



中国电信

CHINA TELECOM

2003 Interim Report



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 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 the Company’s other filing with the SEC.



**Zhou Deqiang**      **Chairman & CEO**

**Chang Xiaobing**      **President**

**Wu Andi**      **EVP & CFO**

**Zhang Jiping**      **EVP**

**Li Ping**      **EVP & Company Secretary**



**2003 Interim Summary**

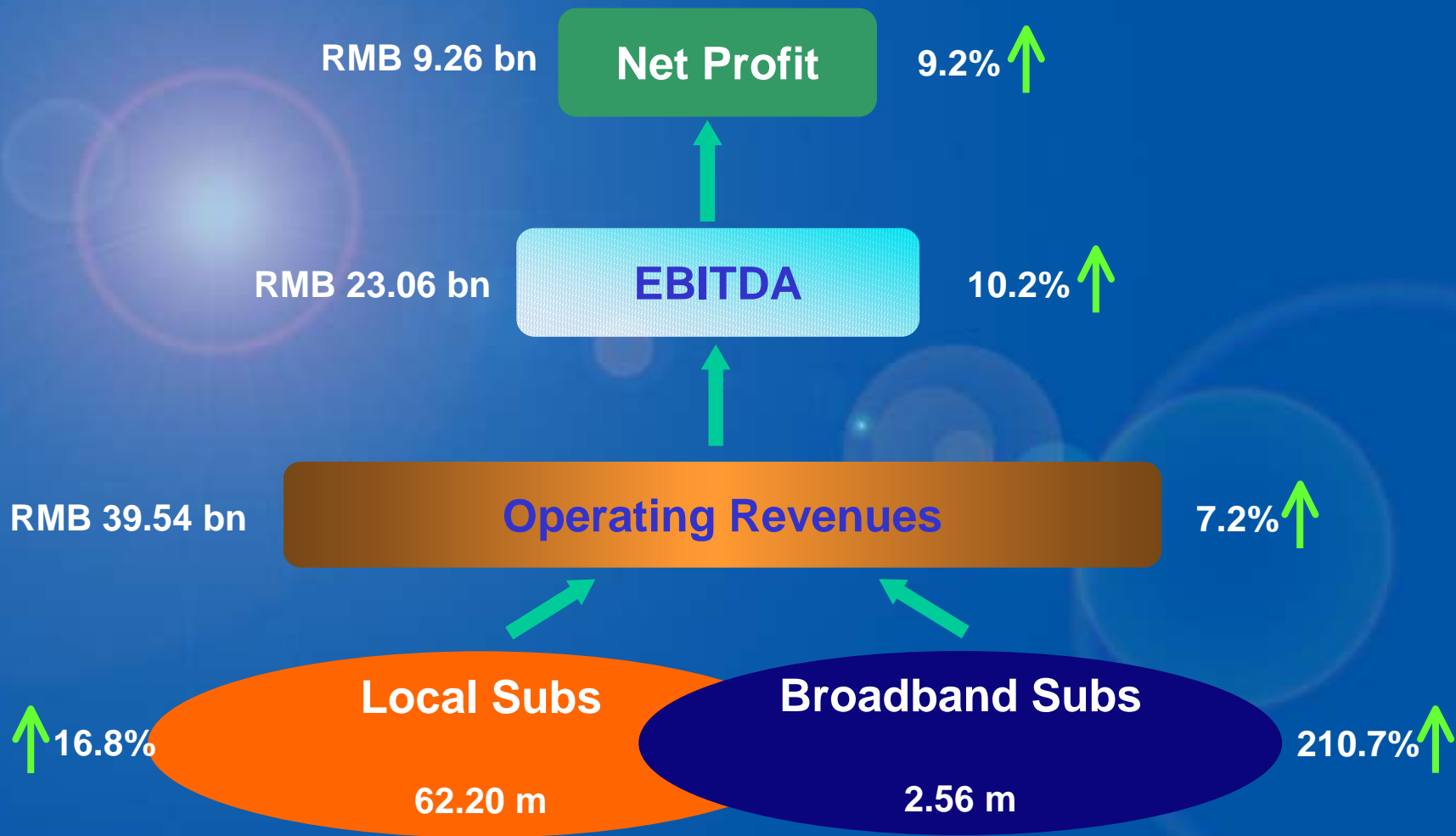
**Business Review**

**Financial Review**



## 2003 Interim Summary

# First Half of 2003: Sustained Healthy Growth <sup>(1)</sup>

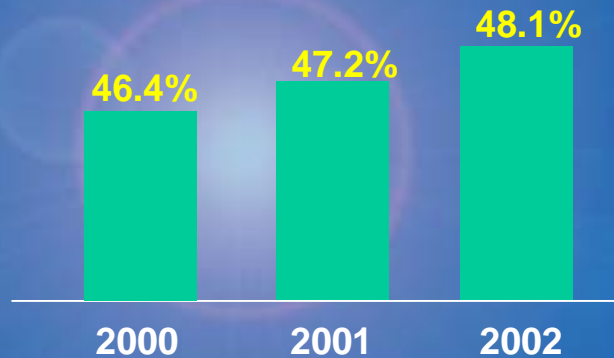


(1) All growth rates in this chart are figures YoY

# Wire-line Telephone Service Showed Great Growth Potential (1)



## Accelerated Urbanisation<sup>(2)</sup>



## Increasing Disposable Income per Capita<sup>(2)</sup>

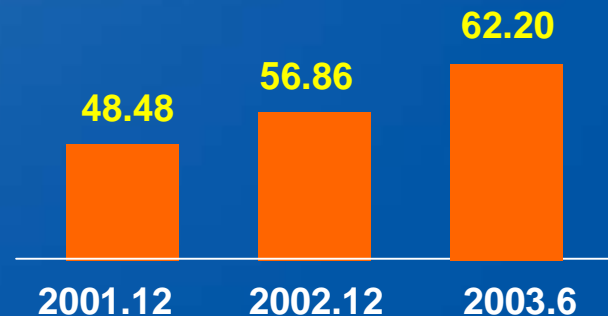
RMB



(2) Source: provincial statistics bureaus

## Sustained Subscriber Growth

Million



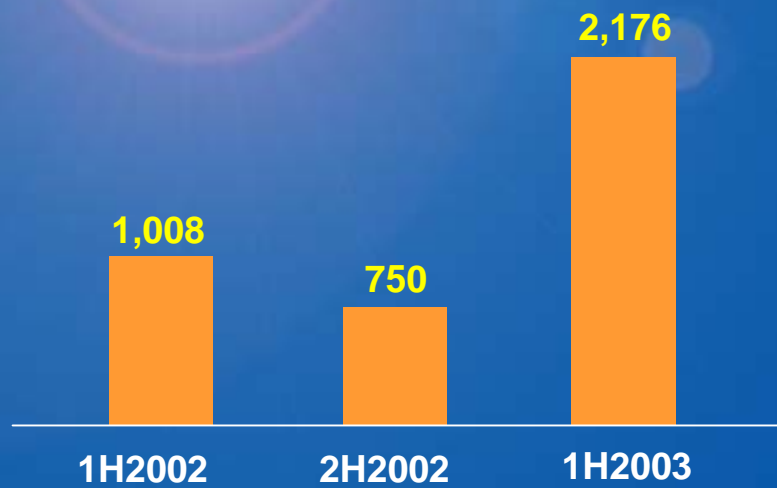
(1) All figures are for our service regions



# Wire-line Telephone Service Showed Great Growth Potential (continued)

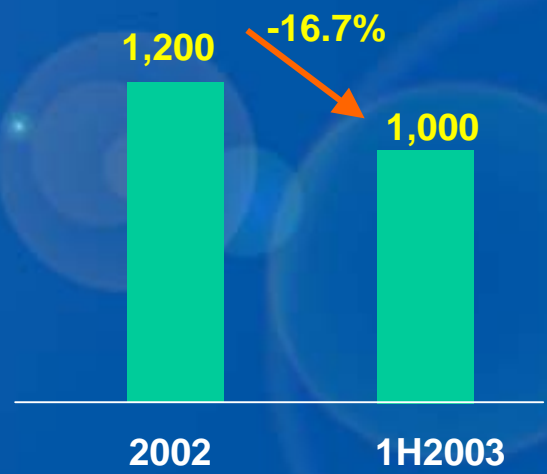
### New Subs of Wireless Local Access Service

Thousand



### Per-line Investment for Wireless Local Access Service

RMB







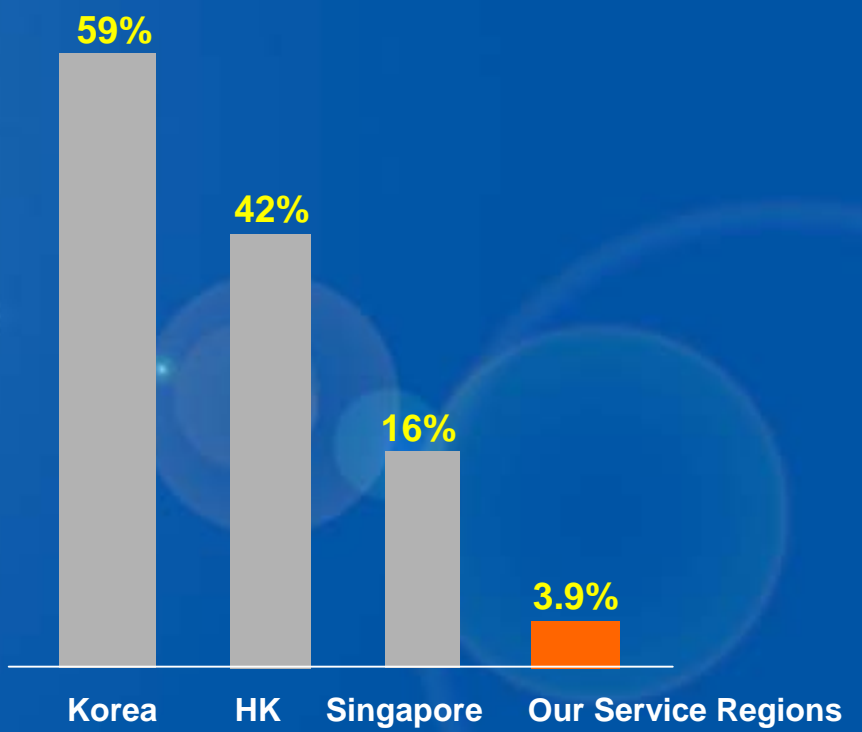
# Broadband Internet Service Experienced Explosive Growth

## Internet Service Revenue

RMB: Million



## 2002 Broadband Household Penetration Rate<sup>(1)</sup>



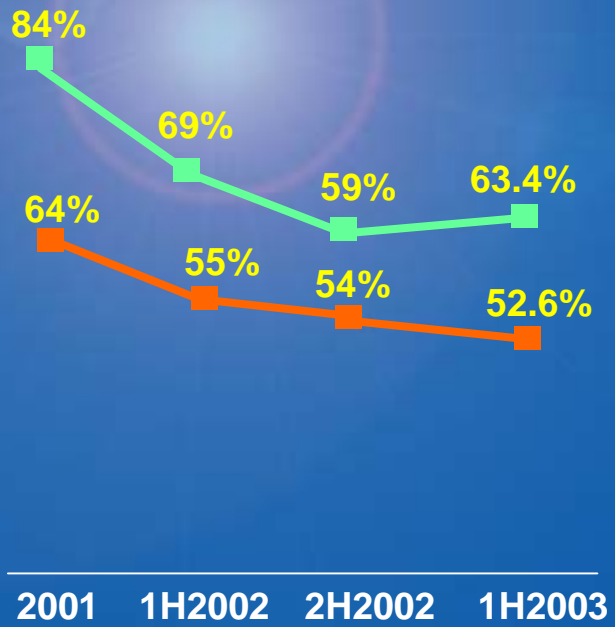
— Internet service's contribution to operating revenues

(1) Source: IDC

# Risk in Long Distance Service Moderated



## Traffic Volume Market Share



— DLD  
— IDD

## Revenue Share of Long Distance



# First Half of 2003: Challenges & Opportunities



## Strong drivers for growth :

- Steady wire-line service with great potential
- Fast growing broadband service, a major driver of growth
- Burgeoning VAS , a powerful revenue growth contributor



## Challenges from competition :

- More significant mobile substitution
- Fiercer competition in the long distance market

## Our strategies :

- Market segmentation and distribution channel enhancement
- Extended local branch companies' BPR initiatives
- Strengthened overall budget management and performance evaluation
- Acquisition of quality assets for external growth





## Business Review



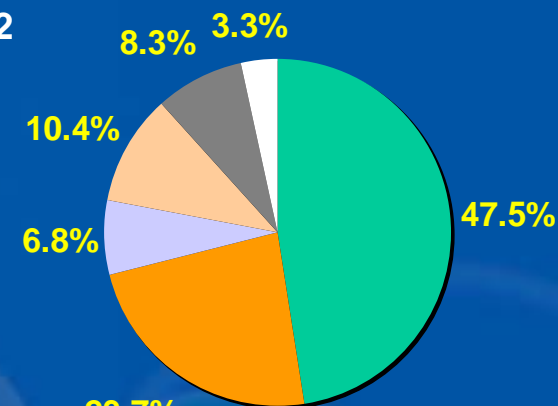
# 2003 Interim Results Overview

## Revenue

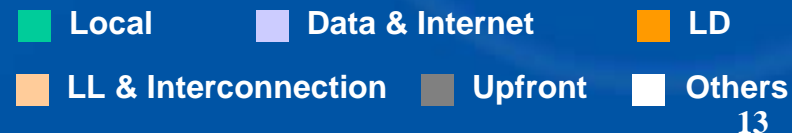
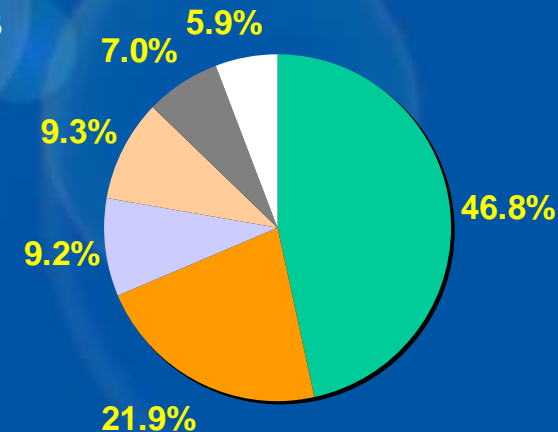
RMB: Million		1H2002	1H2003	%
<b>Total</b>		<b>36,868</b>	<b>39,536</b>	<b>7.2%</b>
<i>Among:</i>	<b>Local</b>	<b>17,517</b>	<b>18,488</b>	<b>5.5%</b>
	<b>Data &amp; Internet</b>	<b>2,511</b>	<b>3,643</b>	<b>45.1%</b>
	<b>DLD &amp; IDD</b>	<b>8,749</b>	<b>8,653</b>	<b>-1.1%</b>
	<b>LL &amp; Interconnection</b>	<b>3,827</b>	<b>3,662</b>	<b>-4.3%</b>
	<b>VAS &amp; Others</b>	<b>1,206</b>	<b>2,322</b>	<b>92.5%</b>

## Revenue Share

1H2002



1H2003





# Local Telephone Subscriber Growth

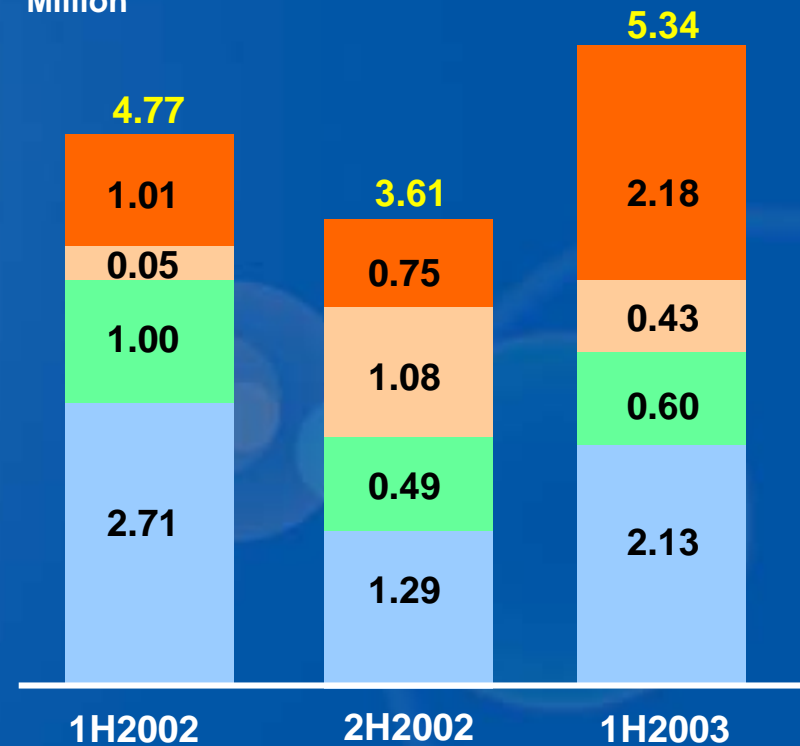
## Local Subscribers

Million



## New Local Subscribers

Million



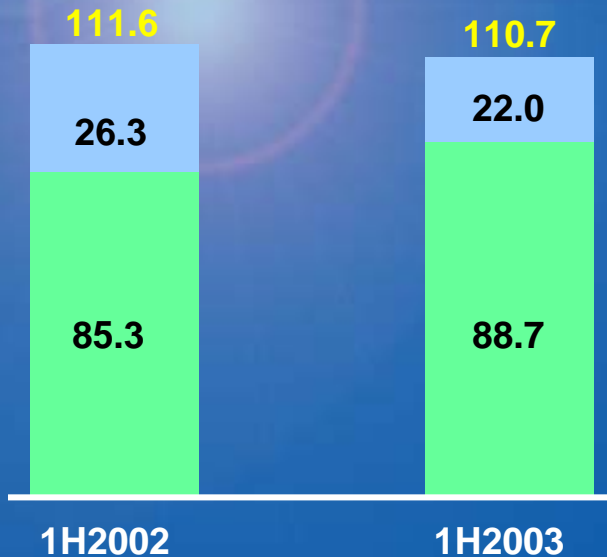
■ Residential ■ Enterprise ■ Public Telephones ■ Wireless Local Access



# Local Voice Usage Growth

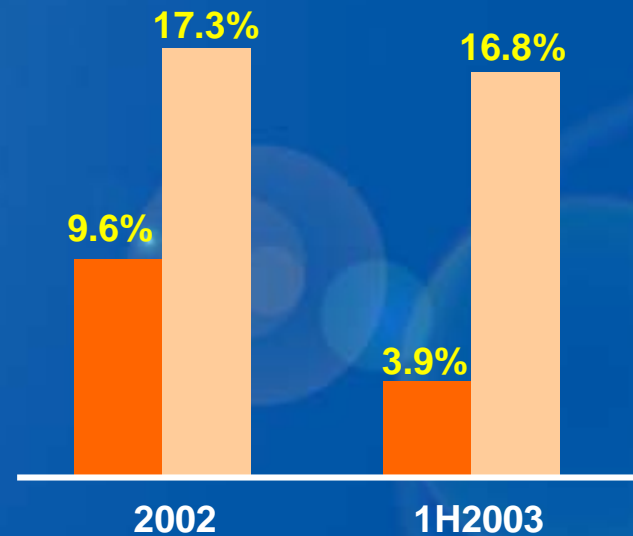
## Local Usage

Pulses in billions



- Local voice usage
- Dial-up usage

## Usage Growth Under Pressure



- Growth rate of local voice usage
- Growth rate of local subscribers

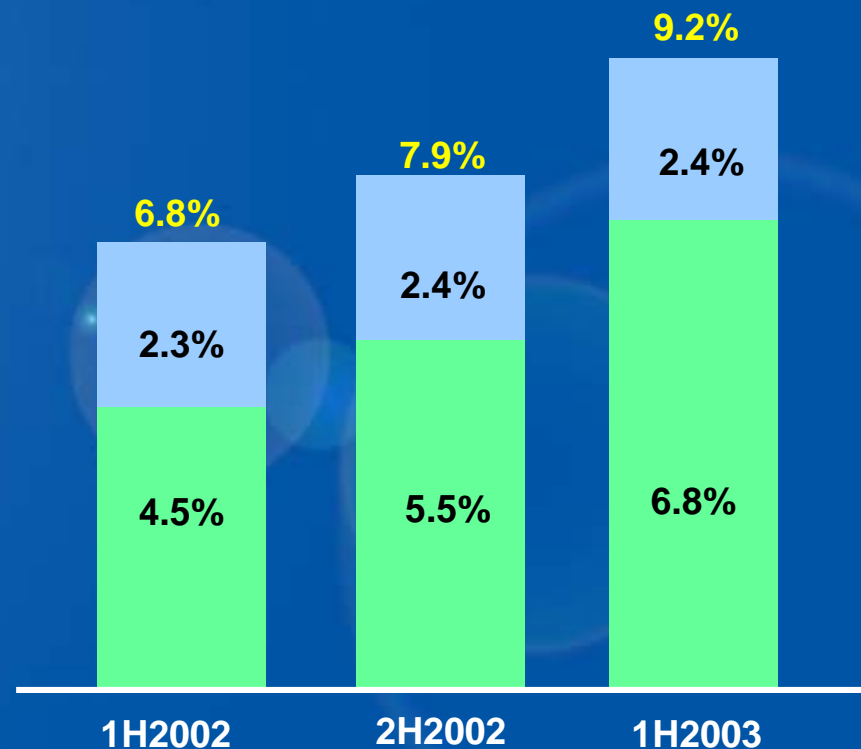
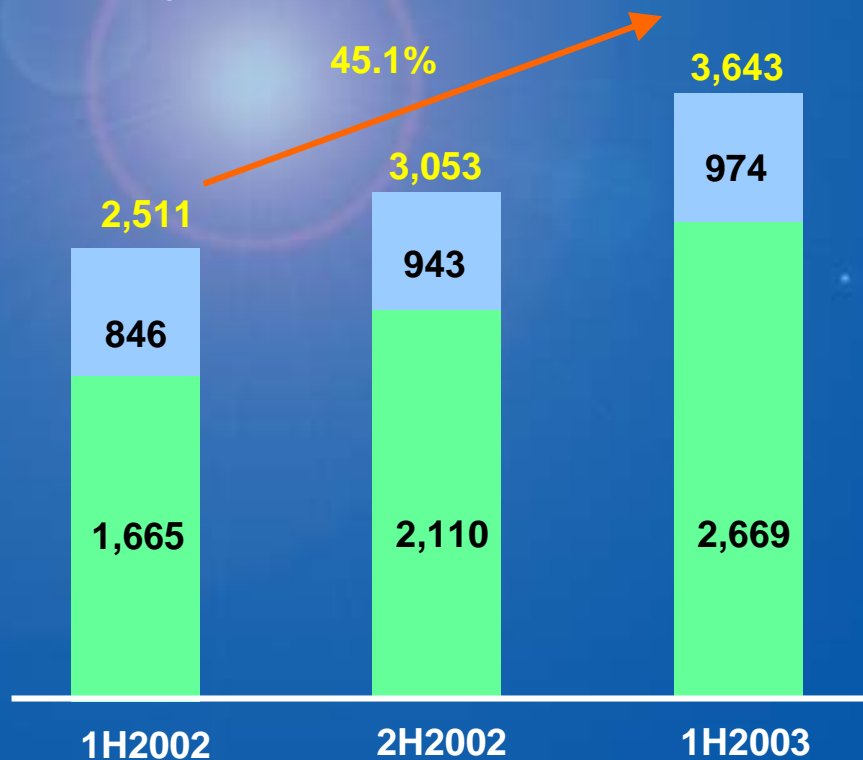
# Data & Internet Services



## Revenue of Data & Internet

## Revenue Share of Data & Internet

RMB: Million



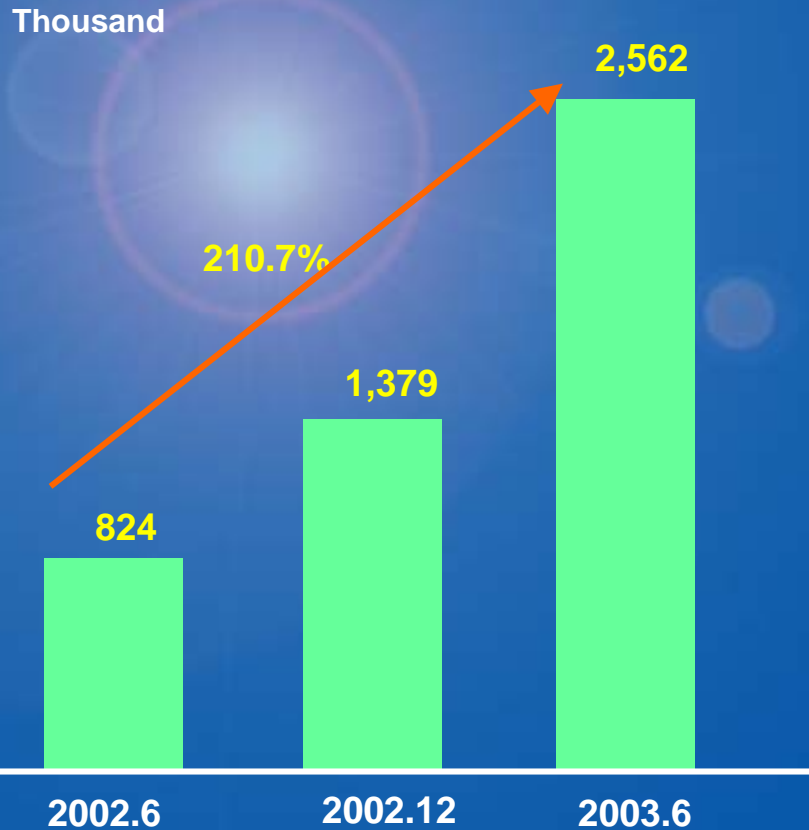
■ Internet    ■ Managed Data



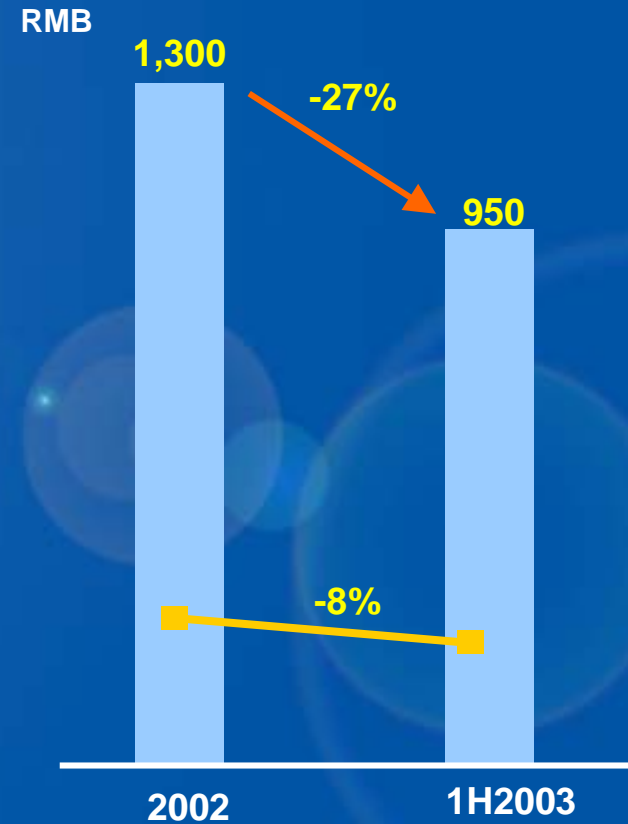


# Broadband Service Grew Rapidly

## Broadband Subscribers



## ADSL Per-line Investment & ARPU



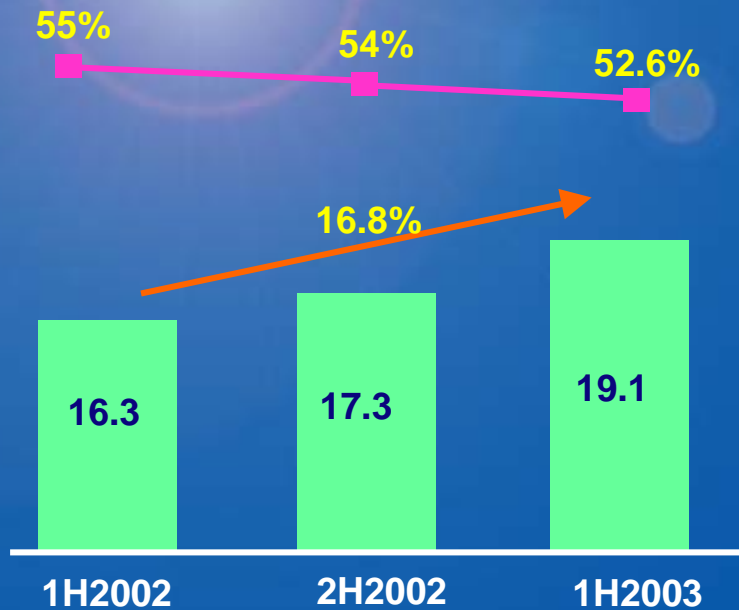
- ADSL per-line investment
- Growth rate of ARPU for ADSL



# Risk in Long Distance Service Moderated

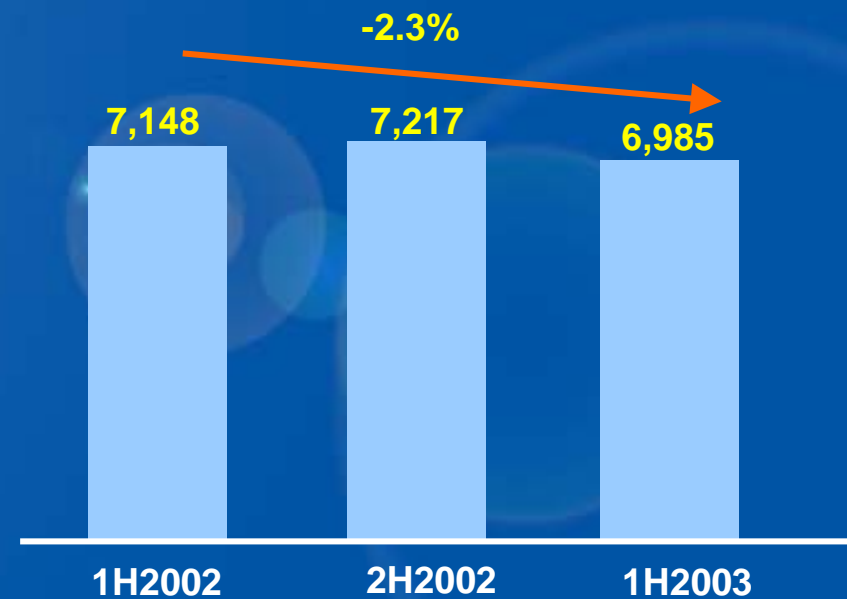
## DLD Traffic Volume

Minutes in billions



## DLD Revenue

RMB: Million



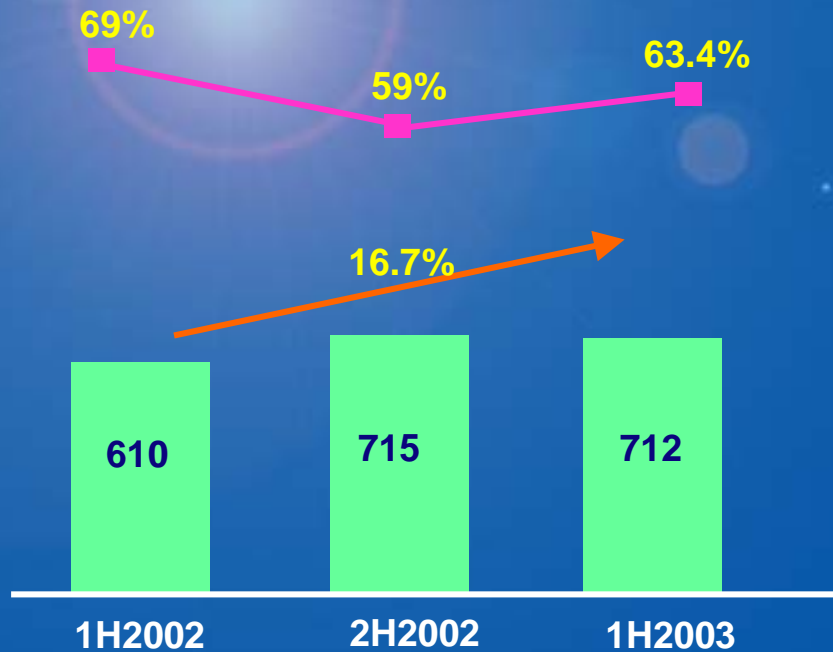
Market share in terms of traffic volume



# International Long Distance Service

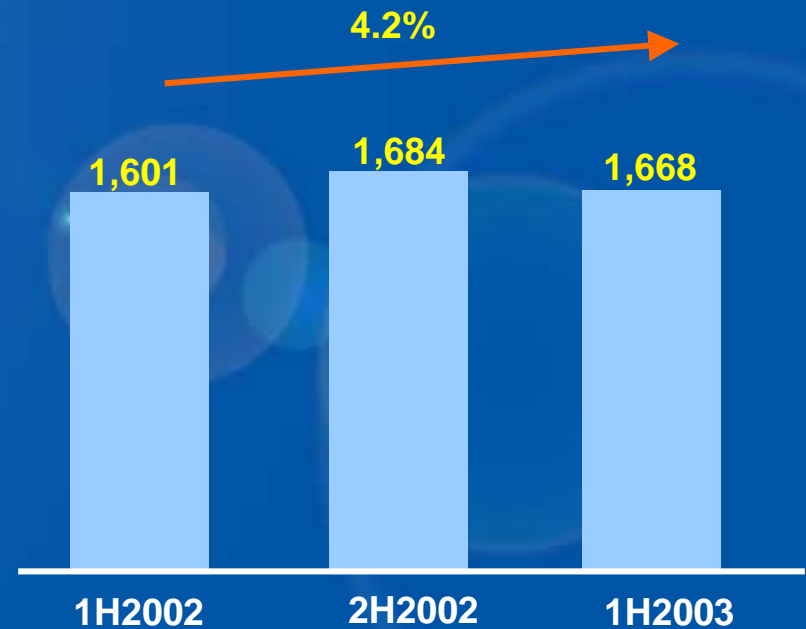
## IDD Traffic Volume

Minutes in millions



## IDD Revenue

RMB: Million



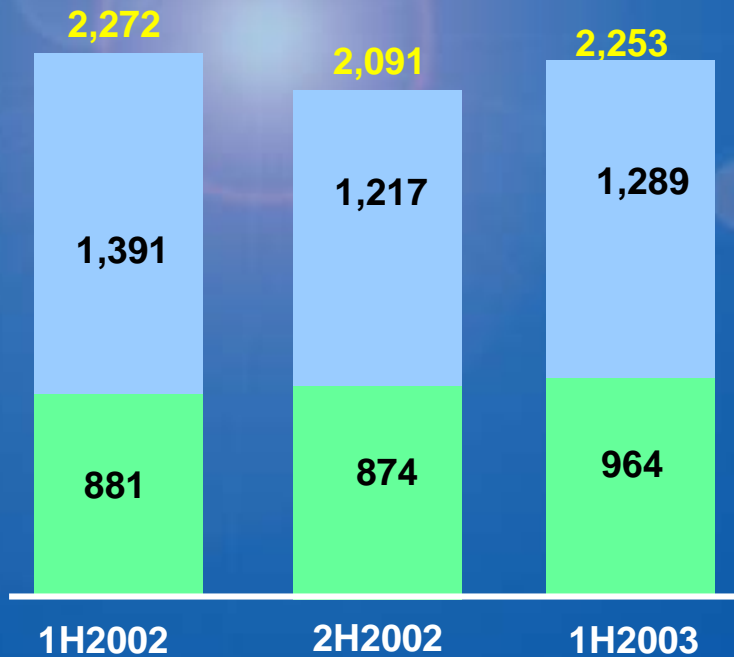
— Market share in terms of traffic volume



# Leased Line & Interconnection

## Revenue form Interconnection

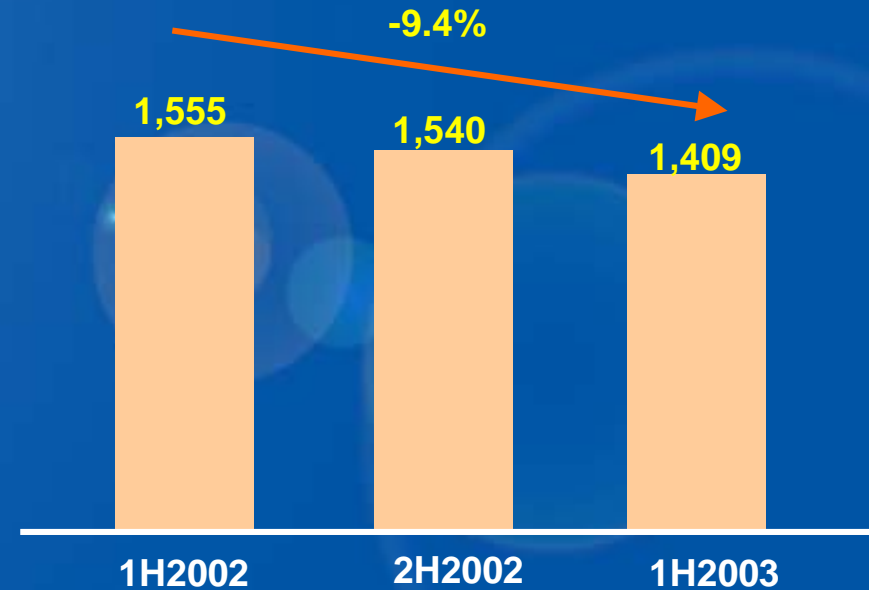
RMB: Million



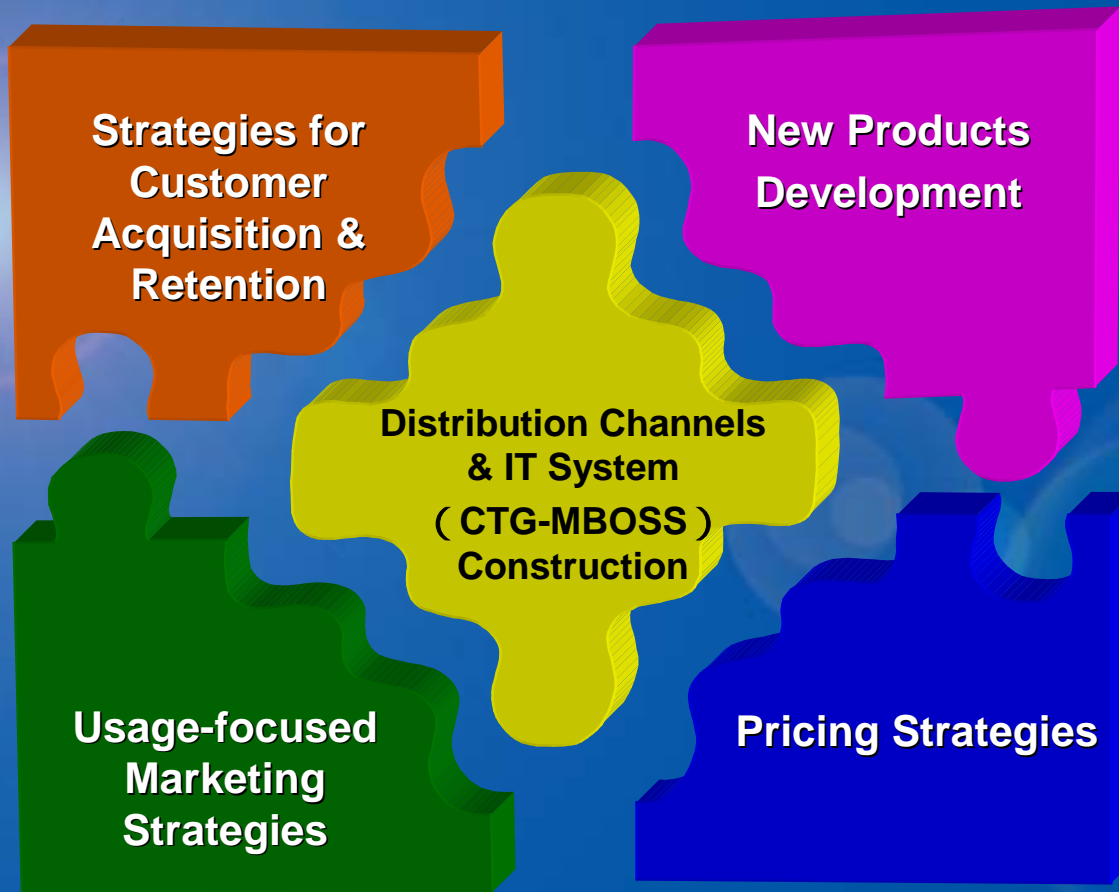
- Net interconnection revenue
- Interconnection expenses

## Revenue from Leased Line Service

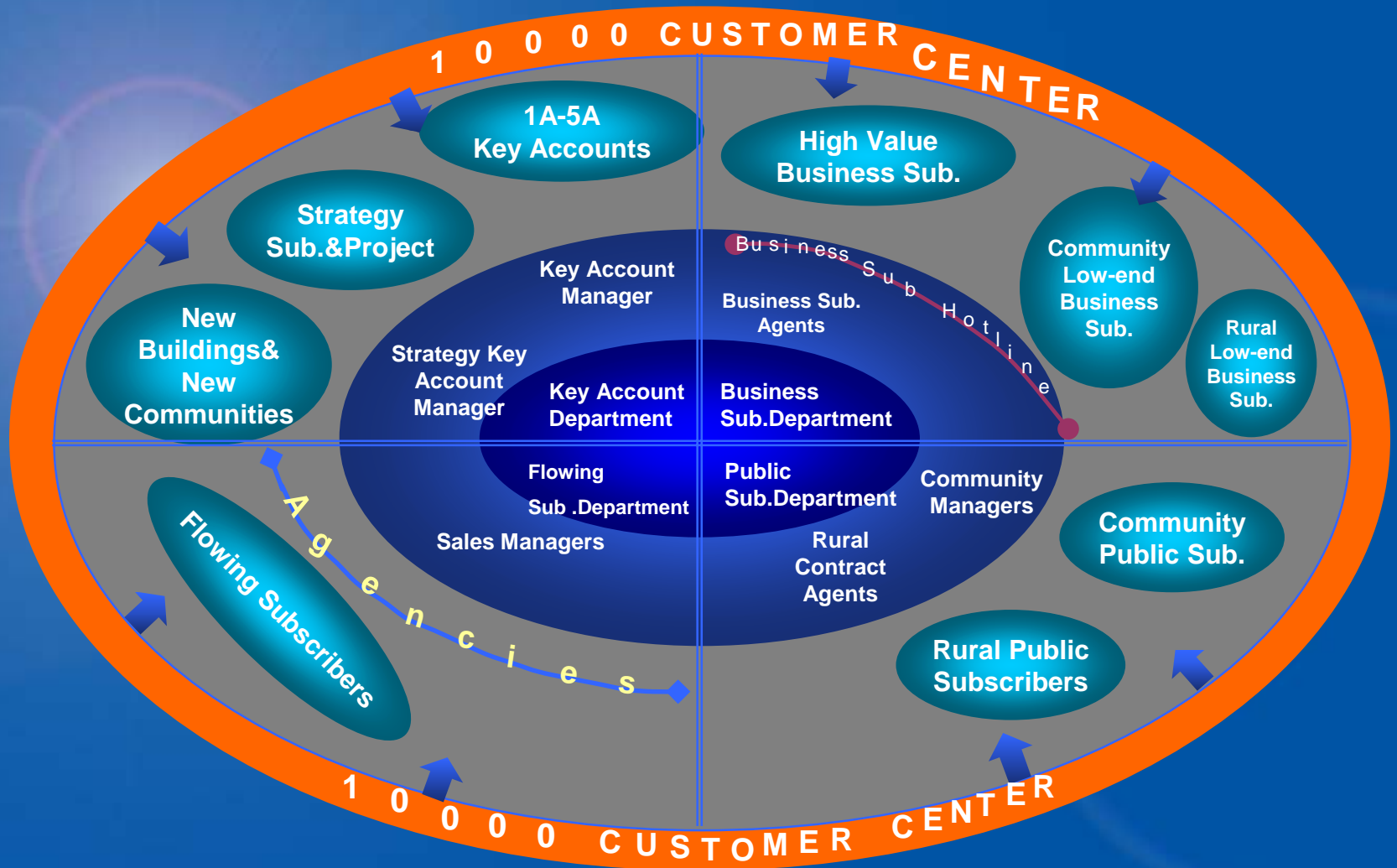
RMB: Million



# Operating Strategies & Distribution Channels



# Operating Strategies & Distribution Channels (continued)



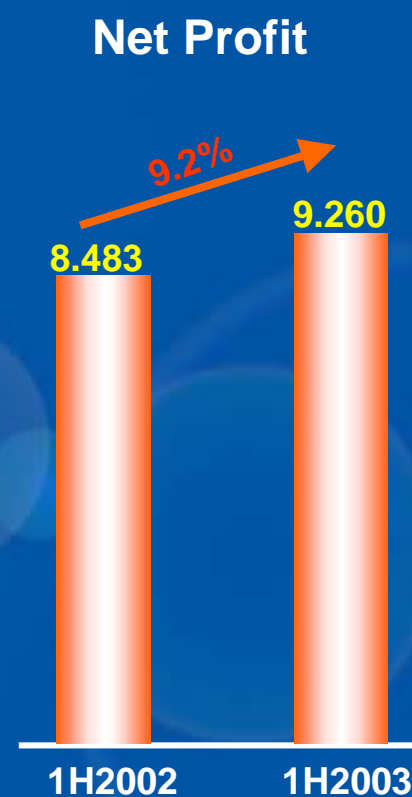
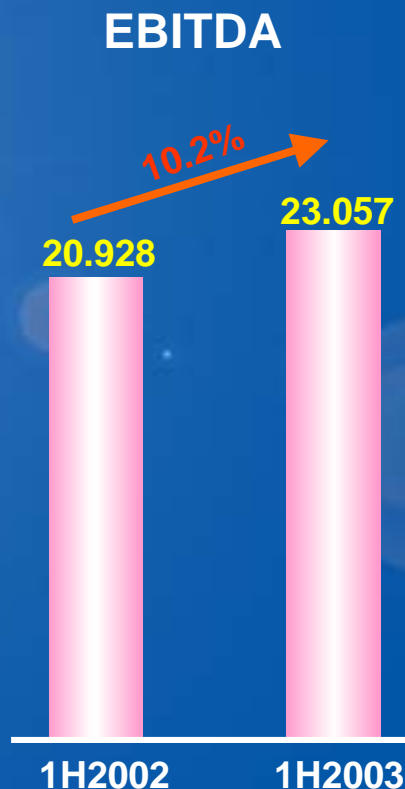
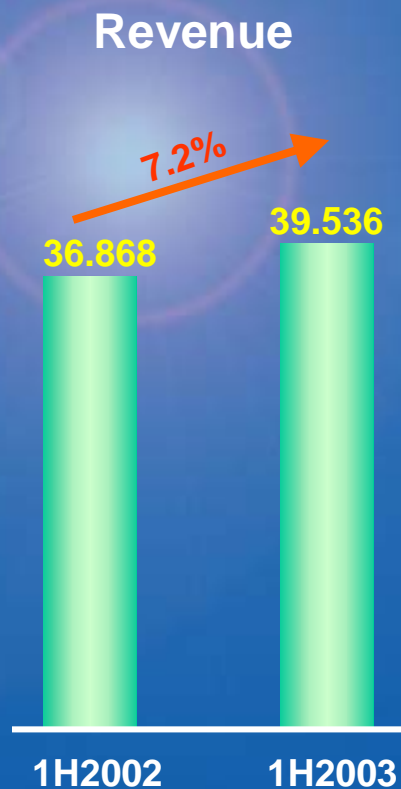


## Financial Review

# Healthy Growth of Revenue & Net Profit



RMB: Billion



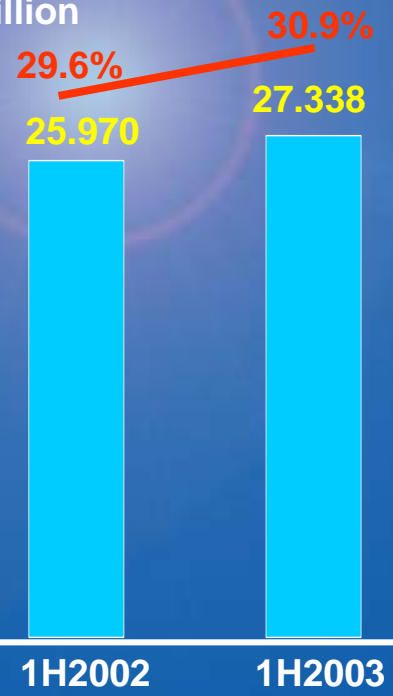




# Disciplined Operating Expenses & Improved Profitability

## Operating Expenses & Operating Profit Margin

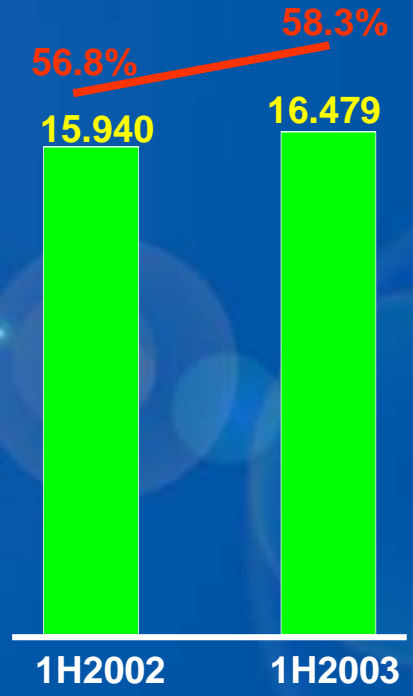
RMB: Billion



- Operating Expenses
- Operating Profit Margin

## Cash Opex & EBITDA Margin

RMB: Billion



- Cash Opex
- EBITDA Margin

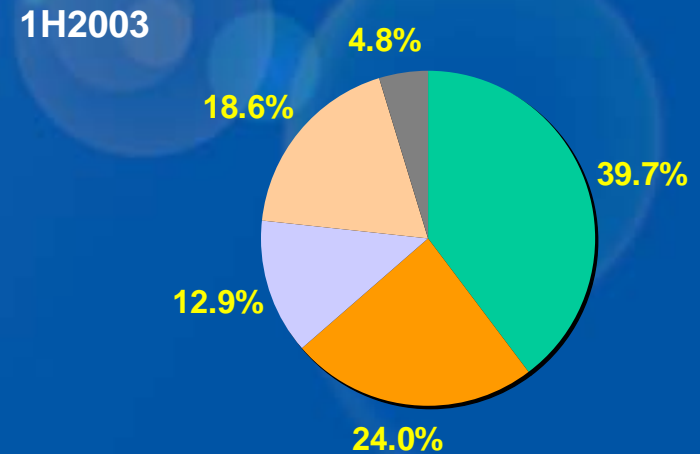
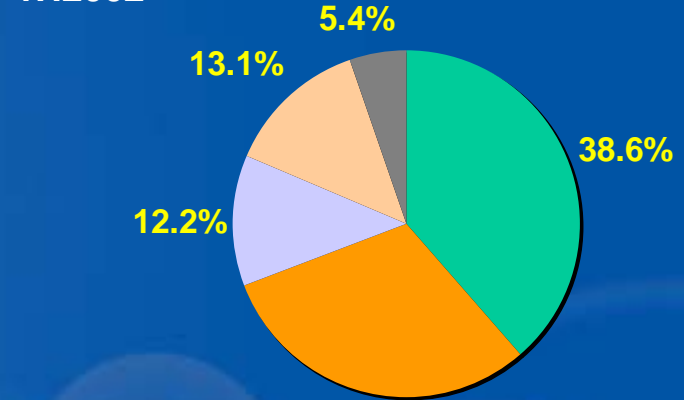


# Cost Structure More Rationalized

## Operating Expenses

RMB: Million	1H2002	1H2003	
<b>Total</b>	<b>25,970</b>	<b>27,338</b>	<b>5.3%</b>
<b>Depreciation &amp; Amortisation</b>	<b>10,030</b>	<b>10,859</b>	<b>8.3%</b>
<b>Network Operations &amp; Support</b>	<b>7,973</b>	<b>6,551</b>	<b>-17.8%</b>
<b>SG&amp;A</b>	<b>3,170</b>	<b>3,527</b>	<b>11.3%</b>
<b>Personnel</b>	<b>3,393</b>	<b>5,091</b>	<b>50.6%</b>
<b>Interconnection Charges &amp; Others</b>	<b>1,404</b>	<b>1,310</b>	<b>-6.7%</b>

## Operating Expenses Share





# Network Operations & Support, SG&A

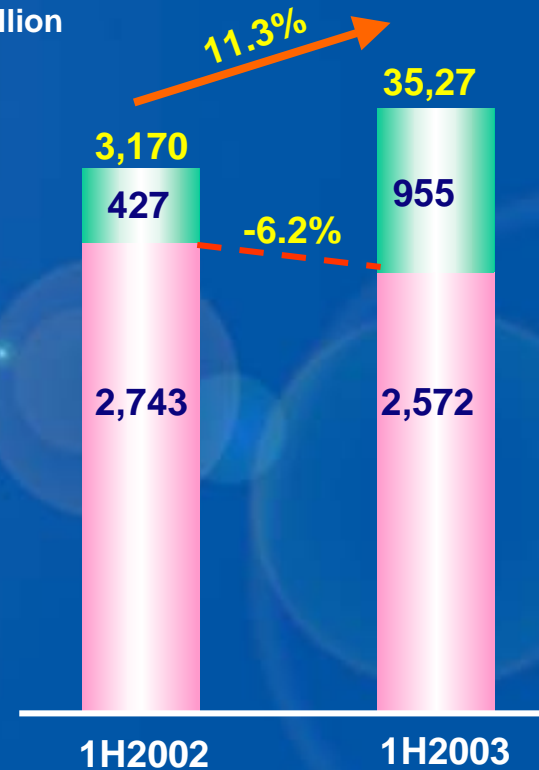
## Network O&S

RMB: Million



## SG&A

RMB: Million



- Advertisement & Promotion
- Others



## Capital Expenditure

RMB: Billion



# Solid Capital Structure



<b>RMB: Million</b>	<b>2002.12</b>	<b>2003.6</b>
<b>Short Term Debt</b>	<b>21,394</b>	<b>18,597</b>
<b>Long Term Debt</b>	<b>4,853</b>	<b>4,937</b>
<b>Total Debt</b>	<b>26,247</b>	<b>23,534</b>
<b>Shareholders' Equity</b>	<b>125,008</b>	<b>133,595</b>
<b>Total Capitalization</b>	<b>151,255</b>	<b>157,129</b>
<b>Cash &amp; Cash Equivalents</b>	<b>16,423</b>	<b>17,835</b>
<b>Net Debt</b>	<b>9,824</b>	<b>5,699</b>
<b>Total Debt / Total Capitalization</b>	<b>17.4%</b>	<b>15.0%</b>
<b>EBIT/Interest Expense</b>	<b>39</b>	<b>38</b>



THANK YOU!

Extract from unaudited consolidated statement of income for the 6 months ended 30 June 2003 — Appendix I



(RMB million)			1H2002	1H2003
<b>Operating Revenues</b>			36,868	39,536
<b>Operating Expenses</b>			25,970	27,338
	Depreciation and amortisation		10,030	10,859
	Network operations and support		7,973	6,551
	SG&A		3,170	3,527
	Personnel		3,393	5,091
	Others		1,404	1,310
<b>Operating Profit</b>			10,898	12,198
Net Finance Cost			421	176
Taxation			1,965	2,743
<b>Profit attributable to shareholders</b>			8,483	9,260
<b>EBITDA</b>			20,928	23,057

# Extract from unaudited consolidated balance sheet at 30 June 2003 — Appendix II



(RMB million)	<b>Audited</b>	<b>Unaudited</b>
	at 31 December 2002	at 30 June 2003
Cash and Cash Equivalents	16,425	17,835
Other Current Assets	10,077	10,736
Non-current Assets	<u>184,350</u>	<u>183,078</u>
<b>Total Assets</b>	<u>210,852</u>	<u>211,649</u>
Current Liabilities	57,627	51,511
Non-current Liabilities	<u>27,083</u>	<u>25,368</u>
<b>Total Liabilities</b>	<u>84,710</u>	<u>76,879</u>
Minority Interests	1,134	1,175
<b>Shareholder's Equity</b>	<u>125,008</u>	<u>133,595</u>