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PRESENTATION

Operator

Good morning, ladies and gentlemen. Thank you, everyone, and welcome to the 21Vianet Group's second-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*

Good morning and good evening, everyone, and welcome to 21Vianet's second-quarter 2014 earnings conference call. We had a very exciting second quarter, filled with numerous new initiatives which I will highlight in more detail shortly. We made a significant progress growing our core IDC, CDN and cloud services, improving our profitability as well as expanding our product and service offerings, which further comments on the position as the leading integrated Internet infrastructure service provider.

Through our core IDC business, we increased our total cabinets to almost 17,000 cabinets, with approximately 67.8% of those cabinets in our sales field data centers. We are confident we are on track to deploy a total of 10,000 cabinets by the end of 2014, bringing our total cabinets to approximately 24,000.

In addition, we saw a record low hosting churn rate of 0.28%. Even more impressive was our utilization rate, which increased to 73.9% this quarter, even as we added close to 1,900 cabinets, exceeding both of our internal and street expectations.

Looking ahead, we expect our utilization to decrease slightly in Q3 and Q4 as a large number of cabinets then come online. Primarily driven by our expanding IDC business, our net revenue grew by an impressive 39.7% year over year. This shows the strong customer demand for our IDC services as we increased our capacity and continue to build scale and leverage into our business. Furthermore, we saw an extension of our adjusted EBITDA margin to 20.1%, supported by improved utilization rates, a large portion of our high-margin self-build cabinets and growing incremental contribution from our cloud business.

We are seeing tremendous growth and momentum in Microsoft Azure and Office 365, both in terms of the net revenues and net new customers which should continue to help our adjusted EBITDA and EBIT margins going forward. However, we note that our adjusted EBITDA could fluctuate from quarter to quarter as we continue to expand our IDC capacity, ramp up our cloud business and invest in new business initiatives.

Now looking at our cloud business, we are very pleased with the performance of both Azure and Office 365 services during the first quarter, when both product lines were commercially available. The Windows Azure platform now supports over 9,000 active users, including not only many multinational corporations, but also a significant number of domestic companies.

For the Office 365 services, we have also seen tremendous traction now, with over 20,000 customers who have signed up for the services. Overall we are very excited to share with you that early results from both Azure and Office 365 exceeded our internal expectations.

For the IBM private cloud business, the partnership continues to very actively prepare for the commercial launch, which now is expected towards the end of Q3. Moving on to one of the new initiatives this past quarter was our strategic investment in Aipu. Aipu is one of the largest regional Internet service providers that engages in last-mile wired broadband access and other value-added services to Internet users.

Through this investment, not only are we able to incorporate a substantially growing business, but we are also able to expand our network footprint into selected last-mile markets, allowing us to capture additional growth opportunities at a time when China's vibrant Internet economy become increasingly cloud and content-centric. Furthermore, by leveraging Aipu's network, we will be able to realize attractive cost savings in bandwidth and other areas of our cost structure.

In August, we have also entered into definitive agreements to acquire Dermot Entities from DYXnet Group for a total consideration of approximately RMB1.05b. Dermot Entities operates a VPN business unit within DYXnet Group. Through this transaction we are not only acquiring a VPN market leader in the Greater China region, but also expecting to generate potential synergies with our public and private cloud business.

This past quarter we also completed the offering of RMB2b in bonds.

Because of the continued strong demand for our services, we plan on using the proceeds of this offering to add new data center fund activations and for other general corporate purposes. In addition, we repurchased a significant portion of our outstanding bonds due in March 2016. As such, we realized a one-time loss on debt extinguishment for this transaction of about RMB41.6m due to the current lower [increased] rates environment and to compensate previous bondholders who are selling the bonds accordingly.

Earlier this week we were awarded with the MVNO license by the Ministry of Industry and Information Technology. We are evaluating strategic approaches to monetize this valuable asset, particularly business model that would allow us to leverage our large and growing enterprise customer base.

One last item I wanted to highlight was the well-known trademark award we received for our (spoken in Chinese) trademark in July by the Trademark Office of the State Administration for Industry and Commerce of the People's Republic of China. We are extremely honored by this award as it represents the strong nationwide recognition of our Company's brand and reputation it has obtained throughout the years, as well as being able to protect the Company from trademark and copyright infringements.

At this point, I would like to turn the call over to Eric, our VP of Capital Markets and Business Development, to go through our financial results.

Eric Chu - *21Vianet Group Inc. - VP, Capital Markets and Business Development*

Thank you, Frank. Good morning and good evening, everyone. Before I go in to the financial results, I'd 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 on these expenses may be found in the reconciliation tables included in our earlier release. Also note that all the financial numbers we're presenting today are in renminbi amounts unless otherwise noted.

Our net revenue for the second quarter of 2014 increased by 39.7% year over year to RMB658m. Net revenue from hosting and related services increased by 59.4% year over year to RMB466.9m, primarily due to an increase in total cabinets under management, the increased demand for the Company's CDN services as well as the incremental contribution from cloud services.

The MRR per cabinet was RMB10,789 in the second quarter of 2104 as compared to RMB10,753 in the first quarter of 2014. Net revenue from managed network services increased to RMB191.1m in the second quarter of 2014. This increase was primarily because of an increase in network capacity demand for data transmission services.

For the second quarter of 2014, adjusted gross profit increased by 45.7% to RMB197.9m. Adjusted gross margin was 30.1% in the second quarter of 2014 compared with the 28.8% in the prior year and 29.2% in the first quarter of 2014. The increase in gross margin was primarily due to an increase in utilization rates and incremental revenue contribution from higher-margin cloud services.

Adjusted operating expenses increased to RMB132.9m. As a percentage of net revenue, adjusted operating expenses were 20.2% compared with 18.2% in the prior-year period and 18.8% in the first quarter of 2014. More specifically, adjusted sales and marketing expenses increased to RMB56.6m from RMB34.7m in the prior-year period due to the expansion of our sales and service personnel and larger accrued bonuses for sales and service personnel.

Adjusted general and administrative expenses increased to approximately RMB51.8m from RMB32.6m in the prior-year period, primarily due to an increase in headcount, office rentals and other expansion-related expenses associated with our efforts to expand our cloud computing service offering.

Adjusted research and development expenses increased to RMB24.4m from RMB18.6m, which reflected our effort to further strengthen our research and development capability and expand our cloud computing service offerings.

The difference between adjusted operating expenses and our higher GAAP, total operating expenses amount is primarily due to the changes in the fair value of contingent purchase consideration payable, which was a loss of RMB8.8m, and share-based compensation expense of RMB16.9m. The changes in the fair value of contingent purchase consideration payable resulted from an increase in the present value of estimate cash and share considerations as June 30, 2014, associated with Company's past acquisitions.

Now from a profitability perspective, adjusted EBITDA for the second quarter of 2014 increased by 51.3% to RMB132m from RMB87.2m in the comparative period in 2013. Adjusted EBITDA margin for the quarter increased to 20.1% from 18.5% in the prior-year period and 19.3% in the first quarter of 2014.

Our adjusted net profit for the quarter increased by 23.2% to RMB23.2m from RMB18.8m in the prior-year period. Our adjusted net profit margin was 3.5% compared to 4.0% in the prior-year period and 5.6% in the first quarter of 2014.

Adjusted diluted earnings per share for the quarter were RMB0.05, which represents the equivalent of RMB0.30 or $0.05 per ADS. As of June 30, 2014, we had a total of 399m ordinary shares outstanding or the equivalent of 66.5m ADS.

Our cash and cash equivalents and short-term investments were RMB3.2b, equivalent to $522.6m.

Now looking at our financial outlook, currently we expect third-quarter 2014 net revenue to be in the range of RMB777m to RMB813m, which, at the midpoint, represents growth of approximately 55% from the comparative period in 2013.

Adjusted EBITDA is expected to be in the range of RMB153m to RMB170m, which, at the midpoint, represents growth of approximately 69% from the comparative period in 2013.

Net revenue for the full year 2014 are expected to be in the range of RMB2.94b to RMB3.02b, which, at the midpoint, represents approximately 52% growth over 2013.

For the full year 2014, adjusted EBITDA is expected to be in the range of RMB600m to RMB630m, which, at the midpoint, represents approximately 68% growth over 2013.

We note that the increase in our full-year 2014 outlook primarily reflects the expected contributions from the recently announced transaction. This forecast reflects the Company's current and preliminary view, which is subject to change.

This concludes our prepared remarks for today. Operator, we're now ready to take some questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Greg Miller, Canaccord.

Greg Miller - *Canaccord - Analyst*

Thanks for taking the question, guys, and congratulations on a very solid quarter and a very strong outlook, even if it was in part driven by acquisitions. Maybe we can talk a little bit about the gross margin and utilization right now. We should be expecting that going forward, I know you talked about a little bit of potential volatility and look forward to EBITDA as you build out cabinets, but with a pretty strong cabinet position here in the quarter, how should we be thinking about that in the next couple of quarters?

And then maybe you could talk a little about the Microsoft contribution in this most recent quarter since I didn't see it broken out in the press release.

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

Okay. Thank you, Greg. This is Shang. Actually we are very pleased that those margins increased to more than 30% compared to the previous quarter 28%. Two main reasons. One is because data center business increased utilization rate. And most importantly, in the second quarter of this year we are adding more than 900 [viewable] cabinets. So that's one.

A second one is Microsoft, the revenue continued to increase because the cloud business represents a higher gross margin, so somewhat contribute increase of our gross margin. But going forward, this is starting from the utilization rate, right now we have somewhere around 73.9%. I think this utilization rate probably will be between 70% to 71% in the third quarter, again, probably 69% to 70% in the fourth quarter.

But the reason is we are going to have a lot of cabinets to be deployed in the Q3 and Q4. At this moment we forecast the Company will be deploy somewhere around 3,000 cabinets in Q3 and 4,000 cabinets in the Q4. So then we have [make up] totally linked cabinets to be deployed in this year, around 10,000 cabinets. So that's what -- so utilization rate probably will come down like 1%, 2% for the next two quarters.

With respect to the gross margin, I think that you particularly mentioned about Microsoft cloud. If we can recall, in the second quarter I did mention about it. The Microsoft cloud revenue was somewhere around 3m. And in the third quarter, actually the revenue again, right now we do have quite close to the $6m. So I always mention because we just commercialized this business and so the growth actually is very, very strong. It's nearly triple-digit growth quarter by quarter.

So everything is going very, very well, particularly one thing totally exceeds management expectation is the number of the customers signed under the Window Azure and Office 365. And [two of them today] -- as of today already more than 30,000 enterprise customers. So the base to generate the revenue becomes very, very big. So at this moment the actual users, because the way we charge our customers is based on the actual usage, the actual usage right now still exceeds our expectation. Hopefully by Q3 and Q4 we can have a higher actual usage.

So that's for the Microsoft cloud. And for the other cloud, IBM, we mentioned the split. And we are shooting to commercialize IBM SCE+ private cloud in China sometime in September. We already have a customer waiting on the sideline to sign once this cloud commercialized.

Okay, Greg?

Greg Miller - *Canaccord - Analyst*

That's very helpful. Thank you very much. I'll hop back into the queue and turn it over to somebody else.

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

Thank you.

Operator

Colin McCallum, Credit Suisse.

Colin McCallum - *Credit Suisse - Analyst*

Yes. Thanks very much. Sorry, just first of all, could I just clarify, Shang, the numbers on cloud? Did you say $3m revenue in second quarter? I think the first-quarter number was $3m, if I'm not wrong. Did you mean that it was $3m first quarter and then $6m in second quarter? Is that what you meant there? If you could just clarify, please, the quarterly revenue from cloud, that would be helpful.

Secondly, can I just ask, not a major issue, but it does seem that the IBM launch has maybe been pushed back a little bit. I think you talked about August and now it seems you're talking more September. Can you just tell us why that has maybe been delayed a little bit?

And then if you could also just mention has there been any impact from these measures against Microsoft on the Windows 8 and IBM talked about in financial services. Has there been any impact of those sort of regulatory pressures on Microsoft and IBM on your business? That would be great. Thank you.

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

Thank you, Colin. Okay. Let me clarify. So in the first quarter the cloud revenue, $3m. Second quarter, the cloud revenue reached close to $6m. So it is nearly doubled in the second quarter compared to the first quarter.

And the second question is regarding the IBM. Yes, earlier the management did mention about it. We are shooting to deploy the IBM, actually the commercialized IBM SCE product sometime in July or in August. Right now it delay a little bit. Primary reason is due to the, again, technology issue. So a lot of software technology, they are working on it.

But the good thing is that server from the IBM already putting in our Beijing Daxing data center, that had been put over there for more than three months. And -- but at least from the infrastructure side, 21Vianet, we are ready to do the commercialization. Right now it's the final thing from IBM is testing the technology. So hopefully everything goes smoothly, we can commercialize this in the next month.

Come back to the political issue impact Microsoft and IBM, right now the answer would be no. First of all, we understand the government, actually they pick up certain issues Microsoft Win 8 and also the monopoly position in China. But those issues have nothing to do with the new products, for the Windows Azure and Office 365. 21Vianet has not been contacted by the Chinese government for any issue related to Microsoft.

And so far so good, we are doing very, very smoothly and continue to work not only with Microsoft, and we also work with the Chinese government, particularly the Ministry of the IT and we updated the [partners] and everything. Particularly every quarter we need to update on those security regulations and we are complying with that. So everything is doing fine.

And for IBM, they have issue with the Chinese government on the IP and server, as well as to the financial institution. Again, that's the server. That's fixed equipment and we are doing the cloud over here. And the government branch have not challenged 21Vianet and also our partnership with IBM. And everything is going smoothly.

I just want you to know, when we commercialize Microsoft cloud in April and in May, before we can do the commercialization, we also report to the Ministry, MIIT, and we 100% follow the Chinese information activity regulation to deploy and commercialize our cloud. So so far so good. That has not impacted us at all.

Thank you, Colin.

Colin McCallum - *Credit Suisse - Analyst*

Thank you.

Operator

Kai Qian, CICC.

Kai Qian - *CICC - Analyst*

Hi, Shang. This is Kai from CICC. And I have two questions. The first one relates to the M&A in the second quarter recently and you acquired Aipu and the [DE] share. So could you please me -- could you add more color about this M&A in terms of the revenue and the margins in this year and the second -- in next year? That is my first question.

And my second question is about your license. And we noticed you got a workflow network operator license this week from MIIT. And also you have some interest in [Donguan], based in [Guangdong], and apply for the broadband basic telecom service license. So could you could give more color about the two kinds of license? Thank you very much.

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

Thank you, Kai. For the first acquisition, the Aipu, Aipu actually is second largest non-state-owned last-mile company in China. And we were lucky in able to acquire this company. And Aipu right now, we mentioned about their revenue and also the gross margin. And this company at this moment, for the projection for the next year, I think we will provide that towards the end of this year. But in terms of the profitability, they are doing very, very well. Their gross margin actually is higher than our organic business. And also their EBITDA margin is also higher. So it's a very, very valuable acquisition and it's an accretive market transaction.

And from the strategic point of view, because with the addition of the Aipu, so for the certain areas right now, the company can help, particularly for the Internet companies when we just need their data, we can transmit their data from our data center and also continue to transmit their data to our back [bone]. For certain areas we can also transmit those data all the way to the end user without an interface of the China Telecom and China Unicom. So this is a starting point. So with Aipu, they're adding the final element for our interconnectivity business.

The other one was DYXnet. This is a VPN business. And I think you guys recall, when we mentioned about the IBM cloud, because this is a private cloud, most of the customers will be considered as a big company. And they don't want to do the cloud through the public Internet network. Typically they will sign the contract with 21Vianet to provide the VPN service before they engage for the IBM cloud service. So it's very, very value-added to our existing service offering. So it's very important for the next couple of years for our network business in China. So that's strategic reason.

But in terms of the revenue contribution, please give us some more time. Probably sometime next quarter, when we provide next year annual guidance, then we will provide the projection from each company we acquire. But even for the DYXnet, their profitability -- for the DYXnet profitability, actually for their EBITDA margin is close to our organic business. But for the gross margin, again, they are higher than our gross margin. So that's your first question.

For your second question regarding to the MVNO and broadband license, the Company, one month ago we signed with China Mobile to become their partner for the MVNO. You guys know this is a wireless business. So then once we sign with them, and last week we just received approval from the MIIT. They allow us to officially engage in MVNO business in China.

Right now the Company is still in the preparation of the MVNO business. But I can assure you the way we do it will be different than other MVNO operator in China. We will try to focus on B and B business. What that means is our customer will be the Company, not individuals. So by doing that we will also utilize our common resource, our regional office and sales office to do the deployment and everything.

So it's a [CapEx]. Once we decide to deploy this business, the CapEx for this business will be limited. Again, we will focus on B and B. We will target the companies. And soon the companies will reach their employees. So this is different from other MVNO operators. So that's one.

And second one, let me talk about MVNO. In China, it's like this. Once you get a license for this, this is a very, very valuable asset because you don't know when the Chinese government will issue this license again, maybe 10 or 20 years later. So just by getting this license, it's a valuable asset for 21Vianet. And remember, this is a wireless business.

And finally, coming down to the open license, because if you look at the news in earlier of this year, the MIIT, they plan to do the [trial run] for the non-state-owned company to engage in broadband business. Right now the [trial run] has not been started yet. And 21Vianet, we are closely working with our people in Chinese government branch. And hopefully we can be on top of the [trial run].

And also during the last quarter, the management mentioned if this [trial run] is on time in the second half of this year, we think, based on our best judgment, we think if that happens and the license could be granted in the second half of the next year, so the trial needs to happen first then the license could be issued one year later.

Kai, that's my answer. Thank you.

Kai Qian - *CICC - Analyst*

Okay. Thank you very much.

Operator

John Choi, Daiwa.

John Choi - *Daiwa - Analyst*

Good morning, guys. Thanks for taking my question. I have actually a couple question on, first of all, can you share some more color on the pricing, especially compared to the tier-one cities and tier -- the two and three cities, because I remember early this year, end of last year, there had been some concerns about the pricing. And it seems like based on your current MRR, at least from the blended version, it seem slightly rebounding out. So it would be great if you guys could give us more color.

Second is on -- regards to the newly acquired businesses. I understand that you just talked about it, but I'd like to have a bit more color, especially on the VPN business. Other than that IBM -- the cloud business that you guys are talking about, is there any other opportunities to fully leverage the VPN business and other sorts? Thank you.

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

Okay. Thank you, John. I think probably your question relates to our MRR per cabinet, probably only increase a little bit between the Q1 and Q2. Then the pricing for us is like this. In Beijing area, let's say Beijing, Tianjin, Shijiazhuang, this area, typically our MRR per cabinet could reach RMB13,000 per cabinet per month. That same cabinet around the Shanghai area, then that MRR should be between RMB9,000 to RMB10,000 per cabinet per month. If you go down to further south, Guangzhou and Shenzhen, then MRR per cabinet will be around RMB8,000 to RMB9,000 cabinet.

So the expectation around the management, because we -- although we deploy many cabinets, but if you pay attention on that one and actually in second quarter we released the new deployment, 1,900 cabinets. 50% of actually is in the northern part of China. The other 50% is in the southern part of China, with a [viewable] cabinet, additional 900 cabinets is again same thing.

But when we move into the third quarter and first quarter, that's where our Beijing data center going to have a massive deployment, 7,000 cabinets in six months. So we will see more Beijing cabinets will be sold in Q3 and Q4. If that can be achieved then we should expect the MRR per cabinet should be increased in Q3 and Q4. That's your first question.

And second question, regarding to the VPN business. The VPN business, besides IBM, the other reason we acquired the DYXnet is traditionally we have management network service. We sell a certain bandwidth for certain companies, let's say Internet-related company. But there is a trend, particularly for those big enterprises, including the state-owned companies. They have operations in China in all different locations. Due to the security, they'd rather right now, at this moment, to run on their type of network instead of to run on public network in all different locations.

So the demands are starting on the last year. We saw a lot of demand. For the 21Vianet, we do have the nationwide VPN license, but we don't have enough technology and the team to engage in such business. That's why we acquired this company. So right now we are integrate our small team with the DYXnet. They have a big team over there, into a VPN team in China.

And there is a big synergy because for this company we acquired, DYXnet, their revenue actually is quite good. In terms of the revenue, right now they are considered as the biggest VPN company in Greater China. And if you look at their revenue, 40% of their revenue actually is in Hong Kong, received from Hong Kong and 20% from Taiwan. They only have 40% of their revenue generated from China.

Their customers, including the T-Mobile, Sprint, (inaudible), a lot of --they have more than 2,000 customers. And particularly they have 30 -- I'm going to try to capture my numbers -- 30 Global 100 companies as their customers. A lot of telcos, when they want to get into China, they just [spark] in the Hong Kong user DYXnet service to get into the China.

So that's a very important company. In fact the Company competed with another carrier on the acquisition. Eventually we won. So the China VPN, because the company in China become bigger and bigger, they operate in all different locations. So this kind of service will -- we expect we are going to have very, very strong demand for the couple years for this VPN service.

Okay. All right, John?

John Choi - *Daiwa - Analyst*

Okay. Thanks, guys.

Operator

(Operator Instructions). Louie DiPalma, William Blair.

Louie DiPalma - *William Blair - Analyst*

Great. Thanks, guys. My first question is how many of the 7,000 cabinets that are being installed in the second half of the year have already been sold?

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

Louie, first of all, the 7,000 cabinets, more than 50% of that have been booked. Just give you one example, that's including 1,300 cabinets have been booked by Alibaba. And the quantity can be increased from the Alibaba side. I just give you example. 1,300 of that have been booked by Alibaba. So the other ones have been booked, like our long-term customer, like [Jindong] and also the China Mobile, also the CCTV. Actually CCTV right now become a top-five customer already. So more than 50% of that have been booked.

Okay, Louie?

Louie DiPalma - *William Blair - Analyst*

Okay. And my next question, related to the MVNO license that I think you won yesterday, did you have to pay any money for other considerations for that license? And also are you able to sell that license if you have no plans to actually offer wireless service?

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

Okay. First of all, in China, you don't pay anything to get such license, so no payment. So that's why I mentioned this is a valuable asset. If you get it, it's very, very valuable. That's number one.

Number two, that (inaudible), the license is not for sale. That license is -- goes with the name of the Company, 21Vianet. What 21Vianet can do is we could engage a company or do a joint venture with other, let's say, B2C players to engage in this MVNO business. We can do the policy for cooperation with the other company. That's one, we can do that. We cannot do the -- transfer the title.

Okay, Louie?

Louie DiPalma - *William Blair - Analyst*

Okay. Perfect. Thank you so much.

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

Thank you.

Operator

(Operator Instructions). Lingling Hu, Goldman Sachs.

Lingling Hu - *Goldman Sachs - Analyst*

Hi, Shang. Could you help us to understand the tough current competitive landscape of IDC business because China Telecom just reported earnings last night? And I think that it is also focusing on building up its own IDC and ICT, including the cloud business.

And also ChinaCache is also ramping up [its stakes] in a center Beijing (inaudible) area. So could you just give us an understanding on the competition? Thanks.

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

Okay. Thank you, Lingling. And I can quote on the IDC report, this is for the year 2013. Based on the IDC report, currently biggest data center service provider in China is China Telecom; it has 39% of the market share. Number two is China Unicom; they have 19% of the market share. Number three is 21Vianet; our market share already jumped to 12% of the overall market. And number four actually, right now we mention about it, it's ChinaNetCenter. And ChinaNetCenter, actually they have 4.9% of the market share. It's only 40% of the 21Vianet size. That's for the year 2013.

And like I mentioned earlier, this year we will adding 10,000 cabinets. Next year, again, we will add an additional 10,000 cabinets. The Company, at this moment, we do have a sufficient cash flow to spend our capacity, IDC capacity. So that's what I can say.

But in terms of the China Telecom/Unicom, they are always -- continue to build their data centers. We need to ask then what's the total of data center, because some of the data center is for the cloud computing service purpose. And what we are doing is traditional hosting for the retail customer. That's exactly what we are doing. And because China Telecom, they build a huge data center in the Mongolia, something like that, so my guess is their purpose is to build for the cloud computing service, not for traditional hosting.

And you mentioned about ChinaCache. Yes, we see that they are also building the data center. At the end of this year, 21Vianet, we are going to have 25,000 cabinets at the end of the next year, 35,000 cabinets and with more than 2,000 customers from our IDC business, and plus 2,000 customers for our VPN business, and plus more than 10,000 enterprise customers for our last-mile customers, and also plus more than -- a lot of customers on our cloud computing service.

So with those customer base, we are doing the cross-selling right now. So I think the customer will more appreciate the 21Vianet. We not only can offer the traditional hosting service; we also can offer the cloud, VPN and last-mile service.

Okay. Thank you, Lingling.

Lingling Hu - *Goldman Sachs - Analyst*

Okay. May I have a follow-up, please? Just you mentioned there that there's slight delay in the IBM commercial launch. So is there any change to your revenue guidance in terms of this business?

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

At this moment we don't have a plan to change the guidance because the customer already are there, waiting on the timeline. Some of the IBM service is fixed cloud. So since the customer over there, we think that we -- if we can commercialize, let's say in the September, we -- at this moment the management remains confident we can achieve the number we are talking about for the IBM revenue.

Lingling Hu - *Goldman Sachs - Analyst*

Okay. Great. Thanks.

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

Okay?

Lingling Hu - *Goldman Sachs - Analyst*

Yes.

Operator

Charles Lo, AGI.

Charles Lo - *AGI - Analyst*

Hi, Shang. My question is a follow-up on this IDC buildup in China. So we see that you are building 7,000 new cabinets in the second half of this year and maybe another 10,000 next year. Would that -- a lot of it is in Beijing. So would that be a situation that Beijing, at some point, with everyone building data centers, becomes -- data center supply gets too big and then we are suffering from low utilization?

And the follow-up is that utilization in second half is around 70%. Would that situation continue into 2015? And if that's the case, would that lead to margin pressure for us? Thank you.

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

Okay. For the data centers for the Q3 and Q4, yes, we are going to deploy a lot of Beijing cabinets. But as you say, everybody's building the data centers in Beijing because the demand, because in China all the Internet data centers -- no, all the Internet companies, they are building their -- they are putting their servers in Beijing also. So at this moment the demand is like this.

Anything we build in Beijing area before the deployment have all been booked, have all been booked. So, for example, last month we put a lot of orders on the waiting list in the Beijing. So the Beijing demand is very, very strong. And that strong, it goes with the China Internet traffic. So we do believe the Internet traffic in China continues growing very, very fast. The demand will continue to be very, very strong in Beijing.

In terms of the utilization rate, I just want to mention about it. There's -- our utilization rate in Q3 and Q4 will be around 70%. But when the Company, the base and number of the cabinets as a base becomes bigger and bigger, in the future the new deployment of the cabinet impact, the utilization rate will be smaller and smaller. Right now, impact on utilization rate is so big because our base is still small. But once we have 25,000 cabinets this year, the next year another 10,000, it's still big. But the impact won't be as bigger as compared to this year.

So I do remember when the Company, when we did our IPO three years ago, and at that time our utilization rate, it's like 82% to 85%. After the IPO we started to build and that impact our utilization rate. So our utilization rate down to 70%. But if you look at the Company revenue, three years ago, in the year 2010, the Company revenue is somewhere around RMB500m per year. But three years later, our revenue by the end of this year could just reach RMB3b, 6-time increase.

So my point I just want to make is the Company will continue the growth. So utilization rate impact will be less once the number of the cabinet as a base become bigger and bigger.

Okay? Thank you.

Yes. Eric, do you want to add something?

Eric Chu - *21Vianet Group Inc. - VP, Capital Markets and Business Development*

Yes. Actually this is Eric. I'll just really quickly add onto what Shang just said. One thing to look at us is if you look at our business and our offerings in Beijing or some of the other tier-one cities, we tend to pride ourselves in terms offering the mission-critical obligations. So if you look at a lot of the companies, what they do is they spend the top 10%, 15% of their data center spending with us because they like the fact that we offer higher-quality services. We offer faster Internet transmission.

And those kind of service offerings, with an SLA backed by -- financially-backed SLA, it's fairly hard to come by in China still today. So that's why it's one thing to have some data center supply coming online in Beijing, but it's another total different thing to have high-quality data center supply. That's going back to what Shang just said. That's why some customers that are willing to wait for us to deploy new data center space and then put in their servers in there. So that's a -- we're not as concerned of the potential oversupply situation.

I guess a similar situation and scenario would be if you look at the US market. People there, they still like to put their servers in [Equanet] data centers, even though Equanet data centers offer higher premium -- charges a premium compared to others. So I guess it's a similar situation here for us.

Operator

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

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

Okay. This is Shang. Thank you, everyone. Thank you for your time. Thank you.

Operator

Ladies and gentlemen, that does conclude today's conference. Thank you for participating. You may all disconnect.
