



2006 Annual Results

China Telecom Corporation Limited
www.chinatelecom-h.com

26 March 2007

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. 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.

Mr. Wang Xiaochu Chairman & CEO

Mr. Leng Rongquan Executive Director, President & COO

Madam Wu Andi Executive Director, EVP & CFO



Overview

Business Review

Financial Performance

O Overview

Solid Results Amid Intensifying Competition

Continuous growth in revenue and net profit

Strategic Transformation Gaining Momentum

Non-voice business growing fast and consolidating voice business via integrated development

Effective CAPEX Control

Ensuring investment return and sustainable business growth

Strong Free Cash Flow

Supportive of long term corporate development and enhancing shareholders' return

Solid Results

(Excl. Connection Fees)



Continuous growth in subscribers, revenue and net profit

	2005	2006	Growth
Access Lines in Service (Mil)	210.09	223.04	6.2%
Broadband Subs (Mil)	21.02	28.32	34.7%
Operating Revenue (RMB Mil)	162,529	170,122	4.7%
EBITDA (RMB Mil)	81,825	84,911	3.8%
EBITDA Margin	50.3%	49.9%	-0.4pp
Net Profit* (RMB Mil)	21,131	22,171	4.9%
EPS (RMB)	0.261	0.274	4.9%
Free Cash Flow** (RMB Mil)	21,801	29,072	33.4%

Note: * Net profit used hereinafter represents profit attributable to equity holders of the company

** Free Cash Flow = EBITDA (Excl. connection fees) – CAPEX – Income Tax

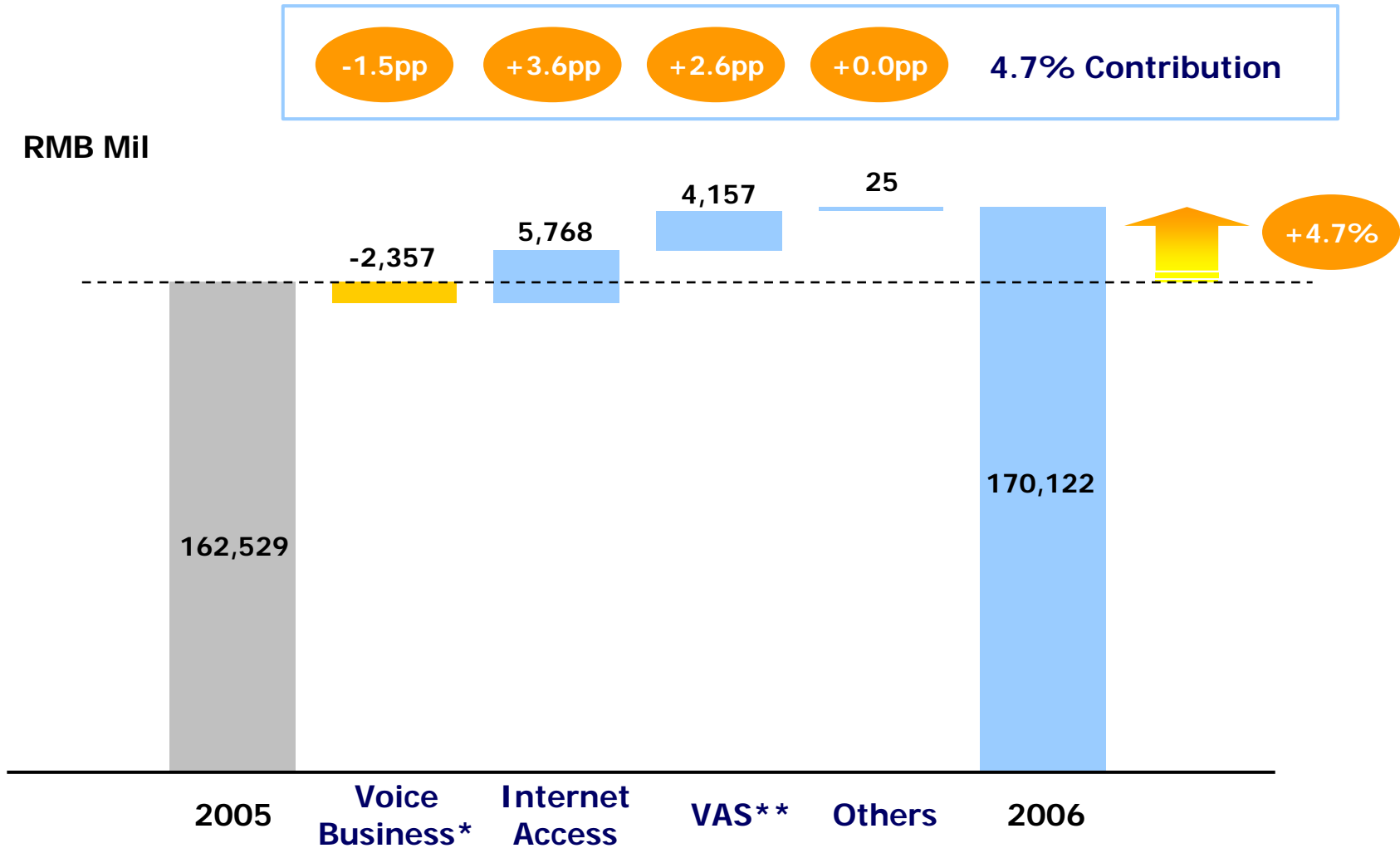
Unless otherwise stated, all financial data used hereinafter exclude upfront connection fees

IFRS-based Results (Incl. Connection Fees)



	2005	2006
Operating Revenue (RMB Mil)	169,310	175,093
EBITDA (RMB Mil)	88,606	89,882
EBITDA Margin	52.3%	51.3%
Net Profit (RMB Mil)	27,912	27,142
EPS (RMB)	0.345	0.335

Revenue Growth Drivers

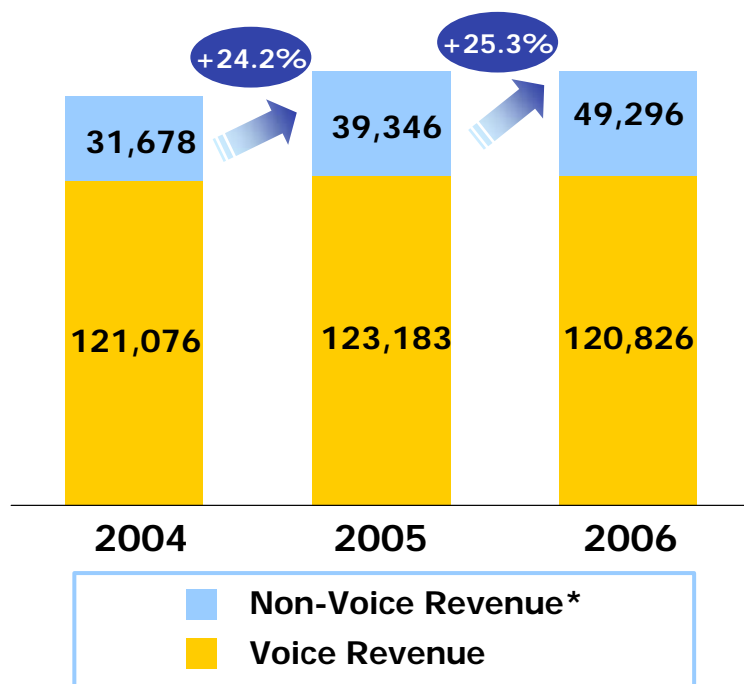


Note: * Voice Business Revenue includes Monthly Fees, Local Usage Fees, Upfront Installation Fees, DLD/ILD and Interconnection Revenue
 ** VAS includes fixed line VAS, such as Caller ID, Telephone Information Services, SMS, Color Ring Tone, etc., and Integrated Information Services, such as Internet VAS, Best Tone, Informatization Application and IT services & applications

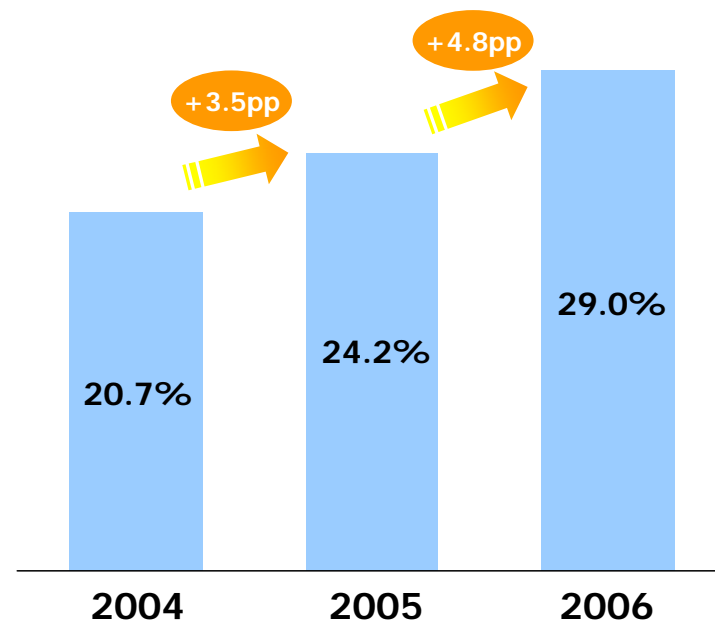
Strategic Transformation Gaining Momentum

Robust Non-Voice Revenue* Growth

RMB Mil



Non-Voice Revenue as a % of Operating Revenue



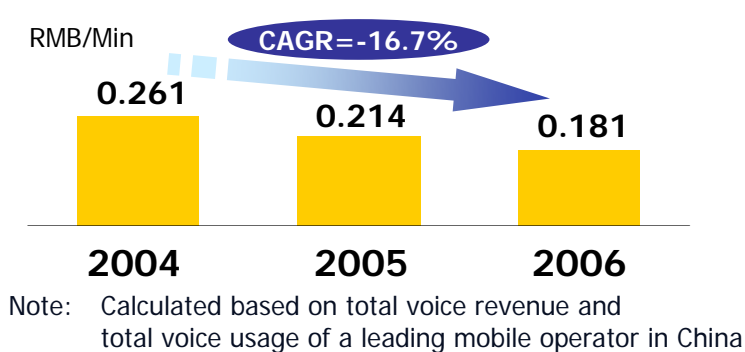
Note: * Non-Voice revenue includes revenue from Internet access, VAS, managed data, leased line and others

- 🔑 Promoting revenue growth
- 🔑 Increasing customers' "stickiness"
- 🔑 Seizing the competitive advantage for future information services operations

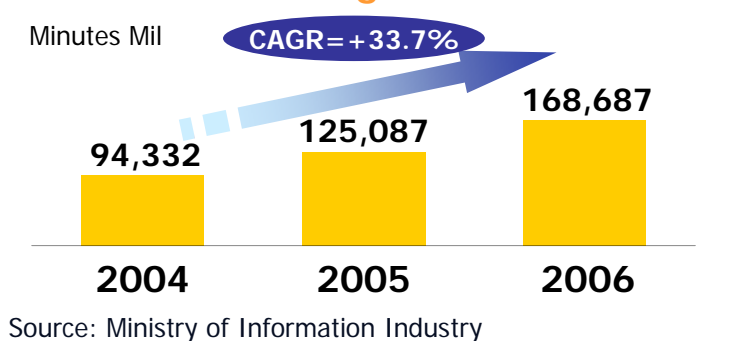
Rising Challenges to Voice Business

Intensifying Competition

Effective Mobile Voice Tariff

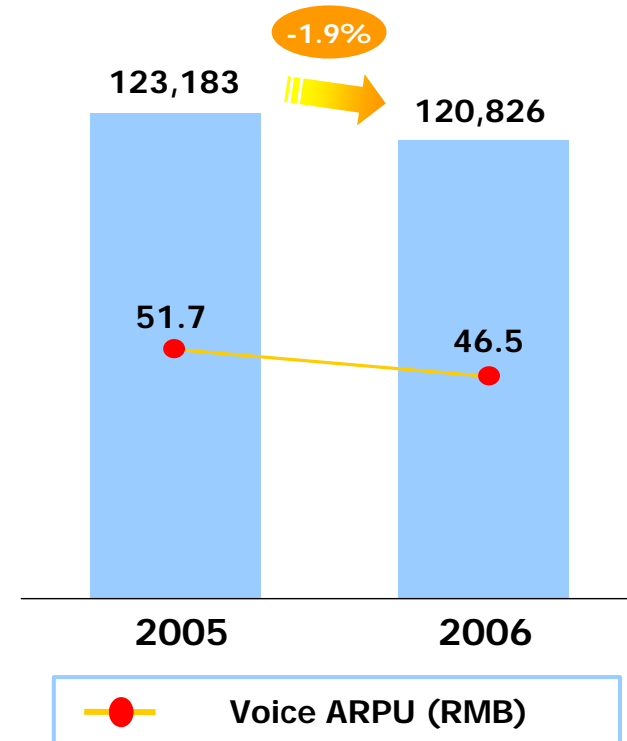


Mobile Usage in China



CT's Voice Revenue

RMB Mil

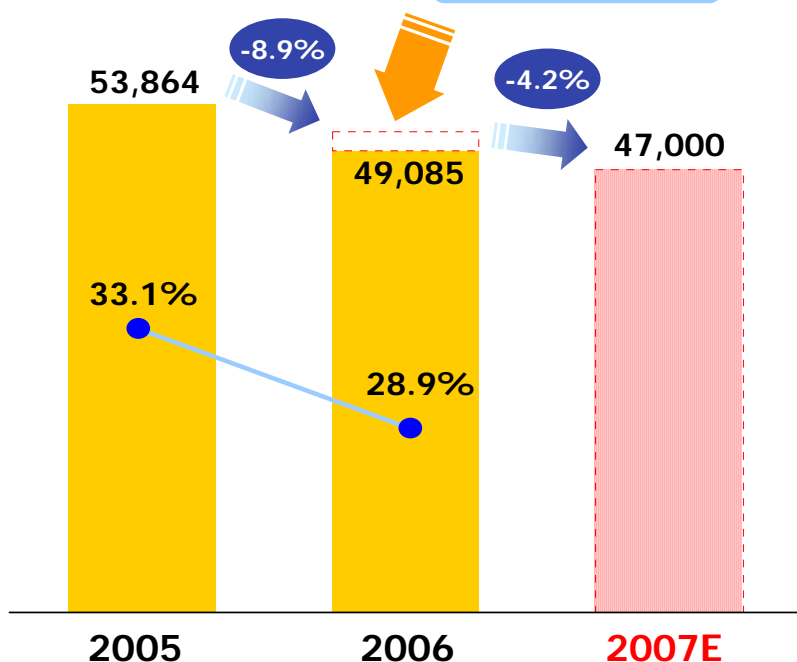


Actively promote integrated development of transformation and voice businesses to consolidate the fundamentals of voice business

CAPEX

RMB Mil

vs. 2006E
saving of
RMB1.915 bil

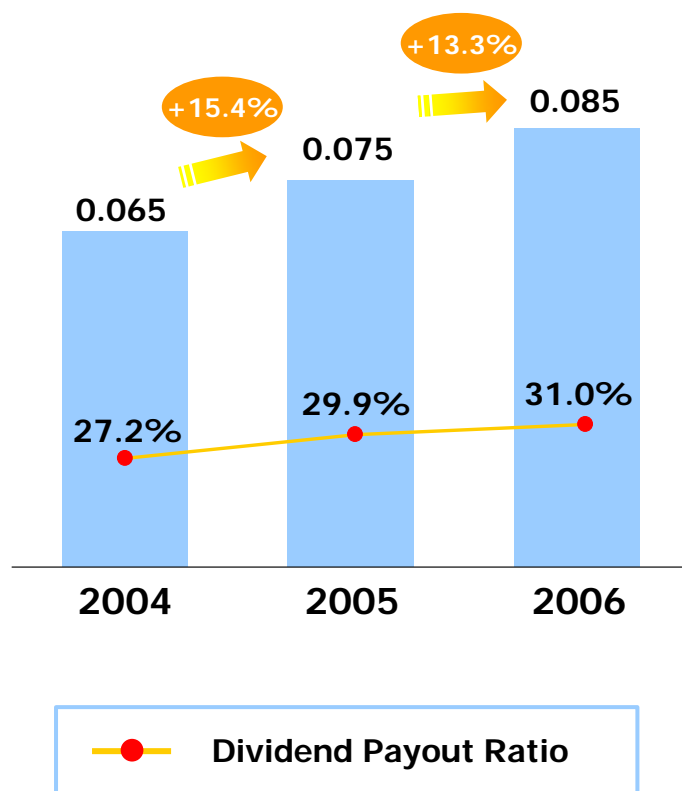


● CAPEX as a % of Operating Revenue

- ☛ Continuous CAPEX reduction to save for future investment opportunities for growth, actual 2006 CAPEX 8.9% lower than 2005
- ☛ Stringent control on CAPEX with resources allocation skewed towards high return and transformation businesses
- ☛ CAPEX budget for 2007 further reduced to RMB47 bil, 4.2% lower than 2006, to ensure investment return

Dividend Per Share

HKD



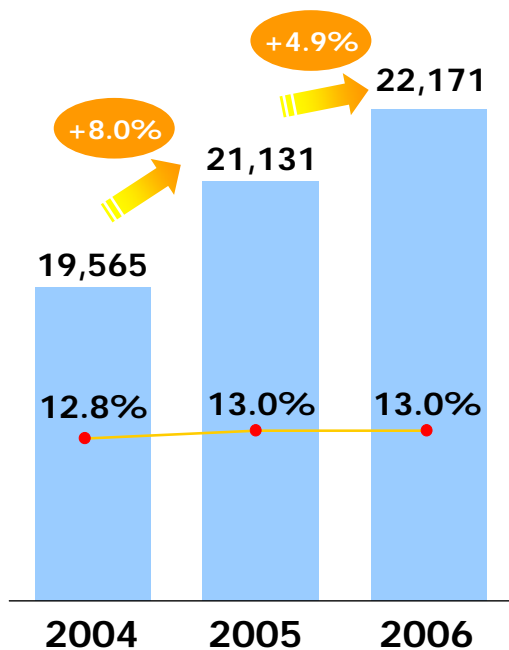
The Board of Directors recommended a final dividend of HKD0.085 per share for 2006, an increase of 13.3%

- ☛ High regards for shareholders' interest and demand for cash return
- ☛ Proper balance between company's future investment needs and shareholders' cash return requirement
- ☛ Upon having clarity of regulatory policies on issues like mobile business, the Board will proactively review the dividend policy

Robust Financial Performance Driven by Transformation

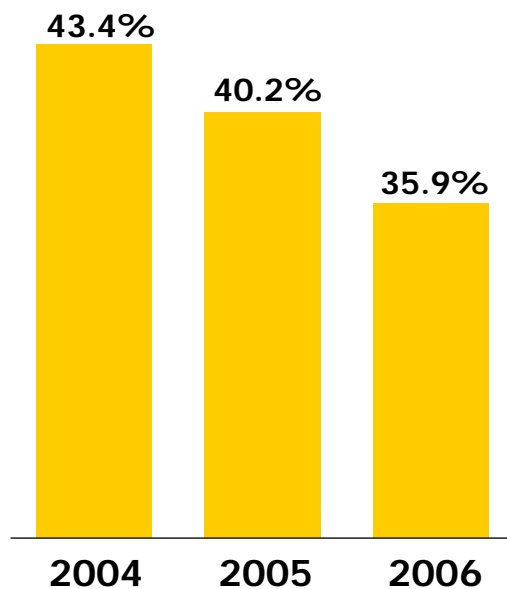
Net Profit

RMB Mil



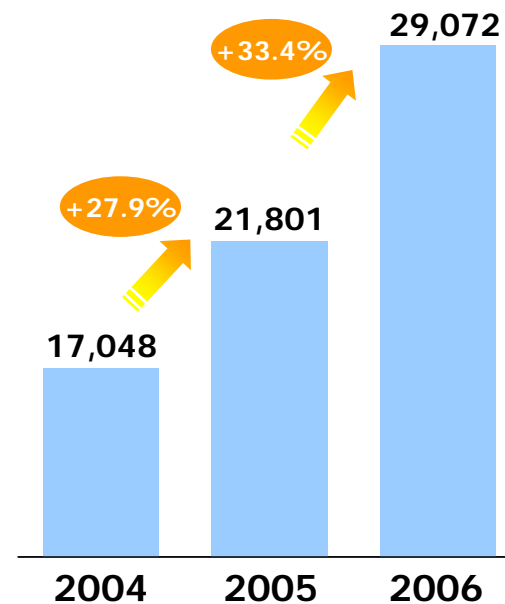
● Net Profit Margin

Total Debt/ Total Capitalization



Free Cash Flow

RMB Mil





- 1** Strengthen development of transformation business to enhance revenue growth and consolidate voice business via integrated development
- 2** Innovate new products and services; strengthen customer brand-oriented operation to enhance customers' perception and product value
- 3** Further reduce CAPEX while optimizing CAPEX structure to upgrade network's capabilities on providing integrated and differentiated services
- 4** Enhance operating efficiency and free cash flow through value management
- 5** Actively apply for full services offering (Triple-play) while proactively making preparation by strengthening talents pool, financial position, network capabilities and branding system

 Foster sustainable development and proactively prepare for future comprehensive services convergence offering

B Business Review

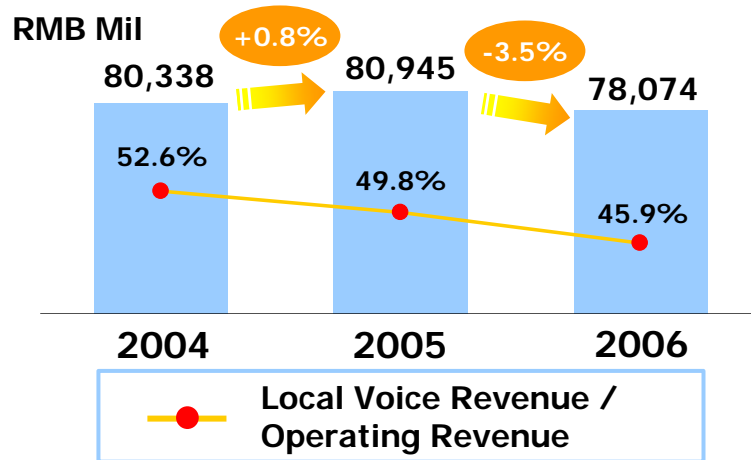
Revenue Breakdown



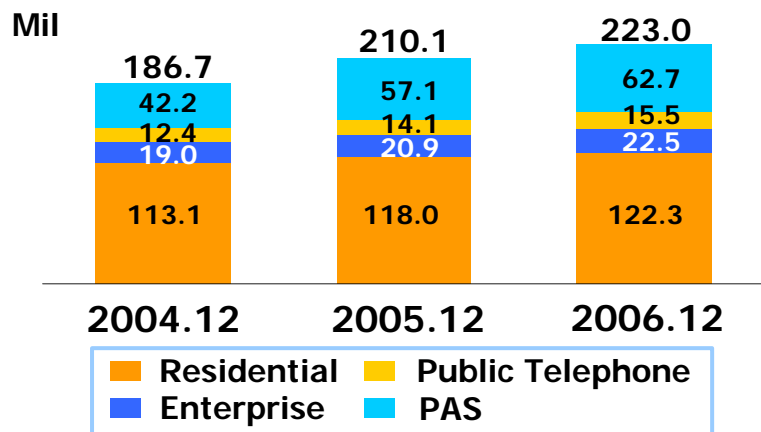
	2005 (RMB Mil)	2006 (RMB Mil)	Growth	Share of Operating Revenue
Local Voice				
Upfront Installation Fees	2,970	2,913	-1.9%	1.7%
Monthly Fees	30,351	28,973	-4.5%	17.1%
Local Usage Fees	47,624	46,188	-3.0%	27.1%
	80,945	78,074	-3.5%	45.9%
Long Distance	29,400	28,657	-2.5%	16.8%
Interconnections	12,838	14,095	9.8%	8.3%
Internet Access	17,862	23,630	32.3%	13.9%
VAS	9,976	14,133	41.7%	8.3%
Managed Data, Leased Line & Others	11,508	11,533	0.2%	6.8%
Total	162,529	170,122	4.7%	100%

Strive to Consolidate Local Voice Business

Local Voice Revenue



Access Lines in Service



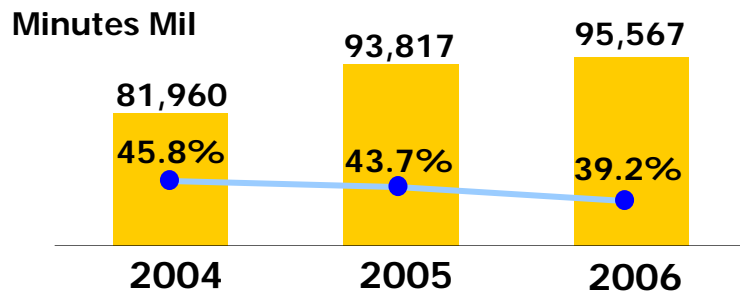
Major Initiatives

- ☛ Avoid direct price competition and promote customized packages with differentiation on areas, customer segments and businesses
- ☛ Offer "Voice + Internet Access" packages to enhance customers' stickiness
- ☛ Develop VAS like Color Ring Tone and Best Tone to enhance wireline usage value
- ☛ Innovate intelligent network based services like Super Cordless* & Smart Cordless**, converging fixed line telephony and PAS service for synergy
- ☛ Promote informatization to stimulate wireline usage

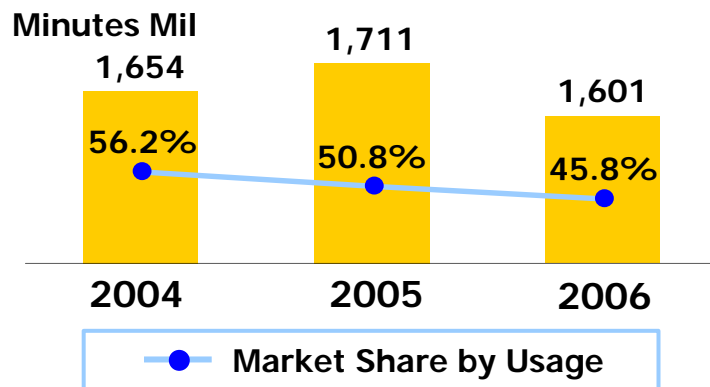
Note: * Super Cordless - fixed line and PAS share the same number, while both can ring simultaneously or consecutively;
 ** Smart Cordless - PAS as fixed line secondary handset while indoors

Stabilize Long Distance Business

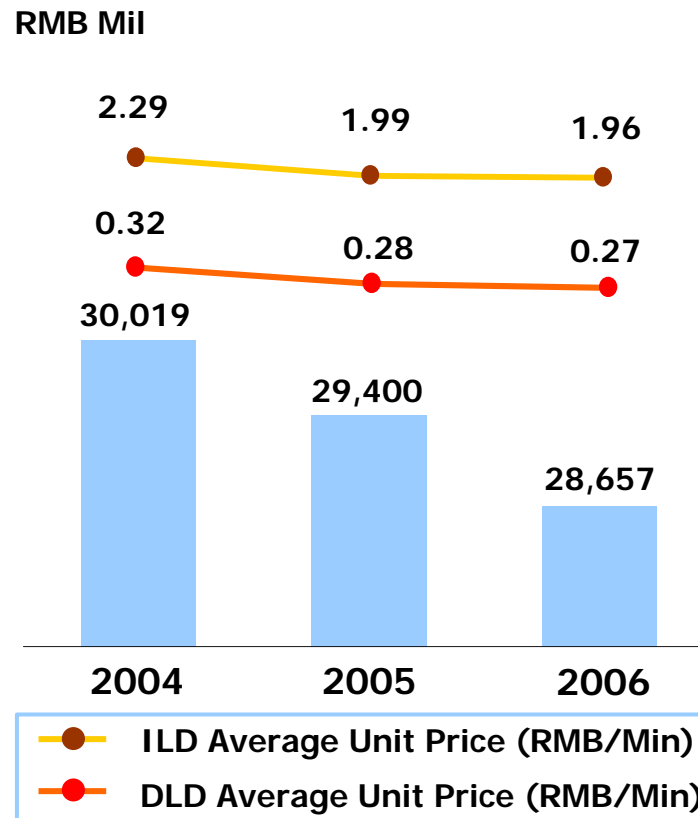
Domestic Long Distance Usage



International Long Distance Usage



Long Distance Business Revenue



🔑 Strengthen targeted marketing and packaging to stabilize long distance business

Internet Applications

VNet

IDC/CDN

IPTV

Online Video

Search Engine

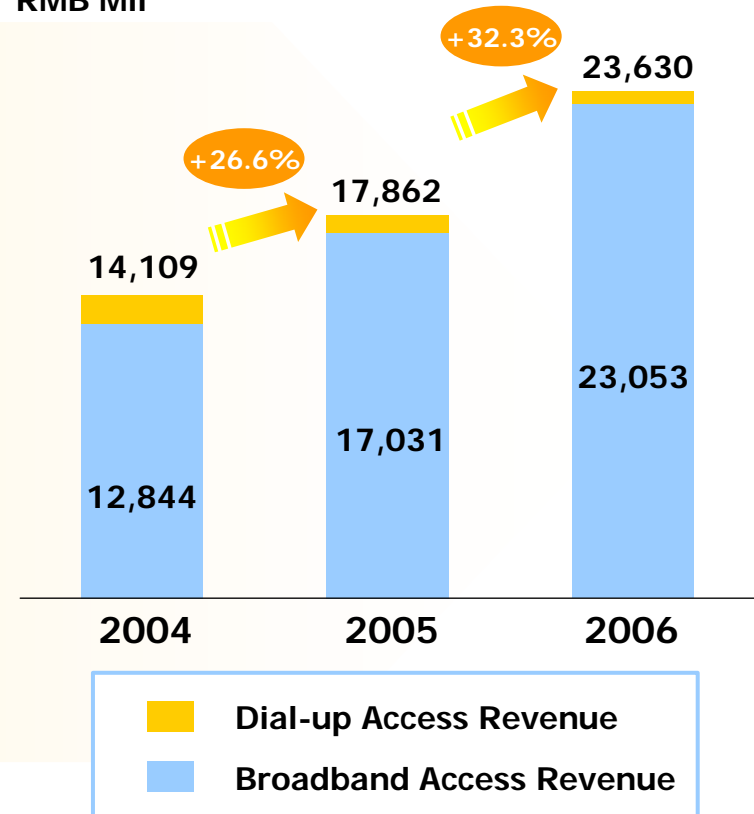
E-payment

Network Security

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Internet Access Revenue

RMB Mil

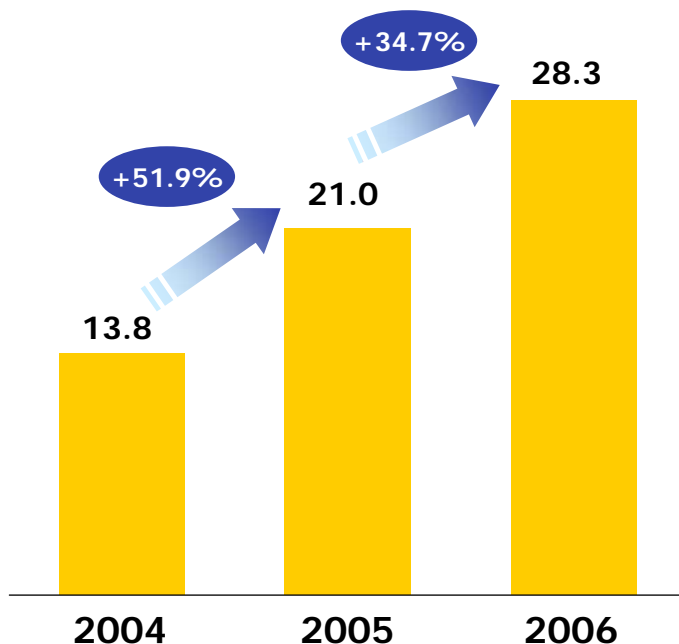


🔑 Leverage branding advantage and strengthen interactive promotion of Internet access & applications businesses

Strong Broadband Growth Momentum

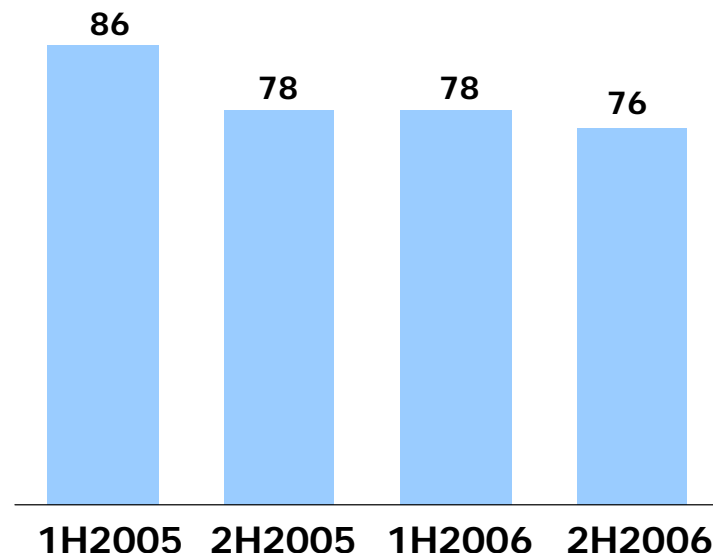
Broadband Subs

Mil



Broadband ARPU

RMB

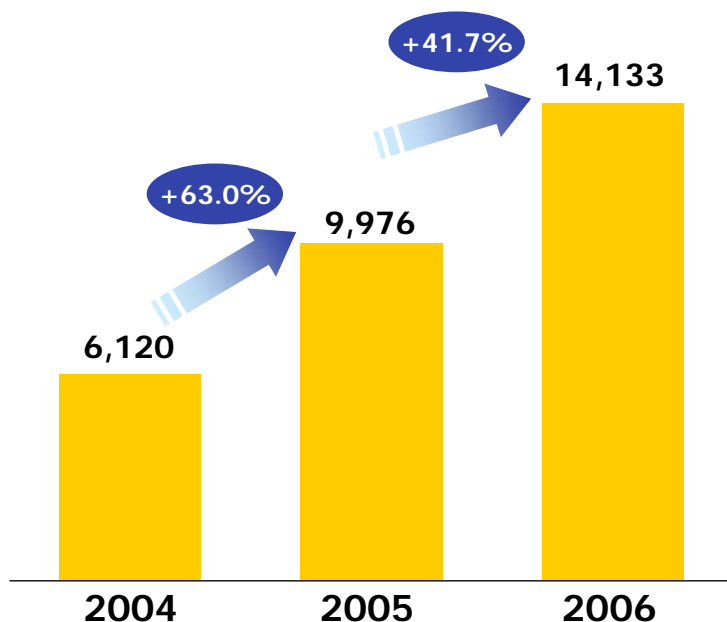


 Boost revenue growth by scale development of efficient and quality broadband business

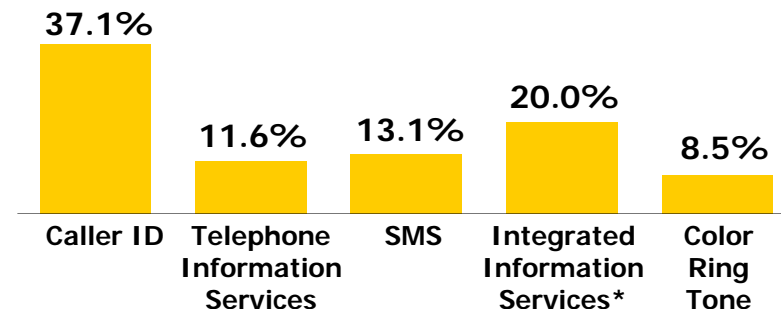
Fast Growing VAS

VAS Revenue

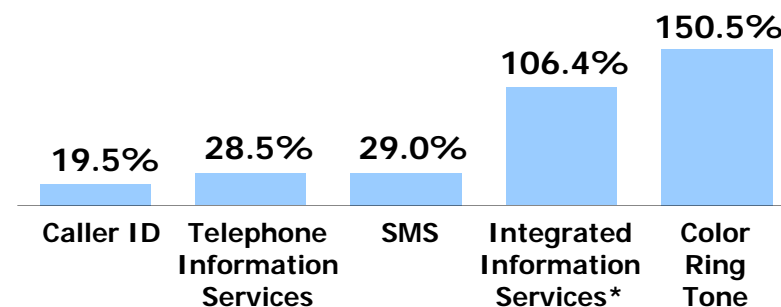
RMB Mil



VAS Revenue Mix



VAS Revenue Growth



Note: * Integrated Information Services include Internet VAS, Best Tone, Informatization Application and IT services & applications

 Diverse information, entertainment and communication needs promoting rapid growth of VAS

Implement Branding Strategy

Product oriented operation



Customer brand oriented operation

Establish 3 Major Customer Brands



Enterprise Brand



Household Brand



Individual Brand

Flourishing business products



Effectively bundle products and services into customer brands and leverage multi-services offering edge:

-  Consolidate traditional business and fundamentals
-  Foster transformation business to enhance corporate value

Management Support

- ☛ Optimize budget and assessment systems to promote resources allocation skewed towards high return businesses
- ☛ Adjust operation systems to improve execution timeliness

IT Support

- ☛ Speed up establishment of customer oriented CRM & billing systems
- ☛ Full support to multi-services bundling and packaging

Channel Support

- ☛ Improve access to customers and service quality via strengthening community & e-channels
- ☛ Offer professional sales service with enhanced front and back-end collaboration

Speed up transformation towards Integrated Information Services Provider

Network

Enhance network intelligence, improve core network capability & support

F Financial Performance

Key Financial Information

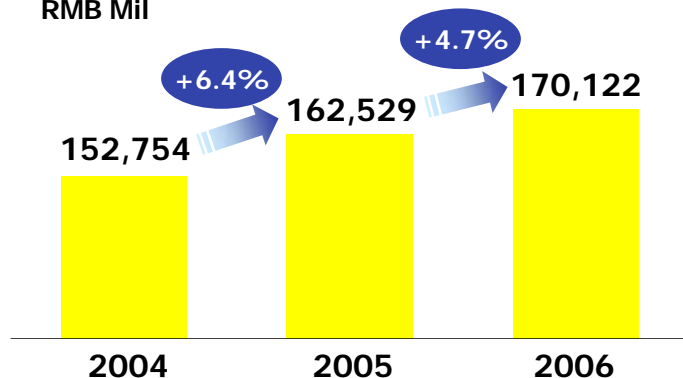
	2005 (RMB Mil)	2006 (RMB Mil)	Change
Operating Revenues	162,529	170,122	4.7%
Operating Expenses			
Depreciation & Amortization	49,652	51,272	3.3%
Network Operations & Support	30,334	30,723	1.3%
Personnel	24,960	26,019	4.2%
SG&A	19,892	22,214	11.7%
Interconnection & Other Operating Expenses	5,518	6,255	13.4%
	130,356	136,483	4.7%
Operating Profit	32,173	33,639	4.6%
Net Profit	21,131	22,171	4.9%
EBITDA	81,825	84,911	3.8%

Solid Financial Results



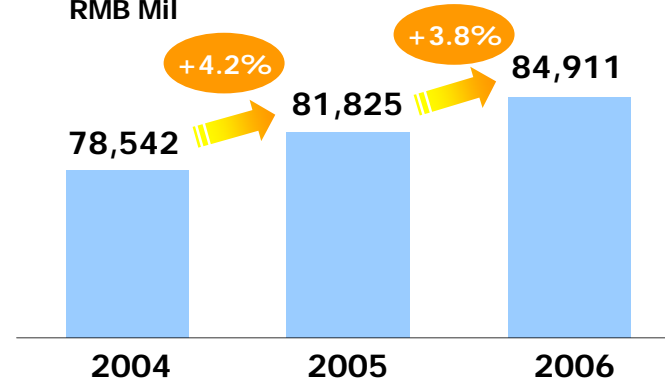
Operating Revenues

RMB Mil



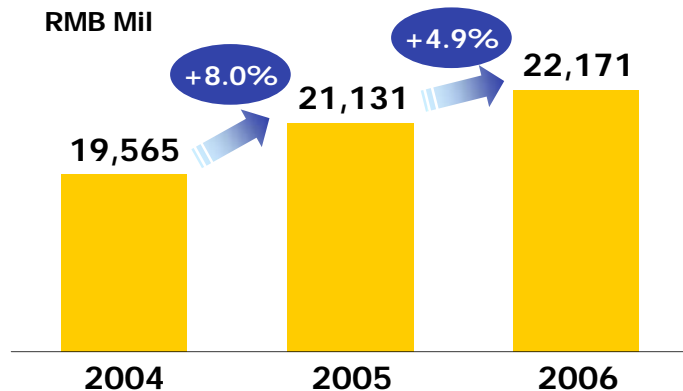
EBITDA

RMB Mil



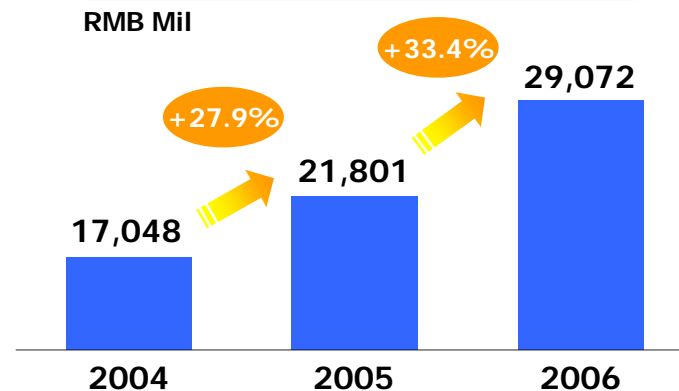
Net Profit

RMB Mil

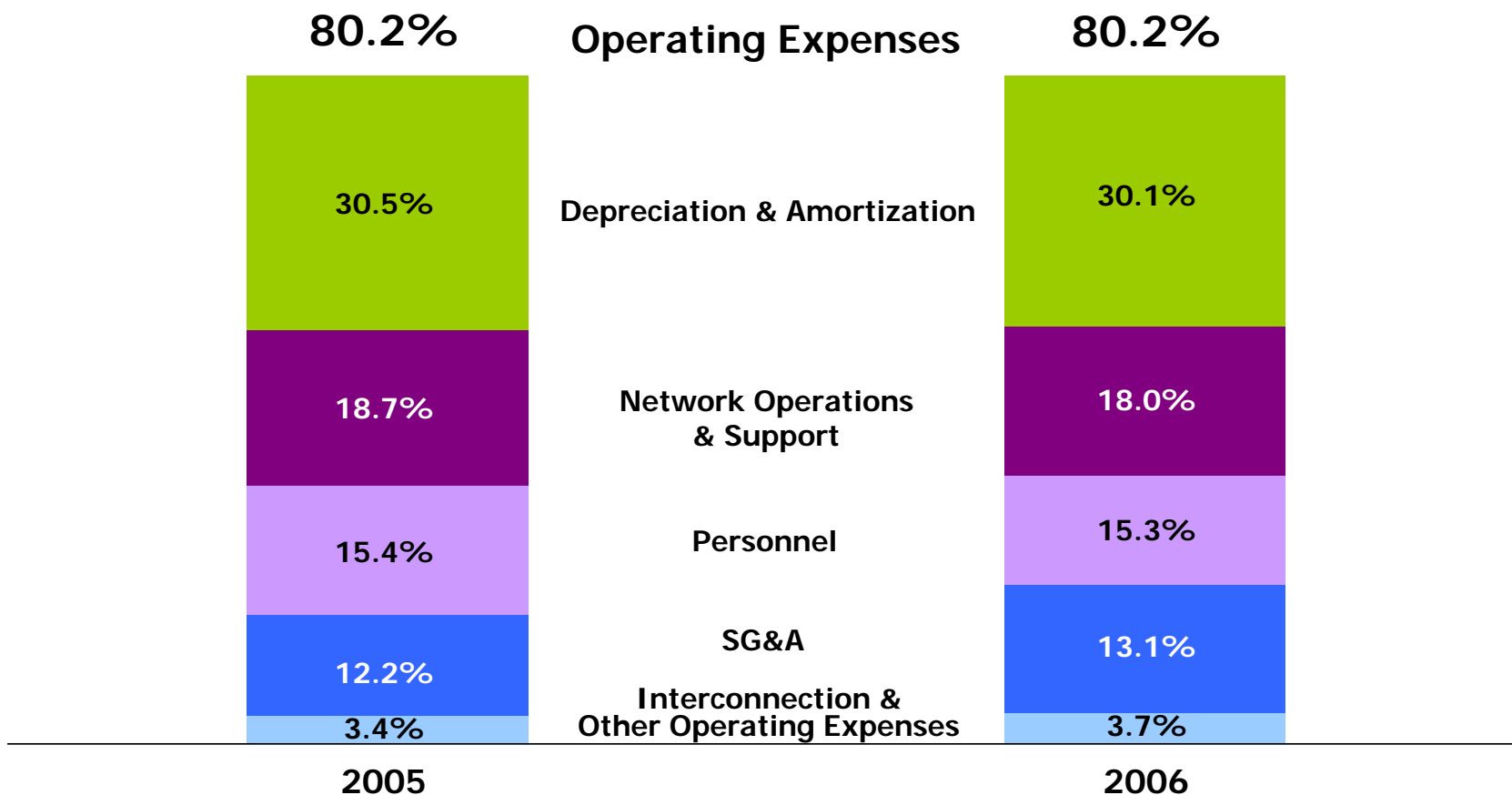


Free Cash Flow

RMB Mil



Operating Expenses as a % of Operating Revenue



Strengthened Cost Control

Cost Initiatives

Depreciation & Amortization
Reduce as a percentage of operating revenue continuously

Network Operations & Support
Strengthen centralized management on network maintenance to enhance quality and support strategic transformation

Personnel
Control personnel expenses growth below revenue growth

SG&A
Increase investment to retain and gain customers, more marketing expenses for launching new businesses

☛ Strengthen Cost Control

☛ Optimize Cost Structure

☛ Maintain a relatively stable EBITDA margin

Results

Depreciation & Amortization
RMB51,272 mil (-0.4 pp as a % of operating revenue)

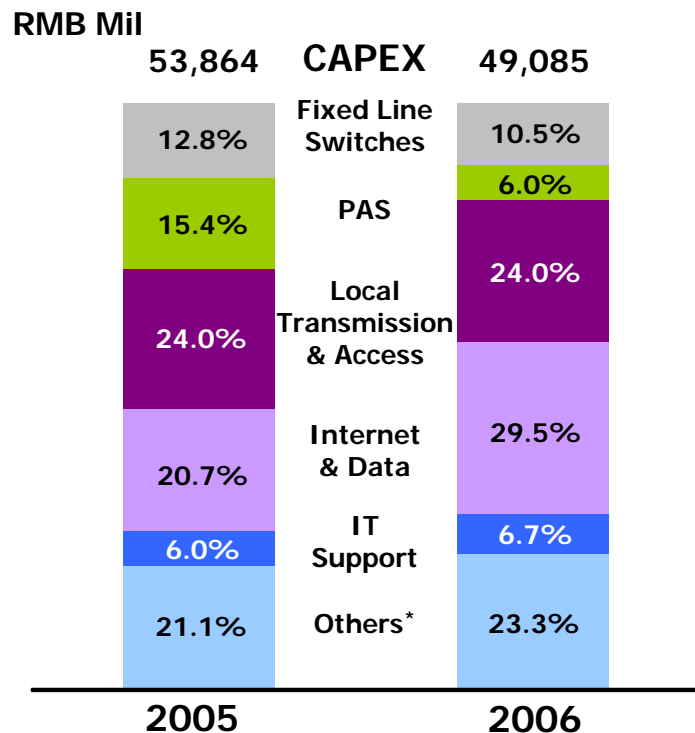
Network Operations & Support
RMB30,723 mil (+1.3% yoy)

Personnel
RMB26,019 mil (+4.2% yoy, 0.5 pp below revenue growth)

SG&A
RMB22,214 mil (+11.7% yoy) due to higher growth in sales expenses

Rationalized CAPEX Structure

CAPEX Composition



Note: * Others include communication infrastructure and other capital expenditure

- Increased CAPEX for Internet & data, IT support by 9.5 pp of total CAPEX
- Maintained CAPEX ratio for local transmission and access
- Reduced CAPEX for fixed line switches and PAS by 2.3 pp and 9.4 pp of total CAPEX respectively

Effective CAPEX control to proactively prepare for future comprehensive services convergence offering

Implement Value Management to Enhance Shareholders' Return

Implementing precise finance management to further optimize the structures of revenue, costs and capital

Effective use of internal and external funding measures to lower cost of capital and boost efficiency of internal treasury management

Optimizing budget and performance assessment systems to promote resource allocation skewed towards high return areas and transformation businesses to ensure return

Improving internal control and evaluation systems to advance management efficiency and sustainable development

Activating existing resources to increase their usage and return

‘ *Connecting The World* ’

Thank You

China Telecom Corporation Limited
www.chinatelecom-h.com

Appendix 1

Extracted from audited consolidated income statement for the year ended 31 Dec 2006 (incl. upfront connection fees)



RMB Mil

	2005	2006
Operating Revenues	169,310	175,093
Upfront Connection Fees	6,781	4,971
Operating Expenses	(130,356)	(136,483)
Net Finance Costs	(4,895)	(4,667)
Investment Loss, Share of Profit from Associates	55	36
Profit Before Taxation	34,114	33,979
Income Tax	(6,160)	(6,754)
Profit for the Year	27,954	27,225
Attributable to:		
Equity Holders of the Company	27,912	27,142
Minority Interests	42	83

RMB Mil

	2005	2006
Current Assets	36,663	39,563
Non-current Assets	380,473	374,478
Total Assets	417,136	414,041
Current Liabilities	156,976	156,575
Non-current Liabilities	77,199	53,593
Total Liabilities	234,175	210,168
Total Equity	182,961	203,873
Equity Attributable to Equity Holders of the Company	181,517	202,425
Minority Interests	1,444	1,448

Appendix 3 Detailed operating revenues breakdown
for the year ended 31 Dec 2006
(incl. upfront connection fees)



RMB Mil	2005	2006
Upfront Connection Fees	6,781	4,971
Local Voice Business	80,945	78,074
Upfront Installation Fees	2,970	2,913
Monthly Fees	30,351	28,973
Local Usage fees	47,624	46,188
DLD	25,993	25,517
ILD	3,407	3,140
Internet Access	17,862	23,630
Managed Data	2,958	3,031
Leased Line	4,464	4,503
Interconnections	12,838	14,095
VAS	9,976	14,133
Others	4,086	3,999
Total	169,310	175,093