
China Telecom Corporation Limited

Edited Transcript of 2010 Annual Results Analyst Presentation

Speaker: Mr. Wang Xiaochu – Chairman & CEO

Good afternoon, ladies and gentlemen. I am very pleased to meet you all and it is my pleasure to introduce to you the Company's performances for 2010.

Today's presentation will be divided into three sections. First of all, I will talk about the Company's overall performance. This will be followed by Mr. Shang and Madam Wu, who will present our business review and financial performance respectively.

Slide 6 - Highlight

In 2010, the company achieved impressive results, featuring in the following aspects:

First, Rapid expansion in high-growth businesses, like mobile and broadband services;

Second, effective integrated operation driving remarkable earnings recovery

Third, continuous efforts in transformation and innovation driving growing momentum and robust development

Slide 7 – Solid Results

In 2010, excluding upfront connection fees, operating revenue were 219.4 billion, an increase of 5.4% from last year; EBITDA grew by 7.7% to 88.5 billion; EBITDA margin was 40.3%.

Net profit has gradually bottomed out from 2009. Full year net profit was 15.3 billion in 2010, an increase of 15% from last year; Free cash flow remained strong at 27.1 billion.

For subscriber scale, by the end of 2010, total mobile subscribers was 90.52 million and grew by 61.4% compared with 2009, of which, 3G subscribers grew more than double to 12.29 million. Broadband subscribers rose to 63.48 million, up by 18.7%. The total access line in service was 175 million.

The statistics above indicate year 2010 is both the year having most outstanding performance since commencement of full-service operation and also the year achieved most remarkable results since strategic transformation.

Slide 8 – Revenue Growth Driver

In 2010, operating revenue has increased by 11.1 billion. The key growth driver was the rapid growing mobile service which added 18.3 billion and driving the revenue growth by

8.8 percentage points. The wireline data revenue, mainly broadband service, increased 8.7 billion, driving the revenue growth by 4.2 percentage points.

The rapid scale development in mobile and wireline broadband alleviate the risks of PAS business and offset the downward trend in the traditional wireline voice service, enhancing the overall development of the Company.

Slide 9 - Strategic Transformation Optimizing Revenue Structure

Driven by the sustained transformation and full-service operation in recent years, the business structure was further optimized and experienced a breakthrough in 2010, and a new development stage primarily emerged. The features are “three ups” and “one down”.

“Three ups” refer to the rapid growth in mobile voice, mobile data and wireline data, mainly broadband, accounting for 13.2%, 11.4% and 46.9% of the total revenue, raising total revenue by 3.6 percentage points, 3.9 percentage points and 1.7 percentage points respectively. The strategic growing businesses accounted for 71.5 % of the total revenue.

“One down” represents the wireline voice service, accounted for 28.5% of total revenue. PAS revenue accounted for 2.1% of the total revenue. With gradual migration of PAS service in 2011, the risks in wireline business will be apparently reduced.

The business structure was optimized as the result of our continuous efforts in many years, will lay a solid foundation for sustainable development of the Company

Slide 10 - Rapid Mobile Expansion with Robust Quality

We seized the opportunities in 2010 to rapidly expand our mobile service. The mobile subscribers totaled 90.52 million with the net addition of 34.43 million. Market share increased to 10.8%, up by 6.3 percentage points as of the end of 2008. Of which, the new additions of 3G subscribers was 8.22 million reaching a total of 12.29 million, accounting for 13.6% of total mobile subscribers; the mobile service revenue was 47.7 billion, an increase of 59.1% year on year, and the ARPU was 54.2.

The fast growth in mobile service was attributed to our network competence and the leading position of our 3G brand “eSurfing”. We focus on 3G business, industry-specific applications and youngster market, and strengthening research and promotion of differentiated products to stimulate more data traffic. On the terminals side, we vigorise the industry value chain and launch a number of popular star 3G smartphones.

In 2011, we will bring in more Internet apps and industry-specific applications to promote scale development of mobile subscriber base. By focusing on the smart terminals and expansion in open channels to ensure continuing growth momentum of mobile services.

Slide 11 - Accelerate Strategic Fibre & Broadband Deployment

As the capacity expansion and transformation in mobile network has been substantially completed, in 2011, the parent company will reduce the investment in mobile network to 23 billion. The future capital spending will be mainly used in mobile network optimization, improving indoor coverage and 3G capacity expansion.

In 2010, the capex was 43 billion. The capex budget is expected to increase to 50 billion in 2011. The Company will foster the investment in the project “Broadband China, Fibre Cities”. Our aim is to have 20M-plus bandwidth access capacity across cities in China in 2013 to enable users to enjoy high-value and differentiated broadband experience, which further strengthen our leading position in the wireline broadband services in the market.

In 2011, the broadband development will focus on two areas:
one is 20M bandwidth network capacity in cities areas exceeded 70%;
second is new additions of broadband subscribers about 12 million.

Slide 12 - Stable Dividend

For distribution of final dividend, the Company considers 2 factor: one is the Company’s capital need for long-term development and the other is return to shareholders.

The board of directors concluded that it is suitable for the Company to acquire mobile network assets from the parent company in 2012 and now we need to accumulate capital for the planned acquisition. To this end, we would like to recommend at the forthcoming AGM a dividend of HKD 0.085 per share. When profitability increase in future, the Company will then consider to increase the dividends.

Slide 13 - Superior Strengths Ready to Profit from Explosive Data Growth

Significant changes are on the way in the communication industry. With the advent of the mobile Internet era, followed by growing of “Cloud Computing” services and enormous demand of informatization , we will witness the explosive demands for network bandwidth, which is both an opportunity and a challenge for us.

We will plan ahead to build and deploy the new evolving network of “wireline broadband plus 3G plus WiFi”; We will improve the overall planning, R&D, coordination in the emerging Internet services as well as the operation management of new products; We will expand our cooperation and improve our capabilities in the terminals, sales and integrated services.

We believe that with the Company’s superior strengths and sustained innovation, we are able to seize the opportunity to achieve the large-scale development in the seamless integration of wireless and wireline broadband.

Slide 14 - To Enhance Value with Transformation & Innovation

In our continuous transformation, we will further implement our “Customer-focused Innovative Informatization Strategy” and operate in line with our positioning as “the leader of intelligent pipeline, the provider of integrated platforms and a participant of content and application development”. We will strive to generate more values for our shareholders and customers.

Next, may I invite Mr. Shang Bing to introduce the business performance in 2010.

Speaker: Mr. Shang Bing - President & COO

Slide 15

Thank you, Chairman Wang. Good afternoon, ladies and gentlemen. I will now introduce the Company’s business performance for 2010.

Slide 16 – Revenue Breakdown

This slide shows the company’s revenue breakdown and the change.

Slide 17 – Mobile Business Gaining Scale & Momentum

Just now, Chairman Wang has briefed you on the overall development of the Company’s mobile service. Now I elaborate it further.

In 2010, The Company’s mobile service was growing both in scale and quality. Apart from rapid growth in mobile voice service, the mobile data service also achieved significant breakthrough. The mobile data revenue was 18.8 billion, increase by 88.6%.

The sound development of mobile data service was benefited from our rich portfolio of mobile Internet products and industry-specific applications, which were well received by the market. The services, like “eSurfing” video and Mobile best tone and etc, were growing rapidly. The industry-specific applications, like government affairs supervision, traffic and logistics, eSurfing RFID and digital hospital and etc. were all expanding.

In future, we will speed up the launching of new products and new applications and improve the penetration rate and popularity of products. We will make efforts to drive scale expansion of mid-to-high-end 3G subs and to promote data traffic management. More efforts will be made on the smart terminals, expand open channels and strengthen the marketing for 3G services so as to achieve high-quality scale development.

Slide 18 – Alleviating Wireline Risk

In 2010, the revenue from the wireline services reached 165.4 billion, down by 4.2% from

last year, of which the revenue of the PAS service declined to 4.6 billion from 11.5 billion in 2009. Excluding PAS revenue, the wireline revenue decreased by 0.1%.

By the end of 2010, total number of PAS subscriber was 16.43 million. With the migration and exit of PAS subs, the risks in the wireline operation will be further reduced.

We will commit to maintaining the wireline voice service by strengthening the customer relationship and enhancing customers' stickiness and value via integrated operation and offerings.

Slide 19 - Fast-growing Wireline Broadband Development

For 2010, the wireline broadband service revenue was 54.1 billion, increase by 15%. The number of wireline broadband subscriber increased to 63.48 million with net addition of 10.02 million during 2010. The ARPU was 77.1.

In the next few years, we will maintain the good momentum of development in the wireline broadband service by the following measures:

First, we will realize the wide coverage of 20M access speed to promote bandwidth up-sell through the project called "Broadband China, Fibre Cities".

Second, we will adopt the differentiated strategy of market segmentation. For those low-end users with access speed below 2M, our pricing will be more competitive in order to sustain the market share; For the mainstream broadband users with 2M and 4M, we will accelerate the access bandwidth and enhance the integrated offerings; For the high-end subs above 8M access speed, we will offer premier apps along with video.

Third, led by the brand of "eSurfing broadband", we will embed traffic-centric services like videos, games and entertainment on top of basic access so that we can enhance the value of our services through offering various applications.

Slide 20 – Wireline VAS & Integrated Information Services

In 2010, the wireline value-added and integrated information services continued to grow steadily, with revenue totaling 28.3 billion. Revenue from key services, like the best tone type of information services and IT services and applications, reached 6.3 billion and 5.2 billion respectively, up by 15.2% and 13% over the previous year respectively.

As for the value-added and integrated information services, we will allocate resources with the support of wireline and wireless broadband network and integrated business to boost the expansion and penetration of the integrated information services products and applications and to focus on the opportunities for IDC service brought about by "Cloud Computing" so as to strengthen our competitive edges in the differentiated information services.

Slide 21 – Deepen Transformation and Innovation to Create Unrivalled Development Model

To recap our achievements in 2010, we clearly noted that our strategy yielded remarkable performance. Next, we will, based on the customer segments, carry out differentiated operation. By adopting different products and marketing strategies, we aim to attain scale development.

For the government and enterprises customers, we will take advantage of the marketing edge to establish the model of “industry applications plus integrated services & differentiated products”. We will swiftly replicate and expand those key industry-specific applications and characteristic products to gain more high-value and long-term customers.

For the public customers, we will leverage integrated edge of broadband, 3G and WiFi, set up the model of “smartphones plus apps stores & handset browsing”. We will also expand the Internet applications in a centralised way, proactively promote 3G business. Moreover, we strive to promote the mobile data traffic management, hence to improve customers’ value.

Now May I invite Madam WU to present the Company’s financial performance.

Speaker: Madam Wu Andi – Executive Vice President & CFO

Slide 22

Thank you, Mr. Shang. Good afternoon, ladies and gentlemen. I will now present to you our Company’s financial performance for 2010.

Slide 23 – Key Financial Information

In 2010, the Company consistently adhered to the “Customer-focused Innovative Informatization Strategy” by adopting the operating strategy of differentiation. We have delivered impressive performance.

The operating revenue for the whole year was 219.4 billion, an increase of 5.4% from last year. The operating expenses reached 195.8 billion, up by 4.9% over the previous year, a % lower than the revenue growth. Net profit rose by 15%, which realized the profitable scale development in our full service.

Slide 24 – Effective Cost Control Fuelling Sustainable Growth

In 2010, operating expenses for the Company were 195.8 billion, accounting for 89.3% of the operating revenue, down by 0.4 percentage point.

Depreciation and amortization declined by 1.1%, reduced by 1.5 percentage points as a % of operating revenue, which was benefited from our efforts to control the CAPEX in the prior

years.

Network operations and support expenses increased by 8.6%, up by 0.6 percentage points as a % of operating revenue, mainly due to the rise in the Mobile leasing fees which has increased to 13.3 billion, up by 58.9% year on year.

SG&A increased by 4%, down by 0.2 percentage points as a % of operating revenue, mainly due to rapid and scale development of mobile service and the related marketing expenses. The handset subsidies up by 20.3%, increased to 12.1 billion, accounting for 25.4% of the mobile service revenue.

Personnel costs rose by 8.1%, up by 0.4 percentage points, mainly derived from the Company's efforts to increase incentives to attract talents and enhance performance-based reward for general staff.

Other operating expenses grew by 9.5%, up by 0.3 percentage points as a % of the operating revenue, mainly derived from the increase of 67.9% year-on-year in mobile interconnection expenses, which reached 5.8 billion.

Slide 25 - Optimize Resources Deployment to Promote Profitable Scale Development

At present, the core business mobile, broadband and information services are growing on a fast track. In that case, our cost control should be aimed at two aspects: one is to promote scale development and the other is to enhance efficiency. To this end, we identify the following points in our cost control strategy:

First, optimize resources allocation driving incremental revenue and consolidate existing revenue via effective cost initiatives.

Second, control cost in a rational way so as to increase the efficiency of handsets subsidies and discipline in administrative and other indirect operating expenses

Third, improve resources deployment to foster scale development and introduce incentives to enhance staff performance and edges.

Fourth, enhance investment structure and increase investment in fibre and broadband roll-out to enhance asset utilization.

Slide 26 – Enhanced CAPEX Structure Supporting Strategic Transformation

In 2010, the Company's CAPEX is further enhanced, featuring the following aspects:

First, accelerate the progress of FTTH and the project of “fiber-in, copper-out” to support the scale development in the wireline broadband service. The investment in the broadband

and Internet grew by 34.3% over last year, accounting for 64.2% of total capex.

Second, continuously control the investments in infrastructure and others. The investment dropped by 7.0% and accounting for 16.6% of total capex.

Third, focus on industry-specific applications projects to enhance investment return and risk control. The investment on the VAS and integrated information services dropped by 11.7%, accounting for 13.9% of total capex.

Fourth, improve the integration of wireline and mobile IT platforms. The IT support investment fell by 11.3% over last year, accounting for 2.9% of total capex.

Fifth, Ensure investment efficiency and reduce the operating risks, control the maintenance investment in the existing network, investment on wireline voice decreased by 35.4% over last year, only contributed to 2.4% to the total capex.

Slide 27 - Enhanced Profitability

In 2010, the signs show healthy recovery in the profitability were EBITDA and net profit. EBITDA reached 88.5 billion, up by 7.7% while net profit was 15.3 billion, up by 15%

Slide 28 – Solid Financial Strength

In 2010, our total debt to total capitalization ratio continued to fall to 23.6%, decline by 7.9 percentage points

Net debt to EBITDA ratio was 0.52 times, a decline of 0.34 times compared 0.86 times as end of last year.

In general, our solid financial strength and strong free cash flow will support our sustainable development.

Slide 29 – Innovative Financial Management to Create Value Amid Transformation

In our transformation, we will continue to advance from the traditional financial management to modern corporate value management. The main measures include the following:

Foundation business: we will implement the centralized financial management at provincial-level, implement precision management to increase return on investment.

Emerging business: we will devise effective management initiatives fitting their dynamics.

Internal control: we will strengthen the management of risk control points, risk prevention

and assessment system to promote professionalism and informatization in risk management

Through continuous effort, we will reward shareholders with enhanced value.

Slide 30

This is the end of the 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 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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