

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%



Mr. Yang Jie, President delivered a speech at the press conference on Service Pledge.

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 service's 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.

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



Rich mobile Internet applications available from China Telecom



Mr. Yang Xiaowei, Executive Vice President presented a certificate to the Company's one hundred millionth mobile user

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.

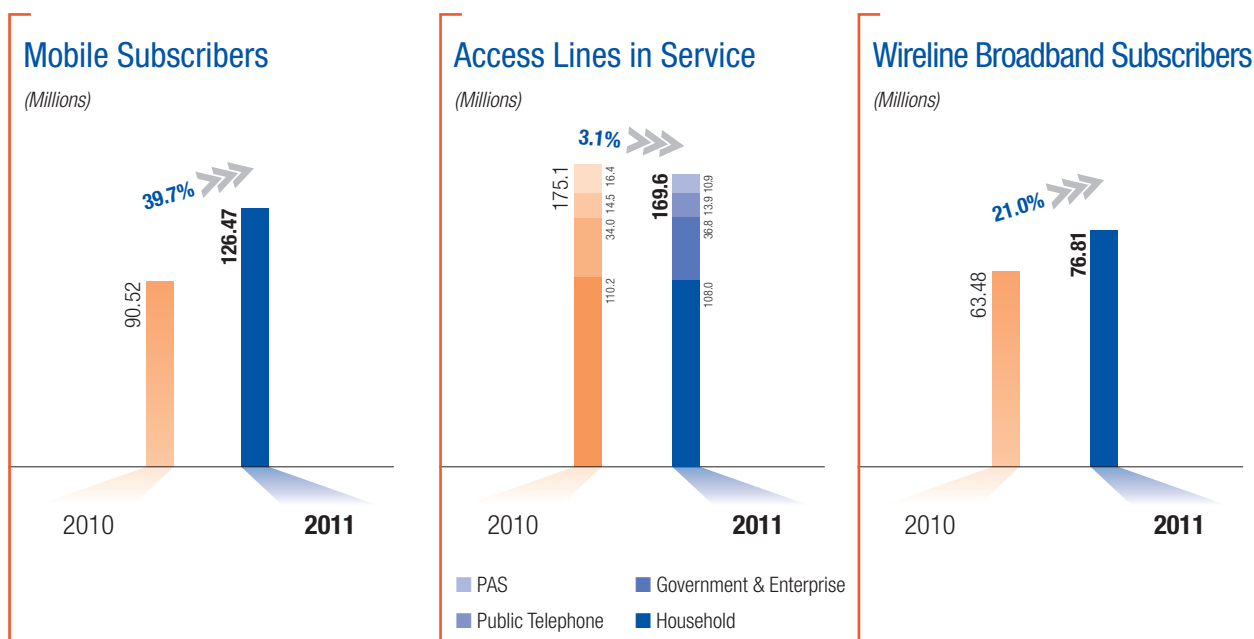
(3) Bandwidth upgrade to maintain leading edges in broadband services

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.





(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.

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.

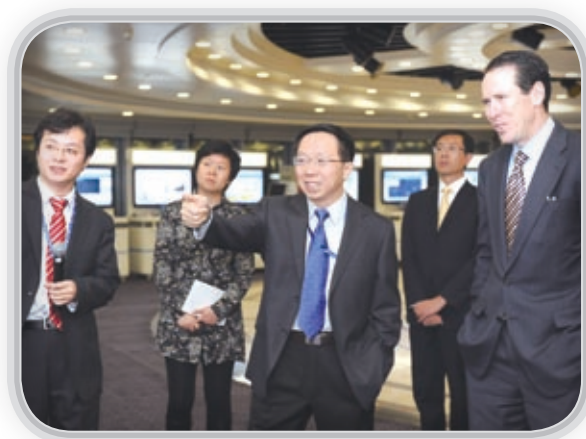
Third, the Company strengthened differentiation in operations to enhance its competitiveness in the key target markets.

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.



Madam Wu Andi, Executive Vice President conducted field research at the frontline



Mr. Sun Kangmin, Executive Vice President outlined the Company's business to the partners



Opening ceremony of 2011 e-Surfing 3G Internet cellphone fair and CDMA industry forum held by China Telecom

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.

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.



Mr. Wang Xiaochu, Chairman attended the press conference on "e-Surfing Broadband • Wireless China"

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.



China Telecom provides quality broadband service with multi-access modes

Business Review

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



China Telecom launched “e-Surfing Fly Young” brand for young people



China Telecom's launching ceremony of iPhone 4S

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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Exce

- ➔  Smart Strategy
- ➔  Smart Management
- ➔  Smart Talent

Riding on a Smart Journey



“NO. 1 BEST MANAGED COMPANY IN ASIA” 2011
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