

# CHAIRMAN'S STATEMENT

**DEAR SHAREHOLDERS,**

In the first half of 2021, the Company fully implemented the new development philosophy and deepened the execution of the “Focus, Innovation and Cooperation” strategy. Through consistently pushing forward comprehensive digital transformation, the Company focused on building the “Five High” development edges — high-quality services, high-quality development, highly-efficient governance, high-tech engines and high-vitality operation, constantly improved the quality and efficiency of business development. Stable and favourable momentum was achieved in overall operation.



**WANG XIAOCHU**  
Chairman and CEO

## OVERALL RESULTS

In the first half of 2021, backed by the determined innovative transformation and in-depth mixed-ownership reform, the Company's revenue and profit growth accelerated, bringing significant enhancement in the quality and efficiency of business development. Operating revenue amounted to RMB164.2 billion, representing a year-on-year increase of 9.2%, while service revenue reached RMB148.7 billion, representing a year-on-year increase of 7.5% and an increase of 3.2 percentage points in growth rate as compared to the full year of 2020. Profit before income tax amounted to RMB11.3 billion in the first half of the year, exceeding RMB10 billion for the first time in recent years. Profit attributable to equity holders of the Company amounted to RMB9.17 billion, representing a year-on-year increase of 21.1% and an increase of 10.8 percentage points in growth rate as compared to the full year of 2020. EBITDA<sup>1</sup> reached RMB49.5 billion.

The Company thoroughly practised green and low-carbon development, and achieved remarkable results in the network "co-build and co-share". In the first half of 2021, the capital expenditure amounted to RMB14.3 billion. Investment and operation efficiency were greatly improved while network competitiveness was ensured. The Company also achieved significant results in energy conservation and carbon reduction. The Company maintained strong free cash flow<sup>2</sup>, reaching RMB36.4 billion during the first half of the year, further consolidating the financial strength.

The Company attached great importance to shareholders' return. With due regard to the Company's robust business development and strong free cash flow, the Board resolved to distribute an inaugural interim dividend (RMB0.120 per share) in 2021 and planned to raise 2021 full year dividend payout ratio, with the magnitude to be decided in the first half of 2022 considering such factors as the Company's profitability, cash flow, future capital requirements and dividend payout in the industry, etc.

## BUSINESS DEVELOPMENT

The accelerated development of 5G and the robust demand for digital transformation by economy and society brought valuable opportunities and enormous room for the Company's innovation and transformation. The Company led the improvement of quality and efficiency of its full services with 5G, turning around from last year's decline in mobile subscriber scale. The Company continued to deepen

comprehensive digital transformation, fully taking advantages of being the first in the industry, globally, to achieve the nationwide-centralised digital operation for full-service serving all subscribers. It enabled China Unicom to run on a new track in a faster pace through providing one-stop, centralised, smart, convenient, and integrated digital services. The Company persisted in the two-flywheel drive of fundamental and innovative services, and the synergetic collaboration between the consumer market and the government and enterprise customer services. It accelerated the building of proprietary innovation platform capabilities and promoted the continuous optimisation of the revenue structure. In the first half of the year, the fundamental business rebounded steadily and innovative business grew rapidly. The customer recognition was also on the rise, sending high-quality and stable development in the Company's overall businesses.

### Firmly deepening 5G-led transformation and innovative development of mobile business

The Company continued to deepen its 5G-led strategy and firmly adhered to rational and orderly competition, effectively balancing value-oriented operation and scale development, enhancing both market share and value contribution of mobile subscribers, thus promoting high-quality and coordinated industry development.

In consumer market, leveraging on the efficiently centralised IT support capabilities, the Company strengthened the digital and differentiated operation led by 5G innovative integration, and continued to promote the iterative development of innovative products. Aggregating various data traffic platforms, the Company launched the industry-leading innovative China Unicom APP, with monthly active users exceeding 100 million, forming a new smart living ecology integrating communication, lifestyle, entertainment and finance. The Company accelerated scale development of broadband and mobile integration via the "three gigabit-network" and leveraged content, privileges and financial tools to improve product value. Utilising the Big Data analytics model to power up total lifecycle management of customers, the Company managed to drive precise upgrade of existing customer. By bringing the ecological resources of "platform + network + X" together, the Company unlocked 5G customers' value through coordinated development of terminal, network and business, while enriching 5G innovative applications.

In the government and enterprise market, the Company seized the opportunities arising from the digital transformation of the whole society and the industry, actively pushing forward the integrated and innovative development of 5G+ industry vertical applications. With 5G private network as an entry point, the Company integrated its proprietary capabilities and expanded ecological cooperation to develop differentiated advantages of digital services. The Company innovated 5G application product system leveraging 5 major components, namely 5G industry private network, MEC, industry platform, customised service and terminal, to support over 15 industry applications and fully promote scale development of 5G applications. The Company actively explored business models to flexibly meet the demand of 5G industry customers. In the key areas including industrial Internet, smart mining, smart medical, smart cities, etc., it successfully commercialised a range of influential 5G lighthouse projects such as the first in global fully 5G-connected factory and the global first underneath-mine-5G private network.

In the first half of 2021, mobile service revenue reached RMB82.1 billion, representing a year-on-year increase of 7.3%, with the growth rate reaching a new high since the full year of 2018. Mobile billing subscribers significantly improved to a net increase of 4.65 million from a decline of 8.95 million for the same period last year, making the total number of mobile billing subscriber increase to 310 million. Subscriber value continued to optimise, with mobile billing subscribers ARPU reaching RMB44.4, representing a year-on-year increase of 8.5%. Data traffic promotion achieved remarkable results with the total mobile handset data traffic volume grown by 27.5%, while the monthly average DOU per handset subscriber reached approximately 12.2GB. The Company's 5G package subscribers reached 113 million and the penetration rate of 5G package subscribers reached 36.5%, leading the industry. The Company continued to provide 5G high-quality services and ranked No.1 in the industry on 5G customer satisfaction. In the second half of the year, with the gradual maturity of 5G technology, network, terminal and application, the Company will actively leverage the unique competitive edges of China Unicom 5G<sup>n</sup> to facilitate the continuous transformation and innovation development of mobile business led by 5G.

**Seizing the opportunity of economic and social transformation to achieve the collaborative development through multi-business integration**

The Company grasped the boosted demand for digitisation, cyberisation, and intelligent transformation of the economy and society, and actively leveraged proprietary resources and edges to empower government and enterprise, as well as household customers, pushing forward the pan-integration development of innovative and fundamental businesses. In Northern China, the Company leveraged broadband to expand mobile and promoted mutual growth dynamics and high-quality services, actively promoting multi-SIM and full-home smarts under one household. In Southern China, the Company expanded broadband to boost mobile and effective integration, focusing on key areas and customers with precise coverage. The Company continued to strengthen core capabilities of Smart Community and Smart WoHome platforms, and promoted the Digital Village service cloud platform, continuously reinforcing the differentiated edges of broadband business.

In the first half of 2021, the Company's fixed-line broadband access revenue increased by 0.7% year-on-year to RMB22.0 billion. The net addition of fixed-line broadband subscribers was up by 67.8% year-on-year to 4.03 million, reaching a total of 90.12 million fixed-line broadband subscribers, with broadband access ARPU reaching RMB41.8. The penetration rate of the integrated service among fixed-line broadband subscribers reached 67%, representing a year-on-year increase of 6 percentage points.

**Digital transformation drove sustained rapid growth in innovative businesses**

Our China Unicom Cloud is the base for digital transformation and integrated innovation. Focusing on security and reliability, cloud-network integration, dedicated customisation and multi-cloud collaboration, the Company provided customers with integrated innovative solutions including cloud resources, cloud platform, cloud service, cloud integration, cloud interconnection, cloud security, etc. Led by digital innovation, the Company actively explored market space in key areas such as smart cities, digital government and industrial Internet, thoroughly deepening the development of application products for major industries. Unicom Digital Technology Co., Ltd. was formed to create integrated

innovation and differentiated edges of 5G + ABCDE (artificial intelligence, blockchain, cloud computing, Big Data, edge computing). The Company built an innovative business capability system, focusing on the platform-based capability, research and development centralisation, product standardisation and delivery of proprietary integration. By enhancing proprietary capabilities, the Company created unique innovative edges in the digital economy era.

In the first half of 2021, the Company's revenue from industry Internet business increased by 23.6% year-on-year to RMB28.03 billion, as a percentage of the overall service revenue increased by 2.5 percentage points year-on-year to 18.9%. China Unicom Cloud revenue<sup>3</sup> was RMB7.69 billion, up by 54.1% year-on-year. Driven by the sound growth of innovative business, the Company's fixed-line service revenue reached RMB65.3 billion, up by 7.9% year-on-year. In the future, the Company will accelerate the buildout of proprietary innovative platform capabilities and key products to continuously enhance competitiveness and value.

## NETWORK CONSTRUCTION

### Continuous implementation of new development philosophy to raise network "co-build and co-share" to a new level

The Company adhered to low-carbon and innovative operation by actively implementing the requirements of new infrastructure. The efficiency of resource utilisation significantly increased as network "co-build and co-share" was facilitated further in depth. The 5G network "co-build and co-share" continued to advance steadily, achieving both the 5G network scale and quality on par with the leading operator. In the first half of the year, the Company continued to cooperate closely with China Telecom to add 80,000 5G base stations in service, with the total scale of 5G base stations of more than 460,000, achieving a leading position in both coverage and network perception in first-tier cities. The scale of 4G "co-share" achieved a further breakthrough as both parties shared 460,000 4G base stations, representing an increase of 240,000 stations as compared to the end of last year. 4G/5G network "co-build and co-share" enabled the two operators combined to generate cumulative savings of over RMB100 billion in capital expenditure, as well as substantial savings in network costs including tower usage fee, network maintenance costs and electricity charges for both parties, while contributing

significantly to the target of "Peak Carbon-emission and Carbon-neutrality". The Company fully promoted the "co-build and co-share" of infrastructure resources, optimising and revitalising existing network resources to further unlock the cost-efficiency of the network. In addition, the Company actively expanded the new network sharing model and engaged in multi-dimensional "co-build and co-share" cooperation with cable, power, high-speed railway, oil industries and others to maximise investment efficiency.

### Building high-quality network with craftsmanship to drive profitable and fast business growth

With customer perception as the centre, the Company focused on key city clusters, such as Beijing-Tianjin-Hebei, Yangtze River Delta and Greater Bay Area, key cities and major venues and strived to build a high-quality network and improved the supporting capabilities of network services. The Company focused on the deployment of premium 5G, gigabit fibre network and innovative business investment, such as IDC, cloud computing, Big Data and IoT and others, while continuing to enhance the coverage of commercial buildings and government and enterprise premium networks. To facilitate network technology innovation, CUBE-NET 3.0 network system was built while research and development of innovative network products was accelerated. The Company promoted AI to drive systematic smart network operation and introduced intelligent operation and maintenance robots nationwide. The Company seized the opportunities of network cloudification, NFV, SDN and intelligentisation to deepen the centralised operation of network capabilities, network resources and network data, actively promoted 4G/5G collaborative intelligent energy-saving management with proprietary research and development. In the first half of the year, the Company ranked first in 5G network quality satisfaction in the industry and equipped the city areas across nationwide with gigabit broadband capability, achieving remarkable results in the high-quality development of the network.

## MIXED-OWNERSHIP REFORM

### Unlocking the reform bonus consistently and further strengthening the development momentum

The Company continued to expand the dimension, width and depth of cooperation with strategic investors through promoting the research and development, iterative upgrade of products of joint ventures. By focusing on multiple areas with strong

synergetic and complementary advantages, new energy was added to the Company's innovative development. The Company optimised sub-division reform by iteration upgrade through strengthening digital empowerment and improving the alignment of performance assessment and incentives in order to enhance organisational efficiency and stimulate the vitality of micro-entities. The Company accelerated the market-oriented reform of the subordinate companies in a structured manner. It strengthened and further optimised the core platform business. China Unicom Smart Connection Technology Limited completed the shareholding reform and was aimed to spin off to accelerate development and enhance values. The Company enhanced the technology innovation management model by speeding up key core technologies breakthrough, regularly introducing digital innovation talents and increasing efforts to promote technological innovation, consistently growing proprietary innovation capability and development momentum.

**To fully expedite digital transformation and strive to build an exceptional China Unicom**

The Company actively responded to the industry trend and accelerated the comprehensive digital transformation, basically establishing the core capability of five middle platforms, namely consumer, government and enterprise, network, data, and management, as well as rationalising the workflow concerned. The Company built the centralised and unified IT services capabilities together with the efficiently-centralised and integrated innovation system to continue pushing forward the integration of business, technology and data, while accelerating the upgrade of the centralised IT advantages to operational advantages. Internally, the Company leveraged data to power up business development, customer service, network operation and supervision and management, allowing the Company to enjoy smart operation and greatly improve its productivity, and develop a professional digital team of more than 15,000 talents during the process. Externally, the Company were able to better satisfy the nationwide service needs of government and enterprise customers, the mobility needs of individual customers and the information consumption upgrade needs of household customers, while forging differentiated new edges.

**SOCIAL RESPONSIBILITY AND CORPORATE GOVERNANCE**

The Company comprehensively implemented the construction of cyber superpower, digital China and smart community, empowered the transformation and upgrading of various industries and promoted the structural supply side reform of network. Through resolutely fulfilling its responsibilities and actively participating in the digital epidemic prevention and control as well as flood prevention and relief, the Company made every effort to assure the security and smoothness of communication. The "Digital Village" brand was launched to actively provide digital governance service, industrial service, livelihood service and local service solutions, helping rural revitalisation. The Company announced its "14<sup>th</sup> Five-Year Action Plan of "Peak Carbon-emission and Carbon-neutrality"" with the aim for green and low-carbon cycle development. The Company continuously improved the green level of communication network infrastructure, supporting different businesses and industries to achieve "Peak Carbon-emission and Carbon-neutrality".

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. Since the beginning of this year, the Company attained a number of accolades, including being ranked 260<sup>th</sup> in "Fortune Global 500" for the year 2021, ranked 276<sup>th</sup> in "Forbes Global 2000" for the year 2021, being awarded "Asia's No.1 Best Telecommunications Company" and "Best Managed Listed Company in China — 1<sup>st</sup>" by FinanceAsia, and voted "Asia's No. 1 Most Honored Telecom Company" for the sixth consecutive year by Institutional Investor.

Pursuant to the former U.S. President's executive order and the requirements of the New York Stock Exchange LLC (the "NYSE"), the delisting of the Company's the American Depositary Shares ("ADSs") has taken effect on 18 May 2021, and the ADSs Program will terminate on 18 October 2021. Holders of ADSs will have the right until the termination date to exchange their ADSs into ordinary shares of the Company in accordance with the terms and conditions of the deposit agreement. The Company's ordinary shares are traded on The Stock Exchange of Hong Kong Limited.

**OUTLOOK**

At present, with the surging wave of digitisation, it is speeding up our entry into a digital society and pushing the global economy into a new digital era. Driven by new technologies represented by 5G and artificial intelligence, the digital economy continues to grow and is creating a new vast unseen blue ocean, far greater than the known opportunities. As the provider of cloud network “new supply” and digital “new engine” to support and service the digital transformation of the economy and society, telecom operators face the moment of new opportunities and new leap forward. China Unicom will grasp the opportunities and aim high to firmly implement the strategy of “Focus, Innovation and Cooperation”. It will fully unlock the edges established by the ecology integration brought by the mixed-ownership reform and the pioneering digital transformation. Through the two-flywheel superimposing of the growing “digital” productivity and the new production function under “mixed-ownership reform”, the Company will further improve market-oriented operation, further enhance the systemic innovation abilities and further accelerate the pace of digital transformation. China Unicom will further its efforts to comprehensively shape the new edges of differentiated development, strive to make a new leap in high-quality development and dedicate to building an exceptional, a smarter and a brighter China Unicom, creating greater values 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 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, 19 August 2021

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 expense, 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.

Note 3: China Unicom Cloud revenue includes revenue of cloud resources, cloud platform, cloud service, cloud integration, cloud interconnection, cloud security, etc generated from integrated innovative solutions.