



China Telecom Corporation Limited

31 March 2008

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# 2007 ANNUAL RESULTS

# 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.**

# Management Team

**Mr. Wang Xiaochu** Chairman & CEO

**Mr. Leng Rongquan** Executive Director, President & COO

**Madam Wu Andi** Executive Director, EVP & CFO

**Overview**

**Business Review**

**Financial Performance**

# Overview

# Highlights

**Strategic transformation successfully consolidates revenue and profit**

**Rapidly growing non-voice business effectively alleviates operating risk**

**Strong free cash flow greatly supports future development**

**Optimized CAPEX structure significantly enhances competitive edges**

# Solid Results (Excl. Connection Fees)

|                                | 2006    | 2007    | Growth |
|--------------------------------|---------|---------|--------|
| Access Lines in Services (Mil) | 223.04  | 220.33  | -1.2%  |
| Broadband Subs (Mil)           | 28.32   | 35.65   | 25.9%  |
| Operating Revenue (RMB Mil)    | 170,645 | 175,362 | 2.8%   |
| EBITDA (RMB Mil)               | 84,866  | 85,974  | 1.3%   |
| EBITDA Margin                  | 49.7%   | 49.0%   | -0.7pp |
| Net Profit* (RMB Mil)          | 22,270  | 22,517  | 1.1%   |
| EPS* (RMB)                     | 0.275   | 0.278   | 1.1%   |
| Free Cash Flow** (RMB Mil)     | 28,991  | 33,964  | 17.2%  |

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

\* Excluding the impact of revaluation in 2007 of property, plant & equipment every 3 years (see slide 25)

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

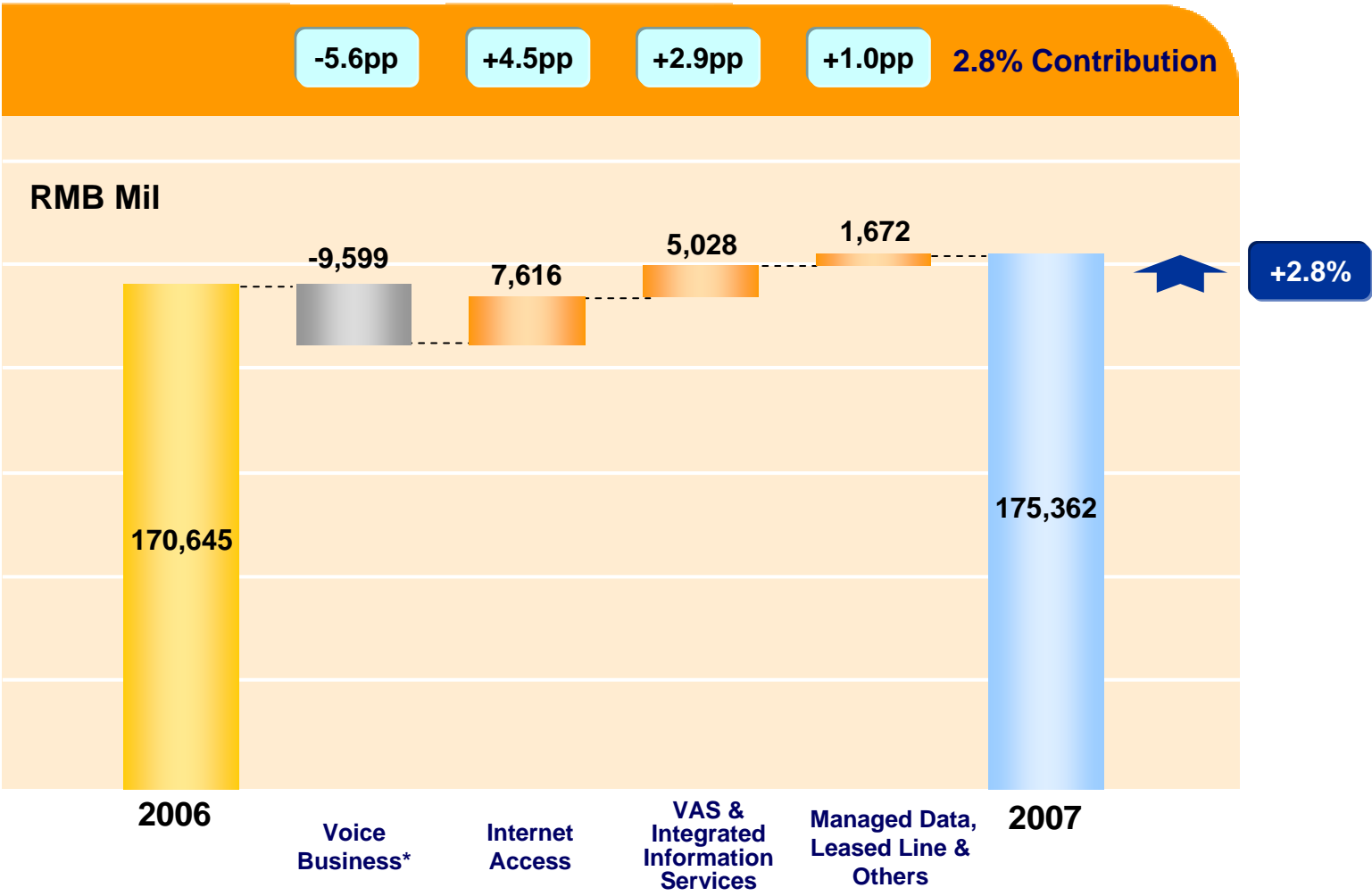
# IFRS-based Results (Incl. Connection Fees)

|                             | 2006    | 2007    |
|-----------------------------|---------|---------|
| Operating Revenue (RMB Mil) | 175,616 | 178,656 |
| EBITDA (RMB Mil)            | 89,837  | 89,268  |
| EBITDA Margin               | 51.2%   | 50.0%   |
| Net Profit* (RMB Mil)       | 27,241  | 23,702  |
| EPS (RMB)                   | 0.337   | 0.293   |

Note: \* Unless otherwise stated, net profit used in this presentation represents profit attributable to equity holders of the Company



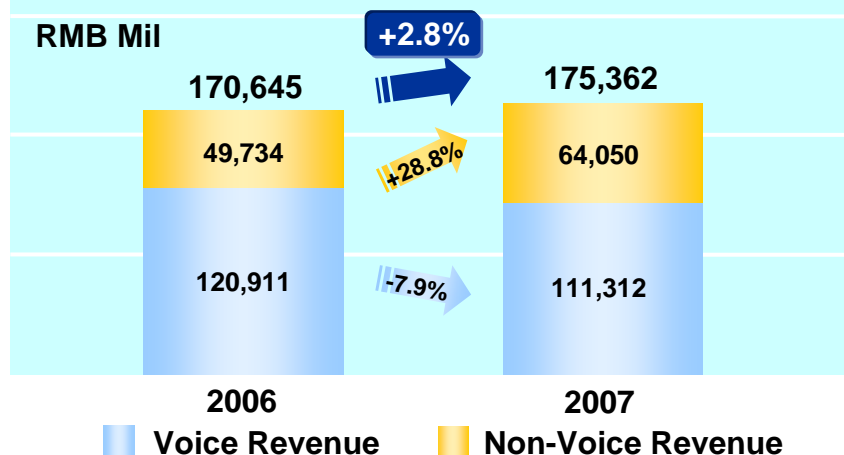
# Revenue Growth Drivers



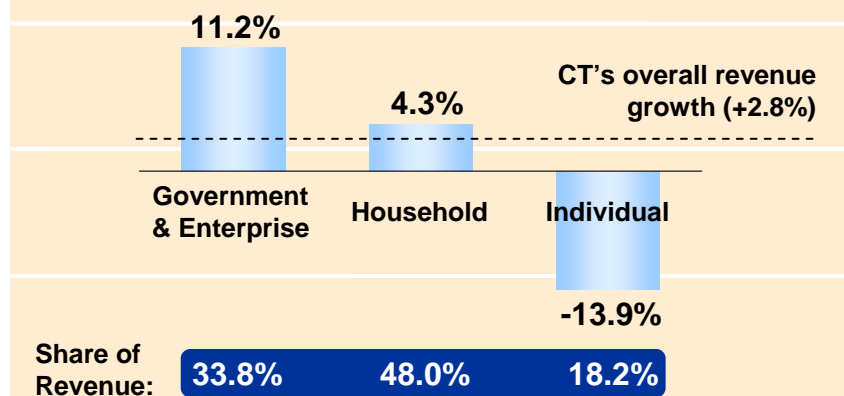
Note: \* Voice Business Revenue includes Monthly Fees, Local Usage Fees, Upfront Installation Fees, DLD/ILD and Interconnection Revenue

# Proactively Managing Voice Challenges

## Steady Aggregate Revenue



## Revenue Growth by Customer Segments in 2007



### Major challenges in voice business

- Rapidly declining mobile voice tariff (-17.7% yoy) & new means of communications
  - Voice revenue ↓ 7.9%
  - Voice ARPU: RMB41.8 ↓ 10.1%

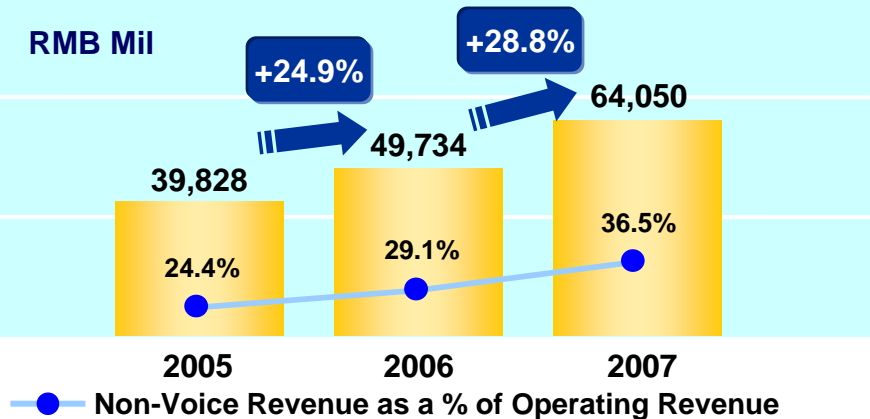
### Major initiatives

- Strengthen integrated development of voice and non-voice businesses to improve voice services' value to customers and mitigate voice revenue decline
- Target at key customer segments like government & enterprise and household customers
- Strictly control marketing expense on low-end customers to ensure return

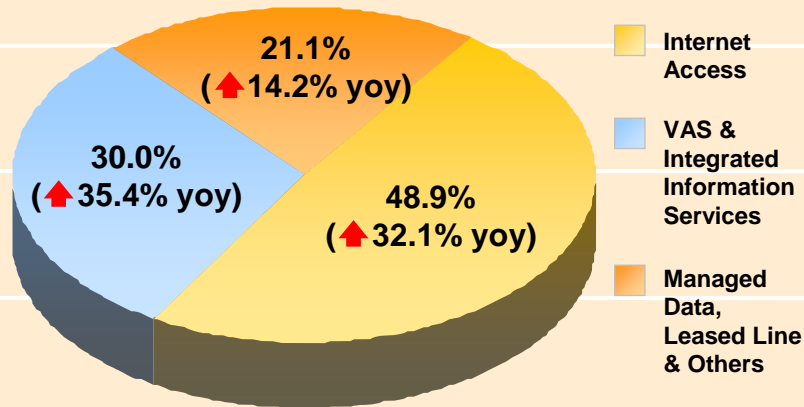
# Strategic Transformation Gaining Momentum

## Non-Voice Revenue

RMB Mil



## Non-Voice Revenue Composition in 2007



## Accomplishments

- Robust non-voice revenue growth supported steady aggregate revenue and healthy fundamental
- Optimized revenue structure effectively alleviated operating risk

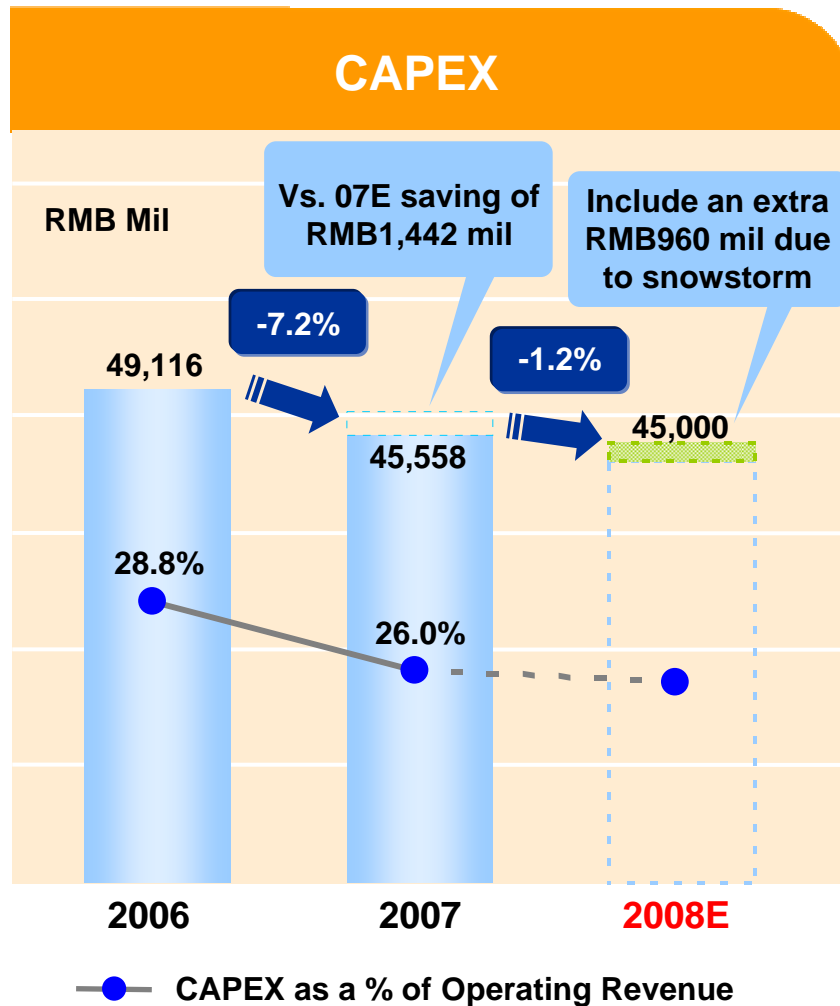
Non-voice revenue as a % of operating revenue:

06: ▲ 4.7pp

07: ▲ 7.4pp

- Enhanced core competitiveness & sustainable development

# CAPEX



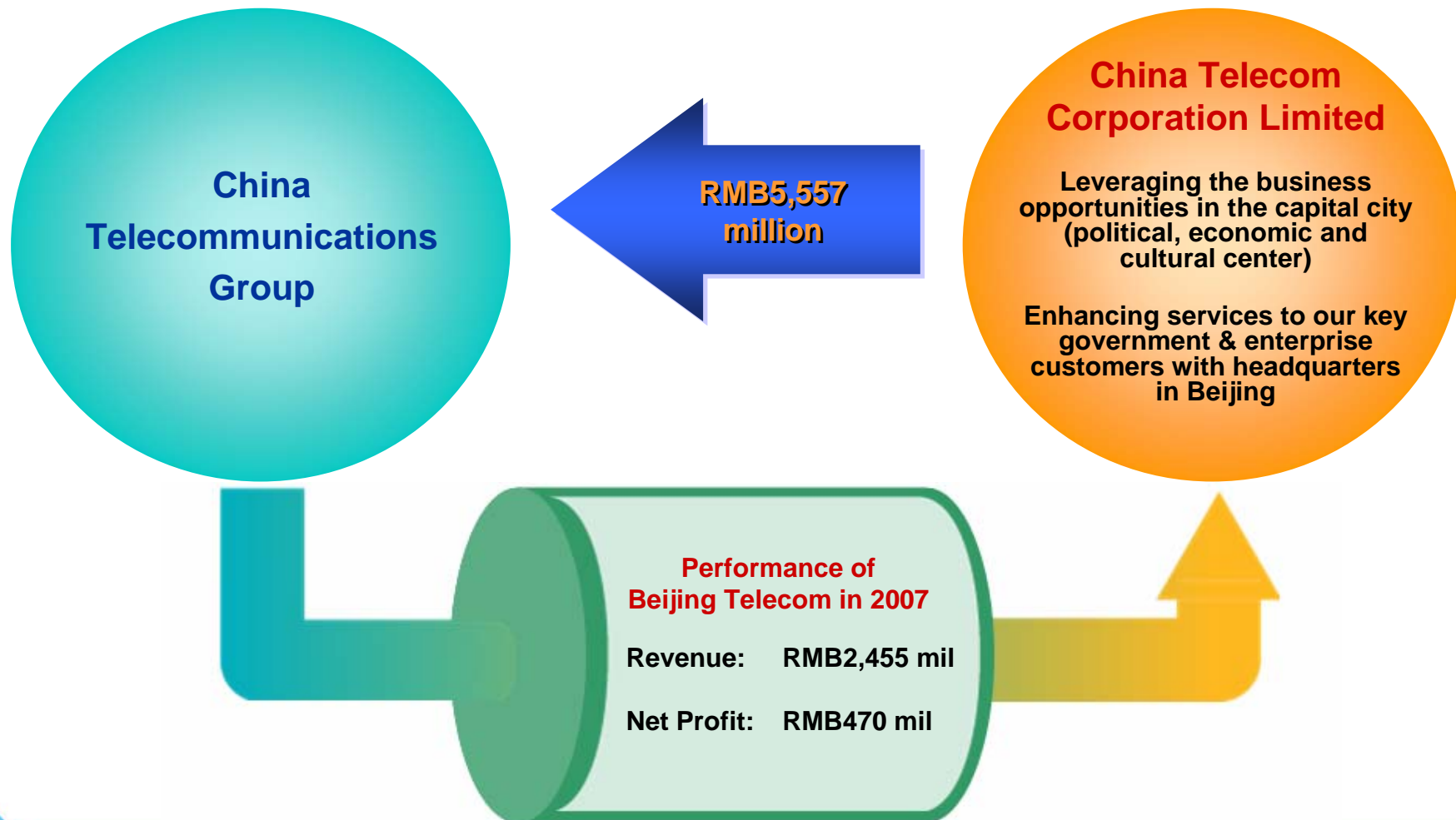
## Reducing CAPEX to enhance return; Optimizing structure to promote development

- Continuous CAPEX reduction leads to progressive decline of depreciation & amortization expenses as a % of operating revenue and enhances operating return
- Tilting investments towards transformation business to drive revenue

|                                       | Revenue     | Investment  |
|---------------------------------------|-------------|-------------|
| Broadband Access                      | ↑ 32.9% yoy | ↑ 27.3% yoy |
| VAS & Integrated Information Services | ↑ 35.4% yoy |             |

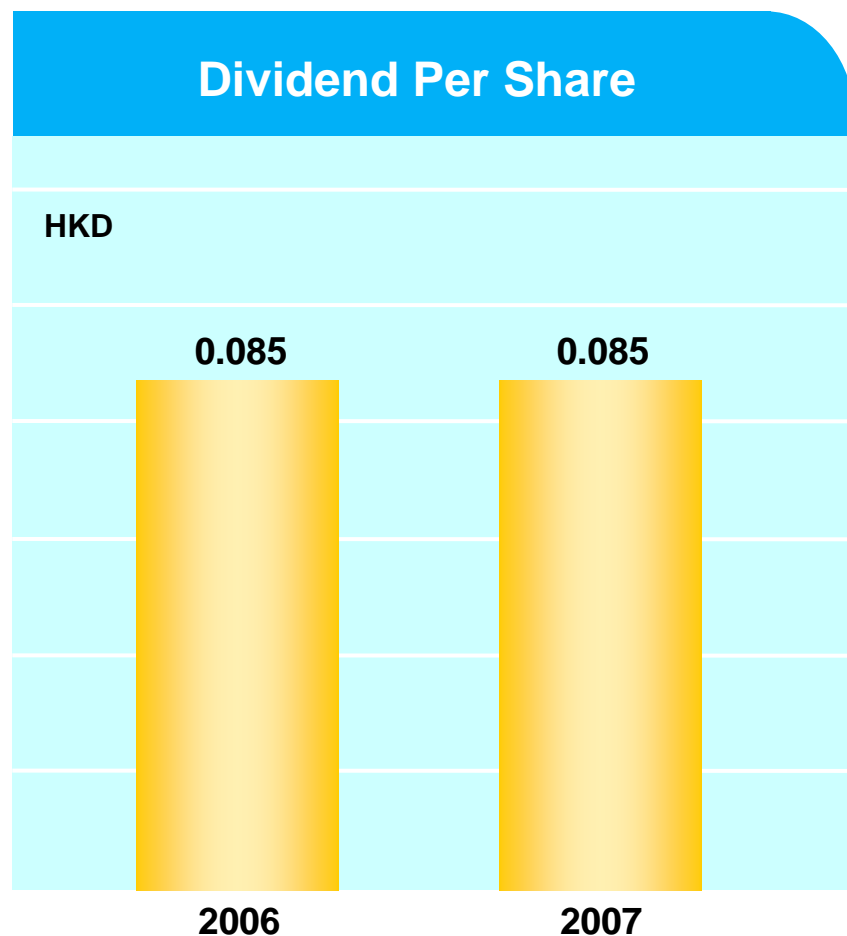
# Acquisition of Beijing Telecom

## Earnings Accretive Acquisition



Note: The above financial data are unaudited and IFRS-based

# Dividend



**The Board of Directors recommended a final dividend of HKD0.085 for 2007**

- ☎ Proper balance between shareholders' cash return demand and company's future investment needs, especially the funding requirement for coming full services offerings

# Driving Transformation to Enhance Value

## Enhancing Shareholders' Value

- Proactive Preparation for Full Services Operations

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- Talents Pool

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- Brand Management

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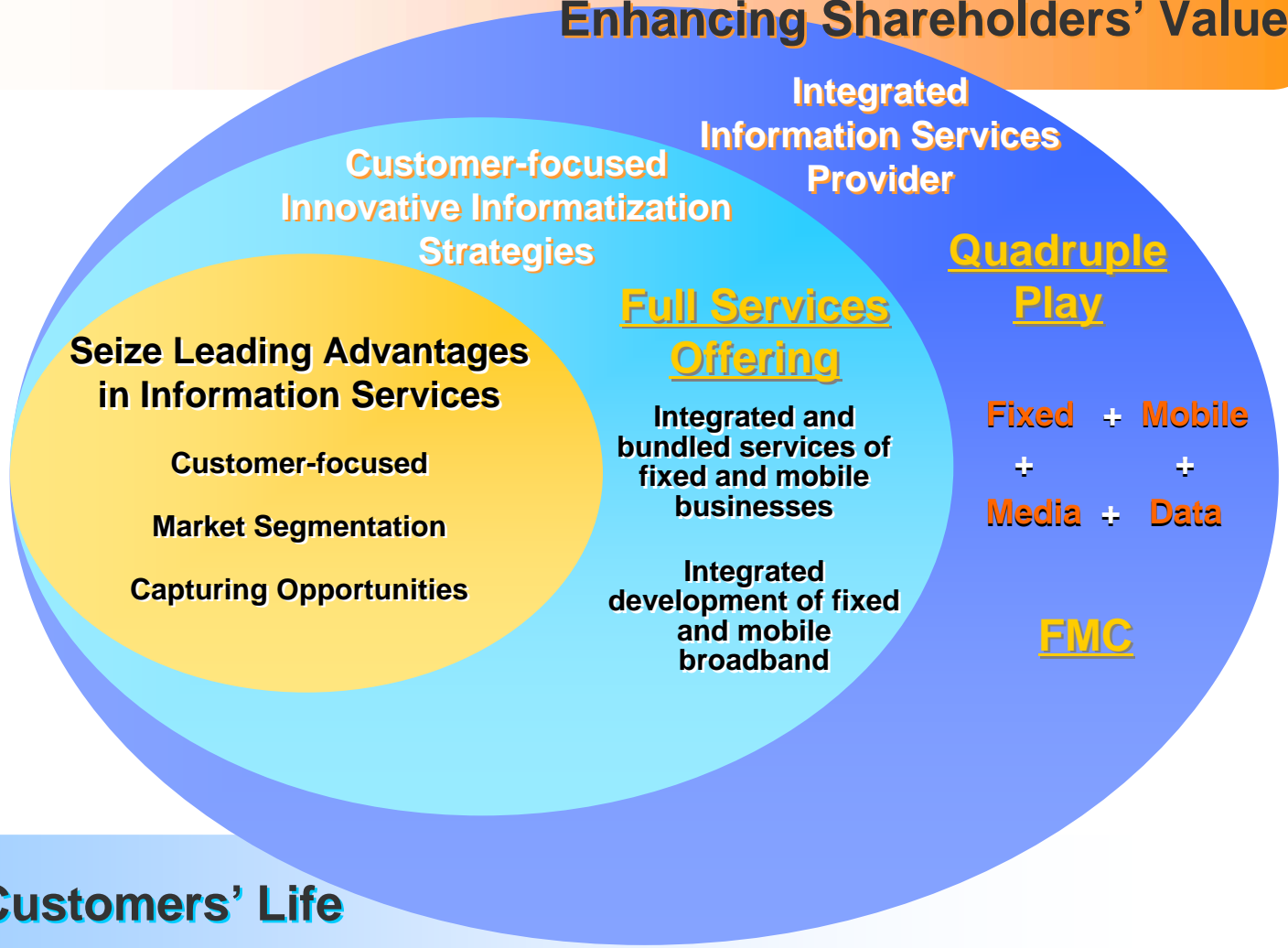
- Capital Accumulation

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- Network Enhancement

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- Information Services



## Enriching Customers' Life

# Business REVIEW

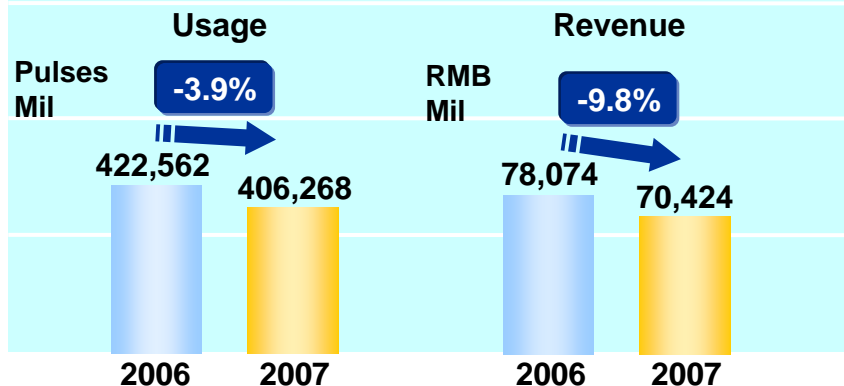


# Revenue Breakdown

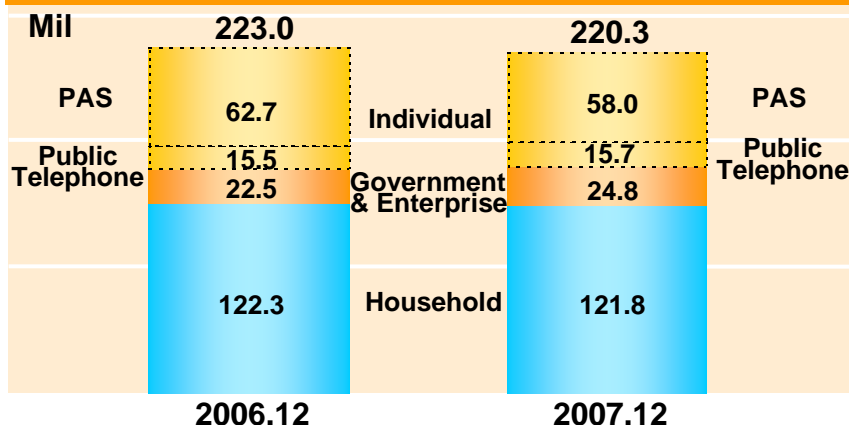
|  | 2006<br>(RMB Mil) | 2007<br>(RMB Mil) | Growth       | Share of<br>Operating<br>Revenue |
|--|-------------------|-------------------|--------------|----------------------------------|
| <b>Local Voice</b>                                   |                   |                   |              |                                  |
| Upfront Installation Fees                            | 2,913             | 2,735             | -6.1%        | 1.6%                             |
| Monthly Fees   | 28,973            | 25,346            | -12.5%       | 14.4%                            |
| Local Usage Fees                                     | 46,188            | 42,343            | -8.3%        | 24.1%                            |
| <b>Sub-total</b>                                     | <b>78,074</b>     | <b>70,424</b>     | <b>-9.8%</b> | <b>40.1%</b>                     |
| <b>Long Distance</b>                                 | <b>28,742</b>     | <b>27,009</b>     | <b>-6.0%</b> | <b>15.4%</b>                     |
| <b>Interconnections</b>                              | <b>14,095</b>     | <b>13,879</b>     | <b>-1.5%</b> | <b>7.9%</b>                      |
| <b>Internet Access</b>                               | <b>23,724</b>     | <b>31,340</b>     | <b>32.1%</b> | <b>17.9%</b>                     |
| <b>VAS &amp; Integrated<br/>Information Services</b> | <b>14,203</b>     | <b>19,231</b>     | <b>35.4%</b> | <b>11.0%</b>                     |
| <b>Managed Data, Leased Line<br/>&amp; Others</b>    | <b>11,807</b>     | <b>13,479</b>     | <b>14.2%</b> | <b>7.7%</b>                      |
| <b>Total</b>   | <b>170,645</b>    | <b>175,362</b>    | <b>2.8%</b>  | <b>100%</b>                      |

# Local Voice Business

## Local Voice Business



## Access Lines in Services



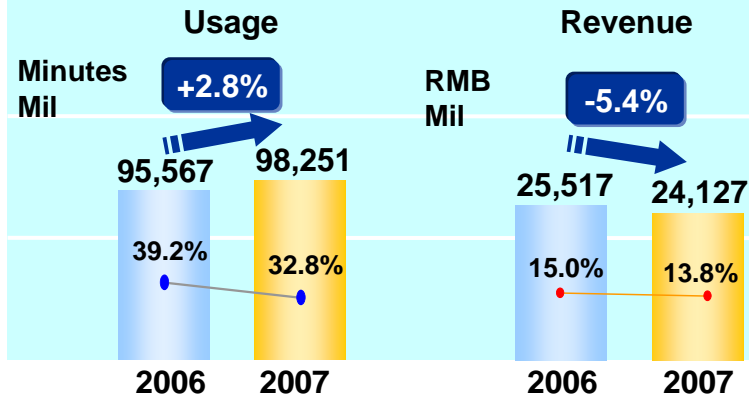
## Consolidating Traditional Businesses via effective bundling with Transformation Businesses

- Government & Enterprise customers: Promoting “BizNavigator” to stabilize usage  
-Revenue  $\uparrow$  11.2% yoy
- Household customers: Leveraging “One Home” to consolidate household market  
-Revenue  $\uparrow$  4.3% yoy
- Individual customers: Severe challenge due to intensified mobile substitution especially on PAS  
-Revenue  $\downarrow$  13.9% yoy

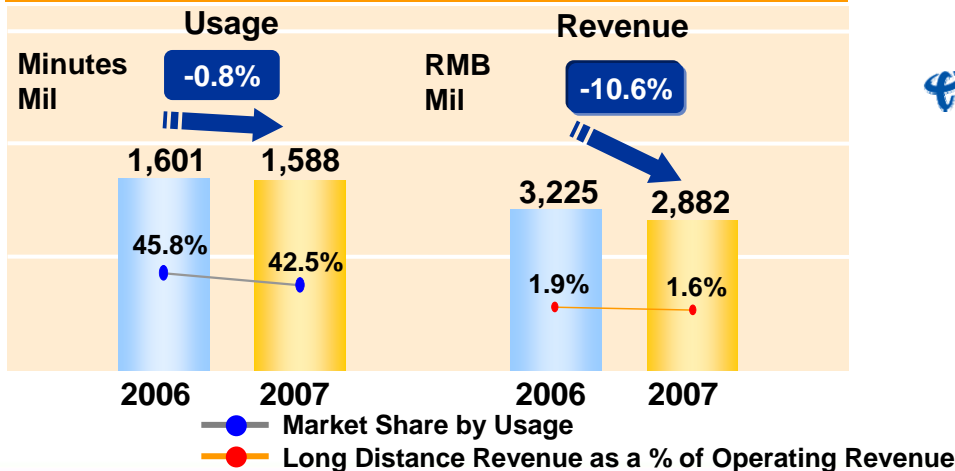
To strengthen bundled packages to consolidate high-end PAS subs while strictly controlling marketing expense on low-end customers to ensure return

# Long Distance Business

## Domestic Long Distance



## International Long Distance

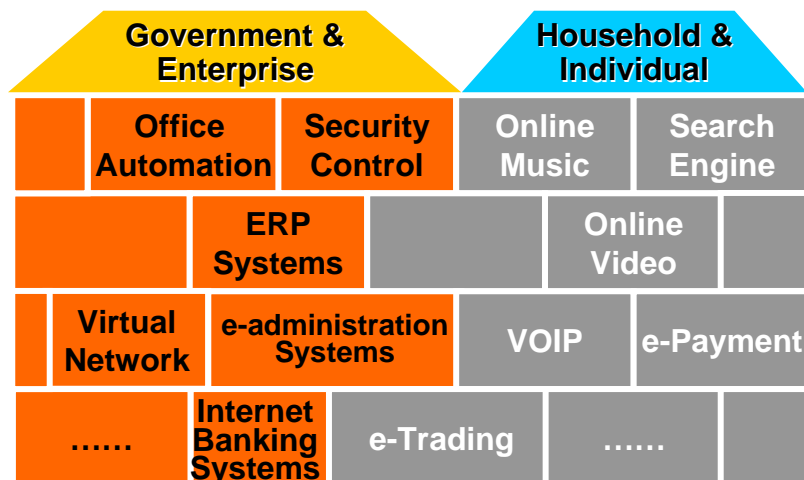
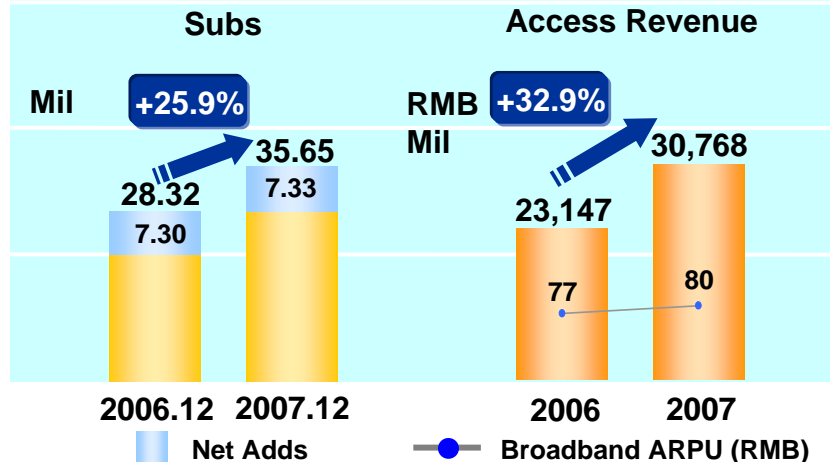


## Consolidating Long Distance Business

- Intensified competition in long distance market led to continuous decline in average unit price; avoiding direct price competition and stimulating long distance usage by customized bundling packages
  - DLD usage  $\uparrow$ 2.8% yoy
  - ILD usage relatively stable
- Leveraging flexible strategies to promote integrated development of voice and integrated information services

# Broadband Business

## Broadband

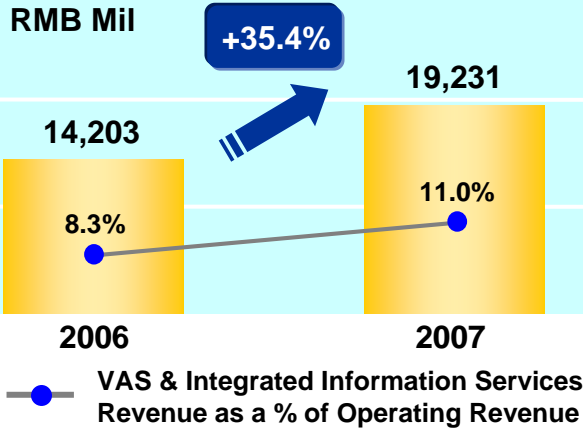


## Profitable Scale Development with Differentiated Operations

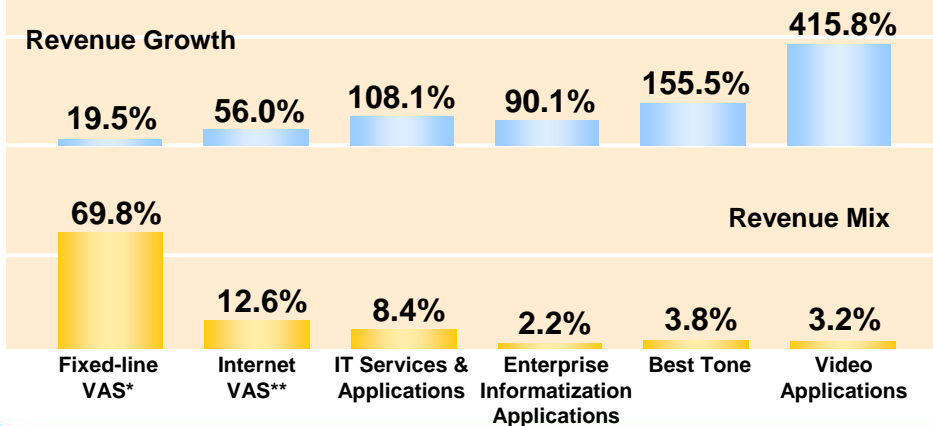
- ☛ Broadband subs  $\uparrow$  7.33 mil with ARPU slightly increased to RMB 80 in 2007
- ☛ To realize wireless access roaming for broadband subs by enriching means and convenience of access
- ☛ To fully implement broadband account number operation & promote co-operation and customization of terminal devices, Internet applications and content
- ☛ To strengthen interactive promotion of Internet access & application businesses

# VAS & Integrated Information Services

## Revenue



## Revenue Growth & Mix in 2007

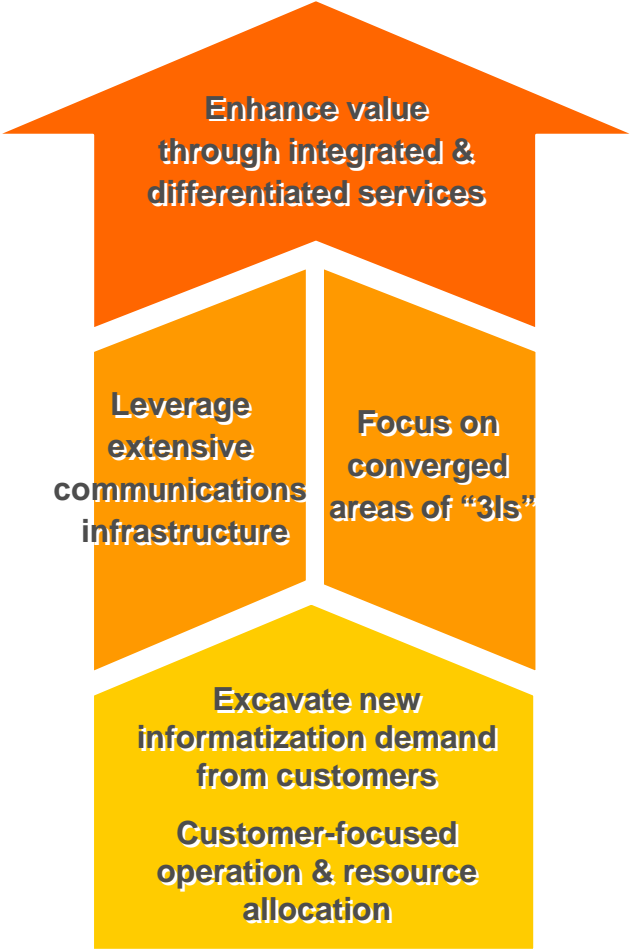
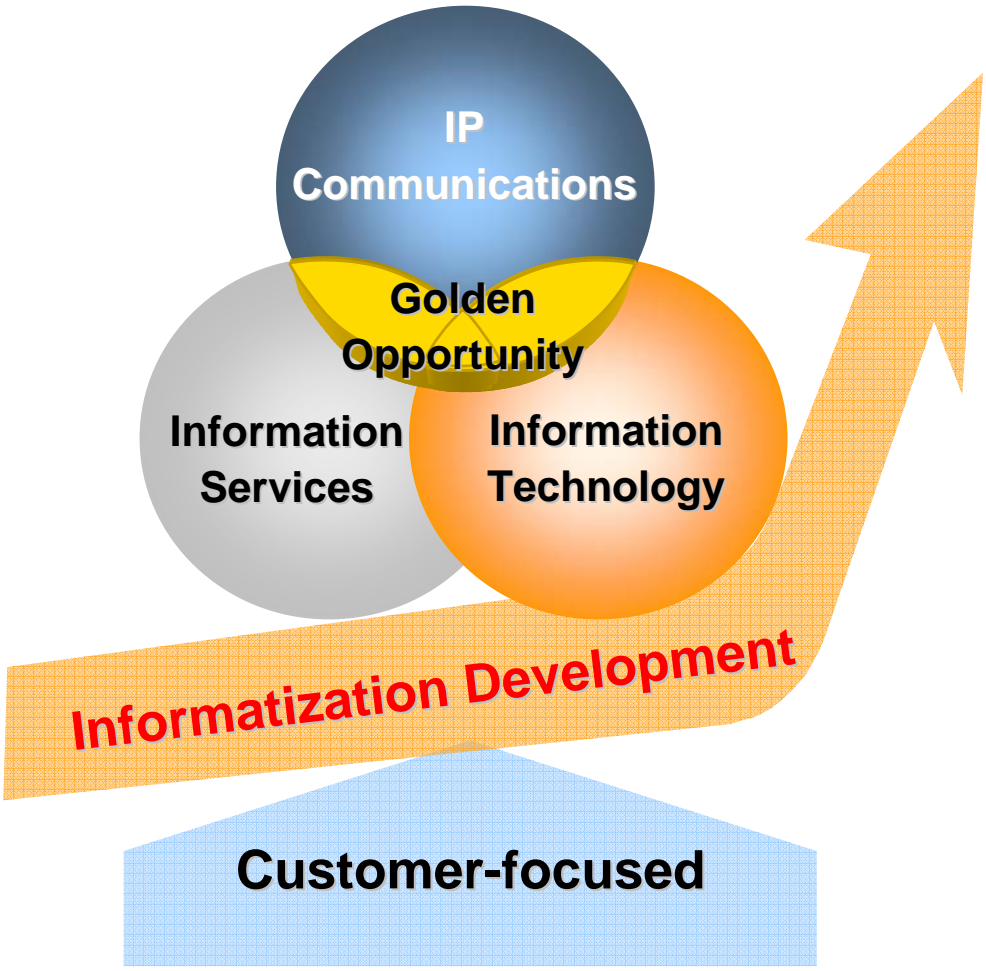


## Strategies

- Fixed-line VAS: Focus on services like fixed-line color ring-tone, fixed-line payment, phone-radio... to increase VAS penetration and promote scale development
- Internet VAS: Integrate VNet with content resources and enrich Internet applications like searching, digital music, One Home customer terminals... to enhance customer brand value and stimulate consumption
- Integrated Information Services: Consolidate telephone number resource services and explore demand from government & enterprise customers to promote the scale development of Best Tone and IT Services & Applications

Note: \* Fixed-line VAS mainly includes Caller-ID, Telephone Information Services, SMS & Color Ring Tone  
 \*\*Internet VAS mainly includes VNet, IDC, IP/VPDN

# Scale Development of Transformation Businesses



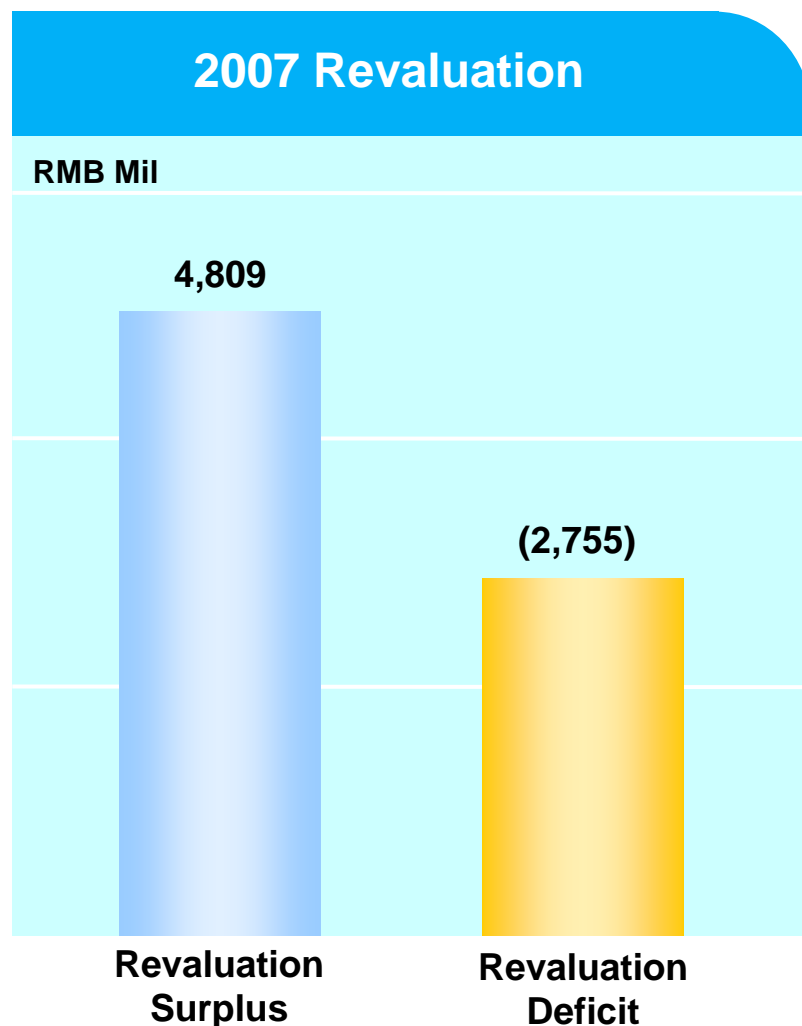
# Financial Performance

# Key Financial Information

|                              | 2006<br>(RMB Mil) | 2007<br>(RMB Mil) | Change      |
|------------------------------|-------------------|-------------------|-------------|
| <b>Operating Revenues</b>    | <b>170,645</b>    | <b>175,362</b>    | <b>2.8%</b> |
| <b>Operating Expenses</b>    |                   |                   |             |
| Depreciation & Amortization  | 51,301            | 52,257            | 1.9%        |
| Network Operations & Support | 31,055            | 31,622            | 1.8%        |
| Personnel                    | 26,210            | 27,242            | 3.9%        |
| SG&A                         | 22,259            | 23,667            | 6.3%        |
| Interconnection & Others     | 6,255             | 6,857             | 9.6%        |
| <b>Sub-total</b>             | <b>137,080</b>    | <b>141,645</b>    | <b>3.3%</b> |
| <b>Operating Profit</b>      | <b>33,565</b>     | <b>33,717</b>     | <b>0.5%</b> |
| <b>Net Profit</b>            | <b>22,270</b>     | <b>22,517</b>     | <b>1.1%</b> |
| <b>EBITDA</b>                | <b>84,866</b>     | <b>85,974</b>     | <b>1.3%</b> |



# Property, Plant & Equipment Revaluation



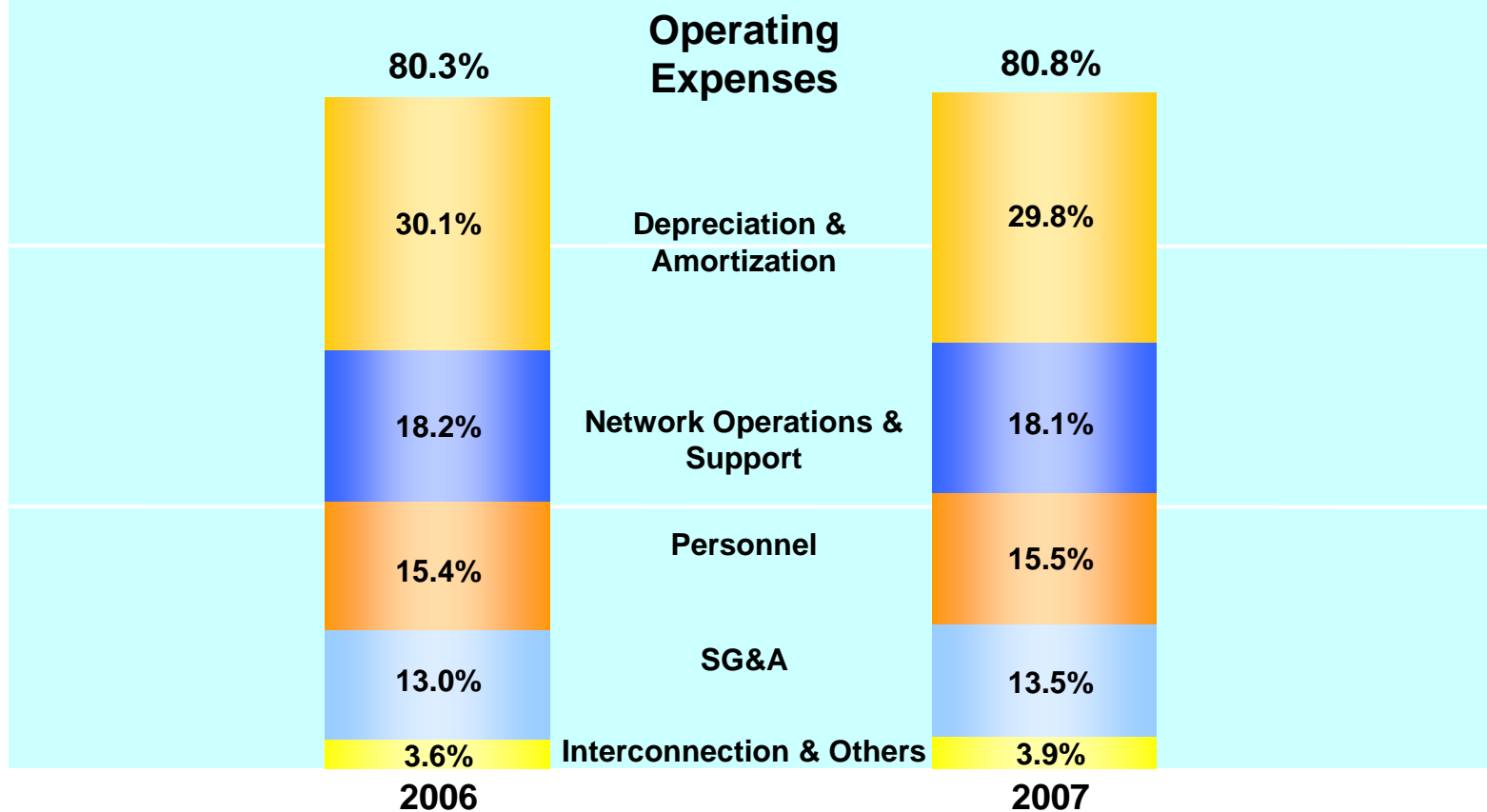
☎ Revalued PPE every 3 years per IFRS.  
Overall net revaluation surplus showed good asset quality

☎ Per IFRS:  
Revaluation Surplus → Equity  
Revaluation Deficit → Income Statement

|  |                      |
|--|----------------------|
| ☎ IFRS-based net profit:                     | RMB23,702 mil        |
| Ex-upfront connection fees:                  | (3,294) mil          |
| Ex-revaluation deficit & related tax impact: | 2,109 mil            |
| Adjusted net profit:                         | <u>RMB22,517 mil</u> |

# Cost Structure

## Operating Expenses as a % of Operating Revenue



# Optimized Cost Structure to Support Business Development

## Cost Initiatives

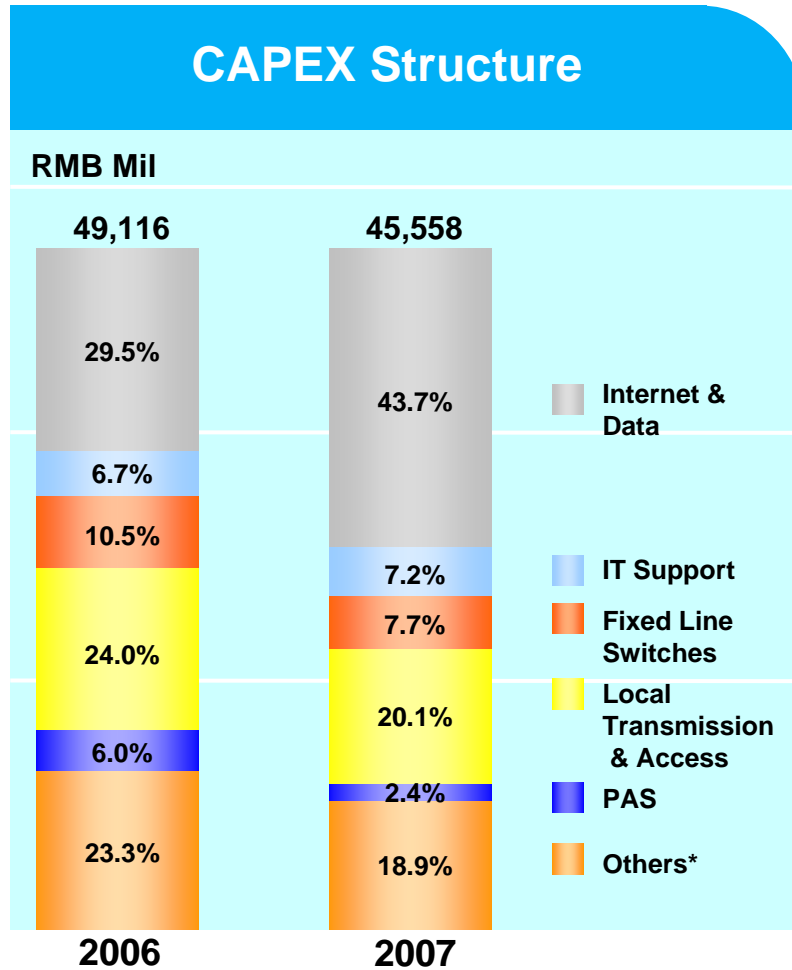
- **Depreciation & Amortization**  
Reduced depreciation as a % of operating revenue continuously via strict CAPEX control & enhanced resource utilization
- **Network Operations & Support**  
Tilted and smoothed resource allocation towards transformation businesses to support development
- **Personnel**  
Enhanced employees' incentive & strengthened recruitment of IP, IT and IS talents
- **SG&A**  
Promoted brand operation & transformation businesses, enhanced customer retention but strictly controlled PAS handset subsidy

Strengthened cost control  
Optimized cost structure  
Maintained relatively stable EBITDA margin

## 2007 Results

- **Depreciation & Amortization**  
RMB52,257 mil (-0.3 pp as a % of operating revenue)
- **Network Operations & Support**  
RMB31,622 mil (-0.1 pp as a % of operating revenue)
- **Personnel**  
RMB27,242 mil (maintained relatively stable as a % of operating revenue)
- **SG&A**  
RMB23,667 mil (+0.5 pp as a % of operating revenue)

# Enhanced CAPEX Structure



Note: \*Others include communication infrastructure and other capital expenditure

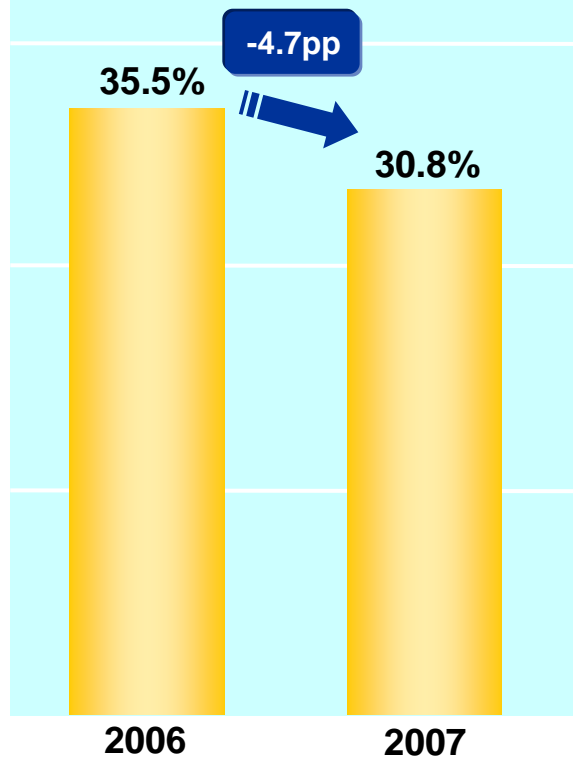
## Enhanced CAPEX structure to support strategic transformation

- Internet & Data ▲ 37.4% yoy
- IT Support ▼ -
- Fixed Line Switches ▼ 31.9% yoy
- Local Transmission & Access ▼ 22.2% yoy
- PAS ▼ 63.4% yoy
- Others ▼ 24.8% yoy

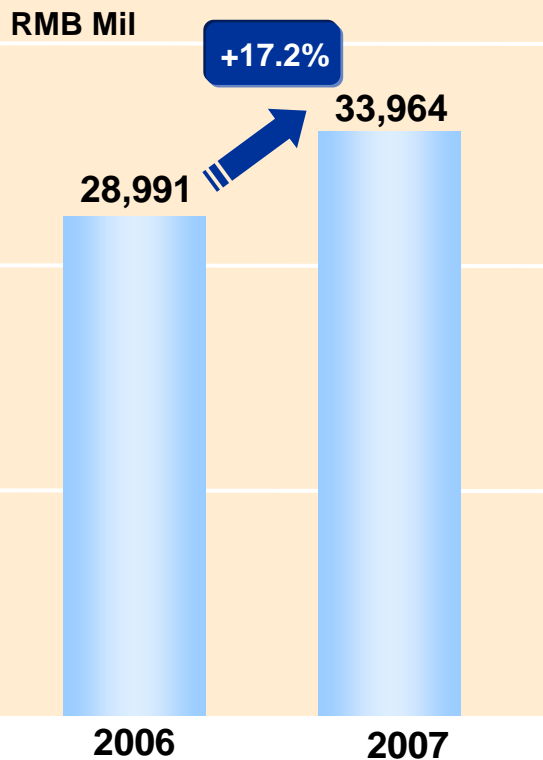
## Tilting investment to improve network capability for supporting transformation businesses while strictly controlling CAPEX on traditional business

# Solid Financial Strength

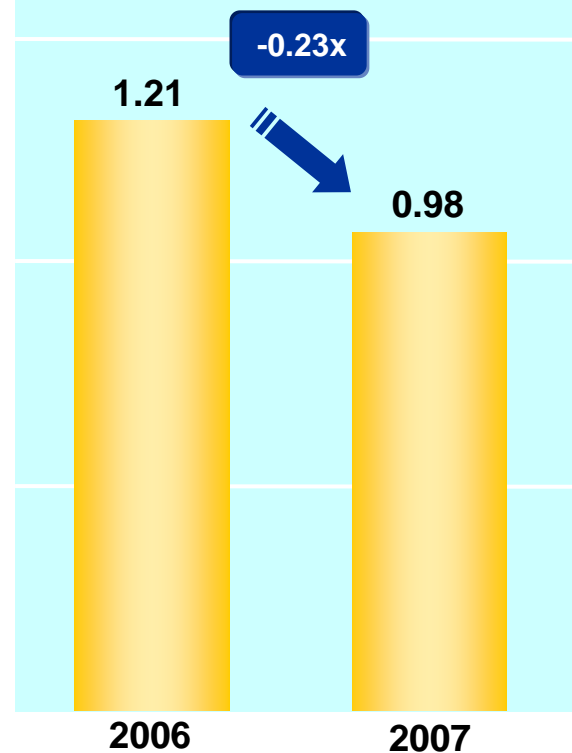
## Total Debt / Total Capitalization



## Free Cash Flow



## Net Debt / EBITDA



***Solid financial fundamental and strong cash flow proactively equip the Company to capture future growth opportunities***

# Innovative Measures to Drive Transformation

**Tilting resource towards transformation businesses to increase non-voice revenue contribution and sustain steady aggregate revenue**

**Strengthening cost management, treasury planning and resource utilization to improve operating efficiency**

**Improving risk management, enhancing internal control and execution to ensure value creation**

**Increasing free cash flow, enhancing capital, investment & asset structures to proactively prepare for future full services offering**

**Deepening  
value  
management  
to enhance  
shareholders'  
return**

Thank  
YOU

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# Appendix 1

Extracted from audited consolidated income statement  
for the year ended 31 Dec 2007 (incl. upfront connection fees)

| RMB Mil   | 2006<br>(Restated)* | 2007      |
|---|---------------------|-----------|
| <b>Operating Revenues</b>                               | 175,616             | 178,656   |
| Upfront Connection Fees                                 | 4,971               | 3,294     |
| <b>Operating Expenses</b>                               | (137,080)           | (141,645) |
| <b>Revaluation Deficit</b>                              | -                   | (2,755)   |
| <b>Net Finance Costs</b>                                | (4,489)             | (4,300)   |
| <b>Investment Loss, Share of Profit from Associates</b> | 36                  | 295       |
| <b>Profit Before Taxation</b>                           | 34,083              | 30,251    |
| <b>Income Tax</b>                                       | (6,759)             | (6,452)   |
| <b>Profit for the Year</b>                              | 27,324              | 23,799    |
| Equity Holders of the Company                           | 27,241              | 23,702    |
| Minority Interests                                      | 83                  | 97        |

Note: \*Restated to include the financial impact of acquisition of China Telecom (HK), China Telecom (Americas) and China Telecom System Integration



# Appendix 2

Extracted from audited consolidated balance sheet as at 31 Dec 2007  
(incl. upfront connection fees)

| RMB Mil  | 2006<br>(Restated)* | 2007           |
|--|---------------------|----------------|
| Current Assets                                       | 44,206              | 42,680         |
| Non-current Assets                                   | 374,665             | 365,324        |
| <b>Total Assets</b>                                  | <b>418,871</b>      | <b>408,004</b> |
| Current Liabilities                                  | 157,629             | 138,537        |
| Non-current Liabilities                              | 53,593              | 47,095         |
| <b>Total Liabilities</b>                             | <b>211,222</b>      | <b>185,632</b> |
| <b>Total Equity</b>                                  | <b>207,649</b>      | <b>222,372</b> |
| Equity Attributable to Equity Holders of the Company | 206,201             | 220,921        |
| Minority Interests                                   | 1,448               | 1,451          |

Note: \*Restated to include the financial impact of acquisition of China Telecom (HK), China Telecom (Americas) and China Telecom System Integration

# Appendix 3 Detailed operating revenues breakdown for the year ended 31 Dec 2007 (incl. upfront connection fees)

| RMB Mil  | 2006<br>(Restated)* | 2007           |
|--|---------------------|----------------|
| <b>Upfront Connection Fees</b>                   | <b>4,971</b>        | <b>3,294</b>   |
| <b>Local Voice Business</b>                      | <b>78,074</b>       | <b>70,424</b>  |
| Upfront Installation Fees                        | 2,913               | 2,735          |
| Monthly Fees                                     | 28,973              | 25,346         |
| Local Usage fees                                 | 46,188              | 42,343         |
| <b>DLD</b>                                       | <b>25,517</b>       | <b>24,127</b>  |
| <b>ILD</b>                                       | <b>3,225</b>        | <b>2,882</b>   |
| <b>Interconnections</b>                          | <b>14,095</b>       | <b>13,879</b>  |
| <b>Internet Access</b>                           | <b>23,724</b>       | <b>31,340</b>  |
| <b>VAS &amp; Integrated Information Services</b> | <b>14,203</b>       | <b>19,231</b>  |
| <b>Managed Data</b>                              | <b>3,080</b>        | <b>3,013</b>   |
| <b>Leased Line</b>                               | <b>4,548</b>        | <b>5,321</b>   |
| <b>Others</b>                                    | <b>4,179</b>        | <b>5,145</b>   |
| <b>Total</b>                                     | <b>175,616</b>      | <b>178,656</b> |

Note: \*Restated to include the financial impact of acquisition of China Telecom (HK), China Telecom (Americas) and China Telecom System Integration