



## China Unicom (Hong Kong) Limited

### 2018 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 2018, and Mr. Li Guohua and Mr. Zhu Kebing will further discuss our operating and financial performance, followed by the Q&A session.

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

- In 2018, the Company deepened the execution of the Strategy of Focus, Innovation and Cooperation and proactively advanced Internet-oriented operations, while comprehensively deepening mixed-ownership reform. Overall, we achieved a great start in the first full year of mixed-ownership reform. Highlights of our annual results are as follows:

First, our profit continued to grow remarkably driven by the deepened execution of the Strategy of Focus, Innovation and Cooperation.

Second, our mixed-ownership reform started delivering notable enhancement in growth momentum, quality and efficiency.

Third, our innovative business model posted remarkable results, sustaining fast and effective mobile service growth.

Fourth, our innovative businesses registered robust growth, gradually becoming a key revenue driver.

Lastly, we will accelerate “Five New” establishment to drive the Company’s high-quality sustainable growth.

#### **Slide 6: Profit Continued to Grow Remarkably**

- In 2018, the Company’s profitability continued to grow remarkably. We beat the key unlocking targets for 2018 under Unicom A Share Company’s Employee Share Incentive Scheme.
- Service revenue grew by 5.9%, outperforming the industry average by 2.9pp.
- EBITDA grew by 4.3%. Net profit increased by 4.6 times to RMB 10.2 billion.
- Earnings per share was RMB 0.333.

#### **Slide 7: Turnaround Momentum Further Strengthened**

- As the Company deepened execution of the Strategy of Focus, Innovation and Cooperation in past years, its turnaround momentum strengthened further.
- Service revenue growth has been accelerating from year to year.
- Free cash flow turned positive and kept making records. It reached RMB 47.5 billion last year, with the FCF yield leading in the industry.
- Net profit bottomed out in 2017 and extended the “V-shaped” rebound, successfully surpassing RMB10-billion level last year.

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

- In 2018, our innovative business model continued to post remarkable results.
- Despite keen competition, the Company did not simply follow the low-price “unlimited” plans introduced by our peers, but continued to advance the Internet-oriented business transformation. We harnessed the deepened 2I2C cooperation with Internet companies to unify O2O touchpoint operation, leveraging highly efficient yet low-cost online touchpoints to effectively acquire new customers, especially in the youth market where the growth potential is huge.
- Even with reduced channel commission and handset subsidy, our mobile business continued to achieve robust growth. The number of 2I2C subscribers reached 94 million. Net addition of mobile subscribers was 31 million. 4G subscribers market share increased by 1.3pp. Mobile service revenue grew by 5.5%, substantially faster than the industry average.

#### **Slide 9: Mixed-ownership Reform Started Delivering**

- As our mixed-ownership reform continued to make progress in various areas, the Company

began to see notable improvement in financial strength, business development and operational efficiency.

- Thanks to the mixed-ownership reform, the Company's financial strength has substantially improved.
- Deep cooperation with strategic investors has led to faster growth in our innovative businesses, while at the same time lifting our fundamental business.
- System and mechanism reform boosted the Company's vibrancy and efficiency, driving increasing returns for both employees and shareholders.

#### **Slide 10: Deepened System & Mechanism Reform**

- For system and mechanism reform, our objective is to "lift vibrancy, promote growth and control costs".
- Streamlining and re-organisation has become a norm in the Company. We encourage our staff to move to sub-divided units and innovative businesses.
- We strengthened our market-oriented incentive mechanism, and granted around 810 million restrictive shares to about 8,000 core talents.
- We also deepened our sub-division reform. 20,000 mini-CEOs joined sub-divided units nationwide, which further activated the vitality of the micro-entities.

#### **Slide 11: Initial Contract-out Reform of Yunnan Branch Showed Brilliant Results**

- Reform of our subsidiaries also made deep progress.
- Through contract-out reform, our Yunnan branch drew RMB 1.2 billion of investment in 2018. Its revenue growth outperformed the industry average of the province by 13pp. Its net profit improved by RMB 250 million as operating efficiency was significantly enhanced.

#### **Slide 12: Proactively Advanced Scale Development of Innovative Businesses**

- In innovative businesses, the Company emphasised on capability development, and focused on key industries and key businesses. It actively propelled the business and capital cooperation with strategic investors and industry vertical leaders. It established innovative mechanism and strengthened efforts to build talent pipeline and technology capability, accruing energy for scale and profitable development in the future.
- In 2018, the growth rate and scale of our business achieved new breakthroughs. Industry Internet revenue increased by 45%, accounting for nearly 9% of our service revenue and gradually becoming our key revenue driver.

### **Slide 13: Strong Dividend Hike Tracked Profit Growth**

- The Company highly regards shareholder returns. With due regards to profitability, debts, cash flow and capital requirements for future development, etc., the Board recommended to pay a final dividend per share of RMB 0.134, representing a dividend payout ratio of 40%. The Company will continue to strive to enhance profitability, and lift corporate efficiency and shareholder returns in future.

### **Slide 14: Proactive Deployment of 5G Scale Trial to Advance Industry Ecosystem**

- For 5G, MIIT agreed to the Company's use of 3.5GHz spectrum nationwide to conduct 5G trials at the end of last year.
- The Company is actively conducting 5G field tests and exploring industry applications in key cities.
- We are closely tracking the industry progress. We will strengthen the synergetic development of terminals, network and business by capitalising on the value chain advantage of 3.5GHz, and concurrently promote the maturity of both NSA and SA value chain.
- We will closely follow the temporary 5G licensing schedule, step up the upgrade of existing network, and actively explore 5G network sharing, ensuring that our future deployment will be in line with the industry development.
- Meanwhile, with respect to industry applications and network innovation, we will advance the industry ecosystem with open and win-win cooperation.

### **Slide 15: Drive High-quality Sustainable Growth**

- Looking ahead in 2019, while the Company is facing sheer challenges like market competition, it also braces the ample market opportunities and growth potential brought by the mixed-ownership reform.
- The Company will overcome the challenges, seize opportunities and actively practise new development philosophies. We will also be persistent in execution of the Strategy of Focus, Innovation and Cooperation, and deeply advance the mixed-ownership reform.
- We will unleash more institutional benefits with New Governance, activate greater internal vibrancy with New DNA, achieve better efficiency and returns with New Operation, tap into the broader Blue Ocean with New Energy, and put together greater synergetic advantages with New Ecology, in order to start a new paradigm of "Five New" China Unicom
- Next, we will have Mr. Li Guohua to present the Company's operating performance in 2018.

**Speaker: Mr. Li Guohua, Executive Director & President**

**Slide 16: Agenda**

Thank you, Chairman Wang. Now let me share the Company's operating performance in 2018.

**Slide 17: Revenue Breakdown**

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

**Slide 18: Mobile Revenue Sustained Robust Growth**

- In mobile business, facing the pressure from intense market competition and "Speed Upgrade and Tariff Reduction" policy, the Company enhanced its competitiveness by strengthening differentiated operation. It boosted mobile data demand, capitalised on its centralised IT system and Internet-oriented operation edges, and strived to achieve win-win leveraging the price elasticity of mobile data.
- In 2018, the unit price of handset data declined significantly, while total handset data traffic increased by 1.8 times and handset data revenue increased by 14%, driving the overall mobile service revenue to grow by 5.5%.

**Slide 19: Cloud-Network Integration Expedited Government & Enterprise Business Growth**

- In the government and enterprise market, the Company is dedicated to providing customers with intelligent services integrating cloud and network. We have developed a new integrated sales model combining "Cloud + Smart Networks + Smart Applications", aiming to drive the rapid growth of Internet dedicated line and leased line services with innovative businesses.
- We entered into cloud business cooperation with Alibaba and Tencent, and launched public cloud products "WO Cloud". We set up a joint venture with Alibaba to offer customised application software services to drive revenue growth in both cloud and network services.
- In 2018, our cloud revenue doubled from the previous year. The multiplying effect on network revenue by cloud revenue was 1:4.

**Slide 20: Actively Expanded Cooperation with Strategic Investors (1)**

- The Company comprehensively deepened cooperation with strategic investors. Focusing on edges and resources, we joined forces with our powerful allies to boost new energy for

innovative development.

- We further expanded Internet touchpoints cooperation with Tencent, Alibaba, Baidu, JD.com and Didi, etc. 2I2C subscribers registered a net addition of 44 million.
- Our WO Wallet entered into cooperation in payment and finance with the e-commerce platforms of JD.com, Alibaba and Suning, etc. We jointly promoted instalment credit services with Ant Financial.
- We also added premium content from iQiyi, Tencent Video, etc. and top-selling smart home products from Baidu, Tencent and Alibaba to drive the mutual growth of broadband VAS and fundamental telecom services.

### **Slide 21: Actively Expanded Cooperation with Strategic Investors (2)**

- In industry Internet, the Company focused on cloud computing, Big Data, Internet of Things and AI, deeply promoting cooperation with Tencent, Baidu, Alibaba, JD.com and Didi, etc.
- In terms of capital cooperation, we set up joint ventures, namely Yunlizhahui Technology, Yunjizhahui Technology and Yunjing Wenlv Technology, with Alibaba, Wangsu and Tencent respectively, aiming to better capture the market opportunities in industry Internet with an asset-light business model and accrue energy for our innovative development in the future.

### **Slide 22: Continuous Improvement in Broadband Amid Keen Competition**

- In 2018, the Company continued to face intense market competition in the broadband market.
- We strengthened integration and bundled development while at the same time highlighting our content and high-speed edges. Our broadband business continued to show improvement.
- Our broadband subscribers registered a net addition of 4.34 million, representing a meaningful improvement from the previous year. The decline in broadband access revenue narrowed significantly and it was largely stable vs the previous year.

### **Slide 23: Breakthroughs in 5G Application Trials in Key Industries**

- The Company eyes on future user demand and revenue growth, and has been actively participating in various 5G application trials. It set up 5G Joint Innovation Lab with various partners to explore and showcase applications in 10 key industries. Our trials made breakthroughs in a number of areas such as new media, remote healthcare, industrial Internet, Internet of Vehicles, etc., creating new demand and new revenue.

#### **Slide 24: Deploy Premium Network to Enhance Competitive Edge**

- For network development, the Company continued to leverage focus and cooperation to achieve dynamic capacity expansion and precise investment. It built premium network to support fast and effective business growth.
- In 2018, our CAPEX was RMB 44.9 billion, which represents a 10% saving vs the budget. In the meantime, network quality and customers' perception continued to rise in focused regions. NPS improved for both mobile and broadband. The average downlink and uplink speed of our 4G network continued to lead our peers, and our network latency performance was the best in the industry.
- The CAPEX budget for 2019 including 5G trial is about RMB 58 billion.
- The Company will leverage the additional 2x5MHz spectrum resources at 900MHz to vastly enhance the depth and width of our 4G network coverage. We will also simplify our network with SDR, improve coverage for NB-IoT, and roll out VoLTE services across the whole network to lay the foundation for voice service in 5G era.

#### **Slide 25: 2019 Priorities**

- In 2019, the Company will devote itself to "Five New" establishment and high-quality development.
- For network deployment, we will adhere to the Focus Strategy and achieve dynamic capacity expansion.
- For network operation and maintenance, we will continue to lower unit maintenance cost with optimised management.
- In fundamental businesses, we will strengthen customer retention and exploit online channels and new touchpoints.
- In innovative businesses, we will nurture capabilities with an emphasis on revenue growth.
- As for IT, we will lay a solid foundation to drive innovation and cost efficiency.
- Moreover, the Company will continue to deeply advance reform to unleash maximum benefits. We will strive to exceed the key unlocking targets under the Employee Share Incentive Scheme of Unicom A Share Company for collaborative growth in returns of shareholders, corporate and employees.
- Next, I will pass the stage to our CFO, Mr. Zhu Keping, to talk about our financial performance.

**Speaker: Mr. Zhu Keping, Executive Director & CFO**

**Slide 26: Agenda**

Thank you, President Li. Now let me report our financial performance in 2018.

**Slide 27: Agenda**

This table shows the Company's key financial information in 2018. Operating revenue was up by 5.8% year-on-year. Operating profit rose by 132%. Net profit increased by 4.6 times. The health of the Company's growth continued to improve. Let's take a look at the detailed analysis next.

**Slide 28: Effective Cost Control**

- In 2018, the Company made good progress in controlling costs and promoting transformation. Our operating expense increased by 4%, which is 1.8pp below the revenue growth. In particular,
- Depreciation and amortisation and tower usage fee were down by 2.2% and 3.3% respectively.
- Handset subsidy fell by 24%.
- Selling and marketing expense increased by 3.2%, which is slower than the revenue growth.
- Staff cost and G&A expenses increased by 13.4% and 18.7% respectively. The latter was mainly due to the rapid growth in ICT services and increased spending in technical support for innovative businesses.

**Slide 29: Appropriately Raised Human Capital Investment**

- The increase in staff cost was mainly because the Company appropriately raised human capital investment to enhance value.
- We strengthened performance-based incentives, and stepped up efforts to recruit new talents in innovative businesses. As we raised our vibrancy and efficiency and stimulated new energy for innovative development, we achieved collaborative growth in corporate development, shareholder returns and employee returns.

**Slide 30: Return-Driven & Precise Investment**

- The Company insists on return-driven and precise investment. We enhanced our network edges to maintain differentiated leadership, with due regards to the market, competition, technology and return. We focused on key innovative businesses and strengthened digital

enabling capabilities.

- Our precise mobile investment backed by AI analytics assures network edges and highly effective business growth.
- We will proactively launch 5G pre-commercial service, accelerate deployment of cloudified network and SDN, and create the next generation cloud-based network operation and support system.
- We will deploy “premium government and enterprise customers network”, while enhancing coverage of commercial buildings to maintain the leading edges in cloud-network integration.
- For broadband, we will focus on raising network utilisation. In Northern China, we will maintain leadership in coverage, quality and experience with further fibre network upgrade based on market demand. In Southern China, we will focus on private capital cooperation in regions of high value.

### **Slide 31: Financial Strength Improved Considerably**

- In 2018, benefiting from the capital injection from the mixed-ownership reform and vast improvement in operating performance, the Company’s finance costs fell by 72% year-on-year. Our interest-bearing debts reduced to RMB 40 billion. Net debt-to-EBITDA declined from 0.51 to 0.12.
- The substantial improvement in financial strength has laid a solid foundation for the Company’s future sustainable business growth and enhanced its risk control capability.

### **Slide 32: To Elevate Shareholder Value through Quality & Efficiency Enhancement**

- In 2019, the Company will attach great importance to strategy execution, and enhance its strategic financial system as well as operational financial system.
- We will continue to optimise the value-oriented mechanism for sharing of incremental returns, and further strengthen total life cycle management of assets.
- We will strengthen cost benchmarking control to reduce costs and raise efficiency.
- We will also continue to strengthen internal control as well as audit to ensure safe and proper operations, in order to drive quality and efficiency enhancement and create greater value for our shareholders. 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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