



2014

# ANNUAL RESULTS

3 MARCH, 2015

CHINA UNICOM (HONG KONG) LIMITED  
[www.chinaunicom.com.hk](http://www.chinaunicom.com.hk)



# Agenda

- **Overall Results**
- **Operating & Financial Performance**



# 2014 Performance Highlights

1

## Continuous Increase in Revenue Market Share

- Service revenue growth rate exceeding industry average by **3.9pp**
- Service revenue market share up **0.4pp**

2

## Deep Transformation of Traditional Business Model

- Centralised and standardised operation; scale and quality development; equal weights on customer acquisition and retention
- Focused on development quality and enhanced operational efficiency

3

## Accelerated Deployment in New Business Areas

- Non-voice accounting for **61.9%** of total service revenue
- Accelerated deployment in new business areas to cultivate new growth drivers

4

## Continuous Improvement in Profitability

- EBITDA up **10.5%**; EBITDA as % of service revenue up **2.7pp**
- Net profit up **15.8%**; net profit as % of service revenue up **0.5pp**

5

## Network Construction for Future Development

- Constructed high-quality mobile broadband network; conducted LTE hybrid network trial
- Accelerated fiber optic upgrade of network with FTTX accounting for **77.8%** of broadband access ports

# Overall Financial Results

(RMB millions)	2013	2014 <sup>(2)(3)</sup>	YoY
Operating Revenue	295,038	284,681	-3.5%
<b>Service Revenue<sup>(1)</sup></b>	<b>238,567</b>	<b>244,878</b>	<b>2.6%</b>
<i>of which: Mobile</i>	151,133	155,095	2.6%
<i>Fixed-line</i>	86,487	88,481	2.3%
<b>EBITDA</b>	<b>83,963</b>	<b>92,771</b>	<b>10.5%</b>
<i>EBITDA as % of Service Revenue</i>	35.2%	37.9%	2.7pp
<b>Net Profit</b>	<b>10,408</b>	<b>12,055</b>	<b>15.8%</b>
<i>Net Profit as % of Service Revenue</i>	4.4%	4.9%	0.5pp
<b>Basic EPS (RMB)</b>	<b>0.440</b>	<b>0.505</b>	<b>14.8%</b>
<b>DPS (RMB)</b>	<b>0.16</b>	<b>0.20</b>	<b>25.0%</b>

(1) Due to unallocated items, service revenue is not equal to the sum of mobile and fixed-line service revenues.

(2) Business tax was replaced with value-added tax in the telecom sector from 1 June 2014 ("VAT Reform").

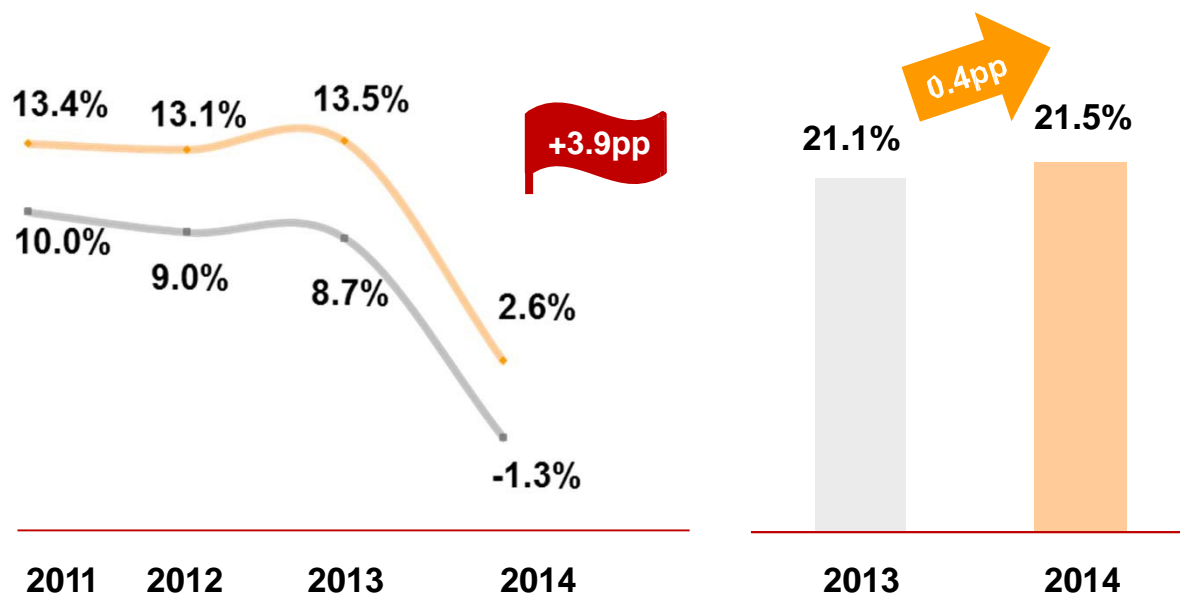
(3) Public telecommunications network interconnection settlement standards of basic telecommunications operators were adjusted from 1 January 2014.

# Continuous Increase in Revenue Market Share

## Service Revenue Growth (yoy)

## Market Share in Service Revenue <sup>(3)</sup>

■ The Company <sup>(1)</sup> ■ Industry Average <sup>(2)</sup> ■ Difference



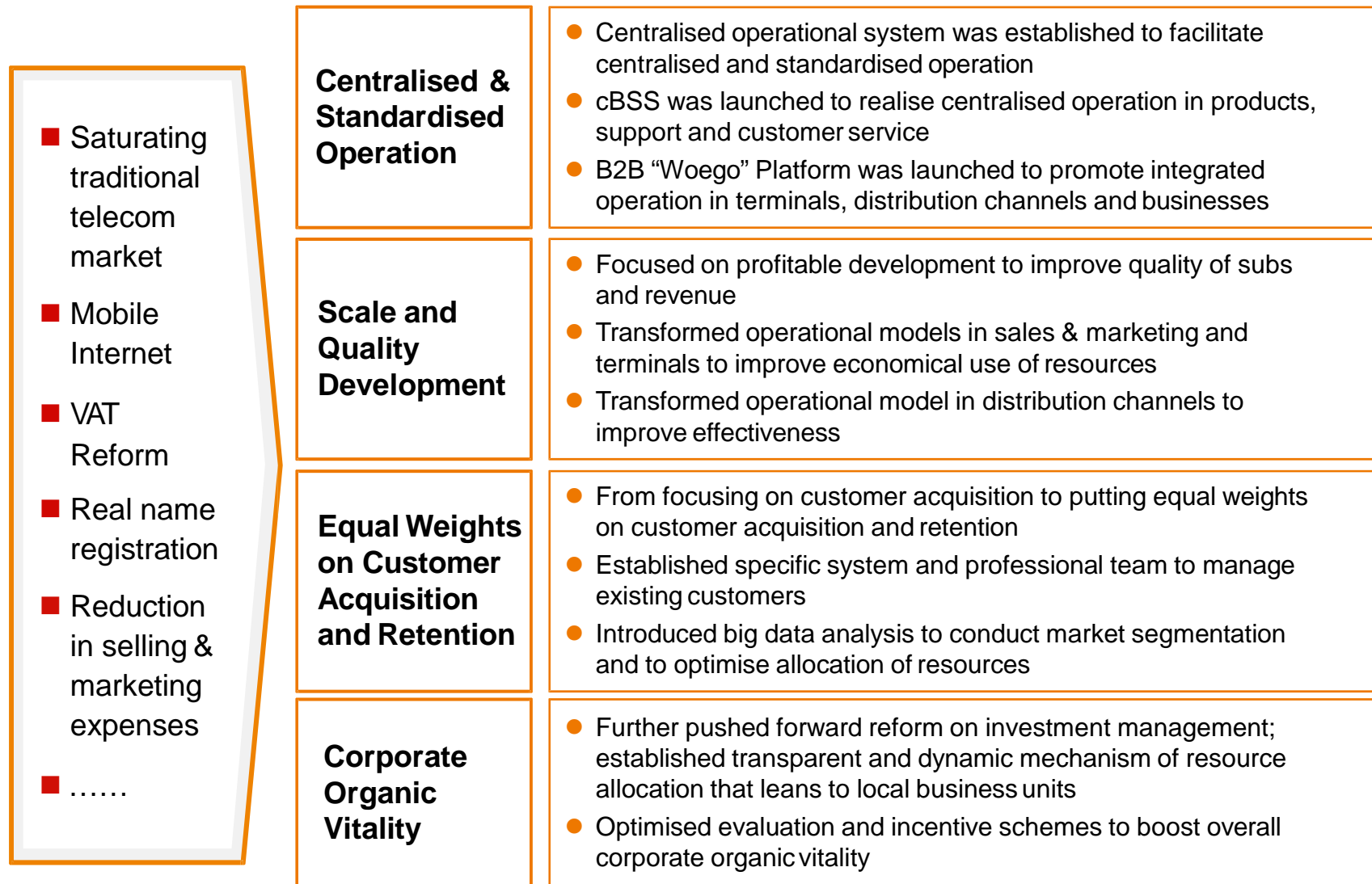
- Because of changes in regulatory policies and market environment, industry revenue growth slowed down significantly.
- Due to the VAT Reform and its own transformation, the Company recorded slower service revenue growth but improved development quality and business structure.
- The Company's service revenue growth rate exceeded industry average by **3.9pp**, and its service revenue market share increased by **0.4pp**.

(1) 2011 growth rate excludes the impact of deferred fixed-line upfront connection fee.

(2) The industry average growth rate is the year-on-year growth rate in key telecommunications business revenue released by MIIT (unadjusted). The unadjusted key telecommunications business revenue was RMB1,154.11 billion in 2014 and RMB1,168.91 billion in 2013, resulting in -1.3% year-on-year growth.

(3) For analysis purpose and to be consistent with MIIT's computation, the Company's service revenues are adjusted by adding back business tax and government surcharges before the VAT Reform. Market share in service revenue is defined as the Company's Adjusted Service Revenue / Industry Service Revenue (MIIT).

# Deep Transformation of Business Model

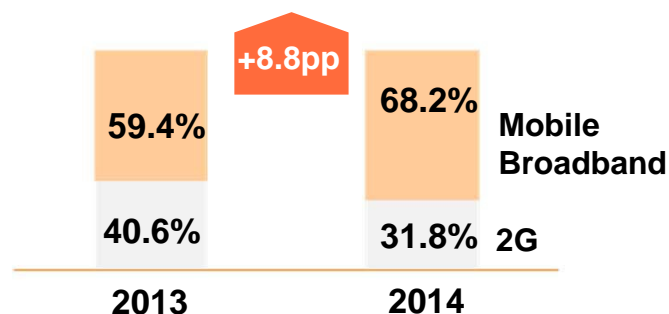


# Accelerated Deployment in New Business Areas<sup>(1)(2)</sup>

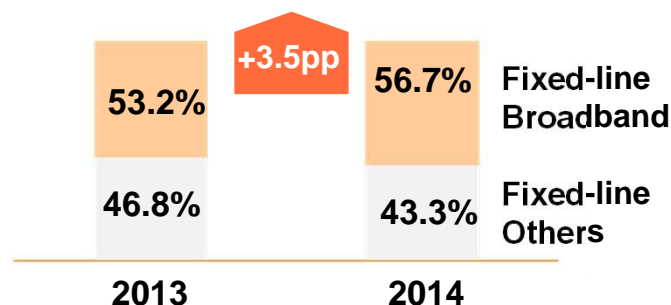


- Non-voice accounting for **61.9%** of total service revenue, up **5.7pp**; mobile broadband and fixed-line broadband accounting for **63.7%** of total service revenue, up **6.8pp**
- Accelerated deployment in new business areas to cultivate new growth drivers

## Mobile broadband contributing to 68.2% of mobile service revenue



## Fixed-line broadband contributing to 56.7% of fixed-line service revenue



## Accelerating Deployment in New Business Areas

For Enterprise Customers

- Focusing on IDC, cloud computing, ICT, Internet of Things to cultivate new growth drivers
- Operating in professional and market manner

For Individual Customers

- Set up Unicom Innovation Investment Co. Ltd.
- Established CMB-Unicom Consumer Financing Co. Ltd.
- Tried to operate apps store in corporate manner

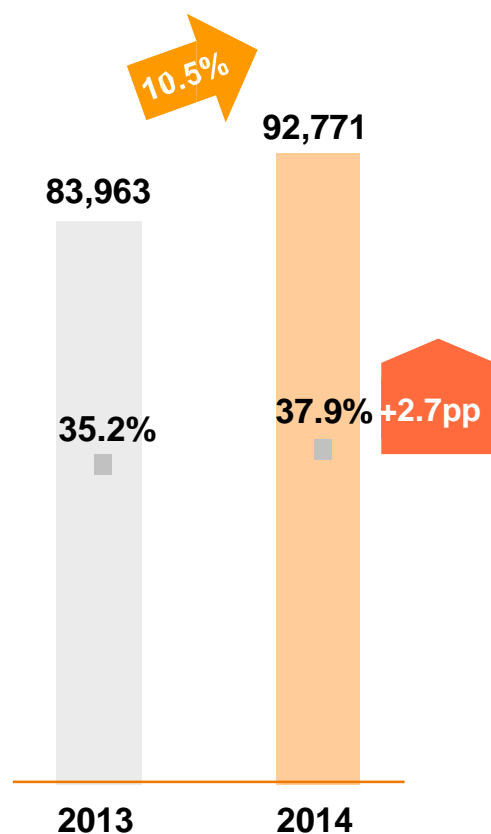
(1) Mobile broadband business includes both 3G and 4G businesses.

(2) Non-voice service revenue refers to service revenue other than voice, monthly fee and interconnection revenue.

# Continuous Improvement in Profitability

## EBITDA

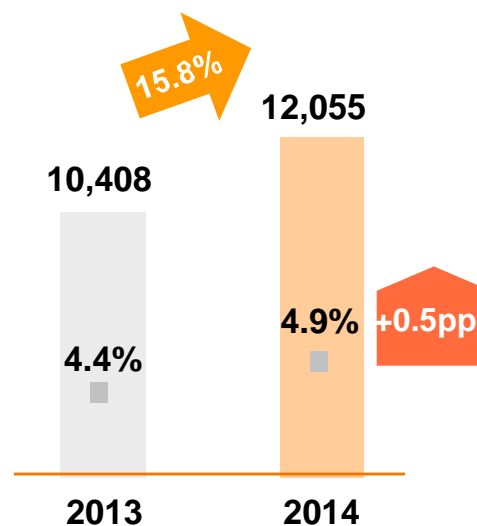
(RMB millions)



■ As % of service revenue

## Net Profit

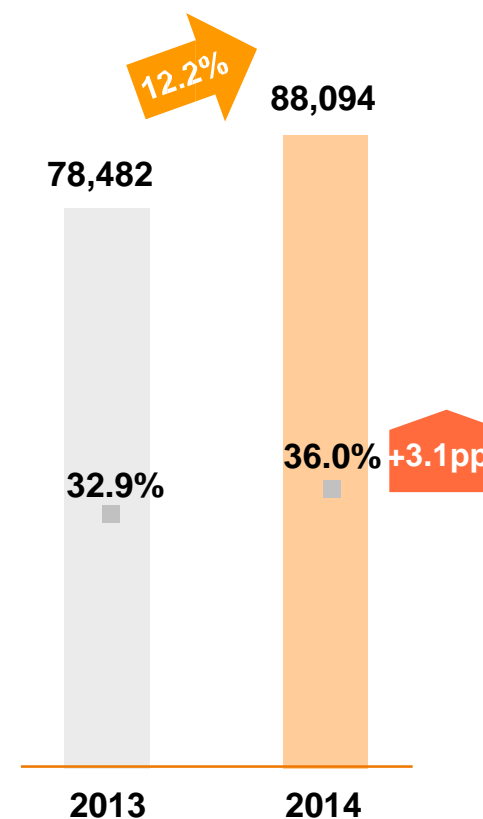
(RMB millions)



■ As % of service revenue

## Operating Cash Flow

(RMB millions)



■ As % of service revenue

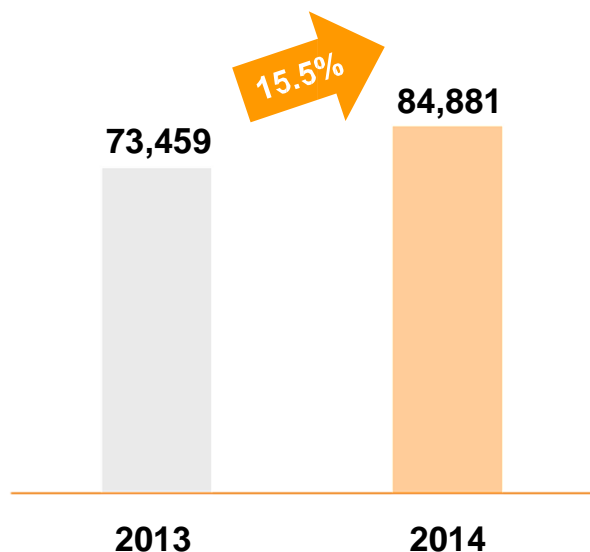


# Network Construction for Future Growth

**Striving to build high-quality mobile and fixed-line broadband networks with leading user experience**

## CAPEX

(RMB millions)



## Network Construction

### Mobile Broadband Network

- downlink speed up to 150Mbps
- more reliable data service

### Mobile Broadband Base Stations:

**565 thousand** **+38.8%**

### Fixed-line Broadband Network

- accelerated fiber optic upgrade
- expanded coverage

### Access Ports:

**135 million** **+13.4%**

### FTTX's Share:

**77.8%**

**Enhancing capabilities and improving customer perception to support transformation and development**

# 2015 Outlook

## new trends emerging in the telecom sector

### Subs-driven growth under pressure

- LTE FDD license
- Real name registration
- Transformation of marketing model
- Saturating mobile subs market
- Declining traditional voice service

### More rational competition on traditional business

- From focusing on customer acquisition to putting equal weights on customer acquisition and retention
- Balancing quantity and quality, business volume and revenue

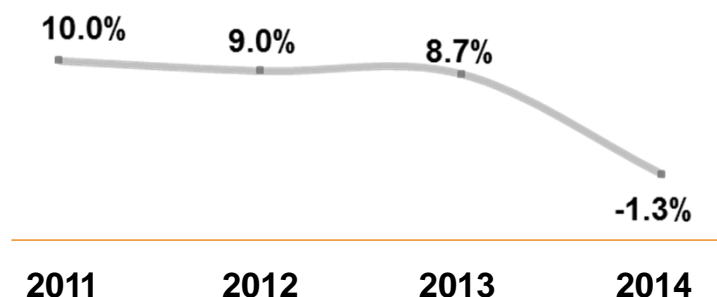
### Rapidly changing user and consumption structure

- Accelerating user migration from 2G/3G to 4G
- Accelerating consumption migration from voice to data

### Information consumption creating room for transformation and development

- Upgraded information consumption
- Rapidly developing mobile Internet
- Internet expanding into different sectors
- Internet of Things
- Cloud computing

## Industry Revenue Growth Slowing Down <sup>(1)</sup>



## Huge Potential in Global Data Market <sup>(2)</sup>

		2013	2014	2020E
Smartphone Users	billions	1.9	2.7	6.1
LTE Users	billions	0.2	0.4	3.5
Monthly Mobile Data Volume	EB	2.0	3.2	25
Monthly Fixed-line Data Volume	EB	40	50	140

(1) The industry revenue growth rate is calculated based on industry revenues released by MIIT (unadjusted), which was RMB1,154.11 billion in 2014 and RMB1,168.91 billion in 2013, resulting in -1.3% year-on-year growth.

(2) Source: Mobile Market Report by Ericsson in Nov 2014.

# 2015 Outlook

## fully implement the strategy of “Leading Mobile Broadband and Innovating Operational Integration”



### Consolidate and enhance advantages in broadband networks

- Fully leverage on advantage in owning both mobile and fixed-line broadband networks
- Fully leverage on advantage in 3G network coverage to accelerate the construction of 3G/4G integrated high-quality mobile broadband network
- Fully push forward fiber optic upgrade of fixed-line broadband network

### Create differentiated service advantages through centralised operation

- Provide integrated service to customers and improve operational efficiency through integration
- Create more convenient services by responding quickly to customer needs

### Realise new development in informatisation era

- Accelerate operational transformation and achieve new progress in business areas such as Internet finance, industry applications, big data, Internet of Things, cloud computing

✓ *Seize new opportunities and further accelerate transformation and development*

✓ *Achieve better and faster development and create more value for its shareholders*

# Agenda

- Overall Results
- **Operating & Financial Performance**

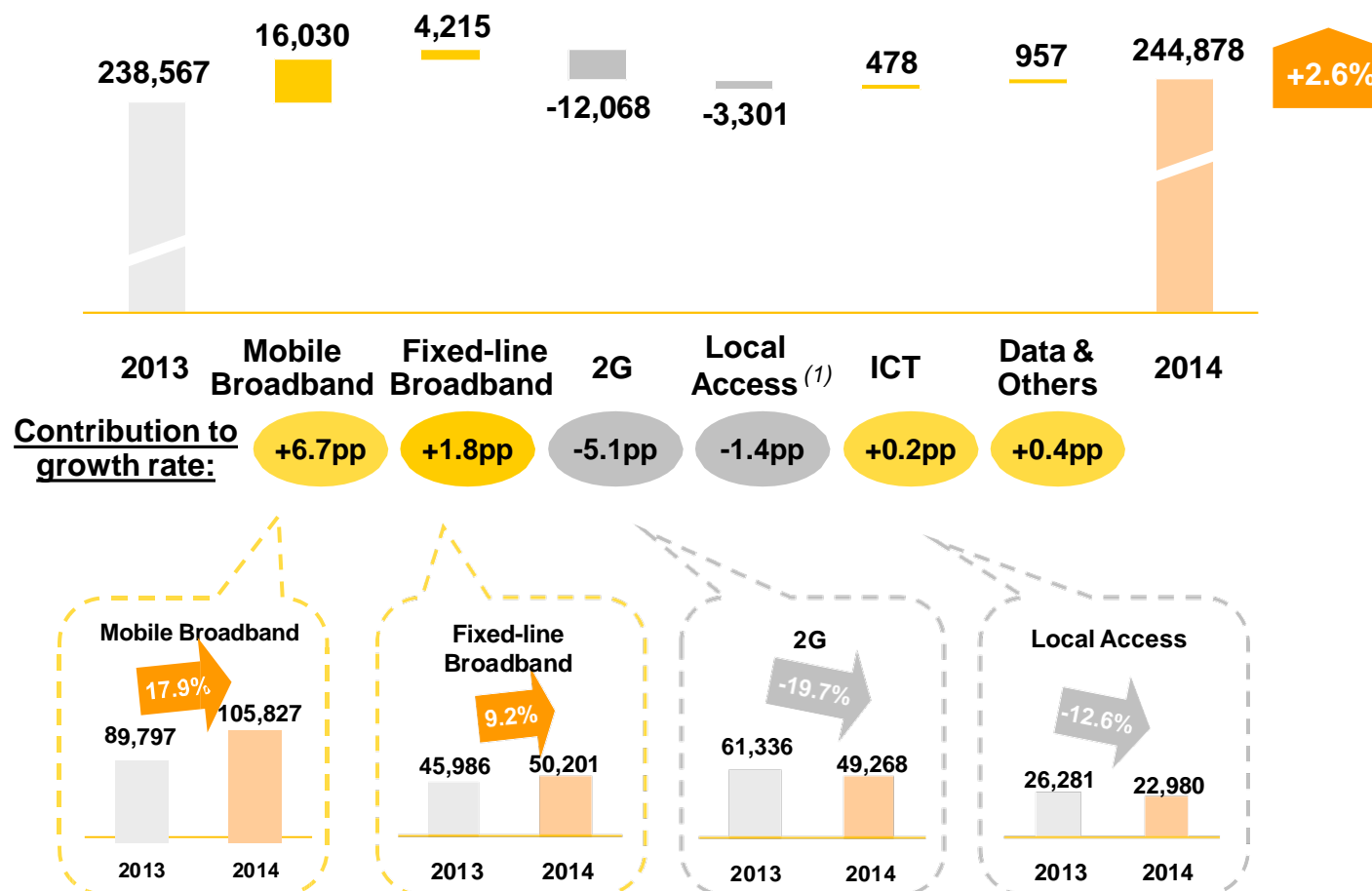


# Overall Business

## optimising operational model & focusing on quality

### Service Revenue

(RMB millions)



- Focusing on development quality and sustainable /organic growth model
- Mobile and fixed-line broadbands driving continuous revenue growth

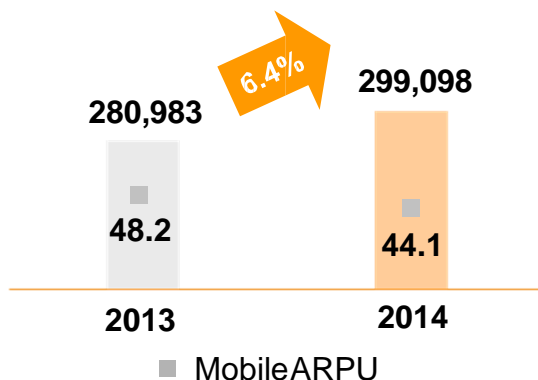
(1) Including local voice, long distance, fixed-line VAS and interconnection revenues.

# Mobile Business

## non-voice's share of service revenue exceeding 50%

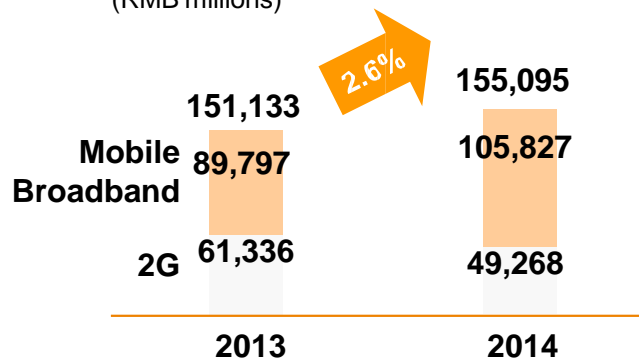
### Mobile Subs

('000/RMB)



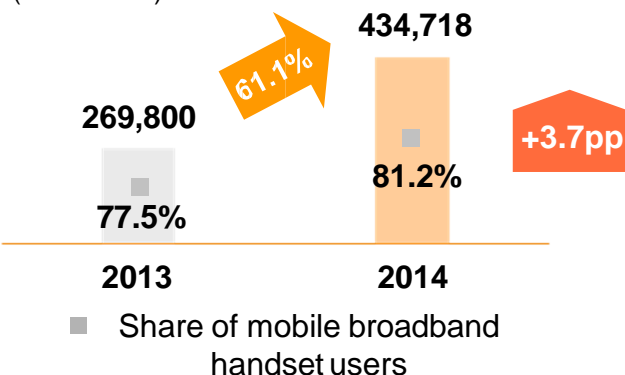
### Mobile Service Revenue

(RMB millions)

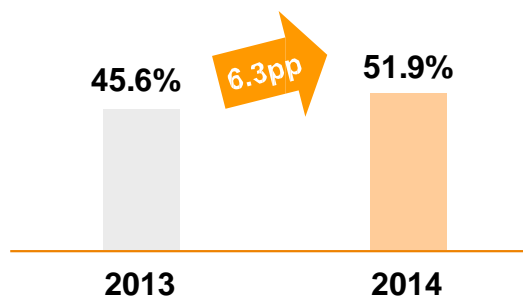


### Data Usage by Handset Users

(MB millions)



### Non-voice's Share of Mobile Service Revenue <sup>(1)</sup>



- Network upgrade to improve 2G/3G user experience
- Data volume operation to raise non-voice's contribution
- Centralised and standardised operation to enhance operational efficiency

(1) Non-voice service revenue refers to service revenue other than voice, monthly fee and interconnection revenue.

# Mobile Business

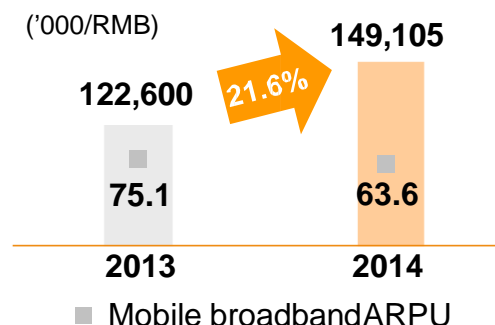
## rapidly rising contribution from mobile broadband



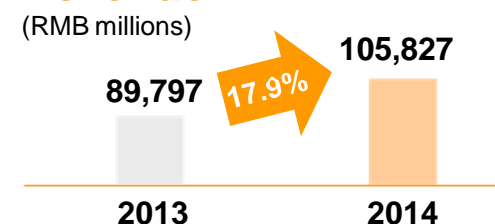
### Consolidating and Enhancing Differentiated Competitiveness

<b>Networks</b>	<ul style="list-style-type: none"> <li>Constructed high-quality mobile broadband network that offers higher speed, broader coverage and better user experience; downlink speed up to 150Mbps</li> </ul>
<b>Terminals</b>	<ul style="list-style-type: none"> <li>Expanded customised terminals to include both 4-mode and 5-mode smartphones to facilitate “Dual 4G, Dual 100 MB Speed” promotion</li> </ul>
<b>Products</b>	<ul style="list-style-type: none"> <li>Introduced integrated mobile product portfolio</li> <li>All networks will open to all users</li> </ul>
<b>Customer Retention</b>	<ul style="list-style-type: none"> <li>Set up specific system and professional team</li> <li>Conducted market segmentation and used big data to refine sales &amp; marketing and customer retention practices</li> </ul>
<b>Distribution Channel</b>	<ul style="list-style-type: none"> <li>Improved structure, effectiveness and online capability</li> <li>Improved economical use of resources</li> </ul>
<b>Centralised Operation</b>	<ul style="list-style-type: none"> <li>Established centralised operational system in information, process, product and sales &amp; marketing</li> </ul>

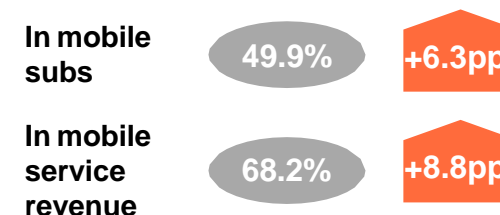
### Mobile Broadband Subs



### Mobile Broadband Service Revenue



### Share of Mobile Broadband



# Mobile Business

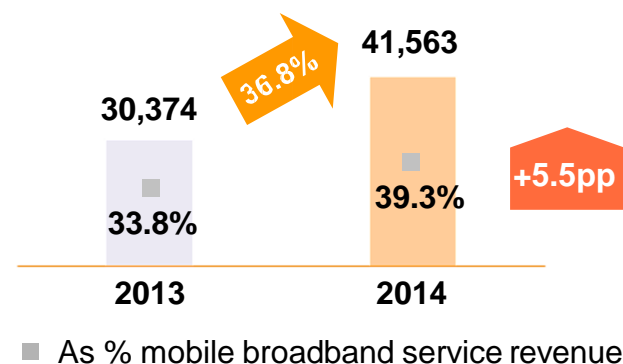
## following mobile Internet trends to boost data value

### Enhancing operational capability of WO+ Platform and continuously promoting data volume operation

- ✓ Strengthened co-operation with Internet companies in terms of data traffic, joint operation and distribution channel
- ✓ Launched “Data Volume Bank” with registered users close to one million
- ✓ Carried out operational transformation at WO Apps Store to facilitate user growth

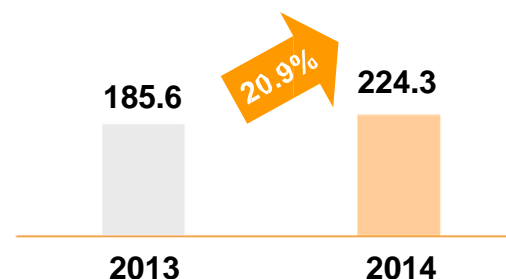
### Data Revenue by Mobile Broadband Handset Users

(RMB millions)



### Data Usage per Mobile Broadband Handset User

(MB)



- Enhancing operational capabilities of platforms
- Developing open and innovative data products
- Promoting reform on operational system



# Mobile Business

## leading mobile resale by open and win-win co-operation



**High-quality customer service to resellers**

- One-stop access activates unified operation and centralised services
- Flattened and standardised resale business process
- Extended services available
- Mechanism in place to ensure high-quality support

✓ **Industry-leading** in number of signed resellers in operation

15

✓ **Industry-leading** in number of subscribers acquired by resellers

>2.3 million

(as at end of Jan 2015)

• **Deepened business co-operation**

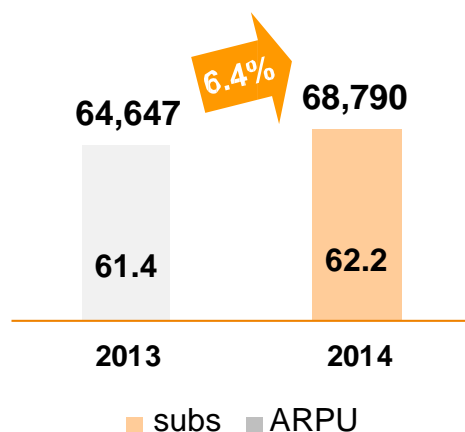
• **Innovated operational mechanism**

• **Strengthened network and service support**

# Fixed-line Business continuing to growth steadily

## Broadband Subs & ARPU

('000/RMB)



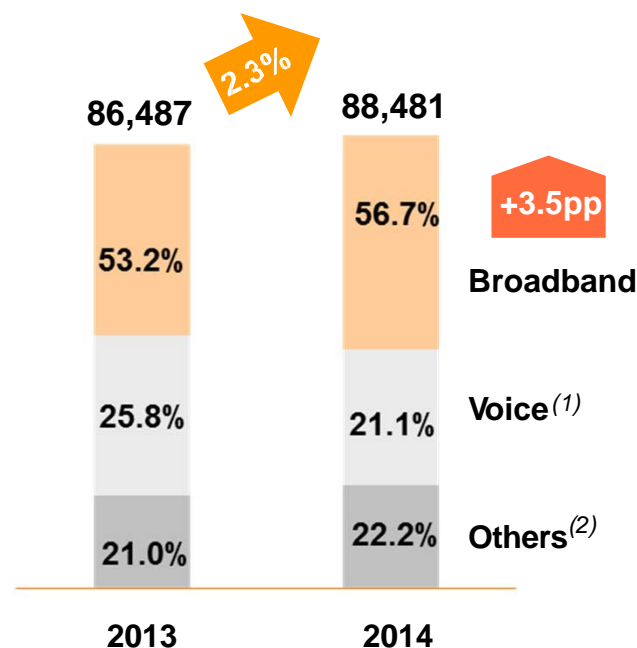
## FTTH Broadband Users

FTTH's share of  
broadband subs

+13.9pp

## Fixed-line Service Revenue

(RMB millions)



- Constructing all fiber optic broadband network
- Enhancing operation on existing customers
- Establishing "Smart WO Family" product portfolio

(1) Including voice, monthly fee and interconnection revenue.

(2) Including fixed-line VAS, ICT, data and others.

# Fixed-line Business

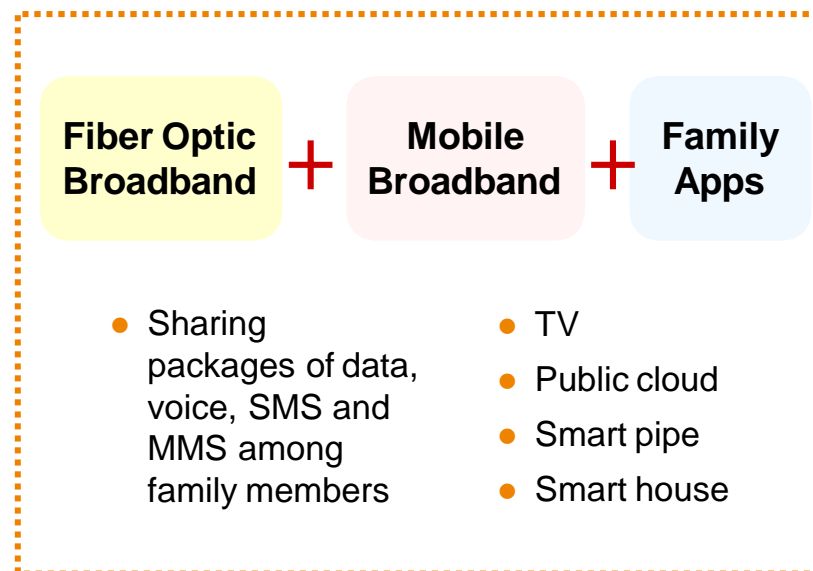
## “Smart WO Family” to promote full services offering



### Constructing all fiber optic broadband network

- **77.8%** of broadband access ports were FTTX at YE2014
- Fiber optic upgrade of broadband network in 2015

### “Smart WO Family”: total solution to household customers



### Transforming household customer business

- ✓ Full services offering
- ✓ Value creation
- ✓ Customer retention

**Trial in 2014**

**Scale Development in 2015**

**Internet Apps & Innovation in 2016**

# Enterprise Customer Business deployment in key areas to cultivate new growth drivers

## IDC & Cloud Computing

- Carried out professional operation to drive rapid revenue growth
- Constructed National Cloud Computing Center and signed a number of high-quality customers
- “WO Cloud” gained increasing reputation and signed a number of key industry projects

## Internet of Things

- Built professional capability in Internet of Things operation
- Focused on applications relating to car service, monitoring and surveillance; extended business model to B2B2B and B2C2C
- Developed and promoted products relating to information processing and applications

## Industry Applications

- Improved capabilities to design and customise industry total solutions
- Further promoted standardisation of industry applications

## ICT

- Improved capabilities to implement system integration and service outsourcing projects
- Focused on government, environmental protection, medical service, transportation to realise scale development
- Focused on network integration, video, security, main unit integration to enhance self development capability

✓ **Rapidly growing enterprise customer business:**

**Key industry application users**

**> 59 million**

**Cities (urban districts) that signed “Smart City” Projects**

**270**

✓ **Promoting professional and market-oriented operation**

✓ **Striving to become leading information solution provider**

# Sales and Marketing transforming model to improve use of resources

## 1 Constantly optimising business model

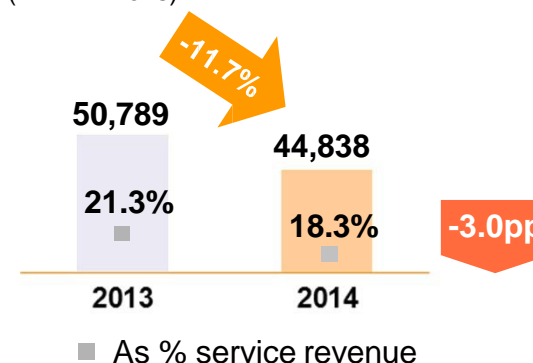
- Focusing on customer quality and revenue quality
- Optimising handset subsidy and commission expenditure

## 2 Constantly promoting integrated online/offline operation

- Enhancing self-own distribution channel and promoting professional operation at sales outlets
- Optimising third-party distribution channel and improving its effectiveness
- Expanding e-channel and promoting online sales & marketing, subscriber management and customer service

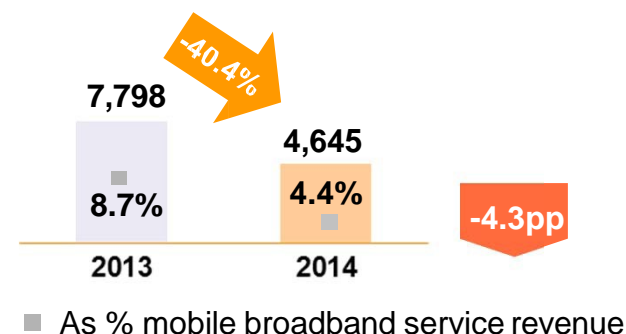
### Selling & Marketing Expenses (including handset subsidy)

(RMB millions)



### Handset Subsidy

(RMB millions)



# Sales and Marketing leveraging on “Woego” to promote integrated operation

## 3 Leveraging on “Woego” to promote integrated operation

- Leveraging on “Woego” to consolidate industry value chain resources and to facilitate integrated terminal operation that is centralised, flattened, transparent and end-to-end
- Accelerating distribution channel expansion and raising the share of distribution channel that can sell terminals so as to promote transformation in distribution channel
- Building vertical e-commerce platform to facilitate the transformation from pipe provider to Internet operator
- Registered third-party distributors close to 250 thousand at YE2014



# Costs and Expenses

## year-on-year down 4.5%

(RMB millions)	2014	YoY ▲	YoY %
<b>Operating Expenses</b>	<b>265,778</b>	<b>-13,493</b>	<b>-4.8%</b>
Adjusted Operating Expenses <sup>(1)</sup>	227,026	3,373	1.5%
Interconnection Charges <sup>(2)</sup>	14,599	-5,609	-27.8%
Depreciation & Amortisation	73,868	5,672	8.3%
Networks, Operations & Support	37,851	4,147	12.3%
Employee Benefit	34,652	2,869	9.0%
Selling & Marketing	40,193	-2,798	-6.5%
Handset Subsidy	4,645	-3,153	-40.4%
G&A and Others	21,218	2,245	11.8%
<b>Net Financial Costs</b>	<b>4,334</b>	<b>1,394</b>	<b>47.4%</b>
<b>Net Other Income<sup>(3)</sup></b>	<b>1,362</b>	<b>475</b>	<b>53.6%</b>
<b>Total Costs &amp; Expenses</b>	<b>268,750</b>	<b>-12,574</b>	<b>-4.5%</b>

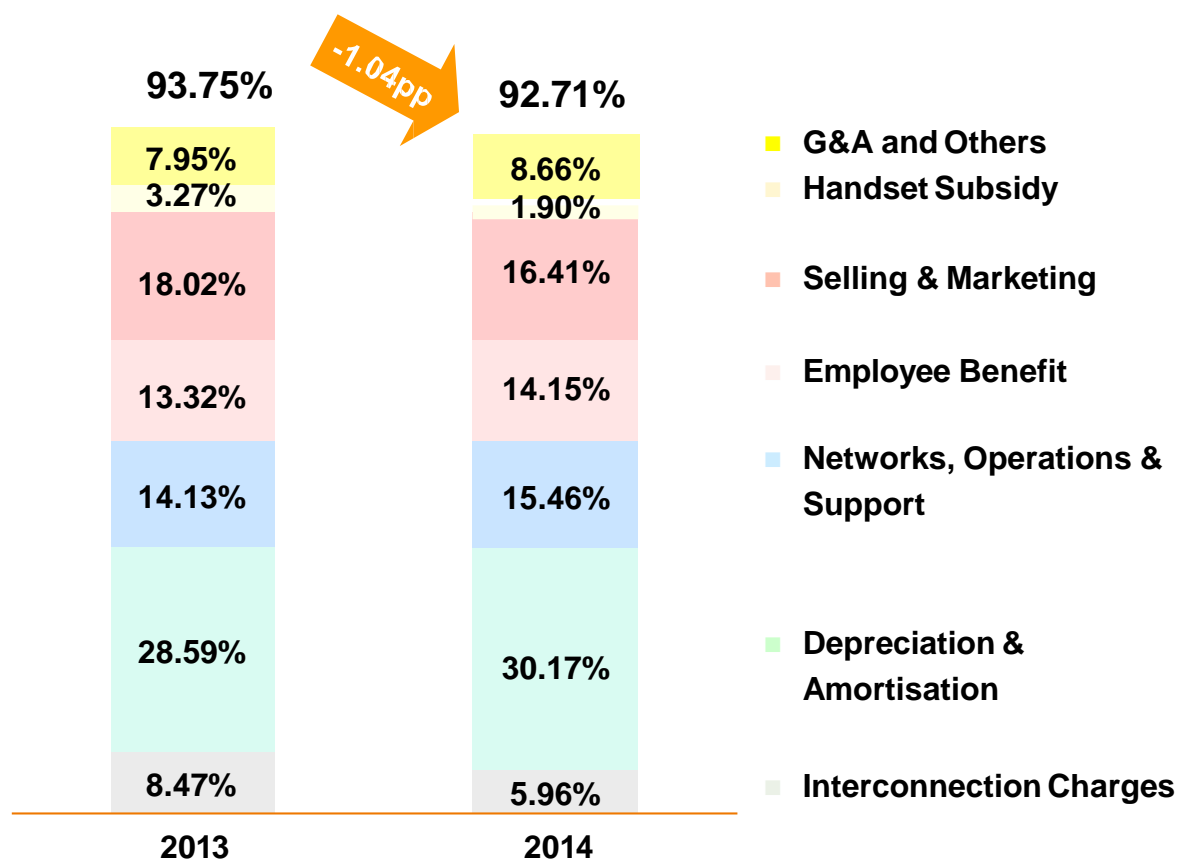
(1) In 2014, costs of telecom products sold amounted to RMB43,397 million, down 31.6% yoy; sales of telecom products amounted to RMB39,803 million, down 29.5% yoy; and loss of telecom products sold amounted to RMB3,594 million, of which handset subsidy RMB4,645 million. Adjusted operating expenses are defined as operating expenses minus costs of telecom products sold plus handset subsidy.

(2) Public telecommunications network interconnection settlement standards of basic telecommunications operators were adjusted from 1 January 2014.

(3) Net other income is defined as other income minus other costs.

# Adjusted Operating Expenses as % of service revenue decreasing further

## Adjusted Operating Expenses as % of Service Revenue



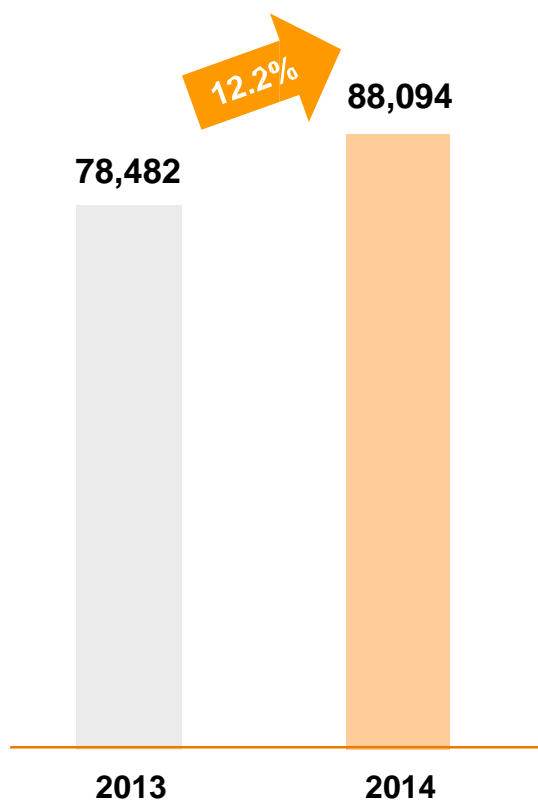


# Cash Flow and Net-Debt-to-Cap Ratio

## more solid financial status

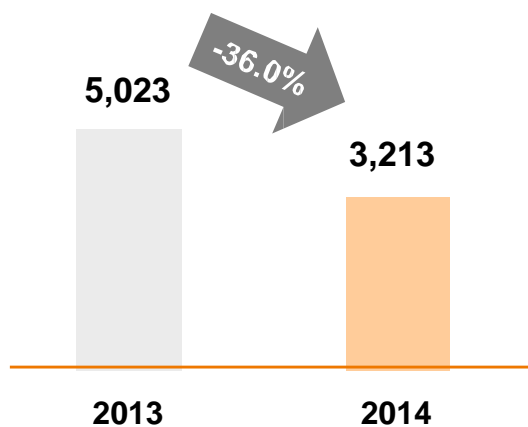
### Operating Cash Flow

(RMB millions)

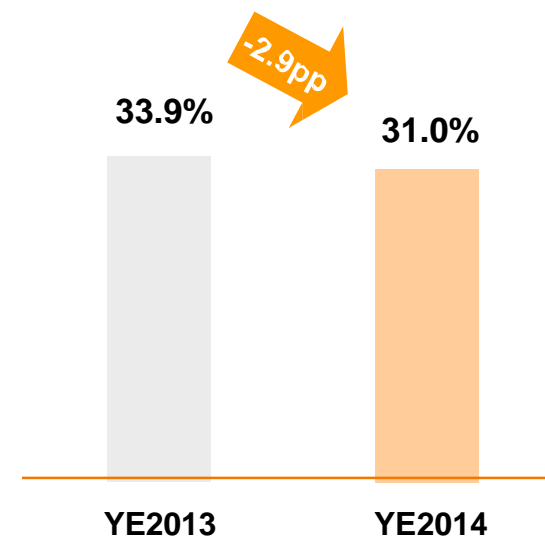


### Free Cash Flow

(RMB millions)



### Net-Debt-to-Cap Ratio





**THANK YOU**

# Appendix I: Income Statement<sup>(1)(2)</sup>



(RMB millions)	2013	2014		2013	2014
<b>Revenue:</b>			Including: Selling & Marketing	(42,991)	(40,193)
Service Revenue	238,567	244,878	Costs of Products Sold	(63,416)	(43,397)
Sales of Telecom Products	56,471	39,803	<b>Total Operating Expenses</b>	<b>(279,271)</b>	<b>(265,778)</b>
<b>Total Operating Revenue</b>	<b>295,038</b>	<b>284,681</b>	<b>Operating Profit</b>	<b>15,767</b>	<b>18,903</b>
<b>Operating Expenses:</b>			Finance Costs	(3,113)	(4,617)
Interconnection Charges	(20,208)	(14,599)	Interest Income	173	283
Depreciation & Amortisation	(68,196)	(73,868)	Net Other Income	887	1,362
Networks, Operations & Support	(33,704)	(37,851)	<b>Profit Before Income Tax</b>	<b>13,714</b>	<b>15,931</b>
Employee Benefit	(31,783)	(34,652)	Income Tax	(3,306)	(3,876)
SG&A and Others	(125,380)	(104,808)	<b>Net Profit</b>	<b>10,408</b>	<b>12,055</b>

(1) Business tax was replaced with value-added tax in the telecom sector from 1 June 2014 ("VAT Reform").

(2) Public telecommunications network interconnection settlement standards of basic telecommunications operators were adjusted from 1 January 2014.

# Appendix II: Selected Balance Sheet

(RMB millions)	YE2013	YE2014		YE2013	YE2014
<b>Non-current Assets (selected):</b>			<b>Non-current Liabilities (selected):</b>		
PPE	431,625	438,321	Promissory Notes	-	21,460
Lease Prepayments	8,038	9,211	Corporate Bonds	2,000	2,000
Goodwill	2,771	2,771	Convertible Bonds	11,002	-
Deferred Income Tax Assets	6,734	6,215	<b>Total Non-current Liabilities:</b>	<b>15,033</b>	<b>25,611</b>
Financial Assets at Fair Value through Other Comprehensive Income	6,497	5,902	<b>Current Liabilities (selected):</b>		
<b>Total Non-current Assets:</b>	<b>476,961</b>	<b>488,498</b>	Accounts Payable & Accrued Liabilities	102,212	120,371
<b>Current Assets (selected):</b>			Convertible Bonds	-	11,167
Inventories & Consumables	5,536	4,378	Commercial Papers	35,000	9,979
Accounts Receivable	14,842	14,671	Short-term Bank Loans	94,422	91,503
Prepayments & Others	9,664	10,029	Advances from Customers	49,841	46,892
Cash and Cash Equivalents	21,506	25,308	<b>Total Current Liabilities:</b>	<b>295,239</b>	<b>291,920</b>
<b>Total Current Assets</b>	<b>52,210</b>	<b>56,574</b>	<b>Total Liabilities</b>	<b>310,272</b>	<b>317,531</b>
<b>Total Assets</b>	<b>529,171</b>	<b>545,072</b>	<b>Total Equity</b>	<b>218,899</b>	<b>227,541</b>
			<b>Total Liabilities and Equity</b>	<b>529,171</b>	<b>545,072</b>

# Appendix III: Key Operating Metrics

		2013	2014
<b>Mobile Business</b>	Subscribers ('000)	280,983	299,098
	ARPU (RMB)	48.2	44.1
	Handset Users MOU (minutes)	296.1	278.1
<b>Of which: Mobile Broadband <sup>(1)</sup></b>	Subscribers ('000)	122,600	149,105
	ARPU (RMB)	75.1	63.6
	Handset User DOU (MB)	185.6	224.3
<b>Fixed-line Local Access</b>	Subscribers ('000)	87,643	82,056
	ARPU (RMB)	20.5	18.5
<b>Fixed-line Broadband</b>	Subscribers ('000)	64,647	68,790
	ARPU (RMB)	61.4	62.2

(1) Mobile broadband business includes both 3G and 4G businesses.

# 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. These risks, uncertainties and other factors include: the uncertainties in the development of the telecommunications industry and related technology in the PRC; the level of the market demand for telecommunications services; changes in the competitive environment, regulatory environment and the PRC government’s regulatory and/or industry policy for the telecommunications industry; competitive forces from more liberalised markets and the Company’s ability to retain market share in the face of competition from existing telecommunications companies and potential new market entrants; effects of competition on the demand and price of the Company’s telecommunications services; the effects of any potential restructuring and integration of the PRC telecommunication businesses and any cooperation among the PRC telecommunication operators; the effects of tariff reduction initiatives; the result of the anti-monopoly investigation by the National Development and Reform Commission of the PRC relating to the price charged for Internet dedicated leased line access service provided by the Company to Internet service providers; the availability, terms and deployment of capital; changes in the assumptions upon which the Company has prepared its projected financial information and capital expenditure plans; changes in the political, economic, legal, tax and social conditions in the PRC; and other factors that will affect the execution of the Company’s business plans and strategies, as well as the Company’s business condition and financial results. 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.