

BUSINESS OVERVIEW



In 2019, facing “Speed Upgrade and Tariff Reduction” policy, market saturation, keen market competition and diminishing 4G data bonus, China Unicom adhered to differentiated operation and Internet-oriented transformation, effectively improved the efficiency of customer acquisition initiative, strengthened integrated operation, and strived to avoid simple price competition, thereby assuring the value of the Company and actively promoting high-quality and sustainable growth.

MOBILE SERVICE

In 2019, China Unicom deepened its Focus Strategy and further promoted the Internet-oriented transformation of marketing operations, building the four-pillar marketing system of China Unicom, namely “market first”, “product led”, “touchpoint driven” and “capability-oriented”. Based on the in-depth exploration of users’ demand and market

segmentation, the Company developed differentiated marketing advantages in product leadership, touchpoints effectiveness, capability development, as well as branding and publicity. With the construction of a standardised and yet differentiated Internet-oriented product portfolio and through the flexible selection of top-up packages for fundamental services, the bundling of supplementary card or family member card for all products, the full product integration and the comprehensive top-up privileges, China Unicom strived to meet the segmented demand and various needs among its clientele. The Company leveraged big data as well as centralised and targeted marketing to drive customer retention. Focusing on managing customer lifecycle, expanding the reach of light touchpoints and strengthening the delivery network, China Unicom built a new Internet-oriented marketing network, achieved selling in every marketing scenario and diversified delivery,

improving customer perception and operation efficiency and expanding new low-cost and wide coverage of touchpoints. As at the end of 2019, the number of mobile billing subscribers reached 0.32 billion and ARPU stood at RMB40.4, of which 0.25 billion were 4G billing subscribers. Mobile data volume reached 30.16 million TB, representing a year-on-year increase of 46%.

FIXED-LINE BROADBAND

In 2019, the Company strengthened the integrated service development, highlighted the edges in high-bandwidth and rich content application, launched “I+4+X” smart home product series, including four key products, namely “WO Family network deployment, WO Family video platform, WO Family fixed-line and WO Family surveillance”, creating a new revenue growth driver based on household applications. At the same time, the Company satisfied the requirements for high-quality development of broadband services and comprehensively improved product efficiency, thereby gradually enhancing the value of household users. The Company saw a rebound in broadband access revenue and ARPU in the fourth quarter, despite a decrease of 1.7% year-on-year in fixed-line broadband access revenue in 2019, reversing the continuous decline trend in broadband access revenue. During the year, the number of broadband subscribers increased by 2.60 million to 83.48 million and the broadband access ARPU was RMB41.6. FTTH subscriber penetration reached 85%, up by 3.5 percentage points year-on-year.

INDUSTRY INTERNET

In the field of cloud computing, the Company focused on strengthening cooperations and improving its own cloud-based capabilities with a view to formulating the overall development strategy of cloud business featuring cloud network integration, security and reliability, multi-cloud collaboration and exclusive customisation. Being committed to enhancing cloud computing capability, the Company released the

strategic plan of WO Cloud, re-organised the Company’s cloud resource pool across the network and well positioned the brand of China Unicom’s cloud business. The Company actively carried out “Cloud Fibre Smart Enterprise” marketing campaign to support cloud adoption by vertical customers. In 2019, cloud computing revenue reached RMB2.36 billion, representing a year-on-year growth of 147%. In terms of big data, the Company established a “I+2+3+4+N” product series, which could support policy optimisation, grow business and create benefits for public, which further enhance its influence in the industry, brand value and market position, and attached great importance in academic research with active and innovative cooperation with scientific research institutes. In 2019, big data revenue reached RMB1.23 billion, representing a year-on-year growth of 103%. In respect of the Internet of Things (IoT), having centered with platform development, the Company continued to strengthen its overall service capability and build the general enforcing capability and industry application products. Through proprietary research and cooperation, the Company cemented end-to-end service capability. In 2019, the number of connections reached nearly 190 million and IoT revenue reached RMB3.04 billion, representing a year-on-year growth of 46%. In IT services, the Company focused on vertical empowerment in key areas, comprehensively improved its core capabilities and achieved significant breakthroughs in key markets. In 2019, IT services revenue reached RMB10 billion, representing a year-on-year growth of 78%.

NETWORK CAPABILITIES

In 2019, the Company fully implemented the Focus Strategy, adopted a return-oriented and scientific network deployment methodology, actively explored the new Internet-oriented model in network construction, operation and optimisation, with a view to delivering a high-quality network with good coverage and high-speed in the eyes of customers. As at the end of 2019, the number of the Company’s 4G

B U S I N E S S O V E R V I E W

base stations reached 1.41 million with 4G population coverage reaching 93% and administrative village coverage reaching 84%. In the fixed-line network, the Company continued to expand network coverage in new regions and stepped up the network upgrade in areas with PON+LAN. The total number of broadband access ports reached 220 million, of which FTTH ports accounted for 85%.

In 2019, the Company entered into a cooperation agreement with China Telecom to jointly build a 5G access network across the country. While significantly saving capital expenditure, the Company could enjoy the doubling of 5G network coverage, bandwidth, capacity and transmission speed, providing users with better experience. There were more than 60,000 5G base stations available for use by the Company, supporting the evolution of 5G service from trial to commercial launch.

The Company continued to optimise its international network deployment. As at the end of 2019, the international submarine cable resource capacity, international Internet outbound capacity and homebound bandwidth reached 34T, 3.2T and 2.8T, respectively. The Company's international roaming services covered 625 operators in 253 countries and regions.

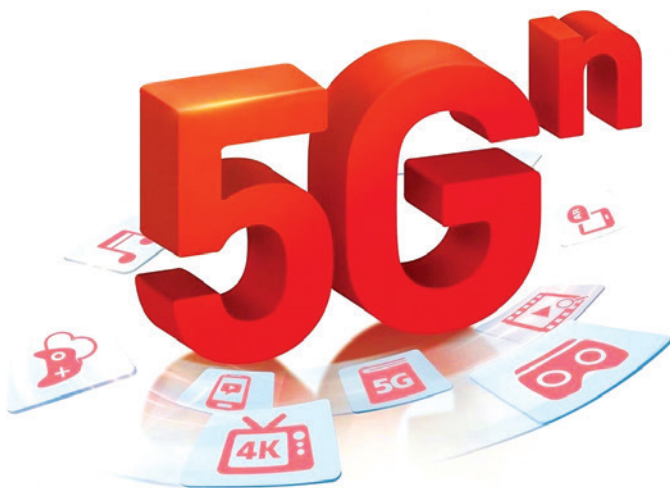
In 2019, capital expenditure of the Company totalled RMB56.4 billion. In 2020, the Company will leverage "co-build and co-share" advantages and invest dynamically and precisely to enhance its network edges and corporate value. The estimated capital expenditure will be about RMB70.0 billion, which will

mainly consist of investments in mobile network, broadband and data, infrastructure and transmission network etc., of which 5G network capital expenditure will be about RMB35.0 billion. The funding required is expected to mainly come from the cash flow from operating activities.

MARKETING

Branding

In 2019, the Company comprehensively reshaped a brand new image focusing on three aspects, brand building, effective business promotion, and reputation enhancement, in an effort to enhance user perception and promote the Internet-oriented transformation of the brand. By contributing to the targeted poverty alleviation and the implementation of "Speed Upgrade and Tariff Reduction" policy, China Unicom demonstrated its strength and responsibility as a state-owned-enterprise. While establishing the overall 5G branding structure of China Unicom, the Company launched its 5G brand logo, "5G", and the tagline – "Let the Future Grow". The Company leveraged 5G commercial roll-out, key events such as "China Unicom 5G Empowering Smart Winter Olympics" and the celebration of 70th anniversary of The People's Republic of China, as well as key exhibitions to enhance publicity, with the goal to enhance business understanding and user experience, as well as promoting recognition of China Unicom's 5G branding. China Unicom deployed #eachoneof300million and #letsmeetsnow as themes to execute integrated marketing and communication programmes, with an aim to elevate the brand image and brand association of China Unicom to Winter Olympics. The Company



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continued to strengthen its promotion of key businesses such as Smart WO Family, 2I Internet business, cross-territory services, industry application and international business through precise online communication and innovative offline promotion, aiming to enhance business reputation.

Marketing strategies

In 2019, the Company thoroughly implemented its new philosophy and actively pushed forward high-quality development. Through increasing efforts in developing mid-to-high-end products and addressing the ineffective and low-value products, the Company saw improvement in subscribers' quality. The Company fully promoted the centralised operation backed by big data to realise a sophisticated and precise customer retention strategy, in a bid to enhancing user values. Through active 5G marketing, new opportunities for value expansion emerged. The Company explored new model to enhance value by making new breakthrough in segmented markets, such as in school and household. In response to the nation's trend in promoting the development of digital economy, the Company vigorously promoted the new sales and marketing model combining "Cloud+Network+X" to further penetrate to the industrial Internet market. The Company demonstrated huge efforts in promoting Internet-oriented transformation and building Internet-oriented product series, distribution channels, and marketing structure to enhance marketing efficiency.

Marketing Channels

In 2019, the Company actively implemented the Internet-oriented transformation strategy, promoted O2O channel integration and further expanded and simplified touchpoint network. While taking offline channels as the base, the Company expanded online and light touchpoints in full force to build a low-cost and extensive touchpoint system. The Company optimised and strengthened its delivery network by establishing specialised teams, making multi-use of physical channels, and creating a home or office-delivery based delivery system. Relying on the middle-platform, the Company realised an all-scenario sales and marketing and diversified delivery, thereby creating a new Internet-oriented marketing network, as well as improving user perception and operational efficiency.

Customer Care

In 2019, being dedicated to serving the general public, the Company focused on tackling critical issues, achieving a continuous reputation enhancement for our service. By stepping up the Internet-oriented transformation of service, the Company improved operation efficiency of service channels and enhanced user experience. As at the end of the fourth quarter, Net Promoter Score (NPS) measuring the reputation of mobile and broadband services improved by 7.2 points and 8.1 points, respectively, year-on-year. As at the end of December, valid complaint rate published by Ministry of Industry and Information Technology (MIIT) decreased by 50% year-on-year.