



China Telecom Corporation Limited

Edited Transcript of 2018 Annual Results Investor Presentation

Speaker: Mr. Ke Ruiwen, President and COO

Slide 4: Overview & Business Review

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

This presentation contains two sections. First, I will go through the Company's overall performance and business review. Then Madam Zhu Min will walk you through the financials.

Slide 5: Highlights

Thanks to effective execution of clear strategy, the Company achieved a solid results in 2018, which can be summarized into five key highlights:

1. Revenue growth surpassed industry, subs addition reached new high;
2. Strong free cash flow and dividend increase to reward shareholders;
3. Ecospheres' mutual development drove growth, innovative convergence achieved prominent results;
4. Network quality steadily enhanced, investment focuses on sustainable development;
5. To promote high quality development and drive 5G in a proactive yet pragmatic manner.

Slide 6: Solid Revenue and Profit Growth

In 2018, operating revenue amounted to RMB377 billion, up 3% yoy. In particular, service revenue increased by 5.9% yoy, while free cash flow skyrocketed by 209% yoy.



Slide 7: Solid Growth Driven by Scale and Profitability Expansion

The Company reached new milestones in 2018, with a historical-high and industry's no.1 mobile subs net add of over 53 million, and a six-year high broadband subs net add of over 12 million. Such rapid subs expansion was the bedrock of the solid results in the year.

Service revenue grew by 5.9%, higher than industry average, and such growth further increases to 7.2% stripping the IFRS 15 impact. Meanwhile, net profit for the year grew by 13.9%.

Slide 8: Innovative Convergence Achieved Prominent Results

We continued to extend convergence, resulting in increasing subs scale. e-Surfing HD subs surpassed the 100 million mark with a penetration of 72.3%, whereas triple-play penetration further increased 13pp to 65%, and broadband blended ARPU was RMB49. Our business convergence strategy is conducive to increase and leading subs value.

Meanwhile, our BestPay red packet and Orange Instalment payment service drove our mobile subs new add by around 20%, fueling our total mobile subs to surpass the 300 million mark.

Going forward, the Company will continue to promote the integration and mutual development of the 5 ecospheres to solidify competitive edge.

Slide 9: Mobile Data and Intelligent Applications Revenues As Key Drivers

In 2018, the Intelligent Connections ecosphere accounted for 2.6pp of service revenue growth, of which handset internet access revenue grew 22% yoy, lifting service revenue growth by 6.1pp.

The Company's step-up transformation continued to deliver notable results as Intelligent Applications ecospheres became a key driver for service revenue growth with 22% yoy revenue growth, a 3pp addition to incremental service revenue, and by taking 17% share of total service revenue.



Slide 10: Intelligent Connections Achieved Synergetic Growth

In 2018, scales of mobile and broadband businesses were effectively driven by the promotion of convergence and large data traffic packages. Mobile service revenue growth topped industry by 9.1% yoy, while our 44% market share of mobile subs net add was also industry-leading.

Our broadband business, the subs scale maintained healthy growth while keeping a leading subs quality as share of high bandwidth subs and average access bandwidth both registered notable yoy growth.

Slide 11: Smart Family: Dual Enhancement in Scale and Capability

In 2018, we proactively responded to the fierce competition in the broadband market by leveraging household broadband to tap the potential of family ICT market. We guided household customer demand, launched products for different user scenarios, fully leveraged the potential of our maintenance teams to strengthen our competitive edge.

Smart Family business delivered remarkable development with revenue increased 15% yoy. In particular, e-Surfing HD revenue and smart home networking revenues increased 10% and 82% yoy respectively, powering the overall revenue growth.

Slide 12: DICT and IoT Prompt Rapid Enterprise Services Development

DICT ecosystem maintained rapid growth with revenue growing by 21% yoy, in which cloud business revenue soared 86% yoy. In 2018, our cloud business market share ranked within top 3 in PRC.

The Company actively launched new products and continuously improved network service quality to satisfy customers' localized demand.

IoT revenue in 2018 climbed remarkably by 125% in 2018, while number of connected devices also skyrocketed by 141%. The Company will continue to improve the IoT operation system, place emphasis on key industries and expand ecological cooperation, in order to gather forces for future development.



Slide 13: Internet Finance Expands Substantially

Internet Finance expanded substantially in 2018: revenue increased by 33% yoy, aggregate GMV of personal accounts amounted to nearly RMB330 billion, up 87% yoy and GMV was over RMB1.6 trillion; number of active merchants more than doubled. The Company launched one-for-all receipt and payment solutions for merchants, while the integration and mutual development between BestPay / Orange Instalment and fundamental businesses stimulated user activity.

Slide 14: Enhancing Network Edge

Forging a high quality network is the key for us to increase competitive edge, expand business, and win customer recognition. In 2018, the Company continued to advance network intelligentization, resulting in notably enhanced network prowess and quality.

For mobile, our 4G BTS reached 1.38 million, powerfully supporting the development of large data traffic package subs, and VoLTE pre-commercialization. As a result, we won number 1 rating in industry in terms of user satisfaction on handset internet access and mobile voice service.

For fibre, 180 cities are Gbps-ready, while IP metropolitan and backbone network bandwidths maintained industry leadership. Our wireline broadband internet access also won number 1 rating in industry.

We kept improving IoT capability, with NB-IoT network featuring full speed range formed, enabling provision of differentiated services.

In 2018, the Company adopted SDN, NFV and other new technologies, sped up network reconstitution, launched with meaningful scale smart on-demand network for enterprise customers and SDN gateway for households, enabling service activation within minutes. We built VoLTE vIMS core network with software and hardware decoupled, expedited cloudification and virtualization, to be more competitive in cloud market via differentiation, and lay foundation for 5G network cloudification.

Slide 15: Strengthening Cloud Differentiation

The Company continued to strengthen differentiation edge of IDC and cloud in term of resource deployment, product, services, R&D and operation, to prepare for cloud-network integration in future.



In 2018, our cloud resource framework leapfrogged with the completion of 80 cloud resource pools in 31 provinces, and we became the cloud service operator with the most nodes; and we have 550 IDC sites, the largest scale in Asia Pacific.

Regarding product and services, with leading competence in providing secure clouds and dedicated clouds, as well as localized services, the Company is capable of offering one-stop cloud solution to customers.

Regarding R&D and operation, our dedicated cloud R&D team as well as the IaaS and PaaS core technologies that we master enable us to offer mature product series and maintain sustainable operation with high reliability. We are actively building a SaaS cloud ecosystem that is open, pro-sharing, able to nourish applications, and collaboration-oriented.

Slide 16: Cloudification Facilitates Cloud-Network Integration to Strengthen Competitiveness

We will promote cloudification in infrastructure, product and service capabilities, as well as operation system, and let cloud-network integration lead the development of DICT, IoT, internet dedicated line and networking dedicated line, in a bid to strengthen our competitive edge and market position.

We will build our network surrounding IDC and cloud, continue to improve national cloud resource structure and backbone network coverage, keep improving network structure for cloud-led network. Our high-quality dedicated network for enterprise customers are connected to all cloud resource pools, with industry's lowest latency. We also built new generation cloud-network operation system, to enable flexible and adjustable resource and end-to-end observability, to achieve "one-click acceptance" and quick activation of cloud-network services.

In view of the new opportunities from the deep convergence between 5G and Cloud-network integration, we are actively promoting cloudification to solidify our differentiation edge, and tap into the new markets in vertical industry application, IoT-cloud, and cloud-network businesses.



Slide 17: Proactively Accumulating 5G Capability

To prepare for the 5G era, we have been proactively accumulating capabilities in technology, clientele, network, spectrum and other areas, and extensively engaging in 5G standard formulation. We made notable progress in 5G research and trial in 2018. We published the industry's first 5G technology white paper, pioneered in operating 5G SA on equipment by different vendors, among other important contributions made to 5G development.

In 2018, we built 1,000 BTS in 17 cities to conduct trials in technology and applications, while also explored different business models proactively, so as to seize the imminent 5G opportunities.

Slide 18: Accelerate 5G Development Pragmatically

In 2019, the 5G CAPEX is budgeted at RMB9 billion. We consider SA as our direction and goal, and will promote industry chain maturity and will conduct NSA and SA scale trials concurrently in early stage.

We will adjust our investment plans, expand trial scale promptly subject to tech maturity, licensing, competition landscape and trial results, and will communicate with the market in a timely manner. We will also proactively explore 5G co-building and co-sharing to reduce construction and maintenance cost.

We will promote researches in 5G key technologies, actively participate international standard formulation, and promote development of end-to-end industry chain.

The Company will strengthen collaboration with industry chain as always, so as to enrich applications, and promote 5G development.

Slide 19: Increase Dividend to Reward Shareholders

As an proactive response to shareholders' request for cash returns with short term funding needs taken into account, the Board of Directors recommends an increase of dividend per share to HK\$0.125 to increase shareholders' returns.

Going forward, the Company will seize the 5G opportunity and will strive to enhance profitability for good returns to shareholders with due regard to various factors.



Slide 20 : Promoting Reform and Innovation at Full Throttle to Enhance Capability and Vitality

In 2018, we promoted reform and innovation at full throttle to inject new vitality and energy for high-quality development, in order to gain advantage in an ever-changing business environment.

For capability, we modified our R&D function to strengthen R&D power in 5G, network, AI and other key pioneering technologies; we enhanced incentive program to our R&D staff; we formed capability development centers for smart family, IoT, cloud, DICT and internet finance businesses, as part of a highly effective system with headquarters responsible for overall coordination, the aforementioned capability development centers for ecological endowment, and frontline units for market development.

For vitality, we further boosted productivity of frontline staff by improving the top-down service support and professional operation systems, and nearly 60,000 sub-divided performance units was established, basically covering the entire frontline. Our capital operation also achieved breakthrough, in which BestPay carried out mixed-ownership reform.

Slide 21: High-Quality Development Enhancing Scale and Efficiency

In 2019, we will continue to make new rooms of growth and construct the value management system by convergence for scale expansion, integration for application development and intelligentization for efficiency enhancement, so as to achieve breakthroughs in network service, product, customer development, channels and revenues, which are key elements of our high-quality development.

We will implement speed upgrade and tariff reduction policy and encourage information consumption, continue to control costs and improve efficiency. We will strive to maintain business scale expansion and achieve healthy growth of revenue and profits.

Next, Madam Zhu Min will have the floor for the financials.



Speaker: Madam Zhu Min, Executive Vice President & CFO

Slide 22: Financial Performance

Thank you Mr. Ke. Ladies and gentlemen, I will now go through the financial performance in 2018.

Slide 23: Key Financials

This table shows the key financial figures in 2018 and their respective changes with details to follow.

Slide 24: Optimizing Cost Structure

We continued to strengthen cost control and allocate resource with high efficiency, resulting in a further optimized cost structure, and more efficient resource utilization. In 2018, opex growth was lower than that of operating revenue, accounted for 92.4% of operating revenue, down 0.2pp yoy.

In particular, D&A decreased 0.5pp yoy.

Share of network of expense increased 2.4pp yoy, as the Company further enhanced network capability and quality to strengthen edge in our network and services to support scale development of business, laying foundation for sustainable long-term development.

Share of personnel cost up 0.5pp yoy, mainly due to higher incentives for frontline staff, emerging business talents and technical experts.

Share of SG&A expense dropped 0.2pp yoy, mainly due to adoption of new revenue accounting standard and optimizing sales mode.

Slide 25: Optimizing CAPEX Structure for Sustainable Development

We continued to optimize investment structure and focus on uplifting network quality and user experience with precise targeting and strictly controlled investment scale. CAPEX in 2018 was RMB74.9 billion, down 15.5% yoy.



The theme of investment in 2019 is high quality development, by targeted capacity expansion and forging high quality and efficient network. CAPEX budget is RMB69 billion, down 7.9% yoy, whereas including 5G the budget becomes RMB78 billion.

With increasing 4G penetration and fibre coverage, the relevant investment will continue to diminish, 4G and fibre CAPEX falls by RMB8 billion from 2018. Meanwhile, we will increase investment on emerging businesses appropriately in order to nurture new growth drivers, with CAPEX on information & application services increases by RMB1.8 billion.

Slide 26: Enhancing Financial Position

In 2018, our efficiently-centralized capital management effectively reduced interest-bearing debt. As at the end of 2018, total debt down by 8.3% to RMB96 billion, total debt to total capitalization was 2.5pp lower than end 2017; net debt to EBITDA was 0.69 times, down 0.11 times yoy. Capital structure remained healthy to support sustainable development.

Slide 27: Healthy Financial Strength

In 2018, thanks to the solid operating performance and declined CAPEX, Free Cash Flow increased more than double yoy. The reduction of interest-bearing debt led to decreased net finance costs by 17.7%. Improving financial position offers a solid funding foundation for future development.

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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