



**WANG XIAOCHU**  
*Chairman and CEO*

# CHAIRMAN'S

## DEAR SHAREHOLDERS,

2018 was China Unicom's first full year of the implementation of mixed-ownership reform. It was also an important year during which the Company achieved outstanding results in development and reform with noticeable improvement in corporate appearance. Over the past year, the Company engaged in active implementation of its new development philosophy, as it deepened the execution of the Strategy of Focus, Innovation and Cooperation. It proactively advanced Internet-oriented operations, while comprehensively deepening mixed-ownership reform. There were notable enhancements in the momentum, quality and efficiency of our development and in our corporate vibrancy, while the building of China Unicom's "Five New" – New Governance, New DNA, New Operation, New Energy and New Ecology, marched an important step forward.

## OVERALL RESULTS

The Company continued to report remarkable growth in operating results for 2018. Service revenue for the full year amounted to RMB263.7 billion, representing a 5.9% year-on-year growth which outperformed the industry average growth rate of 3.0%. EBITDA<sup>1</sup> amounted to RMB84.9 billion, up by 4.3%, year-on-year. Profit before income tax<sup>2</sup> reached RMB13.1 billion and profit attributable to equity shareholders of the Company increased by 458%, year-on-year, to RMB10.2 billion, extending the "V-shaped" rebound in profit.

The Company persisted in enhancing network efficiency through precise investment, sharing and cooperation. While maintaining the edges of our network, the full year capital expenditure continued to be under effective control at RMB44.9 billion. Thanks to the sustainable growth in revenue and sound control in expenditure, the Company registered the record high again in free cash flow in the amount of RMB47.5 billion. Our liabilities-to-

assets ratio went further down to 41.8% from 46.8% at the end of last year, reflecting an increasingly solid financial position and capital strength.

The Company attached great importance to shareholders' returns. With due regards to the Company's profitability, debt and cash flow level, capital requirements for its future development etc., the Board of Directors recommended the payment of a final dividend of RMB0.134 per share. Going forward, the Company will continue to strive to enhance its profitability and shareholders' returns.

## BUSINESS DEVELOPMENT

### Deepened Internet-oriented innovative operation underpinned highly effective mobile service growth

In 2018, the Company pressed forward the innovative operation of its mobile service in response to the pressure from market competition and "Speed Upgrade and Tariff Reduction" policy, achieving the effective growth for the mobile service with reduced channel commission and handset subsidy. Mobile service revenue for the full year reached RMB165.1 billion, representing a year-on-year growth of 5.5% that exceeded the industry average of 0.6%. Mobile billing subscribers saw a net addition of 30.87 million, representing a year-on-year growth of 51.8% and taking the total number of mobile billing subscribers to 320 million.

During the year, the Company chose not to simply match the competition of low-price "unlimited data" products introduced by peers, nevertheless persistently promoted Internet-oriented operational transformation and deepened 2I2C business collaboration with Internet companies. Leveraging market segmentation, differentiated products were launched to address the unanswered demand of heavy data users. The Company deepened the unified online and offline ("O2O") total touchpoint

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operation and turned outlet sales to on-street sales, enhancing customer flow between online and offline operations. A strong emphasis was placed on light touchpoints such as online channels and cross-industry alliances to enhance the efficiency of development. Target marketing and customer retention were enhanced with the use of Big Data, resulting in better customer acquisition and retention as well as value enhancement. For 2018, the Company's 4G subscriber base saw a net addition of 45.05 million to a total of 220 million. Our 4G subscriber market share was up by 1.3 percentage points, year-on-year. The proportion of 4G subscriber as a percentage of total mobile billing subscriber increased by 8 percentage points, year-on-year, to 70%.

In implementation of "Speed Upgrade and Tariff Reduction" policy, the Company optimised its tariff packages and made strong efforts to promote heavy data packages during the year to facilitate smooth transition for customers. The Company strived to achieve win-win by advancing data traffic operation and leveraging price elasticity of mobile data. In 2018, the unit pricing for the Company's mobile handset data decreased substantially, while the mobile data volume consumption grew by 1.8 times. The monthly average DOU per mobile handset subscriber reached approximately 6GB, while handset Internet access revenue grew by 13.7%, year-on-year, to RMB104.8 billion.

## **Continuous improvement in broadband service while actively countering intense competition**

In 2018, the Company actively responded to the challenge of market competition in broadband service by resorting to "Big Video, Big Integration and Big Bandwidth". Leveraging rich resources afforded by our strategic investors, we strengthened our content portfolio with quality video and stepped up with the deployment of smart home services to boost subscriber stickiness and product competitiveness. The promotion of bundled products through all channels was also strengthened, with a special emphasis on increasing penetration and driving mutual development across products. We also promoted high-bandwidth products and increased private capital cooperation to further enhance network coverage and quality. The implementation of comprehensive grid-based contract-out reform was accelerated to enhance the vibrancy of frontline staff and strengthen our

sales and servicing ability. The new integrated sales model targeting government and enterprise customers based on "Cloud + Smart Networks + Smart Applications" drove rapid development of the broadband and Internet private line access services.

For 2018, the Company's fixed-line broadband subscriber saw a net addition of 4.34 million, representing a 234% year-on-year growth, to over 80 million in total. Video service subscribers accounted for 44% of fixed-line broadband subscribers, up by approximately 9 percentage points, year-on-year. Fixed-line broadband access revenue amounted to RMB42.3 billion, indicating a considerable reduction of the rate of decline year-on-year and basically achieving a steady development.

## **Industry Internet business continued to mark new breakthrough promoting healthy growth of fixed-line services**

In 2018, led by the model of "Cloud + Smart Networks + Smart Applications", the Company stepped up market expansion and drove scale development in key innovative businesses, such as Cloud Computing, Big Data and the Internet of Things ("IoT"), accruing energy for highly efficient and sustainable development in the future. Focusing on key sectors such as government affairs, education, medical and healthcare, finance, transportation and tourism, and actively bringing into play the complementary resources and business synergies afforded by strategic investors with in-depth business and capital cooperation, the Company fostered differentiated advantages. The Company strengthened talent development and acquisition. It created system and mechanism segregated from the traditional business and implemented the sharing of incremental return, with a view to stimulating instinctive innovativeness and momentum. The building of the innovative platform for government and enterprise customers was expedited. The end-to-end core capabilities such as innovative product R&D for government and enterprise market, centralised processing and operation support were developed to facilitate the growth of innovative business in the future with economy of scale.

In 2018, the Company's innovative business was gradually becoming the key driver of revenue growth. For the full year, the industry Internet business reported revenue of RMB23.0 billion, representing a 45% growth, year-on-year, and

increasing to 8.7% as a percentage of service revenue. ICT revenue reached RMB5.6 billion, up by 69%, year-on-year. IDC and Cloud Computing revenue reached RMB14.7 billion, up by 33%, year-on-year. IoT revenue reached RMB2.1 billion and Big Data revenue reached RMB0.6 billion, representing year-on-year growth of 48% and 284%, respectively. Benefitting from notable improvements in the broadband service and growth in innovative services, the Company's fixed-line service revenue amounted to RMB96.3 billion, up by 6.0% year-on-year.

## **NETWORK CONSTRUCTION**

### **Precise and efficient construction of premium networks to foster network competitiveness**

In 2018, the Company persisted in return-oriented precise investment, focusing on key services and regions and taking advantage of Big Data, with a view to swiftly responding to market demands while assuring effective and fast business growth.

We continued to perfect our 4G network coverage and quality, in order to provide a solid foundation for "4G+5G" premium network. In connection with our broadband network, we emphasised in raising network resources utilisation. In the northern regions, the Company strived to maintain our leadership in coverage, quality and experience, while in the southern regions, it focused on enhancing network capabilities through private capital cooperation in high-value regions. We were also eyeing opportunities presented by cloud-network integration and corporate informatisation, as we endeavoured to build "premium networks for government and enterprise customers" and enhance coverage of commercial buildings in order to stay ahead in cloud-network synergy.

In 2018, the Company added 0.14 million 4G base stations to bring the total number of 4G base stations to 0.99 million. FTTH ports accounted for 82% of the total fixed-line broadband ports, while the percentage of FTTH subscribers to total broadband subscribers reached 82%. There had been ongoing improvement of network quality and customer perception in our focused regions and continued growth in Net Promoter Score (NPS) for both mobile network and fixed-line broadband. We also maintained industry-leading average uplink and downlink speeds in 4G networks and the industry-best indicators in network latency.

### **Proactive deployment of 5G scale trial to advance industry ecosystem**

In December 2018, the Ministry of Industry and Information Technology consented to China Unicom to use the frequency band of 3500-3600MHz nationwide for launching the trial of 5G mobile communications system.

The Company is actively promoting 5G network and industry applications trial in key cities and plans to expand the scale of trial as appropriate based on the testing results and maturity of equipment. It will track closely the progress of the industry and strengthen the synergetic development of terminal, network and business, riding on the benefits of the value chain advantages of 3.5GHz. It concurrently promotes the maturity of the value chain of Non-Standalone (NSA)/Standalone (SA). The Company will closely monitor the schedule of 5G licensing and accelerate the upgrade of the auxiliary facilities for 5G. The Company is taking an active approach in researching and driving network co-building and co-sharing of 5G with various cooperation modes to lower the network construction cost. Upholding the principle of open cooperation and win-win development, the Company joins hands with the value chain to enjoy the new bonus to be brought by 5G.

Looking ahead, the Company will maintain precise investment with due regards to the technological advancement, regulatory policies, market demand and competitive landscape, etc.

### **MIXED-OWNERSHIP REFORM**

In 2018, the Company fully upheld the principles to "enhance governance, strengthen incentives, protrude core businesses and raise efficiency" and deepened the implementation of mixed-ownership reform. Improvements were made to our corporate governance structure. We carried out in-depth cooperation, introduced innovative business models and drove synergetic development with strategic investors. Unicom A Share Company employee share incentive scheme was implemented. Mechanisms and systems were further transformed and the market-oriented incentive mechanism was further optimised. Mixed-ownership reform started delivering bonus.

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## **Leveraging external resources and capability to boost new energy for innovative development**

The Company actively advanced comprehensive and in-depth cooperation with strategic investors. It actively identified and consolidated the resource edges of various parties to facilitate complementary use of strengths and create win-win for all parties. Efforts were made to drive the integrated development of the value chain for key businesses, boosting new energy for the Company's operational transformation and innovative reform.

During the year, cooperation in Internet touchpoints with Tencent, Alibaba, Baidu, JD.com and Didi, etc was deepened to facilitate precise and effective acquisition of new customers. Our 212C subscriber base reported a net addition of 44 million subscribers for the full year to bring the total to about 94 million subscribers. In connection with content aggregation, premium video contents from Baidu, iQIYI and Tencent, among others, were introduced to enhance the competitiveness of our IPTV and mobile video content business. In industry Internet, the Company focused on Cloud Computing, Big Data, Internet of Things and Artificial Intelligence (AI), promoting in-depth cooperation with Tencent, Baidu, Alibaba, JD.com and Didi, etc. We entered into cooperation with Alibaba and Tencent for public cloud products, branded "WO Cloud", and hybrid cloud products. In deepening capital cooperation, we set up joint ventures, namely Yunlizhahui Technology, Yunjing Wenlv Technology and Yunjizhahui Technology, with Alibaba, Tencent and Wangsu respectively, aiming to better capture the market opportunities in industry Internet with an asset-light business model and accrue energy for our innovative development in the future.

## **Taking the opportunity presented by mixed-ownership reform to deepen the innovative reform of systems and mechanisms**

Focusing on the enhancement of vibrancy and efficiency, the Company continued to deepen the innovative reform of its systems and mechanisms. Streamlining was advanced as a normalised initiative and staff were encouraged to move to sub-divided units and innovative business in an ongoing effort to optimise our organisation and staff structure. Improvements were made to our market-oriented incentives with the formation of a differentiated compensation system, staff selection and appointment mechanism linked to

returns and efficiency. Unicom A Share Company employee restrictive share incentive scheme was successfully implemented to closely align the staff and shareholders' interests with those of the Company. In 2018 and early 2019, around 810 million shares of Unicom A Share Company were issued to about 8,000 key managerial staff and core talents. Ongoing efforts were made to deepen our sub-division reform and advance mixed-ownership reform at subsidiaries to stimulate vibrancy of micro-entirety. Through steady implementation of operation reforms of contract-out, our Yunnan Branch reported accelerated network construction and business growth, as well as significant enhancements in operating efficiency.

## **SOCIAL RESPONSIBILITY AND COMPANY HONOURS**

In active fulfilment of its social responsibility, the Company firmly believes that social responsibilities should be rooted in corporate strategies, incorporated in management, and implemented through operations. Insisting on new development philosophy, the Company seeks to better meet the ever-increasing demand of the public for a pleasant information and communication life. It continued to improve its corporate governance, and ensured that its operations were compliant and its duties were duly performed. It built smart premium networks with craftsmanship, actively contributing to the development of China into a cyber superpower. The Company insisted on eco-friendly low-carbon construction, and continued to promote co-building and co-sharing of telecommunication infrastructure, while safeguarding network security to create a secure and clean cyberspace. In accordance with the principle of "All for Customers", the Company provided customers with a rich variety of smart products and smart applications, bringing them a convenient and cosy life. It actively laid the groundwork for developing cutting-edge smart technologies to propel the in-depth integration between information technology and the real economy, with a view to facilitating the transformation and upgrade of traditional industries, the economy and the society. The Company has been contributing to the creation of a smart Winter Olympics and giving new energy to its successful organisation. The Company conducted targeted poverty alleviation in an effort to share benefits with people in the society. It cared for the well-being of its staff, and protected their basic rights. It also placed a strong emphasis on staff training to facilitate their growth and development.

In 2018, the Company received a number of accolades, including "Asia's No. 1 Best Managed Telecommunications Company" awarded by *FinanceAsia*, "Platinum Award for Excellence in Environmental, Social and Governance" by *The Asset*, "The Best of Asia – Icon on Corporate Governance" by *Corporate Governance Asia*, and "Asia's No. 1 Most Honored Telecom Company" by *Institutional Investor* for three years in a row.

## OUTLOOK

At present, China's economic development is entering a new era with a faster pace in the upgrade of new information and communication technologies, while global carriers are also stepping up with network upgrades and business transformation, providing ample opportunities for the development of the industry. The mixed-ownership reform has powered up the Company with differentiated advantages, bringing invaluable opportunities for development. Meanwhile, the Company is also facing the downward pressure in its traditional services, challenges arising from intensified market competition and the implementation of "Speed Upgrade and Tariff Reduction" policies, etc, prompting the Company to further deepen its Internet-oriented transformation and accelerating the pace of high quality development.

In the future, the Company will seize opportunities and tackle challenges as it puts the new development philosophy into practice, deepens the execution of the Strategy of Focus, Innovation and Cooperation and deeply advances mixed-ownership reform. We intend to unleash more institutional benefits brought by New Governance, activate greater internal vibrancy with New DNA, achieve better efficiency and returns with New Operation, tap into the broader blue ocean with New Energy, and put together greater synergetic advantages with New Ecology. We endeavor to chart new heights in China Unicom's "Five New" establishment and high quality development. The Company will resolutely carry out its Internet-oriented operation transformation, ensure stable development of its fundamental business and enlarge the scale of the innovative business in a bid to drive continuous business growth as a whole. We will build premium networks with precision and efficiency. We will actively engage in preparation for 5G while continuing to improve our 4G network and simplify our 2G/3G networks to provide solid assurance for business development. Innovative reforms relating to organisational structure, human resources, sub-

division contract-out, mixed-ownership reform at subsidiaries will be advanced deeply. We will endeavor to overcome hurdles in system and mechanism and stimulate vitality of micro-entity, thereby boosting our overall internal vibrancy for development. Ongoing efforts will be made to strengthen operation management and risk control. The Company will advance cost reduction and efficiency enhancement to continuously improve operating effectiveness and competitive strengths to drive greater value for all shareholders.

Lastly, on behalf of the Board of Directors, I would like to express our sincere gratitude to all shareholders, customers and fellows across society for their support of the Company, and to all employees for their continuous dedication and contribution along the way!



**Wang Xiaochu**

*Chairman and Chief Executive Officer*

Hong Kong, 13 March 2019

Note 1: EBITDA represents profit for the year before finance costs, interest income, shares of net profit of associates, share of net profit of joint ventures, other income-net, income tax, depreciation and amortisation. As the telecommunications business is a capital intensive industry, capital expenditure and finance costs may have a significant impact on the net profit of the companies with similar operating results. Therefore, the Company believes that EBITDA may be helpful in analysing the operating results of a telecommunications service operator like the Company.

Note 2: In August 2018, China Tower Corporation Limited ("Tower Company"), an associate company of the Company, was listed on the Hong Kong Stock Exchange with the issuance of new shares, leading to a change in the shareholding percentage of the Company in Tower Company and the share of net profit of associates accounted for under equity method to increase by RMB1,474 million.