



China Telecom Corporation Limited

Edited Transcript of 2012 Interim Results and CDMA Network Acquisition  
Analyst Presentation

**Speaker: Mr. Wang Xiao Chu – Chairman & CEO**

Good afternoon, ladies and gentlemen. I am very pleased to meet you all and to introduce the Company's performance in the first half of 2012.

Today's presentation will be divided into three sections. First, I will talk about the Company's overall performance. This will be followed by President Yang and Madam Wu, who will present our business review and financial performance respectively.

Slide 5: Highlights

In the first half of 2012, the Company achieved the most remarkable results in our history. The development model of the Company has become more mature after years of strategic transformation and scientific development, leading to the accelerated growth of our business.

Highlights of our development are:

- 3G has driven fast mobile expansion and our revenue growth exceeded the average level of the industry.
- The Company accelerated the upgrade of fibres network to boost the broadband business and the wireline business revenue turned to positive.
- The Company is timely to acquire the mobile network to enhance the corporate value.

Slide 6: Solid Revenue Growth to Drive Long-term Value Enhancement

In the first half of the year, our operating revenues were 138 billion, up by 14.9%. Excluding revenue from mobile terminal sales, operating revenues were 126.6 billion, an increase of 11.3% over last year.

EBITDA was 48.8 billion, up by 0.5%, EBITDA margin was 38.5%.



Net profit was 8.8 billion, down by 7.4% year-on-year.

As for the subscriber expansion:

- Mobile subscribers increased by 17.71 million to 144 million, of which 3G subscribers increased by 14.67 million to 50.96 million;
- The number of broadband subscriber increased by 6.89 million and reached 83.70 million while the number of access lines in service was 167 million.

#### Slide 7: Results On Track as Planned

Let's review the KPI of the Company during the first half.

- The data revealed the Company achieved satisfactory results for all indicators. We successfully expanded the mobile subscriber scale while maintaining stable ARPU. The mobile ARPU was 52.4 while 3G ARPU was around 74, suggesting our mobile business achieved effective scale development. Wireline business revenue rebounded to positive and registered 1.9% growth.

Notably, the Company's short term profitability was under pressure due to the launch of iPhone in March and the appropriate increase of marketing initiatives. Nevertheless, such effective investment will allow the Company to further expand high-end market and achieve the breakthrough in mobile business and profitability, thereby enhancing our long-term value.

#### Slide 8: Strategic Transformation Yielding Results

In the first half of the year, the Company's revenue growth surpassed the industry average for the first time and the revenue structure was further optimized.

The revenue from the growth business accounted for 83.9% of the total revenues, up by 12.4 percentage points over 2010.



The revenue from mobile business became our largest source of revenue, accounting for 39.2% of total revenues, up by 14.6 percentage points over 2010. Wireline broadband revenue accounted for 24.2% of total revenues.

Proportion of wireline voice service in our revenue structure further declined to 16.1% from 28.5% in 2010 while revenue from PHS accounted for only 0.3% of total revenues.

The business risk of the Company was further alleviated.

#### Slide 9: Timely Acquisition of CDMA Network at a Fair & Reasonable Price

Now, I would like to discuss some details on CDMA network acquisition.

This acquisition kicked off in March and the preparatory works were completed. The acquisition proposal was adopted by the board meeting held this morning and it will be proposed to the Extraordinary General Meeting for approval.

The acquisition target includes the CDMA Network assets and the associated liabilities located in the head office and in 30 provinces owned by the parent company.

The initial consideration as agreed with the parent company was 84.6 billion.

The completion date of the acquisition is expected on 31 December 2012. As the carrying value of the acquisition target may change during the period between the base date for asset appraisal, being 31 March 2012, and the completion date, the price adjustment mechanism will be set up. The amount of price adjustment will not be more than 3 billion.

The consideration will be settled by initial payment and deferred payment. The initial payment is around 30% of the consideration, which will be approximately 25.5 billion. The deferred payment will be payable to the parent company on or before the fifth anniversary of the completion date.



This acquisition will be proposed to the EGM to be held in October for approval.

#### Slide 10: Significant Benefits of CDMA Network Acquisition

The Board believes that this acquisition will bring the following benefits to the Company.

- Firstly, it will allow the Company to save the rapid-increasing mobile network lease fee, leading to the significant improvement of post lease fee EBITDA and the growth of shareholders' value.
- Secondly, it will significantly reduce the amount of connected transactions between the Company and the parent company. The mobile services and network will be closely integrated and our business operation will be better managed and more transparent.
- Lastly, the Company will gain direct control over the investment decision of mobile network and the efficiency of mobile network investment and operation will be enhanced.

#### Slide 11: Savings on Rapidly Rising Leasing Fee to Drive Future Profitability

The effects on costs and profitability arising from this acquisition are as follows:

- Currently, the lease fee is linked with the mobile service revenue. As the mobile service revenue grows rapidly, the lease fee also increases significantly. The growth rate of the lease fee is obviously higher than the increase of the depreciation and maintenance expenses.
- The lease revenue of the acquisition target reached 11.3 billion in the first half of this year while the depreciation and network maintenance costs were 7.2 billion and 3.6 billion respectively. Clearly, the amount of lease fee exceeded the sum of depreciation and network maintenance expenses.

As a result, we believe after the acquisition, we can save the fast-growing lease fee in future which will enhance the future profitability of the Company.

#### Slide 12: Highly Effective Mobile CAPEX to Boost Future Cash Flow

This page explains the effects of the acquisition on cash flow.



As the CAPEX on the mobile network will be borne by the listed company after the acquisition, the Company's cash flow will be affected. However, taking into account of the trend of mobile CAPEX in recent years, our mobile CAPEX has trended relatively stable and it may not experience significant rise in the near future.

The CAPEX for the acquisition target was approximately 7 billion in the first half of the year, and the lease fee was approximately 700 million higher than the sum of the mobile CAPEX and network maintenance expense. Therefore, with the prominent growth of mobile services revenue and effective control on CAPEX, we believe the future cash flow of the Company will increase steadily after the acquisition.

### Slide 13: Promote Scale Development for Value Creation

Based on our comprehensive analysis, the Company believes:

- In China, the mobile market is still riding on the solid 3G momentum. The migration from 2G to 3G services will be the major trend in the next few years.
- Broadband market will maintain its healthy growth momentum despite new competition.
- Mobile Internet, "Cloud" computing and the Internet of things will bring us more opportunities. Therefore, we are enjoying a golden opportunities for growth.

We will adhere to our strategies of maintaining the dual-leadership in innovation and services. We will further our effort in the scale development of the three major businesses, including mobile, broadband service and informatisation applications, to promote long-term value creation.

Next, may I invite President Yang to introduce the business review.



Speaker: Mr. Yang Jie - President & COO

#### Slide 14

Thanks Chairman Wang. Good afternoon Ladies and Gentlemen. I am going to introduce our business performance in the first half of 2012.

#### Slide 15: Revenue Breakdown

This table shows the Company's revenues breakdown and the changes.

The Company has two major businesses: mobile and wireline. Now let's look at the mobile. Mobile revenue was 54 billion, up by 43.2%, accounted for about 39.2% of the total revenue. For the wireline business, there is some change from negative to positive in the first half of this year. In the first half, the wireline revenue was up by 1.9% and accounted for about 60.8% of the total revenue of the Company.

#### Slide 16: 3G Traction Driving Strong Mobile Momentum

In the first half of 2012, the mobile business continued to be driven by 3G service and achieved rapid growth. The mobile net-add was 17.71 million, reaching a total 144 million subscriber and the subscriber market share increased to 13.8%. The number of 3G subscribers increased by 14.67 million to 50.96 million and around 35.3% of our total mobile subs are 3G users. The mobile service revenue in the first half maintained robust growth and rose to 42.6 billion, up 36.7% year on year.

As mobile Internet applications and 3G smart devices becomes increasingly proliferating and users' habit of using 3G services has cultivated, the migration from 2G to 3G services further accelerates. Facing this golden opportunity for growth and upholding the disciplines of mobile operation, we set to accelerate the adoption of 3G applications and smartphone, further promote mobile service as stand-alone product and achieve scale breakthrough in mobile services, while enhancing our centralised efficient operation and differentiated service offerings.



### Slide 17: Rapid Growing & Industry-Leading Mobile Data Contribution

In the first half of the year, mobile data business recorded solid growth. Mobile data revenue amounted to 19.3 billion, up 46.7% over last year, contributing 45.3% to mobile service revenue. The monthly data traffic per 3G handset user reached 111MB, up by 4.7% over last year.

As always, we shall dually focus on scale development through expanding users base, and mobile data traffic operation to establish edges in mobile Internet operation, in the course of our mobile services development. The growth in mobile data revenue proves our achievement of mobile data traffic operation.

In order to maintain good performance of mobile data traffic operation, we shall adhere to few key strategies:

- Firstly, we will focus on offering 3G smart phones and expand the smart phone subscriber base.
- Secondly, we will step up our effort to promote the adoption of internet applications, including self-developed and collaborated applications.
- Thirdly, we will enhance customers' experience and provide customer coaching to cultivate subscribers' habit of using mobile data via handsets.

### Slide 18: Resilient Wireline Business

In the first half of 2012, wireline revenue rebounded and amounted to 83.9 billion, up by 1.9% year-on-year. Within the wireline business, broadband, VAS and integrated information services continued to grow. The decline of wireline voice revenue further reduced, mitigating the risks of wireline operations.

In the second half, our focus of wireline development will remain on the fast-growing broadband business and integrated information services. Resources will be better allocated towards these 2 areas. We will also actively explore to introduce wireline voice to bundle packages in order to slow down the decline of wireline voice revenue.

We expect wireline revenue will remain stable in the year as well as next two to three years.



### Slide 19: Fast Growing Wireline Broadband Service with Enhanced Competitiveness

In the first half, wireline broadband maintained its strong growth. Revenue from wireline broadband was 33.4 billion, up by 12.1% year-on-year. Net

addition of broadband subs was 6.89 million, reaching a total of 83.70 million, representing 19.4% growth year-on-year, ARPU was 69.3.

In the second half, we will capitalize the huge broadband services demand brought by informatisation and favourable government policies to develop broadband services in China. We will adhere to our growth strategies of “bandwidth upgrade, content enrichment and premium brand building”. We continue to promote the “Broadband China • Fibre Cities” plan by accelerating the upgrade of fibres network in key regions, converting the network edges as marketing advantages and furthering the scale development of broadband services.

While offering bandwidth upgrade, we will actively expand high-bandwidth Internet applications, such as online video, video chatting and online gaming, to boost high-bandwidth demands and drive new momentum for the broadband market. We are confident to achieve a net addition of 13 million or above broadband subs this year.

### Slide 20: Robust Wireline VAS & Integrated Information Services

In the first half of 2012, wireline VAS and integrated information services achieved solid growth, with revenue of 16.3 billion, up by 7.4%. In particular, based on the business plan of “Cloud” services, we adopted centralised management to our IDC services and achieved remarkable result. Revenue from IDC services amounted to 2.9 billion, up by 42.8%.

The Company has fully commenced the commercial application of “Cloud” services. By promoting the concept of “Smart City”, we focused on three key areas, namely smart government, smart life and smart industry. We developed



key industry applications and accelerated the scale replication and promotion of mature products to sustain the growth momentum of integrated information services.

#### Slide 21: Near-term Priorities

The Company attained remarkable results in the first half of 2012, proving our right strategies and solid execution. Looking forward, the Company will adhere to the strategy of “promoting scale development through dual leadership in innovation and services” by focusing on three major businesses, namely 3G, wireline broadband and industry applications, and strengthening our four major capabilities, including innovation, servicing, effective centralisation and operation, and strive to realize our goals.

With our near-term focus set out here, we strive to make a breakthrough.

- First, to enhance centralised operation of our brands and new products.
- Second, to coordinate parallel growth of single products and bundled products.
- Third, to strengthen differentiated operating edges leveraging refined market segmentation.
- Forth, to boost data traffic operation by self-developed and cooperated products.
- Fifth, to drive sales with proliferating 3G smartphones and enhance sales efficiency.

Now, may I invite Madam Wu to present the Company’s financial performance.

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

#### Slide 22

Thank you President Yang. Good afternoon, ladies and gentlemen. I will now present the financial performance for the first half of 2012.



### Slide 23: Key Financial Information

The operating revenues were 138 billion, up by 14.9%; operating expenses were 125.6 billion, up by 18.5%; net profit was 8.8 billion, representing a 7.4% decline; free cash flow was 8.5 billion.

### Slide 24: Effective Cost Initiatives Driving Sustainable Growth

In the first half of 2012, the Company's operating expenses were 125.6 billion, accounting for 91.0% of revenue, with an increase of 2.8 percentage points year on year.

Network operations cost increased by 22.6%, up 1.5 percentage points as a percentage of operating revenue, mainly due to the increase in network leasing fee, amounted 11.8 billion, which is in line with the growth of mobile revenue. Excluding the network leasing fee, the increase of network operation cost was in line with that of the revenue growth.

Personnel costs increased by 11.5%, but below the revenue growth, and lowered by 0.5 percentage point as a % of operating revenue as a result of effective control of personnel expenses.

SG&A expenses increased by 32%, up by 2.7 percentage points as a % of operating revenue. The increase of SG&A expense was due to the appropriate increase of sales & marketing initiatives for mobile and broadband services scale development. Mobile handset subsidies were 11.5 billion, up by 50.2%, attributable to 27.1% of mobile service revenue.

Other operating expenses increased by 42.1%, mainly because of higher terminal sales and procurement volume leading to increase of procurement cost which was about 10.8 billion. Also, the expansion of mobile subscriber base and mobile voice traffic also edged up the interconnection expenses.



Depreciation and amortisation declined by 4.4%, reduced 3.6 percentage points as a % of operating revenues.

#### Slide 25: Proactive Investment to Foster Network Edges & Business Growth

In the first half of 2012, the Company's CAPEX was 25.6 billion. Full year CAPEX budget will be controlled within 54 billion.

During the first half, the Company effectively allocated resources and strictly controlled CAPEX, making the CAPEX structure further optimised.

First, investments in broadband and Internet were 18.1 billion, increase by 21.2%, accounting for 70.4% of CAPEX, effectively supporting broadband fibre network transformation and boosting our leading edges in broadband services.

Second, CAPEX on VAS and integrated information services amounted to 3.3 billion, up by 58.6%, accounted for 12.9% of CAPEX. The investment focuses on informatisation applications for key industries, accelerating introduction of cloud services, cloud data centre construction and supporting the fast roll-out of mobile Internet business.

Third, IT and support investments amounted to 700 million, up by 41.7%, accounting for 2.7% of CAPEX. The investment was mainly spent to promote the upgrade of the support platform of integrated services and the continuous optimization of IT platforms, facilitating the improvement of centralised and precision management.

Fourth, wireline voice investments were around 300 million, down by 26.4%, and reduced to 1.3% of total CAPEX. The investment strategy is obviously a "balanced" approach, to cater the needs for network maintenance and to reduce investment risks.



### Slide 26: Solid Financial Strength Facilitating CDMA Network Acquisition

In the first half of 2012, the Company continued to rationalise the debt structure and our total debt to total capitalisation ratio decreased to 15.2%, which would facilitate our proposed acquisition of mobile network.

Assuming the completion of the acquisition occurred at the end of Jun this year, our debts would increase by 84.6 billion, our total debt to total capitalisation ratio would be 33.3% and the net debt to EBITDA ratio would be 0.96, which were in the reasonable range.

### Slide 27: Scale Development to Drive Future Profitability & Value

A full review of our performance in the first half has shown the Company a clearer direction going forward. The Company will focus on scale development and profitability improvement.

Looking ahead, the Company will concentrate on the following aspects:

- Firstly, we will expand 3G and broadband subscriber bases to achieve a breakthrough in subscriber market share.
- Secondly, we will strive to achieve sustainable growth in revenue with equal emphasis on subscriber scale and quality.
- Thirdly, we will optimize costs and investment structures and strengthen evaluation to enhance cost efficiency.
- Fourthly, we will keep improving our internal control to prevent operating risks.
- Fifthly, we will complete the acquisition of CDMA network to enhance future profitability improvement and create long-term value for shareholders.

### Slide 28

This is the end of our 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 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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