



中国电信

CHINA TELECOM

2004 Interim Results Presentation



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. Further information regarding these risks, uncertainties and other factors is included in the Company’s most recent Annual Report on Form-20 filed with the U.S. Securities and Exchange Commission (the “SEC”) and in the Company’s other filing with the SEC.



Management Introduction

Mr. CHANG Xiaobing

President & COO

Ms. WU Andi

Executive Vice President & CFO

Mr. LI Ping

Executive Vice President & Company Secretary



Agenda

Summary 2004 Interim Results

Business Review

Financial Review

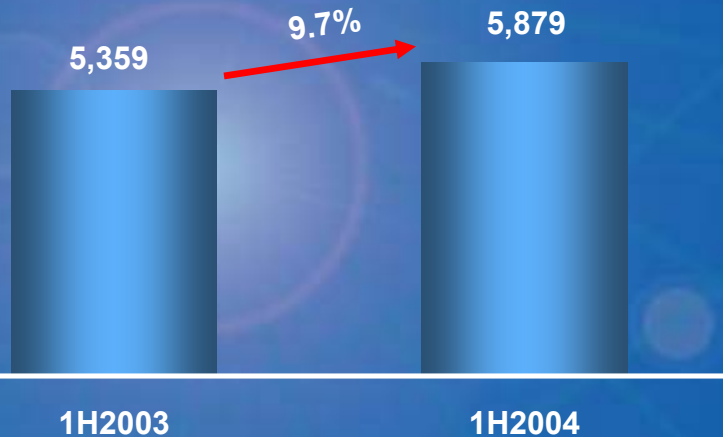


Summary 2004 Interim Results



Sustained and Rapid Industry Growth

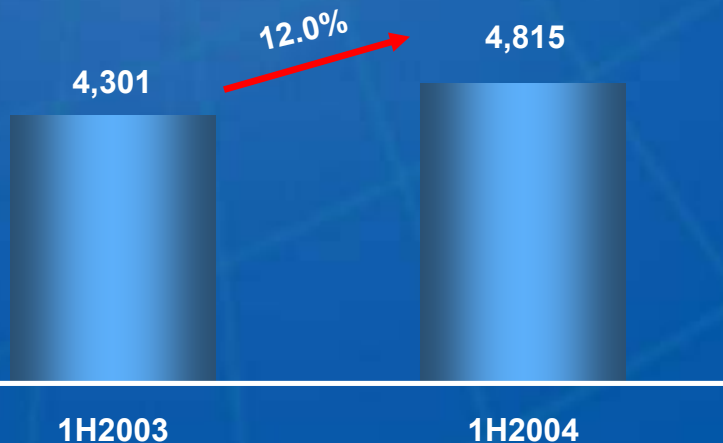
GDP (RMB Billion)



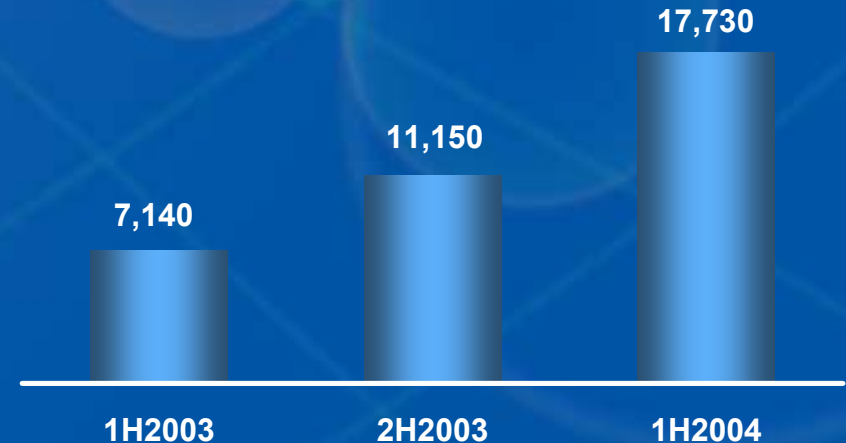
Access Lines in Service (Million)



Disposable Income Per Capita (RMB)



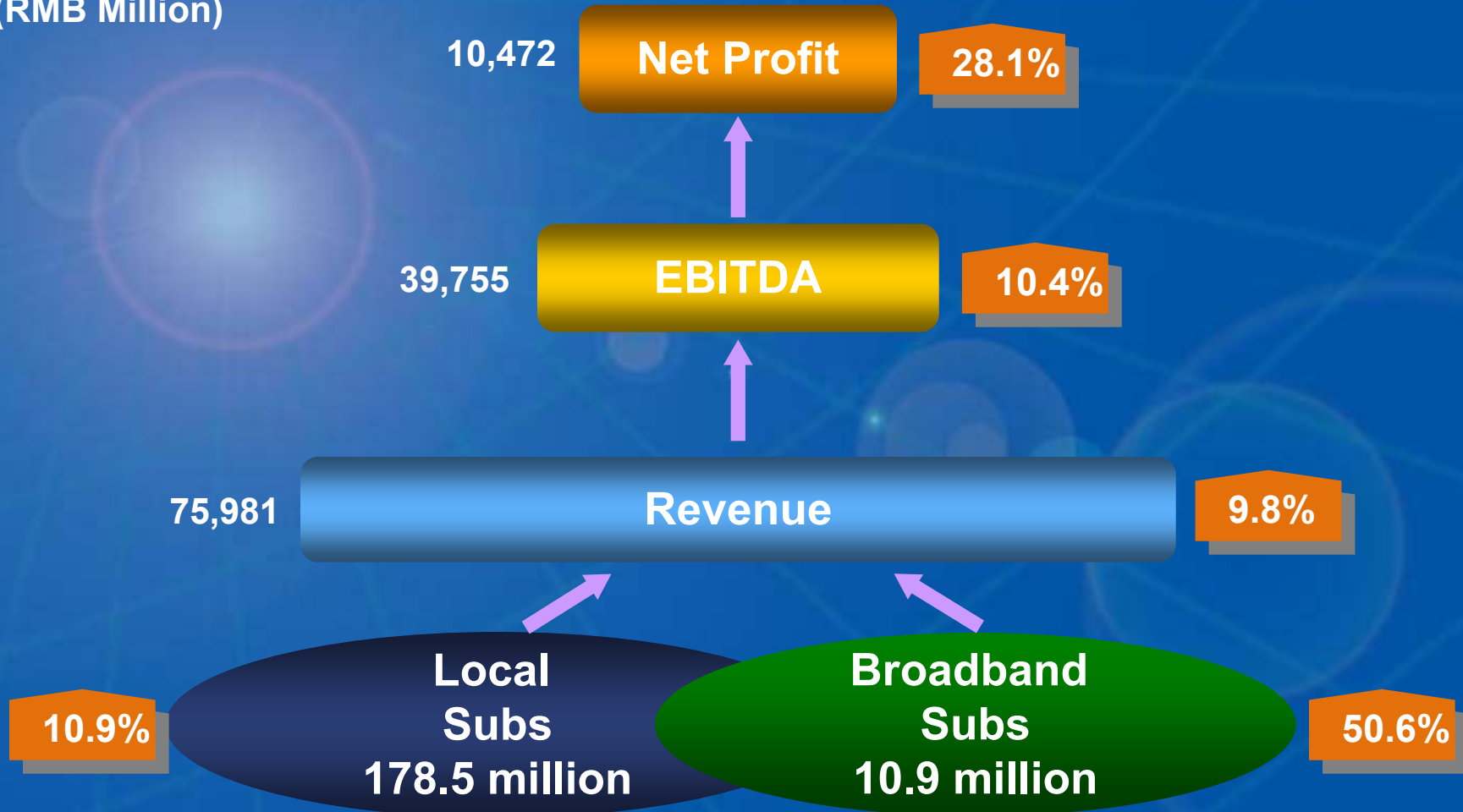
Broadband Subs (Thousand)





Excellent Financial Results in 1H2004

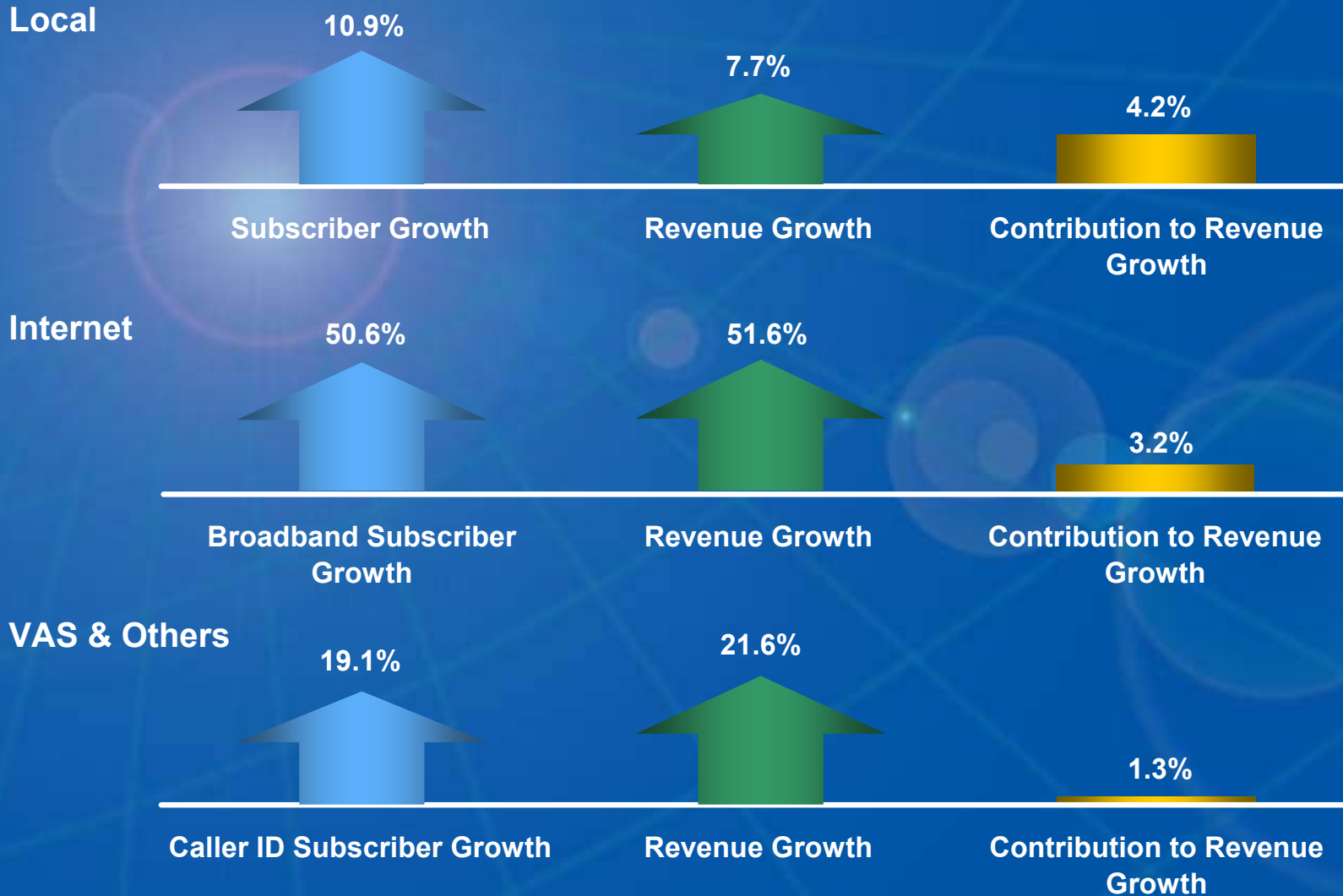
(RMB Million)



Note: (1) Financial results growth rates are on a year-over-year basis. Subscriber growth rates are since the last reporting period.
(2) Unless otherwise stated, all financial data used herein are un-audited, exclude upfront connection fees, and assume our current service areas have been operated by us since the beginning of 2003.



Stable Growth in 1H2004



Note: (1) Revenue growth rates are on a year-over-year basis. Subscriber growth rates are since the last reporting period.



Management Initiatives

Sales and Marketing Infrastructure

- Refine channel management; improve channels' execution capability
- Targeted product bundling marketing strategy showing positive results
- Restructure sales and marketing operations along products, markets and sales dimensions
- Improve brand value

Financial Management

- Further implement company-wide budget management
- Effectively control total operating expenses and capital expenditure
- Rationalize cost structure

Transformation Management

- Performance evaluation centered on value creation
- Further implement human resources reforms
- BPR implementation yield early results

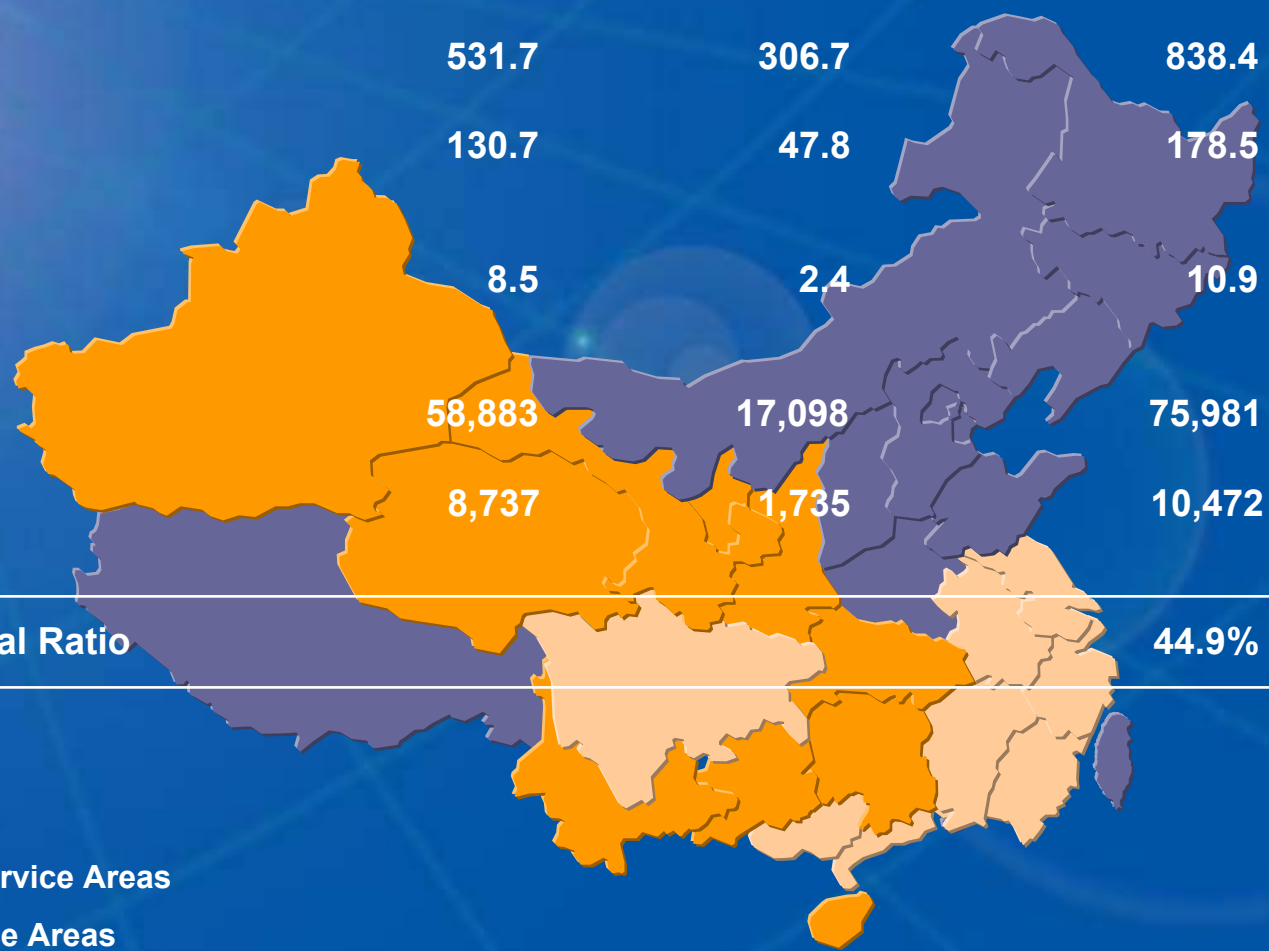
Internal Control

- Standardize internal control policies, implement internal control responsibility system
- Improve multi-level internal control evaluation system

Successful Completion of 10 Provinces Acquisition and Related Equity Offering



As of June 30, 2004	Original 10 Provinces	New 10 Provinces	China Telecom (Combined)
Population (Million)	531.7	306.7	838.4
Access Lines in Service (Million)	130.7	47.8	178.5
Broadband Subs (Million)	8.5	2.4	10.9
Revenue (RMB Million)	58,883	17,098	75,981
Net Profit (RMB Million)	8,737	1,735	10,472
Total Debt to Total Capital Ratio			44.9%

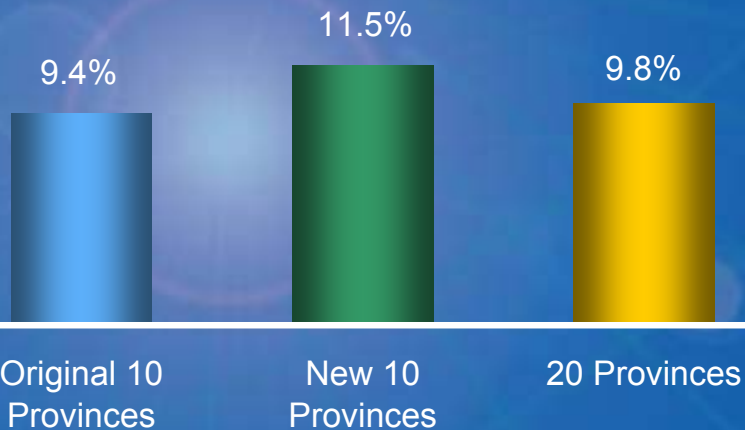


- Original 10 Provinces Service Areas
- New 10 Provinces Service Areas

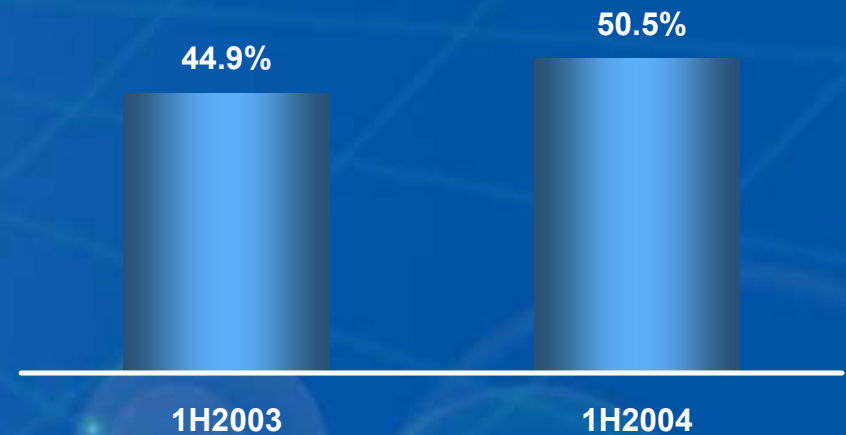
Substantial Improvement in New 10 Provinces Results



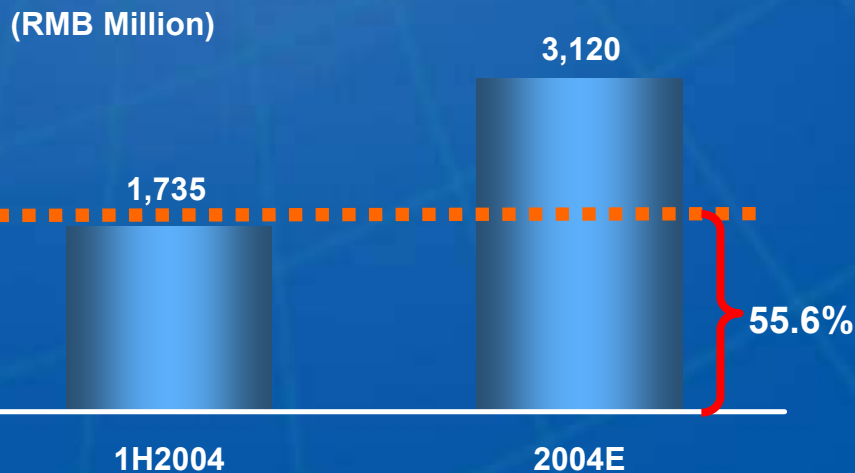
Revenue Growth Outpace Original 10 Provinces



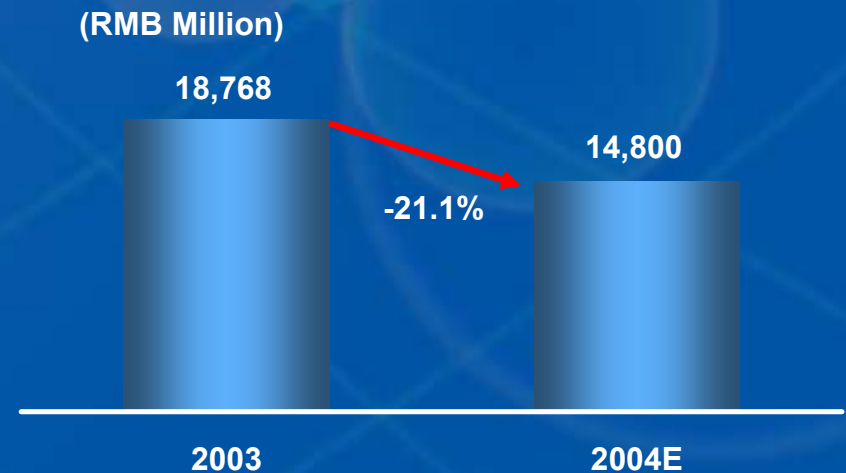
Improved EBITDA Margin



Net Profit Meeting Expectation



Capital Expenditure





Business Review

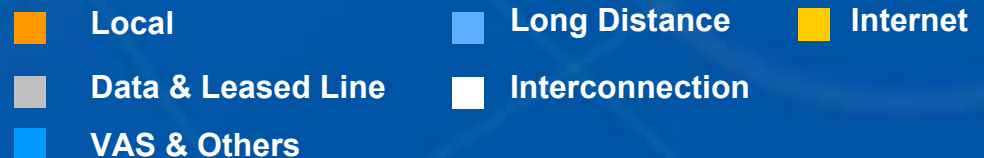
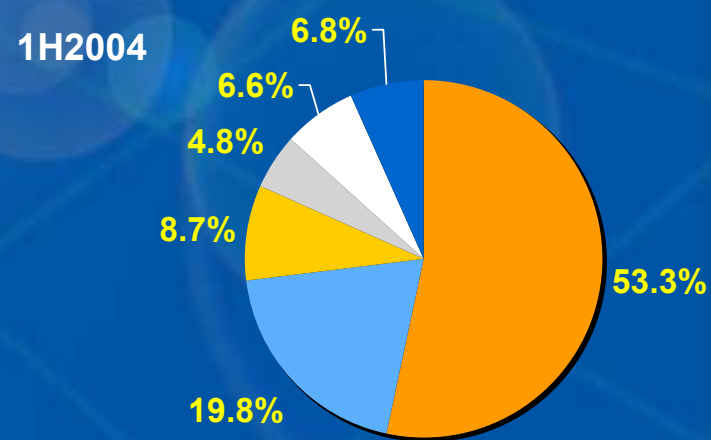
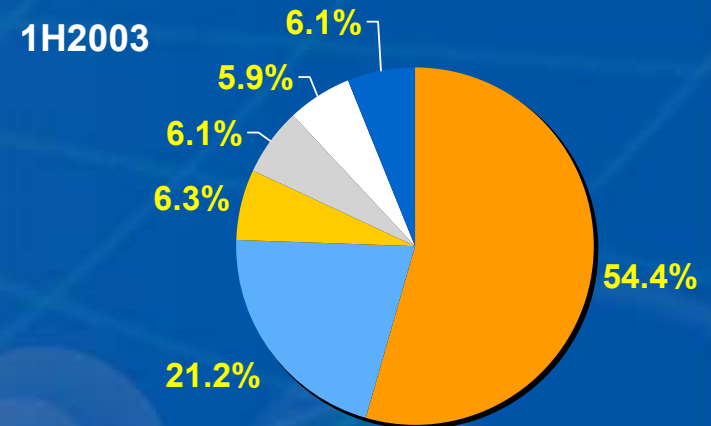


1H2004 Operating Results

Revenue

(RMB Million)	1H2003	1H2004	Δ %
Total	69,182	75,981	9.8%
Including:			
Local	37,616	40,527	7.7%
Internet	4,355	6,602	51.6%
Long Distance	14,644	15,051	2.8%
Data & Leased Line	4,236	3,636	-14.2%
Interconnections	4,095	5,013	22.4%
VAS and Others	4,236	5,152	21.6%

Revenue Share

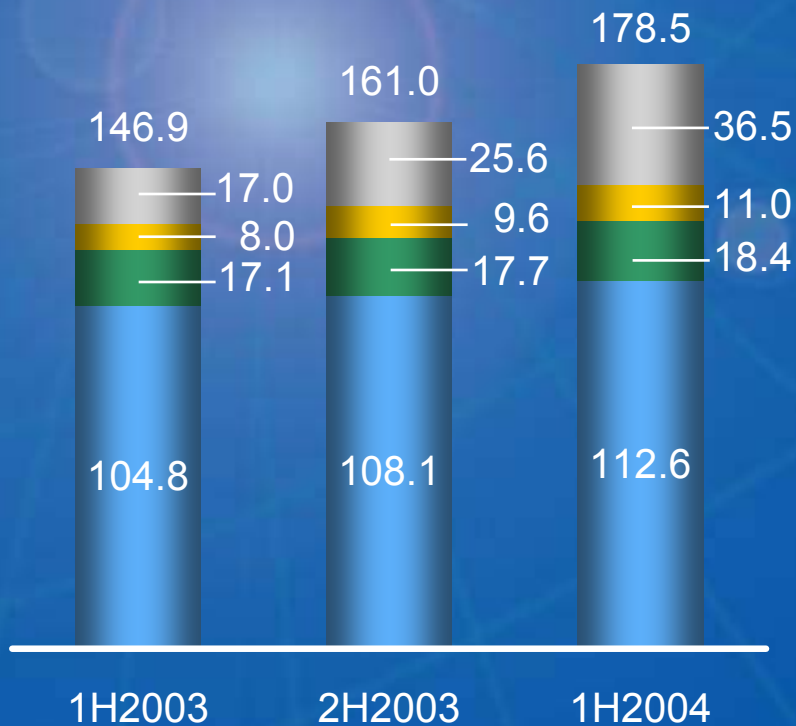




Growth in Access Lines in Service

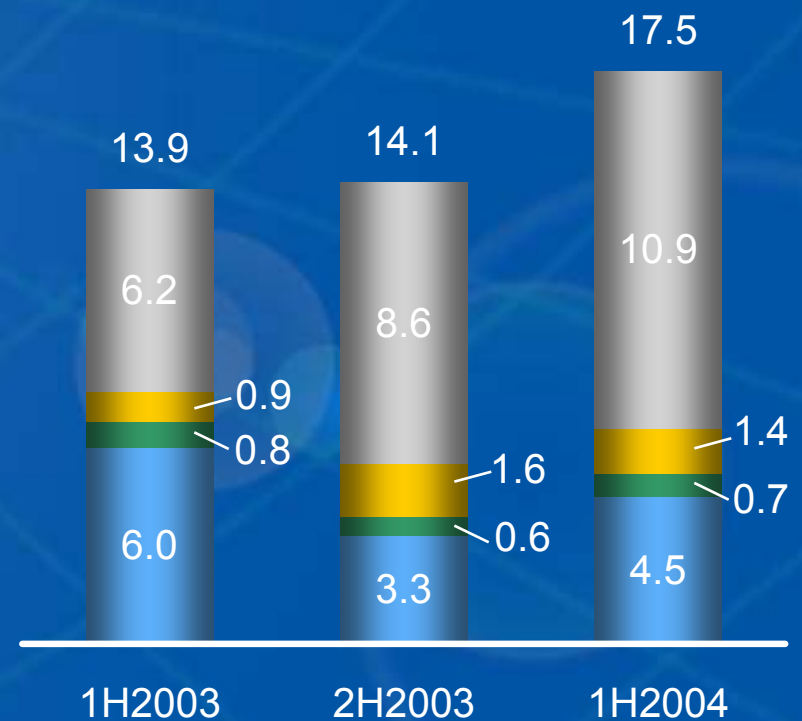
Access Lines in Service

(Million)



New Access Lines in Services

(Million)



■ Residential ■ Enterprise ■ Public Telephone ■ Wireless Local Access



Growth in Local Telephone Usage

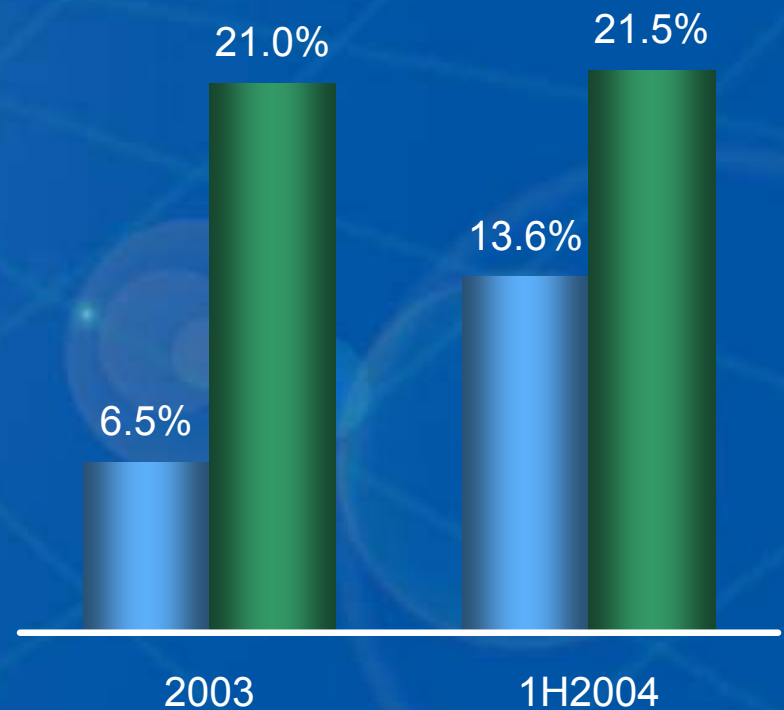
Local Telephone Usage

(Pulses in Million)



- Local Voice Usage
- Local Dial-up Usage
- Growth Rate of Local Voice Usage (excluding dial-up usage)

Realizing Early Results of Usage-based Marketing Initiatives



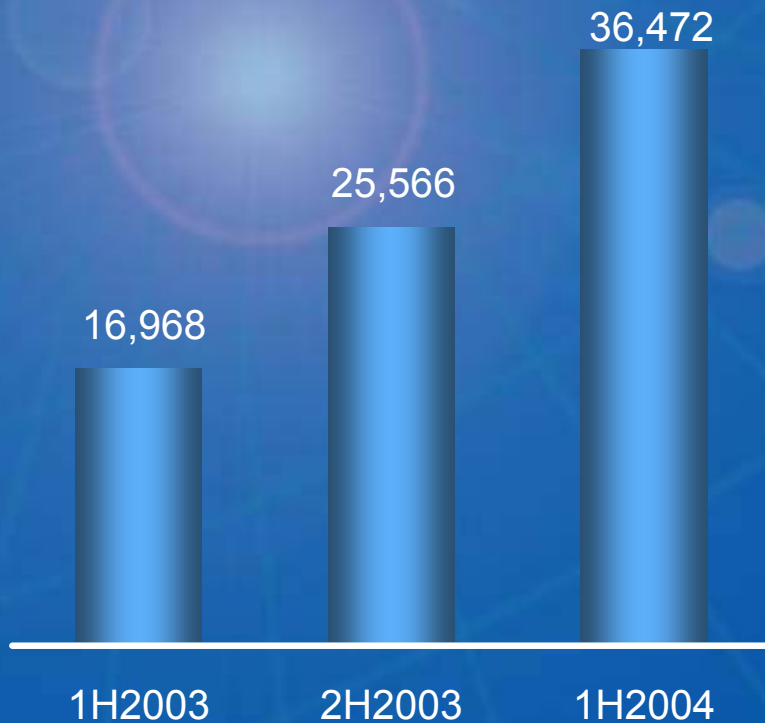
- YoY Growth Rate of Local Voice Usage (excludes dial-up usage)
- YoY Growth Rate of Local Telephone Subscribers



Wireless Local Access Service

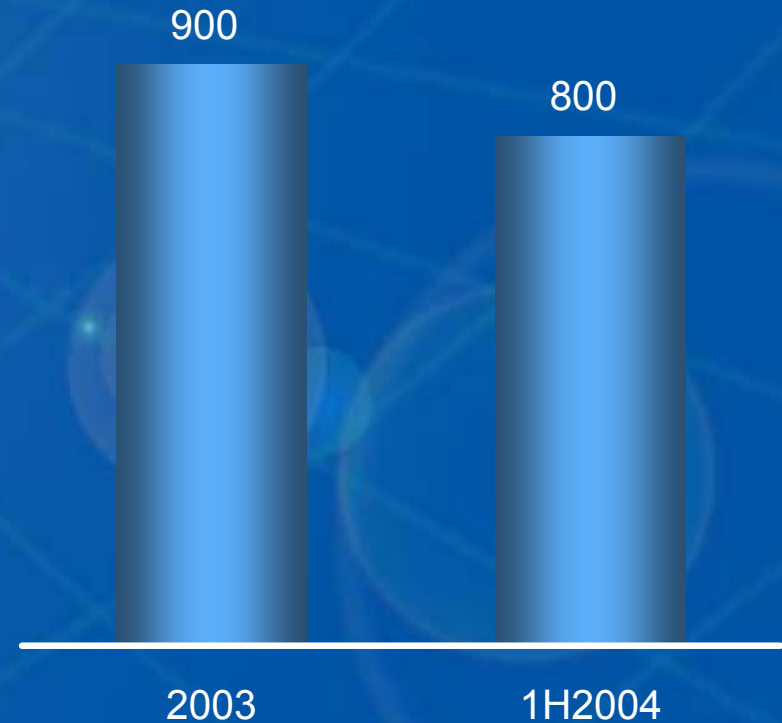
Wireless Local Access
Service Subs

(Thousand)



Per Sub Investment

(RMB per Sub)

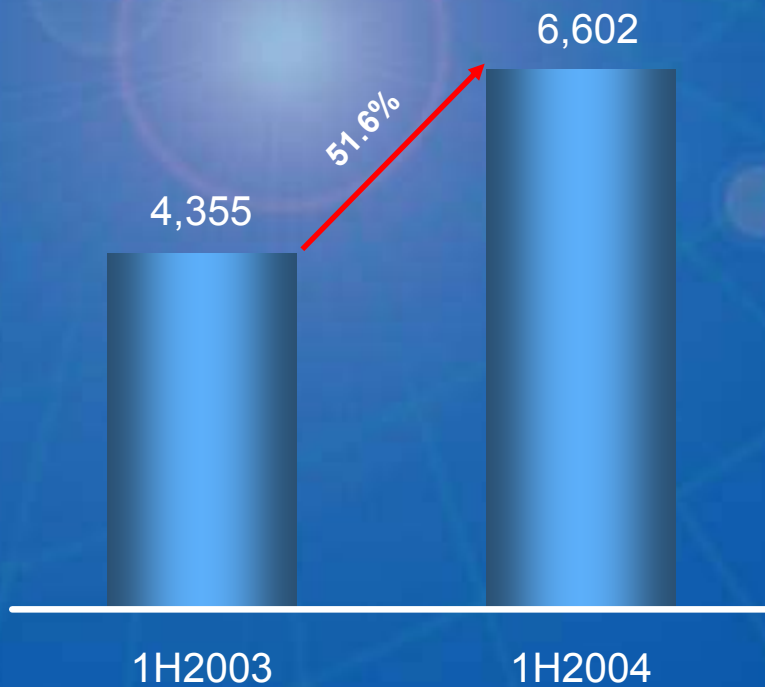


Internet

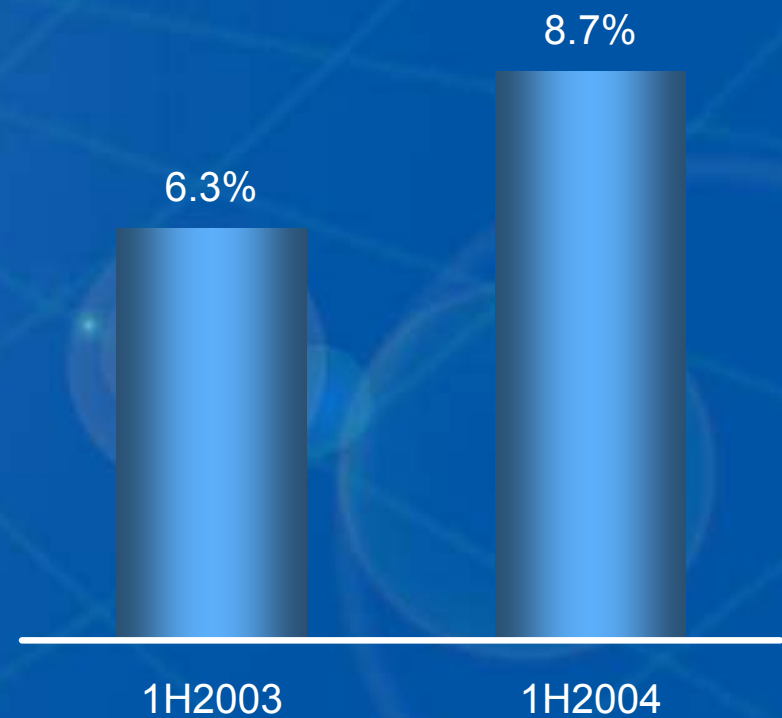


Revenue Growth

(RMB Million)



Revenue Share of Internet Services

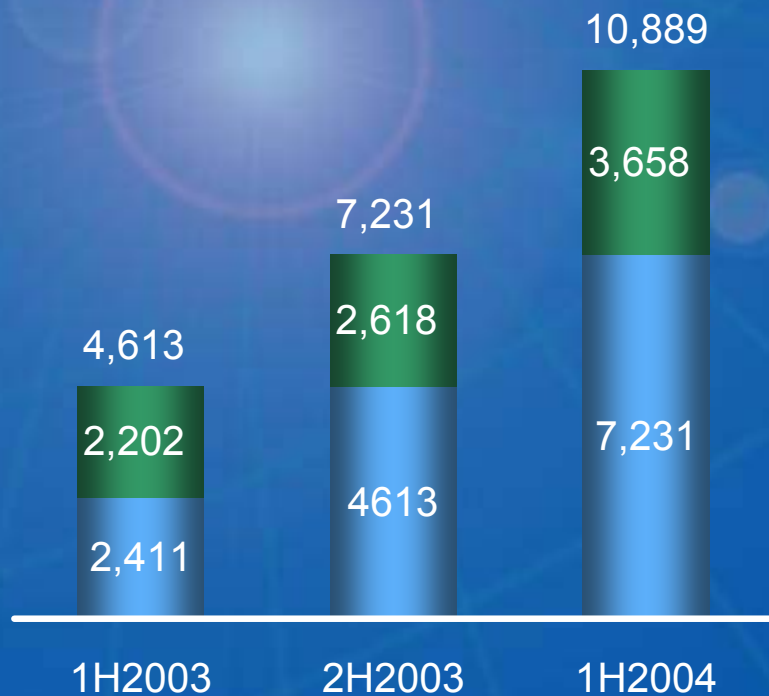




Broadband Continues Rapid Growth

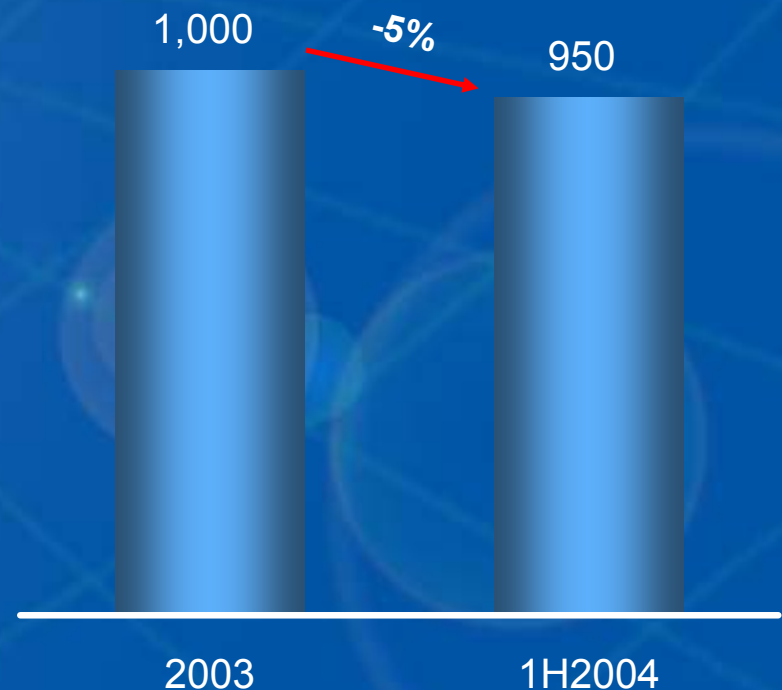
Broadband Subs

(Thousand)



ADSL Per Sub Investment

(RMB per Sub)



- New Broadband Subs
- BoP Broadband Subs



Domestic Long Distance

DLD Usage

(Minutes in Million)



DLD Revenue

(RMB Million)

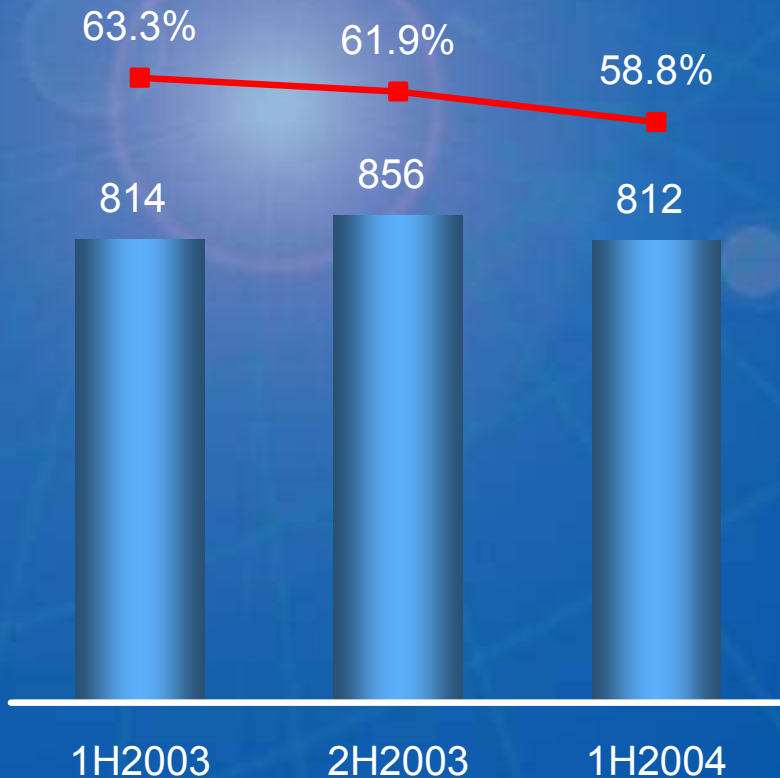




International Long Distance

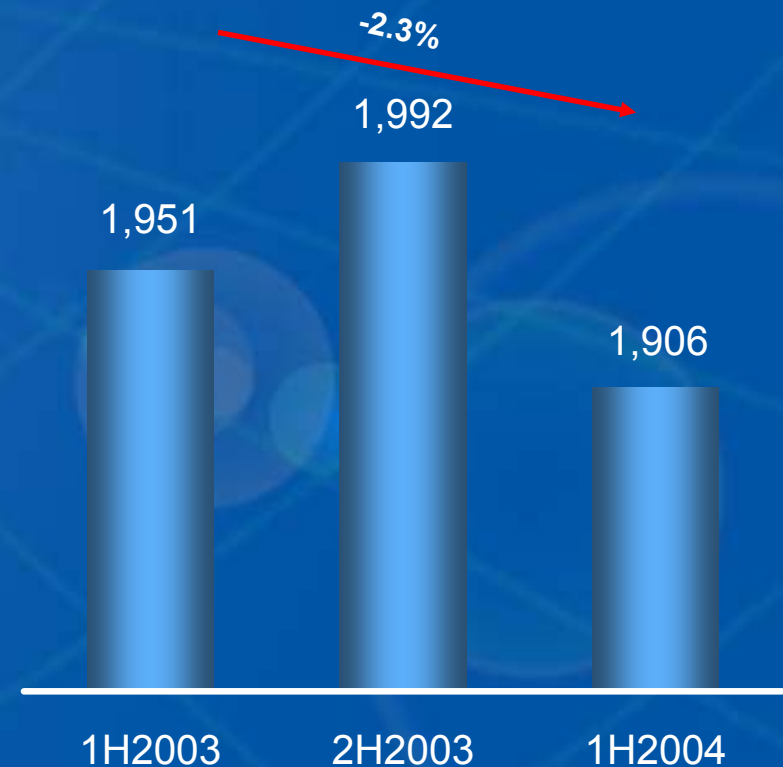
IDD Traffic Volume

(Minutes in Million)



IDD Revenue

(RMB Million)

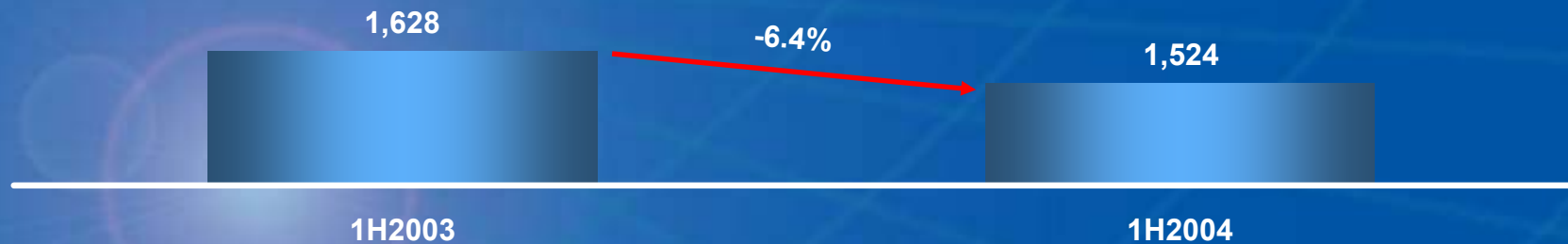


Market Share By Minutes of Usage

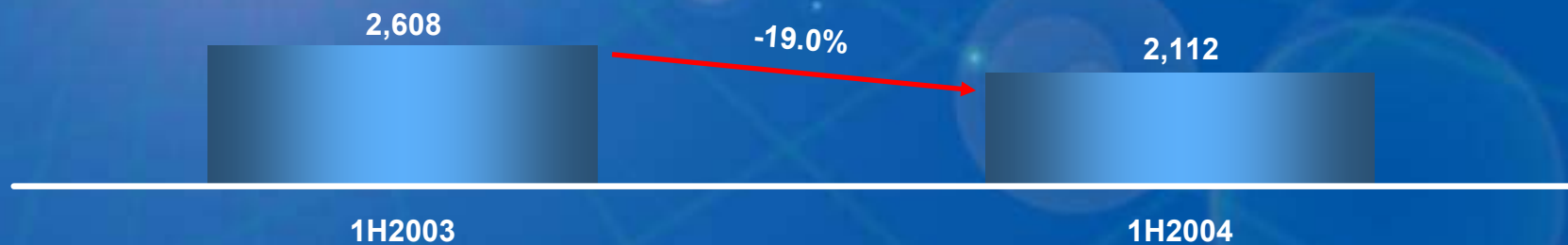
Data, Leased Line & Interconnection



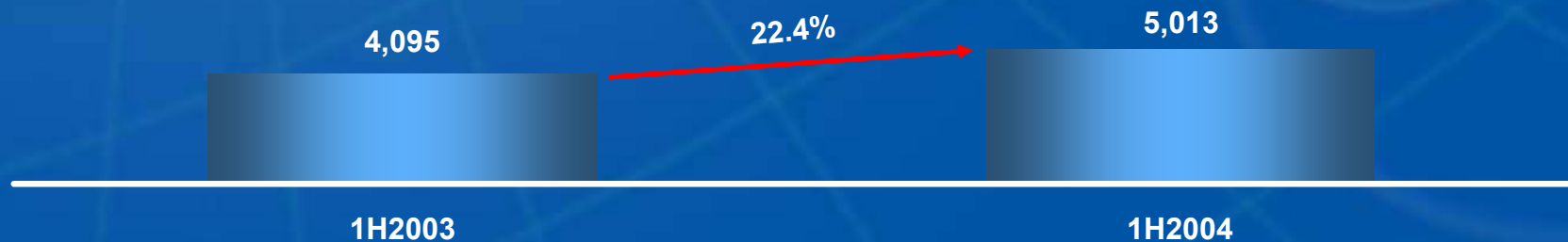
Data Revenue (RMB Million)



Leased Line Revenue (RMB Million)



Interconnection Revenue (RMB Million)





Business Strategies

Local Telephone

- Continue to develop traditional wire-line telephone service and PHS
- Leverage integrated services to market service packages
- Further channel development, strengthen marketing and preservation of existing customer base

Broadband

- Maintain rapid subscriber growth
- Develop broadband application services
- Build a quality brand name and reputation

Value-added Services

- Improve management, new product development, expand and standardize partnership cooperation and strengthen supporting infrastructure and service
- Intensify marketing



Financial Review



Healthy Revenue and Profit Growth

(RMB Million)

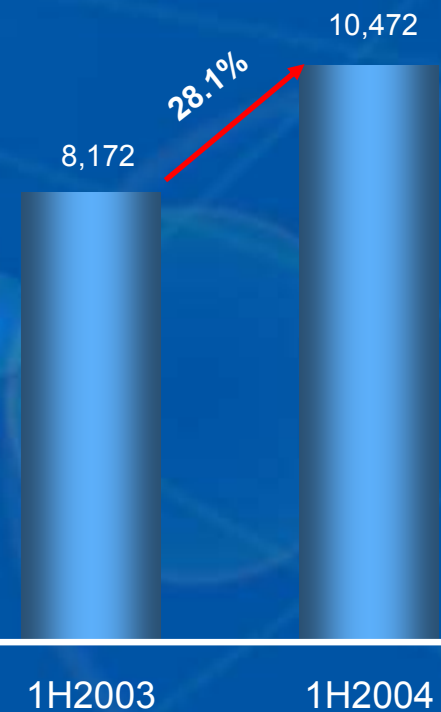
Revenues



EBITDA



Net Profit

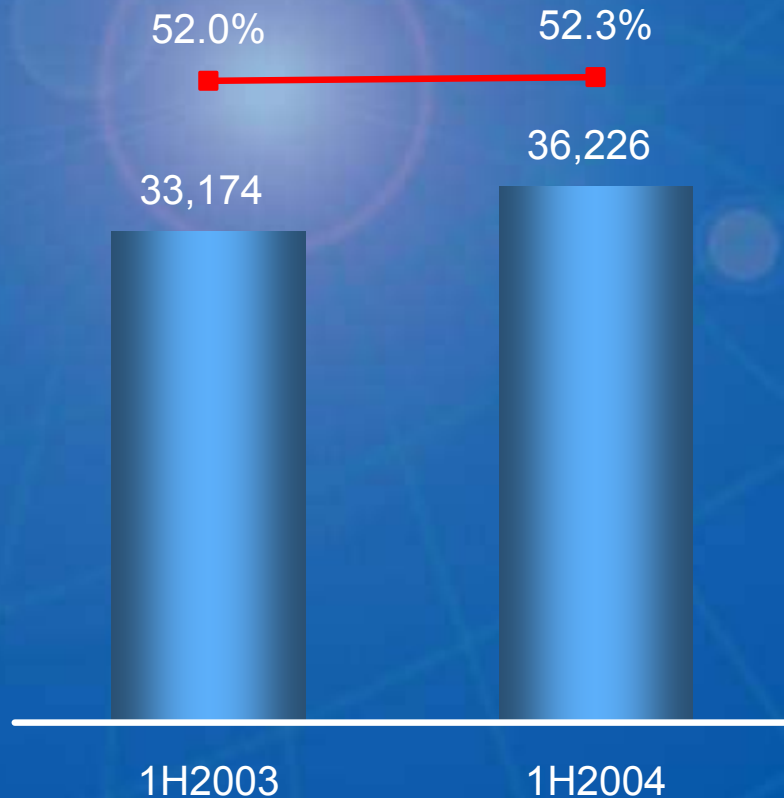


Disciplined Operating Expenses Control, Improved Profitability



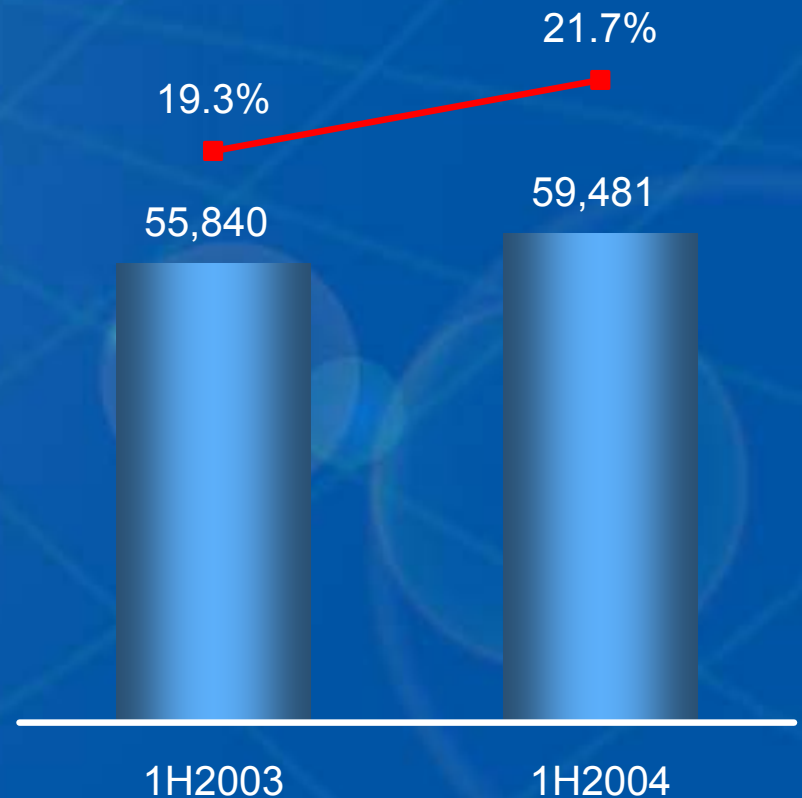
Cash Expenses & EBITDA Margin

(RMB Million)



Operating Expenses & Operating Margin

(RMB Million)



■ Cash Expenses
— EBITDA Margin

■ Operating Expenses
— Operating Profit Margin



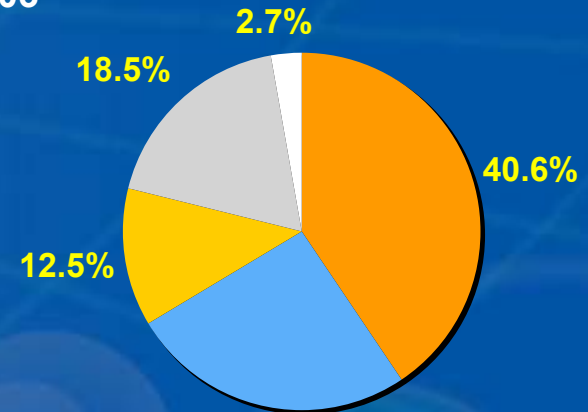
Further Rationalized Cost Structure

Operating Expenses

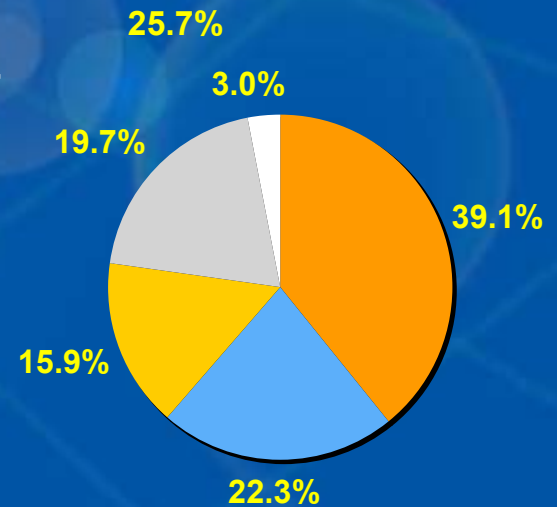
(RMB Million)	1H2003	1H2004	Δ%
Total	55,840	59,481	6.5%
Depreciation & Amortization	22,666	23,255	2.6%
Network Operation & Support	14,336	13,284	-7.3%
SG&A	6,955	9,457	36.0%
Personnel	10,342	11,689	13.0%
Interconnection and Others	1,541	1,796	16.5%

Operating Expenses Share

1H2003



1H2004

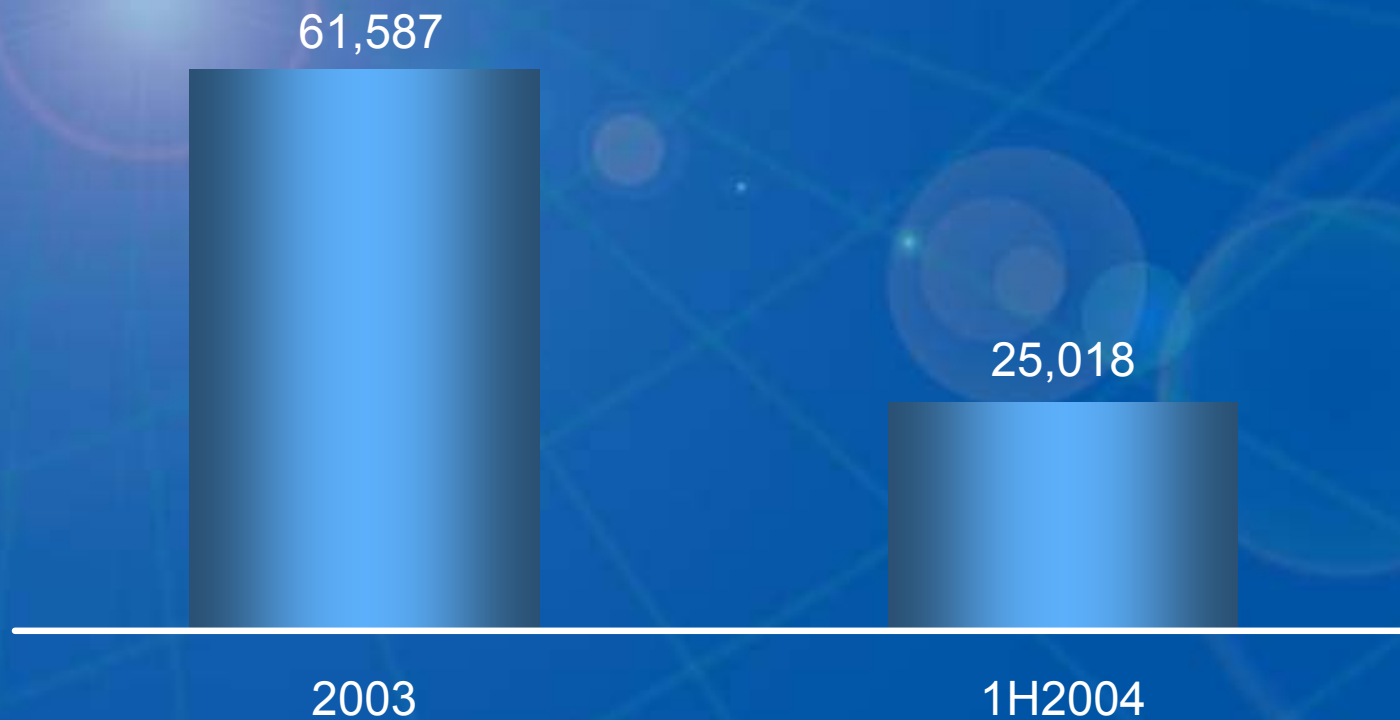




Disciplined Capital Expenditure Control

Capital Expenditure

(RMB Million)





Conclusion

Realized Very Satisfactory Financial Result Through Continued Reform and Innovation

Completed 10 Provinces Acquisition, Realized Operating Synergies

Strengthen Financial Management, Disciplined Operating Expenses and Capital Expenditures Control

Confident of Outlook for 2H2004 Operating Results



Thank You!



Operating Revenue — Appendix I

(RMB Million)	1H2003	1H2004	% Change
Installation Fees	1,301	1,432	10.1%
Monthly Fees	13,829	15,023	8.6%
Local Usage Fees	22,486	24,072	7.1%
Domestic Long Distance	12,693	13,145	3.6%
International Long Distance	1,951	1,906	-2.3%
Internet	4,355	6,602	51.6%
Managed Data	1,628	1,524	-6.4%
Interconnections	4,095	5,013	22.4%
Leased Line Services	2,608	2,112	-19.0%
Other	4,236	5,152	21.6%
Total Operating Revenue (Excluding Upfront Connection Fees)	69,182	75,981	9.8%

Extract from unaudited consolidated statement of income for the 6 months ended 30 June 2004 — Appendix II



(RMB Million)	1H2003	1H2004
Operating Revenues	69,182	75,981
Operating Expenses	55,840	59,481
Depreciation and amortization	22,666	23,255
Network operations and support	14,336	13,284
SG&A	6,955	9,457
Personnel	10,342	11,689
Others	1,541	1,796
Operating Profit	13,342	16,500
Net Finance Costs	1,728	2,341
Taxation	3,333	3,681
Profit attributable to shareholders	8,172	10,472
EBITDA	36,008	39,755

Extract from unaudited consolidated balance sheet at 30 June 2004 — Appendix III



(RMB Million)	Audited at 31 December 2003	Unaudited at 30 June 2004
Cash and Cash Equivalents	12,721	16,710
Other Current Assets	20,372	22,478
Non-current Assets	370,849	372,524
Total Assets	<u>403,942</u>	<u>411,712</u>
Current Liabilities	149,135	161,809
Non-current Liabilities	102,744	103,440
Total Liabilities	<u>251,879</u>	<u>265,249</u>
Minority Interests	1,269	1,349
Shareholders' Equity	<u>150,794</u>	<u>145,114</u>
Total Debt	138,925	153,244
Total Capital	337,589	341,582
Total Debt / Total Capital	41.2%	44.9%
Net Debt	126,204	136,534