

**Edited Transcript of 2016 Interim Results**  
**Investor Presentation**

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

**Slide 4: Overview**

Good afternoon, ladies and gentlemen. I am very pleased to meet you all and to 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 who will present our business review and financial performance respectively.

**Slide 5: Highlights**

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

1. Achieved scale development in our two fundamental businesses: - 4G and Fibre Broadband, driving stable revenue growth.
2. The Company continued to enhance network quality. Leveraging "New Convergence" edges, our competitiveness has been strengthened.
3. Deepened promotion of open cooperation and resources sharing to enhance operations efficiency and return continuously.
4. Timely react to the approaching Intelligence Era, the Company commenced the layout of strategic transformation comprehensively.

**Slide 6: Solid Fundamentals**

With the scale development of our 4G and fibre broadband businesses, our business fundamentals remained solid in the first half of 2016;

Operating revenue amounted to RMB176.8 billion, increased by 7.2% yoy; Service revenue reached RMB155.2 billion, increased by 5.6% yoy. EBITDA margin was 32.6%. Net profit reached RMB11.7 billion, increased by 6.3% yoy.

### **Slide 7: Emerging Business Driving Stable Service Revenue Growth**

Upholding clear strategic direction together with our strong execution, the Company responded to the dynamic business environment effectively. Service revenue achieved stable growth of 5.6% yoy; as shown in this graph, our operating revenue has been growing continuously for the past halves.

Revenue from emerging businesses continued to be the major growth driver for service revenue. Revenue from emerging businesses grew by nearly 22% yoy, amounted to over RMB60 billion for the first half, which represented 39% of service revenue, up by 5pp yoy.

### **Slide 8: Two Fundamental Businesses Supporting Scale Development**

In the first half of 2016, 4G and fibre broadband businesses grew rapidly, which drove scale development in both mobile and broadband subscribers.

As at end of June 2016, mobile subscribers reached 207 million, of which 4G users reached 90 million, accounted for about 44%. Wireline broadband subscribers reached 118 million, of which FTTH users reached 88 million, accounted for 75%.

Net add of 4G users for the period was over 31 million, which grew by 45% yoy. Net add of mobile subscribers was over 9 million, 55% growth yoy. FTTH users net add was over 17 million, grew by 55% yoy. Wireline broadband subscribers net add of over 4.9 million, grew by 89% yoy, which further affirmed market leadership of the Company in the wireline broadband service market.

### **Slide 9: Speedy Enhancing 4G Coverage Continuously Strengthening Fibre Edges**

Full year CAPEX budget remained at RMB97 billion, down by 11% from 2015 and remained the same as we planned for at the beginning of the year. CAPEX for the first half was 40.7 billion. Without adjusting the full year CAPEX budget, the Company planned to add an extra of 50k 4G BTSs this year. Total addition of new 4G BTSs for the year is increased to 340k, reaching 850k 4G BTSs by the end of 2016.

In the second half of the year, the Company will commence 800MHz refarm in rural area, with a target to achieve refarming the entire network in 2017. The Company is planned to commence VoLTE deployment and target to conduct commercial trial for VoLTE in 2017. 800MHz refarm shall lay good network foundation for both VoLTE and NB-IoT concurrently.

The Company will accelerate fibre network coverage precisely and promote end-to-end speed upgrade. It is targeted to achieve fibre network basic coverage in all cities to further strengthen our wireline and wireless edges.

### **Slide 10: “New convergence” Shapes New Edges Driving Data and Revenue Growth**

Relaying on our 4G and fibre network quality, we fully exploit our competitive strengths in full-service operation to promote “New Convergence”. Providing high quality services and products, we continued to enhance user experience. With “New Convergence” in 4G, fibre broadband and e-Surfing HD, the respective services interacted positively and resulted in scale development and value enhancement.

In the first half, there were over 50% of our mobile subscribers who are using our “New Convergence” services. Y-o-y growth of Handset Data Traffic led the industry at 135%, ranked first among the industry, driving handset Internet access revenue to increase by 42% yoy.

E-Surfing HD subscribers accounted for 43% of our wireline broadband subscribers in first half, increased by 10pp yoy. Average access bandwidth of our broadband users was 37Mbps, doubled that for the same period last year, driving wireline broadband revenue to increase by 3.3%.

“New Convergence”, namely 4G, fibre broadband and e-Surfing HD, has effectively become our new competitive edge.

### **Slide 11: Open Corporation Achieving Win-win**

The Company took the initiative in innovation of development model, extensively consolidated competitive resources to result in a win-win outcome.

As at the end of June, the Company leased around 550k towers from the Tower Company. Sharing ratio for the newly leased towers was above 80% while the overall sharing ratio of all leased towers was around 55%. The increase in tower sharing ratio benefits the Company with a more rapid and efficient 4G network rollout, which enhances the time-to-market of our 4G network rollout with a lower CAPEX.

The Company deepened the market-driven cooperation with China Unicom to enhance investment efficiency. In terms of mobile network, we formulated projects for sharing of about 60k 4G BTS, of which some had been completed in the first half of the year while the rest will be implemented in the remaining of 2016. For transmission network, we have formulated projects for sharing of around 14,500km transmission fibre cables.

In addition, the Company also proactively commenced strategic cooperation with local governments and leading corporations to achieve win-win.

### **Slide 12: Step Up Transformation to Embrace Intelligence Era**

With the advancement in telecommunication technology, as well as the increasing in user demand for network experience, we are about to enter the Intelligence Era. There are profound changes to the whole industry's development trends in terms of business, network and operations. Following the transformation to Intelligence Era, we strive to provide consumers with intelligent service and experience in four aspects: flexible connection, cognitive computing, natural conversation and intelligent information, which are collectively named as "3C+D=I".

According to analysis from advisory organizations, the Intelligent Service market in China shall grow from RMB2.1 trillion from 2015 to RMB6.4 trillion in 2020, representing a CAGR of 25%. The market growth brought about by the intelligence era is significant to telecom service operators and presents great potentials.

### **Slide 13: A New Leap A New Goal**

In the past 10 years, the Company has gone through two times of strategic transformation to grasp the prevailing trends of the "Internet Era" and "Mobile Internet Era". We positioned ourselves to adapt to the latest development trends and resulted in rapid promotion of the overall corporate development of our Company.

With the approaching Intelligence Era, the Company fully commenced corporate transformation, which focuses on the promotion of "Network Intelligentization, Service Ecologicalization, and Operation Intellectualization", to build the digital ecosphere and position the Company as a Leading Integrated Intelligent Information Service Provider.

### **Slide 14: Network Intelligentization: CTNet2025 Promotes Network Reconstitution**

"Network Intelligentization" is the foundation of this Transformation 3.0. Driven by CTNet2025, through the introduction of SDN/NFV/Cloud, we promote network reconstitution to deepen open-source technology application, to shorten the development cycle of network-based new businesses, as well as overcoming short-comings from low automation and incompatibility, to build a new network featuring simplified structure, efficiently-centralized, prompt responsive and open. Through this strategy, we offer consumers with a fresh network experience that is visible, self-selective and self-served. Meanwhile, we could significantly lower the Company's CAPEX and operating expenses. As such transformation is expected to take time, this is a plan laid down for 10 years.

### **Slide 15: Service Ecologicalization: “2+5” Promotes Service Reconstitution**

Service Ecologicalization is the core of this transformation. The Company will further emphasize the key operating focus, “2+5”. Through open cooperation, convergence and innovations to promote service reconstitution.

“2” refers to 4G and fibra broadband, our two fundamental businesses. These 2 fundamental businesses form the basic ecosphere among the five ecospheres: the “Intelligent Connection Service” ecosphere. “5” refers to the emerging areas that we are promoting with focus, including E-Surfing HD, BestPay, Internet of Things, Cloud & Big Data, and “Internet +”. “2+5” sets out the fundamental of our service ecologicalization.

### **Slide 16: Operation Intellectualization: “6” Core Capabilities Promote Operation & Management Reconstitution**

With the application of Big Data, we plan to strengthen our “6” core capabilities in network fundamental, network operations, data operation, channel sales, customer service and talent development to promote operation & management reconstitution, to achieve intellectual operation under the new transformation.

The core for operation reconstitution is the application of Big Data and centralized support service. At the same time, we promote management reconstitution to facilitate business innovations and start-up, to build a highly-efficient, synchronized and adaptive ecosystem.

This sets the overview of our Company’s development and strategy. Now I will pass the time to Mr. Yang Xiaowei who will talk about our business review for the first half.

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

**Slide 17: Business Review**

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

**Slide 18: Revenue Breakdown**

This table shows the revenue breakdown and their changes.

I will go through them in details.

**Slide 19: 4G Driving Mobile Subscriber Scale and Quality**

With the continuous enhancement in 4G network coverage and quality, together with the availability of terminal variety, 4G business achieved rapid scale development, and fueled our mobile service revenue growth effectively. Mobile service revenue reached RMB67.5 billion, grew by 8.3% yoy.

Mobile subscriber market share increased to nearly 16%. 4G terminal users reached to over 90 million. 4G ARPU was RMB75.5, which drove mobile blended ARPU to RMB55.6.

In the first half of 2016, the Company achieved deployment of 4G+ network in all cities. Our 4G network coverage is comparable to major competitors in the city areas, with leading customer satisfaction in handset Internet access experience. Our handset Internet access speed is significantly superior to our competitors.

There are over 400 models of 4G terminals available in the market, with sales volume of more than 44 million, accounting for 87% of total terminal sales, increased by 17pp yoy. Of which, six-mode handsets models availability increased to over 200 models, with sales volume of more than 28 million.

### **Slide 20: Prominent Data Operation**

Prominent data operation. In the first half, handset Internet access revenue was RMB31.9 billion, significantly grew by 42% yoy. Handset Internet access revenue as a percentage of mobile service revenue continued to increase, reaching 47% and has become the major growth driver of mobile service revenue.

Aggregate handset data traffic amounted to nearly 500kTB, achieved industry-leading yoy growth of 1.35 times. Of which 4G data traffic as a percentage of total handset data traffic was 76%, 4G DOU reaching 890MB.

The company proactively promotes the New Convergence edge of “4G, Fibre Broadband and IPTV”, with the three services driving mutual development. By launching innovative “All-charge-as-data” billing model, we strengthen cooperation with mainstream video content partners to promote dedicate data products, which effectively drove the growth in both scale and value of 4G users.

### **Slide 21: Broadband Upgrade Strengthening Competitiveness**

In the first half, Wireline service revenue reached RMB87.7 billion, yoy growth of 3.6%. Of which Wireline Broadband Revenue amounted to RMB38.8 billion, Wireline Broadband ARPU was RMB55.9.

Leveraging first-mover advantage in establishing our strong fibre network, we promoted “Gbps as demo and Hundred-Mpbs as mainstream”, focused on 50/100Mbps high-speed products to further consolidate our competitive edges.

As at end of June 2016, Hundred-Mbps subscribers reached to over 40 million, increased by more than double compared to June 2015. Hundred-Mbps subscribers accounted for more than 34% of our wireline broadband subscribers. We offer superior network quality and industry-leading user experience to our customers.

### **Slide 22: Accelerating Development of Five Emerging Areas**

The development of the Five Emerging Areas of our businesses continued to accelerate. E-Surfing HD subscriber scale grew to over 50 million, a net add of 10 million for the period, which grew by 1.3 times as compared to the same period last year.

The transaction amount of BestPay was close to RMB380 billion. BestPay positioned the second in third-party ranking of mobile payment industry apps.

IDC/Cloud/Big Data accelerated growth in terms of operations, product portfolio, scale development and revenue driver. We have about 400 IDCs nationwide. Our IDC scale ranked Asia's first in terms of both number and total area.

IoT subscribers increased by 3 times compared to June 2015; our nationwide benchmarking projects reached to over 100 projects, driven by application.

### **Slide 23: Comprehensive and In-depth Innovations in Structure and Mechanism**

The Company persisted in innovations in structure and mechanism. We deepened "sub-dividing" performance evaluation units and further improved "top-down" service support system to promote enhancement of management system and procedures.

We formulate "Internet+" talent program to re-nurture competency for transformation.

The Company has become the first batch of the state's model in mass entrepreneurship and innovation, which helps further lift our corporate vitality and unlock potential.

### **Slide 24: Strengthen Execution for Strategic Transformation**

With the approaching Intelligence Era, we timely reacted to market trends with enhanced core competence to layout Transformation 3.0 as a clear corporate strategy to become the leading Integrated Intelligent Information Service Provider.

We comprehensively implemented in-depth reform and innovation and our transformation was well in place. Riding on consistent execution capability, we further strengthen our core competence to lay a good foundation for the Intelligence Era, achieving sustainable growth in corporate value.

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



**Speaker: Mr. Ke Rui Wen, Executive Vice President**

**Slide 25: Financial Preformation**

Thank you President Yang. Good afternoon Ladies and Gentlemen. Let me now present you the financial performance of our Company in the first half of 2016.

**Slide 26: Key Financial Information**

In the first half of 2016, operating expenses were RMB159.7 billion, grew by 8.1% yoy; free cash flow was RMB6.1 billion.

The increase in operating expenses was mainly due to the rise in network operation expense as a result of the tower leasing fee, as well as the increase in sales and marketing expenses.

I will go through them in details.

**Slide 27: Optimized Cost Structure to Support Scale Development**

With moderate cost control in mind, the Company optimized resources deployments to promote business development.

In the first half of 2016, operating expenses as a percentage of operating revenue was 90%, up 0.7pp yoy. Of which:

The amount of “Depreciation and Amortization” slightly decreased yoy, mainly due to the increase from higher CAPEX being offset by the decrease from tower asset disposal.

Network operations & support expenses accounted for 25% of operating revenue, up 2.3pp yoy, mainly due to tower leasing fee. Excluding this, network operations & support expenses have been under good control.

SG&A accounted for 15% of operating revenue, up slightly yoy, mainly due to appropriate increase in sales and marketing expenses to support business scale expansion, which was in line with subscriber growth.

### **Slide 28: Stringent CAPEX Control Tilted towards High Growth Areas**

In 1H2016, the Company's CAPEX continued to tilt towards high-growth businesses including mobile and fibre broadband to improve our network advantages and investment efficiency.

In 1H2016, investments in 4G network were RMB19.2 billion. Total 4G base stations reached 610k as at end of June 2016, achieving full 4G basic coverage for populations in cities and village/county/town areas. Investment in fibre broadband was RMB15 billion, FTTH home pass coverage was 88% in cities.

### **Slide 29: Healthy Financial Strength**

As at end of June 2016, total debt to total capitalization was 25.6%, compared to 27.7% as at the end December 2015. Net Debt to EBITDA ratio was 0.72 times for the six-months ended June 2016, compared to 0.87 times for the year 2015.

The Company continued to maintain healthy financial strength and optimize capital structure to support sustainable development.

### **Slide 30: Tower Sharing to Enhance Long-term Value**

The Company took the initiative to liaise with Tower Company on the tower lease arrangement and finalized the lease agreement with TowerCo which effectively lowered the tower leasing fee. In the first half of 2016, tower leasing fee was RMB6.9 billion under the finalized leasing arrangement, with full year budget of no more than RMB16 billion.

The Company leveraged the sharing of tower resources to enhance our 4G network and investment return. Though the tower leasing fee is currently at 10% higher than the cost of self-owned & operated, which compressed our EBITDA, unit leasing fee should be reduced progressively as the sharing ratio increases over time. In the longer term, with the scale development of the Tower Company's business, profitability of the Tower Company is expected to improve and our Company will be benefitted from the enhancement in earnings and corporate value of TowerCo.

### **Slide 31: Strengthen Value Management**

Looking ahead, the Company will take a further step to strengthen value management. The key measures include:

1. Further enhancing “4-in-1” management system – planning, budgeting, resources allocation and performance evaluation
2. Enhancing financial capability platform
3. Evaluating performance and return to enhance value
4. Enhancing financial risk management by strengthening internal control
5. Achieving precision investments to lower project costs and strengthen asset utilization

Through these measures, the Company strives to fully excel financial management to support corporate strategic transformation and promote healthy & sustainable development.

This concludes our presentation. 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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