

# 2015 Interim 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

**Fundamentals remained solid despite tax impact of VAT Reform; revenue outperformed industry average**

2

**4G gaining edges & momentum fast**

3

**Tower sharing enabled quick & effective 4G network roll-out to capture window of opportunity; also expected to enhance long-term value for the Company & industry**

4

**“Speed upgrade & tariff reduction” – to closely follow up & strive to accommodate regulatory requirements for achieving win-win**

5

**Firmly leverages the opportunities of “Internet+” & deepens comprehensive reform to enhance shareholder return**

# Solid Fundamentals

... maintained stable operating performance despite additional 5 months yoy tax impact of VAT Reform

	1H2014	1H2015	Change
<b>Operating Revenue (RMB Mil)</b>	165,973	<b>164,953</b>	-0.6%
<b>Service Revenue (RMB Mil)</b>	146,965	<b>147,022</b>	0.0%
<b>EBITDA (RMB Mil)</b>	50,538	<b>50,739</b>	0.4%
<b>EBITDA Margin</b>	34.4%	<b>34.5%</b>	0.1pp
<b>Net Profit (RMB Mil)</b>	11,436	<b>10,980</b>	-4.0%
<b>EPS (RMB)</b>	0.141	<b>0.136</b>	-4.0%

Notes: Unless otherwise stated in this presentation

1. Service Revenue = Operating Revenue – Sales of Mobile Terminals (1H2014: RMB16,611 mil; 1H2015: RMB15,961 mil) – Sales of Wireline Equipment (1H2014: RMB1,879 mil; 1H2015: RMB1,567 mil) – Other Non-service Revenue (1H2014: RMB518 mil; 1H2015 RMB403 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

# Maintained Double-digit Earnings Growth Excluding Tax Impact of VAT Reform

RMB Mil	1H2015	Pro forma Adjustments to Eliminate Tax Impact of VAT Reform	Pro forma 1H2015	
<b>Reported Operating Revenue (Net of Tax)</b>	164,953	+8,288	173,241	▲ 3.5% yoy Of which, Service Revenue ▲ 4.7% yoy
<b>Less: Operating Expenses</b>	<u>(147,799)</u>	-4,642	<u>(152,441)</u>	
<b>Operating Profit</b>	<u>17,154</u>	<u>+3,646</u>	<u>20,800</u>	▲ 9.7% yoy
<b>Net Profit</b>	<u>10,980</u>	<u>+2,760</u>	<u>13,740</u>	▲ 11.3% yoy

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 Jan to Jun 2015 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. (Note: For details of the comparative pro forma 1H2014 financials, please refer to slide 8 of 2014 Interim Results Presentation.)

# Revenue Outperformed Industry Average

... fueled by fast growing emerging business

Service revenue growth of  
China Telecom in 1H2015

**+0.04%**

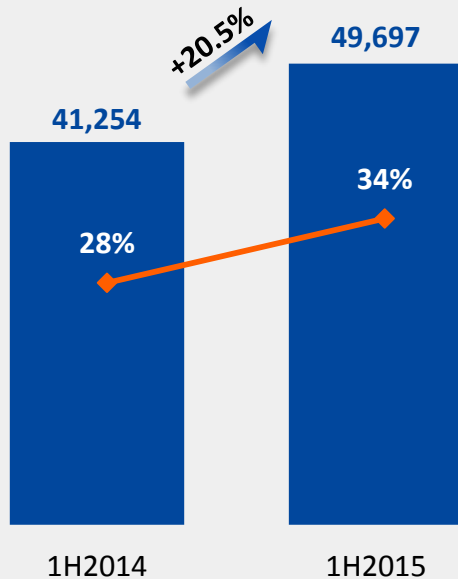


**-4.09%**

Telecommunications industry  
revenue growth in 1H2015\*

## Emerging Business Revenue

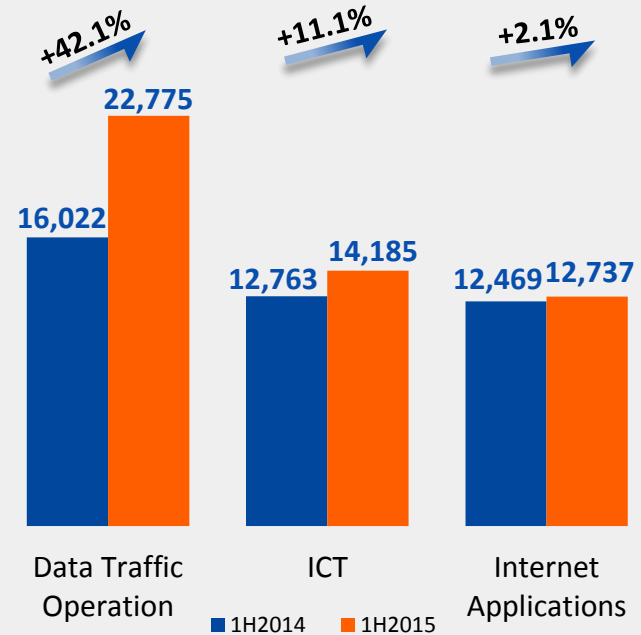
RMB Mil



Emerging Business Revenue as % of Service Revenue

## Data Traffic Operation, ICT & Internet Applications Revenue

RMB Mil



\* The telecommunications industry revenue growth of -4.09% in 1H2015 was calculated based on the telecommunications industry business revenue of RMB571.37 bil for 1H2015 and the telecommunications industry main business revenue of RMB595.73 bil for 1H2014, as disclosed in MIIT's website





# 4G Gaining Edges & Momentum Fast

Leverage LTE FDD licensing & tower sharing to accelerate growth

## Network Advantages

- ➔ Leverage global mainstream 4G technology & spectrum advantages to build 4G network fast & effectively
- ➔ Launched 4G+ (LTE-A) commercial service in Aug - fastest on Mainland China

Downlink peak speed  300Mbps  
Uplink peak speed  50Mbps

## Terminal Advantages

- ➔ Enriched selection with attractive prices:  
160 models (now) → 300 models (end 2015)

iPhone 6/6+

Samsung Note 4

Coolpad - 5"  
display, quad-core,  
4G (≤ RMB369)

## Informatization Application Advantages

- ➔ Proactive in open cooperation with rich offerings of industry applications, Internet applications, daily-life applications
- ➔ Differentiated signature products & services (e.g. video handset, security handset, online shopping handset, BestPay & YiChat)
- ➔ Innovative pricing plans

## New Integrated Offering Advantages

- ➔ Dual-100Mbps (4G + fibre broadband) integrated offerings with iTV & informatization applications to enhance customer value

# Tower Sharing Expected to Enhance Long-term Value

## Value Drivers

**Tower Sharing Synergy**

**Scale Benefits**

**Policy Support**

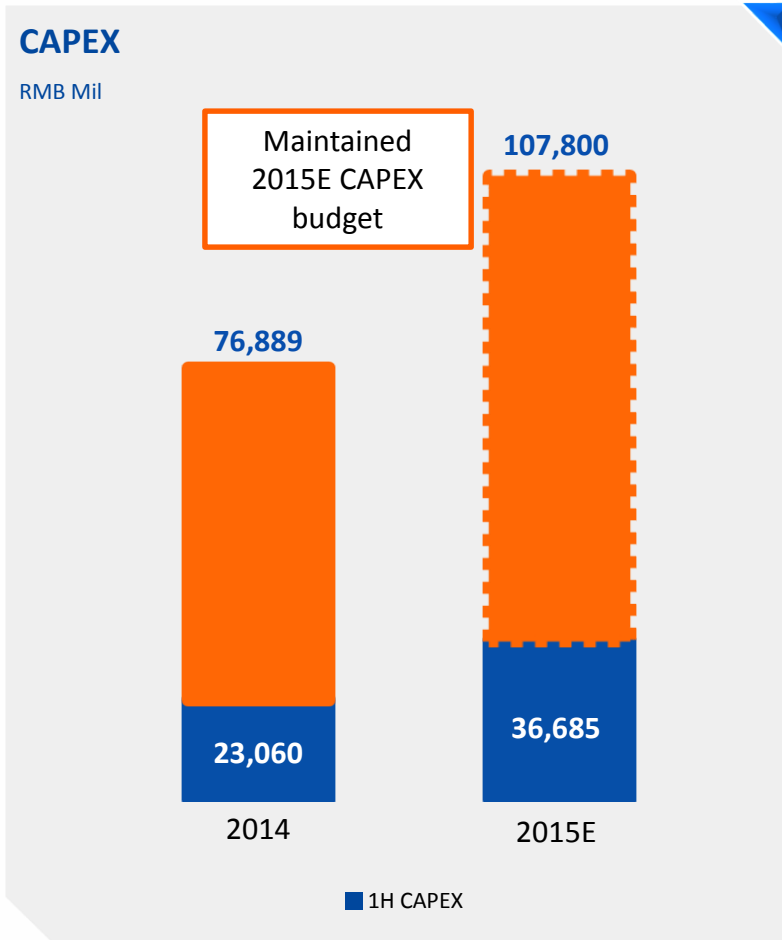
Promote open access of municipal public facilities & communities for communication deployment

## Potential Value to China Telecom

- ➔ Quick & effective 4G network roll-out to enhance time-to-market & CAPEX saving
- ➔ Gain on tower asset disposal; unit rental to reduce as tenancy ratio progressively improves
- ➔ As one of the major shareholders, set to benefit from TowerCo's future earnings & value enhancement

# Focused Investment in 4G & Fibre Broadband

... to strengthen network advantage



- Tower sharing effectively alleviates prime sites shortage, driving fast & effective 4G network roll-out

≈70% of 60k towers provided by TowerCo for use in 1H2015 leveraged existing towers of other operators

- Tower investment saving plus strengthened centralized procurement

4G CAPEX: ▼ ≈RMB6 bil (vs budget)

4G base stations: ▲ 50k in extra

Broadband & Internet, IDC & others CAPEX: ▲ ≈RMB6 bil (vs budget)

- 2015E:

4G base stations: 510k (▲ 330k)

FTTH home passes: ≈180 mil (▲ 53 mil)

Note: 4G base stations include macro base stations & indoor radio distribution systems



# Speed Upgrade & Tariff Reduction

... to closely follow up & strive to accommodate regulatory requirements for achieving win-win

- Launched various measures in May in active response to government policy, leading to pressure on revenue & profit
- Encouraged customers to increase usage & bandwidth upon reduction of unit pricing, striving to increase sales & achieve win-win
- Substantial increase in mobile data usage & bandwidth upgrade during 1H2015 helped sustain business development

**3G/4G Handset Subs Monthly  
Average Data Traffic**  
311MB ▲43% yoy

**Mobile ARPU**  
▼2.5% yoy

**Mobile Service Revenue**  
▲0.6% yoy

**Wireline Broadband Subs Average  
Access Bandwidth in Jun**  
18Mbps ▲≈1x yoy

**Wireline Broadband ARPU**  
▼2.7% yoy

**Wireline Broadband Revenue**  
▲3.2% yoy

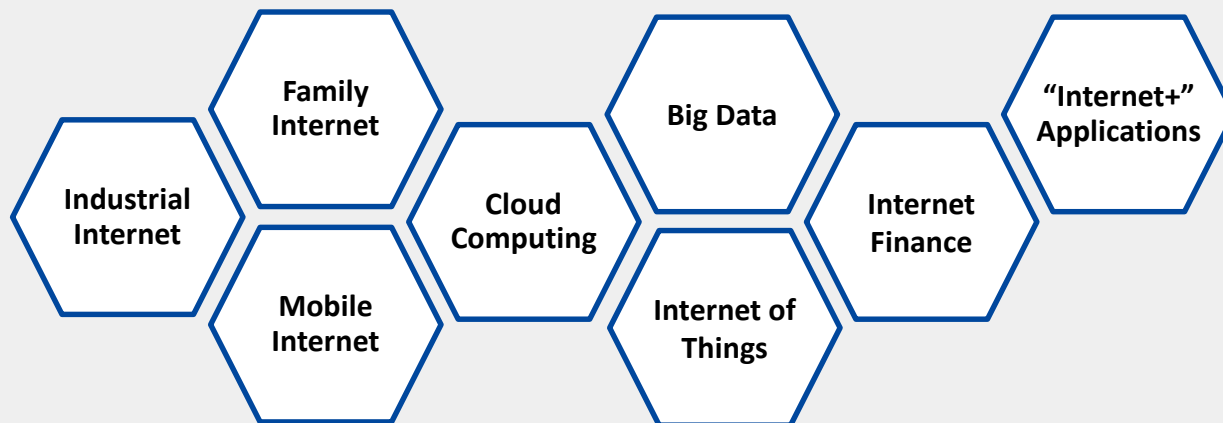
# Firmly leverage the Opportunities of “Internet+”

... to accelerate comprehensive transformation & enhance value

Opportunities ...

“Made-in-China 2025”

“Internet+”



Measures

Scale Development with Innovation

Comprehensive In-depth Reform

Deepening Internet-oriented Operation



Achieve scale breakthrough

Lift corporate vibrancy

Improve operating efficiency

Create shareholder value

1. Overview

**2. Business Review**

3. Financial Performance



# Revenue Breakdown

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

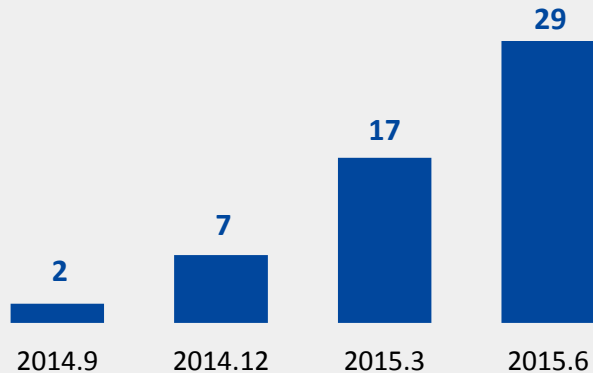
RMB Mil	1H2014	1H2015	Change
<b>Mobile</b>	78,590	<b>78,307</b>	-0.4%
Service Revenue	61,979	<b>62,346</b>	0.6%
<i>Incl.: Voice</i>	30,148	<b>24,889</b>	-17.4%
<i>Data</i>	31,831	<b>37,410</b>	17.5%
Sales of Terminals	16,611	<b>15,961</b>	-3.9%
<b>Wireline</b>	87,383	<b>86,646</b>	-0.8%
Service Revenue	84,986	<b>84,676</b>	-0.4%
Voice	17,561	<b>15,268</b>	-13.1%
Data	65,667	<b>67,625</b>	3.0%
Internet Access	36,862	<b>38,222</b>	3.7%
VAS & Integrated Information Services	19,873	<b>20,923</b>	5.3%
Lease of Telecommunications Network Resources	8,932	<b>8,480</b>	-5.1%
Others	1,758	<b>1,783</b>	1.4%
Sales of Equipment & Other Non-service Revenue	2,397	<b>1,970</b>	-17.8%
<b>Total</b>	<b>165,973</b>	<b>164,953</b>	<b>-0.6%</b>

Note: 1H2015 Wireline Internet Access Revenue included wireline broadband revenue of RMB37,561 mil (1H2014: RMB36,404 mil)

# 4G Gaining Momentum Fast

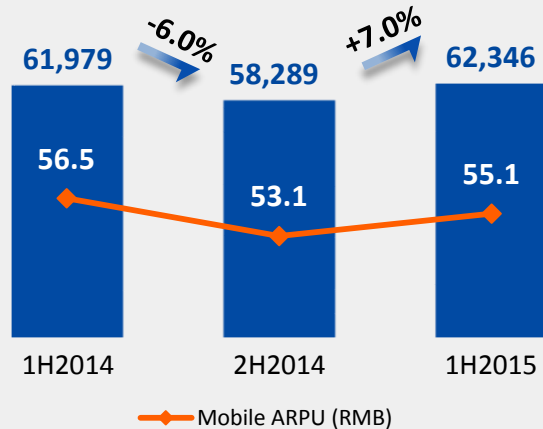
## 4G Terminal Users

Mil



## Mobile Service Revenue

RMB Mil



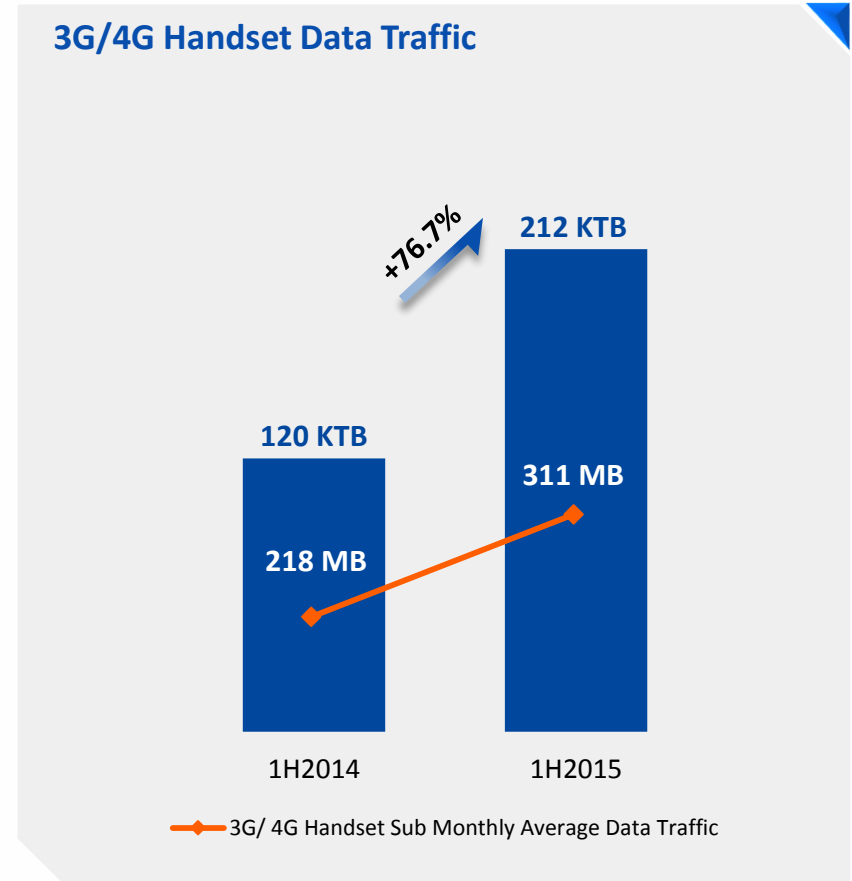
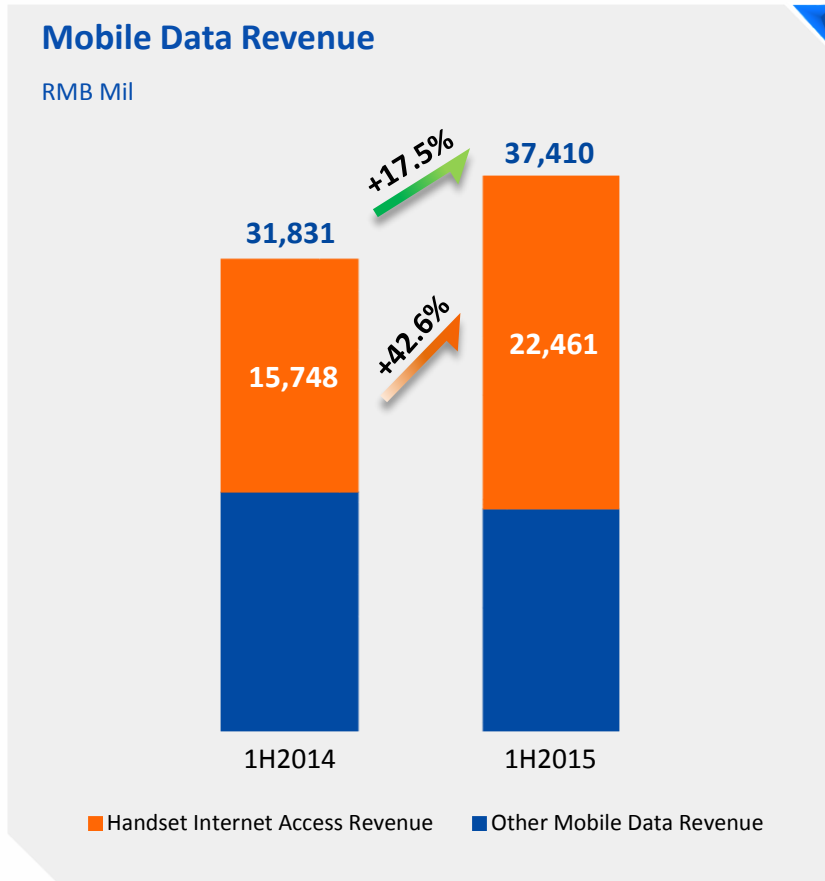
## LTE FDD licensing accelerated 4G & mobile business growth

- ➔ **4G terminal users:** 29 mil (▲22 mil vs 2014.12)  
**4G ARPU:** ≈RMB86 (vs Mobile ARPU: RMB55.1)  
**4G terminal user monthly average data traffic** ≈700MB (vs 3G/4G: 311MB)
- ➔ **Successful turnaround of mobile service revenue decline in 2H2014 due to VAT Reform & change in sales model**



# Sustained Rapid Mobile Data Growth

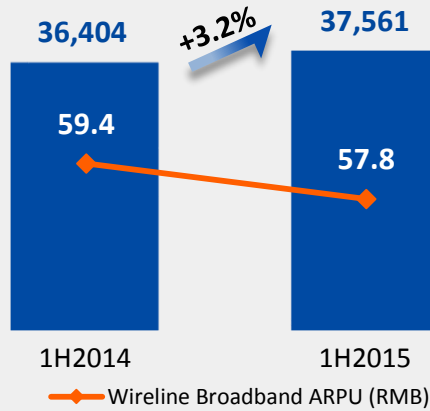
## Leverage 4G to boost business scale



# Bandwidth Upgrade Shaped Solid Wireline Broadband Growth

## Wireline Broadband Revenue

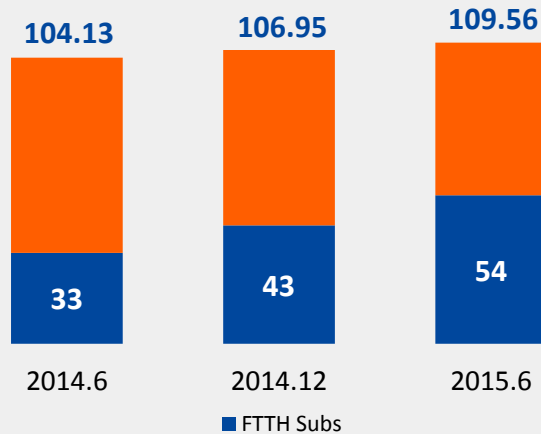
RMB Mil



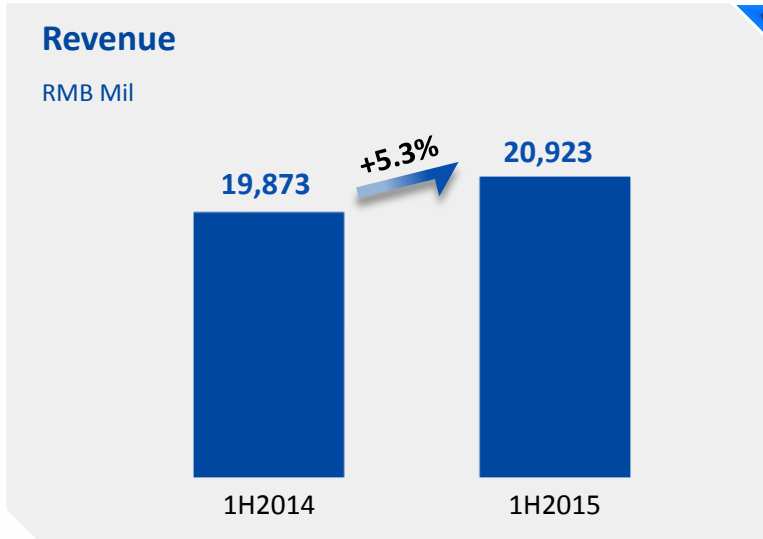
- ➔ Healthy subscriber growth effectively drove revenue growth
- ➔ Capitalize on the network edges established over the years to accelerate comprehensive end-to-end upgrade & promote 50/ 100Mbps as core products
- ➔ Leverage HD contents & informatization applications to drive bandwidth upgrade; reinforce concerted development of fibre broadband & 4G to expand subscriber scale & value
- ➔ Tapped ≈RMB2 bil private capital in local access deployment in 1H2015 & collaborated in market expansion

## Subscribers

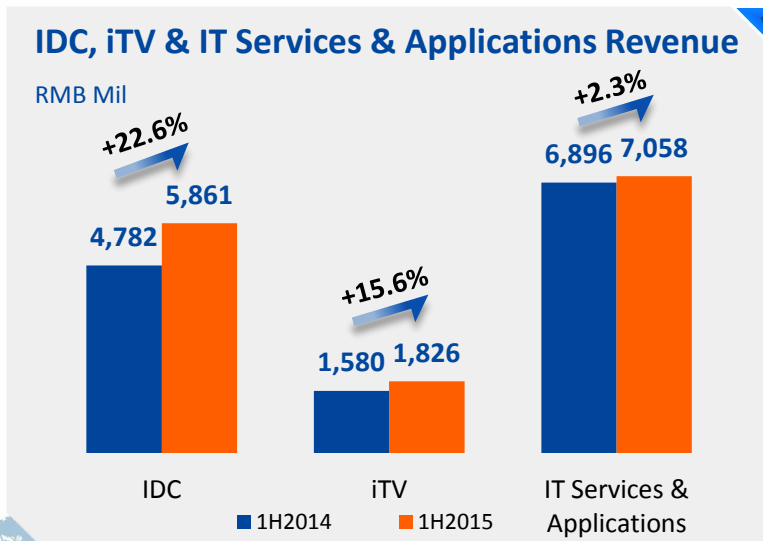
Mil



# Comprehensive Development of Wireline VAS & Integrated Information Services



- ➔ **IDC/ Cloud/ Big Data:** Construct the largest “8+2+X”\* Cloud resources deployment in China with over 100k cabinets in operation; forge leading Cloud computing & Big Data service capabilities
- ➔ **iTV:** Leverage “Joy me” to expand smart home applications, enhancing product functionalities & customer experience



- ➔ **IT Services & Applications:** Draw in external premium resources to reinforce differentiated servicing edges & accelerate scale replication of benchmarking industry applications

\*“8+2+X” denotes 8 major regional nodes, 2 core Cloud data center bases in Inner Mongolia & Guizhou & numerous dynamic city nodes

# Accelerate Innovation

... to strengthen differentiated edges & create new sources of revenue & profit

## Expand Scale

**YiChat:** Registered users expanded to 180 mil

**BestPay:** GMV reached ≈RMB380 bil in 1H2015

**NFC:** >20 mil users

## Build Fast

**“e-Surfing security”:**  
“Cloud, pipe & device” comprehensive protection

**“Joy me”:** Smart home

**“aWiFi”:** New platform cooperation model

## Actively Explore

**“Internet+”:** Target 4 key strategic areas & 10 major projects to promote upgrade of traditional industries

**New Technology Application:** To strengthen capability on product development for Cloud, Big Data, Internet of Things

# Near-term Priorities

Scale Development

Data Traffic Operation

Internet Data Analytics

Attain  
breakthrough  
in business &  
subscriber  
scale

Further  
promote  
innovation &  
entrepreneur  
vibrancy

Boost  
operating  
capabilities &  
efficiency

## Strengthen Comprehensive In-depth Reform

- Fundamental Business: reinforce “sub-dividing” performance evaluation units with performance contract & “top-down” service support system
- Emerging Business: optimize business strategies & deepen structural reform

## Speed up Internet-oriented Operation

- Channels
- Customer Services
- Network Development & Operation

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# Key Financial Information

RMB Mil	1H2014	1H2015	Change
<b>Operating Revenue</b>	165,973	<b>164,953</b>	-0.6%
<b>Operating Expenses</b>	148,211	<b>147,799</b>	-0.3%
Depreciation & Amortization	32,776	<b>33,585</b>	2.5%
Network Operations & Support	29,332	<b>37,224</b>	26.9%
Personnel	24,642	<b>28,079</b>	13.9%
SG&A	36,943	<b>25,062</b>	-32.2%
<i>Incl.: Mobile Handset Subsidies</i>	11,586	<b>5,064</b>	-56.3%
<i>General &amp; Administration</i>	4,290	<b>4,152</b>	-3.2%
Interconnection & Others	24,518	<b>23,849</b>	-2.7%
<i>Incl.: Interconnection</i>	6,342	<b>6,170</b>	-2.7%
<i>Cost of Wireline Equipment Sold</i>	1,862	<b>1,424</b>	-23.5%
<i>Cost of Mobile Terminals Sold</i>	16,112	<b>15,448</b>	-4.1%
<b>Operating Profit</b>	<b>17,762</b>	<b>17,154</b>	<b>-3.4%</b>
<b>Net Profit</b>	<b>11,436</b>	<b>10,980</b>	<b>-4.0%</b>
<b>Free Cash Flow</b>	<b>23,917</b>	<b>10,518</b>	<b>-56.0%</b>

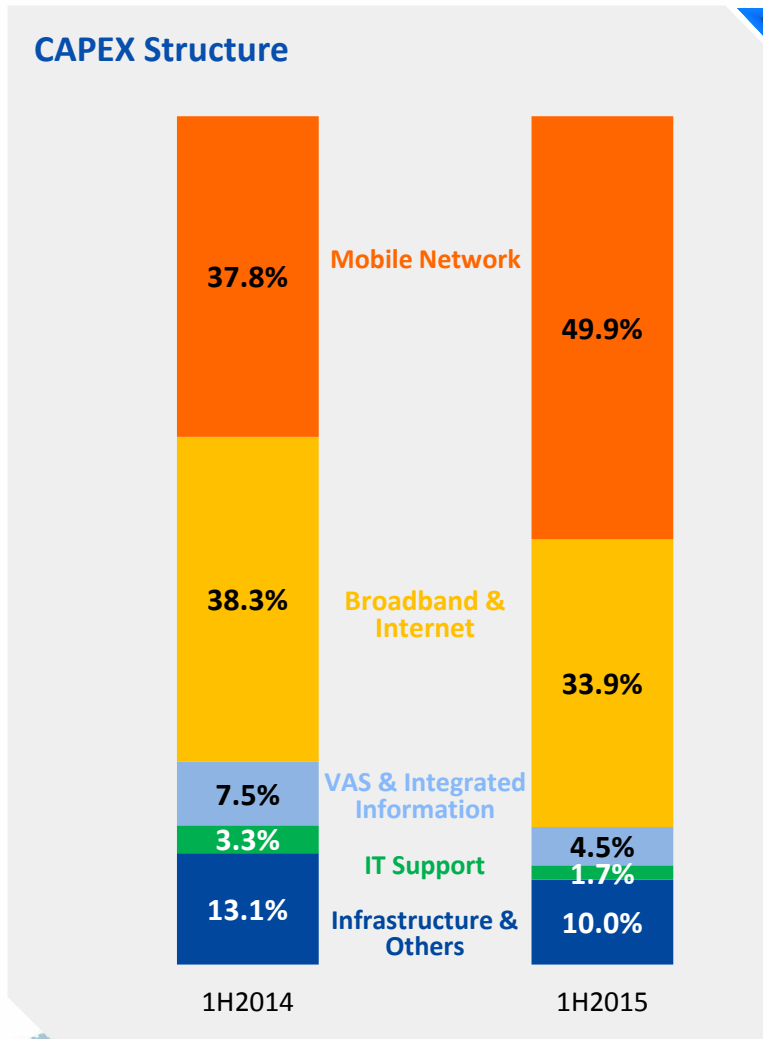
Note: Free Cash Flow = EBITDA – CAPEX – Income Tax Expenses

# Optimized Resources Deployment to Sustain Growth

	1H2014	1H2015	Change	
<b>Operating Expenses as % of Operating Revenue</b>	89.3%	<b>89.6%</b>	<b>▲ 0.3pp</b>	
Depreciation & Amortization	19.7%	<b>20.4%</b>	<b>▲ 0.7pp</b>	Mainly due to higher CAPEX, esp. 4G investment
Network Operations & Support	17.7%	<b>22.6%</b>	<b>▲ 4.9pp</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
Personnel	14.8%	<b>17.0%</b>	<b>▲ 2.2pp</b>	Mainly due to appropriate increase in performance-linked compensation for frontline staff
SG&A	22.3%	<b>15.2%</b>	<b>▼ 7.1pp</b>	Mainly benefitting from change in sales model for improved sales efficiency
Interconnection	3.8%	<b>3.7%</b>	<b>▼ 0.1pp</b>	
Cost of Terminals Sold & Others	11.0%	<b>10.7%</b>	<b>▼ 0.3pp</b>	Mainly benefitting from reduction of centralized procurement & sale of handsets



# Highly Effective Investment to Strengthen Network Edges & Return



## Investment tilted toward high-growth & high-return businesses & areas

- 1H2015**
- ➔ **4G network**
    - CAPEX (RMB) 17.8 bil
    - # of base stations 320k (▲140k)
  - ➔ **Broadband & Internet**
    - CAPEX (RMB) 12.4 bil
    - FTTH home passes 165 mil (▲42 mil)
  - ➔ **To focus investment on 4G, fibre broadband & carrying networks in 2H2015**

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

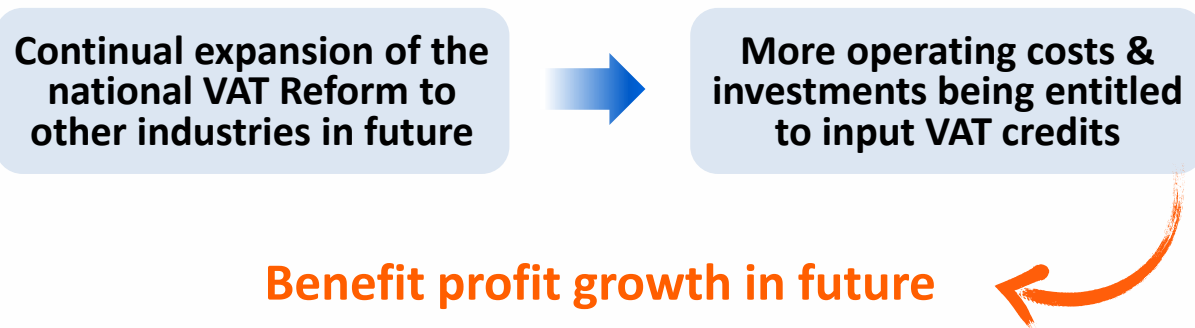
## Moderating monthly average pro forma impact on net profit of VAT Reform:

- Monthly average for Jun – Dec 2014: ≈RMB540 mil
- Monthly average for Jan – Jun 2015: ≈RMB460 mil

Remark: Refer to slide 7 for the calculation explanation & assumptions of the above pro forma illustration

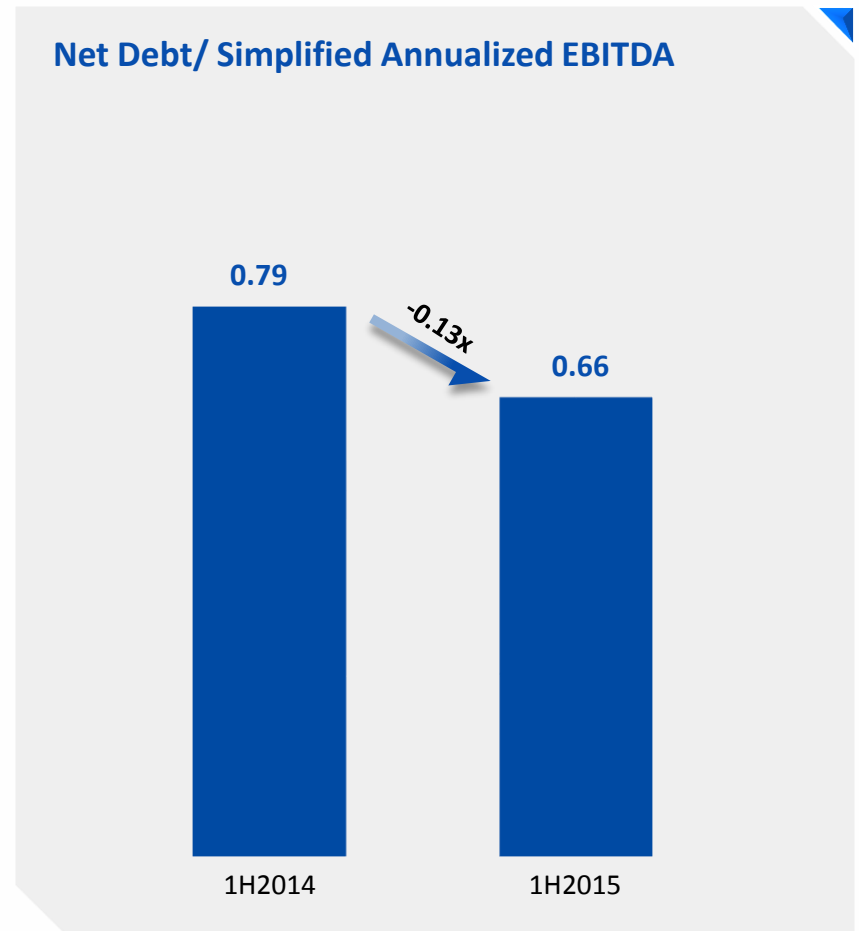
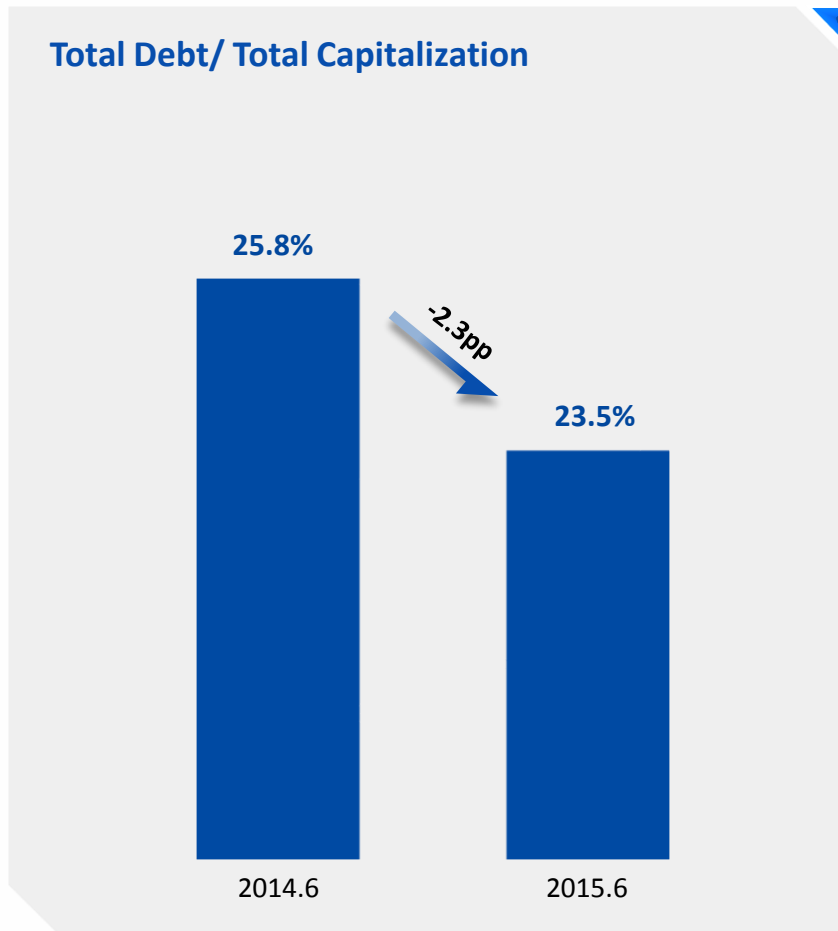
## Key mitigating measures:

- ➡ Optimize development & sales models, implement stringent costs control measures & enhance control on purchasing and vendors' tax profile
- ➡ Proportion of revenues generated from value-added telecommunications services is expected to increase, resulting in a lower average tax rate of output VAT



# Healthy Financial Strength

... strong financial position to support sustainable scale development



# Deepen Financial Reform to Strengthen Value Management

Further optimize the “three-in-one” management mechanism – budgeting, resources allocation & performance evaluation

Continue the establishment of nationwide centralized MSS to drive management reform & enhance efficiency

Improve cost control to enhance cost structure & efficiency

**Fully excel financial management to drive healthy & sustainable development**

Strengthen budget control on asset utilization & step up project finance management

Reinforce centralized financial support for sub-divided performance evaluation units & emerging business

Enhance internal control to effectively prevent risks

# 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 unaudited consolidated statement of comprehensive income for period ended 30 Jun 2015

RMB Mil	1H2014	1H2015
<b>Operating Revenue</b>	165,973	<b>164,953</b>
Operating Expenses	(148,211)	<b>(147,799)</b>
Net Finance Costs	(2,736)	<b>(2,160)</b>
Investment Income, Share of Profit/ (Loss) of Associates	9	<b>(450)</b>
<b>Profit Before Taxation</b>	15,035	<b>14,544</b>
Income Tax	(3,561)	<b>(3,536)</b>
<b>Profit for the Period</b>	11,474	<b>11,008</b>
Equity Holders of the Company	11,436	<b>10,980</b>
Non-controlling Interests	38	<b>28</b>

## Appendix 2 - Extracted from unaudited consolidated statement of financial position as at 30 Jun 2015

RMB Mil	2014.12.31	2015.6.30
Current Assets	59,543	68,804
Non-current Assets	501,731	504,151
<b>Total Assets</b>	561,274	572,955
Current Liabilities	206,325	212,025
Non-current Liabilities	64,841	65,139
<b>Total Liabilities</b>	271,166	277,164
<b>Total Equity</b>	290,108	295,791
Equity Attributable to Equity Holders of the Company	289,183	294,804
Non-controlling Interests	925	987

## Appendix 3 - Selected Operating Metrics for 1H2015

Subscriber (Mil)	2014.12	2015.6	Change
<b>Mobile</b>	185.62	<b>191.44</b>	5.82
Incl: 3G/4G	118.63	<b>131.00</b>	12.37
<b>Wireline Broadband</b>	106.95	<b>109.56</b>	2.61
<b>Access Lines in Services</b>	143.56	<b>139.35</b>	-4.21
Incl: Household	90.87	<b>87.77</b>	-3.10
Government & Enterprise	40.88	<b>40.90</b>	0.02
Public Telephone	11.41	<b>10.68</b>	-0.73
	<b>1H2014</b>	<b>1H2015</b>	<b>Change</b>
<b>Wireline Voice Usage</b>			
<b>Local Usage</b> (Pulses Mil)	65,734	<b>56,434</b>	-14.1%
<b>Long Distance Usage</b> (Minutes Mil)	14,836	<b>13,527</b>	-8.8%
<b>Mobile Voice Usage</b> (Minutes Mil)	320,777	<b>326,857</b>	1.9%