

Chairman's Statement

2009 was a remarkable year in the history of China Telecom. Following our successful acquisition pursuant to the restructuring and attaining the 3G license, we endeavoured to overcome the challenges brought by the global financial crisis and intensified competition. We continued to promote the "Customer-focused Innovative Informatisation Strategy" by aggressively pursuing opportunities and deepening strategic transformation. We leveraged our integrated resources advantages, proactively innovated our development model and persisted in adopting the differentiated development strategy to achieve a good start of full services operation. This has established a solid foundation for the healthy sustainable growth and value enhancement of the Company.

Operating Results

In 2009, the Company progressed its development steadily as planned. The operating revenues were RMB209,370 million. Excluding the amortisation of the upfront connection fees, the operating revenues were RMB208,219 million, an increase of 12.9% from last year. The total mobile revenue amounted to RMB35,620 million and gained momentum quarter over quarter. Wireline broadband access services as well as wireline value-added and integrated information services experienced strong growth and their revenues were RMB47,061 million and RMB27,983 million respectively, representing an increase of 17.1% and 9.3%, respectively from last year. The overall business structure of the Company was optimised. Non-voice services, which satisfied the social informatisation needs, also recorded strong growth. Revenue from non-voice services accounted for 52.7% of the operating revenues excluding the amortisation of the upfront connection fees, constituting a new milestone of our strategic transformation. EBITDA^{1,2} was RMB82,133 million and the EBITDA margin was 39.4%. The profit attributable to equity holders of the Company was RMB13,271 million, a decrease of 33.9%³ from last year. Basic earnings per share was RMB0.16. Capital expenditure was RMB38,042 million, a decrease of 21.4% from last year. Free

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

² Including the amortisation of the upfront connection fees, EBITDA was RMB83,284 million, profit attributable to equity holders of the Company was RMB14,422 million, and basic earnings per share was RMB0.18.

³ The comparative figure of profit attributable to equity holders of the Company of the year 2008 was RMB20,066 million, which excluded the upfront connection fees and the impact of one-off items including Personal Handyphone System (PHS) assets impairment loss and natural disasters.





2009 was the first year of our full services operation, which was also the year of our “re-invigoration”: rapid mobile business expansion with fast improved integrated operation capability. We successfully launched a number of innovative convergence products and services, leveraging our rich resources and talents on wireline, mobile and Internet services. We delighted our customers with differentiated experience, which is crucial to our robust development as well as value enhancement to the industry while we persist in avoiding any price war. Seeing the innovative passion and unwavering dedication of our people, I feel so proud and firmly believe that our success is just right ahead of us.



cash flow⁴ was RMB31,159 million. We believe that the increasing investments in promoting robust scale development of full services operation has achieved remarkable results. As we further progress our full services operation, the Company would turn around its profit trajectory and our corporate value creation capability will be enhanced as well.

Taking into consideration of the return to shareholders, the Company's cash flow and its capital requirements for future development, the Board of Directors has decided to recommend at the forthcoming Annual General Meeting that a dividend being an equivalent of HK\$0.085 per share for the financial year 2009, which is the same as 2008.

Business operation

Adhering to integrated operation to achieve a good start of full services operation

We always insist on the integrated operation in the era of informatisation and it is the key component for us to obtain the differentiated operation advantages. In 2009, we adhered to the integrated packaging development of wireline, mobile and Internet services. Taking full advantage of our existing customer resources, network resources and sales capabilities, we proactively expanded our mobile customer base. Our mobile subscribers increased by 28.18 million to 56.09 million in the year, of which integrated service penetration rate reached 50%. Total mobile revenue drove 16.0% increase in the operating revenues. We further enhanced the full integration of our voice services with broadband, value-added and integrated information application services to satisfy the diverse demand of our customers and increase their stickiness. It effectively drove our customers and revenue growth. Through differentiated operation, we effectively avoided single product price competition and protected the overall industry value. We achieved a good start of full services operation. Wireline broadband services grew significantly with net addition of 9.19 million subscribers in the year, bringing the total number of subscribers to 53.46 million. There was also strong growth in the wireline value-added and integrated information services. Revenues from IT service and applications services, as well as “Best Tone” type of information services, increased by 32.4% and 14.7% respectively from last year. Facing the global financial crisis and the increasing mobile substitution, we proactively built a comprehensive defense system to consolidate our wireline voice services, in particular to actively tackle the declining trend of wireline voice services through integrating with mobile and Internet services. In 2009, wireline voice services revenue was

⁴ Free cash flow is calculated from EBITDA (excluding amortisation of the upfront connection fees) minus CDMA network capacity lease fee, capital expenditure and income tax.



Chairman's Statement (*continued*)

RMB78,432 million and it represented 37.7% of the operating revenues excluding the amortisation of the upfront connection fees. The Company's operating risks were progressively alleviated.

In addition, we were successful in the comprehensive integration of our network maintenance and IT support, which enhanced our response time and maintenance efficiency. The time required for activating services for customers and trouble shooting were both shortened by nearly 40%. We continued to enhance our front-end coordination and support capabilities to establish our differentiated and perceivable service edge.

Optimising branding system to promote brand development

In 2009, we focused on building our "e surfing" brand and increasingly promoted our "3G Internet handset" to further enrich the embedded values of our brands and to satisfy the demands for mobile Internet applications. These efforts have gained much market attention. According to a third-party market survey, the brand awareness of "e surfing" reached 78.8%, the top amongst 3G brands. The Company successfully established a new image as a full services operator. Meanwhile, we continued to reinforce the brand development of "BizNavigator" and "One Home" by adding mobile service to enrich their embedded values. This effectively enlarged our brand customer bases. As of the end of 2009, "BizNavigator" and "One Home" subscribers reached 4.36 million and 36.36 million respectively.

Enhancing core competitiveness through innovation

Comprehensively enhancing the core competence of our networks, products, sales and service are the key roots for our full services operation. In 2009, our parent company rapidly upgraded the mobile network and established the 3G mobile network with the most comprehensive coverage in China. In order to seize the leading positions in mobile products, we established an innovative product development system by setting up a new product development center at our headquarters and 8 other product R&D bases to strengthen the coordination and centralised development of our key products. We also enhanced the synergy of our ICT companies and our marketing channels for the government and enterprise customers to strengthen the service support for key industry-specific application products. We further increased our efforts in

the development and promotion of public information products which are based on mobile Internet applications. We launched products like "iMusic", wireless broadband, "189 mailbox", "e surfing LIVE" to gain market share through differentiation. We improved our front-end customer service system by setting up customer services department to strengthen the management of our customer services and enhance our service capabilities. We continuously improved our customer satisfaction, leveraging our customer relations management system extensively. We further reinforced our financial management by optimising resources allocation, strengthening cost control and adjusting investment structure. Resources were tilted towards services with high growth potential and promising prospects such as broadband, Internet, and value-added services. Investments were focused on supporting the development of high growth regions and mid-to-high-end customers to steadily increase return on investment. We also innovated our human resources management system to recruit high-calibre technology and management talents, motivate the employees, optimise human resources allocation and advance salary and incentive initiatives to promote the corporate strategic transformation.

Promoting cooperation to stimulate industry value chain

We persisted in scale development to boost industry value chain confidence and advocated benefits sharing to stimulate momentum of value chain development to promote cooperation with external partners. We increased the percentage of handsets procured through open channels, leveraged external partners to achieve a breakthrough in handset bottlenecks and continuously launched new handsets including the flagship CDMA handsets and the 3G handsets pricing around RMB1,000. Thus the number of models of CDMA terminals increased at an encouraging speed of about 40 models per month on average. We aggressively promoted the establishment of open channels through partnering with electrical appliance stores and mobile phone specialty stores to attract more mobile customers. The proportion of new mobile customers developed through open channels increased every month and reached nearly 50% at the end of last year. At the same time, we enhanced the cooperation with external partners in information content especially scarce information content providers and core industry integrated application providers. It helped promote the development of a mobile Internet based information services industry value chain by leveraging the strengths of our external partners in the aspects of specialised businesses, core functions and customer segments.

Chairman's Statement (continued)

Corporate Governance

We are firmly committed to adopting international best practice to continuously improve our corporate governance. We adhered to the principle of integrity and strengthened the establishment and execution of internal control to effectively manage corporate risks. We continuously enhanced corporate transparency and performed outstandingly in investor relations. Our efforts were widely recognised by the capital market. We have been accredited with a number of awards and appreciation, including "No. 1 Best Managed Company in Asia" by *Euromoney*, "Best Managed Company in China" and "Best Corporate Governance in China" by *FinanceAsia*, and "Asia's Best Companies in Corporate Governance in China" by *Corporate Governance Asia*.



Mr. Neil Osborn, the Publisher of *Euromoney*, presented the "Best Managed Company in Asia" award to Mr. Wang Xiaochu, Chairman

Corporate Social Responsibility

In 2009, we made our share of contribution by actively participating in the promotion of social informatisation amid the global financial crisis, accelerating the development of the industry value chain. The Company focused on achieving harmony between the corporate development and environmental protection. We aggressively promoted the emission reduction project and lowered the energy-consumption-to-revenue ratio to realise our goal of low carbon emission operation. We closely involved in public welfare work by proactively supporting the economic development of those less developed regions in China, helping the disabled in getting jobs and participating in the disaster relief works. Our continuous efforts were well recognised by the public. In 2009, the Company was awarded the "Valued Model Enterprise of Corporate Social Responsibility" and "Grand Award of Corporate Social Responsibility in China".

Outlook for Future

In 2009, we overcame various difficulties to realise a good start of full services operation. Looking forward, we are fully confident. The foundation for the recovery of Chinese economy is getting further consolidated. The country's "Three Networks Convergence" policy is gaining momentum. The demand for mobile Internet services is increasing continuously with 3G service development accelerating. New technologies like Internet of Things and Cloud Computing are getting more mature and gaining wide applications. All these will foster a much broader market for information and communications. However, we are also facing the serious challenges from the intensifying competition in the telecommunications industry.

We will continue to leverage our integrated operation advantage. In addition to our emphasis on the effective measures of integrated packaged services, we will speed up our product and service innovation to rapidly form a new competitive edge in differentiation. We will strive to create a new phase of profitable scale development and realise a new breakthrough in informatisation services. Meanwhile, we will continue to optimise our business structure and gradually enhance revenue contributions from mobile, broadband access and value-added and integrated information services through innovation in informatisation and differentiated development. We will continue the profitable scale development of our mobile services and actively consolidate the comprehensive defense system of wireline voice services to gradually alleviate the Company's operating risks and achieve harmonious development of our full services.

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 firmly believe our company will continue to create more value for our shareholders and customers, and further contribute to the society in 2010.

Wang Xiaochu
Chairman and Chief Executive Officer

Beijing, China
22 March 2010

