



China Telecom Corporation Limited

Edited Transcript of 2018 Interim Results Investor Presentation

Speaker: Mr. Yang Jie, Chairman and CEO

Slide 4: Overview

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

Today's presentation contains three sections. First, I will talk about the Company's overall performance. Then Mr. Gao Tongqing and Madam Zhu Min will walk you through the business review and financials respectively.

Slide 5: Highlights

We have five key development highlights in the first half of 2018:

1. Revenue growth surpassed industry with profitability constantly increasing;
2. Ecological collaboration promoted integration and mutual development; emerging business growth accelerating;
3. Strong mobile momentum with significant result in data operation;
4. Network edge steadily enhancing; innovative convergence powering growth; and
5. Reinforced edges to tackle challenges; strong execution propelling development.

Slide 6: Accelerating Revenue and Profit Growths

In the first half of 2018, operating revenue amounted to RMB193 billion, of which service revenue was RMB178 billion, up 7% yoy, and if excluding new accounting standards impact, the growth rate becomes 8.5% yoy, which is a new high in recent years. Net profit was RMB13.6 billion, up 8.1% yoy.

Slide 7: Revenue and Subs Growth Prompted by Step-up Transformation

The Company carried out step-up transformation strategy since 2016 so as to seize the



opportunities from intelligentization and informationization. Tangible results achieved after intense effort made in the past two years. Since 2016, our service revenue growth consistently surpassed industry, while mobile, 4G and wireline broadband subs net add hit historical high in the first half of 2018 at 32 million, 35 million and 7 million respectively, further boosting revenue and subs growth.

Slide 8: Five Ecospheres Expanding Rapidly

Service ecologicalization is a key element of our step-up transformation. In the first half of 2018, all of our five ecospheres continued to expand rapidly, with revenue structure further improved and subs net add rapidly increased.

On revenue side, Smart Family, DICT, IoT and Internet Finance Ecospheres, or collectively known as the Intelligent Applications Ecospheres, have become a key revenue growth driver of the Company, as their total revenue increased by 24.8%, its share to our service revenue went up from 14.7% last year to 17.5%, and its share to our incremental service revenue was 53.4%. Revenue of Intelligent Connections Ecosphere steadily increased by 3.8% yoy, further reinforcing our revenue foundation.

On scale side, both Intelligent Connections Ecosphere and Intelligent Applications Ecospheres further expanded, laying a solid foundation for long-term growth. Mobile subs increased 23% yoy to 282 million; 4G subs increased 43% yoy to 217 million; wireline broadband subs increased 10% yoy to 141 million; FTTH subs increased 14% yoy to 134 million; e-Surfing HD subs increased 36% yoy to 98.30 million. DICT revenue increased 24% yoy to RMB25.8 billion; IoT connected devices increased 1.65 times to nearly 75 million; monthly active users of Internet Finance Ecosphere grew 34% to over 37 million.

Slide 9: Network Intelligentization Strengthening Edges

Promoting network intelligentization to maintain our network edges is a key for us to win market and customers. In the first half of 2018, our network edges in terms of 4G, fiber, IoT, IDC etc. further enhanced, of which:



We have 1.2 million 4G BTS with 98% population coverage and 36% utilization rate, implying sufficient network capacity to support large data traffic service scale development.

For fiber, we have 96% FTTH home pass coverage in cities and towns with Gbps broadband deployed on demand in more than 170 cities; IP metropolitan network and backbone network bandwidth reached 500Tbps and 170Tbps respectively, maintaining industry leadership. MIIT survey in the first half showed that we ranked No. 1 in customer satisfaction in handset Internet access and wireline broadband services.

We forged high-, mid- and low-speed IoT network architecture, further improved our premium IDC clusters network, continued to promote CTNet 2025 network reconstitution by actively developing new SDN and NFV technologies, continued to promote cloud-based network and intelligent evolution, so as to build an integrated high-speed, omnipresent and intelligent network to meet market demand.

Slide 10: Optimized CAPEX Structure Increasing Efficiency

Our investment remains precisely targeted and strictly controlled, with improving investment efficiency and optimized structure, to maintain our network edge. CAPEX in the first half of 2018 was RMB32.9 billion, while full-year budget remains unchanged at RMB75 billion, as our network is capable of supporting the rapid data traffic and subs growth.

Slide 11: 5G: Planning Ahead

We actively engage in 5G technology and application R&D to draw roadmap for future technology evolution. We released 5G technology whitepaper in June this year, becoming the first telco in the world to publish whitepaper expounding views and overall strategies on 5G technology. We actively carried out large-scale network architecture trial, focused testing on HD video streaming, AR/VR, Internet of Vehicles, industrial Internet and other applications, as well as research on 5G and 4G network coordination, in order to gain first mover advantage. We will leverage our world's biggest fibre backbone network, which can carry massive data, and aim at the most suitable network architecture scheme. We will adhere to application and result-driven investment principles, and precise deployment in areas with demand. We are conducting 5G trial in 17 cities as planned this year, and expect



commercial trial and commercial use in 2019 and 2020 respectively.

Slide 12: Implementing “Speed Upgrade and Tariff Reduction”

We actively implemented policies relating to abolishing data “roaming tariff” and promote information consumption across the society. Our handset data traffic soared by nearly 4 times yoy, while 4G penetration reached 77% and ranked No.1 in the industry; broadband subscriber average access bandwidth increased 37% to 85Mbps, and 56% of our broadband subs are enjoying 100Mbps or above.

In the second half of the year, we will continue to implement relevant measures, speed up corporate transformation and upgrading, boost innovative businesses, and persist in cost reduction and efficiency enhancement, in order to promote corporate development.

Slide 13: Vitalizing by Reform & Innovation Development Powered by Ecological Collaboration

In the first half of 2018, we continued to actively promote managerial reform by deepening the three-dimensional inter-driven forces of “sub-dividing performance evaluation units, professional operation, and top-down service support system”. We also continued to build Ecosystem Tetris together with partners along production chain, by strengthening ecological collaboration in connections, smart family, cloud, IoT and Internet Finance, and create new opportunities and value through integration and mutual development, with an aim to strengthen the foundation of the Company's long-term development.

Slide 14: Strengthening Step-up Transformation to Enhance Corporate Value

Facing the increasingly complex and ever-changing market environment, we will fully leverage our two core competitiveness, namely step-up transformation strategy and strong execution, to tackle challenges and seize opportunities;

We will accelerate network intelligentization, service ecologicalization, and operation intellectualization, complete the three key missions of strengthening infrastructure, deepening application convergence, and enhancing total factor productivity, so as to achieve



the three ultimate goals of building cyberpower, a first-class enterprise, and better lives. We shall strive to enhance customers' value, shareholders' value and corporate value.

I will now pass the time to Mr. Gao Tongqing for Company's business review.



Speaker: Mr. Gao Tongqing, Executive Vice President

Slide 15: Business Review

Thank you Chairman. Good afternoon ladies and gentlemen, I will now go through the business performance in the first half of 2018.

Slide 16: Revenue Breakdown

This table shows the breakdown of mobile and wireline service revenue and changes, which I will go through in details.

Slide 17: Prominent Revenue Growth Engines

During the period, service revenue growth remained strong, with 7.0% growth yoy, of which incremental revenue from handset internet access reached RMB11.4 billion, becoming the Company's No.1 source of incremental revenue; incremental revenue from wireline information and application service was RMB4.8 billion, driving wireline revenues growth and fueling service revenue growth.

Slide 18: Extending Convergence for Rapid Scale Expansion

We continued to extend convergence and accelerate product innovation, so as to achieve multi-service integration and mutual development as well as value enhancement. Integrated competitiveness of our products, as well as user stickiness both improved. During the period, the bundling rate continued to rise, with triple-play penetration increasing by 13 pp yoy to 59%. Churn rate of wireline broadband subs dropped to 1.1%. Mobile, 4G, wireline broadband and e-Surfing HD subs net add achieved double-digit growth, of which the mobile subs net add even doubled yoy.

Slide 19: Strong Mobile Momentum

Mobile business remained strong in the first half of 2018, and mobile service revenue maintained double-digit growth of 10.3% yoy to reach RMB83.6 billion. The differentiated competitive strategies leveraging 6-mode handset, large data traffic package, online/offline multi-channel coordination, and enhanced service quality effectively facilitated mobile subs scale growth. The net add market share of mobile and 4G subs increased remarkably, with



mobile subs net add market share increased by 7.5 pp to 46.5%, while that of 4G subs net add market share increased by 14.3 pp to 38.8%, both setting record high.

Slide 20: Data Operation Achieving Significant Results

During the period, we built a data-focused product system to meet various customer needs, and to enhance the competitiveness and business value of our data products. Our promotion of large data traffic packages achieved significant results. Meanwhile, we offered attractive packages to target different market segments, as a result mobile subs market share further increased 2.1 pp yoy; 4G subs market share also went up rapidly by 2.6 pp. Handset internet access revenue soared by 26.5% yoy to RMB54.5 billion, mainly driven by good price elasticity. Data traffic growth boomed by nearly 4 times, while 4G DOU more than doubled to over 4GB.

Slide 21: Healthy Wireline Development

Wireline broadband business maintained healthy growth in the first half of 2018 despite increasingly fierce industry competition. Wireline service revenue increased by 4.2% yoy to RMB94 billion.

We strengthen our wireline edge by quality, convergence, product innovation and value enhancement. During the period, intensified competition suppressed broadband revenue growth; but our advantages in terms of end-to-end fiber network, subs scale, as well as value-added services, helped fend off competition and boosted rapid growth of e-surfing HD, Smart Home Networking, Family Cloud and other businesses. Smart family and broadband access revenues in total increased by 1.7%. Broadband blended ARPU was RMB52.5, maintaining industry-leadership.

Slide 22: Accelerating Emerging Business Development

In the first half of 2018, development of Smart Family, DICT, IoT and Internet Finance ecospheres accelerated.

- Smart Family achieved dual enhancement in scale and value, with e-Surfing HD penetration reaching 70%; 9 million smart home networking service delivered, and



Family Cloud subs nearly 20 million. Smart Family revenue increased 34% yoy and became a new revenue growth driver.

- Breakthrough achieved in cloud-network integration capability, as “Secured Cloud” positioning well-recognized by government and industry-leading customers. Also, e-Surfing Cloud ranked No.1 among telcos and No.3 in public cloud market in China. In the first half of 2018, DICT revenue increased 24% yoy, of which IDC, cloud and big data maintained strong growth momentum as their revenue increased by 20%, 145% and 31% respectively.
- During the period, IoT subs scale increased rapidly, especially in Internet of Vehicles, smart surveillance, public services, bike-sharing and other markets, driving revenue of the ecosphere up by 86%.
- For Internet Finance, we aim at a differentiated business model by converging BestPay red packet with mobile business, and work with internet company partners to promote instalment service, so as to boost scale, loyalty and activeness of subscribers. During the period, BestPay GMV per account increased 88% yoy.

Slide 23: Strong Execution Propelling Development

Our progress of meeting business development targets for the year went well, and mobile and broadband subs net add are even ahead of schedule, fully demonstrating our strong execution. The Company plans to further scale up mobile and broadband subs by raising mobile subs net add target to 50 million, and broadband subs net add target to 12 million, in order to fully leverage to the current advantageous momentum to boost scale growth.

In the second half of 2018, we will persist in the following initiative:

- Persist in pushing forward step-up transformation strategy and strengthening competitive advantages to escalate to next level;
- Persist in building a three-pillar system in value operation in marketing, with convergence for scale expansion, integration and mutual development for more applications, and intelligentization for higher service efficiency;
- Persist in reform & innovation, as well as strengthening execution to improve corporate vitality and return.



I will now pass the floor to Madam Zhu Min for financial performance in the first half of 2018.



Speaker: Madam Zhu Min, EVP and CFO

Slide 24: Financial Performance

Thank you Mr. Gao. Ladies and gentlemen, I will now go through the financial performance of our Company in the first half of 2018.

Slide 25: Key Financial Information

This table shows the revenue breakdown of their respective changes with details as follows.

Slide 26: Optimizing Cost Structure

The Company continued to strengthen cost control and allocate resource with high efficiency, resulting in a further optimized cost structure, and more efficient resource utilization. During the period, opex growth was lower than that of operating revenue, accounted for 90.1% of operating revenue, down 0.1 pp yoy.

Specifically, D&A up 0.3 pp yoy, mainly due to increased investment in 4G and fiber network in recent years.

Network operating expense up 1.8 pp yoy, as the Company further enhanced network capability and quality to support scale development of business.

Personnel cost up 0.2 pp yoy, mainly due to increase in performance-linked remuneration for frontline staff, as well as attracting and incentivizing emerging business talents and technical experts.

SG&A expense dropped 0.5 pp yoy, mainly due to optimizing sales mode and adoption of new accounting standard.

Cost of Terminals Sold & Others dropped 1.9 pp yoy, mainly due to dwindled mobile terminals sales.



Slide 27: Enhancing Financial Strength

Efficiently-centralized capital management effectively reduced interest-bearing debt. As at the end of June 2018, total debt down by 10.6% to RMB83.3 billion, total debt to total capitalization was 2.6 pp lower than end of June last year; net debt to simplified annualized EBITDA further improved. Our constantly solid capital structure gives us higher financial strength to support sustainable development.

Slide 28: Strengthening Financial Position

During the period, the Company's robust results and declined CAPEX led to substantial improvement of free cash flow by 154% to RMB18.4 billion. EBITDA up by 6.5% and EBITDA margin remained stable at 31.5% comparing to the same period last year. The reduction of interest-bearing debt led to decrease of net finance costs by 14.6%. Improving financial position further strengthened the foundation for future development of the Company.

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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