



China Unicom (Hong Kong) Limited

Mixed-Ownership Reform & 2017 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 mixed-ownership reform and results. In today's presentation, I will introduce the proposal of our mixed-ownership reform and our overall results in the first half of 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

The proposal of our mixed-ownership reform can be summarized as follows:

Among all pilot-run enterprises, China Unicom is the only one to adopt entire-group based mixed-ownership reform. It represents a significant strategic opportunity in China Unicom's history.

We will introduce strategic investors with strong fundamentals to create a powerful alliance. By leveraging external capabilities and complementary edges, we will accelerate innovative development of our business. We will push forward system and mechanism reform to enhance corporate governance and strengthen incentives.

Lastly, we will continue to deepen Focus Strategy and earnestly implement the mixed-ownership reform to raise efficiency and returns.

Next, I will discuss the proposal in further details.

Slide 6: Proactively Implement Mixed-Ownership Reform

In accordance with the objectives set out by the Party Secretary in the Central Economic Work Committee, i.e. to enhance corporate governance, strengthen incentives, emphasize core businesses and raise efficiency, China Unicom proactively implements mixed-ownership reform. On one hand, by introducing strategic investors at Unicom A Share Company level, we seek to leverage external resources and capabilities, and innovate on business cooperation model, in order to achieve strategic business synergies. At the same time, we seek to advance system and mechanism reform by establishing effective corporate governance and market-oriented incentive systems, so as to lift corporate vibrancy. Ultimately, it will enhance our operating efficiency and boost returns for shareholders and employees.

Slide 7: Financing Plan of Mixed-Ownership Reform

The financing part of our mixed-ownership reform is like this: we will issue new shares and transfer existing shares of Unicom A Share Company, as well as granting restrictive shares to key employees. Upon completion, Unicom Group's shareholding in Unicom A Share Company will decrease from 62.7% to 36.7%. The new strategic investors will hold 35.2% while employee incentive shares will account for 2.7%. The issue price of the new shares is RMB 6.83 per share and the issue price of restrictive shares is RMB 3.79 per share, with the total consideration being about RMB 78.0 billion.

The fund raised will be used by our operating entity in 4G, 5G and innovative businesses.

Slide 8: List of Strategic Investors

Our investors all have solid fundamentals, high relevance to our core businesses, complementary edges and potential for synergetic cooperation. They can be classified into four categories: 1) large Internet companies in China, 2) Leading companies in industry verticals, 3) financial institutions and industry groups with solid fundamentals and 4) specialised funds.

Slide 9: Powerful Alliance to Accelerate Innovative Development of Business

As for business cooperation, the Company will carry out differentiated cooperation with each strategic investor based on their resources and edges.

We will cooperate with the large Internet companies in terms of retail system, channels, content, home Internet, payment, Internet finance, cloud computing, big data, IoT and etc. For companies in industry verticals, our cooperation will focus on IoT, CDN, system integration, etc. We will strengthen cooperation with financial institutions and industry groups in industrial Internet and payment and Internet finance. We will leverage the resources advantages of specialised funds to explore business opportunities and achieve win-win.

Slide 10: Push Forward System & Mechanism Reform to Lift Vibrancy

Meanwhile, the Company will push forward system and mechanism reform to lift vibrancy. At the Board level, we will establish sound and well-coordinated corporate governance with effective checks-and-balances. We will invite our new shareholders to be Board members of Unicom A Share Company as appropriate. We will strengthen the Board's authorities in critical decision-making, personnel selection and appointment and compensation allocation, etc. We will also explore market-oriented mechanism at the management level. We will establish market-oriented system that ties the risks and rewards of employees with those of the Company, in order to stimulate internal vibrancy and employee motivation.

Slide 11: Mixed-Ownership Reform Timetable

The proposal of the mixed-ownership reform has already been approved by the National Development and Reform Committee and the Board of Unicom A Share Company.

Next, Unicom A Share Company will discuss with Unicom Red Chip Company the capital injection by subscription of Unicom Red Chip Company shares through share subscription or rights issue, etc. and get the relevant approval. Afterwards, Unicom A Share Company will hold an extraordinary general meeting to consider the private placement and submit it to the relevant regulatory authorities for approval.

Slide 12: Embrace New Development Opportunities

Going forward, the Company will uphold the Focus Strategy as the general guideline for its development and reforms, stay determined, and earnestly implement the mixed-ownership reform.

Meanwhile, the Company will seize the opportunity of mixed-ownership reform to expedite the establishment of new mechanism, unleash new vibrancy, facilitate synergetic development of strategic businesses, and embrace new development opportunities, thus starting a new chapter of China Unicom's development and reform.

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Next, I will report the Company's overall results in first half of 2017.

Slide 14: Highlights

Our 2017 interim results highlights are as follows:

First, driven by the comprehensive and deepened implementation of Focus Strategy, our overall momentum remained robust.

Second, the innovation in business model transformation has posted initial success, which underpinned our revenue and profit growth.

Third, benefitting from strengthened data traffic operation and marketing model transformation, our mobile service revenue growth surpassed the industry average.

Fourth, our innovative businesses saw rapid revenue growth and boosted our fundamental businesses.

Lastly, through focused investment and cooperation, we enhanced our shareholder value.

Going forward, the Company will uphold the Focus Strategy as the general guideline for its development and deeply propel its business transformation, so as to speed up the Company's progression onto the path of healthy development.

Slide 15: Overall Development Momentum Remained Robust

In the first half, the Company comprehensively deepened the implementation of Focus Strategy, earnestly promoted growth, controlled costs and reformed mechanism. Our overall development momentum remained robust with improving operations. Service revenue grew by 3.2% to RMB 124.1 billion. EBITDA, net profit and cash flow all saw marked improvement.

Slide 16: Profitability Substantially Improved as Planned

Faced with severe competitive pressure in 2016, 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 bottomed out in 2016.

The Company’s profitability substantially improved as planned in the first half. Net profit reached RMB 2.4 billion, up by 68.9% year-on-year. EBITDA reached RMB 43.6 billion, up by 5.5% year-on-year.

Slide 17: Innovation in Business Model Posted Initial Success

In the first half of 2017, we strengthened data traffic operation, fully embraced new business models such as 2I2C, 2B2C, etc. and carried out targeted marketing to acquire new customers with low incremental costs, driving revenue growth.

Selling and marketing expense and handset subsidy were down by 6% and 54.7% respectively while mobile service revenue and total service revenue rose by 5.2% and 3.2%. The innovation in business model helped the Company achieve breakthrough in business development and scale and profitable growth.

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

Speaker: Mr. Lu Yimin, Executive Director & President

Slide 18: Agenda

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

Slide 19: Revenue Breakdown

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

Slide 20: Mobile Service Revenue Growth Outperformed Industry Average

With the effective transformation from a cost-driven development model to one with low subscriber acquisition cost and subsidies, mobile service revenue grew by 5.2% in the first half and outperformed the industry average.

Mobile billing subscriber ARPU reached RMB 48, showing substantial improvement from 2016. Mid-to-high-end subscriber proportion was up by 2.4pp vs the end of last year. 4G subscribers saw a net increase of 34.26 million with an ARPU of RMB 66.5.

Slide 21: Mobile Data Business Maintained Rapid Growth

The Company innovated on data traffic operation model, simplified design of contract packages, developed a differentiated content system, and promoted the transition to a “data + content” product model. We leveraged big data analytics to conduct targeted marketing so as to accelerate the release of data capacity, reduce low-value subscribers and enhance customer value.

Slide 22: Powered Up Marketing Model Transformation

The Company sped up marketing model transformation, unleashed big data advantages, strengthened collaboration with Internet companies, fully optimised product offerings, channels and services, and carried out targeted marketing so as to drive customer value and satisfaction improvement and facilitate cost reduction and efficiency enhancement.

Slide 23: Fast Growth in Key Innovative Businesses (1)

In the first half, the Company achieved new breakthroughs in innovative business development. IDC and cloud computing revenue grew by 22.0% year-on-year to RMB 5.8 billion. ICT revenue grew by 15.6% to RMB 1.9 billion. IPTV revenue reached RMB 810 million, up by 36.1%. The number of IoT connections exceeded 50 million.

Slide 24: Fast Growth in Key Innovative Businesses (2)

The Company grasped the opportunities of Belt & Road Initiatives, and negotiated with overseas operators on IoT business cooperation. We actively expanded our Internet finance business. Gross transaction value on WO payment reached RMB 94.6 billion and Merchants Union Consumer Finance's outstanding loan balance reached RMB 32 billion. The Company maintained its leading position in big data business such as personal credit rating and location-based services.

Slide 25: Actively Countered Exceptionally Intense Competition in Broadband Market

For broadband business, due to intense competition, our fixed-line broadband access revenue fell by 3.0% year-on-year in the first half to RMB 21.6 billion.

In the second half, the Company will appropriately increase resources in broadband services to enhance network capability, actively rationalise broadband integrated product strategy to enhance customer perception, further enrich video content and strengthen centralised operation capability, accelerate deployment in home Internet services, so as to constantly enhance our differentiated competitiveness in the broadband business and actively address challenges.

Slide 26: Precise Investment to Drive Value Enhancement

For CAPEX, with a focus on improving quality and efficiency, the Company practised precise network deployment and achieved network quality and customers' perception on par with industry in focused regions despite considerable reduction in CAPEX in the first half.

Making the best use of its network resources resulting from the large-scale investment over the past two years, the Company focused its investments on key cities, 4G network, regions with high existing assets utilisation and promising returns. We strive to increase asset utilisation and improve returns. Our 4G network utilisation rate reached 35% and our FTTH subscriber penetration reached 74.2%. Both improved significantly versus a year ago.

In the second half, the Company will continue to invest in its network as planned. Full-year CAPEX budget remained unchanged at RMB 45 billion.

Slide 27: 2H2017 Priorities

Looking ahead to the second half, the Company will face pressure from the cancellation of mobile domestic long-distance and roaming fee, and market competition is expected to cyclically intensify. The Company will actively counter pressure and challenges, strengthen business model transformation, accelerate 4G development, speed up the turnaround of broadband business and drive the scale development of innovative businesses. We will adhere to focus, cooperation and streamlined operations, deepen reform and improve operation management so as to speed up the Company's progression onto the path of healthy development.

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 28: Agenda

Thank you, President Lu. Now let me present our financial performance in the first half of 2017.

Slide 29: Key Financial Information

This table shows our key financial information in the first half of 2017. Operating revenue decreased by 1.5%. Operating cost decreased by 2.5%. Operating profit was up by 39%. I will explain in further details in the following.

Slide 30: Effective Cost Control

In the first half, the Company effectively controlled costs and operating cost was down by 2.5%. In particular, network costs were RMB 26.4 billion, up by 2.9%. Excluding tower related costs, network, operation and support costs stayed flat, mainly due to effective cost control on maintenance and energy costs; Tower usage fee was RMB 8.4 billion, up by 9.0%, mainly due to higher tower usage fee associated with larger network scale year-over-year.

Benefitted from the promotion of business model transformation, handset subsidy and selling expense were down by 54.7% and 6% respectively, at RMB 800 million and RMB 16.1 billion.

Slide 31: Investment Tilted toward Key Regions & Key Businesses

In the first half, the Company's CAPEX decreased significantly to RMB 9.1 billion. Our investment was tilted toward key regions and key business such as 4G and broadband.

Specifically, we focused on precise deployment and rapid capacity expansion in 4G network. Net addition of 4G base stations was 30,000, reaching a total of 770,000. For broadband, we already achieved all-fibre network in Northern China and fully pushed forward cooperation with private capital in Southern China. For backhaul, our latency continued to decline, maintaining the best performance in the industry. We have built the world's largest single-city NB-IoT network in Shanghai.

In the second half, the Company will stay efficiency-oriented, focus on key areas and practise precise investment in order to enhance return.

Slide 32: Tower Sharing to Enhance Long-term Value

Next, let's take a look at towers.

In the first half of 2017, tower usage fee was RMB 8.4 billion, up 9.0% year-over-year and co-use rate was up 13 percentage points. With the increasing sharing ratio, tower sharing discount on usage fee is expected to rise gradually. We hope TowerCo would strive to improve operating efficiency and co-use rate in order to lower tower usage fee rate and enhance co-sharing value. The Company actively takes advantage of the towers and cell sites of TowerCo to accelerate network deployment and save CAPEX.

In the first half, share of net profit from TowerCo was around RMB 500 million. As one of the major shareholders of TowerCo, we also expect to benefit from TowerCo's profits and value enhancement in the future.

Slide 33: Deleverage & Control Risks

In the first half, liabilities-to-assets ratio dropped to 61.4% and finance costs were RMB 3.1 billion.

Next, the Company will capitalise on the opportunity of the mixed-ownership reform and actively discusses with the parent company to inject new capital through share subscription or rights issue, etc., enhancing our investment and financing capacity for key projects in the future, as well as reducing existing debt and finance costs, thus improving the Company's ability to control risks and further facilitate sustainable development in the future.

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

In the second half, the Company will grasp the implementation of the Focus Strategy and center on quality and efficiency enhancement. We will establish a robust financial metric-based performance assessment system, build a free cash flow-based profit planning system, and construct an efficiency and cash flow-based investment policy. We will also promote simplification of administration with increased delegation as well as strengthening internal control and risks control in the effort to elevate 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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