



**WANG  
XIAOCHU**

*CHAIRMAN AND CEO*

# CHAIRMAN'S STATEMENT

**DEAR SHAREHOLDERS,**

In the first half of 2019, in the midst of increasingly complex external environment and facing new challenges in the industry development, the Company deepened execution of the Strategy of Focus, Innovation and Cooperation and accelerated the Internet-oriented transformation. It also strengthened the implementation of mixed-ownership reform, leading to continuous rapid growth in its innovative businesses and bringing notable enhancement in growth quality, return and corporate vibrancy as well as making solid strides in China Unicom's "Five New" establishment.

## CHAIRMAN'S STATEMENT

### OVERALL RESULTS

In the first half of 2019, the domestic telecommunications industry experienced short-term pain, which posted pressure to the revenue growth of the Company. During the period, the Company's service revenue amounted to RMB133.0 billion, representing a decrease of 1.1% year-on-year. Nevertheless, the Company continued to report rapid profit growth as it persisted in implementing its new development philosophy by boosting new energy for innovative development and controlling cost to enhance return. EBITDA<sup>1</sup> amounted to RMB49.5 billion, up by 8.4% year-on-year. Profit before income tax reached RMB8.7 billion, while profit attributable to equity shareholders of the Company increased by 16% year-on-year to RMB6.9 billion.

The Company upheld its precise investment strategy with co-sharing and cooperation to enhance the return of its investment. Capital expenditure was under good control in the first half of the year and amounted to RMB22 billion. Thanks to the sound management on cost control, the Company's free cash flow remained strong at RMB20.3 billion, sending continuous improvement in financial position and building stronger financial health to the Company.

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 in relation to final dividend payment based on our overall results for the year for consideration at the shareholders' general meeting.

### BUSINESS DEVELOPMENT

In the first half of 2019, the domestic telecommunications industry reported revenue decline year-on-year. Facing new challenges in the industry development, the Company proactively pushed forward innovation in the operation of the fundamental business while accelerating the capability development and scale expansion of the innovative businesses. The innovative businesses sustained strong growth momentum during the period, contributing to the continuous optimisation of the service revenue mix.

#### **Continued to push forward transformation of Internet-oriented operation to drive high-quality sustainable development in mobile service**

During the first half of 2019, while facing difficulties and challenges of development in mobile service, the Company persisted in driving differentiated operations with a focus on increasing the effort in Internet-oriented transformation on products, channels and marketing, striving to avoid simple price competition, with the aim to attaining high-quality sustainable growth. With an emphasis

on strengthening its advantage in product differentiation, the Company sub-divided its customers and enhanced integrated offerings, especially in bundling with value-added functions such as membership privileges and customer credit. Efforts were made to expand the development model with "light touchpoint" and "light subsidy" to increase efficiency in user acquisition. The Company enhanced the online-to-offline (O2O) touchpoint unified operation, leveraging Big Data analytics to extract values from existing customers and enhance customer retention and value. In the first half of the year, the Company's mobile service revenue amounted to RMB78.7 billion, representing a decrease of 6.6% year-on-year, reflecting the impact of "Speed Upgrade and Tariff Reduction" policy, market saturation, keen market competition and diminishing 4G data bonus. Mobile billing subscribers achieved a net increase of 9.32 million, reaching a total of 320 million mobile billing subscribers, of which 4G subscribers registered a net addition of 19.01 million, reaching a total of close to 240 million 4G subscribers. Our 4G subscriber market share was up by 0.8 percentage points year-on-year, while 4G penetration for mobile billing subscribers reached 74%, up by 6.4 percentage points year-on-year, underpinning ongoing improvements in the mobile subscriber mix. In tandem with the Company's implementation of "Speed Upgrade and Tariff Reduction" policy, the unit pricing for the Company's mobile data service decreased substantially year-on-year, while the mobile data traffic volume grew by 62%. The monthly average DOU per handset subscriber reached approximately 7 GB.

In the second half of the year, the Company will gradually leverage the edges of its new LTE 900MHz network in terms of in-depth coverage and wide coverage in rural area and build a premium "5G+4G" network to support business development. The Company will optimise the Internet-oriented product portfolio and exercise stringent control over user acquisition costs and ultra-low tariff packages to enhance quality development. Through strengthening integrated operation, the Company will step up the promotion of its new product "telecommunication capability + smart hardware + content applications", while enhancing user experience by offering differentiated products and services in active response to the challenges brought by mobile number portability. All in all, the Company will commit full efforts to drive mobile service revenue steady-to-rising. Mobile service revenue in July 2019 was up 1.6% as compared to that of June.

## CHAIRMAN'S STATEMENT

### Actively countered exceptionally intensive broadband competition to forge prospective competitive strengths

During the first half of 2019, the Company actively addressed the challenge of intense competition in the broadband market by adopting the strategy of "Big Video, Big Integration and Big Bandwidth". To highlight the advantage of high bandwidth, the Company promoted gigabyte-level high quality broadband products in its incumbent region, Northern China and the key cities in Southern China. It promptly raised network utilisation rate and advanced broadband cooperation in Southern China with intensive efforts. The new 2I2H and 2B2H broadband marketing models were built to enhance marketing capabilities. Leveraging the resource advantage of the strategic investors, premium video contents and various content privileges were enriched to increase subscriber stickiness. Focused efforts were made to launch the integrated development of "fixed-line broadband + mobile number + smart hardware" and advance the promotion of smart family products such as "WO Family fixed-line", "WO Family home network deployment", "WO Family smart surveillance" and "WO Family video platform", with a view to driving mutual growth.

For the first half of 2019, the Company's fixed-line broadband access revenue decreased by 4.1% year-on-year to RMB20.6 billion amidst intense competition. The number of fixed-line broadband subscribers increased by 2.53 million on a net basis to 83.41 million. The penetration rate of the video content business as a percentage of fixed-line broadband subscribers reached approximately 50%, up by 9 percentage points year-on-year. The penetration rate of the integrated service as a percentage of fixed-line broadband subscribers reached 55%, up by 9 percentage points year-on-year.

### Continuous rapid growth of the industry Internet business facilitated decent growth in fixed-line business

During the first half of 2019, the Company expedited the capability development and scale expansion of key innovative businesses such as Cloud Computing, Big Data and the Internet of Things (IoT), etc achieving continuous rapid breakthrough in the development of industry Internet business.

Led by the model of "cloud + smart networks + smart applications", the Company actively engaged in the marketing initiative of "Cloud Fibre Smart Enterprise", driving cloud adoption by enterprise customers through cooperation in ecosystem and creation of a capability platform. The Company expedited the deployment and promotion of key smart network products, such as "government and enterprise premium network" and connected cloud network, etc to unleash the strengths in cloud-network integration into full play and enhance the differentiated servicing ability. Continuous efforts were made to develop smart application

solutions for industry Internet and promote mature standardised products in scale, with a focus on key industries, e.g. public administration, education, healthcare, ecological environment, transportation, culture and tourism. Meanwhile, the Company also engaged in consistent efforts to enhance innovation in mechanism and accelerated the innovative talent development while reforming the incentive and compensation system, so as to constantly inject new energy for innovative development.

During the first half of 2019, innovative businesses became a key driver in stabilising the revenue of the Company. The industry Internet business revenue reported a 43% year-on-year growth to RMB16.7 billion, with contribution as a percentage of the overall service revenue increased to 13%. Among which, revenue from ICT service grew 74% year-on-year to RMB5.4 billion, while IDC and Cloud Computing revenue reached RMB9.3 billion with a year-on-year increase of 27%. The revenue from IoT service and Big Data service reached RMB1.4 billion and RMB0.5 billion, respectively, representing a year-on-year growth of 43% and 128% respectively. Driven by rapid growth in the innovative businesses, the Company's fixed-line business revenue reached RMB53.1 billion, up by 8.2% year-on-year.

## NETWORK CONSTRUCTION

### Precise and efficient construction of premium networks enhanced network competitiveness

During the first half of 2019, the Company persisted in driving precise and efficient network deployment with a return and market-oriented approach. It gave priority to satisfying "5G+4G" premium networks and innovative businesses, etc. As a result, the Company saw ongoing enhancement of network competitiveness.

In connection with the mobile network, the Company expedited the deployment of highly efficient spectrum resources to improve 4G network coverage and optimised the network structure to lay a solid foundation for deploying a "5G+4G" premium network. As at the end of June 2019, the total number of the Company's 4G base stations reached 1.35 million (including 4G outdoor base stations and indoor distribution systems), of which there were 0.18 million LTE 900MHz base stations, resulting in significant improvement in the in-depth coverage and wide coverage in rural area of the 4G network. In addition, a total of 0.2 million NB-IoT base stations were in operation, offering a significant boost of the carrying capability of its IoT business. Its VoLTE network was ready for service delivery nationwide.

## CHAIRMAN'S STATEMENT

In the broadband network, the Company assured its leading position in terms of coverage, quality and customer experience in the northern regions, while in the south, it focused on cooperation with private capital in high value regions to enhance its network capability. With an emphasis on the opportunities in cloud-network integration and corporate informatisation, the smart "government and enterprise premium networks" were created to boost the development of its innovative businesses. As at the end of June 2019, the Company's fixed-line broadband ports had a FTTH penetration rate of 83% and FTTH subscribers accounted for 82% of the total number of broadband subscribers.

Thanks to the precise network investment, precise network optimisation and capacity expansion, the Company reported continuous improvements in network quality and customer perception in its focused regions. The Net Promoter Score (NPS) for both mobile network and fixed-line broadband increased as we maintained industry-leading average uplink and downlink speeds in 4G network and garnered the industry-best performance in network latency.

### Active establishment of 5G ecosystem and driving preemptive moves in 5G deployment

In December 2018, Ministry of Industry and Information Technology (MIIT) consented to the use of the frequency band of 3500–3600MHz nationwide by China Unicom for 5G trial. In June 2019, MIIT granted an official approval to China Unicom for the nationwide operation of 5G mobile communications services.

The Company was engaged in active deployment of 5G network and development in partnership with other parties along the value chain to capture the fast-mover market opportunities. During the first half of 2019, the Company led the market in the rollout of its 5G brand (5G<sup>n</sup>), and focused the 5G trial in "7+33+N" cities in scale while launching friendly-user trial programmes in Beijing, Shanghai, Guangzhou and Shenzhen. It strived for 5G network "co-build co-share" and explored various models for cooperation to enhance network capability and industry value. In adherence to the principle of openness and cooperation, the Company promoted the establishment of "China Unicom 5G Application Innovation Alliance" and launched a "pioneer programme", while entering into 5G industry cooperation agreements with customers from various key industries for the joint exploration of new operation models for 5G industry applications.

In the future, the Company will conduct paced and precise investment in 5G construction with due regards to technological advancement, market demand and business requirements and the competitive landscape. It will drive the development of the 5G ecosystem while nurturing and consolidating its unique competitive edges in 5G. It will seize new business opportunities to deliver new value while enabling the capability and intelligence of the broader industry verticals.

### MIXED-OWNERSHIP REFORM

During the first half of 2019, the Company continued to deepen the implementation of mixed-ownership reform in adherence to the directive to "enhance governance, strengthen incentives, protrude core businesses and raise efficiency". Strategic cooperation was continuously enhanced and reform of systems and mechanisms was further implemented while new progress was made in the transformation of Internet-oriented operation.

### Deepened strategic cooperation to boost new energy for innovative development

The Company sought to strengthen strategic and business cooperation with the respective strategic investors focusing on areas where synergies could be claimed. In connection with touchpoints, it continued to advance online touchpoint and privilege cooperation with Internet companies, while exploring offline cross-sector cooperation with a view to precisely and effectively acquiring new users. As at the end of June 2019, the Company had close to 100 million 212C subscribers. It engaged in ongoing cooperation with Baidu's iQIYI and Tencent in IPTV contents and mobile video contents, with a view to enhancing user stickiness. In payment and finance, efforts were made to advance cooperation in "WO wallet" payment and the promotion of consumer credit, anti-financial fraud products as well as the jointly developed risk control-based credit score payment and financial products. As for smart home, efforts were directed towards the deep integration of fundamental telecommunication capabilities with the smart hardware and content applications of Internet companies, in order to create novel products with strong competitiveness. The Company continued to cooperate with Alibaba and Tencent in public cloud and hybrid cloud with the provision of cloud-network integration products, services and solutions to customers, which was in turn driving rapid growth in its government and enterprise customers business. At the same time, in Big Data, IoT and AI, the Company continued to further its in-depth cooperation and exploration with strategic investors to seek win-win cooperation, focusing on hot demands for, among others, financial risk control, target marketing, IoT security and smart home.

## CHAIRMAN'S STATEMENT

### Deepened innovative reform for systems and mechanisms to invigorate inherent vibrancy

Aimed at increasing vibrancy and return, the Company continued to deepen the innovative reform of its systems and mechanisms. In the implementation of streamlining and re-organisation 2.0, it continued to streamline its organisation and encouraged staff to move to sub-divided units and innovative businesses in an ongoing effort to optimise organisational and staff structure. The Company continued to introduce reforms to the incentive mechanism and promoted differentiated compensation and diversified incentives. At some subordinate companies, long-term staff incentive and governance mechanism was established. Market based incentive system was further improved, targeting value creation. Intensive advances were made in mixed-ownership reform at subordinate companies, as its Yunnan Branch expanded the overall service and operation contract-out with privately-owned partners to the entire province following the pilot-run conducted last year. Meanwhile, ongoing efforts were made to deepen sub-division reform, leading to enhanced vibrancy at the micro-entities.

### SOCIAL RESPONSIBILITY AND CORPORATE GOVERNANCE

With a firm belief that social responsibility should be rooted in corporate strategies, incorporated in management and performed through operations, the Company fulfilled its social responsibility based on its new development philosophy and sought to better meet the ever-increasing public demand for a pleasant information communication life. It persisted in improving its corporate governance mechanism to ensure compliance in our operations and performance of duties. The Company built smart premium networks with meticulous craftsmanship, persisted in eco-friendly and low-carbon construction, while promoting "co-build co-share". It safeguarded network security and made active contributions to the development of China into a cyber superpower and the creation of a secure and clean cyberspace. The Company upheld the principle of "All for Customers" and implemented policies such as "Speed Upgrade and Tariff Reduction" and mobile number portability to provide users with a rich variety of smart products and smart applications for the creation of a pleasant and convenient life. Vigorous efforts were made in the deployment of cutting-edge smart technologies and driving in-depth integration between information technology and real economy, with a view to facilitating the socioeconomic transformation and upgrade of traditional industries. Efforts were also made in active response to the "Belt and Road" initiative and serving national strategic planning such as the Xiong'an New Area, Guangdong-Hong Kong-Macau Greater Bay Area and Yangtze River Delta Integrations, etc. Meanwhile, the Company assisted to establish a smart Winter Olympics, supporting the implementation of national strategies

through the provision of innovative communication services. Solid steps were taken to carry out targeted poverty alleviation in an effort to share benefits with people in the society. The Company also cared for the well-being of its staff and worked to facilitate their professional growth and development.

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 first half of 2019, China Unicom was awarded a number of accolades, including accredited by FinanceAsia as "Asia's No. 1 Best Managed Telecom Company" and receiving "The Best of Asia — Icon on Corporate Governance" award by Corporate Governance Asia.

### OUTLOOK

As China officially enters 5G era, the issuance of 5G licenses will empower high quality development of the country's real economy and bring about new opportunities for the innovative development of the communication industry. Meanwhile, the Company is also subject to a complex international environment and challenges arising from the slowdown in the industry development, intense market competition and the implementation of "Speed Upgrade and Tariff Reduction" and other policy. The Company is compelled to step up with its transformation towards an Internet-oriented operation and boost energy for innovative development, so as to achieve high-quality sustainable development.

In the second half of the year, the Company will boldly confront the challenges and actively implement the new development philosophy with deep execution of its Strategy of Focus, Innovation and Cooperation. It will advance its mixed-ownership reform in breadth and depth, endeavouring to create a new paradigm featuring China Unicom's "Five New" establishment and high-quality sustainable growth. The Company will persevere in the implementation of the Internet-oriented operation and seek improvements in customer perception, operating efficiency and differentiated competitive advantages. It will strive to stabilise its fundamental business, expand the scale of its innovative businesses and make solid progress in 5G innovation, driving its overall business steady-to-rising. The Company will persist in its Focus Strategy and strive for 5G network "co-build and co-share" while further improving its 4G networks. It will continue to streamline and optimise its network structure and construct the "5G+4G" premium networks on a precise and efficient basis to provide solid assurance on business development. The Company will continue to enhance its business and capital cooperation with strategic investors, seek to deepen and broaden its innovative reforms in various aspects. It will drive cost reduction and

## CHAIRMAN'S STATEMENT

efficiency enhancement while strengthening fundamental management and risk control, in a consistent effort to enhance inherent corporate vibrancy and operating efficiency for greater shareholders' value.

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, 14 August 2019

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 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.