



# *“As Powerful as Water”*

With enhanced power by accumulating strengths and taking advantageous terrain, water occupies a leading position when it runs from the peak.

中国通信服务



# *“Strategy of Maintaining a Leading Position in the Domestic Market”*

To maintain a leading position in the operator market, we endeavour to develop customers in the domestic non-operator market, and achieve a leading position in terms of business model, service quality, capabilities and culture.



## Business Overview

The Group is a leading service provider in the PRC that provides integrated support services in the informatization sector including telecommunications, media and technology. The Group provides integrated solutions, including telecommunications infrastructure services, business process outsourcing services as well as applications, content and other services to telecommunications and media operators, telecommunications equipment manufacturers as well as government agencies, corporate and industrial customers.

The Group's business covers China and over 50 countries and regions in the world. The Group's overseas expansion is mainly focused on markets such as Africa, the Middle East, Latin America and Asia Pacific.

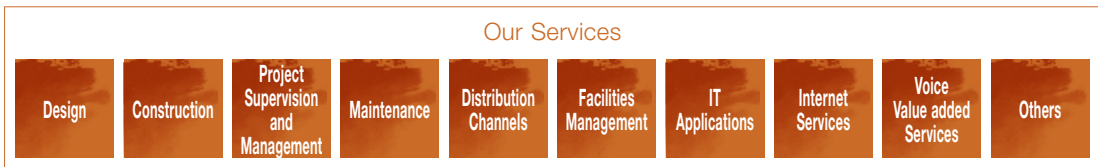
### CUSTOMER SERVICES AND MARKET EXPANSION

In 2010, through catering to customers' needs and strengthening external strategic cooperation, the Group strengthened its leading market position in the domestic operator market and endeavoured to expand the domestic non-operator market and the overseas markets, thus leading to further optimized customer and business mix, enhanced core competence, continually improved innovation, and achieved a rapid growth of total revenues. In 2010, the total revenues of the Group amounted to RMB45,417 million, representing a year-on-year growth of 15.0%.



■ Base station with the highest altitude in the world built by the Group

**We provide an integrated package of services through all stages of operators' value chain**





## Business Overview

In 2010, the Group further optimized its customer mix. Revenues from domestic operator customers increased by 7.2% to RMB29,464 million, accounting for 64.9% of total revenues; revenues from domestic non-operator customers increased by 27.8% to RMB13,728 million, accounting for 30.2% of total revenues and revenues from overseas markets increased by 73.0% to RMB2,225 million, accounting for 4.9% of total revenues.

(In RMB million except percentages)	2010		2009		Change over 2009
	Revenues	Percentage of total revenues	Revenues	Percentage of total revenues	
Domestic operator customers	<b>29,464</b>	<b>64.9%</b>	27,473	69.5%	7.2%
Of which: China Telecom	<b>19,925</b>	<b>43.9%</b>	20,243	51.2%	-1.6%
China Mobile and China Unicom	<b>9,539</b>	<b>21.0%</b>	7,230	18.3%	32.0%
Domestic non-operator customers	<b>13,728</b>	<b>30.2%</b>	10,739	27.2%	27.8%
Overseas customers	<b>2,225</b>	<b>4.9%</b>	1,287	3.3%	73.0%
Total	<b>45,417</b>	<b>100.0%</b>	39,499	100.0%	15.0%

In 2010, the capital expenditure in the domestic telecommunications industry amounted to approximately RMB319.7 billion<sup>(1)</sup>, representing a decrease of 14.2% in 2009. In response to this, the Group actively adopted measures to take further advantage of its strengths in telecommunications infrastructure services and vigorously expanded its services in network maintenance, IT applications and Internet services, which led to stable revenue level from operators and enhanced leadership in the industry. The Group made great efforts to expand its revenue share from China Mobile and China Unicom by improving service quality and customers' experience, and consequently achieved rapid growth of revenue from both China Mobile and China Unicom. Meanwhile, the Group continuously implemented explorations and trials with domestic telecommunications operators in respect of joint construction and sharing of telecommunications facilities, collaborative logistics services, energy saving and emission reduction, and kept innovating its business and service models in response to new business opportunities.



■ City-optical network R&D base of the Group

<sup>(1)</sup> According to the Ministry of Industry and Information Technology of the People's Republic of China.

## Business Overview

Based on our experiences in serving customers over the past years, we believe that the capital expenditure by the three operators in China will remain relatively stable in the coming years given the continuing growth of their customer bases and network scale as well as the continued introduction of new services and new technologies. Therefore, the Group's revenues from domestic operators will also maintain steady growth.

The Group's domestic non-operator customers include government agencies, media enterprises, infrastructure enterprises, energy sector related enterprises, telecommunications equipment manufacturers, public service unit such as educational and medical institutions and small to medium-sized enterprises. The Group is able to smoothly apply its experiences in serving domestic telecommunications operators and relevant technical expertise to the ancillary communications engineering services required by domestic non-operator customers in China. In 2010, facing the market opportunities in ancillary communications engineering services brought about by huge construction investments of domestic non-operator customers in infrastructure and public facilities, such as the Three Networks Convergence, energy saving and emission reduction, expressways, high-speed railways, subways, airports, ports and



■ Projects for the Shanghai World Expo

## Business Overview



■ Projects for the Asian Games



■ Communications infrastructure projects

stadiums, the Group endeavored to capture these opportunities by improving its service and product systems targeted at domestic non-operator customers and enhancing the synergies in its marketing across different businesses, so as to promote brand awareness and marketing capability and achieve rapid revenue growth from the domestic non-operator customers. The huge domestic non-operator market potential will become one of the Group's key growth drivers in the future.

The Group firmly implemented its overseas expansion strategy, and applied its technical advantages in serving the world's largest communications networks into capabilities in obtaining communications construction projects in developing countries. In 2010, the revenue from overseas markets was RMB2,225 million, representing an increase of 73.0% over last year. In 2010, the Group focused on its expansion in Africa, the Middle East, Latin America and other regions, while actively expanding into Australia, New Zealand, Eastern Europe and other countries and regions. We provided services such as infrastructure communications construction, business network construction, network maintenance and weak current system construction and maintenance for local telecommunications operators, government agencies and corporate customers. In addition, the world's well-known telecommunications equipment



## Business Overview

### Overseas projects signing ceremonies



### Overseas project site

manufacturers are also important overseas customers of the Group. The Group has entered into strategic cooperation agreements with them to further explore their large-scale construction services market. In 2010, the Group continued to reinforce its strategic cooperation with companies such as telecommunications equipment manufacturers, financial institutions and large state-owned enterprises by leveraging on the advantages of each other to jointly expand the communications EPC (Engineering, Procurement and Construction) business in overseas markets and to achieve breakthroughs in winning EPC projects. The overseas business will also become one of the Group's key growth drivers in the future.

## TELECOMMUNICATIONS INFRASTRUCTURE SERVICES

As the largest telecommunications infrastructure service provider in China, the Group is in possession of the highest-grade qualifications in the communications construction industry in China. In 2010, the Group's revenue from telecommunications infrastructure services amounted to RMB21,637 million, representing a year-on-year growth of 12.2%.

The Group provides a full range of telecommunications infrastructure services to telecommunications operators. These services include design, construction and project supervision for wireline, wireless, broadband networks and support systems. The Group's revenue from the provision of telecommunications infrastructure services to telecommunications operators is mainly driven by the capital expenditure of telecommunications operators. In 2010, we enhanced our efforts in market expansion. Under the circumstances of capital expenditure of the domestic telecommunications operators dropped by 14.2% over the same period of last year, the Group's revenues of telecommunications infrastructure services from three telecommunications operators amounted to RMB16,409 million, representing a year-on-year growth of 3.7%, demonstrating a further enhancement of its market position.

## Business Overview



- The subsidiaries of the Group entered into strategic cooperation agreements with broadcasting and television enterprises

In addition, the Group also provides integrated solutions for ancillary communications networks, including ancillary communications engineering services and operating support services, to domestic non-operator customers such as government agencies, telecommunications equipment manufacturers and broadcasting and television enterprises, as well as overseas customers. Benefiting from the increasing investment in and demand for domestic infrastructure construction and the Group's further expansion into overseas markets, the Group's revenue of telecommunications infrastructure services from domestic non-operator customers and our overseas markets amounted to RMB5,228 million, representing a year-on-year growth of 50.9%.

With domestic telecommunications operators' progressive construction of broadband networks and increasing investment in Internet of things and cloud computing, capital expenditure of the telecommunications industry will remain relatively stable and the market size of domestic telecommunications infrastructure services will be maintained at a comparatively stable level. Fuelled by accelerated urbanization and informatization progress, domestic non-operator customers have made significant investments in the infrastructure sector and the informatization sector, creating a huge market for ancillary communications engineering services. As for the overseas market, many countries in the world have strong construction demands and large market potential for optic cable networks, optical fiber access networks and mobile networks. Therefore, we believe that the development of telecommunications infrastructure services is promising.

### BUSINESS PROCESS OUTSOURCING SERVICES

The Group is a leading provider of business process outsourcing services for the communications industry in China. The business process outsourcing services of the Group mainly include network equipment maintenance, distribution of telecommunications and products ("Distribution"), and facilities



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management services. Apart from domestic telecommunications operators, the Group also serves a number of government agencies and enterprise customers. In 2010, revenues from business process outsourcing services amounted to RMB18,508 million, representing a year-on-year growth of 16.1%, among which revenues from network maintenance, distribution of telecommunications services and products and facilities management services were up by 22.6%, 15.1% and 10.3% respectively.

With continuous expansion in the scales of the operators' networks and customer bases, the scale and scope of operators' non-core business service outsourcing will continue to grow and expand. Meanwhile, the market space for the Group to provide maintenance services in relation to base stations, fiber optic cables, electric cables, user access lines, user terminals and network equipment for telecommunications



■ Network maintenance and distribution service

operators also continued to expand. Driven by these positive factors, revenue from our network maintenance services has maintained a rapid growth. In 2010, the revenue of our network maintenance business amounted to RMB4,270 million, representing a rapid increase of 22.6% over last year.

The Distribution services of the Group mainly include the supply of communications machineries and handsets, logistics and procurement agency services and telecommunications agency services. Our major customers are telecommunications operators, telecommunications equipment manufacturers, government agencies and medium to large-sized enterprises. In 2010, the revenue of the Distribution business of the Group amounted to RMB11,957 million, representing an increase of 15.1% over last year. At the same time as maintaining the stable growth of the Distribution business, the Group also attached importance to the improvement of the quality of revenue from the Distribution business. In 2010, the Group focused on high-end logistics businesses, integrated existing resources and sought business partners to lay a solid foundation for improving the overall services capabilities of the Distribution business.

Attributable to its unique position in the PRC telecommunications industry, the Group provides facilities management services for the machinery buildings of three telecommunications operators and the high-end office buildings of its non-operator customers, revenue from the facilities management services of the Group recorded RMB2,282 million in 2010, representing a stable increase of 10.3%.

## APPLICATIONS, CONTENT AND OTHER SERVICES

The Group is a provider of value-added services with great potential in China. It provides system integration services (including the development and construction of the supporting systems OSS, BSS and MSS), Internet services and voice value-added services for operators, which can also be widely used by industrial customers other than telecommunications operators. In 2010, revenue from applications, content and other services amounted to RMB5,272 million, representing a year-on-year growth of 23.6%. Among which, revenue from IT applications services and Internet services increased by 26.5% and 68.8% respectively.



■ Mobile Internet value-added services and “All-purpose” systems developed for mobile phone

We have observed that, with the continuous growth in the number of mobile subscribers and Internet users in China, the rapid growth of the mobile Internet industry and the gradual development of the “Three Networks Convergence”, the demand from individuals and corporate users for mobile Internet applications will continue to grow and the mobile Internet business will move into a period of golden strategic opportunity. In response to these opportunities, we will segment the market, enhance the market share of high-end products and continue our efforts to cooperate with internationally renowned enterprises (such as Accenture) in business development and capital activities, increase investment in research and development, accelerate the innovation of our business development mechanism and recruitment of high-calibre talents, and thus enhance our core competitive edge and drive the rapid development of our businesses.





# *“As Soft and Accessible as Water”*

Penetrating where there is an interstice, bypassing where there is an obstacle, water quickly flows everywhere without being obstructed.

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