



China Telecom Corporation Limited
Edited Transcript of 2022 Interim Results
Conference call

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

Slide 4: Overview

Good afternoon, ladies and gentlemen. For the sake of epidemic prevention and control, this interim results announcement briefing is conducted online. First please let me express sincere gratitude for media and investors' attention and support to the Company all along and thank you for joining the briefing today.

This briefing has two sections. I will provide an overview first, then Mr. Shao Guanglu will go through the business review and financial performance.

Slide 5: Highlights

We have seven key development highlights in the first half of 2022:

1. High-quality development achieved new results with revenue and profit maintained double-digit growth;
2. Fundamental businesses grew steadily while Industrial Digitalisation demonstrated strong momentum;
3. e-Surfing undertakes to co-develop national cloud and maintains leadership in empowering thousands of industries;
4. Iteration and upgrade in cloud-network integration with sci-tech innovation promotes development;
5. Further deepen corporate reform and steadily expand ecological cooperation;
6. Interim dividend declared for the first time and continue to enhance shareholders' returns; and
7. Fully implement Cloudification and Digital Transformation to build a world-class enterprise.

Slide 6: Double-digit Revenue and Net Profit Growths with Profitability Continuously Increased

In the first half, the Company coordinated epidemic prevention and control as well as

corporate operation and development by actively seizing strategic opportunities from new round of technological and industrial revolutions on one hand, while on the other proactively tackling the stern challenges from multiple epidemic outbreaks in mainland China. The Company made all-out effort to implement the Cloudification and Digital Transformation Strategy with customer-oriented approach to develop individual, family and enterprise informatised services, and to drive high-quality development, leading to further enhancement of operating results and profitability. Operating revenues were RMB242.3 billion, up 10.5% yoy; service revenues were 221.4 billion, up 8.8% yoy; EBITDA up 5.3%; net profit up 12.0% to RMB18.3 billion.

Slide 7: High-quality Development Achieved Prominent Results

In the first half, the Company's high-quality development achieved prominent results: Operating revenues maintained double-digit growth, service revenues were above industry average, comparable net profit margin growth remained double-digit and higher than revenue growth. In the first half, the Company launched satisfactory service upgrade campaign with six "Good Service as You Wish" service initiatives, expedited innovation on digitalised service model, strengthened digital and intelligent service capability, enhanced customer perception and service quality, which resulted in the Company's No. 1 industry ranking on telecom user satisfaction.

Slide 8: Fundamental Revenues Increased Steadily while Industrial Digitalisation Grew Rapidly

The Company's revenues from Mobile Communications and Wireline and Smart Family Services, as well as Industrial Digitalisation maintained favorable growth.

Mobile Communications revenues were RMB99.0 billion, up 6.0% yoy; Wireline and Smart Family Services revenues were RMB59.9 billion, up 4.4% yoy; Industrial Digitalisation revenue was RMB58.9 billion, up 19.0% yoy. A dual-driver and balanced growth model was formed by fundamental businesses and Industrial Digitalisation, which respectively contributed 45.5% and 49.3% to incremental service revenues and drove incremental service revenue by 4.0p.p. and 4.3p.p. e-Surfing Cloud and security service showed initial momentum as new growth drivers with 100.8% and 43.2% revenue growth respectively.

Slide 9: Continue to Establish e-Surfing Cloud's Core Competitiveness to Co-develop National Cloud

The Company continued to build core competitiveness for e-Surfing Cloud and proactively undertook the crucial responsibility of co-developing National Cloud. Aiming to become the initiator of original cloud computing technologies, the Company

made remarkable progress in problem tackling of key core technologies, for instance independent and controllable e-Surfing Cloud operating system CloudOS4.0 was deployed, full stack product innovation from ultra-massive, multiple availability zones (AZs) large-scale public clouds to polymorphic hybrid cloud services was achieved, and two fundamental software namely the operating system and database were fully commercialised.

The computing power construction of hubs/nodes of integrated national big data centre was strengthened to form 2+4+31+X layered resource layout. Localised full-product capability pool was deployed in 31 provinces, “One-City-One-Pool of Cloud Resources” covers over 160 cities, and edge cloud was deployed at over 800 nodes.

“Cloud Creation”, “Cloud Aggregation” and other cooperation programs were implemented targeting technology, application, channel and service, with an aim to fully upgrade e-Surfing Cloud ecosystem; Cloud Computing Community was established with leading companies in the industry to further promote the robust development of cloud technologies and industry.

Slide 10: e-Surfing Cloud Boasts Industry-leading Market Influence

The Company’s e-Surfing Cloud business grew rapidly with revenue continued to double, as its revenue increased by 100.8% in the first half. Brand and market influence further enhanced, and market share in public cloud IaaS and IaaS+PaaS markets remarkably increased. The Company’s leadership maintained in government and administration cloud as well as dedicated cloud segments with No. 1 rankings in these markets.

Slide 11: Deepen Cloud-network Integration to Further Strengthen Digital Information Infrastructure

The Company propelled cloud-network integration 3.0 by strengthening the integration of multiple digital elements such as cloud, network, Big Data, AI, security, DC, computing power and greenness, as well as the application of original technologies. First is technological empowerment for enhancing the capability of independently controlling core technologies, focusing on infrastructure such as CloudOS4.0, security core platform, AI algorithm, quantum and network controller, as well as operating and product capabilities. Second is cloud and network as one, by promoting deep integration of computing power and network, continuously enhancing “2+4+31+X” layout, and establishing a computing power system with DC, cloud and AI coordination. Third is intrinsic security, by constructing end-to-end prevention system for critical infrastructure and providing end-to-end integrated security

protection services for customers. Fourth is intelligent and agile, by achieving customer-oriented and cloud-network integrated channeling and providing integrated services to customers. Fifth is green and low-carbon and establishing a new model of sustainable development, by building green DC, green computing power, green network and green energy, enhancing computing power and efficiency, as well as promoting green transformation of energy usage structure.

Slide 12: Focus on Future to Optimise CAPEX and Further Enhance Cloud-network Integration Capabilities

In the first half, the Company focused on future growth areas to optimise investment structure and executed CAPEX of RMB41.7 billion, in which proportion of CAPEX on Industrial Digitalisation increased by 9.3p.p. and it was the only area with increased CAPEX proportion.

The Company expedited planning on computing power with total capacity reached 3.1EFLOPS and 19 thousand IDC cabinets added.

Fibre network coverage continued to expand and Gbps network upgrade accelerated, with 1.17million of Gbps ports added.

On security, 32 secured datacentres were built, along with two-tier security core platform and anti-DDoS capability covering nationwide boasting cleaning capacity of 5.5Tbps.

On greenness, AI energy-saving solution was fully used in 5G BTS and facility rooms, while retirement of low power efficiency facilities and old and obsolete facility room revamp and upgrade were expedited to further reduce power consumption.

Slide 13: Co-building and Co-sharing Further Deepened

The Company continued to deepen network co-building and co-sharing with China Unicom, with operating benefits continued to demonstrate. During the period, the Company's 5G co-built and co-shared 5G BTS increased by 180 thousand, and total BTS in use reached 870 thousand. 4G co-built and co-shared BTS increased by 210 thousand to 870 thousand. The Company plans to complete the integration of one 4G network with China Unicom within 3 years for quality enhancement, quantity reduction and efficiency increase.

Since co-building and co-sharing started, both parties' cumulative CAPEX savings reached RMB240billion, while annualised OPEX savings were over RMB20 billion.

Slide 14: Substantial Progress in Sci-tech Innovation to Bolster Core Competitiveness

The Company achieved solid progress in sci-tech innovation based on the RDO layout for sci-tech innovation and R&D system.

In the first half, the Company's R&D initiatives increased by around 55%, while proprietary R&D achievements list expanded by 3.1 times, and R&D personnel increased by 46% comparing with early this year. A sci-tech innovation advisory expert committee comprising of more than 10 academicians were established, and more than 70 industry leading talents were introduced.

Focusing on network, AI, security, quantum and other emerging technologies, the Company stepped up R&D and innovation in cloud, cloud-network integration and other areas with sci-tech innovation capability further strengthened. China Telecom was awarded with "Enterprises with Outstanding Contribution to Sci-tech Innovation" by SASAC.

Slide 15: Solidify Security Foundation and Strengthen Capabilities to Endow Customers

The Company stepped up the establishment of technological capability, security capability, operating system and professional talent teams, with an aim to establish a foundation integrated with cloud, network and security, and to strengthen customer servicing capability.

The Company adhered to proprietary R&D and launched e-Surfing Security Brain, Cloud Dam (anti-DDoS), Graded Protection Assistant, Quantum-encrypted Calls, Internet Fraud Prevention and other products targeting government, institutional and enterprise customers to provide comprehensive communications security protection. The Company also launched e-Surfing Anti-harassment, Security Butler and other products for public and Smart Family customers, to provide end-to-end integrated security protection services.

In the first half, Cloud Dam revenue achieved a rapid growth of 60.4% yoy.

Slide 16: Deepen Corporate Reform Focusing on Customer's Digitalisation Demand

The Company expedited the construction of customer-oriented organisation and operating system, and promoted reform, process optimisation and mechanism

innovation centering around cloudification and the digitalisation demand from 2C, 2H and 2B customers.

The Company further deepened enterprise service reform, specifically on promoting the market-oriented and corporate operation of enterprise and professional companies, as well as strengthening integration teams; while also enhanced localised support capabilities and expedited actual operation of cloud core platform with an aim to connect the main corporate processes before, during and after sales centering around cloud, and further promote the rapid and scale development of Industrial Digitalisation businesses with e-Surfing Cloud as the foundation. The Company also promoted the establishment of cloud core platform and the three system reforms to enhance corporate momentum and vitality.

The Company actively explored ecological cooperation by focused construction of capability ecology, extensive exploration of business ecology and expedited construction of platform ecology, to form a new win-win situation.

Slide 17: Proactively Implement Social Responsibilities

The Company proactively implements social responsibilities. On environment, the Company adheres to systematic green and low-carbon development model, builds new information infrastructure that is green and low-carbon and cloud-network integrated with leading capabilities. During the period, the Company reduced over 3 million tons of emission by co-building and co-sharing, retiring old facilities and applying AI energy saving technologies. The Company's overall energy consumption per unit of information flow reduced by over 15%.

In the first half, the Company efficiently coordinated epidemic prevention and control as well as corporate operation and development, while also undertook responsibilities. For instance, the Company implemented further reduction of average tariff of SME broadband and leased lines by 10% vs last year; offered anti-epidemic informatisation products such as e-Surfing Cloud Broadcasting, Cloud Conferencing, Cloud Computer, cloud SaaS application, Incoming Call Info Display, etc.; provided integrated informatisation solution to Mobile Cabin Hospitals, and dedicated lines for emergency for nucleic acid testing sites, etc.

On society and employees, the Company supported rural revitalisation by providing aids to dedicated areas and injected intelligence into and empowered Digital Village. It also stepped up caring for employees and facilitate mutual growth of employees and the Company.

On corporate governance, adhering to excellent, prudent and effective corporate governance principles, the Company continued to enhance internal systems as well as governance level and upheld compliant operation. The Company's development result and compliance performance received extensive recognition and numerous accolades in the market. The Company will continue to enhance ESG level.

Slide 18: Interim Dividend Declared for the First Time and Proactively Reward Shareholders

The Company places high importance to shareholder returns, and the Board of Directors resolved to commence declaring interim dividends with 60% of profit distributed in cash, that is RMB0.12 per share.

Within 3 years after the A Share Offering and Listing, the profit to be distributed by the Company in cash for each year will gradually increase to 70% or above of the profit attributable to equity holders of the Company for that year. The Company will also strive to create value and proactively reward shareholders.

Slide 19: Proactively Completed New Planning for Sci-tech Innovation to Forge Core Competitiveness for Future Development

The potential of digital economy is vast. Professional institutions forecasted that by 2025, digital economy will account for over 50% of PRC's economy.

The Company will seize the strategic opportunities from the robustly developing digital economy, fully leverage the cloud-network integration edge and integration with cloud, AI, security and greenness, expedite the upgrade of digitalized, scene-based and integrated services, continue to support a better digital life and digital upgrade of industries.

The Company will fully implement the Cloudification and Digital Transformation strategy, explore integrated intelligent information services with customer-oriented approach, step up sci-tech innovation, deeply promote cloud-network integration, further enhance capabilities of universal platforms, build ecologies with opened capabilities for cooperation and win-win, actively promote green and low-carbon transformation, establish solid digital security foundation, continuously deepen system and mechanism reforms, expedite the construction of World-class Enterprise, and further enhance corporate, customer and shareholder values.

My part ends here, and Mr. Shao Guanglu will walk you through our business and

financial performance.

Speaker: Mr. Shao Guanglu, Executive Director, President & COO

Slide 20: Business Review & Financial Performance

Thank you, Chairman Ke. Good afternoon, ladies and gentlemen. I shall now discuss our business and financial performance in the first half of 2022.

Slide 21: Fundamental Businesses and Industrial Digitalisation: Dual Engines and Mutual Promotion

In the first half, all of the Company's three business operations achieved favourable growth, in which Industrial Digitalisation became the biggest source of incremental revenue by contributing RMB8.8 billion to incremental service revenues and 4.3p.p. of service revenues growth. Mobile Communications and Wireline and Smart Family drove service revenues growth by 2.8p.p. and 1.2p.p. respectively.

Slide 22: 5G and Gbps Broadband Development Accelerated with Subs Scale and Quality Continuously Enhanced

In the first half, mobile and broadband sub scale maintained favourable development in which mobile subs and broadband subs increased by 11.79 million and 5.73 million respectively; 5G and Gbps sub scale further expanded with penetrations increased by 9.9p.p. and 4.1p.p. respectively. Mobile and Broadband blended ARPUs further increased and reached RMB46.0 and RMB47.2 respectively. 2C and 2H application revenues grew rapidly and the contribution of application revenues to fundamental business revenues increased by 1.5p.p. yoy to 13.2%.

Slide 23: Expedite Product Innovation and Promotion of Digitalised Products Achieved Initial Results

Addressing various emerging demands in 2C/2H/2B markets, the Company expedited the promotion of scene-integrated products. Development of standardised products integrated with cloud, AI and security accelerated, in which Cloud Computer, Security Butler and AI Vision grew by 81%, 59% and 175% respectively; scene-based solutions of Smart Family, Smart Community, Digital Village and Internet of Video Things (IoVT) were also launched, with Whole-home Intelligence, Smart Community, Digital Village and IoVT grew by 163%, 80%, 176% and 40% respectively. The Company will further promote other digitalised and scene-based applications, services and products actively to facilitate digitalisation upgrade.

Slide 24: Industrial Digitalisation Maintained Rapid Growth

The Company's Industrial Digitalisation maintained rapid development with 19% of comparable revenue growth. The Company strives to make Industrial Digitalisation's contribution to service revenue reaching 30% by 2024.

The Company fully leveraged fundamental capability, cloud-network capability and full cloud migration to launch a series of standard cloud, network and security products and to enhance business capabilities via digital platforms and solutions that covers social governance, industrial Internet, finance and other sectors, with an aim to further foster future growth drivers.

Slide 25: e-Surfing Cloud Edges Further Enhanced

The market position of Company's e-Surfing Cloud continuously increased with independent and controllable technologies and capability edges in security and service. e-Surfing Cloud is already providing service in 20 provinces and 156 cities. Public cloud and private cloud revenues increased 115.2% yoy and 70.9% yoy respectively, while PaaS and SaaS grew rapidly with revenue growth of 149.1%. e-Surfing Cloud accumulated large amount of benchmark cases in government and administration, culture and tourism, auto and other sectors, and its excellent reputation is poised to attract even more customers to use the Company's quality cloud services to support further growth of e-Surfing Cloud's revenue.

Slide 26: 5G 2B Continue to Achieve Favourable Development

The Company's 5G 2B business continued to achieve favourable development. In the first half, the number of contracts signed with customers grew rapidly, with over 1,300 newly contracted customised network projects and over 9,000 cumulative 5G 2B industry commercial projects. Project value continued to increase with new contract value grew by over 80% yoy, and overall project gross profit margin around 20% to 30%. In the first half, the Company had multiple benchmark projects implemented and will continue to develop and cultivate industry-leading benchmarks to drive scale replication.

Slide 27: Expedite Infrastructure Construction to Effectively Undertake "East-to-West Computing Resource Transfer" Project

The Company expedited infrastructure construction with advanced deployment of computing power capability to effectively undertake "East-to-West Computing Resource Transfer" project. In the first half, the Company's computing power reached 3.1EFLOPS, up 1EFLOPS. During the period total number of IDC cabinets reached 487 thousand with cabinet utilisation rate at 72%, while revenue increased by 11.1% and revenue size maintaining PRC's No. 1.

The Company expedited land acquisition and new site construction in new hubs such as Jiangsu, Shanghai, Zhejiang, Anhui, Sichuan and Gansu; built industry-leading DCI network with CN2-DCI and OTN for government & enterprises connecting 8 major hub nodes and IDCs in major cities; inter-hub access latency among 8 major regional hubs reduced by 2ms to 15ms.

The Company actively constructed green and low-carbon infrastructure with PUE below 1.3 in newly built datacentres, below 1.25 in southern hub and below 1.2 in northern hub. The Company continued energy-saving upgrade of over 130 obsolete facility rooms and further propelled obsolete facility retirement, actively participated market-based green electricity trade and expedited introduction of green electricity to support energy saving and emission reduction.

Slide 28: Cost Appropriately Contained and Reduced to Support High-quality Development

In the first half, the Company seized the strategic opportunity of rapid digital economy development and increased initiatives in sci-tech innovation, Industrial Digitalisation and other key areas with enhanced resource efficiency; expanded 5G co-building and co-sharing and 4G network co-sharing, so that D&A continued to grow slower than revenue; digitalised operation reduced cost and increased efficiency, hence network operation-related expense grew slower than revenue; strengthened high-tech talent recruitment and increased incentives to frontline staff and high-performance teams to boost employee vitality; precision sales and marketing resulted in stable proportion of selling expense to revenue; continued to increase R&D initiatives for enhancing core capability; appropriately increased sales and marketing initiatives to foster momentum for future growth and support favourable business development.

Slide 29: Refined Management to Further Enhance Financial Strength

In the first half, the Company's EBITDA increased by 5.3%, total debt significantly decreased by 66.6%, debt-to-asset ratio was 44.6%; capital structure remained sound and the Company's corporate credit rating remained at AAA. The Company will further enhance financial strength via refined management to support healthy corporate development.

Slide 30: Further Promote High-quality Development

To summarise the Company's development in the first half, sub scale maintained favourable development, while revenue and net profit maintained double-digit growth. The management is very confident about the sustainability of the Company's

development momentum and will strive to achieve the full-year targets of sub net adds as well as revenue and profit growths.

This concludes our briefing today. Thank you!

Forward-Looking Statements

The development strategies, future business plans, prospects and other forward-looking statements in this document do not constitute commitment by China Telecom Corporation Limited (the “Company”) to investors. 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 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. Investors are advised to pay attention to investment risks.

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