



中国电信

CHINA TELECOM

2002 Annual Results

# Disclaimer



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 involve known and unknown risks, uncertainties and other factors, which may cause the actual performance, financial condition or results of operations of China Telecom Limited (the “Company”) to be materially different from any future performance, financial condition or results of operations implied by such 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 to be filed with the U.S. Securities and Exchange Commission (the “SEC”) and in the Company’s other filings with the SEC.

# Management



**Zhou Deqiang**

**Chairman & CEO**

**Chang Xiaobing**

**ED & President**

**Wu Andi**

**ED & CFO**



**Annual Highlight**

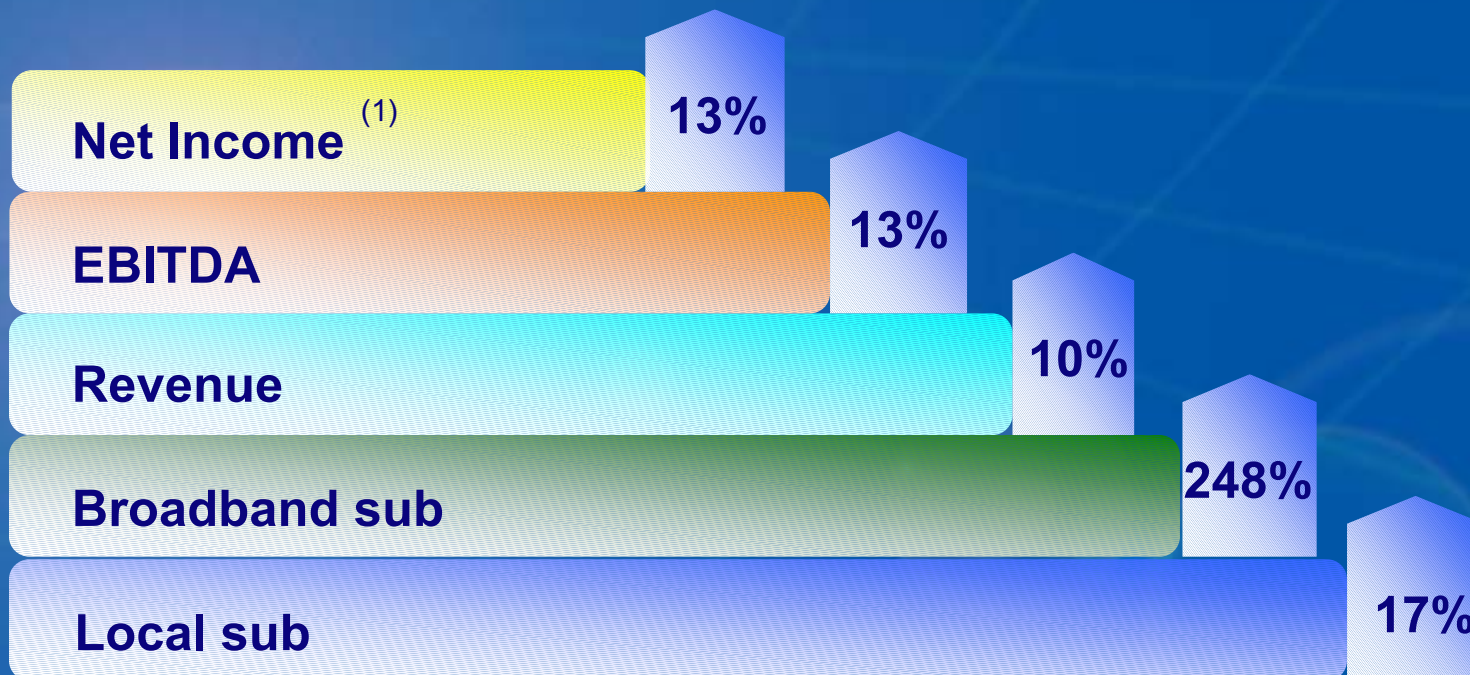
**Business Review**

**Financial Review**



# Annual Highlight

# Strong Operating and Financial Performance



**A Solid Foundation Laid for Sustainable and Profitable Development**

(1)Excluding effects of one-time revaluation deficit in 2001

# Favorable Business Environment



## **Strong & Growing Demand**

- *Low penetration driving basic telecom demand*
- *Move toward Information Society accelerating data and Internet demand*
- *Application proliferation creating growing broadband and VAS demand*

## **Intensifying But Manageable Competition**

- *Local not experiencing significant direct competition*
- *Competition in long distance stabilizing*
- *Leading position in data and Internet solidified*
- *Major competitive pressure from mobile substitution*

## **More Transparent Regulation**

- *Industry restructuring largely completed*
- *Very limited downside tariff risk*
- *Major uncertainties expected to be removed in the near future*

**Continued Strong Economic Growth Creates Solid Basis for Our Sustained Development**

# Ensure Sustained Growth and Value Creation

## Revenue Growth

- Leverage local strengths to continue subscriber and traffic growth
- Focus on broadband and other high-growth, high-margin businesses
- Improve customer service through segmentation and differentiation

## Profitability & FCF Growth

- Continue to control opex and enhance profitability
- Further reduce capex and improve return on capital
- Substantially increase free cash flow

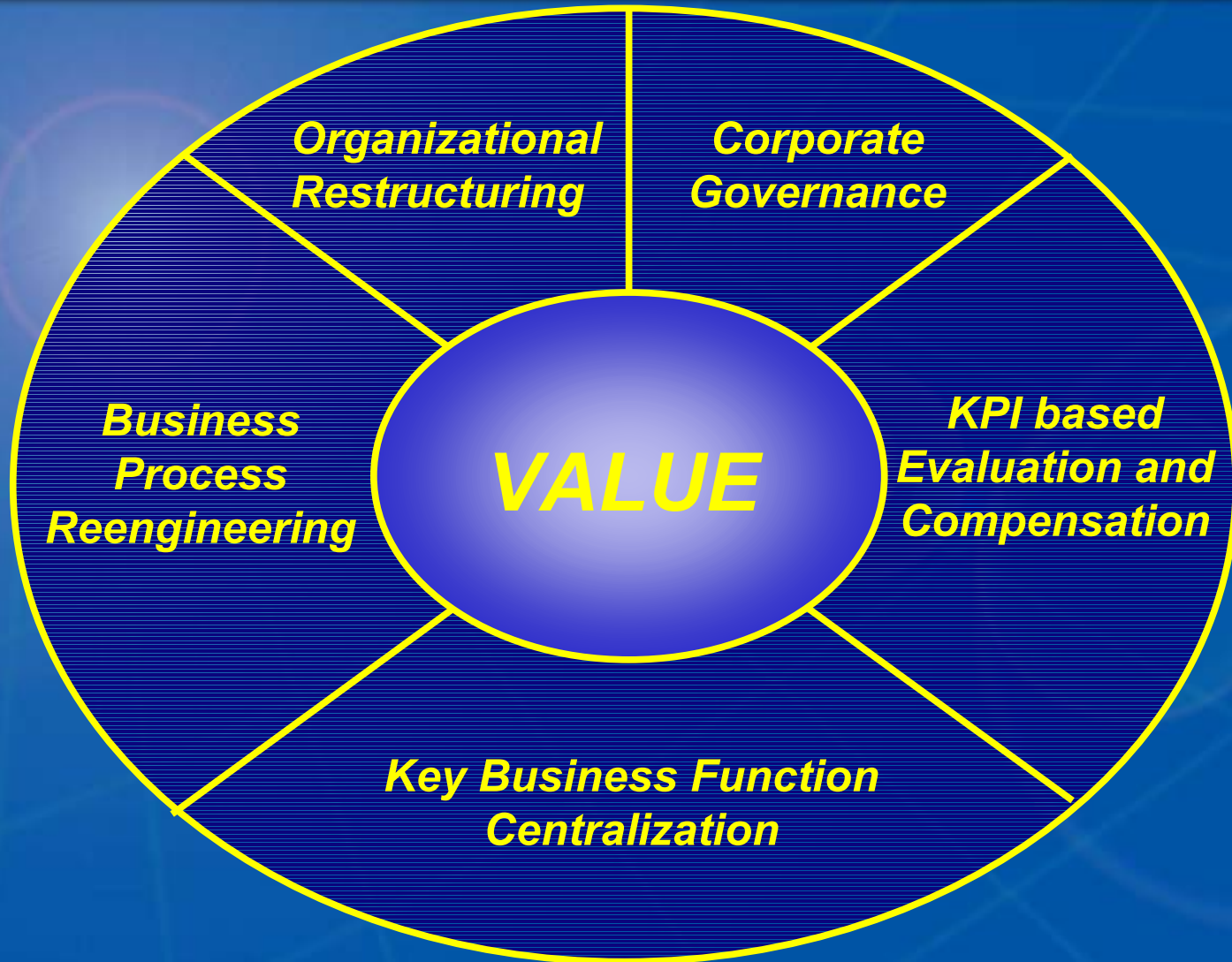
## External Growth

- As a strategy, acquire quality assets on value-enhancing terms

**Focus on “customer-centric, market-oriented, return-driven” business model**



# Enhance Competitiveness through Continued Re-Structuring & Innovation



# 2003 Prospects



**Revenue Growth**

*In line with GDP growth*

**Profitability**

*Room for further improvement with effective cost control*

**Free Cash Flow**

*Significant growth sustained with capex budget of RMB 25b reiterated*

**Potential Acquisition**

*Earnings accretion and value creation ;  
To be completed as soon as practicable*

**Regulatory Environment**

*Expected to be more transparent and favorable*

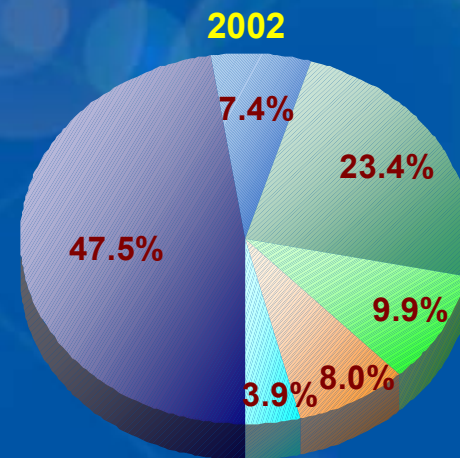
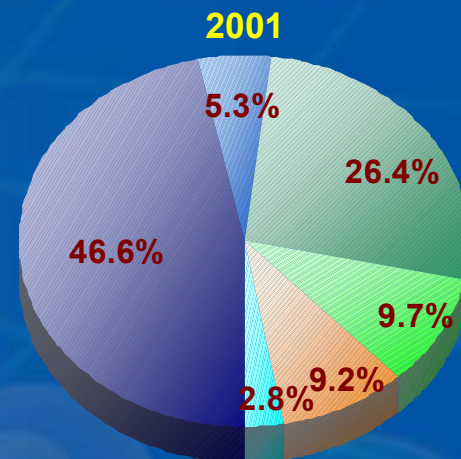


# Business Review

# Business Overview: Steady Growth, Lower Risk



RMB Mn	2002	2001	Δ %
Local	35,847	31,970	12.1%
Data & Internet	5,564	3,627	53.4%
LD	17,650	18,068	-2.3%
LL & Interconnection	7,458	6,676	11.7%
Upfront	6,018	6,290	-4.3%
Others	2,959	1,915	54.5%
<b>Total</b>	<b>75,496</b>	<b>68,546</b>	<b>10.1%</b>

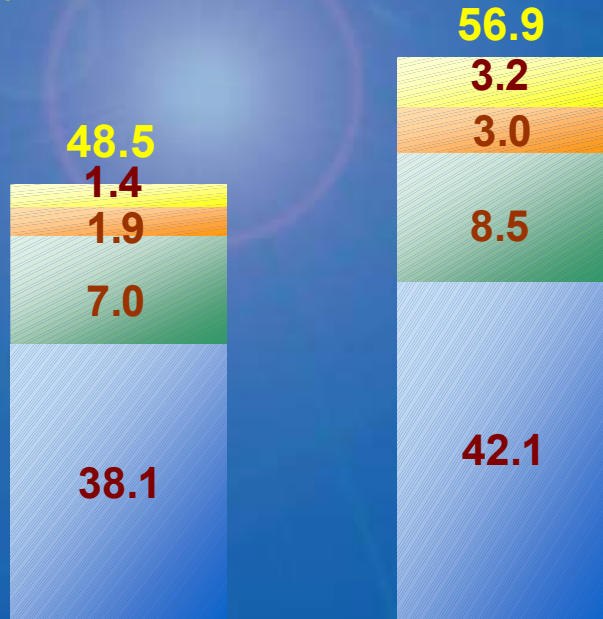


# Local: Continued Strong Growth



## Local Subscribers

Million



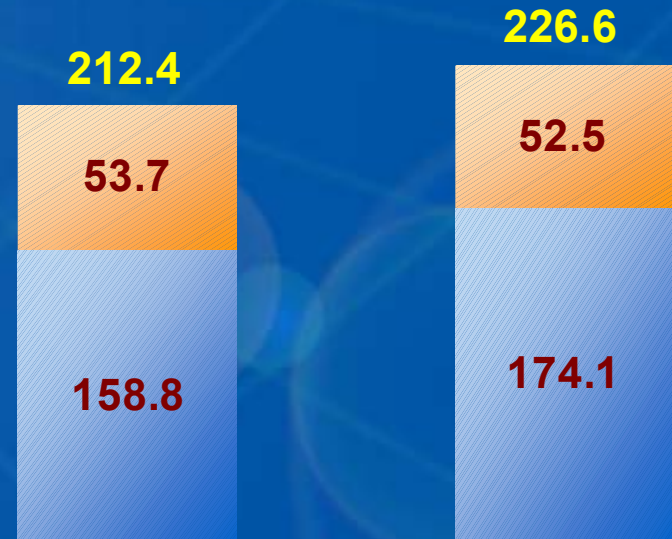
2001

2002

- Residential
- Business
- Public telephones
- Wireless Local Access

## Local Usage Volume

Pulses in billions



2001

2002

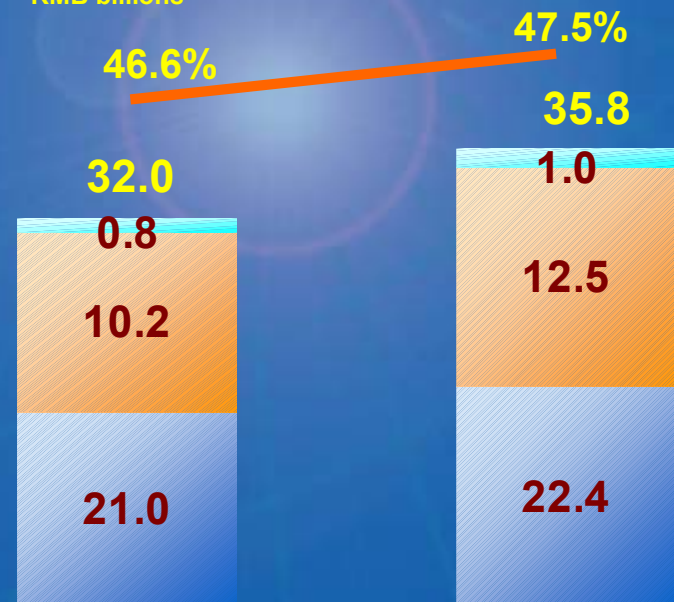
- Voice
- Dial-up

# Local: Pillar Position further Consolidated



## Revenue Contribution

RMB billions



2001

2002

Usage fees Monthly fees

Installation % of total revenue

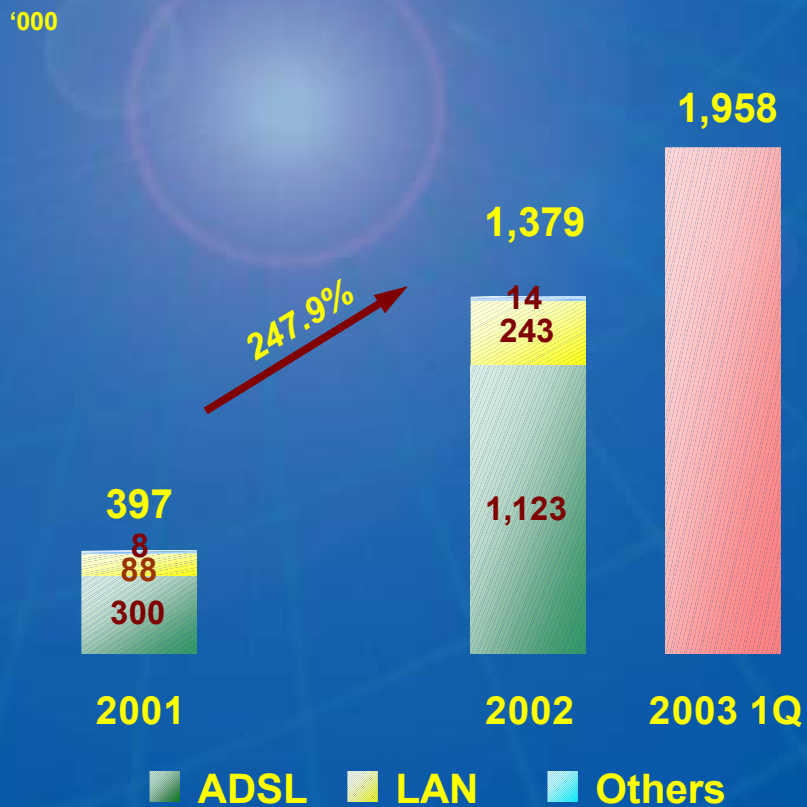
## Business Focus

- Take full advantage of our dominant control of the “last mile”
- Develop high ARPU subscribers and implement stricter return-based capex management
- Enhance usage growth through information services and VOIP

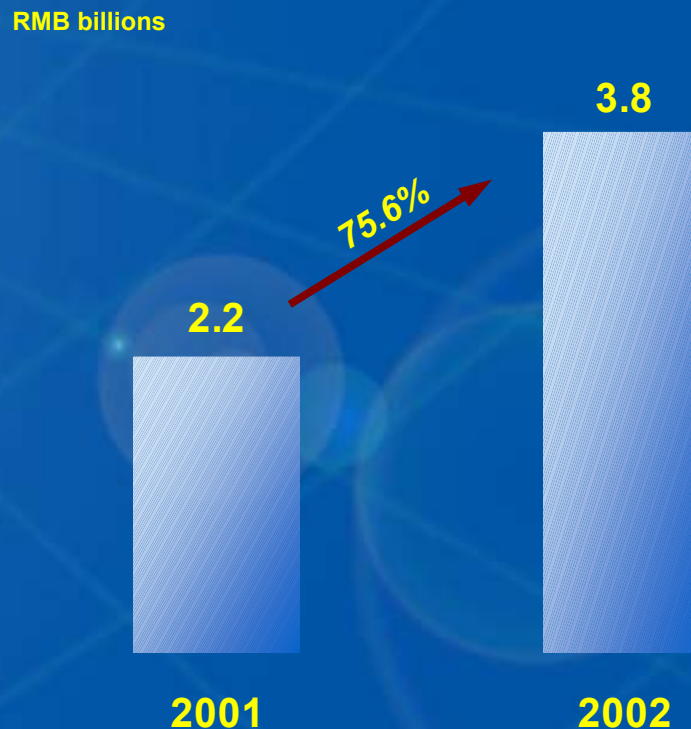
# Broadband: Explosive Growth



## Broadband Subscribers



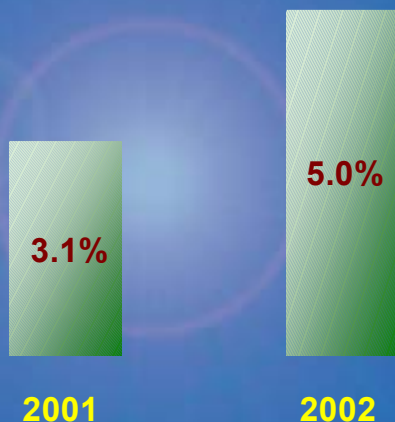
## Internet Access Revenue



# Broadband: The High-margin, High-growth Star

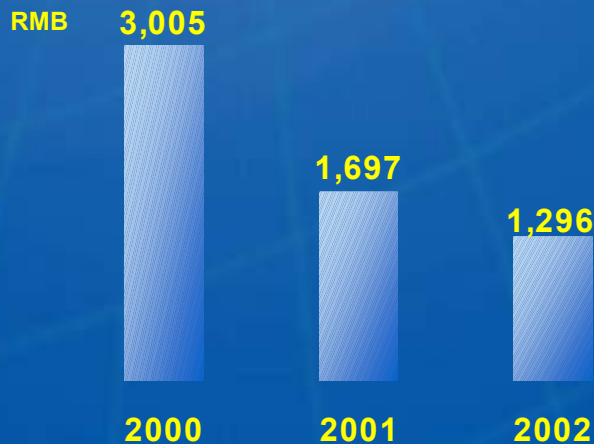


## Revenue Contribution <sup>(1)</sup>



<sup>(1)</sup>Internet access revenue, incl. dial-up and broadband

## ADSL Capex per Sub <sup>(2)</sup>



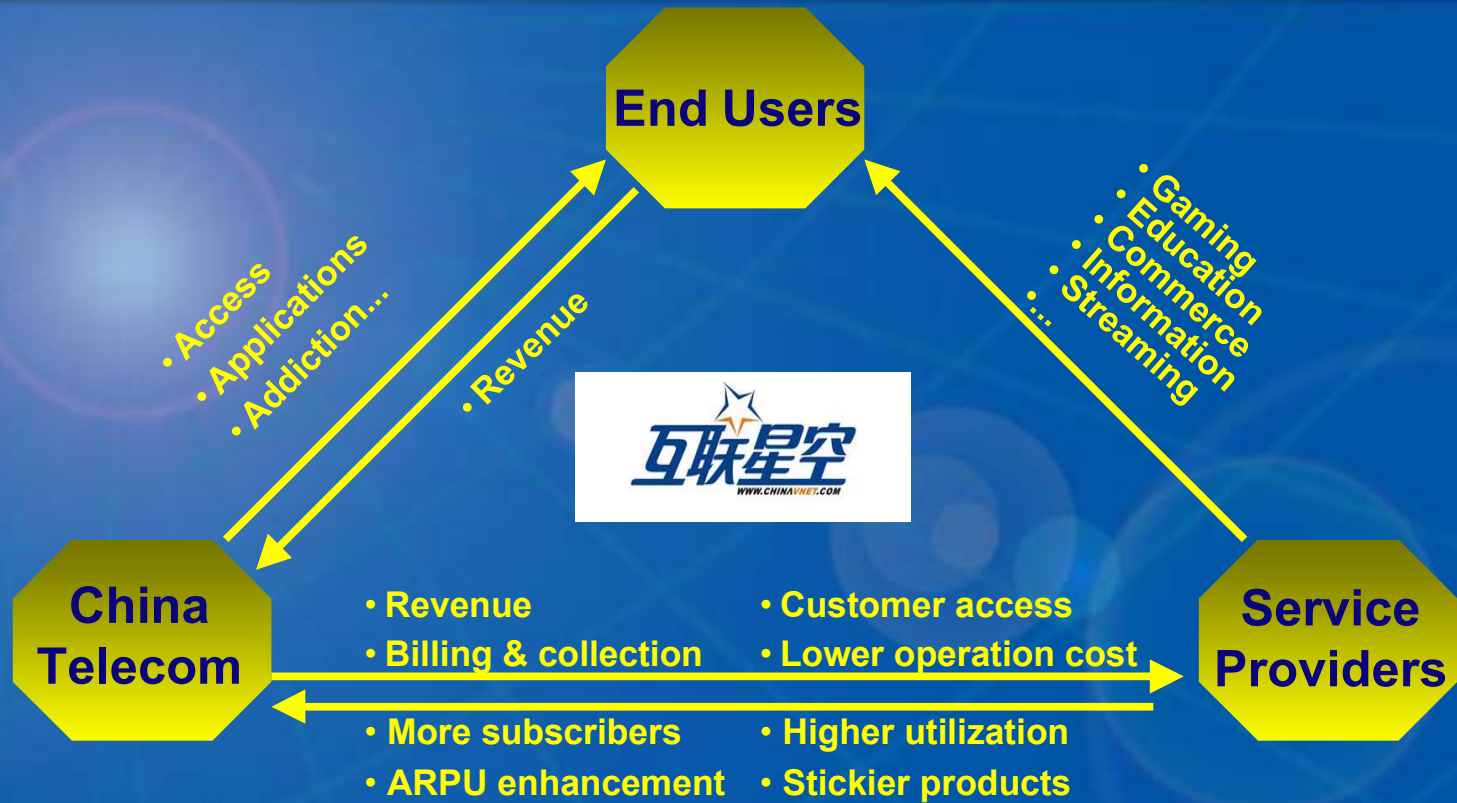
<sup>(2)</sup> Including capex in local transmission network

## Business Focus

- Leverage our huge subscriber base and dominant control of the “last mile”
- Maintain premium product positioning through brand building and superior quality
- Promote proliferation of applications through access-application interaction



# Broadband: Access-Application Interaction -- the ChinaVnet Model

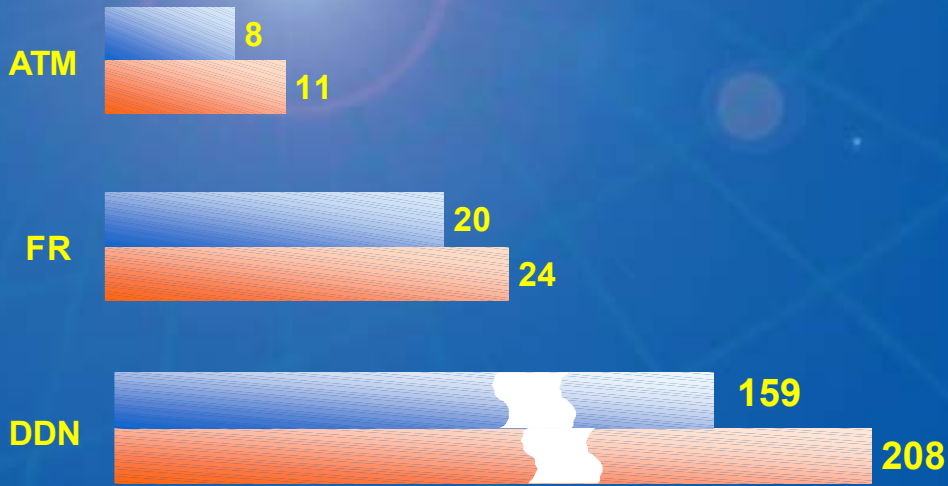


# Managed Data: Robust Bandwidth Demand Driving Growth



## Managed Data Usage <sup>(1)</sup>

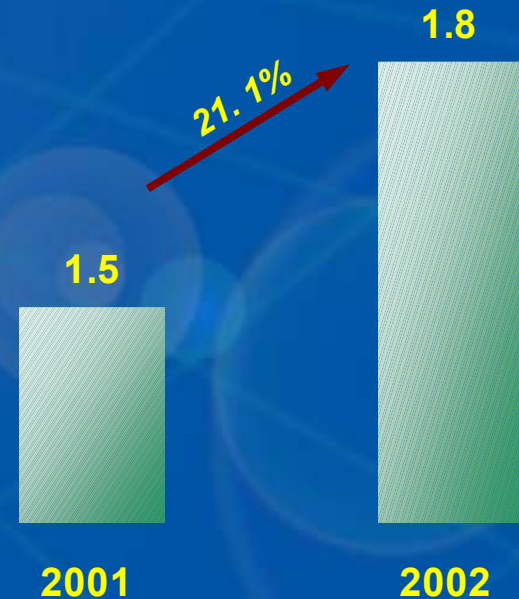
Equivalent ports in '000



(1) ATM in 2M equivalent; FR in 128k equivalent; DDN in 64k equivalent

## Managed Data Revenue

RMB billions



# Managed Data: Continue our Strategic Focus on Large Enterprise Customers



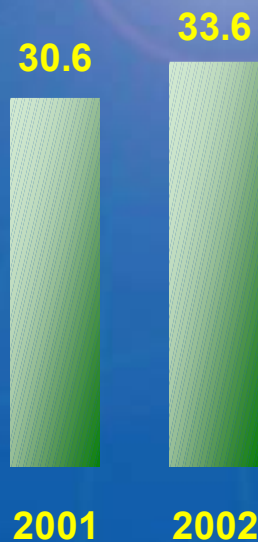
<u>Bandwidth</u>	<u>Voice &amp; Internet</u>	<u>Application solutions</u>
<ul style="list-style-type: none"> <li>• Digital leased line</li> <li>• DDN</li> <li>• ATM</li> <li>• IP-VPN</li> </ul>	<ul style="list-style-type: none"> <li>• 800</li> <li>• Conference Call</li> <li>• Centrex</li> <li>• 4008</li> </ul>	<ul style="list-style-type: none"> <li>• Industry-specific IT solutions</li> <li>• Intra-Networking</li> <li>• Video conference</li> <li>• Call center</li> </ul>

# DLD: Healthy Traffic Growth

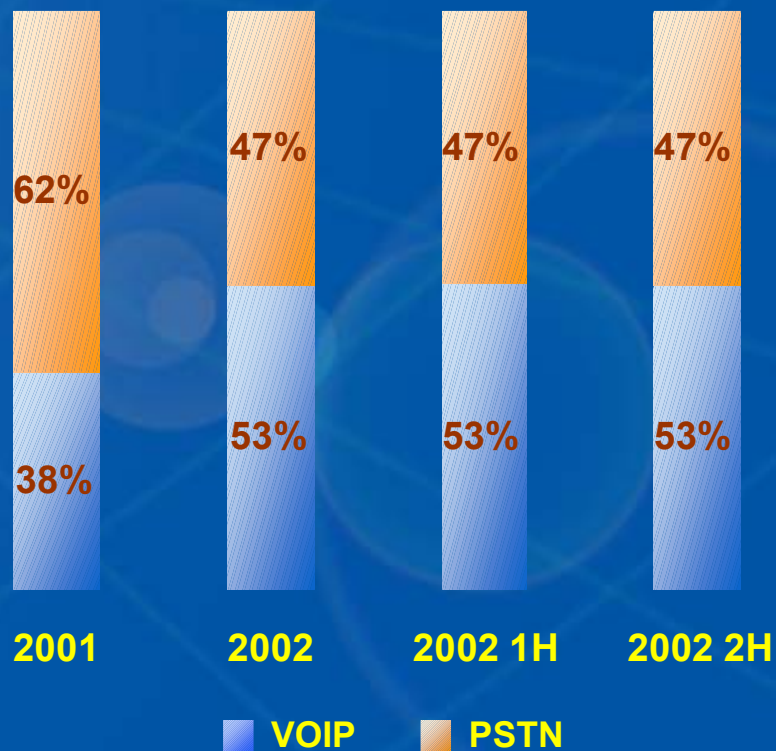


## DLD Traffic Volume

Minutes in billions



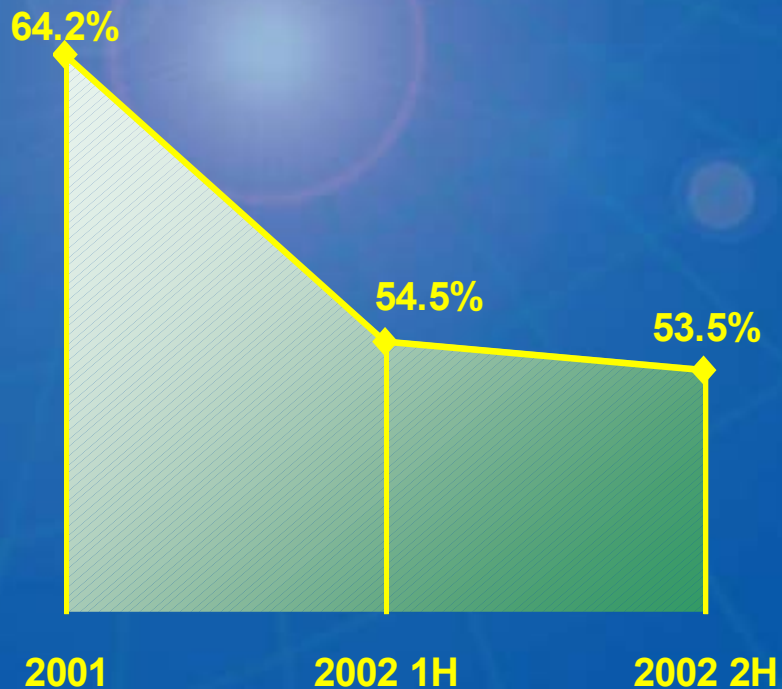
## Traffic Volume Breakdown



# DLD : Encouraging Revenue Trend



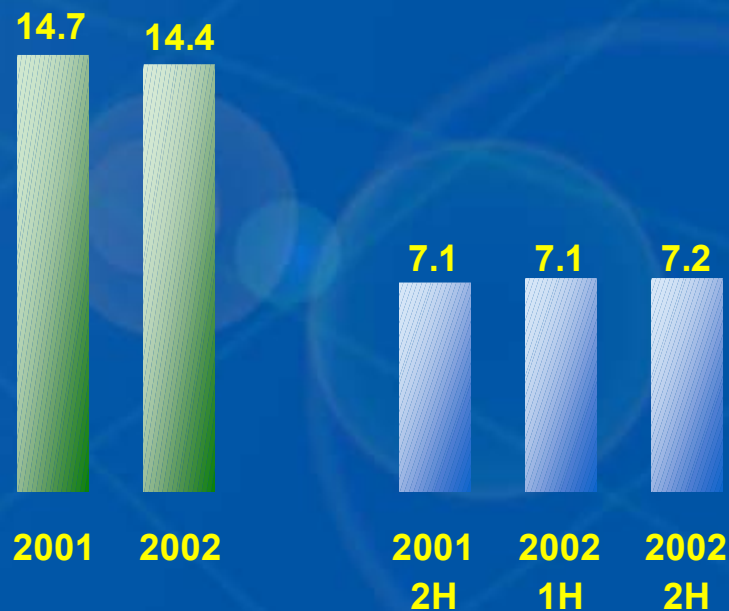
## DLD Market Share <sup>(1)</sup>



(1) Market share in terms of traffic volume

## DLD Revenue

RMB billions

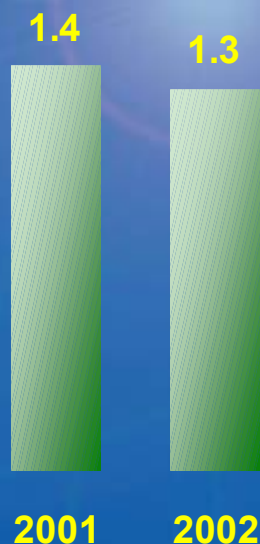


# IDD (1): Again, Encouraging Stabilisation



## IDD Traffic Volume (1)

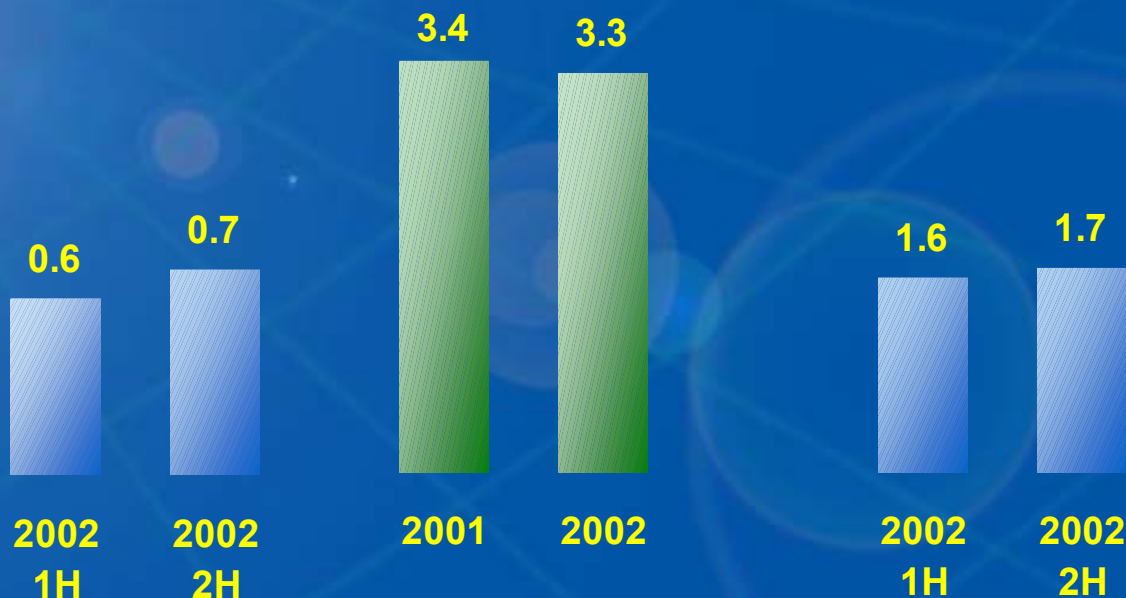
Minutes in billions



(1) Including calls to HK, Macao and Taiwan

## IDD Revenue (1)

RMB billions



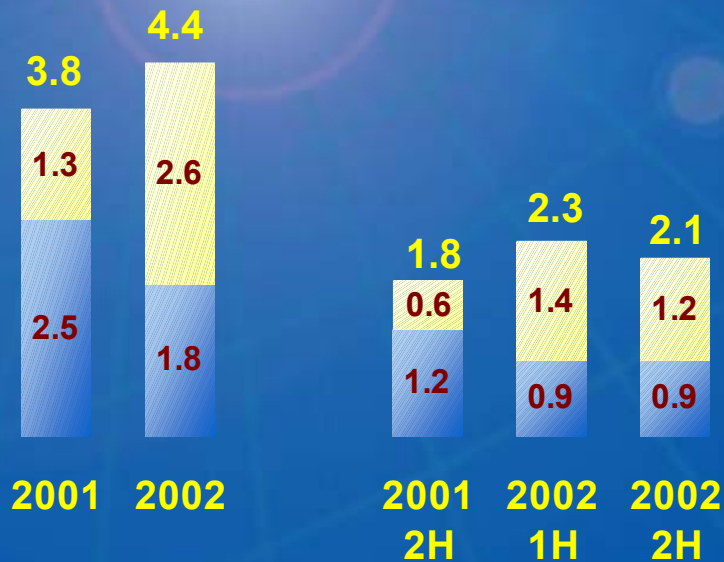
(1) Including calls to HK, Macao and Taiwan

# Interconnection and Leased Line: Steady Growth Ahead



## Interconnection

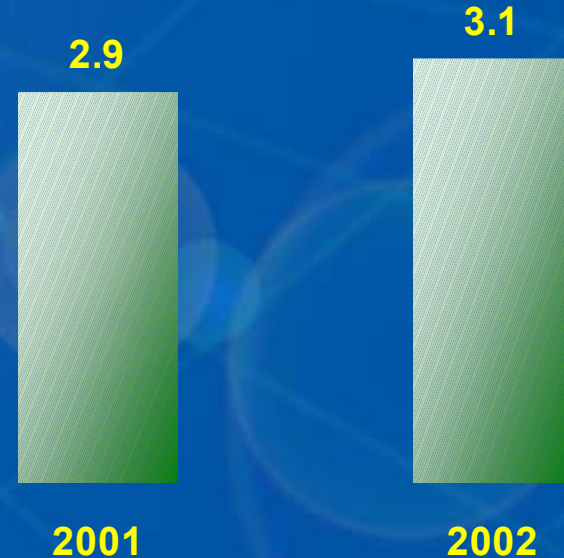
RMB billions



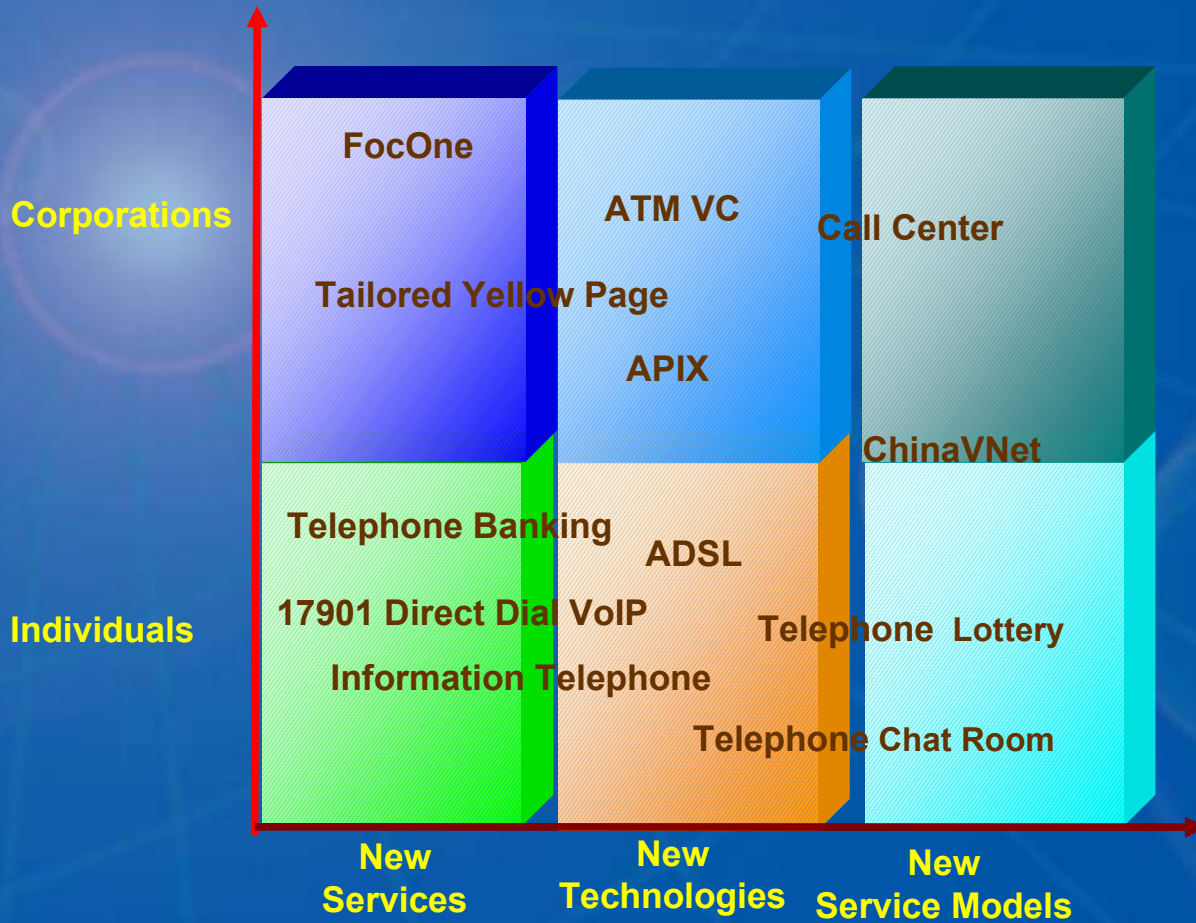
- Net Interconnection Revenue
- Interconnection Expenses

## Leased Line Revenue

RMB billions



# VAS: A Brave New World...





# Restructuring: Re-inventing China Telecom



## Enhanced Competitiveness

- **Operational Efficiency gains**
- **Greater market responsiveness**

- **Consolidate four distribution channels**
- **Improve customer satisfaction through segmentation and differentiation**
- **Move more personnel to the front-end and increase cost flexibility**

- **Centralize key business responsibilities**
- **Streamline key business procedures**

- **Establish market-oriented, flat organizational structure comprising "Front-end" and Back-end"**
- **SLA between front-end and back-end**

- **Establish KPI & merit based compensation**
- **Re-design and implement CTG-MBOSS**



# Financial Review

# Solid Financial Results



**Revenue growth: 10.1%**

**EBITDA growth: 12.5%, margin up 1.2 p.p.**

**Net income growth: 13.4%, margin up 0.6 p.p.<sup>(1)</sup>**

**Capex reduction: 27.8%, down RMB 11.1 billion**

**Free cash flow: RMB 6.2 billion, up 12.8 billion**

**Total debt to capitalization ratio: 17.4%**

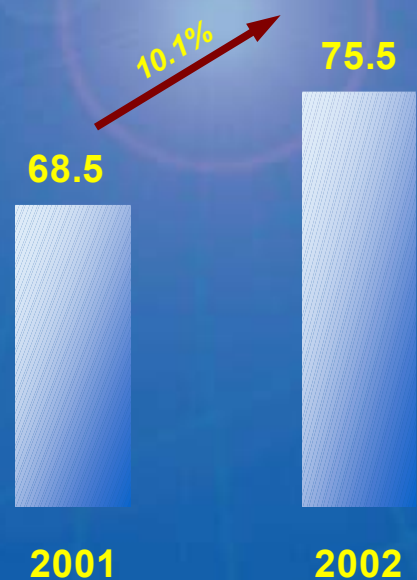
(1)Excluding effects of one-time revaluation deficit in 2001

# Strong Top-line and Bottom-line Growth



## Revenue

RMB billions



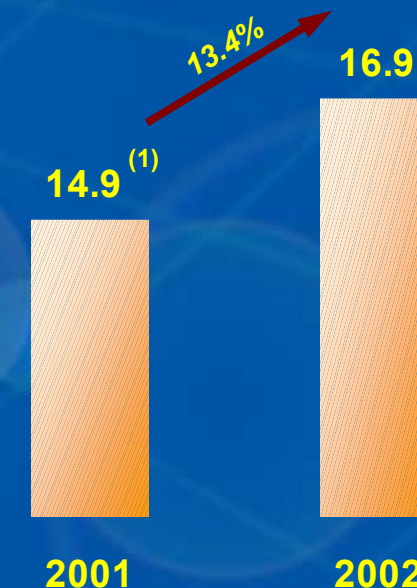
## EBITDA

RMB billions



## Net Income

RMB billions



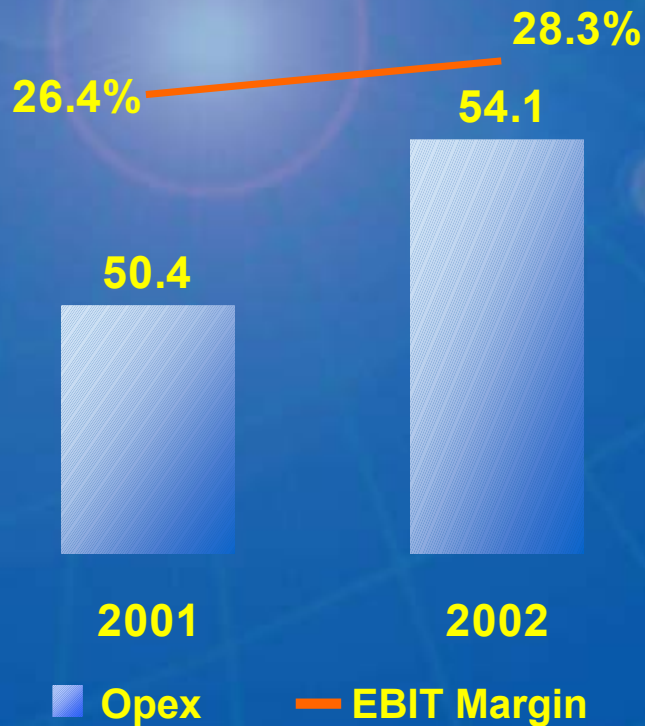
(1) Excluding effects of one-time revaluation deficit in 2001

# Strictly-controlled Opex and Improved Profitability



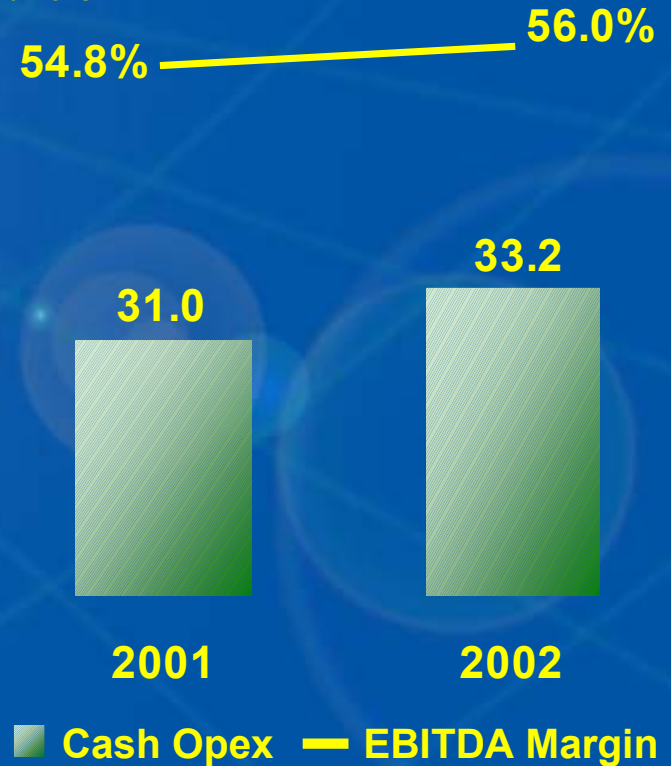
## Opex and EBIT margin

RMB billions



## Cash Opex and EBITDA margin

RMB billions

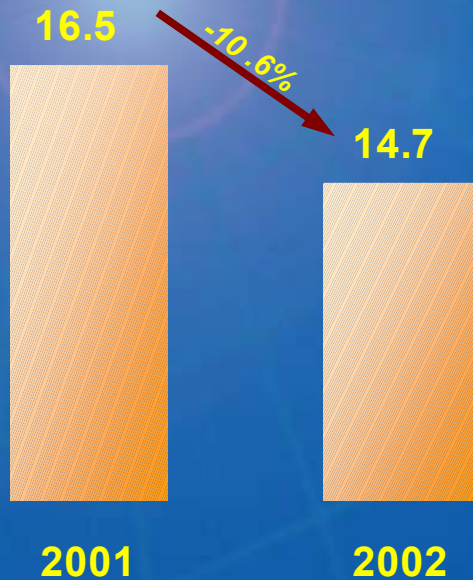


# Rationalised Opex Structure

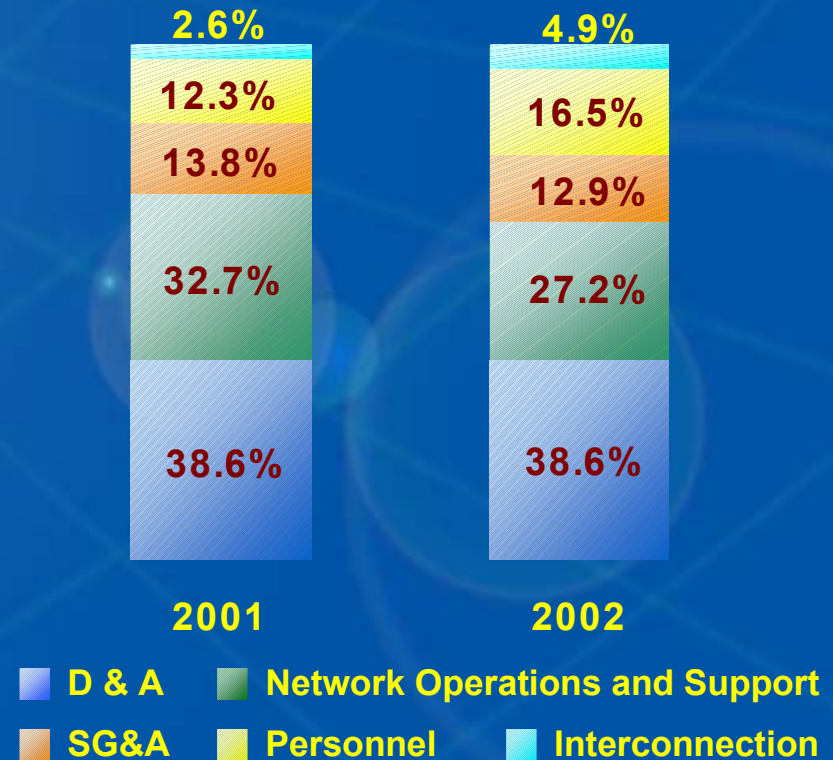


## Network Operations & Support

RMB billions



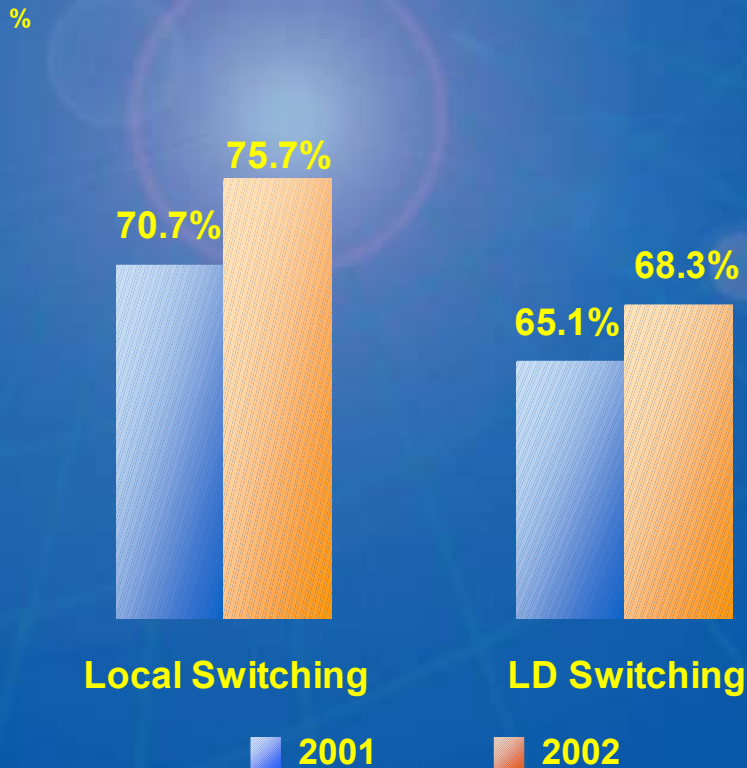
## Opex Breakdown



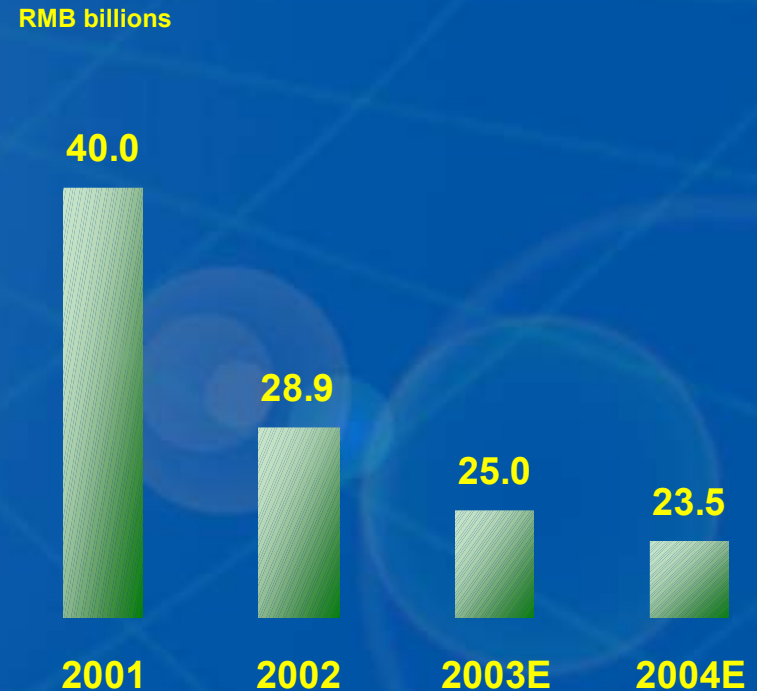
# Improved Network Efficiency and Reduced Capex



## Network Utilization Ratio



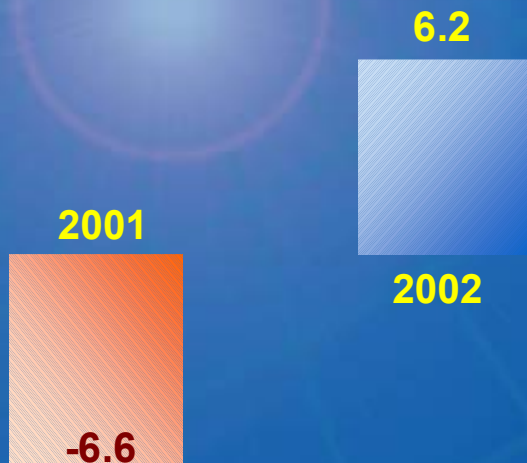
## Capital Expenditure



# Significantly Improved Cash Flow and Return

## FCF (1)

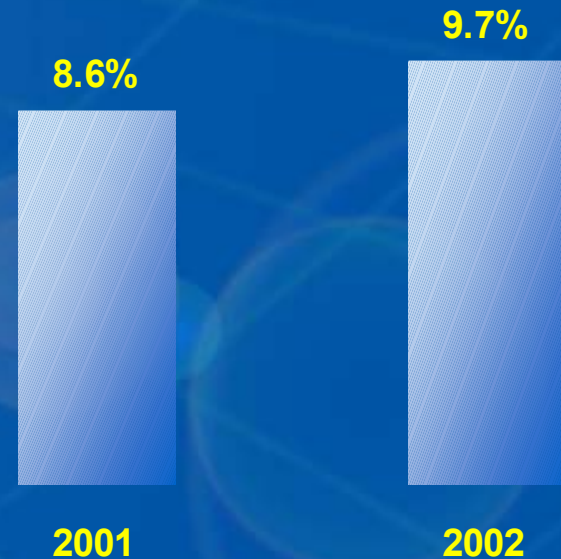
RMB billions



(1) FCF=Cash generated from operations+Income tax-capex  
2001 income tax excludes effects of one-time revaluation deficit

## ROE (2)

%



(2) Excluding effects of one time revaluation deficit in 2001; excluding up-front connection fees



# Continue to Enhance Financial Efficiency and Create Shareholder Value

- Implement comprehensive budget control and further centralize procurement and cash management
- Continue to temper expense growth and improve expense structure
- Exercise strict control over capital expenditure
- Improve capital structure through potential acquisitions
- Pay dividend of HK\$ 0.065 per share for 2002; Maintain consistency and sustainability of dividend policy

# Solid Capital Structure



<b>RMB Mn</b>	<b>2002</b>	<b>2001</b>
<b>Short Term Debt</b>	<b>21,394</b>	<b>22,486</b>
<b>Long Term Debt</b>	<b>4,853</b>	<b>7,112</b>
<b>Total Debt</b>	<b>26,247</b>	<b>29,598</b>
<b>Shareholder's Equity</b>	<b>125,008</b>	<b>97,485</b>
<b>Total Book Capitalization</b>	<b>151,255</b>	<b>127,083</b>
<b>Cash and Cash Equivalents</b>	<b>16,423</b>	<b>3,882</b>
<b>Net Debt</b>	<b>9,824</b>	<b>25,716</b>
<b>Total Debt/Total Capitalization</b>	<b>17.4%</b>	<b>23.3%</b>
<b>Total Debt/EBITDA</b>	<b>0.20</b>	<b>0.67</b>
<b>EBIT/Interest Expense</b>	<b>39</b>	<b>13</b>



# **China Telecom: Realize the Best of the Information Age**

## **Thank You**

# Extract from audited consolidated profit and loss for the year ended December 31, 2002 -- Appendix I



Amounts in Mn, except for per share data	2002	2001
Operating Revenues	75,496	68,546
Operating Expenses	54,118	50,448
Operating Profit	21,378	18,098
Net Finance (Cost)/Income	(632)	293
Taxation	(3,855)	69
Profit Attributable to shareholders	16,864	6,883
EBITDA	42,260	37,549
EPS	0.24	0.22 <sup>(1)</sup>
Weighted Average Shares	69,242	68,317

(1) Excluding effects of one-time revaluation deficit in 2001

# Extract from audited consolidated balance sheet at December 31, 2002 -- Appendix II



<b>RMB Mn</b>	<b>2002</b>	<b>2001</b>
<b>Cash and Cash Equivalents</b>	<b>16,423</b>	<b>3,882</b>
<b>Other Current Assets</b>	<b>10,079</b>	<b>10,246</b>
<b>Non-current Assets</b>	<b>184,350</b>	<b>175,206</b>
<b>Total Assets</b>	<b>210,852</b>	<b>189,334</b>
<b>Current Liabilities</b>	<b>57,627</b>	<b>57,444</b>
<b>Non-current Liabilities</b>	<b>27,083</b>	<b>33,465</b>
<b>Minority Interests</b>	<b>1,134</b>	<b>940</b>
<b>Shareholder's Equity</b>	<b>125,008</b>	<b>97,485</b>
<b>Total Liabilities and Equity</b>	<b>210,852</b>	<b>189,334</b>