

# 2014 Annual Results



# 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.

## Presented By

**Mr. Wang Xiaochu**

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*Chairman & CEO*

**Mr. Yang Jie**

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*President & COO*

**Mr. Ke Ruiwen**

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*Executive Vice President*



# 1. Overview

## 2. Business Review

## 3. Financial Performance



# Highlights

1

**Successfully managed various prominent external changes, leading to persistent growth in revenue & profit with solid fundamental**

2

**Industry-leading revenue growth fuelled by fast growing emerging business**

3

**To rapidly ramp up 4G business scale, leveraging the prime opportunities of LTE FDD licensing & tower sharing as well as the 4G hybrid network trial experience**

4

**VAT Reform: Short-term pain, long-term beneficial to sustainable growth**

5

**Proactively deepen comprehensive reform & accelerate Internet-oriented transformation to further enhance shareholder return**

# Maintained Solid Fundamental

... persistent growth in revenue & profit despite tax impact of VAT Reform & restrictive 4G hybrid network trial

	2013	2014	Change
<b>Operating Revenue</b> (RMB Mil)	321,584	<b>324,394</b>	0.9%
<b>Service Revenue</b> (RMB Mil)	278,851	<b>287,379</b>	3.1%
<b>EBITDA</b> (RMB Mil)	96,551	<b>94,853</b>	-1.8%
<b>EBITDA Margin</b>	34.6%	<b>33.0%</b>	-1.6pp
<b>Net Profit</b> (RMB Mil)	17,545	<b>17,680</b>	0.8%
<b>EPS</b> (RMB)	0.217	<b>0.218</b>	0.8%
<b>Free Cash Flow</b> (RMB Mil)	11,137	<b>12,466</b>	11.9%

Notes: Unless otherwise stated in this presentation

1. Service Revenue = Operating Revenue – Sales of Mobile Terminals (2014: RMB31,343 mil; 2013: RMB37,435 mil) – Sales of Wireline Equipment (2014: RMB3,956 mil; 2013: RMB3,564 mil) – Other Non-service Revenue (2014: RMB1,716 mil; 2013 RMB1,734 mil)
2. EBITDA = Operating Revenue – Operating Expenses + Depreciation & Amortization
3. EBITDA Margin = EBITDA / Service Revenue
4. Net Profit represented profit attributable to equity holders of the Company
5. Free Cash Flow = EBITDA – CAPEX – Income Tax Expenses



# Robust Earnings Growth Excluding Tax Impact of VAT Reform

RMB Mil	2014	Pro forma Adjustments to Eliminate Tax Impact of VAT Reform	Pro forma 2014	
<b>Revenue</b>	328,552	+ 14,013 (Output VAT from Jun to Dec)	342,565	Operating Revenue: ▲ 3.8% vs 2013
<b>Less: Business Tax</b>	(4,158)	- 4,714 (Notional business tax payable from Jun to Dec)	(8,872)	
<b>Reported Operating Revenue (Net of Tax)</b>	324,394		333,693	Service Revenue: ▲ 6.3% vs 2013
<b>Less: Personnel Expenses &amp; Depreciation &amp; Amortization</b>	(116,998)		(116,998)	
<b>Network Operations &amp; Support, SG&amp;A &amp; Other Operating Expenses</b>	(178,888)	- 4,302 (Input VAT credits from Jun to Dec)	(183,190)	
<b>Operating Profit</b>	28,508	+ 4,997	33,505	▲ 22.0% vs 2013
<b>Net Profit</b>	17,680	+ 3,807	21,487	▲ 22.5% vs 2013

The above pro forma adjustments are only intended to eliminate the impact of incremental output VAT, authenticated incremental input VAT credits from operating expenses, savings of business tax and income tax from Jun to Dec arising from the implementation of VAT Reform effective 1 Jun 2014. They do not eliminate other impact arising from VAT Reform such as optimized business development model, sales & marketing etc. Hence the above pro forma financials do not reflect the actual operating performance of the Company as if the VAT Reform were not implemented. The above pro forma financials are for illustration purpose only, which include estimates and are unaudited. Investors are cautioned not to rely on the above pro forma data.

# Industry-leading Revenue Growth Fuelled by Fast Growing Emerging Business

Service revenue growth of  
China Telecom in 2014

**3.1%**

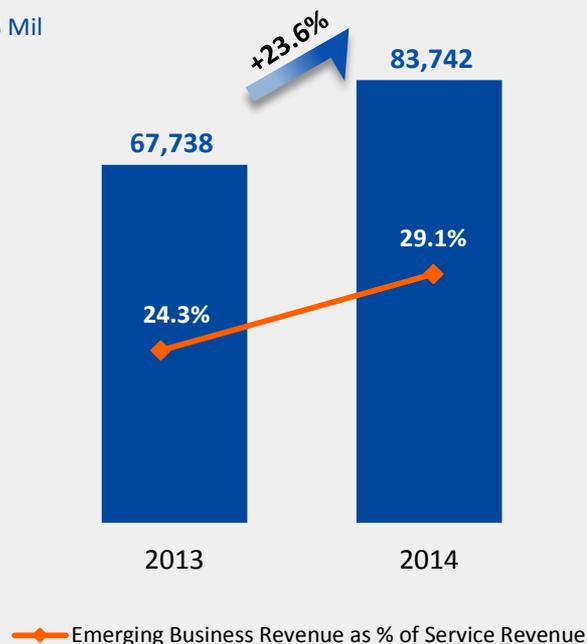
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**-1.3%**

Telecommunications industry  
revenue growth in 2014\*

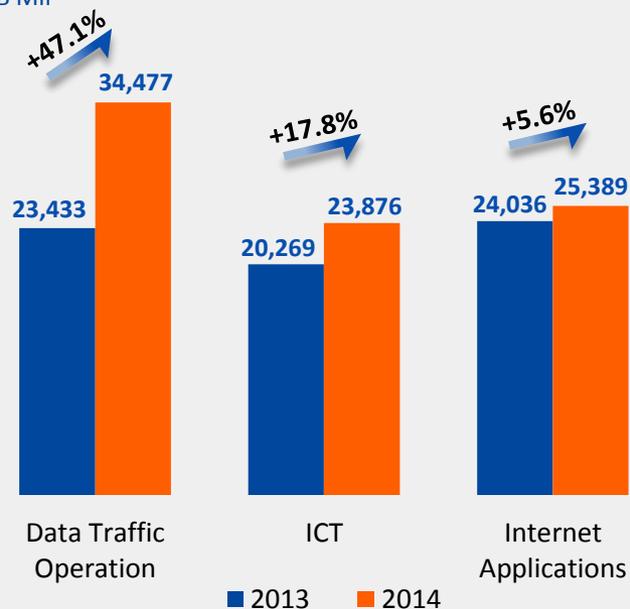
## Emerging Business Revenue

RMB Mil



## Data Traffic Operation, ICT & Internet Applications Revenue

RMB Mil



\* The telecommunications industry revenue growth of -1.3% in 2014 was calculated based on the telecommunications industry business revenue of RMB1,154 bil for 2014 and the telecommunications industry main business revenue of RMB1,169 bil for 2013, as disclosed in MIIT's website



# LTE FDD Licensing Ignites 4G Scale & Profitable Development

## ➔ Network Advantages:

- 4G network will cover cities nationwide; in-depth coverage in 120 key cities (≈75% mobile data traffic of the Company) to achieve leading network quality & customer experience, leveraging one 4G hybrid network
- Concerted development of “3G + 4G” and “4G + fibre broadband-dual 100Mbps”

## ➔ Terminal Advantages:

- Entry into global mainstream 4G value chain attracting more leading chipset & handset vendors to substantially enhance price-performance factors of terminals
- 100 models of 4G terminals now available in the market, covering high, mid and low-end; aim to attain 400 models (multi-modes focused and all supporting international roaming) by end of 2015

## ➔ Informatization Application Advantages:

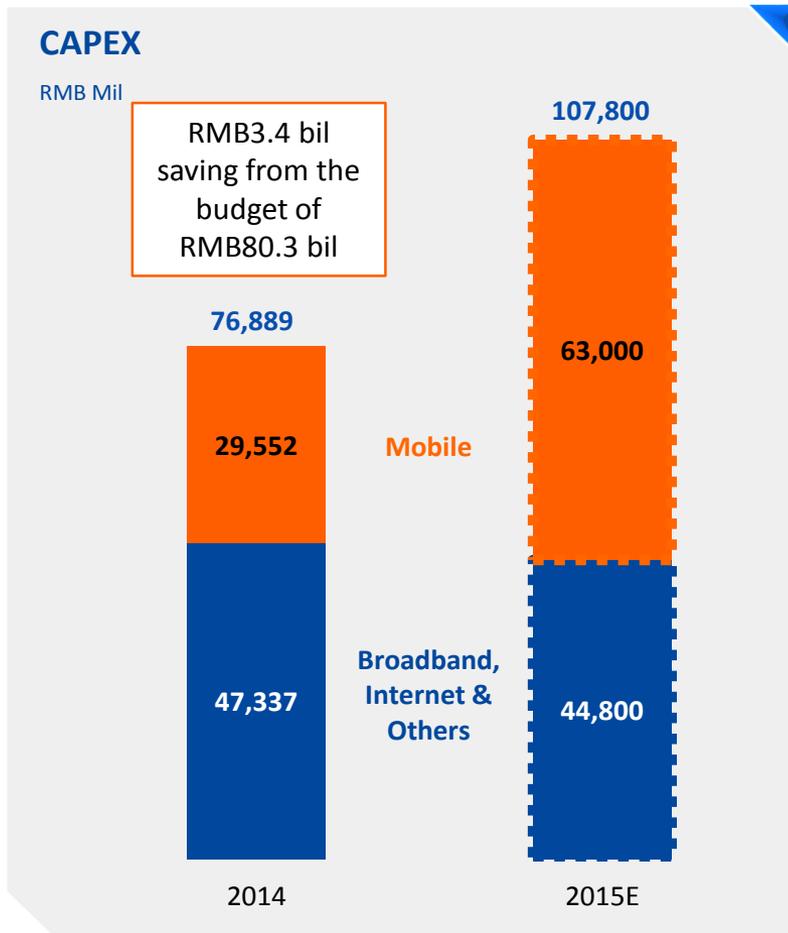
- Rich offerings of industry applications, Internet applications and daily-life applications
- Differentiated signature products & services (e.g. video handset, security handset, BestPay & YiChat)

## ➔ Challenger's Mindset Advantages - Innovative & Agile:

- Innovative revenue models – DIY package, transferable data traffic, convertible voice & data, backward monetization products (Data Traffic 800 and “Liu Liang Bao”)
- Proactive in open cooperation



# Step Up 4G Investment to Create Network Leadership



## 2014

- ➔ Controlled 4G investment pace with regard to 4G hybrid network trial approval progress & adjusted CAPEX structure to ensure return
- ➔ Proactive investment in 4G auxiliary facilities & further upgrade of the access bandwidth capability of the cities' fibre network

## 2015

- ➔ To step up 4G investment to achieve 320k 4G base stations (▲ 200k) & 140k indoor radio distribution systems (▲ 80k) by end of 2015, leveraging tower sharing
- ➔ Increase investment in fibre broadband, integrated information services & Cloud, etc to meet the growth of Internet & data traffic businesses & achieve FTTH coverage of nearly 180 mil home passes (▲ 53 mil)

# Tower Sharing: A Clear Value Driver



Leverage the rich resources of TowerCo to promptly & effectively expand 4G network coverage & density, remedying the weakness of having relatively less base stations at 800MHz bandwidth; aim to create superior network edges & lower future CAPEX



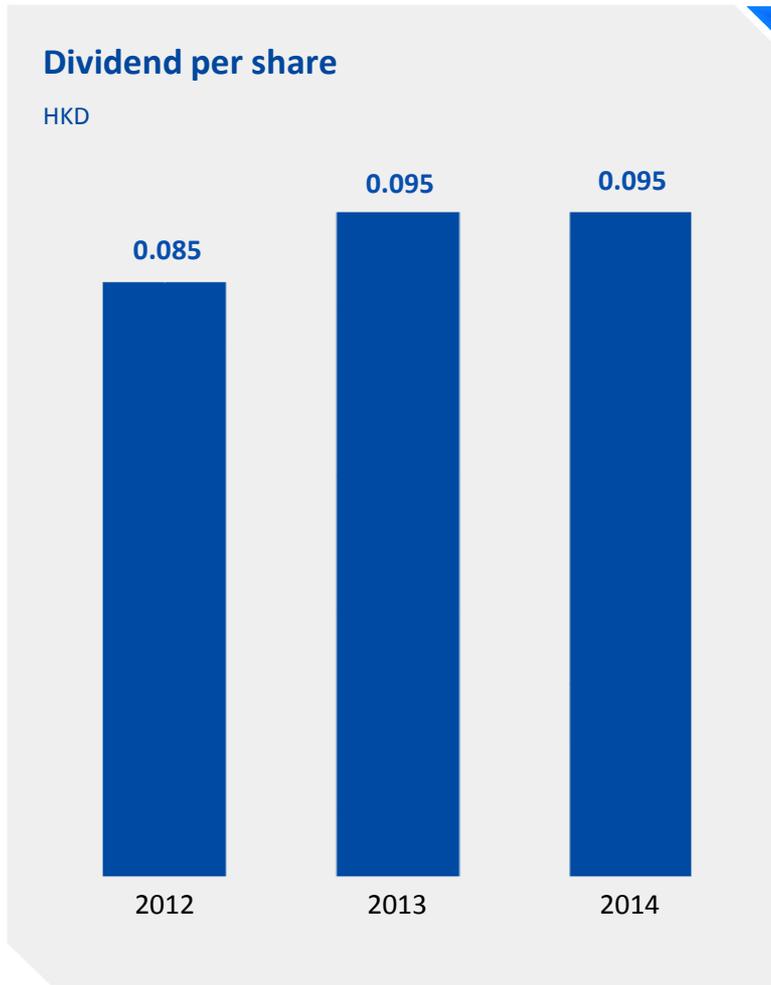
Unlock tower assets value upon disposal & enhance long-term profitability, benefitting from TowerCo's co-use synergy



As one of the major shareholders, set to benefit from TowerCo's future earnings & value enhancement

**Promote early full operation of TowerCo & strive to sell existing towers to TowerCo as soon as practicable**

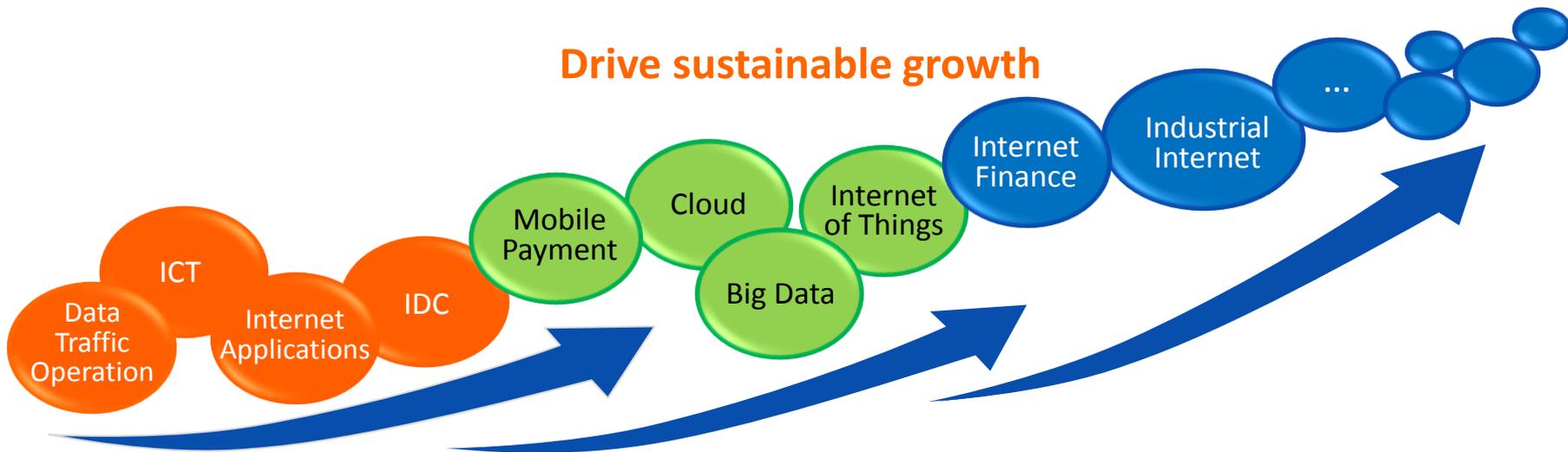
# Dividend



**The Board of Directors recommends to the shareholders a final dividend of HKD0.095 per share for 2014**

- Recommend a stable dividend for 2014 with due regards to shareholders' return, profitability, cash flow & capital requirement for future development
- Maintain appropriate funding position to answer the capital requirement of long-term sustainable growth
- Strive to enhance future profit while paving the way for future dividend increase

# Deepen Reform & Accelerate Transformation to Enhance Value



## Comprehensive In-depth Reform

### Lift Vibrancy & Motivation

#### Fundamental Business:

Implement “sub dividing” performance evaluation units with performance contracts in full strength & establish “top-down” service support system to lift frontline vibrancy

#### Emerging Business:

Establish “segregated zone”, strengthen efficiently-centralized operation; enlarge open cooperation with private capital for complementary resources

## Internet-oriented Transformation

### Create Differentiated & Innovative Products & Services

#### Fundamental Business:

Adopt Internet mindset & methodology for upgrade & transformation to enhance quality & efficiency

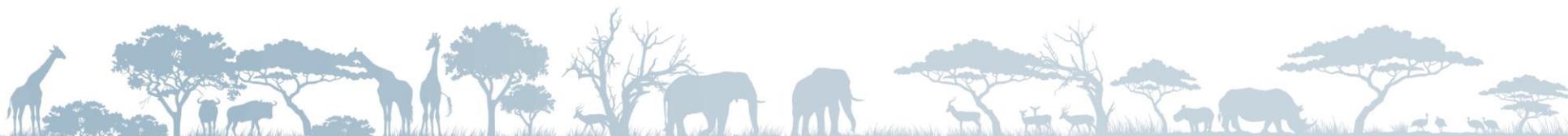
#### Emerging Business:

Leverage telecom edges & Internet operating dynamics to promptly expand scale

1. Overview

**2. Business Review**

3. Financial Performance



# Revenue Breakdown

... resilient revenue momentum despite tax impact of VAT Reform & change in sales model

RMB Mil	2013	2014	Change
<b>Mobile</b>	151,186	<b>151,611</b>	0.3%
Service Revenue	113,751	<b>120,268</b>	5.7%
<i>Incl.: Voice</i>	58,217	<b>54,673</b>	-6.1%
<i>Data</i>	55,534	<b>65,583</b>	18.1%
Sales of Terminals	37,435	<b>31,343</b>	-16.3%
<b>Wireline</b>	170,398	<b>172,783</b>	1.4%
Service Revenue	165,100	<b>167,111</b>	1.2%
Voice	38,633	<b>33,587</b>	-13.1%
Data	122,909	<b>129,538</b>	5.4%
Internet Access*	71,432	<b>74,622</b>	4.5%
VAS & Integrated Information Services	34,274	<b>38,047</b>	11.0%
Lease of Telecommunications Network Resources	17,203	<b>16,869</b>	-1.9%
Others	3,558	<b>3,986</b>	12.0%
Sales of Equipment & Other Non-service Revenue	5,298	<b>5,672</b>	7.1%
<b>Total</b>	<b>321,584</b>	<b>324,394</b>	<b>0.9%</b>

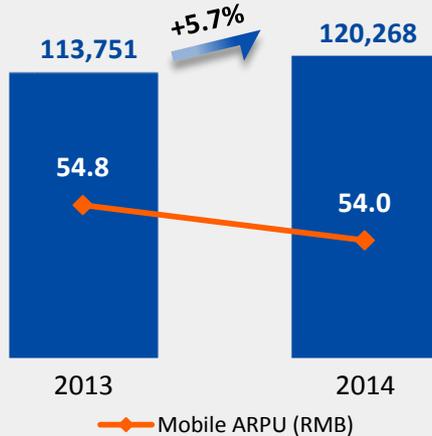
\* Note: 2014 Wireline Internet Access Revenue included wireline broadband revenue of RMB73,485 mil (2013: RMB70,821 mil)



# Profitable Mobile Development

## Mobile Service Revenue

RMB Mil



## Mobile Subs

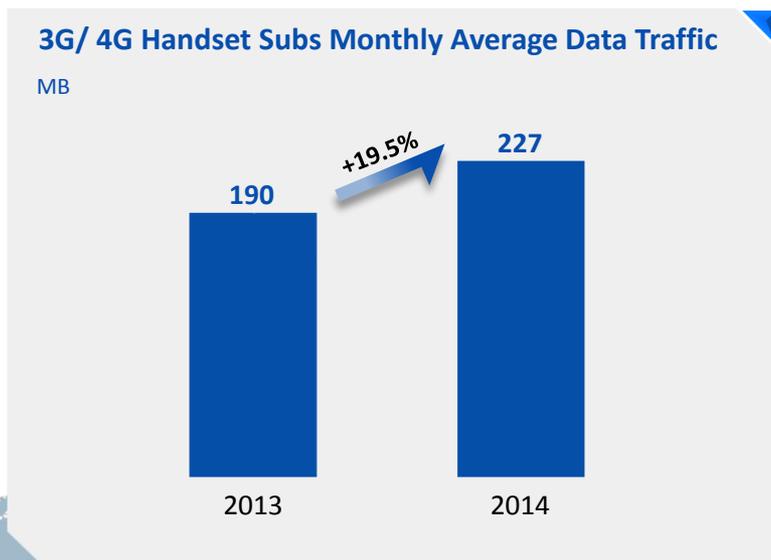
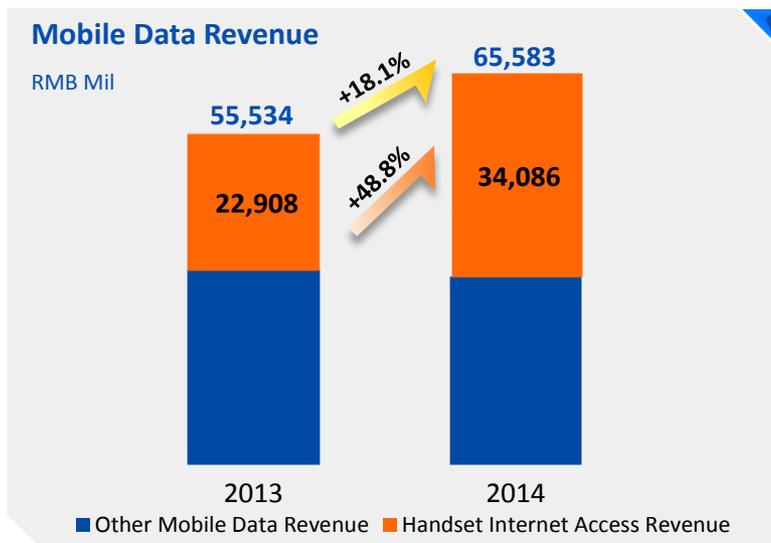
Mil



- ➔ Mobile subs growth rebounded subsequent to the launch of 4G hybrid network trial in selected cities in 2H14, resulting in a steady subs base in 2014 (average mobile subs ▲ ≈7% yoy) & 3G/4G net add ▲15.52 mil yoy
- ➔ Delivered solid mobile service revenue growth despite tax impact of VAT Reform & the change in sales model
- ➔ Active promotion of subs upgrade to 3G/4G services supported relatively stable ARPU (3G/4G subs as % of mobile subs: 64%, ▲8.3pp yoy)



# Rapidly Growing Mobile Data Traffic & Revenue



## To leverage 4G & concerted 3G/4G development to lift business scale

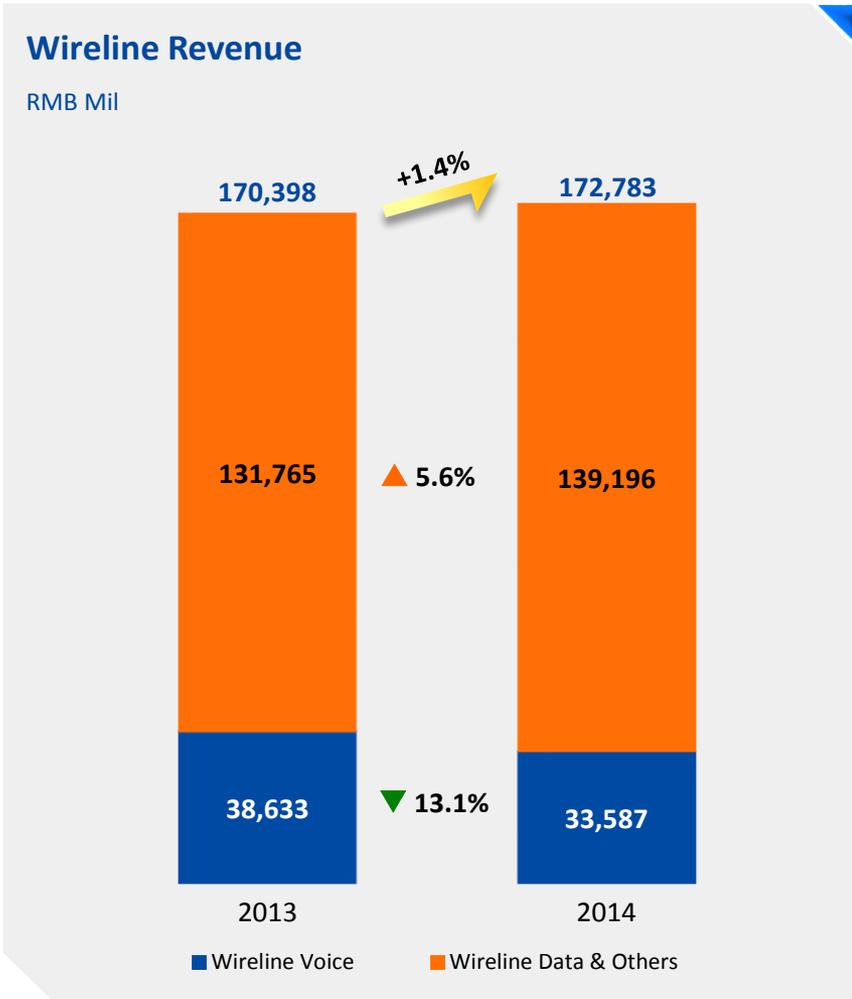
- City areas: 4G ⇨ mid-to-high-end  
3G ⇨ mid-to-low-end

Rural areas: fully capitalize on 3G network edges to speed up market expansion

- To create differentiated advantages by leveraging industry applications, Internet applications & daily-life applications to drive subs growth, data traffic & return
- To innovate data traffic sales model: launch of “content + data” integrated products, specific-traffic packages & backward monetization products
- To enrich 4G handset offerings, enhance price-performance factors & promote signature terminals (video handset & security handset)
- High-speed 4G facilitates heavy data usage applications (video streaming & online games) & encourages higher data consumption



# Resilient Wireline Performance

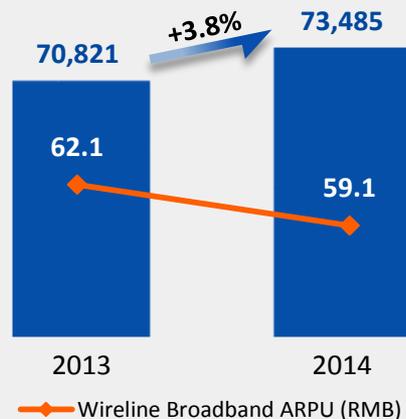


- Leveraged fibre network & informatization service strengths to accelerate development of growth businesses (wireline broadband, VAS & integrated information services) & effectively offset wireline voice revenue decline
- Further strengthened integrated services of wireline, mobile & informatization to enhance mutual-promoting development
- Declining revenue contribution from wireline voice effectively mitigated operating risks

# Solid Development in Wireline Broadband Amid Mounting Competition

## Wireline Broadband Revenue

RMB Mil



## Subscribers

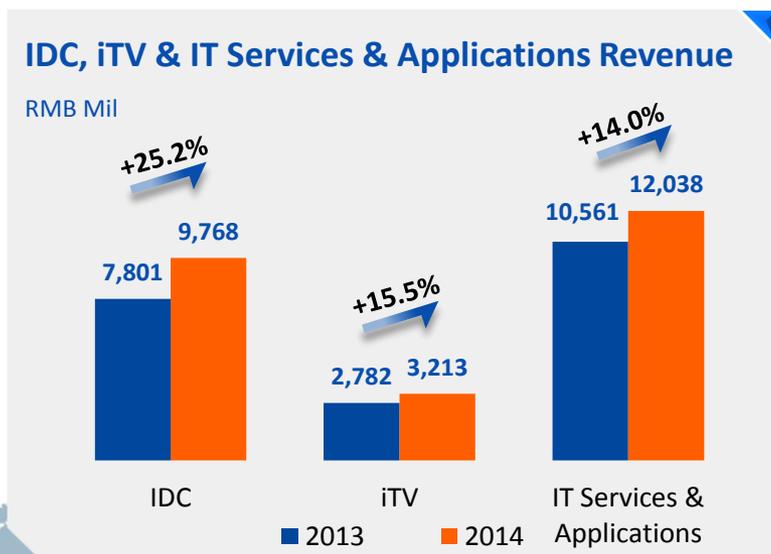
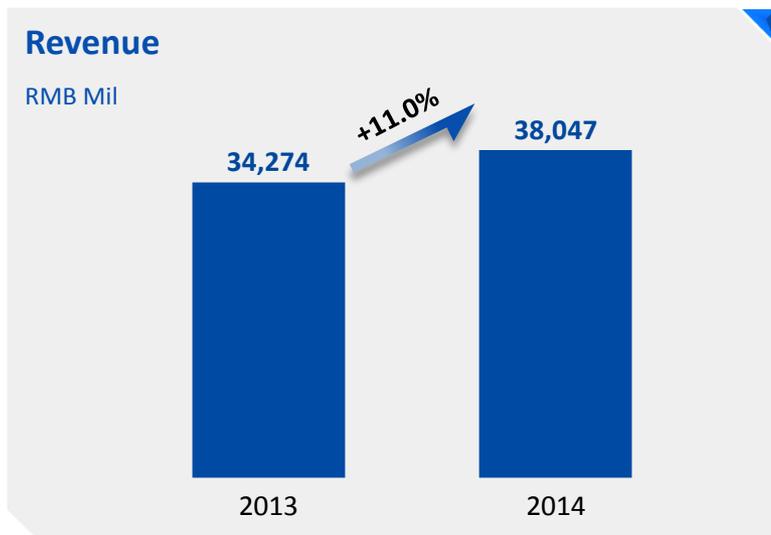
Mil



- Ranked industry No.1 in wireline broadband service satisfaction assessment, thanks to the superior high-speed network & service quality
- Accelerate end-to-end upgrade & promote 50Mbps & 100Mbps as core products to create comparative advantage nationwide
- “Joy me”, an integrated product, to serve as smart home portal driving high bandwidth adoption
- Expand open channels to promptly answer service sign-up & upgrade requirements to improve sales efficiency
- Pioneer to cooperate with private capital in local access deployment to accelerate fibre network roll-out, market expansion & reduce CAPEX; plan to further strengthen cooperation with private capital



# Comprehensive Development of Wireline VAS & Integrated Information Services



**Leveraging extensive network resources, professional teams, brand franchise & open cooperation to drive growth**

- ➔ **IDC/ Cloud:** Strengthened efficiently-centralized operation of Cloud data centres with over 80k cabinets in services; fortified the branding of “e-Surfing Cloud” & launched three key industry solutions (“government affairs Cloud”, “education Cloud” & “healthcare Cloud”), building on the leading customer scale & strong network security capability
- ➔ **iTV:** Launched “Joy me”, an iTV upgrade product to expand smart home application and content, enhancing functionality & customer experience
- ➔ **IT Services & Applications:** Draw in external premier resources, reinforce differentiated servicing edges & accelerate scale replication of benchmarking industry applications



# Actively Incubate & Unlock Internet Applications Value

Support  
Fundamental  
Business  
Development

Created  
Differentiated  
Edges

Generate  
New Sources  
of Revenue &  
Profit

## YiChat

- Fast business development & serving as the key mobile Internet business portal
- Established a new model of independent Internet business operation

## BestPay

- Number of users exceeded 100 mil (▲ 30% yoy), ranked industry top 5
- GMV reached RMB350 bil in 2014 (▲ 1.6x yoy)
- Internet finance - “Tianyibao” accounts balance: ≈RMB1.9 bil; “e-Surfing Credit” transaction value: ≈RMB900 mil

## Integrated Platform

- Open up 7 key capabilities & provide one-stop service of development, operation & promotion
- Connect e-Surfing account with various services accounts to realize unified account convenience
- Serve as efficiently-centralized operation platform for data backward monetization

Further Strengthened the Internet Application Development System  
(Portal, Content & Capabilities)



# 2015 Priorities

## To Enhance Scale & Return

Reform & Innovation



Open Cooperation



Quality & Efficiency  
Enhancement



Optimize development model & accelerate scale development



Achieve breakthrough in core products & forge differentiated competitive advantages



Promote further Internet-oriented transformation & strengthen efficiently-centralized operation



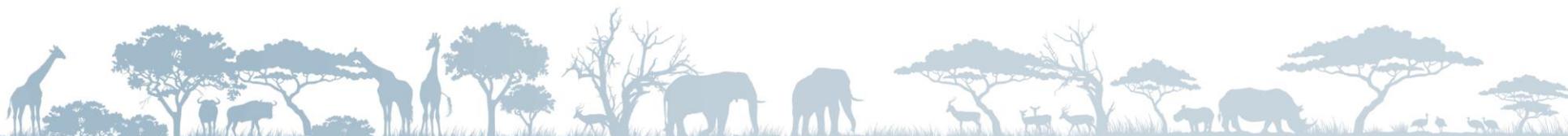
Implement comprehensive in-depth reform to motivate staff vibrancy



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# Key Financial Information

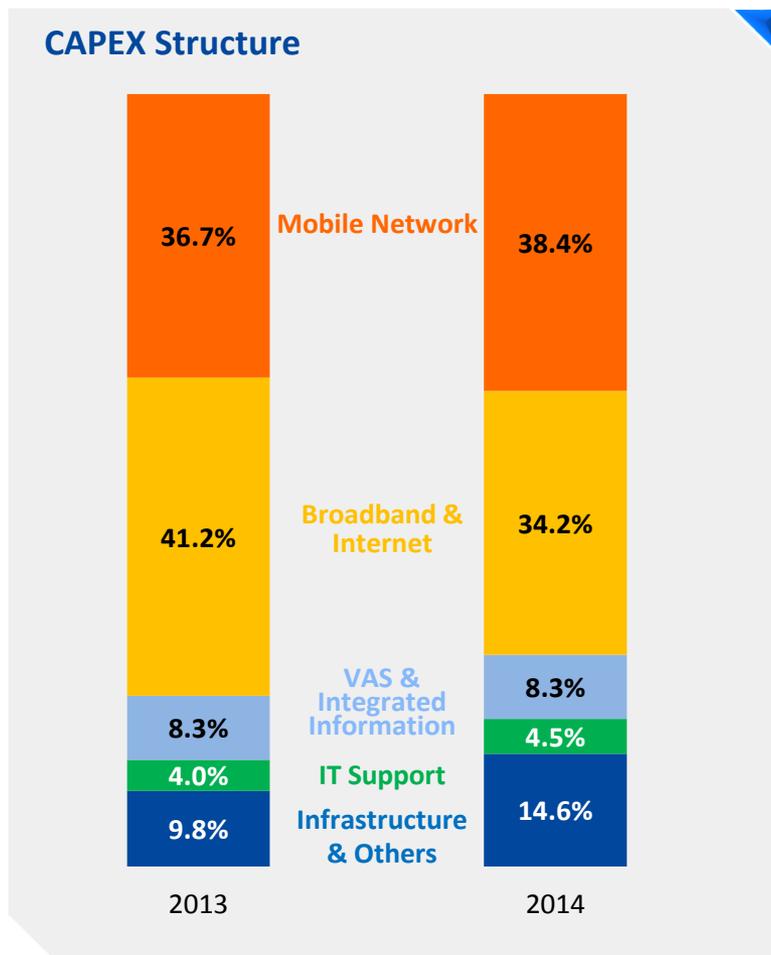
RMB Mil	2013	2014	Change
<b>Operating Revenue</b>	321,584	<b>324,394</b>	0.9%
<b>Operating Expenses</b>	294,116	<b>295,886</b>	0.6%
Depreciation & Amortization	69,083	<b>66,345</b>	-4.0%
Network Operations & Support	53,102	<b>68,651</b>	29.3%
Personnel	46,723	<b>50,653</b>	8.4%
SG&A	70,448	<b>62,719</b>	-11.0%
<i>Incl.: Mobile Handset Subsidies</i>	22,795	<b>15,340</b>	-32.7%
<i>General &amp; Administration</i>	8,438	<b>8,230</b>	-2.5%
Interconnection & Others	54,760	<b>47,518</b>	-13.2%
<i>Incl.: Wireline Interconnection</i>	3,529	<b>3,421</b>	-3.1%
<i>Mobile Interconnection</i>	12,387	<b>9,062</b>	-26.8%
<i>Cost of Wireline Equipment Sold</i>	3,538	<b>3,854</b>	8.9%
<i>Cost of Mobile Terminals Sold</i>	35,227	<b>29,982</b>	-14.9%
<b>Operating Profit</b>	<b>27,468</b>	<b>28,508</b>	<b>3.8%</b>
<b>Net Profit</b>	<b>17,545</b>	<b>17,680</b>	<b>0.8%</b>

# Stringent Cost Control to Boost Operating Efficiency

	2013	2014	Change	
<b>Operating Expenses as % of Operating Revenue</b>	91.5%	<b>91.2%</b>	<b>▼0.3pp</b>	
Depreciation & Amortization	21.5%	<b>20.5%</b>	<b>▼1.0pp</b>	Mainly benefitting from saving in the amortization of customers relationships
Network Operations & Support	16.5%	<b>21.2%</b>	<b>▲4.7pp</b>	Mainly due to network maintenance quality enhancement to build competitive edges for concerted development of 3G & 4G, wireline & wireless broadband, increase in operating rental; full write-off of PAS assets (≈RMB1.3 bil)
Personnel	14.6%	<b>15.6%</b>	<b>▲1.0pp</b>	Mainly due to appropriate increase in performance-linked compensation for frontline staff
SG&A	21.9%	<b>19.3%</b>	<b>▼2.6pp</b>	Mainly benefitting from change in sales model for improved sales efficiency
Interconnection	4.9%	<b>3.8%</b>	<b>▼1.1pp</b>	Mainly benefitting from the adjustments to the mobile network interconnection settlement standards effective January 2014
Cost of Terminals Sold & Others	12.1%	<b>10.8%</b>	<b>▼1.3pp</b>	Mainly benefitting from reduction of centralized procurement & sale of handsets



# Highly Effective Investment to Strengthen Network Edges & Return



## ➔ Mobile Network:

- 2014.12: ≈120k 4G base stations (▲ ≈60,000 yoy) & ≈60k indoor radio distribution systems in place
- Deployed in-depth 4G network coverage in a controlled pace in selected key cities to assure customer experience & enhance return

## ➔ Broadband & Internet:

- 2014.12: 20Mbps+ coverage in cities >90%
- 2014.12: FTTH coverage reached 123 mil home passes (▲ 38 mil yoy)
- Expanded metropolitan network & back-haul capacity to support fast growing data traffic driven by wireline & wireless broadband & emerging businesses

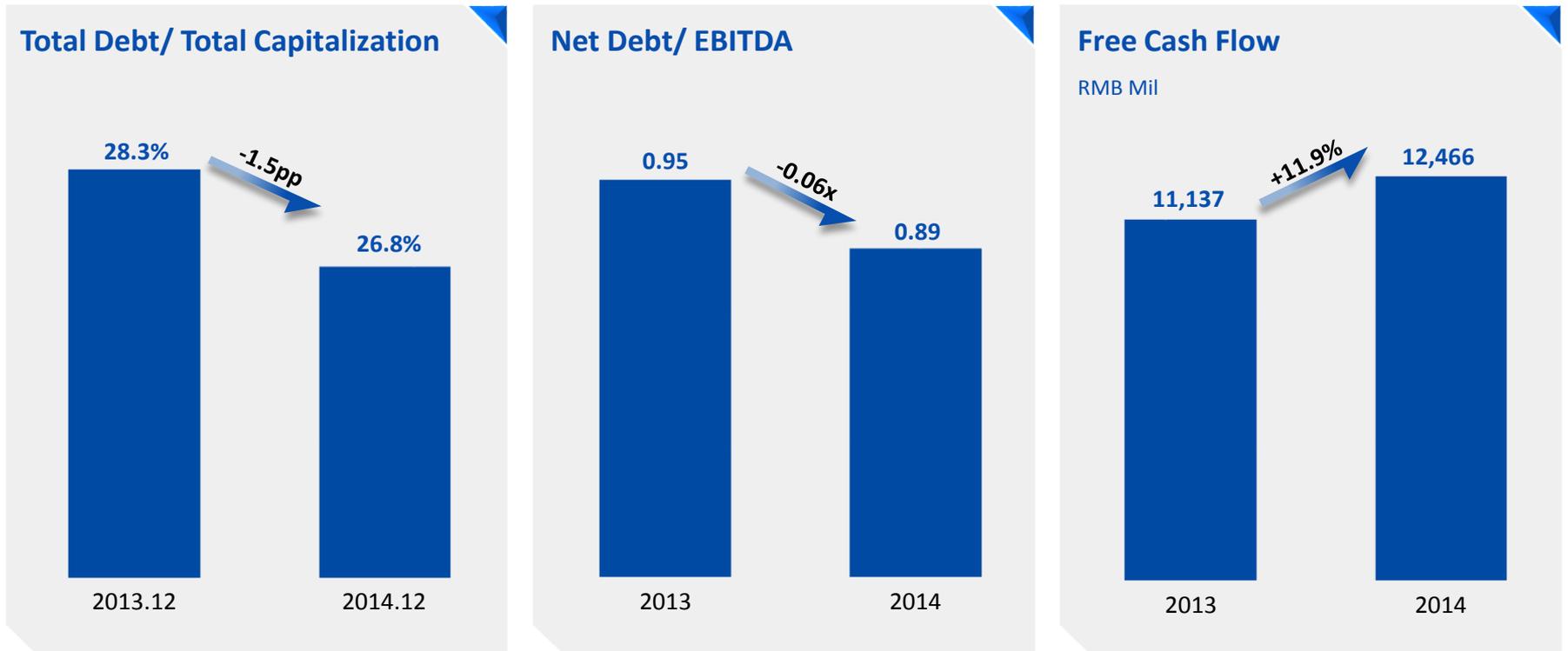
## ➔ Infrastructure:

- Speeded up Cloud data centre deployment & invested proactively in 4G related infrastructure



# Healthy Financial Strength

... strong financial position & robust free cash flow well-supporting sustainable business development in scale



# VAT Reform: Short-term Pain, Long-term Gain

## Moderating monthly average pro forma impact on net profit of VAT Reform

- Jun 2014: ≈RMB900 mil\*
- Monthly average for Jun – Dec 2014: ≈RMB540 mil\*

\* Refer to slide 7 for the calculation explanation & assumptions of the above pro forma illustration

## Key mitigating measures & considerations:

- ➔ Optimize development & sales models, implement stringent costs control measures, enhance control on purchasing and vendors' tax profile
- ➔ Continual expansion of the national VAT Reform to other industries could lead to more operating costs & investments being entitled to input VAT credits in future
- ➔ Following strategic transformation, the proportion of revenues generated from value-added telecommunications services is expected to increase, resulting in a lower average tax rate of output VAT
- ➔ Input VAT credits of CAPEX will reduce carrying amounts of fixed assets & hence depreciation, increasing profit in future

# Fully Implement Reform Measures to Create Value & Efficiency

Persistent in the systemic alignment of budgeting, resources allocation & performance evaluation, emphasizing on scale development & return

Strengthen cost control & innovate sales model to improve cost efficiency

**Maximize value for corporate, shareholders & customers**

Strengthen capital & asset management to maximize utilization & foster value generation capability

Leverage business or capital cooperation to promote development of emerging businesses

Leverage market-oriented mechanism to further implement “sub-dividing” performance evaluation units with performance contract & establish “top-down” service support system to enhance organization vibrancy

# Thank You!



*"No. 1 Overall Best  
Managed Company  
in Asia 2014"*



*"No. 1 Asia's  
Best Managed  
Company 2014"*



*"No. 1 Asia's Most  
Honored  
Company 2014"*



For further information & enquiries,  
please contact our Investor Relations Department at  
[ir@chinatelecom-h.com](mailto:ir@chinatelecom-h.com) or visit [www.chinatelecom-h.com](http://www.chinatelecom-h.com)

# Appendix 1 - Extracted from audited consolidated statement of comprehensive income for year ended 31 Dec 2014

RMB Mil	2013	2014
<b>Operating Revenue</b>	321,584	<b>324,394</b>
Operating Expenses	(294,116)	<b>(295,886)</b>
Net Finance Costs	(5,153)	<b>(5,291)</b>
Investment Income, Share of Profit from Associates	773	<b>40</b>
<b>Profit Before Taxation</b>	23,088	<b>23,257</b>
Income Tax	(5,422)	<b>(5,498)</b>
<b>Profit for the Year</b>	17,666	<b>17,759</b>
Equity Holders of the Company	17,545	<b>17,680</b>
Non-controlling Interests	121	<b>79</b>

## Appendix 2 - Extracted from audited consolidated statement of financial position as at 31 Dec 2014

RMB Mil	2013.12.31	2014.12.31
Current Assets	52,783	59,543
Non-current Assets	490,456	501,731
<b>Total Assets</b>	543,239	561,274
Current Liabilities	200,098	206,325
Non-current Liabilities	64,477	64,841
<b>Total Liabilities</b>	264,575	271,166
<b>Total Equity</b>	278,664	290,108
Equity Attributable to Equity Holders of the Company	277,741	289,183
Non-controlling Interests	923	925

## Appendix 3 - Selected Operating Metrics for 2014

Subscriber (Mil)	2013.12	2014.12	Change
<b>Mobile Subs</b>	185.58	<b>185.62</b>	0.04
Incl: 3G/4G Subs	103.11	<b>118.63</b>	15.52
<b>Wireline Broadband Subs</b>	100.10	<b>106.95</b>	6.85
<b>Access Lines in Services</b>	155.80	<b>143.56</b>	-12.24
Incl: Household	97.62	<b>90.87</b>	-6.75
Government & Enterprise	40.17	<b>40.88</b>	0.71
Public Telephone	12.56	<b>11.41</b>	-1.15
PAS	5.45	<b>0.40</b>	-5.05
	<b>2013</b>	<b>2014</b>	<b>Change</b>
<b>Wireline Voice Usage</b>			
<b>Local Usage</b> (Pulses Mil)	148,690	<b>130,439</b>	-12.3%
<b>Long Distance Usage</b> (Minutes Mil)	34,329	<b>30,066</b>	-12.4%
<b>Mobile Voice Usage</b> (Minutes Mil)	603,616	<b>655,939</b>	8.7%