

Business Review

The following table sets out key operating data for 2010, 2011 and 2012.

	Unit	2010	2011	2012	Rate of change 2012 over 2011
Mobile subscribers	million	90.52	126.47	160.62	27.0%
of which: 3G subscribers	million	12.29	36.29	69.05	90.3%
Wireline broadband subscribers	million	63.48	76.81	90.12	17.3%
Access lines in service	million	175.05	169.59	163.00	-3.9%
Mobile voice usage	million minutes	295,885	407,765	509,229	24.9%
Mobile SMS usage	million messages	33,116	49,941	55,789	11.7%
Mobile Colour Ring Tone subscribers	million	54.15	75.38	92.19	22.3%
Wireline local voice usage	million pulses	251,425	206,371	172,175	-16.6%
Wireline caller ID service subscribers	million	118.99	115.58	109.93	-4.9%



China Telecom provides its customers numerous products and services.

In 2012, facing an external environment featured by a slowdown in macro-economic growth and intensified market competition in the industry, the Company firmly grasped opportunities arising from the rapid development of the mobile Internet, insisted on adopting a 3G smartphone-led strategy and placed equal emphasis on promoting single products and integrated products, resulting in the rapid development of our mobile service and reinforcing the competitive edges in the wireline broadband service and alleviating operating risks resulting from wireline voice service. At the same time, the Company actively promoted service innovation of industry applications for the government and enterprise customers and the content services business for the public customers, and has seen satisfactory progress of the data traffic operation and further optimised the business structure.

Key Operating Performance

(1) Rapid growth in operating revenues at the rate surpassing industry-average, while business structure optimised continuously

In 2012, the Company's operating revenues grew 15.5% to RMB283,073 million.

Excluding revenues from mobile terminal sales, operating revenues were RMB258,316 million, giving an annual growth rate of 11.8%. Driven by the growth of our mobile and broadband services, the Company's revenue structure was further optimised.

The proportion of mobile revenues rose from 33.7% in the previous year to 41.6% this year and the share of revenues from both mobile and broadband services increased to over 65%.

(2) Mobile services maintained rapid growth and customers' values were notably enhanced while subscriber base was expanding

In 2012, we adopted a mindset that is terminal-led, application-driven and places concurrent emphasis on integrated products and centralised efficient single products. By implementing these strategies through measures such as focusing on 3G smart terminals, consolidating the 3G application assistance process and boosting synergies across channels, the Company succeeded in continuously expanding the 3G subscriber base. Meanwhile, leveraging on the introduction of industry informatisation applications, the Company concentrated on the promotion of high-end smartphones under contracts and dual-mode smartphones to the government and enterprise customers, thereby achieving scale expansion of the medium-to-high-end subscriber base with a net addition of 34.15 million subscribers, the Company boasted the mobile subscriber base of 160.62 million subscribers; mobile service revenue grew 36.0% year-on-year to RMB92,803 million; mobile average revenue per mobile user (ARPU) was RMB53.9, representing a growth of 2.8% year-on-year.

(3) Wireline revenue became stabilised with an upward trend, market leadership in the wireline broadband service was further reinforced with risks from wireline voice business being further alleviated

In 2012, the Company continued to strengthen its edge in wireline and mobile integration, redoubled its efforts in promoting its self-selected convergent services and stabilised the number of access lines in service. Revenue from wireline services was RMB165,247 million and up 1.8% year-on-year, improving from the 2.2% decline in the previous year.

In the wireline broadband service, the Company reinforced its competitive edge by further implementing the “Broadband China • Fibre Cities” project, by mounting a “Lightening Fibre Residential Areas” campaign for public customers and by quickening the pace of fibre upgrade of broadband access networks for government and enterprise customers. In 2012, the number of wireline broadband subscribers registered a net increase of 13.31 million, which brings the total number of wireline broadband subscribers to 90.12 million; revenue from wireline broadband services grew 9.8% to RMB66,738 million.

In developing wireline value-added services and integrated information services, the Company took full advantage of technologies such as the Internet of Things and “Cloud” computing to offer integrated solutions to customers. Meanwhile, by accelerating development of information communication technology (ICT), Internet data centre (IDC) and Internet TV (iTV) services, the Company was able to provide customers with integrated information services that are convenient,

rich, differentiated, and have a high price-performance ratio. Revenues from the Company’s wireline value-added services and integrated information services grew 3.0% during the year to RMB30,681 million.

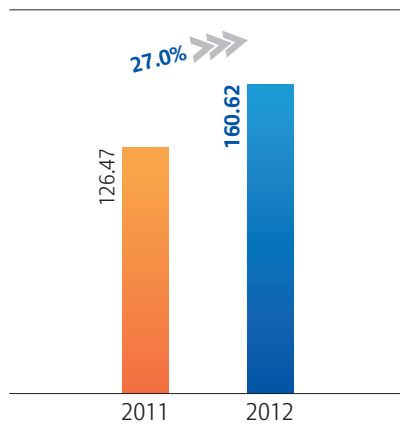
In 2012, revenue from wireline voice service as a percentage of the Company’s operating revenues saw a further decline, signalling a further alleviation of operational risks. Revenue from wireline voice service in 2012 was RMB43,335 million, representing 15.3% of the operating revenues and a drop of 5 percentage points from the previous year.

Business operating strategies

In 2012, the Company closely adhered to the operating theme of “promoting scale development through dual-leadership in innovation and service”, vigorously implemented the two key strategies of scale operation and data traffic operation, and carried out operational measures in “terminal-led marketing, open channel optimisation, strengthening centralised efficient marketing and promotion of mobile data traffic operation”:

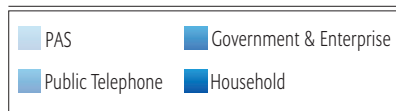
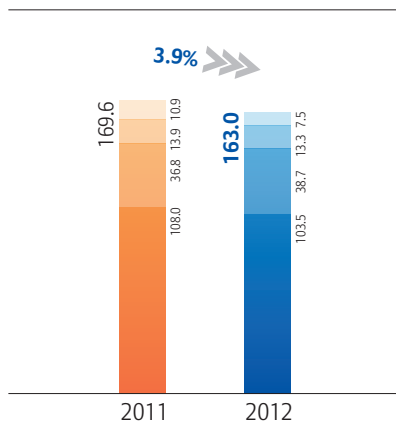
Mobile Subscribers

(Millions)



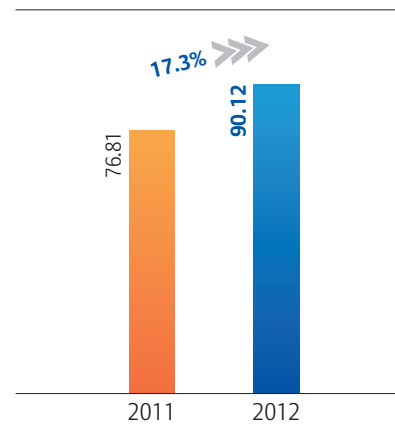
Access Lines in Service

(Millions)



Wireline Broadband Subscribers

(Millions)





The Company's management attended customer activities and exchange and study of marketing idea.

First, the Company maintained a smart-terminal-led approach in driving improvements in quantity and quality in mobile services.

In 2012, the Company persisted in the sales strategies of centralised efficient sales and concentrated on achieving breakthroughs on making key terminals available. Centralised efficient management systems in direct terminal supply, retail and servicing were set up and overall competitiveness in terminal management was systematically enhanced through the standardisation of terminal products, marketing, services, management, cooperation and IT support. Subsequently, the mobile terminal sales volume jumped substantially, which drove the expansion of the mobile subscriber base and continued to improve the business structure. Meanwhile, capitalising fully on the competitive advantages of integrating 3G smartphones with fibre broadband service, major efforts were spent in developing self-selected convergent services to effectively enhance customer value. In 2012, the number of available-for-sale 3G terminal models was around 860 while the number of available-for-sale 3G smartphone models was around 380. 3G smartphone subscribers had a penetration rate of approximately 34% among mobile subscribers, representing an increase of over 20 percentage points

from the end of the previous year. The high-bandwidth (bandwidths of 4Mbps or above) subscribers accounted for as much as 73% of the wireline broadband subscriber base, an increase of 23 percentage points from the beginning of 2012, and the number of fibre broadband subscribers was about 15 million.

Second, the distribution of the sales channels was further optimised, their synergies were strengthened and efficiency was improved.

The Company attached great importance to the improvement of sales capability of open channels. To boost sales enthusiasm of open channels, measures such as reinforcing direct terminal supply, increasing retail incentives and raising the price-performance ratios of terminals were adopted. Consequently, remarkable results were achieved. In 2012, the share of mobile subscribers acquired from open channels rose to 64%. At the same time, the Company continued to carry out the transformation of self-operated stores into outlet-style stores, improved the sales processes and innovated new sales models, thereby significantly increasing both the efficiency of the sales outlets and their sales capability. In 2012, the sales volume of terminals in the Company's outlet-style stores increased 35% year-on-year. With the function of the Company's

electronic channels changing from being services-oriented to sales-oriented and the realisation of basic e-commerce functions, there were continuous improvements to the operation standards while the self-served services capabilities continued to perfect and became more convenient. In 2012, the Company's electronic channel cumulatively completed transactions worth RMB44,390 million in the aggregate, representing an annual growth rate of 139%, while the cumulative number of subscribers cultivated reached 1.68 million.

Third, continuously stepped up centralised efficient marketing and sales efforts to improve development efficiency.

In 2012, the Company optimised its brand portfolio under the "e-Surfing" theme, and brands such as "e-Surfing Young", "e-Surfing

Home" and "e-Surfing Navigator" were launched. The Company strengthened the promotion of centralised efficient single products such as "e-Surfing Young", "Enjoy 3G" packages and "e-Surfing Cloud Cards" were promoted vigorously. Sales & marketing of iPhones and large-screen smart phones priced around RMB1,000 was carried out across the sales network. To improve customer satisfaction levels, service standards and service codes were unified with "Satisfaction 3G" and "Five Care" broadband service pledges covering "excellency in installation, excellency in users' experience, excellency in repairing, excellency in subscription renewal and excellency in connection" were introduced. In the government and enterprise market, the Company remained focused on key standardised informatisation application products and aimed for scale replication promotions through unifications in practices and platforms. In 2012, subscribers to the Company's centralised efficient single



Integrating internal and external resources to jointly provide quality service to customers

products accounted for approximately 42% of all new subscribers; the daily average number of "e-Surfing Cloud Cards" sold hit the 30,000 mark; the number of mobile subscribers acquired via industry applications in government and enterprise market exceeded 10 million, which was almost 30% of the total net addition of mobile subscribers.

Fourth, intensive experience-based marketing was instrumental in propelling data traffic operation to a new level.

The Company proactively nurtured emerging services by capitalising on the opportunities brought about by the proliferation of mobile Internet. In order to establish competitive professional corporates and to foster the rapid development of emerging businesses, the Company trialed various corporate mechanisms and flexible incentive schemes

and sped up the pace of corporatisation and equity restructuring of emerging services such as product centre businesses. At the same time when the Company expanded the self-developed businesses, the Company enhanced the cooperation efforts with mainstream content providers, promoted the introduction of socially popular applications and boosted its content offering. The Company enhanced its capability in providing integrated information services by promoting the application of new technologies and services such as the Internet of Things and "Cloud" computing, so that the Company was in a position to seize head-start development opportunities in the mobile Internet area and to steadily advance the data traffic operation. In 2012, mobile handset Internet access revenue surged 137% over last year to RMB12,163 million while 3G handset subscriber data traffic monthly average increased 26%, from 106MB to 134MB. Thus



Focusing on terminal-led marketing and enriching the terminal portfolio

value contribution from the data traffic operation is becoming more apparent gradually and has already become one of the key revenue growth drivers.

Network and operation support

In 2012, the Company continued to uphold the “return-focused” principle investment, controlled the investment volume, optimised the investment structure, and implemented differentiated investment strategies to support the rapid scale expansion of the key services. As a result, the Company achieved enhanced investment efficiency and improved resource utilisation.

To promote the “Fibre Cities Project” strategy continuously, and to reinforce the Company’s competitive edge in wireline broadband network, meet the rising demand of broadband Internet services and raise the core competitiveness of our networks, the Company continued with the implementation of the “Broadband China • Fibre Cities” project and carried out scale Fibre-to-the-

Home (FTTH) construction in urban areas. In 2012, our broadband & Internet related investments amounted to RMB35,946 million, accounting for 66.9% of the Company’s capital expenditure. A total of 40 million new broadband access ports were added and the proportion of FTTH ports to the total number of broadband access ports was 63%, up 12 percentage points from the end of last year. In the southern cities, the 20Mbps access bandwidth coverage was 82%, up 11 percentage points over the previous year.

The Company also advanced carefully with its investments in WiFi construction and continually improved the coverage of WiFi network in public hot spot areas, thereby realising the effective offloading of mobile data traffic and the better extension of wireline broadband services. In 2012, the Company invested RMB1,360 million in WiFi and built about 0.28 million new access points.

The Company also continued with its work on capacity expansion, network optimisation and upgrade of carrier network; built up synergy between the IP and transmission networks; and actively carried out pilots on next-generation Internet and high-performance transmission networks to set the foundation for network and technological evolution.

The Company redoubled its efforts in consolidating platforms and expansion of information services. While fortifying the network infrastructure capacity, the Company proactively promoted the integration of platform resources as a way to raise operation efficiency. China Telecom also stepped up the construction pace of “Cloud” data centres and “Cloud” resource pools through the scale application of “Cloud” computing technology and included the newly built platforms into “Cloud” resource pool management, so



Mr. Wang Xiaochu, Chairman introduced the China Telecom e-Surfing 3G mobile handset

as to enhance the centralised support and operation capabilities of the platforms. Meanwhile, the Company was active in extending the depth and breadth of the information service offerings and leveraged the “Smart Cities” and “Smart Agriculture” projects as entry points in driving the applications of integrated information services. The investments in value-added services and integrated information services amounted to RMB7,039 million.

In 2012, there was marked improvement in the Company’s IT support capability, effectively supporting the centralised efficient marketing and precision management. By integrating the business data, network data and terminal data, the Company completed the construction of a service centre for sharing network-wide data. As well, the Company was able to realise network-wide end-to-end business management and the automatic provisioning of services such as IDC.

Development measures and highlights for 2013

In 2013, the proliferation of 3G smart terminals and the application of “Cloud” computing will drive the rapid development of the mobile Internet. At the same time, competition in the industry for the existing market will become more intense. The Company will adhere to the main theme of “promoting scale and efficiency enhancement through dual-leadership in innovation and service” and will continue to promote scale operation and data traffic operation so as to achieve collective growth in corporate values and customer values.

In 2013, the Company will further strengthen customer differentiation and increase the mobile subscriber market share. By emphasising equally on quantity and quality, the Company will make additional efforts in developing key services and markets to raise corporate efficiency. China



Mr. Yang Jie, President attended the “e-Surfing Cloud Card” cum smartphone festival launch ceremony

Telecom will advance the penetration of the fibre broadband services to maintain its leading position in the broadband market. The Company will adopt the approach of offering high quality services in the high-end market and offering more value-for-money services in the main-stream market to build a differentiated broadband products portfolio. The Company will use the “Smart Cities” project as the trigger to optimise industry application products, drive for product standardisation and foster scale development of industry applications. The Company will further data traffic operation by sustained improvements in terminals, content applications, networks, IT support, marketing and services, striving for simultaneous increases in data traffic scale and value. The Company will continuously raise the sales capabilities of channels and make substantial efforts in increasing market share of CDMA terminals while expanding the sales network coverage. At the same time, the Company will implement centralised efficient management and reinforce network optimisation, operation and support so as to forge the competitive advantage in services with innovation and differentiation and advance steadily towards the transformation into a mobile Internet operation model.