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PRESENTATION

Operator

Good morning, ladies and gentlemen. Thank you, everyone, and welcome to 21Vianet Group's fourth quarter 2014 earnings conference call. (Operator Instructions) Before we begin, I will read the Safe Harbor statement.

This call may contain forward-looking statements made pursuant to the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on management's current expectations and observations that involve known and unknown risks, uncertainties and other factors not under the Company's control, which may cause actual results, performance or achievements of the Company to be materially different from the results, performance or expectations implied by these forward-looking statements.

All forward-looking statements are expressly qualified in their entirety by the cautionary statements, risk factors and details of the Company's filings with the SEC. 21Vianet undertakes no duty to revise or update any forward-looking statements for selected events or circumstances after the date of this conference call.

With us today are Mr. Frank Meng, President, Mr. Shang Hsiao, Chief Financial Officer, and Mr. Eric Chu, Vice President of Capital Markets and Business Development. Following management's prepared remarks, we will conduct the Q&A. At this time, I would now like to turn the conference call over to Mr. Frank Meng, 21Vianet's President, for opening remarks.

Frank Meng - *21Vianet Group, Inc. - President*

Thank you. Good morning and thank you for joining us today. We had a solid fourth quarter which ended the year for us on a strong note. The progress and the momentum we saw throughout 2014 demonstrate the strong demand present in China, not only for our core IDC business, but also for emerging businesses such as CDN and the cloud services.

We are delighted that this robust demand has led to the continued solid growth of our Company. In the past year, despite some of the challenges we face, we achieved strong growth in terms of our revenues, profitability, and the scale of operations.

As compared to 2013, revenue for the full year 2014 grow by 46.3% to RMB2.88b, and adjusted EBITDA grow by 52.9% to RMB558.9m. Part of this growth was supported by the expansion of our data center infrastructure which has now amassed approximately 21,500 cabinets, up 53.3% (sic - see press release "53%") from a year ago.

Furthermore, we made great progress expanding our CDN service offering, and achieved numerous milestones with the commercial launch of the Microsoft public cloud and IBM private cloud services which will help fuel our growth in the coming years.

We have also completed the strategic acquisition of Aipu Group, one of the industry leader in the last mile broadband market, and Dermot Entities, one of the industry leader in business VPN market. We expect these businesses to add value to our Company and our shareholders operationally, strategically and financially.

Furthermore, as you have seen in the press release in the fourth quarter, we received strategic investments from Kingsoft, Xiaomi and Temasek in the amount of nearly $300m. As part of the share purchase agreement with Kingsoft, the Company also signed a business cooperation memorandum which will allow the Company to build, operate, maintain and provide technical support for new, state-of-the-art data centers. In addition, the Company will also lease at least 5,000 cabinets to Kingsoft over the next three years.

Against the backdrop of strong growth and numerous achievements, 2014 can be categorized as a strategy year, one where we took important steps laying out the strategic roadmap of the Company to achieve long-term growth.

Looking ahead, 2015 will be a year of the implementation and execution of our well-crafted growth strategies.

First, let's look at our core data center operations. In 2015, we will increase focus on our IDC business, taking a comprehensive approach in capturing market opportunities with both retail colocation and VIP customers.

On one hand, to our VIP customers, we are targeting the growing number of domestic cloud service providers, sprouting up in China's rapidly evolving Internet landscape, to offer our basic cabinet services. As we have seen in the case of Alibaba and Kingsoft, these large deployments could reach a scale of 1,000 cabinets or more in each phase on the longer-term agreements. These large cloud service providers not only offers incremental demand to our IDC business, but also add more visibility to our recurring business model.

On the other hand, we will further enhance services and offerings to retail colocation customers. Demand drivers for these key industry verticals such as mobile, online video, social media, ecommerce and, increasingly, financial institutions, remain very robust, supported by increased Internet usage and penetration in China and continued growth of mobile Internet traffic.

As we further expand our scale and operational capabilities, our goal is to become the most recognized and trusted brand in China's Internet infrastructure market.

Turning to our cloud computing services, we continue to see strong results from our Microsoft Azure and for Office 365 services which now support over 55,000 enterprise customers including both multinational corporations and a significant number of domestic companies.

Supported by the strong momentum in customer sign-up, we believe our cloud services attract a wide range of customers who value the high quality, reliable and the secure features offered by advanced cloud platforms from Microsoft and IBM.

We will build onto the early success in partnerships with these international cloud service providers and the continued ramp-up service offerings in both public cloud and private cloud markets.

We look forward to extend our market-leading position and further penetrate the Chinese cloud computing market through cloud infrastructure operated by 21Vianet. Through our CDN services we expect our growth momentum to continue as we further leverage our technical expertise, bandwidth capacity and specialty in the cloud market.

We look forward to further strengthen our value proposition to online video customers, one of our most important industry verticals, by optimizing delivery in a cost-effective manner.

Looking at our managed network services business, we will continue our network grooming process and adapt our business model to the evolving market dynamics.

Finally, I would like to take this opportunity to thank all of our employees. We just celebrated our Company's 15-year anniversary. Thanks to all your dedication and hard work, we have come a long way in the past 15 years, from China's first carrier-neutral data center with a single location to being one of the largest Internet infrastructure provider in China with a massive hosting area network, a vibrant CDN business, and industry-leading cloud service offerings.

We are excited going into 2015 and look forward to executing on our strategies and demonstrating to customers, partners and investors our position as the leading integrated Internet infrastructure services provider.

At this point, I would like to turn the call over to Shang, our CFO, to go through our financial results.

Shang Hsiao - *21Vianet Group, Inc. - CFO*

Thank you, Frank. Good morning, everyone.

Now, moving onto our financial results, before I begin, I would like to state that we will present non-GAAP measures today. Our non-GAAP results exclude certain non-cash expenses which are not a part of our core operations. The details of these expenses may be found in the reconciliation table included in our earlier release.

Also note that all the financial number we are presenting today are in renminbi amount and percentage changes year-over-year, unless otherwise noted.

I would first like to re-highlight on our working capital condition. During our third quarter call we say we expect our working capital situation to improve in the fourth quarter. And we have indeed seen steady progress on this front.

In regard to our accounts receivable, our day sales outstanding, or DSO days, was 107 in the second quarter and decreased to 92 days in the third quarter. Now, in the fourth quarter, this has further improved to 78 days, when we have achieved and surpassed our midterm goal of DSO 80 to 90 days earlier than expected. We strive to further improve that important metric in 2015.

Our net revenue for the fourth quarter of 2014 increased by 56.4% to RMB853.9m.

Net revenue from hosting and related service increased by 63.8% to RMB596.2m, primarily due to an increase in total cabinet under management, increased demand for the Company's CDN and cloud service as well as a contribution from the acquisition of [cloud] VPN service provider.

The MRR per cabinet was RMB10,400 in the fourth quarter of 2014, as compared to RMB10,433 in the third quarter of 2014. The slight sequential decline in MRR per cabinet was primarily due to the residual effect of the transition to the VAT system.

Net revenue for our managed network service increased by 41.6% to RMB257.7m. This increase was primarily because of contribution from the acquisition of the Aipu Group, which was partially offset by the continued network grooming effort.

Adjusted gross profit increased by 83.4% to RMB290.7m. Adjusted gross margin was 34% compared with 29% in the prior year and 34% in the third quarter of 2014. The increase in adjusted gross margin was primarily due to a higher-margin revenue contribution from acquisition as well as Microsoft cloud service.

Adjusted operating expenses increased to RMB234.4m. As a percentage of net revenue, adjusted operating expenses was 27.5%, compared with 18.7% in the prior-year period and 25.5% in the third quarter of 2014.

More specifically, adjusted sales and marketing expenses increased to RMB93.3m from RMB41.7m in the prior-year period due to the expansion of our sales and service personnel to support growth and due to the acquisition, with higher sales and marketing expenses.

Adjusted general and administrative expenses increased to approximately RB103.3m from RMB41.1m the prior-year period, primarily due to an increase in headcount, professional fee, and other expansion-related expenses and also due to acquisition that have a higher general and administrative expenses.

Adjusted research and development expenses increased to RMB37.8m from RMB19.2m, which reflect our effort to further strengthen our research and development capability, expand our cloud computing and CDN service offering and due to incremental R&D expenses from acquisitions.

The difference between adjusted operating expenses and our higher GAAP total operating expenses amount is primarily due to change in the fair value of contingent purchase consideration payable, which was a loss of RMB44.8m, and share based compensation expenses of RMB65.1m. The change in the fair value of contingent purchase consideration payable resulted from an increase in the present value of estimated cash and share consideration as of December 31, 2014, associated with our Company's past acquisition.

From a profitability perspective, adjusted EBITDA increased by 55.7% to RMB160.1m from RMB102.9m in the comparable period in 2013. Adjusted EBITDA margin was 18.8% compared to 18.8% in the prior-year period and 19.8% in the third quarter of 2014.

Our adjusted net profit was RMB7.1m compared to RMB41.0m in the prior-year period. Adjusted net profit margin was 0.8% compared with 7.5% in the prior-year period and 2.1% in the third quarter of 2014.

Adjusted diluted loss per share was RMB0.03 which represent an equivalent of RMB0.18 or $0.03 per ADS.

As of December 31, 2014, our cash and cash equivalent and short-term investment was RMB1.56b, equivalent to $250.7m pro forma for the equity investment transaction with Kingsoft, Xiaomi and Temasek for a total amount of $296m, which closed on January 15, 2015. Our cash and cash equivalents and short-term investment total approximately RMB3.4b or $546.7m.

Looking at our financial outlook. Currently, we expect first quarter of 2015 net revenue to be in the range of RMB883m to RMB925m which, at the midpoint, represent growth of approximately 54% from the comparable period in 2014.

Adjusted EBITDA is expected to be in the range of RMB162m to RMB182m.

Net revenue for the full year 2015 are expected to be in the range of RMB3.91b to RMB4.11b which, at the midpoint, represent approximately 39% growth over 2014.

For the full year 2015, adjusted EBITDA is expected to be in the range of RMB760m to RMB860m which, at the midpoint, represent approximately 45% growth over 2014.

This forecast reflect the Company's current and preliminary view, which is subject to change. This concludes our prepared remarks for today.

Operator, we are now ready to take some questions. Thank you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Colin McCallum, Credit Suisse.

Colin McCallum - *Credit Suisse - Analyst*

Thanks very much for the opportunity. A couple questions from me. First of all, can you just outline to us what was the fourth quarter cloud revenue? And if you can split that between IBM and Microsoft, that would be helpful.

Also, what expectation for cloud revenue for FY15 are you effectively baking in to your guidance for FY15? That's the first two questions.

And third question, why was the share based compensation up so much in the fourth quarter; what's the reason for that?

And final question is just on the EBITDA guidance. Given your acquisitions, is 45% growth not a relatively conservative-looking assumption for your adjusted EBITDA for 2015? Are you deliberately trying to be conservative, or is there something going on in the core business which is more negative than you expected so that, when we add the acquisition, the overall growth is not as much as anticipated?

Thanks very much; those are the four questions.

Shang Hsiao - *21Vianet Group, Inc. - CFO*

Thank you, Colin; this is Shang. For the fourth quarter, the cloud revenue actually was -- let me check -- RMB9m from the Microsoft, okay? So that brought us totally to nearly RMB25m for the 2014 from the Microsoft. And for the IBM, since we just commercialized in November, so the revenue contribution, okay, from the fourth quarter is slightly less than $1m.

And for the outlook, okay, we continue to expect it -- from the Microsoft cloud revenue, we expect will be double. What I mean is the revenue for the 2015 from the Microsoft should be somewhere around $15m.

And second question is regarding to the RMB65m --

Colin McCallum - *Credit Suisse - Analyst*

Sorry, Shang, just before you move on to the second question, so on IBM, what do you expect for 2015?

Shang Hsiao - *21Vianet Group, Inc. - CFO*

At this moment, because we just commercialized for two to three months, for this year, 2015, we probably, at this moment, we cannot give out the guidance for the IBM, okay? But (multiple speakers) --

Colin McCallum - *Credit Suisse - Analyst*

But you must have your own -- you must have baked something into your own guidance that you have given us for total revenue. You must have an assumption that you baked in there so can you just tell us what it is?

Shang Hsiao - *21Vianet Group, Inc. - CFO*

Okay, at this moment, we probably only expect the IBM revenue were less than $10m for the year 2015. Okay?

Colin McCallum - *Credit Suisse - Analyst*

That is helpful. Thank you.

Shang Hsiao - *21Vianet Group, Inc. - CFO*

So that is our current forecast, okay?

Colin McCallum - *Credit Suisse - Analyst*

Okay.

Shang Hsiao - *21Vianet Group, Inc. - CFO*

And second question, regarding to the share based compensation for RMB65m, a couple things. The first thing is typically, for our business, we give out a sales commission to our sales and marketing people. But starting from the previous quarter, fourth quarter, we allow our sales people, if they want to paid by cash, cash commission or they want to paid by the Company stock. So we could then choose, [due to] the share price, okay, allow the employee actually select, to get our Company share instead of the cash. So that's one.

And second contribution of the RMB65m share based compensation. As you know, we acquired DYXnet and Aipu. And for certain executives of the company, we also grant the stock compensation to them, okay? That is like a one-time grant to them. But our share-based compensation program is for four years, okay? So that's two factor to show the one-time share based compensation would be higher than the normal quarter.

And third question is regarding to the EBITDA guidance for the whole years. The EBITDA guidance, right now I think our guidance should be somewhere around 19% of our revenue; 19% of our revenue.

We give ourselves some cushion over here. I don't want to say it is conservative, but somehow we need some cushion. The cushion is, at least for the beginning of this year, the Company actually spends some money trying to integrate the Aipu and DYXnet into the operation. So we spend some of the integration costs over there, okay, somewhere around RMB10m to RMB15m, so somehow that will reduce our EBITDA a little bit.

But in terms of our core business nothing change, so financial metrics remain intact. Okay? Colin, that is my answer to you.

Colin McCallum - *Credit Suisse - Analyst*

Thank you so much. Helpful, thanks.

Shang Hsiao - *21Vianet Group, Inc. - CFO*

Thank you.

Operator

James Breen, William Blair.

James Breen - *William Blair - Analyst*

Thank you. Can you just give us some comments on the competitive environment for the carrier-neutral data center space and then also where you guys are in terms of the carrier business and how that is transpiring in terms of getting carrier approval? Thanks.

Shang Hsiao - *21Vianet Group, Inc. - CFO*

Okay. Thank you, James.

If you look at IDC report from the 2014, current market share is like this; China Telecom have the biggest market share 39%, second one China Unicom 19%, 21Vianet right now we have 12.5%. As the number four player is still the ChinaNetCenter, they have somewhere around 5% of the market share. And recently, we did see certain regional player, for example [Datapoint] they are building the data center. We also see like GDS from Shanghai, they are building the data center. And so that's the main player, okay?

But for 21Vianet, this is the first time our number of the cabinet break more than 20,000 cabinets. In fact, we already have more than 22,000 cabinets. And the guidance we will give it to the market for the build-out this year is the Company is planning to deploy 7,000 to 9,000 cabinets this year. What I mean is it's everything according to our plan; by the end of this year, our total number of cabinets will reach at least 30,000 cabinets. If we can execute that successfully, we do believe our market share will continue to increase. Okay? That's one thing.

And second point I want to make is the Company make a press release in the fourth quarter saying we got 1,000 cabinets from the Alibaba; we joined with China Unicom to offer the service, that's 1,000. And we are working on the second phase also with China Unicom and Alibaba, so more cabinet will come. And also, another BAT, like Tencent and Baidu, at this moment they also place more than 1,000 of the cabinets into a open bid to the market. We are also in the bidding process. So demand for the cabinet, I have to say, is quite strong.

And not to mention about it, for certain financial institutions, we are starting to see the demand from them; that's difficult to see previously. More and more banks right now, they are willing to discuss with 21Vianet, talk about to deploy their cabinet with us.

One of the customer I want to talk about is Baotou Commercial Bank, they just order more than 600 cabinets from the Company, and the 600 cabinets actually is using for the banking operations system, operation system. Before we only received order from the bank for the data storage, something like that. But right now we're starting to see the bank; they are willing to outsourcing their operation system to us.

That's very important for us because the financial institution in China actually is quite big. Of course, most of them, they are state-owned related. But we're starting to see a demand trend over there. So that's the competitive environment and the current demand for our cabinets. Okay, James?

James Breen - *William Blair - Analyst*

Great. Thank you very much.

Shang Hsiao - *21Vianet Group, Inc. - CFO*

Thank you, James.

Operator

Cheng Cheng, Pacific Crest.

Cheng Cheng - *Pacific Crest - Analyst*

Hi. Thank you. I was wondering if you can give -- provide some color on utilization or pricing trends for 2015.

And also, just looking at more of your retail business, is there any way to maybe order or rank the different verticals in terms of your expectations for growth next year?

Shang Hsiao - *21Vianet Group, Inc. - CFO*

Okay. Thank you, Cheng Cheng. The utilization rate for the fourth quarter was somewhere around 70.2% or 70.3%. But you can notice we just deployed more than 3,300 number of the cabinets in the fourth quarter. So our utilization rate probably will be a little bit lower in the first quarter of the 2015.

For the full year, since the Company plan to deploy additional 7,000 to 9,000 cabinets, so this year we estimate our utilization rate should be somewhere between the -- let's say around mid-60% to the low 70%. There should be a certain fluctuation quarter by quarter. If you want to take a midpoint, that should be somewhere around 68% to 69%, across the year. So that's one.

And second thing. For the retail business, for the past two quarter, the strongest vertical contribution from our hosting business actually is a vertical called wireless mobile, mobile sector. And, like I mentioned before, this vertical, two years ago, only represent 2% of our total revenue. By the end of the fourth quarter, this wireless vertical already represent 16% of our business. Suddenly it becomes our biggest driver for our hosting business.

The Company provides a B2B service. And those -- what I mean is, for those wireless and mobile company, actually those company, they provide the wireless value-added service. For example, I'll just give you a couple of companies' name. One is Momo. It's a mobile social network and they are a big customer for us. We also have UCWeb. We also have certain gaming company, like CocoaChina as well as [Bluepool]. That's the two biggest mobile gaming company in China. And we also have a certain research -- mobile research customer.

So all of those customer are after a strong demand for our vertical. So that's one vertical. But besides this one, we're starting to see -- earlier I already mentioned the vertical for financial institution. And the company, we already mentioned about the Baotou Commercial Bank. Currently, we are also have a discussion with the Bank of China and China Merchant Bank, not to mention we already have CITIC Commercial Bank.

So in the year of 2015, we should see more bank to contribute our cabinet growth. Okay, Cheng Cheng?

Cheng Cheng - *Pacific Crest - Analyst*

Great. Thank you.

Shang Hsiao - *21Vianet Group, Inc. - CFO*

Thank you.

Operator

Kai Qian, CICC.

Kai Qian - *CICC - Analyst*

Good morning Josh, Frank and Shang. This is Kai from CICC and I have three questions. The first one is how you focus on the share-based compensation in the 2015? This is my first question.

The second question is that you mentioned the guidance for your cabinets, incremental in 2015 is around maybe 7,000 to 9,000. And will you please give us some color or breakdown for each quarter and in this year?

And the third question is about your current [agreement] with Xiaomi and Kingsoft, so any color from this? Maybe you think -- how many the cabinets or business with Kingsoft or Xiaomi this year. This is my question. Thank you.

Shang Hsiao - *21Vianet Group, Inc. - CFO*

Okay. Thank you, Qian Kai. For the first question, share-based compensation, we sure expect the share-based compensation per quarter should be somewhere around RMB25m for the 2015, so RMB25m per quarter.

And second one, second question is regarding to the breakdown by quarter of the cabinet. And for the first quarter, right now, we show -- we are scheduled to deploy somewhere around 500 cabinets. For the second quarter, we are scheduled to deploy somewhere around 2,300 cabinets. Then the rest of them, nearly 5,000 cabinets would be 2,500 in Q3 and [25,000] cabinets in Q4. So that will give us somewhere around close to 8,000 cabinets. So it's quite -- after the first quarter, it should be quite evened out per quarter.

And third question regarding to the Kingsoft and Xiaomi. For the investment, we already legally closed in January 2015, so the deal already closed. Right now, the Company spend a lot of time with Kingsoft and Xiaomi to work on the number of the cabinets to be deployed into 2015 and as well as 2016 and 2017.

And you guys know the main purpose of the cabinets actually will be for the cloud service from the Xiaomi mobile phone. I think that Xiaomi mobile phone want to build something like Apple in the US we call iCloud. So maybe later on the same thing, similar thing will be deployed for the Xiaomi mobile phone, so through the mobile phone cloud.

But because Xiaomi, they're outsourcing all the software and cloud service to Kingsoft, so Kingsoft will be the company to order the cabinets from the Company. And actually they have to invest for this [round two]. So it's a cloud-related for Xiaomi mobile phone.

So that's the plan. But at this moment, we are still working on it. We still cannot disclose how many cabinets that will be deployed into 2015. So that's some color for the Xiaomi and Kingsoft. Okay, Qian Kai?

Kai Qian - *CICC - Analyst*

Okay. Thank you so much.

Shang Hsiao - *21Vianet Group, Inc. - CFO*

Thank you.

Operator

Leping Huang, Nomura.

Leping Huang - *Nomura - Analyst*

Thank you for taking my question. The first question is about the regulation -- progress of the deregulation in the telco industry. So the end of last year, I think the MIIT deregulate the fixed line, broadband, wholesale to private company. And I think you have Aipu which I think overlap with it. What is the impact to you, or do you expect any further deregulation on the telco, like the direct peer or this deregulation will help you, is the first question.

And the second question, do you have a rough breakdown about the -- how much cabinets for the -- new cabinets to build this year, built by yourself and how much is through your partner, with Unicom telecom? Thank you.

Shang Hsiao - *21Vianet Group, Inc. - CFO*

Okay. Thank you, Leping. For the first question, yes, MIIT actually they continue to deregulate it. Based on the news from the MIIT, and they are going to grant license for two part. One part is the metropolitan area network, as well as a last mile. So also, based on the news, they expect the license will be granted sometime in May this year. Hopefully that will be the case.

And for 21Vianet as well as our acquired company, Aipu, we all applied to the license. And we remain very confident, Aipu and 21Vianet, we will be in the first batch to receive the license.

The question is how many city will be covered by the new license. So of course, we applied as many city as allocated by the MIIT as possible. So at this moment, we don't know, but we do expect that the license will cover the major city, particularly Beijing, Shanghai and Guangzhou. And that's a major -- the last mile and metropolitan area network, it may come out from. So that's currently.

So maybe, when we go into the second quarter, we can talk about more. We are in the process of doing the license application. So right now the target is in May. Okay?

Leping Huang - *Nomura - Analyst*

So in your -- in this year's guidance, how much CapEx or how much revenue growth you already budget for [these things]. I guess, depending on the license, how many cities you can get, I guess the growth and the CapEx will vary a lot. So how much you've already budgeted in this year's guidance?

Shang Hsiao - *21Vianet Group, Inc. - CFO*

Okay. For the CapEx, let me talk about the CapEx. Thank you for giving me the opportunity to talk on that because, first one, when we say we are going to deploy 7,000 to 9,000 cabinets, so that CapEx for the cabinets should be somewhere around RMB800m to RMB900m. That's for the hosting data center.

And for the last mile, everything, let's make assumption over here. If Aipu gets a license, the Company probably will spend, at least in the initial, let's say, six months, we probably plan somewhere around RMB60m, 6-0, for the CapEx. And the other RMB30m will be generated by Aipu itself. Aipu itself actually can support RMB30m to RMB50m CapEx spending.

So we did have a book; some of the CapEx was that. But like I said, depending on how many city will be covered on this one, so the CapEx should be somewhere around RMB15m to RMB18m for this metropolitan area network and last mile. Okay?

Leping Huang - *Nomura - Analyst*

Okay, yes. Thank you.

Shang Hsiao - *21Vianet Group, Inc. - CFO*

Okay. And for the second question, it's -- the number of the cabinets we just mentioned, let's say, midpoint, it's 8,000 cabinets. About 90% of those cabinets will be self-built. Only 10% will be partner. Okay?

Leping Huang - *Nomura - Analyst*

Thank you.

Shang Hsiao - *21Vianet Group, Inc. - CFO*

Thank you.

Operator

John Choi, Daiwa.

John Choi - *Daiwa - Analyst*

Good morning, guys. Thanks for taking my question. I have a few question.

First of all, could you elaborate a bit more on your pricing trend on your cabinets, because I noticed on fourth quarter that it came down slightly sequentially. And you guys did say it's due to the residual effect on the VAT, but can you elaborate a bit more? And what do you guys see, as we go into first quarter and second quarter this year? That's my first question.

My second question is on your adjusted operating expenses. As you may know, it went up quite a bit last year. So as we go into 2015, do you think this is going to be the new trend? Or should we expect something, more of an economy of scale kicking in?

And lastly, a little bit of housekeeping question is, in terms of [your] bandwidth cost, can you let us know how much you're paying in terms of percentage cost to the revenue or absolute amount? And I just want to reconfirm whether the bandwidth reselling revenues are under the hosting and related service. Thanks. [Bye].

Shang Hsiao - *21Vianet Group, Inc. - CFO*

Okay. Thank you, John. For the first question, regarding to the MRR per cabinet, for the fourth quarter we have a RMB10,400, compared to RMB10,433 in the Q3. A couple things I want to talk about it. For the retail, we expect the MRR per cabinet will remain stable across the year. So the MRR should be somewhere between RMB10,000 to RMB10,500 or RMB10,600 for the rest of the year. That's for the retail.

For the VIP program, which is a new program, the customer, like Alibaba, maybe for other BAT customer -- later on it will be for the Kingsoft and Xiaomi -- because the number of the cabinets, they order a lot and so, over there, we may take out certain discount. So the pricing over there will be different from the retail.

I just want to say, for the retail customer, typically the bandwidth will represent somewhere around 20% to 25% of our MRR. For example, if we say RMB10,400 is MRR per cabinet, if you exclude the bandwidth, then we should see the MRR per cabinet, excludes the bandwidth revenue, the ballpark should be somewhere around RMB8,000 to RMB8,500. Let's say RMB1,700 to RMB2,000; that should be bandwidth-related revenue.

So for the future VIP customer -- let me continue over there. For example, like Alibaba, for those who are BAT, when we provide a service, together we will provide with China Telecom, Unicom. For example, China Unicom, for Alibaba, they will provide the bandwidth and the Company actually will just provide the cabinets. By doing that, the MRR per cabinet may be lower because you exclude the bandwidth. But in the ROA, the gross margin for those MRR will be higher because the bandwidth costs typically represent less gross margin for us.

So this model we call VIP program we're starting from this year. Once we deployed it and number of the VIP customer cabinets become more, then we will do a separate metric, one for retail and one for the VIP customer.

Like I say, VIP customer, typically they will be exclude from the bandwidth revenue, so with lower our MRR revenue, but with higher gross margin. And also, for the VIP customer -- I just want to talk about it -- the utilization rate for the VIP customer is going to be very, very high because typically it will be more than 1,000 cabinets per order from those big company. Okay, John, that's our pricing. And also for the bandwidth costs, I mentioned to you.

One more; you talked about operating expenses. For the increase of operation expenses percentage to our revenue, right now to -- somewhere around 27%. One thing is during the past three to four months, earlier I mentioned we dispensed certain money, tried to -- we can say that's an integration cost. That's one.

And second thing is because we deploy the cabinets right now, gradually more in Shenzhen and in Hangzhou, Hangzhou for Alibaba, Shenzhen for another major company, and we have put in more personnel in Hangzhou as well as Shenzhen right now, so increased number of the personnel also contribute to increase of the expenses.

But once this -- if we go to the second quarter and third quarter, due to the scale -- we do have a scalability. I do expect the percentage of the operating expenses to the revenue were steady to drop. And starting from second quarter, you probably will see somewhere between 23% to 25%, and 23% for the third quarter. If you want to take average for the whole year, I think it should be somewhere around between 24% to 25%. But when the revenue become bigger, scalability will show. Okay?

John Choi - *Daiwa - Analyst*

Thank you.

Shang Hsiao - *21Vianet Group, Inc. - CFO*

Thank you, John.

Operator

Matthew Heinz, Stifel.

Matthew Heinz - *Stifel Nicolaus - Analyst*

Hi. Thanks for taking the question. So the first one is just around the Aipu and Dermot acquisitions. I was hoping you could detail what the revenue contributions were from those two businesses in 4Q, kind of at the full run rate, and whether profitability is trending in line with your expectations thus far.

Shang Hsiao - *21Vianet Group, Inc. - CFO*

Okay. For the Aipu, the revenue should be somewhere around RMB110m. And DYXnet should be somewhere around RMB77m -- sorry, RMB75m. That's revenue contribution.

For the growth, for the 2015, the Aipu currently we expect they can grow somewhere around 15%, 1-5. That's for the Aipu last-mile business.

And the DYXnet they give us higher growth right now. Their growth should be somewhere around 30% -- close to 30% for the DYXnet. That's our current target rate for their growth for the 2015. Okay, Matthew?

Matthew Heinz - *Stifel Nicolaus - Analyst*

Yes, thank you. And then just on the profitability of those businesses, whether they're sort of -- the margin, whether that's trending in line with your expectations, prior to closing the deals.

Shang Hsiao - *21Vianet Group, Inc. - CFO*

Yes, everything is consistent with reaching our valuation for the company. And, like I mentioned, for each company, each company, when we acquire them, we have a three-year earn-out schedule with them. What I mean is not only for this year. And for the next year and the following year, each year their gross margin, as well as their EBITDA margin should continue to improve, based on our earn-out schedule with them.

If they achieve that, then we pay our valuation. If they don't achieve, the valuation will be less and we will pay less. Okay?

Matthew Heinz - *Stifel Nicolaus - Analyst*

Okay. That's helpful. Thank you. And then secondly, as a follow up, I was hoping you could update us on some of the comments you had last quarter, regarding the ongoing transformation in the Chinese broadband market, and then also just on the progress you've made thus far in eliminating some of those lower-margin contracts in the network business.

Shang Hsiao - *21Vianet Group, Inc. - CFO*

Okay. The China broadband price continued to drop. Actually Q-by-Q we see the other nearly 30% drop from the pricing. And this trend -- right now the [per G] price already dropped to very, very close to somewhere around RMB100,000 per G. But that's based on our information.

And last quarter, we did mention, due to the pricing dropping, for certain contract, if we cannot making the money, we will terminate for those contract. We terminate some, just some, but it's not that many contracts. So you see we have a negative growth for somewhere around 3%, 4% compared to the Q3. But we've seen the pricing already drop to nearly a bottom because pricing come down to, per G, somewhere around RMB100,000 already. It's not that much to drop.

So this quarter, when we look at it, we think pretty much for the MMS, the pricing is coming to stable. So for the whole year we do expect our MMS will remain, from the revenue side, so should remain stable. Okay, Matthew?

Matthew Heinz - *Stifel Nicolaus - Analyst*

Okay. So there is going to be a 30% drop in pricing that shows up in the first quarter. And then from there, throughout 2015, you expect pricing to be somewhat stable; just so I understand?

Shang Hsiao - *21Vianet Group, Inc. - CFO*

Yes, because I already mentioned the price; the price already dropped to the nearly RMB100,000. So based on our expectation, is there won't be that much to drop; it already dropped to RMB100,000. That's very, very low compared to two to three years ago. When we look at the bandwidth price, it is somewhere around RMB500,000 to RMB600,000 per G and right now already dropped to the RMB100,000, based on our purchasing price with the China Telecom and Unicom. So not much to drop.

So for the MMS, for the first quarter, the revenue, I already mentioned, should remain somewhere stable because, I have to say to you, the total consumption of the traffic, the Gs actually they are increasing; they are increasing. But due to the pricing drop, that's why revenue is stable, to stay over there. Okay?

Matthew Heinz - *Stifel Nicolaus - Analyst*

Okay. Thank you very much.

Shang Hsiao - *21Vianet Group, Inc. - CFO*

Thank you.

Operator

There are no further questions from the telephone lines. I would now like to hand the conference back to your presenters for closing remarks. Thank you and please continue.

Shang Hsiao - *21Vianet Group, Inc. - CFO*

Okay. Thank you, everyone. Thank you.

Operator

Ladies and gentlemen, that does conclude our conference call for today. Thank you for your participation. You may all disconnect.