

CHAIRMAN'S STATEMENT



WANG XIAOCHU

Chairman and Chief Executive Officer

DEAR SHAREHOLDERS,

In 2015, facing the complex changes of the business environment and the stiff challenges including, among others, "Speed Upgrade and Tariff Reduction", "One-month Mobile Data Carry-over", the replacement of business tax with value-added tax³ ("VAT Reform") and intensifying competition, the Company took proactive steps to address the challenges by adjusting its strategic thinking, leading to clearer strategic direction and business focuses. The Company has nurtured progressive positive changes in its operations, laying a solid foundation for its long-term transformation and sustainable growth.

OVERALL RESULTS

In 2015, both the revenue and profit of the Company were under considerable pressure. The service revenue for the year amounted to RMB235.28 billion, down by 3.9% compared with the previous year, while revenues from non-voice service accounted for 69.1% of the service revenue, representing a year-on-year increase of 7.2 percentage points.

The Company's EBITDA declined by 5.7% year-on-year to RMB87.50 billion. EBITDA as a percentage of service revenue was 37.2%, down by 0.7 percentage points year-on-year. Including the gain on disposal of certain telecommunications towers and related assets, net profit was RMB10.56 billion, down 12.4% year-on-year. Committed to delivering leading network experience for customers, the Company made investments for future growth with capital expenditure reaching RMB133.88 billion in 2015.

During the year, the Group disposed of certain telecommunications towers and related assets to China Tower Corporation Limited (the "Tower Company") and realised a gain on disposal before taxes of RMB9.25 billion. The disposal of the towers assets will facilitate the sharing of telecommunications towers among operators, thus promoting a quick and efficient 4G network roll-out while saving capital expenditures of the Company. Meanwhile, the Company, as one of the major shareholders of the Tower Company, expects to benefit from the future earnings and value enhancement of the Tower Company. The Company and the Tower Company are in the process of negotiation on the fee of using telecommunications towers. The tower usage fee is expected to bring short-term pressure on the profit of the Company.

Based on the Company's overall financial position in 2015 and taking into account the shareholder returns, profitability, debt obligations and cash flows of the Company, and the capital required for future development, the Board of Directors recommended a final dividend payout of RMB0.17 per share for the fiscal year ended 31 December 2015.



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BUSINESS DEVELOPMENT

Promptly adjusting operating priority to focus resources on 4G to fuel mobile business momentum

The overall development of the Company's mobile service was under pressure in 2015. Mobile service revenue was RMB142.62 billion, representing a year-on-year decrease of 8.0%. The number of its mobile billing subscribers declined by 14.26 million to 252.32 million. During the year, our competitor made a strong push in promoting 4G service, the Company's competitive advantages on 3G had been fading out fast. Leveraging the opportunity of sharing of towers, the Company accelerated mobile network deployment, fully opened its 4G network to all the subscribers, promoted 4G terminals penetration and optimised its product portfolio to expedite the subscriber migration to 4G network. Promptly refining strategy in the fourth quarter, the Company fully focused on 4G, launched "WO 4G+", and comprehensively enhanced customer experience by improving its network, products, terminals, channels and operations capabilities, undergoing a 4G-led service transformation and development. As at the end of 2015, the total 4G subscribers of the Company reached 44.16 million, accounting for 17.5% of mobile billing subscribers, accelerating the optimisation of the mobile subscriber structure and fueling the mobile business momentum.

Expanding broadband and informatisation services to sustain steady growth of fixed-line services

The Company actively leveraged its advantages in fiber network and informatisation to accelerate the development of its growth services such as Internet access, video and integrated information services. The Company continued to strengthen its integrated services and packages including fixed-line, mobile and informatisation, and launched "Smart WO Family" products to promote the synergetic developments across various services. In 2015, the Company's fixed-line broadband service revenue grew by 7.5% year-on-year to RMB53.96 billion, and its fixed-line broadband subscribers increased by 5.1% year-on-year to 72.33 million, with Fiber-to-the-home (FTTH) subscribers accounting for more than 50% of fixed-line broadband subscribers. "Smart WO Family" subscribers reached 9.59 million. In the future, while promoting the expansion of FTTH subscriber scale, the Company will strengthen the investment efficiency management in broadband terminals, reducing the impact on the profit for the period. Driven by its fixed-line broadband service growth, the fixed-line service revenue for 2015 increased by 3.1% year-on-year to RMB91.26 billion, of which 83.6% was from fixed-line non-voice revenue, up by 4.7 percentage points year-on-year, resulting in a further optimised fixed-line business structure.

Exploring new development areas and accelerating deployment in innovative services

Facing ample room for development in industrial Internet, the Company focused on key areas in its innovative services such as the Internet of Things, Internet Data Centre (IDC), cloud computing, Big Data, Information and Communications Technology (ICT) and smart city and so on, fully optimised the overall business deployment, centralised the planning of platform construction, and streamlined its operations system to create new driver for sustainable growth. It focused on differentiated markets such as healthcare, education, manufacturing, environmental protection, transportation and logistics to promote a breakthrough in scale in key industry applications. In 2015, the Company's IDC and cloud computing revenue reached RMB7.07 billion, up 37.5% year-on-year. ICT revenue reached RMB4.33 billion, up 24.9% year-on-year.

The Company continued to deepen data traffic operation and focused on enhancing subscribers' data consumption experience via various measures, including consistent upgrade of network speed, optimisation of products and services and roll-out of "One-month Mobile Data Carry-over" initiative, to promote and accelerate the transformation and upgrade of subscriber and consumption pattern. The Company actively explored open cooperation with Internet companies in dedicated and backward data traffic monetisation, enhanced WO+ open platforms capability integrating content applications and innovating products to promote the fast growth of data traffic scale. In 2015, the mobile data usage of handset subscribers of the Company increased 60.1% year-on-year. Mobile data traffic revenue accounted for 42.9% of mobile service revenue. In December 2015, the monthly average mobile data usage per 4G subscriber reached 1.2GB.



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NETWORK DEPLOYMENT

In 2015, the Company accelerated the deployment of high-speed broadband network with a focus on 4G and fiber broadband. During the year, the Company added 306,000 4G base stations, making a total number of 399,000 4G base stations. The 4G network basically achieved continuous coverage in urban area, county cities and developed towns and villages. The Company expedited the upgrade towards "4G+", and started carrier aggregation pilot schemes, increasing its network peak downlink speed to 300Mbps. The Company accelerated the construction and upgrade of its fiber broadband network and completed the construction of six fully fiber-connected provinces and over 100 fully fiber-connected cities. The number of broadband access ports increased by 22.2% year-on-year to 165 million, of which 93% are FTTX. The Company continued to improve its basic network capabilities including the transmission and carrying networks, leading to enhanced overall network capabilities. The Company launched an in-depth cooperation with China Telecom to accelerate the improvement on network service qualities and operating efficiency of assets.

STRATEGIC TRANSFORMATION

In 2015, the Company, leveraging its own resources and advantages, formulated the strategy of "implementing Focus Strategies, fostering innovation and cooperation". The Company aimed to drive the future development and strategic transformation by focusing on the key areas, capitalising on innovation and deepening cooperation. Efforts were made to push forward appropriate delegation and empowerment in fundamental business areas to boost flexibility in marketing. Themed around efficiency enhancement and lifting vibrancy, the Company accelerated the innovation and transformation of corporate management, and established decision committees on procurement, product and branding, and remuneration distribution to promote democratic and highly effective decision-making process. To promote organisational and institutional reform which better adapt to the development of mobile Internet, the Company further adjusted and optimised its subsidiary companies by deregistering a company which focused on the network business and establishing an e-commerce department and a subsidiary focusing on international business. Aiming at sustainably lifting the organisation internal vibrancy, the Company pushed forward the reform to vitalise the accountability of frontline service units while optimising and perfecting staff promotion and incentive mechanism.

SOCIAL RESPONSIBILITY

The Company has long been integrating social responsibility into its own development, striving to create shared value for all interested parties. Supporting the country's efforts in advancing informatisation and transformation and upgrade of traditional industries, the Company actively supported the build-out of smart cities and developed information technologies that improve the livelihood of the general public and implemented the "Speed Upgrade and Tariff Reduction" initiative. To provide customers with assured, convenient and efficient services, the Company innovated its service offerings, strengthened the management of real-name registration and created a network environment that is environmentally-friendly and secure. The Company also developed itself as a resource-conserving and environment-friendly enterprise by promoting energy-saving and emission-reduction initiatives, joint construction and co-sharing of telecommunications infrastructure and in-depth value chain cooperation. In addition, the Company not only promoted a culture of fairness and harmony and focused on employees' career development and personal well-being, but also carried out activities to alleviate poverty and support education with donation on a continued basis, so as to return to society and encourage the sustainable development of the Company.

OUTLOOK

Currently, the Company is facing difficulties and challenges as well as numerous opportunities and growth potential. While the global economy has been undergoing in-depth adjustment, the Chinese economy has entered a "new normal" of adjusting pace, optimising structure and switching momentum. While the ever-changing information technologies continue to drive production transformation in society, innovation has become the first and leading powerhouse for development. Globally, the core value of the telecommunications industry continues to shift from telecommunication services to information services. Factors such as the saturation of the traditional market, the competition shifting to capturing existing customers, adjustment of regulatory policies in the industry and the evolvement of competition landscape are all influencing the Company's development in new ways. Benefitting from the aggressive implementation by the State of its Internet-superpower strategy, the Big Data strategy as well as the "Internet+" action plan, the data traffic and information consumption are developing comprehensively, while Internet of Things, cloud computing, Big Data and internet finance have all entered a period of rapid growth, unlocking ample business opportunities for the Company.

The new year marks the beginning of the all-round implementation of the "Focus Strategies" and the fostering of innovation and cooperation. Looking forward, we are fully confident. With "focus, innovation, cooperation" as the core, the Company will strengthen the driving effect of corporate strategy to accelerate the resolution of development hurdles, thereby contributing to a gradual turnaround of its operating results. On the one hand, the Company will focus on key businesses and key regions to improve the value of fundamental business. On the other hand, the focus will lie on 4G and acceleration of network roll-out, re-shaping our brand image, upgrade of our product offering, stepping up terminal-led effect, enhancing channel capability, deepening effort in customer retention and data traffic operation, in order to achieve breakthrough in key differentiated markets and an overall stabilisation and rebound of the mobile service. Driven by applications, the Company will strive to enhance the value of broadband service. Committed to leveraging high quality services, such as, TV and video to push fiber broadband adoption, and innovate family Internet services, the Company aims to maintain steady growth in fixed-line service. Another area of focus will be the platform-based service and industrial Internet. By effectively expanding capacity and enhancing capability, the Company will vigorously expand the services of Internet of Things, cloud computing/IDC, Big Data, data traffic operation, industry applications, payment/finance and international business, in an effort to cultivate new growth engines for innovative service. In addition, the Company will focus on the reform in both systems and structure and develop market-oriented management system, with an aim to lift the corporate vibrancy and improve operational efficiency. The Company actively leverages on complementary edges and in-depth cooperation among operators in the industry in the areas, such as resources and innovative service, seeking to reduce network investment and operating cost whilst enhancing the quality of customer service and the operating efficiency of assets, charting a sustainable way to create greater value for shareholders.

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Lastly, on behalf of the Board of directors of the Company, I would like to express my sincere gratitude to all shareholders, customers and friends across society for their support of the Company, and to every employee for their dedication and contribution along the way!

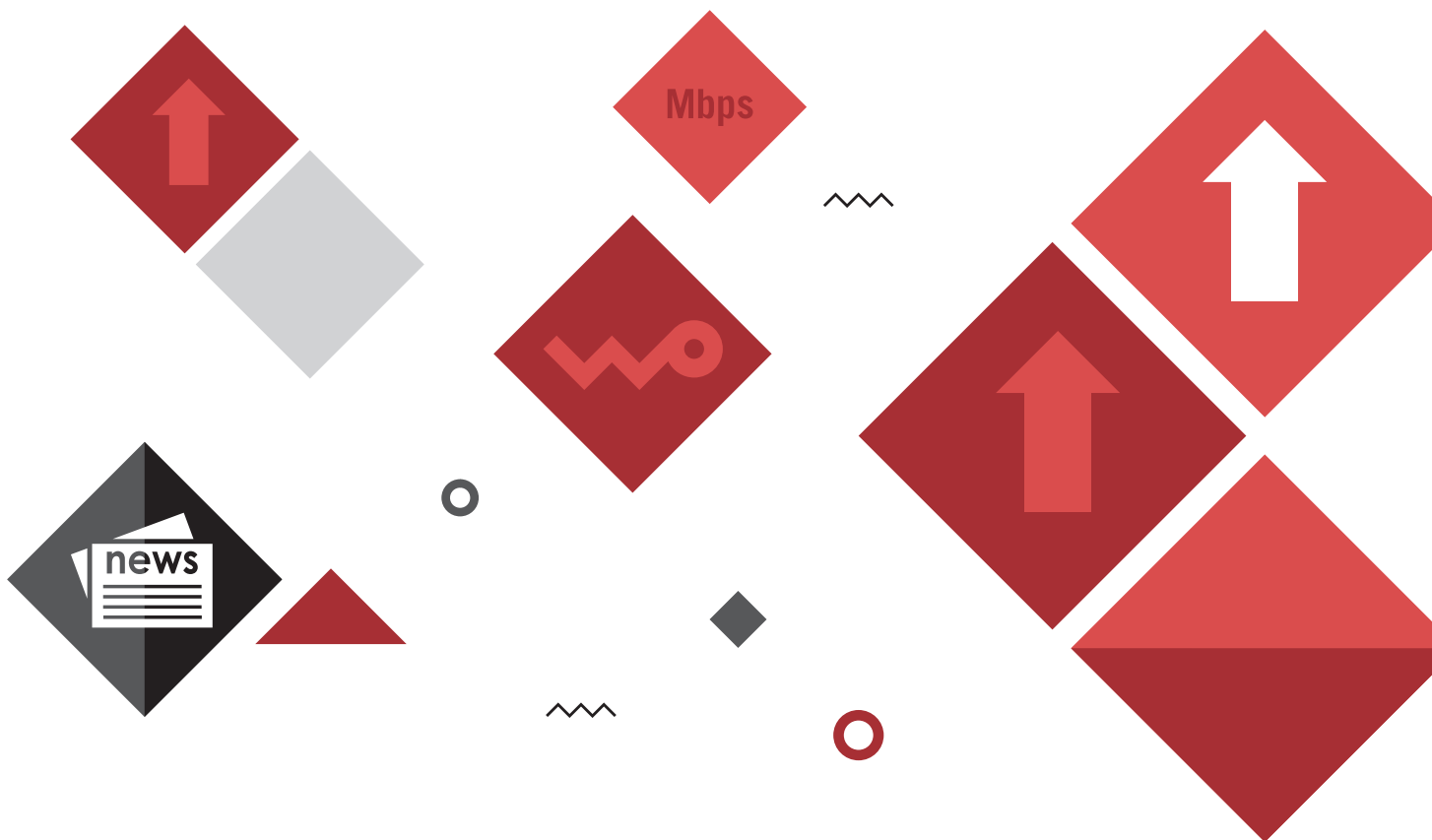


Wang Xiaochu
Chairman and Chief Executive Officer
16 March 2016

Note 1: According to "Guiding Opinions on Accelerating the construction of high-speed broadband network to promote the network speed and lowering the data tariffs" issued by General Office of the State Council of the PRC in 2015, telecommunication industry should accelerate the construction of high-speed broadband network and further promote the network speed and lower the data tariffs in order to improve the service.

Note 2: The Company launched the promotion plan which allowed the unused monthly data under the monthly package to be carried over for use till the end of the following month effective from 1 October 2015.

Note 3: The replacement of business tax with value-added tax implemented nationwide for the telecommunications industry from 1 June 2014 (hereinafter referred to as "VAT Reform").





to 12 Mbps



IDC / Cloud computing revenue



▲ 38%

▲ 18 million



▲ 25%



Big Data

Internet+

IDC

