

ANNUAL RESULTS *2016*



15 March 2017

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Forward-looking Statements

Certain statements contained in this presentation may be viewed as “forward-looking statements” within the meaning of Section 27A of the U.S. Securities Act of 1933 (as amended) and Section 21E of the U.S. Securities Exchange Act of 1934 (as amended). Such forward-looking statements are subject to known and unknown risks, uncertainties and other factors, which may cause the actual performance, financial condition or results of operations of the Company to be materially different from any future performance, financial condition or results of operations implied by such forward-looking statements. In addition, we do not intend to update these forward-looking statements. Further information regarding these risks, uncertainties and other factors is included in the Company’s most recent Annual Report on Form 20-F filed with the U.S. Securities and Exchange Commission (the “SEC”) and in the Company’s other filings with the SEC.

Management Present

Mr. Wang Xiaochu

Chairman & CEO

Mr. Lu Yimin

Executive Director & President

Mr. Li Fushen

Executive Director & CFO

Agenda

OVERALL RESULTS

OPERATING PERFORMANCE

FINANCIAL PERFORMANCE

Highlights

1

Fully implemented Focus Strategy to mitigate underlying shortcomings, with business & service revenue rebounded

2

Deeply promoted open cooperation with fruitful results gradually emerging

3

Sharpened 4G edges & robust kick-off of marketing model transformation set to drive 4G scale & profitable development in future

4

Fast development of innovative businesses & extensive fibre broadband upgrade underpinned steady fixed-line revenue growth

5

Precise investment fuelled substantial network improvement in focused regions despite considerable reduction in CAPEX

6

To expedite turnaround in future through “Promote Growth; Control Costs; Reform Mechanism”

Business & Service Revenue Rebounded



Braved short-term profit pressure & increased cost initiatives as appropriate to drive long-term sustainable development

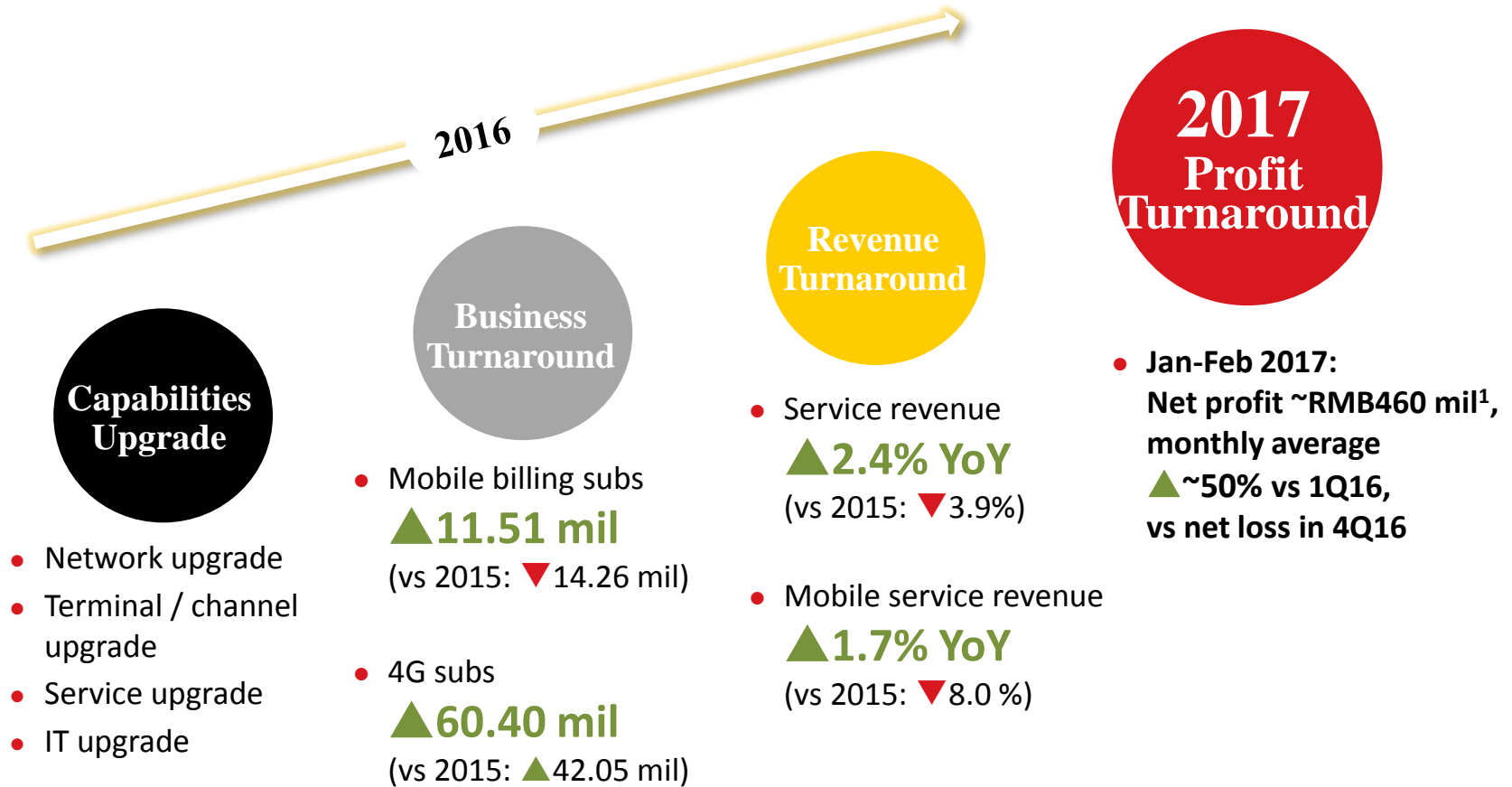


(RMB Mil)	2015	2016	Change YoY
Operating Revenue	277,049	274,197	-1.0%
Of which: Service Revenue ¹	235,278	240,982	2.4%
EBITDA²	87,502	79,498	-9.1%
<i>As % of Service Revenue</i>	37.2%	33.0%	-4.2pp
Net Profit³	10,562	625	-94.1%
Basic EPS (RMB)	0.441	0.026	-94.1%
Free Cash Flow⁴	(49,579)	2,483	Turn positive

Note: Unless otherwise stated in this presentation,

1. Service revenue = operating revenue – sales of telecommunications products;
2. EBITDA = profit for the year before finance costs, interest income, shares of net profit/loss of associates & joint ventures, other income - net, income tax, depreciation & amortisation;
3. Net profit represented profit attributable to equity shareholders of the Company; Net profit in 2015 included gain on disposal of tower assets (after tax) of RMB6.935 bil;
4. Free cash flow = operating cash flow – CAPEX.

Gradual Turnaround



Note:

1. The financial data for Jan-Feb 2017 was extracted from the internal management accounts prepared under PRC accounting standards, which has not been reviewed or audited by the auditors. The financial data prepared under PRC accounting standards may differ from the data prepared under International/Hong Kong Financial Reporting Standards. Investors are cautioned not to rely on the above internal data.

Promote In-depth Open Cooperation

➤ Fruitful results gradually emerging ◀



**Network Coverage
& Quality**

**Development
Capability**

**Efficiency
Enhancement**



**Strategic Cooperation
with China Telecom**

2016: Co-built & co-shared ~70k 4G base stations & ~16,000km transmission fibre cable; jointly promoted 6-mode handsets, standardised 4K smart set-top box; saving of ~RMB3.3 bil in CAPEX & ~RMB350 mil in OPEX

2017: Open up existing base station resources & strengthen co-sharing; reinforce cooperation in operation & maintenance, innovative businesses & others



**Innovative Collaboration
with Internet companies**

- Expand touch points for customer acquisition by targeted marketing



Leverage Private Capital

- Strengthen cooperation with private capital on local access in Southern China



Industry Resources Sharing

- Co-build & co-share basic telecommunications infrastructure



Diversified Cooperation

- Capital, business, resources & cross-industry cooperation

Robust Kick-off of Marketing Model Transformation

Strengthen data traffic operation & targeted marketing for sub-divided market segments to promote 4G scale & profitable development in future

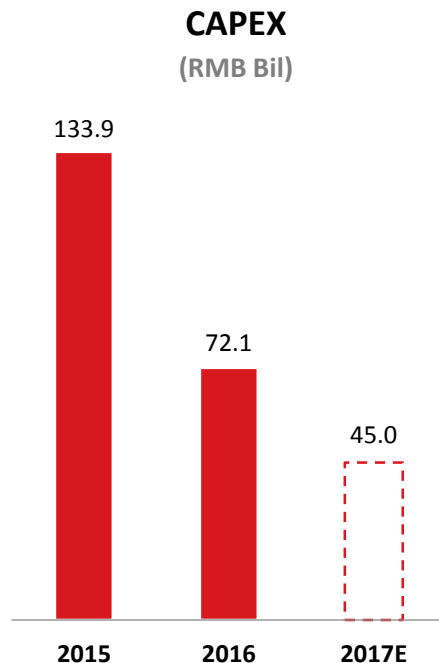


- On par with industry 4G network quality in key cities with abundant capacity
- “All network access” handsets widely adopted (mostly with dual SIM slots)
(Dec 2016 market share: ~66% ▲42pp)
- Proprietary centralised BSS system & nationwide e-commerce platform
- Innovative targeted marketing collaboration with Internet companies
- Differentiated products & development models
- **China Unicom:**
 - 1) new touch points for customer acquisition;
 - 2) increase revenue with low incremental cost (savings on channel commission & handset subsidy);
 - 3) smart promotion of consumption upgrade to enhance customer value
- **Internet Companies:** leverage telecommunications resources of China Unicom to power up business development
- **Customers:** enjoy more compelling services

Precise Investment

➤ Achieved substantial network improvement in focused regions despite considerable reduction in CAPEX ➤

**Focus
+ Cooperation**



2016

- Network quality & customers' perception on par with industry in focused regions
- **4G network coverage, speed & signal quality on par with the industry**
 - Northern China: achieved "All Fibre Network" in all 10 provinces with 100Mbps access capability in city areas
- Industry-lowest backhaul latency

2017E

- Actively increase network utilisation & strictly control investment in low utilisation regions to enhance returns
- Focus investment on 4G, broadband & innovative businesses such as IoT
- Focus investment in key regions with high traffic growth & high utilisation; leverage cooperation & high efficiency to achieve network leadership in key regions

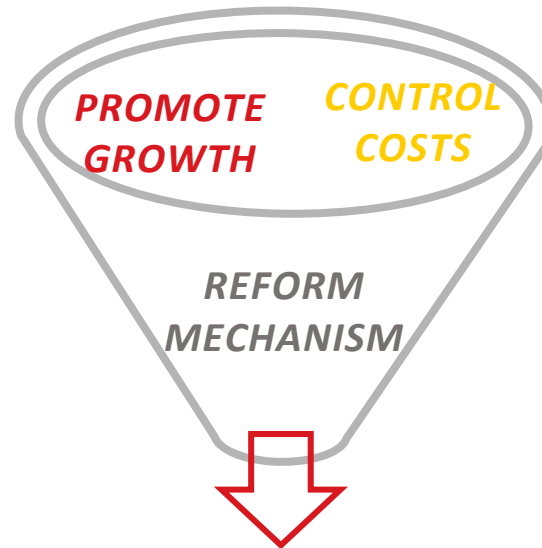
Dividend

- Taking into consideration the Company's profitability, debt, cash flow level & capital requirements for its future development, the Board has resolved not to pay a dividend for the year 2016
- The Company will strive to enhance its profits while paving the way for paying a dividend for the year 2017

2017: Onto the Path of Healthy Development

- Strengthen strategic persistence & execution of “Focus, Cooperation & Innovation”

- Enhance precision management capability & orderly drive frequency band & capacity reduction of 2G/3G networks to enhance cost efficiency



- Foster innovation & transformation of marketing model; innovative resources utilisation to promote scale & profitable business development

- Build a more market-oriented mechanism & system to enhance corporate vibrancy & operating efficiency

GOALS:



REVENUE GROWTH TO RETURN TO INDUSTRY AVERAGE



SIGNIFICANTLY ENHANCED PROFITABILITY

Agenda

OPERATING PERFORMANCE

OVERALL RESULTS

FINANCIAL PERFORMANCE

Revenue Breakdown

(RMB Mil)	2015	2016	Change YoY
Mobile Service Revenue	142,620	145,018	1.7%
Voice	57,748	49,142	-14.9%
Data Traffic	61,215	73,421	19.9%
Other Value-added Services	22,314	20,712	-7.2%
Others ¹	1,343	1,743	29.8%
Fixed-line Service Revenue	91,261	94,659	3.7%
Voice	15,001	13,267	-11.6%
Broadband Access	43,865	43,867	0.0%
Other Internet & Data	12,764	16,164	26.6%
ICT	4,334	5,938	37.0%
Others ²	15,297	15,423	0.8%
Other Service Revenue	1,397	1,305	-6.6%
Sales of Telecommunications Products	41,771	33,215	-20.5%
Total	277,049	274,197	-1.0%

Note:

1. Mainly included revenue from MVNO;
2. Mainly included revenue from leased line services and others.

4G Gaining Edges

Driving mobile business turnaround

- 4G network quality significantly enhanced
- Terminal supply bottleneck quickly improved
- Strengthened data traffic operation & targeted marketing for sub-divided market segments
- Mutual promotion & coordinated development of the integrated offerings

MOBILE
SERVICE REVENUE
GROWTH

2016: ▲ 1.7%
2015: ▼ 8.0%

MOBILE
BILLING SUBS
GROWTH

2016: ▲ 11.51 mil
2015: ▼ 14.26 mil

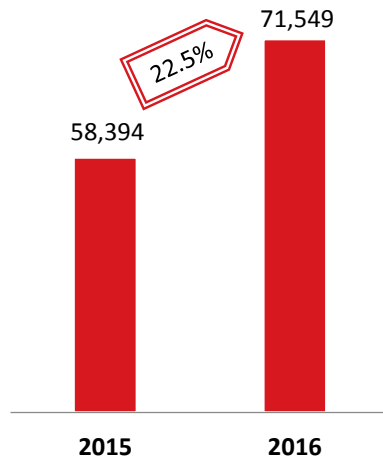
MOBILE
BILLING SUBS
ARPU

2016: ▲ RMB0.1
2015: ▼ RMB1.5

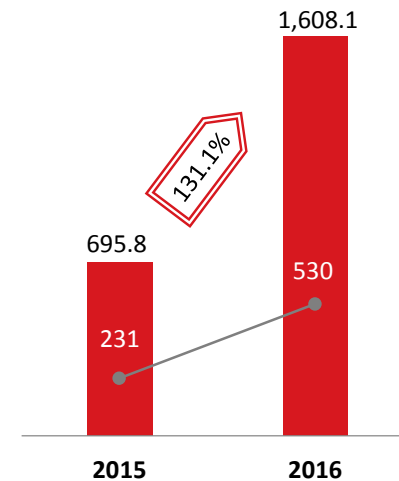
Fast Growth in Mobile Data Business

- Leveraged precise release of data capacity bundled with contents & sped up 2G/3G subscribers upgrade to promote 4G business development
 - 4G subscriber: ▲ 60.40 mil (vs 2015: ▲ 42.05 mil)
 - 4G subscriber DOU: 1,521MB (vs Mobile Billing Handset User DOU: 530MB)
 - 4G ARPU: RMB76.4 (vs Mobile Billing Subscribers ARPU: RMB46.4)
- 4G subscriber penetration rate reached 40% (vs industry average 57%), enormous growth potential ahead

Handset Internet Access Revenue
(RMB Mil)



Total Handset Data Usage
(MB Bil)



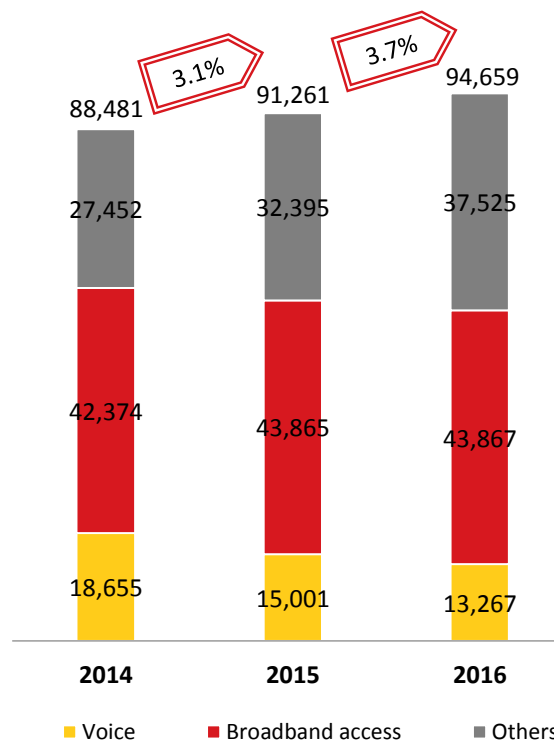
—● Monthly average mobile billing handset subscriber DOU (MB)

Healthy and Steady Growth in Fixed-line Business

- Unleashed advantages in fibre network & informatisation & accelerated development in innovative businesses, effectively offsetting the decline in voice service
- Actively countered competitive challenges in broadband market
- Voice revenue dropped to 14% of fixed-line service revenue, lowering operational risk
- Enhanced mutual promotion of integrated offering in fixed-line, mobile & informatisation services & accelerated innovative development in home Internet



Fixed-line Service Revenue
(RMB Mil)



Fostered Scale Development in Key Innovative Businesses (1)



IDC/Cloud

Revenue:

RMB9,451 Mil ▲33.7%

- 2nd largest IDC service provider in China
- 12 national-standard cloud data centres & >300 local data centres, ~122k cabinets in service



ICT

Revenue:

RMB5,938 Mil ▲37.0%

- Eye on 8 key industries & promote platform-based application development
- Maintained leading position in education informatisation & drove scale development in healthcare informatisation



Video Services

IPTV Revenue:

RMB1,414 Mil ▲68.1%

- Established video-focused content application eco-system & strengthened WO+ open platform capability
- Built TV value-added services operation base & leveraged TV to drive fibre broadband & integrated fixed-line/mobile businesses

Fostered Scale Development in Key Innovative Businesses (2)



IoT

- Focused on Internet of Vehicles (IoV), mobile payment & other key industries
- Connections reached 43 mil (▲>20 mil)



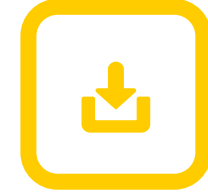
Overseas Market

- Grasped the opportunities of Belt & Road Initiatives
- Accelerate IDC/Cloud platforms overseas deployment, enhance expansion capability



Internet Finance

- Built up general payment capability & integrated in the operation process
- Merchants Union Consumer Finance (a JV): >20 mil registered customers; loan balance >RMB18 bil (▲>800%); NPL ratio at 0.82%



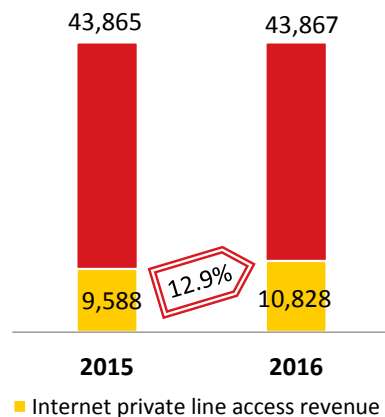
Big Data

- Leading position in Big Data - personal credit rating & location services
- Smart Steps Digital Technology (a JV): contracted with 40+ brand clients; leading in urban planning, transportation & commercial site selection products

Actively Countered Competitive Challenges in Broadband Market

- Fully leveraged fibre network upgrade to boost high-bandwidth products (50/100Mbps) to showcase edge & brand advantage
- Bandwidth upgrade led by rich video & application offerings (average access bandwidth ~30Mbps, ▲18Mbps vs 2015.12)
- Optimised & upgraded integrated services offering (broadband, video, application, 4G) to drive mutual-promotion development. “Smart WO Family” broadband subscriber penetration: 26.1% (▲12.8pp vs 2015.12)
- Internet private line access revenue ▲12.9%, driven by the implementation of the State’s “Internet+” strategy & strong demand of corporate informatisation

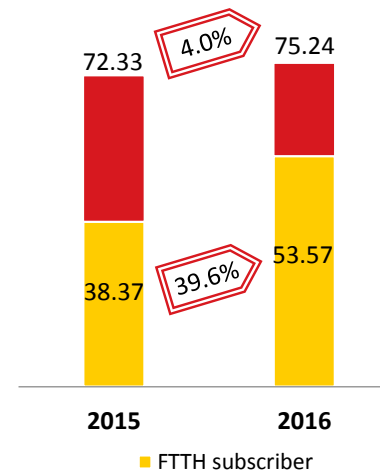
Fixed-line Broadband Access Revenue¹
(RMB Mil)



Note:

1. Excluded revenue from IPTV

Fixed-line Broadband Subscriber
(Mil)



Powered Up Marketing Model Transformation

Product

- Meet the needs & heal the sore of customers

Marketing

- Gain customer touch points in the Internet era & conduct targeted marketing

Channel

- Digitalise outlet operation & drive O2O integration

Service

- Leverage Internet to promote service automation & e-commerce



Customer Value



Customer Satisfaction



Precision Marketing



Cost Reduction & Efficiency

**Unleash Big Data
Advantages**



**Collaboration with
Internet Companies**



**Efficiency Improvement
Oriented**

2017 Priorities

➤ Strive to achieve turnaround ◀

- 1 To focus on innovative transformation of operating model to expedite scale & profitable business development
- 2 To advance scale development of 2I2C model, drive the upgrade of 2G to 4G & unleash data value to accelerate 4G development
- 3 To adhere to video-oriented integrated operation & solidify service edges to achieve efficient development in broadband services
- 4 To strengthen core capabilities for innovative businesses, focusing on platform-based business & industrial Internet to nurture new revenue growth drivers
- 5 To enhance fundamental management & deepen reform in various areas to elevate operating efficiency & service support capability

Agenda

FINANCIAL PERFORMANCE

OVERALL RESULTS

OPERATING PERFORMANCE

Key Financial Information

(RMB Mil)	2015	2016	Change YoY
Operating Revenue	277,049	274,197	-1.0%
Operating Expenses	(266,285)	(271,504)	2.0%
Operating Profit	10,764	2,693	-75.0%
Finance Costs	(6,934)	(5,017)	-27.6%
Interest Income	438	1,160	164.8%
Share of Net Profit / (Loss) of Associates ¹	(759)	204	Turn profitable
Share of Net Profit / (Loss) of Joint Ventures	(42)	153	Turn profitable
Other Income – Net ²	10,568	1,591	-84.9%
Income Tax	(3,473)	(154)	-95.6%
Net Profit³	10,562	625	-94.1%

Note:

1. Share of net profit/(loss) of associates mainly included share of net profit/(loss) of TowerCo;
2. Other income – net in 2015 included gain on disposal of tower assets of RMB9.25 bil;
3. Net profit represented profit attributable to the equity shareholders of the Company.

Appropriate Increase in Costs to Drive Business Development

(RMB Mil)	2015	2016	Change YoY	
Operating Expenses	(266,285)	(271,504)	2.0%	
Interconnection Charges	(13,093)	(12,739)	-2.7%	• Mainly due to decline in interconnection traffic
Depreciation & Amortisation	(76,738)	(76,805)	0.1%	• Savings in depreciation associated with the disposal of tower assets effectively offset the higher depreciation due to a larger network scale
Network, Operation & Support	(42,308)	(51,167)	20.9%	• Mainly due to higher tower usage fee associated with the change in tower operation model & a larger network scale
- Tower Usage Fee (incl. related electricity charges ¹)	(3,151)	(19,511)	519.2%	• First full-year recognition of tower usage fee in 2016
Employee Benefit	(35,140)	(36,907)	5.0%	• Appropriate increase in compensation for front-line staff
Cost of Telecommunications Products Sold	(44,046)	(36,529)	-17.1%	• Mainly due to decrease in handset sales
- Handset Subsidy ²	(2,847)	(3,070)	7.8%	• Appropriate increase to drive mobile business growth
Selling & Marketing	(31,965)	(34,646)	8.4%	• Appropriate increase to drive mobile business growth
G&A & Others	(22,995)	(22,711)	-1.2%	

Note:

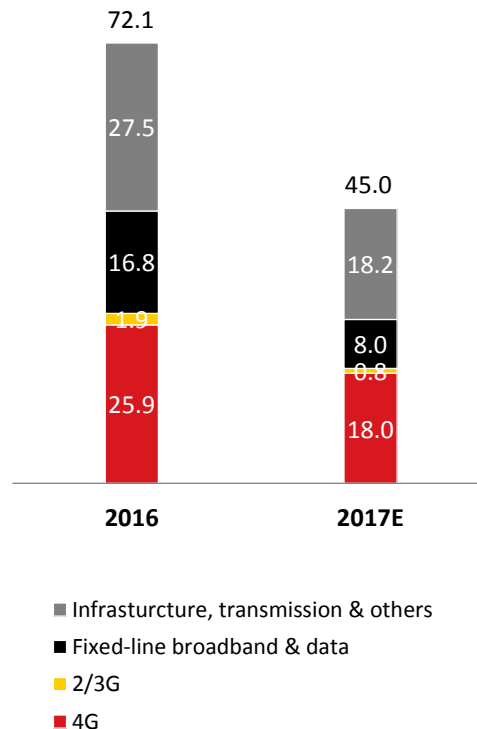
1. Included related electricity charges of RMB4,624 mil in 2016;
2. Cost of telecommunications products sold in 2016 was RMB36,529 mil, down by 17.1% yoy. Sales of telecommunications products in 2016 was RMB33,215 mil, down by 20.5% yoy. Loss of telecommunications products sold was RMB3,314 mil, among which RMB3,070 mil was handset subsidy.

Investments Tilted toward Key Regions & Key Businesses

2016

- 740k 4G BTS¹ (▲340k) ; contiguous coverage in cities & towns nationwide; >97% mobile data traffic under 4G coverage
- 4G peak speed: 300Mbps in data hotspot areas; 375Mbps in selective hotspot areas
- FTTH ports: 134 mil (▲38.87 mil)

CAPEX Structure (RMB Bil)



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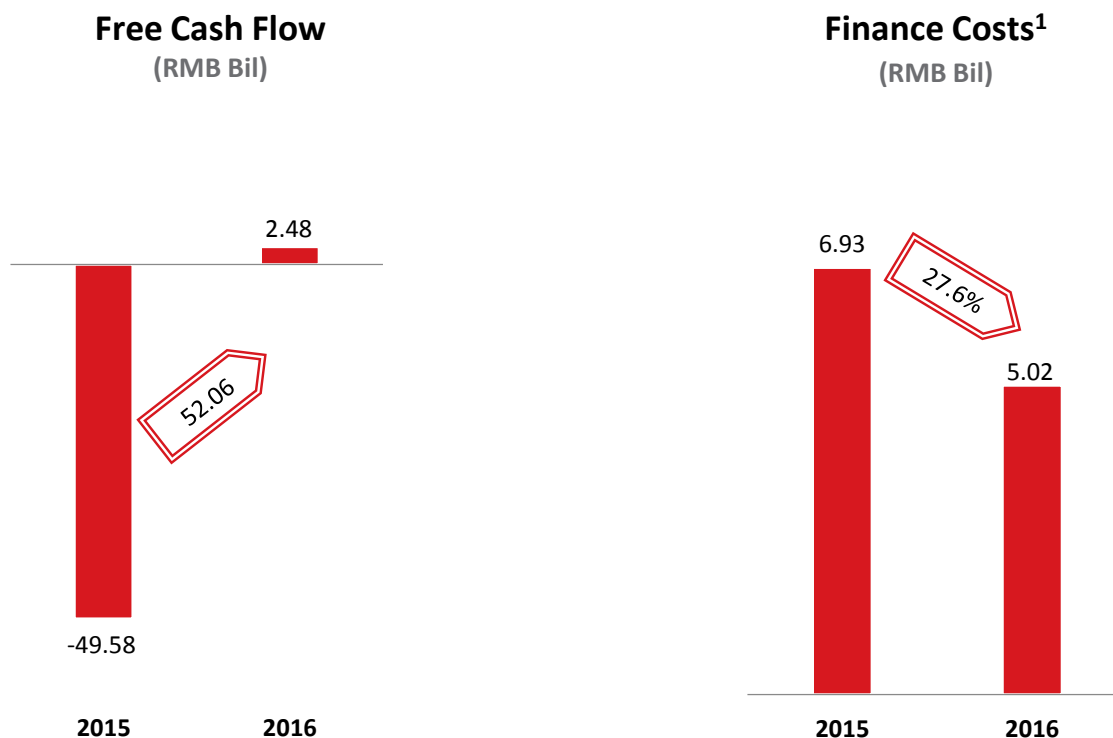
- Add 150k 4G BTS
- Accelerate frequency band & capacity reduction of 2G/3G networks & orderly deploy LTE at 900MHz band to enhance cost efficiency
- Broadband: Northern China - invest based on business demand & returns; Southern China - fully embrace cooperation with private capital to drive profitable growth

Note:

1. 4G BTS number included outdoor base stations & indoor distribution systems.

Progressive Improvement in Financial Strength

- Free cash flow significantly improved due to service revenue growth & substantial reduction in CAPEX



Note:

1. Finance costs declined yoy mainly due to the absence of FX loss subsequent to the repayment of foreign currency debts in 2015.

Tower Sharing to Enhance Long-term Value

Accelerating Network Deployment with CAPEX Saving

- Actively take advantage of the towers & cell sites of TowerCo

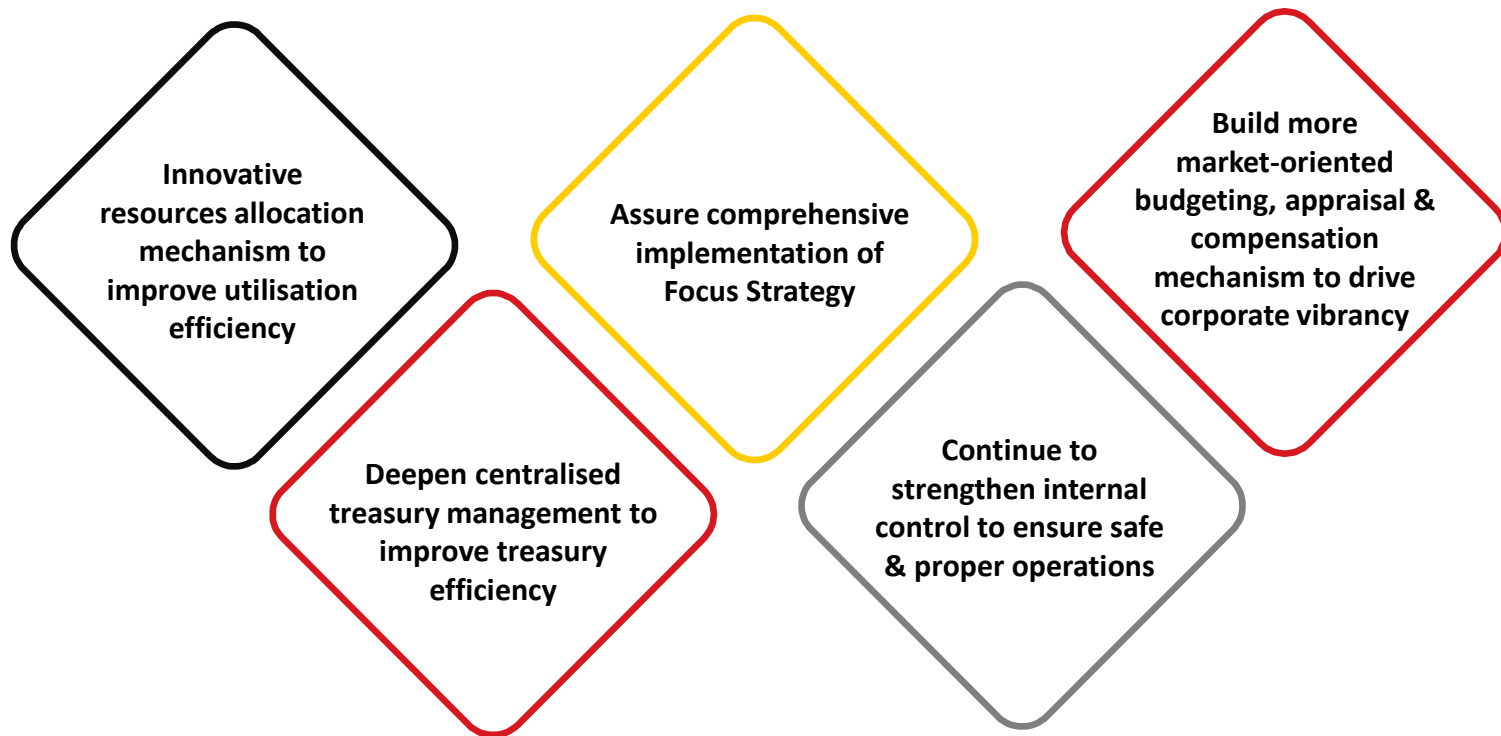
Tower Usage Fee

- Tower usage fee in 2016: RMB19.51 bil (▲RMB16.36 bil yoy), mainly due to:
 - First full-year recognition of tower usage fee
 - Larger network scale with increased number of towers under use
 - Higher maintenance standards adopted by TowerCo
- With increasing sharing ratio, future tower sharing discount on usage fee is expected to rise gradually

Potential Future Return

- As one of the major shareholders (28.1%), expect to benefit from TowerCo's future profits & value enhancement

To Elevate Shareholder Value through Quality & Efficiency Enhancement



Thank you!



Appendix I: Extracts from Audited Consolidated Statement of Financial Position as at 2016.12.31

(RMB Mil)	2015.12.31	2016.12.31
Current Assets	56,670	82,218
Non-current Assets	553,676	531,936
Total Assets	610,346	614,154
Current Liabilities	336,074	342,655
Non-current Liabilities	43,056	43,817
Total Liabilities	379,130	386,472
Total Equity	231,216	227,682

Appendix II: Key Operating Metrics

		Unit	2015	2016
Mobile Business	Billing Subscribers	Mil	252.32	263.82
	Billing Subscriber ARPU	RMB	46.3	46.4
	Handset User MOU	Mins	293.4	279.1
	Handset User DOU	MB	230.8	529.7
Incl.: 4G	Subscribers	Mil	44.16	104.55
	ARPU	RMB	87.8*	76.4
	DOU	MB	1,203.4*	1,521.1
Fixed-line Broadband Business	Subscribers	Mil	72.33	75.24
	Access ARPU	RMB	51.7	49.4
Fixed-line Local Access Business	Subscribers	Mil	73.86	66.65
	ARPU	RMB	17.5	17.1

* as of December 2015