



# China Telecom Corporation Limited

28 August 2007

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# 2007 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.**

# Management Team

**Mr. Wang Xiaochu** Chairman & CEO

**Mr. Leng Rongquan** Executive Director, President & COO

**Madam Wu Andi** Executive Director, EVP & CFO

**Overview**

**Business Review**

**Financial Performance**

# Overview

# Highlights

## Solid Performance

Continuous growth in revenue and net profit

## Strategic Transformation Gathering Pace

Driving value for the Company

## Effective CAPEX Control

Strictly controlled CAPEX with structure further enhanced

## Strong Free Cash Flow

On robust trajectory

# Solid Results (Excl. Connection Fees)

## Continuous growth in subscribers, revenue and net profit

	2006.12	2007.6	Growth
Access Lines in Services (Mil)	223.04	224.50	0.7%
Broadband Subs (Mil)	28.32	32.20	13.7%
	1H2006	1H2007	Growth
Operating Revenue (RMB Mil)	84,851	86,958	2.5%
EBITDA (RMB Mil)	44,211	44,551	0.8%
EBITDA Margin	52.1%	51.2%	-0.9pp
Net Profit* (RMB Mil)	11,661	11,816	1.3%
EPS (RMB)	0.144	0.146	1.3%
Free Cash Flow** (RMB Mil)	18,925	19,356	2.3%

Note: \* Net profit used hereinafter represents profit attributable to equity holders of the Company

\*\* Free Cash Flow = EBITDA (Excl. connection fees) – CAPEX – Income Tax

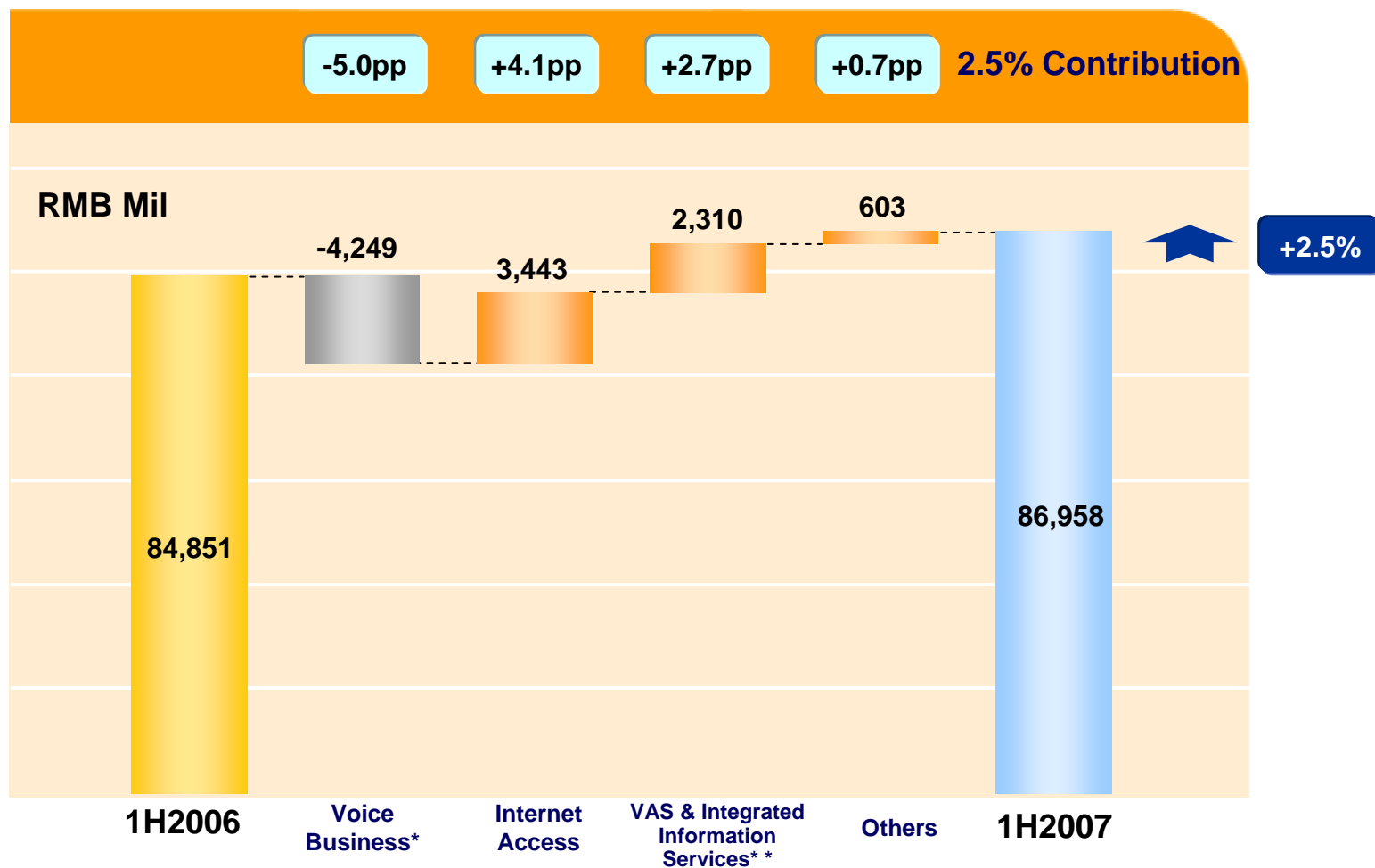
Unless otherwise stated, all financial data used hereinafter are unaudited and include the financial impact of acquisition of China Telecom (HK), China Telecom (US) and China Telecom System Integration, but exclude upfront connection fees

# IFRS-based Results (Incl. Connection Fees)

	1H2006	1H2007
Operating Revenue (RMB Mil)	87,345	88,624
EBITDA (RMB Mil)	46,705	46,217
EBITDA Margin	53.5%	52.1%
Net Profit (RMB Mil)	14,155	13,482
EPS (RMB)	0.175	0.167



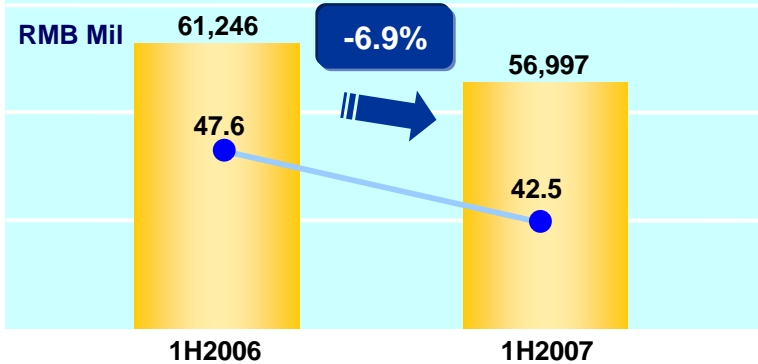
# Revenue Growth Drivers



Note: \* Voice Business Revenue includes Monthly Fees, Local Usage Fees, Upfront Installation Fees, DLD/ILD and Interconnection Revenue  
 \*\* VAS and Integrated Information Services include value-added services like Fixed-line VAS, Internet VAS, Video Applications and integrated information services like Best Tone, Enterprise Informatization Applications and IT Services & Applications

# Vigorously Defend Voice Business

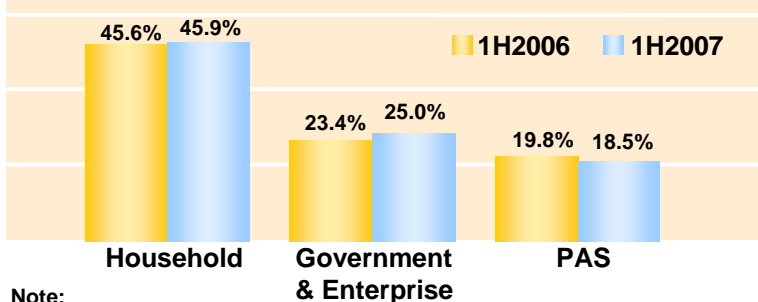
## CT's Voice Revenue \*



● Voice ARPU (RMB)

\* Voice revenue includes Monthly Fees, Local Usage Fees, Upfront Installation Fees, DLD/ILD and Interconnection Revenue

## Voice Revenue Contribution by Customer Segments \*\*



Note:

\*\* Voice revenue contribution by customer segments includes respective Monthly Fees, Local Usage Fees, Upfront Installation Fees, DLD/ILD but excludes Interconnection Revenue

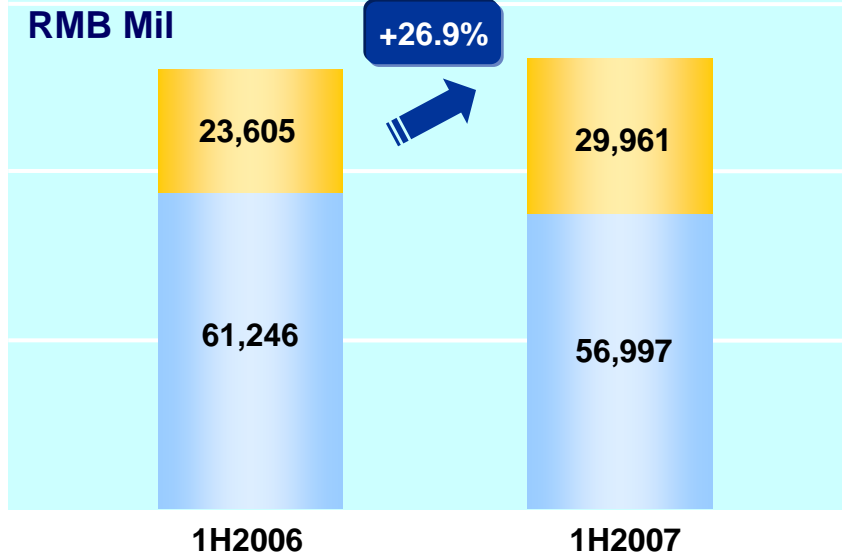
☎ Rapidly declining mobile voice tariff (↓18%yoy) and extensive mobile CPP packages accelerated mobile substitution, especially on PAS & low-end customers

☎ Vigorously defending voice business

- Emphasize profitable development
- Allocate resources tilting towards key customer segments
- Strengthen integrated development with non-voice business

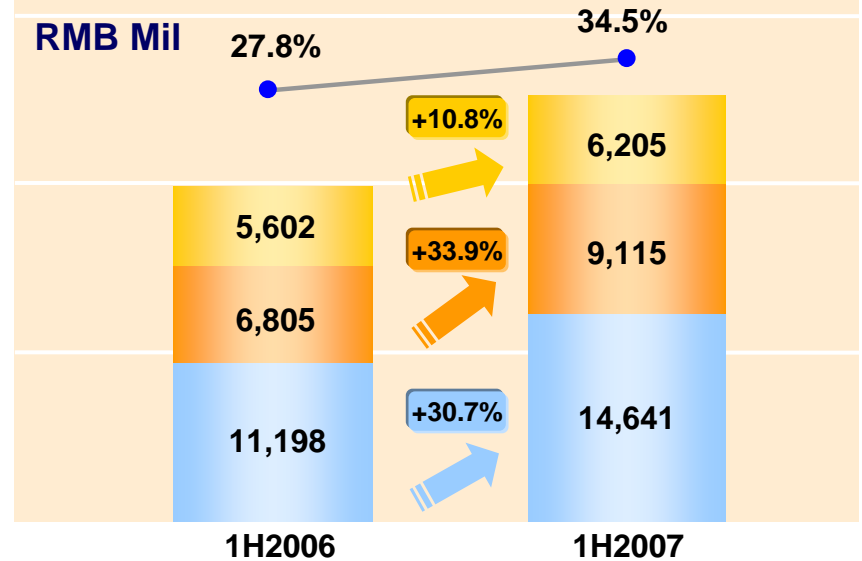
# Strategic Transformation Gathering Pace

## Non-Voice Revenue



Non-Voice Revenue  
 Voice Revenue

## Non-Voice Revenue Composition



Managed Data, Leased Line & Others  
 VAS & Integrated Information Services  
 Internet Access  
 Non-Voice Revenue as a % of Operating Revenue

- Promoting revenue growth**
- Consolidating voice business via convergence offering**
- Seizing competitive advantage for future information services operations**

# Successfully Enhancing Key Customers' Value



- Industry application
- Information application
- Communication application



- e8 package
- e6 package

Strengthened Customer Brand Management

*Enriching brand contents*

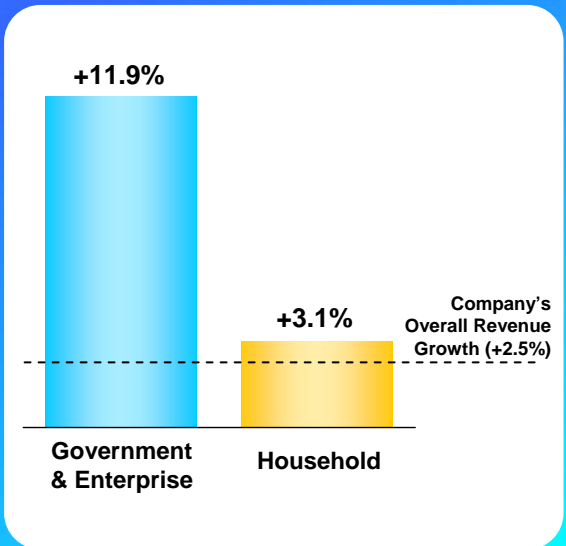
*Improving customers' perception*

*Enhancing key customers' value*

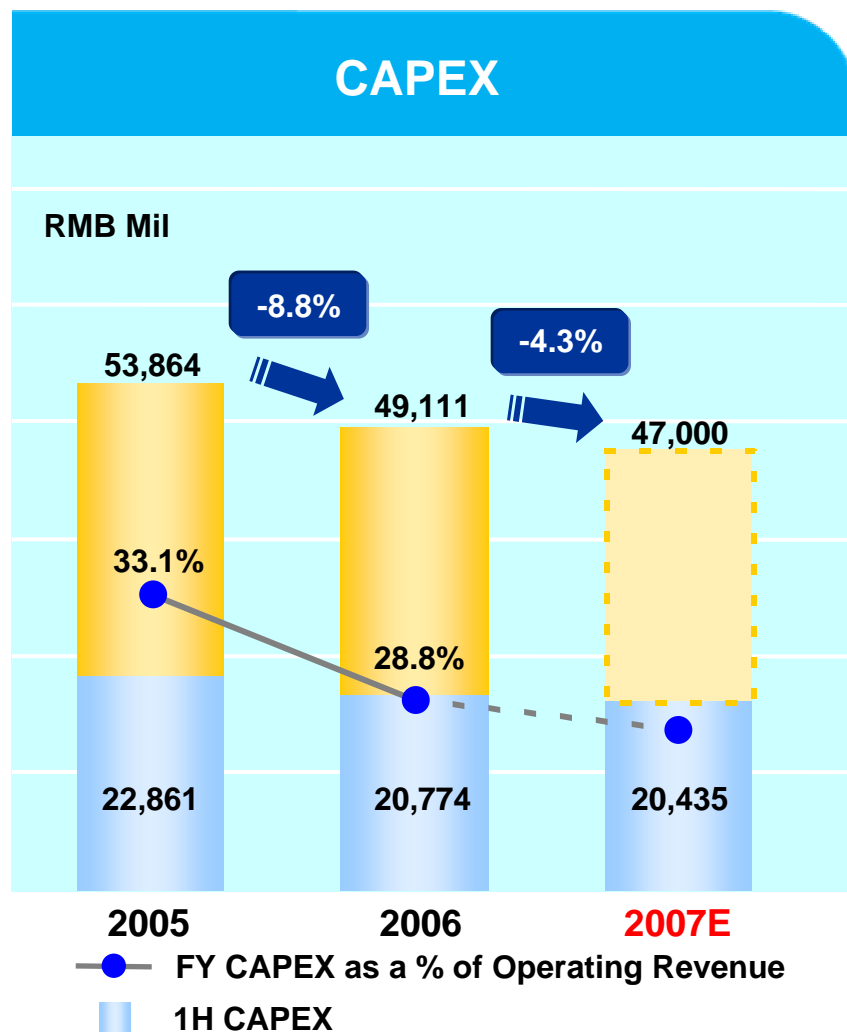
Effective Bundling & Packaging

- Fixed-line
- PAS
- Broadband
- Fixed-line VAS
- Internet VAS
- IT Services & Applications
- Enterprise Informatization Applications
- Video Applications
- .....

## Revenue Growth of Key Customer Segments



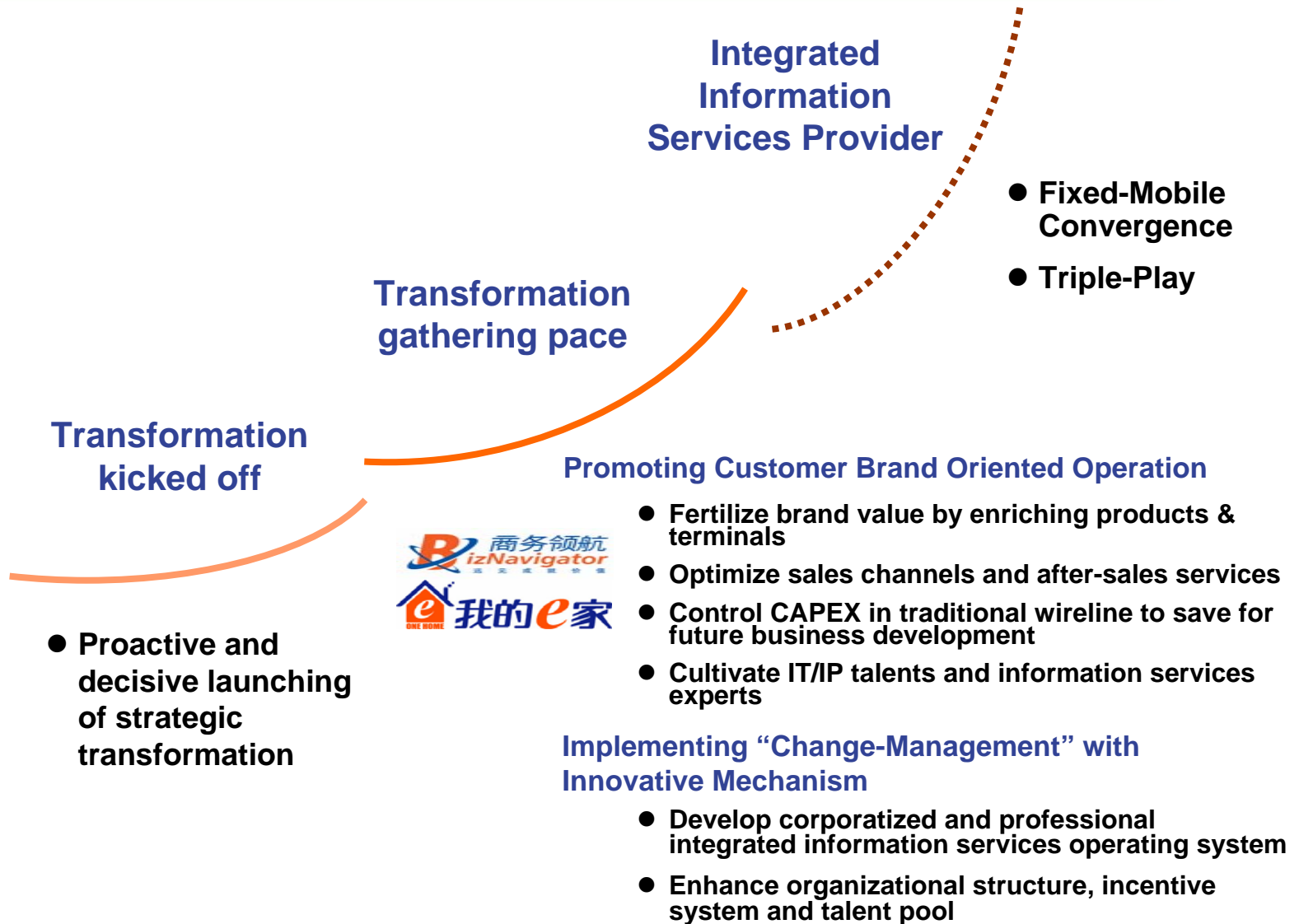
Note: Customer segment revenue covers respective voice business (excluding interconnection revenue), Internet access, VAS & integrated information services, managed data, leased line and others



- Continuous CAPEX reduction to save for future investment opportunities for growth
- Investments tilting towards high return and transformation businesses to lay a solid foundation for future full services convergence offerings
- Strictly control 2007 full year CAPEX within budget

# Transformation On Track to Drive Value

Shareholders' Value



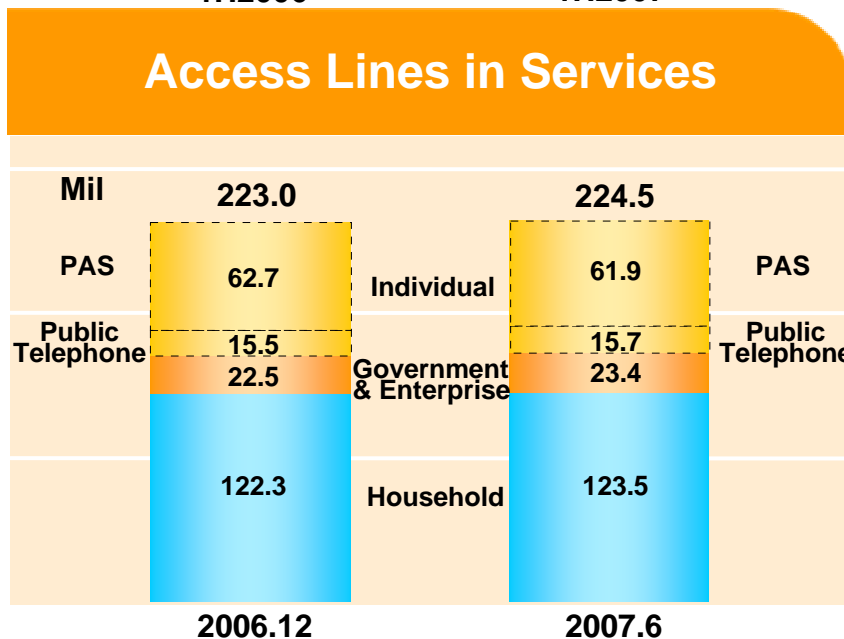
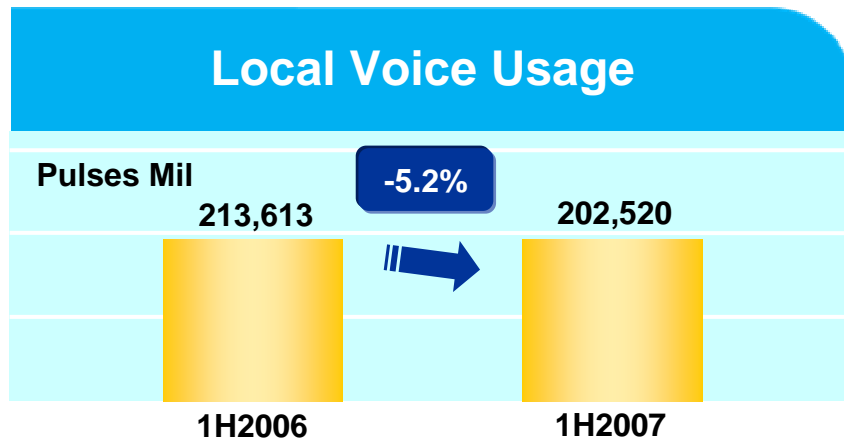
# Business REVIEW

# Revenue Breakdown



	1H2006 (RMB Mil)	1H2007 (RMB Mil)	Growth	Share of Operating Revenue
<b>Local Voice</b>				
Upfront Installation Fees	1,458	1,411	-3.2%	1.6%
Monthly Fees	14,936	13,284	-11.1%	15.3%
Local Usage Fees	23,378	21,558	-7.8%	24.8%
<b>Sub-total</b>	<b>39,772</b>	<b>36,253</b>	<b>-8.8%</b>	<b>41.7%</b>
<b>Long Distance</b>	<b>14,499</b>	<b>13,658</b>	<b>-5.8%</b>	<b>15.7%</b>
<b>Interconnections</b>	<b>6,975</b>	<b>7,086</b>	<b>1.6%</b>	<b>8.1%</b>
<b>Internet Access</b>	<b>11,198</b>	<b>14,641</b>	<b>30.7%</b>	<b>16.8%</b>
<b>VAS &amp; Integrated Information Services</b>	<b>6,805</b>	<b>9,115</b>	<b>33.9%</b>	<b>10.5%</b>
<b>Managed Data, Leased Line &amp; Others</b>	<b>5,602</b>	<b>6,205</b>	<b>10.8%</b>	<b>7.2%</b>
<b>Total</b>	<b>84,851</b>	<b>86,958</b>	<b>2.5%</b>	<b>100%</b>



# Local Voice Business

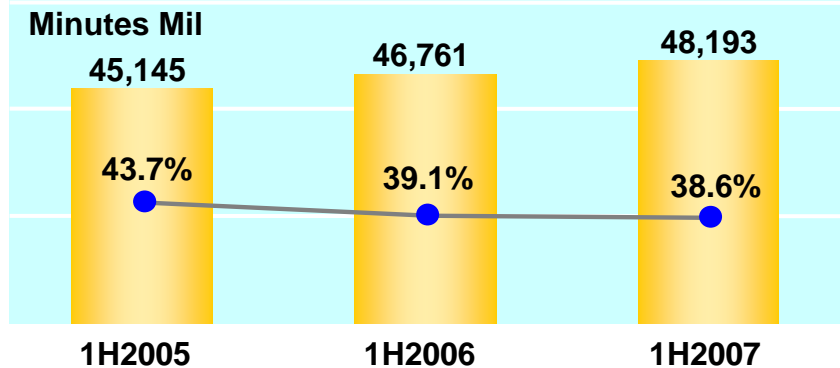


## Major consolidation initiatives

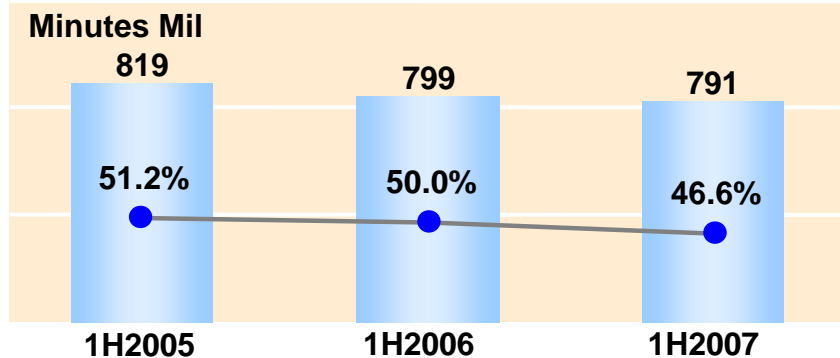
- 
**To strengthen differentiated operations with resource allocation tilting towards key customer segments (government & enterprise, household)**
  
- 
**To enhance customers' value through integrated development with transformation businesses (broadband, VAS, ...) leveraging effective bundling and branding**

# Long Distance Business

## Domestic Long Distance Usage



## International Long Distance Usage



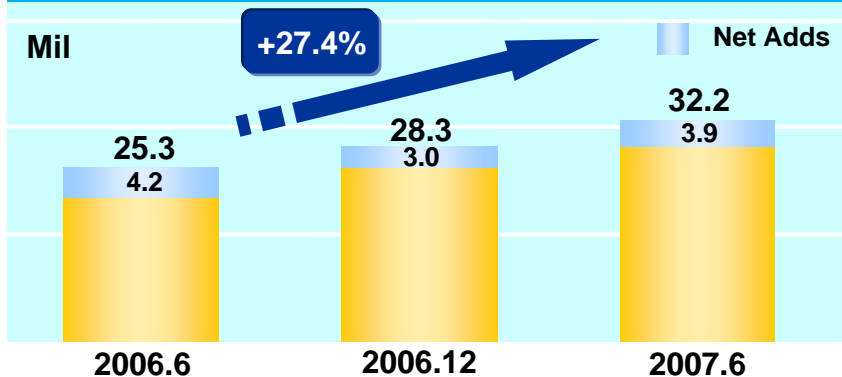
—●— Market Share by Usage

## Major consolidation initiatives

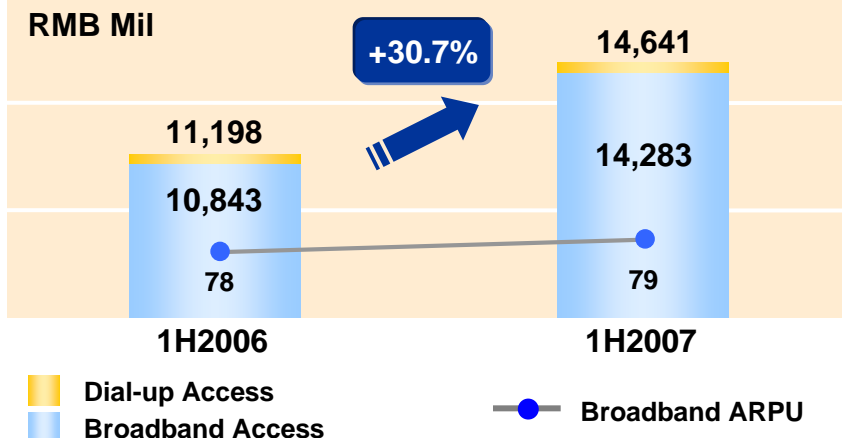
- ☎ High-end customers:  
Concessionary minutes on bundled offerings with broadband and VAS services leveraging effective branding to increase usage & market share
- ☎ Price-sensitive customers:  
Enhance tariff perception with package promotion
- ☎ Mid/Low-end customers:  
Stimulate traffic by offering monthly unlimited usage plans with pre-selected numbers
- ☎ Moving-population customers:  
Improve strategic distribution of public telephone supermarkets & terminals




# Booming Internet Business

## Broadband Subs



## Internet Access Revenue

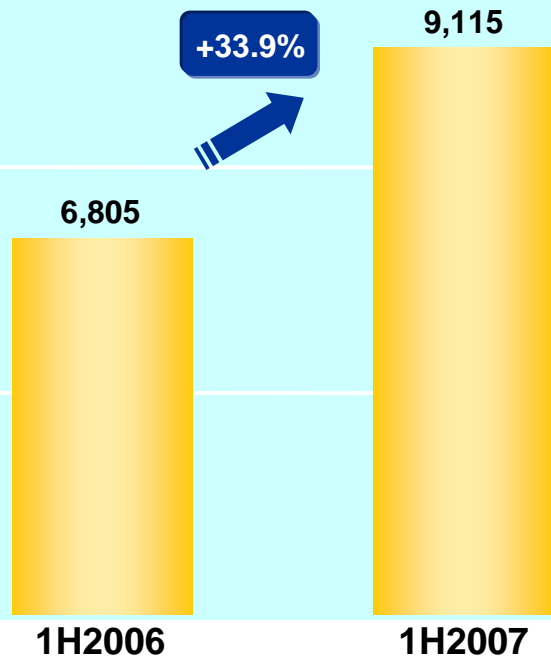


- 
**Develop various compelling and customized Internet applications (search engine, video, entertainment...) to strengthen interactive promotion with Internet access business, leveraging effective customer branding operation**
- 
**Upgrade user-ends' bandwidth to improve customers' experience**
- 
**Ally with leading software and content providers (Microsoft, Google and Sina...) to establish "V-Net" as an entertainment gateway for individual and household customers**

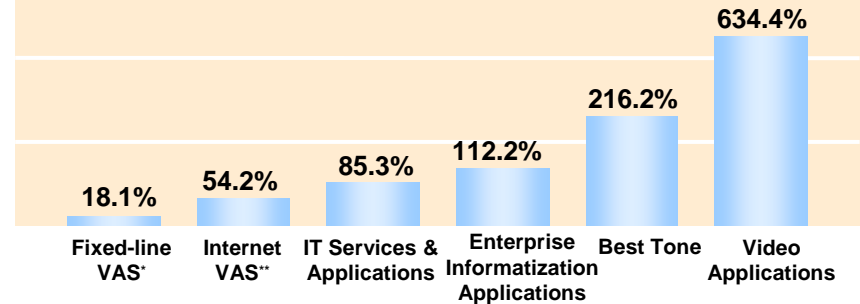
# Fast Growing VAS & Integrated Information Services

## VAS & Integrated Information Services Revenue

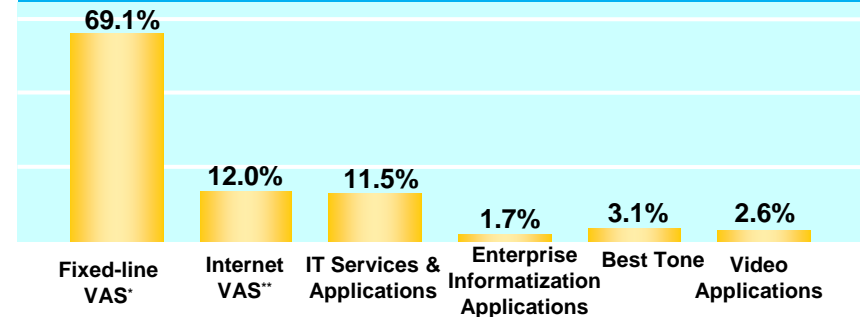
RMB Mil



## Revenue Growth



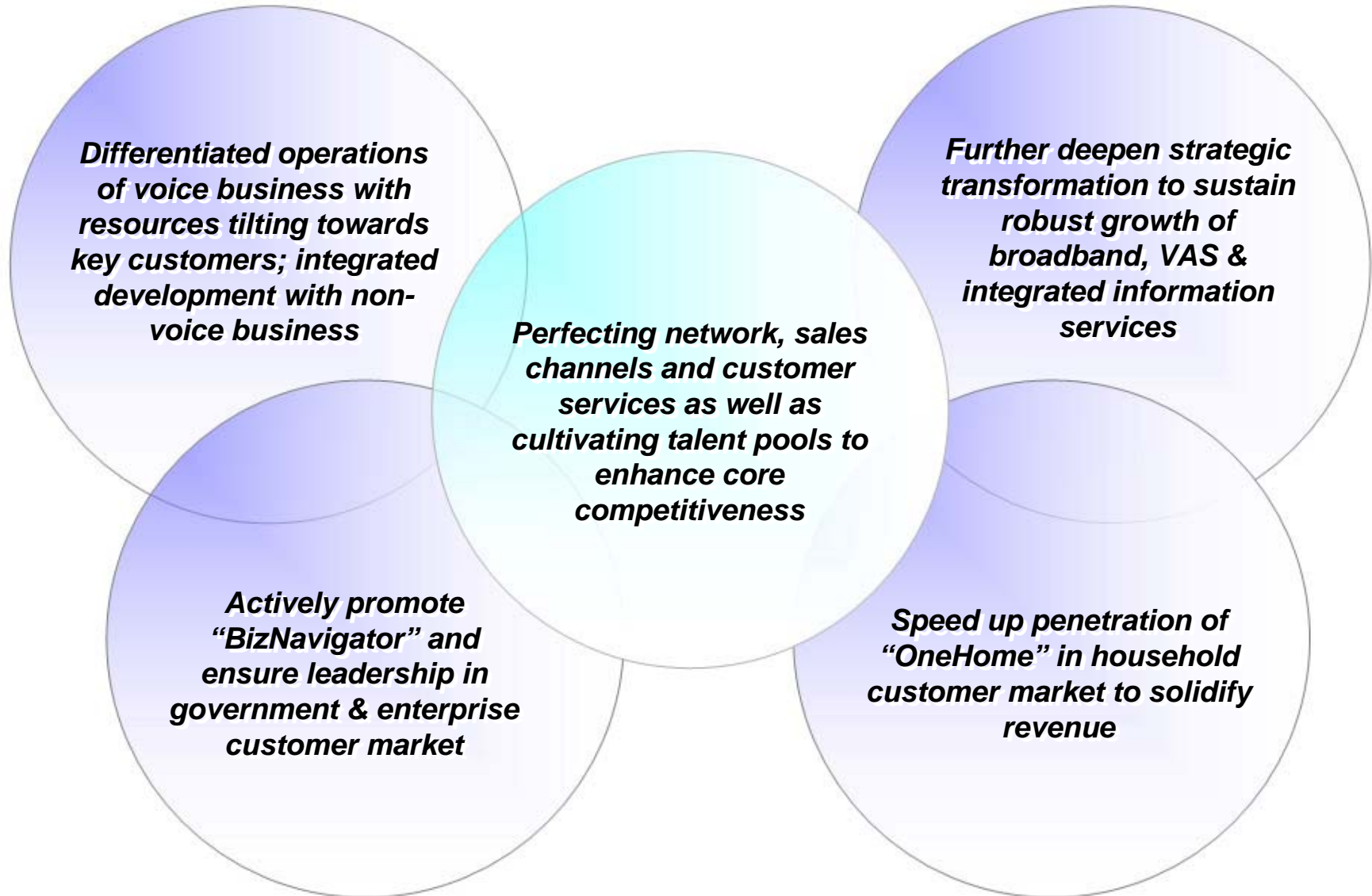
## Revenue Mix



**Actively developing VAS & integrated information services to enhance corporate core competitiveness**

Note: \* Fixed-line VAS mainly includes Caller-ID, Telephone Information Services, SMS & Color Ring Tone  
 \*\*Internet VAS mainly includes V-Net, IDC, IP/VPDN

# Strengthen Branding Execution to Accelerate Transformation



# Financial PERFORMANCE

# Key Financial Information

	1H2006 (RMB Mil)	1H2007 (RMB Mil)	Change
<b>Operating Revenues</b>	<b>84,851</b>	<b>86,958</b>	<b>2.5%</b>
<b>Operating Expenses</b>			
Depreciation & Amortization	25,494	25,933	1.7%
Network Operations & Support	13,829	14,597	5.6%
Personnel	13,395	13,578	1.4%
SG&A	10,425	10,886	4.4%
Interconnection & Others	2,991	3,346	11.9%
<b>Sub-total</b>	<b>66,134</b>	<b>68,340</b>	<b>3.3%</b>
<b>Operating Profit</b>	<b>18,717</b>	<b>18,618</b>	<b>-0.5%</b>
<b>Net Profit</b>	<b>11,661</b>	<b>11,816</b>	<b>1.3%</b>
<b>EBITDA</b>	<b>44,211</b>	<b>44,551</b>	<b>0.8%</b>

# Profitability

## EBITDA

RMB Mil

44,211

40,641

44,551

52.1%

47.3%

51.2%

1H2006

2H2006

1H2007

EBITDA Margin

## Net Profit

RMB Mil

11,661

10,615

11,816

13.7%

12.4%

13.6%

1H2006

2H2006

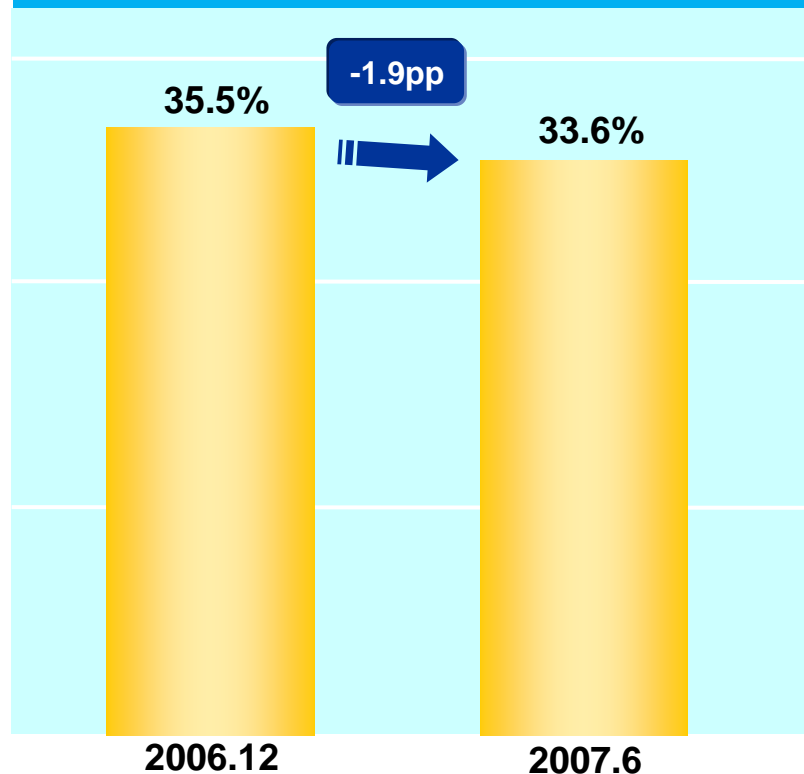
1H2007

Net Profit Margin

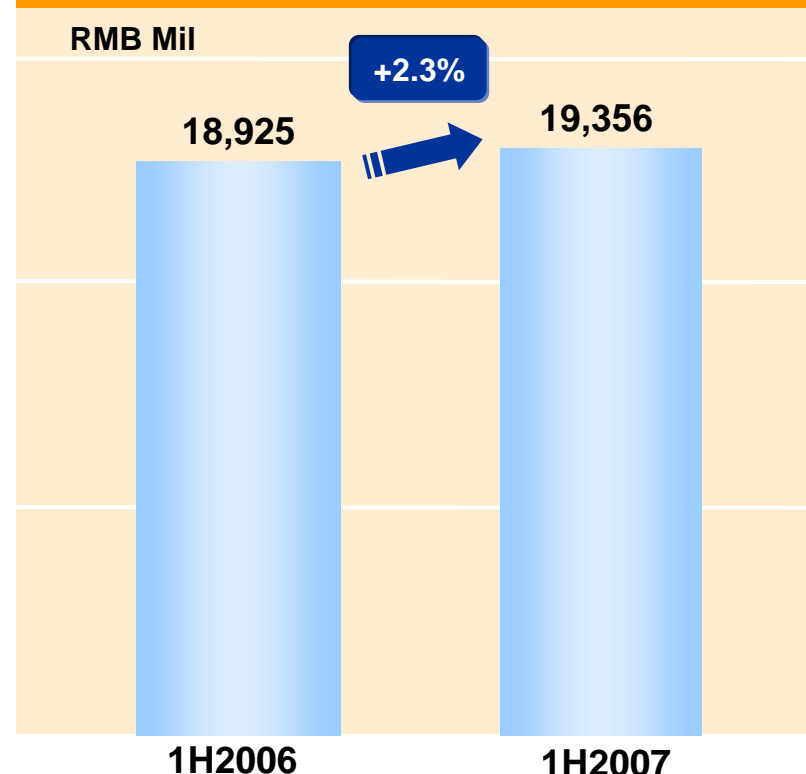


# Solid Financial Strength

## Total Debt / Total Capitalization

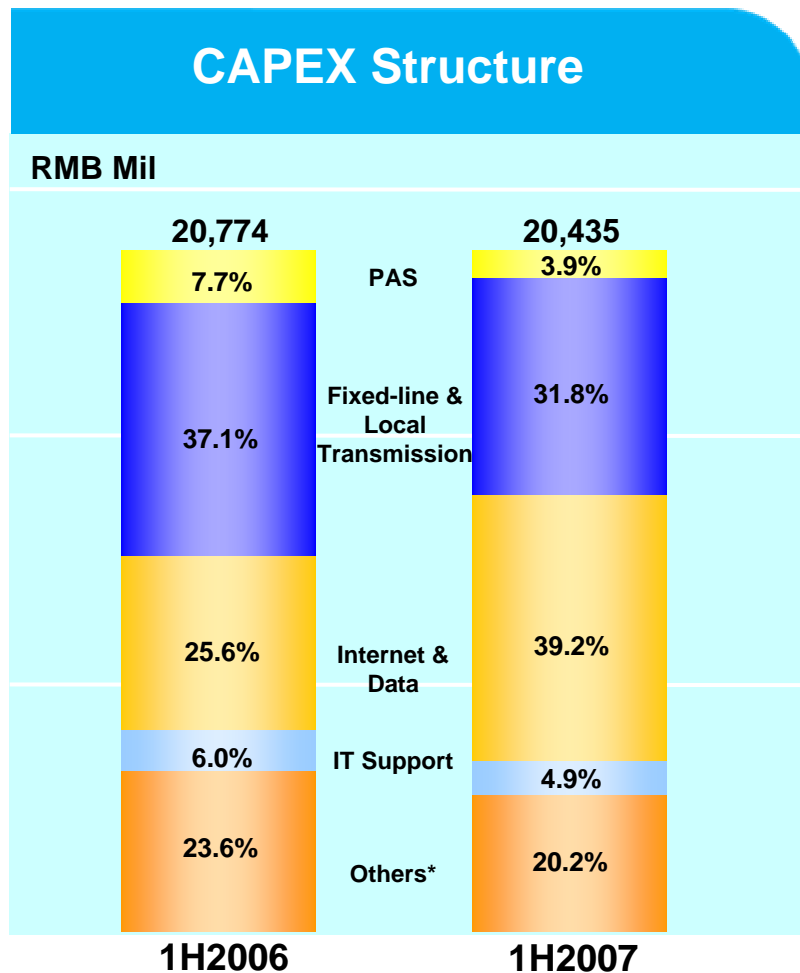


## Free Cash Flow



***Solid financial fundamental and strong cash flow proactively equip the Company to capture future growth opportunities***

# Enhanced CAPEX Structure

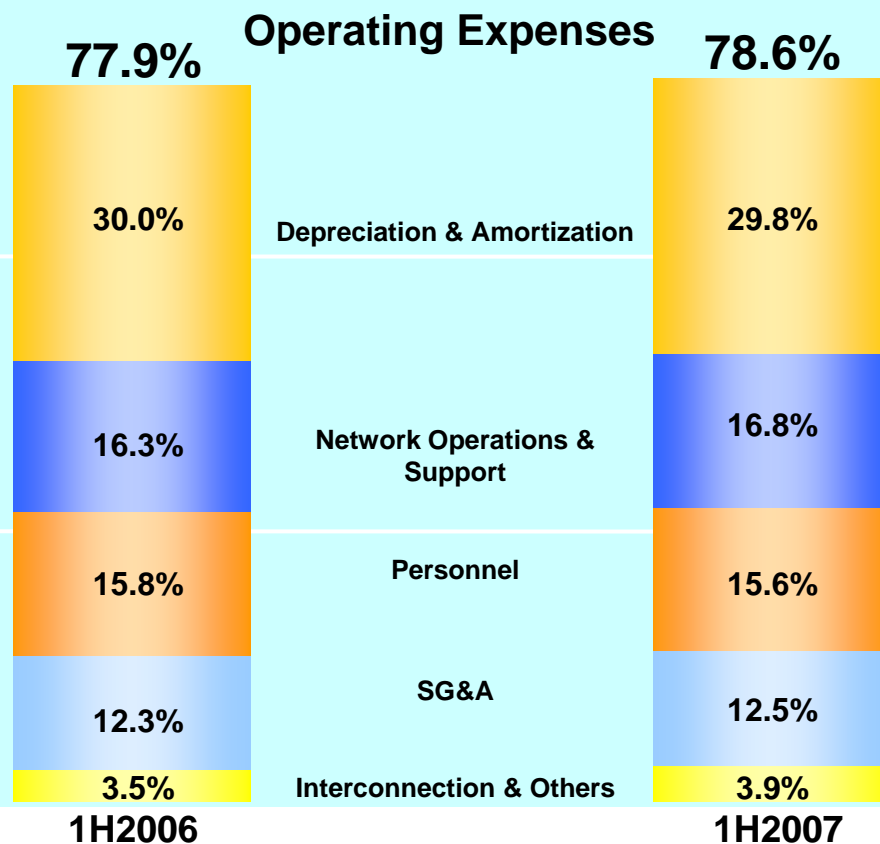


Note: \* Others include communication infrastructure and other capital expenditure

- ☛ Enhanced CAPEX structure tilting towards high return and transformation businesses
  - Internet & Data ↑ 50.6% yoy
  - PAS ↓ 50.2% yoy
  - Fixed-line & Local Transmission ↓ 15.7% yoy
- ☛ Leverage investment to capture tremendous growth in informatization services and overseas data communication services

# Cost Structure

## Operating Expenses as a % of Operating Revenue



# Optimized Cost Structure to Support Business Development

## Cost Initiatives

- **Depreciation & Amortization**  
Reduce as a % of operating revenue continuously via strict CAPEX control
- **Network Operations & Support**  
Increase investment for supporting transformation and sustainable development
- **Personnel**  
Maintain relatively steady as a % of operating revenue
- **SG&A**  
Increase investment in sales channels, customer retention and expansion, stringent control of administration expense



## 1H07 Results

- **Depreciation & Amortization**  
RMB25,933 mil (-0.2 pp as a % of operating revenue)
- **Network Operations & Support**  
RMB14,597 mil (+0.5 pp as a % of operating revenue)
- **Personnel**  
RMB13,578 mil (-0.2 pp as a % of operating revenue)
- **SG&A**  
RMB10,886 mil (+0.2 pp as a % of operating revenue), with administration expense decreased by 5.0%

# Strengthen Value Management to Enhance Shareholders' Return

**Optimizing budget and assessment system to enhance resource allocation**

**Striving to sustain revenue growth, improve capital turnover and reduce CAPEX to strengthen value creation capability**

**Lowering cost of capital by enhancing cash flow management, leveraging internal and external financing effectively**

**Further improving risk management and strengthening internal control execution to achieve healthy and sustainable development**

**Directing our business to long-term value creation and growth**

Thank  
YOU

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# Appendix 1

Extracted from unaudited income statement  
for the 6 months ended 30 June 2007 (incl. upfront connection fees)

RMB Mil	Unaudited 1H2006 (Restated)*	Unaudited 1H2007
<b>Operating Revenues</b>	<b>87,345</b>	<b>88,624</b>
Upfront Connection Fees	2,494	1,666
<b>Operating Expenses</b>	<b>(66,134)</b>	<b>(68,340)</b>
<b>Net Finance Costs</b>	<b>(2,498)</b>	<b>(2,022)</b>
<b>Investment Loss, Share of Profit from Associates</b>	<b>(13)</b>	<b>7</b>
<b>Profit Before Taxation</b>	<b>18,700</b>	<b>18,269</b>
Income Tax	(4,512)	(4,760)
<b>Profit for the Year</b>	<b>14,188</b>	<b>13,509</b>
Attributable to:		
Equity Holders of the Company	14,155	13,482
Minority Interests	33	27

Note: \*Restated to include the financial impact of acquisition of China Telecom (HK), China Telecom (US) and China Telecom System Integration

# Appendix 2

Extracted from unaudited balance sheet as at 30 June 2007  
(incl. upfront connection fees)

RMB Mil	Unaudited 31.12.2006 (Restated)*	Unaudited 30.6.2007
Current Assets	44,206	42,152
Non-current Assets	374,687	365,070
<b>Total Assets</b>	<b>418,893</b>	<b>407,222</b>
Current Liabilities	157,624	150,639
Non-current Liabilities	53,593	48,044
<b>Total Liabilities</b>	<b>211,217</b>	<b>198,683</b>
<b>Total Equity</b>	<b>207,676</b>	<b>208,539</b>
Equity Attributable to Equity Holders of the Company	206,228	207,078
Minority Interests	1,448	1,461

Note: \*Restated to include the financial impact of acquisition of China Telecom (HK), China Telecom (US) and China Telecom System Integration



# Appendix 3 Detailed operating revenues breakdown for the 6 months ended 30 June 2007 (incl. upfront connection fees)

RMB Mil	Unaudited 1H2006 (Restated)*	Unaudited 1H2007
<b>Upfront Connection Fees</b>	<b>2,494</b>	<b>1,666</b>
<b>Local Voice Business</b>	<b>39,772</b>	<b>36,253</b>
Upfront Installation Fees	1,458	1,411
Monthly Fees	14,936	13,284
Local Usage fees	23,378	21,558
<b>DLD</b>	<b>12,889</b>	<b>12,194</b>
<b>ILD</b>	<b>1,610</b>	<b>1,464</b>
<b>Interconnections</b>	<b>6,975</b>	<b>7,086</b>
<b>Internet Access</b>	<b>11,198</b>	<b>14,641</b>
<b>VAS &amp; Integrated Information Services</b>	<b>6,805</b>	<b>9,115</b>
<b>Managed Data</b>	<b>1,496</b>	<b>1,528</b>
<b>Leased Line</b>	<b>2,183</b>	<b>2,521</b>
<b>Others</b>	<b>1,923</b>	<b>2,156</b>
<b>Total</b>	<b>87,345</b>	<b>88,624</b>

Note: \*Restated to include the financial impact of acquisition of China Telecom (HK), China Telecom (US) and China Telecom System Integration