



## China Unicom (Hong Kong) Limited

### 2017 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 China Unicom's results. In today's presentation, I will report the Company's overall results in 2017, and Mr. Lu Yimin and Mr. Li Fushen will further discuss our operating and financial performance, followed by the Q&A session.

#### **Slide 5: Highlights**

2017 was a milestone for China Unicom. We achieved significant breakthroughs in our business model transformation and made solid progress in our mixed-ownership reform. Highlights of our full-year results are as follows:

First, benefiting from deepened implementation of the Strategy of Focus, Innovation and Cooperation, the Company's profitability rebounded as planned.

Second, the innovation in business model underpinned fast and effective growth in mobile service.

Third, our competitive network quality and efficiency were substantially enhanced with precise network investment leveraging focus and cooperation.

Fourth, we promoted synergetic cooperation with strategic investors to create new energy for innovative development

Fifth, we deeply pushed forward market-oriented system and mechanism reform to lift vibrancy and efficiency.

Going forward, the Company will leverage mixed-ownership reform to deepen Internet-oriented operation and strive to start a new paradigm of high-quality development.

#### **Slide 6: Robust Momentum Sustained**

The Company's overall development momentum remained robust in 2017. Service revenue for the year was RMB 249.0 billion. Excluding net loss on asset disposal of RMB 2.9 billion related to fibre network upgrade, EBITDA and net profit grew by 6% and 541% to RMB 84.3 billion and RMB 4.0 billion respectively. Free cash flow reached record high.

#### **Slide 7: Power of Turnaround Strengthened**

As we deepened the implementation of Focus Strategy, our power of turnaround continued to strengthen. Service revenue growth continued to pick up and reached 4.6% in 2017. Free cash flow increased by RMB 40.4 billion year-on-year to RMB 42.9 billion. Free cash flow yield reached 18.6%, which was leading in the industry. Net profit showed V-shaped rebound, increasing from RMB 630 million to RMB 4.0 billion in 2017.

#### **Slide 8: Innovative Business Model Posted Remarkable Results**

In 2017, the Company innovated with 2I2C and 2B2C business models, strengthened data traffic operation, and carried out targeted marketing. Amidst low subscriber acquisition cost and subsidy, mobile service revenue grew by 7.9% for the year, outperforming the industry by 2.2 percentage points.

4G subscriber net add was 70.33 million, raising our 4G subscriber market share by 3.7 percentage points. Mobile ARPU rose by 3.5% to RMB 48.

Meanwhile, selling and marketing expense and handset subsidy were down by 1.6% and 59% respectively.

#### **Slide 9: Fully Unleash Advantages of Mixed-ownership Reform**

In accordance with the principles of "enhance governance, strengthen incentives, protrude core business and raise efficiency", the Company actively implemented mixed-ownership reform. We successfully introduced strong and solid strategic investors via Unicom A Share Company, which helps significantly lower our gearing ratio and finance costs and boost our future investment and

financing capacity.

The Company actively pushed ahead in-depth cooperation with strategic investors to boost new energy for innovative development. Leveraging mixed-ownership reform, we reformed our system and mechanism to enhance efficiency.

#### **Slide 10: Push Forward In-depth System & Mechanism Reform**

For system and mechanism reform, the Company delivered marked results in downsizing and re-organisation. The number of departments or institutions reduced by 21-33% at different levels. About 15% of mid-level management were withdrawn. The Company endeavoured to set up market-oriented remuneration mechanism to strengthen alignment with results and performance. Restrictive shares of Unicom A Share Company will be granted to managerial staff and key talents, with scientific unlocking conditions, so as to align the interests of shareholders, the Company and employees. We pushed forward sub-division and contract-out to return from a “big company” to innovative “small companies”, and align responsibilities with authorities and rewards, lifting vibrancy and efficiency.

#### **Slide 11: Reinstate Dividend**

Taking into due consideration of the Company’s profitability, debts, cash flow and capital requirements for future development, the Board recommended, with reference to 40% of the net profit excluding net loss on asset disposal related to fibre network upgrade in 2017, the payment of a final dividend per share of RMB0.052.

The Company will strive to raise future profitability and enhance corporate efficiency and shareholder returns.

#### **Slide 12: A Great Start of 2018**

So far this year, the Company has continued to deepen the Focus Strategy, promote growth, control costs and reform mechanism. In January and February, the Company’s operation had a great start. Mobile billing subscribers net add was 5.68 million with the total reaching about 290 million. Mobile service revenue grew by 12% year-on-year. Revenue from industrial Internet business grew by 31% year-on-year. Net profit reached RMB 1.76 billion, up by 287% year-on-year.

### **Slide 13: Share-based Incentive to Promote Value Enhancement**

Leveraging our employee share incentive scheme, the Company will strive to realise the target that Unicom A Share Company's service revenue and pre-tax profit CAGRs in the next three years are not less than 6.5% and 68.7% respectively, while ROE progressively improves.

We will strive to beat the unlocking targets of the restrictive share incentive scheme to drive collective growth in returns for shareholders, the Company and employees.

### **Slide 14: Start a New Paradigm of High-quality Development**

Next, 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. Lu to present the Company's operating performance in 2017.

**Speaker: Mr. Lu Yimin, Executive Director & President**

**Slide 15: Agenda**

Thank you, Chairman Wang. Now please allow me to report the operating performance of the Company in 2017.

**Slide 16: Revenue Breakdown**

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

**Slide 17: Fast & Effective Growth in Mobile Service**

For mobile service, the Company strengthened data traffic operation and launched rich data product offerings to satisfy sub-divided markets. We innovatively rolled out 2I2C and 2B2C services to drive 4G subscriber and mobile data traffic growth in 2017. Net addition of 4G subscribers was 70.33 million for the full year, while mobile service revenue grew by 7.9% year-on-year.

**Slide 18: Strong Growth Momentum in Mobile Data**

The Company continued to release data capacity by strengthening promotion of data products. Mobile data growth showed strong momentum. Handset user DOU was 2.4GB and 4G subscriber DOU was 4.4GB. 4G subscriber penetration reached 62%, which is still lower than the industry average even though it is rising fast. Data growth potential is still enormous.

In 2017, the Company capitalised on the price elasticity brought by speed upgrade and tariff reduction. As mobile handset Internet access tariff decreased, we traded off margin for volume and stimulated huge growth in data consumption. Mobile handset Internet access revenue increased by 29% year-on-year to RMB 92.1 billion.

**Slide 19: Step Up Investment in Future Growth Engines**

For innovative businesses, the Company focused on key industries, key services and key regions, leveraged our synergy with strategic investors and embraced open cooperation. We established system and mechanism segregated from legacy telecom service, and explored long-term incentive systems which enabled the Company and its employees to collectively share upside and downside. We actively explored capital cooperation to diversify ownership structure, achieve asset-light

operation and create a win-win new ecology. In 2017, revenue from industrial Internet was RMB 15.9 billion, accounting for 6.4% of total service revenue. Going forward, the Company will continue to step up investment in innovative businesses, and nurture future growth engines. By 2020, we expect that revenue contribution from industrial Internet will reach 15%.

#### **Slide 20: Boost New Energy for Innovative Development**

For strategic cooperation, the Company actively pushed ahead in-depth cooperation with strategic investors. Based on future strategic plan and resources advantages, we formed powerful alliance with our strategic investors to promote synergy and entered into innovative cooperation. Making good use of the online sales touch points of Internet companies, we acquired about 50 million 2I2C subscribers at low cost. We worked extensively with Tencent and Alibaba on cloud cooperation, and mutually opened up our resources and capabilities. We jointly explored the New Retail business model with JD.com, Alibaba and Suning. We cooperated with Baidu and others in areas such as IoT security, Internet of Vehicles and smart home, etc. to promote resources sharing and business synergy, thus boosting new energy for win-win innovative development.

#### **Slide 21: To Actively Counter Intense Broadband Competition**

For broadband, the Company continued to face intense market competition. Broadband access revenue was down by 2.6% to RMB 42.7 billion in 2017.

In 2018, the Company will further enhance network coverage and quality, leverage TV and video content to transform our service model. We will actively drive sales via Internet channels, carry out integrated grid-based contract-out reform to stimulate front-line vitality and enhance sales and service capabilities. We will also offer home network services to explore new business model for home Internet.

#### **Slide 22: Roll-out Intelligent Products Integrating Cloud & Network**

In 2017, the Company rolled out new intelligent products integrating cloud and network targeted at government and enterprise customers. They are built upon the cloud and feature SDN/NFV technologies, enabling cloud-based, intelligent, open and ubiquitous networks, which customers can enjoy multi-point deployment and services across the whole network through a single access interface. Such products effectively drove revenue growth for innovative business, Internet dedicated line access service and leased line access service, creating new revenue growth engines.

### **Slide 23: Expedite Internet-oriented New Operation**

The Company will advance Internet-oriented new operation to foster differentiated edges. For operation management, we will promote decentralisation, implement sub-division and contract-out and conduct precise investment. For products, we will simplify our product designs, and speed up iterative product upgrade, aiming to offer superior customer experience. For customer development and retention, we will focus on the youth market, expand Internet touch points, focus on government and enterprise customers and ride on industry informatisation to provide services at anytime, anywhere and any wish.

### **Slide 24: O2O All-round Operation**

For channels, the Company is actively shifting towards an O2O all-round operation model. We will strengthen proprietary online touch points, continue to develop touch points partnership with our strategic investors and carry out targeted marketing and customer value management. For offline, we will transform our channels based on New Retail, promote New Retail stores and conduct integrated grid-based marketing.

We will also facilitate O2O integration, consolidate resources, establish a store-based multi-dimensional marketing system and develop an intelligent mid-platform to drive Internet-oriented operation, fully enhance marketing efficiency and bolster sales and service capabilities.

### **Slide 25: Drive Precise Investment with Focus & Cooperation**

On network development, the Company insisted on focus and cooperation to drive precise investment. Full-year CAPEX was RMB 42.1 billion, down significantly from the prior year.

Our network utilisation and NPS substantially improved last year, despite reduction in network investment. NPS for mobile and broadband services went up by 7 and 5 points respectively. 4G downlink and uplink average speed was leading in the industry. 4G network utilisation rate increased to 57%. FTTH subscriber penetration reached 77%. Network utilisation and efficiency significantly improved.

In 2018, the Company will continue to stay efficiency-focused and effectively deploy our network. Full-year CAPEX is expected to be not more than RMB 50.0 billion.

## **Slide 26: Priorities in 2018**

In 2018, the Company will promote high-quality development with Internet-oriented operation. We will strive to develop “Four Systems” for operational responsibilities, sales responsibilities, innovative businesses, branding and services. We will conduct precise investment and build an open network service system. We will enhance our network advantages and strengthen IT capability to support Internet-oriented operation. We will also promote reform and innovation to activate our intrinsic vibrancy, and continue to strengthen fundamental management and establishment of corporate culture, so as to drive the Company’s high-quality and sustainable growth as well as overall competitiveness.

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 27: Agenda**

Thank you, President Lu. Now let me present our financial performance in 2017.

**Slide 28: Key Financial Information**

This table shows our key financial information in 2017. Operating revenue increased by 0.2%. Operating costs decreased by 0.2%. Operating profit was up by 46%. I will explain in further details in the following.

**Slide 29: Cost Control**

In 2017, the Company achieved remarkable results in cost control and innovative transformation. While revenue and subscribers continued to grow, selling expenses decreased by 1.6%. In particular, handset subsidy was down by 59.1%.

Network, operation and support costs increased by 6.5% year-on-year to RMB 54.5 billion, mainly due to increased spending to enhance network quality and customers' experience. Within that, tower usage fee was RMB 16.5 billion, up by 11% year-on-year.

**Slide 30: Strengthen Performance-based Incentives to Lift Vibrancy**

On the reform of incentive system, the Company strives to strengthen performance-based incentives to lift vibrancy. We set up market-oriented and performance-based remuneration system. Employees can share incremental return through pay-for-performance without ceiling. We implemented sub-division and contract-out reform to provide a startup-like platform for front-line staff to create wealth by working hard, so as to deliver a virtuous cycle with mutual growth of corporate and employee returns. Labour cost was RMB 42.5 billion during the year, up by 15% year-on-year, mainly because the Company appropriately increased compensation for front-line staff.

### **Slide 31: Increasing Contribution from Associates & Joint Ventures**

In recent years, we saw increasing contribution from our associates and joint ventures. In particular, due to the increasing network scale of operators and value enhancement from tower sharing, the Company's share of TowerCo's net profit reached RMB 907 million in 2017, up by 3.5 times year-on-year. In the future, the Company will continue to benefit from the profit and value enhancement of TowerCo.

In 2017, the Company's share of MUCF's net profit was RMB 594 million, up by 2.5 times year-on-year. As its capabilities on Big Data, risk management and integrated Internet-oriented operation improved, MUCF's registered credit users rose by 1.4 times year-on-year to 16.62 million. Outstanding loan balance was RMB 46.8 billion, up by 1.6 times year-on-year.

### **Slide 32: Demand & Return-Driven Investment**

The Company's CAPEX dropped significantly to RMB 42.1 billion in 2017, with investment focusing on key regions and key businesses like 4G and broadband.

Of which, 4G network investment focused on network expansion. The number of 4G base stations increased by 110,000 to 850,000.

In 2018, the Company will continue to focus on key cities and regions, leverage Big Data to achieve precise capacity expansion. Broadband access speed will be gradually upgraded to 1 Gbps. We will deploy new technologies to make our network more intelligent. We will also step up investment in innovative business.

### **Slide 33: Substantially Improved Financial Strength**

With the implementation of mixed-ownership reform, we raised RMB 75.0 billion through share placement to our parent company. Driven by rapid revenue growth and business transformation, free cash flow reached RMB 42.9 billion. Our liabilities-to-assets ratio decreased from 62.9% last year to 46.8%. Interest-bearing debts decreased by over RMB 100 billion to RMB 73.8 billion. The Company's financial position and future investment and financing capacity greatly improved. Our risk control capability was also substantially enhanced.

### **Slide 34: To Elevate Shareholder Value through Quality & Efficiency Enhancement**

In 2018, the Company will grasp the implementation of the Focus Strategy and centre on quality and efficiency enhancement. We will comprehensively push forward Internet-oriented operation and 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 in an effort to lift corporate efficiency and elevate shareholder value.

That’s 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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