



China Telecom Corporation Limited

Edited Transcript of 2017 Interim Results Investor Presentation

Speaker: Mr. Yang Jie, Chairman and CEO

Slide 4: Overview

Good afternoon, ladies and gentlemen. It's my pleasure to meet you all and introduce the Company's performance.

Today's presentation will be divided into two sections. First, I will talk about the Company's overall performance. Then Mr. Ke Ruiwen will present our business review and financial performance.

Slide 5: Highlights

Our Company's key development and achievements in the first half of 2017 can be highlighted in these six areas:

1. Continuous growth in service revenue and net profit with service revenue growth surpassing industry average;
2. Strategic transformation achieves prominent results with innovative convergence promotes development;
3. Strong mobile momentum with breakthrough in scale;
4. Superior network capability further strengthened building a solid ecosystem foundation;
5. Deepen reform to invigorate vitality with operation intellectualization enhancing capabilities;
6. Strong execution of step-up transformation strategy for value enhancement.



Slide 6: Enhancing Business Fundamentals

In the first half of 2017, operating revenue amounted to RMB 184.1 billion, up by 4.1% yoy; Service revenue reached RMB 165.8 billion, grew 6.8% yoy; EBITDA margin was 31.6%. Net profit was RMB 12.5 billion, up by 7.4% yoy.

Slide 7: Service Revenue and Net Profit Achieving Solid Growth

The Company maintained solid growth trend in the first half of 2017. Service revenue and net profit achieved solid growth with growth rates further enhanced compared to the same period last year. In particular, yoy growth rate of service revenue was 1.2 pp more than the same period last year, and surpassed the growth in industry revenue by 1.2pp. At the same time, yoy growth of net profit also increased by 1.1 pp. The strong development momentum supported solid growth of our business fundamentals.

Slide 8: Service Ecologicalization: Driving Scale Development

Last year, we pioneered in implementing the step-up transformation to develop the five key service ecospheres. In the first half of 2017, service ecologicalization has been driving scale development in all our businesses.

Firstly, the Intelligent Connection Service Ecosphere achieved rapid growth in our connection businesses. Mobile and wireline broadband subscribers achieved record high. As at the end of June, mobile subscribers reached 230 million, representing a yoy growth of 11.1%. 4G subscribers reached 150 million, representing an increase of 68.7% yoy. Wireline broadband subscribers was 130 million, up 8.6% yoy, of which FTTH subscriber increased 32.7% to 120 million.

Secondly, the Company achieved scale expansion in the Smart Family and New ICT Applications Ecospheres. Leveraged strong bundling and industry breakthrough, the Company achieved a leap in business development. Smart family subscribers reached 75 million, while revenue from Smart Family grew 33% yoy. New ICT Applications revenue was RMB 20.9 billion, representing an increase of over 20% yoy.

Thirdly, in Internet Finance and IoT ecospheres, benefitting from the synergy initialized



through ecosystem coordination and multi-party convergence, Internet Finance MAU and actively participating merchants were over 28 million and 400k, increased by 2.5 times and 2.3 times respectively, while net addition of IoT connected device for 1H17 was 13.79 million, up 3.1 times yoy.

Slide 9: Innovative Convergence Promotes Development

Persisted in convergence and innovation, the Company promoted mutual development of our businesses. Our new convergence strategy effectively allowed us to stay well in the intensifying market competition, while sustaining solid growth trend in all businesses.

Convergence and innovation achieved prominent results. Mobile bundling rate was 53%, dual-play broadband penetration was 77%, and triple-play broadband penetration was 46%. Our e-Surfing HD subscribers surged by 44% yoy.

Slide 10: Strong Mobile Momentum

The development momentum of our mobile business remained strong and achieved new breakthrough.

In the first half of 2017, handset Internet access revenue surpassed wireline broadband revenue for the first time, and is now the largest revenue contributor, accounting for 26% of total service revenue, which is up by 5.5pp yoy. Mobile service revenue increased 12.2% yoy, and represented 45.7% of service revenue, up 2.2pp yoy. Mobile subscribers net add was 14.85 million, which increased significantly by 64% yoy. The Company's mobile subscribers market share reached 16.8%, increased 0.9pp yoy.

We will proactively leverage our edges in network, handsets, distribution channels and applications for further mobile scale development.

Slide 11: Network Intelligentization Strengthening Ecosystem Foundation

With Network Intelligentization, the Company forged three superior networks in 4G, Fibre and IoT, while implemented network reconstitution progressively.



In 1H17, with the completion of the 800MHz refarm nationwide, the Company completed building a superior and wide coverage 4G network. Total 4G base stations reached 1.05 million and population coverage of 98%. Our fibre network is the world's largest in scale. By end June 2017, FTTH ports reached 230 million, with an addition of 24 million in 1H17. FTTH home pass coverage in cities and towns reached 92%.

The Company leads the world in 4G IoT development, and was the world's first to release corporate NB-IoT standard and achieved scale deployment. In 1H17, we built the world's first NB-IoT network with full coverage and commercial use capability, by seamless upgraded 310k base stations leveraging our 800MHz low frequency advantage for strong penetration, achieving basic full coverage of NB-IoT network.

The Company has fully implemented the deployment of SDN/NFV in cloud resources pool, on-demand network and core network, of which, commercial trial for on-demand network system for SMEs has already commenced.

Slide 12: Operation Intellectualization: Enhancing Operation Capability

As the core of Operation Intellectualization, the framework of China Telecom's "Corporate Core" has been initialized.

The Company leverages big data platform construction to promote open capability and deepen big data application, in turn enhanced operation intellectualization for efficiency and return enhancement.

We focus on four types of big data applications, and to inject intelligence in human resources management, wireless access investment, fibre access investment and customer operations, to fully enhance corporate sales and marketing service and management decision capability, targeting at precision management, precision sales and marketing, precision service and precision network.



Slide 13: Deepening Reform to Stimulate Vitality

Focusing on supply side structural reform, the Company persists in promoting nine key reform missions such as organizational structure reform and operational mechanism reform, and further strengthen the effort in reform to remove the restriction in structure and mechanism on staff's vitality and corporate productivity.

The Company deepened implementation of sub-dividing performance evaluation units to motivate employees, top-down service support system to enhance efficiency, and professional operation to align vertical interests.

Key achievements include:

- Enhanced channel sales capability among physical channels, direct sales and e-channels;
- Maintained high level of network quality and user experience in both mobile and wireline broadband networks;
- Ranked No.1 in customer satisfaction among handset and wireline Internet access users in industry;
- Provided training for all managerial staffs and on-the-job training for talents for transformation.

Slide 14: Co-building Ecosystem-Tetris to Promote Win-Win

In service ecologicalization, co-building of ecosystem-Tetris to promote cooperation and achieve win-win are essential for a company's sustainable development. Through synergies in strategic cooperation with value chain partners, open platform and complementation of capabilities, all parties in the traditional supply chain will work together to form an ecosystem with diversity, complementarity, flexibility, convergence and innovation, in order to satisfy customers' demand and for new value creation. Service ecologicalization promotes co-build, co-exist, co-sharing and win-win for all parties.

In the intelligent service era, industry environment and consumer demand have been changing substantially. Apart from building on its own resource and capability edges, companies also need to fully utilize external resources and leverage external capabilities to



consolidate internal and external resources and competence, to form competitive edges.

The ecosystem-matrix visualized the types of corporates competitiveness into four categories, namely panda, tiger, ant colony, and wolf pack. Company needs to keep enhancing its own competitive edges, at the same time strengthening their ability to drive ecosystem synergy, in order to adapt to the ever-changing environment and stay strong in competition with ecosystem capability edges, becoming the powerful “Wolf Pack” in the matrix and standing out from the rule of “Survival for the fittest” in ecosystems.

In the future, China Telecom will continue to enhance its competitiveness via network evolution, open platform, in-depth cooperation and supply-side upgrade. We will strengthen ecosystem synergy to co-build the ecosystem-Tetris with our business partners, while creating new value.

Slice 15: Proactive Network Deployment Sustaining Leading Edges

Our proactive network deployment sustained our leading edges in network capability.

We actively deploy 5G driven by applications, to progressively promote the construction of network and platform. We currently have outdoor trials in 2017 and 2018, and planned commercial trial in 2019, while scale commercial use in 2020. At the same time, we strengthen cooperation with industry participants and capital operation.

Full range of IoT development. China Telecom has led the world in the development in NB-IoT with a full coverage network ready for scale commercial use, and will apply innovative business model such as flexible combinations between user/subscriber/account in the 2H this year. In terms of eMTC (CAT-M), we are going to start validation trial this year and plan to achieve commercial deployment in 2018. Together with CAT-1 that was already commercialized, China Telecom will build up a full range IoT network on the foundation of our 4G network.

We continue to put effort into fibre network upgrade and cloud-network integration development.



The Company is planning to achieve full fibre network coverage in cities, towns and villages by end 2017 with FTTH ports reaching 240 million, promoting convergence of fibre broadband, video streaming and mobile services. The Company refine our “2+31+x” IDC deployment with cloud resource pool planning, strengthening operation support to achieve economies of scale as well as highly-efficient and coordinated cloud & network.

Slide 16: Seizing Opportunities for Value Creation

Looking ahead, the Company will seize opportunities from national strategies, as well as the five industry trends to uplift vitality, stimulate capabilities and strengthen execution, maintaining strong and solid growth momentum to promote scale development of our businesses.

In 1H17, the Company proactively responded to “Speed Upgrade and Tariff Reduction”, which opens new room for development. The Company has announced to cease charging handset domestic long-distance and roaming fees starting 1st September, benefitting about 80 million subscribers. Tariffs of international long-distance call has also been reduced significantly, and reduction of tariffs of internet dedicated line access for SMEs has also been fully implemented. “Speed Upgrade and Tariff Reduction” promotes step-up transformation of network and service, encourages intelligent information consumption and brings development opportunities for cloud-network integration, and fosters development of smart family and cloud businesses to enhance competitiveness of the Company.

China Telecom will continue to grasp opportunities to enhance the quality and efficiency of corporate development, promote value enhancement and continue to create new value for our shareholders.

I will now pass the time to Mr. Ke Ruiwen to present the business review and financial performance of our Company.



Speaker: Mr. Ke Ruiwen, Executive Vice President

Slide 17: Business Review & Financial Performance

Thank you Chairman. Good afternoon ladies and gentlemen. I will now go through the business and financial performance of our Company for the first half in 2017.

Slide 18: Revenue Breakdown

This table shows the revenue breakdown and their respective changes. I will go through them in details.

Slide 19: 4G Driving Mutual Growth in Data Traffic and Revenue

The Company achieved rapid scale expansion in 4G service. In 1H17, handset internet access revenue amounted to RMB 43.1 billion, representing an increase of over 35% yoy. Handset data traffic achieved growth of 126% yoy, while 4G DOU grew by 56% yoy to 1.4GB. 4G ARPU was RMB 67.2, driving up blended mobile ARPU to RMB 56.8. In the first half, 4G subscribers net add was 30.15 million, while 4G subscribers market share increased 2pp yoy to 17.2%.

Slide 20: Promoting Mobile in Full Swing

The Company promotes mobile business in full swing in four aspects: network, handsets, applications and channels, and achieved prominent results.

China Telecom is the first in industry to build a high and low frequencies coordinated nationwide 4G network with appropriately allocated and adequate capacity. Carrier aggregation has been deployed in more than 300 cities nationwide. 4G base stations increased by 72%, compared to end of June last year.

6-mode handsets have become international standards and is now accounting for 73% of mainstream handsets sales in the market. These handsets are equipped with dual-sim slot, which open up subscriber growth potential. In the first half of 2017, handset sales reached 69 million, representing an increase of 35% yoy, of which, 6-mode handset sales was 62 million, accounted for 90% of our total handset sales.



E-Surfing large data traffic plans, dedicated data traffic packages and video-streaming data traffic cards effectively released data traffic demand for subscribers, and drive significant growth in data traffic volume.

The popularity of 6-mode handsets enabled the Company to expand its coverage in open marketing channels, effectively drove mobile subscriber development, bringing in new sales opportunities for our physical outlets. Capability for our direct sales force has been enhanced by forming sales teams with sales, support and service integration; while e-channels strengthened sales coordination with other channels. China Telecom's market share in open channels is about 40% currently.

Slide 21: Enhancing Differentiation to Strengthen Fibre Edges

In 1H17, Wireline broadband revenue amounted to RMB 39.2 billion, grew 1.1% yoy, while wireline broadband ARPU was RMB 52. Average access bandwidth as at end-June 2017 was 62Mbps. Net addition of FTTH subscriber for the period was 11.24 million, with penetration rate up 17pp yoy to 92%. Subscribers bandwidth structure continued to optimize, with 100Mbps and above accounted for 37% of total wireline broadband subscribers, significantly increased by 22pp yoy.

The Company continued to enrich differentiation to further enhance the differentiated edges of fibre broadband products. The Company persisted in speed upgrade by promoting hundred-Mbps as mainstream products to enhance end-to-end user experience for fibre broadband subscribers. We continued to deepen convergence with plans such as "4G+100Mbps Fibre Broadband +Smart Family", "Perfect Combo" for different customer groups. We enrich content provision with focus on smart family applications to promote e-Surfing HD, family cloud and smart home networking services. The Company strive to enhance user experience by ensuring solid fundamental capabilities in service. China Telecom demonstrated leadership in industry service level standard by providing our customer service level guarantee for "same-day installation and maintenance with guaranteed compensation for any service delay".



Slide 22: New Convergence with e-Surfing HD Increasing Customer Loyalty

In the first half, e-Surfing HD (IPTV) achieved rapid growth with revenue amounted to RMB 3.1 billion, increased 28% yoy; IPTV net add for the period accelerated to over 10 million. We offer our customers integrated family entertainment and smart application service through the e-Surfing HD platform, fully accelerated the development in smart family market with scale promotion of key applications such as e-Surfing HD, smart home networking and family cloud.

New convergence continues to achieve prominent results, driving mutual scale expansion in 4G, e-Surfing HD and 100-Mbps fibre broadband, resulted in further subscriber penetration and increased stickiness significantly.

As at end of June, e-Surfing HD subscribers accounted for 56% of wireline broadband subscribers, up 13pp yoy, while mobile bundling rate was 53%; mobile churn rate down by 0.4pp compared to 2016, wireline broadband churn rate remained stable. The churn rate of triple play is remarkably lower than that of single product subscribers.

Slide 23: Innovative Business Driving Future Growth

Turning to our New ICT ecosystem, the Company actively forged differentiated edges and resulted in rapid development in IDC cloud and big data businesses.

In 1H17, IDC revenue was about RMB 10 billion, increased by 25% yoy. Revenue from cloud and big data business achieved remarkable growth of 62% and 81% respectively. We will fully leverage our triple edges in cloud-network integration, secure and reliable, and specialized customization, to strengthen three platforms for open cloud, big data and “internet+”. The Company continued to refine resource deployment. We unified planning and efficiently-centralized construction of e-Surfing cloud resource pool, and deployed e-Surfing cloud with our DCI network, to form new industry applications providing support for sectors including government & administration, education, healthcare and industrial.

In 1H17, BestPay GMV jumped 49% yoy to RMB 568 billion. The Company will continue to deepen “4G + Payment” convergence model, and continuously increase the influence of



BestPay, forging Internet finance ecosystem.

In terms of IoT, the Company leveraged the full coverage of NB-IoT network edge to strengthen convergence between Cloud, Big Data & ICT ecosphere with IoT. In 1H17, IoT revenue significantly increased by 3.7 times.

Slide 24: Key Financial Information

In the first half of 2017, operating expenses amounted to RMB 166.1 billion, grew 4.0% yoy; free cash flow was RMB 7.2 billion, an increase of 19.0% yoy.

The increase in operating expenses was mainly due to the rise in network operation expense as a result of the increasing tower leasing fee, as well as the increase in sales and marketing expenses due to the increase in sales and marketing effort for scale expansion.

I will explain them in details below.

Slide 25: Resource Focused Supporting Scale Development

The Company focused resources allocation to support scale development of our business.

In 1H17, operating expenses as a % of operating revenue was 90.2%, down 0.1pp yoy. Of which:

- Depreciation and amortization expenses increased slightly, mainly due to high CAPEX levels in recent years;
- Share of Network operations & support expenses increased by 1.4pp yoy, mainly due to network quality enhancement. As at end-June the number of tower leased was about 640k. Tower leasing fee rose yoy to about RMB 7.6 billion for the period;
- Personnel expense as a % of operating revenue increased 0.4pp yoy, mainly due to appropriate increase in performance-linked remuneration for frontline staffs, in order to motivate sales force for the accelerated promotion of scale development in our businesses;
- SG&A as % of operating revenue rose 0.2pp yoy, of which selling expenses increased 8.9% yoy, mainly due to appropriate effort in channel sales resources development.



Slide 26: Precision Investment Enhancing Return

Full year CAPEX budget remain unchanged at RMB 89 billion.

In 1H17, CAPEX was RMB 41.1 billion, of which the share of mobile network, broadband & internet declined 1.5pp yoy, while the share of information & application services increased 1.2pp yoy.

The number of 4G base stations is planned to reach 1.16 million by the end of 2017. The Company also plans to deploy Gbps demo in hundreds of cities and appropriately increases CAPEX in emerging business.

Slide 27: Solid Financial Strength with Reducing Debt

In 1H17, total debt decreased 12% yoy to 93.2 billion. With the commencement in efficiently-centralized capital management, the Company has effectively reduced the scale of interest-bearing loans.

As at the end of June, total debt to total capitalization was 22.5%, down 3.1pp. Net debt to simplified annualized EBITDA was 0.64 times for the six-months ended June 2017, down 0.08 times. Our healthy capital structure supports sustainable development of our Company.

Slide 28: Intellectual Financial Management Enhancing Corporate Value

The Company proactively establishes Intellectual Financial Management System with highly efficient support and efficiently-centralized sharing.

In terms of resource allocation, we optimize “4-in-1” management system to strengthen dynamic matching between resources and business development for return enhancement;

Multi-dimensional Sub-dividing: We construct data-driven value analysis model, and commence development of multi-dimensional sub-dividing of business, asset, cost and operation units;

Platform capability: We develop “Internet + finance” platform capability and construct sharing



platforms for treasury, taxation, SSC and data application to promote financial management reconstitution;

Risk prevention & control: We optimize continuously our internal control & management to achieve effective control of financial risk.

China Telecom strives to establish an intellectual financial management system to support scale development of our businesses and enhance corporate value.

This concludes our presentation of today. 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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