



Chairman's Statement



In the first half of 2011, we captured the valuable opportunities arising from the accelerated development of social and economic informatisation to deepen strategic transformation, amidst the rapid technological advancement in mobile Internet. We proactively implement our strategic positioning as “a leader of intelligent pipeline, a provider of integrated platforms, and a participant in content and application development”, adhering to integrated differentiated operation. Riding on mobile, broadband and industry applications as a breakthrough to promote scale development of full services operation, the business structure was further optimised and new development mode of innovation, centralised efficient operation, precision management and value enhancement was accomplished. The full services operation of the Company embarked on a healthy trajectory for sustainable growth.



Operating results

In the first half of 2011, the Company's operation has progressed as planned. The operating revenues amounted to RMB120,208 million. Excluding the amortisation of upfront connection fees, the operating revenues were RMB120,110 million, an increase of 11.7% from the same period of last year. EBITDA^{1,2} was RMB48,501 million, an increase of 6.0% from the same period of last year while the EBITDA margin was 40.4%. The profit attributable to equity holders of the Company was RMB9,710 million, a growth of 10.2% from the same period of last year, demonstrating concurrent achievements in scale development of subscribers and remarkable enhancement in profitability. Basic earnings per share were RMB0.12. Capital expenditure for the period was RMB20,967 million while free cash flow³ reached RMB15,458 million.

Taking into consideration the Company's business development needs and its capital requirement for the planned acquisition of mobile network assets from the parent company in 2012, the Board of Directors has decided not to pay any interim dividends in order to maintain adequate funding flexibility. The Board of Directors will proactively consider the final dividend proposal when reviewing the full year results and will propose to the shareholders' general meeting accordingly.

Deepening transformation to facilitate scale development of full services operation

In the first half of this year, the Company thoroughly explored the pattern and development path of full services operation. The Company deepened integrated offering and innovative development modes. New products and capabilities were nurtured, facilitating growth businesses in promoting full services operation and remarkable breakthrough in scale development.

3G driving rapid growth of mobile services

In the first half of 2011, mobile Internet applications became increasingly proliferating and gradually formed an integral part of mobile information consumption in society, with increasing tendency to use 3G services by the subscribers. Benefitting from the successful execution of terminal strategy, the consumption threshold of 3G terminals has significantly decreased, yielding rapid scale development of the mobile services of the Company. The number of mobile subscribers increased by 17.85 million in the first half of the year, reaching a total number of 108 million and successfully exceeding 100 million subscribers. The Company becomes the world's largest CDMA mobile network operator where 19.9% of the mobile subscribers were 3G subscribers, which is above the industry average level. Mobile service revenue increased by 36.8% over the same period of last year, reaching RMB31,139 million, and further rising to 25.9% as a percentage of operating revenue.

In the first half of the year, we have achieved a critical breakthrough in 3G smartphones. There are over 100 3G smartphone models available for sale, and the sales of 3G smartphones priced around RMB1,000 outperformed our peers with remarkable enhancement in price-performance factors. We closely followed the market momentum of mobile Internet services, leveraging the convergence of wireline and mobile services and riding on smartphone handset terminals. Through implementing the strategy of "selling handset first, matching by service package", we reinforced the sales and marketing to enhance customers' experience and vigorously promoted the transformation of self-operated sales outlets to handset specialty stores like electronic appliances stores. With the optimisation in commission and incentive policies for open channels, we effectively activated open channels and significantly increased their share of terminal sales and subscriber acquisition, which became an important channel in developing public customers. We persisted in high value data traffic operation strategy and actively promoted popular applications. In the first half of the year the monthly compound growth rate of 3G handset Internet traffic

1 For the convenience of investors' analysis, EBITDA was calculated before CDMA network capacity lease fee.

2 Including the amortisation of upfront connection fees, EBITDA was RMB48,599 million, profit attributable to equity holders of the Company was RMB9,808 million, and basic earnings per share were RMB0.12.

3 Free cash flow was calculated from EBITDA (excluding amortisation of the upfront connection fees) minus CDMA network capacity lease fee, capital expenditure and income tax.



exceeded 12%. Through expansion in the depth and comprehensiveness of Wi-Fi coverage in hotspots areas and offloading mobile data traffic through Wi-Fi, we effectively enhanced the customers' mobile broadband experience.

Upgrading broadband bandwidth to promote scale development

As a key high-speed carrier for information services, the data access speed and penetration rate of broadband services become vital benchmarks of national informatisation. The Company duly launched the "Broadband China, Fibre Cities" project and further optimised the measures in sales and marketing as well as services. In the first half of the year, the net addition of wireline broadband subscribers was 6.61 million, reaching a total number of 70.09 million. Revenue from wireline broadband services increased by 13.1% from the same period last year, reaching a total of RMB29,755 million, further rising to 24.8% as a percentage of the operating revenue.

In the first half of this year, we deepened unified customer account operation, primarily accomplishing unified authentication for broadband account, mobile account and self-operated content and application account to further improve customers' experience. We adopted initiatives to upgrade the broadband service and handle customers complaints via multi-channels. Back-end workflow was optimised to shorten the response time to customer enquiries. Self-determined integrated service packages were offered to enrich customers' choice and to enhance customers' satisfaction. With acceleration in bandwidth upgrade, all cities in service areas basically had 8Mbps broadband access capability and the bandwidth capability with 20Mbps reached coverage of 65%. The bandwidth of our IP-based backbone core network has upgraded to 26 Tbps. Our competitive edges were further reinforced, which not only facilitated the growth of subscribers but also laid down a solid foundation for future competitiveness.

Riding on competitive edges of government and enterprise customers to boost industry informatisation applications

Following the further deepening of scientific development mindset and implementation by the nation, the market of industry informatisation application becomes a rich gold mine. Leveraging our integrated strengths in ICT and mobile network and as a result of our accelerated

expansion, in the first half of the year, revenue from value-added and integrated information service reached RMB22,359 million, an increase of 24.2% over the same period of last year.

In the first half of this year, we continued to expedite the scale replication and promotion of mature industry informatisation applications servicing Government supervision and enforcement, the finance industry, corporate clients and clustered small to medium-sized enterprises. For the government and enterprise market, we focused on addressing customers' key requirements on a segmental basis and offered targeted customised solutions, with synergic integration of fundamental services such as mobile and broadband services into industry applications to promote scale development of fundamental services. For the clustered small to medium-sized enterprises market, we vigorously boosted popular products such as "busy-shop assistant" and "e-Surfing RFID", and transformed the development approach leveraging open channel. Meanwhile, we proactively explored and developed the "Cloud Service" market and centrally built a nationwide "cloud" resources management platform to promote "Cloud Computing" for industry applications and to continuously enhance the capability of providing industry informatisation solutions.

Alleviating operational risk of wireline voice

In the first half of this year, the total number of wireline access lines in service was 172 million, a net decline of 2.83 million. Revenue from wireline voice amounted to RMB26,462 million, accounting for 22.0% of the total revenue. The decline was further mitigated. The number of PAS subscribers continued to decline noticeably and the revenue contribution of PAS to total operating revenue decreased to below 1%. The business risk has primarily been alleviated.

Planning ahead and fully preparing for the future

From the overall perspective of the development in global communications industry, the multi-dimensional, multi-crossing, comprehensive restructuring and convergence of key industry players has become an inevitable trend, whereas the player with competitive edges in mobile Internet will be the future leader. As a telecom operator, we leverage our competitive strengths in network and customer base to tackle the dynamic challenges,



emphasizing on adaptation to achieve excellence. We proactively execute our strategic positioning as “a leader of the intelligent pipeline, a provider of an integrated platform and a participant in content and application development”. To meet the dynamic needs of the market, we target to execute a progressive plan in the next three to five years to fully utilise the network strengths of full services operator in developing an intelligent pipeline enabled with customer identification and business awareness, a highly integrated, fully functional, open and fair integrated capability platform and self-operated core applications products. Through extensive collaboration with value chain participants, we also endeavour to support the deployment and operation of content and applications of the collaborative participants, persistently providing enriched communication information experience to our customers and promoting a healthy and vigorous value chain.

“Leader of the Intelligent Pipeline”

Our intelligent pipeline will feature high-speed bandwidth, convergent wireline and mobile network, users' freedom to participate in network deployment and management, and multi-level quality of service levels for different subscribers and services. This year, we strengthened our access network construction that utilised the passive optical network (PON) technology and achieved comprehensive bandwidth upgrade for our core network and access network. We continued to optimise our 3G network coverage and continued to enhance our network quality to maintain our leading position amongst the peers. We consolidated our carrier-class Wi-Fi network and strengthened its coordinated traffic offloading from the 3G network. Technologies such as Deep Packet Inspection (DPI) have been deployed to reinforce the identification capability of the mobile network on customers and services, and to implement the precise mobile traffic management.

“Provider of Integrated Platform”

Our integrated platform will be a highly-integrated service carrying platform of open capability to serve various businesses & customers with comprehensive and multifunctional capabilities. Through advancement and opening up of the basic operational capabilities of the platform, we will be able to gather more developers to attract more high-value traffic. From the beginning of the first half of this year, we started to consolidate our

existing application platforms and progressively implemented centralised efficient operation, aiming at sharing of subscribers' information and resources capability across the Group. We progressively built and provided to our partners various enabling capabilities such as unified authentication, electronic payment and mobile positioning. We vigorously leveraged “Cloud Computing” technology, set up “cloud” resources pools and meanwhile commenced to establish a nationwide centralised management and service platform for “cloud” resources. Leveraging the resources and capabilities of the existing platforms, we have already introduced various outstanding third-party content and applications such as “QQ”, “weibo” and the “UC Browser” to enhance the value of data traffic. In June this year, we took initiatives to form the “Open Mobile Internet Alliance” with Internet companies and manufacturers of mobile terminals to jointly strengthen cooperation and build up a win-win industry value chain.

“Participant in content and application development”

In developing content and applications, we adhere to the principles of competitiveness and quality. Leveraging our own resources, we selectively develop self-operated converging content, applications and enabling features including payment and positioning. Through innovative mechanism and system as well as market-oriented operation and development models, we aim to pave the way to future revenue growth. In the first half of the year, the Company has set up the Business Innovation Department to strengthen the centralised efficient operation of innovative products, especially to realise the consolidated sales and marketing of self-operated products of our eight product centres and accelerate the scale promotion of content and applications. We continuously enhanced the penetration and popularity of the products of the product centres to accomplish the preliminary scale development. As a result, products such as “189 mailbox”, “e-Surfing LIVE”, and “eStore” have achieved initial scale development and the number of subscribers reached 36.78 million, 28.35 million and 27.30 million respectively. Meanwhile, the Company has also accelerated the expansion of mobile payment service and the total value of transactions conducted through BestPay has reached RMB8,600 million in the first half of this year.



Social responsibility and corporate governance

As a sizeable integrated telecom operator, China Telecom fully understands its vital role in social responsibility. In recent years, we have been investing to enhance the “information superhighway” and to maintain the healthiness of the information on the Internet, promoting technological innovation and fostering the prosperity of industry value chain. Through continuous improvement in operation and services, we offered excellent integrated information services for individuals, households and enterprises customers, endeavouring to enhance customers' value. We actively took initiatives to fulfill environmental responsibility through promoting lower emissions and green operation with a view to building a “green integrated information service provider”. As a responsible corporate citizen, we actively participated in charitable activities aiming at alleviation of poverty and other welfare and donation projects to fulfill our community responsibility.

We continue to strive to maintain a high level of corporate governance and corporate transparency to ensure the healthy development of the Company and enhance corporate value. Our persistent efforts in corporate governance have been widely recognised by the capital markets. We have been accredited with a number of awards and appreciation in the first half of this year, including the “Overall Best Managed Company in Asia” and “Best Telecom Company in Asia” by *FinanceAsia*, “No. 1 Best Managed Company in Asia” by *EuroMoney*, being the first company receiving such an honour for two consecutive years; and “Asia's Best Companies in Corporate Governance” and “The Best Corporate Social Responsibility in China” by *Corporate Governance Asia*.

Outlook

At present, the scale development of the Company is now facing valuable opportunities. 3G service is expanding rapidly and broadband service is undergoing fast growth development amidst strong demand for informatisation services from government and enterprises. The intensified market competition and the industry convergence in the mobile Internet era are bringing new

challenges. In the second half of the year, we will persist in deepening strategic transformation, insisting on differentiated strategy and accelerating the scale development. As for the fundamental services, we will expand the government and enterprise markets through promotion of industry applications, develop the public customers leveraging integrated service offering, and expand mobile market riding on 3G services. We shall also attend to the cluster market and strengthen rural market development. As for the innovative services, we will persist in data traffic operation with overall collaboration and centralised efficient operation to drive expansion in mobile Internet services. As for government and enterprises customers, we will endeavour to expand the “Cloud service” market. We shall further optimise our distribution channel strategies to promote both self-operated outlets and open channels, while also further developing new mobile Internet sales channels. We shall insist on diversified development of mobile terminals and facilitate the continual prosperity of the industry value chain.

Looking forward, we are fully confident and will advocate innovation and transformation, win-win cooperation, pragmatism and strong execution with a view to achieving a new breakthrough in scale development and 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 Mr Shang Bing for his valuable contribution during his tenure of office as an Executive Director of the Company.

Wang Xiaochu

Chairman and Chief Executive Officer

Beijing, China

23 August 2011