



# 2007 Credit Suisse Asian Investment Conference

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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.



**Business Review**

**Financial Performance**

# Solid Results

(Excl. Connection Fees)



## Continuous growth in subscribers, revenue and net profit

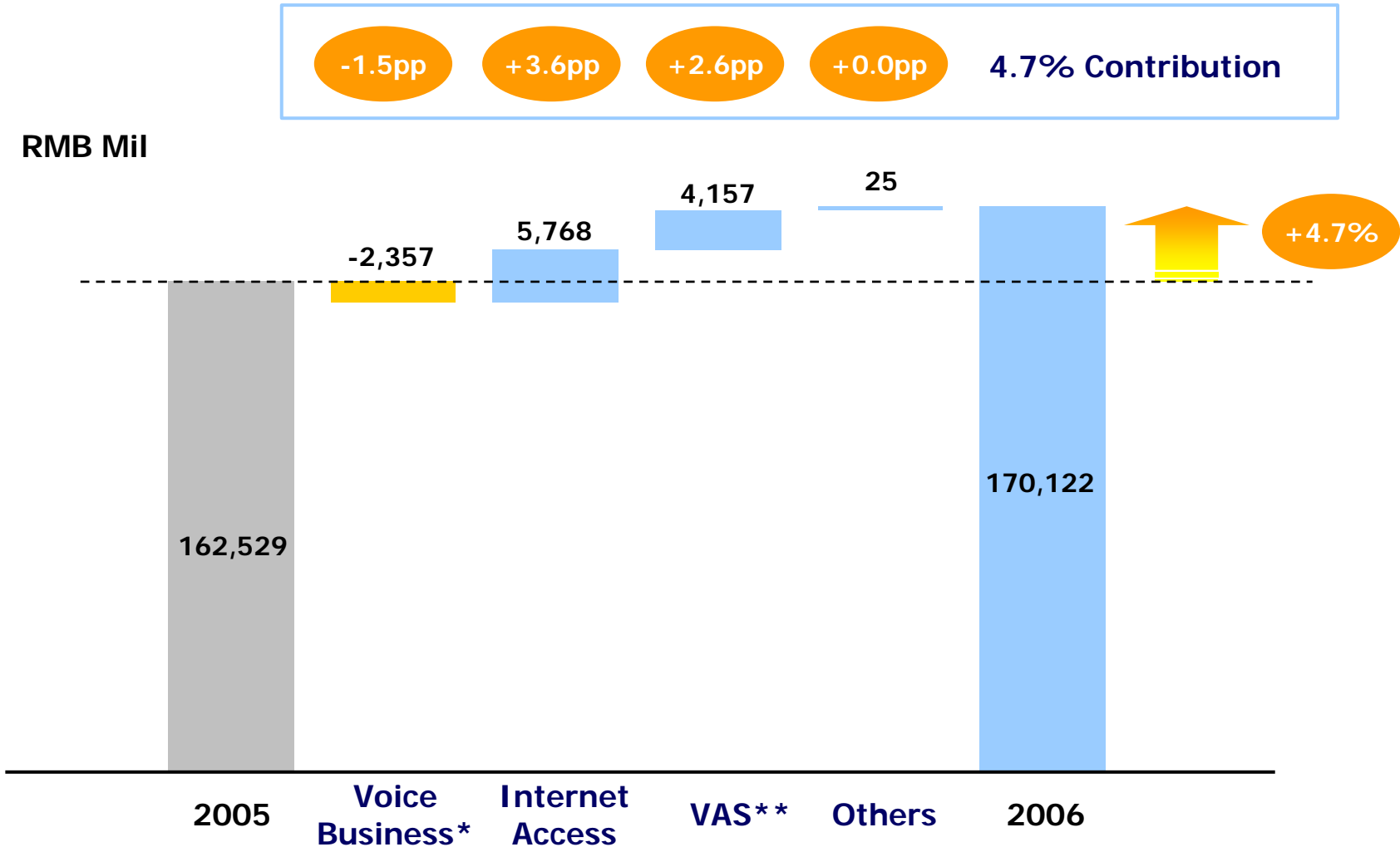
	2005	2006	Growth
Access Lines in Service (Mil)	210.09	223.04	6.2%
Broadband Subs (Mil)	21.02	28.32	34.7%
Operating Revenue (RMB Mil)	162,529	170,122	4.7%
EBITDA (RMB Mil)	81,825	84,911	3.8%
EBITDA Margin	50.3%	49.9%	-0.4pp
Net Profit* (RMB Mil)	21,131	22,171	4.9%
EPS (RMB)	0.261	0.274	4.9%
Free Cash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

# Revenue Growth Drivers



Note: \* Voice Business 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

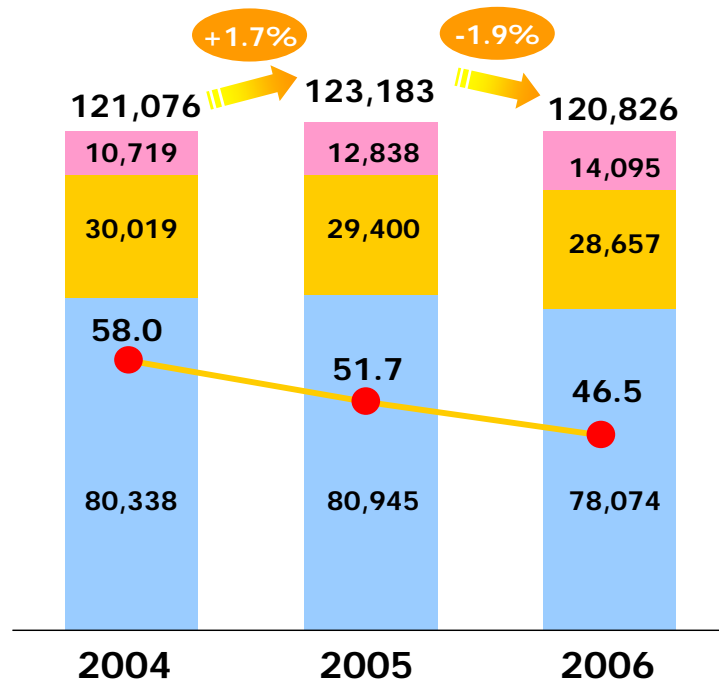
# Revenue Breakdown

	2005 (RMB Mil)	2006 (RMB Mil)	Growth	Share of Operating Revenue
<b>Local Voice</b>				
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%
	<b>80,945</b>	<b>78,074</b>	<b>-3.5%</b>	<b>45.9%</b>
<b>Long Distance</b>	<b>29,400</b>	<b>28,657</b>	<b>-2.5%</b>	<b>16.8%</b>
<b>Interconnections</b>	<b>12,838</b>	<b>14,095</b>	<b>9.8%</b>	<b>8.3%</b>
<b>Internet Access</b>	<b>17,862</b>	<b>23,630</b>	<b>32.3%</b>	<b>13.9%</b>
<b>VAS</b>	<b>9,976</b>	<b>14,133</b>	<b>41.7%</b>	<b>8.3%</b>
<b>Managed Data, Leased Line &amp; Others</b>	<b>11,508</b>	<b>11,533</b>	<b>0.2%</b>	<b>6.8%</b>
<b>Total</b>	<b>162,529</b>	<b>170,122</b>	<b>4.7%</b>	<b>100%</b>

# Rising Challenges to Voice Business

## CT's Voice Revenue

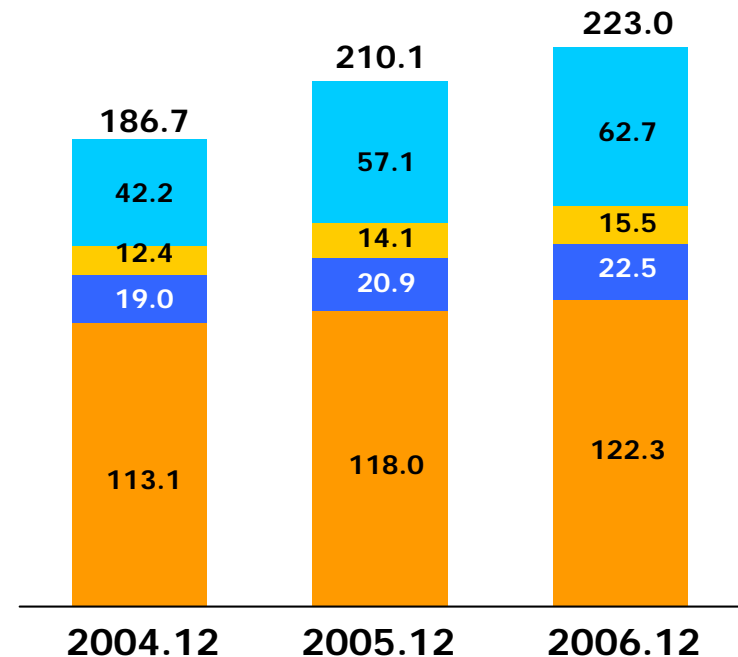
RMB Mil



■ Local Voice     ■ Interconnection  
■ DLD/ILD     ● Voice ARPU (RMB)

## Access Lines in Service

Mil



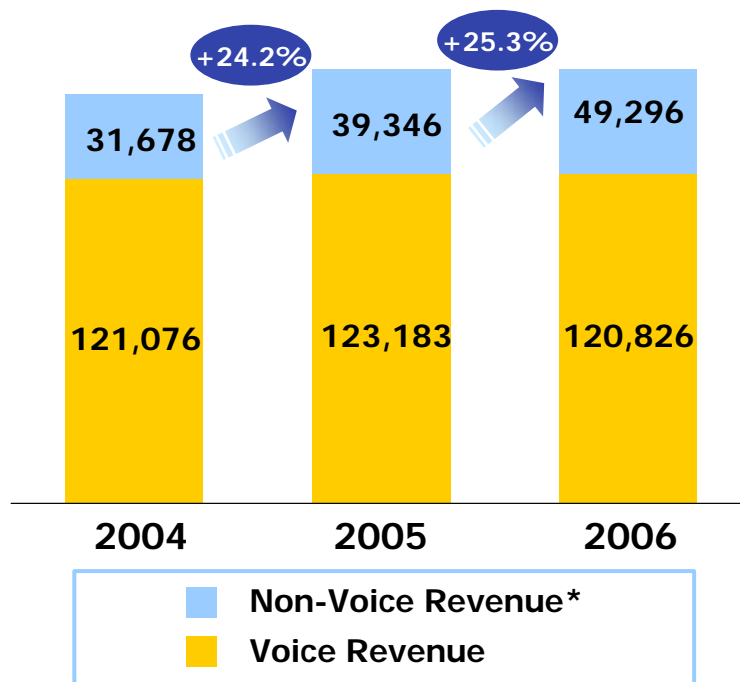
■ Residential     ■ Public Telephone  
■ Enterprise     ■ PAS

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

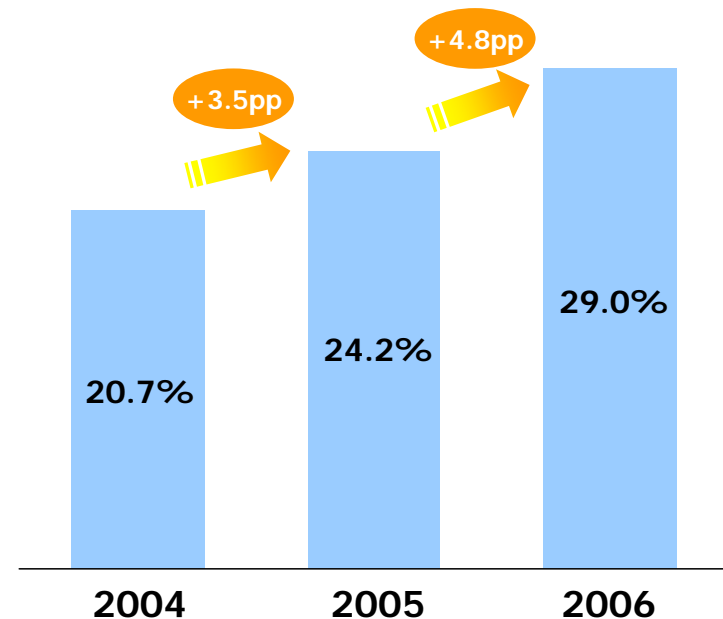
# Strategic Transformation Gaining Momentum

## 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



# Booming Internet Business

## Internet Applications

VNet

IDC/CDN

IPTV

Online Video

Search Engine

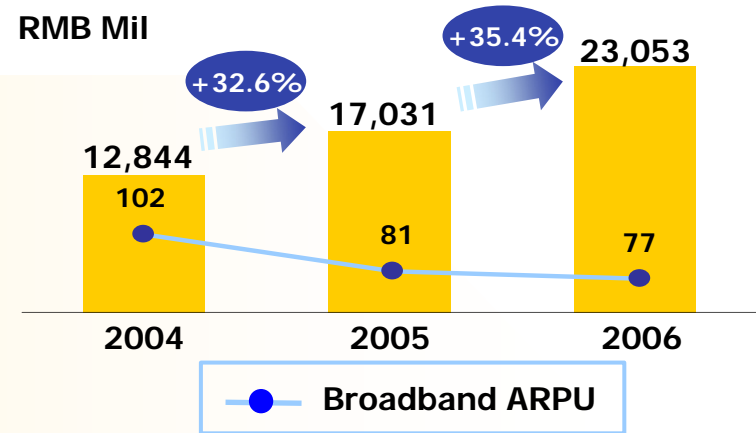
E-payment

Network Security

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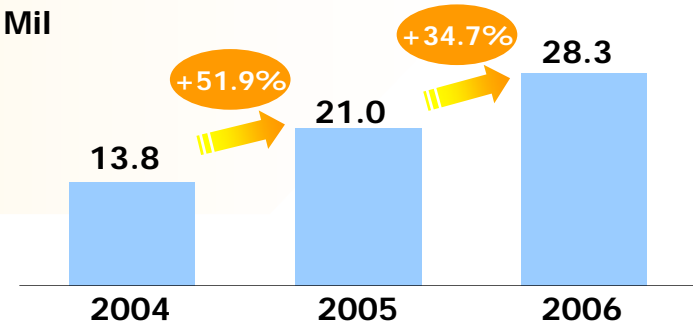
## Broad Access Revenue

RMB Mil



## Broadband Subs

Mil

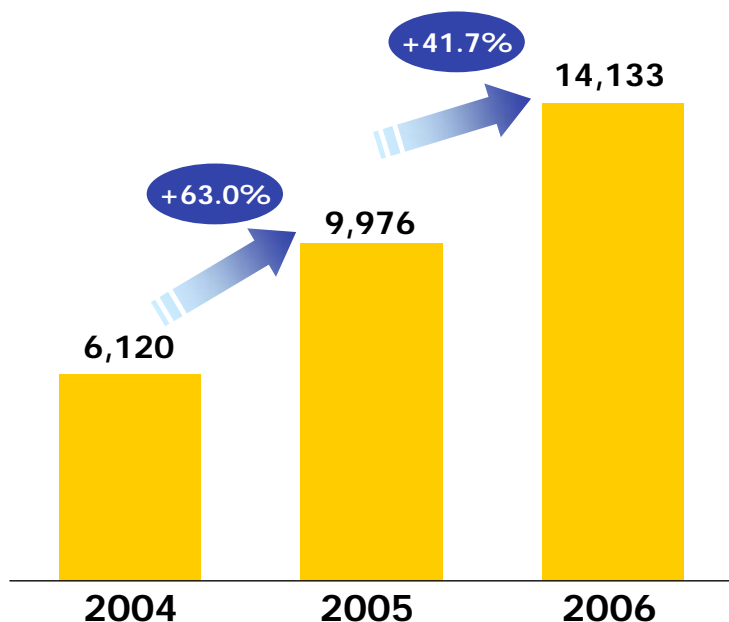


☛ Leverage branding advantage and strengthen interactive promotion of Internet access & applications businesses

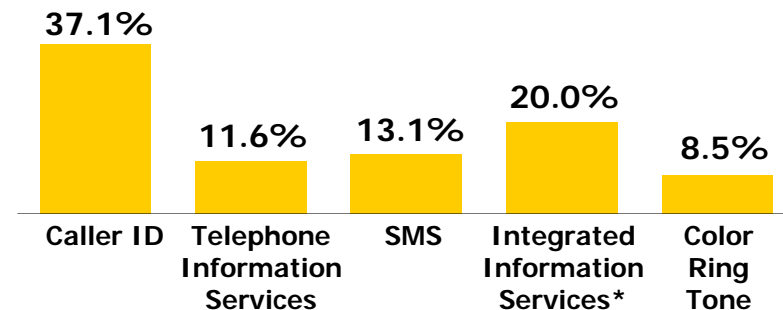
# Fast Growing VAS

## VAS Revenue

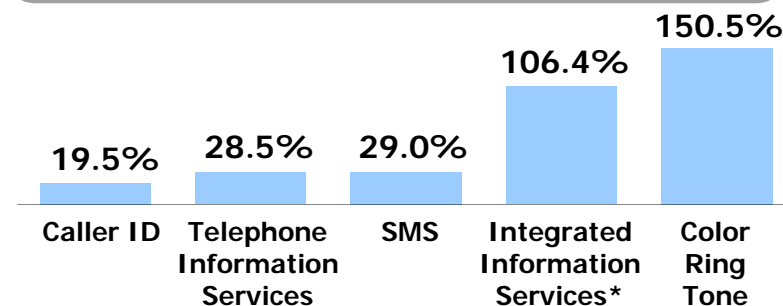
RMB Mil



## 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



- 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



**Business Review**

**Financial Performance**

# Key Financial Information

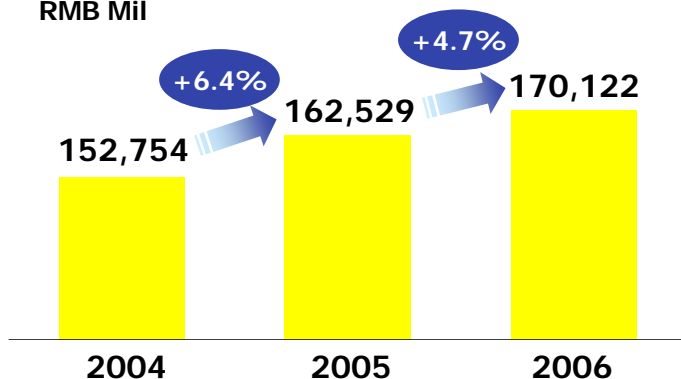
	2005 (RMB Mil)	2006 (RMB Mil)	Change
<b>Operating Revenues</b>	<b>162,529</b>	<b>170,122</b>	<b>4.7%</b>
<b>Operating Expenses</b>			
Depreciation & Amortization	49,652	51,272	3.3%
Network Operations & Support	30,334	30,723	1.3%
Personnel	24,960	26,019	4.2%
SG&A	19,892	22,214	11.7%
Interconnection &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

# Solid Financial Results



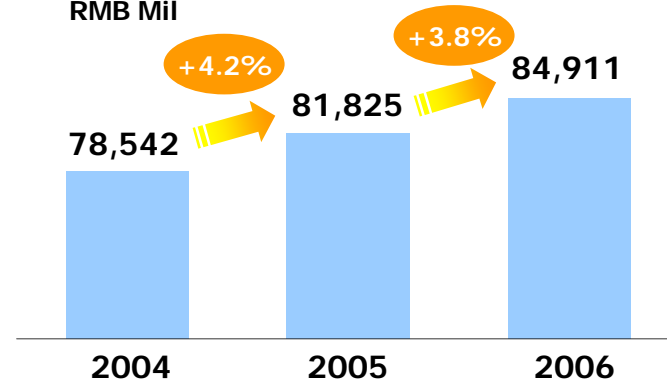
## Operating Revenues

RMB Mil



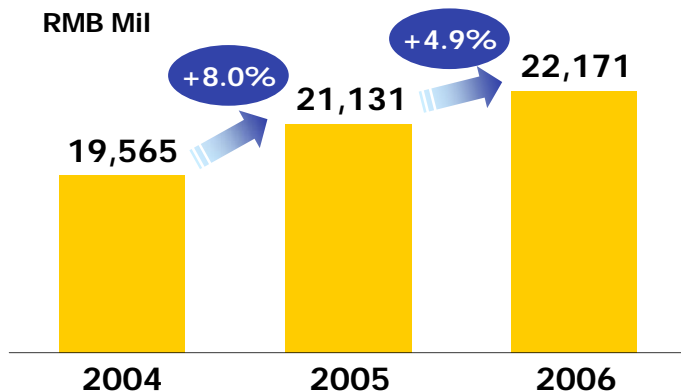
## EBITDA

RMB Mil



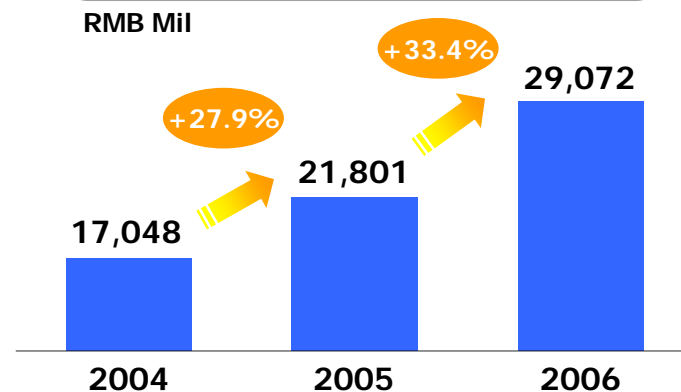
## Net Profit

RMB Mil

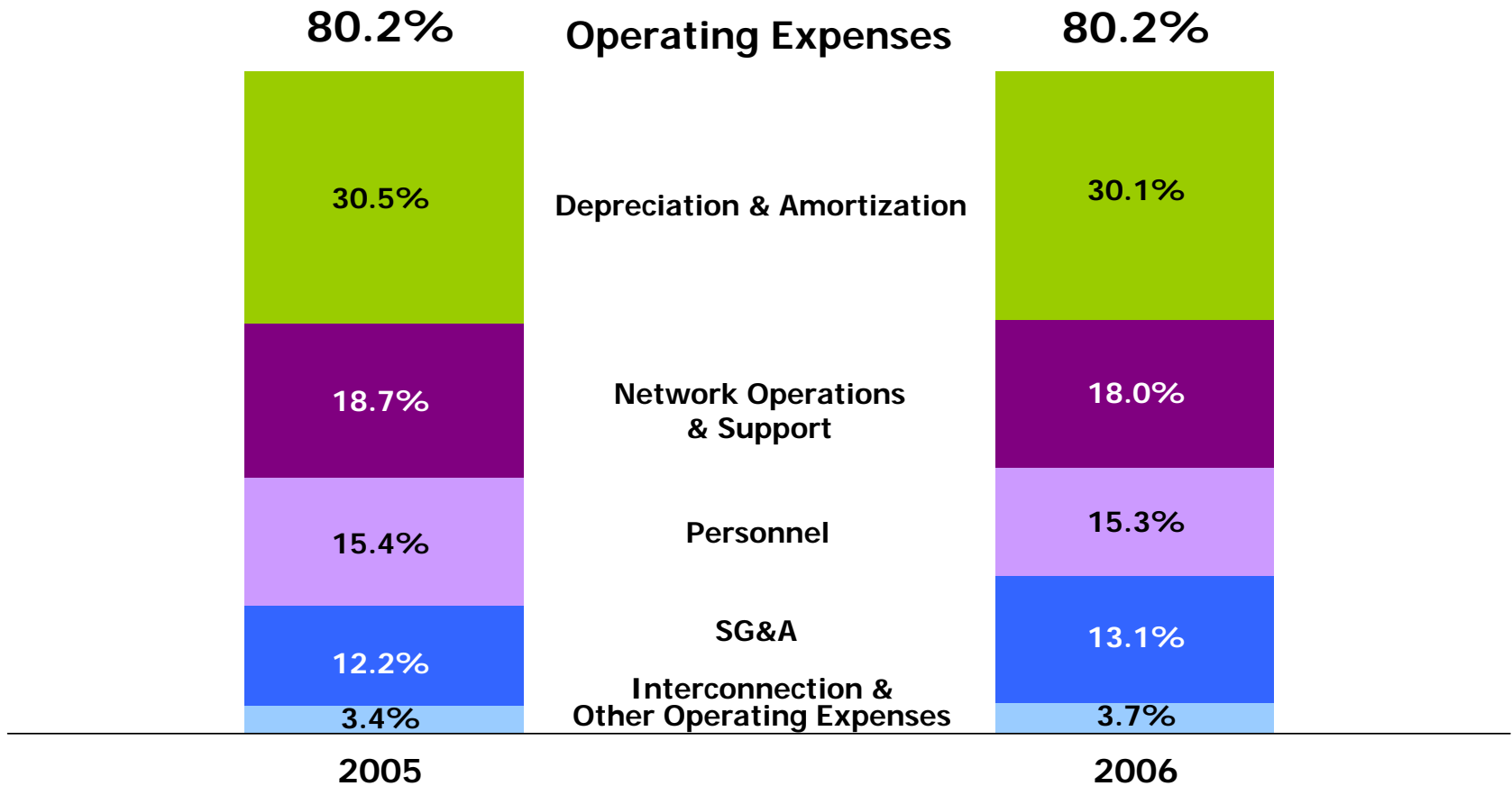


## Free Cash Flow

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

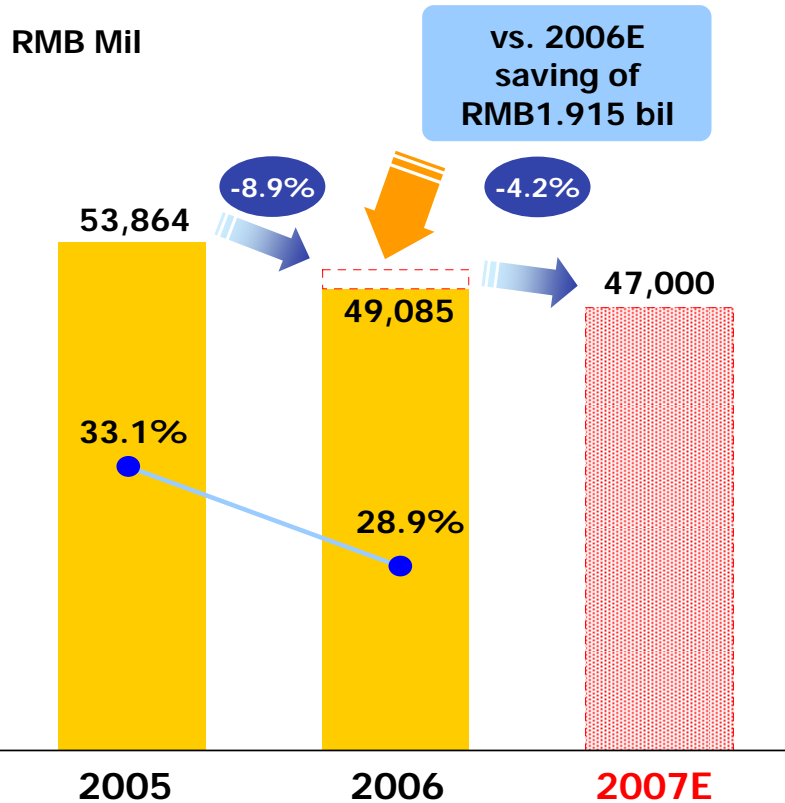
**Depreciation & Amortization**  
RMB51,272 mil (-0.4 pp as a % of operating revenue)

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

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

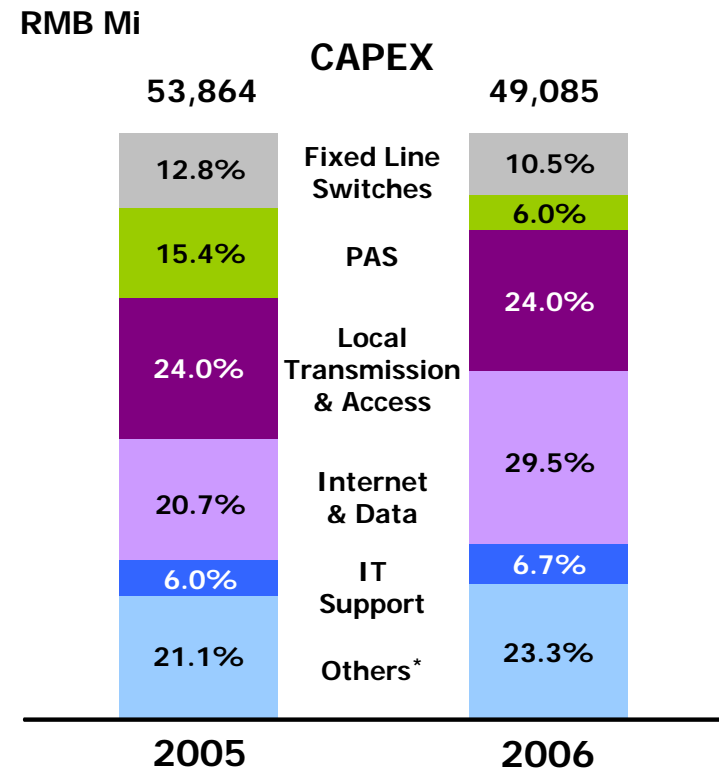
**SG&A**  
RMB22,214 mil (+11.7% yoy) due to higher growth in sales expenses

## CAPEX



● CAPEX as a % of Operating Revenue

## CAPEX Composition



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

# Rationalized CAPEX Structure

- Preparing for future comprehensive services convergence offering
- Investing predominantly in intelligent network, broadband, IP based network and NGN
- Lowering CAPEX for fixed line switches and PAS
- Maintaining CAPEX ratio for local transmission and access

## Objectives

- Strengthen budget control
- Reduce CAPEX
- Adjust CAPEX structure
- Optimize resources allocation

Increased CAPEX for Internet & data, IT support by 9.5 pp of total CAPEX

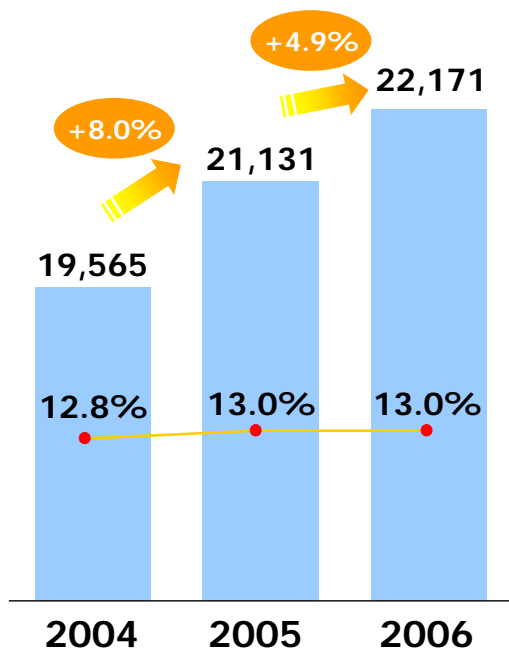
Maintained CAPEX ratio for local transmission and access

Reduced CAPEX for fixed line switches and PAS by 2.3 pp and 9.4 pp of total CAPEX respectively

# Robust Financial Performance Driven by Transformation

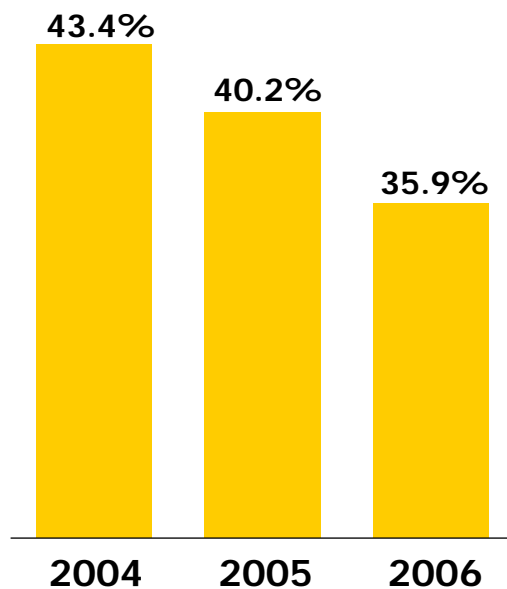
## Net Profit

RMB Mil



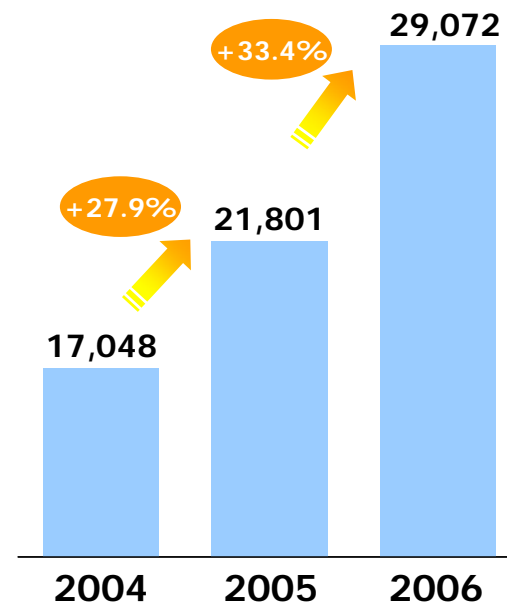
● Net Profit Margin

## Total Debt/ Total Capitalization



## Free Cash Flow

RMB Mil



‘ *Connecting The World* ’

# Thank You

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