



China Unicom (Hong Kong) Limited

2015 Annual Results Announcement Edited Presentation Transcript

Speaker: Mr. Wang Xiaochu, Chairman & CEO

Slide 4: Agenda

Ladies and gentlemen, good afternoon. It's my great pleasure to discuss the results of China Unicom with you. For today's presentation, I will report the overall results in 2015 and Mr. Lu Yimin and Mr. Li Fushen will introduce the operating and financial performance of the Company, followed by the Q&A Section.

Slide 5: Highlights

Our 2015 annual results can be summarized as below:

Firstly, the challenging business environment put revenue & profit under considerable pressure.

Secondly, the Company timely adjusted operating priorities by focusing resources on 4G to fuel mobile business momentum.

Thirdly, driven by 100Mbps bandwidth offerings & video, fixed-line business maintained steady growth.

Fourthly, the Company focused on future growth and invested for leading network experience in 4G and fibre broadband.

Looking forward, the Company will leverage opportunities, "Focus Strategies", innovation & cooperation to drive gradual turnaround with full strength.

Slide 6: Challenging Business Environment Put Revenue & Profit under Considerable Pressure

In 2015, the operating revenue amounted to RMB 277 billion, down by 2.7% year-on-year. EBITDA declined by 5.7% year-on-year to RMB87.5 billion. Net profit was RMB 10.56 billion. Excluding the gain on disposal of towers, net profit was RMB3.6 billion, slipping 70% year-on-year.

The slip of the Company's results was mainly due to:

Firstly, government policies such as "Speed Upgrade and Tariff Reduction", "VAT Reform" and so on.

Secondly, the asymmetrical 4G licensing, our competitive advantages in 3G have been fading out fast.

Meanwhile, despite the one-off gain on tower disposal, the tower usage fee is expected to bring short-term financial pressure to the Company.

Slide 7: Promptly Focused Resources on 4G to Fuel Mobile Business Momentum

Facing the complex business environment, the Company timely adjusted operating priority to focus resources on 4G.

The Company has increased & accelerated 4G investment on network, terminal and converged offerings. 4G network was upgraded speedily, with continuous 4G coverage in nationwide urban areas, counties & developed towns, as well as in-depth coverage in key cities. Meanwhile, the Company has quickly boosted 4G handset market share while optimizing channel mix. Our integrated offering has driven interactive promotion.

With the above measures, sound momentum of 4G business has emerged. The monthly net adds of 4G users were 5.27 million and 5.38 million in Jan and Feb 2016 respectively, which has driven month-on-month improvement in the daily average mobile service revenue and fueled mobile business momentum.

Slide 8: Tower Sharing to Enhance Long-term Value

During the year, the Company disposed of its towers and related assets and recognised a gain on disposal before taxes of RMB 9.25 billion.

The disposal of the towers assets will facilitate the co-building and co-sharing of towers among operators, thus promoting a quick and efficient 4G network roll-out while saving CAPEX.

In 2015, 164,000 towers were delivered by the TowerCo. With increasing co-use ratio, future co-use discount on usage fee is expected to rise gradually. Meanwhile, as one of the major shareholders, the Company is expected to benefit from the TowerCo's future profits & value enhancement. However, it is expected that tower usage fee will put pressure on profit in the short-term.

Slide 9: Expect Tower Usage Fee to Pressure on Profit in Short Term

Currently, the Company is still negotiating with TowerCo on the usage fee.

According to TowerCo's proposal, the main principle for determining usage fee is cost-plus method. Tower usage fee in 2015 was estimated to be RMB 2.93 billion. According to internal estimates, savings in depreciation & network maintenance was around 80% of tower usage fee in 2015.

We hope that TowerCo will strengthen cost control, and strive to improve operating efficiency & tower co-use, so as to achieve lower tower rate on usage fee & win-win.

Slide 10: Deepen Open Cooperation to Accelerate Business Development

Under the current market competition, the Company has deepened open cooperation while leveraging complementary edges and resources to boost quality & efficiency.

Recently, the Company has commenced strategic cooperation with China Telecom. The two companies will fully cooperate in terms of network co-building and co-sharing, handsets standardisation and innovative business. Context for mobile network cooperation mainly includes transport lines, remote villages, new indoor distribution and scenery spots. We aim to reduce the network construction cost and rapidly enhance customers' experience through the cooperation.

Meanwhile, the Company continued to promote the co-building & co-sharing of basic telecommunications infrastructure; achieved win-win with our MVNO partners, with industry leading MVNO subscriber market share, and we are seeking partnership with private capital in local access deployment, especially in southern China. Based on the WO+ open platform, the Company is deepening cooperation with Internet companies.

Slide 11: Investing for Leading Network Experience & Future Growth

In 2015, the Company continued to invest for leading network experience & future growth. 4G and fibre broadband construction was accelerated to enhance our competitive edges. CAPEX in 2015 was RMB 133.9 billion.

In 2016, with the completion of scale deployment, the Company will benefit from "Focus Strategies" & cooperation and effectively control CAPEX. The full year budget is 75 billion, down by RMB 58.9 billion from 2015.

We aim that 97% mobile data traffic will be generated in area with 4G coverage and achieve leading customer perception in key cities.

For fibre broadband business, the Company aims to attain "All Fibre Networks" to ensure leadership in Northern China and focus on high-value areas in Southern China.

Slide 12: Dividend

Taking into account the shareholder returns, profitability, cash flows of the Company, and the capital required for future development, the Board recommended a final dividend payout of RMB0.17 per share, and the dividend payout ratio was 38.5%. The Company will strive to enhance future profitability & continue to create value for shareholders.

Slide 13: Fully Implement “Focus Strategies” to Enhance Value

Looking forward, we are fully confident. With “focus, innovation, cooperation” as the core, the Company will fully implement “Focus Strategies”, thereby contributing to a gradual turnaround of its operating results.

With the deepening implementation of “Focus Strategies”, the Company will strive to return to industry leading growth trajectory with continuous improvement in profitability while achieving remarkable results in structure optimization. In the meantime, the Company will commit to scale breakthrough in innovative business and make noticeable improvement in customers’ perception in order to elevate the corporate value continuously.

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

Speaker: Mr. Lu Yimin, Executive Director & President

Slide 14:

Thank you Chairman Wang. Now please allow me to introduce the operating performance of the Company in 2015.

Slide 15: Revenue Breakdown

This table shows the revenue of the Company's various businesses and their changes. I will explain in further details in the following.

Slide 16: Focus on 4G to Drive Future Mobile Business Turnaround

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

In 2015, government policies such as "Speed Upgrade & Tariff Reduction", "Mobile Data Carry-over", "VAT Reform", and the transformation in our sales & marketing model posed considerable challenges to our mobile business. At the same time, our competitive edge in 3G business is dissipating quickly as we face pressure on 4G by competitors with first-mover advantage. Full-year mobile service revenue reached Rmb 142.6 billion. ARPU decreased to RMB 46.3 from RMB 47.8 last year. The number of mobile billing subscribers was 252 million, down by 14.26 million.

Facing the challenges, the Company has sped up adjustment in its strategies, and focused resources on 4G. By the end of 2015, the number of 4G subscribers reached 44.16 million as a result of rapid growth. 4G subscribers accounted for 17.5% of total mobile billing subscribers.

Slide 17: Mobile Data Business Sustained Robust Growth

For mobile data business, the Company strengthened data traffic operation & leveraged 4G, upgraded the user experience of data consumption, continued to enhance network speed, and optimized product services, in order to accelerate upgrade in subscriber and consumption structure.

Full-year mobile handset Internet access revenue was RMB 58.4 billion, up by 17.2% yoy. Total mobile handset data usage grew 60.1%. DOU was 231MB, up by 68.6% yoy.

Slide 18: Fixed-line Business Maintained Steady & Healthy Growth

For fixed-line business, the Company leveraged fibre network & informatization service strengths to accelerate development of growth businesses such as Internet access, VAS and integrated information services, etc. We also strengthened integrated services of fixed-line, mobile & informatisation. Declining revenue contribution from voice effectively mitigated operating risks.

Full-year fixed-line service revenue was RMB 91.3 billion, up by 3.1% yoy. Within that, non-voice revenue increased by 9.2% yoy.

Slide 19: Enhance Fixed-line Broadband Value with Video Applications

Let's move on to the fixed-line broadband business. In 2015, the Company further accelerated fibre network upgrade, and continued to enhance the competitiveness of its fibre broadband network. We focused on HD content & family applications to boost bandwidth demand. We launched "Smart WO Family" to drive the synergetic development of fibre broadband, TV, applications and 4G businesses, and to grow our subscriber scale and value.

In 2015, fixed-line broadband revenue increased by 7.5% to RMB 54.0 billion. Fixed-line broadband subscribers grew by 5.1% to 72.33 million. FTTH subscribers accounted for over 50% and "Smart WO Family" subscribers reached 9.59 million.

When driving the development of our FTTH subscriber base, we will strengthen investment efficiency in broadband terminals, and reduce the impact on the company's profit in the current period.

Slide 20: Create New Growth Drivers in Innovative Business

In light of rapid development in new businesses, the Company focuses on platforms business and industrial Internet to create new growth drivers for innovative business:

For IDC and cloud computing, we strengthened business expansion for "BAT", government, corporate customers. Full-year revenue reached RMB 7.1 billion, up by 37.5% yoy;

Leveraging opportunities from "Internet+" & smart cities, we strengthened our informatisation business. Full-year ICT revenue reached RMB 4.3 billion, up by 24.9% yoy;

As for industrial internet and Internet of Things, we focused on key areas, accelerated the development of a unified IoT platform, a centralised support system and a global business platform, in order to promote the scale development of industrial Internet business; and

For big data, we have centralised nationwide data, and achieved open & shared capabilities. We have joint venture with Telefónica focused on location-based big data services.

Slide 21: 2016 Priorities

In 2016, the Company will fully implement the Focus Strategies. Priorities of our work include:

To focus on 4G and strive to drive subscriber migration to 4G for steady rebound of mobile business;

To promote fiber adoption with high quality content (e.g. TV) to ensure stable growth of fixed-line business;

To establish a highly efficient innovative operating model to promote breakthrough in innovative business; and

To promote in-depth co-building & co-sharing of resources to enhance customer service & experience.

Looking forward, the Company will adhere to the core strategy of “Focus, Innovation and Cooperation” to drive turnaround in subscriber, revenue and profit gradually, so as to generate return to our shareholders.

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 22:

Thank you, Mr. Lu. Now let me present our financial performance in 2015.

Slide 23: Key Financial Information

Operating revenue decreased by RMB 7.6 billion in 2015 while operating expenses increased by around RMB 500 million. Operating profit was down by 43% to RMB 8.1 billion.

Slide 24: Proactively Controlled Operating Costs

Looking at the cost structure,

Depreciation & amortisation was RMB 76.7 billion, accounting for 27.7% of revenue, up by 1.8 ppt yoy. It was mainly due to increased 4G and fibre broadband network investment.

Mainly because of tower usage fee kick-in, larger network scale with increased energy costs & property rentals, etc., network operating costs was RMB 42.3 billion, accounting for 15.3% of revenue, up by 2 pp yoy.

Cost of telecommunications products sold was RMB 44 billion while the corresponding revenue was RMB 41.8 billion. Loss on sales of telecommunications products was RMB 2.3 billion, of which RMB 2.85 billion was attributable to handset subsidy. Handset subsidy as a percentage of revenue was down to 1% from 1.6% last year.

The company controlled selling and marketing expenses, and carried out transformation in our sales and marketing model. Selling and marketing expenses was RMB 32 billion, which, as a percentage of revenue, was down to 11.5% from 14.1% last year.

Slide 25: Profit Impacted by Various Special Items

Due to the impact of various special items, pre-tax profit in 2015 was RMB 14 billion, down by about RMB 1.9 billion yoy. Foreign exchange loss reduced our pretax profit by RMB 2.1 billion, "One-month Mobile Data Carry-over" by RMB 2.05 billion and VAT reform by RMB 2.03 billion. These are offset by tower disposal gain of RMB 9.25 billion. Another RMB 4.97 billion was attributable to miscellaneous items.

Slide 26: Debts, Finance Costs & Free Cash Flow

To fulfill capital needs of network scale investment, the Company's debt level increased in 2015. Liabilities-to-assets ratio climbed by 3.8 pp to 62.1%. Net debt-to-EBITDA was 1.45 times.

Net finance costs was RMB 6.5 billion, up by RMB 2.2 billion yoy, mainly due to foreign exchange loss of RMB 2.1 billion. By end of 2015, the Company has essentially repaid all foreign currency debts.

Free cash flow was RMB -49.6 billion. Free cash flow is expected to improve substantially as CAPEX decreases & business scales up.

Slide 27: Focus on Resources Utilisation Efficiency to Create Shareholder Value

In 2016, the company will focus on implementation of "Focus Strategies" and improvement in efficiency. We will speed up resources sharing, upgrade network deployment and maintenance system, enhance IT system support, push forward centralised capital management and improve customer experience and resources utilisation efficiency. Meanwhile, we will strengthen internal control and risk management, ensure secure and proper operation, and continue to create shareholder value.

This is the end of my presentation. Thank you.

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Forward-Looking Statements

Certain statements contained in this announcement 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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