



China Telecom Corporation Limited

Edited Transcript of 2011 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 2011.

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. Yang and Madam Wu, who will present our business review and financial performance respectively.

Slide 6: Highlights

2011 is the year with remarkable results since we commenced full services operation in 2008. The Company experienced rapid development, achieving double-digit growth in both revenue and net profit. Operation model became more mature. Competitive edges were further enhanced.

Highlights of the results are:

- First, 3G has driven fast mobile expansion.
- Second, broadband subscriber scale continues to expand.
- Third, revenue contribution from growth businesses significantly increased and the business structure is further optimized which laid a solid foundation for sustainable development.

Slide 7: Solid Results

In 2011, our operating revenues were 244.9 billion, up by 11.7% over last year. Excluding revenue from mobile terminal sales, operating revenues were 231 billion, an increase of 8.1% over last year.

EBITDA was 94.3 billion, up by 6.5%, EBITDA margin was 40.8%.



Net profit was 16.8 billion. Last year, we amended certain accounting policies in accordance with International Financial Reporting Standard. Taking into the amendment, net profit was 16.4 billion, up by 10.5%.

We will further elaborate the details of the amendment later.

Slide 8: Revenue Growth Drivers

Compared to 2010, the Company's revenue increased by 25.6 billion.

Mobile business contributed the most to the overall revenue growth. Revenue from mobile business has increased by 28.7 billion, driving revenue growth by 13.1 percentage points. Wireline data revenue, including broadband services, has increased by 9.6 billion, driving revenue growth by 4.4 percentage points.

Wireline voice revenue declined by 12.7 billion and dragged down overall revenue by 5.8 percentage points.

Slide 9: Remarkable Progress on Optimizing Revenue Structure

In 2011, the Company's revenue structure was further optimised.

The growth businesses including, mobile voice, mobile data, broadband, VAS & integrated information services continued to grow, which account for 79.7% of the total revenues, up by 8.2 percentage points year-on-year.

Mobile business, became our largest business, accounted for 33.8% of total revenues, up by 9.2 percentage points. Wireline broadband revenue accounted for 24.8% of the total revenues.

Wireline voice had further declined to 20.3%, from 28.5% of last year; while revenue from PHS accounted for only 0.8% of total revenues, the risk of wireline business was further alleviated.



We believe the present business structure is more reasonable with huge growth potential and was characterized with anti-risk capability which laid a solid foundation for sustainable development.

Slide 10: Rapid Mobile Expansion Enhancing Overall Profitability

In 2011, mobile business especially 3G showed rapid growth. Mobile subs showed a net addition of 35.95 million, a total of 126 million while market share goes up to 13%. Net addition of 3G subs was 24 million, reaching a total of 36.29 million. Market share of 3G subs reached 28.5%.

Mobile service revenue was 68.2 billion, up by 43%, ARPU was 52.4.

While expanding the subscribers base, we persist in cost control, say proportion of handset subsidies to mobile service revenue declined to 22.9%. Based on our projection, we think the mobile business has turnaround to profit making which fosters the enhancement in the overall profitability.

Slide 11: Launching iPhone to Promote Further Development Breakthrough

As you all know, we announce the co-operation with Apple and launch the CDMA iPhone in March and believed this will bring us several key benefits:

- First, expand high-end user mobile market;
- Second, enrich sales channel capability of mobile business;
- Third, enhance centralized operation efficiency.

For the iPhone Strategy, we adhere to the principle of rational competition, fully leveraged on the network & services edges to provide differentiated iPhone experience for users. Launch of iPhone is beneficial to the long term sustainable healthy development of the Company, but will have short term pressures on the overall profitability.

Slide 12: Accelerating Strategic Investment to Foster Broadband Sustainable Growth

In 2011, total capex was 49.6 billion, of which, investments in broadband was 33.1 billion, which accounted for 66.8% of total investment, effectively supporting the progress of “broadband China, fiber cities” project. By the end of last year, bandwidth access capability with 20M in cities areas in Southern China reached 70%.

In 2012, our capex budget was 54 billion, of which 70% is spent on broadband network upgrade. Following the further progress of the project, the coverage for FTTH will expand rapidly, which reinforcing and enhancing our competitive strengths in broadband access.

Slide 13: Kick-off Mobile Network Acquisition to Enhance Value

This year, we plan to acquire the mobile network assets from the parent company by way of asset acquisition.

The current network leasing structure was taking into account the shareholders’ concern on the operating risk of CDMA business when we acquired the mobile business in 2008. Today, the concern is over. Based on the figures, last year the lease fee payment amounted to 19 billion, while the depreciation charge incurred by the parent company was only 12.6 billion, therefore we consider to acquire the mobile network.

Subsequent to the acquisition, the listed company is expected to take up the mobile network capex, therefore, now we share some information on the mobile network capex of the parent company. In 2011, our parent company’s mobile network capex was 21.7 billion, and the planned capex for 2012 is 19 billion. Investments will primarily be used for network optimisation and capacity expansion in high-traffic areas.

Now, internally we have kicked off the preparatory work of the acquisition. The transaction will be in compliance with the relevant rule & regulations. At



present, the book value of the mobile network asset was around 120 billion. We need to perform asset appraisals in acquisition and negotiate the consideration with the parent company in accordance with the appraised value and submit for shareholders' approval.

Slide 14: Stable Dividend

Taking into the account that we need to acquire mobile network assets in 2012 and to reserve capital for the acquisition, the Board of Directors recommended at the forthcoming annual general meeting a dividend of HK dollar 8.5 cents per share. In the future, when the Company's profitability improves, we will consider increasing the dividend pay-out.

Slide 15: Seizing the Golden Opportunities for Value Enhancement

Overall, the Company is still at the golden stage of rapid scale development, no matter in the outside environment and our internal conditions, which equipped ourselves with better potentials in development. The key is to capture the opportunities in time, build up confidence, commit to innovate, dare to breakthrough, adhere to the theme of "promoting scale development through dual leadership in innovation and services ". We shall persist in scale development and data traffic operation strategies, quickly expand mobile, broadband and integrated information services to a greater scale, grasping greater market share.

Under the new circumstances, we will ride on the changes in external environment and leverage on the edges accumulated over the years. With the efforts from all our staff, corporate values will be further enhanced.

Next, may I invite Mr. Yang to introduce the business performance in 2011.

Speaker: Mr. Yang Jie - President & COO

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Thank you Chairman Wang. Good afternoon Ladies and Gentlemen. I will now introduce the Company's business performance for 2011.

Slide 17: Revenue Breakdown

This table shows the Company's revenues breakdown and the change. I will now explain more in details.

Slide 18: 3G Traction Driving Mobile Scale Expansion

In 2011, the Company's 3G business showed favourable growth. 3G net adds was 24 million, with a total of 36.29 million. Of the total net add, 67% was 3G users and around 29% of total mobile subs are 3G users. Smartphone subs was about 16.66 million, increased by 9.4 times from 2010.

Since 2nd half of last year, 3G terminal especially RMB 1000 3G terminals became more popular. 3G subs grew rapidly, driving a lot of 2G subs to migrate to 3G services and forming a huge market potential for 3G.

The Company will firmly seize this gold opportunity to strengthen network coverage and quality, optimise service perception and enhance service standards; promote a handset-driven marketing model, stimulate the sales vigorousness of various channels, implemented differentiated strategies in various target markets, such as government & enterprise, youth and rural villages. In public market, we are committed to develop mobile service as a stand-alone product, strengthen the promotion of industry applications to government & enterprise customers and dedicated to penetrate 3G services into our daily work, life, entertainment, etc.

Slide 19: Strong Mobile Data Momentum



In 2011, mobile data business recorded robust growth. Total revenue amounted to 29.6 billion, up by 57.4% over last year, contributing 43.4% to mobile service revenue.

The launch and popularity of 3G applications products were the main drivers of mobile data revenue. At the moment, the users of “eSurfing apps store”, “e’Game”, “e’reading”, “eSurfing Video” increased in multiples, which stimulate traffic and APRU.

We continue to strengthen our edges in 3G applications. Through promoting innovation, mechanism reform, centralised efficient operation, to enhance R & D capability of mobile Internet products. Meanwhile, we will closely cooperate with mainstream application providers and introduce popular applications to share the success of 3G momentum.

Slide 20: Stabilising Wireline Revenue

In 2011, wireline revenue was 162.2 billion, down by 1.9% year-on-year. Within the wireline business, broadband, VAS and integrated information services continued to grow. The decline of wireline voice revenue became stabilised, further mitigating the operating risks of wireline operations.

In 2012, the focus of wireline development will remain on fast-growing broadband business and integrated information services. Resources will be tilted towards these 2 areas. We will also actively explore to introduce integrated packages in wireline voice business to mitigate the decline from wireline voice revenue.

Within these measures, we expect wireline revenue will basically become stable.

Slide 21: Fast Growing Wireline Broadband Service

In 2011, wireline broadband recorded satisfactory momentum. Subs and revenue had remarkable growth. Revenue from broadband was 60.8 billion, up by 12.3% yoy. Net addition of broadband subs was 13.33 million, reaching a total of 76.81 million, representing 21.0% growth year-on-year, ARPU was 72.2.

Broadband access is the foundation for nation informatisation, the demand for broadband service is increasing. No matter how the conditions in the external environment, we are confident to see solid growth in broadband business in the coming 2 years.

Our key measures for broadband development include:

- First, accelerate broadband access speed and nurture premier brand;
- Second, enrich bandwidth intensive contents and applications;
- Third, implement a flexible pricing policy to meet the increasing competition to maintain subscriber base and market share.

Slide 22: Robust Wireline VAS & Integrated Information Services

In 2011, wireline VAS and integrated information services grew steadily, with revenue of 29.8 billion, up by 5.1%. Excluding revenue from PAS, revenue grew by 8%. Driven by the emerging business, such as cloud services, our IDC business developed very well with total revenue of 4.2 billion, up by 34.8%.

For the VAS and integrated information services business, we will ride on the trends of cloud computing and other emerging businesses, further strengthen market differentiation and offer differentiated products and services, supporting the growth momentum in integrated information services.

Slide 23: 2012 Priorities

In 2012, we steadily implement “The Three New Roles” strategies and further enhance centralized operation, making breakthrough in our core businesses. Priorities of 2012 will be:



First, taking the window opportunities of mobile and broadband to promote scale expansion and data traffic operation. Leverage on our integrated operation strengths, we actively promote mobile service as a stand-alone product, steadily enhancing the quality and operating efficiency of development.

Second, enhance integrated operation efficiency by strengthening centralised efficient operation, co-ordinated development in sales methods and marketing channels, IT support, procurement and network construction.

Third, to change the mindset for comprehensive innovation and develop in line with the dynamics of mobile internet. Strengthen the synergy across networks, platforms and products, firmly adhering to the strategy of the “Three New Roles” for long term sustainable development.

Now, may I invite Madam Wu to present the Company’s financial performance.

Speaker: Madam Wu Andi - Executive Vice President & CFO

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Thank you President Yang. Good afternoon, ladies and gentlemen. I will now present the financial performance for 2011.

Slide 25: Key Financial Information

The operating revenue in 2011 was 244.9 billion, up by 11.7%; operating expenses were 220.9 billion, up by 12.5%; net profit was 16.4 billion, representing a 10.5% growth of; free cash flow was 20.3 billion.

Slide 26: Key Impact of Adopting IFRS 1 Amendment

This page shows the key impact of adopting IFRS 1 amendments, recognizing the revalued amounts of property, plant & equipment since acquisition as their deemed costs, and retrospectively adjust the depreciation and amortization



charged for these assets. Also, we change the accounting policy of property, plant & equipment from the revaluation method to the cost method.

Upon adopting the IFRS amendment, depreciation charges increased to around 500 million, the impact on profit after tax for around 400 million

Slide 27: Effective Cost Initiatives Driving Sustainable Growth

In 2011, the Company's operating expenses were 220.9 billion, accounting for 90.2% of revenue, with an increase of 0.7 percentage points year on year. The full year costs structure is

Network operation costs up by 11.6%, was flat as a percentage of revenue as last year. The increase was mainly due to the increase in network leasing fee, amounted 19 billion, which is in line with the increase in mobile revenue. Excluding the network leasing fee, network operation costs fell by 0.6%.

Personnel costs up by 10.2%, which is lower than revenue growth, reduced by 0.2 percentage point as a % of operating revenue as a result of effective control of personnel expenses.

SG&A expenses increased by 15.7%, up by 0.7 percentage points as a % of operating revenue. The increase of SG&A expenses was due to appropriate increase of sales & marketing initiatives for scale development. Mobile handset subsidies were 15.6 billion, up by 29.1%, declined to 22.9% of mobile service revenue.

Other operating expenses increased by 51.1%, mainly because higher mobile terminal costs which was about 12.9 billion. Also, the increase in mobile voice usage also rise up the interconnection expenses.

Depreciation and amortisation declined by 1.9%, reduced 2.9% points as a % of operating revenues.



Slide 28: Appropriate Increase in Marketing Initiatives to Secure Future Sustainable Growth

As Chairman Wang mentioned earlier, we launched iPhone in March this year.

We note the market estimates that upon the launch of iPhone, we will increase sales and marketing expenses, resulting in pressure on our earnings. In response thereto, we have made precise projection in devising iPhone sales plans. Surely we have prepared certain sales initiatives which will have short term pressures on our profitability. In our analysis, the hit on earnings will be short-term.

Through 3-year practices, we have established effective cost measures, making our handset subsidies gradually declined as a percentage of mobile service revenue. It can be reasonably predicted that excluding iPhone, mobile handset subsidies as a percentage of mobile service revenue this year will be less than last year. Therefore, introducing iPhone is a rational plan to us and we are implementing centralized sales management at all levels, leading to overall healthy development.

Slide 29: Optimized CAPEX Structure Supporting Strategic Transformation

In 2011, the Company strictly controlled capex based on resources optimisation. More than 80% capex were spent on the development of growth businesses. Capex structure was further optimised.

First, investments in broadband and Internet were 33.1 billion, increase by 19.9%, accounting for 66.8% of total capex, effectively supporting broadband fibre network transformation and boosting our leading edges in broadband services.

Second, capex on VAS and integrated information services amounted to 6.7 billion, up by 11.6%, accounted for 13.5% of total capex. The investment focuses on informatisation applications for key industries, accelerating



introduction of cloud services and supporting the fast development popularity of mobile Internet business.

Third, IT and support investments amounted to 1.8 billion, up by 41.9%, accounted for 3.6% as a percentage of total capex. The investment was mainly spent to promote the upgrade of the support platform of integrated services and the continuous optimization of IT platforms, promoting enhancement in centralisation and precision operating management.

Fourth, wireline voice investments were around 700 million, down by 34.1%, and reduced to 1.4% of total capex. The investment strategy is obviously a “balanced” approach, to cater the needs for network maintenance and to reduce investment risks.

Slide 30: Solid Financial Strength

In 2011, our total debt to total capitalisation ratio continued to decline to 16.6%, declined by 6 percentage points.

Net debt to EBITDA was 0.24 times, a decline of 0.28 times compared to 0.52 times in last year.

This year, the Company’s interest-bearing debts dropped significantly. Net Finance costs were 2.25 billion, representing a decline of 37.4%.

Overall speaking, the Company’s financial structure remains rational, gearing was coming down to a low level and laid a good financing fundamental for the acquisition of the CDMA network.

Slide 31: Strengthen Innovation & Control to Drive Scale Development & Value

While accelerating business scale development and strategic transformation, we shall continue to reform our financial systems, perfect the financial policy to support the scale development of full services and the innovation of mechanisms and systems, leading to increase in corporate value. The main measures in finance includes,

First, we will scientifically deploy resources, optimize costs & investment structures, enhance scale development breakthrough by tilting initiatives toward key businesses, high value customers and innovative businesses to enhance returns.

Second, enhance asset utilisation, increase centralised capital management and lower financing costs by diversifying financing channels.

Third, further deepen implementation of centralised financial management, refine performance evaluation units, devise effective, flexible and differentiated financial management system for innovative businesses.

Fourth, perfect risk management and internal control systems, regularly assess risks of the entire business process and safeguard safety operation to enhance shareholders' value.

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This is the end of 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 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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