

CHAIRMAN'S STATEMENT

An
EXCELLENCE

ICONIC

BREAKTHROUGH

TRANSFORM

REFORM



**WANG
XIAOCHU**
CHAIRMAN AND CEO

DEAR SHAREHOLDERS,

In 2017, the Company comprehensively deepened the implementation of Focus Strategy and emphasised on scale and profitable development, as well as growth promotion, cost control and mechanism reform, enabling the Company to achieve outstanding results via business model transformation. A substantive breakthrough was made on mixed-ownership reform and the Company saw fundamental improvement in operating results, marching a solid step forward towards its transformational development.

no impact on cash flow. Excluding the net loss on asset disposal related to optical fibre network upgrade, the Company's EBITDA reached RMB84.33 billion, representing 33.9% of service revenue and an increase of 0.5 percentage point year-on-year while profit before income tax reached RMB5.49 billion and profit attributable to equity shareholders of the Company increased by 540.5% year-on-year to RMB4.00 billion.

By focusing on improving quality and efficiency, the Company pushed forward precise investment, cooperation, sharing and proactively unleash value from resources to improve returns. In 2017, the Company offered competitive network quality despite a significant reduction in capital expenditure of 41.6% year-on-year to RMB42.13 billion. Benefiting from the gradual improvement in service revenue and the substantial decline in capital expenditure, the Company's free cash flow reached RMB42.92 billion, up by 16.3 times year-on-year.

PROFITABLE TRANSFORMATIONAL

2017

OVERALL RESULTS

In 2017, the Company successfully turned around its operating results with significant improvement. Service revenue for the year was RMB249.02 billion, up by 4.6% year-on-year, and EBITDA amounted to RMB81.43 billion, up by 2.4% year-on-year. Profit before income tax reached RMB2.59 billion and profit attributable to equity shareholders of the Company increased by 192.5% year-on-year to RMB1.83 billion. In 2017, the Company incurred a net loss on asset disposal related to optical fibre network upgrade of RMB2.9 billion which had

The Company also benefited from the successful completion of the capital injection brought by the implementation of the mixed-ownership reform, which strengthened the Company's balance sheet substantially and developed a much solid financial position. The liabilities-to-assets ratio went down from 62.9% in the same period of last year to 46.8%.

Chairman's Statement

The Company attached great importance to shareholders' returns. Taking into consideration the Company's profitability, debt and cash flow level and capital requirements for its future development, the Board recommended the payment of a final dividend of RMB0.052 per share. Going forward, the Company will continue to strive to enhance its profitability to improve corporate efficiency and shareholders' returns.

BUSINESS DEVELOPMENT

Strengthened Data Traffic Operation and Development Model Transformation Underpinned Fast and Effective Mobile Business Development with Industry-leading Growth Rate

In 2017, the Company actively promoted the mobile business model transformation and enhanced the quality of new subscribers through innovating products and marketing models. Using a low cost and subsidy model for expanding subscriber base, the Company achieved accelerated growth in mobile service. Mobile service revenue reached RMB156.44 billion, representing a year-on-year growth of 7.9%, exceeded industry average by 2.2 percentage points. Mobile billing subscribers achieved a net increase of 20.34 million to 284.16 million in total in 2017. The average revenue per user (ARPU) of mobile billing subscribers amounted to RMB48.0, up by 3.5% year-on-year.

During the year, the Company strengthened its data traffic operation by launching and expanding in scale the innovative and transformational products, like 2I2C, 2B2C and "Ice-cream Package" targeting medium-to-high end subscribers. It segmented the market and adopted targeted marketing to reach target users effectively, especially the youth market, with low marketing costs, achieving a breakthrough in the 4G subscriber base. In 2017, the Company's 4G subscriber base witnessed a net increase of 70.33 million to a total of 174.88 million. The 4G subscriber market share was up by 3.7 percentage points year-on-year. The proportion of 4G subscribers to total mobile billing subscribers increased by 21.9 percentage points year-on-year to 61.5%.

The Company sped up the transition towards an innovative business model of "data + content". It vigorously promoted data-oriented products, enriched with contents and privileges, and unleashed the value of data capacity. Mobile data service sustained a strong growth momentum. In 2017, the Company's handset Internet access revenue grew by 28.8% year-on-year to RMB92.14 billion. The monthly average DOU per handset subscriber was 2,433MB, up by 359.0% year-on-year, still with enormous growth potential.

Actively Deployed and Nurtured Key Innovative Services to Stabilise Fixed-line Development, while Creating New Energy for Future Growth

In 2017, the Company actively promoted the scale development of innovative services, striving to offset the decline in fixed-line voice revenue and the competitive pressure on the fixed-line broadband market. Fixed-line service revenue was RMB90.87 billion, down by 0.9% year-on-year, which was largely stable. Within that, the proportion of voice revenue dropped to 13.3%, further improving the fixed-line service revenue structure.

The Company actively developed its business by focusing on the complementary resources and business synergies brought in by the strategic investors. Focusing on key industries and key services, it embraced open cooperation and adopted innovative incentive systems to jointly develop an innovative and win-win industry ecosystem. In 2017, the Company achieved new breakthroughs in key innovative services. ICT revenue reached RMB3.32 billion, up by 11.0% year-on-year. IDC and Cloud computing revenue reached RMB11.02 billion, up by 16.6% year-on-year. Internet of Things revenue reached RMB1.41 billion and Big Data revenue reached RMB0.16 billion.

Actively Countered Intense Market Competition through Promoting User Consumption Upgrade and Integrated Development with “High-bandwidth, Mass Video and Big Integration”

Facing intense competition in the broadband market, the Company further enhanced its network coverage capability and quality. Leveraging its strengths in network capability and television and video content, the Company actively promoted the use of high-bandwidth and integrated products to facilitate user consumption upgrade and mutual growth of fixed-line and mobile services. It propelled an Internet-oriented transformation in sales of broadband service to enhance customer perception. It offered new services such as home Internet and home network services in order to explore new innovative service models. In 2017, the Company's fixed-line broadband access revenue amounted to RMB42.71 billion, down by 2.6% year-on-year. Fixed-line broadband subscribers increased by 1.30 million to 76.54 million. Integrated package subscribers accounted for 43.5% of the total fixed-line broadband subscribers, up by 4.9 percentage points year-on-year. Going forward, the Company's broadband services will focus on video offering, integrated products and e-commerce channels to further optimise product offerings, strengthen operation and services, and stimulate the sales productivity of front-line staff to constantly enhance the differentiated competitive advantages of its broadband business.

NETWORK DEPLOYMENT

In 2017, the Company insisted on focused and precise investment together with cooperation to achieve efficient network deployment. It maintained market competitive network quality and customer experience, rapidly responded to market demand, providing effective support to business development, despite low capital expenditure.

Embracing a return-enhancing investment approach, the Company actively utilised the existing capacity of 4G and fixed-line broadband network, focused its investment on key cities and 4G network, as well as regions with high data traffic and high investment returns. It used Big Data to monitor traffic hotspots to achieve precise capacity expansion. It also vigorously carried out resources sharing and social cooperation in regions with weak resources and met market demand using innovative models. In 2017, the Company continued to fortify its network capabilities. The number of 4G base stations increased by 0.11 million to a total of 0.85 million. FTTH ports accounted for 79.2% of the total fixed-line broadband ports. Network efficiency significantly improved. 4G network utilisation rate increased to 57% and the percentage of FTTH subscribers to total broadband subscribers reached 77%. The network quality and customer perception in key regions continued to rise. The 4G network uplink and downlink average speeds were leading in the industry. The Net Promoter Score (NPS) of mobile network and fixed-line broadband continued to improve and Internet network latency performance ranked the best in the industry.

The Company continued to enhance its transmission, carrier network and other fundamental network capabilities. Its dedicated finance industry network loaded with SDN functions further enhanced business support performance and customer perception of major customers. Its backbone network maintained the lowest latency in the industry. The Company closely monitored the evolution of new technology, with pilot run of new services, such as VoLTE, VoWiFi and “One SIM, Multi Devices” in eight cities, built the world's biggest single-city NB-IoT network in Shanghai and comprehensively introduced NFV technology, building up capability for future development.

Chairman's Statement

Mixed-ownership Reform

In 2017, adhering to the principle of “enhance governance, strengthen incentives, protrude core businesses and raise efficiency”, the Company implemented mixed-ownership reform by using Unicom A Share Company, the controlling shareholder of the Company, as the platform. By introducing strategic investors and leveraging external resources and capabilities, the Company innovated the business cooperation model and achieved strategic business collaboration. It pushed forward system and mechanism reforms, established sound and effective corporate governance and market-oriented incentive mechanism to elevate corporate vitality and efficiency, creating better returns for shareholders and employees.

Financial Strengths, Investment and Operation Capabilities Improved Substantially Following the Introduction of Strategic Investors

In 2017, through non-public issuance of new shares and transfer of existing shares of Unicom A Share Company held by Unicom Group, Unicom A Share Company successfully introduced 14 industry leaders as strategic investors who are complementary to the Company's business development. Approximately RMB75.0 billion was raised and injected into CUCL, a wholly-owned subsidiary of the Company. All the proceeds will be used by CUCL for upgrading 4G capabilities, technology validation and enablement of 5G network related technologies, launching trial programmes in relation to 5G network and developing innovative services. The injection of external capital effectively enhanced the Company's financial position and improved its risk control capability.

Pushed Ahead In-depth Synergetic Cooperation with Strategic Investors to Enhance New Energy for Innovative Development

The Company deeply explored and integrated strategic investors' resources, strengths and took full advantage of the edges of its own fundamental business capabilities. Focusing on key innovative segments including channel touch points, Cloud computing, Big Data, Internet of Things, retail system, video contents, home Internet and basic communications, the Company established powerful alliance and engaged in-depth cooperation with strategic investors, thereby creating a new driving force for innovative business development. During the year, through leveraging the online marketing touch points of Tencent and various other large Internet companies as well as the synergetic development across online and offline marketing, the Company developed about 50 million 212C subscribers at low costs. The Company conducted in-depth cooperation with Baidu in Internet of Things, artificial intelligence and Big Data, etc. The Company entered into in-depth cooperation in Cloud services with Tencent and Alibaba through mutual resources and capabilities sharing. The Company built smart living experience stores jointly with JD.com, Alibaba and Suning to actively explore New Retail business model. The Company carried out in-depth cooperation with strategic investors in basic communications business to promote resources sharing and business synergy, thus achieving a win-win situation for all parties.

Accelerated Mechanism Transformation, Enhanced Incentive System and Improved Efficiency

The Company seized the opportunity of mixed-ownership reform to deeply propel innovative reform of mechanism and system. By downsizing and streamlining corporate structure, the Company promoted staff migration to the frontline and established a lean and highly efficient organisational structure. It advanced market-oriented and contractual management of managerial personnel such that positions could go up and down, staff could get in and out while compensation could increase and decrease. The Company pushed forward sub-division and contract-out, selected “mini CEOs” based on a competitive mechanism, vitalised incentives and compensation allocation, and stimulated the internal vibrancy of front-line staff. Unicom A Share Company launched an employee restrictive share incentive scheme. Under the initial grant, 848 million restrictive shares will be granted to core employees. Unlocking conditions are prescribed for units and individuals at all levels on a scientific basis so as to combine short-term and long-term incentives, and align shareholder interests, corporate development and employee interests.

CORPORATE GOVERNANCE AND SOCIAL RESPONSIBILITY

The Company continues to improve its corporate governance structure and strengthen its execution, which leads to continuous enhancement in management and corporate governance. In 2017, the Company was awarded a number of accolades, including “Asia’s Best Management Team” by FinanceAsia, “Asia’s No. 1 Most Honored Telecom Company” by Institutional Investor and the Company’s annual report, “BEAT THE HEADWIND TURN THE TIDE”, was awarded the “Best of Show – World’s Best Annual Report” in International ARC Awards.

The Company has taken the initiative in fulfilling its social responsibilities. Adhering to the development philosophies of “Innovation,

Coordination, Greenness, Openness and Sharing”, it deepened supply-side structural reform to meet the ever-increasing demand for information life of the public, actively supporting the harmonious economic, social and environmental development. The Company insisted on 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 kept introducing 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 co-existence between the enterprise and the environment.

OUTLOOK

At present, we are steering into the digital economic era. A new round of technological and industrial revolution is emerging. The Internet will integrate deeply with real economy to power up various industries, bringing about tremendous market potential. China’s economic development is also entering a new era. New development models emphasising on high-quality development requirements will drive the entire society to improve total factor productivity and vigorously cultivate new energy. Looking ahead, China Unicom is embarking on a new historic journey as the mixed-ownership reform allows the Company to establish unique differentiated advantages and heralds new significant strategic opportunities for the Company’s development. In addition, the Company also faces challenges brought about by the decline in legacy services, intensified competition and the implementation of speed upgrade and tariff reduction policies, etc. This has prompted the Company to accelerate its transformation and development, switch driving forces and enhance development quality.

Chairman's Statement

To **START** *A New*

In 2018, the Company will seize firmly the brand new opportunities brought by global technological and industrial reform, China's economic development model reform and mixed-ownership reform, aiming to instil into China Unicom new DNA, new governance, new operation, new energy and new ecology (the "Five New"). The Company will continue to deepen the strategy of Focus, Innovation and Cooperation, vigorously accelerate Internet-oriented operation, forcefully pushes ahead in-depth synergetic business cooperation with strategic investors, speed up improvement in innovative capability and deepen system and mechanism reforms to raise vibrancy and efficiency, striving to start a new era for its innovative development. In terms of new DNA, upon the implementation of mixed-ownership reform, the Company will explore to quickly adopt an Internet-oriented and market-oriented mindset as its endogenous DNA and achieve breakthroughs.

In terms of new governance, the Company will explore to achieve a governance structure ensuring separation of duties and responsibilities as well as coordinated operation with effective checks-and-balances to achieve an operation mechanism with improved total factor productivity. In terms of new operation, the Company will seek new routes to quickly enter the Internet commercial world and become a technology service company based on network operation. In terms of new energy, the Company will speed up the cultivation and enhancement of new energy for "high-quality development and innovative development". For new ecology, the Company will explore to accelerate the establishment of an open, sharing, embracing and win-win ecosystem. The Company will spare no effort to push forward high-quality and sustainable development and elevate overall competitiveness and corporate efficiency to create greater value for its shareholders.

NEW DNA

NEW GOVERNANCE

New Paradigm

Lastly, on behalf of the Board of Directors of the Company, I would like to express my sincere gratitude to all shareholders, customers and friends across the 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 March 2018

NEW OPERATION

NEW ENERGY

NEW ECOLOGY