

China Telecom Corporation Limited

Edited Transcript of 2013 Interim Results Investor Presentation

Speaker: Mr. Wang Xiaochu, Chairman and CEO

Good afternoon, ladies and gentlemen. I am very pleased to meet you all and to introduce the Company's performance during the first half of 2013.

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 2013, the Company's achievements are highlighted as follows:

- Our robust business development optimized revenue structure, and drove double-digit growth both in revenue and net profit;
- Our mobile scale expansion led to industry-leading mobile revenue growth with customer value steadily enhanced;
- We further reinforced the edges in fibre broadband network and services to boost continuous broadband growth, leading to stronger long-term competitiveness;
- We will deploy LTE trial network in a timely and appropriate manner.

Slide 6: Solid Growth Momentum

In the first half of 2013, the Company maintained a sound momentum with double-digit growth both in revenue and net profit;

Our operating revenues were RMB 158 billion, up 14% year-on-year. Excluding revenue from mobile terminal sales, operating revenues were RMB 139 billion, up 10% year-on-year.

EBITDA and EBITDA margin posted a significant growth, as a result of substantial saving of mobile network capacity lease fee upon completion of CDMA network acquisition from the parent at the end of last year. In the first half of 2013, EBITDA was RMB 50 billion, up 35.5%;

EBITDA margin of 36%, up 6.8 pp; and net profit of RMB 10.2 billion, up 16% year-on-year.

We are confident to sustain the sound growth momentum in the second half year.

Slide 7: Deepened Strategic Transformation to Accelerate Growth Momentum

In the first half of 2013, we further improved our revenue structure through continuous strategic transformation. The revenue mix from the growth businesses significantly increased to over 87%, supporting to a double-digit growth in operating revenues which outpaced the industry average.

We actively promoted mobile scale development, making mobile services the key growth driver.

The operating risk of the Company was further alleviated as the proportion of wireline voice revenue further declined to 13%.

Slide 8: Mobile Scale Expansion with Industry-leading Mobile Revenue Growth

In the first half, our mobile service saw a rapid growth, and the mobile revenue growth was leading in the industry.

We achieved a rapid growth in the mobile subs scale, leveraging our premium 3G network, a great variety of smartphones and the growing wealth of mobile Internet applications. Our 3G subs base reached over 87 million, representing a net add of 18.3 million in the first half of 2013. Thanks to the surging 3G subs scale, the number of our total mobile subs increased rapidly to 175 million.

During the first half, we promoted data traffic operation and achieved satisfactory result. With mobile data services, customer experience and value were effectively enhanced. The mobile ARPU further increased to RMB 54.3, up 3.6% year-on-year.

Slide 9: Proactive Investment to Bolster Future Sustainable Development & Competitiveness

In the first half, our CAPEX was RMB 33 billion, representing approximately 44% of the full year budget.

Our resources allocation continued to tilt toward high-growth and high-return businesses and areas. We pushed forward the investment in fibre broadband business and enhanced 3G network coverage and quality, aiming to sharpen the network strengths to support our rapid

business expansion.

Meanwhile, we will capture the opportunities to deploy LTE trial network in a timely and appropriate manner. Such deployment will not constitute material impact on our CAPEX budget in 2013. With an effort to rationalize the investment mix for wireline and mobile networks, the CAPEX in 2013 could increase by around RMB 5 billion, making the full year budget to reach RMB 80 billion.

Slide 10: To Deploy LTE Trial Network Timely & Appropriately

To support national technology innovations and allow flexible use of spectrum resources to meet customer demand, we plan to deploy one hybrid LTE network of integrated resources, sharing the core network with wireless access through both TDD and FDD. Thus, most of the LTE network investments would support both TDD and FDD services, offering us flexibility in long term development and return enhancement.

We will continue to fully leverage existing nationwide superior 3G and fibre broadband networks to serve our customers. LTE deployment would only start from densely populated areas.

We plan to flexibly deploy LTE network with regard to future LTE licensing, data business growth & value chain development, overlaying on existing superior 3G network for long-term integrated operation to enhance customer experience & return.

Slide 11: Grasp Opportunity for Breakthrough in Scale Development

Looking forward, we are positioned to benefit from the vast potential arising from the increasing popularity of smart terminals, mobile Internet applications and acceleration of industrialisation and informatisation.

To better profit from the opportunities in mobile Internet, we will strive to break away from the constraints of traditional telecom operation mindset, leveraging market-oriented mechanism to motivate our staff and differentiated offerings to enhance competitiveness. While stepping up scale development of our core businesses including mobile, wireline broadband and industry applications, we will expedite the emerging businesses to achieve new breakthrough in scale development in pursuit of customer and corporate values enhancement.

Now let's invite President Yang Jie to introduce our business development.

Speaker: Mr. Yang Jie, President and COO

Slide 12:

Thanks, Chairman Wang.

Good afternoon, Ladies and Gentlemen. I am going to introduce our business performance in the first half this year.

Slide 13: Revenue Breakdown

This table shows our revenue breakdown and the changes.

Slide 14: 3G Traction Fostering Mobile Scale with Enhanced Customer Value

Riding on the 3G migration, we rapidly expanded the scale of 3G subs in the first half, leading to a strong growth in mobile subs.

At the same time, the mobile ARPU continued to improve as a result of the substantially increased mix of 3G subs with higher ARPU.

We pushed forth mobile scale development on the back of smart terminals, mobile applications and channel expansion. Smart terminals have become increasingly popular with improving price-performance factors. There are approximately 600 models of smartphone available in the market with the sale volume of approximately 30 million units in the first half of 2013, up 83% year-on-year. The informatisation applications effectively contributed more than 40% of mobile net add. Meanwhile, we promoted store manager accountability mechanism for self-owned outlets, while pushing ahead with the collaboration with open channels as well as the efficiently-centralised operation of e-channels.

Slide 15: Rapidly Growing Mobile Data Traffic & Revenue

The Company further promoted data traffic operation to facilitate rapid growth of mobile data business. The mobile data revenue for the first half was RMB26 billion, up 36% year-on-year, becoming a key revenue driver.

We took a few key initiatives to promote data traffic growth, including: introducing innovative mobile data products; strengthening coaching and targeted marketing on 3G applications; and accelerating development of self-operated mobile Internet businesses, while leveraging our open platforms and close collaboration with mobile Internet partners.

With the gradual establishment of data consumption habit, the monthly average data traffic per 3G handset subscriber increased by 51% year-on-year to 168MB in the first half of the

year. Revenue from mobile handset internet access almost doubled to around RMB 10 billion.

Slide 16: Resilient Wireline Performance

In the first half, we effectively uplifted the weight of revenue from wireline data and others through continuous strategic transformation driving revenue from wireline services steadily rising to RMB 85 billion.

With our strong fibre network and ICT service strengths, we accelerated the development of our growth businesses, namely, wireline broadband, VAS and integrated information services, which effectively offset the decline of wireline voice revenue.

We also successfully alleviated the decline in wireline voice revenue through the integrated package offerings. The operating risk was effectively alleviated as the proportion of wireline voice revenue further reduced.

Slide 17: Sustained Solid Growth in Wireline Broadband Amid Mounting Competition

Our wireline broadband revenue maintained robust growth amid mounting competition. In the first half, wireline broadband revenue increased by 5.5% year-on-year to RMB 35 billion.

In response to keen competition in the broadband market, we flexibly adjusted the tariff to enhance the competitiveness and further penetrated into the rural areas, leading to some pressure on broadband ARPU. On the other hand, we capitalise on our strong fibre network and services to expedite bandwidth upgrade. Hence, we managed to maintain modest ARPU decline with user experience and satisfaction improved.

We adhered to the approach of "rational competition and profitable scale development" for our wireline broadband services. In the first half of 2013, the wireline broadband subs reached 95.82 million, representing a net increase of 5.7 million. We expect the net add of wireline broadband sub to exceed 10 million for the whole year.

Slide 18: Comprehensive Development of Wireline VAS & Integrated Information Services

The comprehensively proliferated VAS & integrated information services were set to nurture new growth engines and pull the core businesses growth.

In the first half, wireline VAS and integrated information services maintained steady growth and saw revenue of RMB 16.7 billion, up 2.1% year-on-year. In particular, revenue from our stronghold IDC business increased by 25.7% year-on-year to RMB 3.7 billion.

For cloud computing business and IDC, we efficiently centralised their development. We further enhance the open service capability of cloud platforms and expand cloud VAS, with six cloud data centres in place. We consolidate IDC resources and unify tariff to strengthen the edges, and optimise the products and applications to drive rapid growth of data traffic revenue.

Slide 19: Near-term Priorities

In the first half of 2013, the solid execution of our strategic transformation resulted in strong business performance. In the second half, we will further promote profitable scale development, leveraging the dual-leadership in innovation and services with a focus on the following four aspects:

- We will accelerate the concerted integrated operation & scale expansion of three core services: mobile, wireline broadband & informatization applications;
- We will promote market-oriented mechanism and differentiated offerings to boost vibrancy and sharpen the competitiveness;
- We will expedite the incubation & development of new businesses with reference to Internet enterprise model;
- We further boost the capabilities of innovation, service, efficiently-centralized management & operation to improve sustainable competitive edge and enhance operating efficiency & return.

Now, let's invite Madam Wu Andi, our CFO to present the financial performance.

Speaker: Madam Wu Andi, Executive Vice President and CFO

Slide 20:

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

Slide 21: Key Financial Information

In the first half of 2013, our operating revenues were RMB157.5 billion, representing a sound increase of 14% year-on-year; operating expenses were RMB 142.1 billion, up 13% year-on-year; and net profit was RMB 10.2 billion, up 15.9% year-on-year.

The acquisition of CDMA network from the parent at the end of last year resulted in the substantial saving of mobile network capacity lease fee in this year. In the first half of 2013, the Company's free cash flow increased by 62% to RMB 13.8 billion.

Slide 22: Stringent Cost Control to Boost Operating Efficiency

To capture the opportunity for scale development, we exercised stringent cost control and optimised resource allocation to enhance operational efficiency in the first half of 2013.

The operating expenses were RMB 142 billion, accounting for 90% of revenue, a decrease of 0.8pp year-on-year. The major movements include:

- Depreciation and amortisation increased by 4.2pp to 22.0% of revenues, mainly due to assuming the depreciation and amortisation expenses of the mobile network subsequent to CDMA network acquisition at the end of 2012;
- Network operations and support expenses decreased significantly by 7.9 pp to 14.8% of revenues, mainly attributable to the substantial saving of mobile network capacity lease fee as a result of CDMA network acquisition;
- SG&A expenses increased by 1.0 pp to 22.2% of revenues, mainly due to the increase in sales initiatives for scale expansion of 3G and broadband services;
- Other operating expenses increased by 3.2 pp to 17.0% of revenues, mainly attributable to the increase of 61% in cost of mobile terminals sold as a result of an increase in procurement of smart terminals.

Slide 23: Highly Effective Investment to Strengthen Network Edge

In the first half of 2013, our CAPEX was RMB 33 billion and the investment was tilted toward high-growth, high-value businesses and areas.

The CAPEX structure in first half of 2013 was similar to that in the first half of 2012.

- We will further implement "Broadband China, Fibre Cities" project to reinforce our broadband network leadership and core competence. We expect to basically complete the general coverage in cities in southern China with 20Mbps and above customer access bandwidth by the end of the year, making investment in broadband & Internet taking 53% of total CAPEX;
- To further improve 3G coverage and quality, our mobile investment will focus on network optimisation and capacity expansion in high data traffic areas by investing 23% of total CAPEX into mobile network.

Slide 24: Optimized Capital Structure to Enhance Value

We acquired CDMA network at the end of 2012 through debt financing. Taking the opportunity, we appropriately geared up and optimise the capital structure to enhance corporate value. In the first half of 2013, our total debt-to-total capitalisation ratio was around 30% and the net debt to EBITDA ratio was 0.95 time. The financial position of the Company remained sound and healthy, providing effective support & assurance for sustainable development.

Slide 25: Proactive Financial Transformation to Bolster Profitable Scale Development

While driving profitable scale development, we are to deepen financial transformation mainly through:

- Implementing "market share gain & value creation-based" resources allocation system;
- Optimizing cost & investment structure with resources tilting towards key businesses & high-value customers to enhance return;
- Timely refining performance evaluation metrics of both long-and-short-terms to foster motivation;
- Strengthening centralized capital management & activating asset utilization to improve capital & asset return;

- Strengthening market-driven mechanism with comprehensive promotion of “sub-dividing performance evaluation units”.

We are committed to the maximisation of corporate, customer and shareholder values through the above measures.

Slide 26:

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.

Disclaimer

Although we try to accurately reflect speeches delivered, the actual speech as it was delivered may deviate from the script made available on our website.

-End-