



China Telecom Corporation Limited

Edited Transcript of 2017 Annual Results Investor Presentation

Speaker: Mr. Yang Jie, Chairman and CEO

Slide 4: Overview

Good afternoon. It's my pleasure to meet you all and introduce the Company's performance.

Our presentation has three sections. First, I will talk about the Company's overall performance. Then Mr. Liu Aili and Mr. Gao Tongqing will walk you through the business review and financials respectively.

Slide 5: Highlights

We have six key development highlights in 2017:

1. Revenue growth continued; profitability enhanced further;
2. Innovative convergence achieved prominent results; business scale expanded rapidly;
3. Step-up transformation accelerated; core corporate competitiveness bolstered;
4. Deepened reform and accelerated transformation, enhancing operational efficiency;
5. CAPEX further declines with structure optimized continuously; and
6. Raise dividend to reward shareholders.

Slide 6: Solid Results

Driven by mutually synergetic and continuous expansion of our five ecospheres, our Company's results remained solid and healthy.

In 2017, operating revenue amounted to RMB366 billion, up 3.9% yoy; service revenue reached RMB331 billion, up 6.9% yoy; EBITDA margin was 30.9%, up 0.2pp. Net profit was RMB19 billion, up 3.3% yoy.



Slide 7: Revenue Growth Accelerated and FCF Improved

Our service revenue growth in 2017 accelerated from 5.6% in 2016 to 6.9% in 2017, surpassing industry average of 6.6%.

Meanwhile, thanks to sound CAPEX management and growth in EBITDA, our free cash flow turned positive in 2017 to RMB7.3 billion, forming a driving force to sustainable development in future.

Slide 8: Rapid Expansion of Five Ecospheres

In 2017, all of our five ecospheres continued to expand rapidly in scale. The Intelligent Connections ecosphere maintained rapid expansion in subscriber scale, with 250 million mobile subs and 130 million wireline broadband subs by end of 2017, while revenue increased 4.7% yoy.

Emerging businesses showed strong momentum with hefty growth in scale of Smart Family, New ICT Application, Internet Finance and Internet of Things ecospheres:

- Smart Family revenue was RMB6.8 billion, up 42% yoy;
- New ICT Application revenue was RMB41 billion, up nearly 20% yoy;
- Internet Finance MAU doubled yoy to 33 million;
- Growth of number of IoT connected devices doubled to over 44 million.

Combined revenue of emerging businesses surged by 21.4% and share to service revenue increased 1.8pp, showing how service ecologicalization boosted our business scales and improved our revenue structure.

Slide 9: Raise Dividend to Reward Shareholders

Proactively addressing shareholders' demand for returns and considering short term capital need, the Board of Directors recommends a dividend raise of HK\$0.01 to HK\$0.115 per share to increase shareholders' returns.

We'll determine dividend proposals depending on various situations and circumstances, and strive for higher profit and ongoing value creation for shareholders.



Slide 10: Declining CAPEX with Structure Optimized Continuously

CAPEX in 2017 was RMB89 billion, down 8.4% yoy, the third consecutive year of decrease.

CAPEX budget for 2018 is RMB75 billion, down 15.5% yoy, focusing on forging integrated edge for our networks. With increasing coverage of 4G and fibre networks, the share of related CAPEX has been diminishing, while that of emerging business will increase properly to drive sustainable growth in their scale and revenue. In particular,

- For 4G, around 200 thousand BTS will be added on necessity basis, to improve quality, capacity and user experience, and to support large data traffic business and VoLTE commercialization.
- Fibre investment is mainly on extending fibre coverage in new urban areas and rural areas and government/corporate access, and on demand-oriented deployment of Gbps broadband, so as to enhance access network edge; also on strengthening end-to-end quality edge by cloud-network coordination.
- We'll invest more in emerging businesses, with efficiently-centralized building of innovative business platforms of cloud/IDC, CDN, big data, IoT, etc.

Slide 11: Responding to New “Speed Upgrade and Tariff Reduction”

We've been proactively executing speed upgrade and tariff reduction measures. We'll mitigate impact by accelerating step-up transformation, promoting the convergence of information technology and government services, social administration, livelihood assurance and other areas, boosting growth of Smart Family, IoT, IDC, cloud and other emerging businesses to create new growth drivers and models, and pursuing cost reduction and efficiency upgrade.

In 2017, we ceased charging handset domestic long distance and roaming fees on 1st of September, a month ahead of schedule. Prompted by robust price elasticity, data traffic and average access bandwidth surged at greatly reduced handset data and broadband unit tariffs. In 2018, we will continue to roll out relevant measures to further promote information consumption. Wireline broadband unit price dropped by 37% while 4G DOU increased by 96%.



Slide 12: 5G: Planning Ahead

On 5G, we have been proactively exploring business models based on application, and closely tracking and deeply engaged in standard development and setting. Deployment will be progressive and benefit-oriented, and on the basis of 4G/5G coordination, with precision investment. In 2017, outdoor trial was conducted in six pilot cities; in 2018, we will continue outdoor trials on technology, terminals and application in 12 cities. We expect commercial trial in 2019 and full commercialization in 2020.

Slide 13: Deepening Reform: Full Steam Ahead

We've carried out nationwide reforms for years, in which the reform of the "three-dimensional inter-driven forces" of sub-dividing performance evaluation units, top-down service support system, and professional operation, achieved significant results in building marketized operation mechanism and efficient organization.

Driven by step-up transformation strategy, our reform-deepening program entered a new phase after rapid advancement in supply-side structural reform, and reforms in human resources, resource allocation, mixed ownership, innovative system and auxiliary system. The execution of these reform measures will help us break bottlenecks in systems & mechanisms, innovate operational management models, fully activate all factors, and facilitate step-up transformation.

Slide 14: Step-up Transformation Enhancing Competitiveness

Looking forward, by seizing opportunities from "supply-side structural reform", "cyberpower", "Digital China", "Smart Society" and other national blueprints, and tech advancements such as ABCDEHI and 5G, and with open cooperation in mind, we will build Ecosystem Tetris by synergies with partners, open platform and capability complementation, with an aim to actively accelerate step-up transformation, i.e. network intelligentization, service ecologicalization, and operation intellectualization, and complete the three key missions of strengthening infrastructure, deepening application convergence, and enhancing total factor productivity, so as to achieve the three ultimate goals of building cyberpower, a first-class enterprise, and better lives.



Slide 15: Excellence in Corporate Governance Well-Recognized

In 2017, our persistence in corporate governance was widely recognized.

In particular, we've been awarded "Asia's Most Honored Company" for 7 years in a row; and "The Best of Asia – Icon on Corporate Governance" for 5 years in a row, testifying our excellence in this area, which is on par with leading global standard.

We are truly grateful for the long-time interest and support of every analyst and fund manager.

I will now pass the time to Mr. Liu Aili for the business review in 2017.



Speaker: Mr. Liu Aili, President and COO

Slide 16: Business Review

Thank you Chairman. Good afternoon ladies and gentlemen, I will now discuss the business performance in 2017.

Slide 17: Revenue Breakdown

This table shows the revenue breakdown and changes, and I will go through in details.

Slide 18: Enriching Convergence Offerings to Accelerate Scale Expansion

In 2017, subscriber growth showed strong momentum. Mobile subs net add was 35 million, doubled yoy; wireline broadband and e-Surfing HD (IPTV) subs net add were 10 million and 24 million respectively, both increased yoy.

In the year we further enriched convergence offerings with flexible packages catering different targeted markets, which effectively mitigated fierce competition and was instrumental in subs scale growth acceleration.

Bundling rates steadily increased, with triple-play penetration being 52%, up 6pp from end of June 2017, while mobile bundling rate was 56%, up 3pp from end of June 2017.

Slide 19: Accelerating Mobile Scale Expansion

With emphasis on scale development, our mobile business scale growth accelerated with new breakthroughs. In 2017, mobile service revenue was RMB154 billion, up 11.7% yoy, faster than 2016. Mobile and 4G ARPU were RMB55.1 and RMB65.5 respectively. Mobile subs market share continued to expand by 1.4pp, while 4G market share expanded 2.1pp to 18.1%.

Ongoing beef-up in content offerings effectively boosted demand for applications and facilitated data and information consumption. In 2017, handset internet access revenue surged 33.1% to RMB91 billion and became a key revenue source. Data traffic growth accelerated to 182%, while 4G DOU almost doubled to 2GB.



Slide 20: Fibre Edge Expediting Wireline Growth

During the year, wireline service revenue maintained solid growth, up 3% yoy, in which broadband access revenue was RMB77 billion, while broadband ARPU was RMB49.8.

Firmly pursuing broadband speed-up, we continued promoting 100Mbps fibre broadband service to enhance subscribers' end-to-end experience. Nearly half subscribers enjoyed 100Mbps bandwidth, and average access bandwidth was 73Mbps.

Our fibre network edge is the bedrock of our convergence business. Our IPTV business, e-Surfing HD, showed rapid growth with revenue up 34.4% yoy, underpinning the value of our fibre network.

Slide 21: Emerging Business Growing Rapidly

In 2017, Smart Family, New ICT Application, Internet Finance and IoT ecospheres achieved solid development.

- For Smart Family, we expanded product portfolio and stepped up promoting applications such as smart home networking, family cloud, webcam surveillance, and smart speaker. Family cloud business gained over 10 million subscribers in the 1st year of debut.
- Aiming at differentiation, we actively propelled the Internet Finance business, leveraging BestPay to drive subs scale. BestPay GMV increased by 53% yoy in the year. Meanwhile, BestPay also promoted further growth of mobile subs scale.
- We promoted the New ICT Application ecosphere with full force, focusing on the convergence smart application service integrating three technologies, namely communications technology, information technology and big data technology. In 2017, New ICT Application revenue grew 20% yoy, in which IDC, cloud and big data revenues grew 20%, 62% and 88% respectively, showing strong momentum.
- In the year, backed by the first-mover advantage in NB-IoT, we rapidly expanded IoT connected devices scale and IoT revenue growth more than doubled.



Slide 22: Superior Networks Forging Core Competitive Edge

After years of planning and construction, the three superior networks have formed our core competitive edge.

In fibre area, we built the world's largest FTTH network with full residential fibre coverage in cities, towns and villages, while FTTH home pass coverage reached 96%, and more than 150 cities are Gbps-ready.

In mobile area, we leveraged the 800MHz reform to build the first nationwide FDD 4G full coverage network with 1.17 million 4G BTS and population coverage over 98%.

We also built the world's first full coverage commercial NB-IoT network.

We deployed cloud resources extensively and basically completed network-wide unified cloud infrastructure with 82% of business platforms being cloud-based.

Slide 23: Well-defined Initiatives for Further Scale Development

Well-defined initiatives and proper measures led to our solid results in 2017. We will continue to cement the foundation of intelligent connection, to expand scale and boost value by convergence, and to persistently foster Smart Family, New ICT Application, IoT and Internet Finance ecospheres to realize value-adding subs scale expansion.

In end of 2017, we acquired satellite communications business to build new competitive edge by offering differentiated services such as satellite mobile telecommunications, marine broadband, inflight internet access, and satellite IoT.

Slide 24: 2018 Key Targets

In 2018, we will actively respond to fierce competition and other challenges and step up subs scale development. Mobile subs net add target is 40 million, 4G subs net add 60 million, wireline broadband subs net add 10 million, e-Surfing HD subs net add and IoT connected devices net add 20 million and 60 million respectively.



We will continue to intensify effort in growing Smart Family, New ICT Application, Internet Finance and IoT ecospheres and raise their revenue contribution, strive to maintain healthy service revenue growth and to increase corporate value.

I will now pass the floor to Mr. Gao Tongqing for financial performance in 2017.



Speaker: Mr. Gao Tongqing, Executive Vice President

Slide 25: Financial Performance

Thank you Mr. Liu. Ladies and gentlemen, I will now go through the financial performance of our Company in 2017.

Slide 26: Key Financial Information

This table shows the revenue breakdown and their respective changes with details as follows.

Slide 27: Optimizing Cost Structure

In 2017, our cost structure further optimized, with opex accounting for 92.6% of operating revenue, up 0.3pp yoy.

D&A up 1.2pp yoy, mainly due to changes of the accounting depreciable lives of certain fixed assets leading to increase in depreciation expenses by RMB4 billion, and high CAPEX in recent years.

Network operating expense up 1.7pp yoy, mainly due to increased tower leasing fee and maintenance costs for enhancing network capability and quality.

Cost of Terminals Sold & Others dropped 2.4pp yoy, mainly due to change in business approach leading to substantial decrease in Cost of Terminals Sold.

Slide 28: Enhancing Resource Utilization for Scale Development

Higher resource utilization efficiency supported business scale growth in 2017. In particular, Network operating cost increased 10.4% yoy to RMB104 billion, but only 7.4% yoy excluding tower leasing fees, showing effective cost growth management.

Selling expense increased 5.3% yoy, in line with subs scale growth.



Slide 29: Increasing Tower Efficiency to Strengthen Competitive Edge

The Company reasonably expanded tower leasing scale to cement mobile network edge. As at end of 2017, we leased 660 thousand towers, 50 thousand more than end of 2016, and 730 thousand will be leased by end of 2018.

Overall tower sharing ratio in 2017 was 70%, 4pp up yoy, while newly leased tower sharing ratio was 91%. The tower leasing supplemental agreement entered with Tower Company in February 2018 is conducive to the Company's sustainable healthy development in future.

Slide 30: Healthy Financial Strength

Efficiently-centralized capital management effectively reduced interest-bearing debt. Total debt down by 7.2% to RMB104 billion, total debt to total capitalization was 24.3%, 2pp lower than end of 2016; net debt to EBITDA was 0.8 times, down 0.09 times yoy. Capital structure remained healthy to support sustainable development.

Slide 31: IFRS 15: New Revenue Accounting Standard

IFRS 15 came into effect on 1st January 2018. Our service revenue and handset subsidy are to be reduced, agency commission to be amortized, and net profit is also to be impacted.

We want to stress that the new standard is merely a change in accounting treatment, and there is limited impact to our business development trend and momentum.

We already have measures in place, like changing sales and marketing model by reducing reliance on handset subsidy, to ensure all of our businesses maintain healthy growth.

Slide 32: Refining Corporate Core to Enhance Operational Management Efficiency

Operation intellectualization is essential for enhancing operational management efficiency. In 2017, we kept refining the corporate core by promoting the use of big data to drive intellectual operation, for precision sales & marketing, service, network operation, and management, so as to increase operational efficiency and create more corporate value.

This concludes our presentation of today. 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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