

POSITIVE MOMENTUM

{ BRAVE THE SHORT-TERM
PROFIT PRESSURE TO DRIVE
LONG-TERM SUSTAINABLE
DEVELOPMENT }

**SERVICE
REVENUE**
(RMB BILLIONS)

240.98 $\hat{\hat{}}$ 2.4%
YoY

**MOBILE SERVICE
REVENUE**
(RMB BILLIONS)

145.02 $\hat{\hat{}}$ 1.7%
YoY

**MOBILE BILLING
SUBSCRIBERS**
(MILLIONS)

263.8 $\hat{\hat{}}$ 11.5ML
YoY

**MOBILE BILLING
SUBSCRIBERS ARPU**
(RMB)

46.4 $\hat{\hat{}}$ RMB0.1
YoY

PERFORMANCE
HIGHLIGHTS

WE EMERGED

KEY FINANCIAL DATA	2016	2015
Operating Revenue (RMB billions)	274.20	277.05
Service Revenue¹ (RMB billions)	240.98	235.28
Of which: Mobile service	145.02	142.62
Fixed-line service	94.66	91.26
EBITDA² (RMB billions)	79.50	87.50
EBITDA as % of service revenue	33.0%	37.2%
Net Profit (RMB billions)	0.63	10.56
Basic Earnings per Share (RMB)	0.026	0.441
Dividend per Share (RMB)	N/A	0.17

KEY OPERATING DATA	2016	2015
Mobile Billing Subscribers³ (millions)	263.8	252.3
4G Subscribers (millions)	104.6	44.2
Mobile Billing Subscribers ARPU³ (RMB)	46.4	46.3
4G Subscribers ARPU (RMB)	76.4	87.8 ⁴
Fixed-line Broadband Subscribers (millions)	75.2	72.3
Fixed-line Broadband Access ARPU (RMB)	49.4	51.7
Fixed-line Local Access Subscribers (millions)	66.7	73.9

Note 1: Due to the existence of unallocated items, service revenue is not equal to the sum of service revenue from mobile service and fixed-line service.

Note 2: EBITDA represents profit for the year before finance costs, interest income, share of net profit/loss of associates, share of net profit/loss of joint ventures, other income-net, income tax, depreciation and amortisation. As the telecommunications business is a capital intensive industry, capital expenditure and finance costs may have a significant impact on the net profit of the companies with similar operating results. Therefore, the Company believes that EBITDA may be helpful in analysing the operating results of a telecommunications service operator like the Group.

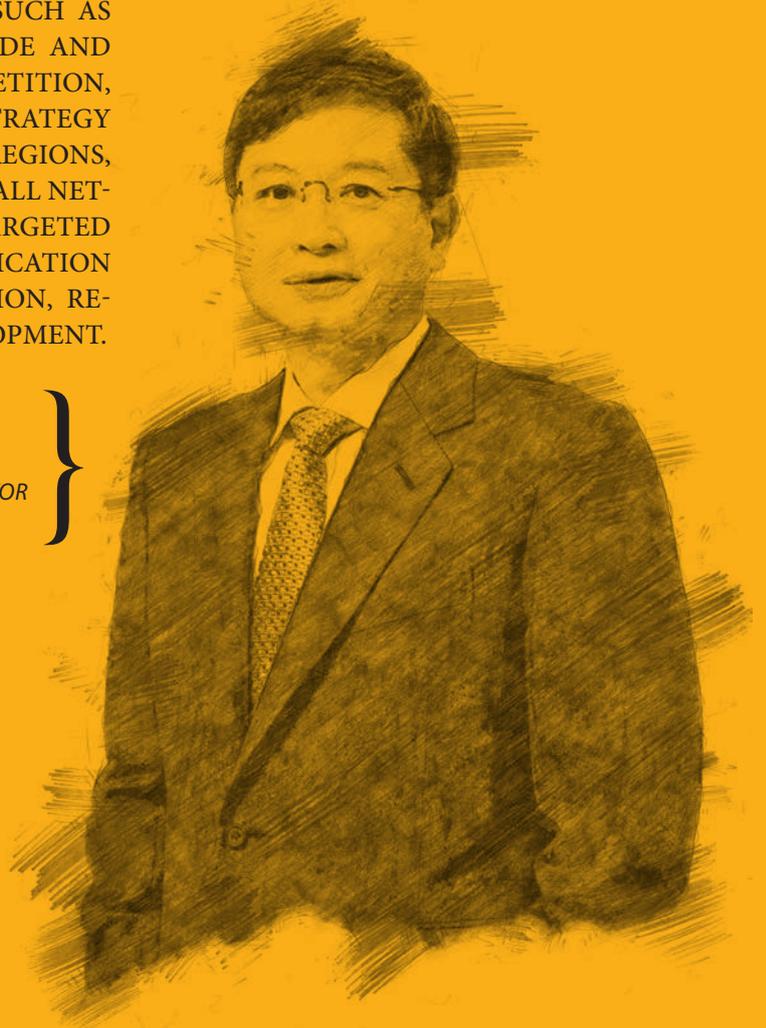
Note 3: In order to better satisfy the strategic management needs of the Company, the Company's internal management and analysis in relation to the mobile service began to focus more on the mobile billing subscribers (which in general refer to subscribers who have revenue contribution in the current month) and 4G subscribers (mobile billing subscribers who possess 4G handsets and use the 4G network of the Company) from 2016. From January 2016 onwards, the aggregate number and net addition of mobile billing subscribers and 4G subscribers are disclosed. The adjustment in the disclosure of subscriber statistics does not affect the Company's revenue and profit recognition.

Note 4: As of December 2015.

ROBUST KID OF TRANS

IN 2016, FACED WITH PROFOUND CHANGES IN THE MARKET ENVIRONMENT AND CHALLENGES SUCH AS INDUSTRY TRANSFORMATION, SPEED UPGRADE AND TARIFF REDUCTION AND INTENSIFIED COMPETITION, THE COMPANY FULLY IMPLEMENTED FOCUS STRATEGY BY FOCUSING ON 4G SERVICES AND ON KEY REGIONS, PROMOTED THE WIDESPREAD ADOPTION OF "ALL NETWORK ACCESS" TERMINALS, LAUNCHED TARGETED MARKETING CAMPAIGNS, ENFORCED SIMPLIFICATION OF ADMINISTRATION AND POWER DELEGATION, RESULTING A BOTTOM-OUT OF BUSINESS DEVELOPMENT.

{
LU
YIMIN
EXECUTIVE DIRECTOR
AND PRESIDENT
}



CHECK-OFF FORMATION

BUSINESS OVERVIEW

MOBILE SERVICE

In 2016, the Company further optimised its 4G product offerings, leveraged Big Data to drive existing users value enhancement, and initiated the “Three Missions” in key cities, namely customer acquisition, migration of 2G to 4G and monetisation of data capacity to propel the transformation of operating model. Meanwhile, the Company also proactively expanded external cooperation, and partnered deeply with Internet companies to develop integrated products combining dedicated data traffic with third-party applications in an attempt to drive data usage via content and applications. The business momentum of mobile service improved substantially and bottomed out. Mobile billing subscribers witnessed a net increase of 11.51 million to a total of 263.82 million during the year. Mobile billing subscribers ARPU was RMB46.4. Mobile handset data traffic reached 1,608.1 billion MB, up by 131.1% year-on-year. More than 2,400 partner companies have joined the WO+ open platform, with a total of 1.83 billion function calls during the year.

FIXED-LINE SERVICE

In 2016, the Company continued to market its upgraded fibre network with an emphasis on high speed and premier quality, focused on promoting the sense of competition and efficient use of resources, fostered a shift in practice from

passive sales to proactive marketing and customer acquisition, and strengthened cooperation with private capital in Southern China. The Company drove the establishment of a 4K UHD industry alliance to speed up innovation and development in home Internet, and to promote steady growth of fixed-line service. The number of broadband subscribers witnessed a net increase of 2.91 million to a total of 75.24 million. Broadband access ARPU was RMB49.4. FTTH subscriber penetration reached 71.2%, up by 18.1 percentage points year-on-year. The number of fixed-line local access subscribers decreased by 7.21 million to 66.65 million.

NETWORK CAPABILITIES

In 2016, led by 4G and fibre network upgrade, the Company quickly built up a premium 4G network with comprehensive coverage and favourable user perception, creating strong brand recognition for superior network with craftsmanship. Network quality was on par with industry in the key regions. The Company had a total of 736,000 4G base stations in operation, of which 539,000 were located in 139 key cities. The Company undertook massive construction of fibre broadband network and “all fibre network” upgrade, with 10 provinces in Northern China achieved “all fibre network” by the end of 2016. The number of broadband access ports amounted to 190 million, 98.0% of which were FTTX access ports.

BUSINESS OVERVIEW

The Company continued to optimise its international network deployment. As at the end of 2016, its total international submarine cable bandwidth reached 12.1T, total cross-border terrestrial cable bandwidth reached 7.6T, international outbound Internet bandwidth reached 1,711G, with international roaming covering 609 operators in 250 countries and regions.

MARKETING

Branding

In 2016, the Company focused on key cities, young mobile Internet users and video service, rebuilt the reputation of WO 4G+ under the theme of “Premium WO 4G+ Network with Endless Surprises” by highlighting its merits of fast network speed, abundant data allowance and rich contents. Meanwhile, the Company promoted the brand concept of “Wonderful WO” in all-around manner through extensive publicity of its advantages in both broadband and integrated businesses, so as to constantly enhance the brand influence of “WO”.

Marketing Strategies

In 2016, the Company deepened implementation of Focus Strategy, initiated the “Three Missions” in key regions, innovated its tariff and product models, transformed its distribution model, and developed customer value management system. The Company also strengthened brand promotion, endeavoured to build a content and application ecosystem

centred around video and bolstered its Big Data support capability, thereby effectively promoting its business transformation and development.

The Company laid foundation for innovative services by establishing a number of industrial Internet bases and incubation centres in key business areas and focusing on industrial Internet and platform-based businesses. It achieved rapid growth in ICT, IDC and cloud computing, Internet of Things and Big Data, etc. Meanwhile, the Company forged strategic partnership with various Internet companies to cooperate on integrated product development, mutual promotion and joint operation, so as to fuel its innovative service development.

Distribution Channels

In 2016, backed by its WO retail platform, the Company developed a business model of offering terminal supply chain services to channels with over 15,000 self-owned terminal chain stores. Leaning on multiple touch points, the Company turned the electronic channel into a major channel for servicing customers and an important channel for product sales. The Company launched in-depth cooperation with large Internet companies with a robust kick-off in 2I2C offering. The Company widely developed online marketing system both internally and externally, as well as the integrated O2O functions, thus effectively enhancing its marketing capabilities.

BUSINESS OVERVIEW

Customer Care

In 2016, the Company strengthened its monitoring over service quality and operation of the major service touch points, and further improved the customer-oriented assessment system for managing and evaluating customer reputation and user experience. By accelerating the transformation and upgrade of traditional channels and deepening smart customer service operation, the Company

developed a professional and coordinated service model addressing “Internet+ Services”, established a customer reward and loyalty programme platform built upon the Internet era, proactively mitigated service shortcomings and improved customer perception. The Company maintained the lowest rates of customer complaint and unsolicited charges in the industry for the year.



FINANCIAL OVERVIEW

COMPETITIVE SHARPEN

I. OVERVIEW

In 2016, the Company actively responded to the challenge of “Speed Upgrade and Tariff Reduction”¹, “Real-name registration” and increased competition. At the same time, the Company actively mitigated underlying shortcomings and increased cost initiatives as appropriate to strive for an accelerated turnaround, enhance the ability of sustainable development. The Company’s revenue was RMB274.20 billion in 2016, down by 1.0% compared with last year, of which service revenue stopped deteriorating and stabilised and reached RMB240.98 billion, up by 2.4% compared with last year. Profit for the year² was RMB0.63 billion, down by 94.1% compared with last year, decreased by RMB3.00 billion compared with last year (excluding the net gain on disposal of telecommunication towers).

In 2016, net cash flow from operating activities was RMB74.59 billion. Capital expenditure was RMB72.11 billion. Liabilities-to-assets ratio was 62.9% as at 31 December 2016.

II. REVENUE

In 2016, the Company’s revenue was RMB274.20 billion, down by 1.0% compared with last year, of which, service revenue accounted for RMB240.98 billion, up by 2.4% compared with last year. Revenue from sales of telecommunications products was RMB33.22 billion, down by 20.5% compared with last year.

The following table sets forth the composition of service revenue, including as a percentage of the service revenue for the years of 2016 and 2015:

SERVICE REVENUE (RMB IN BILLIONS)

2016 **240.98**
↑ 2.4%

FINANCIAL OVERVIEW

FEEDGES
VIEWED

(RMB in billions)	2016		2015	
	Total amount	As a percentage of service revenue	Total amount	As a percentage of service revenue
Service revenue	240.98	100.0%	235.28	100.0%
Include: Mobile service	145.02	60.2%	142.62	60.6%
Fixed-line service	94.66	39.3%	91.26	38.8%
Include: Fixed-line broadband access	43.87	18.2%	43.86	18.6%
IDC and cloud computing	9.45	3.9%	7.07	3.0%

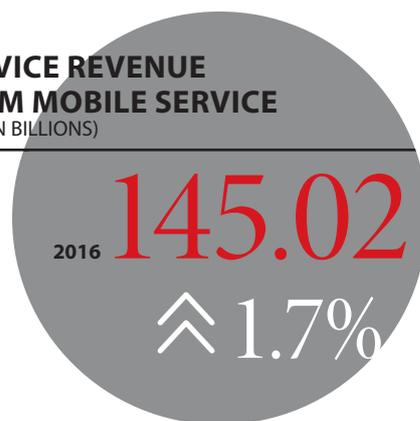
1. Mobile service

In 2016, service revenue from the mobile service was RMB145.02 billion, up by 1.7% compared with last year.

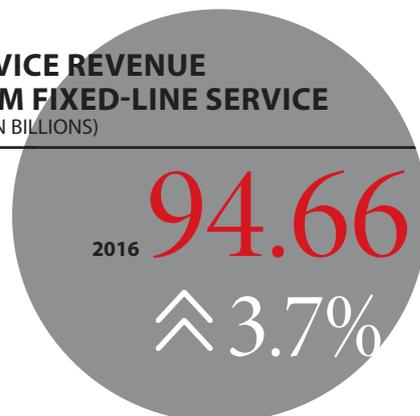
2. Fixed-line service

In 2016, service revenue from the fixed-line service was RMB94.66 billion, up by 3.7% compared with last year. Out of service revenue from the fixed-line service, revenue from broadband access was RMB43.87 billion which were basically same as last year. Revenue from IDC and cloud computing was RMB9.45 billion, up to 33.7% compared with last year.

SERVICE REVENUE FROM MOBILE SERVICE
(RMB IN BILLIONS)



SERVICE REVENUE FROM FIXED-LINE SERVICE
(RMB IN BILLIONS)

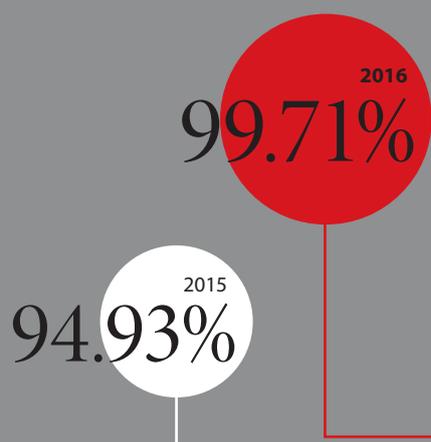


FINANCIAL OVERVIEW

III. COSTS AND EXPENSES

In 2016, total costs and expenses amounted to RMB273.41 billion, up by 4.0% compared with last year.

The table below sets forth the major items of the costs and expenses and their respective percentage of the revenue for the years of 2016 and 2015:



ANALYSIS OF TOTAL COSTS AND EXPENSES

Percentage of total costs and expenses to revenue

Category	2016	2015
Interconnection charges	4.65%	4.73%
Depreciation and amortisation	28.01%	27.70%
Network, operation and support expenses	18.66%	15.27%
Employee benefit expenses	13.46%	12.68%
Cost of telecommunications products sold	13.32%	15.90%
Selling and marketing expenses	12.64%	11.54%
Others*	8.97%	7.11%

Including general, administrative and other expenses, finance costs, net of interest income, share of net profit/loss of associates, share of net profit/loss of joint ventures and other income-net

(RMB in billions)	2016		2015	
	Total amount	As a percentage of revenue	Total amount	As a percentage of revenue
Total costs and expenses	273.41	99.71%	263.01	94.93%
Operating costs	271.49	99.01%	266.28	96.11%
Include: Interconnection charges	12.74	4.65%	13.09	4.73%
Depreciation and amortisation	76.80	28.01%	76.74	27.70%
Network, operation and support expenses	51.17	18.66%	42.31	15.27%
Employee benefit expenses	36.91	13.46%	35.14	12.68%
Costs of telecommunications products sold	36.53	13.32%	44.05	15.90%
Selling and marketing expenses	34.65	12.64%	31.97	11.54%
General, administrative and other expenses	22.69	8.27%	22.98	8.29%
Finance costs, net of interest income	3.86	1.41%	6.50	2.34%
Share of net (profit)/loss of associates	-0.20	-0.07%	0.76	0.27%
Share of net (profit)/loss of joint ventures	-0.15	-0.06%	0.04	0.02%
Other income-net	-1.59	-0.58%	-10.57	-3.81%

FINANCIAL OVERVIEW

1. Interconnection charges

Mainly due to the decrease in volume of the interconnection voice calls, the interconnection charges amounted to RMB12.74 billion in 2016, down by 2.7% compared with last year and, as a percentage of revenue, decreased from 4.73% in 2015 to 4.65% in 2016.

2. Depreciation and amortisation

Depreciation and amortisation charges in 2016 were RMB76.80 billion which were basically same as last year and, as a percentage of revenue, changed from 27.70% in 2015 to 28.01% in 2016.

3. Network, operation and support expenses

The transformation of the tower operation model³ and expanded network scale caused rapid growth in usage fee of telecommunication towers. The Company incurred network, operation and support expenses of RMB51.17 billion in 2016, up by 20.9% compared with last year. Network, operation and support expenses, as a percentage of revenue, changed from 15.27% in 2015 to 18.66% in 2016.

4. Employee benefit expenses

The Company continued to deepen the reform in recruitment and remuneration as well as resources allocation. The Company's employee benefit expenses amounted to RMB36.91 billion in 2016, up by 5.0% compared with last year and, as a percentage of revenue, changed from 12.68% in 2015 to 13.46% in 2016.

5. Cost of telecommunications products sold

Costs of telecommunications products sold amounted to RMB36.53 billion and revenue from sales of telecommunications products amounted to RMB33.22 billion in 2016. Loss on sales of telecommunications products was RMB3.31 billion, of which the Company continued

to optimise the terminal contract product mix, terminal subsidy cost accounted to RMB3.07 billion in 2016, up by 7.8% compared with last year.

6. Selling and marketing expenses

To accelerate business development and strive for revenue growth while enhance customers quality, the Company continued to optimise its selling and marketing strategies and increased selling and marketing expenses as appropriate. In 2016, selling and marketing expenses were RMB34.65 billion, up by 8.4% compared with last year and, as a percentage of revenue, increased from 11.54% in 2015 to 12.64% in 2016.

7. General, administrative and other expenses, exclude selling and marketing expenses and cost of telecommunications products sold

General, administrative and other expenses were RMB22.69 billion in 2016, down by 1.2% compared with last year and, as a percentage of revenue, basically the same as last year.

8. Finance costs, net of interest income

In 2016, finance costs, net of interest income, was RMB3.86 billion, down by RMB2.64 billion compared with last year. The decrease in finance costs, net of interest income compared with last year was mainly because there was the exchange loss accounted for RMB2.10 billion in last year as a result of the changes in exchange rate.

9. Other income-net

Other income-net was RMB1.59 billion in 2016, decreased by RMB8.98 billion compared with last year. The decrease in other income-net compared with last year was mainly due to the net gain on disposal of telecommunication towers (before tax) amounted to RMB9.25 billion in last year.

FINANCIAL OVERVIEW

IV. EARNINGS

1. Profit before income tax

Under the influence of increased tower usage fee which caused increased in network, operation and support expenses and selling and marketing expenses, the Company's profit before income tax was RMB0.78 billion in 2016. Exclude the net gain on disposal of telecommunication towers (before tax) amounted to RMB9.25 billion in last year, the Company's profit before income tax decreased by RMB4.01 billion compared with last year.

2. Income tax

In 2016, the Company's income tax was RMB0.15 billion and the effective tax rate was 19.6%.

3. Profit for the year

In 2016, the Company's profit for the year² was RMB0.63 billion. The Company's profit for the year decreased by RMB3.00 billion compared with last year (excluding the net gain on disposal of telecommunication towers in last year). Basic earnings per share was RMB0.026, down by 94.1% compared with last year.

CAPITAL EXPENDITURE (RMB IN BILLIONS)

2016 **72.11**
⚓ 46.1%

V. EBITDA⁴

In 2016, the Company's EBITDA was RMB79.50 billion, down by 9.1% compared with last year. EBITDA as a percentage of service revenue was 33.0%, down by 4.2 percentage points compared with last year.

FREE CASH FLOW (RMB IN BILLIONS)

2016 **2.48**
⚓ 52.06

VI. CAPITAL EXPENDITURE AND CASH FLOW

In 2016, capital expenditure of the Company totaled RMB72.11 billion, which mainly consisted of investments in mobile network, broadband and data, and infrastructure and transmission network etc. Out of the total capital expenditure, capital expenditure attributable to mobile network was RMB27.74 billion; capital expenditure attributable to broadband and data service was RMB16.84 billion; and capital expenditure attributable to infrastructure and transmission network was RMB19.71 billion.

In 2016, the Company's net cash inflow from operating activities was RMB74.59 billion. Free cash flow was RMB2.48 billion after the deduction of the capital expenditure in 2016.

The following table sets forth the major items of the capital expenditure in 2016.

FINANCIAL OVERVIEW

(RMB in billions)	2016	
	Total amount	As percentage
Total	72.11	100.0%
Include: Mobile network	27.74	38.5%
Broadband and data	16.84	23.4%
Infrastructure and transmission network	19.71	27.3%
Others	7.82	10.8%

VII. BALANCE SHEET

The Company's total assets increased from RMB610.35 billion as at 31 December 2015 to RMB614.15 billion as at 31 December 2016. Total liabilities changed from RMB379.13 billion as at 31 December 2015 to RMB386.47 billion as at 31 December 2016. The liabilities-to-assets ratio changed from 62.1% as at 31 December 2015 to 62.9% as at 31 December 2016. The debt-to-capitalisation ratio changed from 39.2% as at 31 December 2015 to 43.6% as at 31 December 2016. The net debt-to-capitalisation ratio was 37.7% as at 31 December 2016. Taking into consideration the Company's stable net cash inflows from its operating activities and good credit records, the Company believes that it should have sufficient funds to meet its needs for working capital.

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 accelerating the construction of high-speed broadband network and further promote the network speed and lowering the data tariffs in order to improve the service.

Note 2: Profit for the year refers to profit attribute to equity shareholders of the Company.

Note 3: Following the establishment of China Tower Corporation Limited (hereafter referred to as "Tower Company") in 2014, the Company sold certain telecommunications towers and related assets to Tower Company in 2015. Therefore, the operation model regarding the use of telecommunications towers changed from self-construction and self-maintenance to payment of usage fee to Tower Company.

Note 4: EBITDA represents profit for the year before finance costs, interest income, shares of net profit/loss of associates, share of net profit/loss of joint ventures, other income-net, income tax, depreciation and amortisation. As the telecommunications business is a capital intensive industry, capital expenditure and finance costs may have a significant impact on the net profit of the companies with similar operating results. Therefore, the Company believes that EBITDA may be helpful in analysing the operating results of a telecommunications service operator like the Group.