



## China Telecom Corporation Limited

### Edited Transcript of 2016 Annual Results Investor Presentation

**Speaker: Mr. Yang Jie, Chairman and CEO**

#### **Slide 4: Overview**

Good afternoon, ladies and gentlemen. It's my pleasure to meet you all and introduce the Company's performance.

Today's presentation will be divided into three sections. First, I will talk about the Company's overall performance. This will be followed by President Yang and Mr. Ke Ruiwen to present our business review and financial performance respectively.

#### **Slide 5: Highlights**

These are the highlights of our Company's performance in 2016:

1. Clear strategy with strong execution. Solid service revenue growth and significantly enhanced profitability;
2. Innovative convergence strategy with prominent results. "New Convergence" driving mutual development in services and rapid subscriber expansion;
3. Optimizing CAPEX to enhance return. Declining CAPEX with highly-efficient investments to support our business development;
4. Raise dividend to increase shareholders' return. Creating shareholders' value continuously;
5. Step up transformation to strengthen capabilities. Pioneer in initiating intelligence strategy to forge differentiated competitive edge.

#### **Slide 6: Solid Fundamentals**

With scale expansion in 4G and fibre broadband businesses, our business fundamentals remained solid in 2016;

Operating revenue amounted to 352 billion, increased by 6.4% yoy; Service revenue reached 310 billion, grew 5.6% yoy; EBITDA margin was 30.7%. Net profit was 18 billion. Compared to the adjusted net profit in 2015 of 16 billion, which excludes the one-off tower assets disposal gain, net profit increased by 11.7% yoy.

### **Slide 7: Significantly Enhanced Operation**

With solid development in 2016, operation was enhanced significantly. Net profit achieved double-digit growth, while net profit margin up 0.3pp to 5.8%.

Emerging business revenue continued to be the major growth driver for service revenue, reached 123 billion, representing an increase of 22% yoy, and representing nearly 40% of service revenue, up by 5.2pp yoy.

Free cash flow improved significantly by 13.8 billion.

### **Slide 8: New Convergence Driving Rapid Scale Development**

Leveraging the high quality of our 4G and fibre networks, we maximized our competitive strengths in full-service operation to promote “New Convergence”. Led by our reputation in providing high quality services and products, we continued to enhance user experience. Our “New Convergence” product, which includes our 4G, e-Surfing HD and fibre broadband, has successfully drove mutual development in all businesses, resulting in subscriber scale expansion.

In 2016, we have surpassed our subscriber net addition targets set at the beginning of the year with a net addition of over 17 million in mobile subscribers and a record-breaking 4G net additions of over 63 million subscribers. Mobile subscribers reached 215 million by end 2016, of which 4G subs reached 122 million, 4G penetration was 57%. Net addition in e-Surfing HD (IPTV) subs was close to 21 million for the year. IPTV subscribers reached 61 million, represented half of our wireline broadband subscribers. Net addition of wireline broadband subscribers was more than 10 million, reaching 123 million broadband subscribers by the end of 2016, of which 86% of them are FTTH users, up by 23pp yoy.

At present, the Company is the world’s largest 4G FDD LTE operator, FTTH operator and IPTV operator.

“New Convergence” has effectively become our strong and powerful competitive differentiation edge, further enhancing our market position.

### **Slide 9: Declining CAPEX**

Total CAPEX in 2016 was RMB 97 billion, down 11% yoy.

CAPEX for 2017 is budgeted at 89 billion, of which the share of 4G and fibre broadband is further reduced to 73%. Meanwhile, the Company will continue to increase CAPEX spending in emerging business appropriately.

In 2017, the Company is set to pioneer in building three superior networks, which includes:

First, to build a nationwide 4G network with continuous basic coverage coordinated with multi frequencies (including 800MHz, 1.8GHz and 2.1GHz) and with appropriately allocated and adequate capacity. In 2017, the Company will add 270k 4G BTSs, reaching 1.16 million BTSs by the end of the year;

Second, to build an end-to-end high performance and good quality all-fibre network covering cities, towns and villages;

Third, to build a multi-technologies, high quality Internet-of-Things (IoT) network with wide area coverage, by simultaneously deploying 800MHz & NB-IoT.

#### **Slide 10: Raise Dividend to Increase Shareholders' Return**

Despite a negative free cash flow in 2016, with due regards to capital requirement for future development, profitability and shareholders' return, the Board of Directors recommends an increase in dividend to 10.5 HKcents, up by 10.5%.

The Company will review funding need appropriately to fulfill the capital requirement of long-term sustainable growth.

Strive to enhance future profit while creating shareholders' value continuously

#### **Slide 11: Rise to Challenge for "Speed Upgrade and Tariff Reduction"**

In 2016, the Company rose to the challenge and continued the implementation of "Speed Upgrade and Tariff Reduction", in turn encouraged mobile data usage and bandwidth upgrade among subscribers.

Handset data unit price declined by 38% yoy, boosted handset data traffic and internet access revenue to surge by 130% and 43% yoy respectively. Wireline broadband unit price declined by 50% yoy, driving average access bandwidth and wireline broadband revenue increased by 72% and 3.3% yoy respectively.

Looking ahead, the Company will take further initiatives in the implementation of

“speed upgrade and tariff reduction”, which include:

Accelerate the progress of system upgrade and service grooming to cease domestic long-distance and roaming fee charges for handset users before 1 October 2017;

Reduce the fees of international long-distance calls and significantly reduce the tariff of Internet dedicated line access for SMEs.

The above measures will have certain impact on our business operation.

The Company will proactively advance supply-side reform to promote subscriber migration and information consumption.

### **Slide 12: Market-driven with Reform and Innovation to Stimulate Vitality**

The Company stimulates corporate vitality by adhering to market-oriented reform and innovation. Through professional operation, the Company deepens “sub-dividing performance evaluation units”, improves “top-down service support system” and achieves innovations in technology, management, operation and business model.

With the above efforts, the Company is thoroughly vitalized with significant enhancement in operating efficiency, and is highly recognized. The Company was awarded “Outstanding Enterprise in Technology Innovation” and was selected as the first batch of “State’s Model for Mass Entrepreneurship and Innovation”.

Through market-oriented operation, the Company continues to enhance return.

### **Slide 13: “See 2020”: Focus on “2+5” to Construct Five Ecospheres**

With a focus on our “2+5” key businesses, we take further steps to forge five key service ecospheres namely the Intelligent Connection Service Ecosphere, Smart Family Ecosphere, the Internet Finance Ecosphere, the New ICT Application Ecosphere and the Internet of Things (IoT) Ecosphere, implementing “SEE 2020”.

The Intelligent Connection Service Ecosphere is the fundamental of the five ecosphere, we will continue our effort in promoting the other four ecospheres and these will become the focus of our future business growth. Measures include:

Inject capabilities to customer accounts and channels: Grasping business patterns and customers’ demand to formulate operating system for unified account products; accelerating the development of partnership around applications of the five key



service ecospheres; Expediting promotion of e-channels to build a vertically-integrated and professional sales service system.

Inject intelligence with big data: Consolidate and coordinate internal resources. With the capability of IT centralized platform, inject fundamental e-Surfing Big data and business solution skills into the five ecospheres to meet customer demand for precision connections, intellectual operations and intelligent services, fostering ecological development with innovation.

Inject strengths via cooperation: Strengthen external cooperation. By the formation of comprehensive cooperation mechanism plan with all parties among the ecospheres, we achieved co-existence, innovation and win-win.

#### **Slide 14: Strategy-led to Enhance Development Quality and Return**

Looking ahead, seizing the opportunities from national strategies including Supply-side Reform, Cyberpower, “Internet+”, “Made-in-China 2025”, etc., we navigate with strong strategy-led backed by market-oriented approach, to deepen corporate reform comprehensively and enhance our core competence through promoting innovation in structure & mechanism and management. With our strong execution, we accelerate the promotion in Network Intelligentization, Service Ecologicalization and Operation Intellectualization and further developed our “2+5” key businesses to forge our differentiate edges continuously. This results in continual enhancement in development quality and return, nurturing mutual growth in customers’ value and corporate value, in turn create further value for our Shareholders and allowing us to further contribute to the construction of Cyberpower and economic development for the nation.

I will now pass the time to Mr. Yang Xiaowei to present the business review of our Company.

**Speaker: Mr. Yang Xiaowei, President and COO**

**Slide 15: Business Review**

Thank you Chairman. Good afternoon ladies and gentlemen. I will now go through the business performance of our Company for 2016.

**Slide 16: Revenue Breakdown**

This table shows the revenue breakdown and their respective changes. I will go through them in details.

**Slide 17: 4G Scale Expansion Driving Mobile Revenue Growth**

With the help of our full 4G coverage, enhanced network quality as well as the increased popularity of 6-mode handsets, we achieved rapid scale expansion in our 4G services and accelerated the growth in our mobile service revenue by over 10% yoy, amounted to 138 billion.

4G subscriber market share increased 2pp to 16%. 4G ARPU was RMB72.8 for the year, while mobile ARPU was RMB 55.5, rose 2.6% yoy.

Service capability and handset sales were significantly enhanced. Our mobile online service app users reached 110 million, with average monthly service volume of 1.4bil. China Telecom was rated No. 1 in the industry regarding customer satisfaction among mobile internet access customers in 2016, according to MIIT statistics. 4G international roaming already available in 124 countries & regions, serving 95% of customers' overseas travels with high speed service.

Regarding handset sales, with the 6-mode handsets becoming the national standard at the beginning of the year, currently there are over 370 models of 6-mode handsets available in the market. In 2016, 6-mode handset sales volume amounted to over 80 million, representing about 80% of overall 4G handset sales. The BOM continued to decline. At present, there are about 100 models of 6-mode handsets that support 800MHz LTE, which include local and international brands. It is further projected to have 200 models available in the market by the end of 2017.

**Slide 18: 4G Promoting Prominent Data Volume & Revenue Growth**

Driven by 4G development, handset data traffic and handset internet access revenue both recorded significant growth. In 2016, handset internet access revenue was 68.3 billion, accounting for 50% of overall mobile service revenue, and has become the major growth driver for mobile service revenue.

Handset data traffic grew 1.3x yoy, of which 4G data traffic accounted for 83%, increased significantly by 32pp yoy. 4G DOU was over 1GB, grew by 37% yoy.

The Company continued to deepen data traffic operation. Through the promotion of precision handset upgrade, we accelerated subscriber migration from 3G to 4G leveraging our Big Data and intellectual operations. Share of mid-to-high end handset sales was lifted, with the proportion of above RMB1,000 handset sales accounts for more than 70% of overall handset sales.

Leverage “Website Membership + Dedicated Data” bundling, we accelerated content introduction and product upgrade to further promote data consumption.

#### **Slide 19: Stable Wireline Revenue Growth**

In 2016, wireline service revenue amounted to 172 billion, with accelerated growth of almost 2% yoy. The incremental revenue of 3.3 billion was mostly driven by the increase in Internet access revenue.

We continued to enhance the revenue structure of our wireline service. Share of non-voice revenue has risen, mitigating the risk of declining voice revenue.

#### **Slide 20 : Increasing High Bandwidth Subs Supporting Convergence Development**

In 2016, wireline broadband revenue was 76.8 billion, an increase of 3.3% yoy. Wireline broadband ARPU was RMB 54.2. As at the end of 2016, the average access bandwidth of our subscribers was over 50Mbps.

Leveraging the edge of our intelligent fibre network advantage, we promote 100-Mbps as our mainstream product and Gbps as lead products to raise service standard, setting a new benchmark for the industry. We pioneer in the promotion of 100-Mbps smart fibre broadband products while building Gbps demo in 100 cities to forge differentiation edges. By end 2016, users who subscribed for our 100Mbps and above products accounted for over 25% of our overall broadband user base, increased 15pp yoy.

With the solid foundation of our intelligent fibre network, we introduce four core applications including e-Surfing HD, VPN, family cloud and video call by means of smart home gateway and 4K TV set-top box to promote high bandwidth demand and

develop smart family market. In future, we will further expand connections with devices such as smart appliances, home surveillance and video monitoring.

### **Slide 21: e-Surfing HD, BestPay and IoT: New Breakthroughs**

In 2016, the Company accelerated development in emerging business achieved new breakthroughs in e-Surfing HD, BestPay and Internet of Things (IoT).

Revenue from e-Surfing HD amounted to 4.8 billion, increased by 24% yoy, with subscriber market share in China of 70%.

In terms of BestPay, average monthly active users was over 16 million, actively participating merchants reached 300k, with GMV (Gross Merchandise Volume) over 1,000 billion. By means of full consolidation of both internal and external resources, the Company achieved smart convergence of “Mobile + Payment” and differentiated development to accelerate the building of Internet Finance Ecosphere.

The Company leveraged the edge of NB-IoT and dedicated network of 2G, 3G, 4G to proactively build up core capability for platform, laying foundation for expansion to data and application service. In 2016, IoT connected devices net addition was over 13 million.

### **Slide 22: Cloud / Big Data and Internet+ : Rapid Growth**

IDC/Cloud/Big data and Internet+ development grew rapidly.

The Company has about 400 Internet Data Centre (IDC), over 200k cabinets nationwide, and are interconnected; the Company also has 15 IDCs across 8 cities in 6 countries and regions overseas.

For our cloud business, the Company launched e-Surfing Cloud 3.0 service, and fully exploited the cloud-network integration & efficiently-centralized management, enhancing customization via resource strength.

Leveraging cloud computing and big data capabilities, the Company accelerate development to focus on government administration, education, healthcare and etc.. We launched “Internet+” open platform to consolidate excellent social resource. We also published “Internet+” Action White Paper 2016 to promote Top 10 actions. The Company proactively commenced “Internet+” strategy cooperation by signing agreements with 14 provincial government and 2 sub-provincial cities.

Accelerated the expansion in Government Administration Cloud with coverage over 100 cities; For “Internet+” education, established resource sharing centre to leverage Hundred-Mbps upgrade for applications, with projects net add over 200; For “Internet+” healthcare, relying on cloud-network integration and medication image cloud as the entry point to continuously develop healthcare cloud and cloud-hospitals, with medication image cloud net add of over 500 hospitals.

### **Slide 23: Open Cooperation for Win-win**

Proactively advance open cooperation to achieve win-win.

As at end-2016, the Company leased around 610k towers from the Tower Company, increased by 110k for the year. Sharing ratio of the newly leased towers was above 90% while the overall sharing ratio of all leased tower was around 66%.

The Company jointly promoted industry development with China Unicom, successfully promoting 6-mode all-frequencies compatible handsets to become national standard. Jointly announced “Broadband Services White Paper” and “4K TV Smart Set-top Box (STB) White Paper.

We cooperated in network co-build and sharing for CAPEX and cost saving: in terms of mobile network, we formulated projects for sharing of about 70k 4G BTS; for Transmission network, we have formulated projects for sharing of around 16,000km transmission fibre cables.

At the same time, the Company actively promoted multi sectors cooperation. Relying on IoT open laboratory and e-Surfing IoT Industry Alliance, we launched business cooperation extensively and actively explored cooperation in capital investment to promote ecological prosperity.

### **Slide 24: Pioneer in Initiating Step-up Transformation**

To embrace Intelligence Era, the Company took the initiative driven by reform and innovation, pioneer in the commencement of step-up transformation with an aim to be a leading integrated intelligent information service provider.

Guided by CTNet2025, we promote network reconstitution; We also actively participate in the formulation of 5G standard and deploy outdoor trial; Last year we established the laboratory for the testing of 5G technology, at the same time we have already commenced outdoor trials in Guangdong province. Overlooked by “SEE2020”, we promote service reconstitution; Supported by “Corporate Core”, we promote operation & management reconstitution.

By step-up transformation, the Company further optimize network structure, business system and management platform, as a result promoting service ecosphere; by Corporate Core operation and management system with big data as the foundation, achieve precision operation to enhance efficiency.

**Slide 25: Operation Intellectualization Driving Core Capability New Breakthroughs**

“Corporate Core” as the centre of Operation Intellectualization to manage and develop “data”, which is the corporate core asset.

By centralized processing of network data to formulate big data capabilities at corporate level, from raw data to wisdom with predictability, we inject intelligence into sales & marketing, network operation and corporate management, fully enhancing sales & marketing service and management decision capability, achieving precisions in investment, management, sales & marketing, services and network operation. Inject intelligence for the ecosphere.

Now, may I pass the time to Mr. Ke Ruiwen to present the financial performance of our Company.

**Speaker: Mr. Ke Ruiwen, Executive Vice President**

**Slide 26: Financial Performance**

Thank you President. Good afternoon ladies and gentlemen. May I now present you the financial performance of our Company for 2016.

**Slide 27: Key Financial Information**

In 2016, operating expenses amount to 325 billion, an increase of 6.7% yoy.

Benefitting from the decline in CAPEX, free cash flow position has been significantly improved by 13.8 billion.

The increase in operating expenses was mainly caused by the rise in network operation expense as a result of the incremental tower lease fees and related charges, as well as the increase in sales and marketing expenses.

I will go through them in details later.

**Slide 28: Optimizing Resource Allocation Supporting Business Development**

With moderate cost control in mind, the Company optimized resources allocation to support scale development of our business.

In 2016, operating expenses as a % of operating revenue was 92%, rose 0.3pp yoy. Of which:

- Depreciation and amortization expenses stayed flat, mainly due to the increase from higher CAPEX being offset by the decrease from tower assets disposal;
- Network operations & support expenses accounted for 27% of operating revenue, up 2.2pp yoy, mainly caused by the incremental tower lease and related fee. Excluding this, network operations & support expenses have been under good control.
- SG&A accounted for 16% of operating revenue, of which selling expenses increased 4.1% yoy, mainly due to appropriate increase in channel sales.
- Cost of terminals sold & others accounted for 11.5% of operating revenue, up by 0.4pp yoy, mainly due to increase in sales of 6-mode handsets.

### **Slide 29: Precision Investment Enhancing Network Edge**

In 2016, CAPEX continued to tilt towards rapidly expanding 4G & fibre broadband businesses, optimizing CAPEX structure and achieving precision investment to consolidate our network edge and support business growth.

As a result of the 800MHz reform, mobile network spending as a % of total CAPEX declined 4.4 yoy. As at end 2016, 4G BTSs reached 890k, an increase of 380k in the year, representing an extra of 90k versus our plan at the beginning of the year. The Company's 4G network coverage reached 95% of population, with 4G+ deployment completed in all cities nationwide.

Share of Broadband & Internet increased 3.6pp yoy. In response to the strong market demand for high bandwidth access, the Company advanced investment in broadband network appropriately to maintain our network and service edges.

To get prepared for future development, the Company increased appropriately the investment in five ecospheres to support and lay network foundation supporting business development. As a result, Information & Application Services as a % of total CAPEX increased 1.8pp yoy.

### **Slide 30: Healthy Financial Strength**

As at end 2016, total debt to total capitalization was 26.3%, down 1.4pp from end 2015. Net debt to EBITDA was 0.89 times.

The Company continued to maintain healthy financial strength and optimized capital structure to support sustainability development.

### **Slide 31: Integrating Intellectual Operation in Financial Value Management**

The Company will further promote integration of intelligent operation with financial value management.

In terms of resource allocation, we dynamically matched and fully exploited resources;

We applied product profitability model and automatic closed-loop management of ICT project to enhance business value;

Established asset categorization model to achieve precision investment and identify assets with low efficiency in order to extract asset value;



With the connection of Big Data and operation system, we strengthen analysis and model building by means of data analysis and application, injecting wisdom in our financial operation to enhance corporate value.

This concludes our presentation of today. Thank you!

### **Forward-Looking Statements**

Certain statements contained in this document may be viewed as “forward-looking statements” within the meaning of Section 27A of the U.S. Securities Act of 1933 (as amended) and Section 21E of the U.S. Securities Exchange Act of 1934 (as amended). Such forward-looking statements are subject to known and unknown risks, uncertainties and other factors, which may cause the actual performance, financial condition or results of operations of China Telecom Corporation Limited (the “Company”) to be materially different from any future performance, financial condition or results of operations implied by such forward-looking statements. In addition, we do not intend to update these forward-looking statements. Further information regarding these risks, uncertainties and other factors is included in the Company’s most recent Annual Report on Form 20-F filed with the U.S. Securities and Exchange Commission (the “SEC”) and in the Company’s other filings with the SEC.

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