

# Chairman's Statement



**WANG XIAOCHU**  
Chairman and Chief Executive Officer

Dear Shareholders,

In 2020, in the face of the challenges from the complicated internal and external environment, the Company actively supported the pandemic prevention and control, firmly implemented the strategy of focus, innovation and cooperation, and accelerated the comprehensive digital transformation. It endeavored to optimise the ecology of the industry, and achieved remarkable results in the network "co-build and co-share", achieving growing momentum in operation and development. It further unleashed the power of the mixed-ownership reform and continued to make solid strides on high-quality development.

## OVERALL RESULTS

In 2020, the Company registered service revenue of RMB275.8 billion, representing an increase of 4.3% year-on-year, outperforming the industry average of 3.6% while the speed of development continued to lead the industry. The Company's profitability was steadily improved while quality and efficiency were remarkably enhanced. Profit before income tax amounted to RMB16.0 billion and profit attributable to equity shareholders of the Company amounted to RMB12.5 billion, representing a year-on-year increase of 10.3%. EBITDA<sup>1</sup> amounted to RMB94.1 billion.

The Company deeply implemented the new development philosophy and adhered to win-win cooperation. It fully implemented "co-build and co-share" of 5G network, further improving the cost efficiency. During the year, with effective control of the investment pace, the capital expenditure amounted to RMB67.6 billion. Free cash flow<sup>2</sup> remained strong, reaching RMB37.9 billion. The Company's financial position was further strengthened and solidified.

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 RMB0.164 per share, as compared to a dividend of RMB0.148 per share for 2019. Going forward, the Company will continue to strive to enhance its profitability and shareholders' returns.

## BUSINESS DEVELOPMENT

During the year, the pandemic repeatedly brought challenges to the Company's operations. However, the prevention of pandemic had accelerated the development of the digital economy. The Company seized the opportunities of development, turned adversity into opportunities, achieving effective pandemic prevention and control with orderly production and operation. The Company actively drove rational and disciplined competition in the market to promote healthy development of the industry. It restored growth in fundamental businesses and continuously enhanced the revenue generation capability in innovative businesses. The customer perception and service levels continued to improve, achieving initial success in high-quality development of the Company.

### Persistent in value-oriented operation to further improve the development quality of mobile business

The Company actively participated in creating positive industry dynamics, advocating rational competition and sustainable development, and shifting focus from subscriber scale development to subscriber quality and value enhancement. The Company continued its effort in building a digital operating system of marketing and servicing while strengthening Big Data empowerment to drive smart and targeted scenario marketing. By accelerating the offer of innovative products for consumer market and focusing on medical and hygiene, infotainment, sports and healthcare and other key areas, the Company provided customers with rich and diversified terminal experience. The Company provided customers with simplified self-service to improve its service support system. By optimising resource allocation, "cross-region integrated services" was launched to meet the mobility needs of customers, enabling customer satisfaction to continuously improve.

Our value-oriented operation delivered fruitful results, as the growth momentum of mobile business further emerged. The mobile service revenue and the billing subscriber ARPU grew sequentially for three consecutive quarters. In 2020, the Company's mobile service revenue rebounded and reached RMB156.7 billion. The mobile billing subscribers ARPU reached RMB42.1, up by 4.1% year-on-year. Mobile handset data traffic volume grew by 16.5% year-on-year, while the monthly average DOU per handset subscriber reached approximately 9.7 GB. Selling and marketing expenses further decreased, achieving steady pace in quality improvement transformation and the continuous improvement of profitability.



## **Seizing the window of opportunity to achieve scale breakthrough in 5G business**

2020 was the first year for scale development of 5G. The Company seized the opportunities and carried through value-oriented operation and service experience excellence to promote the scale development of 5G business. In consumer market, the Company deployed Big Data analytics for customer segmentation with precise strategy. It promoted online and offline integrated and multi-dimensional scenario target marketing for 5G business. The Company deeply advanced industry cooperation and created a 5G pan-smart terminal ecosystem integrating "terminal + content + application", empowering the consumer Internet market development. The Company actively prepared commercial trial of 5G Messaging and developed lightweight portal to improve product competitiveness by adhering to industry collaboration and co-built eco-system. In the government and enterprise market, focusing on areas such as industrial Internet, smart city, medical healthcare and others, the Company successfully built a number of 5G lighthouse projects, garnering over 250 high-quality lighthouse customers, and achieved 5G commercialisation in 2B (To Business) setting. The Company officially released three 5G private network products and built a centralised 5G private network/MEC self-service platform, elevating 5G innovative products and applications to a new level. In addition, leveraging the first-mover advantages in 5G and industry verticals, the Company led in establishing a 5G fund of funds to accelerate the formation of proprietary core competency system. With more than 1,000 members in 5G Application Innovation Alliance, the Company made phased progress in the industry eco-system construction.

During the year, the Company's 5G package subscribers reached 70.83 million, and the penetration rate of 5G package subscribers reached 23%, which was above industry average of 20%. As 5G network coverage further improves, applications featured by VR/AR games and high-definition 4K/8K video continue to enrich and the terminal penetration continues to increase, the Company will strive to promote the continuous rapid grow of 5G subscribers and effectively drive the sustainable and healthy development of mobile business.

## **Adopting customised strategy based on the geographical features to maintain steady growth of broadband business**

During the year, leveraging the differentiated advantages of broadband quality and content, the Company firmly grasped the valuable opportunities of rising demand in remote office, online education among others during the pandemic and strengthened

integrated operations, achieving steady growth in the fixed-line broadband services. In Northern China, the Company highlighted its broadband quality and service leadership to maintain its business scale. In Southern China, the Company continued to step up cooperation, activated broadband port resources and improved its operating system. Focusing on home market, the Company strengthened value-oriented operation for home users through bundling of smart home products, video and privileges. With Big Data analytics, precision marketing and retention management were powered up and the Company was able to carry out target marketing in key areas, continuously improving operational efficiency.

In 2020, the Company's fixed-line broadband access revenue amounted to RMB42.6 billion, representing an increase of 2.4% year-on-year. Fixed-line broadband subscribers registered a net addition of 2.62 million, reaching a total of 86.10 million subscribers. The penetration rate of the integrated service among fixed-line broadband subscribers reached 64%, representing a year-on-year increase of 5 percentage points.

## **Steadily enhancing proprietary capabilities to consolidate the foundation for innovative business development**

The Company firmly seized the development opportunities of digital industrialisation and industrial digitisation. It actively supported the pandemic prevention and control as well as the resumption of work, production and schooling, with its innovative cloud service models and digital pandemic prevention effort being widely recognised. Focusing on key areas such as smart city, digital government and industrial Internet, the Company promoted the integrated

marketing model of “cloud + smart networks + smart applications” to thoroughly develop application products in key industries. Based on cloud network capabilities, the Company built a “6+N+1” innovative business capability system and proudly released new WO Cloud 6.0, which integrated the capabilities of cloud, Big Data, IoT, artificial intelligence, security and blockchain. The initial establishment of WO Cloud PaaS had been applied in scale in key areas such as smart city and digital government, showing that the research and development, promotion and operation capabilities of the Company’s proprietary products steadily improved. The Company strengthened acquisition of leading and top talents such as CTOs and architects on market-oriented basis, enhancing its proprietary research and development capabilities continuously.

During the year, the Company’s revenue from industry Internet business increased by 30.0% year-on-year to RMB42.7 billion, as a percentage of the overall service revenue increased to 15.5%. Among which, revenue from ICT business grew 33.4% year-on-year to RMB13.4 billion; revenue from IDC and cloud computing reached RMB23.4 billion with a year-on-year increase of 26.1%; revenue from the Internet of Things (IoT) and Big Data services reached RMB4.2 billion and RMB1.7 billion respectively, representing a year-on-year growth of 39.0% and 39.8% respectively. Driven by the sound growth of innovative business and fixed-line broadband business, the Company’s fixed-line service revenue reached RMB116.9 billion, up by 10.6% year-on-year. In the future, the Company will speed up addressing the shortcomings of key core capabilities, promote proprietary technological innovation and continue to carry out in-depth cooperation to achieve win-win with partners.

## **NETWORK CONSTRUCTION**

### **Comprehensive promotion of “co-build and co-share” of 5G network continuously improved return**

The Company executed the new development philosophy, implemented the new infrastructure requirements and built the world’s first and largest “co-build and co-share” 5G network with China Telecom, with the total scale of 5G base stations of 380,000, achieving the coverage scale basically equivalent to that of the leading operator for the first time in history. The “co-build and co-share” initiative resulted in a cumulative saving of network investment of over RMB76.0 billion for both parties. It also significantly reduced network operating costs and greatly shortened the network deployment cycle. At present, the Company realised the world’s first scale commercialisation of Stand-alone network and achieved 100% Network Function Virtualisation (NFV) in 5G core network. During the year, the Company achieved a scale breakthrough in 4G networks “co-build and co-share” with China Telecom by adding 170,000 “co-build and co-share” 4G base stations and saved a total of RMB9.0 billion for both parties in network investment. The Company actively promoted the co-build of optical cables and the co-share of fiber core and cloud infrastructure, significantly improving the network utilisation and efficiency.

### **Precise investment enhanced quality, return and differentiated network edges**

The Company insisted on focused, precise and value-oriented deployment with iterative investment flexibility, which significantly improved network quality and enhanced network service support capabilities. In mobile network, the Company adhered to the Focus Strategy and “co-build and co-share”. It strived to achieve 4/5G network integration and unified voice carrying by IMS. In fixed-line broadband, the Company continued to maintain its leading position in coverage, speed, user experience and services in Northern China, while focusing on tackling shortcomings and improving capabilities in Southern China. The Company also continued to improve the premium network for government and enterprises customers, deepened the cloud infrastructure and data centers layout, enhancing network competitiveness. The Company stepped up efforts in digital transformation and innovation of network and continued to promote the evolution of network cloudification, further optimising the infrastructure of cloud and network integration. Aligning with the trend of network evolution, the Company systematically promoted the operation system reform of network function, continuously improving the efficiency and effectiveness of network operations. During the year, the Company’s mobile network NPS and fixed-line broadband NPS

continued to improve, achieving remarkable results in high-quality network development.

## **MIXED-OWNERSHIP REFORM**

### **Achievements and benefits of mixed-ownership reform further emerged and consolidated**

The Company continued to explore new governance based on mixed-ownership reform and its own resources and edges. It accelerated the promotion of comprehensive digital transformation, introduced the superior resources advantages of strategic investors and partners in the course of its development, consolidating the foundation for mixed-ownership reform and transformation. During the year, the cooperation of the Company with the eco-system progressed steadily. The joint ventures such as Yunlizhahui, Yunjingwenlv, Yundi, Yundun and Smart Steps continued to promote product research and development and iteration upgrade to boost market expansion, significantly increasing the Company’s product capabilities and market shares in areas such as smart city, tourism, industrial Internet, network security and demographic Big Data. The Company also actively deployed new tracks by establishing several strategic cooperation centers and joint laboratories with Baidu, Alibaba and JD to explore 5G application scenarios with artificial intelligence, edge computing and network slicing, etc., creating differentiated competitive advantages brought by resources edges of strategic investors of mixed-ownership reform.

# CHAIRMAN'S STATEMENT

## **Improved quality and expanded scope in operational reform had opened a new chapter in comprehensive digital transformation**

The Company synergistically advanced reform and comprehensive digital transformation. The reform of the operating systems of six professional functions was fully implemented with workflow redesigned and rationalised, empowering digital and innovative operation. During the year, the number of management departments was optimised continuously in the headquarters. The structure of provincial branches was further streamlined and flattened with increasing features of matrix. The Company accelerated the construction of the “five major middle platforms” and historically completed 100% migration to the centralised Business Support System (cBSS), further expanding its leadership brought by the centralised IT system. The Company's supply chain system pioneered in digital transformation among central State-owned enterprises, and achieved Internet-based transactions of over 80%, remarkably growing operational efficiency and development efficacy. The scope of market-oriented reform of subordinate companies was further expanded and the transformation of operating mechanisms accelerated, continuously releasing the intrinsic energy and vitality of the Company.

## **SOCIAL RESPONSIBILITY AND CORPORATE GOVERNANCE**

The Company actively leveraged information communication to drive and facilitate the value chain as well as the economic and social development. It also set a positive example in fulfilling economic, environmental and social responsibilities. During the year, facing the sudden pandemic, the Company vigorously delivered communication assurance and smooth network traffic. Leveraging the advantages of new digital technology, the Company supported precise pandemic prevention and control and orderly resumption of work, production and schooling. Unicom Big Data Co., Ltd. was awarded the honorary title of “National Advanced Group in Fighting Against COVID-19”. Capitalising on its network and technological advantages, the Company supported targeted poverty alleviation and accelerated the infrastructure construction such as broadband and 4/5G network, striving to narrow the digital divide in poverty-stricken areas. In addition, the Company adhered to the harmonious symbiosis of human and nature, vigorously promoted green and low-carbon technology, strengthened electromagnetic radiation management and build a green supply chain so as to guard the safety boundary of the natural ecological environment.

The Company continued to excel its corporate governance mechanism, enhance execution and strengthen risk management and internal control, in a bid to providing solid support for the sustainable and healthy development of the Company. In 2020, the Company attained a number of accolades, including being awarded “Asia's Best Corporate Governance Company” by FinanceAsia and voted “Asia's No. 1 Most Honored Telecom Company” by Institutional Investor for the fifth consecutive year and ranked 286th in “The Forbes Global 2000”.

The former US President issued an executive order 13959 (the “Executive Order”) on 12 November 2020, and subsequently the US Department of Treasury's Office of Foreign Assets Control issued the guidance. The Executive Order and the guidance prohibit any transaction by any US person in publicly traded securities (including, among others, derivatives thereof) of certain Chinese companies, including the Company. The New York Stock Exchange (“NYSE”) staff determined that, based on the Executive Order and the guidance, it commenced the process to delist the Company's American Depositary Shares (the “ADSs”) and suspended trading in the Company's ADSs from 11 January 2021. Since its listing on The Stock Exchange of Hong Kong Limited and the NYSE in 2000, the Company has complied strictly with the laws and regulations, market rules as well as regulatory requirements of its listing venues, and has been operating in accordance with laws and regulations. The Company was disappointed by the Executive Order and NYSE decisions, which led to a negative impact on the trading prices of its ordinary shares and ADSs and harmed the interests of the Company and its shareholders. In order to protect the interests of the Company and its

shareholders, on 20 January 2021, the Company filed with the NYSE a written request for a review of the determination by a Committee of the Board of Directors of the NYSE. Please refer to the Company's announcement dated 21 January 2021 for details. The Company will continue to pay close attention to the development of related matters and also seek professional advice and reserve all rights to protect lawful rights of the Company.

## OUTLOOK

Currently, with the rapid development of information technology, we are entering a rapidly changing information era. It is foreseeable that in the near future, ubiquitous connections and rapid transformation arising from intelligentisation and digitisation will profoundly impact the form of social and economic operations. The digital industrialisation and industrial digitisation will give birth to a huge emerging market. At the same time, the risks resulting from the rapid changes in domestic and overseas macroeconomic environment, the emergence of new industry competitive dynamic and the transformation of new and old growth drivers will bring new challenges to the corporate development in the future.

In 2021, facing the complicated changes in the internal and external environment, the Company will firmly grasp the key opportunities for the scale development of 5G, continue to deeply implement the strategy of focus, innovation and cooperation, accelerate the comprehensive digital transformation and focus on shaping the "Five-high" new development edges with high-quality service, high-quality development, highly effective governance, high-tech engine and high-vitality operation. The Company will also adhere to win-win cooperation, actively drive

innovation, ignite organisational vibrancy and continuously promote development transformation and upgrade. It will comprehensively improve quality of growth and operational efficiency, in order to create greater value for shareholders, customers and society.

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, 11 March 2021

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: Free cash flow represents operating cash flow less capital expenditure. 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.