



China Unicom (Hong Kong) Limited

2020 Annual Results Announcement Presentation Transcript

Slide 3

- Good afternoon, ladies and gentlemen. I am Jacky, Company Secretary of China Unicom. Welcome to our media conference call.
- First of all, please allow me to introduce the management present today:
 - Mr. Wang Xiaochu (Chairman and CEO)
 - Mr. Chen Zhongyue (Executive Director and President)
 - Mr. Zhu Keping (Executive Director and Chief Financial Officer)
- Now, let's invite Chairman Wang to talk about our results in 2020.

Speaker: Mr. Wang Xiaochu, Chairman and CEO

Slide 4: Agenda

- Good afternoon, ladies and gentlemen. It's my great pleasure to discuss with you China Unicom's results. Due to the pandemic, unfortunately, we can't meet in person in Hong Kong today, but to discuss via a teleconference. Stay safe and healthy, everyone.
- In today's presentation, I will summarise our overall results in 2020. Mr. Chen Zhongyue and Mr. Zhu Keping will then discuss our operating and financial performance respectively. Lastly, the management will take any questions you have.

Slide 5: Highlights

- Highlights of the Company's results in 2020 are as follows:
 1. We sustainably enhanced growth quality and profitability through active transformation and in-depth mixed-ownership reform.
 2. We further delivered success in transformation and innovative development of mobile business.

3. We successfully achieved 5G network “co-build co-share”, effectively enhancing edges and returns.
4. Innovative businesses continued to grow robustly with huge value embedded.
5. We strived to enhance shareholders’ returns and leverage robust business growth to mitigate the pressure from the US Executive Order.
6. And we will seize new opportunities of the industry and endeavour to achieve high-quality development.

Slide 6: Sustained Double-digit Growth in EPS and DPS

- Over the past year, the Company continued to implement the Strategy of Focus, Innovation and Cooperation, and proactively advance comprehensive digital transformation. We deepened industry ecology advancement and network co-build co-share. The power of the mixed-ownership reform was further unleashed. The Company took solid steps on the track of high-quality development.
- Our service revenue increased by 4.3% year-on-year to RMB 275.8 billion, which was faster than the industry revenue growth of 3.6%. Our growth was leading in the industry.
- The Company’s profitability steadily enhanced. Net profit was RMB 12.5 billion, sustaining double-digit growth.

Slide 7: Strived to Turn Adversity into Opportunities in Addition to Precise Pandemic Control

- In 2020, facing the sudden pandemic, the Company actively fulfilled its social responsibilities and made all-out efforts to combat the pandemic. We fully leveraged the unique edges of our nationwide centralised IT system and Big Data capability to provide the government with Big Data analytics, and innovated on communications service offering to provide smart assurance for the resumption of work, production and schooling. We also actively participated in poverty alleviation to perform corporate social responsibility.
- The pandemic posed certain challenges to our business, especially in terms of business development, customer acquisition, 5G deployment and risk of bad debt. However, the pandemic also accelerated demand by the economy and society for digital, cyberised and intelligent transformation, bringing new opportunities to the Company.

Slide 8: Growth Quality and Return Continued to Improve

- The Company’s growth quality and return kept improving in recent years.
- Our service revenue mix was further optimised. Industry Internet revenue contributed to 15.5% of our total service revenue, giving fresh impetus to our growth.

- Benefiting from sustained good control of CAPEX and efficient operation, we had generated free cash flow of RMB 143 billion over the past four years.
- Our net profit continued to grow at double digits. The Company's fundamentals have further strengthened.

Slide 9: Further Delivered Success in Transformation and Innovative Development of Mobile Business

- Facing new challenges in the industry development, the Company undertook transformation and innovative development. We shifted focus from subscriber scale to quality and value enhancement. We insisted on rational competition, rigorously controlled customer acquisition cost, ineffective and low-value products and channels, and strengthened digital transformation and innovative differentiated operations. We also stepped up 5G customer acquisition in a paced and targeted manner.
- As of end of 2020, we had 70.83 million 5G package subscribers, with a market share of 22%. 5G package subscriber penetration was 23%, higher than the industry average of 20%.
- Our mobile service revenue is steadily recovering, and its growth turned positive on a full-year basis. Our mobile ARPU increased by 4% year-on-year while our selling and marketing expense decreased by 9% year-on-year. Our value-oriented operation delivered further success.

Slide 10: Strong Growth Momentum of Innovative Businesses

- For innovative businesses, the Company seized the growth opportunities brought by digital industrialisation and industry digitisation. We promoted the integrated model of "cloud + smart networks + smart applications", focusing on products in key industries. We deepened the comprehensive cooperation with strategic investors and industry leaders. Our industry Internet business maintained strong growth momentum with full-year revenue reaching RMB 42.7 billion, up by 30% year-on-year. It has become our key revenue growth driver.
- Going forward, the Company will continue to enhance product standardisation and scale replication capability, while strengthening proprietary innovative capability to expand margin progressively. We will also actively nurture innovative 5G + vertical applications, striving to achieve faster and better growth in the digital era.

Slide 11: 5G Network Deployment

- For 5G network deployment, the Company maintained a focused approach. By working closely with China Telecom, we continued to deepen network "co-build co-share", delivering prominent achievements.

- Our full-year 5G CAPEX was about RMB 34.0 billion. We added about 300,000 shared 5G base stations with China Telecom, with the total number of 5G base stations in use reaching over 380,000. We achieved contiguous coverage in urban areas of all cities nationwide and affluent counties. Our network speed is leading in the industry and our network quality is comparable with the leading operator.
- Going forward, the Company will conduct dynamic investment with due regard to technology advancement, value chain maturity, market and business demand, etc. 5G CAPEX budget for 2021 is RMB 35.0 billion. The number of 5G base stations in use is expected to reach 700,000, with network coverage and quality on par with the industry.

Slide 12: Further Cooperation with China Telecom on Network “Co-build, Co-share and Co-maintain”

- Our 5G network “co-build co-share” with China Telecom has effectively sharpened the network edges and investment return for both companies. Our 5G network deployment pace, coverage, bandwidth and speed all doubled, boosting our customers’ experience and partners’ confidence. The two operators altogether achieved cumulative CAPEX savings of over RMB 76.0 billion and substantial saving in other costs, including tower usage fee, network maintenance costs and utility charges, etc.
- To further amplify the synergy, we have expanded our cooperation. We promoted 4G network sharing in scale to fast rectify network shortcoming economically. We also promoted “co-build, co-share and co-maintain” of transmission resources such as fibres, pole lines, pipelines, etc. to facilitate more efficient use of resources.

Slide 13: Creating Differentiated Edges in 5G+ Industry Vertical Applications

- Riding on the opportunities of 5G + industry Internet, the Company established Unicom Digital Technology Co., Ltd. to create innovative and differentiated edges.
- Focusing on key areas and industries, we successfully commercialised a number of 5G lighthouse projects with over 250 quality lighthouse customers, marking the beginning of the commercialisation of 5G services in 2B setting.
- Through "5G Application Innovation Alliance", we aggregated the edges and resources of over 1,000 alliance members to jointly promote 5G application innovation.

Slide 14: Strived to Enhance Shareholders’ Returns

- The Company is always committed to enhancing shareholders’ returns. Over the past three years, our net profit grew at a CAGR of 10.7%. The Board recommended paying a final dividend per share of RMB 0.164 for 2020, maintaining a double-digit growth.

- Going forward, the Company will endeavour to drive revenue, profit and dividend growth. We will leverage robust business development to enhance our valuation appeal and hope to improve the share price performance by growing the fundamental, at the same time to mitigate the pressure on our share price arising from the former US President's Executive Order.

Slide 15: Endeavour to Achieve High-quality Development

- Looking ahead, facing a new blue ocean of the digital economy spawned by new technologies like 5G, the Company will seize the critical window, firmly implement the Strategy of Focus, Innovation and Cooperation, accelerate comprehensive digital transformation, strengthen intelligent operation and services, deepen mixed-ownership reform, and continuously expand in network "co-build, co-share and co-maintenance". We will fully forge differentiated advantages, enhance growth quality and operating efficiency, and strive to maintain industry-leading revenue and profit growth, so as to create greater value for shareholders, customers and the society.
- Next, we will have our President Mr. Chen Zhongyue to introduce the Company's operating performance in 2020.

Speaker: Mr. Chen Zhongyue, Executive Director and President

Slide 17: Mobile ARPU and Revenue Bottomed Out

- Thank you, Chairman Wang. Now let me introduce the Company's operating performance in 2020.
- In 2020, the Company insisted on innovative development and differentiated operation in mobile business. We drove customers' consumption upgrade through 5G innovative applications, while promoting full-service offerings. We leveraged privileges, content and financial tools to improve product value while strengthening pan-integration service. We focused on key areas to enrich terminal experience. We fully leveraged our Big Data capability to power target marketing and retention management. We also rolled out "cross-region integrated services" to meet the diverse needs of customers.
- We are glad to see that our mobile ARPU and service revenue both bottomed out.

Slide 18: New Growth Engine in a New Era

- The "New Infrastructure" policy and pandemic further boosted demand for digitisation, cyberisation and intelligent transformation of the economy and society. The Company seized the opportunities and pushed forward the integrated development and mutual promotion of innovative and fundamental businesses. We actively leveraged our proprietary resources and

edges in network, service and mixed-ownership reform cooperation, etc. and focused on 3 “gigabit-network” resources and “cloud + networks + applications” integrated servicing capability to empower government and enterprise customers and enhance family customers’ experience and value.

- During the year, the rapid growth of broadband access, smart home products, IDC, IT services and cloud computing, etc. drove our fixed-line service revenue to grow by 11% year-on-year.

Slide 19: Innovative Business Gaining Momentum

- With years of experience, the Company’s innovative business is gaining momentum. In IT services, we have comprehensively built a delivery system with proprietary capability. In cloud, we gradually gained the edges of “secure and reliable, cloud-network integrated, multi-cloud collaborated, private and customised”. In Big Data, we ranked high in terms of influence in the industry. In IoT, the capability of our proprietary connection and equipment management platforms were further strengthened.
- Benefitting from the continuous enhancement in innovative capability, the Company’s industry Internet revenue increased by 30% to RMB 42.7 billion.

Slide 20: IDC Business – Capture “New Infrastructure” Strategic Opportunities

- The Company is equipped with strong competitive advantages in IDC business.
- Through our integrated services combining IDC + cloud + networks + applications, we can offer total solutions with exceptional experience to customers. Capitalising on the Group’s extensive resources and consolidating existing resources, our IDC business enjoys remarkable cost efficiency.
- In 2020, our IDC revenue was RMB 19.6 billion, up by 21% year-on-year.
- In 2021, we will further invest RMB 2.7 billion, focusing on high value and high demand areas. We will actively engage in private capital cooperation and fully utilise existing resources. The number of cabinets available is expected to reach 310,000.

Slide 21: Broadband Access Revenue Rebounded

- During the year, the pandemic prompted demand for broadband network deployment and speed upgrade. The Company strengthened broadband and mobile integration, and enhanced user value through bundling with smart home products, video, privileges, etc. In Northern China, we leveraged our edges in network, service and resources to increase the proportion of high-speed broadband users. In Southern China, we continued to step up private capital cooperation and enhance market share, resource utilisation and ARPU. We also empowered precise

marketing and retention management with Big Data analytics, bolstering our operating efficiency.

- During the year, smart home products revenue increased by 39% year-on-year, driving fixed-line broadband access revenue to climb by 2.4% year-on-year.

Slide 22: Focus and Cooperation Fostered High Investment Efficiency (1)

- The Company insists on focus and cooperation to enhance network edges with high investment efficiency.
- We focused on the deployment of premium 5G, gigabit fibre network and innovative business investments, as well as the enhancement of the coverage of government and enterprise premium network and commercial buildings, mainly in high-value areas. We strengthened and extended “co-build, co-share and co-maintain” as well as private capital cooperation to underpin robust business growth.
- Benefitting from efficient control of investment, our full-year CAPEX was RMB 67.6 billion, lower than the initial budget of RMB 70.0 billion. In 2021, the Company will continue to invest efficiently, with CAPEX maintaining at RMB 70.0 billion.

Slide 23: Focus and Cooperation Fostered High Investment Efficiency (2)

- The Company conducted dynamic investment to align with market demand and business development, effectively assuring customer perception.
- As regards 5G, 4G, transmission and infrastructure, we strengthened “co-build co-share” and optimised sharing of existing resources. We promoted 2G and 3G network simplification to reform spectrum. We also expedited cloudification and intelligent upgrade of our network and enhanced fixed-line broadband network capability by area.
- During the year, our mobile and fixed-line broadband NPS continued to improve and backbone network latency remained the best in the industry, providing sound support to our business growth.

Slide 24: Synergistically Advanced Reform and Comprehensive Digital Transformation

- In the past year, the Company synergistically advanced reform and comprehensive digital transformation, aiming to raise vibrancy, promote growth and enhance efficiency.
- We systemically promoted the reform of six professional functions and comprehensively redesigned and rationalised workflows, empowering innovative operations. We accelerated the development of five key middle platforms, and 100% completed the migration to cBSS, further expanding our leadership brought by our centralised IT system. The market-oriented reform of sub-ordinate companies was further deepened and the transformation of operating

mechanisms accelerated, continuously releasing the intrinsic energy and vitality of the Company.

Slide 25: Actively Leverage Differentiated Edges

- Facing the new development opportunities in the future, the Company will capitalise on its own resources and edges, and unleash and amplify its unique competitive edges, in order to drive our revenue growth and value enhancement.

Slide 26: 2021 Priorities

- Looking into 2021, the Company will adhere to the Strategy of Focus, Innovation and Cooperation and deepen the “Five New” establishment. We will holistically shape the “Five High” new development edges comprising high-quality services, high-quality development, highly effective governance, hi-tech engine and high-vitality operation, striving for leapfrog in our high-quality development.
- Next, our CFO Mr. Zhu Kebing will report the Company’s financial performance in 2020.

Speaker: Mr. Zhu Kebing, Executive Director and Chief Financial Officer

Slide 28: Key Financial Information

- Thank you, President Chen. Now let’s look at our financial performance in 2020.
- This table shows the Company’s key financial information in 2020. Operating revenue was up by 4.6%. Net profit increased by 10.3%. The Company’s growth quality continued to enhance. Let’s look at the detailed analysis next.

Slide 29: Effective Cost Control

- Total operating expenses increased by 4.8%, which was in line with operating revenue growth.
- Of which, depreciation and amortisation dropped by 0.1% year-on-year, mainly benefiting from good control of CAPEX in recent years and network “co-build co-share”.
- Network, operation and support expenses increased by 7.1%, mainly due to growth in charges for tower usage, energy and the rental of premises and equipment. Within that, tower usage fee grew by 7.2%.
- We continued to promote incentive mechanism reform to strengthen performance-based compensation and acquire innovative talents. Employee benefit went up by 10.3% year-on-year.
- G&A and other operating expenses grew by 28.6% and selling and marketing expense fell by 9.2%. A detailed analysis is on the next slide.

Slide 30: Appropriately Stepped up Initiatives to Fuel Rapid Development of Innovative Businesses

- The Company capitalised on the opportunities of digital transformation and appropriately stepped up cost initiatives to promote capability enhancement and scale development of innovative businesses.
- You can see that G&A and other operating expenses increased by RMB 8.8 billion mainly due to higher technical support expense and cost of IT services, which together increased by RMB 6.7 billion. But they fuelled an RMB 9.9 billion increase in industry Internet revenue and further enhanced our product capabilities.
- In particular, the cost of IT services went up by 24% year-on-year, while IT services revenue grew by 33% year-on-year. It meant the gross margin of IT services continued to increase.
- Going forward, the Company will be devoted to promoting the scale and profitability enhancement of innovative businesses.

Slide 31: Highly Effective Control of Marketing Expenses to Drive Value

- Since 2019, facing competition and new 5G opportunities, the Company focused on enhancing growth quality, insisted on transformation and innovative development and effectively controlled marketing expenses, closely aligning resources allocation with return and value.
- Selling and marketing expenses decreased significantly for two straight years in 2019 and 2020.

Slide 32: Meticulous Management of Network Operation Expenses

- As our business and network scale continue to grow, pressure is mounting on network operation and support expenses. The Company has taken multiple measures to meticulously manage network costs. Specific measures include:
- Continuing to expand network “co-build, co-share and co-maintain” with China Telecom, progressively insourcing network operation, accelerating 2G/3G network simplification, decommissioning of aged and old equipment, combining 4G networks among low utilisation areas, promoting AI applications such as smart monitoring and inspection and troubleshooting to save energy, deepening sub-division reform in network functions, and fully leveraging the favourable “new infrastructure” policy.
- We believe that the above measures will be able to effectively mitigate network cost pressure.

Slide 33: Strong Cash Flow Creation Capability

- With the deepened execution of digital transformation and advantages of mixed-ownership

reform being gradually unleashed, the Company's financial position was further optimised. Our cash flow generating capability remained strong.

- Operating cash flow in 2020 was RMB 93.9 billion. Of which, RMB 67.6 billion was used on CAPEX, promoting scale business development and value enhancement. RMB 5.0 billion was used to pay dividend, increasing shareholders' returns. The balance was used to repay debts and enhance general working capital, etc., leading to an 18% decrease in finance costs. The Company's financial strength and ability to counter risks were further enhanced.

Slide 34: To Elevate Shareholder Value through Quality and Efficiency Enhancement

- Looking to 2021, the Company will insist on high-quality development:
 - We will strengthen cash flow management and promote transformation of resources allocation and use to enhance productivity of all essential factors.
 - We will deepen network and business integration with precise investment to enhance the edges of cloud-network integration.
 - We will accelerate operating model transformation to foster pan-marketing coordinated operation and high-quality development.
 - We will strengthen centralised IT operation and data governance to boost overall IT efficiency.
 - And we will continue to promote value management leveraging innovative revitalisation of operating assets and enhancement of talent performance, in order to drive quality and efficiency enhancement and create greater value for our shareholders.

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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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