

China Telecom Corporation Limited

Edited Transcript of 2015 Annual Results Investor Presentation

Speaker: Mr. Yang Jie, President and COO

Slide 4: Overview

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 two sections. First, I will talk about the Company's overall performance. Afterwards, Mr. Ke Ruiwen will present our business review and financial performance for the year.

Slide 5: Highlights

These are the highlights of the major developments in 2015:

1. Business fundamental remained solid amid challenges brought about by regulatory policies including VAT Reform, Speed Upgrade & Tariff Reduction, "Unused Handset Data Carried forward", and etc.. Market position of the Company was further strengthened;
2. Leveraged favourable policies such as the issuance of FDD license, the Company accelerated the upgrade of core network capability, achieved robust growth in 4G and fibre broadband services;
3. A gain from tower assets disposal increased the current year's profit, while tower sharing is expected to enhance our corporate value in the long-term.
4. Effective initiatives were taken to mitigate the impact from "Speed Upgrade and Tariff Reduction".
5. Seize strategic opportunities such as "Cyberpower", "Big Data", "Internet+", etc. to drive growth from reform and innovations, and further create shareholders' value.

Slide 6: Solid Fundamentals

Despite the impact from various regulatory policies, business fundamentals remained solid for the Company in 2015.

Operating revenue amounted to RMB 331 billion, increase 2.1% yoy. Service revenue was RMB 293 billion. EBITDA was RMB 94 billion, representing an EBITDA margin of 32.1%. Net profit amounted to RMB 20.1 billion, which included a one-off after-tax tower assets disposal gain of RMB 3.9 billion.

Slide 7: Industry-leading Growth in Service Revenue and Net Profit

In 2015, the Company followed the established strategic direction, with innovative development and excellent execution, our market position was further strengthened. Year-on-year growth in service revenue and net profit were 2.0% and 13.4% respectively, both of which outperformed the industry.

Emerging business has become a new growth driver of the Company. Revenue from emerging business grew by 21%, amounted to over RMB 100 billion in 2015, which accounted for 34% of service revenue, an increase of 5pp over last year. Business structure has been further optimized.

Slide 8: Robust 4G Momentum

In 2015, the Company accelerated in shifting our growth drivers, reinforced concerted development of 4G and fibre broadband services, which significantly enhanced our core competence in fundamental business.

Benefitting from proactive strategic planning and preparation, the Company successfully launched 4G services nationwide within a month after granted with the FDD license in February last year, which made us stay ahead in competition. With our persistent efforts, the overall 4G network experience was comparable to our competitors.

Six-Mode Handsets will soon become the national standard. The bottleneck of CDMA terminals is effectively resolved. The new integration of “4G+fibre” achieved significant results while the 4G gained robust momentum.

As at end 2015, 4G subscribers reached 58 million, a net add of 51 million for the year. 4G terminal sales reached 62 million, of which 6-mode handsets sales amounted to 16 million; Handset data traffic doubled compared to a year ago, of which share of 4G data traffic was significantly increased to 51%. 4G DOU was 751MB as at end 2015, an increase of 25% yoy, and further grew to 850MB in the first two months in 2016.

Slide 9: Fibre Broadband Creates New Competitive Edge

In 2015, the Company accelerated end-to-end speed upgrade and achieved industry-leading user experience with the provision of quality 100Mbps network. With 100Mbps as the mainstream product, we drove market demand for upgrade; feeding in value-added services such as high definition IPTV, customer loyalty as well as network value have been enhanced. Our fibre broadband service has established new competitive edge.

FTTH subscribers grew by over 28 million in 2015 to 71 million, which drove wireline broadband subscribers to grow to 113 million. Penetration rate of FTTH subscribers now reached 63%. Amid the intensifying market competition and policy requirement for speed upgrade and tariff reduction, a good development in subscriber base effectively support the continuous and stable growth in our wireline business.

Slide 10: VAT Reform

The implementation of “VAT Reform” for telecom industry since June 2014 has had negative impacts on our operating revenue and profit. With full-year implementation in 2015, the negative impact from “VAT Reform” was more significant.

To mitigate the negative impact from “VAT Reform” in the short term, the Company continued to optimize its development and sales model, strengthening cost control and control on purchasing, and increased proportion of revenues generated from value-added telecommunications services to lower the average tax rate of output VAT. Through these measures, the monthly average negative impact from “VAT Reform” has been moderating.

Following the nationwide implementation of VAT Reform from 1 May 2016, it is expected that more operating costs and capex will be eligible for input VAT credits, and thus benefit future profitability.

Slide 11: Speed Upgrade and Tariff Reduction

In 2015, the Company carried out the “Speed Upgrade and Tariff Reduction” following regulatory requirement and resulted in substantial decline in unit prices of wireline broadband and mobile data. In addition, the “Unused Handset Data Carried Forward” introduced in October 2015 has put further pressure on our revenue and net profit.

To mitigate the above policy impacts, we proactively adopt effective measures to stimulate data usage. This is demonstrated by a rapid growth in 4G and FTTH subscribers, average access bandwidth for wireline broadband service and aggregate handset Internet access traffic and DOU, securing steady development of our Company.

In future, we will closely follow up and strive to accommodate regulatory changes.

Slide 12: Tower Sharing Enhances Corporate Value

In 2015, TowerCo delivered about 170k towers to the Company. Tower sharing accelerated our 4G network rollout to achieve a leaping breakthrough.

Following the completion of tower assets disposal, our tower assets appreciated by 33%, and increased the net profit for the year.

As of the end of 2015, the Company used about 500k towers. The estimated tower usage fee was approximately RMB 2.7 billion.

The company has been in negotiation with the TowerCo on leasing arrangements, striving to conclude the most favourable terms. With the anticipated increase in sharing ratio, it is expected that the unit usage rate will decline. The Company will also benefit from the profit sharing and value enhancement of TowerCo as one of its major shareholders.

Slide 13: Accelerate Core Network Upgrade

In 2015, seizing opportunities from FDD licensing, tower sharing and network speed upgrade, our 4G and fibre broadband network capabilities were enhanced rapidly. Total CAPEX in 2015 was RMB 109.1billion, of which 4G investments amounted to RMB 49.3 billion. 4G base stations reached 510k. 4G Capex was effectively reduced with strengthened centralized procurement and tower sharing, which helped foster capability. FTTH home passes reached 220 million, or 75% coverage ratio by end-2015. This laid down a solid foundation for scale development and well-prepared the Company for market competition.

CAPEX for 2016 is budgeted at RMB 97 billion, down 11% yoy, of which RMB 46 billion is budgeted for 4G to add about 290k base stations. Investment focus will be to improve and extend network coverage, and rollout 4G+ across all cities nationwide. At the same time, the company will proactively pilot test the re-farming of 800MHz and get prepared for launching nationwide commercial trial for VoLTE services in 2017. In terms of wireline broadband development, FTTH home passes is expected to reach 270 million, achieving basically full coverage of fibre network in all cities.

Slide 14: Dividend

With due regards to shareholders' return, profitability, cash flow and capital requirement for future development commitment, the Board of Directors recommends a stable dividend of 9.5 HKcents to the shareholders for 2015.

Slide 15: Near-term Priorities

2016 is a crucial year for the Company to establish a more competitive market status. Driven by reform and innovations, we will proactively maintain our growth momentum comprehensively and strengthen our core competence. Major focus includes the following six areas:

1. Accelerate scale development and value enhancement in 4G and fibre broadband to further consolidate our fundamentals.
2. Persist in accelerating breakthroughs in five emerging areas including Smart Family, Mobile Payment, Internet+, Cloud Computing & big data, as well as Internet of Things to ignite new growth engines.
3. Continue to build up our six key capabilities in network fundamental, network operation, data mining, channel sales, customer service and human resources management.
4. Continue in-depth and comprehensive reform to unlock vitality and internal momentum.
5. Deepen Internet-oriented transformation and upgrade products and services to improve operating efficiency.
6. Stay open and strengthen co-operation to build our competitive edge around the ecosphere. With the strategic cooperation with China Unicom, both parties shall commence market-oriented cooperation in network construction and terminals, complementing competitive advantages and resources to lower network investment and save costs, achieving win-win.

Slide 16: Prospect: Leveraging Opportunities for Value Creation

Looking ahead, the Company will seize strategic opportunity, fully optimize resources allocation and promote sharing of social resources to further create value in the ecosphere. We will deepen strategic transformation and promote restructuring in business, network, operations and management to provide integrated smart services. Leading in digital ecosphere with the support from “Cyberpower” strategy, we believe this should reinforce our core competence to create value for our shareholders.

Now I will pass to Mr Ke Ruiwen to present our business and financial performance for the year.

Speaker: Mr. Ke Ruiwen, Executive Vice President

Slide 17: Business Review & Financial Performance

Thank you President Yang. Good afternoon Ladies and gentlemen. May I now present our business review and financial performance.

Slide 18: Revenue Breakdown

The table shows the revenue breakdown and their changes.

In 2015, mobile service revenue amounted to RMB 124.5 billion, representing an increase of 3.5% year-on-year. Wireline service revenue was RMB168.8 billion, increased 1.0% year-on-year.

We will go through each item in details.

Slide 19: Solid Mobile Growth Fueled by Data Operation

In 2015, mobile service revenue grew by 3.5% year-on-year.

The Company continued to promote 3G subscribers upgrade to 4G and enrich in data application offerings with significant results: Handset Internet access grew 40% yoy, reaching RMB47.8 billion; mobile data revenue accounted for 61% of mobile service revenue; mobile subscribers reached 198 million, with a net add of over 12 million, while 3G/4G Handset DOU grew significantly by 70% year-on-year.

Slide 20: VAS & Integrated Information Services Drive Wireline Growth

In 2015, the company's wireline VAS continued to grow rapidly, which effectively drove stable development in our wireline business. Revenue from VAS and integrated information services amounted to RMB 4.2 billion, up 11% year-on-year.

Of which, IDC business continued its strong growth momentum. As the Company has completed the country's largest "8+2+X" cloud resource planning, more than 150k cabinets are now in operation.

The newly constructed Data Centre Interconnect (DCI) is expected to further enhance service capability and user experience.

IPTV business grew rapidly and effectively drove the development of fibre broadband business.

Seizing the market opportunities from "internet +", the Company promotes differentiated and innovative offerings and maintained fast development of IT services and applications.

Slide 21: Fostering New Growth Drivers

While strengthening the fundamental businesses, the Company also accelerates to foster new growth engines in the five areas below:

1. IPTV entered into the stage for rapid growth, with over 40 mil subscribers in scale. The Company will base on 100Mbps fibre broadband to be a forerunner in the “Smart Family” market through integration of “Fibre broadband + TV”.
2. The scale of our BestPay has already laid a good foundation. With registered users of over 200million, BestPay has become an important driver for core fundamental business growth in terms of differentiation. The Company will focus on the in-depth integration between “4G + mobile payment” to accelerate development of Internet finance.
3. Seizing opportunity from national strategies, the Company will expand into new ICT services, strive to create new growth potential in “Internet+”.
4. With the enhancement in service system of Cloud computing and Big Data products, we will capitalize our edge in the integration of cloud and network to continuously enhance competitiveness and value contribution.
5. The company will proactively seize the boom in “Internet of Things” to consolidate efficiently-centralized operations. We will expand connectivity scale to create new value growth.

Slide 22: Key Financial Information

In 2015, operating expenses was RMB 304.8 billion, up 3% year-on-year. The Company continued to optimize resources allocation, strengthen cost control and enhance resources utilization and return for sustainable development.

Slide 23: Stringent Cost Control

Full-year operating expense as a % of Operating revenue was 92%, up 0.8 percentage points, of which:

Network operations and support accounted for 25%, up 0.3 percentage points. This was mainly caused by the newly added tower usage fee in 2015, as well as the increase in network costs associated with the enhancement in network quality with an expanded network scale.

SG&A costs accounted for 16% of operating revenue, down 3 percentage points. This was mainly benefitted from a change in development and sales model for improved sales efficiency. Total selling expenses were down by 16% year-on-year.

Slide 24: Stringent CAPEX Control

In 2015, the Company optimized the CAPEX structure that skewed towards the high-value areas including 4G and fibre broadband, resulted in enhanced network advantage and return on investment. Mobile and fibre broadband CAPEX percentage was up by 9 percentage points in aggregate, while infrastructure & others was down by 5 percentage points year-on-year.

At the same time, the Company focused to enhance investment returns. Sub-dividing performance evaluation units and allocate resources based on market demand and value enhancement. Precision investment was implemented to ensure the effective use of network resources. At the same time, proactively introduced private capital to commence co-operation to achieve win-win.

Slide 25: Healthy Financial Strength

With the increase in CAPEX, total debt of the Company increased accordingly. Total debt-to-total capitalization ratio was 28% as at end 2015, a slight increase of 0.9 percentage point over last year. Net debt to EBITDA was 0.87 times. The Company will continue to maintain healthy capital structure and strong financial position to support sustainable scale development.

Slide 26: Strengthen Value Management

Looking ahead, the Company will further strengthen value management in the following aspects:

1. Improve close-end management system in terms of planning, budgeting, resource allocation and performance evaluation to enhance precision management capability;
2. Promote product sub-division with focus on core products, projects and users to evaluate performance and return;
3. Enhance capability of financial platform to improve service support performance;
4. Promote asset sub-division, strengthen investment valuation analysis to achieve precision investments;
5. Enhance risk management and strengthen internal control to improve financial risk management capability.

Through the above measures, the Company will comprehensively enhance its financial capacity to support corporate development and continuously enhance corporate value.

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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