



China Unicom (Hong Kong) Limited

2022 Interim Results Announcement Presentation Transcript

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- Good day, ladies and gentlemen. I am Zhang Haitao from Office of the Board of Directors, China Unicom.
- Welcome to China Unicom's 2022 interim results announcement. Due to the pandemic, the meeting will be conducted in a combination of both online and offline methods, via the format of on-site conferencing and teleconferencing. We are very pleased to have Mr. Li Yi, from the People's Posts and Telecommunications News, and Mr. Gao Chao, from the Communications Weekly, who have joined the conference on-site. While there are also other friends from the media industry communicating with us online. At present, we have over 50 of media participants joining the conference online, and the participants figures are constantly being updated and rising. Thank you very much for your support!
- You can also watch the company's performance promotional video through China Unicom A-share company's website, that is jointly brought by China Unicom's Winter Olympics smart IP "Xiaomeng" and China Unicom's digital virtual person "An Weixi", so as to have a more vivid and intuitive understanding of the company's performance.
- The management of China Unicom has always valued the great importance of the communication and interaction with the media, and today with us on the line are Mr. Liu Liehong, Chairman and CEO of the Company, Mr. Chen Zhongyue, Executive Director and President, Mr. Wang Junzhi, Executive Director, Mr. Gao Yunhu, Independent Director, Mr. Liang Baojun, Senior Vice President, Mr. He Biao, Senior Vice President, Mr. Tang Yongbo, Senior Vice President and Ms. Li Yuzhuo, Board Secretary and Financial Controller of Unicom A-share Company.
- Now, let's invite Chairman Liu.

Speaker: Mr. Liu Liehong, Chairman and CEO

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- Good day, ladies and gentlemen. First of all, on behalf of China Unicom, I would like to express my warmest welcome to all investors, analysts and media friends who attend the meeting today.
- I would also like to express my heartfelt gratitude and sincere greetings to all friends from all sectors who have always cared for and supported China Unicom's business development!

Slide 4: Decent Results Despite Sheer Challenges

- In the first half of 2022, in the face of severe challenges such as continuous and scattered spread of the pandemic, the Company firmly adhered to the general principle steady growth and achieved

satisfactory results in various aspects such as profitability, fundamental capabilities, operational efficiency and technological innovation under the guidance of new strategy. At the same time, the Company also attained three achievements.

- Firstly, as the exclusive official telecommunication service partner of the Beijing Winter Olympics, the Company achieved over 20 “global firsts” of the Olympics by using its “hardcore technologies” such as 5G, technologies” and was accredited by the Central Government and the State Council as an “Outstanding Contribution Group at Beijing Winter Olympics & Paralympics”, thereby building our brand as the “first choice of the country, government and people”.
- Secondly, we drove value chain upgrade and actively served the national strategy, shouldering the important mission of “Modern Value Chain Chief”.
- Thirdly, the Company achieved significant achievements in R&D of core technologies and integrated innovation of digital technologies and was awarded the title of “Outstanding Contribution Enterprise in Technological Innovation” for three consecutive years, with faster and more stable technological innovation transformation.

Slide 5: Accelerating Revenue and Profit Growth

- In the first half of the year, the Company’s operating momentum remained stable and improved with accelerating revenue and profit growth as well as solid progress and remarkable results in the implementation of strategies.
- From January to June, the operating revenue amounted to RMB 176.3 billion, up by 7.4% year-on-year. Service revenue amounted to RMB 161 billion, up by 8.3% year-on-year, which is notably the highest in recent years. The net profit attributable to the parent company reached RMB 4.8 billion, up by 18.7% year-on-year, which is 4.5 ppts up as compared with last year, showing that the shareholders’ returns continued to improve.

Slide 6: Multiple Achievements in Main Businesses

- In the first half of the year, the Company’s strategic planning remained driven and recorded multiple achievements in the five major racecourses with continuously growing core competitiveness and sustainable development ability.
- In terms of Big Connectivity, the Company’s total number of Big Connectivity subscribers reached 805 million, of which the number of IoT connections exceeded 335 million, representing a net increase of 40.23 million, with user base continuously consolidated.
- In terms of Big Computing, “Unicom Cloud” revenue reached RMB 18.7 billion, with a growth rate of 143%. The cloud native capability received two major authoritative accreditations by the China Academy of Information and Communications Technology, with the development of quality and speed reaching a new level.
- In terms of Big Data, revenue continued to grow rapidly, with market share leading the industry.
- In terms of Big Application, the number of customers served by virtual 5G private networks exceeded 2,000 and there are 70 types of self-developed application products with contract signed amounted to over 10 million, indicating a further improvement in the level of independent R&D. In terms of Big Security, the revenue of Unicom Cloud Shield products increased by nearly 60% year-on-year on the back of the strengthened product and service capabilities of integrated cloud-network-security.

Slide 7: Value of Digital Economy Significantly Underappreciated

- In the first half of the year, the digital economy continued to flourish, benefitting the Company as profit gradually grew under the new economic landscape.
- Facing new opportunities and values, China Unicom urgently looked for capital market exploration and revaluation. Alongside the rapid growth of the domestic digital economy, China Unicom has also upgraded its own scale, profitability and development model.
- Since the mixed-ownership reform, the Company's revenue from principle business has increased by nearly 30%, net profit attributable to the parent company has increased by more than 5 times, and the company maintained its leading position in the industry in terms of its improvement of corporate fundamentals.
- With new development towards the blue ocean of the digital economy, The Company is accelerating its conversion into promising prospects with new values. Over the past five years, the compounded annual growth rate (CAGR) of the Company's Industrial internet revenue exceeded 34%, which boosted the CAGR of net profit to over 43%.
- In the first half of this year, the incremental revenue contributed by Industry Internet business exceeded 70%, justifying the Company's high-speed growth. At the same time, the Company's cumulated free cash flow has exceeded RMB 190 billion and improved its gearing ratio by more than 20 pp over the past five years. The growth rate of dividend per share exceeded profit growth, and the shareholders' return continued to increase, highlighting the growth of our corporate value.
- With strong future potential growth and broad possibilities, we believe China Unicom has robust growth and optimised security. The dual investment attributes growth and value that are the most valuable investment of the Company.

Slide 8: Significant Enhancement in Network Capabilities

- In the following, I will focus on the Company's key deployment and market concerns. I will also explain in detail about China Unicom 1H22 operational development and the 2H22 work priorities.
- First, we moderately increased strategic investment to significantly improve our network capabilities. Network is the foundation of China Unicom's high-quality development. During the window period of the national "Eastern Data and Western Computing" project and the construction of the "Dual-gigabit Network Development", the Company moderately increased strategic investment in the first half of the year to effectively construct premium networks, which laid a solid foundation for the Company's growth.
- The Company's capital expenditure for the year will continue to be driven by market and innovation, and focus on the construction of "four premium networks". The Company will insist on a "precise and proactive" investment strategy by "appropriately bringing forward investment and aligning construction with network use", striving to enhance its core competitiveness, sustainable development capability and value creation capability.
- In terms of the construction of 5G/4G premium network, contiguous outdoor coverage has been achieved in key towns and above, with the scale and coverage level of mid-band 5G was on par with the industry. Pre-commercial trial of 5G New Calling was launched in 125 cities. 5G subscriber satisfaction remained the highest in the industry.
- For gigabit broadband premium network construction, the network deployment progress was in line with the industry. The number of FTTH ports reached 230 million and the number of homes passed in southern China increased by nearly 25 million, strongly supporting the rapid growth of broadband subscribers and revenue.
- For government and enterprise premium network construction, the coverage rate of aggregation areas in top 150 cities reached 98.8% and the coverage rate of multi-service access areas in top 150

cities reached 90.2%, creating differentiated competitive advantages for government and enterprise customer network.

Slide 9: Consolidating the Computing Power Base for Digital Economy

- In terms of the construction of high-quality computing power network, the Company continued to enhance our “5 + 4 + 31 + X” computing power deployment, implement national strategy and be market demand-oriented, so as to gradually achieve “one pool per city” deployment. We strived to deploy and build an integrated computing power system with advanced architecture, security and reliability and excellent service, so as to forge the No. 1 computing power driver for the digital economy.
- In the first half of 2022, the Company’s capital expenditure on the computing power network reached RMB 4.6 billion, and the annual investment on the computing power network is expected to reach RMB 14.5 billion, representing a year-on-year increase of 65%. The annual computing power scale is expected to increase by 43%; investment on cloud is expected to increase by 88%; the number of edge nodes is expected to exceed 400, covering more than 200 cities; the full-year number of IDC cabinets is expected to reach 345,000, up by 35,000 from the end of last year.

Slide 10: Deepened Co-build Co-share

- Secondly, the Company continued to deepen co-build and co-share for steady improvement in operational efficiency. The Company is committed to the continuous co-built co-shared 5G network with comprehensive coverage, leading experience, leading capabilities and leading efficiency.
- The Company continued to work closely with China Telecom and added 180,000 new 5G base stations, with the two parties’ total number of 5G base stations reaching 870,000. Indoor coverage was significantly enhanced. The two companies added 90,000 new 5G distributed antenna systems (DAS), bringing the total number of 5G DASs to 200,000. The two companies have built the world’s largest co-built and co-shared 5G network.
- The Company accelerated the promotion of a single 4G network with China Telecom and made further breakthroughs in the scale of 4G network sharing. In the first half of the year, 210,000 new shared 4G base stations were added, and the total number of shared 4G base stations reached 870,000. At present, all shared 4/5G base stations were already covered by the blockchain management platform, which greatly enhanced network synergy and efficiency.
- Through the co-build co-share of 4G/5G networks, the Company actively supported the goals of “carbon peaking and carbon neutrality”. Cumulative carbon dioxide emission savings exceeded 6 million tonnes and cumulative capital expenditure savings for both parties combined amounted to RMB240 billion. In addition, RMB25.5 billion of operating expenses can be saved each year.
- The Company coordinated and promoted the full co-build co-share of infrastructure resources, and drove cooperation and sharing in technology innovation, IDC and cloud-network integration. The co-build ratio of trunk fibre cables reached 100%, and 83% of 5G base stations were deployed on existing sites. The Company continued to promote the co-build, co-share and co-maintenance of infrastructure and key business platforms such as transmission lines, pipes and fibre cables, equipment rooms and antennae, DAS, etc.

Slide 11: Dual-gigabit Upgrade Unveiled New Growth Potential

- Thirdly, is to put more efforts to build a solid foundation and further improve our fundamental business. The all-round upgrade of China Unicom’s “dual-gigabit” network has unveiled new growth potential.
- While actively improving network capacity, the Company also strived to promote the scale retention and value activation of mobile and broadband business.
- In the first half of the year, the Company achieved mobile service revenue of RMB 84.9 billion, representing a year-on-year increase of 3.4%. The number of mobile billing subscribers reached 320 million. Within that, 5G package subscribers registered a net addition of 29.99 million, reaching 185 million. The penetration rate of 5G package subscribers reached 58%, up by 21pp year-on-year, signifying further optimised subscriber structure.
- The Company fixed-line broadband business showed healthy momentum this year. In the first half of the year, the Company achieved broadband access revenue of RMB23.0 billion, representing a year-on-year increase of 4.3%, up by 3.6pp from 0.7% in the same period last year. The number of broadband access subscribers recorded a net addition of 4.40 million, reaching a total of 99.44 million. The subscriber net addition reached a new high for the same period in the past 10 years. The penetration rate of integrated services reached 73%, significantly enhancing customer loyalty and value.

Slide 12: Industry Internet Became the “No. 1 Driver” of Revenue Growth

- Fourthly, the Company made key breakthroughs in innovative business and accelerated the conversion of growth drivers. The Company actively embraced the new blue ocean of the development of the digital economy and the innovative business represented by the industrial Internet, with new value in the new era is emerging.
- In the first half of the year, the Company’s Industry Internet achieved revenue of RMB36.9 billion, representing an increase of 32% year-on-year. It contributed to over 70% of the Company’s incremental revenue, becoming the real “No. 1 driver” of business growth.
- 5G applications increasingly transitioned from “show flats” to “commodity flats”. In the first half of the year, the value of 5G industry applications contracts signed amounted to nearly RMB4 billion. The number of customers served by 5G virtual private networks reached 2,014 and there were more than 8,000 5G industry applications on a cumulative basis. The Company has successfully built benchmark projects in various fields related to people’s livelihood, such as 5G + textile manufacturing, 5G + Internet of vehicles, 5G + smart medical care, etc., in order to empower partners with intelligence and push forward high-quality development of the digital economy with China Unicom’s solutions and China Unicom’s intelligence.

Slide 13: Unicom Cloud More Than Doubled

- In the first half of the year, “Unicom Cloud” achieved more than double growth in revenue while achieving breakthroughs in computing power scale, product capabilities and industry practises, accumulating momentum for long-term development.
- At present, “Unicom Cloud” has formed million-core mega-scale computing power deployment capability and ten-million-grade concurrent load handling capability, with more than 300 self-developed products. Multi-cloud management cloud platform can be used to manage 9 mainstream cloud service providers and over 200 hybrid heterogeneous cloud pools and was awarded the “Best Practice in Technology” at 2022 Cloud Conference.
- In recent years, the Company has accumulated rich practical experience in serving the construction of digital government and digital transformation of SOEs.

- This year, China Unicom and Kweichow Moutai jointly developed “iMoutai” cloud base to support “iMoutai” to cope with heavy traffic. On the launch day of “iMoutai”, the number of purchases exceeded 6.2 million within one hour, and the number of instant activity reached 1.6 million, which fully demonstrated the technical capabilities of “Unicom Cloud” in terms of stability and security”.

Slide 14: Innovative Businesses Gaining Momentum

- The transformation of the Company’s growth drivers gained momentum as innovative businesses maintained rapid and better growth. With respect to IDC business, the Company optimised the “5 + 4 + 31 + X” resource deployment, focused on the key areas such as Beijing-Tianjin-Hebei, Yangtze River Delta, Greater Bay Area, Sichuan-Chongqing, Shandong-Henan-Shaanxi, and improved the quality and utilisation of computing power services. The overall utilisation rate of IDC cabinets was nearly 70%, and the proportion of cabinets in tier-1 cities exceeded 40%.
- In respect of the Internet of Things (IoT) business, the Company accelerated the ubiquitous interconnection of people, devices and things and adhered to a business-network synergetic strategy with 5G as the driver. It enhanced proprietary Yanfei chip and module capabilities to promote the integration of industry components into scenarios.
- With respect to Big Data business, the Company leveraged its advantages in data governance and data security to develop a product portfolio focused on key areas such as digital government and digital finance, etc. It independently developed a co-build co-share blockchain management platform which was the first blockchain-based cross-operator 5G operation management system.

Slide 15: Technological Innovation Transformation Accelerated

- Fifthly, the Company focused on upgrading its development model and achieved fruitful results in technological innovation. The Company continued to deploy and build the original technology source, and has been committed to becoming an innovative leader with outstanding core technology capabilities and strong integrated innovation capabilities.
- In recent years, the Company has continuously seen new breakthroughs in key core technologies and made internationally advanced and domestically leading achievements in key areas such as network security, computing power network and Big Data applications.
- In the first half year, the Company’s R&D expenses increased by 114% year-on-year. The proportion of technological innovation talents reached 26%. It was granted 780 patents, representing a year-on-year increase of 27%.
- At the recent China Unicom Technology Innovation Conference, the Company announced the appointment of 16 fellows and 3 industry experts as special experts of the new China Unicom Technology Committee. It planned to further invest RMB1 billion as the special budget for the Company’s core technology R&D, on top of the annual 4% investment in technological R&D. The company continued to advance the “Torch Programme” with partners such as Renmin University of China, Pengcheng Laboratory, Purple Mountain Laboratories, Songshan laboratory and Huawei, etc. to promote the new level of China Unicom’s technological innovation business.

Slide 16: Strived to Offer High-quality Services

- Sixth, the Company paid great attention to customer perception and continuously improve its service quality. The Company adhered to the customer-centric principle, solved customers’ “urgent difficulties and expectations” and accelerated the construction of a big service system to build the core competitiveness of high-quality services.

- We established a customer service operation platform and offered all-scenario broadband self-services including online outage reporting, one-click diagnosis and transparent inquiries via intelligent means. We launched the “Elderly Exclusive” service campaign to help elderly customers to overcome digital divide. The Company deeply integrated online and offline service channels with 97% get-through rate of manual hotline service, offering customers with omni-channel one-stop seamless service.
- In the first year, the Company’s network quality satisfaction rank has risen to the second place in the industry while 5G satisfaction remained industry-leading position, which has justified the company’s high-quality service delivery.

Slide 17: Faster Establishment of China Unicom’s Unique Capability System

- Seventh, we established our capability system and accelerated our external intellectual empowerment. Based on a fully integrated digital system, the Company comprehensively promoted the capability generation model of “one China Unicom with integrated capabilities and operating services”.
- The Company newly established ten armies in nine industries and eight Industry Internet companies. It fully combined the systematic professional capabilities of 17 professional subsidiaries and 19 Industry Internet companies with the national four-tier operational system comprising the headquarters, provinces, cities, counties and villages to provide customers with integrated solutions and operating services.
- The Company deepened digital transformation at all fronts, with “5 middle platforms” (public customers, government and enterprise customers, data, network and management) basically established and Unicom Intelligence Brain officially announced for the continuous improvement in digital and intelligent operation capabilities.

Slide 18: Further Enhanced Shareholder Return

- Eighth, we listened to the market and improved shareholder return. The Company attaches great importance to shareholders return, while continuously strive to promote sound revenue and profit growth and maintain the Company’s sustainable development capability, we are also committed to share the Company’s long-term development dividend with shareholders.
- With due regard to the Company’s robust business development, and after fully considering the sound business development of the Company, and based on the decision of continuing to distribute interim dividends by China Unicom (Hong Kong) Limited, a controlling subsidiary of the Company, the Board recommended an interim dividend of RMB 0.0663 per share, which is expected to increase by 35.9% year-on-year.
- In the future, the Company will grasp the relationship between short-term, medium-term and long-term development, and create greater value for shareholders on the basis of accumulating momentum of long-term and stable growth.

Slide 19: 2022 2H Priorities

- At present, with the in-depth advancement of global 5G construction, accelerated maturity of industry applications and rapid deployment of domestic new infrastructure, digital transformation has become an irresistible trend. The digital economy is driving profound changes in production, lifestyle and governance, and has become a powerful driver of sustainable and healthy economic and social development.

- The digital base created by the telecommunications industry is indispensable for the development of the digital economy. Chemical reactions of digital, network-based and intelligent transformation will bring about tremendous new growth potential for the telecommunications industry, where the unknown is far greater than the known.
- In the second half of 2022, with the care and support from investors, analysts, media and all sectors of the society and on the back of the implementation of “1+9+3” strategic planning, China Unicom will strive towards the goal of “quality development, infrastructure upgrade, breakthrough in digital intelligence services, achievements in technological innovation, and improvement in governance efficiency”. We are confident to achieve steady growth in full-year revenue and profit and further enhance the Company’s core competitiveness, sustainable development capability and value creation capability, thereby creating greater value for shareholders, customers and the society. Thank you!

- End -

Forward-Looking Statements

Certain statements contained in this presentation may be viewed as “forward-looking statements”. 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. Neither the Company nor the directors, employees or agents of the Company assume any liabilities in the event that any of the forward-looking statements does not materialise or turns out to be incorrect.

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