

# Chairman's Statement



In the first half of 2013, the Company persisted in deepening the scale operation and data traffic operation to achieve dual enhancement in scale development and profitability. The corporate strengths were further reinforced. Through accurately capturing the development pattern of mobile Internet and breaking away from the constraints of traditional telecommunications operation mindset, the Company enhanced corporate vitality through market-driven mechanism, promoted rapid business development through differentiation and accelerated the product progress under the “Three New Roles”<sup>1</sup> strategy. With continual enhancement of our four core capabilities in innovation, service, efficiently-centralised management and operation, our sustainable competitive advantages were further strengthened while our corporate transformation has deepened and entered a new stage.

## Operating Results

In the first half of the year, the Company simultaneously recorded double-digit growth in both revenues and profits, with revenue growth surpassing industry average. Operating revenues amounted to RMB157.5 billion, representing an increase of 14.1% over the same period last year. Excluding mobile terminal sales, operating revenues were RMB139.2 billion, representing an increase of 10.0% over the same period last year, leading to a steady increase in the market share of revenues. The business structure was further optimised and the proportion of revenues from high growth businesses exceeded 87%. The operational risks of traditional businesses were further alleviated. EBITDA<sup>2</sup> was RMB50.1 billion, while

<sup>1</sup> The “Three New Roles” refers to the Leader of Intelligent Pipeline, the Provider of Integrated Platforms and the Participant of Content & Application Development.

<sup>2</sup> EBITDA is calculated based on operating revenues minus operating expenses plus depreciation and amortisation.



EBITDA margin<sup>3</sup> was 36.0%. The profit attributable to equity holders of the Company was RMB10.2 billion, representing an increase of 15.9% over the same period last year. Profitability was improved considerably with basic earnings per share of the Company of RMB0.13. Capital expenditure was RMB33.1 billion. Free cash flow<sup>4</sup> reached RMB13.8 billion.

Taking into consideration the cash flow of the Company and the capital requirements for future development, the Board of Directors has decided not to pay an interim dividend this year in order to maintain adequate funding flexibility. The Board of Directors will proactively consider a final dividend proposal when reviewing the full year results and will propose any such final dividend to the shareholders' general meeting accordingly.

### Excellent Implementation to Achieve Dual Enhancement in Scale Development and Profitability

In the first half of the year, the Company persisted in 3G driven mobile operation and achieved further breakthrough in business scale, resulting in remarkable increase in net profit which grew at a faster pace than that in revenue. The value of mobile subscribers was further enhanced, the wireline broadband services grew steadily and the Internet application and informatisation application developed rapidly, significantly contributing to the expansion of subscriber scale and enhancement in profitability. With our perseverance in differentiation development, the Company's "Three New Roles" strategy was thoroughly implemented and our four core capabilities were notably enhanced.

### Persistent in deepening scale operation and data traffic operation

By proactively leveraging the strengths in mobile network and services, the scale of our mobile services expanded rapidly and the market share continually increased. Reinforcing the terminal-led operation, the Company further expanded the high-end models and optimised the subsidy structure for terminals, leading to rapid growth in sales. We strengthened self-operated sales channels and deepened the open channel co-operation so as to continuously increase the contribution from open channels sales. We persistently placed concurrent emphasis on integrated products as well as efficiently-centralised single product. We also strengthened the application-driven mode, resulting in further optimisation of the quality of subscriber development. In the first half of the year, the net addition of mobile subscribers was 13.88 million and the number of mobile subscribers reached 175 million, of which the net addition of 3G subscribers was 18.28 million. 3G subscribers accounted for 50% of total mobile subscribers. The 3G smartphone subscribers accounted for 44% of total mobile subscribers. Mobile service revenues amounted to RMB54.6 billion, representing an increase of 28.3% over the same period last year, which was the highest growth rate in the industry and accounted for 35% of our total revenues. The Company will further improve the capability of our sales channels to accelerate the scale development of mobile services and persistently expand the scope for enhancing customer value.

Data traffic operation achieved remarkable results. The Company reinforced the 3G applications coaching and precision marketing. As an industry pioneer, we launched pure data traffic packages. We coordinated the promotion of self-developed applications such as product centre services as well as external applications. We also strengthened the data traffic driving effect of our appealing products such as 189 Mail and e-Surfing Cloud, resulting in

<sup>3</sup> EBITDA margin is calculated based on EBITDA divided by the operating revenues excluding mobile terminal sales.

<sup>4</sup> Free cash flow is calculated from EBITDA minus capital expenditure and income tax.



rapid expansion in data traffic. In the first half of the year, the average monthly data usage of our 3G handset users exceeded 168MB, representing an increase of 51% over the same period last year. The total Internet access traffic of our 3G handset users almost tripled while revenues from Internet access by our handset users nearly doubled from the same period last year, reaching RMB9.8 billion. Data ARPU rose considerably, driving a steady increase in the blended ARPU of mobile subscribers, with continuous improvement in quality. Next, the Company will leverage the intelligent pipeline and integrated platforms to enhance the data traffic operation models and accelerate the expansion of data traffic and value.

The wireline broadband services grew steadily with continuous improvement in long-term sustainable competitiveness. The Company progressively promoted the campaign of "Lighting Fibre District" and gradually expanded the fibre coverage and subscriber scale. The Company further strengthened customer segmentation and enriched the high-bandwidth applications while fostering the mutual driving effect of our 3G service and wireline broadband service. In the first half of the year, revenues from wireline broadband services amounted to RMB35.2 billion, representing an increase of 5.5% over the same period last year. The number of wireline broadband subscribers reached 95.82 million with a net addition of 5.7 million, among which the number of Fibre-to-the-Home (FTTH) subscribers reached 21 million, leading to continuous optimisation of customer structure. In the second half of the year, the Company will vigorously promote customer bandwidth upgrade, improve installation and maintenance efficiency and continue to promote high-bandwidth application so as to accelerate the transformation of our network competitiveness into marketing strengths and profit edge, driving further enhancement in customer value and steady development of broadband services.

Informatisation application notably fostered the expansion of the overall business scale. Through enhancing the portals for government customers and public customers and enriching applications, the leading effect of "Smart Cities" was further strengthened. Leveraging industry application product centres, the Company progressively expanded the scale of industry applications and promoted professional operation to further enhance profitability. We proactively promoted the scale replication of standardised products for enterprises customers such as "e-Surfing RFID" and enhanced the penetration of "e-Surfing School" in primary and secondary schools. We strengthened the promotion of applications for convenient living to further expand the public applications market. In the first half of the year, the net addition of mobile subscribers driven by informatisation applications was 6.08 million, representing an increase of 29% over the same period last year and accounting for 44% of the net addition of mobile subscribers.

### **Adhering to differentiated development to thoroughly implement the "Three New Roles" strategy**

We firmly grasped the trend and vigorously promoted innovation, actively integrating with informatisation service industry with gradual commercialisation in intelligent pipeline, integrated platforms and content and application services.

The commercialisation of intelligent pipeline has developed progressively along with the continued improvement in the capability of integrated platforms. We gradually promoted intelligent wireline broadband services such as dynamic bandwidth assurance and self-served bandwidth upgrade. We rolled out mobile traffic control and optimisation services based on service identification to reinforce the differentiated mobile Internet experience. While expediting the construction of fundamental capability platforms of positioning and payment, we progressively foster



the open capability of our integrated platforms and introduced over 600 cooperated applications. In the second half of the year, the Company will accelerate the commercialisation progress of the intelligent pipeline and integrated platforms to further enhance the dynamic of differentiated development.

The commercialisation development of content and application services was accelerated. Riding on the successful operation of public applications product centres like "iMusic", the Company adopted a product centre model to develop industrial applications for government and enterprises customers in an efficiently-centralised manner. The value contributed by eight industrial application product centres such as education, government administration, transportation and logistics emerged. We launched "e-Surfing Cloud" products and successfully embarked on the commercialisation of our "Cloud" computing services. The "Best Pay" experienced a rapid growth, with transaction amount surging by 175% over the same period last year and the number of customer accounts reaching 9 times of that in the same period last year. Next, the Company will take initiatives to explore Internet applications such as "Internet of things" and "Big Data" to further strengthen the development of emerging businesses.

### **Enhancing four capabilities to sharpen sustainable competitiveness strengths**

Adhering to an innovation-oriented approach. We further introduced Internet elements to reinforce corporate culture and promote a mindset change in employees as well as integrated enhancements. We also introduced market-driven mechanisms to continuously optimise talent cultivation and incentive systems, effectively stimulating corporate vitality. The next step, we will follow the Internet enterprise pattern to establish an organisational and decision-making mechanism for emerging businesses, and gradually implement a market-oriented approach in resource allocation and remuneration incentives to expedite the development of emerging businesses.

Upgrading services comprehensively. Focusing on customer experience, we established a more responsive service system and more comprehensive customer service standards to cater to the needs of mobile Internet with a commitment to providing better and measurable service pledges. We took initiatives to innovate means of service, leading to industry-leading Weibo customer services and continued optimisation of online service and mobile palm service. We focused on the enhancement of the service quality of mobile and broadband services to strengthen customer relations. The customer satisfaction for our core businesses led the industry.

Strengthening efficient-centralisation. The proportion of efficiently-centralised mobile single products and terminal sales continued to increase. The sales of efficiently-centralised single products and efficiently-centralised terminals for June accounted for 58% and 52%, respectively. Leveraging an innovative e-commerce model, we strengthened efficiently-centralised operation of our group-level e-channels, resulting in the new mobile subscribers developed via this channel in the first half of the year reaching 9 times of that in the same period last year. We also strengthened IT capabilities to support efficiently-centralised operation of the entire network, while further enhancing centralised procurement of equipment. The centralised procurement rate of telecommunications equipment was 99.5%.

Continuing to optimise operation. We continued to reinforce corporate management and optimise resource allocation. We consolidated the collaboration and synergies across branding, service packages, marketing resources, terminals and channels. Through comprehensive sub-division of performance evaluation units, cost budgets and investment resources were allocated to primary operating units with a view to achieving unification of duties, rights and interests, so as to enhance better efficiency. Meanwhile, we strengthened our centralised capital management, optimised our investment structure and enhanced our cost control based on precision management to avoid risks. The operating efficiency of the Company was noticeably enhanced.



### 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 corporate value to ensure our healthy growth. Our persistent efforts in corporate governance have been widely recognised by the capital markets. We were accredited with a number of awards and recognition in the first half of the year, including "Overall Best Managed Company in Asia" by *FinanceAsia* for three consecutive years, "The Best of Asia – Icon on Corporate Governance" by *Corporate Governance Asia*, and "No.1 Most Honoured Company in Asia" by *Institutional Investor*.

We persisted in operating with integrity and proactively fulfilled our corporate social responsibility to maintain a fair and orderly environment for market competition and facilitate healthy development of the entire value chain. Meanwhile, we actively promoted green operation, further strengthening energy conservation and emission reduction to improve utilisation efficiency of resources. We accomplished telecommunications assurance tasks for significant events such as earthquake relief in Ya'an, Sichuan and were highly commended by the society.

### Outlook

At present, the mobile telecommunications market is at a fast growing stage with rapid migration to 3G. The demand for social informatisation will continue to expand, which will bring in opportunities for further scale expansion of our 3G service. Meanwhile, the global economy is now at a deepened adjustment stage. There are still uncertainties in domestic regulatory policies while the accelerated evolution of new technologies is driving up industry competition. The cross-sector competition of mobile Internet gradually emerged. In future, we will face new challenges.

In the second half of the year, we will firmly seize the present golden window of opportunity and focus on accelerating the scale expansion of our strategic 3G services and wireline broadband services. We will promote rapid development of our emerging businesses through open cooperation to progressively accomplish fundamental enhancement of our business structure. Meanwhile, we will proactively participate in discussion to strive for the most favourable regulatory policies, especially on the issuance of LTE licence. We will also proactively prepare for future business development opportunities, and implement a focused and proactive investment strategy to enhance corporate value in full strength. Furthermore, we will organise and promote the cooperation with mobile virtual network operators firmly based on the principle of differentiated complementation and sustainable development, aiming for achieving a win-win situation and creating more value for 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 contribution as well as to Mr. Chen Liangxian for his valuable contribution during his tenure of office as a director of the Company. Also, I would like to welcome Mr. Xie Liang to join our Board of Directors.



**Wang Xiaochu**  
*Chairman and Chief Executive Officer*  
Beijing, China

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