

Performance

HIGHLIGHTS

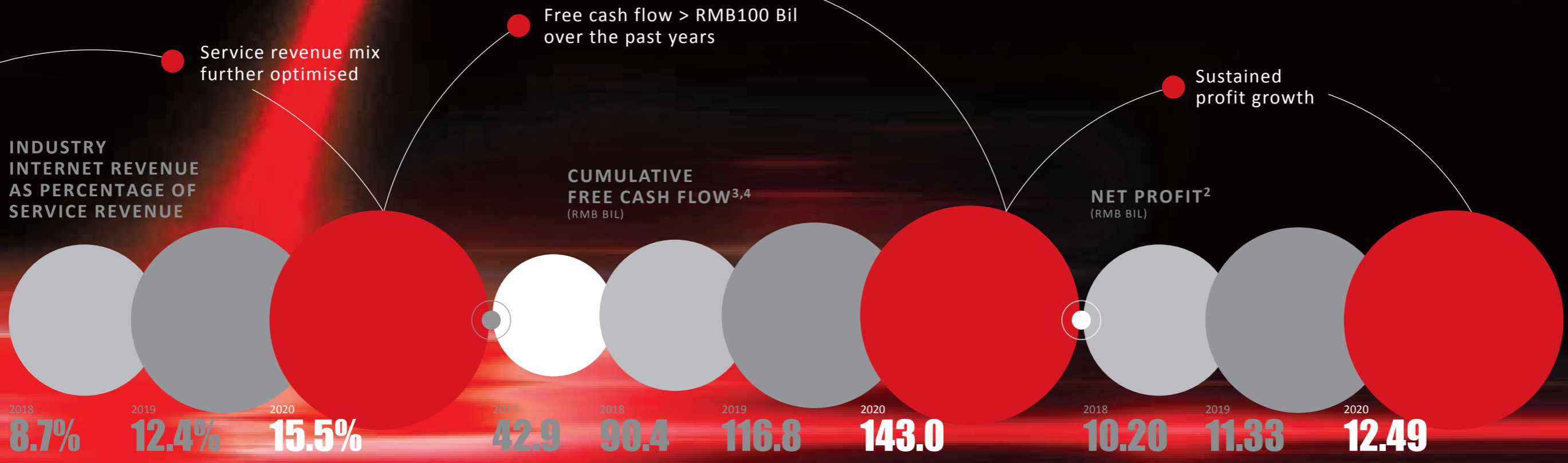
	2020	2019	Change YoY
Operating Revenue (RMB billions)	303.84	290.51	4.6%
Of which: Service Revenue (RMB billions)	275.81	264.39	4.3%
EBITDA ¹ (RMB billions)	94.14	94.36	-0.2%
As % of Service Revenue	34.1%	35.7%	-1.6pp
Net Profit ² (RMB billions)	12.49	11.33	10.3%
Basic EPS (RMB)	0.408	0.370	10.3%
Free Cash Flow ³ (RMB billions)	26.2	26.4	-0.8%

Note 1: EBITDA represents profit for the year 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: Net profit represented profit attributable to equity shareholders of the Company.

Note 3: Excluded the impact of adoption of IFRS/HKFRS 16 on free cash flow in 2019 and 2020 (i.e. free cash flow = operating cash flow — CAPEX — capital element of lease rentals paid.)

Note 4: Calculated the cumulative free cash flow generated since 2017.



Business OVERVIEW



Facing the complex internal and external environment, COVID-19, and other challenges in 2020, China Unicom adhered to its Focus Strategy, actively promoted comprehensive digital transformation, and remained committed to the differentiated operation. The Company strengthened integrated operation led by 5G services to enhance user acquisition capability, thereby actively pushing forward on high-quality and sustainable growth.

CHEN ZHONGYUE
Executive Director and President

MOBILE SERVICE

In 2020, China Unicom deepened its strategy of “Focus, Innovation and Cooperation”. Led by 5G to drive mobile service growth, China Unicom persisted in the strategy to “promote 5G package nationwide, with focus on 5G terminal penetration and network access rate in key cities”, while seeking for user upgrade from existing customers and expanding the scale in new user market. The Company strived to maintain the competitiveness of its tariff and products and enhanced flexibility on tariff and contract design at provincial level, aiming to drive 5G customers with contracts and bundled services while promoting full coverage of 5G packages on all existing customers. The Company also reinforced 5G core applications to create differentiation. China Unicom carried out scale promotion in Omni-channel by implementing “6+X+1+1” initiative, which centered on 5G differentiated scenarios online and enabled 5G to actively drive traffic. The Company also conducted 5G experience and closed-door terminal sales events on physical channels. On enterprise and government customer front, the Company actively built 5G benchmark demonstration. The Company accelerated concerted development among terminal, network and business, building the interactive drive between service and terminal. The innovative installment credit services on terminals also boosted the business development. In addition, the Company was able to implement refined customer segmentation and offer fit and suitable products based on precise Big Data analytics and deep insight from various scenarios.

Centered on 5G⁺, the Company also stepped up 5G promotion and brand communication and strengthened selling points of products with “Three-Gigabit”, promoting service upgrade with innovative communications. As at the end of 2020, the number of mobile billing subscribers reached 306 million with a gradual increase in 5G market share and the mobile billing subscribers ARPU stood at RMB42.1. Mobile handset data traffic volume grew by 16.5% year-on-year.

FIXED-LINE BROADBAND

In 2020, by adhering to the comprehensive coordination of “network + business + operation + service + information” in the development of fixed-line service, led by “Three-Gigabit” and combined with 5G hotspots based on business needs, China Unicom established a market-driven mechanism with network, business and service interaction, thereby comprehensively improved broadband access capabilities and the ability on resource management, achieving the coordinated development of broadband sale and marketing and network deployment. The Company also accelerated the construction of gigabit networks and formulated “Gigabit Broadband Development Plan”, pushing forward the deployment and transformation of gigabit communities focusing high-value regions. Meanwhile, relying on the unconditional acceptance of broadband application, the Company built a digital operation system of “two networks and one middle platform” for home users, thereby optimised resource allocation and promoted highly-efficient governance. In 2020, fixed-line broadband access revenue reached RMB42.56 billion, representing a year-on-year growth of 2.4%. During the year, the number of broadband subscribers increased by 2.617 million to 86.095 million and the broadband access ARPU was RMB41.5. FTTH subscribers penetration reached 86%.

INDUSTRY INTERNET

In cloud computing, the Company focused on cloud leadership while integrating research and development resources and riding on the organic growth of the innovative business as core driving forces. The Company created new WO Cloud base, new PaaS, and new cloud management product capabilities to build its differentiated edges of being “cloud-network integrated, secure and reliable, private and customised and multi-cloud

collaborated”, achieving the scale development strategy of WO Cloud. The Company also built its proprietary core competence of new WO Cloud, focusing on resources, networks, platforms, products and ecology, optimising the layout of its cloud resource pool across the network and well positioning the brand of WO Cloud. In 2020, cloud computing revenue reached RMB3.84 billion, representing a year-on-year growth of 62.7%.

In Big Data, the Company formed a product matrix including data application services, data technology services, AI and blockchain, focusing on the key industries such as government affairs, finance, cultural and tourism and transportation. It developed proprietary products such as government big data platform, digital + intelligence + industry + finance platform, smart travel-cultural tourism big data platform and smart factory AI application platform. The Company released “Unicom Chain”, an unified blockchain products and capabilities platform. “Unicom Chain” was connected to the new national blockchain infrastructure “Xinghuo Space”. The Company fulfilled the role as a SOE to support the pandemic prevention and control and assisted in the resumption of work, production and schooling. Our Unicom Big Data Co. Ltd. was named “National Advanced Group in Fighting Against COVID-19”. In 2020, Big Data revenue reached RMB1.72 billion, representing a year-on-year growth of 39.8% and achieving a market share of 59.4%, ranked first among telecom operators.

BUSINESS OVERVIEW

In **Internet of Things (IoT)**, the Company optimised the IoT business system with the drive by 5G, 4G as main force and precise development of NB and achieved the number of connections reaching approximately 240 million. Based on the concept of “network softwarisation, software hardwarisation and hardware as a chip”, the Company strengthened proprietary capability building. The number of connections carried by the Yanfei Zhilian CMP platform exceeded 80 million and the Yanfei Gewu DMP platform had begun its commercial use. In 2020, IoT revenue reached RMB4.22 billion, representing a year-on-year growth of 39.0%.

In **IT services**, the Company grasped the development opportunities of “New infrastructure”, public governance and industrial digitalisation, focusing on customers such as government units, public service units and large industrial enterprises, and key areas such as smart city, digital government, Big data + IT + Innovation, ITO and 5G innovation, further promoting digital transformation empowerment. The Company also created a “platform + application” product system covering digital infrastructure, cloud-network integration, digital platforms, digital applications, and digital solutions by aggregating its proprietary innovation and core capabilities. The Company’s qualification level further improved and it is the only one among the three operators which obtained the first-level qualification for electrification and intelligentisation. The Company also newly added 7 IT industry qualifications including CS4, ITSS (Level I) and others. During the pandemic, the Company assured the



smooth operation of communication network systems in the government, provided a number of digital services such as 5G-based live broadcast and remote meetings for important national conferences and successfully completed with high quality of more than 260 assurance tasks in three major categories. China Unicom System Integration Company Limited ranked 21st in “100 Most Competitive Software & IT Service Company” in China. In 2020, IT services revenue reached RMB13.36 billion, representing a year-on-year growth of 33.4%.

NETWORK CAPABILITIES

In 2020, the Company deepened the implementation of its strategy of focus, innovation, and cooperation, actively promoted the digital transformation of network and the reform of network operating mechanism. The Company achieved strategic results in the high-quality collaborative development in the industry and network “co-build and co-share”, and continued to strengthen in network service support capabilities to facilitate the Company’s high-quality development.

As at the end of 2020, the number of the Company’s 4G base stations reached 1.503 million with 4G population coverage reaching 94% and administrative village coverage reaching 86%. 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 225 million, of which FTTH ports accounted for 88%.

The Company continued to optimise its international network deployment. As at the end of 2020, the international submarine cable resource capacity, international Internet outbound capacity and homebound bandwidth reached 52.6T, 4.12T and 3.30T, respectively. The Company’s international roaming services covered 627 operators in 259 countries and regions.

MARKETING

Branding

In 2020, the Company carried out high-quality development and acted out its brand planning by affirming the brand positioning of a warmth smart living along with the slogan “Innovation walks with Intelligence”, which fully renovated the internal and external branding of China Unicom and enhanced the brand value of China Unicom. In promoting 5G, the Company gave full play to the leading role of 5G, continued the effort to communicate the brand philosophy and build and accumulate the 5G[®] brand visual assets. While the Company focused on key businesses

and scenarios on publicity campaigns, it also rode promotions on trends, hotspots, events and key festivals. The Company took the lead in launching “Three-Gigabit” products, focusing on the home network service demand, and carried out promotion featuring product benefits and catering regional differences. In the youth market, the Company rejuvenated WO Pi brand, deepened WO Pi’s brand proposition, “Do what I like”, and conveyed the connotation of diversified vitality. By continuously optimising the promotion content and diversifying communication means, the Company received good overall brand development momentum and improved in reputation and brand awareness. Meanwhile, by virtue of the sponsorship of the Winter Olympics, consumers’ perception of the brand further improved.

Marketing strategies

In 2020, the Company continued to push forward comprehensive digital transformation and carried out “1+3+3” work deployment. Focusing on the development of the four major markets and adhering to the core strategy of “1+4+X” and leading by “Three-Gigabit” products, the Company focused on four fundamental products and realised scale development of smart home products. The Company promoted the full coverage of 5G packages for all customers and strengthened 5G core applications to create differentiation. Segmenting customers based on customer value distribution and spending pattern, the Company refined customer lists and accurately matched customers with appropriate tariffs, products and touchpoints. The Company solidly promoted the “two

improvements and two controls” and carried out value-oriented operation for all customers. The Company also innovated the platform-based product portfolio and built an ecosystem for channels by giving full play to the advantages of the business and IT collaboration, consumer market and government and enterprise market collaboration, sought development in segment markets by customer slicing and precise policy implementation. At the same time, the Company strived to improve six key operational capabilities namely, “brand, customers, products, channels, terminals and services” to achieve the improvement of marketing efficiency and facilitating the high-quality development of the consumer market.

Marketing Channels

In 2020, the Company actively implemented comprehensive digital transformation strategy, leveraged the efficient support of middle platforms, strengthened Omni-channel collaboration and focused on the implementation of “6+X+1+1” project. The Company also accelerated the online to offline integration, building a digital OMO channel operation system which integrate new and existing customer management, service and marketing. In addition, the Company stepped up channel innovation and transformation, vigorously developed online, light touch-point micro-ecology, live broadcast and other new touchpoints, new marketing models and segment markets, thus customer acquisition capability had continuously improved on digital channels. Through fully promoting “100%” satisfaction and actively building a high-traffic APP portal ecosystem, as well as boosting the multi-dimensional smart push capability, the service capability of digital channels was gradually enhanced. Riding on the middle platforms serving consumer market and the high-traffic APP portal, the Company achieved online and offline resource sharing, the online powered up offline and built an unified delivery tools which pushed forward network and business collaboration, continuously accelerating the digitalisation of channels.

Customer Care

In 2020, the Company dedicated in promoting service assurance during the pandemic and accelerated digital transformation, achieving continuous improvement in customer experience and service quality. As at the end of the fourth quarter, end-to-end real-time customer experience score improved by 1.52 points. Net Promoter

Score (NPS) measuring the reputation of mobile and broadband services improved by 5.5 points and 7.6 points, respectively. As at the end of December, valid complaint rate published by Ministry of Industry and Information Technology (MIIT) decreased by 35.2% year-on-year.

PRECISE PANDEMIC CONTROL

Since the beginning of 2020, facing the outbreak of COVID-19, the Company has been proactively undertaking social responsibility, assuring the effective communication services delivery and making use of new technologies such as big data, AI and 5G to support a precise pandemic control and resumption of work, production and schooling. The outbreak posed short-term challenges to the Company, including customer acquisition, business development, network deployment and risk of bad debt. However, it also accelerated demand by economy and society for transformation on digitisation, cyberisation and intelligence, thereby creating new opportunities to the Company. Striving to turn adversity into opportunities, the Company accelerated the transformation of Internet-oriented operation, provided innovative communications service offerings, strengthened O2O integrated operation and actively promoted new informatisation applications, thereby providing customers with accessible, convenient and highly efficient smart living services.

Financial OVERVIEW

OVERVIEW

In 2020, the Company continuously deepened the implementation of “Focus Strategy”, total revenue was RMB303.84 billion in 2020, up by 4.6% year-on-year. Service revenue reached RMB275.81 billion, up by 4.3% year-on-year. Net profit¹ was RMB12.49 billion, up by RMB1.16 billion year-on-year.

In 2020, the Company’s net cash flow from operating activities was RMB105.55 billion. Capital expenditure was RMB67.65 billion. Liabilities-to-assets ratio was 43.6% as at 31 December 2020.

REVENUE

In 2020, the Company’s revenue was RMB303.84 billion, up by 4.6% year-on-year, of which, service revenue was RMB275.81 billion, up by 4.3% year-on-year due to continuous optimisation of the revenue mix.

The table below sets forth the composition of service revenue, and the percentage contribution of each service to total service revenue for the years of 2020 and 2019:

SERVICE REVENUE

(RMB BIL)

275.81

EBITDA²

(RMB BIL)

94.14

NON-VOICE SERVICE REVENUE

(RMB BIL)

240.32

	2020		2019	
(RMB in billions)	Total amount	As a percentage of service revenue	Total amount	As a percentage of service revenue
Service revenue	275.81	100.00%	264.39	100.00%
Include: Voice service	35.49	12.87%	39.48	14.93%
Non-voice service	240.32	87.13%	224.91	85.07%

Voice Service

In 2020, service revenue from the voice service was RMB35.49 billion, down by 10.1% year-on-year.

Non-Voice Service

In 2020, service revenue from the non-voice service was RMB240.32 billion, up by 6.9% year-on-year.

FINANCIAL OVERVIEW

COSTS AND EXPENSES

In 2020, total costs and expenses amounted to RMB287.81 billion, up by 4.1% year-on-year.

The table below sets forth the items of the costs and expenses and their respective percentage of the revenue for the years of 2020 and 2019:

(RMB in billions)	2020		2019	
	Total amount	As a percentage of revenue	Total amount	As a percentage of revenue
Total costs and expenses	287.81	94.73%	276.35	95.12%
Operating costs	292.72	96.34%	279.25	96.12%
Include: Interconnection charges	10.57	3.48%	11.51	3.96%
Depreciation and amortisation	83.02	27.32%	83.08	28.60%
Network, operation and support expenses	46.29	15.23%	43.24	14.88%
Employee benefit expenses	55.74	18.35%	50.52	17.39%
Costs of telecommunications products sold	26.86	8.84%	26.41	9.09%
Selling and marketing expenses	30.46	10.03%	33.54	11.55%
General, administrative and other operating expenses	39.78	13.09%	30.95	10.65%
Finance costs, net of interest income	0.38	0.13%	0.85	0.29%
Share of net profit of associates	-1.59	-0.52%	-1.36	-0.47%
Share of net profit of joint ventures	-0.79	-0.26%	-0.65	-0.22%
Other income-net	-2.91	-0.96%	-1.74	-0.60%

Interconnection charges

The Company was affected by the decline in voice service, the interconnection charges were RMB10.57 billion in 2020, down by 8.2% year-on-year and, as a percentage of revenue, decreased from 3.96% in 2019 to 3.48% in 2020.

Depreciation and amortisation

Depreciation and amortisation charges were RMB83.02 billion in 2020, down by 0.1% year-on-year and, as a percentage of revenue, decreased from 28.60% in 2019 to 27.32% in 2020.

Network, operation and support expenses

Network, operation and support expenses were RMB46.29 billion in 2020, up by 7.1% year-on-year and, as a percentage of revenue, increased from 14.88% in 2019 to 15.23% in 2020 mainly due to increase in the tower usage fee, energy consumption cost and rental expenses of premises and equipment.

Employee benefit expenses

As a result of the improved operating results and increased the introduction of talent pipeline in the meantime, employee benefit expenses were to RMB55.74 billion in 2020, up by 10.3% year-on-year and, as a percentage of revenue, increased from 17.39% in 2019 to 18.35% in 2020.

Cost of telecommunications products sold

Costs of telecommunications products sold were RMB26.86 billion and revenue from sales of telecommunications products were RMB28.02 billion in 2020. Gross profits on sales of telecommunications products was RMB1.16 billion.

Selling and marketing expenses

The Company promoted transformation on digitisation and strengthened O2O integrated operation, selling and marketing expenses were RMB30.46 billion in 2020, down by 9.2% year-on-year and, as a percentage of revenue, decreased from 11.55% in 2019 to 10.03% in 2020.

General, administrative and other operating expenses

General, administrative and other operating expenses were RMB39.78 billion in 2020, up by 28.6% year-on-year, mainly due to the rapid growth of ICT services leading to increased related service costs and increased investment in technical support for innovative businesses.

Finance costs, net of interest income

Finance costs, net of interest income was RMB0.38 billion in 2020, decreased by RMB0.47 billion year-on-year mainly due to fall in interest-bearing debts.

Other income-net

Other income-net was RMB2.91 billion in 2020, increased by RMB1.18 billion year-on-year.

FINANCIAL OVERVIEW

EARNINGS

Profit before income tax

In 2020, the Company benefited from continuous enhancement in growth quality and profitability, profit before income tax was RMB16.03 billion, up by 13.1% year-on-year.

Income tax

In 2020, the Company's income tax was RMB3.45 billion and the effective tax rate was 21.5%.

Profit for the year

In 2020, the Company's net profit¹ was RMB12.49 billion, increased by RMB1.16 billion year-on-year. Basic earnings per share was RMB0.408, up by 10.3% year-on-year.

EBITDA²

In 2020, the Company's EBITDA was RMB94.14 billion, down by 0.2% year-on-year. EBITDA as a percentage of service revenue was 34.1%, down by 1.6 percentage points year-on-year.

CAPITAL EXPENDITURE AND CASH FLOW

In 2020, capital expenditure of the Company totaled RMB67.65 billion, which mainly consisted of investments in mobile network, broadband and data, and infrastructure and transmission network etc. In 2020, the Company's net cash flow from operating activities was RMB105.55 billion. Free cash flow³ was RMB37.90 billion after the deduction of the capital expenditure.

TO ELEVATE SHAREHOLDER VALUE THROUGH QUALITY & EFFICIENCY ENHANCEMENT

- Strengthen cash flow management and promote transformation of resources allocation & utilisation to enhance productivity of all essential factors
- Accelerate operating model transformation, to foster pan-marketing coordinated operation & high quality development
- Deepen network & business integration with precise investment to enhance the edges of cloud-network integration

The table below sets forth the major items of the capital expenditure in 2020:

RMB (in billions)	2020	
	Total amount	As percentage
Total	67.65	100.00%
Include: Mobile network	38.17	56.42%
Broadband and data	10.15	15.01%
Infrastructure and transmission network	11.04	16.32%
Others	8.29	12.25%

BALANCE SHEET

The Company's total assets changed from RMB562.50 billion as at 31 December 2019 to RMB580.62 billion as at 31 December 2020. Total liabilities changed from RMB241.74 billion as at 31 December 2019 to RMB253.10 billion as at 31 December 2020. The liabilities-to-assets ratio changed from 43.0% as at 31 December 2019 to 43.6% as at 31 December 2020. The debt-to-capitalisation ratio decreased from 15.2% as at 31 December 2019 to 12.2% as at 31 December 2020. The net debt-to-capitalisation ratio was 6.0% as at 31 December 2020.

Note 1: Net profit represented profit attribute to equity shareholders of the Company.

Note 2: EBITDA represents profit for the year before finance costs, interest income, shares 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 3: 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.

- Strengthen centralised IT operation & data governance to boost overall IT efficiency
- Continue to promote value management leveraging innovative revitalisation of operating assets & enhancement of talent performance