



China Unicom (Hong Kong) Limited

2016 Annual 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 the 2016 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

Our 2016 results can be summarized as below:

First, the Company fully implemented Focus Strategy to mitigate its underlying shortcomings. Both business and service revenue rebounded.

Second, we deeply promoted open cooperation. Fruitful results are gradually emerging.

Third, we sharpened our 4G edges and robustly kicked off the transformation in marketing model.

Fourth, fast development of innovative businesses and extensive fibre broadband upgrade supported steady growth in fixed-line revenue.

Lastly, precise investment fuelled substantial network improvement in focused regions despite huge reduction in CAPEX.

Going forward, the Company will seize opportunities to promote growth, control costs and reform mechanism in order to speed up future turnaround.

Slide 6: Business & Service Revenue Rebounded

In 2016, the Company braved short-term profit pressure and increased cost initiatives as appropriate to drive the gradual turnaround. We achieved initial success in turning around the unfavourable conditions in business development.

Service revenue grew by 2.4% to RMB 241 billion. EBITDA was RMB 79.5 billion, down by 9.1%. Net profit was around RMB 625 million, down by 94.1%, but it showed significant improvement from the loss of about RMB 3.36 billion ex-tower disposal gain in the second half of 2015. The Company will continue to deepen implementation of Focus Strategy in order to raise profitability.

Slide 7: Gradual Turnaround

Faced with tough competitive pressure, the Company pushed forward a new development strategy centred on “Focus, Cooperation and Innovation”, striving to mitigate its underlying shortcomings. Both business and service revenue rebounded.

With the turnaround in business and revenue, profit begins to rebound. In January and February this year, the Company achieved around RMB 460 million in net profit. The average monthly net profit represents about 50% growth over the first quarter last year.

Slide 8: Promote In-depth Open Cooperation

In 2016, the Company deeply promoted open cooperation to facilitate improvement in network quality, development capability and cost efficiency. Fruitful results are gradually emerging.

During the year, the Company’s strategic cooperation with China Telecom has made good progress. About 70,000 base stations and 16,000 km of transmission fibre cable have been co-built and shared. The two companies also jointly promoted six-mode “all network access” handsets and unified the standard for 4K smart set-top boxes, etc.

Meanwhile, the Company actively promoted sharing of basic telecommunication infrastructure in the industry, strengthened cooperation with private capital on local access in southern China, and launched innovative collaboration with Internet companies, in order to drive win-win development.

Slide 9: Robust Kick-off of Marketing Model Transformation

As edges in network, handsets and system platforms are developed, the Company kicked off 2I2C marketing campaigns with Internet companies in the fourth quarter of 2016. We leveraged their Big Data analytics and online customer touch points to step up efforts in targeted marketing for market sub-segments and data traffic operation, in order to differentiate our products and development models, and achieve win-win-win scenario with our customers and partners.

The robust kick-off in 2I2C helps the transformation of our marketing model, and will drive scale and profitable development of 4G business.

Slide 10: Precise Investment

By focusing its investment and actively promoting full cooperation and resources sharing, the Company's CAPEX substantially reduced to RMB 72.1 billion in 2016. Meanwhile, 4G network coverage, speed & signal quality have become comparable with the industry in focused regions. All ten provinces in Northern China have achieved "all fibre networks" with 100Mbps access capability generally ready in city areas. Our backhaul also achieved the lowest latency in the industry.

In 2017, the Company will actively increase network utilisation, and strictly control investment in low utilisation regions to enhance returns. Investment will focus on 4G, broadband and innovative businesses such as Internet of Things. We will also focus on key regions with high traffic growth and utilisation. We will leverage cooperation & high efficiency to achieve network leadership in key regions. At the same time, we will set aside capital for 5G investment.

Slide 11: Dividend

Taking into account the Company's profitability, debt, cash flow level and capital requirements for its future development, the Board resolved not to pay any dividend in 2016.

The Company will strive to enhance its profits while paving the way for dividend distribution in 2017.

Slide 12: 2017: Onto the Path of Healthy Development

With the profound changes in the market environment now, the Company has come to a new stage of development with both opportunities and challenges.

In 2017, the Company will brave itself for difficulties and challenges, seize opportunities, continue to deepen the implementation of Focus Strategy, and persist in scale and profitable development. We will promote growth, control costs and reform mechanism in order to bring revenue growth back to industry average and significantly enhance profitability, stepping onto the path of healthy development.

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

Speaker: Mr. Lu Yimin, Executive Director & President

Slide 13:

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

Slide 14: Revenue Breakdown

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

Slide 15: 4G Gaining Edges

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

In 2016, the Company focused on 4G business, sped up network enhancement, improved terminal supply, strengthened data traffic operation, and stepped up mutual-promotion and coordinated development of integrated offerings. Mobile business achieved turnaround with service revenue growth of 1.7%. Mobile billing subscriber's declining trend was also turned around with net addition of 11.51 million in the year. ARPU was steady with slight increase at RMB 46.4.

Slide 16: Fast Growth in Mobile Data Business

By leveraging precise release of data capacity & contents, faster upgrade of 2G and 3G subscribers to 4G, our 4G business ramped up quickly. The number of 4G subscribers saw a net increase of 60.4 million in the year. 4G subscriber DOU was 1.5GB. 4G subscriber penetration reached 40%, but still has enormous growth potential ahead.

Slide 17: Healthy and Steady Growth in Fixed-line Business

For fixed-line business, the Company sped up the development in innovative businesses such as IDC, cloud computing, ICT, video, IoT, etc. We actively countered competitive challenges in the broadband market by enhancing mutual promotion of integrated offerings in fixed-line, mobile and informatisation services and accelerating innovative development in home Internet, which effectively offset the declining voice business. Fixed-line business maintained a steady revenue growth of 3.7%. Voice revenue percentage decreased to 14%, further lowering operational risks.

Slide 18: Fostered Scale Development in Key Innovative Businesses (1)

The Company leveraged fibre network and informatisation service edges and focused on industrial Internet and platform-based services. We enhanced our core capabilities in product development, platform support and marketing services, etc. so as to achieve breakthroughs in innovative business development. IDC and cloud computing, ICT and video services delivered rapid growth in the year.

Slide 19: Fostered Scale Development in Key Innovative Businesses (2)

For Internet of Things, the Company focused on Internet of Vehicles, mobile payment and other key industries. IoT connections reached 43 million. In overseas markets, we accelerated IDC and cloud platform deployment and enhanced our expansion capability. As for Internet finance, our joint venture, Merchants Union Consumer Finance, had over 20 million registered users with a loan balance of RMB 18 billion. Non-performing loan ratio stood at 0.82%. For Big Data, the Company maintained a leading position in personal credit ratings and location-based services. Smart Steps, our location-based services joint venture, has contracted with over 40 brand clients, and led in urban planning, transportation and commercial site selection solutions in the nation.

Slide 20: Actively Countered Competitive Challenges in Broadband Market

Faced with intense competition in the broadband market, the Company fully leveraged fibre network upgrade to boost high-bandwidth products, and spurred customer bandwidth upgrades via rich video and application offerings. We also streamlined services and maintenance workflows, enhanced end-to-end network perception, and upgraded our integrated home Internet service offerings to drive mutual development.

The Company's broadband access revenue was flat year-on-year. Within that, Internet private line access revenue grew by 12.9%. The number of broadband subscribers increased by 4% to 75.24 million, 71.2% of which were FTTH subscribers. "Smart WO Family" penetration reached 26.1% of fixed-line broadband subscribers.

Slide 21: Powered Up Marketing Model Transformation

In 2016, the Company rode on industry development trends, stayed efficiency improvement-oriented, and transformed its marketing model from the ground up, covering product design, distribution channels, marketing and customer services. We unleashed Big Data advantages, collaborated with Internet companies to conduct targeted marketing, optimised product offerings to better meet customer needs, and sped up O2O integration and e-commerce operation, driving customer value and satisfaction improvement, more effective targeted marketing and cost efficiency enhancement.

Slide 22: 2017 Priorities

In 2017, the Company will strive to achieve turnaround. Our priorities include:

1. To focus on the innovative transformation of operating model, and speed up scale and efficient business development.
2. To scale up the 2I2C business model, drive the upgrade of 2G to 4G, and unleash data value to accelerate 4G business development.
3. To adhere to video-oriented integrated operation, and strengthen our service edges to achieve efficient development in broadband services.
4. To focus on platform-based businesses and industrial Internet, and strengthen our core capabilities in innovative businesses so as to nurture revenue growth drivers.
5. To enhance fundamental management, deepen reform in various areas, and fully raise operating efficiency.

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 23:

Thank you, President. Now let me present our financial performance in 2016.

Slide 24: Key Financial information

This table shows our key financial information in 2016. Operating revenue decreased by 1%. Operating cost increased by 2%. Operating profit was down by 75%. I will explain in further details in the following.

Slide 25: Appropriate Increase in Costs to Drive Business Development

In 2016, the Company increased cost initiatives as appropriate to drive business development. Operating cost rose by 2%. In particular,

Network costs were RMB 51.2 billion, up by 20.9%, mainly due to higher tower usage fee associated with the change in tower operation model and a larger network scale. Tower usage fee including related electricity charges was RMB 19.5 billion. There will be more analysis on towers later.

Handset subsidy was RMB 3.1 billion. **Selling and marketing** cost was RMB 34.6 billion. The two expenses increased by about 8%, mainly because the Company increased cost initiatives as appropriate to drive mobile business development.

Slide 26: Investments Tilted toward Key Regions & Key Businesses

Next, let's look at CAPEX.

Under the Focus Strategy, investments were tilted towards key regions and businesses in 2016. 4G CAPEX was RMB 25.9 billion. Net addition of 4G base stations was 340,000, with the total reaching 740,000. We achieved contiguous 4G network coverage in cities and towns nationwide. Network speed can reach up to 375Mbps in selective hotspot areas. Fixed-line broadband investment was RMB 16.8 billion, and the number of FTTH access ports reached 134 million.

In 2017, the Company will continue to make focused investments. We plan to add 150,000 4G base stations, accelerate the reduction of 2G/3G frequency band & capacity to enhance cost efficiency, and orderly deploy LTE at 900MHz band.

Slide 27: Progressive Improvement in Financial Strength

The Company's free cash flow significantly improved to RMB 2.48 billion in 2016 due to service revenue growth & substantial reduction in CAPEX. Meanwhile, because of the absence of FX loss after the repayment of foreign currency debts, finance costs decreased by 27.6% to RMB 5.02 billion.

Slide 28: Tower Sharing to Enhance Long-term Value

Next, let's take a look at towers.

The Company actively take advantage of the towers and cell sites of TowerCo to accelerate network deployment and save CAPEX, which will enhance our corporate value in the long term.

On tower usage fee, we spent RMB 19.5 billion in 2016, up by RMB 16.4 billion yoy. The sharp increase was because tower usage fee was recognised on a full-year basis for the first time, the number of towers under use increased with a larger network scale, and TowerCo adopted higher maintenance standards to better support operators' network operations. However, with the sharing ratio increasing, the sharing discount on tower usage fee is expected to rise gradually in the future.

As one of the major shareholders of TowerCo, we also expect to benefit from TowerCo's future profits and value enhancement.

Slide 29: To Elevate Shareholder Value through Quality & Efficiency Enhancement

In 2017, the Company will focus on the implementation of Focus Strategy, and strive to enhance quality and efficiency. We will innovate on resources allocation mechanism to improve utilisation efficiency. We will deepen centralised treasury management, explore diversified capital deployment and improve treasury efficiency. We will build the more market-oriented budgeting, appraisal and compensation systems to drive corporate vibrancy. We will also continue to strengthen internal control and audit to prevent risks, striving to enhance shareholder value.

This is the end of my presentation. Thank you.

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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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