



## A “PIONEER” IN DEEPENING THE REFORM OF STATE- OWNED ENTERPRISES

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# A “PIONEER” IN DEEPENING THE REFORM OF STATE-OWNED ENTERPRISES

As the first enterprise to adopt entire group-based mixed-ownership reform, China Unicom deepened the implementation of mixed-ownership reform policy of “improving governance, strengthening incentives, focusing on main business and improving efficiency”. Upon the completion of “diversifying ownership”, China Unicom thoroughly promoted “reform” and deepened streamlining and re-organisation, the three system reforms, sub-division reform, mixed-ownership reform at the operation level and Internet-oriented operation transformation, which provided valuable experience for deepening the reform of state-owned enterprises.

## Measures adopted in 2019

- Debates over the practice of “all endeavors for three purposes” were held for open supervision by the mass.
- Our efforts on the streamlining and re-organisation 2.0, with year-on-year decrease of 10.5% and 24.7% in the number of institutions at provincial and municipal levels respectively; and an average downsizing of 12% in the management staff at headquarters of provincial companies.
- Sub-division reform for all production units was carried forward, resulting in preliminary success in the sub-division of the network line.
- The national “Double hundred Action” was implemented earnestly, with China Unicom Yunnan and Smart Connection Technology being included in the first batch branch company/subsidiary pilots for mixed-ownership reform.
- On the basis of the Internet-oriented operation transformation 1.0, Internet-oriented operation transformation 2.0 was comprehensively promoted in the light of changes in the internal and external environments of the Company.

## Actions to be taken in 2020

- Continue to strengthen the implementation of the results generated from debates over the practice of “all endeavors for three purposes” on regular basis.
- Further implement sub-division reform for all production units, and based thereupon, remold the organisational systems and structure of the marketing line and restructure the terminal production architecture following the customer-centric principle.
- Initiate the “deep diving” of mixed-ownership reform and explore the cooperation with socialised operational partners with China Unicom Guangxi.
- Implement the Internet-oriented operation transformation 2.0 to a deeper extent for improving the executive competency of organisations and optimising the supporting mechanisms.



Celebration of centenary anniversary of the May 4th Movement



"70 years of light and shadow" campaign of China Unicom



Activities of employees during the patriotic education month



Branches of China Unicom across the country tuned in or watched the live broadcast of the grand celebration of the 70th anniversary of the founding of New China



## Furthering anti-corruption work

China Unicom deeply promoted the reformation of the discipline inspection and supervision mechanism. Through innovations to the organisational model and enhancement to the system and mechanism, the Company strengthened the supervision responsibility of the discipline inspection and supervision team, consolidated the overwhelming triumph in the anti-corruption battle for corruption-free development, promoted the idea of “deter, disable and discourage” corruption and strived to achieve high-quality development of the discipline inspection and supervision work.

- The Company promoted the reformation of discipline inspection and supervision system and mechanism, established sound supporting system and mechanism, and made adjustments and enhancement from the perspective of corporate discipline inspection and supervision leadership system, working mechanism and management system etc.
- The Company strengthened supervision over the rectifications as required during the central disciplinary examination, implemented day-to-day supervision in a practical and meticulous manner, deepened the work style construction through rectification of the notorious formalist and bureaucratic problems.
- The Company organised and promoted the “tripartite” special inspection and accountability work concerning physical channels, third-party channels and commission payment, and expected to recover losses of RMB388 million, including suspended and saved commissions of RMB288 million.
- Thanks to the Company’s consistent iron-hand measures on penalty to corruption, its corporate political ecosystem improved significantly. Complaints received in the whole system further decreased by 8% year-on-year in 2019 on top of a year-on-year decrease of 21% in 2018 as compared to 2017. Good names were restored to cadres having been wrongly accused or framed, and typical false reports were selected for public circulation in the whole system.
- The Company revised the “Measures of China Unicom on the Administration of Supplier Blacklist” to include the disciplinary penalty mechanism on those who commit corruption before resignation or commit corruption and accept bribery within three years before retirement.
- The Company strengthened discipline education and arranged relevant training on a regular basis. In 2019, 4 trainings on discipline education were organised for the Company to enhance their corruption-free consciousness on an ongoing basis.

Annual routine conversations were arranged for **21,000** person times  
**18** formalist and bureaucratic cases were circulated in **4** different times throughout the year.

## Promoting operation in compliance

Operation in compliance with laws and regulations is indispensable for the sustainable and sound development of an enterprise. China Unicom always views compliance management as the cornerstone of its development, it is committed to outlining a compliance management landscape with full participation, clearly defined responsibilities and through supervision and creating a corporate atmosphere where compliance operation stands in the foreground by improving the corporate standards on compliance management, strengthening compliance operation responsibilities and supplementing compliance management system.

### ◎ Operation in compliance with laws and regulations

China Unicom has established the concept and management system of compliance with laws and regulations, and specified in particular “establishing a sound compliance management system and promoting effective implementation of compliance management” as the focus of China Unicom’s legal governance construction work in 2019.

- The Company issued the “Compliance Management Measures (Trial) of China Unicom” and the “Integrity and Compliance Manual of China Unicom” to pave the way for compliance management.
- The Company implemented the “7th Five-Year Plan” for general legal education planning to create a legal governance cultural atmosphere via various general legal education. It compiled the periodicals named “Management Officers’ Legal Education Journal” and “Information on rule of law” for 8 issues with more than 180 legal articles published thereon. It organised a number of general legal education campaigns such as “3.15” International Consumer Rights Day, “4.26” World Intellectual Property Right Day, Knowledge Contest on “12.4” National Constitution, etc. The Group’s Law Promotion Office was awarded as a National Advanced Unit of the “7th Five-Year Plan” for general legal education. Legal cases and knowledge were compiled and circulated through online and offline channels.

**2,514** sessions of trainings on compliance with laws and regulations  
**245,000** trainees attended trainings on compliance with laws and regulations

- In the “Wo Compliance” short video competition of China Unicom, the Company collected 377 pieces of short video and promoted the award-winning ones on the China Unicom Pioneer Learning Platform.
- The Company opened the “Wo Compliance of China Unicom” WeChat public account to regularly update compliance management knowledge, introduced the new move on the Company’s compliance work, and built a corporate image with compliance management.
- Throughout the year, the Company entered into approximately 880,000 economic contracts, 100% of which had been legally vetted and duly performed.

### ◎ Risk Prevention

China Unicom continued to improve its internal control systems. To this end, it issued 83 rules and regulations, optimised the “Internal Control Manual of China Unicom” on an ongoing basis, and continued to improve its risk control level.

- In order to give full play to the joint role of internal supervision by means of internal audit and other internal measures, the Company continuously improved its internal supervision system, and implemented full coverage of audit for operating areas involving significant risks and key business segments under the principle of “all ought being audited and held accountable under heightened standards”.
- The Company attached great importance on process management and control, and issued differentiated “Comprehensive Evaluation Reports” for 31 provinces in this regard; it adopted unified business standards for the intelligent financial sharing services to consolidate basic financial management and provide strong support for operational risk control; it exerted great efforts to review the proposal on budgeting for maximum yield and cooperation scheme in relation to investment in joint ventures and associates, and to prevent risks arising therefrom.
- The Company dealt with irregular operation conducts in a rigid manner. It received 84 irregular operation clues in succession, held a total of 117 people accountable in accumulate, and recovered losses of RMB3.4 million.

## ⚙️ DEEPLY ADVANCING MIXED-OWNERSHIP REFORM

### 🔧 Improving efficacy through streamlining and re-organisation

China Unicom continued to carry out organisational reform by deeply advancing the streamlining and re-organisation 2.0 in 2019. Following the direction of Internet-oriented organisational systems and modernisation of governance capacity, the Company devoted greater effort to coordinate and concentrate sharing to give full scope to the functions of the frontline, the middle office and the back office, establish an organisational architecture with specified responsibilities, immediate response capacity and steadfast enforcement, and accelerate the Company’s progress of adopting entrepreneurial and market-oriented style in its management and operation instead of the government-type administrative tone.

The number of institutions at provincial and municipal levels decreased by **10.5%** and **24.7%** year on year, respectively

The management staff at headquarters of provincial companies downsized by **12%** on average

### 👤 Strengthening incentive in human resource reform

Focusing on the market-oriented initiatives, China Unicom hewed to the reform themes of cadre management, talent supply and positive incentive to strive for the systemic reconstruction of human resource management structure and mechanism innovation, and in turn stimulate vitality and cohesion in virtue of the innovation mechanism.

- The Company emphasized the strategic guidance and fully demonstrated the priority in resource allocation, effectiveness of vitalising and foresightedness of talents development so as to reshape the Company’s core competitiveness in human resources.
- The Company intended to carry out systemic, holistic and coordinated reform, aiming to achieve interplay of scheme designs, reciprocal promotion in the implementation process and complementarily satisfactory efficacy from various human resource systems and mechanisms.
- The Company emphasized the pertinence and accurateness of reform, it upheld the classified reform principle and specified organisation and personnel categories, and implemented differentiated resource allocation and management mechanism based on market standards. The Company also paid attention to the organic combination of market orientation and people orientation to filled employees with more sense of reward by virtue of the reform.

## Remarkable results of sub-division reform

As a concrete resort to implement the major decisions and deployments of the state made at Central Economic Working Conference and the SOE reform symposiums, the sub-division reform for all production units is an important step to deeply advance the mixed-ownership reform. The sub-division reform for all production units also thoroughly implements the strategic deployment for the establishment of a "Five New" China Unicom and marks the actual moves to put into effect the "all endeavors for three purposes" of enterprises. In 2019, China Unicom deeply advanced sub-division reform for all production units. It established an assessment and incentive distribution model targeted at value creation and aiming for compatible responsibilities, authorities and rewards and built a service support system for efficient communication of customer and frontline needs within the enterprises. It strived to arouse the vitality of the frontline production units on a wider range and in a deeper level, thus achieving the vibrant resonance between employees and the enterprises and the jointly increase and sharing of value between employees and enterprises.

**25,000** sub-divided units were formed across the nation **177,000** employees have joined the sub-divided units

### Due delegation to the talent selection

The sub-division reform has generated remarkable results in stimulating the frontline initiatives, promoting development and increasing output and revenue, and the "mini CEOs" at the sub-divided units serves as an important part of the corporate reform. Irrespective of educational background, seniority and certifications, the "mini CEOs" at different levels are promoted emphatically based on their competency, performance and contributions rather than mere credentials. In the meantime, the streamlining and re-organisation was also carried forward to guide outstanding employees at all levels to enter the sub-division units, and in turn deliver fresh blood to the forefront.

Incremental income sharing mechanism has been adopted for the sub-divided units, which is also a necessary move to further inspire the vibrancy of grassroots units. As the incremental income sharing mechanism concedes a genuinely open budget, provides full empowerment and allows allocation of resources at lower levels, the grassroots units are able to carry out "independent cost administration, investment moves, and remuneration distribution", and the mini CEOs are encouraged to pursue "independent operation and self-management", which gradually promotes the sub-divided units to transform towards benefits and responsibility centers, effectively stimulates the operation vitality and value creativity, and arouses the working enthusiasm of the frontline staff.

### Sub-division of network line for cost reduction and efficiency enhancement

In accordance with the general goal of improving quality and efficiency, China Unicom deeply advanced its sub-division reform in the network line based on key cost control units such as energy consumption cost and tower usage fee, and has inspired the transformation potentials and vibrancy of the maintenance staff. In 2019, grids and grid staff in the network line increased by 155% and 101% year on year, respectively.

The network optimisation grid segment of Luohe Branch in Henan established the network value operation system integrating "gross profit driving + incremental profit sharing + KXI assessment". As a result, it scored the rapidest in outdated equipment removal, and recorded effective reduction of network operation costs. Moreover, the team brainstormed to reuse the retired 2G equipment for production and operation upon modification. In 2019, the accumulated income from potential exploration and efficiency enhancement amounted to RMB7.84 million, contributing 16.8% of the profit; incremental income available for sharing amounted to RMB265,000, representing income per capita of RMB27,000, and an increase of 5.6% in labor output rate; average income per capita from grid segment and income of mini CEOs increased by 14.5% and 29.3%, respectively.



Reuse of Retired 2G Equipment in China Unicom Luohe on Posts & Telegraph  
(Ren Min You Dian) dated 15 Oct. 2019

In accordance with the professional project model, China Unicom Hebei initiated and established the virtual micro-organisation, "Transmission BU". Under the project-based management mechanism, the BU specifies the reward and penalty measures by entering into open and transparent agreements. It focused on 9 major network projects and improved efficiency by intelligent means. It also reduced costs through network optimisation and enhanced capability through self-construction and maintenance. During the year, value creation incentives in a total amount of RMB4,095,000 was generated from the BU, which was attributed to the team members based on their respective performance instead of the egalitarianism.

◎ Empowering the frontline with role models

In order to leverage the success of role models, China Unicom gave the floor to outstanding local network practitioners and mini CEOs to share their experience as case study. In addition to arousing the enthusiasm and creativity of the frontline staff, such fresh and dramatic practical experience further provided enlightenments for advancing the reform comprehensively upon summarizing and subliming. China Unicom has established an outstanding case sharing mechanism for frontline employees, and actively organised frontline experience sharing video conference, on-site observation and learning tours etc. to strengthen the communication between provincial companies and the mini CEOs. In December 2019, the Company held the “Competition of Outstanding and Innovative Practical Cases from Grassroots Frontline Employees on Sub-division Reform” to select outstanding cases for replication, reference and promotion and to motivate and empower the frontline employees.



Competition of Outstanding and Innovative Practical Cases from Grassroots Frontline Employees on Sub-division Reform of China Unicom in 2019

◎ Boosting mixed-ownership reform at operational level

◎ “Xiaogangcun Reform” of China Unicom Yunnan

In May 2019, as the only provincial branch level company of the SOE under the “Double Hundred Action”, China Unicom Yunnan, on the foundation of previous socialised operational cooperation pilot program on municipal and prefectural level, entered into the Cooperation Agreement in Relation to Comprehensive Reform Under the “Double-hundred Action” with Jiangsu Hengtong Optic-electric Co., Ltd. ( 江蘇亨通光電股份有限公司 ), Ningbo Akin Electronic Technology Co., Ltd ( 寧波亞錦電子科技股份有限公司 ) and Beijing Ichinae Science & Technology Co., Ltd. ( 北京中電興發科技有限公司 ) which commenced China Unicom Yunnan’s socialised cooperation in the entire province.



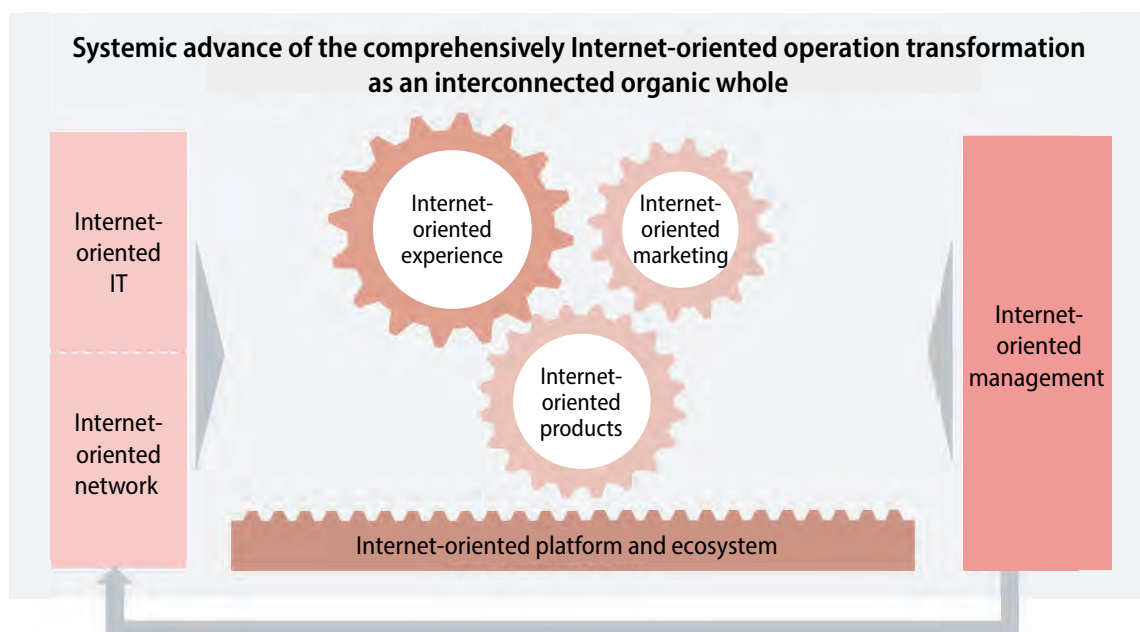
Signing Ceremony of Cooperation Agreement in Relation to Comprehensive Reform Under the “Double-hundred Action” of China Unicom Yunnan

◎ Mixed-ownership reform pilot program of China Unicom Guangxi

China Unicom Guangxi started to openly recruit socialised operational partners for its 7 subordinate prefecture level city branch companies, in November 2019. The selected partners would be responsible for the investment in construction of the access network and innovative business platforms in 7 subordinate prefecture level city branch companies of China Unicom Guangxi including Liuzhou branch company.

## IMPLEMENTATION OF INTERNET-ORIENTED OPERATION

In 2019, on the basis of Internet-oriented operation transformation 1.0, China Unicom commenced Internet-oriented operation transformation 2.0 in the light of changes in the internal and external environments of the Company. It has been striving to become a creator of 360° digital living trusted by customers on its journey of establishing a worldwide top-notch enterprise.



The comprehensive Internet-oriented operation transformation 2.0 aims to serve the customers from the perspective of 360° digital living. For the benefit of user experience, the current product portfolio and marketing system were revisited and reformed. Through innovating platform and ecosystem, driving the outbound evolution of network and IT, releasing management restraints, unleashing organisational vigor, and advancing comprehensively Internet-oriented operation transformation in a systemic manner, customer perception, employee engagement and operation efficiency were continuously improved.

