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**China Telecom Corporation Limited**

**Edited Transcript of 2011 Interim Results Analyst Presentation**

**Speaker: Mr. Wang Xiaochu – Chairman & CEO**

Ladies and gentlemen, good afternoon. I am very pleased to meet you all and it is my pleasure to introduce to you the company's performance in the first half of 2011.

Today's presentation has two parts: first, I will talk about the overall performance. This will be followed by Madam WU who will present to you the financial performance.

**Slide 6 – Highlights**

Currently, the Company focus on two main aspects to develop business. First, riding on favourable trends, we accelerate expansion, increase market share and strengthen core businesses such as mobile and broadband services; Secondly, we nurture innovative services to create new core competencies for the future. In the first half of 2011, we have the following highlights:

- Robust 3G momentum driving rapid expansion of mobile service;
- The scale of broadband service further expanded; and
- Steady improvement in overall profitability.

**Slide 7 – Solid Results**

In the first half of 2011, operating revenue were 120.1 billion, up by 11.7% year on year; excluding mobile terminal sales, operating revenue were 113.7 billion, increase 7.8% year on year.

The EBITDA was 48.5 billion, a 6% growth over same period last year with EBITDA margin at 40.4%. The net profit was 9.7 billion, up by 10.2% year on year; free cash flow remained strong at 15.5 billion.

As for the subscriber expansion, the mobile subscribers reached 108 million, of which 3G subscribers was 21.54 million, up by 75.3% compared to the end of last year. The number of broadband subscriber reached 70.09 million while the number of access lines in service was 172 million. The total number of mobile and broadband subscribers is now more than the number of access lines in service.

**Slide 8 – Revenue Breakdown**

This table shows the breakdown of revenues from various services and their growth respectively.

### Slide 9 – Revenue Growth Drivers

In the first half of 2011, the revenue decline in fixed line voice service was offset by the revenue growth in the growth businesses. This resulted in a net increase of 12.6 billion in revenue.

Amongst the growth businesses, mobile service revenue rose by 12.7 billion, driving revenue growth by 11.8 percentage points. The wireline data & others service, mainly wireline broadband, increased by 6.3 billion, driving revenue growth by 5.9 percentage points.

The wireline voice revenue declined by 6.5 billion, dragged overall revenue down by 6 percentage points.

### Slide 10 - Remarkable Progress in Optimizing Revenue Structure

Let's look at further analysis in the revenue structure

First, mobile voice, mobile data and wireline data services continued to grow, representing 15.0%, 16.5% and 46.5% of the total revenue respectively. The growth businesses represented by these services accounted for 78.0% of the total revenue.

Second, the proportion of wireline voice to total revenue decreased from 30.6% to 22.0%; while PAS revenue only accounted for 0.9% of total revenue, implying that the risk from PAS service has been basically alleviated.

We believe that after our efforts over the past few years, we have optimized our business structure and developed a more scientific and rational proportion, which laid down solid grounds for long-term effective development.

### Slide 11 - Fast Mobile Expansion Revealing Scale Benefit

In the mobile business, the subscriber base and revenue have favorable development. The scale development in mobile service enhanced the Company's overall profitability. The mobile net-add was 17.85 million, reaching a total 108 million and the Company becomes the largest CDMA mobile operator in the world. The market share of mobile subscribers reached 12%, up by 2.5 percentage points over the same period last year. The mobile service revenue rose to 31.1 billion, increase 36.8% year on year. The mobile ARPU was 52.2

The above shows that mobile service has achieved remarkable development. We will further strengthen the following measures:

First, we will deepen the differentiated strategy to promote two series of competitive offerings, the mobile Internet products and industry applications.

Second, we will continue to invest into 3G business, by expanding 3G networks coverage and

enhancing customers' experiences with 3G applications. We will increase the subsidies on 3G services to promote 3G subscriber growth.

Third, on the basis of fixed mobile convergence, we respect our customers' choices, to let them choose handset first and matching by the service package so that to improve marketing efficiency.

Fourth, continuing to promote the collaboration of the terminal value chain by focusing on the smart devices and expanding open channels.

#### Slide 12 - 3G Traction Driving Fast Mobile Expansion

In the first half of 2011, the 3G market picked up. 3G net-add was 9.25 million, reaching a total of 21.54 million. The proportion of 3G subscribers to total mobile users was 20%.

Our key initiatives in 3G services are:

- First, providing enriched mobile broadband contents and applications to promote (i) data traffic, (ii) increase mobile Internet services and (iii) industry applications penetration and popularity. Our 3G handset data traffic in June rose by 78.3% compared to January.
- Second, we consistently build up competitiveness in 3G smartphones, making that models, functions, price-performance-ratio and market impact outperform the peers. In the first half of 2011, around 400 models of 3G handsets were available, an increase of 100 models from end of last year and exceeded the number of models of other mobile technologies.
- Third, sales and marketing strategy tilts towards 3G and most handsets subsidy were spent on 3G service.

#### Slide 13 - Rapid Mobile Data Development

In the first half of 2011, we are delighted to see rapid mobile data development, achieving revenue of 13.1 billion, a year-on-year growth of 51.6% and accounted for 42.2% in mobile service revenue, up by 4.1 percentage points year on year. Mobile data services such as 189 mailbox, eSurfing Live, eSurfing Video and eStore begin to drive revenue growth.

Right now, many of our new services, like mobile payment, videos, positioning, reading, mobile office and push-to-talk, etc. are still in the early stages of development. When these products getting more mature and their demand ramp up, there will be favourable results.

#### Slide 14 – Alleviating Wireline Risk

In 2011, revenue of wireline business was 82.3 billion, down by 0.2% year on year. Broadband and VAS and integrated information services continued to expand and the decline in wireline voice revenue slowed down, effectively stabilizing the wireline business.

We will persistently maintain the wireline voice service and strengthen existing customer relationship. Through integrated offerings to improve customer stickiness and explore the potential values of customers. In the next few years, the wireline voice service will integrate with more integrated packages, and the growth businesses such as wireline broadband, VAS and integrated information services will further expand. We expect the decline in overall wireline revenue will slow down.

#### **Slide 15 - Wireline Broadband Sustaining Leading Edges**

In the first half of 2011, the broadband subscribers and revenue have remarkable growth. Revenue from broadband service were 29.8 billion, up by 13.1% year on year; broadband net add was 6.61 million, reaching a total of 70.09 million and up 20.2% year on year. The ARPU was 74.3.

In the second half, we will take various initiatives and accelerate the scale development in broadband service amid intensified competition.

First, we will continue our efforts in subscribers acquisition and access speed upgrade, committing to the full year goal reaching 12 million wireline broadband net add.

Second, we will promote the expansion of eSurfing broadband customers' interface, WiFi access as well as the unified account management to strengthen our leading brand in broadband products, and to sustain rapid development momentum.

Third, we will introduce innovative marketing initiatives to improve attractiveness of broadband offering and to enhance customers' satisfaction.

#### **Slide 16 – Robust Wireline VAS & Integrated Information Services**

During the first half, the wireline VAS and integrated information services continued to grow steadily and achieved revenue of 15.2 billion, an increase of 10.9%. Revenue from Best-Tone type information service were 3.3 billion, up by 15.8% year on year.

As for VAS and integrated information services, we will offer differentiated services and sub-divide customers' segments and offer different services for different individual, household and government and enterprise. We will actively promote the penetration of products and applications, supported by integrated platform of wireline and wireless broadband and integrated services, strengthen IDC-based cloud computing services and integrated information capability.

#### **Slide 17 - Investing for Sustainable Growth**

In the first half, the Company's CAPEX was 21.0 billion. Full year CAPEX is within 50 billion.

The ratio of broadband investment to total CAPEX was 71%. The improvement in broadband network enables to meet customers' demand for access speed upgrade, further enriching users' broadband experiences. More importantly, it prepare for the increasingly competitive broadband market in the future. As the "Broadband China, Fibre City" project develops, by year 2013, all cities areas have 20Mbps broadband access capability and our market leadership position was further strengthened.

#### Slide 18 – Leverage Mobile Internet to Promote Robust Growth

In order to seize the opportunity of mobile Internet, the Company reinforced its strategic positioning as "A Leader of Intelligent Pipeline, a Provider of Integrated Platforms and a Participant of Content and Application Development". To this end, we will strive to turn this strategic positioning into value for customers and corporate.

The overall development thinking is to adhere to customer-focused innovative informatization strategy, and to promote rapid scale development of mobile and broadband services by leveraging the national high-speed integrated broadband network, the increasing number of varieties of terminals, and the proliferation of attractive mobile Internet applications as well as our superior IT and information service capability.

#### Slide 19 – To Achieve Leap Development Capitalizing on Strategic Opportunity

Achieving over 100 million mobile subscribers is catalyst for future development. Over the past three years, we use eSurfing brand to develop in the market. Focusing on the different needs of the government and enterprises, household and individual customers, we promoted scale development of industry applications and promoted differentiated mobile Internet products to establish a solid foundation in the mobile market.

In the future, we will seize the strategic opportunity of migration of 2G towards 3G and fibre roll out, optimize resources allocation and leverage the pro-activeness and creativity of our staff to achieve rapid scale development in mobile and broadband services. Meanwhile, we reinforce our efforts in innovation and leveraging our eight products centres with innovative mobile Internet products as the core, in order to nurture new business opportunities and strive for better returns for shareholders.

Next, may I invite Madam WU Andi to introduce the financial performance for the first half of 2011.

**Speaker: Madam Wu Andi – Executive Vice President & CFO**

#### Slide 20

Thank you, Chairman Wang. Ladies and gentlemen, good afternoon. I will now introduce to you the Company's financial performance for the first half of 2011

#### Slide 21 – Key Financial Information

In the first half of 2011, the management carefully assessed the market, seized the favorable market opportunities and adhered to the principle of effective scale development, which lead our team to achieve rapid development in various businesses, while at the same time steadily enhanced the effectiveness.

During the first half, operating revenue were 120.1 billion, up by 11.7% year on year; The operating expenses were 105.7 billion, up by 12.5% year on year; The net profit was 9.7 billion, increase by 10.2% year on year; The EBITDA was 48.5 billion, increased by 6.0% year on year.

#### Slide 22 – Effective Cost Management Driving Sustainable Growth

In the first half of 2011, operating expenses were 105.7 billion, accounted for 88% of total operating revenue, up by 0.6 percentage points year on year. Looking into the cost structure:

SG&A increased by 12.4%, as a % to operating revenue same as last year , The increase is due to increase in marketing expenses. The handset subsidies increased to 7.7 billion, up by 26%, accounted for 24.7% of the mobile service revenue.

Network operations and support expenses increased by 11.7%, as a % to operating revenue same as last year , The mobile network leasing fee grew rapidly to 8.7 billion in line with the growth in mobile service revenue , up by 36.6% year on year. Excluding the mobile network leasing fees, the network operation expenses only up by 2.1%.

Personnel expense up by 11.9%, as a % to operating revenue same as last year, mainly due to our efforts to increase incentives to attract and reward talents.

Cost of terminals sold and interconnection fees increased by 59.2% over the same period of last year, an increase of 3.3 percentage points, mainly driven by the rapid growth in mobile interconnection settlement and increase in cost of procuring mobile terminals due to increased levels of terminals procurement.

Depreciation and amortization fell by 1.7% over the previous year, drop by 2.8 percentage points year on year.

#### Slide 23 - Optimized CAPEX Structure Supporting Strategic Transformation

In the first half of 2011, the Company allocated its CAPEX based on cost-effectiveness. Over 80% of the investment was used in supporting the development of growth businesses so that investment efficiency is optimised. Main features are:

First, we accelerated fibre rollout and promoted fibre to the home to support scale

development of broadband service. We invested 14.9 billion in broadband and Internet, up by 29.9% and accounted for 71% of total CAPEX.

Second, we focused on key industry informatisation application projects, investment effectiveness and risk control. The investment on VAS and integrated information service was 2.1 billion, down by 26.3% year on year and drop to 10% of total CAPEX.

Third, we strengthened the integration of wireline and mobile IT platforms. Investment on IT and related support reached 500 million, up by 15.0% year on year, but down to 2.3% as of total CAPEX. We will rationally invest in IT system to enhance the effectiveness of precision management.

Fourth, to ensure investment effectiveness and reduce operational risks, we continued to maintain necessary CAPEX on wireline voice, which is around 500 million, drop by 21.5% year on year and accounted for 2.2% of total CAPEX.

#### Slide 24 – Solid Financial Strength

In the first half of 2011, our total debt to total cap ratio continued to fall to 19.6%, down by 7.9 percentage points over the same period of last year.

The net debt to EBITDA ratio was 0.3, dropped by 0.36 times compared to 0.66 for the same period last year.

As a whole, the Company has improved the capability in resources deployment and has rationalised capital structure to better prepare for CDMA network acquisition.

#### Slide 25 – Optimize Resources Deployment to Promote Profitable Growth

Currently, the focus of financial management is to insist on innovation of financial management measures, coordinating resources allocation in order to support rapid and scale development of growth businesses.

First, we proactively and effectively deploy sales initiatives. We promptly respond to market opportunities by dynamically allocating resources and incentives to high growth businesses, responding quickly to business development needs, and tilting our resource applications to growth regions, and we specifically targeted resources for industry applications and 3G services.

Second, we implemented precision management methods to control network support expenses while maintaining operational quality of networks, and optimised the debt structure to lower the financing costs.

Third, we will deepen our innovation on financial management to enhance the overall management capability. We also implemented centralised financial accounting system at the

provincial level to improve management efficiency, and introduced a financial management mechanism suitable for emerging business.

Fourth, we will continuously optimise the investment structure, increasing investment in broadband network, IP network and integrated platform to enhance the support for scale development. We will establish asset life cycle management techniques to enhance return.

#### Slide 26 - Strengthen Competitiveness via Deepened Transformation & Mechanism Innovation

With our continuous effort in deepening strategic transformation, we have enhanced our competitive strengths. Going forward, we will proactively tackle challenges and focus on the following initiatives:

First, to broaden our mindsets and encourage innovative ideas, and direct all levels within the Company to promote the mindset of “Pursue market potential instead of budget goal” to expand revenue & market share.

Second, invigorate new business development with more flexible and market-oriented approach, and throughout various measures to stimulate vibrancy in new businesses.

Third, step up effort to centralize operation, allocate resources and coordinated product development, operation management, marketing strategies and management, and create synergy amongst them.

Fourth, focus on developing a culture of integrity, encouraging a spirit of integrity, focusing on education on integrity, and to deliver best service by improving service capability and commit to be responsible to the market and our customers.

Fifth, strengthen and perfect risk management, internal control and detection and corrective measures, ensuring that the company operates in compliance within the regulatory rules.

#### Slide 27

That's the end of the presentation, 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 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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