



## China Telecom Corporation Limited

### Edited Transcript of 2019 Interim Results Investor Presentation

**Speaker: Mr. Ke Ruiwen, Executive Director, Chairman, CEO, President & COO**

#### **Slide 4: Overview & Business Review**

Good afternoon, it is my pleasure to meet you all and introduce the Company's performance. The presentation has two sections. First, I will discuss the Company's overall performance and business review. Then, Madam Zhu Min will walk you through the financials.

#### **Slide 5: Highlights**

We have six key development highlights in the first half of 2019:

1. Revenue growth surpassed industry with strong scale development momentum sustained;
2. Convergence fostered scale and quality with prominent results in informatization;
3. Network strength enhanced by cloud-network integration with proactive and pragmatic 5G development;
4. Effective precision cost management increased corporate efficiency;
5. Reform and innovation to boost vitality while open cooperation to facilitate win-win;
6. Customer-oriented and enhance capabilities to focus on high-quality development.

#### **Slide 6: Solid Results**

During the first half, by fully leveraging edges in network and talent, the Company's results maintained solid growth during the period. Service revenue was RMB183 billion, up 2.8% yoy; net profit was RMB14 billion, up 2.5% yoy. Both growth rates outperformed industry average.

### **Slide 7: Scale Development Achieved Prominent Results**

The Company carried through high-quality development and subscriber scale development achieved prominent results.

- Mobile subscribers up 15% to 320 million
- Broadband subscribers up 7% to 150 million
- IPTV subscribers up 13% to 110 million
- BestPay monthly active users up 38% to 52 million
- IoT Connected Devices up 79% to 130 million

### **Slide 8: Fundamental Businesses: Convergence Fostering Scale and Quality**

We actively promoted convergence services, upheld the large data traffic tactic, refrained from price war, which effectively enhanced customer scale and quality. During the period, triple-play penetration rate increased 7p.p. to 63%;

Mobile subscribers net add was 20 million, with its market share constantly outperforming industry average;

Mobile service revenue increased 5.6% yoy, in which handset Internet access revenue increased 11.5% yoy, both growth rates were industry number one;

Proportion of broadband subs enjoying 100Mbps or above increased 14p.p.;

Broadband blended ARPU was RMB44.2, remaining No. 1 in the industry.

### **Slide 9: Smart Family: Boosting Family Informatization Demand**

Leveraging on our 150 million broadband subs base, we promoted comprehensive Smart Family services in the period, in which:

- IPTV subs penetration rate was 74%, up 4p.p. yoy;
- Family Cloud subs reached 32 million, up 68% yoy;
- Smart Home Networking Service revenue was RMB420 million, up 40% yoy;
- Smart Home Gateway subs was 62 million, up 76% yoy.

The Company has built a Smart Family platform with an aim to enhance ecological cooperation. The Company also unified product portfolio, raised service standards,



expanded the professional Smart Family engineer team, and continued to strengthen ecological cooperation. All these gave impetus to the uplift of service, products and sales and marketing capabilities, while also boosted and satisfied family informatization demand.

#### **Slide 10: DICT: Key Growth Engine Forging Edge for Future**

During the period, DICT revenue increased substantially by 19%, contributing 2.8p.p. of the overall service revenue growth, and became a major growth driver of the Company.

In particular, the cloud business revenue skyrocketed by 93%, while our e-Surfing Cloud ranked number 7 in terms of market share in the IaaS business ranking compiled by IDC, and were the only telecom operator within top 10. These formed a solid groundwork and competitive edge for us to develop 2B businesses in future.

#### **Slide 11 : IoT: Leveraging Integrated Edge of All Networks to Build an Omnipresent Network for IoT**

IoT revenue increased rapidly by 52% to RMB1.1 billion. The Company will fully leverage its integrated edge of 2/3/4 and 5G, NB-IoT, fibre network and cloud, to expedite the construction of 5G SA core network for IoT, to perform network upgrade and optimization, to provide dedicated line service for IoT leveraging ubiquitous metropolitan fibre network and high-quality CN2 carrying network, and to build distributed IoT open platform leveraging our extensively deployed e-Surfing Cloud, with an aim to forge a high-quality omnipresent IoT network.

#### **Slide 12: Internet Finance: Fast Growth Maintained with Strategic Investors Bringing New Prospects**

Scale of Internet Finance business continued to soar as revenue doubled, GMV increased by 40%, and GMV of personal accounts expanded by 92%.

BestPay was selected as one of the “Double-Hundred Action” enterprises to establish more marketized corporate governance, incentive and restraint systems. Series A financing was completed with 4 strategic investors introduced.

Capabilities of our financial cloud application platform fully upgraded, while Big Data



and AI were leveraged to empower business expansion.

### **Slide 13: Leading Network Edge and User Experience**

Our scale development is driven by leading network edge and outstanding user perception. For our mobile network, number of 4G base stations reached 1.52 million, with network utilization at 44%. For fibre network, we built the world's biggest all-fibre ROADM network, and 180 cities are Gbps-enabled. Our superior network constantly enjoys customer acclaim, as the Company's mobile and wireline Internet access service gained industry's highest customer approval rate for 7 consecutive years.

We have the biggest IDC cabinet scale in the industry, cloud resource pools in 31 provinces in the PRC, and the highest number of cloud products in the industry to obtain reputable certification. We place high importance on building a secure network and develop benchmark network security products.

Our powerful network edge now is the solid bedrock for the network in future.

### **Slide 14: Leading in New Generation Cloud-Based Network to Create New Competitive Edge**

We strive to build the next generation cloud-based network. We carried out cloudification by building high-quality OTN-based carrying network and intelligent SDN-based dedicated network; improving IDC and cloud resource pool layout, and speeding up establishment of new generation cloud-network operating system.

We also carried out in-depth integration of 5G and cloud-network, by rapid cloud-based deployment of 5G and MEC, by providing differentiated 5G industry cloud-network solutions, and by empowering industrial Internet, Internet of Vehicles, campus, enterprise park, VR live streaming and other scenes.

With cloudification, we will build a simple, agile, centralized, open and secure new generation network, in order to bring brand new user experience and forge new competitive edge.



### **Slide 15: Leveraging Edges and Co-Build & Co-Share to Deploy 5G Network Proactively & Pragmatically**

We obtained 5G license in June. Driven by market and customer demand, we will commence SA/NSA hybrid network construction with SA as the target network. We plan to deploy 40,000 5G base stations in around 50 cities by end 2019.

In the first half, we proactively forged 5G edge by expediting the formation of management platforms for edge computing and network slicing, and launched full cloud-based and all-fibre 5G cloud-network solutions for enterprise customers.

As an advocator and proponent of network co-building and co-sharing, we will actively promote 5G co-building and co-sharing as well, so as to reduce construction and maintenance expenses and increase resource utilization, while assuring customer experience and differentiated servicing capability.

### **Slide 16: Customer-Oriented and Promote 5G Commercialization Proactively & Pragmatically**

Regarding 5G application development, we will take a customer-oriented and customer experience-driven approach. We will fully leverage our integrated edge in product and servicing capability, as well as in integrated smart informatization solutions, among others. We will actively engage our 5G ecological partners for cooperation. Addressing the unique demands of enterprise, personal and family customers, we will also develop customized, China Telecom-specific 5G services and scene-based applications.

### **Slide 17: Proactively Advancing Reform and Innovation with Further Deepening of Open Cooperation**

We actively advanced various measures for reform and innovation, while also deepened open cooperation.

Regarding reform, we actively propelled cloudification and 2B service system reform, continued to improve mechanism of sub-dividing performance evaluation units, and carried out sub-dividing of cost management. All these achieved meaningful results.

Regarding innovation and R&D, the reform of our R&D structure continued at a steady progress. We increased R&D input, built core capabilities and nurtured top talent



teams.

Meanwhile, we extended cooperation with different institutions, companies, ecosystems and investors.

Reform, innovation and open cooperation enable us to boost corporate vitality and promote industry prosperity along with partners.

**Slide 18: Solid Progress in High-Quality Development**

We continue to carry out high-quality development, and we are on track to achieve major targets set in early this year, reflecting our strong execution.

In the second half, we will strengthen corporate capabilities, be more customer-oriented, seize 5G opportunity and the trend of integrated smart informatization services, maintain the robust development momentum in 1H2019, and speed up value-focused scale development, along with achieving healthy growth in service revenue and net profit.

Next, Madam Zhu Min will have the floor for the financials.



**Speaker: Madam Zhu Min, Executive Director, EVP & CFO**

**Slide 20: Key Financials**

This table shows the key financials in the first half of 2019, and details will follow.

**Slide 21: Effective Precision Cost Management**

To enable more accurate analysis on the Company's operations, pro forma figures of major items that are impacted by IFRS16 are provided here for discussion.

Focusing on key cost items, the Company implemented efficiency uplift measures which, by management refinement, enhanced precision cost control of accountability units. The measures achieved prominent results.

Total operating expenses decreased nearly 2%, and its share to operating revenue decreased 0.6p.p.. In particular, network operations was up 4.2%, and the growth rate significantly declined; SG&A was up 0.6% yoy, and its share to service revenue dropped 0.4p.p.; D&A was up 3.2% yoy, the growth rate also decreased comparing with same period last year.

**Slide 23 : Precision Investment Strengthening Network Edge for Scale Development**

CAPEX in first half of 2019 was RMB35 billion, total full-year CAPEX budget including 5G investment remains unchanged at RMB78 billion.

In the first half, we continued to improve 4G coverage, dynamically expand capacity in key and busy locations, and to fulfil VoLTE demands; on the other hand, we maintained our leading edge on fibre broadband network, and strengthened the benchmark and leadership position of Gbps service.

We stepped up investment in DICT, enhanced IDC and cloud resources pool framework, so as to improve network agility and strengthen end-to-end service capabilities of cloud-network integration.

We adhere to precision investment, strict management on investment scale, and strive for building a high-quality and efficient network to assure user experience and



support emerging business development.

#### **Slide 24: Enhancing Financial Position**

In order to truly reflect the Company's debt positions, we adjusted disclosure basis of relevant metrics; in particular, "debt" refers to interest-bearing debts only and lease liabilities are excluded.

In the first half, the Company strengthened efficiently-centralized capital management, which effectively reduced scale of interest-bearing debt. As at the end of June 2019, total debt decreased by 8% to RMB77 billion, total debt to capitalization ratio was 1.8p.p. lower comparing to the same period last year; net debt to EBITDA also decreased by 0.1 times.

#### **Slide 25: Solid Financial Strength**

During the period, EBITDA increased 2.6% while EBITDA margin remained stable. Finance expenses decreased 17.2% thanks to reduced interest-bearing debt; free cash flow remained strong.

Our continuously improving financial position and healthy capital structure further strengthened the foundation for our development in future.

This concludes our presentation 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.

**Disclaimer**

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