

FINANCIAL HIGHLIGHTS

	2013	2014	2015
Operating revenues (RMB millions)	321,584	324,394	331,202
EBITDA ¹ (RMB millions)	96,551	94,853	94,106
EBITDA margin ²	34.6%	33.0%	32.1%
Net profit ³ (RMB millions)	17,545	17,680	20,054
Capital expenditure (RMB millions)	79,992	76,889	109,094
Total debt/Equity ⁴	39.7%	36.8%	38.4%
Earnings per share (RMB)	0.2168	0.2185	0.2478
Dividend per share (HK\$)	0.095	0.095	0.095

¹ EBITDA was calculated based on operating revenues minus operating expenses plus depreciation and amortisation.

² EBITDA margin was calculated based on EBITDA divided by service revenues.

³ Net profit represented profit attributable to equity holders of the Company.

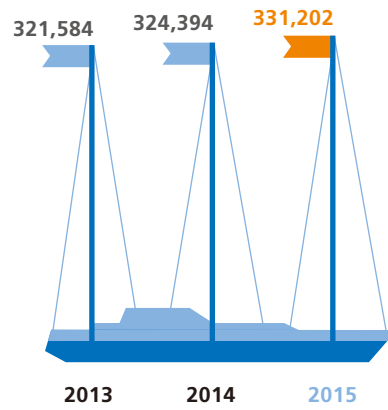
⁴ Equity represented equity attributable to equity holders of the Company.

**For further information,
please browse our website at
www.chinatelecom-h.com**



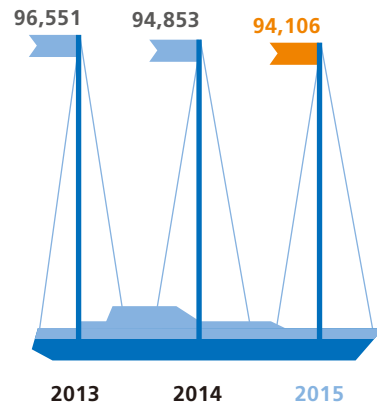
Operating Revenues

(RMB millions)



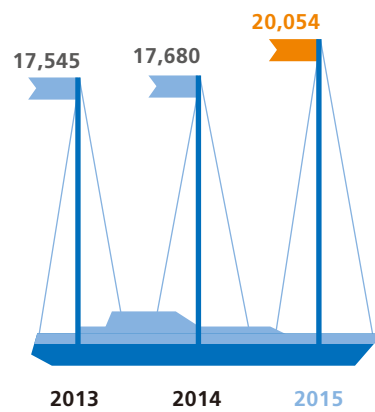
EBITDA¹

(RMB millions)



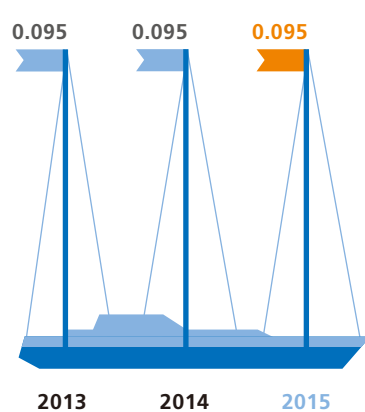
Net Profit³

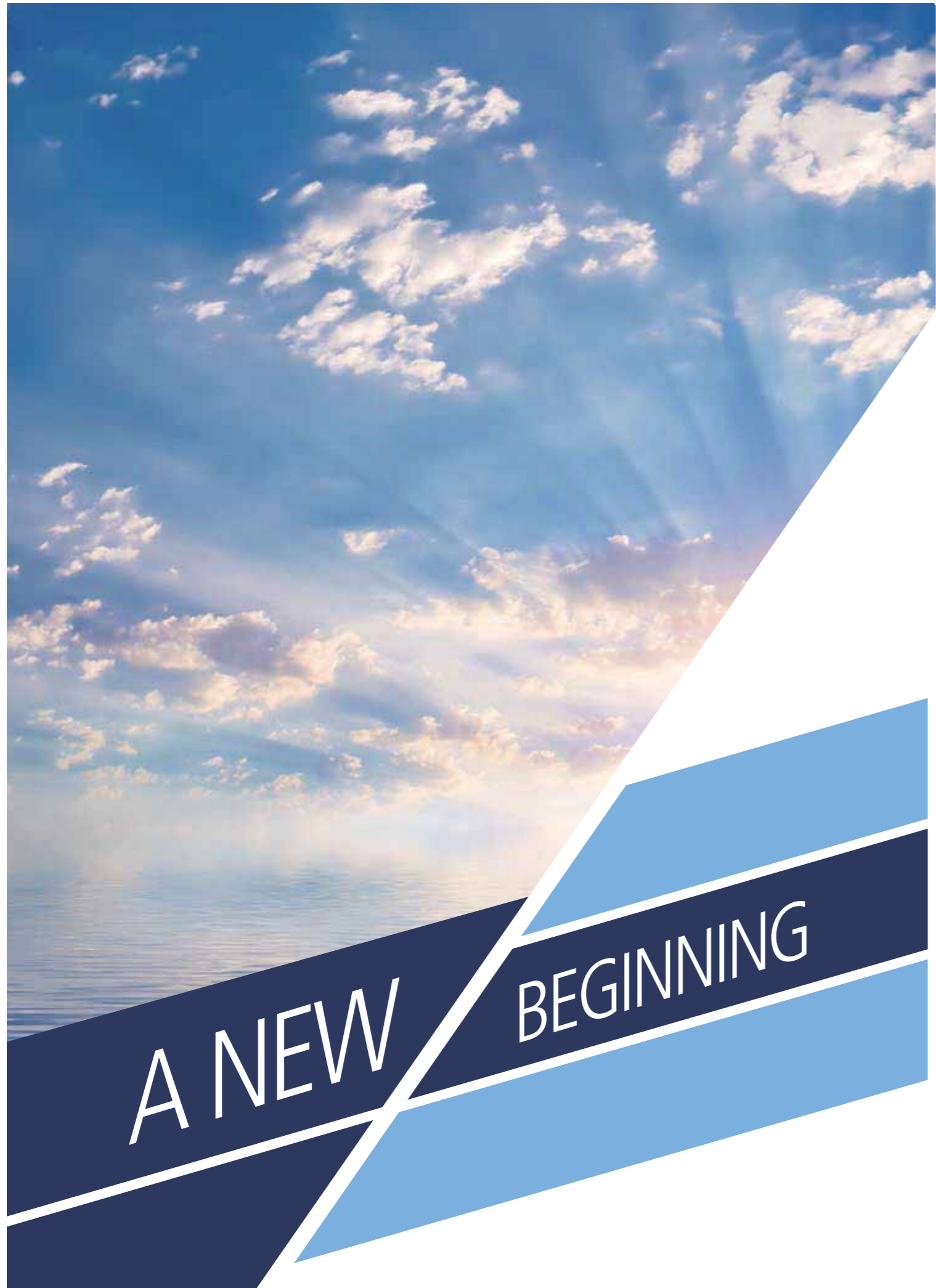
(RMB millions)



Dividend Per Share

(HK\$)







Yang Jie
Executive Director,
President and
Chief Operating Officer

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.



Yang Jie
*Executive Director, President and
Chief Operating Officer*
Beijing, China

23 March 2016

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT



Mr. Yang Jie

Age 53, is an Executive Director, President and Chief Operating Officer of the Company. Since 30 December 2015, Mr. Yang has exercised the powers of the Chairman and Chief Executive Officer of the Company. Mr. Yang is a professor-level senior engineer. He graduated from the Beijing University of Posts and Telecommunications with a major in radio engineering in 1984 and obtained a doctorate degree in business administration (DBA) from the ESC Rennes School of Business in 2008. Mr. Yang served as Deputy Director General of Shanxi Posts and Telecommunications Administration, General Manager of Shanxi Telecommunications Corporation, Vice President of China Telecom Beijing Research Institute and General Manager of Business Department of the Northern Telecom of China Telecommunications Corporation. He is also the President of China Telecommunications Corporation. Mr. Yang has extensive experience in management and the telecommunications industry.



Mr. Zhang Jiping

Age 60, is an Executive Director and Executive Vice President of the Company. Mr. Zhang is a professor-level senior engineer. He graduated from the Beijing University of Posts and Telecommunications with a bachelor degree in radio telecommunications engineering in 1982, studied in a postgraduate programme in applied computer engineering at Northeastern Industrial University from 1986 to 1988, and received a doctorate degree in business administration from the Hong Kong Polytechnic University in 2004. Mr. Zhang served as Deputy Director General of Directorate General of Telecommunications ("DGT") of the MPT, a Deputy Director General and Director of the Telecommunication Technology Centre of the Posts and Telecommunications Administration of Liaoning Province. He is also a Vice President of China Telecommunications Corporation and the Chairman of Supervisory Committee of China Tower Corporation Limited. Mr. Zhang has extensive experience in management and the telecommunications industry.

Mr. Yang Xiaowei

Age 52, is an Executive Director and Executive Vice President of the Company. Mr. Yang is a senior engineer. He received a bachelor degree from the Computer Application Department of Chongqing University in 1998 and a master degree in engineering from the Management Engineering Department of Chongqing University in 2001. Mr. Yang was the Assistant to Director General and Deputy Director General of Chongqing Telecommunications Bureau, a Deputy Director General of the Chongqing Telecommunications Administration Bureau and a Director General of Chongqing Municipal Communication Administration Bureau. Mr. Yang served as General Manager of the Chongqing branch and the Guangdong branch of the Unicom Group, Vice President of the Unicom Group, Director of the Unicom Group, and Executive Director and Vice President of China Unicom Limited. Mr. Yang also served as Director and Vice President of China Unicom Corporation Limited and Chairman of Unicom Huasheng Telecommunications Technology Co. Ltd.. He is also a Vice President of China Telecommunications Corporation. Mr. Yang has extensive experience in management and the telecommunications industry.

**Mr. Sun Kangmin**

Age 58, is an Executive Director and Executive Vice President of the Company. Mr. Sun is a senior engineer. He holds a bachelor degree. Mr. Sun served as Head of the Information Industry Department of Sichuan Province, Director General of Communication Administration Bureau of Sichuan Province, Chairman and General Manager of Sichuan Telecom Company Limited. He is also a Vice President of China Telecommunications Corporation, Chairman of the board of directors and an Executive Director of China Communications Services Corporation Limited and a Director of China Tower Corporation Limited. Mr. Sun has extensive experience in management and the telecommunications industry.



DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT



Mr. Ke Ruiwen

Age 52, is an Executive Director and Executive Vice President of the Company. Mr. Ke obtained a doctorate degree in business administration (DBA) from the ESC Rennes School of Business. Mr. Ke served as Deputy Director General of Jiangxi Posts and Telecommunications Administration, Deputy General Manager of Jiangxi Telecom, Managing Director of the Marketing Department of the Company and China Telecommunications Corporation, General Manager of Jiangxi Telecom and Managing Director of the Human Resources Department of the Company and China Telecommunications Corporation. He is also a Vice President of China Telecommunications Corporation. Mr. Ke has extensive experience in management and the telecommunications industry.



Mr. Zhu Wei

Age 47, is a Non-Executive Director of the Company. Mr. Zhu received his post-graduate diploma in political economy from Jinan University. Mr. Zhu is currently the Chairman of Guangdong Rising Assets Management Co., Ltd (one of the domestic shareholders of the Company). Mr. Zhu previously served as the Deputy Manager of the Issuing Department, director of the General Office, and Deputy Manager of the Research and Development Department of Guangzhou Securities Company of the People's Bank of China, Guangzhou Branch, Deputy General Manager of Guangzhou Securities Financial Consultancy Company, General Manager of Shenzhen Yuntong Xinda Communications Limited, assistant to the General Manager of Guangdong Technology Ventures Investment Company, General Manager of the Asset Management Department and Director of Guangdong Technology Venture Capital Group Company Limited, General Manager of Guangdong Kerui Investment Management Company, the Chairman of Guangdong Hongtu Technology (Holdings) Company Limited, Deputy Chairman and General Manager of Guangdong Southern Media Holdings Limited, and Deputy Director of Banking Supervision Department IV of the China Banking Regulatory Commission. Mr. Zhu has extensive experience in finance, securities and corporate management.

Mr. Tse Hau Yin, Aloysius

Age 68, is an Independent Non-Executive Director of the Company. Mr. Tse is currently an Independent Non-Executive Director of CNOOC Limited, Daohe Global Group Limited (formerly known as Linmark Group Limited), Sinofert Holdings Limited, SJM Holdings Limited and China Huarong Asset Management Co., Ltd., all of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited ("HKSE Main Board"). Mr. Tse is also an Independent Non-Executive Director of OCBC Wing Hang Bank Limited (formerly known as "Wing Hang Bank Limited", which was listed on the HKSE Main Board until October 2014). He was an Independent Non-Executive Director of China Construction Bank Corporation, which is listed on the HKSE Main Board, from 2004 to 2010. Mr. Tse was appointed as an Independent Non-Executive Director of CCB International (Holdings) Limited, a wholly owned subsidiary of China Construction Bank Corporation in March 2013. He is also a member of the International Advisory Council of the People's Municipal Government of Wuhan. Mr. Tse is a fellow of the Institute of Chartered Accountants in England and Wales, and the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Mr. Tse is a past President and a former member of the Audit Committee of the HKICPA. He joined KPMG in 1976, became a partner in 1984 and retired in March 2003. Mr. Tse was a Non-Executive Chairman of KPMG's operations in China and a member of the KPMG China advisory board from 1997 to 2000. Mr. Tse is a graduate of the University of Hong Kong.



Madam Cha May Lung, Laura

Age 66, is an Independent Non-Executive Director of the Company. Mrs. Cha is currently a Hong Kong Delegate to the 12th National People's Congress, PRC, a Member of the Executive Council of the Government of the Hong Kong Special Administrative Region and Chairman of the Financial Services Development Council of Hong Kong. She is the Non-Executive Deputy Chairman of The Hongkong and Shanghai Banking Corporation, the Asia Pacific subsidiary of HSBC Holdings plc, of which she is also an Independent Non-Executive Director. She is a Non-Executive Director of Unilever, PLC and Unilever, N.V, Vice Chairman of the International Advisory Council of the China Securities Regulatory Commission ("CSRC"), and a Member of the International Advisory Council of the China Banking Regulatory Commission. Mrs. Cha served as Vice Chairman of CSRC from January 2001 to September 2004 and Assistant Director, Senior Director, Executive Director of Corporate Finance and Deputy Chairman of the Securities and Futures Commission of Hong Kong from 1991 to 2001. She received a Juris Doctor degree from Santa Clara University of USA in 1982.



DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT



Professor Xu Erming

Age 66, is an Independent Non-Executive Director of the Company. Professor Xu is a professor and Ph.D. supervisor of the Graduate School at the Renmin University of China and Vice Chairman of the Chinese Enterprise Management Research Association. He is entitled to the State Council's special government allowances. He is the Independent Supervisor of Harbin Electric Company Limited (formerly known as Harbin Power Equipment Company Limited). Over the years, Professor Xu has conducted research in areas related to strategic management, organisational theories, international management and education management, and has been responsible for research on many subjects put forward by the National Natural Science Foundation, the National Social Science Foundation, and other authorities at provincial and ministry level. He has received many awards such as the Ministry of Education's Class One Excellent Higher Education Textbook Award, the State-Level Class Two Teaching Award and the National Excellent Course Award. Professor Xu has been a visiting professor at over 10 domestic universities and has been awarded the Fulbright Scholar of U.S.A. twice. Professor Xu was previously a lecturer at the New York State University at Buffalo, U.S.A., the University of Scranton, U.S.A., the University of Technology, Sydney, the Kyushu University, Japan and the Hong Kong Polytechnic University.



Madam Wang Hsuehming

Age 66, is an Independent Non-Executive Director of the Company. Madam Wang graduated from the University of Massachusetts and attended Columbia University. She is currently a Senior Advisor and former Chairman of BlackRock China. She was also formerly the Chairman of China at Goldman Sachs Asset Management, having joined Goldman Sachs in 1994, became a partner in 2000 and an Advisory Director from 2010 to 2011. Ms. Wang served as a Director of The Paulson Institute. With nearly 30 years of experience in financial services, she participated in pioneering efforts in China's economic reform and restructuring, including serving as an advisor to the CAAC and its subsequent regional airlines on privatisation and capital equipment financing.



Mr. Gao Tongqing

Age 52, is an Executive Vice President of the Company. Mr. Gao graduated from the Changchun Institute of Posts and Telecommunications with a major in telecommunications engineering and received a doctorate degree in business administration from the Hong Kong Polytechnic University. Mr. Gao served as Deputy Director General of Xinjiang Uygur Autonomous Region Posts and Telecommunications Administration, Deputy General Manager and General Manager of Xinjiang Uygur Autonomous Region Telecom Company and General Manager of China Telecom Jiangsu branch. He is also a Vice President of China Telecommunications Corporation. Mr. Gao has extensive experience in management and the telecommunications industry.



Mr. Chen Zhongyue

Age 44, is an Executive Vice President of the Company. Mr. Chen received a bachelor degree in English studies from Shanghai International Studies University and a master degree in international trade economy from Zhejiang University. Mr. Chen served as Deputy General Manager of China Telecom Zhejiang branch, Managing Director of the Public Customers Department of the Company and China Telecommunications Corporation and General Manager of China Telecom Shanxi branch. He is also a Vice President of China Telecommunications Corporation. Mr. Chen has extensive experience in management and the telecommunications industry.





DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

24

Mr. Sui Yixun

Age 52, is the Chairman of the Supervisory Committee of the Company. Mr. Sui is currently the Managing Director of audit department of the Company and a Supervisor of Tianyi Telecom Terminals Company Limited. Mr. Sui received a bachelor degree from Beijing Institute of Posts and Telecommunications and a master degree in business administration from Tsinghua University. Mr. Sui served as Deputy General Manager of China Telecom Shandong branch, Deputy General Manager of the Northern Telecom of China Telecommunications Corporation and General Manager of China Telecom Inner Mongolia Autonomous Region branch. Mr. Sui is a senior economist and has extensive experience in operational and financial management in the telecommunications industry.

Mr. Tang Qi

Age 57, is an Employee Representative Supervisor of the Company. Mr. Tang is currently the Senior President of the Shandong branch of the Company. Mr. Tang received a doctorate degree in business administration (DBA) from the Hong Kong Polytechnic University. Mr. Tang served as the Director of the marketing department of the Posts and Telecommunications Administration of Shandong province, Manager of the marketing department of China Telecommunications Corporation, General Manager of China Telecom Shandong branch, General Manager of China Telecom Chongqing branch and Vice Chairman of the Labour Union of China Telecommunications Corporation and the Company. Mr. Tang is a senior engineer and has extensive experience in operation and management in the telecommunications industry.

Mr. Zhang Jianbin

Age 50, is an Employee Representative Supervisor of the Company. Mr. Zhang is currently the Deputy Managing Director of the Corporate Strategy Department (Legal Department) and the Deputy General Counsel of China Telecommunications Corporation. Mr. Zhang graduated from the Law School of Peking University in 1989 and received a LL.M degree. He also had an EMBA degree from the Guanghua School of Management at Peking University in 2006. He previously worked at the Department of Policy and Regulation of the Ministry of Posts and Telecommunications ("MPT") and the Directorate General of Telecommunications ("DGT") of the MPT. He served as Deputy Director of the General Office and Deputy Director of the Legal Affairs Division of the DGT of the MPT, Director of the Corporate Strategy Department (Legal Department) of the Company. Mr. Zhang is a senior economist with extensive experience in telecommunications legislation and regulation, corporate governance, corporate legal affairs and risk management.



Mr. Hu Jing

Age 40, is a Supervisor of the Company. Mr. Hu is currently the Director in the audit department of the Company. Mr. Hu received a bachelor degree in accounting from the Xi'an University of Finance and Economics in 1997 and a master degree in business administration from the Northwest University in 2003. Mr. Hu served at various financial and auditing positions at Shaanxi Telecom Company and China Telecommunications Corporation. He is a member of the Chinese Institute of Certified Public Accountants and senior accountant with extensive experience in finance and auditing.

Mr. Ye Zhong

Age 56, is a Supervisor of the Company. Mr. Ye is a senior accountant. He holds a bachelor degree. Mr. Ye is the Deputy General Manager of Zhejiang Financial Development Company (one of the domestic shareholders of the Company), Chairman and General Manager of Zhejiang Provincial Innovation and Development Investment Co. Ltd., Chairman and General Manager of Zhejiang Provincial Information Economy Investment Co. Ltd., Chairman of Zhejiang Venture Capital Fund of Funds Management Co. Ltd., Chairman of Zhejiang Financial Market Investment Co. Ltd. and Chairman and General Manager of Zhejiang Agricultural Investment and Development Fund Co., Ltd.. Mr. Ye served as Deputy Director of the Social Security Division of the Department of Finance of Zhejiang Province, Deputy Director of the Discipline Inspection Division and Director of Supervisory Office of the Department of Finance of Zhejiang Province delegated by the Discipline Inspection Commission and Department of Supervision of Zhejiang Province. Mr. Ye has extensive experience in government's work and state-owned enterprise management.

NEW
OPPORTUNITIES



“INTERNET+”
& BIG DATA

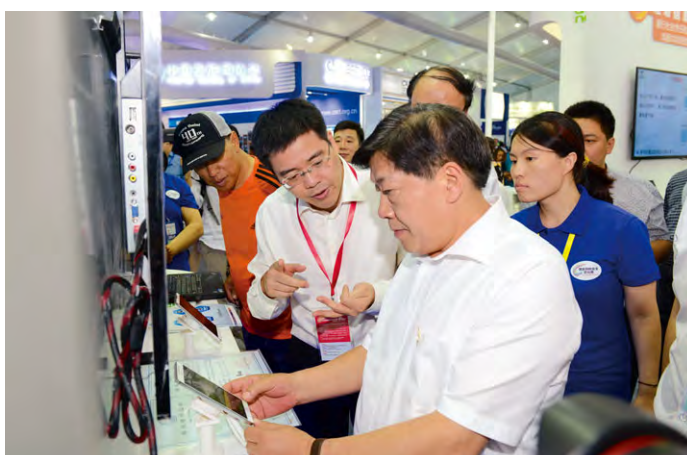


MANAGEMENT'S DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The following table sets out the key operating data for 2013, 2014 and 2015:

	Unit	2013	2014	2015	Rates of Change over 2014
Mobile subscribers	Million	185.58	185.62	197.90	6.6%
Of which: 3G/4G subscribers	Million	103.11	118.63	143.13	20.7%
Wireline broadband subscribers	Million	100.10	106.95	113.06	5.7%
Access lines in service	Million	155.80	143.56	134.32	(6.4%)
Mobile voice usage	Million minutes	603,616	655,939	667,535	1.8%
Mobile SMS usage	Million messages	64,235	64,583	56,817	(12.0%)
3G/4G Handset data traffic	kTB	175.1	266.6	554.7	108.1%
Wireline local voice usage	Million pulses	148,690	130,439	110,935	(15.0%)

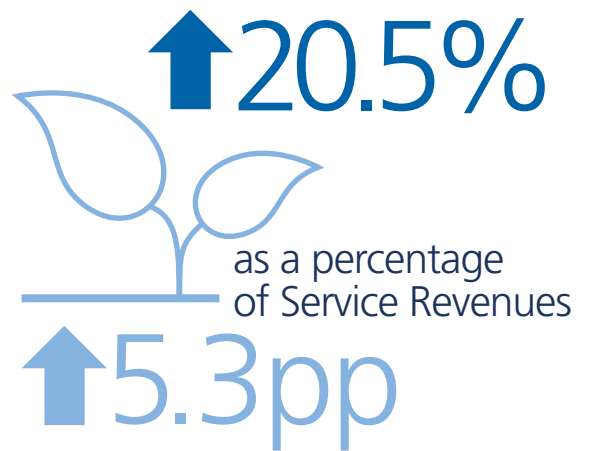


Cybersecurity Experience Exhibition



In 2015, the Company proactively implemented initiatives to respond to challenges brought by the changes in regulatory policies and business environment. While firmly promoting the transformation of fundamental business, the Company also vigorously developed its emerging business, maintaining the overall

Emerging Business Revenue



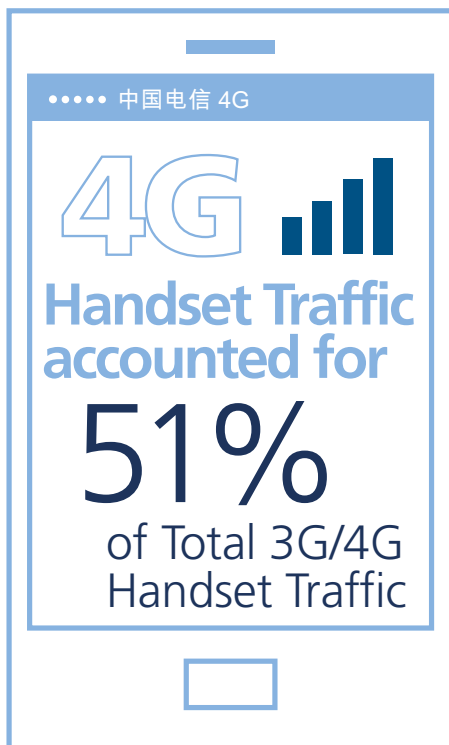
business with stable growth momentum and rapid growth in subscriber base. The Company achieved industry-leading growth in terms of service revenues and continuously optimised its revenue structure. Corporate competitiveness has been significantly strengthened.

Key operating performance

(1) Solid growth in operating revenues and continuous optimisation of business structure

In 2015, the Company's operating revenues increased by 2.1% to RMB331,202 million. Service revenues increased by 2.0% to RMB293,266 million. The Company's service revenue structure was further optimised, with mobile service revenues accounting for 42.5% and revenues of emerging business accounting for 34.4%, up 5.3 percentage points.

On site research and guidance by the management



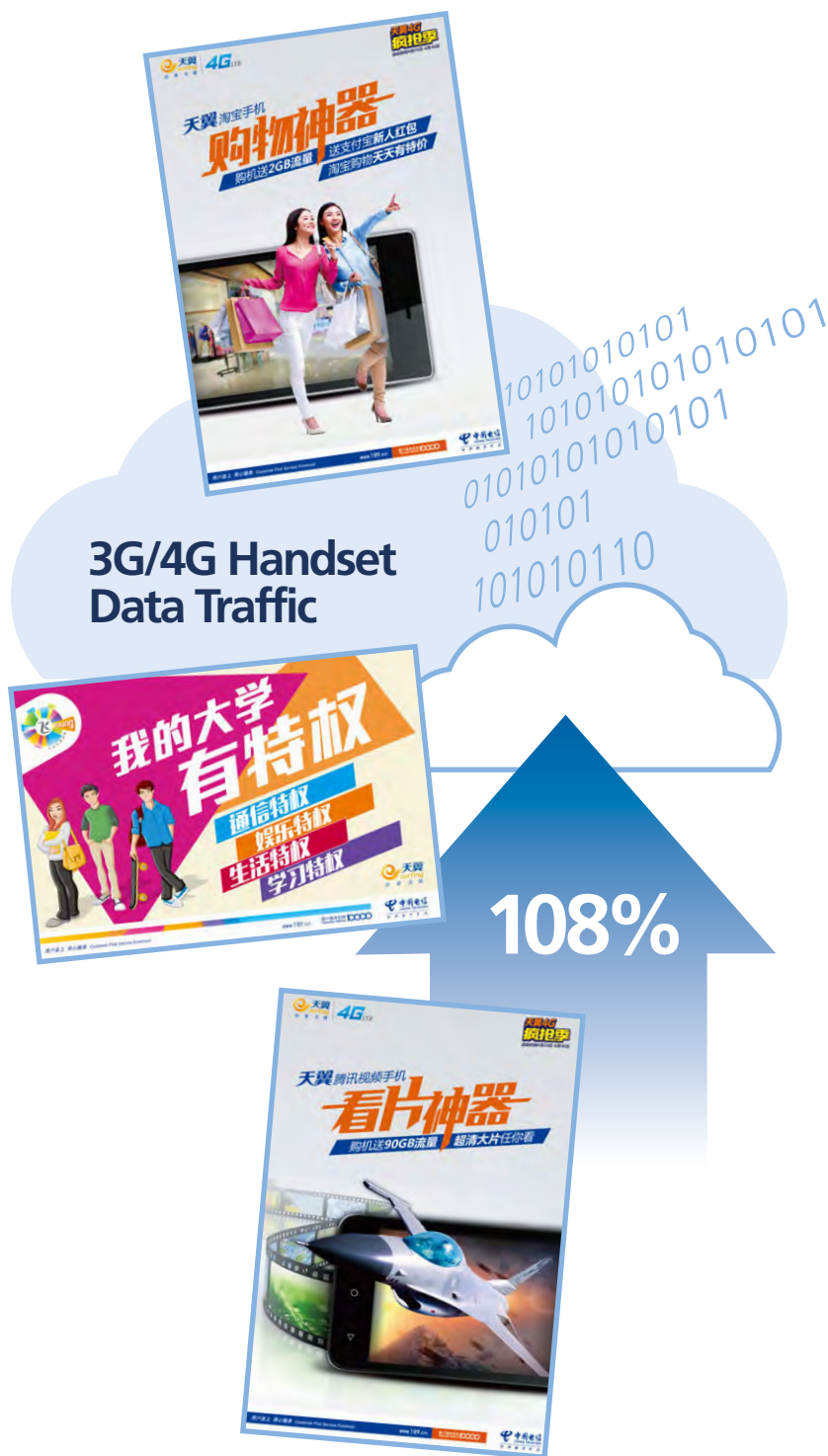
MANAGEMENT'S DISCUSSION AND ANALYSIS

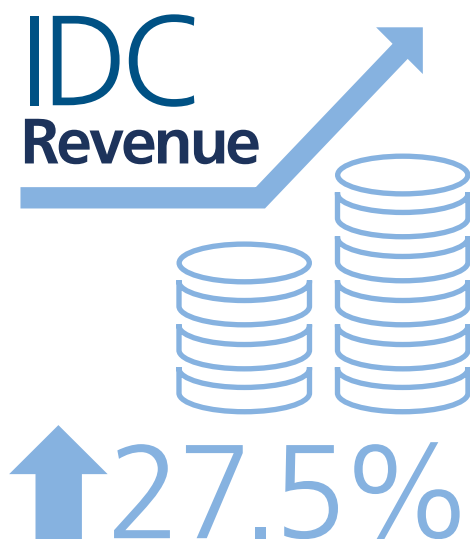
BUSINESS REVIEW

(2) Rapid growth in mobile services with remarkable contribution from data traffic operations

In 2015, following the FDD 4G licensing, the Company focused on developing its 4G services, accelerated network construction and deployed 4G+ in key areas. Persisted in the terminal-led approach, the Company strongly promoted 4G+ and signature terminals. Strengthened in content application-driven approach, the Company created differentiated core applications. Mobile subscribers rapidly expanded with a steady growth in revenues. The scale of mobile subscribers reached 197.90 million, with a net addition of 12.28 million. Mobile service revenues increased by 3.5% over last year amounting to RMB124,503 million.

The Company has acted proactively to reduce the impact from "Speed Upgrade & Tariff Reduction". It leveraged Big Data to perform multi-dimensional analysis on consumer behavior characteristics to optimise its product design and promote efficiently-centralised data traffic packages based on 4G service plans. Data backward monetisation also achieved remarkable results with revenues grew over 5 times. In 2015, 3G/4G handset data traffic reached 555 kTB, an increase of 108.1% year-on-year, while 3G/4G monthly average mobile data traffic per subscriber reached 386MB. Handset data traffic revenue accounted for 38.4% of mobile service revenues, an increase of 10.0 percentage points over last year.





(3) Wireline services development remained solid, with market-leading position maintained in broadband

In 2015, the Company proactively promoted the transformation of fundamental business. Deepening the integration between wireline and mobile services, the Company created competitive edge in new integrated development. With strengthened operations of existing customers, the Company stabilised the foundation of revenues from wireline services. Wireline revenues reached RMB168,763 million, representing an increase of 1.0%.

On broadband services development front, the Company accelerated fibre upgrade for its broadband networks and promoted the end-to-end bandwidth upgrade. With focus on promoting high-speed broadband products, the Company has lifted competition barrier to enhance its competitiveness and leading position

in the broadband market. In 2015, revenues of wireline broadband increased by 1.1% to RMB74,285 million. Wireline broadband subscribers reached 113.06 million, a net addition of 6.11 million.

For the development of wireline value-added services (VAS) and integrated information services, the Company continued its promotion in three rapidly growing businesses including IPTV (e-Surfing HD), IT Services & Applications and IDC, driving steady development of its overall business. In 2015, revenues of wireline VAS and integrated information services increased by 10.5% year-on-year to RMB42,035 million. With the foundation of continued enrichment of its video services, the Company actively developed Smart Family applications such as home surveillance. It also expanded the scale of informatisation products for sectors, especially in administration, education, healthcare and etc., and advanced in the transformation from ICT to IIT (Information Internet-ware Technology). The Company focused on efficiently-centralised development of cloud computing products such as cloud hosting and private cloud with strengthening research & development and sales & marketing while accelerated the construction of the unified operating system for IDC.

In 2015, the Company continued to promote integrated development among retail customers. While for government and enterprise market, the Company provided customised solutions to realise value transfer of the wireline voice services, effectively

MANAGEMENT'S DISCUSSION AND ANALYSIS

BUSINESS REVIEW

mitigated its operational risk while further declining revenue share of wireline voice services. Revenues from wireline voice services was RMB29,610 million, accounting for 10.1% of the service revenues, representing a reduction of 1.6 percentage points over last year.

Business operating strategies

In 2015, the Company persisted in focusing on differentiation as its work principle and further transformed its development model. With the creation of new competitive edges, the Company accelerated the scale development of subscriber base and enhanced operating capabilities. Six operational measures were deeply implemented:

First, with innovative development models, 4G subscriber scale achieved rapid breakthrough

In 2015, the Company launched 4G handset services across the entire network, continued development effort in both existing customer upgrade as well as new customer acquisition to increase its 4G subscriber penetration rate. In the existing customer market, the Company focused on promoting upgrade of its current 3G subscribers to 4G. In the new customer market, the Company focused on differentiated applications, attracting new customers through "4G + Application". The Company also reinforced its effort in new customer acquisition in open market to grab its market share. As at the end of 2015, 4G subscribers reached 58.46 million, accounting for 29.5% of mobile subscribers. 4G DOU reached 751 MB, almost twice of 3G/4G subscribers, driving rapid growth in both the scale and revenue of data traffic.



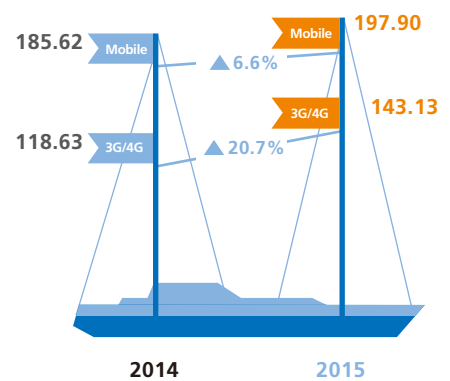
Second, accelerated development of fibre broadband subscribers to reinforce market leadership in wireline broadband services

In 2015, led by the 100Mbps broadband service development, the Company focused promotion on 50/100Mbps broadband products. The Company accelerated integration of marketing and maintenance in broadband services by optimising installation process, achieving instant installation upon the completion of sales. Through enriching the content of video-type applications, the Company expanded its smart family products including Smart Gateway and Smart Family. By promoting the sales of newly integrated "Fibre Broadband + e-Surfing HD + 4G" product, the Company successfully drove the mutual sales and development among different products. In 2015, fibre-to-the-home (FTTH) subscribers reached 70.99 million, accounting for 62.8% of broadband subscribers. Subscribers of 20Mbps and above accounted for 44.6%, an increase of 27.4 percentage points over last year.



Mobile Subscribers

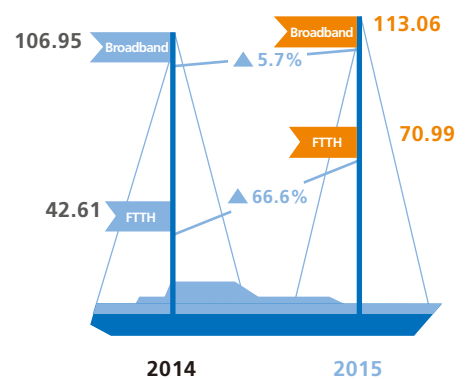
(Millions)



Third, persisted in the invigoration of industry value chain to enrich 4G handsets

The company implemented “the Excellent 100” programme, to encourage handset manufacturers to produce popular 4G handsets that are compatible with China Telecom’s network, in turn enriched 4G handset portfolio. In 2015, there were 201 new models of 4G terminals. Sales of 4G terminals was close to 62 million, accounting for 70% of total terminal sales. The Company made every effort to promote “Six-Mode Handsets” to become the national standard and strengthened the penetration of its mobile phone cards in the open market to grab a share of the handset replacement market of existing customers. Via deepening cooperation with mainstream handset manufacturers including Huawei, OPPO, Vivo, Xiaomi and MEIZU, the Company implemented resources exchange and increased handset sales volume. Targeting at different segmented market, the

Wireline Broadband Subscribers (Millions)



MANAGEMENT'S DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Company promoted signature handsets such as security handsets, video handsets and Taobao handsets to cater the differentiated demand of customers. Unifying launch of star handsets such as iPhone, sales volume of high-end terminals recorded a remarkable increase.

Fourth, reinforced efforts to develop ICT and drove subscriber scale development

In 2015, seizing the opportunity brought about by "Internet+", the Company took the lead in the industry to release the "'Internet+' action white paper", integrating its advantages of cloud, network and safety to refine products, operations, and support system. Upgraded specialised applications in specific sectors including education, transportation and agriculture, the Company created products such as "e-Surfing School" for tens of millions users and "Nongjibao" for millions users. Targeting at industries including administration, manufacturing, finance and healthcare, the Company explored development potentials for cloud-network integration and developed over a thousand

of service projects such as government administrative cloud, industrial cloud, financial cloud and video streaming cloud.

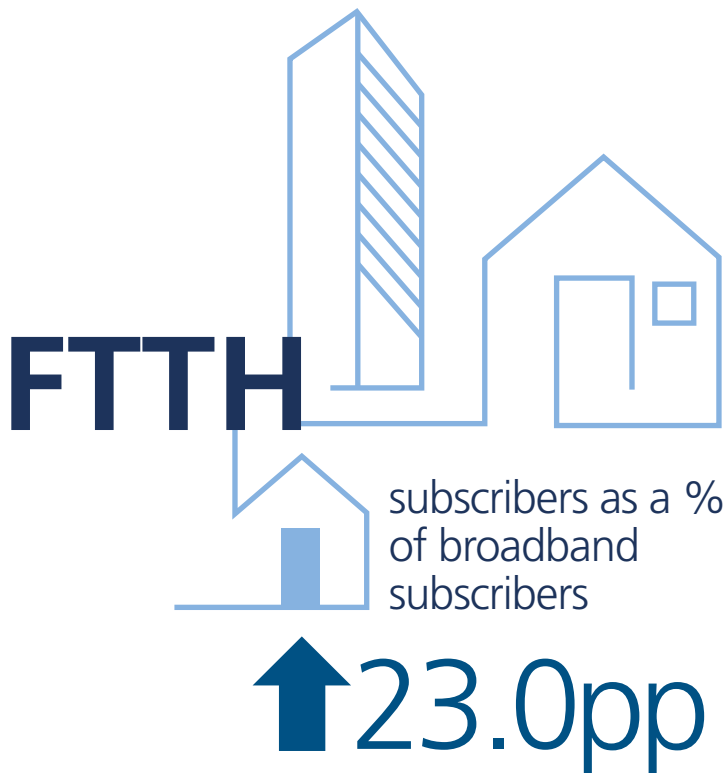
Fifth, promoted Internet-oriented transformation of channels to improve sales & marketing efficiency

The Company fully commenced O2O operations. With optimised and coordinated mechanism of physical, government and enterprise and electronic channels, the Company improved the sales and service efficiency by strengthening traffic flow in online channels and user experience in offline channels. In physical channels, the Company carried out "Collaboration with Strong Partners" and "e-Surfing Recommended" promotions, resulted in significant increase in market share of terminal sales and mobile phone card sales in open channels. In government and enterprise channels, the Company implemented the "Sales Elite" programme, which established mini stores for industrial clients, WeChat stores for commercial clients and campus clients and resulted in rapid expansion of our subscriber scale.



Co-building
& Sharing of
Resources
for Customer
Service Quality
Enhancement

In electronic channels, the Company reinforced its position as the main channel for data traffic sales, with the sales volume of 4G data traffic packages accounting for 76%.



Sixth, collaborative operations between online and offline channels to improve customer service capabilities

In 2015, the Company focused on improving capabilities in 4G and fibre broadband services. Focusing on 4G services, the Company implemented "Five Optimised Services" in areas including network experience, products, channel sales, terminal services and customer care. The Company carried out 4G services experience activities nationwide, with continued optimisation in services including 4G data traffic alert, billing and credit control. In respect of wireline broadband services, the Company implemented service guarantee for "Speed Upgrade & Tariff Reduction". Customers were invited to experience for speed testing and service quality supervision. The Company clearly stated the rules and requirements for indication of upload and download speed. The Company also promoted broadband self-serviced troubleshooting and "Pay after Installation" broadband services. In 2015, the Company ranked No. 1 in the industry in terms of customer satisfaction in both wireline and mobile Internet access services as assessed by the Ministry of Industry and Information Technology. In respect of the Internet-oriented service transformation, the Company achieved the "Double 60" goal, for which the online rates exceeded 60% in terms of both service project numbers and service volume. Nationwide customer service via new media (including Weibo, WeChat, YiChat and IM) exceeded 200 million users, which led the industry in terms of scale, with monthly service volume over 150 million times.

MANAGEMENT'S DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Network and operation support

In 2015, the Company seized opportunities and optimised our resources allocation to enhance investment in 4G network, fibre network and emerging business such as cloud computing. Through strengthening capabilities to effectively support business development and operations, core competence and customer value have been enhanced.

First, leveraging the issuance of FDD 4G license, the Company commenced "Accelerating Network Construction and Enhancing Network Quality" project for 4G. Fully leveraged centralised procurement and tower sharing, the Company effectively added 330 thousands of 4G BTS with reduced capital expenditure (an extra of 50 thousands BTS compared to the original plan), reaching a total of 510 thousands

of 4G BTS. The Company deployed 10 thousands of 4G+ (LTE-A) BTS in 45 key cities, well established the 4G+ brand identity and enhanced customer perception. Currently, the Company has a 4G network coverage of all cities and developed towns and villages nationwide, with a full coverage of areas in all towns and villages in the eastern region. The network quality is comparable to the major competitors in covered areas.

Second, seized opportunity from "Broadband China" strategy and driven by market demand, the Company has accelerated fibre upgrade in urban areas and completed fibre upgrade in 170 thousands copper-network communities. Together, total fibre upgraded communities amounted to over 790 thousands, representing 85% of all copper-network communities. FTTH home passes increased by 90 million, reaching 220 million, or a coverage of 75%.

PT/EXPO COMM CHINA



IPTV 天翼高清

e-Surfing HD
subscribers
net addition

9,000,000+



At the same time, with focus on improving and enhancing customer experience and perception, the Company has connected all segments of “device, pipe and cloud”, remarkably increasing the end-to-end speed of the broadband.

Third, the Company proactively and steadily promoted network transformation. Integrating the Company's services, network features and data traffic direction, the Company commenced network deployment plan with IDC as the core and the construction of DCI (Data Centre Interconnect), with 15 key IDCs being interconnected in the first batch. Deploying efficiently-centralised cloud resource pools, we have enhanced resources allocation and provision capabilities, to facilitate the rapid development of cloud computing services. Learning from industry experience, the Company explored the introduction of SDN (Software Defined Network) technology and commenced network trial, in an effort to promote Internet-oriented transformation of networks.

Development measures and highlights for 2016

In 2016, the fundamental telecommunications market is increasingly saturated, leading to an intensifying competition among existing subscribers, while 4G and fibre broadband will accelerate the development in full scale. The Company will seize opportunities brought by the technology advancement and market changes to continuously deepen corporate

transformation. The Company will focus on strengthening two fundamental businesses, achieving breakthrough in five emerging areas and improving six key capabilities. The Company will transform its development approaches, enhance operating capabilities and expand business scales for better corporate value. The Company will reinforce two fundamental services to maintain solid foundation, while rapidly promoting the 4G and fibre broadband subscriber scale expansion to increase subscriber penetration rate. Feed in differentiated applications, the Company will focus on promoting “4G + mobile payment” and “broadband + TV” services to drive scale development of subscriber base and increase customer loyalty. The Company will also continue to expand the new integrated development model of “fibre broadband + e-Surfing HD + 4G” to continuously increase customer value. The Company will foster new growth drivers by achieving breakthroughs in five emerging areas. First, the Company will strive to be a forerunner in “Smart Family” market by the provision of e-Surfing HD services, laying foundations for feeding in VAS and informatisation applications. Second, the Company will optimise BestPay to get ready for the deployment in Internet finance. Third, the Company will strengthen “Internet+” services and to rapidly expand into the industrial Internet market for influence. Fourth, the Company will develop cloud computing and Big Data with full efforts, exploring new revenue growth drivers. Fifth, the Company will proactively expand into the Internet-of-Things services, shifting from human-to-human communications to machine-to-human communications, and gradually towards machine-to-machine communications to explore new growth potential. The Company will also continue to optimise network resources, increase operating efficiency, improve all-rounded service capabilities, and enhance customer satisfaction for customer value realisation and sustainable corporate value growth.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Summary

In 2015, the Group persisted in its established strategic direction, continually developed and innovated, and pragmatically implemented its comprehensive in-depth reform and Internet-oriented transformation, achieving a stable growth in its overall operating results. The Group's operating revenues in 2015 were RMB331,202 million, an increase of 2.1% from 2014; service revenues¹ were RMB293,266 million, an increase of 2.0% from 2014; operating expenses were RMB304,760 million, an increase of 3.0% from 2014; profit attributable to equity holders of the Company was RMB20,054 million, an increase of 13.4% from 2014; basic earnings per share were RMB0.25; EBITDA² was RMB94,106 million, a decrease of 0.8% from 2014 and the EBITDA margin³ was 32.1%.

Operating Revenues

In 2015, while proactively tackling various challenges brought by the policies such as the value-added tax ("VAT") reform, "speed upgrade & tariff reduction" and "handset data traffic carried forward", the Group continued to optimise its business structure and achieved a stable growth in its operating revenues. Operating revenues in 2015 were RMB331,202 million, an increase of 2.1% from 2014. Of this, the total mobile revenues were RMB156,529 million, an increase of 3.2% from 2014; the total wireline revenues were RMB174,673 million, an increase of 1.1% from 2014.

¹ Service revenues were calculated based on operating revenues minus sales of mobile terminals (2015: RMB32,026 million; 2014: RMB31,343 million), sales of wireline equipment (2015: RMB4,430 million; 2014: RMB3,956 million) and other non-service revenues (2015: RMB1,480 million; 2014: RMB1,716 million).

² EBITDA was calculated based on operating revenues minus operating expenses plus depreciation and amortisation. As the telecommunications business is a capital intensive industry, capital expenditure, the level of gearing and finance costs may have a significant impact on the net profit of companies with similar operating results. Therefore, we believe EBITDA may be helpful in analysing the operating results of a telecommunications service provider such as the Company. Although EBITDA has been widely applied in the global telecommunications industry as a benchmark to reflect operating performance, debt raising ability and liquidity, it is not regarded as a measure of operating performance and liquidity under generally accepted accounting principles. It also does not represent net cash from operating activities. In addition, our EBITDA may not be comparable to similar indicators provided by other companies.

³ EBITDA margin was calculated based on EBITDA divided by service revenues.

The following table sets forth a breakdown of the operating revenues of the Group for 2014 and 2015, together with their respective rates of change:

<i>(RMB millions, except percentage data)</i>	For the year ended 31 December		
	2015	2014	Rates of change
Wireline voice	29,610	33,587	(11.8%)
Mobile voice	48,983	54,673	(10.4%)
Internet	126,546	112,431	12.6%
Value-added services	39,044	38,419	1.6%
Integrated information application services	27,299	26,939	1.3%
Telecommunications network resource services and lease of network equipment	17,635	17,332	1.7%
Others	42,085	41,013	2.6%
Total operating revenues	331,202	324,394	2.1%

Wireline Voice

In 2015, revenue from wireline voice services was RMB29,610 million, a decrease of 11.8% from RMB33,587 million in 2014, accounting for 8.9% of the Group's operating revenues. Declining revenue contribution from wireline voice services effectively mitigated operating risks.

Mobile Voice

In 2015, being affected by the substitution effect of mobile Internet services, such as OTT, revenue from mobile voice services was RMB48,983 million, a decrease of 10.4% from RMB54,673 million in 2014, accounting for 14.8% of the Group's operating revenues.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

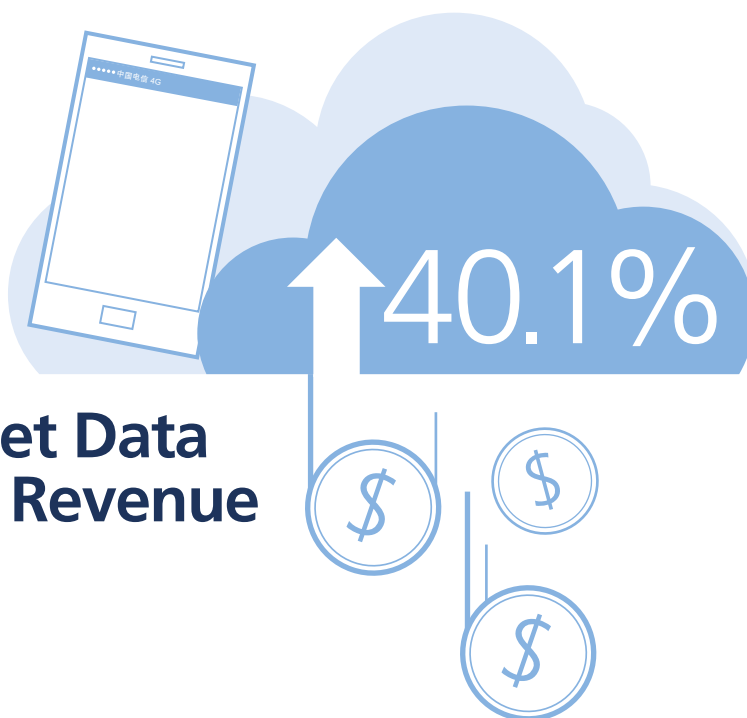
Internet

In 2015, revenue from Internet access services was RMB126,546 million, an increase of 12.6% from RMB112,431 million in 2014, accounting for 38.2% of the Group's operating revenues. The Group proactively leveraged the advantage of its broadband network, promoted access bandwidth upgrades for subscribers, launched reasonably flexible pricing plans, persisted in rational competition and profitable development. At the end of 2015, the number of wireline broadband subscribers of the Group reached 113 million, with a net increase of 6.11 million. The wireline broadband revenue of the Group was RMB74,285 million, an increase of 1.1% from 2014. The Group achieved rapid growth in the volume of and revenue from mobile data traffic, effectively driven by further promoting the precision management of data traffic operations and, at the same time, increasing sales at lower unit prices. Revenue from mobile Internet access services was RMB50,694 million, an increase of 34.1% from 2014. Of this, revenue from handset data traffic was RMB47,770 million, an increase of 40.1% from 2014.

Valued-Added Services

In 2015, revenue from value-added services was RMB39,044 million, an increase of 1.6% from RMB38,419 million in 2014, accounting for 11.8% of the Group's operating revenues. Of this, the revenue from wireline value-added services was RMB21,529 million, an increase of 16.8% from 2014, mainly benefitted from that the Group firmly seized the strategic opportunities of the national "Internet+" action plan to achieve rapid growth in the IDC and IPTV (e-Surfing HD) services. Revenue from mobile value-added services was RMB17,515 million, a decrease of 12.4% from 2014, mainly due to the decrease in revenue from traditional value-added services, such as short and multimedia messaging services.

Handset Data Traffic Revenue



Integrated Information Application Services

In 2015, revenue from integrated information application services was RMB27,299 million, an increase of 1.3% from RMB26,939 million in 2014, accounting for 8.3% of the Group's operating revenues. Of this, revenue from wireline integrated information application services was RMB20,505 million, an increase of 4.5% from 2014. The increase in revenue was mainly due to the stable development of IT Services and Applications. Revenue from mobile integrated information application services was RMB6,794 million, a decrease of 7.2% from 2014. The decline was mainly due to the decrease in the volume of traditional information inquiry services.

Telecommunications Network Resource Services and Lease of Network Equipment

In 2015, revenue from telecommunications network resource services and lease of network equipment was RMB17,635 million, an increase of 1.7% from RMB17,332 million in 2014, accounting for 5.3% of the Group's operating revenues. Revenue from lease of mobile

network equipment was RMB421 million, a decrease of 9.1% from 2014.

Others

In 2015, revenue from other services was RMB42,085 million, an increase of 2.6% from RMB41,013 million in 2014, accounting for 12.7% of the Group's operating revenues. Revenue from other mobile services was RMB32,122 million, an increase of 2.4% from 2014, the major item of which was the sales of mobile terminals.

Operating Expenses

The Group reinforced the efforts in management and control of cost, optimised resources allocation, continuously promoted the transformation of sales and marketing models, and enhanced and promoted its market competitiveness. In 2015, operating expenses of the Group were RMB304,760 million, an increase of 3.0% compared with RMB295,886 million in 2014. Operating expenses accounted for 92.0% of the Group's operating revenues, an increase of 0.8 percentage point from 2014.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The following table sets forth a breakdown of the operating expenses of the Group in 2014 and 2015 and their respective rates of change:

<i>(RMB millions, except percentage data)</i>	For the year ended 31 December		
	2015	2014	Rates of change
Depreciation and amortisation	67,664	66,345	2.0%
Network operations and support expenses	81,240	68,651	18.3%
Selling, general and administrative expenses	54,472	62,719	(13.1%)
Personnel expenses	52,541	50,653	3.7%
Other operating expenses	48,843	47,518	2.8%
Total operating expenses	304,760	295,886	3.0%

Depreciation and Amortisation

In 2015, depreciation and amortisation was RMB67,664 million, an increase of 2.0% from RMB66,345 million in 2014, accounting for 20.4% of the Group's operating revenues. As the Group increased investment in 4G and fibre broadband network, depreciation and amortisation increased correspondingly with the expansion of the assets scale.

Network Operations and Support Expenses

In 2015, network operations and support expenses were RMB81,240 million, an increase of 18.3% from RMB68,651 million in 2014, accounting for 24.5% of the Group's operating revenues. The growth was due to the newly added tower usage fee in 2015. In addition, with the expansion of network assets, the Group reasonably increased network operations expenses to enhance network quality and, at the same time, continuously strengthened cost management and control, improving the utilisation efficiency

of resources. As such, the increase in network operations and support expenses was evidently slower than that in 2014.

Selling, General and Administrative Expenses

In 2015, selling, general and administrative expenses amounted to RMB54,472 million, a decrease of 13.1% from RMB62,719 million in 2014, accounting for 16.4% of the Group's operating revenues. Of this, selling expenses were RMB45,943 million, a decrease of 15.7% compared with 2014. The decline was mainly attributable to the fact that the Group continuously promoted the transformation of sales and marketing models, reduced selling expenses, and improved the utilisation efficiency of marketing resources.

Commission and service expenses for third parties amounted to RMB26,651 million, a decrease of 6.0% from 2014. Advertising and promotion expenses amounted to RMB19,291 million, a decrease of 26.2% from 2014, of which the terminal subsidies amounted to RMB11,620 million, a decrease of 24.3% from 2014.



Personnel Expenses

In 2015, personnel expenses were RMB52,541 million, an increase of 3.7% from RMB50,653 million in 2014, accounting for 15.9% of the Group's operating revenues. For details of the number of employees, remuneration policies and training schemes, please refer to the Human Resources Development Report in this annual report.

Other Operating Expenses

In 2015, other operating expenses were RMB48,843 million, an increase of 2.8% from RMB47,518 million in 2014, accounting for 14.8% of our operating revenues. The cost of mobile terminal equipment sold amounted to RMB30,867 million, an increase of 3.0% from 2014.

Net Finance Costs

In 2015, the Group's net finance costs were RMB4,273 million, a decrease of 19.2% from RMB5,291 million in 2014. The decrease was mainly due to the fact that the interest rate of the deferred consideration of Mobile Network Acquisition decreased from 6.25% per annum in 2014 to 5.11% per annum in 2015 (adjusted in accordance with a 5 basis points premium to the yield of the 5-year super AAA rated Medium Term Notes once a year pursuant to the agreement). Net exchange losses were RMB75 million in 2015. The fluctuation of foreign exchange gain or loss was mainly caused by the depreciation of the RMB exchange rate against the US Dollars.

Profitability Level

Income Tax

The Group's statutory income tax rate is 25%. In 2015, the Group's income tax expenses were RMB6,551 million with the effective income tax rate of 24.5%. The difference between the effective income tax rate and the statutory income tax rate was mainly due to the preferential income tax rate, which was lower than the statutory income tax rate, enjoyed by some of our branches with operations in the western region of China and some of our subsidiaries.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Profit Attributable to Equity Holders of the Company

In 2015, profit attributable to equity holders of the Company was RMB20,054 million, an increase of 13.4% from RMB17,680 million in 2014.

Disposal of Certain Telecommunications Towers and Related Assets

Pursuant to the transfer agreement ("Transfer Agreement") entered into by the Group and China Tower Corporation Limited ("China Tower") on 14 October 2015, the Group sold certain telecommunications towers and related assets ("Tower Assets") ("Tower Assets Disposal") and injected cash to China Tower in return for new shares ("Consideration Shares") issued by China Tower.

By 31 December 2015, China Tower has issued 33.097 billion Consideration Shares to the Group at an issue price of RMB1.00 per share pursuant to the Transfer Agreement in return for RMB30.131 billion of the Tower Assets and RMB2.966 billion cash from the Group.

Upon the issuance of the Consideration Shares by China Tower, the Group, China Unicom, China Mobile and China Reform Holding Company Limited hold 27.9%, 28.1%, 38.0% and 6.0% of the share capital of China Tower, respectively.

The Company realised a gain (subject to deduction of relevant expenses and taxes) from the Tower Assets Disposal, which was calculated based on the surplus of the

final consideration amount for the Tower Assets Disposal over the book value of the assets as at the completion date and the final gain recognised was RMB7,231 million. As the Group held 27.9% of the share capital of China Tower following the completion of the Tower Assets Disposal, 72.1% of the aforesaid gain had been recognised at the completion date of the Tower Assets Disposal in the consolidated statement of comprehensive income and the remaining 27.9% of the aforesaid gain is deferred over the remaining useful life of the Tower Assets.

Capital Expenditure and Cash Flows

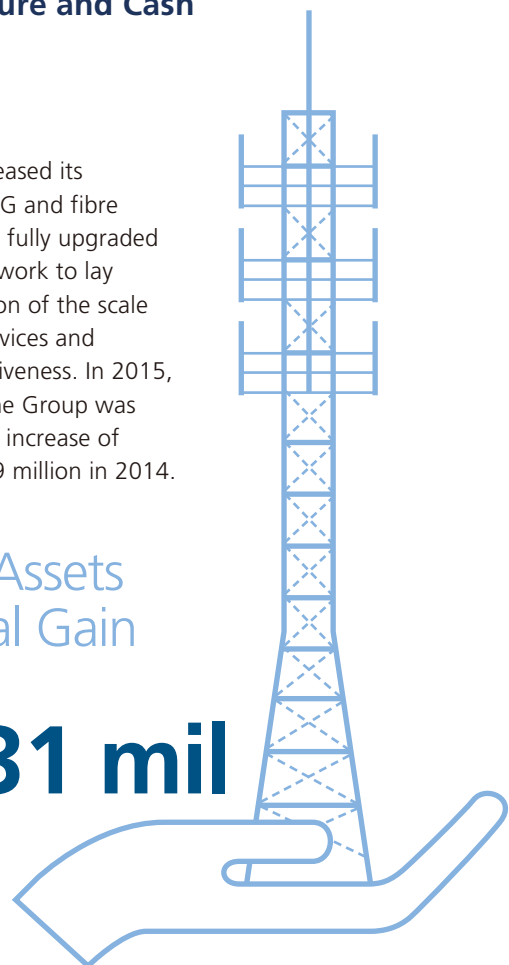
Capital Expenditure

In 2015, the Group increased its capital expenditure on 4G and fibre broadband network and fully upgraded the capability of the network to lay down a strong foundation of the scale development of core services and further market competitiveness. In 2015, capital expenditure of the Group was RMB109,094 million, an increase of 41.9% from RMB76,889 million in 2014.

Tower Assets
Disposal Gain

RMB

7,231 mil



Cash Flows

In 2015, net increase in cash and cash equivalents for the Group was RMB11,309 million, while the net increase in cash and cash equivalents was RMB4,370 million in 2014.

The following table sets forth the cash flow position of the Group in 2014 and 2015:

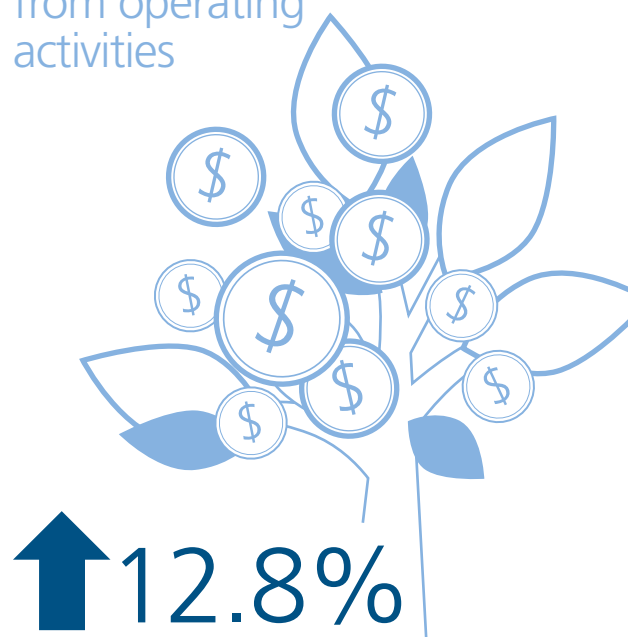
<i>(RMB millions)</i>	For the year ended 31 December	
	2015	2014
Net cash flow from operating activities	108,750	96,405
Net cash used in investing activities	(102,250)	(81,708)
Net cash from/(used in) financing activities	4,809	(10,327)
Net increase in cash and cash equivalents	11,309	4,370

In 2015, the net cash inflow from operating activities was RMB108,750 million, an increase of 12.8% from 2014, which was mainly due to the increase in operating revenues and enhanced collection of accounts receivable.

In 2015, the net cash outflow used in investing activities was RMB102,250 million, an increase of 25.1% from 2014, which was mainly due to the increase of capital expenditure for the year.

In 2015, the net cash inflow from financing activities was RMB4,809 million. In 2014, the net cash outflow used in financing activities was RMB10,327 million. The reason for the fluctuation was mainly due to the issuance of short-term commercial papers and the newly originated government loans with below-market interest rate during the year.

Net cash flow from operating activities



MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Working Capital

The Group consistently upheld prudent financial principles and strict fund management policies. At the end of 2015, the Group's working capital (total current assets minus total current liabilities) deficit was RMB177,821 million, an increase in deficit of RMB31,039 million from RMB146,782 million in 2014. As at 31 December 2015, the Group's unutilised credit facilities were RMB128,839 million (2014: RMB130,488 million). Given the stable net cash inflow from operating activities and the sound credit record, the Group has sufficient working capital to satisfy the operation requirement. At the end of 2015, the Group's cash and cash equivalents amounted to RMB31,869 million, amongst which cash and cash

equivalents denominated in Renminbi accounted for 92.6% (2014: 93.1%).

Assets and Liabilities

In 2015, the Group continued to maintain a solid financial position. At the end of 2015, the total assets of the Group increased to RMB629,561 million from RMB561,274 million at the end of 2014, which was mainly due to the increase of capital expenditure and the valuation surplus of Tower Assets injected to China Tower. Total indebtedness increased to RMB116,669 million from RMB106,552 million at the end of 2014. The ratio of the Group's total indebtedness to total assets decreased to 18.5% at the end of 2015 from 19.0% at the end of 2014.

Indebtedness

The indebtedness analysis of the Group as of the end of 2014 and 2015 is as follows:

<i>(RMB millions)</i>	For the year ended	
	31 December	
	2015	2014
Short-term debt	51,636	43,976
Long-term debt maturing within one year	84	82
Long-term debt and payable	64,830	62,494
Finance lease obligations (including current portion)	119	–
Total debt	116,669	106,552

By the end of 2015, the total indebtedness of the Group was RMB116,669 million, an increase of RMB10,117 million from the end of 2014, which was mainly due to the issuance of short-term commercial papers and newly originated national policy-related loans with below-market interest rate. Of the total indebtedness of the Group, loans denominated in Renminbi, US Dollars and Euro accounted for 99.4% (2014: 99.2%), 0.4% (2014: 0.5%), and 0.2% (2014: 0.3%), respectively. 46.3% (2014: 41.3%) of the indebtedness are

loans with fixed interest rates, while the remainders are loans with floating interest rates.

As at 31 December 2015, the Group did not pledge any assets as collateral for debt (2014: Nil).

Most of the Group's revenue receipts from and payments made for its business were denominated in Renminbi, therefore the Group did not have significant risk exposure to foreign exchange fluctuations.

Contractual Obligations

(RMB millions)	Total	1 January	1 January	1 January	1 January	1 January	There-after
		2016 – 31 December	2017 – 31 December	2018 – 31 December	2019 – 31 December	2020 – 31 December	
Short-term debt	51,967	51,967	-	-	-	-	-
Long-term debt and payable	71,295	2,597	64,345	251	250	267	3,585
Operating lease commitments	14,448	3,452	2,564	2,006	1,532	1,171	3,723
Capital commitments	10,148	10,148	-	-	-	-	-
Total contractual obligations	147,858	68,164	66,909	2,257	1,782	1,438	7,308

Note: Amounts of short-term debt, and long-term debt and payable include recognised and unrecognised interest payable, and are not discounted.