

CHAIRMAN'S STATEMENT



Dear Shareholders,

2012 is the commencing year of the second five-year since the Group's listing. During the year, the Group achieved robust results again in the challenging environment through our effective operating and management strategies. The total revenues exceeded RMB60 billion for the first time, representing a stable and favorable opening. We are delighted to note that both the Group's revenues and profit have kept increasing steadily for the past six years since its listing, and its leading position in the industry has been further strengthened. In the meantime, the investment to be brought by the coming issuance of 4G license will also create new development opportunities for the Group.

Operating Results

In 2012, the Group achieved a stable growth in operating results, with the total revenues of RMB61,517 million, representing a year-on-year growth of 14.4%. Profit attributable to equity shareholders was RMB2,407 million, representing a year-on-year growth of 13.0%. Having considered the interests of and returns to our shareholders, the Board proposed to maintain 40% dividend payout ratio and pay a final dividend of RMB0.1390 per share for the financial year ended 31 December 2012. Total dividend amount is approximately RMB963 million.

Reinforcing the Leading Position in Domestic Telecommunications Operator Market

In 2012, driven by factors such as the development of mobile Internet industry and the "Broadband China" strategy, the domestic telecommunications operators have steadily increased their spending in capital expenditure as well as their network operation and maintenance. Under such circumstances, the Group devoted more efforts in market development and service enhancement to efficiently support the full-service operations of domestic telecommunications operators, which led to a rapid business growth from the domestic telecommunications operator market, with revenue increased by 16.2% compared to that of 2011, representing 64.6% of total revenues. In addition, the Group proactively involved in the trial construction projects of LTE and well prepared for seizing market opportunities.

Vigorously Expanding into Domestic Non-operator Market and Overseas Market

Immense opportunities have been brought to the domestic non-operator market by the continuous progress of informatization and urbanization and tremendous demands for informatization services from industrial customers and small and medium-sized enterprises. During the year, the Group focused on key clients from government and industries such as construction and transportation sectors and made favorable progress in developing large-scaled projects such as Smart City in Nanjing. In 2012, the revenue from domestic non-operator market increased by 15.5%, representing 29.9% of total revenues, showing a favorable growth momentum.

In 2012, the revenue from overseas market declined by 7.0%, and its proportion to total revenues was 5.5%. Although the revenue from overseas market decreased temporarily due to the Group's proactive risk management and the delay of certain overseas large-scaled turnkey project, the Group adhered to its "Overseas Market – Focused and Four Steps" strategy and further strengthened its foundation of overseas turnkey projects. In addition, the Group adopted a synergistic approach in developing outsourcing projects and fine-tuned the collaboration mechanism with equipment manufacturers. All the above measures will bolster the healthy development of the Group's overseas market in the future.

Completion of Rights Issue

With strong shareholder support, the Group successfully completed the rights issue in early 2012 and recorded over-subscription for the rights shares. During the year, the Group has gradually applied the proceeds from the rights issue as planned, including acquisitions of certain equity interest and assets in Ningxia, Xinjiang and Sino-British Submarine System Co., Ltd., establishment of project fund to support the development of large-scaled turnkey business as well as investment into research and development for emerging industries such as LTE, cloud computing, mobile Internet and Internet of Things. The proceeds from the rights issue effectively enhanced the Group's capital strength, and bolstered its long-term development.

Corporate Governance

The Group has strived to further enhance its internal control and risk management and to maintain high standard of corporate governance. In 2012, the Group's persistent efforts in fostering sound corporate governance have been fully recognized by capital market: the Group was awarded as No.1 of the "Best Managed Companies in China" by *Euromoney*, one of "The Best of Asia" by *Corporate Governance Asia*, and the Gold Award in "Best Investor Relations" by *The Asset* for the third consecutive year.

Corporate Social Responsibility

The Group has always been committed to corporate social responsibility. The Group established all-round emergency and rescue mechanism, which provided reliable communication support services to its customers. In addition, the Group has actively developed new products to promote the energy saving of enterprises and industries, making due contribution to establish an energy-efficient community.

Prospects

China is promoting the intensified integration of informatization and industrialization and pushing forward the synchronous development of new industrialization, informatization, urbanization and agricultural modernization, all of which will bring forward tremendous business opportunities. The industrialization and commercialization of LTE are speeding up, new technologies such as mobile Internet and cloud computing are emerging and "Broadband China" strategy is being promoted further, all of these will bring valuable development opportunities to the Group in domestic telecommunications operator market. Meanwhile, the Group will enjoy further development potentials for domestic non-operator market and overseas market arising from urbanization and informatization, particularly the extensive investment for the construction of Smart City, as well as vigorous demands for telecommunications construction from emerging markets such as Middle East, Africa and Latin America. However, the Group also faces challenges such as intensifying competition in the market. Nevertheless, we are confident in our future. We will continue to innovate and transform, with the aim to build up a "hundred-billion enterprise" with superior performance and a culture of harmony and happiness, and thus create greater value for our customers and shareholders.

Finally, on behalf of the Board, I would like to express my sincere gratitude to Mr. Liu Aili who resigned as non-executive director of the Company in September 2012, for his outstanding contributions to the Group and I would also like to take this opportunity to welcome Mr. Li Zhengmao to join the Board. Furthermore, I would like to express my sincere gratitude to all of the Group's shareholders, customers and all sectors of society for their long-standing care and support to the Group.

A handwritten signature in black ink, consisting of stylized Chinese characters, likely 'Li Ping'.

Li Ping
Chairman

Beijing, PRC
27 March 2013