

Sticking on Self-innovation and Exploiting the Future of China Netcom

-- Speech on “China Day” of ITU Telecom World 2006

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Distinguished guests, ladies and gentlemen:

Good afternoon! As one of the major telecom operators in China, China Network Communications Group Corporation (“China Netcom”) is honored to be invited to present in the “China Day” activity of ITU Telecom World 2006 sponsored by the Ministry of Information Industry and the Commerce, Industry and Technology Bureau of the Hong Kong SAR government. Therefore, on behalf of China Netcom, I would like to give my congratulations on the holding of “China Day” in ITU Telecom World 2006!

The theme of “China Day” in this ITU Telecom World is “ICT—Bridge between China and the World”. Some subjects, such as the development and challenges of the information and communications in China, international exchanges and cooperation, as well as innovation and applications, will be discussed, which are significant for the promotion of the connection between China and the world, of the sustainable development of the communications industry in China, and of the development of the harmonious society in China.

At present, the telecom industry faces a new trend, in which the advance of the technology is beyond the customers’ requirements.

Firstly, the new technologies, represented by NGN, 3G, IPv6, ASON, WiMAX, and FTTx, have had great influence on the development of the communications

industry; some new services, such as VoIP, IPTV and TV phone, have had tremendous impact on the traditional telecom operation model; the development of the technologies of the integrated circuit, new types of electronic components and the electronic materials has greatly increased the ability of rapid provision of the communications services. These factors have influenced the traditional telecom operators greatly, revolutionarily and even tremendously. Especially in the recent years, FMC and Triple Play have become the consensus of the telecom industry around the world, and have succeeded in many countries and regions. This trend is due to several factors: first, with the improvement of the technology, the telecom network, computer network and cable TV network will finally converge into an integrated network system, through which the telecom operators can provide various services, such as voice, data, TV and multimedia services to the customers; second, with the convergence of the technologies of the computer, software and telecom networks, the informatization capacity of the telecom operators has been greatly improved; third, due to the gradual convergence of the fixed network and mobile network on the basic transmission level and the core switch level, the seamless access from cable network to wireless network will certainly be realized, which provides possibility for the telecom operators to realize the bundled operation of the fixed network service and the mobile service.

Secondly, all the fixed network operators around the world are facing the trend of slowing growth or negative growth of the fixed line. The substitution of the mobile phone to the fixed line becomes an inevitable trend. While in China's telecom market, the fixed line operators are facing double pressure from both the market and the technology, with their market share and income dropping continuously. Since 2003, the income and the subscribers of the mobile phone have begun to surpass that of the fixed line, the substitution trend of the mobile phone over the fixed line were growing obvious. According to the related statistics, 72% of the newly added voice market share was taken by the mobile services in the first 6 months of this year, and 80% of the market share was taken by the mobile services in June. In terms of Internet, the

emerge of some new technologies, such as P2P and Skype, have begun to take share of the traditional telecom market, and have even affected the traditional service model of the whole telecom industry. With the ending of the transitional period after China's entering into WTO, the telecom market will open to the outside world as promised, the international capital and private capital will enter into China's telecom industry. By that time, the operation environment in China will be more fierce and complicated. Therefore, the major fixed line operators are all having difficulties in their development in the following aspects presently: first, the growing speed of the traditional services, such as the fixed line, are slowing down, while the new growing points for the services need time for breeding, and the profitable commercial model based on the Internet is still taking shape; second, the telecom service requirements are changing into one-stop and point-to-point integrated solution and total solution, while the current service model of the fixed line operators still cannot adapt to the change; third, the task for the technical upgrade and reconstruction of the large-scale traditional network is heavy and costly. Under this condition, the fixed line operators must stick on the innovation for development, and actively promote the transformation of the fixed line to solve the problems and adapt to the market gradually.

With the new situation and tasks ahead, China Netcom always devotes to the development with innovation as its main concept, and actively meets the challenge for innovation and transformation since its foundation. As early as 2003, China Netcom has clearly put forward the broadband strategy, Olympic Games strategy and internationalization strategy. These "three strategies" are interconnected, with the concept of "broad" as their core and soul. By implementing the broadband strategy, we hope to fundamentally change the network basis of the enterprise from the narrowband network to the broadband network, and to transform from an access provider to a content provider. By implementing the Olympic Games strategy, we hope to bring the advantage as a cooperative partner for the 2008 Olympic Games into full play, and to realize the first "broadband Olympics" in the history of the Olympic

Games and the communications targeting at the high speed network, broadband access, integrated services, rich applications and boundary service. By implementing the internationalization strategy, we hope to take the broadband service as the main service for entering into the world telecom market while introducing the advanced communications technologies and management concepts, and to form and consolidate the leading position of China Netcom in the broadband communications market in the Asia-Pacific region. All in all, by implementing the “three strategies”, we hope to turn China Netcom into “a fully coordinated and sustainable broadband communications and multimedia service provider with various types of services, excellent service quality, stable network operation, and basically established modern enterprise system.”

In terms of technology innovation, we have completed the reconstruction of most of the local network in northern China to further exploit the network potential for provision of new services to the customers; IP carrying network and long-distance softswitch network with nationwide coverage have been established, which forms a solid foundation for the implementation of NGN and 3G services; we are responsible for the construction of “China Next Generation Internet (CNGI)” sponsored by National Development and Reform Commission and for the development project of “Olympic ‘Digital City’ integrated information service and emergency calling system” initiated by the Ministry of Science and Technology, which promotes the research and experimentation of the next generation network technology and the support and innovation of the communications service for the Olympic Games; we are also responsible for the experiment of the scaled network technology application of TD-SCDMA in Qingdao and Beijing sponsored by the National Development and Reform Commission, the Ministry of Science and Technology and the Ministry of Information Industry; furthermore, the experiments on ASON and on the new technologies of the broadband wireless access based on WiMAX and SCDMA are conducted for promoting the development of the network according to the schedule.

In terms of service innovation, based on the pillar services, such as the fixed line, PHS and broadband services, we promote the development of the value-added services and broadband content application services. The “KuanDaiBao (broadband)” service for the new generation of family broadband entertainment platform involves more than 100 content providers and provides tens of programs with real-time updates; The service of “family 1+” with the fixed line, PHS and the broadband service bundled together is promoted to the families; the “The Sunny (YangGuangXinRui)” service package featured with large capacity of SMS and favorable family numbers is promoted with the students as the target customers; to meet the requirements of the small and medium-sized enterprises, the “CNC Connected” platform is established; the portal website of “CNC MAX” was online in May this year, which has cooperated with 29 SP/CP and has more than 4000 items loaded.

In terms of service innovation, the administrative organizations of different levels of the “Golden Club” are established to fully promote the reform of the marketing system with the community managerial system as the core and to increase the marketing capacity. With our continuous efforts, we are listed top in the “Survey of the Telecom Customer Satisfaction in China” organized by the Ministry of Information Industry in four consecutive years.

Recently, we have made some progress in innovation with the support and care of the related Ministries and Departments. On the one hand, the establishment of “the national project laboratory on next generation Internet broadband service application” is approved by the National Development and Reform Commission; on the other hand, China Netcom is listed among the first “100 innovative and experimental enterprises in China”, which is jointly approved by the Ministry of Science and Technology, the State-owned Assets Supervision and Administration Commission of the State Council, and China Federation of Trade Unions. All the progress has greatly promoted the implementation of the innovation strategy and our innovative development. We will seize the opportunity for development, make concerted efforts

and go all out in performance for innovation in technology and services to form an innovative and experimental enterprise on the national level.

Therefore, our next step will be focused on the target of becoming a “broadband communications and multimedia service provider”. We will be market-driven and customer-oriented, basing ourselves on the realities and centering upon three strategic missions, namely broadband, the Olympic Games and internationalization. We will take a scientific and pragmatic approach to do technology innovation in the process of fixed network transformation. Our technological focuses in the near future are as follows:

First, technological innovation in AVS-based end-to-end IPTV. IPTV, by its nature, is a new service with multiple services bundled, which can facilitate fixed operators to fully utilize their strong advantages in resources and is the entry point for triple play. AVS is an independently developed intellectual property right of China. China Netcom (CNC) will “support, participate, advocate and promote” AVS-related work under the leadership of Ministry of Information Industry and use AVS as its IPTV video codec standard to further advance AVS-based IPTV innovation.

Second, technological innovation in broadband wireless access (BWA). BWA technology features long-distance transmission, high speed, stable performance and fast provisioning of services, which is a significant trend for communications technology. Applied in different markets, BWA and mobile technology will, in the long run, coexist and complement each other. In response to this, CNC will integrate BWA into its broadband strategy by making research, bold experiments and fast deployment.

Third, research and deployment of FMC-oriented next-generation broadband network architecture and supporting architecture. The focus is on research, trial and development of soft switch, IMS, IP bearer network, broadband access and P2P countermeasures to support the development of services and networks of the Group Corporation. Based on CNGI project, we will do research on Ipv6 video monitoring

and AVS-based network TV applications to push forward the evolution of the next-generation Internet. In addition, NGN architecture with IMS at the core makes FMC possible. At present, we will properly handle the varied positioning and evolution of intelligent network, softswitch and IMS. What's for sure is that PSTN, softswitch and IMS will coexist for a long time, but will be eventually integrated into IMS architecture and realize FMC.

Fourth, technological innovation in the informatization of governments, enterprises, rural areas, industries, communities and households. Informatization is both a national strategy and an important "hand grip" for traditional fixed network operators to extend services to customers and achieve strategic transformation. We should firmly grasp the opportunity of the nation's informatization drive, play our advantages and strengthen cooperation, making informatization a new "highlight" in corporate development.

Fifth, technological innovation in the Olympic strategy and internationalization strategy. On the one hand, we will work to make the 2008 Beijing Olympic Games the first "Broadband Olympics" in real sense in human history and fully display the concept of "High-tech Olympics"; on the other, we will absorb innovative ideas, technologies and talent through international cooperation to keep our innovation on the forefront of the world.

Sixth, technological innovation in the integrated service platform and integrated information management platform. For integrated service platform, we will make full use of the existing service platforms, systems and resources to do research, development, test and deployment. Service integration and bundling will be realized through standard interface, data format, database, operating system, business process and management process. For integrated information management platform, we will make vigorous efforts in the research, development and building by integrating the existing management supporting systems of various kinds. The sharing of information on market, production, network operation and management will improve the efficiency of management and operation of the Group.

Seventh, intensified research and test in mobile business, mobile network and mobile technologies under the leadership of relevant ministries and commissions.

Ladies and Gentlemen, innovation and globalization are new themes for all companies nowadays. China Netcom will continue to make innovation, follow the principle of equality, openness and mutual benefit, and work with all of you to increase communication, exchange and cooperation in all fields. We endeavor to bring China and the rest of the world closer, promote sustained and sound development of China's telecom industry and make renewed and more contributions to our socialist harmonious society.

Last but not least, I wish the conference a complete success!

Thank you.