



China Unicom (Hong Kong) Limited

2021 Interim Results Announcement Presentation Transcript

Slide 3

- Good afternoon, ladies and gentlemen. I am Jacky, Company Secretary of China Unicom. Welcome to our results conference call.
- First of all, please allow me to introduce the management present today:
 - Mr. Wang Xiaochu (Chairman and CEO)
 - Mr. Chen Zhongyue (Executive Director and President)
 - Mr. Liang Baojun (Senior Vice President)
- Now, let's invite Chairman Wang to talk about our 2021 interim results.

Speaker: Mr. Wang Xiaochu, Chairman and CEO

Slide 4: Agenda

- Good afternoon, ladies and gentlemen. It's my great pleasure to discuss with you China Unicom's results. Due to the pandemic, unfortunately, we still can't meet in person in Hong Kong today, and need to discuss via a teleconference. Stay safe and healthy, everyone.
- In today's presentation, I will summarise our overall results in the first half of 2021. Mr. Chen Zhongyue will then discuss our operating and financial performance. Lastly, the management will take any questions you have.

Slide 5: Highlights

- Highlights of the Company's results in the first half are as follows:
First, our revenue and profit growth accelerated on the back of determined innovative transformation and in-depth mixed-ownership reform.
Second, we accelerated increase in shareholder returns and strived to unlock the potential investment value of the Company.

Third, our 5G-led mobile business transformation and innovative development delivered remarkable success.

Fourth, our digital transformation empowered continuous robust growth in innovative businesses.

Fifth, we deepened network co-build co-share and effectively enhanced our edges and returns.

Lastly, we are going to seize new opportunities of the industry and endeavour to achieve high-quality development.

Slide 6: Revenue and Profit Growth Accelerated

- In the first half, the Company practised new development philosophies, deeply implemented the Strategy of Focus, Innovation and Cooperation, and sped up comprehensive digital transformation. Our revenue and profit growth accelerated.
- Our service revenue was RMB 148.7 billion, up by 7.5% year-on-year. Net profit was RMB 9.2 billion, up by 21% year-on-year.

Slide 7: Growth Quality and Return Continued to Improve

- The Company's growth quality and return kept improving in recent years.
- Our service revenue mix was further optimised. Industry Internet revenue contributed to 19% of our total service revenue, giving fresh impetus to our growth.
- Benefiting from sustained good control of CAPEX and efficient operation, we had generated free cash flow of over RMB 170 billion over the past four and a half years.
- Our net profit continued to grow at double digits. The Company's fundamentals have further strengthened.

Slide 8: Accelerated Increase in Shareholder Returns

- The Company has high regard for shareholder returns. Dividend per share grew at double digits over the past three years.
- To accelerate increase in shareholder returns, with due regard to the Company's robust business development and strong free cash flow, the Board decided to distribute an inaugural interim dividend of RMB 0.120 per share in 2021.
- Meanwhile, the Company will raise 2021 full-year dividend payout ratio, with the magnitude to be decided by the Board in March next year taking into account such factors as the Company's profitability, cash flow, future capital requirements, etc.

Slide 9: Strived to Unlock Potential Investment Value of the Company

- Based on public data from Bloomberg, the average of over 20 analysts' target prices for the Company is HK\$7.44 per share, showing huge potential investment value.
- Building on our solid results achieved in the first half, the Company will endeavour to drive revenue, profit and dividend growth to unlock our potential investment value, creating greater value for shareholders.

Slide 10: Delivered Remarkable Success in Transformation and Innovative Development of Mobile Business

- In the first half, the Company deepened 5G-driven growth and insisted on rational and orderly competition. We stroke an effective balance between value operation and scale development, driving transformation and innovative development of mobile business.
- We had 113 million 5G package subscribers, with a market share of 23%, which was 3.7pp higher than our overall mobile market share.
- Following the turnaround last year, our mobile service revenue grew by 7.3% year-on-year in the first half. Our mobile ARPU increased by 8.5% year-on-year, demonstrating further success in our value-oriented operation.

Slide 11: Continuous Robust Growth in Innovative Businesses

- In innovative businesses, we formed Unicom Digital Technology to create integrated and differentiated edges. We actively nurtured and promoted innovative 5G + vertical applications and deepened the comprehensive cooperation with strategic investors and industry leaders.
- Our industry Internet business maintained strong growth momentum with revenue reaching RMB 28 billion in the first half, up by 24% year-on-year. It has become our key revenue growth driver.
- Going forward, the Company will continue to enhance our proprietary capabilities in platform development, R&D centralisation, product standardisation, proprietary integration and delivery, striving to achieve higher quality growth in the digital era.

Slide 12: Proposed Inaugural Spin-off of a Subordinate Company in A-share Market

- To seize the new opportunities in the industry, the Company proposed to spin off CUSC, a subsidiary specialised in Internet-of-Vehicles operation, in the A-share market.
- After being spun off as an independent listed company, CUSC's financing capability and operation flexibility would be strengthened, accelerating its business growth and enhancing its

competitiveness. As a controlling shareholder, China Unicom will benefit from its value unlocking.

- In the future, strategic cooperation between China Unicom and CUSC can create strong alliance with synergetic advantages to promote mutual growth.

Slide 13: 5G Network Deployment

- For 5G network deployment, the Company maintained a focused approach. By working closely with China Telecom, we continued to deepen network “co-build co-share”, delivering prominent achievements.
- In the first half, we sped up in-depth and indoor coverage in urban areas and achieved 5G coverage of major counties and affluent towns. We added about 80,000 shared 5G base stations with China Telecom, with the total number of 5G base stations in use reaching over 460,000, with industry-leading 5G network speed.
- Going forward, the Company will conduct dynamic investment with due regard to technology advancement, value chain maturity, market and business demand, etc. 5G CAPEX budget for the full year is RMB 35.0 billion. The number of 5G base stations in use is expected to reach 700,000 by the year end.

Slide 14: Deepened Co-build Co-share

- Our 5G network “co-build co-share” with China Telecom has effectively boosted investment return for both companies. Our network edges and customers’ perception were significantly enhanced. The two operators altogether achieved cumulative CAPEX savings of over RMB 86.0 billion and substantial saving in other costs, including tower usage fee, network maintenance costs and utility charges, etc.
- For 4G network sharing, the number of shared base stations reached 460,000, leading to a cumulative CAPEX savings of RMB 24.0 billion. Customers’ experience saw a substantial improvement.
- Meanwhile, we continued to promote “co-build, co-share and co-maintain” of transmission and other resources, and actively engaged in new “co-build co-share” cooperation with cable, power, high-speed railway, oil industries, etc. to maximise investment efficiency.

Slide 15: Strive to Build an Exceptional China Unicom

- The Company continued to deepen comprehensive digital transformation. We have basically established the core capability of 5 middle platforms, resulting in centralised and unified IT services capability as well as an efficiently-centralised and integrated innovation system. Our

centralised IT advantage is fast turning into an operational edge.

- Internally, we leveraged data to power up business development, customer service, network operation and supervision management, allowing the Company to greatly improve its productivity, and develop a professional digital team of more than 15,000 talents during the process.
- Externally, we can better satisfy the nationwide service needs of government and enterprise customers, the mobility needs of individual customers and the information consumption upgrade needs of household customers, forging differentiated new edges.

Slide 16: Endeavour to Achieve High-quality Development

- Going forward, facing a new blue ocean of the digital economy spawned by new technologies like 5G, the Company will seize the critical window, firmly implement the Strategy of Focus, Innovation and Cooperation, accelerate comprehensive digital transformation, strengthen intelligent operation and services, deepen mixed-ownership reform, and continuously expand in network “co-build, co-share and co-maintain”. We will fully enhance growth quality and operating efficiency, and are dedicated to building an exceptional, smarter and brighter China Unicom, creating greater value for shareholders, customers and society.
- Next, we will have our President Mr. Chen Zhongyue to introduce the Company’s operating and financial performance in the first half of 2021.

Speaker: Mr. Chen Zhongyue, Executive Director and President

Slide 17

- Thank you, Chairman Wang. First, let me introduce the Company’s operating performance in the first half of 2021.

Slide 18: Quality and Profitable Growth in Scale of Mobile Services Led by 5G

- In mobile business, the Company continued to drive value enhancement and scale development with 5G. We launched the innovative China Unicom APP, forming an ecology while drawing traffic through omni-channels and touchpoints. The number of monthly active users reached over 100 million. We accelerated scale development of broadband and mobile integration via “three gigabit-networks”, and leveraged privileges, content and financial tools to improve product value. We utilised Big Data analytics to precisely drive existing customers upgrade. We are unlocking 5G customers’ value through coordinated development of terminal, network and business.

- In the first half, the Company registered a net addition of 42.5 million 5G package users, with an industry-leading penetration rate, driving sustained mobile ARPU and service revenue growth.

Slide 19: Fixed-line Services Maintained Solid Growth Momentum

- In fixed-line business, the Company grasped the boosted demand for digitisation, cyberisation and intelligent transformation of the economy and society. By leveraging proprietary resources and edges such as “three gigabit-network” resources, “cloud + networks + applications” integrated servicing capability and efficiently-centralised innovative product offerings, we actively empowered government and enterprise customers and enhanced Smart Family customer experience, driving the integrated development of innovative and fundamental businesses.
- In the first half, with the rapid growth of Smart Family products and innovative businesses, our fixed-line service revenue grew by 8% year-on-year.

Slide 20: Integrated Development of Broadband and Mobile Led by Digitalisation

- The Company focused on digitisation to strengthen the development of broadband and mobile integration via “three gigabit-networks”. We continued to strengthen the capabilities of our Smart Community and Smart WoHome platforms and promote our Digital Village platform service, sharpening the differentiated edges of our broadband business.
- In Northern China, we leveraged broadband to expand mobile and promoted the mutual growth dynamics. We achieved ultimate integration with high-quality services and drove paradigm shift with multi-SIM and full-home smarts under one household. In Southern China, we expanded broadband to boost mobile and appropriately increased broadband investment to achieve focused coverage and spot transcendence, achieving effective integration.
- In the first half, our smart home products revenue increased by 13% year-on-year. The penetration of broadband and mobile integration went up by 6pp year-on-year.

Slide 21: Empowered Industry Customers with Innovative 5G Applications

- In innovative business, the Company innovated 5G application product system leveraging 5 major components, namely industry private network, MEC, industry platform, customised service and terminal, to support over 15 industry applications. We integrated our own capabilities and expanded ecological cooperation to push forward the integrated and innovative development of 5G+ industry vertical applications.
- We actively explored business models and agilely addressed 5G industry customers’ needs. We

successfully developed a number of 5G lighthouse projects in key areas such as industrial Internet, smart mining, smart medical, smart cities, etc. with over 300 5G lighthouse customers nationwide. We are promoting faster 5G commercialisation. In the first half, the cumulative contract value of 5G industry applications amounted to over RMB1.3 billion.

Slide 22: Innovative Businesses Gaining Momentum

- The Company accelerated the building of proprietary innovation platform capabilities and key products. The competitiveness and business value of our innovative businesses continued to gain value and momentum.
- **First**, in IT services, our proprietary research capabilities in key verticals progressively improved and the business scale expanded rapidly. **Second**, the capability of our proprietary IoT connection and equipment management platforms was further strengthened. **Third**, our Big Data business is leading in the industry.

Slide 23: China Unicom Cloud Poised to Thrive

- The Company developed China Unicom Cloud as the base for digital transformation and integrated innovation. Focusing on security and reliability, cloud-network integration, dedicated customisation and multi-cloud collaboration, we provide customers with integrated innovative solutions including cloud resources, cloud platform, cloud service, cloud integration, cloud interconnection, cloud security, etc.
- For public cloud, we targeted medium, small and micro-sized enterprises and deepened cooperation with strategic investors. For private cloud, we consolidated our resources to focus on building PaaS with fully integrated capability and offered secure and trusted private cloud services to government and enterprise customers leveraging information technology innovation cloud and multi-cloud management capabilities. For industry cloud, we deployed nationwide backbone cloud pools, aggregating innovation capabilities such as Big Data and AI, with the focus on the development of key industries such as government affairs, medical, education and industrial.
- In the first half, China Unicom Cloud revenue reached RMB 7.69 billion, up by 54% year-on-year.

Slide 24: IDC Business – Capture “New Infrastructure” Strategic Opportunities

- In IDC business, the Company grasped the growth opportunities brought by the State’s “New Infrastructure” strategy. We sharpened our competitive advantages, striving for both return and scale enhancement.

- We built a multi-cloud intelligent network to provide customers with superior experience and all-round integrated solutions. We advanced efficiently-centralised operation and leveraged our extensive network resources and capabilities to capture Internet sector customers, while optimising customer mix by actively expanding customers in financial and government sectors. In the first half, our IDC revenue was RMB 11.0 billion, up by 9% year-on-year.
- In terms of investment, we focus on high value and high demand areas and actively engage in private capital cooperation. Full-year CAPEX budget is RMB 2.7 billion. The number of cabinets available is expected to reach 310,000.

Slide 25: Synergistically Advanced Reform and Comprehensive Digital Transformation

- This year, the Company synergistically advanced reform and comprehensive digital transformation, aiming to raise vibrancy, promote growth and enhance efficiency.
- **First**, we developed a platform to aggregate traffic, forming a smart living “new ecology” integrating communications, lifestyle, entertainment and financial services. **Second**, we systemically promoted the reform of six professional functions to enhance the efficiency of the smart operational systems, facilitating faster implementation of digital intelligence “new operation”. **Third**, we deepened mixed-ownership reform, systematically advanced market-oriented reform among subsidiaries and introduced digital innovation talents. The transformation of operating mechanisms was accelerated, continuously releasing the intrinsic energy and vitality of the Company.

Slide 26: Key Financial Information

- Next, let’s go on to our financial performance in the first half of 2021.
- This table shows the Company’s key financial information in the first half. Operating revenue was up by 9.2%. Net profit increased by 21%. The Company’s growth quality continued to enhance. Let’s look at the detailed analysis next.

Slide 27: Increased Initiative to Promote Sustainable Growth in Future

- Operating expenses increased by 9.7%, which was slightly higher than the operating revenue growth due to the higher initiatives in resources and talents for 5G and innovative businesses, paving the way for sustainable business growth.
- Of which, depreciation and amortisation was basically flat, mainly benefiting from our good control of CAPEX in recent years and network “co-build co-share”.
- We continued to promote incentive mechanism reform to strengthen performance-based compensation and draw innovative talents. Employee benefit went up by 13% year-on-year.

- Next, let's take a look at the detailed analysis on G&A and other operating expenses and network, operation and support expenses.

Slide 28: Appropriately Stepped up Initiatives to Fuel Rapid Development of Innovative Businesses

- The Company capitalised on the opportunities of digital transformation and appropriately stepped up cost initiatives to promote capability enhancement and scale development of innovative businesses.
- G&A and other operating expenses increased by 17% mainly due to higher technical support expense and cost of IT services for innovative business, which together increased by RMB 2.7 billion, but driving RMB 5.4 billion increase in industry Internet revenue and further enhancing our capabilities and potential.
- Going forward, the Company will be devoted to promoting the scale and profitability enhancement of innovative businesses.

Slide 29: Meticulous Management of Network Operation Expenses

- As our business and network scale continue to grow, pressure is mounting on network operation and support expenses. The Company has taken multiple measures to strengthen meticulous management, striving to achieve stable network operation and support expenses as a percentage of revenue for the full year. Specific measures are as follows:
- **First**, we continued to expand network “co-build, co-share and co-maintain” with China Telecom. **Second**, we insourced network operation. **Third**, we promoted AI to push smart operation. **Fourth**, we accelerated 2G/3G network streamlining and frequency reduction. **Fifth**, we fully leveraged the favourable new infrastructure policies. **Sixth**, we actively engaged in energy conservation and emission reduction.

Slide 30: Focus and Cooperation Fostered High Investment Efficiency

- For CAPEX, the Company insists on focus and cooperation to enhance network edges with high investment efficiency.
- **First**, we focus on the deployment of premium 5G, gigabit fibre network and innovative business investments. **Second**, we focus on the coverage of government and enterprise premium network and commercial buildings. **Third**, we focus on high-value areas. In addition, we continuously extended “co-build, co-share and co-maintain” as well as private capital cooperation to drive profitable and fast business growth. In the first half, our customers' overall satisfaction significantly improved with 5G customer satisfaction ranking No.1 in the industry.

- In the future, the Company will continue to invest efficiently, with a full-year CAPEX budget of RMB 70.0 billion.

Slide 31: Strong Cash Flow and Financial Strengths

- With the execution of digital transformation and advantages of mixed-ownership reform being unleashed, the Company's financial position was further optimised. Our cash flow generating capability remained strong.
- Since 2017, the Company has accumulated free cash flow of over RMB 170 billion. Our liabilities-to-assets ratio declined from 62.9% in 2016 to 38.8% in June this year. The Company's financial strength was further enhanced, helping us to capture new 5G opportunities, create new values, boost shareholder returns and counter risks in the future.

Slide 32: 2H2021 Priorities

- Looking into the second half, the Company will adhere to the Strategy of Focus, Innovation and Cooperation. We will further improve market-oriented operation, enhance systemic innovation abilities, and accelerate digital transformation. We will endeavour to shape the "Five High" new development edges comprising high-quality services, high-quality development, highly effective governance, hi-tech engine and high-vitality operation, striving for leapfrog in our high-quality development.
- This is the end of my presentation. Thank you!

-End-

Forward-Looking Statements

Certain statements contained in this presentation may be viewed as "forward-looking statements". 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. Neither the Company nor the directors, employees or agents of the Company assume any liabilities in the event that any of the forward-looking statements does not materialise or turns out to be incorrect.

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