

2012 was the best year ever for the Company's development since the commencement of full services operation. We persisted in deepening transformation, firmly adhered to the main theme of "promoting scale development through dual-leadership in innovation and service" and persisted in efficient scale operation and data traffic operation, leading to rapid expansion in the core services. Through the successful acquisition of mobile network from our parent company, we accomplished unified mobile service operation with network as a whole. We accurately captured the development pattern of the mobile Internet and developed sustainable competitive advantages, resulting in significant enhancement in our four core capabilities in innovation, service, centralised efficient management and operation. With pragmatic promotion of the "Three New Roles"¹ strategy, the strategic landscape of new businesses emerged and the corporate development is ignited with new vitality.

Operating Results

In 2012, the Company's operation was on track as planned. The operating revenues amounted to RMB283.1 billion, representing an increase of 15.5% over last year. Excluding the mobile terminal sales, the operating revenues were RMB258.3 billion, representing an increase of 11.8% over last year, with revenue growth surpassing industry average. The proportion from high growth businesses increased rapidly and the business structure continuously optimised.

EBITDA² was RMB96.4 billion, an increase of 2.1% over last year. EBITDA margin³ was 37%. The profit attributable to equity holders of the Company was RMB14.9 billion, declined by 9.5% from last year. Taking advantage of the opportunities arising from the launch of iPhone, the Company made an appropriate increase in marketing initiatives for the expansion into the high-end subscriber market to promote the revenue growth, which is expected to significantly enhance the long-term sustainable growth and value creation despite the short term pressure on the profitability. Basic earnings per share of the Company were RMB0.18. Capital expenditure was RMB53.7 billion. Free cash flow⁴ reached RMB12.4 billion.

At the end of 2012, we successfully completed the acquisition of CDMA network assets from the parent company, enabling us to organise and coordinate the investment and deployment, operation and management, as well as the upgrade and planning for the mobile network, promoting better development of the mobile services and enhancing the future profitability of the Company.

Taking into account the return to shareholders, the Company's cash flow and the capital requirements for the mobile network acquisition and 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 be declared, which is the same as last

¹ The "Three New Roles" refers to the "Leader of Intelligent Pipeline", the "Provider of Integrated Platforms" and the "Participant of Content & Application Development".

² For convenience of investors' comparative analysis, EBITDA is calculated before CDMA network capacity lease fee.

³ EBITDA margin is calculated based on EBITDA divided by the operating revenues excluding mobile terminal sales.

⁴ Free cash flow is calculated from EBITDA minus CDMA network capacity lease fee, capital expenditure and income tax.

Nowadays, with increasing popularity of smartphones and flourishing mobile Internet development, a terminal is no longer a simple conversational device, but more for providing life-enriching and value-creating information to users. Facing this fundamental change, our people courageously break away from the constraints of traditional telecommunications operation mindset, persistently reinforcing their efforts in learning and exploring. They are keen for reform and innovation, endeavouring to offer superior and compelling services to our customers. I feel so proud and grateful to our team for their unrivalled dedication and passion. I firmly believe that China Telecom would ride on this momentum to achieve a vibrant enterprise built to last!



year. The Company will strive to enhance profitability and concurrently pave the way for future dividend increase.

Rapid scale expansion of full services operation

In 2012, we deepened the implementation of the two key strategies of scale operation and data traffic operation, persisting in mobile operation driven by 3G and proactively developing fibre broadband deployment and accelerated development in informatisation application. The three core services integrated altogether and fostered synergistically, resulting in strong growth in revenues and subscriber scale of the Company. The operating revenues achieved double-digit growth and the wireline revenue became stabilised with an upward trend. The efficient scale development of full services operation is on the "fast track".

In 2012, mobile Internet business began to experience exponential growth. We firmly grasped the opportunity to accelerate scale expansion, proactively leveraging the network strengths, persisting in terminal-driven mode, reinforcing scale procurement and centralised efficient marketing of terminals, deepened transforming self-operated sales outlets into specialty stores, motivating the vigorousness of open channels, equally emphasising integrated products and mobile single product, and rolling out data traffic operations in full-scale. Mobile services revenue amounted to RMB92.8 billion for the full year, an increase of 36% over last year, which was the highest growth rate in the industry. The number of mobile subscribers reached a total of 161 million, with a net addition of 34.15 million, of which net addition of 3G subscribers was 32.76 million. 3G subscribers accounted for 43% of total subscriber base. Mobile subscriber market share was about 15%

while 3G subscriber market share reached 30%, with increasing influence on the market.

In 2012, we successfully embarked on data traffic operation. Started with establishing an operating system, the Company built a data traffic operation team which was vertically integrated and horizontally coordinated. Meanwhile, numerous initiatives were adopted to effectively expand the data traffic scale: enhancing the quality of data traffic resources through strengthening the coordination and centralised efficient promotion of self-developed applications such as product centre businesses and premium external-parties applications; strengthening the promotion of 3G smartphones and reinforcing the 3G applications assistance as well as sales and marketing to enhance customers' experience and to cultivate users' habits in data traffic; precision marketing to improve the services in data usage alert and traffic usage enquiries to improve customers' experience; refining data traffic packages and focusing on targeted markets to improve the data traffic contribution. The data traffic of Internet access by handset almost tripled in 2012.

In 2012, the Company reinforced its leadership in the wireline broadband market. The Company progressively promoted the "Broadband China • Fibre Cities" construction project and further expanded fibre broadband coverage. Concurrently, we pushed full-strength ahead with our fibre broadband marketing campaign "Lightening Fibre Residential Areas", quickly transforming the strengths of our superior network to a competitive edge. At the same time, the Company further penetrated into the rural broadband market. Building on this foundation, we comprehensively promoted

the network bandwidth upgrade initiative to enhance customer perception of our broadband network and the brand value. We deepened the integration of broadband access with products such as Internet TV ("iTV") to provide premium content and enriched value. To enhance customer satisfaction, we promoted the research and development of intelligent bandwidth upgrade products, offered services for self-served bandwidth assessment and optimised customers experience by self-served bandwidth upgrade. Wireline Internet access service revenue were RMB67.8 billion for the year, an increase of 10% over last year. Wireline broadband subscribers base exceeded 90 million with net addition of 13.31 million, of which the number of Fibre-to-the-Home ("FTTH") subscribers was about 15 million.

We further expanded our strengths in informatisation applications in 2012 by separately promoting and deepening strategic cooperation with three target groups: "Smart Cities", key customers and cooperation partners. Scale expansion achieved significant results in various target market groups: for the key customers in the industries, we persisted in offering a comprehensive solution focusing on six key applications such as administration and tax services to extend vertical integration; for clustered small to medium-sized customers such as the professional market, we concentrated on four main standardised products such as e-Surfing RFID to promote scale replication; for the campus market, we launched the new application "e-Surfing School" that specifically targets primary and secondary schools and secured nearly 20,000 contracts for the "Smart Campus" initiative. In 2012, the revenue growth rate from the government and enterprise

customers was above that of the Company as a whole. In 2012, the net addition of government and enterprise broadband customers was about 4 million, with a subscriber base of more than 20 million. The net addition of mobile subscribers of informatisation applications was over 10 million in total, reaching a scale of more than 20 million. Data traffic and value per subscriber were further enhanced.

Enhancing Four Capabilities and Developing a Sustainable Competitive Edge

Innovation capability To liberate mindsets and take the lead in innovation. The intelligent upgrade of our broadband network has progressed from trial to commercial launch, promoting intelligent upgrade of our mobile network with a real-time service identification capability as its core. We accelerated the construction of an integrated platform and were the pioneer in building a platform with open and cooperative ability, congregating customer and data traffic resources. We deepened our innovation in systems and mechanisms, accelerated the corporatisation process of our product centres services and introduced private investment to stimulate their vitality and initiatives. We accelerated the transformation of electronic channels to e-commerce channels, which is leading in the industry. We consolidated our resources abroad and established China Telecom Global Limited to coordinate our overseas market expansion. We adhered to the doctrine of people-oriented strategy and optimised our human resources management system as well as strengthened the team-building of our management staff, senior professional talents and frontline employees.

Service capability Deepened service transformation and focusing on key services to achieve service leadership. We built an open and intelligent customer service mechanism to provide one-stop service solutions to customers. Leveraging on service innovation, we vigorously enhanced the service capabilities of Online Service Centre and Mobile Palm Service Centre to create comparative advantages in the market. Customer life-cycle management was implemented to strengthen the effectiveness of our customer retention efforts. As a pioneer in adopting 3G service standards that are higher than the industry level, and specifically targeting the enhancement of mobile broadband service level, our 3G service satisfaction is leading in the industry. With further implementation of wireline broadband services enhancement projects and development of superior broadband services around key customer interfaces, we attained the highest level of broadband service satisfaction in the industry.

Centralised efficient management capability Deepened centralised efficient operation and marketing: We optimised our brand structure, refined our service packages, strengthened the centralised efficient management of products, improved the 3G terminal portfolio structure and strengthened the efforts in centralised procurement, further unified service codes and standards, and reinforced "one-point access and entire-network operation"; in the four key areas including procurement, IT system, government and enterprise customers marketing, network operation and maintenance, we fully implemented the separation of management and operational functions and optimised our organisational structure, increased our market responsiveness and enhanced our

operating efficiency. We established a "Cloud" company to implement professional operation and centralised efficient management of our "Cloud" service.

Operation capability Optimised comprehensive budgeting and performance management: We promoted market-share oriented and dynamic budget management and assessment system to foster the Company's overall market share expansion. We implemented precision management and further promoted refinement of performance evaluation units, strengthening cost control and continually enhancing operating efficiency. We optimised our resource allocation and tilted our sales initiatives towards high growth businesses, while our investment focusing on high return areas in fibre broadband, mobile Internet and core business platforms. We strengthened the synergies among our various channels and fully mobilised the enthusiasm of the open channels, resulting in enhancement in channel integrated efficiency.

Corporate Governance and Social Responsibility

We continue to strive to maintain a high level of corporate governance, strengthen risk management and control, improve corporate transparency and enhance corporate value. Our persistent efforts in corporate governance have been widely recognised by the capital markets. We were accredited with a number of awards and recognition, including being voted the "No. 1 Best Managed Company in Asia" by *FinanceAsia* for two consecutive years, "The Best of Asia" by *Corporate Governance Asia* for three consecutive years, and also "Overall Best Managed Company in Asia" by *Euromoney* four years in a row.

We firmly adhere to corporate social responsibility and be a responsible corporate citizen. We persist in operating with integrity and proactively protecting the industry eco-environment. We implement environmentally friendly operation and enhance energy saving and emissions reduction as well as the cooperative building and sharing of mobile base stations. We provided telecommunications assurance services for significant events such as the successful launch of Shenzhou-9 spacecraft and Shanghai Cooperation Organisation Summit, receiving high recognition and appreciation from the society. In 2012, China Telecom was accredited with "China's Outstanding Enterprise in Corporate Social Responsibility" by the Chinese Academy of Social Sciences.

Outlook

Looking ahead, we are fully confident. Currently, with the tide of mobile Internet sweeping globally and the accelerated industrialisation and informatisation development in China, the information and communications industry in the Mainland will maintain a relatively high growth rate, which offers the Company a promising prospect. Meanwhile, the intensifying market competition, uncertain regulatory environment and rapid development of new technology offer us not only development opportunities but also new challenges.

We will firmly seize this valuable golden opportunity to persevere with the deepening of strategic transformation. We will accelerate the scale development of fundamental services, expedite the nurture of emerging services as well as closely monitor and proactively respond to advancement of new technology and changes in regulatory policies. We will also



Chairman Wang Xiaochu received "No. 1 Best Managed Company in Asia" award from FinanceAsia

adhere to the Internet's spirit of "openness, cooperation and innovation", breaking away from the constraints of traditional telecommunications operation mindset. We will promote the services development through differentiation, motivate the innovative vitality of our employees through market-driven mechanism and promote scale development and profitability through "dual-leadership in innovation and service". Leveraging our unswerving promotion of "Three New Roles" strategy, our unique and sustainable competitive strengths are created, so as to achieve a vibrant enterprise built to last.

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.

A handwritten signature in black ink, appearing to be '王晓初' (Wang Xiaochu).

Wang Xiaochu

Chairman and Chief Executive Officer
Beijing, China

20 March 2013