

CHINA TELECOM CORP LTD
Form 6-K
April 17, 2012
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer

**Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934**

For the Month of April 2012

Commission File Number 1-31517

China Telecom Corporation Limited

(Translation of registrant's name into English)

31 Jinrong Street, Xicheng District

Beijing 100033, China

(Address of principal executive offices)

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(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.)

Form 20-F Form 40-F

(Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):)

(Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):)

(Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.)

Yes No

(If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b):82- .)

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EXHIBITS

Exhibit Number		Page Number
1.1	<u>Annual report for the year ended December 31, 2011, released on April 12, 2012.</u>	A-1
1.2	<u>Circular regarding proposed amendments to Articles of Association and notice of annual general meeting, dated April 12, 2012.</u>	B-1

FORWARD-LOOKING STATEMENTS

Certain statements contained in this Form 6-K may be viewed as forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements are, by their nature, subject to significant risks and uncertainties, and include, without limitation, statements relating to:

our business and operating strategies and our ability to successfully execute these strategies;

our network expansion and capital expenditure plans;

our operations and business prospects;

the expected benefit of any acquisitions or other strategic transactions;

our financial condition and results of operations;

the expected impact of new services on our business, financial condition and results of operations;

the future prospects of and our ability to integrate the acquired business;

the industry regulatory environment as well as the industry outlook generally; and

future developments in the telecommunications industry in the People's Republic of China, or the PRC.

The words anticipate, believe, could, estimate, expect, intend, may, plan, seek, will, would and similar expressions, as they are used herein, are intended to identify a number of these forward-looking statements.

These forward-looking statements are subject to risks, uncertainties and assumptions, some of which are beyond our control. In addition, these forward-looking statements reflect our current views with respect to future events and are not a guarantee of future performance. We are under no obligation to update these forward-looking statements and do not intend to do so. Actual results may differ materially from the information contained in the forward-looking statements as a result of a number of factors, including, without limitation, the following:

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any changes in the regulations or policies of the Ministry of Industry and Information Technology, or the MIIT, and other relevant government authorities relating to, among other matters:

the granting and approval of licenses;

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tariff policies;

interconnection and settlement arrangements;

capital investment priorities;

the provision of telephone and other telecommunications services to rural areas in the PRC;

the convergence of television broadcast, telecommunications and Internet access networks, or three-network convergence; and

spectrum and numbering resources allocation;

the effects of competition on the demand for and price of our services;

effects of our restructuring and integration following the completion of our acquisition of the Code Division Multiple Access technology, or CDMA, telecommunications business in 2008;

any potential further restructuring or consolidation of the PRC telecommunications industry;

changes in the PRC telecommunications industry as a result of the issuance of the third generation mobile telecommunications, or 3G, licenses by the MIIT;

the development of new technologies and applications or services affecting the PRC telecommunications industry and our current and future business; and

changes in political, economic, legal and social conditions in the PRC, including changes in the PRC government's specific policies with respect to foreign investment in and entry by foreign companies into the PRC telecommunications industry, economic growth, inflation, foreign exchange and the availability of credit.

Please also see the Risk Factors section of the Company's latest Annual Report on Form 20-F, as filed with the Securities and Exchange Commission.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CHINA TELECOM CORPORATION LIMITED

Date: April 17, 2012

By: /s/ Wang Xiaochu
Name: Wang Xiaochu
Title: Chairman and Chief Executive Officer

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Exhibit 1.1

Corporate Culture

Corporate Mission

Let the customers fully enjoy a new information life

Strategic Goal

Be a world-class integrated information service provider

Core Value

Comprehensive innovation, pursuing truth and pragmatism, respecting people and creating value all together

Operation Philosophy

Pursue mutual growth of corporate value and customer value

Service Philosophy

Customer First Service Foremost

Code of Corporate Practice

Keep promise and provide excellent service for customers

Cooperate honestly and seek win-win result in joint innovation

Operate prudently and enhance corporate value continuously

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Manage precisely and allocate resources scientifically

Care the staff and tap their potential to the full

Reward the society and be a responsible corporate citizen

Corporate Slogan

Connecting the World

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2011 Milestones

February

China Telecom pragmatically promoted the Broadband China Fibre Cities project, proactively built up premier broadband network resources.

March

The number of mobile subscribers successfully achieved a breakthrough of 100 million, becoming the world's largest CDMA mobile network operator.

April

As the sole global telecommunication partner of the Xi'an International Horticultural Exposition, China Telecom, leveraging on the information technology and basic network infrastructure, provided informatisation solutions and a rich variety of information service applications to the Exposition.

July

As the sole full services telecommunications global partner, China Telecom formally launched the full services telecommunications services and all-round communication safety assurance for the 26th Summer Universiade.

August

China Telecom announced computing strategy, brand and solutions of e-Surfing Cloud and became the first telecommunications operator in China to publish Cloud computing strategy and solutions.

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Corporate Information

China Telecom Corporation Limited (China Telecom or the Company , together with its subsidiaries, collectively the Group) is a full services integrated information service operator and the world s largest wireline telecommunications, CDMA mobile network and broadband Internet services provider, providing basic telecommunications services such as wireline telecommunications services and mobile telecommunications services, and value-added telecommunications services such as Internet access services and information services in the PRC. As at the end of 2011, the Company has wireline access lines in service of about 170 million, wireline broadband subscribers of about 77 million and mobile subscribers of more than 126 million. The Company s H shares and American Depositary Shares (ADSs) are listed on The Stock Exchange of Hong Kong Limited and the New York Stock Exchange, respectively.

Board of Directors

Executive Directors

Wang Xiaochu (*Chairman*)

Yang Jie

Wu Andi

Zhang Jiping

Yang Xiaowei

Sun Kangmin

Non-Executive Director

Li Jinming

Independent Non-Executive Directors

Wu Jichuan

Qin Xiao

Tse Hau Yin, Aloysius

Cha May Lung, Laura

Xu Erming

Company Secretary & Qualified Accountant

Nomination Committee

Wu Jichuan (*Chairman*)

Tse Hau Yin, Aloysius

Cha May Lung, Laura

Xu Erming

Supervisory Committee

Miao Jianhua (*Chairman*)

Zhu Lihao (*Independent Supervisor*)

Mao Shejun (*Employee Representative*)

Xu Cailiao

Han Fang

Du Zuguo

Legal Representative

Wang Xiaochu

International Auditor

KPMG

Yung Shun Loy, Jacky

Audit Committee

Tse Hau Yin, Aloysius (*Chairman*)

Wu Jichuan

Qin Xiao

Xu Erming

Remuneration Committee

Xu Erming (*Chairman*)

Wu Jichuan

Qin Xiao

Tse Hau Yin, Aloysius

Legal Advisers

Jingtian & Gongcheng

Freshfields Bruckhaus Deringer

Sullivan & Cromwell LLP

Stock Code

HKEx: 728

NYSE: CHA

Company Website

www.chinatelecom-h.com

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	2009 ⁵ (restated)	2010 ⁵ (restated)	2011
Operating revenues (<i>RMB millions</i>)	208,219	219,367	244,943
EBITDA ¹ (<i>RMB millions</i>)	2,068	88,490	94,266
EBITDA margin ²	40.5%	41.4%	40.8%
Net profit ³ (<i>RMB millions</i>)	12,832	14,850	16,404
Capital expenditure (<i>RMB millions</i>)	38,042	43,037	49,551
Total debt/Equity ⁴	44.8%	30.0%	20.3%
Earnings per share (<i>RMB</i>)	0.159	0.183	0.203
Dividend per share (<i>HK\$</i>)	0.085	0.085	0.085
Net asset value ⁴ per share (<i>RMB</i>)	2.920	3.035	3.164

Including amortisation of the upfront connection fees

	2009 ⁵ (restated)	2010 ⁵ (restated)	2011
Operating revenues (<i>RMB millions</i>)	209,370	219,864	245,041
EBITDA ¹ (<i>RMB millions</i>)	83,219	88,987	94,364

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

2 EBITDA margin was calculated based on EBITDA divided by the operating revenues excluding mobile terminal sales.

3 Net profit represented profit attributable to equity holders of the Company.

4 Equity and net asset value represented equity attributable to equity holders of the Company.

5 In 2011, as the Group retrospectively adopted the amendment to IFRS 1, certain prior years figures were restated. Please refer to note 3 of the audited financial statements in this annual report for details.

For further information, please browse our website at www.chinatelecom-h.com.

The charts below are based on financial figures excluding amortisation of the upfront connection fees

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Chairman's Statement

In the past three years, our people have continuously explored and improved the mobile and full services integrated operation with their unwavering dedication and passion for innovation. We successfully attained spectacular development with net additions of 100 million mobile subscribers and 30 million wireline broadband subscribers, becoming the world's largest CDMA mobile operator as well as the world's largest broadband operator. The profitability was further enhanced. Grasping the golden opportunities of the current fast proliferating mobile Internet and informatisation applications, we shall leverage our strengths and strive to achieve scale development breakthrough to create more value for our customers and shareholders through dual-leadership in innovation and service provision.

In 2011, we firmly seized the valuable market opportunities arising from the rapidly proliferating mobile Internet applications and the increasing demand of industry informatisation to continue to deepen our strategic transformation. We pragmatically promoted the development of our Three New Roles – a leader of intelligent pipeline, a provider of integrated platforms, and a participant in content and application development and proactively expanded into emerging areas such as mobile Internet. We accelerated the optimisation of business structure and continuously enhanced our operational and management capabilities, facilitating effective promotion in the scale development of our mobile, wireline broadband and industry informatisation services. Revenue and profit continued to maintain robust growth and the Company's overall competitive strengths have been further enhanced.

Operating Results

In 2011, the Company achieved favourable development. The operating revenues amounted to RMB245,041 million. Excluding the amortisation of upfront connection fees, the operating revenues were RMB244,943 million, an increase of 11.7% over last year. The revenue structure continued to be optimised, laying a solid foundation for future sustainable development. Mobile service revenue reached RMB68,248 million, an increase of 43.0% over last year, further increasing its proportion to 27.9% of total revenue and became the largest service of the Company. Revenue from wireline broadband service was RMB60,801 million, an increase of 12.3% over last year and maintained rapid growth. Wireline voice revenue was RMB49,764 million, its proportion to total revenue declined to 20.3% and the operating risks were further alleviated. EBITDA^{1,2} was RMB94,266 million, an increase of 6.5% over last year while EBITDA margin³ was 40.8%. The profit attributable to equity holders of the Company was RMB16,404 million, an increase of 10.5% over last year, demonstrating concurrent achievement in scale development of subscriber and enhancement in profitability. Basic earnings per share was RMB0.20. Capital expenditure was RMB49,551 million, accounted for 20.2% of revenue and free cash flow⁴ was RMB20,288 million.

Taking into account the return to shareholders, the Company's cash flow and its capital requirements for the forthcoming acquisition of mobile network assets from parent company, 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 year.

- 1 For convenience of investors' analysis, EBITDA was calculated before CDMA network capacity lease fee.
- 2 Including the amortisation of upfront connection fees, EBITDA was RMB94,364 million, profit attributable to equity holders of the Company was RMB16,502 million, and basic earnings per share was RMB0.20.
- 3 EBITDA margin was calculated based on EBITDA divided by the operating revenues excluding mobile terminal sales.
- 4 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.

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Full services development achieving new breakthroughs

Through more than three years of practice and exploration, we have continuously deepened our understanding and grasp of the pattern of full services operation and enriched our operating experience. We effectively promoted the scale development of the Company's three core services, further consolidating and strengthening our competitive advantages.

3G leading mobile service scale expansion

In 2011, China's mobile telecommunications market has gradually migrated from 2G to 3G services. With accelerated growth in 3G services, the market potential was huge and the Company firmly seized this historic opportunity for development. Through a series of development initiatives such as comprehensively promoting the terminal-driven marketing model, optimising channel distribution, enhancing service capability, enriching mobile applications and strengthening brand building, the Company effectively promoted scale development of its mobile service; Through the transformation of self-operated sales outlets to handset speciality stores like electronic appliance stores to strengthen sales and marketing to enhance customers' experience, together with implementation of flexible and effective incentive schemes to motivate open channel sales initiatives, new addition of subscribers increased rapidly; Through cooperation and incentive across terminal value chain to motivate value chain participants, the variety of smartphones, in particular the smartphones priced around RMB1,000, proliferated robustly. Sales volume of 3G smartphones continued to rise, which well supported the rapid expansion of 3G subscribers base; Through continuous innovation in service measures and focusing on the enhancement of electronic channel service capabilities to boost the mobile service scale expansion; Strengthening cooperation with external parties, constantly launching popular mobile Internet applications, through sales and marketing to enhance customers' experience and continuous follow-up marketing strategies to increase the usage and vigorousness level of the applications and promote the development by applications; Targeting the youngster market, the brand "e-Surfing Fly Young" was launched, gathering various resource advantages such as network, applications, service, etc., in order to seize the mobile Internet active user market. In 2011, the net addition of mobile subscribers was 35.95 million, reaching a total of 126 million and the Company became the world's largest CDMA operator. Our mobile subscriber market share further increased to 13.0%, with 3G subscribers totalling 36.29 million and 3G subscriber market share was 28.5%. The Company's market influence was further enhanced, demonstrating scale benefit driving enhancement in corporate overall profitability.

While we are achieving the scale development of our mobile subscribers base, with a firm foothold in the present and an outlook to the future, we vigorously promoted the transformation from voice-centric to data traffic operation and stand at the forefront for future development: We leveraged our strengths and capabilities in integrated platform and gathered popular Internet applications such as instant messaging, Weibo, group buying and Best Tone services, reinforcing application-driven usage and enriching data content. We leveraged our Cloud computing service capability while proactively exploring and expanding the development into emerging services such as mobile payment and positioning services to enhance data traffic value. We innovated the data traffic marketing model, through strengthening sales and marketing to enhance customers' experience and cultivating users' habit of usage to increase data revenue. In 2011, mobile data revenue was RMB29,620 million, an increase of 57.4% over last year.

Broadband upgrade boosting rapid development

Broadband network has become the most important infrastructure in the informatisation society and broadband development will become an important initiative to promote national economic growth. With the growing demand for e-commerce, the continuously enriching applications in the Internet of Things and continuous acceleration in Three Networks Convergence, the demand from high-bandwidth applications has become an important driver for bandwidth upgrade, injecting new vitality into the Company's broadband service development. The Company duly launched the "Broadband China Fibre Cities" project and accelerated fibre rollout and the upgrade of Fibre-to-the-Home (FTTH), comprehensively implementing bandwidth upgrade to create a superior network for better customer experience, further consolidating our competitive edges. By the end of 2011, all cities in service areas basically had 8Mbps bandwidth access capability, while 20Mbps bandwidth coverage reached 70%. In addition to the broadband upgrade, we vigorously developed products that demanded high bandwidth such as iTV, e-Surfing Video and e-Cloud storage, constantly enriching the content of the "e-Surfing Broadband" brand. We also proactively introduced bandwidth intensive contents and applications such as popular online games and online videos from our external partners to provide users with a differentiated perception of high-bandwidth, effectively promoting an increase in broadband subscribers and value enhancement: In 2011, the net addition of wireline broadband subscribers was 13.33 million and the total number of wireline broadband subscribers reached 76.81 million.

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Key industries focused development expanding informatisation applications

Industry informatisation is an important area in national economic informatisation. Facing the rich gold mine of industry informatisation applications market, we fully leverage our integrated strengths in ICT and government & enterprise service teams. With the brand e-Surfing Navigator as the lead, we focused on industries such as government supervision and enforcement, finance, corporate clients and clustered small to medium-sized enterprises. We developed key applications such as e-Surfing RFID, e-office administration, transport and logistics, digital campus and vehicle information services and accelerated the scale replication and promotion of the products. Riding on the opportunity of assisting customers to establish digital enterprises, we achieved synergy in integrating our products such as mobile 3G and broadband access into informatisation solutions, effectively driving the scale development of our fundamental services. At the same time, we proactively expanded and developed the Cloud service market. We constructed the nationwide Cloud resources service management platform on an efficient and centralised basis and proactively promoted Cloud computing for industry applications to continuously enhance our capabilities in providing industry informatisation solutions.

Commitment to innovate, Three New Roles transformation achieving substantive progress

We broke through from conventional thinking and reinforced our awareness of and capability for innovation, striving to explore the development patterns of emerging services, and increase our innovation initiatives in networks, platforms, products, mechanisms and system. We pragmatically implemented our Three New Roles strategy and endeavoured to develop new differentiated competitive edges to promote the scale development of our services.

We actively promoted intelligent pipeline construction: We strived to achieve differentiated allocation of network resources, focusing on enhancing our service assurance capabilities for high-end users, relieving network capacity expansion pressure and saving on capital expenditure. At the same time, we conducted trial of our intelligent bandwidth upgrade products for broadband networks whereby bandwidth resources can be quickly configured according to user's requirement, in order to achieve self-served bandwidth upgrade by broadband access users so as to improve customer's experience.

We accelerated the construction of integrated platforms and open operations: We further optimised our platform structure, gradually incorporating various types of application platform resources into the integrated resource management platform for the implementation of centralised efficient operations. We also increased our efforts in transferring the platform resources into the Cloud so as to achieve sharing of user information and capability resources. We built a collective eco-environment for Internet applications and constantly improved our basic support capabilities such as authentication, positioning and billing for the integrated platform. We promoted our capabilities in open platforms to external parties to accomplish exchanging of revenue, subscribers and data traffic.

We strengthened our innovative strengths in content applications and proactively expanded Internet applications: For self-developed applications products, we constantly improved their penetration and vigorousness levels through our integrated offering, preliminarily accomplishing business scale expansion: The number of registered users of five products, including iMusic, e-Surfing apps store and e-game all exceeded 30 million respectively. Emerging services such as e-Surfing Chat instant messaging and positioning services were progressively launched to the market. We formed the Open Mobile Internet Alliance and innovated new modes of cooperation. We also proactively introduced premium third-party contents and applications such as Tencent QQ, Weibo and UC Browser, and further promoted collaborative development in areas like Cloud applications and e-commerce.

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We persisted to promote innovation in mechanism and system: In the field of emerging services, we proactively explored corporatisation reform. We accelerated the pace of the corporatisation reform of emerging services such as business travel, video and payment while implementing flexible incentive schemes to invigourise and create professional corporates with competitive edges for the rapid better development of the emerging services. We established a Business Innovation Department to strengthen our centralised efficient operation of innovative products. We also set up an incubator base to create an internal environment to cultivate innovation and incubate new products in the Internet area, thus initially forming a new system of innovative business operations.

Precision management and improvement in efficiency

We persisted in the direction of value management and continued to strengthen precision management, optimising resource allocation and enhance operational capability: We focused on three aspects, namely mobile network utilisation, marketing resource utilisation and operational efficiency of sales outlets. We further deepened the sub-division of performance evaluation units and diligently increased the corporate operating efficiency. We optimised our investment structure, fully leveraging on the functions of resource allocation in guiding business development. We increased our investment in key networks and services such as broadband and mobile and continuously improved investment return.

We acted in accordance with the development pattern of mobile Internet to strengthen our co-ordination and centralised efficient operations in areas such as sales and marketing systems and to make a concerted effort to expand the market. We further perfected our IT system, making every effort to achieve one-point access and entire-network operation, effectively promoting the development of our mobile Internet service.

We proactively embarked on serving the public and achieving excellence in performance program. Based on customers' perception, we enhanced our customer service capabilities in all aspects to continuously improve customer satisfaction, gradually establishing our differentiation advantages: We created superior broadband services, further enhanced our service support capabilities for broadband installation, maintenance and contract renewal and maintained industry-leading service quality level. We focused on 3G service and innovative customer interfaces. Instant messaging services such as QQ have reached scale operation, with the average monthly service volume exceeding two million times. The service capabilities of online channels such as on-line Palm Service Centre have also significantly improved, and Weibo has become a key channel to handle customer inquiries. The Company's mobile Internet service capabilities have begun to take shape.

Corporate Governance and Social Responsibility

We continue to strive to maintain a high level of corporate governance and corporate transparency to ensure healthy development of the Company and enhance corporate value. In 2011, 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, including No. 1 Best Managed Company in Asia by *Euromoney*, being the first company receiving such honour for three consecutive years, the Overall Best Managed Company in Asia and Best Telecom Company in Asia by *FinanceAsia*, and Asia's Best Companies in Corporate Governance and The Best Corporate Social Responsibility in China by *Corporate Governance Asia*.

We put great emphasis on environmental protection and vigorously promoted technical improvement for energy savings as well as collaborative building and sharing of mobile base stations. While investing in the conservation of resources, we contributed to energy saving and emission reduction for the community. We proactively practise the concepts of environment-friendly and low-carbon humanistic concept development, fully demonstrating our new image as a green telecom operator. We successfully achieved communications assurance for the Universiade in Shenzhen, the International Horticultural Exposition in Xi'an, and disaster relief, which demonstrated our efforts towards corporate social responsibility and received a high degree of recognition from all sectors of society.

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Outlook

At present, 3G service is entering a phase of accelerated growth and will grow explosively. Wireline broadband service is still in a period of high growth. The commercialisation of new services such as mobile Internet, Cloud computing and Internet of Things is further accelerating, which will open up a new area for the Company's development. The national policy of promoting cultural development will also provide new development opportunities. However, at the same time, we also face new challenges, such as the integration of the information industry and intensifying market competition.

Looking forward, we are fully confident. The Company will ride on the industry development trend, in alignment with the theme of promoting scale development through dual-leadership in innovation and services to create a differentiated competitive edge. We will adhere to the principle of efficiency and continue to accelerate the scale development of mobile, wireline broadband and informatisation applications. We will strive to enhance our strengths in innovation, service, efficient centralisation and operation management, and take more solid steps towards the goal of being a world-class integrated information service provider so as to 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 and Mr. Zhang Chenshuang for their valuable contribution during their tenure of office as Executive Directors of the Company.

Wang Xiaochu

Chairman and Chief Executive Officer

Beijing, China

20 March 2012

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GOLDEN

OPPORTUNITIES

DETECTED!

FAST PROLIFERATING SMARTPHONES

FABULOUS MOBILE INTERNET APPLICATIONS

ENRICHING CUSTOMERS LIFE AND VALUE

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Directors, Supervisors and Senior Management

Mr. Wang Xiaochu Age 54, is the Chairman of the Board of Directors and Chief Executive Officer of the Company. Mr. Wang graduated from Beijing Institute of Posts and Telecommunications in 1989 and received a doctorate degree in business administration from the Hong Kong Polytechnic University in 2005. Mr. Wang served as Deputy Director General and Director General of the Hangzhou Telecommunications Bureau in Zhejiang province, Director General of the Tianjin Posts and Telecommunications Administration, Chairman and Chief Executive Officer of China Mobile (Hong Kong) Limited, Vice President of China Mobile Communications Corporation, President of China Telecommunications Corporation, Chairman of the board of directors and a Non-executive Director of China Communications Services Corporation Limited. He is also the Chairman of China Telecommunications Corporation and Honorary Chairman of China Communications Services Corporation Limited. He was responsible for the development of China Telecom's telephone network management systems and various other information technology projects and as a result, received the Third-Class Award from the State Scientific and Technological Progress Award and the First-Class Award from the former Ministry of Posts and Telecommunications Scientific and Technological Progress Award. Mr. Wang has over 30 years of management experience in the telecommunications industry.

Mr. Yang Jie Age 50, is an Executive Director, President and Chief Operating Officer of the Company. Mr. Yang is a professor-level senior engineer. He graduated from the Beijing University of Posts and Telecommunications with a major in radio engineering in 1984 and obtained a doctorate degree in business administration (DBA) from the ESC Rennes School of Business in 2008. Mr. Yang served as Deputy Director General of Shanxi Posts and Telecommunications Administration, General Manager of Shanxi Telecommunications Corporation, Vice President of China Telecom Beijing Research Institute and General Manager of Business Department of the Northern Telecom of China Telecommunications Corporation. He is also the President of China Telecommunications Corporation. Mr. Yang has 28 years of operational and managerial experience in the telecommunications industry in China.

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Madam Wu Andi Age 57, is an Executive Director, Executive Vice President and the Chief Financial Officer of the Company. She is responsible for the financial management of the Company. Madam Wu is a senior accountant. She graduated from the Beijing Institute of Economics with a bachelor degree in finance and trading in 1983, and studied in a postgraduate program in business economics management at the Chinese Academy of Social Sciences from 1996 to 1998. She studied in a master of business administration (MBA) program at the Guanghua School of Management at Peking University from 2002 to 2003 and received an executive master degree of business administration (EMBA). Prior to joining China Telecommunications Corporation in May 2000, she served as Director General of the Department of Economic Adjustment and Communication Settlement of the Ministry of Information Industry (MII), Director General, Deputy Director General and Director of the Department of Finance of the Ministry of Posts and Telecommunications (MPT). She is also a Vice President of China Telecommunications Corporation. Madam Wu has 30 years of economic and financial management experience in the telecommunications industry in China.

Mr. Zhang Jiping Age 56, is an Executive Director and Executive Vice President of the Company. Mr. Zhang is a professor-level senior engineer. He graduated from the Beijing University of Posts and Telecommunications with a bachelor degree in radio telecommunications engineering in 1982, studied in a postgraduate program in applied computer engineering at Northeastern Industrial University from 1986 to 1988, and received a doctorate degree in business administration from the Hong Kong Polytechnic University in 2004. Prior to joining China Telecommunications Corporation in May 2000, he served as Deputy Director General of Directorate General of Telecommunications (DGT) of the MPT, a Deputy Director General and Director of the Telecommunication Technology Centre of the Posts and Telecommunications Administration of Liaoning Province. He is also a Vice President of China Telecommunications Corporation. Mr. Zhang has 30 years of experience in network operation and management in the telecommunications industry in China.

Mr. Li Ping Age 58, is an Executive Vice President of the Company. Mr. Li graduated from the Beijing University of Posts and Telecommunications with a major in radio telecommunications in 1976 and received a MBA degree from the State University of New York at Buffalo, U.S.A. in 1989. He served as Executive Director of China Telecom Corporation Limited, Chairman and President of China Telecom (Hong Kong) International Limited, Vice Chairman and Executive Vice President of China Mobile (Hong Kong) Limited, Deputy Director General of the DGT of the MPT. He is also the Vice President of China Telecommunications Corporation, Chairman of the board of directors and an Executive Director of China Communications Services Corporation Limited. Mr. Li has extensive experience in managing public companies and 36 years of operational and managerial experience in the telecommunications industry in China.

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Mr. Yang Xiaowei Age 48, is an Executive Director and Executive Vice President of the Company. Mr. Yang is a senior engineer. He received a bachelor's degree from the Computer Application Department of Chongqing University in 1998 and a master's degree in engineering from the Management Engineering Department of Chongqing University in 2001. Mr. Yang was the Assistant to Director and Deputy Director of Chongqing Telecommunications Bureau, a Deputy Director of the Chongqing Telecommunications Administration Bureau and a Director of Chongqing Municipal Communication Administration Bureau. Mr. Yang served as General Manager of the Chongqing branch and the Guangdong branch of the Unicom Group, Vice President of the Unicom Group, Director of the Unicom Group and Executive Director and Vice President of China Unicom Limited. Mr. Yang also served as Director and Vice President of China Unicom Corporation Limited and Chairman of Unicom Huasheng Telecommunications Technology Co. Ltd.. He is also a Vice President of China Telecommunications Corporation. Mr. Yang has extensive experience in management and telecommunications industry.

Mr. Sun Kangmin Age 55, is an Executive Director and Executive Vice President of the Company. Mr. Sun is a senior engineer. He holds a bachelor degree. Mr. Sun served as Deputy Director General and Chief Engineer of Chengdu Telecommunications Bureau, Deputy Director General of Sichuan Posts and Telecommunications Administration, Head of the Information Industry Department of Sichuan Province, Director General of Communications Bureau of Sichuan Province, Chairman and General Manager of Sichuan Telecom Company Limited. He is also a Vice President of China Telecommunications Corporation. Mr. Sun has 28 years of operational and managerial experience in the telecommunications industry in China.

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Mr. Ke Ruiwen Age 49, is an Executive Vice President of the Company. Mr. Ke obtained a doctorate degree in business administration (DBA) from the ESC Rennes School of Business. Mr. Ke served as Deputy Director General of Jiangxi Posts and Telecommunications Administration, Deputy General Manager of Jiangxi Telecom, Managing Director of the Marketing Department of the Company and China Telecommunications Corporation, General Manager of Jiangxi Telecom, Managing Director of the Human Resources Department of the Company and China Telecommunications Corporation. He is also a Vice President of China Telecommunications Corporation. Mr. Ke has 26 years of operational and managerial experience in the telecommunications industry in China.

Mr. Li Jinming Age 60, is a Non-executive Director of the Company, Chairman of Guangdong Rising Assets Management Co., Ltd. (one of the domestic shareholders of the Company) and Chairman of Shenzhen Zhongjin Lingnan Nonfemet Company Limited. Mr. Li graduated from Guangdong Radio and TV University, and holds an EMBA degree from Lingnan College, Zhong Shan University after the completion of his study in the postgraduate programme of international economics and industrial commerce management. Mr. Li served as Chief and Deputy Director General of the Guangdong Provincial Discipline Inspection Commission, and Director and Deputy General Manager of Guangdong Rising Assets Management Co., Ltd. Mr. Li has extensive experience in enterprise management.

Mr. Wu Jichuan Age 74, is an Independent Non-executive Director of the Company. Mr. Wu is a professor-level senior engineer. Mr. Wu is the Honorary Chairman of the Telecommunications and Economics Specialists Committee, Director General of the Chinese Institute of Electronics, and Honorary Director General of the Chinese Institute of Communications. Mr. Wu graduated from the Beijing Institute of Posts and Telecommunications with a major in wired telecommunications engineering in 1959. Mr. Wu served as Vice Minister and Minister of the Ministry of Posts and Telecommunications, Deputy Director of the Committee of the Radio Management of China, Vice Leader of the Informatisation Leading Group of the State Council, Minister of Ministry of Information Industry, a member of the Eighth & the Tenth National People's Congress, a member of the Standing Committee of the Tenth National People's Congress and Vice Chairman of the Subcommittee of Education, Science, Culture, Health and Sports of the Tenth National People's Congress.

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Mr. Qin Xiao Age 64, is an Independent Non-executive Director of the Company. Mr. Qin obtained his Ph.D. in economics from University of Cambridge. He is the Independent Non-executive Director of HKR International Limited and AIA Group Limited and China World Trade Center Company Limited. He is a member of the eleventh Chinese People's Political Consultative Conference and a part-time professor at the School of Economics and Management of Tsinghua University and the Graduate School of the People's Bank of China. He served as the Chairman of China Merchants Bank Co., Ltd. and China Merchants Group Limited, President and Vice Chairman of China International Trust and Investment Corporation (CITIC), and Chairman of CITIC Industrial Bank. He was a deputy to the Ninth National People's Congress, a member of the Tenth Chinese People's Political Consultative Conference, an advisor on the Foreign Currency Policy of the State Administration of Foreign Exchange, and a member of Toyota International Advisory Board, he also served as Chairman of APEC Business Advisory Council (ABAC) for the Year 2001. His papers and books in economics, management and social transformation have been published in China and abroad.

Mr. Tse Hau Yin, Aloysius Age 64, is an Independent Non-executive Director of the Company. Mr. Tse is currently an Independent Non-executive Director of CNOOC Limited, Wing Hang Bank Limited, Linmark Group Limited, Sinofer Holdings Limited and SJM Holdings Limited. He was an independent non-executive director of China Construction Bank Corporation, which is listed on the HKSE Main Board from 2004 to 2010. He is also a member of the International Advisory Council of the People's Municipal Government of Wuhan. Mr. Tse is a fellow of the Institute of Chartered Accountants in England and Wales, and the Hong Kong Institute of Certified Public Accountants (HKICPA). Mr. Tse is a past president and the current member of the Audit Committee of the HKICPA. He joined KPMG in 1976, became a partner in 1984 and retired in March 2003. Mr. Tse was a non-executive Chairman of KPMG's operations in China and a member of the KPMG China advisory board from 1997 to 2000. Mr. Tse is a graduate of the University of Hong Kong.

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Madam Cha May Lung, Laura Age 62, is an Independent Non-executive Director of the Company. Mrs. Cha is currently a Hong Kong Delegate to the 11th National People's Congress, PRC, a Member of the Standing Committee of the Chinese People's Political Consultative Conference Shanghai Committee, the Vice Chairman of the International Advisory Council of the China Securities Regulatory Commission (CSRC), a Member of the Executive Council of the Government of the Hong Kong Special Administrative Region. She is the Non-executive Deputy Chairman of The Hongkong and Shanghai Banking Corporation, the Asia Pacific subsidiary of HSBC Holdings plc, of which she is a Non-executive Director. She is also an Independent Non-executive Director of Hong Kong Exchanges and Clearing Limited and Tata Consultancy Services Limited. She is a member of the Banking & Capital Markets Industry Agenda Council 2011 of the World Economic Forum and a member of the Yale School of Management Board of Advisors. Mrs. Cha served as Vice Chairman of CSRC from January 2001 to September 2004 and Assistant Director of Corporate Finance, Senior Director, Executive Director and Deputy Chairman of the Securities and Futures Commission of Hong Kong from 1991 to 2001. She received a Juris Doctor degree from Santa Clara University of USA in 1982.

Professor Xu Erming Age 62, is an Independent Non-executive Director of the Company. Mr. Xu is a professor and Ph.D. supervisor of the Graduate School at the Renmin University of China, Deputy Secretary-General of the Tenth Session of the Academic Committee, and a member of the Third Session of the University Affairs Committee of the Renmin University of China, Associate Convener of the Sixth Session of the Business Administration Academic Appraisal Group of the Academic Degree Committee of the State Council, Vice Chairman of the Chinese Enterprise Management Research Association, and Chairman of Beijing Contemporary Enterprise Research Association. He is also entitled to the State Council's special government allowances. He is the Independent Supervisor of Harbin Electric Company Limited (formerly known as Harbin Power Equipment Company Limited). Over the years, Professor Xu has conducted research in areas related to strategic management, organisational theories, international management and education management, and has been responsible for research on many subjects put forward by the National Natural Science Foundation, the National Social Science Foundation, and other authorities at provincial and ministry level. He has received many awards such as the Ministry of Education's Class One Excellent Higher Education Textbook Award and the State-Level Class Two Teaching Award. Professor Xu has been a visiting professor at over 10 domestic universities and has been awarded the Fulbright Scholar of U.S.A. twice. Professor Xu was previously a lecturer at the New York State University at Buffalo, U.S.A., the University of Scranton, U.S.A., the University of Technology, Sydney, the Kyushu University, Japan and Hong Kong Polytechnic University.

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Mr. Yung Shun Loy, Jacky Age 49, is the Assistant Chief Financial Officer, Qualified Accountant and the Company Secretary of the Company. Mr. Yung is a fellow member of the Hong Kong Institute of Certified Public Accountants, a fellow member of the Association of Chartered Certified Accountants of United Kingdom, and a Certified Practising Accountant in Australia. He has a bachelor degree in laws and a bachelor degree in social sciences. Mr. Yung has over 20 years of experience in auditing, company secretary and senior financial management of listed companies.

Mr. Gao Jinxing Age 49, is the Financial Controller of the Company. Mr. Gao is a senior economist and has a master degree. Mr. Gao served as the Deputy Chief Economist and Head of Financial Planning and Supply Department of Fuzhou Telecommunications Bureau, Deputy Director General and Chief Accountant of Sanming Posts and Telecommunications Bureau, Deputy Director and Director of Finance Department of the Posts and Telecommunications Administration of Fujian province, Deputy General Manager, the Financial Controller and the chairman of the Labour Union of China Telecom Fujian branch.

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Supervisors

Mr. Miao Jianhua Age 60, is the Chairman of the Supervisory Committee of the Company and the head of the Discipline Inspection Division of China Telecommunications Corporation. Mr. Miao holds a master degree in management from the Australian National University. Mr. Miao held senior positions at the former Jilin Provincial Administration of Posts and Telecommunications and served as Director of the Inspection Bureau of the former MPT and the MII. Mr. Miao also served as the General Manager of the Human Resources Department of China Network Communications Group Corporation and China Netcom Group Corporation (Hong Kong) Limited, Assistant to President of China Network Communications Group Corporation, Executive Director and the Joint Company Secretary of China Netcom Group Corporation (Hong Kong) Limited, the head of the Discipline Inspection Division and the chairman of the union of China United Telecommunications Corporation, Executive Director of China Unicom Limited, Chairman of the Supervisory Committee of China United Telecommunications Corporation Limited. Mr. Miao is a senior economist and has extensive management experience in working for the government and enterprises in the PRC.

Madam Zhu Lihao Age 71, is an Independent Supervisor of the Supervisory Committee of the Company. Madam Zhu is a senior auditor and a qualified accountant in the PRC. She graduated from Beijing Graduate School of Mining and Technology with a major in engineering economics in 1963. Madam Zhu served as a Deputy Director General, Director General, Deputy Director and Director of the Department of Industry and Communications of the National Audit Bureau of China, and the Director General of the Department of Foreign Affairs and Foreign-related Auditing of the Audit Bureau. Madam Zhu has over 40 years of experience in management and auditing.

Mr. Mao Shejun Age 58, is an Employee Representative Supervisor of the Supervisory Committee of the Company. Mr. Mao is currently the Vice Chairman of the Labour Union of China Telecommunications Corporation and China Telecom Corporation Limited. Mr. Mao holds a master degree in management from the Australian National University and has held positions as Human Resources Officer of the former Hubei Posts and Telecommunications Administration and Managing Director of the Human Resources Department of China Telecom Corporation Limited. Mr. Mao is a senior economist and has over 30 years of experience in operation and management in the telecommunications industry.

Mr. Xu Cailiao Age 48, is a Supervisor of the Supervisory Committee of the Company. Mr. Xu is a senior manager of the Sideline Industrial Management Department of China Telecommunications Corporation. He is also a Director of Strategic Marketing (Domestic) Department of China Communications Services Corporation Limited. Mr. Xu graduated from the Law School of Peking University with a master degree in law in 1987. He served as a Director of the State Commission for Economic Restructuring, Managing Director of the Hong Kong branch of Irico Group and Director of the Corporate Strategy Department of the Company. He was qualified to practise law in China in 1988. Mr. Xu is highly experienced in respect of corporate governance, organisational development and process management.

Madam Han Fang Age 39, is a Supervisor of the Supervisory Committee of the Company. Madam Han is the Vice President of China Telecom (Hong Kong) International Ltd. Madam Han graduated from the Beijing University of Posts and Telecommunications with a bachelor's degree in Engineering Management in 1995. She obtained a master degree in business administration at the Norwegian School of Management in 2007. She worked in finance-related jobs serving in China Huaxin Post and Telecommunications Economy Development Centre and the audit department of China Telecommunications Corporation. Madam Han is an international internal auditor, a qualified accountant in PRC and a senior accountant and has 17 years of finance and audit experience.

Mr. Du Zuguo Age 49, is a Supervisor of the Supervisory Committee of the Company. Mr. Du is a senior economist. He is the General Manager of Zhejiang Financial Development Company (one of the domestic shareholders of China Telecom Corporation Limited), Chairman and Chief Executive Officer of Zhejiang venture capital fund of funds management Co., Ltd. and the Chairman of Zhejiang SME Re-guarantee Co., Ltd.. Mr. Du served as Section Chief, Deputy Director General and Director General of Zhoushan Finance and Local Tax Bureau in Zhejiang province and now is a CCP Committee member of Zhejiang Provincial Department of Finance. Mr. Du has extensive experience in government's work and large-scale state-owned enterprise management.

Table of Contents**Business Review**

The following table sets out key operating data for 2009, 2010 and 2011.

	Unit	2009	2010	2011	Rate of change 2011 over 2010
Mobile subscribers	million	56.09	90.52	126.47	39.7%
of which: 3G subscribers	million	4.07	12.29	36.29	195.3%
Wireline broadband subscribers	million	53.46	63.48	76.81	21.0%
Access lines in service	million	188.56	175.05	169.59	-3.1%
Mobile voice usage	million minutes	155,410	295,885	407,765	37.8%
Mobile SMS usage	million messages	15,136	33,116	49,941	50.8%
Mobile Colour Ring Tone subscribers	million	32.63	54.15	75.38	39.2%
Wireline local voice usage	million pulses	320,585	251,425	206,371	-17.9%
Wireline caller ID service subscribers	million	128.45	118.99	115.58	-2.9%
One Home subscribers	million	36.36	48.45	56.03	15.6%
BizNavigator subscribers	million	4.36	4.99	6.10	22.2%

In 2011, facing the complex macro-economic developments and intensified market competition, China Telecom took advantage of the opportunities arising from the rapid development of mobile Internet to accelerate the development of high growth services such as mobile, wireline broadband and wireline integrated information services. As a result, mobile and 3G services maintained high growth momentum, mobile data traffic operation was pushed forward rapidly, broadband services competitive edges were further strengthened, the risks in wireline service were effectively controlled, and the business structure continued to be optimised. In the meantime, our competitive edges in the markets have been continuously increasing.

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Key Operating Performance

(1) Operating revenues grew steadily and business structure is further optimised

In 2011, the operating revenues (excluding upfront connection fees) were RMB244,943 million, an increase of 11.7% over last year. Excluding revenue from mobile terminal sales, the operating revenues were RMB231,010 million, an increase of 8.1% over last year. Driven by the high growth services such as mobile and wireline broadband, the full services structure of the Company was further optimised while the revenue from mobile service, wireline broadband, wireline VAS and integrated information services accounted for approximately 64.9% of the operating revenues excluding upfront connection fees, an increase of 5.6 percentage points over last year.

(2) Mobile service maintained strong growth momentum, leading to an expanded subscriber base and further optimised subscriber structure

In 2011, focusing on 3G business development, the Company developed differentiated edges in mobile service. Led by growing smartphone proliferation and strengthened open channels, presence in key target markets was enhanced and mobile subscriber base was expanded. At the same time, the Company continuously improved its capability to support scale development of industrial applications promoting the expansion of the mid-to-high end mobile subscriber base among its government and enterprise customers. The number of mobile subscribers reached 126.47 million, an increase of 39.7% over the end of last year. Revenue from mobile services reached RMB68,248 million, while mobile ARPU and MOU basically remained steady.

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(3) Bandwidth upgrade to maintain leading edges in broadband services

In 2011, the Company launched the Broadband China Fibre Cities project to increase the development of optical fibre broadband services, establish premier quality advantages of its broadband products and further enhance the brand image of e-Surfing Broadband. By introducing bandwidth upgrade, content enrichment, excellent service, and promoting self-selected convergent packages, the Company committed to lower customers' perception on the price of its broadband services and enhance overall customers' value so as to maintain its leading edge in broadband services. The total number of wireline broadband subscribers in 2011 was 76.81 million, a net increase of 13.33 million, or 21.0% increase over last year. Revenue from wireline broadband services was RMB60,801 million, an increase of 12.3% over last year.

(4) Cooperation and innovation push forward the steady growth of wireline value-added services and integrated information services

In 2011, the Company developed new innovative initiatives such as crowdsourcing to set up the live search + information services alliance and to make Best Tone as the brand of a leading integrated information services portal for daily life, resulting in the continued growth of integrated information search volume and specialised operation of business travel services. Meanwhile, the Company leveraged the development trend of the Internet of Things, Cloud computing and mobile Internet to strengthen initiatives such as coordinated marketing, professional support delivery and one-stop service and to accelerate the development of Information Communications Technology (ICT), Internet Data Center (IDC) and Internet TV (ITV) services, providing customers with convenient, rich, differentiated and highly cost-efficient integrated information services. Revenue from wireline value-added services and integrated information services reached RMB29,763 million, an increase of 5.1% over last year, accounting for 12.2% of the total operating revenues excluding upfront connection fees.

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(5) The operating risk of wireline voice services was further alleviated

By deepening integration of wireline and mobile services and the promotion of wireline voice usage operation, the loss of wireline subscribers slowed down and the total number of PAS subscribers fell below 11 million, and PAS revenue accounted for 0.8% of the Company's operating revenues. The proportion of wireline voice services in the Company's total operating revenues further decreased, which effectively alleviated business risk. Revenue from wireline voice in 2011 was RMB49,764 million, representing 20.3% of the total operating revenues excluding upfront connection fees, decreased by 8.2 percentage points from last year.

Business Operating Strategies

In 2011, the Company continued to adhere to its operating philosophy of innovative differentiation and integration aiming at profitable scale development and actively implemented the strategies of handset-led marketing, open channel optimisation, key target market expansion and promotion of mobile data traffic operation :

First, the Company promoted the handset-led business model, resulting in the effective expansion of mobile subscriber base.

Benefited from the growth of subscriber base and handset sales and the initial prosperity of the handset value chain, the Company proactively transformed to the handset-led sales model. Starting from changing sales practices and optimising of sales processes and capability, the Company grew its 3G smartphone sales which drove the scale development of mobile subscriber base and the optimisation of subscriber structure. At the same time, the Company vigorously promoted its 3G packages and self-selected convergent packages, which effectively enhanced customers' value and improved the Company's capacity to acquire mobile subscribers. The penetration rates of 3G and smartphone subscribers among the total mobile subscribers reached 28.7% and 13.2%, increasing by 15.1 and 11.4 percentage points respectively over the end of last year. The average monthly net addition of broadband subscribers reached 1.11 million, an increase of 33% over last year. High-bandwidth (4Mbps or above) broadband subscribers accounted for about 50% of the total wireline broadband subscribers, increased by about 23 percentage points over the beginning of 2011.

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Second, the Company vigorously developed open channels, continued to optimise channel structure and steadily improved sales capabilities of various channels.

The Company focused on large chain-store networks and TOP10 channels expansion, increased its efforts to introduce CDMA handsets into GSM stores, and provided strong support for open channels in terms of marketing practice, incentive mechanism, commission settlement, team-building and IT support. As a result, the company realised good progress of scale development driven by open channels. The Company entered almost 5,500 shops of sizable chain-store networks and TOP10 stores and introduced CDMA handsets into over 9,700 GSM handset stores. This resulted in mobile subscribers developed by open channels accounting for 57.7% over the year.

We transformed self-operated outlets to enhance our capability of customers' experience marketing. Through active promotion of outlet-style sales and holiday marketing, the sales efficiency and capability of the self-operated outlets were significantly improved. In 2011, the Company fully transformed its self-operated outlets of tier-3 and above into sales outlets.

The Company also increased its efforts with regard to the centralised operations of electronic channels to raise the service level. In 2011, the Company officially developed the nationwide and unified electronic portal and the portal for on-line Mobile Palm Service Centre, realised centralised sales of standardised 3G packages, UIM card with mobile number, self-developed product centre services and network-wide value-added services.

Third, the Company strengthened differentiation in operations to enhance its competitiveness in the key target markets.

Focusing on such key markets, namely, government departments, large enterprise groups, financial industry, and clustered small-and-medium-sized enterprises, the Company developed informatisation applications to drive its mid-to-high-end subscriber scale in the government and enterprise market. In 2011, there was a net addition of about 8 million industrial application mobile subscribers, accounting for about 22% of net addition of mobile subscribers.

In the campus market, by fostering its product strengths in smartphones, wireline broadband and e-Surfing RFID, the Company carried out daily marketing in the campus market to actively expand its campus subscriber base.

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In the rural market, the Company promoted scale expansion by improving sales channels, incentives and organising marketing activities.

In overseas markets, the Company continued to build its differentiated competitive strengths in the Asia-Pacific region. Focusing on three major overseas customer groups, namely overseas operators, overseas Chinese enterprises and multinational corporations, the Company continuously expanded its overseas customer base and the overseas operation channels gradually improved. Also, the Company's overseas network coverage get expanded gradually.

Fourth, placing equal emphasis on centralised operation and open cooperation, the Company steadily promoted its mobile Internet data traffic operation.

While promoting scale development, the Company took advantage of the trends in mobile Internet to actively nurture its innovative services to drive revenue growth. By deepening centralised operations and strengthening the capability in developing mobile Internet products, the Company continuously improved the convenience and ease of use of its self-operated services. The number of subscribers of e-Surfing Video exceeded 12 million, which increased by approximately 2.5 times over last year. The number of applications on e-Surfing apps store (software store) exceeded 82,000 with the number of registered users exceeding 43 million. The number of registered users for e-reading reached about 36 million, an increase of nearly 13 times over last year. The number of users of e-game exceeded 40 million, an increase of 11 times over last year. Finally, the number of users of e-Surfing RFID was about 5.9 million, an increase of about 2 times over last year. While growing its self-operated services, the Company expanded its cooperation with mainstream application providers to increase the introduction of popular applications with more attractive content. By actively promoting new technologies application, such as the Internet of Things and Cloud computing, the Company enhanced its capability of integrated information services in order to seize opportunities for growth in the field of the mobile Internet and promote mobile Internet data traffic operation.

In 2011, Internet traffic via 3G handset grew rapidly and an average monthly data traffic per 3G handset subscriber reached 106Mbps.

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In 2011, the Company actively collaborated with terminal manufacturers to meet the growth opportunities in the industry value chain of 3G and smartphone upgrades. The Company helped drive the development of the terminal industry value chain by development through mobile subscriber scale expansion and promoted supply scale of terminals by customised and centralised purchasing, incentive offering, direct terminals supply and open channel procurement and sales. The number of 3G terminal models available for sale reached about 500 and the number of smartphone models available for sale reached nearly 200 models.

Network and Operation Support

In 2011, the Company further optimised its resource allocation. While focusing on improving efficiency and implementation of risk management, the Company deepened precision management, rapidly improved network infrastructure capacity, actively promoted network evolution, and vigorously supported the scale development of key services.

On network infrastructure capacity construction, the Company further increased its investment in broadband services, massively deployed Fibre-to-the-Home (FTTH) and upgraded customer access bandwidth and service experience in order to effectively support the scale development of the Company's broadband services. In 2011, the Company's investment in broadband and Internet services was RMB33,121 million, accounting for 66.8% of the Company's capital expenditure, up by 2.6 percentage points from last year. The Company increased broadband access capacity by 18.50 million ports. 20Mbps access bandwidth connection coverage ratio in urban areas (including counties) reached 70%, an improvement of 12 percentage points over the previous year.

With regard to carrier networks, we accelerated the expansion and optimisation of IP, transmission backbone and metropolitan area networks, and actively carried out pilots on next-generation Internet and high-performance transmission networks to set the foundation for network and technological evolution.

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With regard to promoting intelligent pipeline construction and strengthening the service capabilities of integrated platforms, the Company actively carried pilots on intelligent broadband bandwidth acceleration and research on high-performance CDN and mobile traffic routing. It speeded up platform integration and integrated platform system construction, and created a cloud resource pool to improve the comprehensive delivery capabilities for the platforms.

Meanwhile, the Company continued to increase investment in WiFi networks, promote unified identification and divert data traffic from EV-DO to WiFi in order to fully utilise WiFi networks as extensions to wireline broadband and supplement of 3G networks. By the end of 2011, the number of WiFi access points reached 600,000.

To effectively support 3G service development and full services integrated operation, we strengthened the centralised management of IT support systems to achieve sharing of data among various service platforms and the Company at all levels. We improved open channel centralised sales management system to support centralised sales in sales outlet, providing strong support for centralised sales efficiency and operating control. IT support capabilities have been significantly strengthened.

Development Measures and Highlights for 2012

In 2012, in order to grasp rapid growth opportunities of 3G services and accelerated adoption of smartphones and tackle the challenges brought by fierce competition in the existing mobile and broadband markets and the emerging mobile Internet, the Company will continue to adhere to its Customer-Focused Innovative Informatisation strategy, steadily promote scale and mobile data traffic operation and promote scale development through dual-leadership in innovation and services.

In particular, we will build differentiated edges in 3G and smartphones with increasing focus on mobile services, thereby realising an explosive growth in high-value, high-traffic, high-loyalty 3G subscribers and achieving quality and scale development. We will persistently optimise channel structure, deepen cooperation with quality open channel such as those sizable chain-store networks, and continue to improve channel sales capabilities. We will actively carry out mobile data traffic operations and vigorously develop new services such as mobile Internet, cloud computing and Internet of Things. We will further promote the Broadband China Fibre Cities project to improve service quality and enrich content so as to maintain our competitive position in broadband services. We will continuously enhance the scale development of industrial applications to promote the expansion of the mid-to-high-end subscribers in governmental departments and enterprise customers. We will take measures to further alleviate the risk of wireline voice services to promote harmonious full services operation. Meanwhile, we will continue to enhance our service capability for centralised full services operation, and strengthen network optimisation, operation and maintenance, aiming at forging innovative and differentiated competitive edges while steadily promoting the transformation towards mobile Internet operation mode.

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RIDING ON A

SMART JOURNEY

NO. 1 BEST MANAGED COMPANY IN ASIA 2011
awarded by Euromoney

NO. 1 BEST MANAGED COMPANY IN ASIA 2011
awarded by FinanceAsia

ASIA S MOST HONORED COMPANIES 2011
awarded by Institutional Investor

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Table of Contents**Management's Discussion and****Analysis of Financial Conditions and Results of Operations****Summary**

In 2011, the Group firmly seized the development opportunities, further deepened the strategic transformation, vigorously developed the mobile, broadband, and industry application services, effectively promoted the scale development of full services operation and continuously improved the profitability of the Group. The Group's operating revenues in 2011 were RMB245,041 million, an increase of 11.5% from 2010; operating expenses were RMB220,912 million, an increase of 12.5% from 2010; profit attributable to equity holders of the Company was RMB16,502 million and basic earnings per share was RMB0.20; EBITDA¹ was RMB94,364 million and the EBITDA margin² was 40.8%.

Excluding the amortisation of upfront connection fees, the operating revenues of the Group in 2011 were RMB244,943 million, an increase of 11.7% from 2010; profit attributable to equity holders of the Company was RMB16,404 million, an increase of 10.5% from RMB14,850³ million in 2010, basic earnings per share was RMB0.20; EBITDA was RMB94,266 million and the EBITDA margin was 40.8%.

Operating Revenues

In 2011, facing the challenges from intense market competition, the Group continued to improve its full services operation standards, transform its mode of development and enhance its comprehensive service. The operating revenues maintained positive growth, and the revenue structure has been further optimised. Operating revenues in 2011 were RMB245,041 million, an increase of 11.5% from 2010. Excluding the amortisation of upfront connection fees of RMB98 million, operating revenues in 2011 were RMB244,943 million, an increase of 11.7% from 2010. Of this, the total mobile revenue was RMB82,701 million, an increase of 53.3% from 2010. The wireline services revenue was RMB162,242 million, a decrease of 1.9% from 2010. The mobile service revenue⁴, wireline broadband revenue, wireline value-added services revenue and integrated information application services revenue accounted for 27.9%, 24.8% and 12.2% of the total operating revenues, respectively. The revenue structure has become more reasonable.

1 EBITDA was calculated from operating revenue minus operating expenses (which excluded depreciation and amortisation and CDMA network capacity lease fee). As the telecommunications business is a capital intensive industry, capital expenditure, the level of gearing and finance costs may have a significant impact on the net profit of companies with similar operating results. Therefore, we believe EBITDA may be helpful in analyzing the operating results of a telecommunications service provider such as the Company. Although EBITDA has been widely applied in the global telecommunications industry as a benchmark to reflect operating performance, financial capability and liquidity, it is not regarded as a measure of operating performance and liquidity under generally accepted accounting principles. It also does not represent net cash from operating activities. In addition, our EBITDA may not be comparable to similar indicators provided by other companies.

2 EBITDA margin was calculated from EBITDA divided by operating revenues excluding the revenue from mobile terminal sales.

3 In 2011, the Group retrospectively adopted the amendment to IFRS 1. Please refer to note 3 of the audited financial statements in this annual report for details.

4 Mobile service revenue represents total mobile revenue minus other mobile revenue. Of this, in 2011, other mobile revenue amounted to RMB14,453 million.

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The following table sets forth a breakdown of the operating revenues of the Group for 2010 and 2011, together with their respective rates of change:

(RMB in millions, except percentage data)	For the year ended 31 December		Rate of Change
	2011	2010	
Wireline voice	49,764	62,498	(20.4%)
Mobile voice	38,628	28,906	33.6%
Internet	74,992	63,985	17.2%
Value-added services	25,529	22,571	13.1%
Integrated information application services	20,473	15,519	31.9%
Managed data and leased line	14,273	12,389	15.2%
Others	21,284	13,499	57.7%
Upfront connection fees	98	497	(80.3%)
Total operating revenues	245,041	219,864	11.5%

Wireline Voice

As the trend for substitution of wireline voice to mobile and Internet services has intensified, revenue from wireline voice service continued to decrease. In 2011, revenue from wireline voice services was RMB49,764 million, a decrease of 20.4% from RMB62,498 million in 2010, accounting for 20.3% of our operating revenues.

Mobile Voice

The mobile service has maintained rapid growth in 2011. The revenue from mobile voice services was RMB38,628 million, an increase of 33.6% from RMB28,906 million in 2010, accounting for 15.8% of our operating revenues. In 2011, the net increase in the number of mobile subscribers was 35.95 million, reaching 126 million.

Internet

In 2011, revenue from Internet access services was RMB74,992 million, an increase of 17.2% from RMB63,985 million in 2010, accounting for 30.6% of our operating revenues. Through the Broadband China Fibre Cities project, the Group upgraded the network bandwidth, which effectively promoted the rapid growth of broadband service. The revenue from our Internet access services continued to grow. At the end of 2011, the number of wireline broadband subscribers increased by 21.0% to 76.81 million, a net increase of 13.33 million subscribers from the end of 2010. In 2011, the wireline broadband revenue of the Group was RMB60,801 million, an increase of 12.3% from 2010. Revenue from mobile Internet access services was RMB13,301 million, an increase of 47.5% from 2010.

Value-Added Services

In 2011, revenue from value-added services was RMB25,529 million, an increase of 13.1% from RMB22,571 million in 2010, accounting for 10.4% of our operating revenues. The increase in revenue was mainly attributable to the rapid growth of mobile value-added services. Revenue from mobile value-added services was RMB12,067 million, an increase of 53.6% from 2010. However, due to the decline in PAS services, revenue from wireline value-added services decreased by 8.5% when compared with 2010.

Integrated Information Application Services

In 2011, revenue from integrated information application services was RMB20,473 million, an increase of 31.9% from RMB15,519 million in 2010, accounting for 8.4% of our operating revenues. The increase in revenue was mainly due to the rapid development of the IT service and applications services as well as Best Tone type of information services. Revenue from mobile integrated information application services was RMB4,172 million, an increase of 117.3% from 2010.

Managed Data and Leased Line

In 2011, revenue from managed data and leased line services was RMB14,273 million, an increase of 15.2% from RMB12,389 million in 2010, accounting for 5.8% of our operating revenues. As the demand from customers for network resources and informatisation continues to increase, the revenue growth from domestic leased circuits services, IP-VPN services and leased optic fibre channel has increased relatively rapidly. Revenue from mobile managed data and leased line services was RMB80 million.

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Table of Contents**Others**

In 2011, revenue from other services was RMB21,284 million, an increase of 57.7% from RMB13,499 million in 2010, accounting for 8.7% of our operating revenues. The growth of revenue was mainly attributable to the sales revenue of mobile terminal equipment. Revenue from other mobile services was RMB14,453 million, an increase of 132.0% from 2010.

Upfront Connection Fees

Upfront connection fees received by the Group from subscribers were amortised over an expected customer relationship period of 10 years. Effective from 1 July 2001, the Group ceased to charge new subscribers upfront connection fees. The termination date for the amortisation of upfront connection fees was 30 June 2011. The amortised amount was RMB98 million in 2011, representing a decrease of 80.3% from RMB497 million in 2010.

Operating Expenses

In order to promote the scale development of full services operation and increase our future competitiveness, the Group has centralised resources deployment, appropriately increased resources input, adhered to tilting more resources towards high growth service, high-value customers and highly-profitable regions. In the meantime, the Group has optimised its precision management, continuously increased the efficiency in the use of resources, and effectively promoted the dual increase in the full services scale and profitability. In 2011, the operating expenses of the Group were RMB220,912 million, an increase of 12.5% from 2010. The ratio of operating expenses to operating revenues was 90.2%, which slightly increased when compared to 2010.

The following table sets forth a breakdown of the operating expenses of the Group in 2010 and 2011 and their respective rates of change:

(RMB in millions, except percentage data)	For the year ended 31 December		
	2011	2010 (restated)	Rate of Change
Depreciation and amortisation	51,224	52,215	(1.9%)
Network operations and support expenses	52,912	47,432	11.6%
Selling, general and administrative expenses	48,741	42,130	15.7%
Personnel expenses	39,167	35,529	10.2%
Other operating expenses	28,868	19,106	51.1%
Total operating expenses	220,912	196,412	12.5%
Depreciation and Amortisation			

In 2011, depreciation and amortisation was RMB51,224 million, a decrease of 1.9% from RMB52,215 million in 2010, accounting for 20.9% of our operating revenues. The decline was due to the continuous prudent control of capital expenditure by the Group.

Network Operations and Support Expenses

In 2011, network operations and support expenses were RMB52,912 million, an increase of 11.6% from RMB47,432 million in 2010, accounting for 21.6% of our operating revenues. The increase was mainly attributable to the increase in CDMA network capacity lease fee. The CDMA network capacity lease fee in 2011 amounted to RMB19,011 million, an increase of 42.7% from 2010.

Selling, General and Administrative Expenses

In 2011, selling, general and administrative expenses amounted to RMB48,741 million, an increase of 15.7% from RMB42,130 million in 2010, accounting for 19.9% of our operating revenues. The growth was mainly attributable to the increase in the deployment of selling resources so as to promote the scale development of mobile and broadband services, etc. In the meantime, the Group continued to implement stringent cost

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control measures on general and administrative expenses. Compared to the same period of last year, general and administrative expenses increased by 1.2%, which was lower than the rate of increase in revenues of the same period.

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Table of Contents**Personnel Expenses**

In 2011, personnel expenses were RMB39,167 million, an increase of 10.2% from RMB35,529 million in 2010, accounting for 16.0% of our operating revenues. The increase in personnel expenses was mainly due to the appropriate increased efforts in motivating the talents and frontline employees.

Other Operating Expenses

In 2011, other operating expenses were RMB28,868 million, an increase of 51.1% from RMB19,106 million in 2010, accounting for 11.8% of our operating revenues. The increase was mainly attributable to the increase in the cost of mobile terminal equipment sold. The cost of mobile terminal equipment sold amounted to RMB12,866 million in 2011, an increase of 159.2% from 2010.

Net Finance Costs

In 2011, the Group's net finance costs were RMB2,254 million, a decline of 37.4% from RMB3,600 million in 2010. Net interest expenses fell by RMB1,085 million. The decrease was mainly attributable to the significant decline of the Group's interest-bearing debt. Net exchange gains were RMB51 million in 2011, while net exchange losses were RMB92 million in 2010. The change in net exchange gain/loss was mainly attributable to the appreciation of the RMB against the Japanese Yen.

Profitability Level**Income Tax**

The Group's statutory income tax rate is 25%. In 2011, the Group's income tax expenses were RMB5,416 million with the effective income tax rate of 24.6%. The effective income tax rate of the Group was lower than the statutory income tax rate mainly because of the preferential income tax rate enjoyed by our branches located in special economic zones of China and some subsidiaries.

Profit Attributable To Equity Holders of the Company

In 2011, profit attributable to equity holders of the Company was RMB16,502 million, an increase of 7.5% from RMB15,347 million in 2010. Excluding the amortisation of upfront connection fees, profit attributable to equity holders of the Company was RMB16,404 million, an increase of 10.5% from RMB14,850 million in 2010.

Capital Expenditure and Cash Flows**Capital Expenditure**

In 2011, in order to promote the development and reinforce the leading edge of broadband services, the Group continued to increase the investment in broadband network construction, and increase the penetration rate of fibre access and broadband access speed. In the meantime, the Group emphasized investment effectiveness, optimised investment structure, and effectively controlled investments in wireline voice services and infrastructure, etc. In 2011, capital expenditure of the Group was RMB49,551 million, an increase of 15.1% from RMB43,037 million in 2010.

Cash Flows

In 2011, net increase in cash and cash equivalents for the Group was RMB1,649 million, while the net decrease in cash and cash equivalents was RMB8,934 million in 2010.

The following table sets forth the cash flow position of the Group in 2010 and 2011:

(RMB millions)	For the year ended 31 December	
	2011	2010

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Net cash flow from operating activities	73,006	75,571
Net cash used in investing activities	(43,637)	(45,734)
Net cash used in financing activities	(27,720)	(38,771)
Net increase/(decrease) in cash and cash equivalents	1,649	(8,934)

In 2011, the net cash inflow from operating activities was RMB73,006 million, a decrease of RMB2,565 million from RMB75,571 million in 2010.

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In 2011, the net cash outflow for investing activities was RMB43,637 million, a decrease of RMB2,097 million from RMB45,734 million in 2010, mainly resulting from an increase in proceeds from the disposal of assets compared to 2010, and the repayment of CDMA business acquisition, amounting to RMB5,374 million in 2010.

In 2011, the net cash outflow for financing activities was RMB27,720 million, a decrease of RMB11,051 million from RMB38,771 million in 2010. The decrease in net cash outflow was mainly due to the decrease in the Group's repayment of the bank loans and other loans when compared to 2010.

Working Capital

At the end of 2011, the Group's working capital (total current assets minus total current liabilities) deficit was RMB67,682 million, a reduction of deficit of RMB3,996 million from RMB71,678 million in 2010. As at 31 December 2011, the Group's unutilised committed credit facilities was RMB118,970 million (2010: RMB98,576 million). At the end of 2011, the Group's cash and cash equivalents amounted to RMB27,372 million, amongst which cash and cash equivalents denominated in Renminbi accounted for 94.4% (2010: 91.2%).

Assets and Liabilities

In 2011, the Group continued to maintain a solid capital structure. By the end of 2011, the total assets of the Group fell to RMB419,115 million from RMB420,529 million at the end of 2010, while total indebtedness decreased to RMB52,103 million from RMB73,576 million in 2010. The ratio of the Group's total indebtedness to total assets fell from 17.5% at the end of 2010 to 12.4% at the end of 2011.

Indebtedness

The indebtedness analysis of the Group as of the end of 2010 and 2011 is as follows:

(RMB millions)	For the year ended 31 December	
	2011	2010
Short-term debt	9,187	20,675
Long-term debt maturing within one year	11,766	10,352
Long-term debt (excluding current portion)	31,150	42,549
Total debt	52,103	73,576

By the end of 2011, the total indebtedness of the Group was RMB52,103 million, a decrease of RMB21,473 million from the end of 2010. The main reason for the decrease was the Group's repayment of a portion of bank loans and other loans. Of the total indebtedness of the Group, the Company's loans in Renminbi, US Dollars, Japanese Yen and Euro accounted for 94.7% (2010: 96.0%), 1.3% (2010: 1.0%), 3.1% (2010: 2.2%), and 0.9% (2010: 0.8%), respectively. 96.3% (2010: 98.5%) of this indebtedness are loans with fixed interest rates, while the remainders are loans with floating interest rates.

As of 31 December 2011, the Group did not pledge any assets as collateral for debt (2010: Nil).

Most of the Group's revenue receipts from and payments made for its business were denominated in Renminbi, therefore the Group did not have significant risk exposure to foreign exchange fluctuations.

Contractual Obligations

(RMB millions)	Total	1 January 2012-	1 January 2013-	Payable in 1 January 2014-	1 January 201
		31 December	31 December		

