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## **China Telecom Corporation Limited**

**中国电信股份有限公司**

*(A joint stock limited company incorporated in the People's Republic of China with limited liability)*

**(Stock Code: 728)**

### **ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2017**

#### **HIGHLIGHTS**

- Operating revenues amounted to RMB184,118 million, increased by 4.1% over the same period last year. Service revenues amounted to RMB165,847 million, up by 6.8% over the same period last year, outperforming the industry average growth
- EBITDA was RMB52,414 million, increased by 3.7% over the same period last year. EBITDA margin was 31.6%
- Profit attributable to equity holders of the Company was RMB12,537 million, increased by 7.4% over the same period last year. Basic earnings per share were RMB0.15
- Total number of mobile subscribers was 230 million, with a net increase of 14.85 million from the end of last year, of which the number of 4G terminal users reached 152 million, with a net increase of 30.15 million from the end of last year. 4G terminal users accounted for 66% of total mobile subscribers while the aggregate handset Internet data traffic increased by 126% over the same period last year
- Total number of wireline broadband subscribers was 128 million, with a net increase of 4.98 million from the end of last year, of which the number of Fibre-to-the-Home (FTTH) subscribers reached 117 million, with a net increase of 11.24 million from the end of last year, accounted for 92% of total wireline broadband subscribers

## CHAIRMAN'S STATEMENT

In the first half of this year, facing increasingly intensified market competition coupled with complicated and changing industry environments, the Company firmly rose to the challenges with a unitary goal cohering as a whole, adopting conscientious and pragmatic approach with excellent execution and marching towards the goal of being a leading integrated intelligent information services operator. With perseverance in integration and innovation, acceleration in scale development together with reinforcement of competitive strengths, the growth momentum in business development remained consistently strong. We firmly adhered to the established development strategy and comprehensively promoted the three initiatives<sup>1</sup> with comprehensive in-depth reforms, initially attaining effective achievement in transformation and upgrades<sup>1</sup>.

### **Corporate operation continued to show solid development**

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

### ***Financial results showed steady growth***

In the first half of the year, operating revenues amounted to RMB184.1 billion, representing an increase of 4.1% over the same period last year. Service revenues<sup>2</sup> amounted to RMB165.8 billion, representing an increase of 6.8% over the same period last year with revenue growth surpassing the industry average. Mobile service revenues amounted to RMB75.7 billion, increased by 12.2% over the same period last year with industry-leading growth. Revenues from emerging businesses accounted for 45.0% of service revenues, representing an increase of 6.1 percentage points over the same period last year. EBITDA<sup>3</sup> was RMB52.4 billion, representing an increase of 3.7% over the same period last year while EBITDA margin<sup>3</sup> was 31.6%. Net profit<sup>4</sup> was RMB12.5 billion, representing an increase of 7.4% over the same period last year. Basic earnings per share were RMB0.15. Capital expenditure was RMB41.1 billion while free cash flow<sup>5</sup> was RMB7.2 billion with remarkable improvement over last year.

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

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

<sup>3</sup> 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.

<sup>4</sup> Net profit refers to the profit attributable to the equity holders of the Company.

<sup>5</sup> Free cash flow was calculated from EBITDA minus capital expenditure and income tax.

Taking into consideration the Company's profitability, cash flow level and the capital requirements for future development, the Board of Directors has decided not to pay an interim dividend this year in order to maintain adequate funding flexibility. The Board of Directors will proactively consider the expectation of shareholders' return and evaluate the final dividend proposal when reviewing the full year results and will propose to the shareholders' general meeting accordingly.

### ***Accelerated expansion of business scale***

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

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

### ***Continual optimisation in revenue structure***

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

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

### **Attained initial effective achievement of Transformation 3.0**

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

#### ***Strengthening of network advantages***

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

With a vision looking forward into the future, the Company accelerated the promotion and implementation of network evolution. On the one hand, we are deeply devoted to engaging in 5G standard formulation and technology trial runs while proactively exploring and researching the networking plan for the evolution from 4G to 5G. 5G network field trial will be conducted in 6 cities and the joint research and development of 5G applications and solutions will be launched collaborating with co-operative partners from various industries, laying foundation for 5G development. In addition,

we steadily promoted the evolution of network intelligentisation, expedited the introduction and deployment of technologies such as Software-Defined Networking (SDN) and Network Functions Virtualisation (NFV) and achieved the highly efficient collaboration of network and IT. As a result, a new generation of network with the characteristics of flexibility, swiftness and elasticity with extensible functions is progressively constructed, offering state-of-the-art network experience with embedded self-selective, visible and self-served features.

### ***Prosperity of business ecology***

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

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

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

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

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

In the area of Internet Finance, leveraging rich customers resources and reliable mobile payment capabilities, we innovated sales and marketing model and launched BestPay red packet<sup>6</sup>, deeply promoting the integration of Internet Finance ecosphere and Intelligent Connection ecosphere and achieving the outcome of mutual promotion and mutual driven. We created open platform of BestPay merchants and converged premium merchants to offer service capabilities including sales and marketing, gateway access payment and capital concentration. Serving as channels for each other with platforms participants, we strived to accomplish co-sharing of resources aiming at achieving mutual growth. Through close cooperation with leading enterprises in the areas of financial planning and financial technology, the Company achieved the realisation of resources complementarity, enriching content connotation and expansion path of Internet Finance services of the Company.

<sup>6</sup> 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.

## ***Enhancement of operating capability***

In the first half of the year, the Company focused on enhancing competitive capabilities in channel sales, network operations and customer services. In the aspect of channel sales, we applied Big Data to optimise the location of sales outlets and strengthened the outlets coverage in key areas. We promoted superior outlet systems to foster the standardised operation of self-operated outlets. The promotion of B2I2C (business to Internet to customer) products on online channels was expanded and new co-operative channels such as chain stores and supermarkets were promoted. In the aspect of network operations, we expedited the response speed of installation and maintenance and optimised the end-to-end operation maintenance process so as to persistently enhance users' experience and strengthen network operations advantages. In the aspect of customer services, we executed our service commitment in fibre broadband to ensure "installation within one day, repairs within one day, compensation in the event of delay" and took the initiatives to publish *Government and Enterprises Customers Service Standard White Paper* in the industry, symbolising a new benchmark in services. Methods such as customer services robots and new media self-service were applied to launch smart services. The number of usage times of "Huango" mobile online service application was close to ten billions. The Company continued to rank first in the industry in terms of customer satisfaction<sup>7</sup> in both handset and wireline Internet access services.

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

<sup>7</sup> Customers' satisfaction survey from the Ministry of Industry and Information Technology.

## **In-depth promotion of comprehensive reform**

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

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

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

## **Corporate governance and social responsibility**

We are committed to maintaining a high level of corporate governance, attaching great importance to risk management and control. We strive to persistently enhance corporate transparency and value to ensure our healthy and orderly growth. Our efforts in corporate governance have been widely recognised by the capital markets. We were awarded “Most Honored Company in Asia” by *Institutional Investor* for seven consecutive years and “No. 1 Overall Best Managed Company in Asia” by *FinanceAsia*.

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

## **Transformation and upgrades leading to the smart future**

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

People who can observe and analyse the trends well are intelligent. People who can grasp and dominate the trends well are winners. In the second half of the year, directly facing market competition, we will further transform the network strengths and service edges into competitive strengths. We will adhere to adopt aggressive strategy, not only intensely focusing on integration and innovation as well as in-depth data traffic operation but also facilitating persistent enhancement of scale and effectiveness, so as to ensure the achievement of excellent results for the whole year. With our unwavering promotion of Transformation 3.0, the Company will focus on the enhancement of capabilities, expansion of open cooperation and co-building of “Ecosystem-Tetris” with co-operative partners, resulting in continuous reinforcement of ecological strengths. We will stimulate vitality with in-depth reforms and strengthen market consciousness, breaking up the barrier of systems and mechanisms which impede productivity and cultivating good atmosphere for work and entrepreneurship. With pragmatic implementation and reinforced execution together with the strengthening of process management and control by adopting clear and effective systems, we strive to attain new achievement in corporate transformation and upgrades as well as create more value for shareholders.

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

**Yang Jie**

*Chairman and Chief Executive Officer*

Beijing, China

23 August 2017

## GROUP RESULT

China Telecom Corporation Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2017 extracted from the unaudited interim financial statements of the Group as set out in its 2017 Interim Report.

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

*for the six-month period ended 30 June 2017  
(Amounts in millions, except per share data)*

|                                     |       | Six-month period ended |           |
|-------------------------------------|-------|------------------------|-----------|
|                                     |       | 30 June                |           |
|                                     | Notes | 2017                   | 2016      |
|                                     |       | RMB                    | RMB       |
| <b>Operating revenues</b>           | 3     | <b>184,118</b>         | 176,828   |
| <b>Operating expenses</b>           |       |                        |           |
| Depreciation and amortisation       |       | (34,432)               | (33,447)  |
| Network operations and support      |       | (48,431)               | (43,951)  |
| Selling, general and administrative |       | (28,738)               | (27,319)  |
| Personnel expenses                  |       | (30,755)               | (28,909)  |
| Other operating expenses            |       | (23,780)               | (26,094)  |
| <b>Total operating expenses</b>     |       | <b>(166,136)</b>       | (159,720) |
| <b>Operating profit</b>             |       | <b>17,982</b>          | 17,108    |
| Net finance costs                   | 4     | (1,771)                | (1,728)   |
| Investment income                   |       | 15                     | 9         |
| Share of profits of associates      |       | 453                    | 80        |
| <b>Profit before taxation</b>       |       | <b>16,679</b>          | 15,469    |
| Income tax                          | 5     | (4,084)                | (3,747)   |
| <b>Profit for the period</b>        |       | <b>12,595</b>          | 11,722    |

|   |              | <b>Six-month period ended</b> |               |
|---|--------------|-------------------------------|---------------|
|   |              | <b>30 June</b>                |               |
|   |              | <b>2017</b>                   | <b>2016</b>   |
|   | <i>Notes</i> | <b>RMB</b>                    | <b>RMB</b>    |
| <b>Other comprehensive income for the period:</b>   |              |                               |               |
| <i>Items that may be reclassified subsequently to profit or loss:</i>                             |              |                               |               |
| Change in fair value of available-for-sale equity securities                                      |              | (235)                         | (342)         |
| Deferred tax on change in fair value of available-for-sale equity securities                      |              | 59                            | 86            |
| Exchange difference on translation of financial statements of subsidiaries outside mainland China |              | (96)                          | 37            |
| Share of other comprehensive income of associates   |              | 6                             | 6             |
|   |              | <u>6</u>                      | <u>6</u>      |
| <b>Other comprehensive income for the period, net of tax</b>                                      |              | <u>(266)</u>                  | <u>(213)</u>  |
| <b>Total comprehensive income for the period</b>  |              | <u>12,329</u>                 | <u>11,509</u> |
| <b>Profit attributable to:</b>  |              |                               |               |
| Equity holders of the Company   |              | 12,537                        | 11,673        |
| Non-controlling interests   |              | 58                            | 49            |
|   |              | <u>58</u>                     | <u>49</u>     |
| <b>Profit for the period</b>  |              | <u>12,595</u>                 | <u>11,722</u> |
| <b>Total comprehensive income attributable to:</b>  |              |                               |               |
| Equity holders of the Company   |              | 12,271                        | 11,460        |
| Non-controlling interests   |              | 58                            | 49            |
|   |              | <u>58</u>                     | <u>49</u>     |
| <b>Total comprehensive income for the period</b>  |              | <u>12,329</u>                 | <u>11,509</u> |
| <b>Basic earnings per share</b>   | 6            | <u>0.15</u>                   | <u>0.14</u>   |
| <b>Number of shares (in millions)</b>   |              | <u>80,932</u>                 | <u>80,932</u> |

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
(UNAUDITED)**

at 30 June 2017

(Amounts in millions)

|                                      | <i>Notes</i> | <b>30 June<br/>2017<br/>RMB</b> | 31 December<br>2016<br>RMB |
|--------------------------------------|--------------|---------------------------------|----------------------------|
| <b>ASSETS</b>                        |              |                                 |                            |
| <b>Non-current assets</b>            |              |                                 |                            |
| Property, plant and equipment, net   |              | <b>388,444</b>                  | 389,648                    |
| Construction in progress             |              | <b>87,136</b>                   | 80,381                     |
| Lease prepayments                    |              | <b>22,591</b>                   | 22,955                     |
| Goodwill                             |              | <b>29,921</b>                   | 29,923                     |
| Intangible assets                    |              | <b>10,771</b>                   | 11,244                     |
| Interests in associates              |              | <b>35,324</b>                   | 34,572                     |
| Investments                          |              | <b>1,296</b>                    | 1,535                      |
| Deferred tax assets                  | 8            | <b>5,191</b>                    | 5,061                      |
| Other assets                         |              | <b>2,985</b>                    | 3,077                      |
|                                      |              | <hr/>                           | <hr/>                      |
| <b>Total non-current assets</b>      |              | <b>583,659</b>                  | 578,396                    |
| <b>Current assets</b>                |              |                                 |                            |
| Inventories                          |              | <b>3,614</b>                    | 5,081                      |
| Income tax recoverable               |              | <b>69</b>                       | 50                         |
| Accounts receivable, net             | 9            | <b>28,847</b>                   | 21,423                     |
| Prepayments and other current assets |              | <b>23,655</b>                   | 19,470                     |
| Short-term bank deposits             |              | <b>3,327</b>                    | 3,331                      |
| Cash and cash equivalents            |              | <b>22,320</b>                   | 24,617                     |
|                                      |              | <hr/>                           | <hr/>                      |
| <b>Total current assets</b>          |              | <b>81,832</b>                   | 73,972                     |
|                                      |              | <hr/>                           | <hr/>                      |
| <b>Total assets</b>                  |              | <b>665,491</b>                  | 652,368                    |
|                                      |              | <hr/> <hr/>                     | <hr/> <hr/>                |

|   |              | <b>30 June</b>   | 31 December |
|---|--------------|------------------|-------------|
|   |              | <b>2017</b>      | 2016        |
|   | <i>Notes</i> | <b>RMB</b>       | <b>RMB</b>  |
| <b>LIABILITIES AND EQUITY</b>                                     |              |                  |             |
| <b>Current liabilities</b>  |              |                  |             |
| Short-term debt   |              | <b>21,511</b>    | 40,780      |
| Current portion of long-term debt and payable                     |              | <b>62,566</b>    | 62,276      |
| Accounts payable  | <i>10</i>    | <b>132,482</b>   | 122,444     |
| Accrued expenses and other payables                               |              | <b>107,660</b>   | 91,087      |
| Income tax payable  |              | <b>865</b>       | 1,106       |
| Current portion of finance lease obligations                      |              | <b>56</b>        | 52          |
| Current portion of deferred revenues                              |              | <b>1,243</b>     | 1,253       |
|   |              | <hr/>            | <hr/>       |
| <b>Total current liabilities</b>                                  |              | <b>326,383</b>   | 318,998     |
|   |              | <hr/>            | <hr/>       |
| <b>Net current liabilities</b>                                    |              | <b>(244,551)</b> | (245,026)   |
|   |              | <hr/>            | <hr/>       |
| <b>Total assets less current liabilities</b>                      |              | <b>339,108</b>   | 333,370     |
|   |              | <hr/>            | <hr/>       |
| <b>Non-current liabilities</b>                                    |              |                  |             |
| Long-term debt  |              | <b>9,019</b>     | 9,370       |
| Finance lease obligations   |              | <b>32</b>        | 50          |
| Deferred revenues   |              | <b>2,047</b>     | 2,305       |
| Deferred tax liabilities  | <i>8</i>     | <b>6,372</b>     | 4,770       |
| Other non-current liabilities                                     |              | <b>548</b>       | 580         |
|   |              | <hr/>            | <hr/>       |
| <b>Total non-current liabilities</b>                              |              | <b>18,018</b>    | 17,075      |
|   |              | <hr/>            | <hr/>       |
| <b>Total liabilities</b>  |              | <b>344,401</b>   | 336,073     |
|   |              | <hr/> <hr/>      | <hr/> <hr/> |
| <b>Equity</b>   |              |                  |             |
| Share capital   |              | <b>80,932</b>    | 80,932      |
| Reserves  |              | <b>239,129</b>   | 234,392     |
|   |              | <hr/>            | <hr/>       |
| <b>Total equity attributable to equity holders of the Company</b> |              | <b>320,061</b>   | 315,324     |
| <b>Non-controlling interests</b>                                  |              | <b>1,029</b>     | 971         |
|   |              | <hr/>            | <hr/>       |
| <b>Total equity</b>   |              | <b>321,090</b>   | 316,295     |
|   |              | <hr/>            | <hr/>       |
| <b>Total liabilities and equity</b>                               |              | <b>665,491</b>   | 652,368     |
|   |              | <hr/> <hr/>      | <hr/> <hr/> |

*Notes:*

## **1 BASIS OF PREPARATION**

These interim financial statements have been prepared in accordance with International Accounting Standard 34, (“IAS 34”) “Interim Financial Reporting” issued by the International Accounting Standards Board and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. These interim financial statements, which were authorised for issuance by the Board of Directors on 23 August 2017, reflect the unaudited financial position of the Group as at 30 June 2017 and the unaudited results of operations and cash flows of the Group for the six-month period then ended, which are not necessarily indicative of the results of operations and cash flows expected for the year ending 31 December 2017.

These interim financial statements are prepared on the historical cost basis as modified by the revaluation of certain available-for-sale equity securities at fair value.

Except as described below, these interim financial statements have been prepared in accordance with the same accounting policies adopted in the 2016 annual financial statements of the Group.

In the current interim period, the Group has applied, for the first time, the following amendments to International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board that are mandatorily effective for the current period:

Amendments to IAS 7, “Disclosure Initiative”

Amendments to IAS 12, “Recognition of Deferred Tax Assets for Unrealised Losses”

Amendments to IFRS 12 as part of the Annual Improvements to IFRSs 2014-2016 Cycle

The application of the above amendments to IFRSs has had no material effect on the Group’s interim financial statements. Additional disclosures as required by the amendments to IAS 7 will be provided in the Group’s consolidated financial statements for the year ending 31 December 2017.

These interim financial statements are unaudited, but have been reviewed by the Audit Committee of the Company. These interim financial statements have also been reviewed by the Company’s international independent auditor in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”, issued by the Hong Kong Institute of Certified Public Accountants.

## 2 SEGMENTAL REPORTING

An operating segment is a component of an entity that engages in business activities from which revenues are earned and expenses are incurred, and is identified on the basis of the internal financial reports that are regularly reviewed by the chief operating decision maker in order to allocate resource and assess performance of the segment. For the periods presented, management has determined that the Group has one operating segment as the Group is only engaged in the integrated telecommunications business. The Group's assets located outside mainland China and operating revenues derived from activities outside mainland China are less than 10% of the Group's assets and operating revenues, respectively. No geographical area information has been presented as such amount is immaterial. No single external customer accounts for 10% or more of the Group's operating revenues.

## 3 OPERATING REVENUES

Operating revenues represent revenues from the provision of telecommunications services. The components of the Group's operating revenues are as follows:

|  | <i>Notes</i> | <b>Six-month period ended</b> |                            |
|--|--------------|-------------------------------|----------------------------|
|  |              | <b>2017</b>                   | <b>2016</b>                |
|  |              | <b><i>RMB millions</i></b>    | <b><i>RMB millions</i></b> |
| Voice  | <i>(i)</i>   | <b>31,833</b>                 | 36,419                     |
| Internet   | <i>(ii)</i>  | <b>84,755</b>                 | 73,017                     |
| Information and application services   | <i>(iii)</i> | <b>37,426</b>                 | 34,826                     |
| Telecommunications network resource services<br>and lease of network equipment | <i>(iv)</i>  | <b>9,636</b>                  | 8,928                      |
| Others   | <i>(v)</i>   | <b>20,468</b>                 | 23,638                     |
|  |              | <b><u>184,118</u></b>         | <b><u>176,828</u></b>      |

*Note:*

- (i) Represent the aggregate amount of voice usage fees, installation fees and interconnections fees charged to customers for the provision of telephony services.
- (ii) Represent amounts charged to customers for the provision of Internet access services.
- (iii) Represent primarily the aggregate amount of fees charged to customers for the provision of Internet data centre service, system integration services, e-Surfing HD service, caller ID service and short messaging service and etc.
- (iv) Represent primarily the aggregate amount of fees charged to customers for the provision of telecommunications network resource services and lease income from other domestic telecommunications operators and enterprise customers for the usage of the Group's telecommunications networks and equipment.
- (v) Represent primarily revenue from sale, and repair and maintenance of equipment as well as the resale of mobile services (MVNO).

#### 4 NET FINANCE COSTS

|   | Six-month period ended |                     |
|---|------------------------|---------------------|
|   | 30 June                |                     |
|   | 2017                   | 2016                |
|   | <i>RMB millions</i>    | <i>RMB millions</i> |
| Interest expense incurred   | 2,031                  | 2,110               |
| Less: Interest expense capitalised*   | <u>(176)</u>           | <u>(211)</u>        |
| Net interest expense  | 1,855                  | 1,899               |
| Interest income   | (137)                  | (170)               |
| Foreign exchange losses   | 79                     | 38                  |
| Foreign exchange gains  | <u>(26)</u>            | <u>(39)</u>         |
|   | <u>1,771</u>           | <u>1,728</u>        |
| <br>  |                        |                     |
| * Interest expense was capitalised in construction in progress at the following rates per annum | <u>3.2%-4.9%</u>       | <u>3.3%-5.0%</u>    |

#### 5 INCOME TAX

Income tax in the profit or loss comprises:

|   | Six-month period ended |                     |
|---|------------------------|---------------------|
|   | 30 June                |                     |
|   | 2017                   | 2016                |
|   | <i>RMB millions</i>    | <i>RMB millions</i> |
| Provision for PRC income tax                        | 2,514                  | 1,967               |
| Provision for income tax in other tax jurisdictions | 39                     | 60                  |
| Deferred taxation                                   | <u>1,531</u>           | <u>1,720</u>        |
|   | <u>4,084</u>           | <u>3,747</u>        |

A reconciliation of the expected tax expense with the actual tax expense is as follows:

|   | <i>Notes</i> | <b>Six-month period ended</b> |                     |
|---|--------------|-------------------------------|---------------------|
|   |              | <b>30 June</b>                |                     |
|   |              | <b>2017</b>                   | 2016                |
|   |              | <b><i>RMB millions</i></b>    | <i>RMB millions</i> |
| Profit before taxation  |              | <u><b>16,679</b></u>          | <u>15,469</u>       |
| Expected income tax expense at statutory tax rate of 25%        | <i>(i)</i>   | <b>4,170</b>                  | 3,867               |
| Differential tax rate on PRC subsidiaries' and branches' income | <i>(i)</i>   | <b>(203)</b>                  | (211)               |
| Differential tax rate on other subsidiaries' income             | <i>(ii)</i>  | <b>(19)</b>                   | (20)                |
| Non-deductible expenses   | <i>(iii)</i> | <b>180</b>                    | 182                 |
| Non-taxable income  | <i>(iv)</i>  | <b>(42)</b>                   | (36)                |
| Others  | <i>(v)</i>   | <u><b>(2)</b></u>             | <u>(35)</u>         |
| Actual income tax expense                                       |              | <u><b>4,084</b></u>           | <u>3,747</u>        |

*Note:*

- (i) Except for certain subsidiaries and branches which are mainly taxed at preferential rate of 15%, the provision for mainland China income tax is based on a statutory rate of 25% of the assessable income of the Company, its mainland China subsidiaries and branches as determined in accordance with the relevant income tax rules and regulations of the PRC.
- (ii) Income tax provisions of the Company's subsidiaries in Hong Kong and Macau Special Administrative Regions of the PRC, and in other countries are based on the subsidiaries' assessable income and income tax rates applicable in the respective tax jurisdictions which range from 12% to 35%.
- (iii) Amounts represent miscellaneous expenses in excess of statutory deductible limits for tax purposes.
- (iv) Amounts represent miscellaneous income which are not subject to income tax.
- (v) Amounts primarily represent tax deduction on prior year research and development expenses approved by tax authorities and other tax benefits.

## **6 BASIC EARNINGS PER SHARE**

The calculation of basic earnings per share for the six-month period ended 30 June 2017 and 2016 is based on the profit attributable to equity holders of the Company of RMB12,537 million and RMB11,673 million, respectively, divided by 80,932,368,321 shares.

The amount of diluted earnings per share is not presented as there were no dilutive potential ordinary shares in existence for the periods presented.



## 9 ACCOUNTS RECEIVABLE, NET

Accounts receivable, net, are analysed as follows:

|   |             | <b>30 June<br/>2017</b>    | 31 December<br>2016 |
|---|-------------|----------------------------|---------------------|
|   | <i>Note</i> | <b><i>RMB millions</i></b> | <i>RMB millions</i> |
| Third parties                                 |             | <b>31,122</b>              | 22,932              |
| China Telecom Group                           | <i>(i)</i>  | <b>1,285</b>               | 949                 |
| China Tower Corporation Limited               |             | <b>13</b>                  | 10                  |
| Other telecommunications operators in the PRC |             | <b>967</b>                 | 933                 |
|   |             | <b>33,387</b>              | 24,824              |
| Less: Allowance for doubtful debts            |             | <b>(4,540)</b>             | (3,401)             |
|   |             | <b>28,847</b>              | 21,423              |

*Note:*

- (i) China Telecommunications Corporation together with its subsidiaries other than the Group are referred to as “China Telecom Group”.

Ageing analysis of accounts receivable from telephone and Internet subscribers based on the billing dates is as follows:

|                                    |  | <b>30 June<br/>2017</b>    | 31 December<br>2016 |
|------------------------------------|--|----------------------------|---------------------|
|                                    |  | <b><i>RMB millions</i></b> | <i>RMB millions</i> |
| Current, within 1 month            |  | <b>11,165</b>              | 9,993               |
| 1 to 3 months                      |  | <b>3,039</b>               | 2,179               |
| 4 to 12 months                     |  | <b>2,147</b>               | 1,763               |
| More than 12 months                |  | <b>1,497</b>               | 761                 |
|                                    |  | <b>17,848</b>              | 14,696              |
| Less: Allowance for doubtful debts |  | <b>(3,510)</b>             | (2,427)             |
|                                    |  | <b>14,338</b>              | 12,269              |

Ageing analysis of accounts receivable from other telecommunications operators and enterprise customers based on dates of rendering of services is as follows:

|                                    | <b>30 June<br/>2017</b>    | 31 December<br>2016 |
|------------------------------------|----------------------------|---------------------|
|                                    | <i><b>RMB millions</b></i> | <i>RMB millions</i> |
| Current, within 1 month            | <b>5,386</b>               | 3,660               |
| 1 to 3 months                      | <b>4,104</b>               | 1,887               |
| 4 to 12 months                     | <b>3,512</b>               | 2,349               |
| More than 12 months                | <b>2,537</b>               | 2,232               |
|                                    | <b>15,539</b>              | 10,128              |
| Less: Allowance for doubtful debts | <b>(1,030)</b>             | (974)               |
|                                    | <b>14,509</b>              | 9,154               |

## 10 ACCOUNTS PAYABLE

Accounts payable are analysed as follows:

|   | <b>30 June<br/>2017</b>    | 31 December<br>2016 |
|---|----------------------------|---------------------|
|   | <i><b>RMB millions</b></i> | <i>RMB millions</i> |
| Third parties                                 | <b>103,860</b>             | 96,675              |
| China Telecom Group                           | <b>23,891</b>              | 21,343              |
| China Tower Corporation Limited               | <b>3,466</b>               | 3,697               |
| Other telecommunications operators in the PRC | <b>1,265</b>               | 729                 |
|   | <b>132,482</b>             | 122,444             |

Amounts due to China Telecom Group and China Tower Corporation Limited are payable in accordance with contractual terms which are similar to those terms offered by third parties.

Ageing analysis of accounts payable based on the due dates is as follows:

|  | <b>30 June<br/>2017</b>    | 31 December<br>2016 |
|--|----------------------------|---------------------|
|  | <i><b>RMB millions</b></i> | <i>RMB millions</i> |
| Due within 1 month or on demand        | <b>26,153</b>              | 17,931              |
| Due after 1 month but within 3 months  | <b>23,199</b>              | 19,891              |
| Due after 3 months but within 6 months | <b>31,552</b>              | 21,611              |
| Due after 6 months                     | <b>51,578</b>              | 63,011              |
|  | <b>132,482</b>             | 122,444             |

## **MANAGEMENT DISCUSSION AND ANALYSIS**

According to paragraph 40 of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), save as disclosed herein, the Company confirms that the current company information in relation to those matters set out in paragraph 32 of Appendix 16 has not changed materially from the information disclosed in the Company’s 2016 Annual Report.

## **PURCHASE, SALE OR REDEMPTION OF SECURITIES**

During the six-month period ended 30 June 2017, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities.

## **DIRECTORS’ AND SUPERVISORS’ INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES**

As at 30 June 2017, none of the Directors or Supervisors of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or its associated corporations (as defined in Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the “SFO”)) as recorded in the register required to be maintained under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”).

As at 30 June 2017, the Company has not granted its Directors or Supervisors, or their respective spouses or children below the age of 18 any rights to subscribe for the shares or debentures of the Company or any of its associated corporations and none of them has ever exercised any such right to subscribe for the shares or debentures.

## **CHANGE OF DIRECTORS AND SUPERVISORS SINCE THE DATE OF THE 2016 ANNUAL REPORT**

The changes in the information relating to the Directors and Supervisors since the date of the Company’s 2016 Annual Report are set out below:

The term of office of the members of the fifth session of the Board of Directors of the Company expired on 23 May 2017. Mr. Yang Jie, Mr. Yang Xiaowei, Mr. Ke Ruiwen, Mr. Sun Kangmin, Mr. Gao Tongqing, Mr. Chen Zhongyue, Mr. Chen Shengguang, Mr. Tse Hau Yin, Aloysius, Madam Cha May Lung, Laura, Mr. Xu Erming and Madam Wang Hsuehming were elected or re-elected as directors of the sixth session of the Board of Directors of the Company at the Annual General Meeting held on 23 May 2017.

The term of office of the members of the fifth session of the Supervisory Committee of the Company expired on 23 May 2017. Mr. Sui Yixun, Mr. Hu Jing and Mr. Ye Zhong were re-elected as supervisors of the sixth session of the Supervisory Committee of the Company at the Annual General Meeting held on 23 May 2017. On the same date, Mr. Yang Jianqing and Mr. Zhang Jianbin have been elected by the employees of the Company democratically as supervisors of the Company representing the employees. A member of the fifth session of the Supervisory Committee, Mr. Tang Qi, retired as a supervisor of the Company upon expiry of the term of office of the fifth session of the Supervisory Committee on 23 May 2017.

On 7 June 2017, Mr. Yang Xiaowei resigned from his positions as an Executive Director, President and Chief Operating Officer of the Company due to change in work arrangement.

Mr. Ke Ruiwen, the Executive Director, Executive Vice President and Joint Company Secretary of the Company, has been appointed as the Chairman of Supervisory Committee of China Tower Corporation Limited. Mr. Xu Erming, the Independent Non-Executive Director of the Company, has retired from the position of Independent Supervisor of Harbin Electric Company Limited and has been appointed as an Independent Non-Executive Director of Comtec Solar Systems Group Limited. Mr. Ye Zhong, the Supervisor of the Company, has been appointed as a Director of Zhejiang Provincial Financial Holdings Co., Ltd. and a Director of Zhejiang Provincial Industry Fund Co., Ltd.

Save as stated above, there is no other information of the Directors or Supervisors of the Company required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules. The updated biographical details of the Directors and Supervisors are available on the website of the Company ([www.chinatelecom-h.com](http://www.chinatelecom-h.com)).

## **AUDIT COMMITTEE**

The audit committee has reviewed with management and the Company's international auditor, Deloitte Touche Tohmatsu, the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the review of the Company's Interim Report for the six months ended 30 June 2017.

## **COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE**

The Company attaches great importance to corporate governance. We continued to make efforts in improving the Company's internal control mechanisms, strengthening information disclosure and enhancing the Company's transparency, developing corporate governance practices and protecting shareholders' interests to the maximum degree.

The roles of Chairman and Chief Executive Officer of the Company were performed by the same individual, for the six-month period ended 30 June 2017. In the Company's opinion, through supervision by the Board of Directors and Independent Non-Executive Directors, with effective control of the Company's internal check and balance mechanism, the same individual performing the roles of Chairman and Chief Executive Officer can enhance the Company's efficiency in decision-making and execution and effectively capturing business opportunities. Many leading international corporations around the world also have similar arrangements.

Save as stated above, the Company has been in compliance with all the code provisions under the Corporate Governance Code as set out in Appendix 14 of the Listing Rules throughout the six-month period ended 30 June 2017.

## **COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules to govern securities transactions by Directors and Supervisors. Based on the written confirmations from the Directors and Supervisors, they have confirmed their compliance with the Model Code for Securities Transactions by Directors of Listed Issuers regarding the requirements in conducting securities transactions for the period from 1 January 2017 to 30 June 2017.

## **INTERIM REPORT**

The Interim Report for the six months ended 30 June 2017 will be despatched to shareholders and made available on the website of The Stock Exchange of Hong Kong Limited ([www.hkexnews.hk](http://www.hkexnews.hk)) and the website of the Company ([www.chinatelecom-h.com](http://www.chinatelecom-h.com)) in due course.

By Order of the Board  
**China Telecom Corporation Limited**  
**Yang Jie**  
*Chairman and Chief Executive Officer*

Beijing, China, 23 August 2017

## **FORWARD-LOOKING STATEMENTS**

*Certain statements contained in this announcement 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 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.*

As at the date of this announcement, the Board of Directors of the Company consists of Mr. Yang Jie (as the chairman and chief executive officer); Mr. Ke Ruiwen, Mr. Sun Kangmin, Mr. Gao Tongqing and Mr. Chen Zhongyue (all as the executive vice presidents); Mr. Chen Shengguang (as the non-executive director); Mr. Tse Hau Yin, Aloysius, Madam Cha May Lung, Laura, Mr. Xu Erming and Madam Wang Hsuehming (all as the independent non-executive directors).