

China Telecom Corporation Limited

Edited Transcript of 2013 Annual Results Investor 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 2013.

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

The highlights of the Company's major developments in 2013 are as follows:

1. Good progress on corporate development; revenue structure continued to improve; revenue and net profit both attained double-digit growth;
2. Mobile business maintained scale expansion; customer value & scale benefits enhanced steadily;
3. Completed the intensive phase of fibre network upgrade in cities as scheduled, which facilitated a continuous growth in broadband and our long term competitiveness;
4. To deploy 4G network appropriately with regard to government policy & business development, building a high speed and nationwide integrated 4G/3G networks to increase operating return;
5. To grasp the external opportunities and deepen comprehensive reform, striving to create a "New China Telecom".

Slide 6: Solid Growth Momentum

2013 saw an encouraging trend in revenue and profit growth, both with double-digit increase

Operating revenue reached RMB321.6 billion, up 13.6%; operating revenue excluding mobile terminal sales was RMB 284.1 billion, up 10%;

EBITDA and EBITDA margin improved significantly due to substantial savings on mobile network leasing fees during the year after the Company bought CDMA network assets from its parent company at the end of 2012; EBITDA came to RMB96.6 billion, up 36.2%; EBITDA margin stood at 34%, up 6.6 pp.

Net profit was RMB17.5 billion, up 17.4%.

Slide 7: Deepened Strategic Transformation to Strengthen Growth Momentum

In 2013, the Company continued to deepen strategic transformation and improve its revenue structure with growing momentum. The revenue share from high growth businesses rose rapidly to 88%, leading to a double-digit growth in revenue, higher than the industry average and the GDP growth.

The Company actively promoted scale expansion of mobile service, which has become the key revenue driver, accounted for nearly a half of operating revenue.

Slide 8: Completed Intensive Fibre Network Upgrade & Set to Accelerate LTE Network Deployment

In 2013, the Company's Capex was RMB80 billion, of which RMB29.4 billion was invested in mobile network, and RMB50.6 billion in broadband, internet and others.

In 2013, the Company completed the intensive phase of fibre network upgrade in cities as scheduled for three years, while increasing its investment in the mobile and commencing the deployment of LTE network in hotspots in light of its 3G business development and the issue of 4G licence.

In 2014, Capex budgeted for mobile and wireline will be RMB42.3 billion and 38 billion respectively.

For mobile, we will deploy 4G network appropriately in accordance with government policy and business development.

For our wireline operation, we will mainly invest in carrying networks, broadband access networks, capability enhancement for intelligent network and integrated information services.

Slide 9: e-Surfing 4G to Drive Future Growth & Return

At end of 2013, MIIT issued 4G licences. We are deploying one hybrid LTE network of integrated resources strategy to increase investment returns and operational efficiency.

The Company has started rolling out 4G services in nearly 100 major cities since mid-February 2014, with the first batch of 4G data devices compatible with TD-LTE standard.

The Company is applying for the FDD trial licence, and at the same time focusing on expanding the width & depth of network coverage in key cities to create a high quality network, and accelerating e-Surfing handset value chain development to assure superior 4G handset service experience and investment return.

Slide 10: Increase Dividend to Enhance Shareholders' Return

The Board of Directors recommended to increase dividend for 2013 to 9.5 HK cents per share, up 11.8%, with due regards to shareholders' return, cash flow and capital requirement for future development.

Slide 11: To Deepen Comprehensive Reform to Enhance Efficiency & Return

China Telecom firmly advances the deepening reform to further increase its efficiency & return.

For fundamental businesses, we will carry out market-oriented reform from bottom up, with the implementation of sub-division of performance evaluation units and the promotion of bidding with performance contract to stimulate staff vitality.

For emerging businesses, we will fully implement market-oriented reform by open cooperation and leverage complementary resources with partners, while devising and perfecting segregated operating systems. We planned to promote shareholding for staff and establish market-oriented management, incentive and control systems to enhance competitiveness.

Through these means, we continue to perfect the compensation mechanism, increase employees' vitality and corporate efficiency, while continuing to create incremental business value to be shared by our shareholders and staff.

Slide 12: Strive to Create a “New China Telecom”

Looking ahead, we see a bright future.

China sees explosive growth momentum in the mobile internet market, with new rooms for development by the issue of 4G licences and the advent of information services such as Cloud computing, big data and internet finance.

We will grasp the opportunity and accelerate the development, while striving in five years to raise the share of revenue from emerging businesses such as data traffic operation, internet applications and ICT service, from approximately a quarter now to around one half, and to shape a “New China Telecom” that continues to create new value for shareholders.

So much for my presentation. Now Mr Yang Jie will give you our business review.

Speaker: Mr. Yang Jie, President and COO

Slide 13:

Thank you, Chairman Wang.

Ladies and gentlemen. Good afternoon!

Now may I present to you the business performance in 2013.

Slide 14: Revenue Breakdown

The table shows the revenue breakdown and the changes. And I shall give you the specifics.

Slide 15: Mobile Scale Expansion with Industry-leading Mobile Revenue Growth

In 2013, taking full advantage of our quality 3G network and service, we rapidly expanded mobile scale, while data service operation effectively enhanced customers' values.

Mobile service revenue reached RMB113.8 billion, up 22.6%, achieving Industry-leading revenue growth.

Net addition of over 34 million 3G subs, with total 3G subs over 100 million; total mobile subs reached 186 million.

Mobile ARPU was RMB54.8, up 1.7%; 3G ARPU remained steady at RMB71.5.

Slide 16: Rapidly Growing Mobile Data Traffic & Revenue

Deepened data traffic operation strategy via terminal-led & applications-driven approaches, resulting in a rapid growth in mobile data traffic and revenue

In 2013, 3G handset Internet access revenue reached RMB22.9 billion, up 88%. Average data traffic per 3G handset sub was 190MB, up 42%. 3G handset Internet access APRU was RMB23.7.

2014, our key initiatives are on two aspects:

1. In rural areas, we will accelerate our development by actively promoting low end smartphones, like RMB299 smartphone, fully leveraging our 3G network advantages.
2. In city areas, we will provide super-fast & high quality 4G/3G integrated services with reasonable packages design that will raise the data traffic and revenue, while alleviating consumers' usage concern.

Slide 17: Resilient Wireline Performance

In 2013, the company's wireline had a solid performance. Revenue reached RMB170.4 billion, up 3.1%.

Actively leverage the fibre network and ICT service edges, we accelerated the development of wireline broadband, VAS and integrated information service and other high growth services, effectively offsetting decline in wireline voice revenue.

At the same time, we continued to strengthen the wireline, mobile, ICT services and packages to promote bundling and synergy

In addition, the contribution of wireline voice revenues continued to decline, so did our operating risks.

Slide 18: Sustained Solid Growth in Wireline Broadband Amid Mounting Competition

For the wireline broadband business, we managed to maintain good growth despite increasing competition, thanks to our strengths in network and service. Wireline broadband revenue reached RMB70.8 billion, up 6.1%. Total subs surpassed 100 million.

In future, we will integrate with our high-speed 4G/3G networks for synergies, providing customers with a stable, reliable, high-quality, cost-effective and complete wireline and wireless high-speed broadband service.

Slide 19: Comprehensive Development of Wireline VAS & Integrated Information Services

In 2013, the company actively expanded wireline VAS and integrated information services, focusing on key services, such as, ICT, IDC and iTV that enhanced cross-selling with wireline broadband service.

Revenue from wireline VAS and integrated information services reached RMB34.3 billion, up 11.6%. ICT, IDC and iTV service revenue jumped 20%, 32% and 61% respectively, becoming the drivers of incremental revenue.

Slide 20: Internet Business Model Debuts with Innovation & Collaboration

In 2013, we stepped up efforts in innovation and collaboration, initially forming China Telecom internet business model from portal building, business clusters and integrated platforms

First, we actively explored for cooperation. Launched over six months, “Yichat” had close to 60 million users, fast becoming our important mobile Internet business portal.

Second, three business groups - digital entertainment, e-commerce and information services – were initially formed. Best Pay achieved a new breakthrough with transaction value of more than RMB130 billion in 2013.

Third, to continue strengthening capabilities in unified account and location-based service, we accelerated the process of connecting and further opening with the increasingly mature integrated platform as an one-stop shop for development, operation and marketing

Slide 21: Deepened Transformation Creates Differentiated Edges

After years of continued strategic transformation, the Company has acquired prominent & differentiated advantages:

Adhering to the "De-telecom", "Market-orientation and Differentiation" and "Three New Roles", the Company developed strong operating advantages driven by our clear and effective strategies and strong execution;

An excellent full service integrated operations capability, together with a leading ICT services and innovative service mindset, constitutes our leading edge;

We created a leading network leveraging the super-fast integrated wireline and wireless access network, as well as the leading IP-based comprehensive fibre back-haul.

The company's core competitiveness was further enhanced with these differentiated advantages.

Slide 22: Strong Execution to Consistently Enhance Value

In 2014, we will firmly grasp the three key themes "reform & innovation", "open cooperation", "quality & efficiency enhancement", to further change the mode of corporate development, refine customer acquisition strategies, enlarge platform to create value and establish Internet-business type operation model, in order to accelerate the development of scale, stimulate the corporate vibrancy and enhance efficiency and return.

Now we turn to Madam Wu Andi, our CFO for introducing our financial performance.

Speaker: Madam Wu Andi, Executive Vice President and CFO

Slide 23:

Thank you Mr Yang.

Good afternoon, ladies and gentlemen.

Let me introduce the company's financial performance of 2013.

Slide 24: Key Financial Information

In 2013, our operating revenue was RMB321.6 billion, up 13.6%; Operating expenses were RMB294.1 billion, up 12.3%. Net profit was RMB17.5 billion, up 17.4%.

Slide 25: Stringent Cost Control to Boost Operating Efficiency

In 2013, while accelerating expansion, we managed to strengthen cost control and improve operating efficiency.

The Company's operating expenses were RMB294.1 billion, or 91.5% of revenue, down 1pp. The key movements are as follows:

1. Depreciation and amortization was 21.5% of revenue, up 4pp mainly due to assuming depreciation & amortization of mobile network subsequent to the CDMA acquisition at end of 2012;
2. Network operating cost accounted was 16.5% of revenue, down 6.8pp, mainly benefitted from the substantial saving of mobile network leasing fee as a result of the CDMA network acquisition;
3. SG&A accounted for 21.9% of revenue, down 0.4pp, while the total amount was up 11.6% mainly due to appropriate increase in sales initiatives to promote business scale expansion;
4. Cost of mobile terminal sold and others accounted for 12.1% of revenue, up 2.8pp, mainly because the Company increased procurement and sales of star smartphones at different price levels.

Slide 26: Highly Effective Investment to Strengthen Network Edges & Return

In 2013, the Company capex was RMB80 billion, as resources continued to tilting towards to high growth, high-value businesses and areas.

In terms of capex structure, emphasis was still on broadband & Internet as well as mobile network, which included the completion of intensive phase fibre network upgrade in cities in 2011-13, as well as further optimizing of 3G network and timely & appropriately deployment of 4G network.

Slide 27: Healthy Financial Strength

The Company's financial strength remained healthy with a solid capital structure.

At the end of 2013, the Company's debt-to-capital ratio was 28.3%, and net debt to EBITDA ratio of 0.95. The fundamental remained sound, effectively supporting the sustainable corporate development.

Slide 28: Strengthen Financial Management to Elevate Corporate Return

In future, the company will further strengthen financial management and improve efficiency. The following is the key initiatives:

1. Further enhance the systemic three in one alignment of budgeting, resources allocation and performance evaluations based on market dynamics.
2. Further implement "sub-dividing performance evaluation units" and highly unify responsibilities, authorities and compensation.
3. Actively explore financial structure and mechanism to facilitate entry of private capital.
4. Innovate financial management and systems to support strong growth of emerging businesses.
5. Strengthen capital and asset management to enhance resources utilization.

Through these measures, the Company strives to maximize corporate, shareholders' and customers' values

Slide 29:

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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