

## China Telecom Corporation Limited

### Edited Transcript of 2015 Interim Results Investor Presentation

**Speaker: Mr. Wang Xiaochu, Chairman and CEO**

#### Slide 4: Overview

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

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 Mr. Ke Ruiwen, who will present our business review and financial performance respectively.

#### Slide 5: Highlights

In 1H2015, the highlights of the Company's major development are as follows:

1. Fundamentals remained solid despite the tax impact of VAT Reform & our revenue outperformed industry average;
2. Our 4G business is gaining edges & momentum fast;
3. Tower sharing enabled quick & effective 4G network roll-out to capture window of opportunity; it is also expected to enhance long-term value for the Company & industry;
4. Regarding "speed upgrade & tariff reduction", we closely follow up & strive to accommodate regulatory requirements for achieving win-win;
5. We firmly leverage the opportunities of "Internet+" & deepen comprehensive reform to enhance shareholder return

### **Slide 6: Solid Fundamentals**

The Company maintained stable operating performance despite the 5 months yoy tax impact of VAT Reform.

Operating revenue was RMB165 bil, service revenue was RMB147 bil, staying flat yoy.

EBITDA was RMB50.7 bil, up 0.4% yoy; EBITDA margin was 34.5%, up by 0.1pp. Net profit was RMB11 bil, down by 4% yoy.

### **Slide 7: Maintained Double-digit Earnings Growth Excluding Tax Impact of VAT Reform**

Excluding the tax impact of VAT Reform, pro forma 1H2015 service revenue was up by 5% yoy, pro forma net profit was up by 11%, maintaining double-digit growth of earnings and showing our sound growth momentum and fundamentals.

### **Slide 8: Revenue Outperformed Industry Average**

During the first half, the Company accelerated innovation & open cooperation, maintaining fast growth of our emerging business. Data traffic, ICT & Internet applications showed strong momentum. Revenue from emerging business reached RMB50 bil, up over 20% yoy and increased to 34% as percentage of service revenue, up 6pp.

Fueled by fast growing emerging business, our service revenue growth beat the industry average by 4pp.

### **Slide 9: 4G Gaining Edges & Momentum Fast**

Leveraging the LTE FDD licensing in Feb, we are accelerating development with “new network, new applications, new integrated offering and new dynamic” strategy, and gaining edges and momentum fast in 4G.

Taking the opportunities of tower sharing, the global mainstream 4G technology and spectrum advantages, we managed to build out 4G network quickly and effectively. The Company also launched the fastest on Mainland China’s LTE-A e-Surfing 4G+ services in August.

### **Slide 10: Tower Sharing Expected to Enhance Long-term Value**

We expect Tower Company can unlock values from tower sharing synergy, scale benefits and policy support, potentially creating benefits to the Company in various aspects.

Among those, the keys are to enjoy quick and effective roll-out of 4G network to enhance time-to-market, as well as result CAPEX saving.

We will continue our best effort, strive to reach the agreement on tower assets disposal and leasing as soon as practicable and timely announce the same.

### **Slide 11: Focused Investment in 4G & Fibre Broadband**

In CAPEX, the Company focused investment in 4G and fibre broadband to strengthen network advantage. During 1H2015, 70% of 60k tower provided by Tower Company for use leveraged existing towers of other operators, effectively alleviating prime site shortage and saving investment.

Benefitted from tower investment saving and strengthened centralized procurement, the Company manages to step up network construction, but keeping the full year CAPEX budget unchanged. The Company will build 50k 4G base stations in extra vs our budget, making the total 4G base station addition for the year amounted to 330k. That said our 4G base station number will reach 510k by the end of this year. In addition, the Company aims to achieve FTTH coverage of nearly 180 mil home passes by end of the year, with net addition of 53 mil home passes.

### **Slide 12: Speed Upgrade & Tariff Reduction**

The Company launched various measures in May in active response to government policy, leading to pressure on revenue & profit.

We encouraged customers to increase usage & bandwidth upon reduction of unit pricing, striving to increase sales.

During 1H2015, we saw substantial increase in mobile data usage & bandwidth upgrade, but mobile ARPU and wireline broadband ARPU declined. With tariff reduction, our subscriber scale continues to grow, leading to revenue growth in both mobile and wireline broadband businesses.

Going forward, we will closely follow up & strive to accommodate regulatory requirements for achieving win-win.

**Slide 13: Firmly leverage the Opportunities of “Internet+”**

Looking forward, benefitted from the national macro policy of “Made-in-China 2025” and “Internet+”, the Company sees abundant opportunities in industrial Internet, family Internet and mobile Internet; and Cloud computing, Big Data, Internet of Things, Internet finance and other applications will drive the Company and industry to develop rapidly.

We will firmly leverage the opportunities, be persistent in scale development with innovation, comprehensive in-depth reform and deepening Internet-oriented operation, while lifting corporate vibrancy, achieving scale breakthrough and improving operating efficiency to enhance shareholder return.

Now, I shall invite Mr. Yang Jie to give you our business update.

**Speaker: Mr. Yang Jie, President and COO**

**Slide 14: Business Review**

Thank you, Chairman Wang.

Ladies and gentlemen. Good afternoon!

Now, may I present to you our business performance in 1H2015.

**Slide 15: Revenue Breakdown**

The table shows the revenue breakdown and their changes. I am going to explain further details.

**Slide 16: 4G Gaining Momentum Fast**

In 1H2015, 4G gained fast momentum: we added 22 mil 4G terminal users, arriving a total of 29 mil 4G terminal users. In July, our net add for 4G terminal users reached 5 mil. 4G ARPU was RMB86, much higher than the blended mobile ARPU. 4G terminal user monthly average data traffic was around 700MB, increased from around 600MB end of last year.

Driven by 4G, mobile service revenue was RMB62.3 bil in 1H2015, up 7% half-over-half, achieving the successful turnaround of mobile service revenue decline in 2H2014 due to VAT Reform and change in sales model.

**Slide 17: Sustained Rapid Mobile Data Growth**

We leveraged 4G to boost rapid growth of mobile data business scale. Mobile data revenue was RMB37.4 bil in 1H2015, up 18%, of which, handset Internet access revenue was RMB22.5 bil, up over 40%. The total 3G/ 4G handset data traffic increased 77%, while 3G/ 4G handset subs monthly average data traffic exceeded 300MB, up more than 40%.

### **Slide 18: Bandwidth Upgrade Shaped Solid Wireline Broadband Growth**

In 1H2015, we saw solid wireline broadband growth with subscriber net add of 2.61 mil, making the total subs reach 110 mil; and revenue increased by 3.2% to RMB37.6 bil.

We capitalized on the network edges established over the years to accelerate comprehensive end-to-end upgrade and promote 50/ 100Mbps as core products. At the same time, we focus on HD content & informatization applications & reinforce the concerted development of fibre broadband & 4G to drive subscriber scale & value.

RMB2 bil private capital was tapped in local access deployment in 1H2015 & we collaborated in market expansion.

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

The revenue of wireline VAS & integrated information services was up by 5% to RMB21 bil.

Of which, IDC maintained strong growth momentum and its revenue increased by 23%. The Company has developed the largest “8+2+X” Cloud resources deployment in China with over 100k cabinets in operation and forging leading Cloud computing and Big Data service capabilities.

### **Slide 20: Accelerate Innovation**

In 1H2015, we accelerated innovation in emerging business and strengthened differentiated advantages. Our differentiated products, e.g. YiChat, Bestpay and NFC showed good progress in scale expansion.

The Company will leverage its strong resource advantages to fast build capabilities in “e-Surfing security”, “Joy me” and “aWiFi”.

Next, we will persist in open collaboration, strengthen the competitive advantages of the eco-system and leverage the opportunities of “Internet+” to promote upgrade of traditional industries. The Company will also actively explore new technology applications, e.g. Cloud, Big Data and Internet of Things to create new sources of revenue and profit.

### **Slide 21: Near-term Priorities**

Looking ahead, we will follow the established strategic plan and pursue innovative development, execute with excellence and well perform the “punches combo” of scale, data traffic and Internet data analytics to achieve breakthrough in business and subscriber scale. While we will further promote comprehensive in-depth reform, speed up Internet-oriented transformation to enhance corporate vibrancy and operating efficiency.

We will comprehensively promote the change in industry landscape towards a favourable direction, driving revenue and subs market share growth and creating new value for shareholders.

Next, let’s invite Mr. Ke Ruiwen to introduce our financial performance.

**Speaker: Mr. Ke Ruiwen, Executive Vice President**

**Slide 22: Financial Performance**

Thank you, President Yang.

Good afternoon, ladies and gentlemen.

Let me introduce the Company's financial result in 1H2015.

**Slide 23: Key Financial Information**

In 1H2015, our fundamentals remained solid despite the tax impact of VAT Reform. Our revenue was RMB165 bil, down 0.6% yoy; operating expenses were RMB147.8 bil, down 0.3% yoy. Net profit was RMB11 bil, down 4% yoy. Free cash flow was RMB10.5 bil.

**Slide 24: Optimized Resources Deployment to Sustain Growth**

In 1H2015, the Company optimized resources deployment to promote business development.

Our operating expenses as a percentage of revenue was 89.6%, flat yoy. Of which:

Network operations & support expenses accounted for 23% of revenue, up 4.9pp, mainly due to network maintenance quality enhancement to build competitive edges for synergistic development of 3G & 4G, wireline & wireless broadband and also increase in operating rental.

SG&A accounted for 15% of revenue, down by 7.1pp, mainly due to optimizing sales & development models to further control the selling expenses to enhance resources utilization and efficiency.



### **Slide 25: Highly Effective Investment to Strengthen Network Edges & Return**

Our investment tilted toward high-growth & high-return businesses & areas to strengthen network edges & return.

The CAPEX was RMB36.7 bil in 1H2015, of which 4G CAPEX was RMB17.8 bil and broadband and Internet was RMB12.4 bil.

During 1H2015, the Company added 140,000 4G base stations, making the total reach 320,000 4G base stations. We also expanded FTTH coverage by adding 42 mil home passes, making a total of 165 mil FTTH home passes.

We will focus investments on 4G, fibre broadband & carrying networks, including the metropolitan and backhaul in 2H2015.

### **Slide 26: VAT Reform: Short-term Pain, Long-term Gain**

The VAT Reform pilot scheme in telecommunication industry launched in June 2014. In the past year, the Company has optimized development & sales models, implemented stringent costs control measures and enhanced control on purchasing & vendors' tax profile and increased the proportion of revenues generated from value-added telecommunications services for lower average tax rate of output VAT. These measures effectively moderated the short-term adverse impact of VAT Reform.

Following the continual expansion of the national VAT Reform to other industries in future, it is expected more operating costs & investments being entitled to input VAT credits that will enhance profitability in future.

### **Slide 27: Healthy Financial Strength**

In 1H2015, total debt-to-total capitalization ratio was 23.5%, down 2.3pp from previous year. Net debt to EBITDA ratio was 0.66x, down 0.13x. The Company's financial strength remained solid with a stable capital structure, supporting our sustainable scale development.

### **Slide 28: Deepen Financial Reform to Strengthen Value Management**

Going forward, the Company will deepen financial reform to strengthen value management.

The key measures include:

1. Further optimize the “three-in-one” management mechanism – budgeting, resources allocation & performance evaluation
2. Continue the establishment of nationwide centralized MSS to drive management reform & enhance efficiency
3. Improve cost control to enhance cost structure & efficiency
4. Strengthen budget control on asset utilization & step up project finance management
5. Reinforce centralized financial support for sub-divided performance evaluation units & emerging business
6. Enhance internal control to effectively prevent risks

Through these measures, the Company strives to fully excel financial management to drive healthy & sustainable development.

### **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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