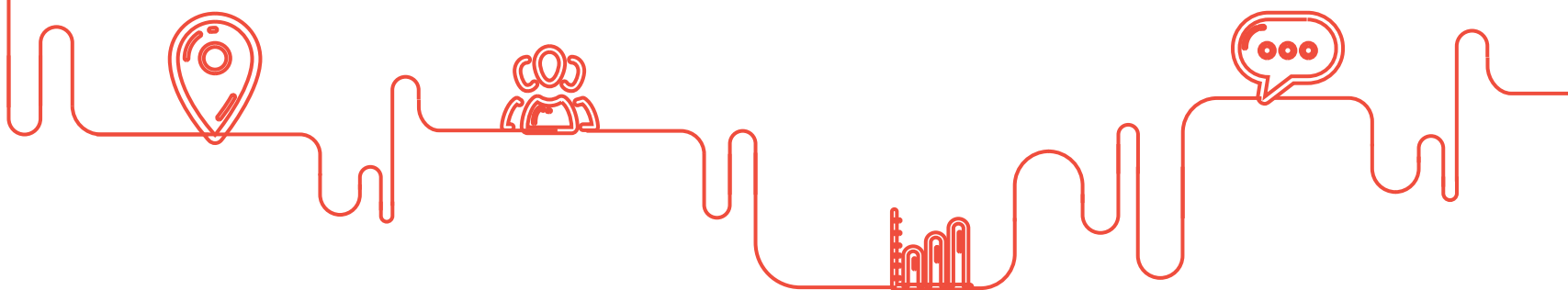
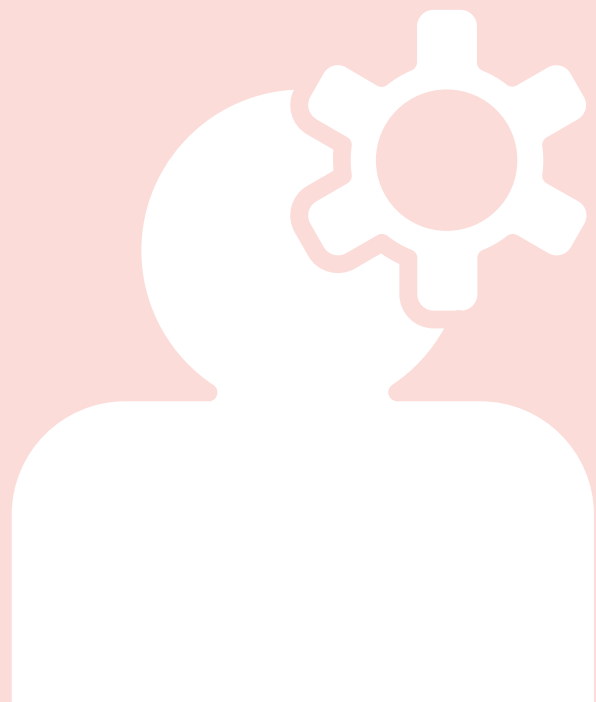
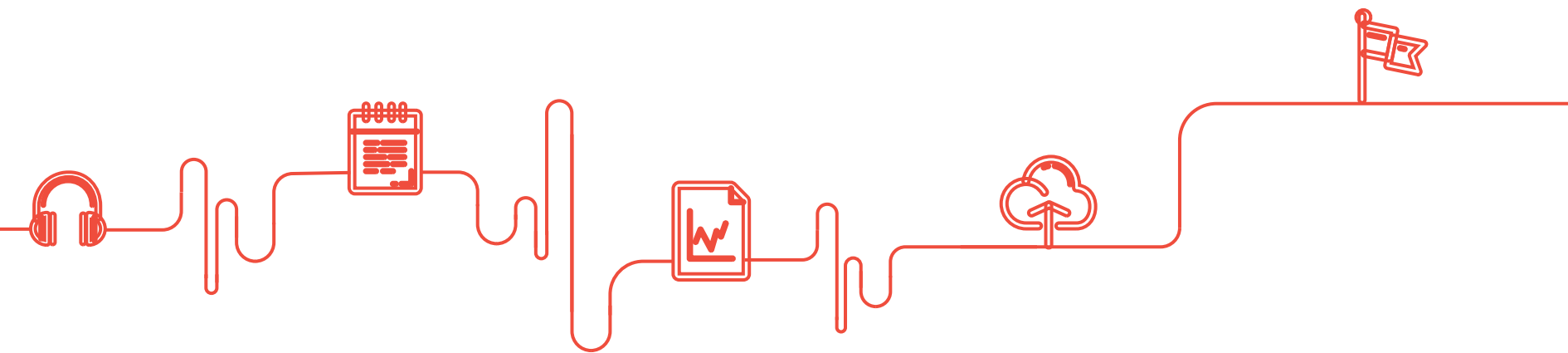


New Governance

STARTING A NEW CHAPTER OF SOE REFORM

Enhancement on our corporate governance structure	18
Compliance in operations and performance of duties	20
Promoting in-depth anti-corruption and integrity advocacy	21
Strengthening incentives through sub-division reform	21





NEW GOVERNANCE: Starting a new chapter of SOE reform

China Unicom continuously explores how to enhance its new corporate governance following the mixed-ownership reform. While carrying out operation in compliance with laws and regulations, the Company deeply pushed forward the modernisation of its corporate governance regime and ability, and explored sub-division reform for all production scenarios to seek groundbreaking progress in deepening reform on all fronts.

Measures adopted in 2018

- Innovative general legal education and strengthened intellectual property rights management fostering a telecom marketplace underpinned by fair competition.
- Stipulation of the safety accountability regime and operating mechanism of the Group and promotion of the development of the Company's risk control system.

Actions to be taken in 2019

- To promote mechanisms and systems reform in depth aimed at accommodating productivity growth with intensive effort.
- To implement general legal education planning under the "7th Five Year Plan" on an ongoing basis and drive legal "rule of law" at China Unicom and reinforcing the duties of the primary responsible officer for promoting legal governance.
- To further improve the risk management regime for more meticulous and intensive risk management.
- To drive internal control and institutional development with regulatory rating in an ongoing effort to enhance credit risk management.

ENHANCEMENT ON OUR CORPORATE GOVERNANCE STRUCTURE

The Board of Directors of China Unicom is committed to high standards of corporate governance and recognises that good corporate governance is for the long-term success and sustainability of the Company's business. China Unicom adopts the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), the Securities and Futures Ordinance of Hong Kong and other related laws and regulations as the basic guidelines for the Company's corporate governance. The articles of association of the Company are in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the regulatory requirements for non-U.S. companies listed in the United States. These rules serve as guideline for the Company to improve the foundation of its corporate governance, and the Company strives to comply international and local corporate governance best practices. There were no instances of any violation of listing laws and regulations by China Unicom in 2018.

Responsibilities towards the capital markets

To further enhance the Company's system of information disclosure and to ensure truthfulness, accuracy, completeness and timeliness of its public disclosures (including inside information), the Company has adopted and implemented the Information Disclosure Control Policy. In an effort to standardise the principles of information disclosures, the Company established an Information Disclosure Review Committee under the management and formulated the procedures in connection with the compilation and reporting of the Company's financial and operational statistics and other information, as well as the procedures in connection with the preparation and review of periodic reports. Moreover, the Company established detailed implementation rules with respect to the contents requirements of financial data verification, in particular, the upward undertakings by the individual responsible officers at the levels of subsidiaries, branches and major departments. The current Board of Directors comprises experts from diversified professions, such as telecommunication, technology, banking, financing, investment and management, and is diversified in terms of gender, age, duration of service, educational background, professional experience etc., which contribute to the enhanced management standards and more regulated operation of corporate governance of the Company, and results in a more comprehensive and balanced for the Board of Directors in terms of structure and decision-making process.

The Company's effort in corporate governance (including information disclosure) is well recognised by the capital market, and was accredited with a number of awards.

Responsibilities towards the investors

The Board of Directors is engaged in ongoing dialogue with the shareholders. The annual general meeting held each year and the extraordinary general meetings convened as the Board of Directors thinks fit upon the formal request of shareholders in accordance with Companies Ordinance, offer full protection of the lawful interests of shareholders. In addition to publishing annual reports and interim reports, the Company discloses major unaudited financial information and other performance indicators on a quarterly basis and announces operational statistics on a monthly basis in order to enhance the Company's transparency and improve investors' understanding of the business operation of the Company. Upon the announcement of results or major transactions, the Company will generally hold analyst briefings, press conferences, and global conference calls with investors, during which the Company's management would accurately and thoroughly respond to questions raised by stakeholders. The Company's investor relations department is responsible for providing information and services requested by investors and maintaining timely communications with investors and fund managers. The Company also arranges from time to time road shows and actively attends investor conferences arranged by investment banks, through which the Company's management meets and communicates with investors to help them with an accurate understanding of the Company's latest developments and performance. Latest updates on the Company's significant business developments are being provided in a timely and accurate manner through announcements, press releases and the Company website (www.chinaunicom.com.hk). Adoption of the Shareholder Communication Policy to ensure that the shareholders are provided with ready, equal and timely access to balanced and understandable information about the Company, in order to enable shareholders to exercise their rights in an informed manner, and to allow shareholders and the investors to strengthen communication with the Company.

The Board of Directors and management

To serve the best interests of the Company and its shareholders, the Board of directors is responsible for reviewing and approving major corporate matters, including, amongst others, business strategies and budgets, major investments, capital market operations, as well as mergers and acquisitions. The Board of directors is also responsible for monitoring risk management and internal control, reviewing and approving the announcements periodically published by the Company regarding its business results and operating activities. The Company has established three committees, namely, the Audit Committee, the Remuneration Committee and the Nomination Committee, under the Board of directors.



Wang Xiaochu

Chairman and
Chief Executive Officer



Li Guohua

Executive Director and
President



Li Fushen

Executive Director



Shao Guanglu

Executive Director and
Senior Vice President



Mai Yanzhou

Senior Vice President



Liang Baojun

Senior Vice President



Zhu Kebing

Executive Director and
Chief Financial Officer



Fan Yunjun

Senior Vice President



Cesareo Alierta Izuel

Non-executive Director



Cheung Wing Lam Linus

Independent Non-executive
Director



Wong Wai Ming

Independent Non-executive
Director



Chung Shui Ming Timpson

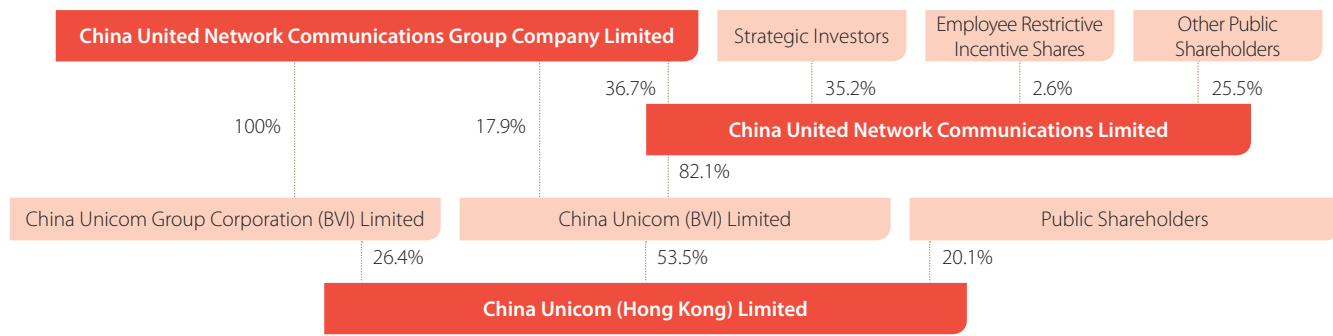
Independent Non-executive
Director



Law Fan Chiu Fun Fanny

Independent Non-executive
Director

Shareholding structure



Shareholding Structure of China Unicom

Notes:

- Information as at 31 December 2018.
- The shares of China United Network Communications Limited held by strategic investors represented the shares acquired by the strategic investors introduced through mixed ownership reform from non-public share issuance and transfer of existing shares.
- Shares held by China Unicom Group Corporation (BVI) Limited excluded the interest in 225,722,791 shares of China Unicom (Hong Kong) Limited held by China Unicom Group Corporation (BVI) Limited as trustee on behalf of a PRC shareholder.

COMPLIANCE IN OPERATIONS AND PERFORMANCE OF DUTIES

Legal compliance is a prerequisite for the sustainable development of an enterprise and an important organisational and institutional assurance for the conduct of a company's decision-making, operational management and protection of interests in accordance with the law. China Unicom has abided by business ethics in a consistent manner and made ongoing enhancement to its compliance risk management mechanism to safeguard shared interests with stakeholders as well as its own interests, and to contribute to the building of a society of integrity and legal compliance in China. The principal activities of Company's subsidiaries are the provision of cellular and fixed-line voice and related value-added services, broadband and other Internet-related services, information communications technology services, and business and data communications services in the PRC. The Company is required to comply with the Telecommunications Regulations of the People's Republic of China, Administrative Regulations on Telecommunications Companies with Foreign Investments, Cybersecurity Law of the People's Republic of China and other related laws and regulations. At the same time, overseas subsidiaries of the Company are also required to comply with the related laws and regulations where their business operations are located.

Operation in compliance with laws and regulations

China Unicom is engaged in intensive and thorough implementation of the new ideology, thought and strategy of comprehensive legal governance in the nation. The Company pushes forward the development of legal governance, fosters the culture of legal governance and continues to improve the Company's standard in operation in compliance with laws and regulations.

- The requirement for the chief officer of a central enterprise to perform the duties as principal responsible officer for promoting legal governance and general legal education planning under "7th Five Year Plan" was implemented, pursuant to which the promotion and education of legal compliance was conducted in an ongoing and intensive manner and differentiated for various levels to ensure that all staff respect, learn, comply with and apply the laws and regulations.
- Initiatives launched included the publication of the "Management Officers' Legal Education Journal" to promote the learning of the constitution, special campaigns on general legal education such as the "3.15" International Consumer Rights Day, "4.15" National Security Day and "4.26" World Intellectual Property Rights Day. The Company enhanced general legal education training for new employees, provided general legal education lectures, as well as training on legal risk prevention for key business segments to ensure general legal learning by frontline staff.
- Management of intellectual property rights was strengthened to drive the conversion and innovation of technological deliverables; protection of patents, trademarks, copyrights and trade secrets was enhanced with stringent examination procedures to avoid infringement of third-party intellectual property rights; intellectual property rights quizzes were organised to foster a positive attitude towards respect for innovation and intellectual property rights.
- In strict compliance with the Advertising Law and administrative regulations promulgated by MIIT and other regulatory authorities, the advertising materials and graphics are sourced through official channels; information relating to products, costs, service contents, valid period and marketing, etc are clearly indicated on all advertisements and promotional materials; the messages of advertisements are true, accurate and easy to understand; marketing and promotion activities are conducted in strict accordance with national laws and regulations.
- Pertinent laws and regulations of national regulatory authorities are implemented in an effort to foster a telecom marketplace characterised by fair competition. Policy implementation and supervision is carried out through the three-tier regulatory regime of the Group, the provincial branches and prefecture-level city companies. The regulatory policy for the telecom market is thoroughly implemented and applied in full, while relevant administrative measures and systems against commercial bribes have been formulated in a proactive move to defend proper order in market competition.
- In 2018, the Group had approximately 750,000 economic contracts, 100% of which had been legally vetted and duly performed.

Risk prevention

China Unicom has optimised its total risk management regime on an ongoing basis with a number of administrative measures to effectively prevent operational risks and assure stable operations.

- In connection with business partners, applications are centrally processed through the PRC partners' platform and blacklisted suppliers are strictly blocked.
- The Company carried out inspection of the implementation of the internal control system, formulated administrative measures for new businesses and market risk management policies and processes, improved administrative regulations relating to information technology, formulated credit rating modules for the credit business and implemented self-assessment of internal control.
- Self-inspection and rectification for the Group and financial subsidiaries in relation to total risks were completed and the rules of procedure for the Group Financial Risk Management Committee were formulated. New measures for the administration of operating revenue were implemented and the analysis model of accrual revenue and cash inflow from sales at Group and provincial branch levels was optimised.

PROMOTING IN-DEPTH ANTI-CORRUPTION AND INTEGRITY ADVOCACY

We have continued to conduct in-depth rectification. In close tandem with the actual conditions of the Company, we have further strengthened the combination of the integrity culture and the anti-corruption measures, promoting the development of system and mechanism that “deter, disable and discourage” corruption. New achievements were accomplished in the Company’s efforts in anti-corruption on all fronts.

- In 2018, issues were identified during a specific inspection of fibre network upgrade and as a result, the Company reduced economic losses by RMB3,046 million; a “tripartite” special inspection of channels, commissions and agents was conducted.
- Inspection and examination was strengthened in 2018. Inspection of 8 provincial branches and 21 departments at the Group Company headquarters and examination of 389 prefecture-level city branches and their subordinate units as well as 2,127 county-level branches were completed.
- Improvements were made to the corporate regulations and corporate disciplinary requirements to highlight the priority of education. The revised “Regulations on Punishments Against Staff Violations of Rules and Discipline” and the new “China Unicom Disciplinary Regulations for Internal and External Transactions by Staff” were published, drawing a red line for the behavior of all staff.
- Reform of the station system for disciplinary inspection establishment at prefecture-level city branches was fully implemented. As at the end of 2018, 352 stationed disciplinary inspection groups were established and supported by 1,253 dedicated officers, which boost up the frontline supervisory force.

STRENGTHENING INCENTIVES THROUGH SUB-DIVISION REFORM

As the specific measure for the thorough implementation of the Central Government’s plan for full-scale deepened reform and an intrinsic requirement essential to the improvement of new governance under mixed-ownership reform, sub-division reform for all production scenarios represents an important driver of the Company’s sustainable development. In 2018, China Unicom was focused on the six elements of “micro-organisation, revenue and gross profit appraisal and sharing of incremental income, mini CEOs, top-down service support, IT system support, supervision and assessment regime” in its full-scale intensive implementation of sub-division reform for all production scenarios, reaping positive result in its effort to achieve maximum drive for development through reforms.

Formation of more than 24,000 sub-division performance units	Appointment of approximately 20,000 mini CEOs	More than 154,000 employees have joined the sub-division performance units	Remuneration for staff of sub-division units increasing by 20% on average
---	--	--	---

Motivating frontline staff in response to the call for “Double Creation”

Employees are willing to act for the benefit of the enterprise if the enterprise is willing to act for theirs. On top of protecting and respecting staff interests as always, China Unicom’s persistence in reform is also aimed at enabling those who are willing to undertake business goals to reap financial benefits and establishing an incentive allocation regime underpinned by the creation of correlated value that allows those who work more to earn more without maximum limits. Sub-division reform effectively brings employees and the Company together in a bond with a shared destiny based on common interests and common business pursuits, providing enormous motivation for staff to engage in business ventures.

We hold the leaders of sub-division performance units in high esteem, granting them additional powers in business operation, use of resources, staff appointment, appraisal and reward allocation, reverse appraisal and broadband construction, among others, so that they become CEOs in the true sense, fully leveraging their understanding of the market and proximity to the customers to enhance the market sensitivity and competitiveness of the enterprise. In the meantime, the sub-division CEO is accountable for the performance and business aptitude of the unit and its staff so that the manager’s accountability is commensurate with his or her authority. Greater honour and reward is afforded to sub-division CEOs with strong entrepreneurship, excellent results and outstanding abilities, so as to effectively unleash the internal vibrancy and vitality of sub-division units.

Transformation of the operation model with an efficient top-down service support regime

China Unicom has developed a top-down service support regime that facilitates “efficient turnover of the corporate management regime driven by frontline demand from the market”. The sizeable smart intermediary platform with the “front desk taking orders, intermediary platform providing response actions and back office supporting” provides the mini CEOs with support for delivery. The municipal – provincial – Group top-down service support regime provides the mini CEOs with one-stop support covering various types of services. Through the reverse distribution process from sub-division units to prefecture-level city companies, provincial branches and the Group, the business departments at all three levels are mobilised to support the requirements of the units. Mini CEOs are given the power to conduct reverse appraisal of back office support departments, driving the transformation of professional departments from “managers” to “servers” in order to support sub-division units’ faster and more efficient response to market demands and to empower frontline operations.

At China Unicom Shandong, staff enthusiasm for business venture and undertaking is significantly boosted through sub-division performing unit reform, as a large number of outstanding talents are encouraged to become mini CEOs at the frontline, in an alignment of staff and corporate interests.

Staff of the district integrated grid of Licheng District run the business of the enterprise like their own homes: their operation is Internet-oriented and they make full use of “wuji” (“無極”) and “wuyou” (“無憂”), the two major IT support systems, to increase efficiency, forming a team that is driven, competent and able to deliver. The average staff remuneration increasing by 27% over the previous year after the sub-division performing unit reform.

- Mini CEOs are given full powers in their business ventures, including the power to appoint staff, approve tariffs and make investment decisions, etc.
- Budget targets are set on an individual basis under a revenue- and gross profit-based appraisal system, whereby every single employee has targets and tasks to meet and those who work more will earn more without maximum limits.
- Cost are also allocated by unit and individual to facilitate self-initiated cost controls, resulting in the conversion of 17 energy consuming stations with annual savings in electricity charges of approximately RMB210,000. Recycling of fixed-line terminals has also increased 2.5 times, year-on-year.



“The sub-division has provided us with a platform on which we play out our ambitions. I will commit my best effort to prove myself through results.”

— Xu Minyu, intermediary management in Tai’an Branch in Shandong, took up the role of mini CEO at the sales service centre in response to the reform.