



Annual Results 2011

China Telecom Corporation Limited
20 Mar 2012 | www.chinatelecom-h.com

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.

Presentation by

Mr. Wang Xiaochu

Chairman & CEO

Mr. Yang Jie

President & COO

Madam Wu Andi

Executive Vice President & CFO

1. Overview

2. Business Review

3. Financial Performance

1. Overview

2. Business Review

3. Financial Performance

Highlights



Robust full services development optimizing business structure & enhancing profitability

3G traction driving fast mobile expansion & revealing scale benefit

Broadband upgrade fostering subscriber growth & value

To achieve breakthrough in scale development via dual-leadership in innovation & services

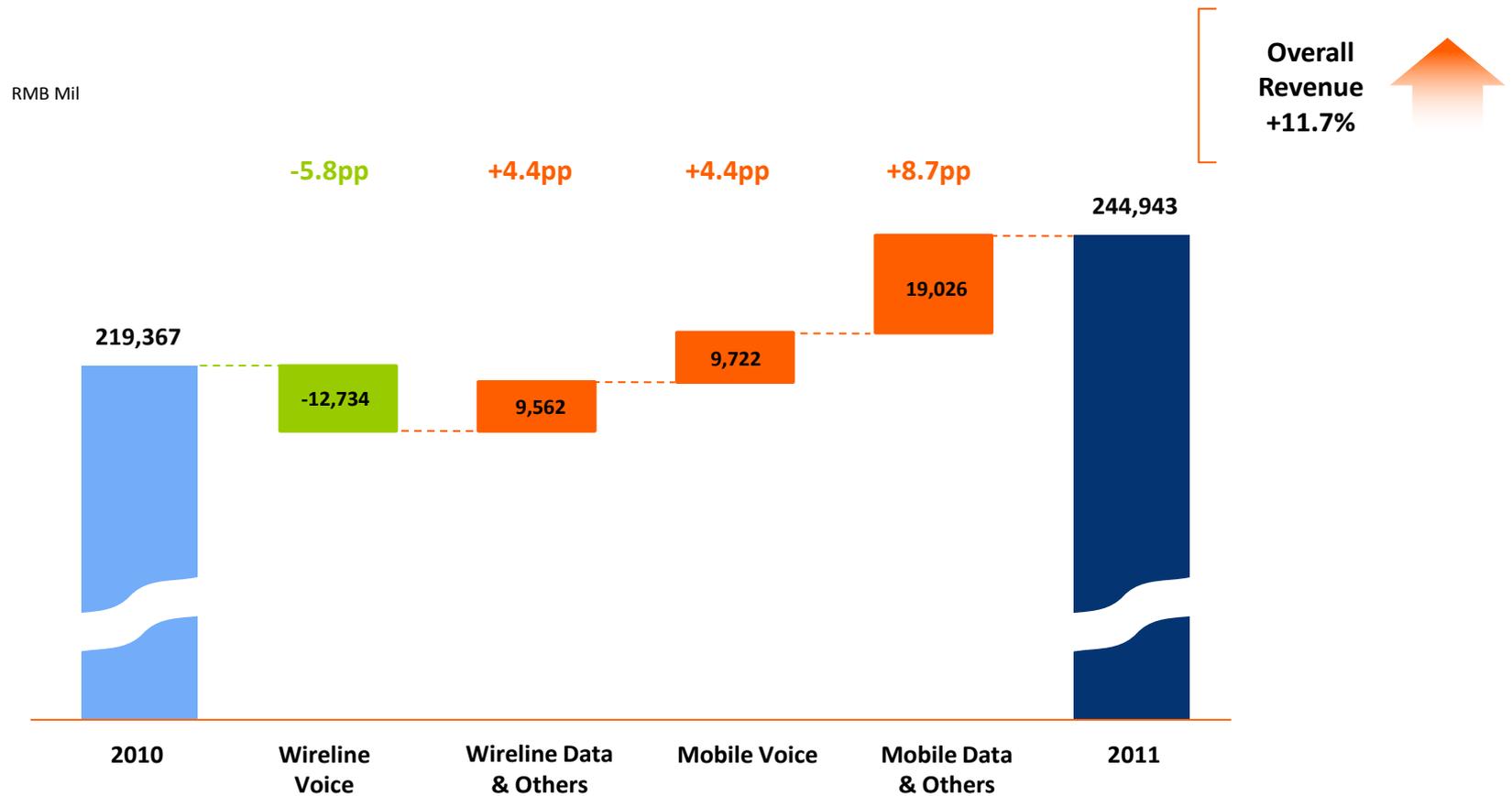
Solid Results

	2010 (restated)	2011	Change
Operating Revenue (RMB Mil)	219,367	244,943	11.7%
Operating Revenue (Excl. Mobile Terminal Sales) (RMB Mil)	213,719	231,010	8.1%
EBITDA (RMB Mil)	88,490	94,266	6.5%
EBITDA Margin	41.4%	40.8%	-0.6pp
Net Profit (RMB Mil)	14,850	16,404	10.5%
Adjusted Net Profit (Excl. impact of adopting IFRS 1 amendment) (RMB Mil) (Please refer to slide 26)	15,262	16,799	10.1%
EPS (RMB)	0.183	0.203	10.5%

Notes: Unless otherwise stated in this presentation

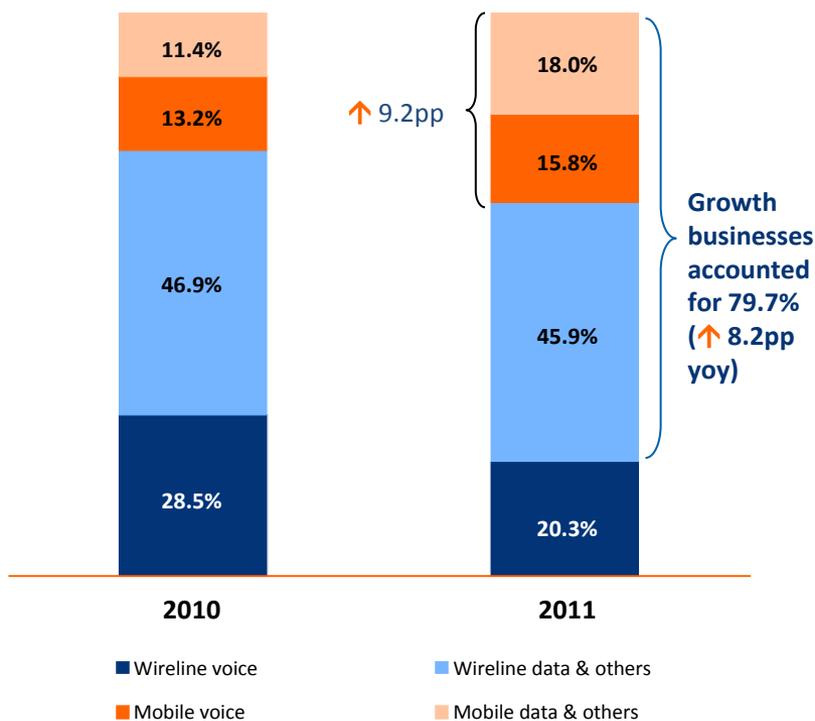
1. All financial data were adjusted to exclude Upfront Connection Fees (2010: RMB497 mil; 2011: RMB98 mil)
2. EBITDA was calculated before Mobile Network Leasing Fees (Mobile Network Leasing Fees: 2010: RMB13,320 mil; 2011: RMB19,011 mil)
3. EBITDA Margin = EBITDA / Operating Revenue (Excl. Mobile Terminal Sales)
4. Net Profit represented profit attributable to equity holders of the Company
5. 2010 data were restated to include the retrospective impact of adopting IFRS 1 amendment

Revenue Growth Drivers



Remarkable Progress on Optimizing Revenue Structure

Full Services Revenue Structure

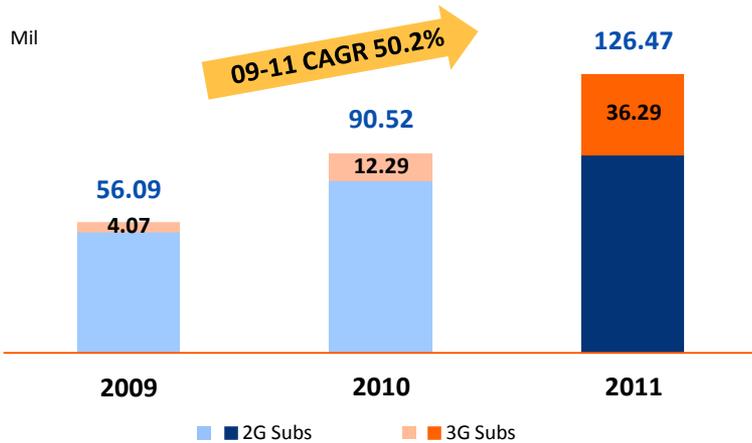


Laying a solid foundation for long-term sustainable growth

- Robust growth continued across mobile & wireline data services
 - Growth businesses revenue/total revenue: 79.7% (↑ 8.2pp vs 2010)
 - Mobile revenue/total revenue: 33.8%
 - Wireline broadband revenue/total revenue: 24.8%
- Wireline voice operating risk further alleviated:
 - Wireline voice/total revenue: 20.3% (↓ 8.2pp vs 2010)

Rapid Mobile Expansion Enhancing Overall Profitability

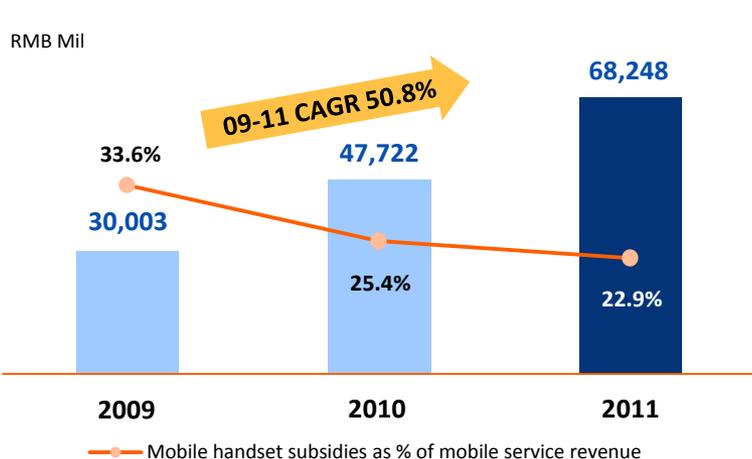
Mobile & 3G Subscribers



📶 **World's largest CDMA mobile operator with fast expanding mobile subscriber base revealing scale benefit**

- Mobile subs: 126 mil (incl. 36 mil 3G subs)
- Mobile ARPU: RMB52.4 (↓ 3.3% vs 2010)
- Mobile subs market share: 13.0% (↑ 2.2pp vs 2010)
- 3G subs market share: 28.5% (↑ 2.4pp vs 2010)
- 3G subs as % of mobile subs: 28.7% (↑ 15.1pp vs 2010)

Mobile Service Revenue



📶 **Strong mobile service revenue growth with effective cost control enhancing overall profitability**

- 2009-11 mobile service revenue CAGR: 50.8%
- Mobile handset subsidies as a % of mobile service revenue trimmed to 22.9% (↓ 10.7pp vs 2009)

Launching iPhone to Promote Further Development Breakthrough

Customer-focused tariff plans to enhance user experience & corporate value

iPhone tariff plans illustration:

Plan	Illustration 1	Illustration 2
Monthly fee (RMB)	289	389
Voice (minutes)	990	1,290
SMS	180	180
Data (MB)	1,500	2,000

24-month contract

iPhone 4S 16GB (contracted purchasing price) (RMB)	1,699	0
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Benefits of launching iPhone:

- Enhancing branding image & promoting further breakthrough in high-end market
- Accelerating revenue growth & driving mobile data usage & ARPU
- Stepping up open channel scale expansion & consolidating e-channel resources to improve channel capability
- Driving more efficient & centralised sales management process to improve operating efficiency

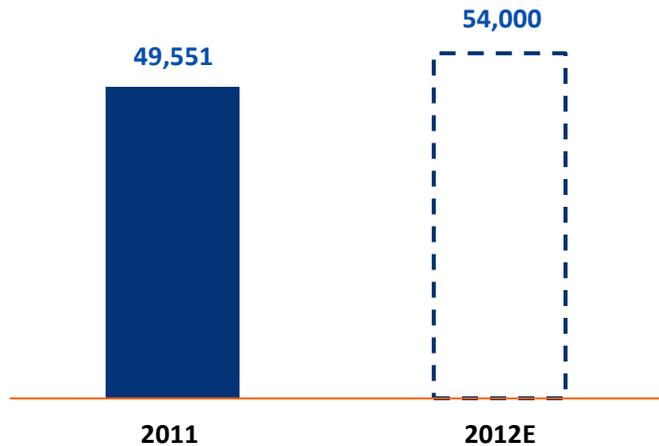
📶 **Leverage superior 3G network quality & excellent services to provide customers with unrivalled iPhone experience**

📶 **Persist in rational competition to facilitate profitable scale development**

Accelerating Strategic Investment to Foster Broadband Sustainable Growth

CAPEX

RMB Mil



Foster broadband
business
development

Enhance
core competence

- Accelerating “Broadband China, Fibre Cities” project to satisfy customer access bandwidth upgrade demand & lay a solid foundation for future new business development

2011:

- Broadband & Internet investment accounted for 66.8% of total CAPEX
- Wireline broadband net add: 13.33 mil
- Coverage in cities with 20M access bandwidth: ≈70% (↑ 12pp vs 2010)

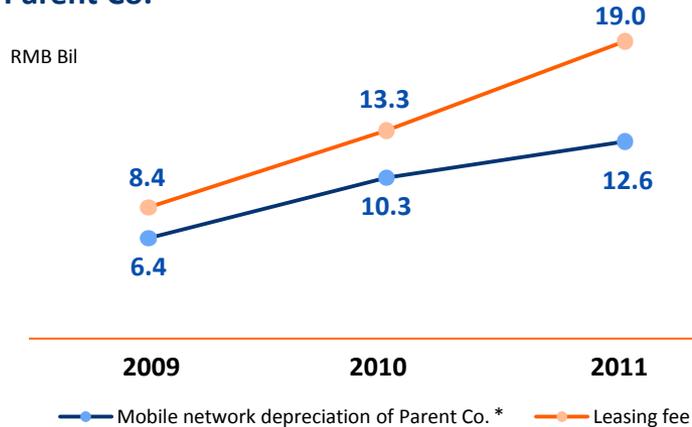
2013:

- Basic full coverage in cities with 20M access bandwidth

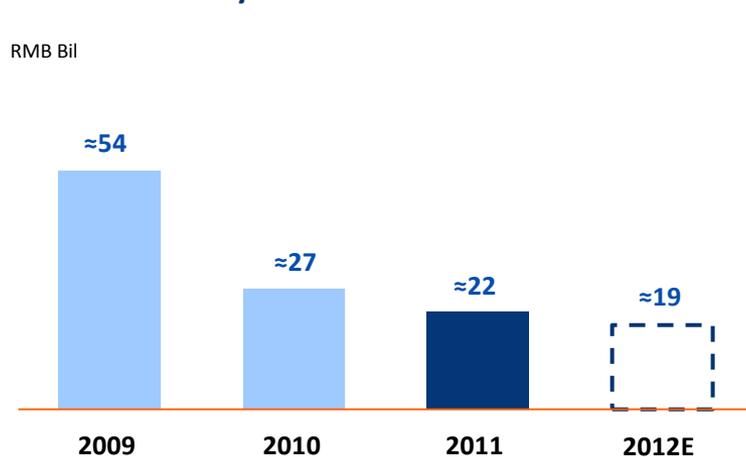
- Effectively enhancing customers’ experience & accelerating growth in broadband subscriber & revenue

Kick-off Mobile Network Acquisition to Enhance Value

Leasing Fee & Mobile Network Depreciation of Parent Co.



Mobile CAPEX by Parent Co.*



* Financial data are provided by Parent Co. (China Telecommunications Corporation)

📶 Kick-off

- Acquisition price: Subject to negotiation with the Parent Co. with reference to the appraised value pursuant to the terms as set out in the network lease agreement
- Financing: Priority for debt & internal capital
- Proposal will be submitted to shareholders for approval in due course & expected to complete by end of 2012

📶 Rapid growth of mobile service revenue facilitates a value-enhancing acquisition subject to the right price at the right time

- Key consideration: network leasing fee saving \geq incremental mobile network depreciation & maintenance expenses & finance charges etc arising from acquisition
- Unify business operation with network to improve operating efficiency

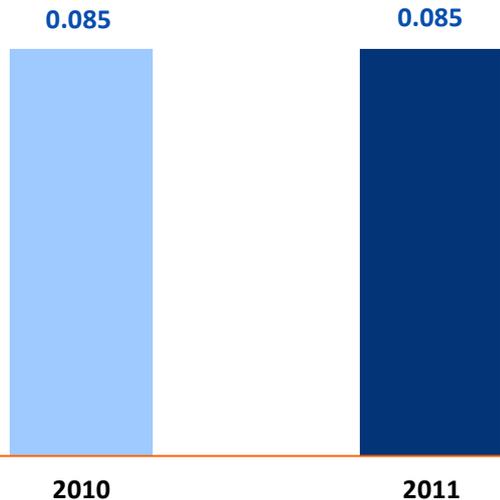
📶 By end of 2011, book value of mobile network of Parent Co.*: ≈RMB120 bil

- Future CAPEX will focus on network optimisation & capacity expansion in high data traffic areas

Stable Dividend

Dividend Per Share

HKD



The Board of Directors recommends to the shareholders a final dividend of HKD0.085 per share for 2011

- 📡 **The Company is actively preparing & accumulating funds for the planned acquisition of mobile network from parent company in 2012**
- 📡 **With due regards to shareholders' cash return demand as well, a stable dividend is recommended**

Seizing the Golden Opportunities for Value Enhancement

Golden opportunities:

- 📶 Fabulous mobile Internet applications
- 📶 Fast proliferating smartphones
- 📶 Rapidly developing “Cloud” applications

Explicit & effective strategic positioning

- 📶 Leader of Intelligent Pipeline
- 📶 Provider of Integrated Platforms
- 📶 Participant of Content & Application Development

Strengthening Core Competence
+
Enhancing Corporate Value

Promote full-services scale development through dual-leadership in innovation & services

Scale operation

- 📶 To expand subscriber scale

Data traffic operation

- 📶 To enhance customer value

Superior Strengths

Nationwide intelligent & IP-based integrated broadband networks

- 📶 EVDO
- 📶 WiFi
- 📶 FTTx
- 📶 IP network

Superior full-services operating capability

- 📶 To promote more integrated & differentiated services & products
- 📶 All-round sales & marketing channel

Rapidly proliferating 3G smart devices

- 📶 3G handsets ≈500 models (↑200 models)
- 📶 Smartphones ≈200 models (↑100 models)

Highly integrated multi-services platform & superior ICT service strength

- 📶 Innovative integrated applications for industries & businesses
- 📶 Leading Internet data centre services



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Revenue Breakdown

RMB Mil	2010	2011	Change
Mobile	53,953	82,701	53.3%
Service Revenue	47,722	68,248	43.0%
Voice	28,906	38,628	33.6%
Data	18,816	29,620	57.4%
Others	6,231	14,453	132.0%
Wireline	165,414	162,242	-1.9%
Voice	62,498	49,764	-20.4%
Data	95,648	105,647	10.5%
Internet Access	54,965	61,691	12.2%
<i>Incl. Wireline broadband</i>	<i>54,127</i>	<i>60,801</i>	<i>12.3%</i>
VAS & Integrated Information Service	28,312	29,763	5.1%
Managed Data & Leased Line	12,371	14,193	14.7%
Others	7,268	6,831	-6.0%
Total	219,367	244,943	11.7%

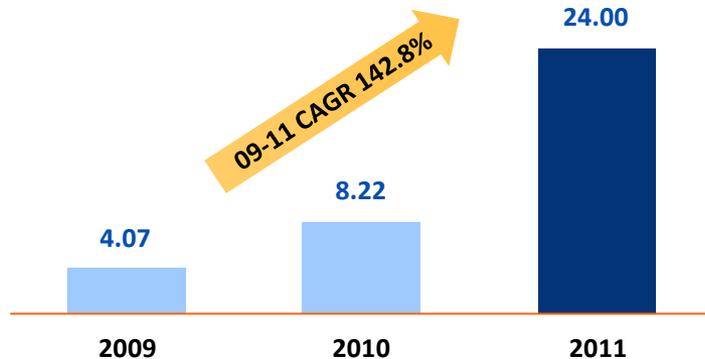
Notes:

1. 2011 Wireline Voice Revenue included RMB29,023 mil from local voice, RMB11,658 mil from DLD, RMB1,773 mil from ILD and RMB7,310 mil from interconnections
2. Mobile Others mainly included revenue from sales of terminals

3G Traction Driving Mobile Scale Expansion

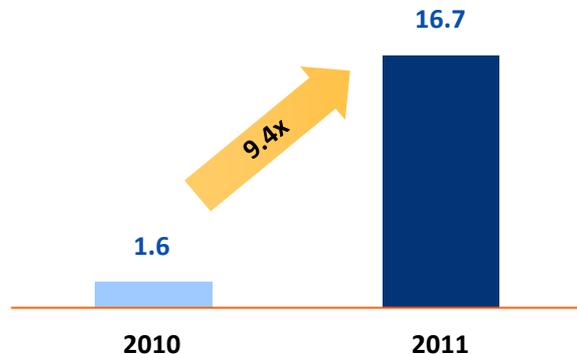
3G Net Add

Mil



Smartphone Subscribers

Mil



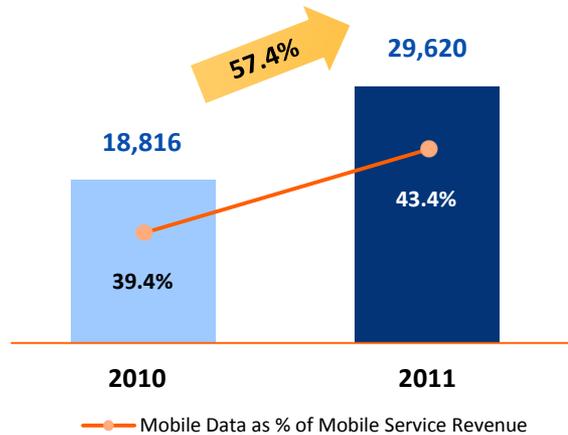
Promote mobile service as a stand-alone product while leveraging integrated operation strengths

- ❏ **Proliferating 3G terminals & accelerated adoption of smart devices with improved price-performance factor**
 - EVDO handsets: ≈500 models; sales volume ≈34 mil units (↑ 3x vs 2010)
 - Smart devices: ≈200 models; sales volume ≈17 mil units (↑ 10x vs 2010)
- ❏ **Strengthened open channel to facilitate scale development**
 - Net add by open channel: 58% (↑ 15pp vs 2010)
 - Terminal sales by open channel: 69% (↑ 8pp vs 2010)
- ❏ **Branding initiatives well received**
 - Successfully launched new mobile brand “flying YOUNG”
- ❏ **Peer-best 3G network coverage, leading in width & depth**
 - City coverage: ≈99% by area
 - Towns: ≈93% by number

Strong Mobile Data Momentum

Mobile Data Revenue

RMB Mil



📶 Leverage rapidly proliferating mobile Internet contents & applications to increase users' penetration & activity level to drive mobile data traffic

- Establish mobile Internet alliance & cultivate all-party-win eco-system
- Enhance centralized efficient operation of product centers to develop innovative & differentiated services
- Offer integrated open platform with superior edges on unified authentication, mobile positioning & electronic payment

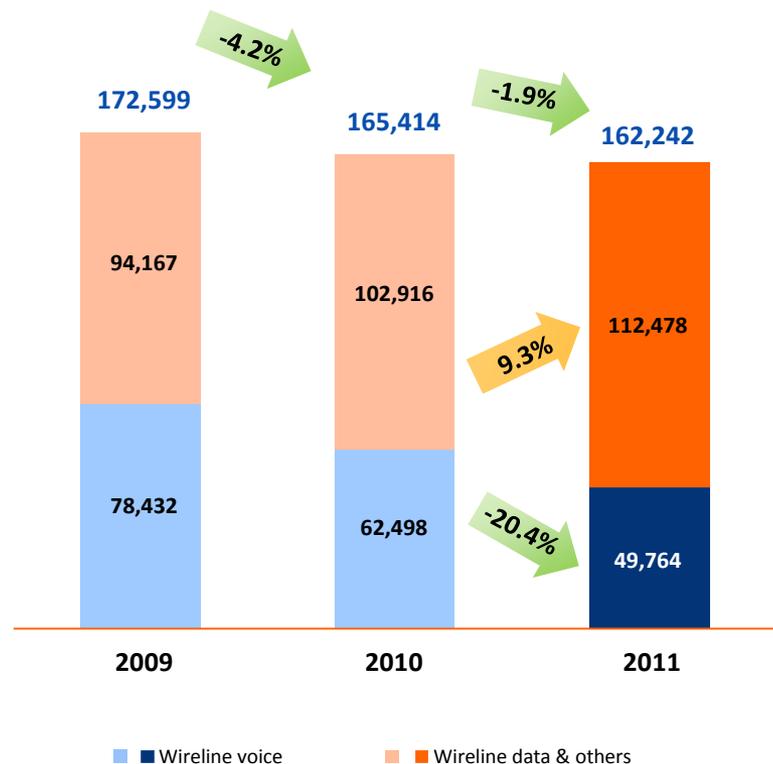
Key Mobile Data Services

(Mil)	2010.12	2011.12	Change
"eSurfing" apps store registered subs	5.62	43.13	6.7x
"e' game" subs	3.37	40.15	10.9x
"e' reading" subs	2.52	36.39	13.4x
"eSurfing" video subs	3.39	12.01	2.5x

Stabilising Wireline Revenue

Revenue

RMB Mil



Subscribers

Access Lines in Services (Mil)	2010.12	2011.12
Household	110.2	108.0
Government & Enterprise	34.0	36.8
Public Telephone	14.5	13.9
PAS	16.4	10.9
Total	175.1	169.6
Broadband Subs (Mil)	63.5	76.8

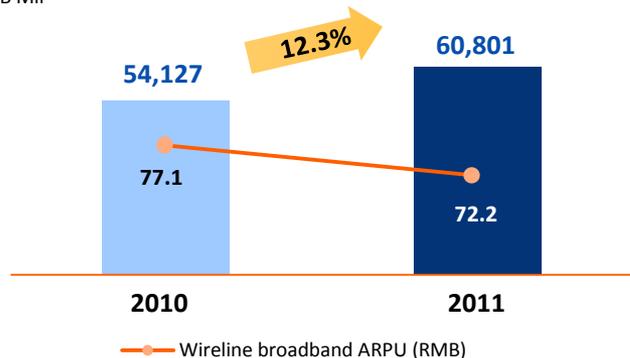
Voice Usage

	2010	2011
Local Usage (Pulses Mil)	251,425	206,371
DLD Usage (Minutes Mil)	68,544	52,937
ILD Usage (Minutes Mil)	1,207	1,130

Fast Growing Wireline Broadband Service

Wireline Broadband Revenue

RMB Mil



📶 Leverage network strengths to enhance customer experience & value by promoting bandwidth upgrade with a lower unit bandwidth pricing to bolster development & competitiveness

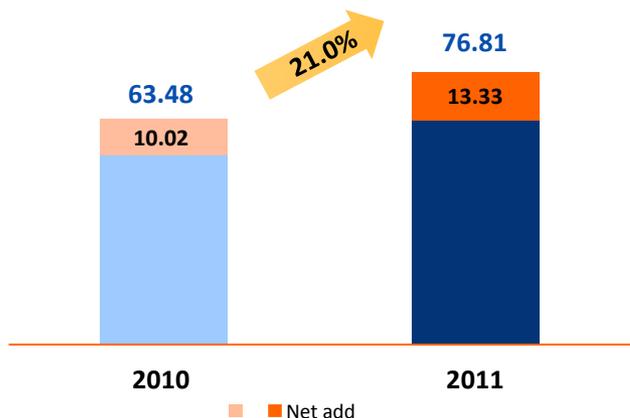
- Wireline broadband sub growth: ↑ 21.0% vs 2010
- Wireline broadband revenue growth: ↑ 12.3% vs 2010, albeit 6.4% decline vs 2010 in ARPU

📶 Leverage dynamic & differentiated initiatives to boost customer satisfaction:

- Nurture premier branding image
- Increase access bandwidth capability
- Enrich bandwidth intensive contents & applications
- Provide quality service
- Compete flexibly in low-end market

Subscribers

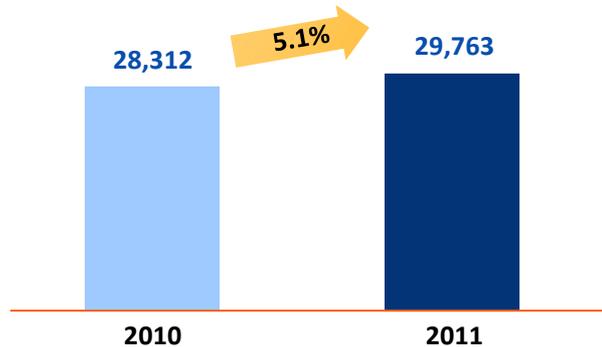
Mil



Robust Wireline VAS & Integrated Information Services

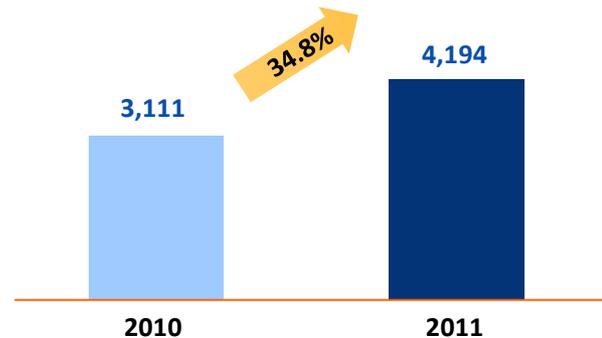
Revenue

RMB Mil



IDC Revenue

RMB Mil



Major Initiatives

- Ex-PAS related revenue, Wireline VAS & Integrated Information Services revenue amounted to RMB29.1 bil, **↑ 8.0% vs 2010**
 - IDC: Establish integrated sales initiatives & unified channels to provide one-stop services
 - Cloud services: Promote cloud computing in industry application development to enhance industry informatisation solutions
 - ICT: Strengthen ICT service capability to capture the rising opportunities

2012 Priorities

Capitalising on the strategic positioning of “The Three New Roles” to reinforce capabilities of innovation, service, efficient centralisation and operation management to achieve leap development

Scale breakthrough to enhance value



To leverage the window opportunity of 3G migration and three-network convergence to promote the scale expansion of 3G & broadband services with brand-new image of a premier full-services operator

Sustain edges with efficient centralized operation



To enhance integrated operation efficiency by strengthening nation-wide efficient centralized operation & sales initiatives (unified branding, tariff, service, terminals & business)

Changing mindset for comprehensive innovation



To drive mobile data traffic operation & create future growth engines by nurturing compelling mobile Internet products via concerted efforts of self-development initiatives & 3rd party cooperation



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Key Financial Information

RMB Mil	2010 (restated)	2011	Change
Operating Revenue	219,367	244,943	11.7%
Operating Expenses	196,412	220,912	12.5%
Depreciation & Amortization	52,215	51,224	-1.9%
Network Operations & Support	47,432	52,912	11.6%
<i>Incl.: Mobile Network Leasing</i>	<i>13,320</i>	<i>19,011</i>	<i>42.7%</i>
Personnel	35,529	39,167	10.2%
SG&A	42,130	48,741	15.7%
<i>Incl.: Mobile Handset Subsidies</i>	<i>12,114</i>	<i>15,641</i>	<i>29.1%</i>
Interconnection & Others	19,106	28,868	51.1%
<i>Incl.: Wireline Interconnection</i>	<i>5,309</i>	<i>4,932</i>	<i>-7.1%</i>
<i>Mobile Interconnection</i>	<i>5,821</i>	<i>8,110</i>	<i>39.3%</i>
<i>Cost of Mobile Terminals Sold</i>	<i>4,963</i>	<i>12,866</i>	<i>159.2%</i>
Operating Profit	22,955	24,031	4.7%
Net Profit	14,850	16,404	10.5%
Free Cash Flow	27,287	20,288	-25.6%

Note: 1. Free Cash Flow = EBITDA – Mobile Network Leasing Fees – CAPEX – Income Tax Expenses
 2. 2010 data were restated to include the retrospective impact of adopting IFRS 1 amendment

Key Impact of Adopting IFRS 1 Amendment

Major Adjustment:

- Recognise the revalued amounts of property, plant & equipment and lease prepayments transferred or acquired during the Restructuring, the First Acquisition and the Second Acquisition as their deemed costs, and retrospectively adjust the depreciation and amortisation charged for these assets
- Change the accounting policy of property, plant & equipment from the revaluation method to the cost method

Major Impact on Financial Statements

RMB Mil	2009	2010	2011
Consolidated Statement of Comprehensive Income			
Increase in Depreciation & Amortization	541	559	498
Decrease in Profit After Tax	(439)	(412)	(395)
Net Profit before accounting policy change	13,271	15,262	16,799
Net Profit (Incl. Impact from IFRS 1 amendment)	12,832	14,850	16,404

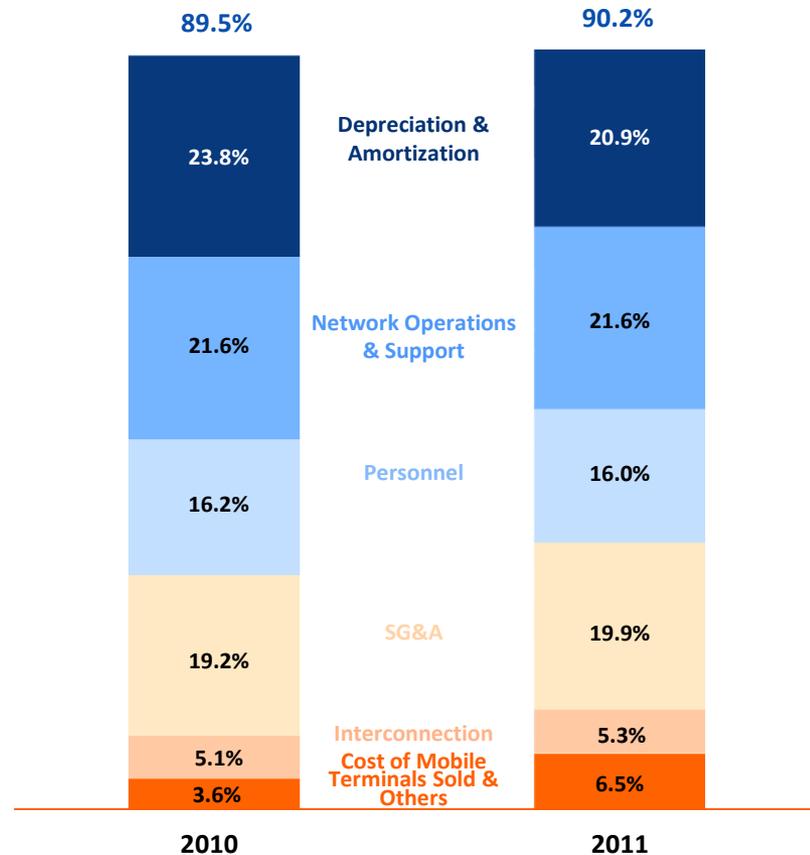
Consolidated Statement of Financial Position

Increase in Assets	13,436	13,174	12,897
Decrease in Liabilities	(1,103)	(986)	(868)
Increase in Equity	14,539	14,160	13,765

Note: Please refer to notes to the 2011 financial statements for detailed explanation

Effective Cost Initiatives Driving Sustainable Growth

Operating Expenses as % of Operating Revenue



Rational Planning & Resources Allocation Fuelling Scale Expansion

- Depreciation & Amortization: ↓ 2.9pp, benefiting from prudent CAPEX control
- Network Operations & Support: flat
- Personnel: ↓ 0.2pp
- SG&A: ↑ 0.7pp (mainly due to appropriate increase in sales initiatives to promote rapid full services development)
- Interconnection: ↑ 0.2pp (mainly due to increased mobile interconnection expense resulting from growth in mobile voice usage)
- Cost of Mobile Terminals Sold & Others: ↑ 2.9pp (mainly due to increased procurement of benchmarking smartphones)

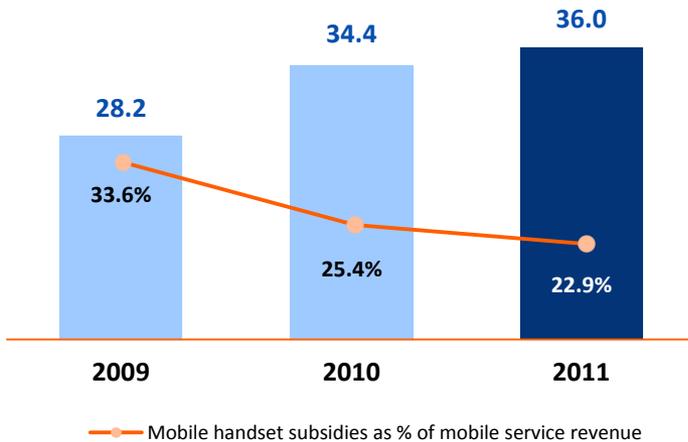
Appropriate Increase in Marketing Initiatives to Secure Future Sustainable Growth

2009 – 2011

2012

Mobile Subscribers Net Add

Mil

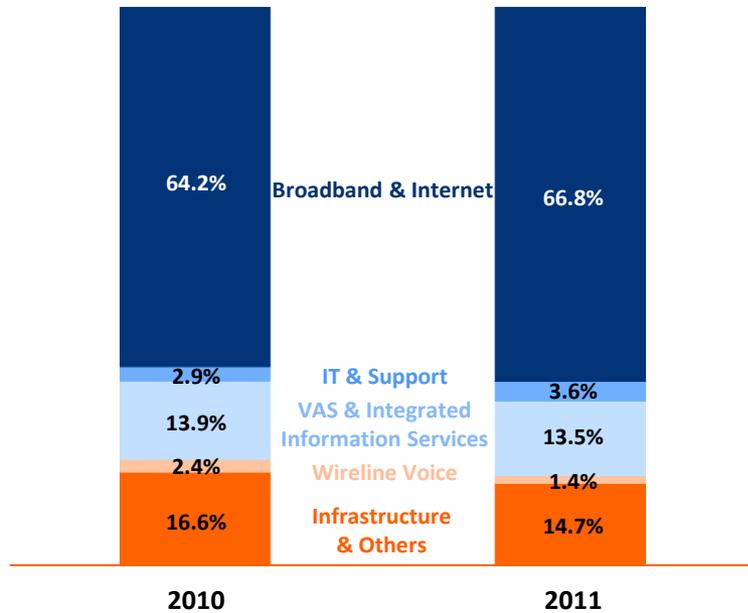


- ❏ Leveraging the iPhone launch, an appropriate increase in marketing initiatives to promote further breakthrough in high-end market & to enhance revenue growth
- ❏ Expected to significantly enhance long-term sustainable growth and value creation despite the short-term pressure on profitability

- ❏ Effective cost control to promote profitable scale development
- ❏ Gradual decline in mobile handset subsidies as a % of mobile service revenue enhancing overall profitability

Optimized CAPEX Structure Supporting Strategic Transformation

CAPEX Structure



Strictly control investment in traditional wireline business & step up investment in growth businesses to boost network servicing capability

Broadband & Internet	↑ 2.6pp yoy
IT & Support	↑ 0.7pp yoy
VAS & Integrated Information Services	↓ 0.4pp yoy
Wireline Voice	↓ 1.0pp yoy
Infrastructure & Others	↓ 1.9pp yoy

Comprehensive fibre & broadband deployments to boost leading edges & sustainable growth:

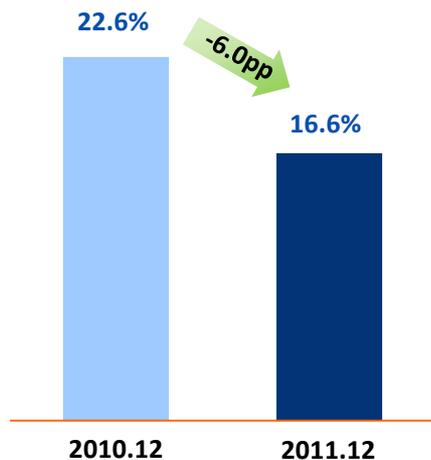
- ↑ 18.50 mil broadband access ports in 2011

Notes:

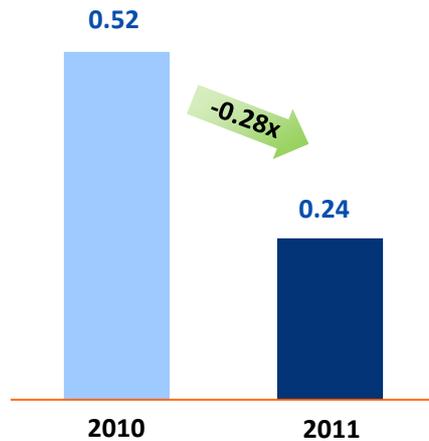
1. Broadband & Internet included data network, transmission network, broadband access equipment & cable
2. IT & Support included enterprise informatisation services
3. VAS & Integrated Information Services included VAS platform & ICT
4. Wireline Voice included switches, voice access equipment & cable
5. Infrastructure & Others included air-conditioning supply facilities, conduits, buildings, minor purchases, R&D, etc.

Solid Financial Strength

Total Debt / Total Capitalization

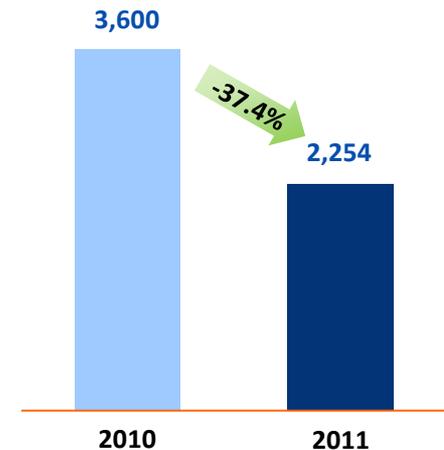


Net Debt / EBITDA



Net Finance Costs

RMB Mil



Improve capability in resources deployment & rationalize capital structure to well-prepare for CDMA network acquisition

Strengthen Innovation & Control to Drive Scale Development & Value

Resources Allocation

- Scientifically deploy resources to enhance scale development breakthrough & network quality
- Tilting initiatives toward key businesses, high value customers & innovative businesses to enhance returns

Capital & Asset

- Activate asset utilisation
- Enhance centralised capital management
- Diversify financing channel to lower finance cost

Financial Management Innovation

- Deepen implementation of centralized financial management
- Refine performance evaluation units
- Devise effective & differentiated financial management system fitting the dynamics of innovative businesses

Risk Management

- Establish scientific decision-making mechanism
- Embed control points in operation management
- Regular evaluation & continuous improvement in internal control





Thank You!

**For further information & enquiries,
please contact our Investor Relations Department at
ir@chinatelecom-h.com**

Appendix 1

Extracted from audited consolidated statement of comprehensive income for the year ended 31 Dec 2011 (incl. upfront connection fees)

RMB Mil	2010 (restated)	2011
Operating Revenue	219,864	245,041
Upfront Connection Fees	497	98
Operating Expenses	(196,412)	(220,912)
Net Finance Costs	(3,600)	(2,254)
Investment Income, Share of Profit from Associates	459	139
Profit Before Taxation	20,311	22,014
Income Tax	(4,846)	(5,416)
Profit for the Year	15,465	16,598
Equity Holders of the Company	15,347	16,502
Non-controlling Interests	118	96

Note: 2010 data were restated to include the retrospective impact of adopting IFRS 1 amendment

Appendix 2

Extracted from audited consolidated statement of financial position as at 31 Dec 2011 (incl. upfront connection fees)

RMB Mil	2010.12.31 (restated)	2011.12.31
Current Assets	55,245	59,576
Non-current Assets	365,284	359,539
Total Assets	420,529	419,115
Current Liabilities	126,923	127,258
Non-current Liabilities	47,482	34,979
Total Liabilities	174,405	162,237
Total Equity	246,124	256,878
Equity Attributable to Equity Holders of the Company	245,628	256,090
Non-controlling Interests	496	788

Note: 2010 data were restated to include the retrospective impact of adopting IFRS 1 amendment