

CHAIRMAN'S *Statement*



WANG XIAOCHU
CHAIRMAN AND CEO

DEAR SHAREHOLDERS,

Since the beginning of 2018, the Company has proactively promoted a new development philosophy, deepened the implementation of the Strategy of Focus, Innovation and Cooperation and fully accelerated the establishment of China Unicom's "Five New", featuring New DNA, New Governance, New Operation, New Energy and New Ecology. We have been gradually speeding up the pace in driving Internet-oriented operations, while our efforts in mixed-ownership reform started delivering notable enhancement in growth momentum, quality, efficiency and corporate vibrancy, achieving overall a good start in the kick-off year of the mixed-ownership reform.

OVERALL RESULTS

The Company reported remarkable growth in its operating results for the first half of 2018. Service revenue amounted to RMB134.4 billion, representing an 8.3% year-on-year growth, atop of its industry peers. EBITDA¹ amounted to RMB45.7 billion, up by 4.9% year-on-year. The profit before income tax reached RMB7.8 billion and the profit attributable to equity shareholders of the Company increased by 145% year-on-year to RMB5.9 billion.

The Company upheld its precise investment strategy

and strived to enhance investment returns by taking extensive effort to exploit the potential value of various resources and drive sharing through cooperation. Capital expenditure for the first half of the year amounted to RMB11.6 billion. Thanks to the effective management of capital expenditure and notable improvements in profitability, the Company's free cash flow amounted to RMB39.3 billion, reaching another record high level. Its liabilities-to-assets ratio went further down to 43.8%, reflecting an increasingly healthy financial position.

Taking into account the Company's profitability, debt obligations and cash flow level, capital requirements for future development, etc., the Board of Directors decided not to pay an interim dividend for the current year. The Board will submit a proposal for final dividend payment based on our overall results for the year for consideration at the shareholders' general meeting.

BUSINESS DEVELOPMENT

Fast and highly effective mobile service growth driven by the deepened Internet-oriented innovative operations

During the first half of the year, the Company centered its energy on driving business model innovation with light touchpoints and low acquisition costs and stepping up effort in transformation into an Internet-oriented operation, enabling accelerated growth and high-quality development of mobile service. Mobile service revenue reached RMB84.3 billion, representing a year-on-year growth of 9.7% that exceeded the industry average substantially by nearly 8 percentage points. Mobile billing subscribers achieved a net increase of 17.86 million, reaching a total number of 302 million mobile billing subscribers. The average revenue per user (ARPU) of mobile billing subscribers amounted to RMB47.9, which was largely stable compared to the full year of 2017.

During the period, the Company actively strengthened the development of its differentiated operations. Leveraging fully the first-mover advantages in Internet-oriented operation and the centralised IT system, the Company expedited product upgrading and optimisation. The Company enhanced its cooperation in content and privileges offering to satisfy the sub-divided markets. Differentiated products have been launched to meet the unanswered demand of heavy data users. The Company promoted O2O touch-point unified operation and actively expanded new sales touchpoints to widen customer reach and flow while strengthening business convergence and bundling to promote mutual growth. For the first half of the year, the Company's 4G business registered scale

development and its 4G subscriber base saw a net increase of 28.23 million to a total of 203 million. The 4G subscriber market share was up by 3 percentage points year-on-year. The proportion of 4G subscribers in total mobile billing subscribers increased by 16 percentage points year-on-year to over 67%.

The Company strengthened data traffic operation and strived to achieve win-win in implementing "Speed Upgrade and Tariff Reduction" policy leveraging price elasticity. It proactively prepared for the implementation of the policy of the cancellation of domestic mobile data "roaming" charges effective 1 July by optimising tariff packages and strengthened effort to promote heavy data packages to facilitate a smooth transition for customers. For the first half of the year, the unit pricing for the Company's mobile data service decreased substantially year-on-year, while the mobile data consumption volume sustained robust growth. The monthly average DOU per handset subscriber increased by 2.2 times year-on-year, while handset Internet access revenue grew by 25% year-on-year to RMB53.4 billion.

Continuous improvement in broadband service amid intense competition

During the first half of the year, the Company adopted proactive measures in response to intense market competition and continued to report improvements in its fixed-line broadband business.

Adhering to the strategy of "big integration, big bandwidth and big video" and to satisfy the various demand of household market, the Company continued to optimise the array of integrated products, striving to increase penetration of bundle services and drive mutual development. The Company promoted high-bandwidth products and further enhanced network coverage and quality with increased private capital cooperation so as to strengthen the edges in network capability. Featuring the power of content, the Company continuously enriched quality video content to boost customer loyalty and stickiness. Integrated products value was further enhanced by bundling popular smart home

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applications such as home networking services, smart gateway, video surveillance, etc. For the first half of the year, the Company's fixed-line broadband access revenue amounted to RMB21.5 billion, which was largely stable compared to the same period last year. The number of fixed-line broadband subscribers increased by 2.38 million on a net basis to 78.92 million. Video service subscribers accounted for over 43% of the fixed-line broadband subscribers, up by 10 percentage points year-on-year.

Rapid development of innovative service contributed to the solid growth of fixed-line service

During the first half of the year, facing the enormous opportunities in the new business areas such as Cloud Computing, Big Data and the Internet of Things ("IoT"), the Company accelerated the efforts on sharpening the core capability in innovative product platforms and products, focusing on key sectors such as government affairs, education, medical and healthcare, environmental services, tourism and industrial Internet. The Company also established system and mechanism segregated from its fundamental services and proactively expanded markets to drive new breakthroughs in its innovative business.

Driven by cloud business, the Company made great efforts in delivering cloud-network integrated corporate solutions to drive rapid growth in both cloud and network businesses. Expediting the new integrated sales model transformation, "Cloud + Smart Networks + Smart Applications" and targeting government and enterprise customers markets, the Company offered customers cloud-network integrated services and intelligent network services to drive the growth of its fundamental services. Taking advantage of the synergies with our strategic partners introduced by the mixed-ownership reform, we innovated business model and actively explored cooperation by way of investment or capital financing to diversify ownership structure and achieve asset-light operation, strengthening new energy for

innovative development. In the first half of the year, the Company's innovative business sustained rapid growth. The Industrial Internet business reported revenue of RMB11.7 billion, representing a 39% growth year-on-year. Within which, revenue from cloud business grew by 39% year-on-year. Driven by the rapid growth of the innovative business, the Company's fixed-line business reported a turnaround from decline to positive growth, with its revenue reaching RMB49.1 billion, representing a 5.5% year-on-year growth.

NETWORK CONSTRUCTION

During the first half of the year, adopting a return-oriented approach and focusing on market demand and business transformation requirement, the Company sought to build high-quality networks through precise investments, providing effective support for fast business development.

With a persistent emphasis on focus and cooperation, the Company continued to strengthen its investments in key cities, 4G networks and regions with promising high data traffic and returns for enhanced investment efficiency. It actively carried out resources sharing and private capital cooperation to meet market demands in regions with weak resources. It also deployed Big Data to monitor traffic hotspots to facilitate dynamic and precise capacity expansion. During the first half of the year, the Company further strengthened its network capability with 0.06 million 4G base stations added, driving the total number of 4G base stations to 0.91 million, while FTTH ports accounted for 81% of the total fixed-line broadband ports. Our 4G network utilisation rate increased continuously and the percentage of FTTH subscribers to total broadband subscribers reached 79%. The Company continued to see network quality and customer perception on the rise in focused regions, as we achieved industry leading average uplink and downlink speeds in 4G networks, Net Promoter Score (NPS) on mobile network and fixed-line broadband enhanced further and Internet network latency being industry-best.

The Company actively engaged in new technology evolution and scientifically planned for network deployment on a forward-looking basis. With an aim for fostering core competence for long-term sustainable development, the Company built up network infrastructure resources and capability, promoting the advancement of cloud-based, intelligent, open and ubiquitous networks.

MIXED-OWNERSHIP REFORM

Adhering to the principle of “enhance governance, strengthen incentives, protrude core businesses and raise efficiency”, the Company actively pushed forward the implementation of the mixed-ownership reform.

During the first half of the year, the Company advanced comprehensive and in-depth cooperation with strategic investors. We continued to cooperate with Tencent, Alibaba, Baidu, JD.com and DiDi to expand Internet touch points, effectively reaching out to new customers, especially the youth market, achieving a development model with low subscriber acquisition cost and subsidy. Our 2I2C business saw rapid growth with subscriber base reaching 77 million and driving the rapid growth in 4G subscribers. The public cloud products branded as “WO Cloud” were launched in association with Alibaba and Tencent, providing differentiated products and services to our customers. Cooperation in cloud-network integrated products was also kicked off, aiming to equip customers with capability in hybrid cloud networking. The joint venture with Alibaba created a powerful alliance to offer customised application software services to government and enterprise customers. Active efforts were made to explore the development of New Retail pilot outlets, as we joined forces with Alibaba, Suning, JD.com and Tencent. Making good use of Big Data, we were able to enrich product portfolio in stores and strengthen synergy and flow between online and offline operation, resulting in a significant boost for our business development. Our cooperation with strategic investors in innovative businesses, such as IPTV, mobile video contents, Big Data, IoT and AI, and in fundamental businesses

continued to report smooth progress with win-win development.

The Company is committed to ongoing in-depth implementation of system and mechanism innovation and reform to enhance corporate vibrancy and efficiency. During the first half of the year, continuous efforts were made to streamlining and re-organisation. Through reducing demand on outsourcing and encouraging staff to join sub-divided units and innovative business, our organisation and staff structure were further optimised. To charge up energy for innovative business development, the Company had appropriately stepped up human capital investment by actively recruiting new talents in innovative business and strengthening the performance-based incentives mechanism to achieve a better alignment of efforts and rewards. It adopted a differentiated compensation system for the innovative business which was segregated from traditional business. The sub-division reform was deeply enforced, aiming to achieve sharing of incremental return with revenue and gross profit as KPIs, while aligning responsibilities with authorities and rewards to lift corporate vibrancy and efficiency. China Unicom A Share Company’s employee share incentive scheme, with unlocking conditions set on a scientific basis, was smoothly launched, with 794 million restrictive shares of the China Unicom A Share Company being issued to 7,752 key managerial staff and talents under the initial grant and set to align our shareholders’ and staff interests with the corporate development.

CORPORATE GOVERNANCE AND SOCIAL RESPONSIBILITY

The Company continues to improve its corporate governance mechanism, enhance its execution capability and strengthen its risk management and internal control, in a bid to providing solid protection for sustainable and healthy development. During the year, the Company was awarded a number of accolades, including “Asia’s No. 1 Best Managed Telecom Company” by FinanceAsia and, for three years in a row, “Asia’s No. 1 Most Honored Telecom Company” by Institutional Investor.

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The Company has taken initiatives in fulfilling its social responsibilities. Adhering to the development philosophy of "Innovation, Coordination, Greenness, Openness and Sharing" and deepening the supply-side structural reform, the Company is committed to meeting the ever-increasing demand for information life of the public and actively supporting the harmonious economic, social and environmental development. The Company persisted in smart development and built a quality network with craftsmanship spirit to provide users with smart network experience featuring higher speed, wider coverage and better perception. It vigorously developed smart living and smart industry, and provided a variety of "smart+" applications, enabling the public to enjoy more convenient and more intelligent information life. It fully participated in universal telecommunications services, implemented "Speed Upgrade and Tariff Reduction" and constantly introduced new concessionary offerings to narrow digital divide across regions. The Company actively engaged in green operation, facilitated cost reduction and efficiency enhancement, improved development quality and promoted harmonious and symbiotic growth of the enterprise and environment.

OUTLOOK

At present, the industry is embracing at tremendous market opportunities arising from the deep integration of the Internet with the real economy aided by the shifting of the growth model of China's economy from emphasising on high speed to high quality, as a new cycle of technological and industrial revolution is looming in the wake of the fast-paced development of the digital economy. The mixed-

ownership reform has empowered the Company with differentiated advantages, resulting in invaluable opportunities for development. Meanwhile, the continued downward pressure in our traditional businesses, the cancellation of domestic mobile data "roaming" charges effective 1 July and the cyclical escalation of market competition in the second half of the year will collectively impose challenges for the Company's development.

In the second half of the year, the Company will actively cope with challenges and persistently deepen the execution of its Strategy of Focus, Innovation and Cooperation. It will accelerate the establishment of China Unicom's "Five New" to drive high-quality sustainable growth in full-force. By unleashing the unique edges, the Company will persevere in the implementation of the Internet-oriented operation, creating differentiated competitive advantages. Centred on return and efficiency, and riding on Internet-oriented operation transformation, the Company strived to enhance total-factor development efficiency. The Company will enhance its key capability in network, IT and management on all fronts to provide a solid foundation for the healthy and sustainable development of various businesses. We will step up investments appropriately for nurturing the future growth engines. Seizing opportunities afforded by the mixed-ownership reform, we will deepen strategic cooperation and further advance the system and mechanism reform, accelerating the delivery of benefits from the reform and comprehensively enhancing the Company's overall competitive strengths with a view to 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 friends across society for their support to the Company, and to all employees for their continuous dedication and contribution along the way!



Wang Xiaochu

Chairman and Chief Executive Officer

Hong Kong, 15 August 2018

Note 1: EBITDA represents profit for the period 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.