China Telecom Corporation Limited
Edited Transcript of 2019 Annual Results
Media conference call

Speaker: Mr. Ke Ruiwen, Executive Director, Chairman & CEO

Slide 4: Overview

Good afternoon, ladies and gentlemen. Thank you for joining the presentation during the epidemic, and for your care and support to the Company.

This presentation has two sections. I will provide an overview first, then Mr. Li Zhengmao will go through the business review and financial performance.

Slide 5: Highlights

We have four key development highlights in 2019:

1. Achieved industry-leading solid results with prominent achievements in high-quality development;
2. Deployed 5G in co-building and co-sharing with edges manifested and sound momentum;
3. Cloud-network integration enhanced capabilities and precision investment on focused areas;
4. Deepened reform along with innovation and cooperation to invigorate vitality and increase value.

Slide 6: Solid Results

In 2019, our revenue and profit growth maintained, of which service revenue was RMB357.6 billion, with a growth of 2.0% yoy which outperformed industry average; net profit was around RMB20.5 billion with a growth of 2.0% yoy on a comparable basis.

Slide 7: High-quality Scale Development Achieved Prominent Results

Our mobile and broadband subscriber scale continued to expand, with an increasingly prominent market position as our mobile subs market share leaped to no. 2 in the industry and attained an industry-leading mobile subs net add market share of 53.2%. Broadband subs base expanded by 5.0% to 153 million. Incremental service revenue market share increased by 10 p.p. DICT revenue grew by 9.1% to RMB53.6 billion, the size of which remaining the biggest in the industry.

Slide 8: Cloud-network Edges Enhance User Experience

Our cloud-network edges continued to be consolidated, with 1.59 million 4G base stations, over 180 cities being Gbps-enabled and over 315 cloud resource pools. Up till now, we have nearly 80,000 5G base stations in use.

Customers are the best judges of service quality. We brought our strong integrated cloud-network edge into full play and our user perception was highly praised by our customers, with an industry-leading position in public user overall satisfaction, handset Internet access satisfaction as well as mobile number portability.

In addition, we ranked no. 1 in hybrid cloud market share in the PRC as well as cloud market share among global telcos, and no. 1 in terms of IDC business overall ranking in the PRC. These clearly demonstrate the leadership position of the "China Telecom" brand in the market.

Slide 9: Leverage Resource Edges to Forge Superior 5G Network

We proactively commenced co-building and co-sharing of 5G network with China Unicom, which fully unleashed the capacity and coverage edges from the coordination of 5G spectrums, and enabled maximum enhancement of network coverage and construction efficiency. We also actively promoted cloud-network integration to maximize the 5G technical features, with an aim to enhance the overall competitiveness in 5G network and business, and to have a network scale on par with peer. Meanwhile, we persisted with our SA development strategy and became an industry-leader in SA development, with the capability of being the world's first operator to commercialize SA.

In 2020, we will build superior 5G network at full strength and target to have over 300,000 base stations in use with contiguous coverage of all prefectural-level or above cities nationwide, and to achieve SA commercial use within the year.

Slide 10: Seize Opportunities to Fully Tap 5G Market

Apart from the unique network resource edges, we have premium mobile, household broadband and enterprise customers with great potential for 5G upgrade. We are actively developing innovative 2C, 2H and 2B application and products for 5G to fully meet market demand for digital transformation and informatization upgrade. Capitalizing on these edges, our 5G development made a promising start. By the end of February in 2020, we had 10.73 million 5G package subs, 5G ARPU was RMB91.9, nearly 10% of ARPU uplift when 4G subs upgraded to 5G, and 5G DOU was 13.2GB.

In 2020, we will strive to achieve 5G scale development, targeting 60 million to 80 million of 5G package subs net add.

Slide 11: Cloud-network Integration Enhances Competitiveness

We will establish unified cloud-network infrastructure, product / application and operating system with cloud-network integration. We will further strengthen cloud-network capabilities, form a digitalized platform based on cloud-network integration, open up ecosystems and empower customers, so as to enhance competitiveness.

Slide 12: Bolster Cloud-network Integration Leading Edges to Tap Industry Informatization

Now we have over 550 IDC sites and are the largest IDC service provider in the PRC. We deploy cloud-network integration resources in a 2+4+31+X structure and achieve high efficiency inter-cloud connection with CN2-DCI and OTN networks which cover all local networks and e-Surfing public cloud resource pools. Placing high importance on building a secure network, we devoted great efforts to develop and deploy "Cloud Dam", our proprietary benchmark security product in the PRC.

Slide 13: Focus on New Growth Drivers with Precision Investment

We completed RMB77.6 billion of CAPEX in 2019, in which 5G investment amounted to RMb9.3 billion. Our CAPEX including 5G in 2020 is RMB85 billion, in which 5G CAPEX is RMB45.3 billion. We will focus on new growth drivers and conduct precision investment to forge brand new network edges, and to provide focused support to 5G and DICT. For 5G, we will co-build and co-share around 250,000 5G base stations with China Unicom, in which we will build 140,000 ourselves. For DICT, we will continue to optimize IDC / cloud resource pool layout, with an aim to expand bandwidth accessing to the cloud and reduce latency to assure user experience.

Slide 14: Dividend

After taking due account into shareholders' returns, the company's profitability, cash flow and capital requirement for future development, the Board of Directors recommends a final dividend of HKD0.125 for 2019 which remains stable. Going forward, we will seize the 5G opportunity and continue to strengthen operation to strive to deliver good returns to shareholders and maintain the sustainability and stability of dividend.

Slide 15: Deepen Reform with Innovation and Cooperation to Enhance Corporate value

Aiming at continued deepening of reform with innovation and cooperation, we will form customer-centric market-oriented mechanisms by constructing new infrastructure for cloud-network integration, sharing API exposure with cloud-as-the-core, and establishing strategic tech companies for vertical industries. We will also form a customer-front digitalized service platform by establishing online sales and marketing service portal covering all customers, promotion platform coordinating all O2O channels and intelligent Big Data support platform for customer operation. These will help us better capture future opportunities and enhance corporate value.

Slide 16: Continue to Promote High-quality Development with Multi-pronged Measures

In 2020, we will implement multi-pronged measures in terms of cloudification, intellectual operation, premium and secure services, professional talents, incentive system reform and ecological cooperation, in order to continue high-quality development. We will strive to achieve targets such as the 60 million to 80 million 5G subs net add, 15 million mobile subs net add, double-digit DICT revenue growth and healthy service revenue growth, as well as maintaining profitability and stable dividend.

My part ends here, and Mr. Li Zhengmao will walk you through our business and financial performance.

Speaker: Mr. Li Zhengmao, President & COO

Slide 18: Mutual Development of Fundamental & New Businesses to Drive Value

In 2019, our mobile business achieved industry-leading scale development. Mobile service revenue and handset Internet access revenue grew 4.7% and 10.8% yoy respectively. Mobile subs net add was 32.57 million. We proactively promoted the mutual development of fundamental and new businesses, as our Internet Finance effectively drove mobile development. Number of Orange Instalment contracts grew by 52.2% yoy, each of them can drive 1.2 new mobile subs, firmly supporting fundamental business growth.

Slide 19: Smart Family Delivered Pronounced Results and Becoming New Growth Driver

Regarding Smart Family, the Smart Family applications grew rapidly in adoption, while broadband and e-Surfing HD expanded steadily in scale. Smart Family applications and services revenue increased 63.2% yoy, narrowing the broadband

blended ARPU decline in the second half of 2019 vs the first half by 6.1p.p.

Slide 20: Continue to Solidify Leading Edges of Enterprise Businesses

We continued to solidify the leading edges of enterprise sphere and key businesses grew rapidly, in which cloud revenue increased 57.9% yoy to RMB7.07 billion, while number of DICT contracts signed increased 63% yoy to 78,000. By reforming organization and mechanism, we continued to enhance professional capabilities in order to fully capture new opportunities in enterprise market. Moreover, we focused on key areas to forge 5G+cloud+DICT ecosystem and developed over 100 use cases in 8 focused fields. We also proactively formed ecosystem and assembled forces of the industry chain to better satisfy customers' informatization demand. With capabilities and edges on 5G+cloud+DICT, now we have over 1,600 vertical industry customers who signed contract with us.

Slide 21: Smart Ecosystems Mutually Integrate to Promote Scale Development of Enterprise Business

Basing on rapid growth of enterprise business, we will cojoin Smart Family, smart communities and smart cities areas by cloud-network integration and AI empowerment, and strengthen the co-development of smart cities and digital government. We will deepen market-oriented reforms on key areas, and target DICT to achieve double-digit revenue growth in 2020, remaining a growth driver.

Slide 22: Increasing Resource Utilization

In 2019, our resource utilization efficiency continued to increase with OPEX decreased 0.5% yoy, and cost structure optimized by precision control on resource input. Network operations expense increased 5.2% yoy, the growth rate narrowed substantially vs 2018; sales and marketing expense dropped 3.5% yoy, while R&D expense grew 57.0% yoy, greatly enhancing our R&D capability.

Slide 23: Enhancing Financial Management Efficiency

Our financial management efficiency continued to enhance, with debts maintained at healthy levels, as total debt decreased by 17.5% yoy, while total debt to total capitalization dropped 3.5p.p. to 18.3%, and finance expenses also reduced by 25%. The solid financial capacity is poised to strongly support our sustainable development in future.

This concludes our presentation 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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