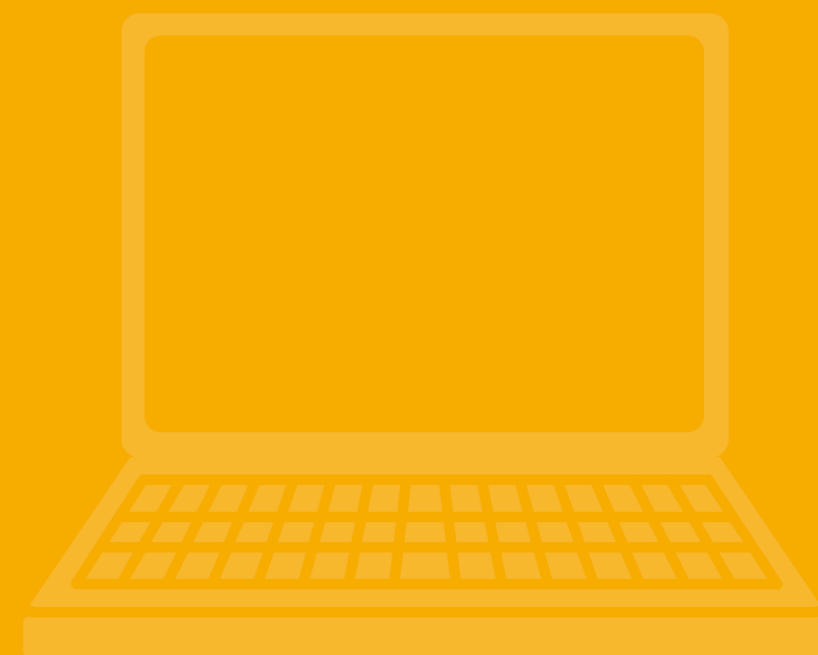


# Getting United



*Through acquisition, we obtained the long-awaited nationwide mobile business in China together with the relevant talents. The successful unity and integration into our business has facilitated and strengthened our infrastructure to provide full services integrated operations, significantly enhancing our competitive edge.*



# Business Review

The following table sets out key operating data for 2006, 2007 and 2008:

	Unit	2006	2007	2008	Rates of change (2008 over 2007)
Local wireline access lines in service	Million	223.31	220.64	<b>208.34</b>	(5.6%)
Wireline local voice usage	Million pulses	423,453	407,445	<b>372,477</b>	(8.6%)
Wireline domestic long distance usage	Million minutes	96,830	99,902	<b>98,723</b>	(1.2%)
Wireline international, Hong Kong, Macau and Taiwan long distance usage	Million minutes	1,679	1,664	<b>1,572</b>	(5.5%)
Broadband subscribers	Million	28.38	35.74	<b>44.27</b>	23.9%
Wireless broadband subscribers	Million	—	—	<b>2.35</b>	N/A
Wireline caller ID service subscribers	Million	145.84	146.88	<b>146.74</b>	(0.1%)
Wireline SMS usage	Million messages	23,278	23,346	<b>18,496</b>	(20.8%)
Wireline Color Ring Tone subscribers	Million	36.69	63.21	<b>79.25</b>	25.4%
Mobile subscribers	Million	—	—	<b>27.91</b>	N/A
Mobile voice usage	Million minutes	—	—	<b>26,375</b>	N/A
Mobile Color Ring Tone subscribers	Million	—	—	<b>8.64</b>	N/A
“One Home” subscribers	Million	—	10.61	<b>23.93</b>	125.4%



One Home — Integrated Communications and Information services for household customers

In 2008, the Company continued to adhere to customer branding management, insisted on integrated development strategy, vigorously promoted integrated information application services, overcame the adverse effects brought onto its business operations by snowstorms, earthquakes and the international financial crisis, and accomplished steady business development. In the meantime, the Company successfully completed the acquisition and transition of the CDMA business and launched the CDMA services operations, entering into a new era of full services integrated operations.

In 2008, total operating revenues were RMB186,801 million, an increase of 3.3% from 2007. Excluding the amortisation of upfront connection fees, the operating revenues were RMB184,779 million, representing an annual growth rate of 4.0%. Within these figures, revenue from the wireline services amounted to RMB178,625 million, representing an increase of 0.6%

from 2007. Total revenue from the mobile services was RMB6,154 million. The increase in operating revenues was mainly attributed to the wireline non-voice services, accounting for 46.1% of revenue from wireline services, an increase of 8.9 percentage points from 2007. Among these, Internet and data services, wireline value-added services and integrated information application services drove up revenue growth of the wireline services by 5.6 percentage points and 3.3 percentage points, respectively.

e surfing — A new era of mobile Internet experience



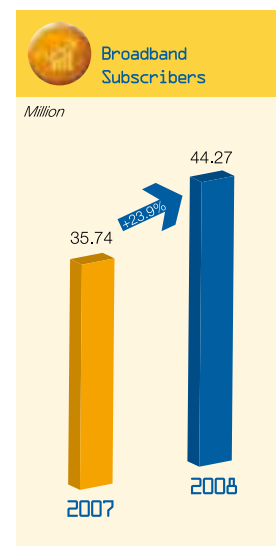
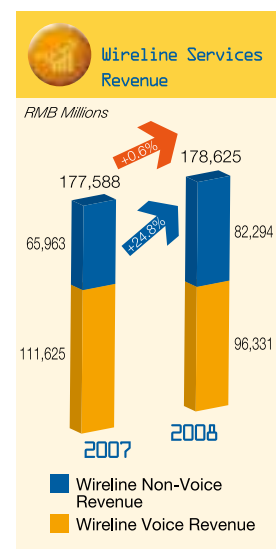
BizNavigator — Total solutions of Communications & Information Technology services for government & enterprise customers

## Wireline Transformation Services

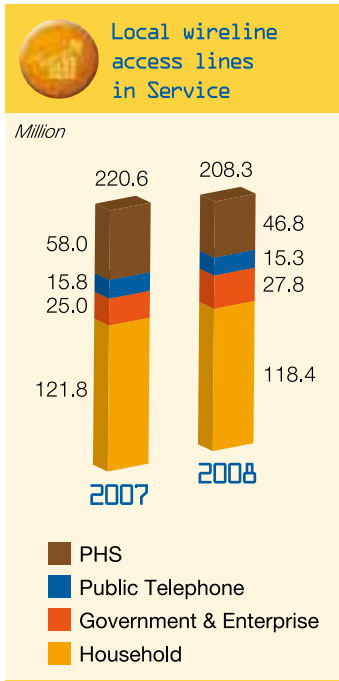
Wireline transformation services such as the Internet services, value-added services and integrated information application services recorded rapid growth in 2008. Revenue from wireline non-voice services was RMB82,294 million, an increase of 24.8% from 2007. Among them, revenue from Internet and data services totaled RMB51,017 million, representing an annual growth rate of 24.4%. Revenue from value-added services and integrated information application services amounted to RMB25,658 million, an annual growth rate of 29.7% from 2007.

In 2008, the Company continued to deepen its Internet services operations, offering broadband speed upgrade services for mid-to-high-end customers to enhance customer loyalty. Broadband ARPU rose steadily to RMB83.8. The Company also cooperated extensively with computer resellers to lower their prices, accelerating the expansion in the scale of its broadband subscriber base. Broadband subscribers grew by 8.53 million on a net basis to 44.27 million in 2008. The Company's broadband operational strategy continued to focus on interaction of broadband access and applications, cooperated extensively through a more open business model to integrate high-quality and rich content and applications. Under our full services integrated operations, the Company launched new broadband products such as wireless broadband services (CDMA + Wi-Fi) and advocated the integrated development of its mobile services and Internet services. Leveraging the CDMA verification advantages, the Company promoted broadband account number-based operations and continued to develop internet services and internet application services, to stimulate faster and healthier development of the broadband services.

Revenue from integrated information application services was RMB10,853 million, delivering an annual growth rate of 65.1% and driving up revenue growth by 2.4 percentage points, while the direct information services including “Best Tone” services, IT services and IT application services driving up revenue growth by 0.8 and 0.9 percentage points respectively. By focusing on key services such as business traveling services and information search, the Company accelerated the scale development of the “Best Tone” services, promoted the construction of standardised platforms within the Company, pro-actively carried out peer benchmarking within the industry, strengthened specialised operational capacity and enhanced customer service perception. Revenue from direct information services including “Best Tone” services in 2008 was RMB4,787 million, an increase of 44.6% from 2007. In



## Business Review



order to meet the customised demand for communications and information services from government and enterprise customers, the Company concentrated on the promotion of specialised operations such as video applications and network management experts, cooperated extensively and developed industry-specific applications to highlight the advantages of multi-services integration and customisation. The Company also built cross-regional specialised supporting teams to accomplish the fast scale development of IT services and IT application services. Revenue from IT services and IT application services in 2008 was RMB3,517 million, an increase of 83.8% from 2007. Going forward, the Company will continue to intensify its efforts in promoting the scale development of its integrated information services. With the integration of its traditional wireline services and mobile services, the Company will provide customers with more comprehensive and integrated information applications and services.

### Wireline Voice Services

Revenue from the Company's wireline voice services in 2008 was RMB96,331 million, a decrease of 13.7% from 2007. This continuous decline in revenue was mainly attributable to further loss of subscribers and decrease in usage following further reduction of mobile tariffs. Wireline subscribers at the end of 2008 were 208.35 million, a net decrease of 12.29 million, among which PHS subscribers decreased by 11.20 million. Additionally, the international financial crisis and natural disasters also led to a decline in the usage of the wireline voice services in some regions and customer groups, resulting in a decrease in revenue for the wireline voice services. In 2008, revenue from local telephone services was RMB59,307 million, a decrease of 15.9% from 2007. Revenue from domestic long distance services amounted to RMB22,081 million, a decrease of 10.3% from 2007. Revenue from international, Hong Kong, Macau and Taiwan long distance services totaled RMB2,579 million, a decrease of 15.5% from 2007. Revenue from interconnection services was RMB12,364 million, a decrease of 8.3% from 2007.

Facing continuous decline in the usage of its wireline voice services, the Company continued to focus on integrated development strategy and service packaging to slow down the rate of revenue decline in its wireline voice services. Through the promotion of integrated services packages to government and enterprise customers as well as household customers, the Company has stabilised the subscriber groups of wireline services other than PHS services. In light of the exacerbating loss of PHS subscribers, the Company strengthened the packaging of PHS, fixed line, broadband and mobile services. As of the end of 2008, 38.9% of PHS subscribers took multi-service packages, effectively increasing the loyalty of PHS subscribers in service. Going forward, the Company will gradually migrate its mid-to-high-end PHS subscribers to our mobile services through value enhancing schemes, reducing PHS marketing costs and operational costs and improving operational efficiency while respecting the rights of PHS subscribers for a stable and quality PHS network, accomplishing a smooth and steady transfer to the mobile services. Moreover, in order to mitigate the decrease of its long-distance voice services usage, the Company launched a series of services packages including "One price for domestic and long-distance calls" and FNS (Family Number Service) for value-segmented customers based on their consuming characteristics, and focused on effective advertising to reduce customer-perceived prices to stabilise the long-distance voice services.

## Customer Branding Management

In 2008, the Company continued to deepen customer branding management of “BizNavigator” and “One Home”.

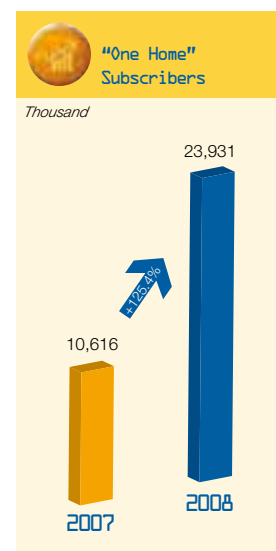
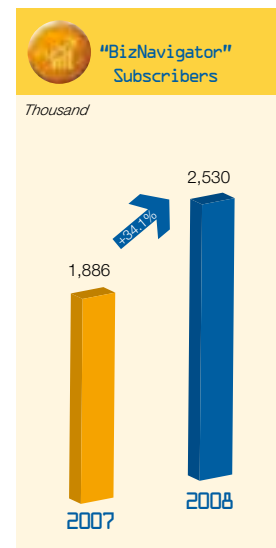
For government and enterprise customers, the Company continued to optimise applications of the communication and industry versions of “BizNavigator” integrating voice services, data services and broadband access services to add value, promote its scale development to meet the demands of small and medium enterprises for more communication and information services. In 2008, the penetration rate of the communication and industry versions of “BizNavigator” reached 21.0%. At the same time, in order to satisfy the needs of key government and enterprise customers for “integrated office administration” and information management, the Company deepened its exploration of needs of its industry-specific customers, by devoting enormous efforts in developing integrated information services such as “Best Tone” services, IT services and IT application services, while continuing to promote the developed industries applications such as “e-Campus”, “e-Hospital” and “Hotel Perfection Alliance”. Revenue from government and enterprise customers in 2008 increased by 10.9% from 2007.

For household customers, the Company continued to optimise the multi-services integrated packages of “One Home” services, especially the “e6” and “e8” services, enriching their service content and accelerating scale promotion. In 2008, the number of “One Home” subscribers increased by 13.32 million on the net basis, with a penetration rate of 20.2% among household subscribers. At the same time, the Company further differentiated the household market, providing integrated household information solutions including communications, wealth management and entertainment to satisfy the needs of its mid-to-high-end customers for convenient Internet access and daily life information. Those integrated information solutions were marketed and promoted through free trials and package discounts. In 2008, revenue from household customers increased by 2.9% from 2007.

## CDMA Business Acquisition, Transition and Operation

In 2008, the Company successfully acquired CDMA mobile business, entering a new era of full services integrated operations. In the three months from October to December 2008, the Company smoothly completed the acquisition and transition of the CDMA business. The Company also promptly consolidated CDMA products and applications, fulfilled basic management functions such as streamlining KPIs and optimising process. As of the end of 2008, there were 27.91 million CDMA mobile subscribers. In the fourth quarter of 2008, our total mobile revenue amounted to RMB6,154 million.

Following the acquisition and transition of the CDMA business, the Company carried out a comprehensive analysis of the internal and external environment as well as industry development trends to identify the mobile services development strategy of “capturing the mid-to-high-end market, offering differentiated services, and developing an effective economy of scale”. Through the launch of “e surfing” in December 2008, the Company preceded to adopt the concept of “Internet handset” backed by strong promotional efforts, creating a high-quality brand image in the eyes of customers. Based on customer resources and multi-services advantages, the Company supplemented its original brand packages, including “BizNavigator” and “One Home”, with mobile services elements to achieve rapid penetration



## Business Review



*Best Tone — Information search engine and booking services*

of the mid-to-high-end customer market. There has been a turnaround from the decline in subscribers after the acquisition of the CDMA business in October 2008, with the monthly net increases of subscribers for January and February 2009 being 1.02 million and 1.70 million, respectively, demonstrating a relatively rapid trend of customer expansion. The increase in the number and quality of subscribers has driven up mobile usage as well as revenue.

In the meantime, the Company persistently pursued innovation, trying to make a breakthrough in its products and business model in order to create differentiated competitive edge. The Company has completed the development and launch of various differentiated mobile value-added products such as wireless broadband services (CDMA + Wi-Fi) and “Mobile Global Mega-Eye” services, striving to establish visible comparative competitive advantages. For the cooperation model

with CP/SP, the Company abandoned the traditional operator-dominated models to attract more dynamic teams to join the Company’s product innovation and content operation. Combined with the introduction of its 3G services, the Company will target at those influential youngsters with stronger preferences for information applications, and integrate mobile Internet information services and applications with the mobile terminals, which provide customers with an end-to-end mobile Internet experience.

In addition, to better support the development of the mobile services, the Company constantly enhanced its service distribution channel system with an aim to offer full integrated services covering all customer groups. The Company pro-actively advocated social channels for mobile handsets purchase, management and sales. For channel service, the Company strengthened the sharing of channel resources, optimised service process, reinforced trainings and consolidated billing and customer service to uphold integrated business development. The Company also devoted enormous efforts to develop electronic channels and enhance self-servicing capability to provide customers with user-friendly services which will enable them to handle business through mobile handsets and the Internet. The Company has also reinforced the construction of infrastructures such as operations offices in the Northern regions and accelerating intensive sales coverage in cities through the integration of electronic and direct sales channels to support full services integrated operations. In terms of business development for terminals, the Company, on one hand, boosted the motivation of each level of the mobile handset industry value chain through scale development of its customers, progressively reduced the proportion of centralised procurement and accelerated the localisation and commercialisation of handset purchases. On the other hand, the Company has also increased terminal customisation and support for handset manufacturers and retailers, in particular encouraging manufacturers to increase inputs in the production of mid-to-high-end mobile phones to promote a wider variety of handset products to meet the needs of business development.

## Rational Allocation of Resources to Support Full Services Integrated Operations

In 2008, the Company’s capital expenditure was RMB48,410 million, an increase of 4.5% from 2007, accounting for 26.2% of total revenues, and remained at similar level as 2007. For investment management and control, the Company further emphasised the corporate principle of “optimising resources allocation via focusing on key areas,” and reinforced investment in its broadband services, value-added services and integrated information services to keep investment in line with business priorities and revenue growth. Investment in the transformation services increased by 19.3% compared to last year. The ratio of transformation services investment to total investment increased 12 percentage points from last year. With the increasing demand for infrastructure under full services integrated operations, the Company has continued a strict investment control over its wireline voice infrastructure and communications infrastructure to achieve the goal of reducing investment risk and improving the Company’s overall return on investment.

The Company spared no effort in supporting customer branding operations and scale development. For government and enterprise customers, we successfully completed the development of “BizNavigator” terminals and broadband management system platforms, upgraded “Global Mega-eye” platforms, and expanded and enhanced our outsourcing call centers. For household customers, we deployed “e8” terminal management platforms, completed network construction related to WLAN and optical access networks, etc. and promoted the standardisation of IPTV 2.0 upgrades. For the key products of “e surfing”, we completed key integrated product development and system construction for the launch of “189” prefix mobile number and the deployment of special feature products for the CDMA network.

We continuously upgraded the scale of our broadband services. As of the end of 2008, all urban service areas of the Company are capable of providing 2M broadband Internet access. The proportions of 8M and 16M broadband access capacity increased by 10 and 15 percentage points, respectively. The number of Wi-Fi hotspots reached 25,000. Total number of broadband access ports reached 62.69 million.

After the successful acquisition and transition of the CDMA business, we immediately implemented mobile network construction in preparation for full services integrated operations. Leveraging the mobile service platform construction as an entry point, we have promoted the standardisation and integration of the different service networks, and successfully launched “189” prefix mobile number with the distinguishing features of China Telecom.

On the basis of the existing, mainly wireline services supportive IT system, the Company proactively strengthened construction of mobile supporting capability, aiming to forge wireline and mobile integrated IT supporting capabilities. Based on this, the Company efficiently completed the transition of “Unicom” CDMA network IT system, timely supported the launch of “189” prefix mobile number, ensuring the launch and integrated operation of full services. The Company also further enhanced IT supporting capabilities for customer segmentation operation and full services integrated operations to implement the Company’s operating strategy of “full services integrated operations with customised services offering.”



China Telecom — An integrated information services provider

## Outlook for 2009

The Company commenced its full services integrated operations in full wing in 2009. The Company will implement its development strategy for its mobile services by “capturing the mid-to-high-end market, offering customised services, and developing an effective economy of scale”, leveraging the Company’s advantages of strong customer base and full services integrated operations to create a competitive edge with integrated products and services. The Company will insist on its integrated mobile and Internet services strategy, and its focus on diversification and innovation to ensure the sustainable development of mobile services. The Company will continue to insist on customer branding management, focus on mid-to-high-end customers, and further enrich its products and services, supplementing mobile services elements to realise scale development of customer brands. Based on the strength of its customer brands and integrated services, the Company will further stabilise its revenues from its traditional wireline services and create integrated information service capabilities with core competitiveness in order to achieve healthy and stable development.