

China Telecom Corporation Limited

Edited Transcript of 2014 Annual Results Investor Presentation

Speaker: Mr. Wang Xiaochu, Chairman and CEO

Slide 4:

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

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 Mr. Ke Ruiwen, who will present our business review and financial performance respectively.

Slide 5: Highlights

The highlights of the Company's major developments in 2014 are as follows:

1. We successfully managed various prominent external changes, leading to persistent growth in revenue & profit with solid fundamental.
2. Our industry-leading revenue growth fuelled by fast growing emerging business.
3. We are going to rapidly ramp up 4G business scale, leveraging the prime opportunities of LTE FDD licensing & tower sharing as well as the 4G hybrid network trial experience.
4. VAT Reform brings short-term pain, but long-term beneficial to sustainable growth.
5. Proactively deepen comprehensive reform & accelerate Internet-oriented transformation to further enhance shareholder return.

Slide 6: Maintained Solid Fundamental

Despite the VAT impact & the restrictive 4G hybrid network trial, the Company still managed to achieve a persistent growth in revenue & profit in 2014.

Operating revenue reached RMB 324.4 billion, 0.9% higher than the previous year. For the benefits of investors' analysis, we denote service revenue, which further excludes the sales of wireline equipment & other non-service revenue from the original operating revenue excluding mobile terminal sales. Service revenue recorded RMB 287.4 billion, up 3% over the previous year.

EBITDA was RMB 94.9 billion. EBITDA margin was 33%. Net profit was RMB 17.7 billion, 0.8% higher than the previous year. Free cash flow reached RMB 12.5 billion, up 12% over the previous year.

Slide 7: Robust Earnings Growth Excluding Tax Impact of VAT Reform

Excluding the tax impact of VAT Reform, the Company's 2014 pro-forma service revenue was up 6%, & pro-forma net profit growth reached 22%, showing a sound fundamental & robust earnings growth.

Slide 8: Industry-leading Revenue Growth Fuelled by Fast Growing Emerging Business

In 2014, the Company accelerated innovation & open cooperation with a major breakthrough in emerging business. Data Traffic Operation, ICT & Internet Applications all maintained a decent growth. Revenue from emerging business reached RMB 83.7 billion, up 24% over last year. Emerging business revenue as percentage of service revenue reached 29%, up 5pp.

Fuelled by fast growing emerging business, our growth in service revenue reached 3.1%, beating industry average growth by 4.4pp, ranked the top in industry for the first time since the telecom industry restructuring in 2008.

Slide 9: LTE FDD Licensing Ignites 4G Scale & Profitable Development

Last month, the Company was successfully awarded the FDD license, which enabled us to enter the global mainstream 4G value chain & ignited new & prime opportunities. We will leverage our edges and synergy in network, terminal, informatization application, innovation & flexibility, pushing our 4G business ahead at full steam for profitable scale development.

In 2015, building on the foundation laid last year, our 4G network will cover cities nationwide with in-depth coverage in 120 key cities, fully leveraging on our advantages in one 4G hybrid network & fibre broadband plus dual 100Mbps to achieve leading network quality & customer experience.

The Company will unite the upstream & downstream partners of the value chain to enrich 4G terminal supply & enhance its price-performance factors.

Slide 10: Step Up 4G Investment to Create Network Leadership

In 2014, the Company controlled 4G investment pace with regard to 4G hybrid network trial approval progress & adjusted CAPEX structure. We also proactively invested in auxiliary 4G facilities & further upgrade of the access bandwidth capabilities of the cities' fibre network. Total CAPEX was RMB 76.9 billion, and a savings of RMB 3.4 billion from the original budget.

In 2015, the Company will step up 4G investment with focus on creating a leading network. Total CAPEX will be RMB 107.8 billion, of which 4G investment will be RMB 61 billion. During the year, we plan to increase 200,000 4G base stations & 80,000 indoor radio distribution systems. At the same time, the Company will increase investment in fibre broadband, integrated information services & Cloud etc to meet the growth of Internet & data traffic businesses.

Slide 11: Tower Sharing: A Clear Value Driver

In 2014, the Company took part in investing TowerCo, whose operation could bring the following benefits:

1. Due to the Company's wide coverage 3G network advantage, using low frequency bands, we have relatively fewer base stations. As such, we can leverage the rich resources of TowerCo to promptly & effectively expand 4G network coverage & density, enhancing network competitive advantage & lower future CAPEX.
2. To unlock tower assets value upon disposal and to drive long-term profitability, benefitting from TowerCo's co-use synergy.
3. As one of the major shareholders, we set to benefit from TowerCo's future earnings & value enhancement.

We will promote collaboration with TowerCo & strive to sell existing towers to TowerCo as soon as practicable.

Slide 12: Dividend

With due regards to shareholders' return, profitability, cash flow & capital requirement for future development, especially our higher investments in 4G network this year, the Board of Directors recommends to the shareholders a final dividend of 9.5 HK cents for 2014, maintaining a stable dividend.

Slide 13: Deepen Reform & Accelerate Transformation to Enhance Value

In 2015, the Company will further deepen reform. In Fundamental Business, the Company will implement "sub dividing" performance evaluation units with performance contract in full strength & establish "top-down" service support system to lift frontline vibrancy. In Emerging Business, the Company will establish "segregated zone", strengthen efficiently-centralized operation; enlarge open cooperation with private capital for complementary resources. At the same time, the Company will accelerate the Internet-oriental transformation, speed up to launch of differentiated products & services & accelerate to create a new China Telecom, continuously creating shareholders value.

Now, Mr Yang Jie will give you our business update.

Speaker: Mr. Yang Jie, President and COO

Slide 14:

Thank you, Chairman Wang.

Ladies and gentlemen. Good afternoon!

Now, may I present to you our business performance in 2014.

Slide 15: Revenue Breakdown

The table shows the revenue breakdown and their changes. I am going to give you the specifics.

Slide 16: Profitable Mobile Development

In 2014, the Company actively promoted subscribers for 3G & 4G upgrade. 3G/4G maintained a decent growth with net addition of 15.52 million subs. 3G/4G subs as proportion to total subscribers reached 64%, up 8 pp. At the same time, average mobile subscribers were up 7%, effectively lifting mobile revenue growth, ensuring an overall steady ARPU & achieving an effective development in mobile business.

Despite the VAT impact & the change in sales model, our mobile service revenue was RMB 120.3 billion, up 6% from previous year.

Slide 17: Rapidly Growing Mobile Data Traffic & Revenue

With an emphasis on managing data traffic value, the Company continued to innovate the business model of data traffic. For the whole year, mobile data revenue & data traffic continued to grow rapidly. Revenue reached RMB 65.6 billion, up 18% over last year. Revenue from handset Internet access reached RMB 34.1 billion, up 49% over previous year. Average data traffic per 3G/4G handset subscriber totaled 227 MB, up 20% from previous year.

Going forward, the Company will focus on 4G development & the synergy between 3G/4G, strengthen the application-driven approach, innovate data traffic product, adhere to terminal-led approach & leverage 4G high-speed characteristics to drive the rapid growth of data usage & advance the scale development of mobile service.

Slide 18: Resilient Wireline Performance

2014 saw a resilient wireline performance. Total wireline revenue reached RMB 172.8 billion, up 1.4% over last year.

Leveraged fibre network & informatization service strengths to accelerate development of growth businesses, namely, wireline broadband, VAS & integrated information services and effectively offset wireline voice revenue decline.

Besides, declining revenue contribution from wireline voice, along with the basic completion of PAS upgrade, effectively mitigated operating risks.

Slide 19: Solid Development in Wireline Broadband Amid Mounting Competition

Despite intensifying competition, the Company's wireline broadband service still maintained a healthy development. In 2014, revenue from wireline broadband totaled RMB 73.5 billion, up 4% over previous year. Wireline broadband subscribers reached 107 million, a net addition of 6.85 million subscribers.

Our measures in broadband include: actively leveraging the fibre network advantage to fully promote bandwidth upgrade for subscribers. We launched "Joy me", an integrated product to create a smart home portal. We also expand open sales channel & pioneer to cooperate with private capital in local access deployment to accelerate fibre network roll-out.

Slide 20: Comprehensive Development of Wireline VAS & Integrated Information Services

In the area of wireline VAS, we leveraged extensive network resources, professional teams, brand franchise & open cooperation to drive growth in wireline VAS & Integrated Information Services.

The revenue was RMB 38 billion, up 11%, maintaining a rapid growth. The three growth drivers for wireline VAS & Integrated Information Services were IDC, iTV & IT services & applications.

Slide 21: Actively Incubate & Unlock Internet Applications Value

In 2014, we further strengthened the Internet Application Development System, formed by portal, content and capabilities.

1. YiChat's rapid business development served as the key mobile Internet business portal.
2. Thanks to a rapid scale expansion, BestPay users exceeded 100 million with GMV grew 1.6 times to RMB 350 billion, showing a remarkable result in exploring Internet finance.
3. The integrated platform, which perfect gradually, will serve as the efficiently-centralized operation platform for data backward monetization.

The enriched Internet Application Development System can support fundamental business development, create differentiated edges and generate new sources of revenues & profit.

Slide 22: 2015 Priorities

Going forward, we will adopt the main line of dual enhancement of scale & return by actively advancing reform & innovation, open cooperation & quality & efficiency enhancement with focus in the following four areas:

1. Optimize development model & accelerate scale development.
2. Achieve breakthrough in core products & forge differentiated competitive advantages.
3. Promote further Internet-oriented transformation & strengthen efficiently-centralized operation.
4. Implement comprehensive in-depth reform to motivate staff vibrancy.

Now Mr. Ke Ruiwen will give you our financial results.

Speaker: Mr. Ke Ruiwen, Executive Vice President

Slide 23:

Thank you, President Yang.

Good afternoon, ladies and gentlemen.

Let me introduce the Company's financial result in 2014.

Slide 24: Key Financial Information

In 2014, our revenue was RMB 324.4 billion, 0.9% higher than previous year; Operating cost was RMB 295.9 billion, up 0.6%. Growth in operating costs was lower than revenue growth. Net profit was RMB 17.7 billion, up 0.8% than previous year.

In 2014, to facilitate the VAT policy, we optimized the development & sales model to further control our sales & marketing expenses especially the handset subsidy & enhance the resources efficiency & effectiveness. Total handset subsidy was RMB 15.5 billion, down 33% from previous year.

Slide 25: Stringent Cost Control to Boost Operating Efficiency

In 2014, the Company appropriately adjusted the pattern by stringent cost control & enhanced resources allocation to boost operating efficiency.

Our operating expenses were RMB 295.9 billion, accounted for 91.2% of revenue, down 0.3 pp year-over-year.

Network operations & support expenses accounted for 21% of revenue, up 4.7pp because of network maintenance quality enhancement to build competitive edges for synergistic development of 3G & 4G, wireline & wireless broadband and also increase in operating rental, as well as full write-off of PAS assets.

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

In 2014, the Company's CAPEX of RMB 76.9 billion through highly effective investment to strengthen network edges & returns.

1. In mobile network, the Company deployed in-depth 4G network coverage in a controlled pace in selected key cities. At the end of 2014, there were 60,000 new 4G base stations in place, making a total of 120,000 4G base station plus 60,000 sets of indoor radio distribution system.
2. In broadband and Internet, deployed over 90% coverage in cities with 20Mbps & FTTH coverage reached over 120 mil home passes. The expanded metropolitan area network & back-haul capacity was able to support fast growing data traffic driven by wireline & wireless broadband & emerging business.

Slide 27: Healthy Financial Strength

In 2014, the Company's financial strength remained solid with a stable capital structure. Total debt-to-total capitalization ratio was 27%, down 1.5 pp from previous year. Net debt to EBITDA ratio continued to fall to 0.9 time. Free cash flow totaled RMB 125 billion, up 12% from last year.

The sound financial fundamental & decent free cash flow, effectively support our sustainable business development.

Slide 28: VAT Reform: Short-term Pain, Long-term Gain

Since the VAT Reform pilot scheme in telecommunication industry launched in June 2014, the Company has optimised development & sales models & package design, implemented stringent costs control measures and enhanced purchasing & vendors' tax profile, leading to a moderating monthly average pro forma impact on net profit.

We will continue to adopt various measures to mitigate the short-term negative effect of VAT Reform. Continual expansion of the national VAT Reform to other industries could lead to more operating costs & investments being entitled to input VAT credits in future & enhance long-term profitability.

Slide 29: Fully Implement Reform Measures to Create Value & Efficiency

Going forward, the Company will fully implement reform measures to create value & efficiency. The key measures include:

1. Persistent in the systemic “three-in-one” alignment of budgeting, resources allocation & performance evaluation, while emphasizing on scale development & return.
2. Strengthen cost control & innovate sales model to improve cost efficiency.
3. Strengthen capital & asset management to maximize utilization & foster value generation capability.
4. Leverage business or capital cooperation to promote development of emerging business.
5. Leverage market-oriented mechanism to further implement “sub-dividing” performance evaluation units with performance contract & establish “top-down” service support system to enhance organization vibrancy.

Through these measures, the Company strives to maximize shareholders’ & customers’ values.

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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