

CHINA TELECOM CORP LTD

Form 6-K

April 12, 2018

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16

of the Securities Exchange Act of 1934

For the Month of April 2018

Commission File Number 1-31517

China Telecom Corporation Limited

(Translation of registrant's name into English)

31 Jinrong Street, Xicheng District

Beijing 100033, China

(Address of principal executive offices)

(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.)

Form 20-F

Form 40-F

(Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):)

(Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):)

(Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.)

Yes

No

(If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b):82- .)

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EXHIBITS

Exhibit

Number

- 1.1 Annual report for the year ended December 31, 2017, released on April 12, 2018
- 1.2 Announcement of notice of annual general meeting, dated April 12, 2018
- 1.3 Circular regarding proposed amendments to Articles of Association and notice of annual general meeting, dated April 12, 2018

FORWARD-LOOKING STATEMENTS

Certain statements contained in this Form 6-K may be viewed as forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. These forward-looking statements are, by their nature, subject to significant risks and uncertainties, and include, without limitation, statements relating to:

our business and operating strategies and our ability to successfully execute these strategies;

our network expansion and capital expenditure plans;

our operations and business prospects;

the expected benefit of any acquisitions or other strategic transactions;

our financial condition and results of operations;

the expected impact of new services on our business, financial condition and results of operations;

the future prospects of and our ability to integrate acquired businesses and assets;

the industry regulatory environment as well as the industry outlook generally; and

future developments in the telecommunications industry in the People's Republic of China, or the PRC.

The words anticipate, believe, could, estimate, expect, intend, may, plan, seek, will, would and they relate to us, are intended to identify a number of these forward-looking statements.

These forward-looking statements are subject to risks, uncertainties and assumptions, some of which are beyond our control. In addition, these forward-looking statements reflect our current views with respect to future events and are not a guarantee of future performance. We are under no obligation to update these forward-looking statements and do not intend to do so. Actual results may differ materially from the information contained in the forward-looking statements as a result of a number of factors, including, without limitation, the following:

any changes in the regulations or policies of the Ministry of Industry and Information Technology (prior to March 2008, the Ministry of Information Industry, or the MII), or the MIIT, and other relevant government authorities relating to, among other matters:

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the granting and approval of licenses;

tariff policies;

interconnection and settlement arrangements;

capital investment priorities;

the provision of telephone and other telecommunications services to rural areas in the PRC;

the convergence of television broadcast, telecommunications and Internet access networks, or three-network convergence; and

spectrum and numbering resources allocation;

the effects of competition on the demand for and price of our services;

any potential further restructuring or consolidation of the PRC telecommunications industry;

changes in the PRC telecommunications industry as a result of the issuance of the fourth generation mobile telecommunications, or 4G, licenses by the MIIT;

the development of new technologies and applications or services affecting the PRC telecommunications industry and our current and future business;

changes in political, economic, legal and social conditions in the PRC, including changes in the PRC government's specific policies with respect to foreign investment in and entry by foreign companies into the PRC telecommunications industry, economic growth, inflation, foreign exchange and the availability of credit;

results and effects of any investigation by the relevant PRC regulatory authorities; and

the development of our mobile business is dependent on the Tower Company.

Please also see the "Risk Factors" section of the Company's latest Annual Report on Form 20-F, as filed with the Securities and Exchange Commission.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CHINA TELECOM CORPORATION LIMITED

Date: April 12, 2018

By: /s/ Yang Jie

Name: Yang Jie

Title: Chairman and Chief Executive Officer

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Exhibit 1.1

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Ecosystem-Tetris Creates New Value

In the intelligent service era, industry environment and consumer demand have been changing substantially. Apart from building on its own resource and capability edges, companies also need to fully utilise external resources and leverage external capabilities to consolidate internal and external resources and competence to form competitive edges.

Entering into ecologicalisation, co-building of Ecosystem-Tetris is essential for a company's sustainable development, and to promote cooperation and achieve win-win. Through strategic cooperation, open platform and complementation of capabilities among partners along the value chain, all parties work together to form an ecosystem with diversity, complementarity, flexibility, convergence and innovation, in order to satisfy customers' demand and for new value creation. Cooperation in ecologicalisation will promote co-build, co-exist, co-sharing and win-win.

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About China Telecom

China Telecom Corporation Limited ("China Telecom" or the "Company" , a joint stock limited company incorporated in the People's Republic of China with limited liability, together with its subsidiaries, collectively the "Group") is a large-scale and leading integrated information services operator in the world, providing wireline & mobile telecommunications services, Internet access services, information services and other value-added telecommunications services primarily in the PRC. As at the end of 2017, the Company had mobile subscribers of about 250 million, wireline broadband subscribers of about 134 million and access lines in service of about 122 million. The Company's H shares and American Depositary Shares ("ADSs") are listed on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") and the New York Stock Exchange respectively.

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Certain statements contained in this report may be viewed as forward-looking statements within the meaning of Section 27A of the U.S. Securities Act of 1933 (as amended) and Section 21E of the U.S. Securities Exchange Act of 1934 (as amended). Such forward-looking statements are subject to known and unknown risks, uncertainties and other factors, which may cause the actual performance, financial condition or results of operations of China Telecom Corporation Limited (the Company) to be materially different from any future performance, financial condition or results of operations implied by such forward-looking statements. In addition, we do not intend to update these forward-looking statements. Further information regarding these risks, uncertainties and other factors is included in the Company's most recent Annual Report on Form 20-F filed with the U.S. Securities and Exchange Commission (the SEC) and in the Company's other filings with the SEC.

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2017 Milestones

APR

Featured reform measures Sub-division of performance evaluation units won the nation's recognition, continuously stimulating corporate vitality and being the paradigm of stated-owned enterprises reforms

Establishment of working units especially for Xiongan New Area at the Company's headquarter, adhering to the theme of high starting point, high standard and high quality; creating world-class superb information infrastructure facilities featuring intelligent, ubiquitous, safe and high-speed and endeavouring to contribute to a strategy crucial for the next millennium of the nation

MAY

Became the pioneer in building the first NB-IoT network with the widest coverage and largest scale in the world and commenced commercial launch in 31 provinces nationwide

Launched enriched large data traffic products through innovative cooperation, which were well received by the market and approximately 60 million subscribers were developed for the year

JUN

Under the guidance and support of the Ministry of Industry and Information Technology, China Telecom, in cooperation with China Unicom, actively promoted the approval of relevant standards by international organisations, namely GCF and GSMA. Multi-mode became an international standard and was well received by the market, with annual sales volume nationwide increased by more than 20% over last year and accounting for nearly 80% of sales volume of handsets

JUL

Enriched the connotation of transformation and upgrades strategy, advocating the theme of co-sharing, co-innovation, co-prosperity and promoting the construction of Ecosystem-Tetris

SEP

Implemented the national policy's requirement, completely ceasing to charge handset users domestic long-distance and roaming fee

DEC

Acquired the satellite business from our parent company, becoming the sole operator in China which integrated satellite with existing network as a whole

Comprehensively commenced 5G network trial runs in six cities including Xiongan, Shenzhen, Shanghai, Suzhou, Chengdu and Lanzhou, prospecting the landscape of 5G development and proactively accumulating capabilities

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Corporate Information

Board of Directors

Executive Directors

Yang Jie (Chairman)

Liu Aili

Ke Ruiwen

Gao Tongqing

Chen Zhongyue

Non-Executive Director

Chen Shengguang

Independent Non-Executive Directors

Tse Hau Yin, Aloysius

Cha May Lung, Laura

Xu Erming

Wang Hsuehming

Audit Committee

Tse Hau Yin, Aloysius (Chairman)

Xu Erming

Wang Hsuehming

Remuneration Committee

Xu Erming (Chairman)

Tse Hau Yin, Aloysius

Wang Hsuehming

Nomination Committee

Cha May Lung, Laura (Chairlady)

Tse Hau Yin, Aloysius

Xu Erming

Supervisory Committee

Sui Yixun (Chairman)

Zhang Jianbin (Employee Representative)

Yang Jianqing (Employee Representative)

Ye Zhong

Legal Representative

Yang Jie

Joint Company Secretaries

Ke Ruiwen

Wong Yuk Har

International Auditor

Deloitte Touche Tohmatsu

Legal Advisers

Haiwen & Partners

Freshfields Bruckhaus Deringer

Sullivan & Cromwell LLP

Stock Code

HKEx: 728

NYSE: CHA

Company Website

www.chinatelecom-h.com

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	2015 ⁶ (restated)	2016 ⁶ (restated)	2017
Operating revenues (RMB millions)	331,517	352,534	366,229
EBITDA ¹ (RMB millions)	94,113	95,162	102,171
EBITDA margin ²	32.1%	30.7%	30.9%
Net profit ³ (RMB millions)	20,058	18,018	18,617
Capital expenditure (RMB millions)	109,094	96,817	88,712
Free cash flow ⁴ (RMB millions)	(21,533)	(7,648)	7,267
Total debt/Equity ⁵	38.4%	35.7%	32.0%
Earnings per share (RMB)	0.2478	0.2226	0.2300
Dividend per share (HK\$)	0.095	0.105	0.115

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

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

6 Certain prior years figures were retrospectively restated due to the acquisition of satellite communications business and Shaanxi Zhonghe Hengtai Insurance Agent Limited. Please refer to note 1 to the audited consolidated financial statements in this annual report for details.

For further information,

please browse our website at

www.chinatelecom-h.com

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Financial Highlights

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Table of Contents***Chairman's Statement***

2017 was a year with landmark connotation in the development history of the Company. Facing increasingly complicated operation environment together with continuously intensified fierce market competition, corporate development faced immense pressure. With a unitary goal cohering as a whole, the Company firmly adhered to the established direction and stepped forward with keen determination to surmount tough difficulties. The Company thoroughly exploited all-rounded competitive capabilities persistently constructed and accumulated over the years and fully developed the superb corporate culture spirit of excellent execution, resulting in achievement of impressive results for the year with profitable scale development leaping forward to a new landmark. Meanwhile, with conscientious and organised planning before implementation, we pragmatically fostered transformation and upgrades as well as promoted comprehensive in-depth reforms, attaining important progressive results in phases. With accelerated cultivation of new growth engines, corporate vitality was remarkably and substantially reinforced. As a result, the stamina of development momentum became prominent. The results of 2017 demonstrated the Company's strong capabilities of resisting pressure and attaining growth and also proved the appropriateness of the development strategy of the Company, enabling us to further strengthen our confidence in persistently creating new value for shareholders.

Continual acceleration in scale development

In 2017, operating revenues amounted to RMB366.2 billion, representing an increase of 3.9% over last year. Of which service revenues¹ amounted to RMB331.0 billion, representing an increase of 6.9% over last year with revenue growth surpassing the industry average for three consecutive years. Mobile service revenues amounted to RMB153.8 billion, representing an increase of 11.7% over last year while wireline service revenues amounted to RMB177.2 billion, representing an increase of 3.0% over last year, resulting in concurrent enhancement in growth rates. Revenue structure was further optimised and the proportion of revenues from emerging businesses as a percentage of service revenues increased by 6.4 percentage points over last year. EBITDA² was RMB102.2 billion, representing an increase of 7.4% over last year. EBITDA margin² was 30.9%, representing an increase of 0.2 percentage point over last year. Net profit³ was RMB18.6 billion, representing an increase of 3.3% over last year while basic earnings per share were RMB0.23. Capital expenditure was RMB88.7 billion, representing a decrease of 8.4% over last year and achieving persistent stringent control. Free cash flow⁴ has remarkably improved and reached RMB7.3 billion. 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 final dividend equivalent to HK\$0.115 per share for the year 2017 to be declared, representing an increase of 9.5% over the year 2016.

¹ Service revenues were calculated based on operating revenues minus sales of mobile terminals, sale of wireline equipment and other non-service revenues.

² EBITDA was calculated based on operating revenues minus operating expenses plus depreciation and amortisation while EBITDA margin was calculated based on EBITDA divided by service revenues.

³ Net profit refers to the profit attributable to equity holders of the Company. Excluding after-tax effect of changes in depreciable lives of certain fixed assets amounted to approximately RMB3.1 billion, the net profit for year 2017 was approximately RMB21.7 billion, representing an increase of 20.2% over last year.

⁴ Free cash flow was calculated from EBITDA minus capital expenditure and income tax.

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Chairman's Statement

In 2017, the growth of subscriber scale of the Company has further accelerated. The net increase of mobile subscribers was 34.96 million, being doubled over last year. The total number of mobile subscribers reached 250 million, accounting for 17.6% market share which represented an increase of 1.4 percentage points from the end of last year. Of which the net increase of 4G users was 60.17 million, with a net increase of over 60 million for two consecutive years and reaching a total of 182 million. The net increase of wireline broadband subscribers was 10.41 million, achieving a new record high over the past 5 years and reaching a total of 134 million. Of which the proportion of wireline subscribers of Hundred-Mbps or above accounted for nearly 50% and being doubled. e-Surfing HD services continued to develop rapidly and the net increase of e-Surfing HD subscribers was 24.43 million, reaching a total of 85.76 million. Internet of Things (IoT) services developed quickly while the connected devices increased by more than 200% over last year.

Pragmatic promotion of transformation and upgrades

Year 2017 is the first complete year for implementation of transformation and upgrades strategy. The Company grasped and embraced the new development trend of intelligent era with network intelligentisation, service ecologicalisation and operation intellectualisation (three initiatives) as the direction of transformation and upgrades, striving to be a leading integrated intelligent information services operator . Over the past year, the Company continuously enriched strategic connotation and reinforced strategic execution, accomplishing effective results in phases and embarking on pragmatic steps forward in transformation and upgrades.

Network intelligentisation

Network intelligentisation is the foundation of transformation and upgrades. Being guided by *CTNet2025*, the Company promoted network reconstitution, introduced technologies such as Software-Defined Networking (SDN) and Network Functions Virtualisation (NFV) and sped up upgrades of network and equipment, endeavouring to build a new style network featuring neatness, efficient centralisation, swiftness and openness. In 2017, the Company constructed three superior networks, namely 4G network, IoT network and all-fibre network and based on these foundations, the Company also boosted the intelligentisation evolution of network with further consolidation and enhancement of network advantages.

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Chairman's Statement

Accelerated reinforcement of fundamental network capabilities. 280,000 new base stations were built, reaching a total of 1.17 million. We comprehensively established superior full coverage 4G network characterised with high- and low-frequency collaboration and simultaneously shaped network capabilities of VoLTE HD voice commercial launch, offering industry-leading integrated experience to our customers. Leveraging the 800MHz FDD 4G network, the Company became the pioneer in building the first NB-IoT network with the widest coverage and largest scale in the world and commenced commercial launch in 31 provinces nationwide. Meanwhile, eMTC was proactively introduced while a new generation of IoT capabilities with the characteristics of entire range and full speed is now being shaped and formed. Persisting in promoting the construction of fibre network, we established the world's largest Fibre-to-the-Home (FTTH) network while the fibre network coverage rate of households in cities and towns reached 96%. With comprehensive possession of Hundred-Mbps broadband service capabilities, we commenced deployment of Gbps broadband network in major cities. In overall, we continued to maintain our leading position in the industry.

Steady promotion of network intelligentisation evolution. We primarily accomplished the construction of cloud infrastructure unified across the entire network, laying a solid foundation for large scale cloudification of network capabilities in the future. Following the completed development of SDN intelligent dedicated line and pilot launch, the business capabilities of self-selective network were rapidly enhanced. With a vision looking forward into the future focusing on new opportunities with favourable return, we closely monitored trends and proactively accumulated capabilities to prospect the landscape of 5G development. The Company is deeply devoted to engaging in 5G standard formulation and network technology trial runs while taking the initiatives to explore and research on the feasibility study of collaborative development of 5G and 4G. 5G network trial has been conducted in 6 cities with extensive promotion of research and development of 5G applications.

Service ecologicalisation

Service ecologicalisation is the core of transformation and upgrades. In collaboration with its own strengths and resources endowment, the Company proactively established five business ecosphere, namely Intelligent Connection, Smart Family, New ICT Applications, IoT and Internet Finance. In 2017, adhering to the theme of co-sharing, co-innovation, co-prosperity, we coordinated with co-operative partners to co-build Ecosystem- Tetris with the aim of fostering the mutual integration, mutual promotion and scale development of the entire ecosphere.

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Intelligent Connection ecosphere is the foundation of service ecologicalisation. The Company fully leveraged the advantages of multi-mode handsets, vigorously promoted large data traffic products and insisted on integrated operation strategy. As a result, the subscriber scale of Intelligent Connection ecosphere expanded rapidly and its revenue increased by 4.7% over last year. With increasing popularity of multi-mode handsets, sales volume of multi-mode handsets of the entire industry increased by more than 20%⁵ over last year, accounting for approximately 80%⁵ of total sales volume of handsets while the sales volume of multi-mode handsets of the Company exceeded 130 million, resulting in remarkable expansion in customers' growth potential. With comprehensive exploitation of the 4G network capabilities advantages, we launched unlimited usage package products to mid- to high-end users. We also closely co-operated with various well-known Internet enterprises and offered more than 30 Internet card products to the youngsters group. The increase of subscribers of large data traffic products for the year was approximately 60 million. The aggregate handset Internet data traffic increased by 182% while the mobile handset Internet access revenue increased by 33%. Meanwhile, with our perseverance in integrated operation, we actively boosted in-depth integration of broadband with large data traffic products and Smart Family ecosphere products such as e-Surfing HD so as to attain rapid growth of broadband subscribers with concurrent remarkable enhancement of overall business value of the Company.

Smart Family ecosphere is a key area for value extension of connection capabilities. Based on broadband advantages as foundation, the Company strengthened ecological cooperation and enriched product systems to facilitate the formation of three smart livelihood portals, including e-Surfing gateway, e-Surfing HD and Smart Family app. With the promotion of various integrated product and services such as intelligent WiFi networking services, family cloud and intelligent voice box, we boosted the consumption upgrade for smart homes and home entertainment. Revenue from Smart Family ecosphere for the year increased by more than 40% with rapid expansion of business scale, which became important differentiated development measures for Intelligent Connection ecosphere. In the future, we will further facilitate the convergence of premium contents and applications and foster Internet-oriented operations, resulting in acceleration of products value realisation and persistent cultivation of new growth momentum.

New ICT Applications ecosphere and IoT ecosphere are valuable fields with vast development potential. Following the in-depth integration of Internet, cloud computing, Big Data, artificial intelligence with government management and corporate production, the integrated demand for New ICT Applications and IoT increased rapidly. The Company's premium networks, extensive IDC resources, excellent government and enterprise customers service systems as well as enriched industry experience offered strong and powerful support for seizing market opportunities and confirming leading position. Driven by cloud as the lead, we increased our initiatives to integrate cloud with

⁵ The data is quoted from SINO Market Research.

Table of Contents***Chairman's Statement***

network and broaden the development of informatisation applications focusing on key industries including government administration, education, medical care and industrial Internet. Scale expansion was accelerated while development momentum maintained persistently strong. Revenue from cloud and Big Data services increased by nearly 70% over last year while the revenue from IDC services maintained rapid growth. Based on a new generation of IoT with nationwide coverage as foundation, we successfully constructed Connectivity Management Platform and enriched terminals products, endeavouring to expand connection scale. Targeting on the long-term value growth of vertical applications such as Internet of vehicles, intelligent wearable devices and smart city, we devoted to create Application Enablement Platform and promoted the integration of IoT with cloud, striving to attain further extension towards high-end of value chain.

Internet Finance ecosphere becomes the Company's important measures for differentiation. We proactively promoted mutual integration and mutual promotion of Internet Finance ecosphere and Intelligent Connection ecosphere. The Company launched BestPay red packet⁶ and integrated convenient and agile finance payment capabilities with enriched consumption mode in business districts, creating differentiated marketing initiatives. The increase of BestPay red packet users for the year exceeded 30 million, driving rapid growth in mobile subscribers scale. Meanwhile, with enormous mobile subscribers resources serving as foundation, we promoted enrichment in various financial products to expand mobile payment scale. The total gross merchandise value (GMV) of BestPay for the year was approximately RMB1.6 trillion, representing an increase of 53% over last year. In the future, the Company will persistently reinforce ecological cooperation and further expand Internet Finance services.

Operation intellectualisation

Operation intellectualisation is the key to transformation and upgrades. Driven by Big Data as a force, we endeavoured to build market and frontline-driven operational systems so as to enhance efficiency of operational management. In 2017, the Company steadily promoted operation intellectualisation and the corporate core began to take shape. We initially established enterprise-level Big Data platform embedded the features of centralisation, openness and cloudification and accomplished the core data convergence of network, platform and operation. The volume of data collection and processing reached 100TB per day. In opening up our capabilities of data interchange and model analysis, we emphasised to develop tens of Big Data applications such as pre-assessment on product gross margin and network precision investment.

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

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Chairman's Statement

Riding on the corporate core capabilities, the Company profoundly promoted precision marketing, dedicated service, lean network operations and precision management. Through utilisation of Big Data analysis, we precisely reached out to our targeted customers. With our continuous efforts in strengthening electronic channels and upgrading over 10,000 Smart Family experience stores, we enhanced the channels' efficiency and capabilities. In executing our service commitment to installation within one day, repairs within one day, compensation in the event of delay, we established a new benchmark in the industry. Intelligent service methods such as customer services robots were launched so as to enhance service efficiency and customers experience, enabling us to maintain industry leading position in terms of customer satisfaction in both handset and wireline Internet access services. The response speed of installation and maintenance was expedited to enhance users' end-to-end experience. Through optimisation in the lease management of telecommunications towers, we focused on managing and controlling the relevant costs. Risks scanning model was built to strengthen the capabilities of risk prediction as well as risk management and control. With the implementation of precision network construction, we diverted resources titling towards highly profitable areas while through deepened centralised procurement, operating costs were reduced and corporate efficiency was enhanced.

Comprehensive in-depth reform and innovation

In 2017, the Company grasped the favourable and golden period of reforms to promote comprehensive in-depth reforms and reinforce reforms initiatives with our unwavering determination. The vitality of various factors such as human resources and capital were fully stimulated, accelerating the formation of operation systems and organisation mechanisms in alignment with transformation and upgrades.

In the aspect of operation systems, through persistent exploration and optimisation, the featured reform model of three-dimensional inter-driven forces comprising sub-division of performance evaluation units, professional operation and top-down support was formed, while more than 50,000 autonomous operation entities with unified accountability of duties, rights and interests were established, achieving concurrent growth of employee values and corporate values as a whole. The frontline vitality was significantly stimulated while professional endowment and capabilities as well as integrated service support level were consistently enhanced. Employees' satisfaction and corporate cohesion were continuously reinforced. Our reforms measures are the paradigm of state-owned enterprises' reforms.

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Chairman's Statement

In the aspect of organisation mechanisms, we carried out systematic reforms surrounding three initiatives and established the business innovation committee and technology innovation committee to coordinate and plan the corporate transformation blueprint. We also launched the operation of project-based systems and formed intellectualised joint project team to strengthen collaboration and innovation across professions, regions and levels.

In the aspect of factors reforms, we vigorously selected and recruited professional and technological talents which were requisite for the enterprise transformation, boosting the implementation of middle- to long- term incentives for core talents and endeavouring to establish talents system in alignment with transformation. We strived to bolster in-depth capital investment and operation to expedite the promotion of mixed-ownership reforms. With increased deployment in research and development, we commenced a number of significant research projects so as to accelerate the pace of technological innovation.

Corporate governance and social responsibility

We always commit to uphold a high level of corporate governance. Insisting on governing the corporate in accordance with laws and regulations, we attach great importance to risk management and control and continuously enhance corporate transparency to ensure corporate healthy and sustainable growth. Our persistent efforts in corporate governance have been widely recognised by the capital markets. In 2017, we were accredited with a number of awards and recognitions, including Most Honored Company in Asia by *Institutional Investor* for seven consecutive years, No. 1 Best Managed Company in Asia by *FinanceAsia*, The Best of Asia Icon on Corporate Governance by *Corporate Governance Asia* and Best Initiative in Innovation by *The Asset*.

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Chairman's Statement

As a major force of constructing Cyberpower, Digital China and Smart Society and a network infrastructure provider, we persevere in fulfillment of social responsibility. With full exploitation of the carrying pole function, we connect the upstream and downstream partners along the value chain and drive the joint development of information and telecommunications industry together with Internet applications enterprises, bolstering robust development of digital economy. In grasping the wish to enjoy better living of the general public, we promote to offer efficient, convenient and intimate personalised product services. With further implementation of the Speed Upgrade and Tariff Reduction policy, we vigorously reinforced the construction of informatisation fundamental infrastructure in rural areas so as to foster targeted poverty alleviation for the benefit of the society and the general public as a whole. With vigorous promotion of bandwidth expansion of Internet backbone network, network communications quality was effectively assured. In addition, we are also devoted to maintain network security and information security, striving to create a clean and healthy cyberspace. With accelerated replacement of obsolete equipment, we promote energy saving and emission reduction as well as foster green development. We received high recognition and appreciation from the society through our efforts in successfully accomplishing telecommunications assurance for the 19th CPC National Congress, BRICS Summit and the Belt and Road Summit, as well as disaster relief and rescue activities.

Outlook

At present, national development enters into a new era as the economy is transitioning from a phase of rapid growth to a stage of high-quality development. Developing modernised economy becomes the strategic goal of our nation's development. With the state's vigorous promotion of the construction of Cyberpower, Digital China and Smart Society, in-depth integration of informatisation with real economy including new industrialisation, urbanisation, agricultural modernisation is reinforced. New growth areas are cultivated while new impetus are shaped and formed, bringing precious development opportunities for the telecommunications industry. From the viewpoint of the entire industry, there is still vast growth potential for subscribers scale. Demand for data traffic continues to maintain rapid growth while emerging businesses show enormous demand capacity, providing vast market development potential for us. Meanwhile, with intensified industry competition together with increased pressure on price competition of data traffic and broadband services, the fleeting development opportunities of subscribers scale lapse promptly and cross-industry competition becomes increasingly prominent.

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Chairman's Statement

The present condition inspires us to strive for excellence and work hard while the development path has long term implication. We will promote deepened supply-side structural reform and accelerate transformation and upgrades, fostering quality reform, efficiency reform and impetus reform. Leveraging all-round competitive capabilities and insisting on integration and innovation, we will implement a more proactive marketing strategy to accelerate efficient scale development and persistently promote cost reduction and efficiency enhancement, while appropriately responding to the changes of regulations as well as maintaining good growth momentum. Meanwhile, with our devoted efforts to deeply promote network intelligentisation, service ecologicalisation and operation intellectualisation, a new generation of informatisation fundamental infrastructure featuring Internet of everything, human-computer interaction as well as integration of satellite with existing network as a whole is being created and built. With the establishment of integrated ecology between information technology and various sectors and industries, we will enhance corporate total factor productivity and march towards the three major goals of construction of Cyberpower, building a first-class enterprise, co-establishment of better living, endeavouring to continuously create new value for shareholders.

Finally, on behalf of the Board of Directors, I would like to take this opportunity to express our sincere gratitude to all our shareholders and customers for their support. I would also like to express our sincere thanks to all our employees for their hard work and contributions. Furthermore, I would like to extend our sincere gratitude towards Mr. Sun Kangmin for his excellent contributions during his tenure of office as a Director of the Company.

Yang Jie

Chairman and Chief Executive Officer

Beijing, China

28 March 2018

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Biographical Details of Directors, Supervisors and Senior Management

Mr. Yang Jie

Age 55, is the Chairman of the Board of Directors and Chief Executive Officer of the Company, joined the Board of Directors of the Company in October 2004. 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, General Manager of Business Department of the Northern Telecom of China Telecommunications Corporation, Executive Vice President, President and Chief Operating Officer of the Company, and Vice President and President of China Telecommunications Corporation. He is also the Chairman of China Telecommunications Corporation. Mr. Yang has extensive experience in management and the telecommunications industry.

Mr. Liu Aili

Age 54, is an Executive Director, President and Chief Operating Officer of the Company, joined the Board of Directors of the Company in November 2017. Mr. Liu is a professor-level senior engineer. He received a master of management degree from BI Norwegian School of Management, a doctorate degree in business administration from the Hong Kong Polytechnic University and is a visiting scholar at Harvard University and Yale University. Mr. Liu served as Director General of Shandong Mobile Telecommunications Administration, Director General of Network Department of China Mobile Communications Corporation, Chairman and President of China Mobile Group Shandong Company Limited, Chairman and President of China Mobile Group Zhejiang Company Limited, Chairman of CMPak Limited in Pakistan, Non-Executive Director of China Communications Services Corporation Limited, Executive Director and Vice President of China Mobile Limited, Vice President of China Mobile Communications Corporation and the Chairman of China Tower Corporation Limited. He is also a Director and President of China Telecommunications Corporation. Mr. Liu has extensive experience in management and the telecommunications industry.

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Biographical Details of Directors, Supervisors and Senior Management

Mr. Ke Ruiwen

Age 54, is an Executive Director, Executive Vice President and Joint Company Secretary of the Company, joined the Board of Directors of the Company in May 2012. 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, Managing Director of the Human Resources Department of the Company and China Telecommunications Corporation. He is also a Vice President of China Telecommunications Corporation and the Chairman of Supervisory Committee of China Tower Corporation Limited. Mr. Ke has extensive experience in management and the telecommunications industry.

Mr. Gao Tongqing

Age 54, is an Executive Director and Executive Vice President of the Company, joined the Board of Directors of the Company in May 2017. 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.

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Biographical Details of Directors, Supervisors and Senior Management

Mr. Chen Zhongyue

Age 46, is an Executive Director and Executive Vice President of the Company, joined the Board of Directors of the Company in May 2017. Mr. Chen received a bachelor degree from Shanghai International Studies University, a master degree in economy from Zhejiang University and an executive master degree of business administration (EMBA) from Xiamen 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.

Mr. Chen Shengguang

Age 54, is a Non-Executive Director of the Company, joined the Board of Directors of the Company in May 2017. Mr. Chen graduated from Zhongnan University of Economics with a major in finance and accounting, and obtained a postgraduate degree in economics from Guangdong Academy of Social Sciences and a master degree in business administration (MBA) from Lingnan College of Sun Yat-sen University. Mr. Chen is currently the Director and General Manager of Guangdong Rising Assets Management Co., Ltd. (one of the domestic shareholders of the Company). Mr. Chen served as the Manager of Finance Department and Deputy General Manager of Guangdong Foreign Trade Import & Export Corporation, Head of Finance Department, Assistant to General Manager and Chief Accountant of Guangdong Guangxin Foreign Trade Group Co., Limited, Director of FSPG Hi-Tech Co., Ltd., Non-Executive Director of Xingfa Aluminium Holdings Limited, Director of Guangdong Silk-Tex Group Co., Ltd., Chief Accountant and Deputy General Manager of Guangdong Guangxin Holdings Group Ltd.. Mr. Chen has extensive experience in finance and corporate management.

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Biographical Details of Directors, Supervisors and Senior Management

Mr. Tse Hau Yin, Aloysius

Age 70, is an Independent Non-Executive Director of the Company, joined the Board of Directors of the Company in September 2005. Mr. Tse is currently an Independent Non-Executive Director of CNOOC 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 also an Independent Non-Executive Director of Daohe Global Group Limited (formerly known as Linmark Group Limited), which is listed on the HKSE Main Board, from 2005 to 2016. 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.

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Biographical Details of Directors, Supervisors and Senior Management

Madam Cha May Lung, Laura

Age 68, is an Independent Non-Executive Director of the Company, joined the Board of Directors of the Company in September 2008. Mrs. Cha is currently 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 Limited, 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.

Professor Xu Erming

Age 68, is an Independent Non-Executive Director of the Company, joined the Board of Directors of the Company in September 2005. Professor Xu is a professor and Dean of Business School of Shantou University and Vice Chairman of the Chinese Enterprise Management Research Association. He is entitled to the State Council's special government allowances and is the Independent Non-Executive Director of Comtec Solar Systems Group Limited. Professor Xu served as a professor, Ph.D supervisor of the Graduate School and Dean of Business School at the Renmin University of China, and the Independent Supervisor of Harbin Electric Company Limited. Over the years, Professor Xu has conducted research in areas related to strategic management, innovation and entrepreneurship 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 awarded the Fulbright Scholar of U.S.A. twice and the visiting scholar of McGill University, Canada. 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, Panyapiwat Institute of Management, Thailand and the Hong Kong Polytechnic University.

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Biographical Details of Directors, Supervisors and Senior Management

Madam Wang Hsuehming

Age 68, is an Independent Non-Executive Director of the Company, joined the Board of Directors of the Company in May 2014. Madam Wang received a bachelor of arts degree from the University of Massachusetts and attended Columbia University. She was a Senior Advisor and former Chairman of BlackRock China. She was also the former Chairman of China at Goldman Sachs Asset Management. She joined Goldman Sachs in 1994, became a Partner in 2000 and an Advisory Director from 2010 to 2011. With nearly 30 years of experience in financial services, she participated in pioneering efforts in China's economic reform and development. She was instrumental in advising Ministry of Posts and Telecommunications and Ministry of Information Industry (now known as Ministry of Industry and Information Technology) in the privatisations and listings of its mobile and fixed line businesses. She also participated in advising appropriate operators in strategic investments by international telecom companies. The early cross-border financings of aircraft and other capital equipment in China's aviation sector, as well as the separate listings of national airlines, and important provincial and municipal credit restructurings also formed part of Madam Wang's understanding of China's economic growth in the past three decades.

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Biographical Details of Directors, Supervisors and Senior Management

Mr. Sui Yixun

Age 54, is the Chairman of the Supervisory Committee of the Company, joined the Supervisory Committee of the Company in May 2015. 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. Zhang Jianbin

Age 52, is an Employee Representative Supervisor of the Company, joined the Supervisory Committee of the Company in October 2012. 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 LL.M degree. He also had 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. Yang Jianqing

Age 58, is an Employee Representative Supervisor of the Company, joined the Supervisory Committee of the Company in May 2017. Mr. Yang is currently the General Manager of Corporate Culture Department of the Company. Mr. Yang graduated from the Beijing Institute of Posts and Telecommunications with a bachelor degree in 1982 and obtained a master degree in business administration from the University of Hong Kong. Mr. Yang served as Director General of Xining Telecommunications Bureau in Qinghai province, Deputy General Manager and General Manager of China Telecom Qinghai branch, General Manager of China Telecom Gansu branch, financial controller of the Company. Mr. Yang is a senior engineer and has extensive experience in operational and financial management in the telecommunications industry.

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Biographical Details of Directors, Supervisors and Senior Management

Mr. Ye Zhong

Age 58, is a Supervisor of the Company, joined the Supervisory Committee of the Company in May 2015. 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 of Zhejiang Venture Capital Fund of Funds Management Co. Ltd., Chairman of Zhejiang Financial Market Investment Co. Ltd., Chairman and General Manager of Zhejiang Agricultural Investment and Development Fund Co. Ltd., Chairman and General Manager of Zhejiang Infrastructure Investment (including PPP) Fund Co. Ltd., Director of Zhejiang Provincial Financial Holdings Co., Ltd. and Director of Zhejiang Provincial Industry 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.

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The following table sets out the key operating data for 2015, 2016 and 2017:

	Unit	2015	2016	2017	2017 change over 2016
Mobile subscribers	Million	197.90	215.00	249.96	16.3%
of which: 4G users	Million	58.46	121.87	182.04	49.4%
Mobile voice usage	Billion minutes	667.5	720.6	769.2	6.7%
Handset data traffic	kTB	554.7	1,277.0	3,597.0	181.7%
4G users DOU	MB/month/user	751	1,029	2,012	95.5%
Wireline broadband subscribers	Million	113.06	123.12	133.53	8.5%
of which: Fibre-to-the-Home (FTTH) subscribers	Million	70.99	105.99	126.17	19.0%
e-Surfing HD subscribers	Million	40.38	61.33	85.76	39.8%
Internet of Things connected devices	Million	0.98	14.19	44.30	212.2%
BestPay average monthly active users	Million	3.51	16.21	33.00	103.6%
Access lines in service	Million	134.32	126.86	121.80	-4.0%
Wireline local voice usage	Billion pulses	110.9	93.4	75.1	-19.6%

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In 2017, with accelerated promotion of network intelligentisation, service ecologicalisation and operation intellectualisation, the Company focused on the scale development of the five ecospheres, and achieved sound revenue growth momentum, continuous optimisation of business structure, sustained subscriber scale expansion and remarkably strengthened comprehensive capabilities.

Key Operating Performance in 2017

1. Healthy growth in operating revenues with continuous optimisation in business structure

In 2017, the Company's operating revenues increased by 3.9% year-on-year to RMB366.2 billion. Service revenues increased by 6.9% year-on-year to RMB331.0 billion. Revenue structure was further optimised, with emerging businesses accounting for 46% of service revenues, up 6.4 percentage points year-on-year. Of which, handset Internet access revenue and New ICT Application revenue increased by 33% and 20% respectively year-on-year, forming major drivers of revenue growth.

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2. Strong growth momentum for mobile services with scale hitting six-year high

Mobile subscribers reached 250 million in 2017, with a net addition of 34.96 million. Its market share reached 17.6%, representing an increase of 1.4 percentage points over the end of last year. Of which, 4G users reached 182 million, with a net addition of 60.17 million.

With 4G development entering into the phase of scale expansion and value realisation in 2017, the Company kept abreast of the market trend and grasped the opportunities arising from handset upgrade, demand for multiple SIM cards and explosive growth of data traffic ignited by Internet applications, to actively create new development models and leverage flexible combination of initiatives including multi-business convergence, multi-mode handsets and BestPay red packet, etc., striving to accelerate scale expansion. Thereby, net addition of mobile subscribers doubled year-on-year. Actively leveraging on data price elasticity, the Company launched large data traffic packages and Internet card products to raise both volume consumption and value of data, achieving growth of both data traffic and revenue. As a result, handset data traffic and handset Internet access revenue recorded

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year-on-year increases of 182% and 33%, respectively. The Company accelerated the popularisation of, and acquired international standard certification for multi-mode handsets, and integrated the industry value chain, so as to strengthen handset business operation. In 2017, multi-mode handsets sales volume of the whole industry increased by over 20%¹ year-on-year, accounting for 80%¹ of total handset sales volume. Of which, China Telecom's multi-mode handset sales were over 130 million, representing a year-on-year increase of nearly 70%, opening up more room for mobile business development.

3. Prominent brand differentiation edge of broadband service with strengthened resilience and growth momentum

Net addition of wireline broadband subscribers was 10.41 million in 2017, reaching a total of 134 million, of which share of subscribers enjoying access bandwidth of 100 Mbps or above was nearly 50%. Net addition of e-Surfing HD subscribers was 24.43 million, reaching a total of 85.76 million.

In 2017, in face of intensified competition and changing market landscape, the broadband business of the Company continued to grow rapidly, with net addition of subscribers hitting five-year high, demonstrating high resilience and growth momentum. With Smart Family as springboard, the Company sped up developing the Smart Family ecosphere by launching convergence packages with various services including fibre broadband, e-Surfing HD, Intelligent WiFi Networking Services, Family Cloud, etc. so as to address the growing market demand for applications such as smart household, video entertainment, and household networking. Adhering to leading development concepts while further implementing the strategy of Broadband China, Fibre Cities, the Company became the pioneer in achieving full fibre network coverage and leadership with Gbps capability, while also ensured high quality end-to-end Internet access experience with optimised network structure. The Company expedited response to installation and maintenance requests and promoted service standards of installation within one day, repairs within one day, compensation in the event of delay, while also introduced the industry's first HD-TV service standard to enhance subscribers' experience, which all contributed to the industry-leading customer satisfaction ratings of wireline Internet access service.

¹ The data is quoted from SINO Market Research.

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4. Ecologicalised operation achieved significant results with emerging business demonstrating strong momentum

Revenue of New ICT Application ecosphere in 2017 grew by 20% year-on-year. Of which, revenues from IDC, cloud and Big Data increased by 20%, 62% and 88% respectively. Revenue from IoT ecosphere increased by nearly 200%.

In 2017, the Company accelerated the exploration of emerging business and launched cloud platform featuring ICT capability exposure for enterprise customers by consolidating cloud, Big Data and other smart platforms, and collaborating with partners in respect of contents, solutions and applications, in response to booming development of cloud, Big Data and IoT markets, as well as scale expansion of government administration cloud and smart city markets. The Company focused on four key targeted markets namely government administration, education, healthcare and industrial Internet, and extended efforts in strengthening open cooperation and fostering informatised applications, so as to facilitate industry transformation and upgrades. The Company comprehensively upgraded its IoT open platform by fully leveraging on first-mover advantage of NB-IoT network, and innate edges of deep coverage of 800MHz frequency band, as well as high online rate of IoT connected devices. The Company also pioneered to announce a white paper for NB-IoT modules, and expedited the maturing process of upper stream of the industry value chain by means such as module subsidies and project engagement. 34 models of NB-IoT communication modules of 30 brands are now mass production-ready. The Company actively explored into vertical sectors including smart city, white goods,

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and Internet of livestock, and took the lead to launch smart applications and products with industry-leading partners to establish new benchmark of new generation IoT. The Company also propelled innovative development model of consumer financing by rolling out BestPay red packet and Orange Instalment Payment Service, which also mutually supported and coordinatedly developed with fundamental business. Through creating more spending scenarios in offline channel and increasing users' spending frequency, scale of BestPay active users, active participating merchants as well as the gross merchandise value grew rapidly.

5. Strengthening channel operation; channel sales and service capabilities steadily enhanced

The Company continued to push forward professional channel operation by effectively expanding scale of channels and reinforcing channel coordination, thereby remarkably enhancing channel sales and service capabilities. For physical channels, focus was placed on three aspects, namely business districts, communities and rural areas, outlet coverage in key areas was strengthened, channel structure was optimised, systematic assessment for community markets and channel performance scoring systems were established, outlet efficiency was improved, which altogether strengthened support for operation and development fundamentals. During 2017, the number of contributing points-of-sale in physical channels increased by 20,000 year-on-year and the sales-per-self-owned outlet increased by 26% year-on-year. On the online channel frontier, the Company coordinated O2O operation through innovative sales models such as cooperation with Internet companies for Internet card products and precision marketing. As a result, online sales capability was further strengthened and online sales accounted for 13% of total sales volume. On the government and enterprise channel frontier, the Company reinforced the direct sales system and built a team integrating sales, support and servicing functions, so as to enhance sales capability in emerging business. The Company also explored new service channels and injected intelligence into services, and launched intelligent services like customer servicing on live video chat and Wechat platforms as well as intelligent customer service robots, so as to achieve comprehensive improvement of customer service efficiency.

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6. Basic completion of construction of superior networks further establishing network leadership advantages

The Company has accelerated the construction of 4G, all-fibre and IoT superior networks and quickened the pace of network intelligentisation, completing the first nationwide and the world's largest LTE-FDD 4G network with 1.17 million base stations in total, covering 98% population of China. The Company has established the largest FTTH network in the world achieving full coverage of fibre network in residential areas of cities, towns and townships. Gbps fibre network was also deployed on an on-demand basis in over 150 key cities, effectively securing leading edge of fibre network. Leveraging the low-frequency 800MHz LTE network, the Company became the pioneer in building the world's first full coverage NB-IoT network at low cost, which became the key carrier for Internet of everything such as smart family, smart city and intelligent manufacturing. Cloud infrastructure and Big Data platform under unified operation were basically established, offering strong support to the business scale development of ecospheres.

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Outlook for 2018

2018 is a crucial year for the Company to further establish competitive edges and promote transformation and upgrades. Guided by various strategic principles, the Company will further bolster network intelligentisation, service ecologicalisation and operation intellectualisation, further develop the five ecospheres and forge differentiated edges, in a bid to achieve new breakthrough in both business scale and revenue. In respect of Intelligent Connections ecosphere, the Company will apply full-service convergence strategy, integrating differentiated edges in large data traffic plans, multi-mode handsets, BestPay red packet, premium broadband, 4K HD TV and Smart Family applications, so as to further expedite the scale expansion of 4G and fibre broadband businesses, and re-accelerate the development of fundamental business. The Company will strengthen data traffic operation and business development on existing subscribers, optimise the data operation model that integrates data traffic and content, so as to enhance subscriber value. In respect of Smart Family ecosphere, the Company will speed up scale expansion and value monetisation of e-Surfing HD service, spur rapid volume growth, upgrade and content enrichment of key applications such as Family Cloud, Intelligent WiFi Networking Services, Smart Speaker, Webcam Surveillance and Unified Account, so as to expedite ecologicalisation. In respect of Internet Finance ecosphere, the Company will leverage its fundamental business edge to expand the scales of gross merchandise value, active users and actively participating merchants of BestPay with diversification of payment scenarios and enhancement in payment functions, with an aim of perfecting customer experience.

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In respect of IoT ecosphere, the Company will target at three markets, namely smart city, vertical industries and personal consumption, leveraging advantages of 4G dedicated network and low-frequency NB-IoT network to produce enablement platform edge, seize the IoT application market and achieve scale breakthrough. In respect of New ICT Application ecosphere, the Company will make cloud the leading element of key businesses, build the advantage from converging Two Ts transform simple connectivity to cloud-network integration and IoT-cloud integration, and use cloud to drive the development of mobile, dedicated line and satellite businesses, thereby achieving convergence development, competition by differentiation and ecologicalised synergies.

In 2018, the Company will accelerate operation intellectualisation, endeavour to establish supporting and enablement edges in terms of IT, Big Data, channel and customer service. The Company will forge an open digital capability operating platform for internal use and clients, integrating IT, data, platform and other standard capabilities across the entire network, and extend the application of such platform in marketing, customer service, product development and network operation in typical application scenarios, so as to foster enhancement in quality and efficiency and customer experience improvement. The Company will endeavour to build a new demand-oriented, Big Data application-driven and online-offline-integrated comprehensive channel system, so as to enhance the sales and service capabilities of channels. The

² *Two Ts: DICT and IoT*

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Company will also establish a nationwide- unified artificial intelligence platform with the Proactive Service and Intelligent Alert function to continuously increase service efficiency. A quality control mechanism for products, operation and services will be set up to further optimise the Company's quality management system and to secure quality edges of all products and services.

Guided by *CTNet2025*, the Company will also deepen the promotion of network intelligentisation, to build three superior fundamental networks, namely 4G network, all-fibre network and IoT network, so as to establish comprehensive network edge. The 4G network will aim to secure leading position in four aspects, i.e. appropriate leading position in wide area coverage, relative leading position in continuous coverage, absolute leading position in shallow coverage and focused leading position in deep coverage, to ensure subscribers have brand new experience with and perception of the 4G network, and to support the scale commercialisation of VoLTE HD voice business. Meanwhile, end-to-end fine-tuning of broadband network will be reinforced, so as to strengthen the Company's advantage in fibre network coverage, and secure absolute edges in family broadband, government and enterprise access. In addition, the Company will continue to optimise NB-IoT network and accelerate the introduction of eMTC, aiming to build a premium IoT network. The Company will carry out coordinated planning for cloud/IDC infrastructure and CDN deployment, and promote SDN/NFV deployment as planned. The Company will proactively yet steadily promote the implementation of transformation and upgrades strategy, provide strong support to business scale development, continue to enhance the quality and efficiency of corporate development, and foster mutual growth in corporate value, customer value and employee value.

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Summary

In 2017, the Company deepened its reform and innovation and accelerated the scale development leading by its transformation and upgrades strategy. Development capabilities were continuously accumulated while efficiency and effectiveness were successfully enhanced. As a result, the overall operating results achieved steady growth. Operating revenues in 2017 were RMB366,229 million, an increase of 3.9% from year 2016¹; service revenues² were RMB331,044 million, an increase of 6.9% from year 2016; operating expenses were RMB339,009 million, an increase of 4.2% from year 2016; profit attributable to equity holders of the Company was RMB18,617 million, an increase of 3.3% from year 2016; basic earnings per share were RMB0.23; EBITDA³ was RMB102,171 million, an increase of 7.4% from year 2016 and the EBITDA margin⁴ was 30.9%, an increase of 0.2 percentage point from last year.

Operating Revenues

In 2017, the Company insisted on integration and innovation, and effectively responded to market competition. The subscribers scale grew rapidly and the revenue structure was continuously optimised with steady growth in operating revenues. Operating revenues in 2017 were RMB366,229 million, an increase of 3.9% from year 2016. Of which, total mobile revenues were RMB180,535 million, an increase of 4.8% from year 2016; total wireline revenues were RMB185,694 million, an increase of 3.0% from year 2016.

¹ In 2017, the Group acquired the satellite communications business and Shaanxi Zhonghe Hengtai Insurance Agent Limited (). As the transaction was recognised as a combination of entities under common control, the figures of prior years have been restated accordingly. Please refer to note 1 of the audited consolidated financial statements for details.

² Service revenues were calculated based on operating revenues minus sales of mobile terminals (2017: RMB26,759 million; 2016: RMB34,612 million), sales of wireline equipment (2017: RMB6,446 million; 2016: RMB5,902 million) and other non-service revenues (2017: RMB1,980 million; 2016: RMB2,208 million).

³ 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.

⁴ *EBITDA margin was calculated based on EBITDA divided by service revenues.*

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The following table sets forth a breakdown of the operating revenues for 2016 and 2017, together with their respective rates of change:

<i>(RMB millions, except percentage data)</i>	For the year ended 31 December		
	2017	2016 (restated)	Rates of change
Voice	61,678	70,185	-12.1%
Internet	172,554	150,449	14.7%
Information and application services	73,044	66,881	9.2%
Telecommunications network resource services and lease of network equipment	19,125	17,781	7.6%
Others	39,828	47,238	-15.7%
Total operating revenues	366,229	352,534	3.9%

Voice

In 2017, being continuously affected by the substitution effect of mobile Internet services such as OTT, revenue from voice services was RMB61,678 million, a decrease of 12.1% from year 2016, accounting for 16.8% of operating revenues. Of which, revenue from wireline voice services was RMB22,263 million, a decrease of 14.3% from year 2016; revenue from mobile voice services was RMB39,415 million, a decrease of 10.8% from year 2016. The risks associated with revenue from voice services were further mitigated while the revenue structure was continuously optimised.

Internet

In 2017, revenue from Internet services was RMB172,554 million, an increase of 14.7% from year 2016, accounting for 47.1% of operating revenues. The Company further deepened its integrated operation and strengthened applications enrichment. With optimisation in network and service quality, we are able to reinforce our leading position in the broadband market. Besides, we strived to preserve our corporate value while expanding the scale development of broadband subscribers. At the end of 2017, the number of wireline broadband subscribers reached 134 million, with a net increase of 10.41 million. The wireline broadband revenue was RMB76,744 million, which was relatively stable as compared with that of year 2016. The Company well planned the all-rounded 4G development through active promotion of popularity of multi-mode handsets, innovative introduction of large data traffic products and continuous construction of the superior 4G network, providing new engines for the fast-growing mobile services and effectively driving the rapid increase in mobile data traffic and related revenue. Revenue from mobile Internet access services was RMB92,961 million, an increase of 31.5% from year 2016. Of which, mobile handset Internet access revenue was RMB90,865 million, an increase of 33.1% from year 2016.

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Information and Application Services

In 2017, revenue from information and application services was RMB73,044 million, an increase of 9.2% from year 2016, accounting for 20.0% of operating revenues. Of which, revenue from wireline information and application services was RMB52,037 million, an increase of 17.3% from year 2016, mainly benefiting from the rapid growth of IDC, cloud, Big Data and e-Surfing HD services. Revenue from mobile information and application services was RMB21,007 million, a decrease of 6.7% from year 2016, which was mainly due to the decrease in revenue from traditional value-added services such as information inquiry services.

Telecommunications Network Resource Services and Lease of Network Equipment

In 2017, revenue from telecommunications network resource services and lease of network equipment was RMB19,125 million, an increase of 7.6% from year 2016, accounting for 5.2% of operating revenues. Of which, revenue from wireline telecommunications network resource services and lease of network equipment was RMB18,835 million, an increase of 7.0% from year 2016, which was mainly due to the favourable growth in revenue from the IP-VPN service and digital circuit service.

Others

In 2017, revenue from other services was RMB39,828 million, a decrease of 15.7% from year 2016, accounting for 10.9% of operating revenues. Revenue from sales of mobile terminals was RMB26,759 million, a decrease of 22.7% from year 2016, which was mainly attributable to the enhanced promotion and increasing popularisation of multi-mode handsets, the increase of number of terminals sold through open channels as well as the reduction in the Company's centralised procurement, resulting in the decline in revenue from sales of terminals.

Operating Expenses

The Company continued to optimise the cost structure and rationalised the allocation of resources in order to support the scale development. In 2017, operating expenses were RMB339,009 million, an increase of 4.2% from year 2016. Operating expenses accounted for 92.6% of operating revenues, an increase of 0.3 percentage point from year 2016.

The following table sets forth a breakdown of the operating expenses in 2016 and 2017 and their respective rates of change:

<i>(RMB millions, except percentage data)</i>	For the year ended 31 December		
	2017	2016 (restated)	Rates of change
Depreciation and amortisation	74,951	67,942	10.3%
Network operations and support	103,969	94,156	10.4%
Selling, general and administrative	58,434	56,426	3.6%

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Personnel expenses	56,043	54,504	2.8%
Other operating expenses	45,612	52,286	-12.8%
Total operating expenses	339,009	325,314	4.2%

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Depreciation and Amortisation

In 2017, depreciation and amortisation was RMB74,951 million, an increase of 10.3% from year 2016, accounting for 20.5% of operating revenues. The increase was mainly due to the changes in accounting depreciable lives of certain fixed assets from 10 years to 5 years by the Company with effect from 1 October 2017, and accordingly the depreciation expenses increased by RMB4,045 million. Meanwhile, since the Company continued with its large-scale investment in the development of 4G and fibre broadband network in recent years, the increase in depreciation of newly added assets outweighed the decrease in depreciation of the existing assets.

Network Operations and Support

In 2017, network operations and support expenses were RMB103,969 million, an increase of 10.4% from year 2016, accounting for 28.4% of operating revenues. It was mainly due to the increase in the tower assets lease fee and the costs of repairs and maintenance attributed to the enhancement of network capabilities and quality. At the same time, the Company implemented stringent cost management and control and therefore, the increase in network operations and support expenses was under effective control.

Selling, General and Administrative

In 2017, selling, general and administrative expenses amounted to RMB58,434 million, an increase of 3.6% from year 2016, accounting for 16.0% of operating revenues. Selling expenses were RMB50,345 million, an increase of 5.3% from year 2016. The Company continuously optimised its sales and marketing model, appropriately increased its investment in channel costs and significantly reduced the terminal subsidies, achieving enhancement in the overall utilisation effectiveness of sales and marketing expenses. Of which, commission and service expenses for third parties amounted to RMB36,273 million, an increase of 17.9% from year 2016. Advertising and promotion expenses amounted to RMB14,072 million, a decrease of 17.6% from year 2016, of which the terminal subsidies amounted to RMB4,707 million, a decrease of 49.8% from year 2016.

Personnel Expenses

In 2017, personnel expenses were RMB56,043 million, an increase of 2.8% from year 2016, accounting for 15.3% of operating revenues. For details of the number of employees, remuneration policies and training schemes, please refer to the Environmental, Social and Governance Report in the Annual Report for the year ended 31 December 2017.

Other Operating Expenses

In 2017, other operating expenses were RMB45,612 million, a decrease of 12.8% from year 2016, accounting for 12.4% of operating revenues. The cost of mobile terminal equipment sold amounted to RMB25,488 million, a decrease of 22.5% from year 2016, which was in line with the decrease in revenue from sales of mobile terminals.

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Net Finance Costs

In 2017, net finance costs were RMB3,291 million, an increase of 1.7% from year 2016. Net exchange loss amounted to RMB134 million in year 2017. The fluctuation of foreign exchange gain or loss was mainly due to the effect of changes in the exchange rate of RMB against USD.

Profitability Level

Income Tax

The Company's statutory income tax rate is 25%. In 2017, income tax expenses were RMB6,192 million with the effective income tax rate of 24.8%. 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.

Profit Attributable to Equity Holders of the Company

In 2017, profit attributable to equity holders of the Company was RMB18,617 million, an increase of 3.3% from year 2016.

Changes in Accounting Estimates

Since the implementation of transformation and upgrades strategy in June 2016, the Company has expedited the construction of new generation network, continuously raising the demand for high performance and rapid cannibalisation of assets. Following an assessment conducted during the year, the Company considered that there were changes in the expected useful lives of the enterprise information system equipment, IPTV equipment and CDN equipment along with the fast high-definition development of the video services, the rapid evolution of information technology and the accelerated cannibalisation of equipment. To ensure the accounting depreciable lives of fixed assets better reflecting the condition of actual usage of the assets, the Company resolved to change the accounting depreciable lives of the above assets from 10 years to 5 years in order to further reinforce assets quality and enhance the market competitiveness of our services, which will in turn promote the long-term sustainable development of the Company. The above changes have been implemented with effect from 1 October 2017. These changes in accounting estimates resulted in the corresponding increase of depreciation expenses by RMB4,045 million in year 2017.

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Capital Expenditure and Cash Flows**Capital Expenditure**

In 2017, the Company continued to enhance its management and control of capital expenditure, consistently optimised the investment structure as well as took advantage of Big Data to implement precision investment, which resulted in improvement of the investment efficiency and effectiveness. In 2017, capital expenditure was RMB88,712 million, a decrease of 8.4% from year 2016.

Cash Flows

Net decrease in cash and cash equivalents in 2017 was RMB4,908 million while the net decrease in cash and cash equivalents in year 2016 was RMB7,463 million.

The following table sets forth the cash flow position in 2016 and 2017:

<i>(RMB millions)</i>	For the year ended 31 December	
	2017	2016 (restated)
Net cash flow from operating activities	96,502	101,135
Net cash flow used in investing activities	(85,263)	(99,043)
Net cash flow used in financing activities	(16,147)	(9,555)
Net decrease in cash and cash equivalents	(4,908)	(7,463)

In 2017, the net cash inflow from operating activities was RMB96,502 million, a decrease of 4.6% from year 2016, which was mainly due to the increase in expenses related to operating activities.

In 2017, the net cash outflow used in investing activities was RMB85,263 million, a decrease of 13.9% from year 2016, which was mainly due to the decrease in capital expenditure.

In 2017, the net cash outflow used in financing activities was RMB16,147 million, an increase of 69.0% from year 2016, which was mainly due to the higher amount of repayment of deferred consideration of mobile network acquisition due this year than the newly obtained borrowings.

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Working Capital

The Company consistently upheld prudent financial principles and stringent fund management policies. At the end of 2017, working capital (total current assets minus total current liabilities) deficit was RMB203,858 million, a decrease in deficit of RMB41,141 million from year 2016. The decrease in deficit was mainly due to the repayment of deferred consideration of mobile network acquisition due this year. As at 31 December 2017, the unutilised credit facilities were RMB154,793 million (2016: RMB161,229 million). Given the stable net cash inflow from operating activities and the sound credit record, the Company has sufficient working capital to satisfy the operation requirement. At the end of 2017, cash and cash equivalents amounted to RMB19,410 million, amongst which cash and cash equivalents denominated in Renminbi accounted for 81.6% (2016: 81.8%).

Assets and Liabilities

In 2017, the Company continued to maintain a solid financial position. At the end of 2017, the total assets increased by 1.3% to RMB661,194 million from RMB652,558 million at the end of 2016. Total indebtedness decreased to RMB104,377 million from RMB112,528 million at the end of 2016. The ratio of total indebtedness to total assets decreased to 15.8% from 17.2% at the end of 2016.

Indebtedness

The indebtedness analysis as at the end of 2016 and 2017 is as follows:

<i>(RMB millions)</i>	For the year ended 31 December	
	2017	2016
Short-term debt	54,558	40,780
Long-term debt and payable maturing within one year	1,146	62,276
Long-term debt	48,596	9,370
Finance lease obligations (including current portion)	77	102
Total debt	104,377	112,528

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By the end of 2017, the total indebtedness was RMB104,377 million, a decrease of RMB8,151 million from the end of 2016, which was mainly due to the effective reduction in scale of interest-bearing debt as a result of the efficient centralised capital management implemented by the Company. Of the total indebtedness, loans denominated in Renminbi, US Dollars and Euro accounted for 99.4% (2016: 99.4%), 0.4% (2016: 0.4%) and 0.2% (2016: 0.2%), respectively. 99.5% (2016: 44.3%) of the indebtedness are loans with fixed interest rates, while the remaining portion of the indebtedness represented loans with floating interest rates.

As at 31 December 2017, neither the Company nor any of its subsidiaries pledge any assets as collateral for debt (2016: Nil).

Most of the revenues received and expenses paid in our business were denominated in Renminbi, therefore there were no significant risk exposures arising from foreign exchange fluctuations.

Investment in China Tower

In 2017, the Company held 27.9% of China Tower Corporation Limited (China Tower). Please refer to note 9 of the audited consolidated financial statements for its financial performance during the year. In the future, the Company can enjoy more fundamental network resources through China Tower. As one of the shareholders of China Tower, it is expected that we can benefit from the enhancement of profits and values from China Tower.

Contractual Obligations

		1	1	1	1	1	
		1 January	1 January	January	1 January	January	
		2018 to	2019 to	2020 to	2021 to	2022 to	
		31 December	31 December	31 December	31 December	31 December	
(RMB millions)	Total	2018	2019	2020	2021	2022	Thereafter
Short-term debt	55,682	55,682					