

Chairman's Statement



In the first half of this year, facing increasingly intensified market competition coupled with complicated and changing industry environments, the Company firmly rose to the challenges with a unitary goal cohering as a whole, adopting conscientious and pragmatic approach with excellent execution and marching towards the goal of being a leading integrated intelligent information services operator. With perseverance in integration and innovation,

acceleration in scale development together with reinforcement of competitive strengths, the growth momentum in business development remained consistently strong. We firmly adhered to the established development strategy and comprehensively promoted the three initiatives¹ with comprehensive in-depth reforms, initially attaining effective achievement in transformation and upgrades¹.

¹ Three initiatives refers to the implementation paths of the transformation and upgrades strategy (Transformation 3.0), namely network intelligentisation, service ecologicalisation and operation intellectualisation.

Chairman's Statement

Corporate operation continued to show solid development

In the first half of the year, the Company firmly seized the favourable opportunity of information consumption upgrade and proactively responded to the market competition. Adopting aggressive marketing strategies and rapidly expanding our scale with continual optimisation in structures, we achieved excellent performance in our operating results.

Financial results showed steady growth

In the first half of the year, operating revenues amounted to RMB184.1 billion, representing an increase of 4.1% over the same period last year. Service revenues² amounted to RMB165.8 billion, representing an increase of 6.8% over the same period last year with revenue growth surpassing the industry average. Mobile service revenues amounted to RMB75.7 billion, increased by 12.2% over the same period last year with industry-leading growth. Revenues from emerging businesses accounted for 45.0% of service revenues, representing an increase of 6.1 percentage points over the same period last year. EBITDA³ was RMB52.4 billion, representing an increase of 3.7% over the same period last year while EBITDA margin³ was 31.6%. Net profit⁴ was RMB12.5 billion, representing an increase of 7.4% over the same period last year. Basic earnings per share were RMB0.15. Capital expenditure was RMB41.1 billion while free cash flow⁵ was RMB7.2 billion with remarkable improvement over last year.

Taking into consideration the Company's profitability, cash flow level 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 the expectation of shareholders' return and evaluate the final dividend proposal when reviewing the full year results and will propose to the shareholders' general meeting accordingly.

Accelerated expansion of business scale

In the first half of the year, the net increase of mobile subscribers was 14.85 million, reaching a total of 230 million and accounting for 16.8% market share, representing an increase of 0.6 percentage point from the end of last year. The net increase of 4G users was 30.15 million, reaching a total of 152 million and accounting for 17.2% market share, representing an increase of 1.2 percentage points from the end of last year while the penetration rate of 4G users reached 66%. The aggregate handset Internet data traffic increased by 126% compared to the same period last year while the DOU of 4G users reached 1.4GB, representing an increase of 56% over the same period last year with further enhancement in growth rate. The sales volume of 4G terminals was approximately 65 million, representing an increase of 48% over the same period last year, of which sales of "6-mode" handsets accounted for 96%.

² Service revenues were calculated based on operating revenues minus sales of mobile terminals, sales of wireline equipment and other non-service revenues.

³ EBITDA was calculated based on operating revenues minus operating expenses plus depreciation and amortisation while EBITDA margin was calculated based on EBITDA divided by service revenues.

⁴ Net profit refers to the profit attributable to the equity holders of the Company.

⁵ Free cash flow was calculated from EBITDA minus capital expenditure and income tax.

Chairman's Statement

The number of wireline broadband subscribers continued to maintain rapid growth. The net increase of wireline broadband subscribers was 4.98 million, reaching a total of 128 million. Of which the net increase of Fibre-to-the-Home (FTTH) subscribers was 11.24 million, reaching a total of 117 million while the penetration rate reached 92%. The proportion of wireline subscribers of Hundred-Mbps or above increased rapidly and reached 37%. The net increase of e-Surfing HD subscribers was 10.79 million, reaching a total of 72.12 million. The number of Internet of Things (IoT) connected devices nearly doubled as compared to the end of last year, reaching a total of 27.98 million. The number of actively participated merchants of "BestPay" was close to 400,000 while the number of average monthly active users exceeded 28 million, concurrently increased more than 2 times over the same period last year.

Continual optimisation in revenue structure

In the first half of the year, revenues from Intelligent Connection ecosphere increased by 4.4% over the same period last year, accounting for 84.9% of service revenues. Of which, the mobile handset Internet access revenue, being the top revenue growth driver of the Company, increased by 35.2% over the same period last year and accounted for 26.0% of service revenues, representing an increase of 5.5 percentage points over the same period last year. Voice revenues accounted for 19.2% of service revenues, representing a decrease of 4.3 percentage points over the same period last year with further mitigation of operating risks.

Revenues from the ecosphere of Smart Family, new ICT applications, IoT and Internet Finance accounted for 15.1% of service revenues, representing an increase of 2.0 percentage points over the same period last year. Revenues from the four ecosphere increased by 22.8% over the same period last year while the proportion of the incremental revenues of the four ecosphere as a percentage to the incremental service revenues of the Company reached 43.5%. New revenue growth engines are being rapidly shaped and formed.

Attained initial effective achievement of Transformation 3.0

In the first half of this year, with our adherence to the established direction and reinforcement of strategic execution, the Company accelerated the promotion of network intelligentisation, service ecologicalisation and operation intellectualisation. The Transformation 3.0 strategy attained initial effective achievement while development capabilities were continuously accumulated.

Strengthening of network advantages

In the first half of the year, the Company endeavoured to construct three superior networks, namely 4G network, IoT network and all-fibre network with further reinforcement of network edges. With full accomplishment of refarming of 800MHz frequency and establishment of excellent full coverage 4G network, we offered superior industry-leading integrated experience to our customers. With simultaneous deployment of VoLTE, network capabilities of commercial trial were shaped and formed, laying a robust foundation for the upgrade of mobile voice business. Leveraging the 800MHz 4G network with full exploitation of low-frequency edges, the Company became the pioneer in building the first NB-IoT network with the widest coverage, largest scale and best quality in the world, which has comprehensively commenced the commercial launch and has gained network advantages of the business development of IoT. With our persistent efforts in promoting the construction of fibre network, the fibre network household coverage rate of cities and towns reached 92% while the overall average bandwidth of wireline broadband subscribers reached 62Mbps. The Company deployed Gbps access capabilities in major cities with reference to demand, expanded the coverage of Data Centre Interconnect (DCI) and effectively promoted the construction of integrated and efficiently-centralised Content Distribution Network (CDN), resulting in further enhancement of high-speed and superior end-to-end network experience.

With a vision looking forward into the future, the Company accelerated the promotion and implementation of network evolution. On the one hand, we are deeply devoted to engaging in 5G standard formulation and technology trial runs while proactively exploring and researching the networking plan for the evolution from 4G to 5G. 5G network field trial will be conducted in 6 cities and the joint research and development of 5G applications and solutions will be launched collaborating with co-operative partners from various industries, laying foundation for 5G development. In addition, we steadily promoted the evolution of network intelligentisation, expedited the introduction and deployment of technologies such as Software-Defined Networking (SDN) and Network Functions Virtualisation (NFV) and achieved the highly efficient collaboration of network and IT. As a result, a new generation of network with the characteristics of flexibility, swiftness and elasticity with extensible functions is progressively constructed, offering state-of-the-art network experience with embedded self-selective, visible and self-served features.

Prosperity of business ecology

In the first half of the year, the Company consolidated internal resources and enhanced fundamental capabilities. Through creation of platforms, open capabilities, extended influence on industry value chain and cross-platforms integration, ecology synergies was reinforced. With converged efforts on the establishment of five business ecosphere, namely Intelligent Connection, Smart Family, new ICT applications, IoT and Internet Finance, we jointly promoted service ecologicalisation with our co-operative partners surrounding the theme of "co-sharing, co-innovation, co-prosperity".

In the area of Intelligent Connection, the Company promoted the certification of "6-mode" handset standard by Global Certification Forum (GCF) and Global System for Mobile Communications Association (GSMA), which was upgraded as an international standard. Customers' choice of terminals was enriched while growth potential of customers was expanded, leading to the prosperous development of terminal markets. Aiming at carrying out deepened data traffic operation, we embarked on extensive cooperation with Internet enterprises. With data traffic as the core, we innovated the form of supply and enhanced product competitiveness, accelerating the release of data demand and endeavouring to achieve a win-win outcome.

In the area of Smart Family, we created an open platform of Smart Family and co-shared capabilities such as home gateway access and integration of cloud and network, participating in the development and sales of smart devices while collaborating with co-operative partners to provide high quality and diversified Smart Family products and services. With the enrichment of premium contents in e-Surfing HD platform and enhancement of video operation, competitive strengths was persistently consolidated. With comprehensive promotion of intelligent WiFi networking services, customers were provided with personalised WiFi networking proposals, broadening new connection portal of household network. With joint efforts to build offline Smart Family experience centres partnering with Internet enterprises and household electrical appliance stores, services such as family cloud and video calls were embedded while experience marketing was commenced so as to promote upgrades of smart homes consumption.

Chairman's Statement

In the area of new ICT applications, the Company integrated the capabilities including cloud, Big Data and "Internet+" and converged co-operative partners in areas of contents, applications and solutions to create cloud platform with open capabilities for government and enterprise customers. With the establishment of platforms in mass entrepreneurship and innovation, we covered millions of innovative and start-up enterprises to provide assistance on technology development, innovation incubation and product operation. Targeting key areas including government administration, education, medical care and industrial Internet, we cooperated with well-known enterprises in the industry and broadened informatisation applications, effectively promoting industrial transformation and upgrades.

In the area of IoT, the Company jointly formulated the IoT module standard together with co-operative partners and assisted terminal manufacturers to expedite product launch. We launched open platform and jointly created platform capabilities featuring global connectivity, safety and reliability and intelligent decision-making. In addition, with the co-establishment of open laboratory, the threshold of research and development was reduced while the launch of new IoT applications was accelerated. With increased deployment of resources, we promoted terminal subsidies policy, took the lead in value chain development and enriched the forms of products, facilitating the stimulation of demand for IoT. Driving the ecological development through e-Surfing IoT Industry Alliance, the Company focused on three types of markets, namely smart city, vertical industry and individual consumption to promote extensive co-operation with local governments and enterprises, striving to create an IoT ecosphere with centripetal force and facilitate ecological prosperity in joint efforts.

In the area of Internet Finance, leveraging rich customers resources and reliable mobile payment capabilities, we innovated sales and marketing model and launched BestPay red packet⁶, deeply promoting the integration of Internet Finance ecosphere and Intelligent Connection ecosphere and achieving the outcome of mutual promotion and mutual driven. We created open platform of BestPay merchants and converged premium merchants to offer service capabilities including sales and marketing, gateway access payment and capital concentration. Serving as channels for each other with platforms participants, we strived to accomplish co-sharing of resources aiming at achieving mutual growth. Through close cooperation with leading enterprises in the areas of financial planning and financial technology, the Company achieved the realisation of resources complementarity, enriching content connotation and expansion path of Internet Finance services of the Company.

⁶ BestPay red packet is an innovative model of contract package launched by China Telecom. Each month a certain amount will be refunded to contract users on proportion, which can be used for airtime topping up as well as online and offline consumption of BestPay.

Chairman's Statement

Enhancement of operating capability

In the first half of the year, the Company focused on enhancing competitive capabilities in channel sales, network operations and customer services. In the aspect of channel sales, we applied Big Data to optimise the location of sales outlets and strengthened the outlets coverage in key areas. We promoted superior outlet systems to foster the standardised operation of self-operated outlets. The promotion of B2I2C (business to Internet to customer) products on online channels was expanded and new co-operative channels such as chain stores and supermarkets were promoted. In the aspect of network operations, we expedited the response speed of installation and maintenance and optimised the end-to-end operation maintenance process so as to persistently enhance users' experience and strengthen network operations advantages. In the aspect of customer services, we executed our service commitment in fibre broadband to ensure "installation within one day, repairs within one day, compensation in the event of delay" and took the initiatives to publish *Government and Enterprises Customers Service Standard White Paper* in the industry, symbolising a new benchmark in services. Methods such as customer services robots and new media self-service were applied to launch smart services. The number of usage times of "Huango" mobile online service application was close to ten billions. The Company continued to rank first in the industry in terms of customer satisfaction⁷ in both handset and wireline Internet access services.

With vigorous promotion of operation intellectualisation, the Company placed great emphasis on the corporate core construction and Big Data applications as the crucial element of intelligent operations. By adopting centralised and open Internet structure to construct enterprise Big Data platform, the Company promoted data central acquisition, data central storage, collective data handling, data mining and data modelling, and has been equipped with data applications capabilities. In opening up our capabilities of data platform and data services towards entire network, we co-shared sales and marketing service models, corporate index systems, etc., and developed tens of Big Data applications. With the promotion of precision management, precision marketing, dedicated service and lean network operations, operating cost was reduced while operational efficiency was improved, injecting intelligence in the operations of the Company.

In-depth promotion of comprehensive reform

Following the implementation of Transformation 3.0, the Company has commenced comprehensive reconstitution in areas including network, businesses, operations and management. It was imperative for us to promptly expedite the establishment of suitable systems and mechanisms and operation models in alignment with the strategy.

In the first half of the year, the Company grasped the favourable and golden period of reforms and unwaveringly promoted comprehensiveness and depth of reforms. Surrounding stimulation of vitality of employees and organisations, we further reinforced market-oriented reform initiatives, optimised systems and mechanisms and innovated operational management model so as to steadily promote comprehensive transformation and upgrades with comprehensive in-depth reforms as the assurance.

⁷ Customers' satisfaction survey from the Ministry of Industry and Information Technology.

Chairman's Statement

The Company adhered to promote reforms on organisational systems and operational mechanism with market-orientation as the core. Professional operational organisation systems were constructed to promptly respond to the frontline professional needs, forming strong and powerful vertical support. With the deepened promotion of "three-dimensional inter-driven forces" comprising sub-division of performance evaluation units, top-down support and professional operation, we enabled our frontline employees to have passion, capability and easiness to do. Sub-division of performance evaluation units has become the role model of China's state-owned enterprises' reforms. Counting on the incentive mechanism and restriction system as the key, the Company promoted the reforms of human resources. With innovated systems of "professional workstation", we emphasised training of professional talents for the enterprise transformation while we proactively strengthened market-oriented staff appointment mechanism so as to stimulate vitality of the talent teams. Insisted on value contributions as the core, we promoted in-depth reforms in resources allocation. With the strengthening of resources allocation in supporting our strategy and operation, we induced resources towards highly profitable business units. We embedded value analysis models into the procedures of business assessment, investment decision-making and cost control and perfected matching relationship of input and output. In addition, we insisted on Internet-oriented means to optimise assets management and enhanced the efficiency of asset utilisation. Internal control management was strengthened so as to enhance the capabilities to prevent and control financial risks.

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 persistently enhance corporate transparency and value to ensure our healthy and orderly growth. Our efforts in corporate governance have been widely recognised by the capital markets. We were awarded "Most Honored Company in Asia" by *Institutional Investor* for seven consecutive years and "No. 1 Overall Best Managed Company in Asia" by *FinanceAsia*.

We adhere to operations with integrity, persevere in fulfillment of social responsibility and maintain a fair and orderly environment for market competition to facilitate healthy development for the industry ecology. We further implemented the "Speed Upgrade and Tariff Reduction" and assisted the "entrepreneurship and innovation by the general public" to foster the information consumption upgrade and benefit the society and the general public as a whole. We also proactively maintain the security of network and information and rigorously combat telecommunications information fraud. We received high recognition and appreciation from the society through our efforts in successfully accomplishing telecommunications assurance for Boao Forum for Asia and "the Belt and Road" Summit, as well as combating flooding and disaster relief.

Chairman's Statement

Transformation and upgrades leading to the smart future

At present, steady improvement of the national economy and deepened promotion of reforms of state-owned enterprises creates favourable macro-environment for us. With the devoted implementation of national "Cyberpower" strategy and active promotion of "Internet+" action plan, the transformation of traditional industry towards digitalisation, intelligentisation and environmentalisation is accelerated. Hence, the information and telecommunications industry becomes the industry with the highest growth potential among the key and fundamental industries of the national economy, bringing numerous development opportunities for us. Technologies penetration promotes industry upgrades, Internet of everything enters into new era and IoT experiences booming growth. The vast potentials of new emerging businesses such as cloud computing and Big Data coupled with rapid growth in data traffic demand opens up vast market potentials for us. Meanwhile, increasingly fierce industry competition, intensified cross-industry competition and value chain competition has evolved to competition of the entire ecosystem. Establishment of robust competitive strengths of the ecosystem is the crucial key to success.

People who can observe and analyse the trends well are intelligent. People who can grasp and dominate the trends well are winners. In the second half of the year, directly facing market competition, we will further transform the network strengths and service edges into competitive strengths. We will adhere to adopt aggressive strategy, not only intensely focusing on integration and innovation as well as in-depth data traffic operation but also facilitating persistent enhancement of scale and

effectiveness, so as to ensure the achievement of excellent results for the whole year. With our unwavering promotion of Transformation 3.0, the Company will focus on the enhancement of capabilities, expansion of open cooperation and co-building of "Ecosystem-Tetris" with co-operative partners, resulting in continuous reinforcement of ecological strengths. We will stimulate vitality with in-depth reforms and strengthen market consciousness, breaking up the barrier of systems and mechanisms which impede productivity and cultivating good atmosphere for work and entrepreneurship. With pragmatic implementation and reinforced execution together with the strengthening of process management and control by adopting clear and effective systems, we strive to attain new achievement in corporate transformation and upgrades as well as create 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 contributions. Furthermore, I would like to extend my sincere gratitude towards Mr. Yang Xiaowei for his excellent contributions during his tenure of office as a Director of the Company.



Yang Jie

*Chairman and Chief Executive Officer
Beijing, China*

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