



In 2010, we deepened our efforts in strategic transformation and business innovation, adhering to integrated and differentiated development. The scale of mobile services achieved rapid expansion with an increasingly mature industry value chain. The broadband and integrated information services continued to maintain rapid growth, facilitating persistent optimisation of the revenue structure and primarily accomplishing coordinated development of four pillar services, namely, mobile, broadband, value-added and integrated information, and wireline voice. The Company's profitability achieved remarkable recovery, successfully embarking on scale development of full services operation.

## Operating Results

In 2010, the Company achieved favourable development. The operating revenues amounted to RMB219,864 million. Excluding the amortisation of upfront connection fees, the operating revenues were RMB219,367 million, representing an increase of 5.4% from last year. The revenue contributions from mobile, broadband, value-added and integrated information services continued to increase. EBITDA<sup>1,2</sup> was RMB88,495 million, an increase of 7.7% from last year. EBITDA margin was 40.3%. The profit attributable to equity holders of the Company was RMB15,262 million, and basic earnings per share was RMB0.19, an increase of 15.0% from last year, effectively enhancing corporate value. Capital expenditure

<sup>1</sup> For convenience of investors' analysis, EBITDA was calculated before CDMA network capacity lease fee.

<sup>2</sup> Including the amortisation of upfront connection fees, EBITDA was RMB88,992 million, profit attributable to equity holders of the Company was RMB15,759 million, and basic earnings per share was RMB0.19.



“100 Years Young” is always easier said than done. But for China Telecom which I see every day, I could always feel its vibrancy and vigor while it has inherited 100 years of operating wisdom and legacy. Through continuous advance and innovation, it has won a number of “World’s Largest” and “Asia’s Best” honours. The outstanding performance of our people has repeatedly proved to our customers and the society that we are their trusted partner on communications, including the great success of the World Expo in Shanghai and the lunar probe of Chang’e rocket in 2010. Facing the earthquake of 7.1 magnitude at Yushu and the landslide at Zhouqu, our people, being driven by their deep affection for the lives of the affected companions, raced against time to make the repairs without fear. They pioneered the recovery of communications, vigorously supporting the disaster relief works. I feel so proud to be one of China Telecom and am grateful to our people for their unrivalled dedication. I firmly believe that China Telecom would definitely maintain its 100 years young with everlasting vibrant fundamentals.”

was RMB43,037 million, and free cash flow<sup>3</sup> was RMB27,107 million.

Taking into account the return to shareholders, the Company’s cash flow and its capital requirements for planned acquisition of mobile network from parent company in 2012, 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.

## Business Operations

### Driving scale development with innovative integration and differentiation

In 2010, we persisted in integrated operation and

strengthened the integration of pipeline services such as voice and broadband services with value-added and integrated information services, focusing on the customers’ perceptions. We strived to enhance the market competitiveness and promoted the scale development of full services operation.

### Promoting scale development of mobile services, particularly 3G services

We strengthened the brand promotion efforts and continued to maintain our “e-Surfing” brand as the leading 3G services brand in the industry. Taking the lead to invigorate the industry value chain, we launched a number of new star 3G smartphones models and implemented differentiated subsidy strategies titling towards 3G terminals. We targeted at the key market segments of office staff and young students while strengthening

<sup>3</sup> 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.



the development and promotion of differentiated applications. With proliferating mobile Internet applications, we attempted to enrich users' experience and stimulate data traffic. In 2010, the Company's mobile operation experienced scale development. The number of mobile subscribers had increased by 34.43 million, to a total of 90.52 million at year end. The subscriber market share exceeded 10%, an increase of 6 percentage points from the end of 2008. The net addition of 3G subscribers was 8.22 million in 2010, achieving an accelerating growth momentum and bringing the total number of 3G subscribers to 12.29 million. Mobile service revenue reached RMB47,722 million, an increase of 59.1% over last year.

**Broadband as core impetus to promote integrated operation** Facing the new dynamics from Three Networks Convergence, we launched the "Broadband China, Fibre Cities" project in full swing. We strengthened the construction and upgrade of optic fibre access to home in urban areas, and actively accelerated the broadband bandwidth expansion to offer customers with high-value differentiated broadband experience, with a view to further consolidating our leading broadband market position. Besides, we embedded data traffic products like Internet videos and entertainment games in broadband services, aiming at sustaining the value of the broadband services. In 2010, the net addition of wireline broadband subscribers was 10.02 million, reaching a total number of 63.48 million with primarily stable market share. Revenue from wireline broadband services reached RMB54,127 million, representing an increase of 15.0% from last year.

**Promoting sustainable growth in integrated information services** We leveraged the edges of enhanced centralised product centres, offering compelling mobile Internet application products. Competitive edges strengthened gradually: encrypted communication, "e-Surfing Blackberry" and "e-Surfing Push to Talk" were officially launched, while the usage volumes of "iMusic", "e-Surfing Video" and "eStore" increased in multiples. For government and

enterprises market, scale replication and standardised promotion of various industry-specific applications like government administration and supervision, transport and logistics, digital hospital, integrated e-Surfing RFID were introduced. We vigorously promoted application of new technologies such as the Internet of Things and Cloud Computing and proactively deployed for the featured applications in the areas of mobile payment and mobile positioning. This enhanced our competitive edges in the integrated information services market, while effectively driving the scale development of the mobile and broadband services.

**Protecting existing value through integrated differentiation** To tackle the intensified challenges from new Internet technology and mobile substitution, we proactively devoted efforts to consolidate the existing wireline voice services. We increased initiatives on customer care for targeted existing customers and leveraged integrated differentiated operation to enhance their loyalty, endeavouring to mitigate the decline in wireline voice services. In 2010, the total number of wireline access lines in services was 175 million, a decline of 13.51 million over the year and revenue from wireline services (excluding upfront connection fees) decreased by 4.2% as compared with last year. Following the continual migration of PAS subscribers in recent years, the operational risks associated with the PAS services had been primarily alleviated.

### **Consolidating the fundamentals to create competitive edges at all levels**

We persistently strengthened the capabilities in network, terminals, channels and services, unswervingly striving for consolidating our fundamentals and enhancing our all round competitive edges.

### **Enhanced competitive edges in network deployment**

We constantly improved the network carrying capability and the pipeline value. The 3G network coverage was further expanded and the network quality further enhanced to the industry standard. Meanwhile, we



strengthened the WiFi hotspots coverage in popular areas and adopted the integrated service strategy of “CDMA+WiFi”, offering customers with high-speed and convenient wireless access. In addition, we increased our capital expenditure and accelerated the fibre deployment and the development of fibre-to-the-home (FTTH). All cities areas in southern China had 4Mbps broadband access capability and the bandwidth capability with 20Mbps reached 58%, representing an increase of 22 percentage points compared to the beginning of the year, establishing a solid foundation for the scale development of full services operation.

#### **Effective alleviation of bottlenecks in terminal supply**

We actively promoted the invigoration of industry value chain, leveraging 3G smartphones. We strengthened applications customisation and pre-installation to satisfy the requirements of 3G service development. By the end of 2010, the number of 3G handset models exceeded 300, representing an increase of over 200 models from the beginning of the year. New competitive star handset models and smartphones priced around RMB1,000 were launched ongoingly. The varieties of terminals proliferated rapidly with enhanced price-performance ratios.

**Rapid improvement in the channel capabilities** We strengthened the channels development through cooperation with over a thousand well-known electrical appliance chain stores in China, which served as distributing agents for our terminals and services. The weakness in open channels has been effectively improved. The open channel terminal sales exceeded 60%. We continued to advocate the development of electronic channels, optimising the interface and functions of e-customer service centres and effectively reducing the operating costs and enhancing the efficiency of sales and marketing.

**Continual improvement in service system** We fully promoted the quality of customer service standards for full services operations, actively carrying out the centralised operation of service hotline “10000”

at provincial level and improving the IT systems to support the customer services, particularly to enhance the service quality of mobile services. The service processing time, request response time, customers’ complaint ratio, and other service metrics have noticeably improved. Customers perception was enhanced and the churn rate was effectively controlled.

#### **Innovative models implemented for data traffic management operation**

Riding on the era of mobile Internet, we proactively established new initiatives for data traffic management operation by improving our core network competence, providing an open platform for integrated services, promoting collaborated efforts in content and application development, and focusing on high value data traffic management operation.

**Expanding cooperation in open platform** We expanded the cooperation in open platform with brilliant Internet content providers and leveraged the platforms of product centres converging high value data resources such as music, games and videos to attract usage. Meanwhile, we further opened the integrated platforms to providers and offered services like authentication, billing and positioning. We encouraged them to develop new application services based on our integrated platform, leading competitive applications in popular areas such as full screen browsing, online searching, instant messaging, and e-commerce. We also embedded our basic communication capability in our products to provide differentiated services for our customers.

**Strengthening in centralised operation** We further centralised in management and promotion of mobile Internet products, breaking through the traditional geographical boundaries to realise “one-point access, speedy upload, and entire network services”. Thus, we significantly improved the product launch progress and access efficiency and effectively supported the rapid popularisation of mobile Internet products.



**Innovative mechanism and system** We implemented the trial of corporatising the operation of new services like mobile payment and e-Surfing Video with a profit and market-oriented operation. We endeavored to set up an organisational structure and an incentive mechanism appropriate for the development of mobile Internet services to stimulate entrepreneurship and vibrancy, hence fostering a better development of new businesses.

### Enhancing management to enhance corporate and employee value

**Strengthening financial management and resources allocation** The Company further optimised the resources allocation and investment structure, planned for expenditure in a scientific and comprehensive manner and rendered effective support to fuel scale development of new business, strategic business and key business. We deepened financial transformation, actively implementing centralised financial management at provincial level, effectively preventing risks associated with internal control, and fostering management efficiency. We enhanced centralised treasury management and effectively reduced financial expenses. Through implementation of precision management, we endeavoured to increase returns on investment and consistently enhanced our corporate value.

**Promoting coordinated growth of employee value with corporate value** We innovated the human resources management mechanism, emphasising on selection of management through competition. Placing value enhancement as priority, we perfected the staff performance appraisal system and speeded up the optimisation of human resources structure, focusing on forging a professional management team, a high-level technical expert team and a highly proficient

sales and maintenance team, so as to meet the operation needs of the integrated information services and mobile Internet services.

### Corporate Governance and Corporate Social Responsibilities

We strived to maintain high level of corporate governance and corporate transparency to ensure healthy development of the Company and enhancement in corporate value. In 2010, our persistent efforts in corporate governance were widely recognised by the capital market. We have been accredited with a number of awards and appreciations, including “No. 1 Best Managed Company in Asia” by *Euromoney* for two consecutive years; the awards of “No. 1 Best Managed Company in China” and “No. 1 Best Managed Company in Asian Telecom Sector” by *FinanceAsia*, and the award of “Asia’s Best Companies in Corporate Governance” by *Corporate Governance Asia*.

In 2010, the Company actively devoted to the rescue work and disaster relief in the earthquake at Yushu, Qinghai Province and the landslide at Zhouqu, Gansu Province. We repaired the damaged optic fibre cables with utmost speed and pioneered to restore the communication in the disaster areas. These initiatives demonstrated our strong sense of social responsibility as a whole. Besides, we successfully supported the Shanghai World Expo and the Guangzhou Asian Games, featuring an informatised World Expo and a digitalised Asian Games and demonstrated the new image of China Telecom as an integrated information service provider. We actively practised green, environment-friendly and low-carbon humanistic concept and basically formed a mechanism for high energy efficiency and low waste emission.



## Outlook

Since 2004, we pioneered to advocate strategic transformation with a changing mindset of operation and development modes. We walked a new road of development leveraging transformation. In particular, after the acquisition of mobile service, we rapidly built up a full services operation system and entered the mobile market, successfully embarking on full services operation with emerging profitable and scale development.

The next two to three years will be a prime period of strategic opportunities. Products convergence will be a trend in the telecommunications industry. New applications leveraging new technologies like Internet of Things and Cloud Computing will emerge. Mobile Internet is undergoing a rapid growth period and wireline broadband is still enjoying considerable room for development. All these initiatives will bring us wider prospects for development. However, we are also facing intensified challenges from increasingly fierce competition in the existing and new businesses.

Looking forward, we are fully confident and will continue to pursue the “Customer – Focused Innovative Informatisation” strategy, aggressively expanding the scale of mobile, broadband and industry application services, while maintaining the contribution of the existing operation and continuing to optimise the revenue structure. By pursuing deepened strategic transformation, we aim to position ourselves as “a

leader of intelligent pipeline, a provider of integrated platforms, and a participant of content and application development”. We shall persist in our business strategy of high-value data traffic management operation and transform our Company to adapt to the mobile Internet operation mode with a view to creating more value for customers and 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.

**Wang Xiaochu**

*Chairman and Chief Executive Officer*

Beijing, China

22 March 2011