

# Report of the Supervisory Committee

During the reporting period, all members of the Supervisory Committee acted in accordance with the Company Law of the People's Republic of China and the Articles of Association of the Company, followed the principles of integrity and diligently carried out their supervisory function to safeguard the interests of shareholders, the Company and the employees.

## I. The work status of the Supervisory Committee of the Company

During the reporting period, the Supervisory Committee held two meetings and organised one onsite exchange and studies. At the fourth meeting of the Fifth Session of the Supervisory Committee held on 16 March 2016, the Supervisory Committee reviewed and approved five agenda items, including the financial statements for the year 2015, the audited report issued by the external auditors, the profit distribution and dividend proposal, the Supervisory Committee's report for the year 2015, the working plan of the Supervisory Committee for the year 2016, and passed the relevant resolutions. Regarding the disposal of towers and related assets, internal control formulation, and change of as well as control and management of connected transactions, the Supervisory Committee has communicated with the Finance Department, Internal Audit Department and external auditors and raised certain recommendations. At the fifth meeting of the Fifth Session of the Supervisory Committee held on 16 August 2016, the Supervisory Committee reviewed and approved the interim financial statements of the Company for year 2016 and the review report of the external auditors, and passed the relevant

resolutions. Regarding the Company's operating results, the review work of interim financial statements and connected transactions, the Supervisory Committee has communicated with the Finance Department, Internal Audit Department and external auditors and raised certain recommendations. During the reporting period, members of the Supervisory Committee attended the Board meetings and Audit Committee meetings and visited frontline companies for exchange and studies to have a better understanding of the operation development. The Supervisory Committee also supervised the Company's major decisions and the performance duties of the Board members and the senior management.

## II. The overall assessment of the operation management and performance during the reporting period

The Supervisory Committee believed that during the reporting period, all members of the Board and members of senior management have complied with rules and regulations, upheld the principles of diligence and integrity, safeguarded the interests of shareholders, fulfilled their responsibilities fully in accordance with the Articles of Association of the Company, diligently implemented the resolutions of the shareholders' meetings and the Board meetings, and strictly complied with the relevant regulations for listed companies. The Supervisory Committee has not observed any behaviours that breached the laws, rules, and Articles of Association of the Company, or damaged the interests of shareholders.

During the reporting period, by seizing the favourable opportunities from the policy to reform 800MHz frequency, co-sharing of telecommunications towers and cooperation amongst the industry, the Company appropriately and promptly established a comprehensive transformation and upgrades strategy and strengthened network coverage in depth and in breadth to enhance core network capability, and also persisted to adhere to proactive marketing strategy to reinforce the strengths of our fundamental businesses, accelerated the construction of business ecology to highlight the valuable edges of emerging businesses, and strived to embark on a new stage of corporate development. In 2016, operating revenues of the Company amounted to RMB352.3 billion, representing an increase of 6.4% over last year. Service revenues amounted to RMB309.6 billion, representing an increase of 5.6% over last year, achieving continuous improvement in growth rate. EBITDA was RMB95.1 billion while EBITDA margin was 30.7%. Net profit was RMB18.0 billion, representing an increase of 11.7% as compared to the net profit for the year 2015 excluding the one-off gain from the disposal of tower assets. Basic earnings per share were RMB0.22. Capital expenditure was RMB96.8 billion, representing a decrease of 11.3% over last year while free cash flow was -RMB7.7 billion with remarkable improvement over last year. In summary, the Company accurately grasped the trends in mobile Internet development and the integrated development of the industry. The operational efficiency was rapidly improved. The core competitiveness was significantly strengthened and the corporate development is full of vitality. Meanwhile, while conscientiously fulfilling its responsibility to shareholders, the Company voluntarily committed itself to the sustainable economic, social and environmental development and persisted in as well as excelled in fulfilling its social responsibilities, such as its inherent corporate responsibilities, responsibilities towards customers, responsibilities towards employees, environmental responsibilities and social welfare responsibilities.

### III. The independent opinion on the relevant matters during the reporting period

#### 1. The opinion raised by the Supervisory Committee on the compliance of the operation of the Company with laws and regulations

Pursuant to the relevant laws and regulations of the PRC, the Supervisory Committee monitored the convening procedures and resolutions of the meetings of the Board, the implementation by the Board of the resolutions approved by the shareholders' meetings, the performance of duties by the Company's senior management, and the Company's management policies. The Supervisory Committee is of the view that the Directors and the senior management, in performing their duties, strictly complied with the relevant rules and regulations, safeguarded the legitimate rights and interests of the Company and the shareholders as a whole especially those of the minority shareholders, actively promoted the regulated operations of the Company, enhanced the level of governance of the Company, followed lawful procedures in their decision-making, and implemented resolutions of the shareholders' meetings. The Supervisory Committee was not aware of any behaviours of the Directors or the senior management which violated the laws, regulations, the Articles of Association of the Company or were detrimental to the interests of the Company.

#### 2. The opinion raised by the Supervisory Committee on the financial implementations of the Company

Through the supervision and inspection of the Company's financial policies and financial condition, the Supervisory Committee is of the view that the Company is able to strictly comply with the regulatory requirements such as section 404 of the

US Sarbanes-Oxley Act and to continue to enhance its internal controls over financial reporting, while effectively controlling and managing the Company in accordance with rules and regulations. Upon the review of the financial statements for the year 2016 with unqualified audit opinion and other relevant information, which were prepared in accordance with the China Accounting Standards for Business Enterprises and the International Financial Reporting Standards as audited by PRC certified accountants and international auditors of the Company, the Supervisory Committee is of the opinion that the financial statements truly and fairly reflect the Company's financial condition, operating results and cash flows.

In 2017, the Supervisory Committee will continue to strictly adhere to the Articles of Association of the Company and relevant regulations, assume its responsibility to protect the interests of the shareholders and the Company and monitor the Company to fulfill its commitment to its shareholders. The Supervisory Committee will focus on the implementation of comprehensive transformation and upgrades strategy (Transformation 3.0), implementation of important measures in the process of promoting network intelligentisation, service ecologicalisation and operation intellectualisation, and will further broaden the planning of the work of the Supervisory Committee and strengthen its efforts in monitoring so as to protect the interests of all investors.

By Order of the Supervisory Committee  
**Sui Yixun**  
*Chairman of the Supervisory Committee*

Beijing, China  
21 March 2017