

China Telecom Corporation Limited

Edited Transcript of 2012 Annual Results Analyst Presentation

Speaker: Mr. Wang Xiaochu, Chairman and CEO

Good afternoon, ladies and gentlemen. I am very pleased to meet you all and to introduce the Company's performance in 2012.

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

Slide 5: Highlights

In 2012, the Company's achievements are highlighted as follows:

- First, we achieved robust business growth which optimized the revenue structure and drove double-digit revenue growth, surpassing industry average.
- Second, 3G traction fostered mobile scale development and industry-leading mobile revenue growth with enhanced customer value.
- Third, we accelerated fibre deployment to boost broadband development and strengthen high bandwidth and high quality edges, which further reinforce our core competence and competitive advantages.
- Forth, the Company timely completed mobile network acquisition to enhance future profitability.

Slide 6: Solid Revenue Growth to Foster Long-term Value Enhancement

In 2012, the operation of the Company progressed as planned and continued the satisfactory revenue growth momentum. Our operating revenues were 283.1 bil, up by 15.5% year-over-year. Excluding revenue from mobile terminal sales, operating revenues were 258.3 bil, an increase of 11.8%.

EBITDA (before leasing fees) was 96.4 bil while EBITDA margin was 37.3%.

Net profit was 14.9 bil, down by 9.5% year-on-year.

The decline in net profit was mainly attributable to the Company's appropriate increase in marketing initiatives for launching iPhone to break through the high-end market and enhance revenue growth. Despite the short-term pressure on profitability, it is expected to significantly enhance our long-term sustainable growth and value.

Slide 7: Deepened Strategic Transformation to Accelerate Growth Momentum

In 2012, the Company deepened strategic transformation and registered double-digit growth in operating revenues, exceeding the industry average.

The Company sustained the good momentum and revenue structure was further optimized. The proportion of revenue from the growth businesses significantly increased and accounted for 85% of the operating revenues, driving stronger growth momentum.

The operating risk of the Company was effectively alleviated as the proportion of wireline voice revenue further reduced to 15%.

Slide 8: Industry-leading Mobile Revenue Growth

In 2012, our mobile business saw a rapid growth, and the mobile revenue growth was leading in the industry.

Leveraged our peer-best 3G network coverage, leading in width and depth, the great variety of smart devices and the proliferating mobile Internet content, the scale of mobile subs recorded a fast expansion. Our total number of mobile subs increased by 34.15 mil to 160 mil and the subscriber market share was 14.5%, representing an increase of 1.5 percentage points year-on-year. The number of 3G subs increased by 32.76 mil to over 69 mil, accounted for 43% of our total mobile subs, an increase of 14.3 percentage points from 2011.

In 2012, the data traffic operation commenced successfully and achieved a satisfactory result. The mobile data services effectively enhanced customer experience and value. The mobile ARPU rebounded to 53.9, up by 2.8% year-on-year.

Slide 9: Timely Completed Mobile Network Acquisition to Drive Future Profitability

In last August, we announced the acquisition of mobile network assets from the parent company and completed the transaction at the end of 2012.

The final consideration was 87.2 bil. The initial payment of 25.5 bil was settled in January 2013. The deferred payment of 61.7 bil is payable in five years, with the first-year interest rate of 4.83% p.a.

Through the acquisition of mobile network, we are able to integrate the network with service offerings, better coordinate the mobile network investment, construction, operation management and system upgrade and save the rapidly rising mobile network leasing fee, hence the operating efficiency and company value are enhanced.

Slide 10: Highly Efficient Investment Boosts Network Strength

The Company put a great emphasis on the building of a superior network to effectively support its rapid business expansion and to improve its core competence.

In 2012, we invested 53.7 bil in the wireline business and continued the implementation of “Broadband China, Fibre Cities” project. The investment in broadband was around 67% of the total CAPEX.

In 2012, the CAPEX in mobile which was taken up by the parent company amounted to 18.8 bil.

In 2013, the CAPEX budget in wireline and mobile networks will be 55 and 20 bil respectively. 2011-2013, we will continue to carry out the “Broadband China, Fibre Cities” project and intensively implement fibre network upgrade. It is expected that the fiber network will be expanded into buildings and residential areas in most cities by the end of 2013 with customer access bandwidth of more than 20Mbps. In respect of mobile network, we will focus on network optimization and expanding the capacity in high data traffic areas, reinforcing the network strengths.

Slide 11: Dividend

Taking into account shareholders' return, cash flow of the Company and the capital requirement of the mobile network acquisition and our future development, the Board recommended a final dividend of 8.5 HK cents per share for 2012, being the same as the previous year.

In the future, the Company will strive to increase profit paving the way for higher dividend.

Slide 12: Riding on the Momentum to Drive Scale & Value

Looking forward, we are optimistic about the future. The increasing popularity of smart device and mobile Internet applications as well as the continued informatization in society will bring huge potential for the Company.

We will grasp the golden opportunities, leverage on the broadband and 3G business advantages to further pursue the strategic transformation. We will speed up the scale development of the core businesses, namely, mobile, broadband and industry applications; and accelerate the nurture of emerging businesses, realizing the sustainable growth of customer and corporate values.

Let's invite President Yang Jie to introduce our business development.

Speaker: Mr. Yang Jie, President and COO

Slide 13:

Thanks, Chairman Wang.

Good afternoon, Ladies and Gentlemen. I am going to introduce our business performance in 2012.

Slide 14: Revenue Breakdown

This table shows the Company's revenues breakdown and the changes.

Slide 15: 3G Traction Driving Strong Mobile Momentum

In 2012, leveraging 3G network and service strengths, the Company captured the opportunity brought by the migration from 2G to 3G to rapidly expand the scale of mobile business, particularly the 3G business, delivering the strong mobile revenue growth.

The mobile ARPU rebounded as a results of the substantial increase in proportion of 3G subs of higher ARPU.

Smart devices have been increasingly popular and their price-performance factor is also improving. There are approximately 380 models of smart devices available in the market with the sale volume of approximately 41 mil units in 2012, representing a 1.4 times increase over the previous year. With the diversification of mobile internet applications, there are over 180,000 applications in our e-Surfing apps store.

Slide 16: Rapidly Growing Mobile Data Revenue

We continued our data traffic operation strategy. By pushing the development and promotion of applications, strengthening 3G applications coaching, experience-based selling, boosting smartphone adoption and enhancing mobile data products and pricing, we saw the rapid growth from mobile data business which is becoming our key revenue driver.

The mobile data revenue for 2012 was 43.6 bil, up by 47% over the previous year and accounted for 47% of mobile service revenue.

The Company has cultivated customer habit in data usage and the monthly average data traffic of a 3G handset subscriber increased by 26% yoy to 134MB. Mobile handset internet

access revenue increased by 1.4 times year-over-year to over 12 bil.

The Company also provided Internet access in hotspot area through WiFi to divert mobile data traffic, which effectively improved customer experience and saved CAPEX for the mobile network. During the year, the Company added about 280,000 WiFi access points and our total number of WiFi access points increased to around 900,000.

Slide 17: Resilient Wireline Business

In 2012, revenue of the wireline business of the Company improved to 165.3 bil, up by 1.8% as compared to the decrease of 2.2% in 2011.

With our strong fibre network and ICT service capability, we sped up the development of growth businesses, such as wireline internet access, VAS and integrated information services, which effectively offset the decrease in wireline voice revenue.

We successfully slowed down the decline in wireline voice revenue through the integrated package offerings. The operating risk of the Company was effectively alleviated as the proportion of wireline voice revenue further reduced.

Slide 18: Fast Growing Wireline Broadband Service Amid Mounting Competition

The broadband services maintained strong growth in spite of mounting competition. The broadband subscriber base increased by 13.31 mil subs to 90.12 mil. Revenue from wireline broadband was 66.7 bil, up by 9.8% year-on-year as a result of the rapid growth of subscriber base.

In response to keen competition in the broadband market, the Company flexibly adjusted the tariff to enhance the competitiveness and further penetrated into the rural areas, leading to pressure on broadband ARPU. However, by promoting bandwidth upgrade, the Company managed to stabilize the rate of decline of broadband ARPU, to approximately 7.8%, with improved experience and satisfaction of subscribers supporting the effective scale expansion of the broadband business.

Currently, the penetration rate of household broadband in China is around 38%, which represents a huge potential for development. We will continue to leverage our advantages in fibre network and services to provide subscribers with differentiated services driving the growth of broadband business.

Slide 19: Robust Wireline VAS & Integrated Information Services

The comprehensively proliferated VAS & integrated information services set to nurture new growth engines and pull the core businesses growth.

For the IDC and cloud computing business, the Company centralised its operation by integrating IDC resources and standardising tariff to strengthen its competitiveness. We also established specialised cloud service operating unit and optimised the products and applications to boost the rapid growth of data business revenue.

In 2012, wireline VAS and integrated information services maintained steady growth and recorded revenue of 30.7 bil, up by 3.0%. In particular, revenue of IDC business increased by 40.5% year-on-year to 5.9 bil.

Slide 20: To Promote Profitable Scale Development

In 2013, we will further promote profitable scale development, leveraging the leadership in innovation and services with enhanced quality and return.

To maintain the leadership of our services, we will create the comparative advantages on services for our core businesses and innovate the servicing approach in order to improve the customer experience.

To maintain our leadership in innovation, we will speed up the construction of intelligent pipeline & integrated platforms to attract data traffic and enhance our value. We will also deepen the structure and mechanism innovation to boost vibrancy.

We will fully capitalise on our strengths and differentiated initiatives to accelerate the development of the 3 core businesses, 3G, wireline broadband and industry applications. We will also accelerate the nurture and development of emerging strategic businesses to drive our sustainable growth.

The Company will strengthen the efficiently-centralised business operation and precision management to improve efficiency and effective use of resources.

Now, let's invite Madam Wu Andi, our CFO to present the financial performance of the Company.

Speaker: Madam Wu Andi, Executive Vice President and CFO

Slide 21:

Thank you President Yang. Good afternoon, ladies and gentlemen. I will now present the financial performance for 2012.

Slide 22: Key Financial Information

In 2012, the operating revenues were 283.1 bil, up by 15.5% year on year; operating expenses were 261.9 bil, up by 18.5% year on year; net profit was 14.9 bil, down by 9.5% year on year; free cash flow was 12.4 bil.

Slide 23: Appropriate Increase in Cost Initiatives to Drive Scale Development

In 2012, the Company appropriately increased cost initiatives to expand the business and drive sustainable development.

The operating expenses of the year were 261.9 bil, accounting for 92.5% of revenue, an increase of 2.3 percentage points year on year. Elaboration of key changes is as follows:

- Depreciation and amortisation decreased by 3.4 percentage points to 17.5% as a percentage of revenues, mainly due to the continuous prudent control of CAPEX;
- Network operations and support expenses increased by 1.7 percentage points to 23.3% as a percentage of revenues, mainly due to the increase of mobile network leasing fee by 34%;
- Personnel expenses decreased by 0.9 percentage point to 15.1% as a percentage of revenues, mainly due to the control of salary increment for senior employees although the incentive for talent and frontline staff increased;
- SG&A expenses increased by 2.4 percentage points to 22.3% as a percentage of revenues, mainly due to the increase in selling expenses by 32% to drive the scale expansion of mobile and broadband services;
- Other operating expenses increased by 2.5 percentage points to 14.3% as a percentage of revenues, mainly due to the increase in procurement of smart terminals, resulting in the increase in cost of mobile terminal sold by 80%.

Slide 24: Resources Allocation Tilting toward High-growth, High-value Businesses & Areas

In 2012, the Company's CAPEX was 53.7 bil and the investment was tilted toward high-growth, high-value business and areas;

The CAPEX structure of 2012 was basically similar to that of 2011;

- In order to reinforce our broadband network leadership and core competence, the Company accelerated the FTTH construction in cities area in southern China. The investment in broadband & Internet was 67% of the total CAPEX;
- As well, the Company accelerated the construction of cloud data centre and integrated information applications. Investment in VAS and integrated information services was 13% of the total CAPEX;
- Investment in wireline voice service was controlled to 1% of the total CAPEX.

Slide 25: Solid Financial Strength to Support Sustainable Growth

The Company acquired CDMA network from the parent company at the end of 2012 at a consideration of 87.2 bil. Upon completion of the acquisition, our total debt-to-total capitalisation ratio was around 27% and the net debt to EBITDA ratio was 0.7 times. The financial position of the Company remained sound and healthy, which provided effective support for the sustainable development of the Company.

Slide 26: Strengthen Precision Management to Bolster Profitable Scale Development

The Company will further strengthen the precision management to achieve profitable scale development by the following measures:

1. First, we will focus on expanding market share and value creation through implementing the market-share-based resources allocation and performance evaluation systems;
2. Second, capital and financial management will be further centralised. We will timely provide financial services supports for new businesses;
3. Third, the Company will comprehensively adopt "refined performance evaluation units" and foster return-oriented appraisal and incentive systems;

4. Fourth, we will strengthen our internal control, in particular on the key and special businesses;
5. Fifth, the Company will enhance the efficiency of resource utilisation through optimising the cost and investment structure to promote efficient scale development and maximise values for customers and shareholders.

Slide 27:

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 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.

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