, we strived to achieve win-win leveraging price elasticity in answering "speed upgrade and tariff reduction" policy.

- Going forward, the Company will continue to accelerate our "Five New" establishment to drive high-quality sustainable growth.

Slide 6: Profitability Continued to Grow Remarkably

- In the first half, the Company's profitability continued to grow remarkably as we deepened the implementation of Focus Strategy. Service revenue reached RMB 134.4 billion, up by over 8% year-on-year, which outperformed the industry average by 4pp.
- EBITDA grew by about 5% year-on-year. Net profit was RMB 5.9 billion, up by 145% year-on-year. Free cash flow reached RMB 39.3 billion, achieving a record high for the period.

Slide 7: Actively Countered Keen Competition

- Since the second quarter, market competition continued to intensify. The Company strengthened differentiated operation to avoid simple price competition. We expanded online and offline touchpoints, and leveraged integrated grid-based direct sales to turn outlet sales to on-street sales. We reinforced business convergence and bundling to boost cross-selling, and leveraged innovative business to drive new revenue and also fundamental business development.
- The Company's overall results maintained solid growth in the second quarter. Service revenue growth remained at over 8% year-on-year. Net profit was basically stable versus the first quarter.

Slide 8: Mobile Revenue Growth Substantially Outperformed

- For mobile business, the Company further deepened Internet-oriented and innovative differentiated new operation. We strengthened data traffic operation for sub-divided segments and targeted marketing, and engaged in O2O touch-point unified operation to enhance customer flow and efficiency. Remarkable results was achieved. 2I2C subscriber increased by 27 million to 77 million, driving rapid growth in mobile business.
- Despite keen competition, our mobile business achieved high-quality development at low subscriber acquisition cost and subsidy. Mobile service revenue grew by near 10%, outperforming the industry average by 8pp. Meanwhile, selling and marketing expense was up by merely 2% and handset subsidy was down by 52%.

Slide 9: Mixed-ownership Reform Started Delivering

- As our mixed-ownership reform continued to make progress in various areas, it started delivering notable enhancement in growth momentum, quality and efficiency in the first half.
- Thanks to the capital injection by strategic investors and vast improvement in our operating

performance, the Company's financial strength has substantially improved. Our liabilities-to-assets ratio declined by 18pp year-on-year and finance costs decreased by 64%.

- Deep cooperation with strategic investors has led to rapid growth in our innovative businesses, with industrial Internet revenue up by 39% year-on-year.
- We continued to deepen system and mechanism reform. Both employee and shareholder returns were boosted while corporate vibrancy and efficiency have also significantly improved.

Slide 10: Deepened System & Mechanism Reform

- The Company continued to push forward streamlining and re-organisation. We appropriately stepped up human capital investment in innovative businesses, optimised organisational and staff structure, actively recruited new talents in innovative businesses and encouraged staff migration to innovative businesses, in order to charge up energy for innovative businesses development.
- We have strengthened market-oriented incentives. 790 million restrictive shares of Unicom A Share Company were issued to over 7,700 key managerial staff & talents, establishing a remuneration system which enables differentiated compensation based on returns and efficiency.
- We also advanced sub-division reform. Over 130,000 staff joined sub-divided units and 17,000 mini-CEOs were appointed, which invigorated our internal vibrancy.

Slide 11: Proactively Nurture Future Growth Engines

- For innovative business, the Company focused on cloud-driven services, and sped up the transformation towards a new integrated sales model combining "Cloud + Smart Networks + Smart Applications".
- We have established system and mechanism segregated from fundamental service, and attracted new talents in innovative business with enhanced long-term incentives.
- We actively collaborated with strategic investors and key industry leaders by exploring investment or capital financing initiatives, creating a powerful alliance and achieving win-win cooperation.
- In the first half, our innovative business maintained rapid growth in scale. Industrial Internet revenue reached RMB 11.7 billion, accounting for almost 9% of total service revenue. We expect such ratio will reach 15% by 2020.

Slide 12: Speed Upgrade & Tariff Reduction

- The Company implemented "speed upgrade and tariff reduction", strengthened data traffic

operation, and strived to achieve win-win by leveraging price elasticity. We prepared for the cancellation of domestic data roaming in advance by optimising product tariffs, and strongly promoting heavy data plans, to ensure customer smooth transition.

- In the first half, while handset data unit tariff decreased significantly, data consumption continued to exhibit strong growth. Handset user DOU was up by 2 times year-on-year, and handset Internet access revenue was up by 25% year-on-year.

Slide 13: Drive High-quality Sustainable Growth

- Going forward, the Company will firmly seize the brand new opportunities brought by industry development and mixed-ownership reform, nurture new DNA, new governance, new operation, new energy and new ecology, and develop differentiated competitive advantages. We will persist in deepening the strategy of Focus, Innovation and Cooperation, persevere in the implementation of Internet-oriented operation, fully unleash the advantages of mixed-ownership reform, diligently shape critical capabilities, and start a new paradigm of high-quality development.
- Next, we will have Mr. Shao to present the Company's operating performance in the first half.

Speaker: Mr. Shao Guanglu, Executive Director & Senior Vice President

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Thank you, Chairman Wang. Now please allow me to report the operating performance of the Company in the first half of 2018.

Slide 15: Revenue Breakdown

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

Slide 16: Strengthened Differentiated Operation

- Amidst fierce mobile competition, the Company strived to strengthen differentiated competitive advantages. We rolled out differentiated products and marketing tactics, and leveraged centralised IT system and Internet-oriented operation edges to acquire customers at low costs. We have also strengthened integrated services and bundling to enhance competitiveness.
- Our revenue and subscriber maintained decent growth. Mobile service revenue grew by 12% and 8% respectively in the first and second quarters. Mobile billing subscriber net addition was 9.7 million and 8 million in the corresponding periods. ARPU remained relatively stable.

Slide 17: Cloud-Network Integration Expedited Enterprise Business Growth

- In the government and enterprise market, the Company dedicates to providing customers with intelligent services integrating cloud and network.
- We have developed a new integrated sales model combining “Cloud + Smart Networks + Smart Applications” by leveraging cloud-network synergy.
- We also kicked off cloud business cooperation with Alibaba and Tencent to drive rapid revenue growth in cloud and network services with cloud-network integration advantages.
- In the first half, our cloud revenue rose by 39% year-on-year and Internet private line access revenue was up by 8% year-on-year.

Slide 18: Actively Expanded Cooperation with Strategic Investors (1)

- The Company comprehensively deepened cooperation with strategic investors. Focusing on edges, resources and future strategic deployment, we leveraged external force to boost new

energy for innovative development.

- In the first half, we joined forces with Alibaba, Suning, JD.com and Tencent, etc. to actively experiment New Retail pilot outlets build-out so as to strengthen O2O synergy.
- We further expanded Internet touch points cooperation with strategic partners.
- In cloud computing, we shared reciprocally our resources and capabilities with Alibaba and Tencent, and have established a JV with Alibaba to jointly develop the promising government and enterprise market.
- In terms of video content, we focused on IPTV, mobile video and home applications, etc. Good progress has been made in various cooperation.

Slide 19: Actively Expanded Cooperation with Strategic Investors (2)

- For Big Data, IoT and AI, the Company cooperated with our strategic partners on financial anti-fraud, risk management, traffic analytics, platform capabilities, AI-based customer services, etc. Our in-depth cooperation with strategic investors has also driven the growth of our fundamental telecommunications business.

Slide 20: Continuous Improvement in Broadband Amid Keen Competition

- For broadband, the Company focuses on integration while at the same time highlighting our content and high-speed edges.
- We have optimised our integrated product portfolio, and strived to increase penetration to drive mutual development.
- We leveraged our bandwidth advantage to promote high-bandwidth products and further enhanced network coverage and quality with increased private capital cooperation.
- Highlighting the power of content, we enriched quality video content to boost customer loyalty.
- We have seen continuous improvement in broadband amid keen competition since the second half of last year. The decline in broadband access revenue is narrowing, and our broadband business largely stabilised in the first half this year.

Slide 21: Drive Precise Investment with Focus and Cooperation

- The Company's network construction continued to be return-driven with dynamic capacity expansion and efficient investment. CAPEX in the first half was RMB 11.6 billion. Full-year CAPEX budget is expected to be around RMB 50.0 billion.
- While our network utilisation went up, our network quality and customers' perception in the

focused regions further improved. 4G downlink and uplink average speed was leading in the industry. NPS for mobile and broadband services went up by 5 and 9 points respectively, leading to fast and effective business growth.

- In terms of 5G, the Company closely engages in the new technology evolution. We have carried out proactive deployment in basic network resources and capabilities to ensure that future construction and business development are in pace with the industry.

Slide 22: 2H Priorities

Facing the challenges posed by the cancellation of data “roaming” fee and intensified market competition, the Company will persist in deepening the strategy of Focus, Innovation and Cooperation, push forward Internet-oriented operation, and appropriately step up initiatives to nurture future growth engines, in order to drive high-quality sustainable growth. More specifically, we will:

1. Pursue differentiated development and maintain high-quality growth momentum unabated
2. Pursue efficiency and return-oriented development and strive to enhance all-factor productivity through Internet-oriented operation transformation
3. Comprehensively strengthen fundamental in various aspects to lay a solid foundation for future sustainable growth
4. Deepen strategic cooperation and system and mechanism reform to accelerate the delivery of benefits from reform and generate better return for shareholders.

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

Speaker: Mr. Zhu Keping, Chief Financial Officer

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Thank you, Mr. Shao. Now let me present our financial performance in the first half of 2018.

Slide 24: Key Financial Information

The Company's operating performance substantially improved in the first half. Operating revenue was RMB 149.1 billion, up by 7.9% year-on-year. Net profit reached RMB 5.9 billion, up by 145% year-on-year.

Slide 25: Effective Cost Control

- The Company's operating expenses increased by 6.4% year-on-year in the first half, well below the revenue growth. Looking at the major cost items,
- Depreciation and amortisation was down by 0.6% year-on-year, mainly driven by the good control of CAPEX in recent years.
- Tower usage fee was down by 6%.
- Handset subsidy was down by 52% and selling expense went up by 2.4%, which is slower than the revenue growth.
- Staff cost and G&A and other expenses increased by 22% and 21% respectively. The latter was mainly due to increasing ICT costs and higher loss on disposal of fixed assets.

Slide 26: Appropriately Step Up Human Capital Investment

- As regards human capital investment, the Company endeavours to raise vibrancy and efficiency. We have strengthened performance-based incentives, promoted pay-for-performance and sharing incremental return without ceiling. While satisfying corporate development and shareholder returns, we let our employee better share the success.
- In the meantime, we also actively recruit new talents in innovative businesses and have established compensation and incentive system segregated from fundamental businesses, in order to stimulate new energy for innovative development.
- In the first half, our staff cost increased by 22% with strengthened internal vibrancy and net profit surged by 145% year-on-year.

Slide 27: Demand & Return-Driven Investment

- In terms of CAPEX, the Company insists on demand and return-driven investment, leveraging focus and cooperation to enhance return on investment.
- In the first half, our investment focused on key regions and key businesses such as 4G and broadband, etc. 4G accounted for about 45% of our CAPEX. The number of 4G base stations increased by 60,000. We expect full-year net addition will be similar to last year.
- We actively deployed new technologies such as SDN/NFV to comprehensively upgrade our network, while at the same time building up infrastructure resources like transmission, cell sites and equipment rooms for 5G
- We have principally achieved nationwide coverage of NB-IoT access network and will roll out eMTC commercial network deployment as appropriate.

Slide 28: Tower Sharing to Enhance Long-term Value

- Next, let's take a look at towers.
- Benefiting from the good control of new tower deployment and the new commercial pricing effective earlier this year, tower usage fee declined by 6% to RMB 7.9 billion in the first half. We consider TowerCo will strive to improve operating efficiency and tenancy ratio so as to enhance co-sharing value.
- Besides, as one of the major shareholders of TowerCo, the Company can gain from TowerCo's profits and value enhancement in the future. Our share of net profit from TowerCo was RMB 520 million in the first half, up by 5% year-on-year.

Slide 29: Substantially Improved Financial Strength

- Due to the vast improvement in operating performance, the Company's free cash flow increased further to RMB 39.3 billion in the first half, attaining record high for the period.
- Thanks to the strong free cash flow and capital injection from the mixed-ownership reform, the Company's liabilities-to-assets ratio was sharply reduced to 44% while finance costs fell by 64% year-on-year. The substantial improvement in financial strength has boosted the Company's business development capacity in the future, laying a robust foundation for sustainable growth.

Slide 30: To Elevate Shareholder Value through Quality and Efficiency Enhancement

In the second half, the Company will grasp the implementation of the Focus Strategy. Centring on quality and efficiency enhancement, we will comprehensively push forward efficient scale development. We will continue the transformation towards Internet-oriented operation to facilitate light-cost development. We will establish an Internet-oriented investment and construction model to rapidly answer market demand. We will promote simplification of administration and delegation to create a “lean management, scale operation and strong synergy” structure. We will enhance our value-based performance assessment system, and continue to strengthen internal control and risk management to ensure safe and proper operations, driving greater shareholder value.

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Forward-Looking Statements

Certain statements contained in this presentation 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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