

# CHAIRMAN'S STATEMENT

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## DEAR SHAREHOLDERS,

In the first half of 2020, facing the abrupt outbreak of COVID-19, the Company proactively responded to the challenges and took precise measures to prevent and control the pandemic. Through pushing forward the comprehensive digital transformation and innovating communications service offerings, the Company turned adversity into opportunities. Meanwhile, the Company continued to deepen the execution of the strategy of focus, innovation and cooperation, building on China Unicom's "Five New" establishment to advance the depth of mixed-ownership reform, consistently improving business development. With its significant efforts in enhancing quality and efficiency, the Company marked a solid step towards high-quality development.

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**WANG XIAOCHU**

CHAIRMAN AND CEO



## CHAIRMAN'S STATEMENT

**OVERALL RESULTS**

In the first half of 2020, the Company registered an industry-leading growth momentum with service revenue amounted to RMB138.3 billion, representing an increase of 4.0% year-on-year, outperforming the industry average of 3.2%. The further optimised cost efficiency led to strengthened profitability. Profit before income tax amounted to RMB9.7 billion while profit attributable to equity shareholders of the Company amounted to RMB7.6 billion, representing a year-on-year increase of 10.1%. EBITDA<sup>1</sup> amounted to RMB49.5 billion.

The Company persisted in open cooperation and remained focused, successfully achieving the "co-build and co-share" of 5G network to achieve resources savings and win-win cooperation. In the first half of the year, with effective control, the capital expenditure amounted to RMB25.8 billion. Free cash flow<sup>2</sup> remained strong, reaching RMB22.0 billion. The Company's financial position was further strengthened and increasingly solidified.

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 the overall results for the year for consideration at the shareholders' general meeting.

**BUSINESS DEVELOPMENT**

In the first half of 2020, taking advantage of the continued improvement in the industry dynamics, the Company pushed forward the comprehensive digital transformation intensively and strengthened the differentiated and internet-oriented operation. Efforts in improving quality and enhancing efficiency of fundamental businesses started to bear fruits, while breakthroughs were achieved in innovative businesses transformation. The overall operating conditions showed a firmly positive momentum with continuous improvement in quality development.

**Ongoing adjustments in mobile development priority saw initial success in value enhancement**

In face of new challenges in the industry development and led by value-oriented operation, the Company had proactively adjusted the development priority of mobile business since the second half of last year. Adhered to self-discipline on rational and orderly competition, customer acquisition cost was rigorously controlled, while the subscriber quality was improved. Leveraging content, privileges and financial tools to enhance product value, the Company vigorously promoted the penetration of pan-integration services. By sub-dividing the market and leveraging Big Data analytics, the Company was able to carry out precise marketing as well as existing customers' retention. Leveraging the centralised IT system of the entire network, it promoted the synergetic operation of online-offline omni-channels to improve marketing efficiency. The Company stepped up 5G customer acquisition in a paced and targeted manner, introducing consumption upgrade through 5G innovative applications.

Benefiting from the active and effective adjustment of the mobile business priority, the Company's mobile business development quality gradually improved, exemplified by the sequential rebound of both mobile billing subscriber ARPU and mobile service revenue in the second quarter as well as the year over year rebound in June and July this year. In the first half of the year, the Company's mobile service revenue recorded a decrease of 2.8% year-on-year, with the rate of decline significantly narrowed as compared with that for the full year of 2019. Mobile billing subscribers reached a total of 310 million and mobile billing subscribers ARPU increased by 0.2% year-on-year. Mobile data traffic volume grew by 23% while the monthly average DOU per handset subscriber reached approximately 9.4 GB. The selling and marketing expenses decreased significantly, especially the customer acquisition cost, which fueled the continuous improvement of the Company's profitability.

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### **Leveraging the unique edges to introduce an encouraging kick-off of 5G**

In the first half of the year, the Company orderly promoted 5G business development. Facing the consumer market, the Company was committed to user experience and value enhancement. It promoted 5G package services in a paced and targeted manner to align with the progress of 5G network construction and handset supply. The Company built open platforms for 5G capability integration and introduced featured services such as HD/4K/8K video, AR/VR and cloud games. The Company deeply pushed forward industry cooperation and created a 5G pan-smart terminal ecosystem integrating "terminal + content + application", empowering the consumer Internet market development. Focusing on 5G touchpoints on channels, the Company implemented the O2O integration and performed multi-dimensional, scenario-based precise marketing. Currently, 5G subscriber is growing steadily as planned. Facing the government and enterprise market, the Company focused on areas such as industrial Internet, smart city, healthcare and others, establishing a number of 5G lighthouse projects and successfully commercialising 5G applications. The Company accelerated the incubation of industry products and drove the solid development of "China Unicom 5G Application Innovation Alliance", actively promoting the construction of the eco-system and the prosperity of the industry to foster the innovative growth in the future.

In the second half of the year, as 5G network, terminals, and applications gain maturity, the Company will further deepen open cooperation, strengthen value-oriented operation while actively employing China Unicom's 5G unique edges to continuously enhance mobile business value under the lead of 5G.

### **Achieved rapid growth in broadband with focus on household market**

In the first half of the year, the pandemic prompted a rising demand of broadband network deployment and speed upgrade. The Company adhered to rational and disciplined competition. It actively leveraged the comprehensive advantages of high speed, rich content and top-notch service to roll out the 3 "gigabit integrated products" (gigabit 5G, gigabit broadband and gigabit Wi-Fi) in the incumbent regions in Northern China and key cities in Southern China. The Company was dedicated to raising network utilisation and deeply pushed forward broadband cooperation in Southern China. While focusing on the household Internet market, the Company advanced the promotion of smart home products to drive the growth in broadband access and other businesses. To achieve precise and rapid response to the market demand, the Company focused on creating new edges such as integrated operation of marketing, maintenance and service, synergised operation of business and network.

In the first half of the year, the Company's fixed-line broadband access revenue amounted to RMB21.9 billion, representing an increase of 5.9% year-on-year. Fixed-line broadband subscribers registered a net addition of 2.40 million, reaching a total of 85.88 million subscribers. The penetration rate of the integrated service among fixed-line broadband subscribers reached 60%, representing a year-on-year increase of 5 percentage points.

### **Rapid fixed-line business growth re-ignited and fueled by the acceleration and upgrade of innovative transformation**

In the first half of the year, the "New Infrastructure" policy and the pandemic further boosted demand for digitisation, cyberisation and intelligent transformation of the economy and society. The Company seized the opportunity, especially by focusing on key areas such as smart city, digital government, smart healthcare and industrial Internet, to proactively create leading edges. By strengthening the proprietary capabilities and focusing on platform-based capabilities, product standardisation, research and development centralisation, and proprietary delivery capabilities, the Company accelerated the development of proprietary capabilities and promotion of proprietary products, enabling the digital transformation of government and enterprise customers. With "cloud + network + smart application" in place to push forward the integrated development of the innovative business and fundamental business, operational value was enhanced. Meanwhile, the Company deepened the system and mechanism reform of the government and enterprise business group to stimulate vitality and facilitate high-quality development.

In the first half of the year, the Company's revenue from industry Internet business increased by 36% year-on-year to RMB22.7 billion, as a percentage of the overall service revenue increased to 16%. Among which, revenue from ICT business grew 39% year-on-year to RMB7.5 billion, while IDC and cloud computing revenue reached RMB12.1 billion with a year-on-year increase of 29%. Revenue from the Internet of Things (IoT) and Big Data services reached RMB2.2 billion and RMB0.9 billion respectively, representing a year-on-year growth of 55% and 67% respectively. Driven by the sound growth of innovative business and fixed-line broadband business, the Company's fixed-line service revenue reached RMB60.6 billion, up by 14% year-on-year. In the future, the Company will actively leverage its resource advantages and deepen the promotion of industry cooperation, accelerating the cultivation of 5G+ vertical industry applications and the integrated innovative development and striving to achieve faster growth in the new era of digital transformation.

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**NETWORK CONSTRUCTION****"Co-build and co-share" of 5G network progressed successfully and effectively enhanced edges and return**

In the first half of 2020, the Company maintained focused deployment while closely collaborating with China Telecom to advance "co-build co-share" of 5G network. It successfully doubled the 5G network deployment pace and capability, achieving 5G network scale, coverage, and quality as comparable with the leading operator. In the first half of the year, China Unicom and China Telecom together added approximately 150,000 5G base stations. Currently, the Company deployed a total of approximately 210,000 5G base stations in service, of which China Unicom built more than 100,000 base stations, providing contiguous coverage in more than 50 major cities. It successfully upgraded 4G base stations to 5G base stations at 2.1GHz frequency band by software in certain provinces. Meanwhile, the Company has expanded the "co-build co-share" with China Telecom in 4G and other areas, in order to further improve resource utilisation efficiency.

**Fostering network quality by deploying network with craftsmanship**

Centering on customer perception, the Company strived to improve network quality and its support capabilities. In terms of mobile network, the Company strengthened the "co-build co-share" initiative and 4G/5G network synergy, further improved LTE 900MHz coverage, and promoted 2G/3G network simplification by regions to lower network operating costs and facilitate spectrum refarming. For fixed-line broadband network, the Company promoted network evolution with a focus on gigabit access deployment and carried out specialised optimisation for key services such as video and gaming to enhance network competitiveness. To build a new integrated ecosystem of cloud and network, the Company accelerated the adoption of SDN, NFV, cloudification and intelligent network. It promoted the research and development of 5G dedicated network products, supporting the efficient development of the government and enterprise business. In the first half of the year, the Company saw a continuous improvement in the network quality and customer perception in the focused regions. The real-time satisfaction rate for mobile network and fixed-line broadband continued to increase and the Company continued to achieve industry-best network latency performance.

**MIXED-OWNERSHIP REFORM****Deepening strategic cooperation with the strong alliance**

In the first half of the year, the Company consolidated the edges of its strategic partners and continued to carry out in-depth cooperation in key areas such as 5G, cloud computing, Big Data, IoT, artificial intelligence (AI) and network security, which continuously enhanced the momentum of innovative development. Yunjing Culture and Tourism Technology Co., Ltd, a joint venture with Tencent, focusing on technology, culture and tourism, established product portfolio with various customised industry products/modules and won projects in a number of provinces nationwide. Smart Steps, integrating JD's capability and resources, focused on "population+" and connection of "people-things-enterprises", which has become the nation's No. 1 service provider in demographic Big Data in planning and statistics. Yunlizhihui, a joint venture with Alibaba, focused on the Internet market of industries such as governmental affairs, ecological and environmental protection, while constantly upgrading various smart products such as Smart Rivers and Lakes, Urban Brain, etc. The Company established a 5G joint laboratory with Baidu, focusing on 5G, IoV, and AI, and explored the commercialisation of 5G edge computing in specific scenarios. The Company also established a digital insurance joint laboratory with China Life to cooperate and explore new opportunities in digital insurance.

**"Deep dive" in mixed-ownership reform with system and mechanism reform to stimulate intrinsic vibrancy**

Focusing on the comprehensive digital transformation, the Company promoted operational reform expansion and quality enhancement. It carried out reform in the areas of marketing, network, government and enterprise service by re-engineering a new and customer-oriented operating structure and process system. The Company strengthened the introduction of high-end talents and promoted the transformation of talent structure towards IT (Information Technology)/DT (Data Technology). The Company continued to deepen the reform of sub-division of performing units, optimised and reconstructed the production end units to stimulate the vitality of micro entities comprehensively. As the mixed-ownership reform in subordinate companies was smoothly pushed forward, the Company's Yunnan branch, which implemented the socialised cooperative operation reform, saw significant enhancement in business development and efficiency, as well as expansion in network coverage. New steps were taken in the socialised cooperative operation reform of seven city branches in Guangxi Province. In the future, the Company will implement precise policies to promote reform, so as to further unlock the intrinsic vibrancy of the Company.

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### SOCIAL RESPONSIBILITY AND CORPORATE GOVERNANCE

The Company is committed to integrating its own development with social responsibilities, enabling the harmonised unification of corporate interests and social goals. In the first half of the year, the Company actively deployed digital capabilities in the pandemic prevention and control as well as the flooding prevention and relief, sparing no efforts to assure secure and effective communications. Leveraging the new technologies such as Big Data, AI and 5G, the Company empowered enterprises to implement precise pandemic prevention and control and smoothly resume production. The Company supported online office and education, assisting students in the pandemic regions and poverty-stricken areas impacted by classes suspension without learning suspension. The Company cared for employees by dynamically deploying pandemic prevention and control measures, providing necessary protective materials. It promoted scientific knowledge for pandemic prevention to protect the health and safety of the staff.

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. So far this year, the Company has attained a number of accolades, including being awarded "Asia' 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 286<sup>th</sup> in "The Forbes Global 2000".

### OUTLOOK

At present, the accelerated development of new technologies represented by 5G and AI, as well as the continuous extension of cyber and digital boundaries, have opened up unparalleled imagination for people. The huge demand for intelligent and digital transformation in various industries will bring enormous potential for corporate development. At the same time, changes in the international and domestic macro environment, industry competition and the internal replacement of old drivers with new ones have brought unprecedented new challenges to the Company. Facing a more complicated internal and external environment, the Company will stay true to our original aspiration and firmly implement the strategy of focus, innovation and cooperation, while striving to become a creator of smart living trusted by customers, so as to seize the new opportunities of digital transformation and achieve continuous enhancement of corporate value.

Looking forward to the second half of the year, the Company will continue to deepen the strategy of focus, innovation and cooperation. It will assure stable development of the fundamental businesses, strengthen the core capabilities of government and enterprise business, and enhance the momentum of innovative business, thereby ensuring the steady growth of the Company. The Company will seize the historical opportunity of the unique group-level mixed-ownership reform to introduce new efficiency, new vitality and new edges, unlocking the maximum benefits from the reform. It will capitalise on the differentiated advantages to promote transformation and enhance capabilities in business, channel, network, IT support, and resources allocation, while focusing on practical matters, solid efforts and actual effects. The Company will leverage comprehensive digitalisation to promote the modernisation of governance and strive to achieve the high-quality and healthy development of China Unicom.

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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 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, 12 August 2020

Note 1: EBITDA represents profit for the period 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.