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Executive Director,
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China Telecom reacted to a number of unprecedented challenges calmly in 2015. We captured the new opportunities and new growth potentials brought by the change in business environment and the tide of Internet. We persistently marched towards our pre-set goal with a mindset to innovate and courage to reform and breakthrough. We added value to ourselves and the Company, and at the same time, we brought brand-new experience to our customers. In 2016, we will continue to grasp the chance and strive to move forward for a bright future!

STATEMENT OF THE BOARD

Dear Shareholders,

In 2015, the Company proactively grasped opportunities and achieved excellent execution of its established strategy through innovation. While taking the initiative to respond to various regulatory challenges, the Company has maintained a stable and healthy development and further strengthened its market position. Taking full advantage of favourable policies such as the issuance of LTE FDD licence and leveraging the sharing of telecommunications towers, we tilted more investment towards key business areas to speed up our core network upgrade. As a result, our 4G and fibre broadband featuring broad coverage, excellent quality and superb customer experience have taken shape quickly. In the meantime, we accelerated the integrated and scale development of 4G and fibre broadband services, thereby migrating our core fundamental services to high-value areas and shifting our growth drivers. We also further deepened our data traffic operation to boost differentiated development of emerging services to become a major growth driver. Moreover, the Company continuously promoted its comprehensive in-depth reform, persisted in innovation as a driving force, reinforced open cooperation and Internet-oriented transformation, and accelerated its full preparation for achieving new breakthrough. As a result, the capability

of future value creation and vitality of the Company have been enhanced consistently. The completion of the disposal of our telecommunications towers and related assets will further foster the Company's value enhancement in the future.

Operating Results

In 2015, the Company's operating fundamentals remained robust. Despite the impact of various regulatory policies such as VAT reform, "Speed Upgrade and Tariff Reduction"¹ and "handset data traffic carried forward"², the operating revenues of the Company still increased by 2.1% over last year, amounting to RMB331.2 billion. Service revenues³ increased by 2.0% over last year, amounted to RMB293.3 billion, with revenue growth surpassing industry and further enhancement in market share. Emerging businesses accounted for approximately 34% of service revenues, representing an increase of 5 percentage points over the same period last year with further acceleration in the optimisation of business structure. EBITDA⁴ was RMB94.1 billion, while EBITDA margin⁵ was 32.1%. Profit attributable to the equity holders of the Company⁶ was RMB20.1 billion, representing an increase of 13.4% over last year. Basic earnings per share were RMB0.25. Capital expenditure was RMB109.1 billion, representing an increase of RMB32.2 billion over last year while free cash flow⁷ was -RMB21.5 billion.

- 1 In May 2015, the government issued the "Guidance for accelerating the construction of high-speed broadband network and promotion of network speed upgrade and tariff reduction".
- 2 From October 2015, the Company further implemented the policy of "Speed Upgrade and Tariff Reduction", enabling handset users to carry forward unused handset data traffic for use to the next one month.
- 3 Service revenues were calculated based on operating revenues minus sales of mobile terminals, sales of wireline equipment and other non-service revenues.
- 4 EBITDA was calculated based on operating revenues minus operating expenses plus depreciation and amortisation.
- 5 EBITDA margin was calculated based on EBITDA divided by service revenues.
- 6 Profit attributable to the equity holders of the Company for 2015 included a one-off gain of approximately RMB3.9 billion from the disposal of towers assets.
- 7 Free cash flow was calculated from EBITDA minus capital expenditure and income tax.

Since the commencement of the pilot programme of the VAT reform in the telecommunications industry in June 2014, the Company has been striving to optimise its development and sales models, implement enhanced management over cost and procurement, and optimise revenue structure. The relevant monthly average adverse impact in 2015 has been reduced. With the full implementation of the VAT reform across the nation in 2016, it will be beneficial for the enhancement of the Company's profitability in the future.

Taking into consideration the return to shareholders, the Company's profitability, cash flow level and capital requirements for its future development, the Board of Directors has decided to recommend at the forthcoming shareholders' meeting that a dividend equivalent to HK\$0.095 per share be declared for the year 2015, maintaining at the same level of dividends as last year. Going forward, the Company will strive to enhance its profits while paving the way for an increase in future dividends.

Rapid enhancement in corporate competitive strengths

Accelerated upgrade of core network capabilities. In 2015, the Company fully leveraged the opportunities from the issuance of FDD licence and tower resources sharing to achieve a leap-forward breakthrough in the 4G network construction. We rapidly accomplished the scale 4G coverage for all developed villages and towns nationwide (all villages and towns in eastern region) or above with 4G coverage network quality comparable to our competitors, laying a solid foundation for rapid scale development of 4G business. By fully leveraging the edges of global mainstream FDD technology standard, we took the initiative in the industry to launch the "e-Surfing 4G+" (LTE-A) services of 300Mbps download speed with industry-leading network experience in the key cities. We fully leveraged the favourable "Internet+" policy and the prosperous market demand and focused on customers' experience. With full

utilisation of our existing capability in fibre network as well as increased efforts in our investments in fibre network enhancement and speed upgrade, we cleared all hurdles throughout the entire process from access port to content port, providing users with industry-leading excellent high-speed 100Mbps network experience. At the end of 2015, the Fibre-to-the-Home (FTTH) coverage in city households reached 75%, representing an increase of 15 percentage points over the end of last year. The average bandwidth of wireline broadband subscribers was approximately 29Mbps, an increase of nearly two times compared to the end of last year, laying a solid foundation for scale development of “Smart Family” products.

Significant strengthening in fundamental business capabilities. In 2015, the Company accelerated the shift in growth drivers and coordinated the collaborative development of 4G and fibre broadband businesses. The development of 4G business entered into a fast track lane and new competitive edges of fibre broadband were established. With rapid optimisation of subscriber structure, the business scale and market share continued to reinforce. We endeavoured to promote the six-mode handsets as the national standard and tackled the bottlenecks in CDMA terminals. We also proactively developed the cooperation with terminal suppliers of superior brands and promoted the prosperous development in terminal value chain, resulting in enhancement of the Company’s competitive strengths and market influence in the terminal industry. We focused on high-definition (HD) content and smart applications, expedited the optimisation of “Smart Family” products and operating system

and offered more innovative, attractive as well as integrated packages to enhance users’ experience and value. The net increase of 4G terminal subscribers for the year was 51.38 million, reaching a total of 58.46 million with market share doubled as compared to last year. The total number of mobile subscribers was nearly 200 million and the overall mobile ARPU was stable with slight increase. The net increase of FTTH subscribers for the year was 28.38 million, reaching a total of 70.99 million. The total number of wireline broadband subscribers reached 113 million while the penetration rate of FTTH subscribers reached 63%, representing an increase of 23 percentage points over the end of last year. The net increase of IPTV (e-Surfing HD) subscribers for the year was more than 9 million, reaching a total of approximately 40 million.

Leading Service Revenue & Net Profit Growth



Emerging businesses becoming the key growth driver.

In 2015, revenues from emerging businesses increased by approximately 20% over last year with continued increase in revenue contribution. We further promoted the precision data traffic management, continued to strengthen cooperation and enriched data traffic product to achieve concurrent enhancement in data traffic scale and value. Despite the impact from “handset data traffic carried forward” policy, the mobile handset Internet access revenues for the year amounted to RMB47.8 billion, representing an increase of 40% over last year with revenue growth surpassing the industry. The aggregate handset Internet data traffic doubled as compared to last year, of which the contribution from 4G data traffic has significantly increased to 51% while the monthly average data traffic per 4G user reached 751MB, representing an increase of 25% over last year. The scale development of key Internet applications continued to expand. In 2015, the active users of “BestPay” has exceeded 40 million with gross merchandise value over RMB770 billion, being doubled over last year. At

the same time, we actively explored the Internet finance sector. We reinforced the differentiated capabilities of YiChat products embedding new applications including mobile payment, red packet and lifestyle services. The number of registered YiChat users exceeded 200 million by the end of 2015. With further consolidation of our existing WiFi resources, we expanded the cooperations of hotspot resources and business partners for “aWiFi”. The monthly active “aWiFi” users reached 10 million by the end of 2015. We accelerated the development of new types of ICT service. By firmly seizing the national strategic opportunity of “Internet+”, we fully leveraged the integrated edges of networks, cloud computing and security capability to actively cooperate and promote collaborative development, making use of new technologies such as Big Data and Internet of Things to create differentiated and innovative services. In 2015, the revenues from ICT service amounted to RMB28.8 billion, representing an increase of 21% over last year and the revenue growth of IDC and cloud products was approximately 30%.

Accelerating reserves for future growth momentum

Sustained comprehensive in-depth reform. With thorough promotion of sub-division of performance evaluation units, intensified resources allocation tilted frontline and authority delegation, the Company encouraged the staff entrepreneurial development towards frontline. The number of sub-divided frontline operating units has exceeded 50,000 with full release of staff motivation and vitality. The establishment of the “top-down” service support system was expedited, adhering to frontline-oriented and market-oriented services. We fully leveraged the IT capability to create a high-efficient and responsive service support system, resulting in enhancement of frontline operating efficiency and effectiveness. With continuous improvement in market-driven talent management mechanism and business operation models, the Company fostered its efficiently-centralised operations for emerging businesses with Internet-oriented resources allocation and financial management mechanism to facilitate the rapid development of emerging businesses. The corporate vitality and intrinsic momentum have been persistently strengthened.

In-depth promotion of Internet-oriented transformation. We comprehensively created a highly-efficient, low-cost and professional O2O operating system in an efficiently-centralised manner and promoted the Internet-oriented transformation in channels and services. By leveraging the edges of physical channels, the Company extensively deployed community stores to commence experience marketing for Smart Family, efficiently expanded open channels and



Net Profit

↑ 13.4%

focused on accelerating the effectiveness enhancement of key physical channels. At the same time, the Company consolidated existing online channels and created an efficiently-centralised platform with the integration of sales and services, through which the Company's online services and customer attraction capabilities continued to be strengthened. Nearly 80% of the 4G data traffic packages were sold online. More than 60% of service items and volume were conducted online, which effectively led to staff reduction and efficiency enhancement of physical customer service centres. We deepened the precision management and value management, promoted the upgrade from network maintenance to network operation, accelerated the retirement of aged network facilities, effectively revitalised assets such as plant rooms, accelerated the commercialisation of maintenance services, continuously enhanced network operating capability and value. Through strengthening of risk prevention, we expedited the promotion of efficiently-centralised operation of IT services, strengthened the management over capital expenditure and cost, optimised the sales models and resources allocation, and further reinforced centralised procurement to lower the procurement cost. The operating efficiency and user experience have been persistently improved.

Accelerated cultivation of new growth engines. The IPTV (e-Surfing HD) business has entered into rapid growth period and has become a strategic fundamental business. With the 100Mbps fibre broadband as its foundation, we fully

leveraged the opportunities arising from pioneer cooperation in three network convergence to strengthen efficiently-centralised operations and speed up scale development to seize the key portal in the "Smart Family" market. The "BestPay" business has become a key differentiated means to drive core fundamental businesses. As a strategic innovative business, the "BestPay" business will deeply integrate with 4G services to achieve scale development. With continual expansion of cooperative partners, we will accelerate the development in Internet finance business. Firmly seizing the strategic opportunities of the national plan of "Internet+" and fully leveraging our edges, the Company will further focus on key areas and accelerate the deployment in public market and industry market, creating new growth potential. Our capability in cloud computing and Big Data has been rapidly enhanced, with a continuously optimising product and service portfolio. The Company will take advantage of its integrated edge in cloud and network to provide high quality cloud products, engage in open cooperation and promote applications for Big Data products to continuously enhance its competitive strength and value contribution. The operation of Internet of Things has become gradually mature with continuously expanding scope of applications. The Company will proactively seize the opportunity from the boom in Internet of Things with efficiently-centralised operation to accelerate the expansion of connectivity scale, gradually enrich applications and services for Internet of Things to create new impetus for value creation.

Corporate Governance and Social Responsibility

We are committed to maintaining a high level of corporate governance, attaching great importance to risk management and control. We strive to enhance corporate transparency and value to ensure our healthy and orderly growth. Our persistent efforts in corporate governance have been widely recognised by the capital markets. We were accredited with a number of awards and recognitions in 2015, including being voted the "Most Honoured Company in Asia" by *Institutional Investor* for five consecutive years, "Overall Best Managed Company in Asia" by *FinanceAsia* for five consecutive years and the "No. 1 Best Managed Company in Asia" by *Euromoney* for six years in a row.

We persisted in operating with integrity and proactively fulfilled our corporate social responsibility while maintaining a fair and orderly environment for market competition and facilitating healthy development of the entire value chain. We continued to improve our energy-saving technologies, further strengthened energy conservation and emissions reduction in order to promote green operations. We actively responded to the initiatives of "the Belt and Road" by cooperating with our partners in enhancing the standard of information infrastructure for the regions and countries along the path. We received high recognition and

appreciation from society by accomplishing telecommunications assurance tasks for the nation's significant events and disaster reliefs.

Outlook

Currently, the national macro-economic growth is slowing down and the fundamental telecommunications market is becoming saturated amid intensified market competition. The regulatory environment is still embedded with a lot of uncertainties, bringing certain challenges to the future development of the Company. Meanwhile, with the nation's advocacy of the development concepts of "innovation, harmonisation, green, openness and sharing", together with the proactive launch of national strategies of "Cyberpower", "Big Data" and "Internet+", there is massive room for the rapid development of information economy. During the "Thirteenth Five-Year Plan" period, the national supply-side structural reform shall lead to upgrade in consumption. The release of benefits from "innovation-driven" policies was accelerated, injecting new vitality to industry development. The transformation pace of mainland telecommunications industry accelerates and the new technologies such as cloud computing, Big Data and Internet of Things gradually mature. The "Industrial Internet" will embark a turning point in accelerating growth, providing vast potentials for the Company's prospect.

2016 is a crucial year for the Company in building up a more favourable market position for the future. We will firmly seize new opportunities and take the initiative to develop through reform and innovation, while striving to adapt to the changing regulatory environment and tackle various challenges. We will persistently strengthen the core competence in network and operation and tightly grasp the opportunities from the scale development and value enhancement of 4G and fibre broadband businesses to further strengthen the Company's fundamentals. Meanwhile, we will be unwaveringly dedicated to speedily achieve a breakthrough in the five emerging areas including "Smart Family", "mobile payment", "Internet+", "cloud computing & Big Data" and "Internet of Things" to ignite the new growth engine. We will further promote the comprehensive in-depth reform, incentivise the corporate and employee vitality and deepen the Internet-oriented transformation to upgrade the products and services. With increased efforts in open cooperation, we will fully mobilise and share the social resources to build the "Smart Ecosystem", and promote to reconstitute our business, network, operation and management to

offer integrated smart services. We will endeavour to facilitate the accomplishment of "Cyberpower" and take the lead in the digital ecosystem, thereby continually creating value for our shareholders.

Finally, on behalf of the Board of Directors, I would like to take this opportunity to express my sincere appreciation to all our shareholders and customers for their support. I would also like to express my sincere thanks to all our employees for their hard work and contributions. Furthermore, I would like to extend my sincere gratitude towards Mr. Wang Xiaochu for his excellent contributions during his tenure of offices as the Chairman and Chief Executive Officer of the Company.



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