

CHAIRMAN'S



DEAR SHAREHOLDERS,

In the first half of 2017, the Company comprehensively deepened the implementation of Focus Strategy and centred on scale and profitable development through growth promotion, cost control and mechanism reform. The Company saw improving operations, made marked progress in the transformation of its business model, further enhanced its network capability and deepened various reforms, making a solid step forward towards healthy development.

**WANG
XIAOCHU**
CHAIRMAN AND CEO

STATEMENT

OVERALL RESULTS

In the first half of 2017, the Company's key performance indicators remained robust, and its revenue was increasing steadily. The Company's service revenue reached RMB124.11 billion, up by 3.2% year-on-year. Profitability improved significantly as planned. The Company's EBITDA¹ amounted to RMB43.56 billion, up by 5.5% year-on-year, and accounted for 35.1% of the service revenue, up by 0.8 percentage point year-on-year; and profit attributable to the equity shareholders of the Company increased by 68.9% year-on-year to RMB2.42 billion.

The Company boosted return by implementing precise investment, actively promoting cooperative sharing and tapping into each others' resources. Capital expenditure substantially decreased by 49.5% year-on-year to RMB9.14 billion in the first half of 2017. Thanks to the gradual improvement in service revenue and the substantial decline in capital expenditure, the Company's free cash flow reached RMB37.52 billion.

Taking into account the Company's profitability, debt obligations and cash flows, capital required for future development, etc., the Board of Directors does not recommend the payment of interim dividend for the current year. The Board will submit a proposal for final dividend payment based on our overall results for the year for consideration at the shareholders' general meeting.

BUSINESS DEVELOPMENT

Strengthened Data Traffic Operation and Marketing Model Transformation with Mobile Service Revenue Growth Outperformed the Industry Average

In the first half of 2017, the Company transformed the development model of its mobile service by stepping up online sales efforts via 2I2C, 2B2C, etc. in order to enhance the quality of new subscribers. With a low customer acquisition cost and subsidiary model, the Company's mobile service revenue reached RMB76.84 billion, representing a year-on-year growth of 5.2% which exceeded the industry average. Mobile billing subscribers achieved a net increase of 5.63 million to a total of 269.45 million. The average revenue per user (ARPU) of mobile billing subscribers amounted to RMB48.0, representing a significant increase as compared to RMB46.4 for the full year of 2016.

During the period, the Company sped up the development of 4G service. The Company fully leveraged its network strengths and launched diverse data-oriented products such as 2I2C, 2B2C and "ice-cream" unlimited data packages in an effort to meet various customer demands. The Company further strengthened the alignment among customers' needs, products and channels to improve marketing effectiveness, enhanced the synergy and interaction between online and offline channels, and accelerated the migration of 2G subscribers to 4G so as to improve the subscriber mix. In the first half of 2017, the Company's 4G subscriber witnessed a net increase of 34.26 million to a total of 138.81 million. The proportion of 4G subscribers to total mobile billing subscribers increased by 23.7 percentage points year-on-year to 51.5%. The ARPU of 4G subscribers reached RMB66.5.

The Company pushed forward product offerings transformation towards providing more data-oriented products, led by the release of data capacity and simplified design of contract packages, developed a differentiated content system based on "Unlimited Video Enjoyment" + "WO Video" to promote the transition to innovative "data + content" business model, and leveraged big data analytics to promote minimum spending commitment and scenario marketing, etc. so as to stimulate rapid data growth and customer value enhancement. In the first half of 2017, the Company's total handset data usage grew by 325.7% year-on-year, with the revenue from handset Internet access reaching RMB42.90 billion. The monthly average DOU per 4G subscriber was 3,330 MB.

Rapid Growth of Innovative Businesses Promoted Steady Development in Fixed-line Service

In the first half of 2017, the Company actively promoted the scale development of innovative businesses, which offset the decline in fixed-line voice revenue and the pressure from the competition in the broadband market. The fixed-line service revenue was RMB46.57 billion, which was largely stable as compared to the same period of last year. Within that, the proportion of voice revenue dropped to 13.4%, further improving the fixed-line service structure.

CHAIRMAN'S STATEMENT

The Company actively leveraged its competitive advantages in the field of industrial Internet, focused on key areas, strengthened capability development, optimised business system and carried out cooperation on quality resources with the value chain, achieving new breakthroughs in innovative business development. In the first half of 2017, the Company's Information Communications Technology (ICT) revenue reached RMB1.87 billion, up by 15.6% year-on-year. Internet Data Centre (IDC) and cloud computing revenue reached RMB5.80 billion, up by 22.0% year on year. Internet of things connections exceeded 50 million. Merchants Union Consumer Finance's outstanding loan balance reached RMB32.0 billion. The Company continued to command leadership in big data business and maintained its leading position in personal credit rating and location-based services.

Promoted User Consumption Upgrade and Integrated Development with High-bandwidth Products and Services to Actively Counter Exceptionally Fierce Broadband Competition

In the first half of 2017, the Company faced fierce competition in the broadband market. The Company fully leveraged its all-fibre network advantage to vigorously promote video-oriented high-bandwidth content and application products in an effort to drive user bandwidth upgrade, optimised the end-to-end customer service workflow to improve customer satisfaction, and proactively promoted household Internet integrated products of broadband, video, applications, etc, to drive mutual-promoting development. In the first half of the year, the Company's fixed-line broadband access revenue amounted to RMB21.56 billion, down by 3.0% year-on-year. The number of fixed-line broadband subscribers increased by 4.0% year-on-year to 76.92 million. "Smart WO Family" subscribers accounted for 30.9% of the fixed-line broadband subscribers, up by 9.8 percentage points year-on-year. In the second half of the year, the Company will focus on enriching the broadband content and applications, improving product offerings and strengthening operations and services, so as to constantly enhance differentiated competitiveness.

NETWORK DEPLOYMENT

In the first half of 2017, with a focus on improving quality and efficiency, the Company practised precise network deployment and increased the utilisation efficiency of existing resources. The Company maintained its network quality and perception in key regions on par with the industry while at the same time taking into account the investment returns.

Making the best use of its improved network capacity and capability advantages resulting from the large-scale deployment of 4G network and fixed-line broadband fibre upgrade over the past two years, the Company focused its investment on key cities and 4G network, as well as regions with high asset utilisation and high promising returns on investment. The Company actively promoted sharing of resources and carried out cooperation with private capital to meet market demand with innovative business models. In the first half of 2017, the utilisation rate of the Company's 4G network reached 35%, and FTTH subscribers accounted for 74.2% of the total fixed-line broadband subscribers, which were both significantly higher as compared to the same period of last year.

The Company continued to enhance its transmission, carrier network and other basic network capabilities, and its backbone network maintained the lowest latency in the industry. The Company closely monitored the evolution of new technology. It built the world's biggest single-city NB-IoT network in Shanghai and comprehensively introduced NFV technology to pave the way for future development.

DEEPENED COOPERATION AND INNOVATIVE TRANSFORMATION

In the first half of 2017, the Company actively deepened cooperation and innovative transformation in various fields to seek breakthroughs in business development.

In the first half of 2017, the Company deeply promoted win-win cooperation with Internet companies and leveraged the big data analytics and its unique cBSS system platform advantages to promote 2I2C, 2B2C and other innovative business models, which effectively expanded the touchpoints for customer acquisition through targeted marketing and developed sub-divided segments to drive scale and profitable business development with low incremental costs. The Company deepened its system and mechanism reform on marketing, support and other functional fronts in order to create a highly capable and efficient organisation, optimise operating models, rationalise resources allocation and improve operating efficiency. The Company also deepened its market-oriented reform in innovative businesses to enhance its drive for innovation and continuously improved its financial management, risk control, IT support and other basic capabilities.

CORPORATE GOVERNANCE AND SOCIAL RESPONSIBILITY

The Company insists on improving corporate governance structure and strengthening execution, leading to steady enhancement in management and corporate governance. This year, the Company was awarded a number of accolades, including "Asia's Best Management Team" by FinanceAsia and "Asia's No. 1 Most Honoured Telecom Company" by Institutional Investor.

CHAIRMAN'S STATEMENT

Upholding the development philosophy of "innovation, coordination, green, openness, and sharing", the Company took the initiative in fulfilling its social responsibility and facilitated harmonious development of economy, society and environment. The Company strived to build a high-speed, green and secure premium network, actively conducted green operation and pushed ahead with equipment recycling to reduce the energy consumption of its network, enhanced service quality to provide users with comfortable experience, assured consumption and caring services. The Company also evolved with its employees by enhancing their self-value and sharing the success of the Company's achievement, and supported the development of western China by expanding network coverage and strengthening service channel construction in remote areas to narrow the digital divide and create a smart living.

OUTLOOK

At present, with the accelerating transformation of the information communication industry, high-speed data traffic consumption has become a mainstream. Meanwhile, with fast penetration of cloud computing, big data, Internet of things, artificial intelligence and other new technologies, innovative integrated services exhibit rapid growth momentum, indicating great potential for the industry development. Looking ahead, China Unicom is embarking on a new historic journey as the mixed-ownership reform heralds new significant strategic opportunities for the Company's development. In addition, given that the Company will cease to charge mobile domestic long-distance and roaming fees from 1 September 2017, and market competition is expected to intensify cyclically in the second half of the year, the Company expects that its financial performance will face increasing pressure in the second half of the year.

In the second half of the year, the Company will actively address challenges, insist on scale and profitable development, and uphold the Focus Strategy as the general guideline for its development and reforms, so as to speed up the Company's progression onto the path of healthy development. The Company will deeply propel its business transformation, maintain the rapid development of 4G business, and accelerate the turnaround of the unfavourable situation of its broadband business. The Company will speed up the improvement of its innovation capacity, strengthen integrated development with enterprises along the value chain, tap into the "Blue Ocean" of the innovative fields to foster new growth engines, and speed up Internet-based transformation of operations with a focus on cooperation and precision operation, so as to continually enhance the utilisation efficiency of resources and assets.

The Company will seize the opportunity of mixed-ownership reform to expedite the establishment of a more efficient and market-oriented operating mechanism, promote partnership with strong industry players with complementary edges, innovate in business model to enhance its corporate vibrancy and unleash its development potential. The Company will also take the opportunity to strengthen the incentive system, explore market-oriented employment and incentive mechanisms with checks and balances to fully bolster development vibrancy and operational efficiency, thus starting a new chapter of the Company's healthy development.

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 society for their support to the Company, and to all employees for their dedication and contribution along the way!



Wang Xiaochu
Chairman and Chief Executive Officer
Hong Kong, 16 August 2017

Note 1: EBITDA represents profit for the period before finance costs, interest income, shares of net profit/(loss) 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 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 Group.