

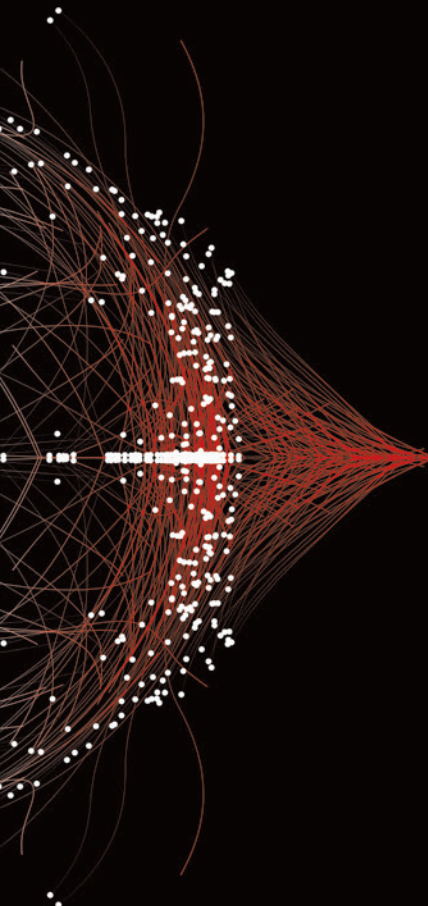
CHAIRMAN'S STATEMENT

Dear Shareholders,

2019 was a crucial year for China Unicom to implement high-quality development transformation. During the year, the Company actively responded to the complex environment and the short-term pains arising from transformation, deeply practised the new development philosophy, adhered to rational and orderly competition with self-discipline, implemented the “co-build and co-share” of 5G network, and deeply advanced the mixed-ownership reform. China Unicom’s “Five New” establishment continued to make inroads and achieved breakthrough in certain key strategic areas.

WANG XIAOCHU
Chairman and CEO





OVERALL RESULTS

In 2019, challenged by the complex internal and external environment, the Company continued to face pressure in revenue growth. To answer the severe challenges, the Company actively deepened transformation and promoted high-quality development, registering service revenue of RMB264.4 billion, representing an increase of 0.3% year-on-year. Benefiting from an effective cost control, despite the continuous impact of “Speed Upgrade and Tariff Reduction”, the Company’s profitability maintained a decent growth, with EBITDA¹ reaching RMB94.4 billion, representing a year-on-year increase of 11.1%; profit before income tax amounted to RMB14.2 billion and profit attributable to equity shareholders of the Company amounted to RMB11.3 billion, representing a year-on-year increase of 11.1%.

The Company persisted in precise and highly efficient investment and innovatively rolled out the “co-build and co-share” of 5G network, saving substantial capital expenditure while ensuring the highly efficient deployment of 5G network. In 2019, the Company’s capital expenditure amounted to RMB56.4 billion, and its free cash flow^{2,3} remained strong, reaching RMB26.4 billion. As at the end of 2019, the liabilities-to-asset-ratio² of the Company was 39.3%, representing a year-on-year decrease of 2.5 percentage points. The Company’s financial position became even more healthy with significantly enhanced financial strengths, laying a solid foundation for sustainable development in the future.

The Company attached great importance to shareholders’ returns. With due regard to the Company’s profitability, debt and cash flow level and capital requirements for future development, etc., the Board of Directors recommended the payment of a final dividend of RMB0.148 per share, as compared to a dividend of RMB0.134 per share for 2018. Going forward, the Company will continue to strive to enhance its profitability and shareholders’ returns.

BUSINESS DEVELOPMENT

In 2019, the domestic telecommunications industry development experienced a short-term pain with weak revenue growth and pressure on industry value. Facing the new dynamics and new challenges of the industry development, the Company adjusted the mobile development priority in the second half of the year, further self-disciplined on rational and orderly competition and strived to transform business model and promote development quality. At the same time, the Company boosted the capability and accelerated the scale development of innovative businesses, driving the stabilisation and gradual recovery of overall service revenue.

Timely adjusted mobile development priority and promoted business quality enhancement

In 2019, the development of the Company’s mobile service was heavily challenged by “Speed Upgrade and Tariff Reduction”, market saturation, fierce market competition and diminishing 4G data bonus. The Company proactively adjusted the priority, adhered to differentiated development, deeply promoted the Internet-oriented operation transformation, striving to shift the focus from scale development to the growth quality enhancement, and maintaining the value of the Company. The Company was committed to rational and orderly competition, strictly controlled the selling and marketing costs and actively addressed the ineffective and low-value products and channels. The Company prioritised resources to actively develop mid-to-high-end differentiated products. The Company leveraged big data to accurately drive new customer acquisition and existing user retention, while offering differentiated products and services to improve customer experience in active response to the mobile number portability policy. We pioneered to launch “5Gⁿ” brand, leading the consumption upgrade and promoting the recovery of customers’ value.

C H A I R M A N ' S S T A T E M E N T

In 2019, mobile service revenue of the Company amounted to RMB156.4 billion, representing a year-on-year decrease of 5.3%, and the rate of decline slowed down as compared with the first three quarters. The Company saw a net addition of 3.44 million mobile billing subscribers, reaching a total of 318 million mobile billing subscribers, of which, the net addition of 4G subscriber amounted to 33.84 million, reaching a total of 254 million 4G subscribers and accounting for 80% of mobile billing subscribers, which represented a year-on-year increase of 10 percentage points. The mobile subscriber mix continued to improve during the year.

The Company continued to implement “Speed Upgrade and Tariff Reduction” policy. While the unit pricing of mobile data service decreased significantly year-on-year, the total mobile data traffic volume and the monthly average DOU per mobile handset user continued to increase significantly. In 2019, the total mobile data traffic volume increased by 46%, and the monthly average DOU per handset user reached 8GB; Mobile Internet access revenue reached RMB102.8 billion.

Creating differentiated advantages in broadband service and making new breakthroughs in household market

Facing the fierce competition in the broadband market, the Company was persistent in rational and orderly competition and highlighted the advantages of its high bandwidth and integrated product with a view to actively coping with challenges. During the year, the Company focused on developing high quality gigabit broadband services in key cities. New broadband marketing models such as 2I2H and 2B2H were actively expanded by the Company. The Company also advanced the promotion of smart home products such as “WO Family fixed-line”, “WO Family surveillance”, “WO Family video platform” and “WO Family network deployment” to household customers, and further the integrated development of “fixed-line broadband + mobile service + smart hardware”, with a view to driving mutual growth across services.

In 2019, the Company’s fixed-line broadband access revenue decreased by 1.7% year-on-year to RMB41.6 billion. Fixed-line broadband subscribers registered a net addition of 2.60 million to a total of 83.48 million subscribers. The penetration rate of video content

service out of fixed-line broadband subscribers exceeded 50%. The penetration rate of the integrated service out of fixed-line broadband subscribers reached 59%, representing a year-on-year increase of 8 percentage points.

Accelerating transformation of growth drivers with continuous rapid growth of innovative services

The Company seized the opportunities arising from the digital transformation across industries, focused on key innovative businesses such as cloud computing, big data and artificial intelligence (AI) and Internet of Things (IoT), and drove the development of innovative businesses and fundamental services through the integrated operation of “cloud + smart network + smart application”. We strengthened the centralised operation, leveraged huge synergy of the “cloud-network-edge-node-business” and built a cloud business capability platform through ecological cooperation. The deployment of premium network for government and enterprises customers (SDN intelligent network) was accelerated and industrial Internet solutions and products were actively developed. Driven by 5G, the Company collaborated with leading players in certain key industries to actively create typical 5G applications, accelerate the incubation of innovative 5G industry applications, promoting the prosperity of 5G ecosystem and generating energy for future growth.

In 2019, the Company’s revenue from industry Internet business increased by 43% year-on-year to RMB32.9 billion, accounting for 12.4% of the total service revenue, becoming an important driver in stabilising service revenue momentum.

Driven by the rapid growth of innovative business, the Company’s fixed-line service revenue reached RMB105.7 billion, representing a year-on-year increase of 9.7%.

NETWORK CONSTRUCTION

Actively executed new vision with remarkable achievement in the “co-build and co-share” of 5G network

The Company was committed to a highly-efficient, well-paced and focused approach in 5G network deployment. We undertook the concept of open innovation, win-win cooperation and actively promoted the “co-build and co-share” of network.

On 9 September 2019, the Company entered into a cooperation agreement with China Telecom to jointly build one 5G access network across the country, creating a new model of centralised and rapid development of 5G. While significantly saving capital expenditure, the Company would enjoy the doubling of 5G network coverage, bandwidth, capacity and transmission speed, providing users with better experience. Currently, the two companies (China Unicom and China Telecom) shared 50,000 5G base stations and jointly saved investments costs of RMB10 billion. There were more than 60,000 5G base stations available for use by the Company, supporting the evolution of 5G service from trial to commercial launch.

In the future, the Company will leverage the advantages of “co-build and co-share” and invest steadily, precisely and dynamically on 5G network deployment, with due regard to the technological progress, maturity of the value chain, as well as market and business demand, etc. While achieving material saving in capital expenditure and operating expenses, the Company would see its 5G network quality comparable with the leading operator. In addition, the Company will actively and comprehensively step up the “co-build and co-share” with China Telecom in areas such as 4G indoor distributed antenna systems, server rooms, optical fibre and pipelines to further enhance network advantages and corporate value.

Precise infrastructure deployment brought substantial enhancement in network quality

Focusing on the demand of “5G + 4G” premium network and innovative business, network infrastructure was highly efficiently and precisely deployed. By fully leveraging the advantages of LTE 900MHz spectrum, the Company achieved vast improvement in the depth and breadth of 4G network coverage. The Company continued to optimise the network structure and accelerated the adoption SDN and NFV, cloudification and intelligent network. As at the end of 2019, the total number of 4G base stations of the Company reached 1.41 million (including 4G macro stations and indoor distribution systems), of which 0.24 million were LTE 900MHz base station, significantly enhancing the in-depth coverage and the wide coverage of rural areas of 4G network. A total of 200,000 NB-IoT-enabled base stations were in place, which significantly enhanced the capacity for Internet of Things business. Vo-LTE saw commercial roll-out nationwide and was connected automatically to customers. The Company continued to promote high-speed fixed-line broadband network deployment, showcased gigabit household broadband service in more than 100

major cities on top of the comprehensive coverage of 100Mbps offerings and deeply promoted the broadband cooperation in Southern China. As at the end of 2019, FTTH subscribers accounted for 85% of the Company’s broadband subscribers.

In 2019, the Company’s network quality and customer perception continued to improve in the focused regions. The Net Promoter Score (NPS) for mobile network and the NPS for fixed-line broadband services continued to increase. The average uplink and downlink speed of 4G network continued to lead the industry and the network latency garnered the best performance in the industry.

MIXED-OWNERSHIP REFORM

In 2019, the Company continued to push forward mixed-ownership reform and delivered the benefits, as it stepped up strategic cooperation and deepened the reform of system and mechanism.

Continued to strengthen strategic cooperation and advanced Internet-oriented transformation to next level

During the year, as the Company actively and continuously leveraged the edges in resources and capabilities of its strategic investors to deepen and innovate the cooperation, further synergy emerged.

In connection with touchpoint, the Company continued to advance cooperation with partners in online touchpoints and privilege and promoted offline cross-industry cooperation. As at the end of 2019, 212C subscribers reached nearly 100 million. The Company deeply and comprehensively integrated basic communication capabilities, smart hardware and content applications, and successfully created a number of new smart family products. In cloud computing, ongoing cooperation with Alibaba, Tencent and Baidu on public cloud and cloud networking, etc., was carried out, enhancing the business development capability driven by the synergy of cloud and network. In terms of big data, the smart cultural tourism joint venture established between the Company and Tencent kicked off a number of key projects across the country. Smart Steps, a joint venture, successfully introduced the investment from JD Digits and became No. 1 service provider in the country in demographic planning and big data. In Internet of Things, the Company carried out all-around cooperation in smart connectivity in areas such as mobile payment, travel service and smart wearable, with an increase of nearly 10 million connections during the year. At the same time, the Company deepened business cooperation and continued to explore joint investment opportunities

C H A I R M A N ' S S T A T E M E N T

in industrial internet, 5G + AI, content aggregation, payment finance and basic communication, while strengthening the alliance and creating new energy for innovative business development.

Deepened the innovation and reform of system and mechanism, enhancing the vibrancy of micro-entities

The Company made ongoing effort to deepen the innovation and reform of system and mechanism. The Company continued to streamline the organisations with corporate structure further simplified at provincial and city levels. Progress was further achieved in sub-division reform of all production units, where a total of 24,000 mini-CEOs were selected. The Company continued to strengthen the talent pipeline and introduced more than 7,000 talents in innovative business. Market-oriented incentive mechanism reform was advanced with a strengthened incremental return sharing mechanism. Approval for unlocking of the first tranche of Phase I China Unicom A Share Company employee restrictive share incentive scheme was successfully obtained. The mixed-ownership reform of subordinate companies was further deepened. Following the implementation of the socialised operational cooperation for the entire province at Yunnan Branch, operation in 7 cities of Guangxi Branch followed suit. Smart Steps introduced JD Digits as a strategic investor. Smart Connection Technology, a subsidiary of the Company, successfully introduced 9 strategic investors including FAW, Dongfeng Motor and GAC. With the continuous reform of the system and mechanism, the Company saw boosted corporate vibrancy and significantly enhanced operational efficiency.

SOCIAL RESPONSIBILITY AND CORPORATE GOVERNANCE

The Company has long been upholding new development philosophy and committed to the path of sustainable development, promoting ongoing advancement of social responsibility in the operation and development of the Company with a view to making new contributions for the growing demand for better information life among the general public.

The Company made active contribution to the development of China into a cyber-superpower, accelerated the construction of new generation communication infrastructure of high-speed, mobile,

safe and ubiquitous and successfully completed the communication assurance projects for major events. The Company leveraged a new model of the “co-build and co-share” of network to promote 5G development and powered up the transformation and upgrade of different industries. The Company vigorously promoted service and business model innovation, created centralised and intelligent service experience and actively prevented and cracked down on telecommunication fraud, in order to provide customers with useful, efficient and reliable information services. Forging the smart cooperation eco-system, the Company accelerated the establishment of an innovative 5G ecosystem and strengthened the cooperation with postal, finance and other industries with an aim to creating smart cooperation and a new win-win ecosystem. The Company was actively engaged in targeted poverty alleviation, the promotion of low-carbon technology, construction of green digital business outlet and creation of green solutions in order to benefit the public with better environment. Motivating the sense of ownership of our staff, the Company optimised the incentive mechanism, reshaped staff training and development system, to enhance the sense of achievement and happiness of its employees.

Since the beginning of this year, facing the outbreak of a novel coronavirus, the Company has been proactively undertaking social responsibility, assuring the effective communication services delivery and making use of new technologies such as big data, AI and 5G to support a precise epidemic control. The outbreak poised short-term challenges to the Company, however, it also accelerated demand by economy and society for transformation on digitisation, cyberisation and intelligence, thereby creating new opportunities to the Company. Striving to turn adversity into opportunities, the Company accelerated the transformation of Internet-oriented operation, provided innovative communications service offerings, strengthened O2O integrated operation and actively promoted new informatisation applications, thereby providing customers with accessible, convenient and highly efficient smart living services.

The Company continued to improve the corporate governance mechanism, enhance execution, and strengthen its risk management and internal control in a bid to providing solid support for the sustainable

and healthy development of the Company. In 2019, the Company attained a number of accolades, including, voted again as “Asia’s No. 1 Best Managed Telecommunications Company” by FinanceAsia, “Asia’s No. 1 Most Honored Telecom Company” by Institutional Investor for the fourth consecutive year and “The Best of Asia – Icon on Corporate Governance” by Corporate Governance Asia.

OUTLOOK

At present, despite the complex impact of the international environment and challenges brought by the transformation of economic structure and growth drivers, etc., the fundamental momentum of stable and long-term growth remained unchanged. Across the information and communication industry, the comprehensive deployment and operation of 5G commenced, new technologies were widely adopted, new landscape was reconstructed and new business dynamics emerged rapidly, posing opportunities and challenges to the industry development. Having endeavoured and implemented the Focus Strategy for a number of years, China Unicom strengthened its overall competitive strength and laid a solid foundation for future development.

Looking forward to 2020, although the Company continues to face the impact of high saturation of the traditional market, adverse impacts brought by fierce market competition and “Speed Upgrade and Tariff Reduction”, as well as new challenges such as the increase in capital expenditure and operating expenses arising from 5G deployment and the impact of the outbreak of COVID-19, the Company remains confident in actively responding to the challenges through grasping the valuable opportunities resulting from technological development and industry reform, committing to the strategy of focus, innovation and cooperation and firmly promoting the comprehensive Internet-oriented operation. Mixed-ownership reform will be further advanced as we pursue the goals of “enhance value, pursue growth, solidify fundamentals and be passionate”, leading to a new page of high-quality development.

The Company will uphold its new philosophy, focus on value creation, accelerate the transformation of consumer market products, expedite the quality and transformation of channels and speed up the improvement of customer operation capability to achieve stable and high-quality development of fundamental businesses. The Company will advance the scale and return of innovative businesses by speeding up the improvement of operation capability of the government and enterprise market, placing the focus on the advancement of core capabilities for innovative businesses such as cloud computing, big

data and Internet of Things and continuing to deepen strategic and ecological cooperation. We will accelerate the building of network leadership, actively leverage the advantages of the “co-build and co-share” of 5G network and LTE 900MHz frequency, focus on the user experience, effectively promote the deployment of 5G premium network, improve the depth and breadth of 4G network coverage, optimise resources allocation, and improve network utilisation rate. The Company will also strive to enhance its centralised IT support capability, improve customer service experience, deepen the innovation and reform of system and mechanism, strengthen fundamental management and risk management, as well as continuously improve its corporate governance capabilities, and thereby, creating greater value for 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 and to all employees for their continuous dedication and contribution along the way!



Wang Xiaochu
Chairman and Chief Executive Officer

Hong Kong, 23 March 2020

Note 1: EBITDA represents profit for the year before finance costs, interest income, share of net profit of associates, share of net profit of joint ventures, other income-net, income tax expenses, 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. However, it is a non-GAAP financial measure which does not have a standardised meaning and therefore may not be comparable to similar measures presented by other companies.

Note 2: Excluded the impact of adopting IFRS/HKFRS 16 Lease on the 2019 data.

Note 3: Excluded the impact of adopting IFRS/HKFRS 16 Lease, free cash flow represents operating cash flow less capital expenditure and capital element of lease rentals paid. However, it is a non-GAAP financial measure which does not have a standardised meaning and therefore may not be comparable to similar measures presented by other companies.