

China Telecom Corporation Limited

Edited Transcript of 2014 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 in the first-half of 2014.

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

The highlights of the Company's major developments in the first half of 2014 are as follows:

1. We leveraged the trends & accelerate comprehensive in-depth reform to enhance value
2. Our persistence in profitable development led to sustained solid growth in revenue & net profit with revenue structure further optimized
3. Focused on 4G & broadband Internet investment to strengthen customer experience & competitive advantages
4. 4G handset service debut in July added new growth engine to mobile business
5. VAT Reform: Short-terms pain, long-term benefits for sustainable growth

Slide 6: Leverage the Trends to Enhance Value

2014 was a year of prominent changes in external environment. These changes included LTE hybrid network trial, VAT reform, MVNO, additional wireline licence granted & the set up of the tower company etc.

Facing these changes, the Company sized up the situation, actively strived for favorable policy support. With a vision for long-term development, the Company timely refined strategies & accelerated the comprehensive in-depth reform to not only enhance corporate vitality, efficiency & value, but also maintained high transparency in the capital market.

Slide 7: Sustained Solid Growth

In first half of 2014, the Company sustained solid revenue & profit growth, thanks to our persistence in profitable development.

Operating revenue reached RMB 166 billion, up 5.3%; operating revenue excluding mobile terminal sales recorded RMB 149.4 billion, up 7.3%.

In the first half, EBITDA was RMB 50.5 billion, up 0.8%; EBITDA margin was 33.8%. Net profit was RMB 11.4 billion, up 11.8%. Free cash flow reached RMB 23.9 billion, up 74%.

Slide 8: Sustained Strong Earnings Growth Excluding Tax Impact of VAT Reform

Excluding tax impact of VAT reform, we reported a pro forma net profit growth of 20.8%, showing sound operating fundamental and strong growth earnings momentum remained.

Slide 9: Fast Growing Emerging Businesses

In the first half, the Company continued to deepen strategic transformation and optimize its revenue structure. The proportion of growth businesses grew further to 89%.

Strengthened with innovation and open co-operation, emerging businesses achieved fast expansion. Emerging businesses revenue, which included data traffic operation, ICT and internet applications, reached RMB 41.3 billion, up 30% and accounted for 28% of the service revenue, up 5 pp.

Slide 10: Investing for Network Edges

In the first half, the Company controlled investment pace with regards to the government policy, leading to capex of RMB 23.1 billion, which accounted for 30% of the full year budget. The full year capex of RMB 80.3 billion remained unchanged.

The Company's investment will be tilted towards 4G and internet business. We budgeted the capex for 4G of about RMB 40 billion in 2014. During the year, there will be an increase of around 80,000 4G base stations and around 60,000 sets of indoor radio distribution systems. By the end of this year, all together there will be around 140,000 4G base station, realizing in-depth 4G coverage in 100 key cities and high data traffic areas.

Slide 11: 4G Handset Service Sets to Thrive

Through active communications, we were granted the permit for TD/FDD hybrid network trial. With strong execution, we managed to launch 4G handset service in late July within 1 month of the permit grant.

Leveraging the LTE hybrid network, the Company joined the global mainstream 4G value chain, effectively improving handset supply, price-performance factors. We currently have around 20 4G handset models available in the market and will expand the line-up quickly. We expect to have 50 models by end of Sep and 100 models by end of the year.

We will capitalize on the advantages of LTE hybrid network to better satisfy customers demand.

At the same time, the Company has proactively applied for expansion of LTE hybrid network trial footprint & LTE FDD licence.

Slide 12: Create a “New China Telecom” with Enhanced Vitality & Return

In the second half, the Company will accelerate the comprehensive in-depth reform. In the fundamental business, the Company will further implement “sub dividing” performance evaluation units, promote bidding with performance contract & strengthen delegation & support. In the emerging business, the Company will leverage mixed ownership to enlarge open cooperation.

At the same time, the Company will fully adopt Internet-oriented transformation, leverage Internet mindset & methodology to upgrade the fundamental businesses & create differentiated advantages. It will also leverage telecom edges & Internet operating dynamics to accelerate market-oriented development of the emerging businesses & lift market position by efficiently-centralized operation.

Through the above measures, we aim to create a “New China Telecom” with enhanced vitality & return.

Now, let’s invite President Yang to give us business update.

Speaker: Mr. Yang Jie, President and COO

Slide 13:

Thank you, Chairman Wang.

Ladies and gentlemen. Good afternoon!

Now, may I present to you our business performance in the first half of 2014.

Slide 14: Revenue Breakdown

The table shows the revenue breakdown and the changes. And I shall give you the specifics.

Slide 15: Profitable Mobile Development

Active promotion of subs upgrade to 3G services effectively drove mobile revenue & ARPU growth, in the first half. Mobile service revenue reached RMB 62 billion, up 14%. Mobile APRU was RMB 56.5, up 4 %. Net addition of 3G subscribers was 4.13 million. 3G APRU remained stable.

Due to increasing market competition driven by the launch of 4G services & strengthened marketing effort by peer, as well as the Company's persistence in profitable development & appropriate control of sales initiatives, the Company saw a net loss of 5.34 million subscribers, which were primarily low-end subs.

We leverage the launch of 4G handset services in the second half with high-speed 3G/4G service & reasonable data pricing package to promote mobile scale development.

Slide 16: Rapidly Growing Mobile Data Traffic & Revenue

Through the terminal-led, application-driven and other approaches, the Company clocked in a rapid growth in mobile data business. In the first half, Mobile data revenue contribution first passed mobile voice, and reached RMB 31.8 billion, up 22%, extending strong growth momentum and establishing a data driven consumption pattern.

In the first half, monthly average data usage per 3G handset sub was 218MB, up 30%. Handset Internet access revenue reached RMB 15.7 billion, up 60%.

4G handset services are set to drive fast revenue & data traffic growth. The Company will drive new data product development with extensive cooperation with content providers to offer integrated products combining "content + data traffic", while promoting data sharing.

Slide 17: Resilient Wireline Performance

In the first half, wireline revenue was RMB 87.4 billion, up 3%.

Actively leverage the fibre network and ICT service edges, we accelerated the development of wireline broadband, VAS and integrated information service and other high growth businesses, effectively offsetting decline in wireline voice revenue.

In addition, the contribution of wireline voice revenues continued to decline, so did our operating risks.

Slide 18: Sustained Growth in Wireline Broadband Amid Mounting Competition

For the wireline broadband business, we managed to maintain growth despite mounting competition. Revenue from wireline broadband reached RMB 36.4 billion, up 3%.

The Company accelerated customer access bandwidth upgrade, enriched content and applications to enhance customers' satisfaction. In the first half, the Company saw net addition of 4.03 million wireline broadband subscribers, leading to a total of 104 million. For full year, the Company expects to grow a net addition of around 7 million wireline broadband subs.

Slide 19: Comprehensive Development of Wireline VAS & Integrated Information Services

The Company leveraged on its extensive network resources and strong branding franchise, and open cooperation to actively drive VAS & Integrated Information Services.

In the first half, revenue from wireline VAS and integrated information services showed a strong growth pattern and reached nearly RMB 20 billion, up 19%. Key cultivators of the Company were IT Services and Applications and IDC, which service revenues both jumped over 30%.

In July, the Company officially launched "Joy me", an iTV upgrade product building on broadband access and smart terminals, aiming to create service platform for promoting smart family applications, and further improve product functionalities & customer experience.

Slide 20: Fast Expansion of Internet Applications

Internet applications experienced fast expansion in the first half.

1. Launched in Aug last year, YiChat achieved registered users of over 100 million in 11 months, becoming China Telecom's key Internet portal to promote fast growth of Internet applications.
2. In the first half, the rapidly developed Best Pay ventured into Internet finance by launch of "Tianyibao", allowing users to invest their excess funds on accounts. During the period, Best Pay's transaction value reached RMB130 billion, up 170%.
3. The Company has strengthened the integrated platforms combining product development, operation, promotion functions, and opened up 7 key capabilities, including location-based capability.

We have further developed the Internet application development model comprised of portal, business clusters & integrated platform.

Slide 21: Near-term Priorities

In the second half, we would be persistent in innovation, open cooperation & return & efficiency enhancement, focusing in the following five areas

1. To deepen comprehensive reform & accelerate the execution of "De-telecom", "Market-orientation & Differentiation" & "Three New Roles" strategies, transforming and internetizing the fundamental & emerging businesses
2. To expedite scale expansion of fundamental businesses
3. To accelerate emerging business development
4. To perfect 4G services for better customer experience, building words-of-mouth
5. To innovate business development mode & strengthen sales efficiency, driving growth and enhancing quality & efficiency

Now, we turn to Madam Wu Andi, our CFO for introducing our financial performance.

Speaker: Madam Wu Andi, Executive Vice President and CFO

Slide 22:

Thank you, President Yang.

Good afternoon, ladies and gentlemen.

Let me introduce the Company's financial result for the first half this year.

Slide 23: Key Financial Information

In the first half of 2014, the Company maintained solid growth. Operating revenue was RMB 166 billion, up 5%; operating expenses was RMB 148.2 billion, up 4%. Growth in operating expenses was lower than that of the revenue growth; net profit was RMB 11.4 billion, up 11.8%.

During the period, with the implementation of VAT Reform, we managed to enhance our development and sales model and stringently controlled handset subsidy to enhance profitability. The handset subsidy totaled RMB 11.6 billion, down by 18%.

Slide 24: Stringent Cost Control to Boost Operating Efficiency

In the first half, the Company managed to adjust the spending pace, strengthened cost control and resources allocation to boost operating efficiency.

The Company's operating expenses were RMB 148.2 billion, or 89.3% of total revenue, down 0.9 pp, mainly due to the following variances

1. D&A was 20% of revenue, down 2.3 pp, mainly due to the saving in the amortization of customers relationships
2. Network operations & support was 18% of revenue, up 2.9 pp, mainly due to network maintenance quality enhancement to build competitive edges for synergistic development of 3G & 4G, wireline & wireless broadband
3. Interconnection was 4% of revenue, down 1.2 pp mainly benefitting from the adjustments to the mobile network interconnection settlement standards effective 1 January this year
4. Cost of mobile terminal sold and others was 11% of revenue, down 1 pp, mainly due to reduction of centralized procurement & sale of handsets.

Slide 25: Investment Tilting toward High-growth, High-value Businesses

In the first half of 2013, the Company's capex was RMB 23.1 billion, as investment continued to tilting towards the high growth, high-value businesses

1. In mobile network, the Company deployed in-depth 4G network timely & selectively in key cities, by adding 26,000 4G base stations and 10,000 indoor radio distribution systems.
2. In broadband and Internet, the 20Mbps+ coverage in cities continued to increase to over 90%. FTTH coverage reached 96 million home passes. We expanded metropolitan network & back-haul capacity to support fast growing data traffic volume.

Slide 26: Healthy Financial Strength

The Company's financial strength remained sound with a solid capital structure. The Company's total debt-to-total capital ratio was 25.8%, down 4pp from a year ago. Net debt to EBITDA ratio of 0.79. down almost 0.2 times. Free cash flow substantially improved to RMB 23.9 billion, up 74%.

The strong financial position and the decent free cash flow will support sustainable business development.

Slide 27: VAT Reform: Short-term Pain, Long-term Gain

Since the VAT reform in telecom sector was implemented on June 1 this year, the tax rate for basic telecommunications service is 11%, while the tax rate for value-added telecommunications services is 6%. The Company expects the VAT reform will bring short-term pain, but long-term benefits to sustainable growth.

In July, the pro-forma impact of VAT to net profit would have been close to RMB 700 mil, lower than that of June mainly because of the increased input VAT credits from operating expenses.

The VAT Reform only started to be implemented in June and July. Pursuant to the relevant tax laws, the input VAT credits could only be obtained after the VAT dedicated invoices have been authenticated. In addition, the VAT dedicated invoices of certain expenses of the Company could only be obtained in the subsequent months. Hence input VAT credits were relatively less due to the time delay at the initial period of VAT Reform implementation and are expected to trend normal in the subsequent months.

We shall carry out various measures to effectively mitigate the short-term adverse impact arising from VAT Reform.

Slide 28: Implement Reform Measures to Enhance Corporate Return

In future, the Company will implement reform measures to enhance values with the measures in the following aspects:

1. Further implement “sub dividing” performance evaluation units & promote bidding with performance contract and enhance risk prevention mechanism
2. To establish value-based resources allocation mechanism to improve efficiency & stimulate organization vibrancy
3. To flatten organization structure with increased support for frontline workforce to enhance efficiency
4. To leverage efficiently-centralized operation & open cooperation to promote leapfrog development of emerging businesses

Through these measures, the Company strives to maximize corporate, shareholder and customer values.

Slide 29:

That is the end of our presentation. Thank you everyone!

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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