2014 Interim Results

China Telecom Corporation Limited

27 Aug 2014 | 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.

Presented By

Mr. Wang Xiaochu

Chairman & CEO

Mr. Yang Jie

President & COO

Madam Wu Andi

EVP & CFO

1. Overview

2. Business Review

3. Financial Performance

Highlights

1. Leverage the trends & accelerate comprehensive in-depth reform to enhance value
2. Persistence in profitable development leading to sustained solid growth in revenue & net profit with revenue structure further optimized
3. Focused on 4G & broadband Internet investment to strengthen customer experience & competitive advantages
4. 4G handset service debut in July added new growth engine to mobile business
5. VAT Reform: Short-term pain, long-term beneficial to sustainable growth

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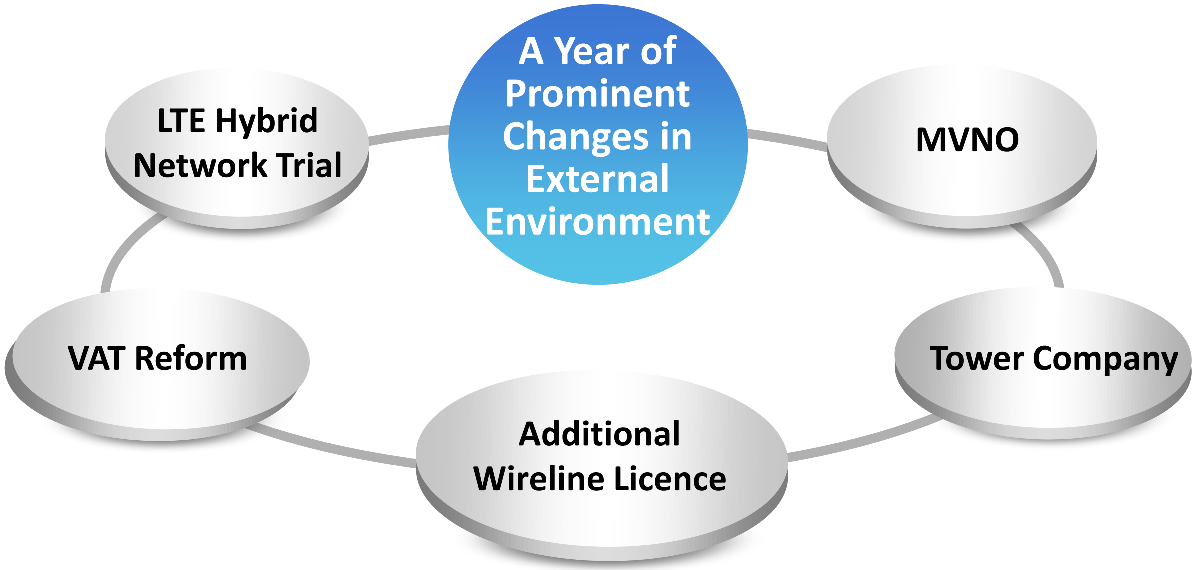
Leverage the Trends to Enhance Value



Profitability | **Long-term Development** | **High Transparency**

- ✓ Strive for favorable policy support
- ✓ Timely refine strategies
- ✓ Accelerate comprehensive in-depth reform

Sustained Solid Growth

	1H2013	1H2014	Change
Operating Revenue (RMB Mil)	157,559	**165,973**	5.3%
Operating Revenue (Excl. Mobile Terminal Sales) (RMB Mil)	139,248	**149,362**	7.3%
EBITDA (RMB Mil)	50,130	**50,538**	0.8%
EBITDA Margin	36.0%	**33.8%**	-2.2pp
Net Profit (RMB Mil)	10,225	**11,436**	11.8%
EPS (RMB)	0.126	**0.141**	11.8%
Free Cash Flow (RMB Mil)	13,768	**23,917**	73.7%

Notes: Unless otherwise stated in this presentation

1. Net Profit represented profit attributable to equity holders of the Company.
2. 1H2013 data were restated to include the retrospective impact of the acquisition of China Telecom (Europe) Limited.
3. EBITDA = Operating Revenue – Operating Expenses + Depreciation & Amortization
4. EBITDA Margin = EBITDA / Operating Revenue (Excl. Mobile Terminal Sales)
5. Free Cash Flow = EBITDA – CAPEX – Income Tax Expenses

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Sustained Strong Earnings Growth Excluding Tax Impact of VAT Reform

RMB Mil	1H2014	Pro forma Adjustment to Eliminate Tax Impact of VAT Reform	Pro forma 1H2014	
Revenue	170,131	+ 2,016 (Output VAT in Jun)	172,147	
Less: Business Tax	(4,158)	- 674 (Notional business tax payable for Jun)	(4,832)	
Reported Operating Revenue (Net of Tax)	165,973		167,315	▲6.2% vs 1H2013
Less: Personnel Expenses & Depreciation & Amortization	(57,418)		(57,418)	
Network Operations & Support, SG&A & Other Operating Expenses	(90,793)	- 147 (Input VAT credits in Jun)	(90,940)	
Operating Profit	17,762	+ 1,195	18,957	▲22.9% vs 1H2013
Net Profit	11,436	+ 911	12,347	▲20.8% vs 1H2013

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 in June 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 mode, 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.

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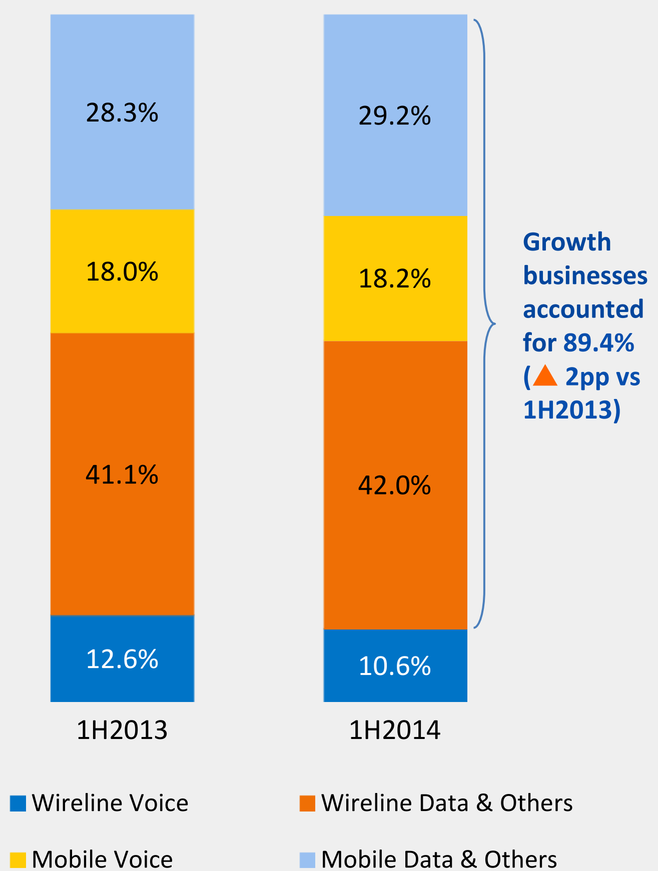
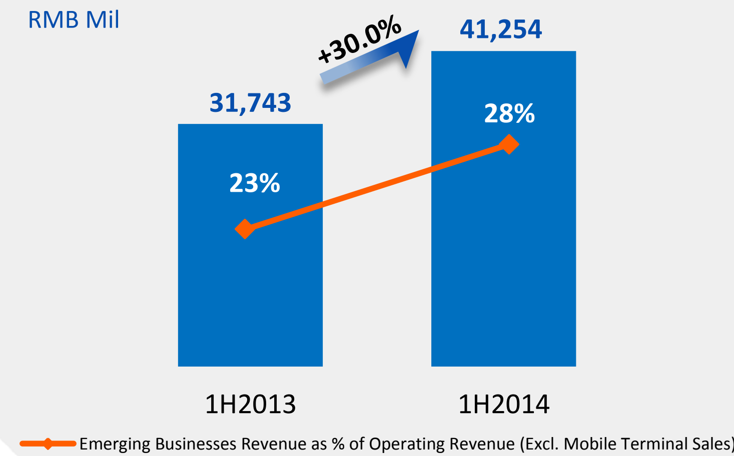
Fast Growing Emerging Businesses

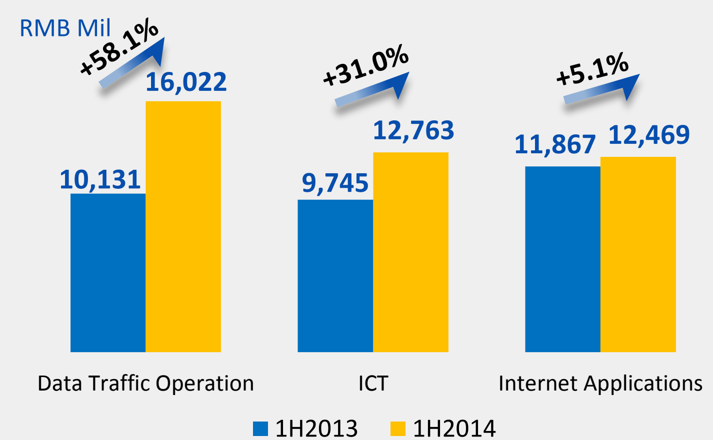
Revenue Structure further Optimized



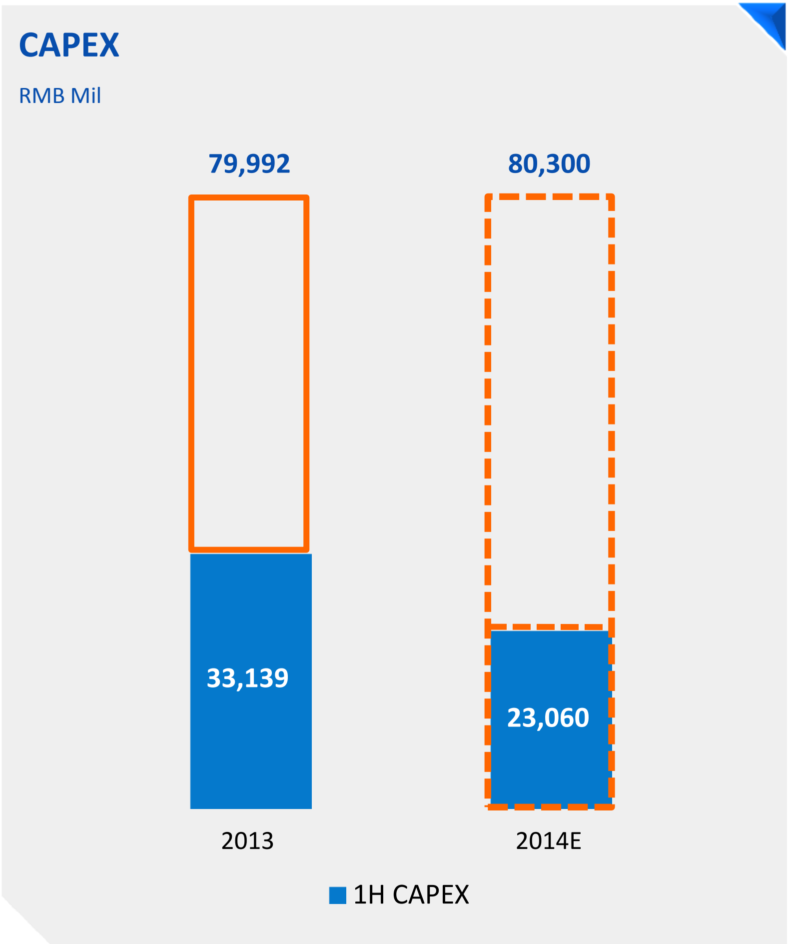
Emerging Businesses Revenue



Data Traffic Operation, ICT & Internet Applications Revenue



Investing for Network Edges



- **Investment tilted toward 4G & Internet businesses**
  - Aims to realize in-depth 4G coverage in key cities & high data traffic areas with 140k 4G base stations (▲ 80k) & 60k indoor radio distribution systems by end of 2014
  - Steady wireline broadband & Internet investment to support business development with FTTH coverage reaching ≈100 mil home passes (▲ 15 mil)
- **Appropriately control investment pace with regard to government policies (4G & VAT Reform) in 1H2014 to maximize investment return**

4G Handset Service Sets to Thrive

1 **4G handset service launched** in 16 cities (≈100 mil population & ≈20% mobile data traffic of the Company) in late Jul, within one month of the grant of permit for TD/FDD hybrid network trial

2 **One hybrid LTE network** to leverage FDD's advantages in wide coverage & mature value chain, plus TD's advantages in answering high data traffic demand in hotspot areas & high spectrum efficiency

3 **Join the global mainstream 4G value chain** to enhance handset supply & price-performance factors; better satisfy international roaming service demand

4 20 models of 4G handset already in the market, covering high, mid and low-end; expect to have about **50 & 100 models available by end of Sep & end of 2014** respectively

5 **Mobile CAPEX focuses on 4G & key cities** to assure superior customer experience & return

6 **Proactively apply for expansion of LTE hybrid network trial footprint & LTE FDD licence**

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Create a "New China Telecom" with Enhanced Vitality & Return

New China Telecom

- Excel Customer Experience
- Lift Staff Vibrancy
- Enhance Corporate Efficiency & Return
- Scale Development & Innovation Breakthrough

	Fundamental Business	Emerging Business
Comprehensive In-depth Reform	Further implement "sub dividing" performance evaluation units & promote bidding with performance contract; strengthen authority delegation & support	Leverage mixed ownership to extend open cooperation & capitalize on the complementary resources
Internet-oriented Transformation	Adopt Internet mindset & methodology to upgrade the organization & create differentiated edges	Accelerate market-oriented development & efficiently-centralized operation to lift market position leveraging telecom edges & Internet operating dynamics

1. Overview

2. **Business Review**

3. Financial Performance

Revenue Breakdown

RMB Mil	1H2013	1H2014	Change
Mobile	72,911	**78,590**	7.8%
Service Revenue	54,600	**61,979**	13.5%
Voice	28,426	**30,148**	6.1%
Data	26,174	**31,831**	21.6%
Others	18,311	**16,611**	-9.3%
Wireline	84,648	**87,383**	3.2%
Voice	19,888	**17,561**	-11.7%
Data	60,868	**65,667**	7.9%
Internet Access	35,693	**36,862**	3.3%
Incl. Wireline broadband	35,206	**36,404**	3.4%
VAS & Integrated Information Services	16,703	**19,873**	19.0%
Lease of Telecommunications Network Resources	8,472	**8,932**	5.4%
Others	3,892	**4,155**	6.8%
Total	**157,559**	**165,973**	**5.3%**

Notes: 1. 1H2014 Wireline Voice revenue included RMB10,790 mil from local voice, RMB3,851 mil from DLD, RMB585 mil from ILD and RMB2,335 mil from interconnections.
2. Mobile Others mainly included revenue from sales of terminals.

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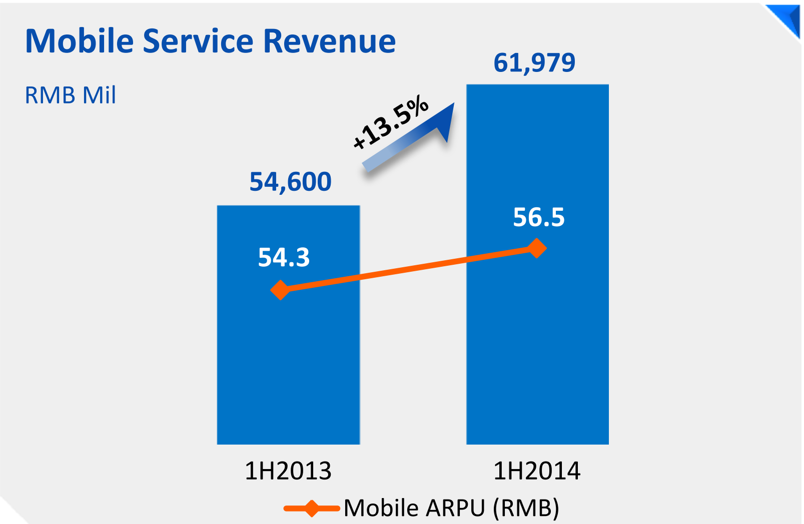
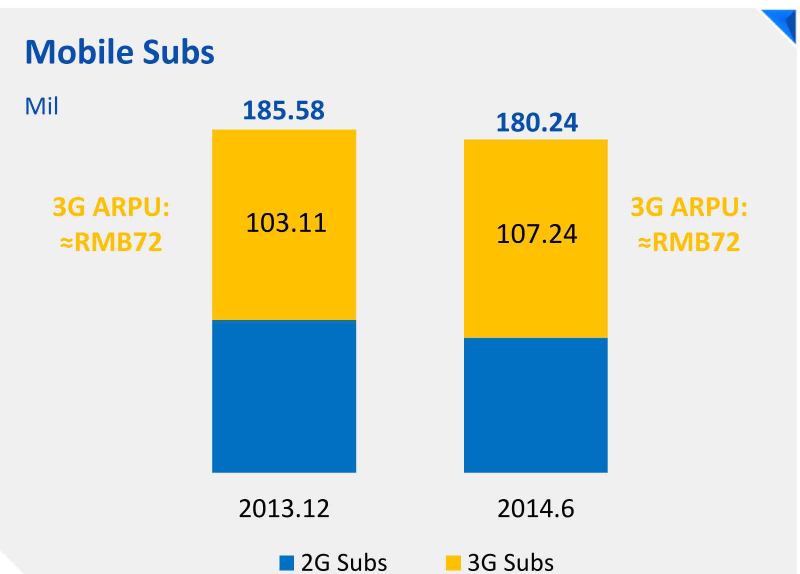
Profitable Mobile Development





Fully leveraged superior strengths in network & services to achieve scale & return

- **Active promotion of subs upgrade to 3G services effectively drove revenue & ARPU growth**

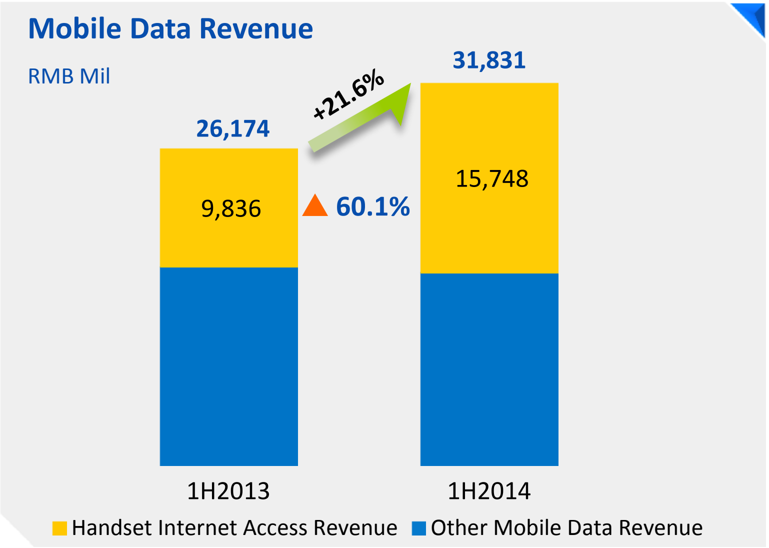
  1H14 Mobile ARPU: RMB56.5 (▲4.1% vs 1H13)

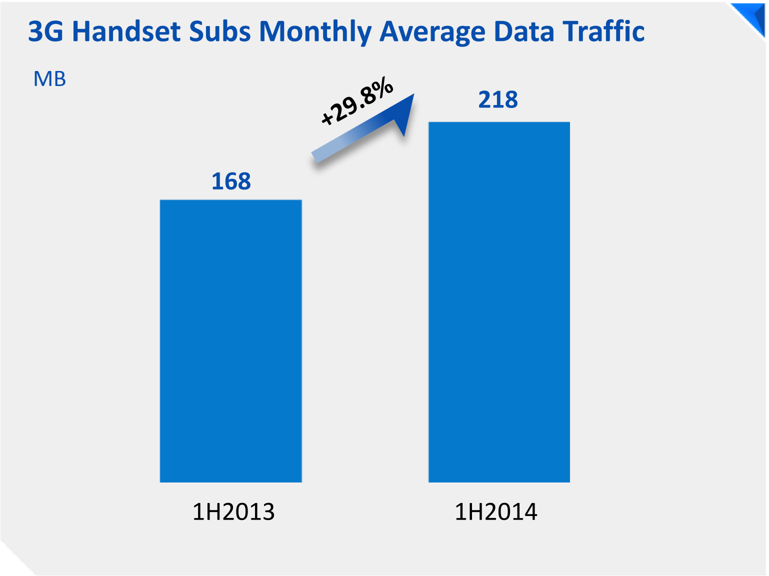
- **Net loss of 5.34 mil subs (primarily the low-end subs) mainly due to increasing market competition driven by the launch of 4G services & strengthened marketing effort by peer, as well as the Company's appropriate control of sales initiatives**

- **Leveraged 3G network edge & primarily "RMB299" smartphones to actively expand rural markets**

- **To promote mobile scale development with integrated high-speed 3G/4G services & reasonable data tariff packages**

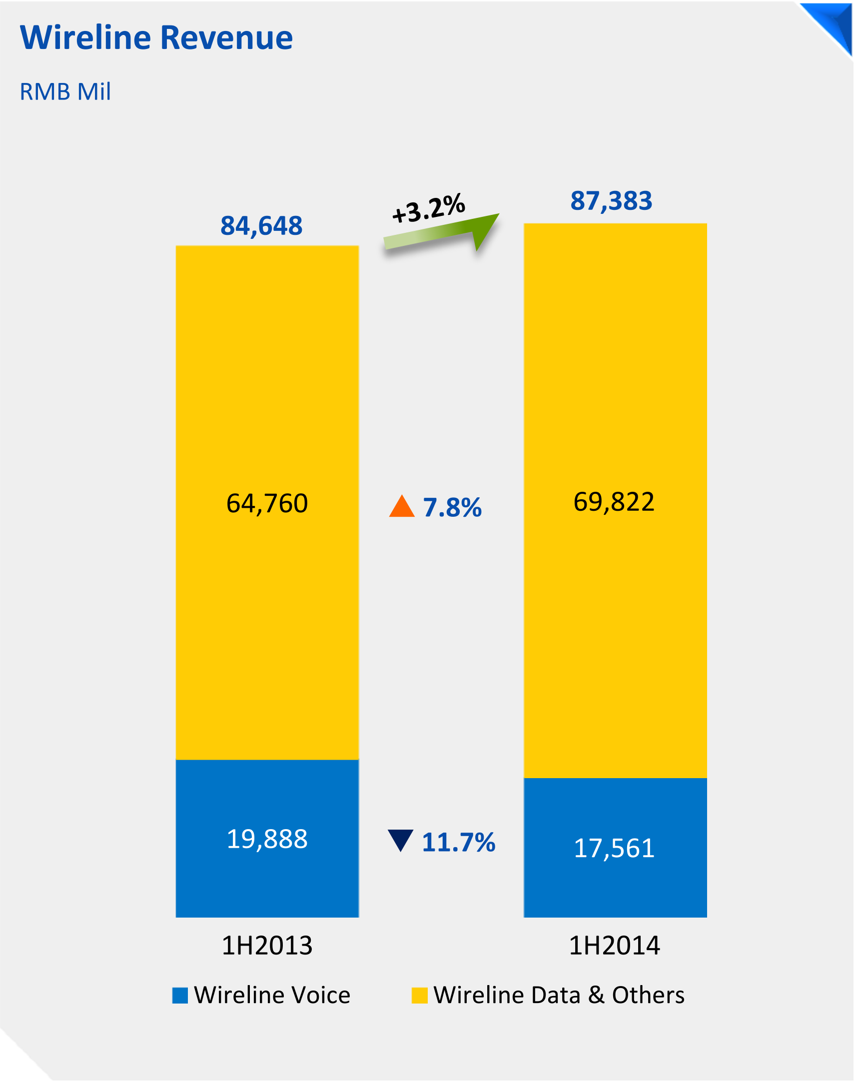
Rapidly Growing Mobile Data Traffic & Revenue





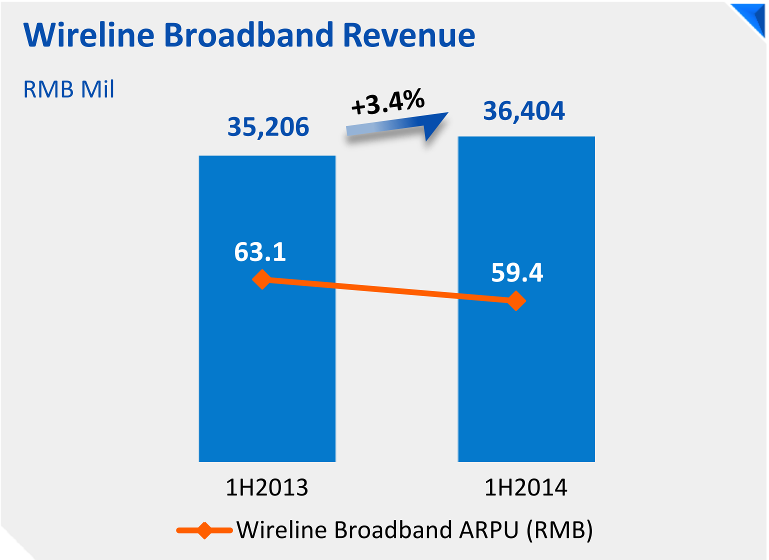
- **Mobile data revenue contribution first surpassed mobile voice, extending strong growth momentum**
- **Terminal-led & application-driven**
  - Expand collaboration with terminal value chain
  - Leverage integrated platforms capabilities to strengthen open cooperation & accelerate data traffic backward monetization
  - Create mobile Internet portal & expedite smart-city & industry applications development
- **Foster new data product development with extensive cooperation with CPs ("content + data traffic") & promote data sharing**
- **High-speed 4G services with tiered data pricing plans set to drive data traffic & revenue growth**

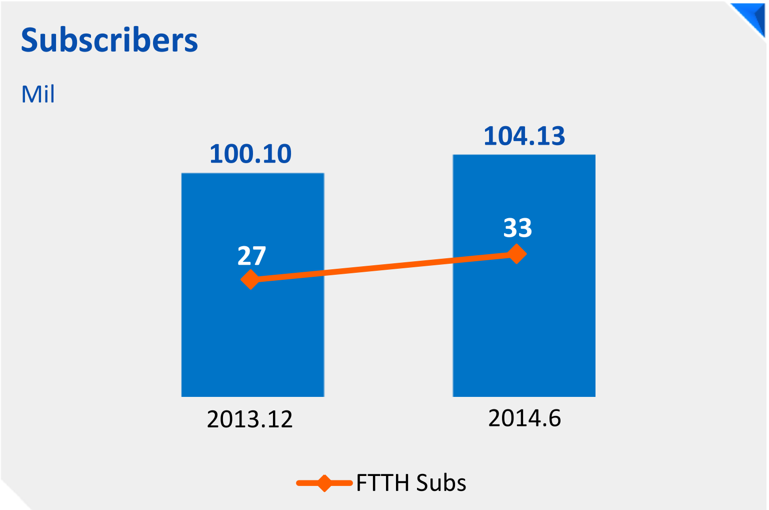
Resilient Wireline Performance



- **Leveraged fibre network & ICT 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 & ICT to enhance mutual-promoting development**
- **Declining revenue contribution from wireline voice effectively mitigated operating risks**

Sustained Growth in Wireline Broadband Amid Mounting Competition

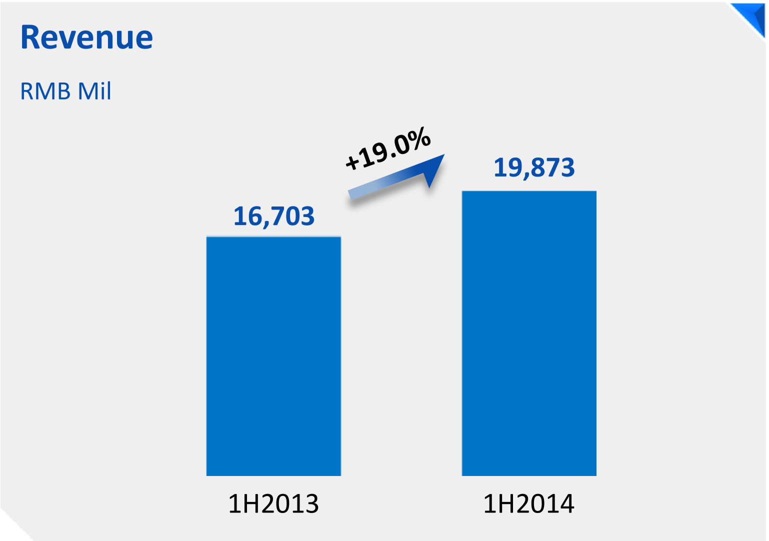


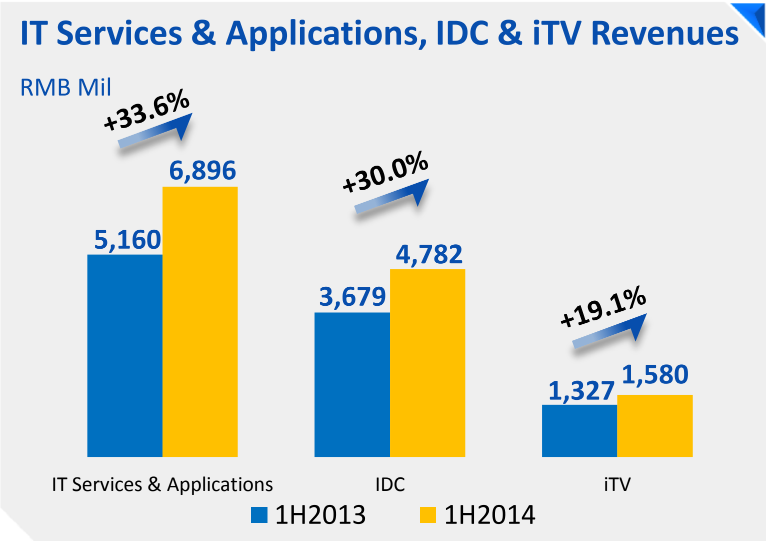


Leveraging superior network & unmatched service quality to enhance customer satisfaction & mitigate competitive pressure

- **Effectively enhanced customer experience & satisfaction, moderated ARPU decline & lowered impression pricing via accelerating customer access bandwidth upgrade & enriching content & applications**
- **To integrate with high-speed 4G/3G services to offer customers superior & comprehensive broadband access services**

Comprehensive Development of Wireline VAS & Integrated Information Services





Leveraging extensive network resources, strong branding franchise & open cooperation to drive growth

- **IT Services & Applications:** Leverage network edges, strong branding franchise & strengthened product functionalities to reinforce differentiated servicing edges
- **IDC:** Adopt efficiently-centralized operation to reduce cost & enhance efficiency; strengthen Cloud development by launching proprietary & collaborated Cloud products
- **iTV:** Launched the new smart home product, "Joy me", an iTV upgrade product integrating network, equipment & applications, to further improve functionalities & customer experience

Fast Expansion of Internet Applications

Strengthened the Internet Application Development Model (Portal, Business Clusters, Integrated Platform)

YiChat

- Achieved registered users of over 100 mil in 11 months following the inception
- Serve as the key Internet portal to drive applications usage

Best Pay

- Transaction value in 1H14 reached RMB130 bil (▲1.7x yoy)
- Venture into Internet finance by launch of "Tianyibao", which users can invest excess funds on accounts

Integrated Platform

- Open up 7 key capabilities (e.g. LBS) & provide one-stop service of development, operation & promotion
- Connect e-Surfing account with various services accounts to realize unified account convenience

Near-term Priorities

Persistence in Innovation, Open Cooperation, Return & Efficiency Enhancement

1. To deepen comprehensive reform & accelerate the execution of "De-telecom", "Market-orientation & Differentiation" & "Three New Roles[1]" strategies, transforming & internetizing fundamental & emerging businesses

2. To expedite scale expansion of fundamental businesses: improve channel effectiveness to enhance sales efficiency; strengthen customers' retention

3. To accelerate emerging business development: innovate data traffic operation models & elevate the business development of "YiChat", Best Pay, ICT, Cloud & Big Data services

4. To perfect 4G services for better customer experience, building words-of-mouth for 4G services

5. To enhance quality & efficiency to drive growth: innovate business development mode & strengthen sales efficiency

[1] The "Three New Roles" refers to the Leader of Intelligent Pipeline, the Provider of Integrated Platforms and the Participant of Content & Application Development.

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3. **Financial Performance**

Key Financial Information

RMB Mil	1H2013	1H2014	Change
Operating Revenue	157,559	**165,973**	5.3%
Operating Expenses	142,130	**148,211**	4.3%
Depreciation & Amortization	34,701	**32,776**	-5.5%
Network Operations & Support	23,357	**29,332**	25.6%
Personnel	22,328	**24,642**	10.4%
SG&A	34,979	**36,943**	5.6%
Incl.: Mobile Handset Subsidies	14,075	**11,586**	-17.7%
General & Administration	4,076	**4,290**	5.3%
Interconnection & Others	26,765	**24,518**	-8.4%
Incl.: Wireline Interconnection	1,840	**1,670**	-9.2%
Mobile Interconnection	5,964	**4,672**	-21.7%
Cost of Mobile Terminals Sold	17,500	**16,112**	-7.9%
Operating Profit	**15,429**	**17,762**	**15.1%**
Net Profit	**10,225**	**11,436**	**11.8%**

Stringent Cost Control to Boost Operating Efficiency

	1H2013	1H2014	Change	
Operating Expenses as % of Operating Revenue	90.2%	89.3%	▼**0.9pp**	
Depreciation & Amortization	22.0%	19.7%	▼**2.3pp**	Mainly due to saving in the amortization of customers relationships
Network Operations & Support	14.8%	17.7%	▲**2.9pp**	Mainly due to network maintenance quality enhancement to build competitive edges for synergistic development of 3G & 4G, wireline & wireless broadband
Personnel	14.2%	14.8%	▲**0.6pp**	Mainly due to appropriate increase of performance-linked compensation for frontline staff
SG&A	22.2%	22.3%	▲**0.1pp**	
Interconnection	5.0%	3.8%	▼**1.2pp**	Benefitting from the adjustments to the mobile network interconnection settlement standards effective 1 January 2014
Cost of Mobile Terminals Sold & Others	12.0%	11.0%	▼**1.0pp**	Mainly due to reduction of centralized procurement & sale of handsets

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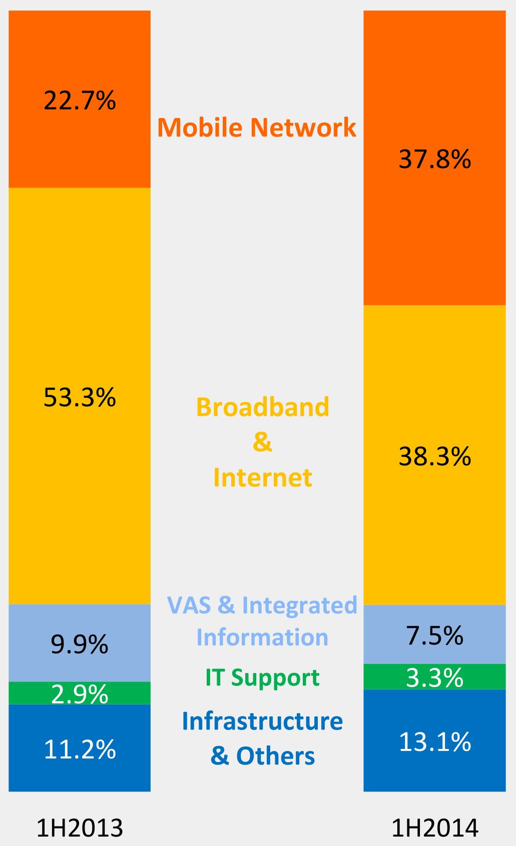
Investment Tilting toward High-growth, High-value Businesses

CAPEX Structure



Mobile Network:

- Deploy in-depth 4G network timely & selectively in key cities to enhance customer experience & operating return
- 1H2014: ≈90,000 4G base stations (▲ 26,000 vs 2013.12) & ≈10,000 indoor radio distribution systems in place

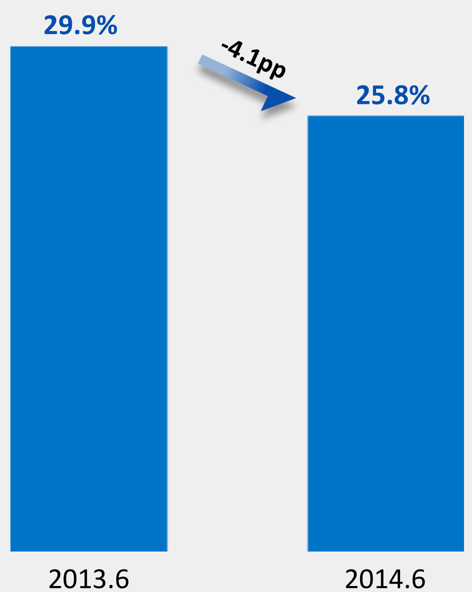
Broadband & Internet:

- 1H2014: 20Mbps+ coverage in cities >90%
- 1H2014: FTTH coverage reached 96 mil home passes (▲ 12 mil vs 2013.12)
- Expanded metropolitan network & back-haul capacity to support fast growing data traffic volume

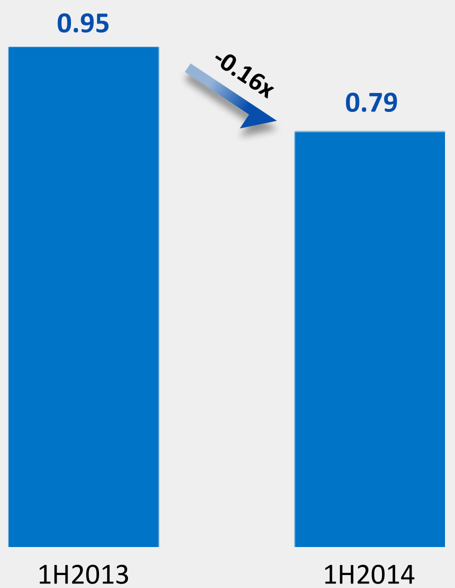
Healthy Financial Strength

Strong financial position & robust free cash flow supporting sustainable business development

Total Debt/ Total Capitalization

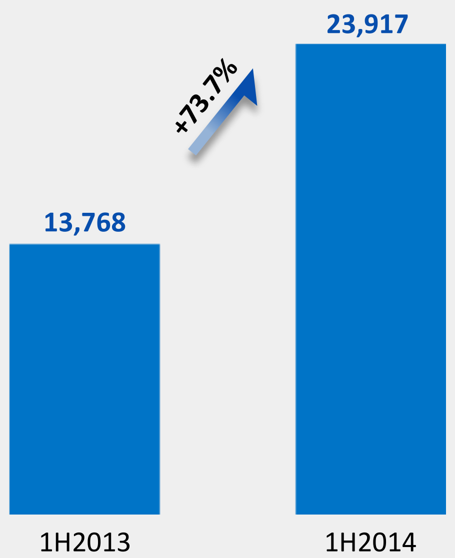


Net Debt/ Simplified Annualized EBITDA



Free Cash Flow

RMB Mil



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

Pro forma Tax Impact of VAT Reform RMB Mil	Jun 2014	Jul 2014
Incremental Output VAT	2,016	1,993
Business Tax Saving	(674)	(689)
Incremental Input VAT Credits from Operating Expenses	(147)	(403)
Pro forma Impact on Operating Profit	1,195	901
Pro forma Impact on Net Profit	**911**	**687**

Note: Refer to slide 8 for the calculation explanation & assumptions of the above pro forma illustration

The VAT Reform only started to be implemented in June and July. Pursuant to the relevant tax laws, the input VAT credits could only be obtained after the VAT dedicated invoices have been authenticated. In addition, the VAT dedicated invoices of certain expenses of the Company could only be obtained in the subsequent months. Hence input VAT credits were relatively less due to the time delay at the initial period of VAT Reform implementation and are expected to trend normal in the subsequent months.

Key mitigating measures & considerations:

- **Optimize development & sales models, implement stringent costs control measures & enhance procurement management**
- **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**
- **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**
- **Input VAT credits of CAPEX will reduce carrying amounts of fixed assets & hence depreciation, increasing profit in future**

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Implement Reform Measures to Enhance Corporate Return

- Further implement "sub dividing" performance evaluation units & promote bidding with performance contract to select "unit CEO"; clearly delineate authority, responsibility & return; enhance risk prevention mechanism

- Establish value-based resources allocation mechanism & market-oriented settlement system to improve efficiency & stimulate organization vibrancy

Maximize Shareholders' & Customers' Values

- Optimize the efficiently-centralized operation & leverage business or capital cooperation to promote leapfrog development of emerging businesses

- Flatten organization structure with increased support for frontline workforce to enhance efficiency & customer experience

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Thank You!

For further information & enquiries,
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ir@chinatelecom-h.com or visit www.chinatelecom-h.com

"Overall Best Managed Company in Asia 2014"

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

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

Appendix 1 Extracted from unaudited consolidated statement of comprehensive income for period ended 30 Jun 2014

RMB Mil	**1H2013**	**1H2014**
Operating Revenue	157,559	**165,973**
Operating Expenses	(142,130)	**(148,211)**
Net Finance Costs	(2,613)	**(2,736)**
Investment Income, Share of Profit from Associates	700	**9**
Profit Before Taxation	13,516	**15,035**
Income Tax	(3,223)	**(3,561)**
Profit for the Period	10,293	**11,474**
Equity Holders of the Company	10,225	**11,436**
Non-controlling Interests	68	**38**

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Appendix 2 Extracted from unaudited consolidated statement of financial position as at 30 Jun 2014

RMB Mil	**2013.12.31**	**2014.6.30**
Current Assets	52,783	**62,607**
Non-current Assets	490,456	**479,890**
Total Assets	543,239	**542,497**
Current Liabilities	200,098	**194,392**
Non-current Liabilities	64,477	**64,172**
Total Liabilities	264,575	**258,564**
Total Equity	278,664	**283,933**
Equity Attributable to Equity Holders of the Company	277,741	**282,972**
Non-controlling Interests	923	**961**

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Appendix 3 Selected Operating Metrics for 1H2014

Subscriber (Mil)	2013.12	2014.6	Change
Mobile Subs	185.58	**180.24**	-5.34
Incl: 3G Subs	103.11	**107.24**	4.13
Wireline Broadband Subs	100.10	**104.13**	4.03
Access Lines in Services	155.80	**149.22**	-6.58
Incl: Household	97.62	**94.39**	-3.23
Government & Enterprise	40.17	**40.56**	0.39
Public Telephone	12.56	**11.78**	-0.78
PAS	5.45	**2.49**	-2.96

	1H2013	1H2014	Change
Wireline Voice Usage			
Local Usage (Pulses Mil)	74,234	**65,734**	-11.5%
Long Distance Usage (Minutes Mil)	17,155	**14,836**	-13.5%
Mobile Voice Usage (Minutes Mil)	289,234	**320,777**	10.9%