

# China Telecom

## Presentation at UBS Global Communications Conference



**Mr Chang Xiaobing**

President of China Telecom

**19 November 2003**

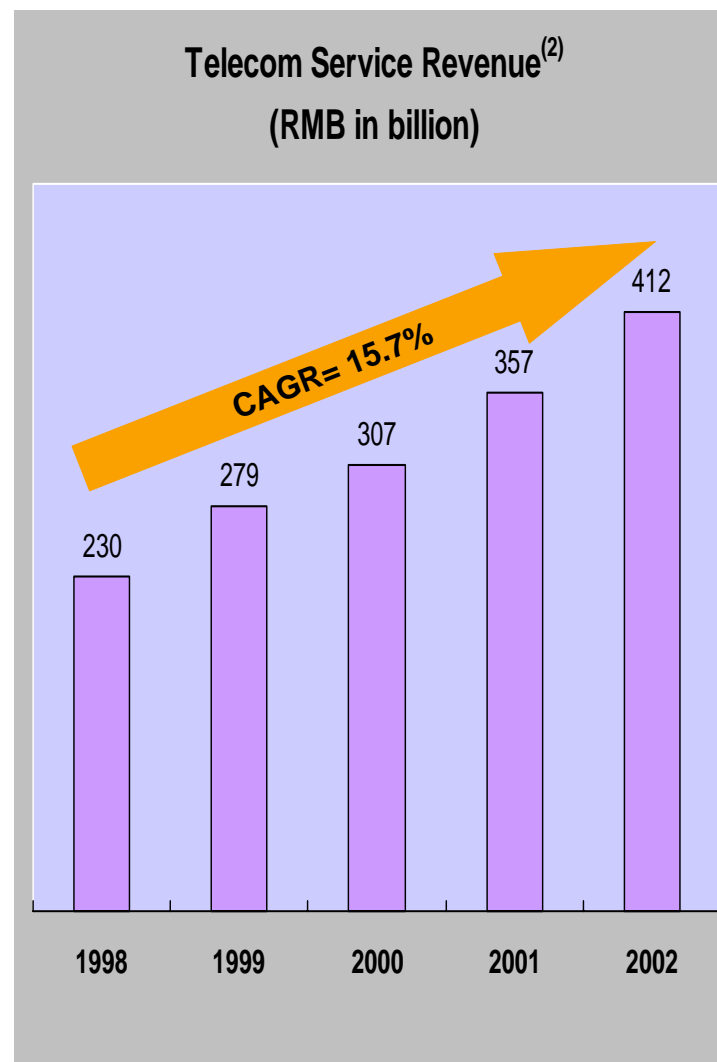
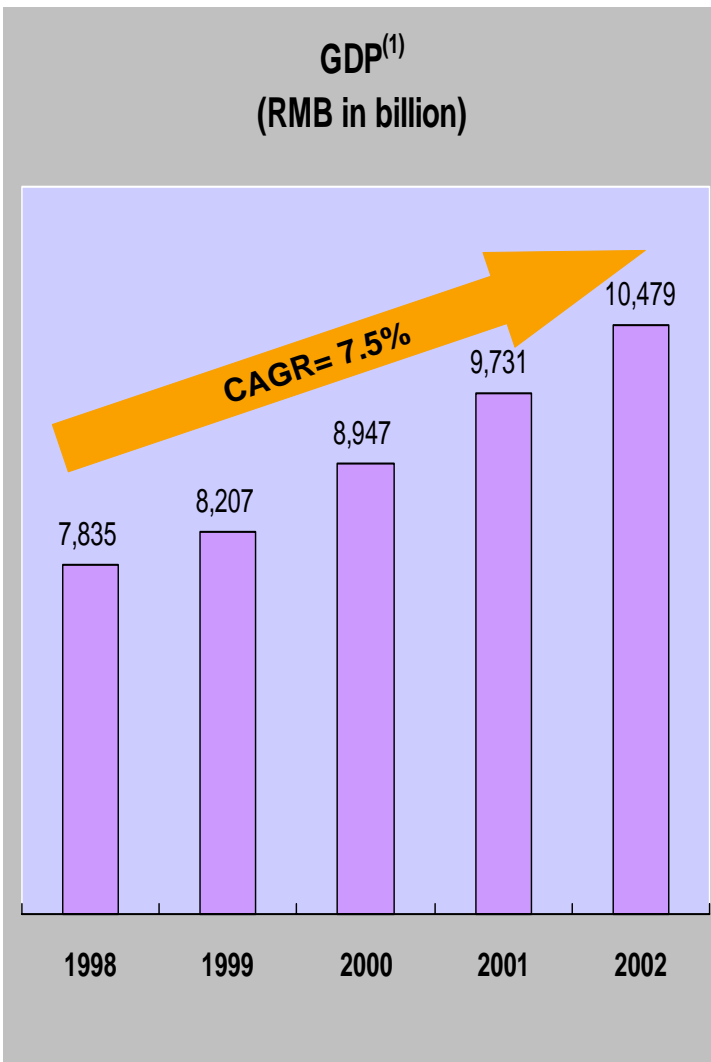
**New York**

# Content

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- ◆ Telecom Industry in China
- ◆ Performance Review: First 9 months in 2003
- ◆ Overview of the Acquisition

# Favorable Market Fundamentals

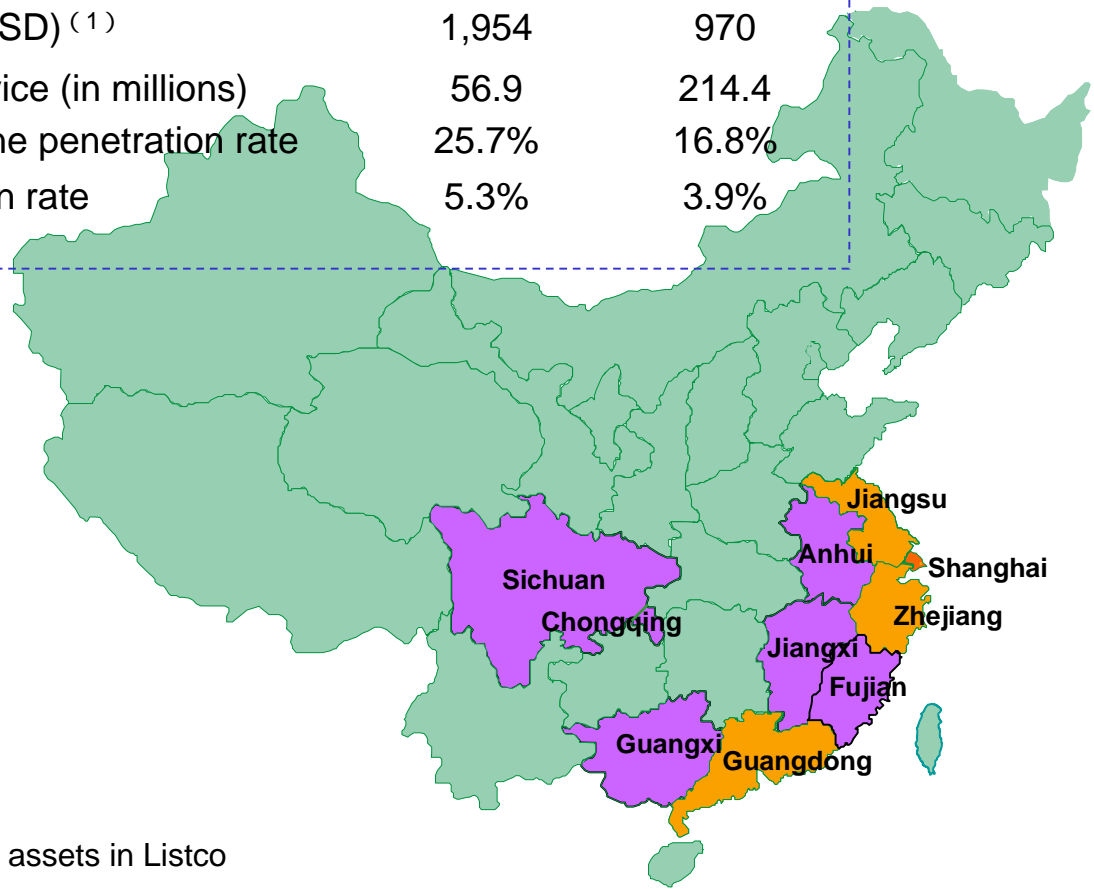


Notes: (1) Source: National Statistic Bureau, China

(2) Source: Ministry of Information Industry, China

# Located in China's Most Affluent Provinces

In 2002	Listco	Nationwide
Population (in millions)	221	1,276
GDP per capita (USD) <sup>(1)</sup>	1,954	970
Access line in service (in millions)	56.9	214.4
Fixed-line telephone penetration rate	25.7%	16.8%
Internet penetration rate	5.3%	3.9%

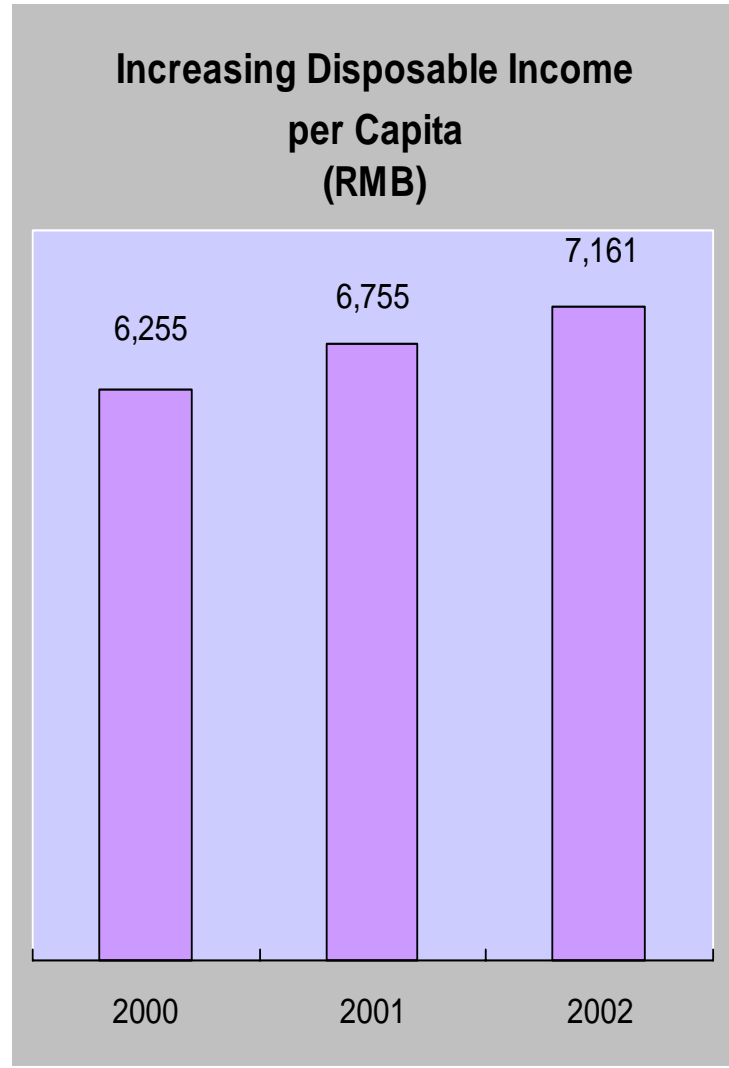
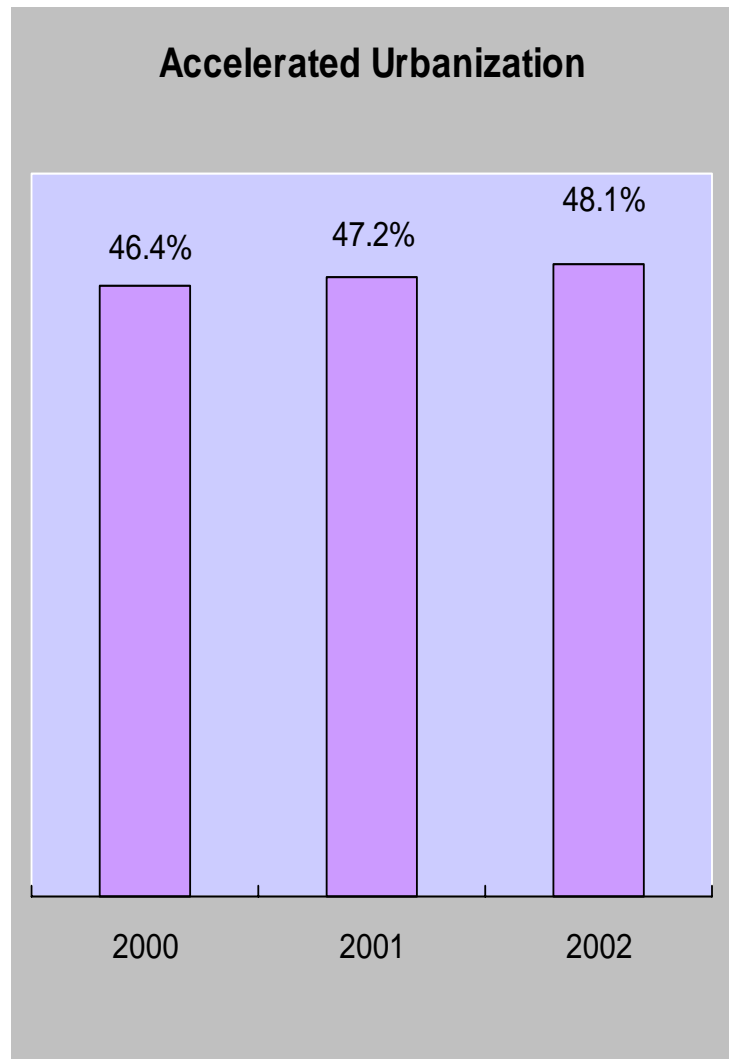


- Current provincial assets in Listco
- Provincial assets slated for acquisition

Notes: (1) Calculated by GDP/population, exchange rate: USD1.0=RMB 8.27

Source: National Statistic Bureau and Ministry of Information Industry of China

# Strong Drivers Pushing Fixed-line Penetration



- Notes: (1) All figures are for Listco  
(2) Source: provincial statistics bureaus

# Regulatory Framework

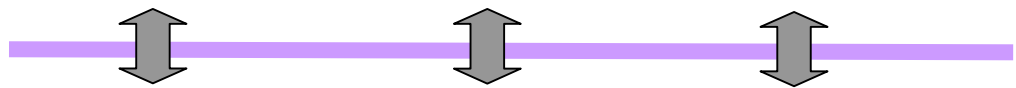
## Ministry of Information Industry

- ◆ Regulatory policies
- ◆ Enforcement
- ◆ Licensing
- ◆ Tariff regulation and guidance
- ◆ Services quality control
- ◆ Technical standards
- ◆ Resource allocation
- ◆ .....



## Other Regulatory Bodies:

- ❖ National Development & Reform Commission
- ❖ State-owned Assets Supervision & Administration Commission
- ❖ Ministry of Finance
- ❖ State Administration of Taxation
- ❖ .....



## Provincial communication administrations

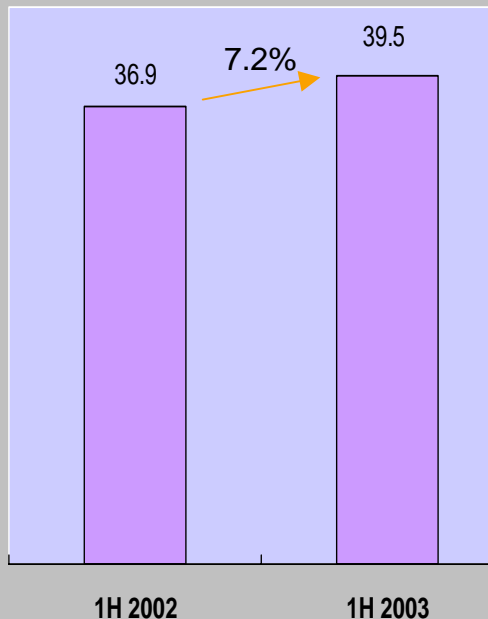
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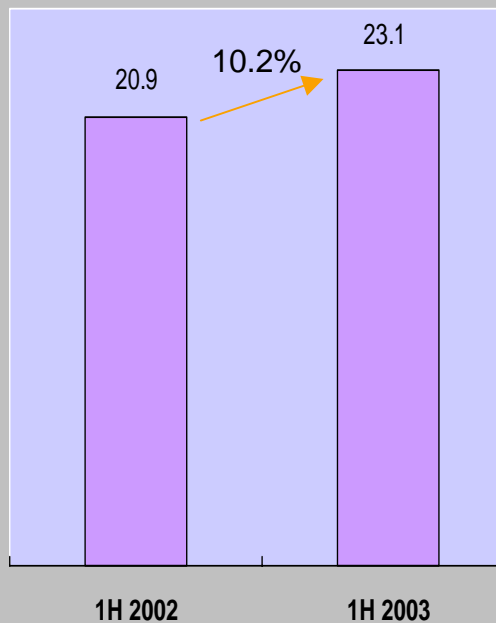
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# First Half of 2003: Sustained Healthy Growth

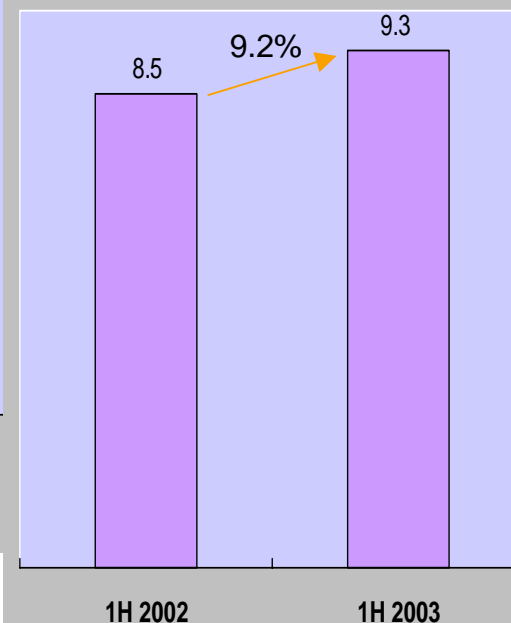
Revenue  
(RMB in billion)



EBITDA  
(RMB in billion)



Net Profit  
(RMB in billion)





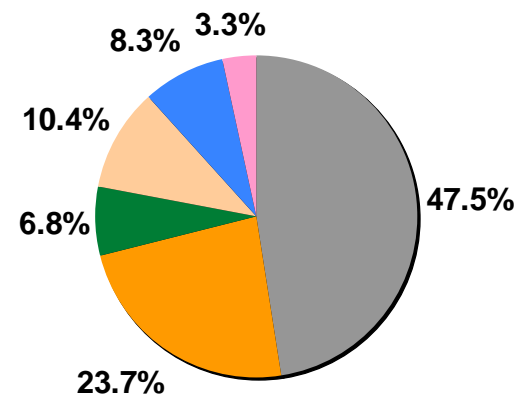
# Operating Revenues by Business Lines

## Revenue

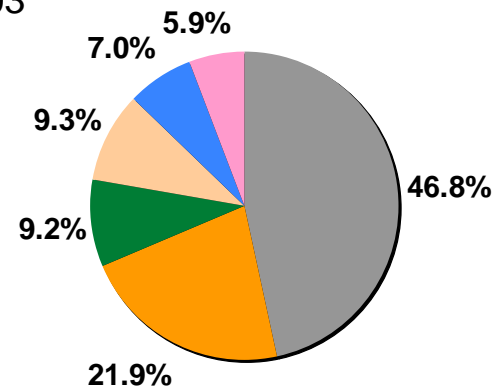
RMB: Million	1H2002	1H2003	%
<b>Total</b>	<b>36,868</b>	<b>39,536</b>	<b>7.2%</b>
<i>Among:</i> Local	17,517	18,488	5.5%
Data & Internet	2,511	3,643	45.1%
DLD & IDD	8,749	8,653	-1.1%
LL& Interconnection	3,827	3,662	-4.3%
VAS & Others	1,206	2,322	92.5%

## Revenue Share

1H2002



1H2003



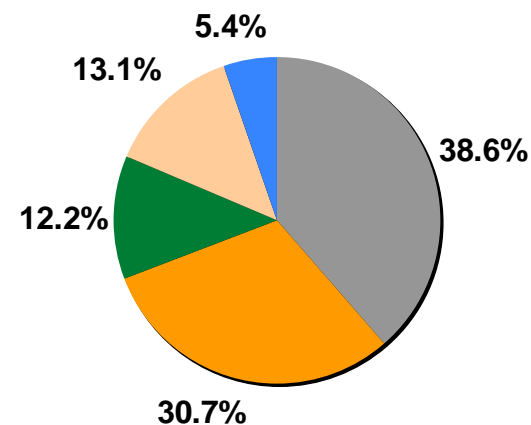
# Cost Structure More Rationalized

## Operating Expenses

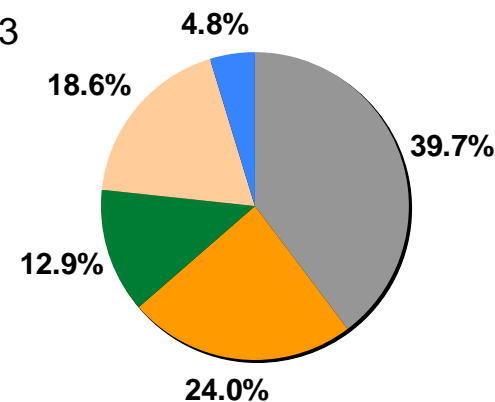
RMB: Million	1H2002	1H2003	
<b>Total</b>	<b>25,970</b>	<b>27,338</b>	<b>5.3%</b>
<b>Depreciation &amp; Amortisation</b>	<b>10,030</b>	<b>10,859</b>	<b>8.3%</b>
<b>Network Operations &amp; Support</b>	<b>7,973</b>	<b>6,551</b>	<b>-17.8%</b>
<b>SG&amp;A</b>	<b>3,170</b>	<b>3,527</b>	<b>11.3%</b>
<b>Personnel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

1H2002

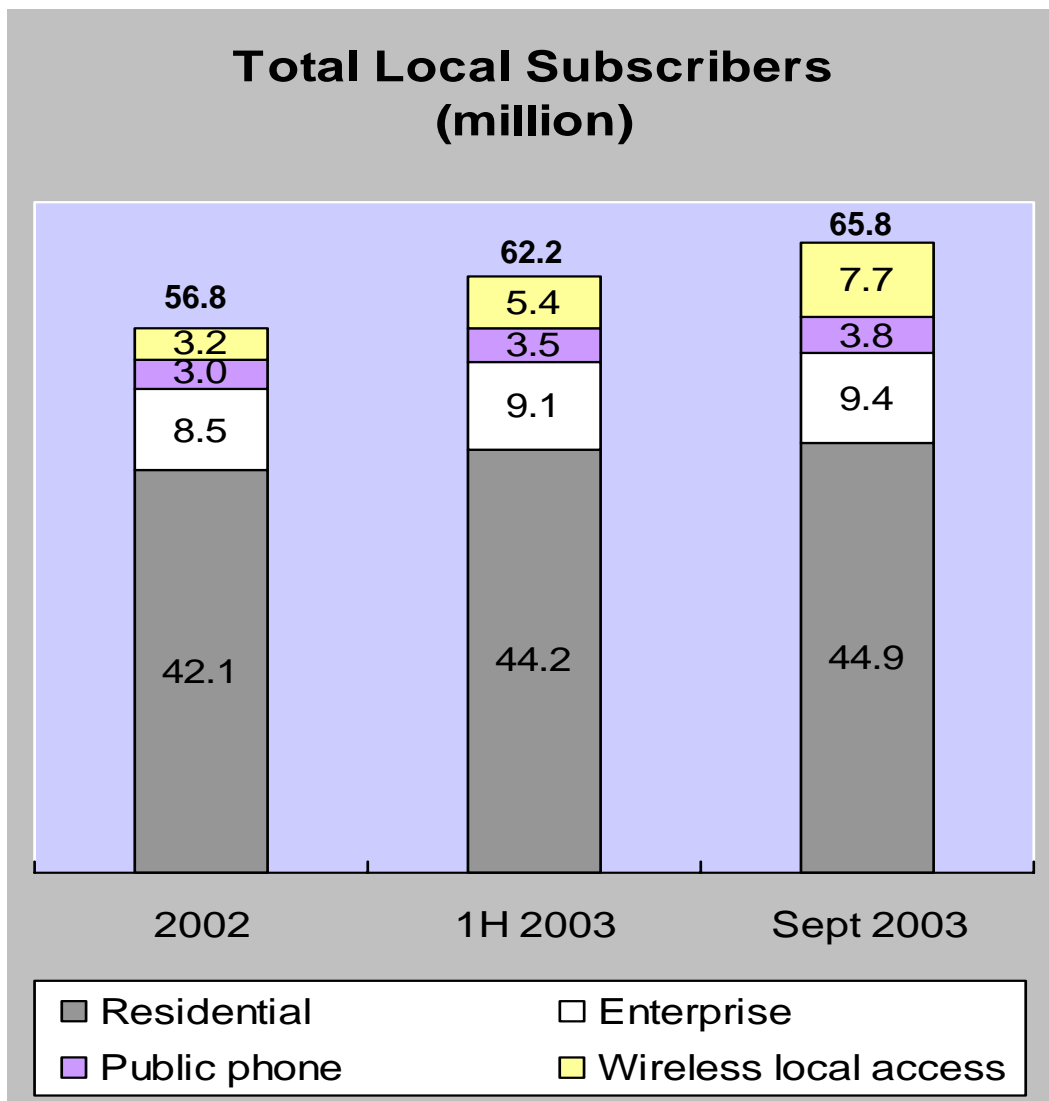


1H2003

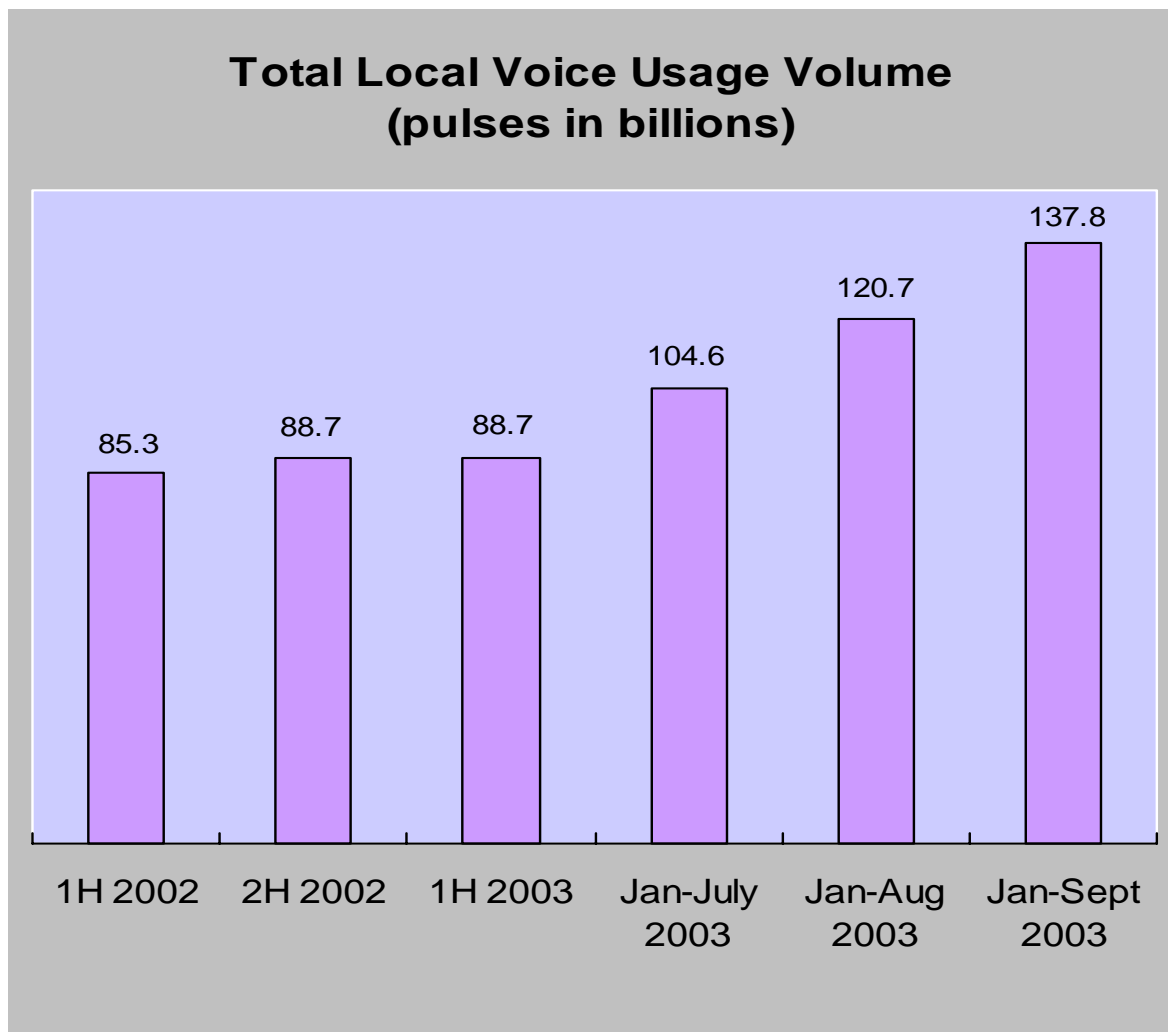


D&A     
  Network O&S     
  SG&A  
 Personnel     
  Interconnection & Others

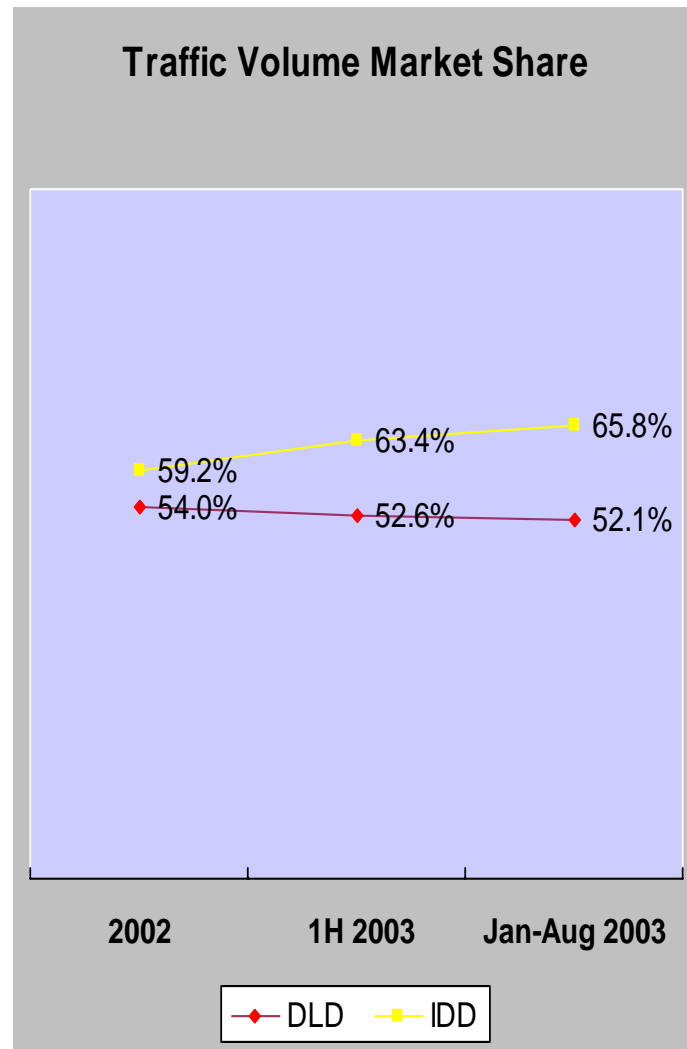
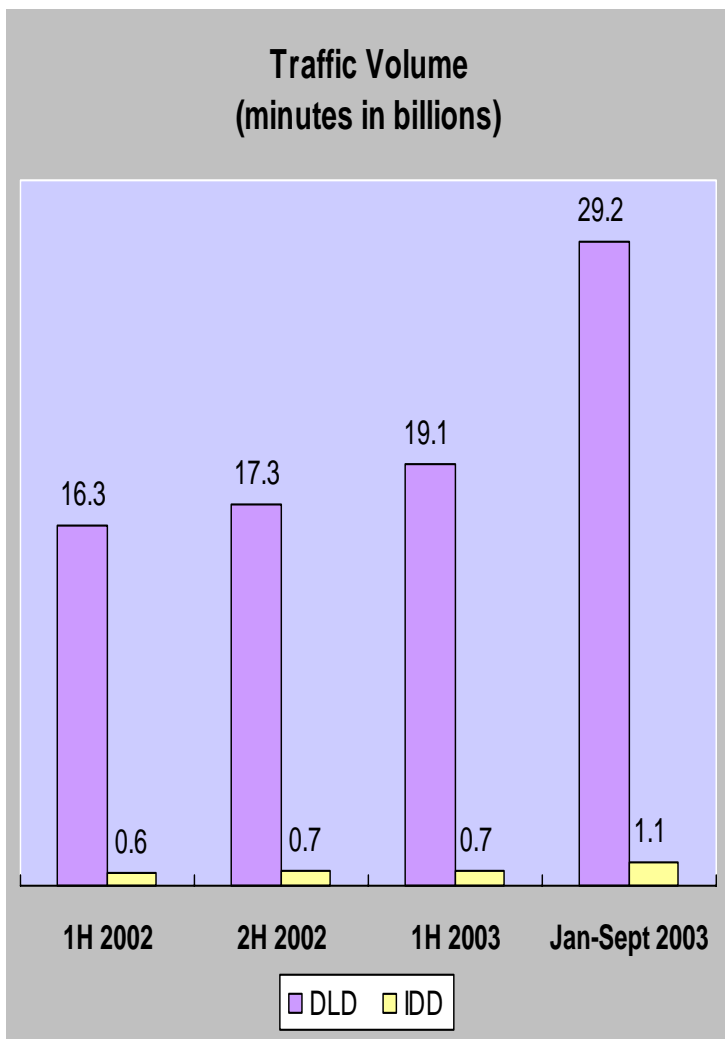
# Local: Incessant Subscriber Base Expansion



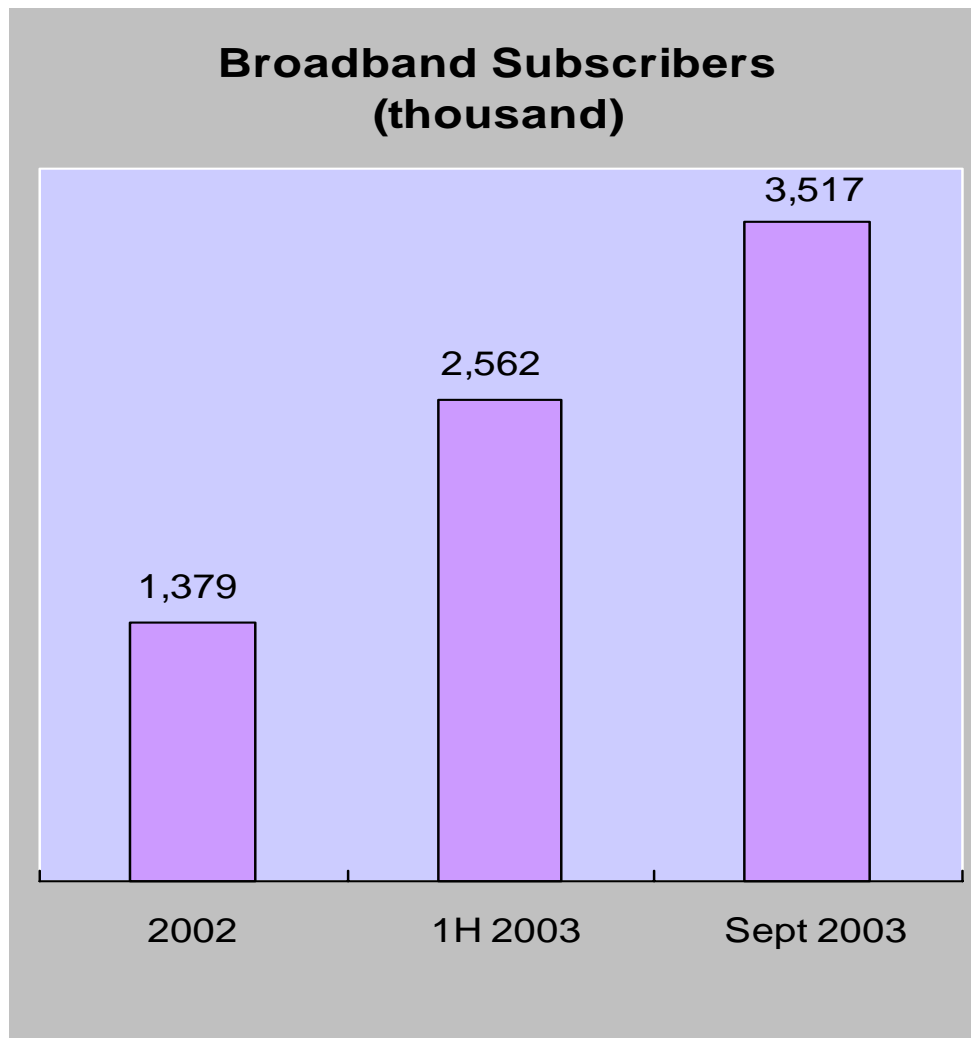
## Local: Sustained Traffic Growth



# Long Distance: Stable Market Share & Moderated Risk



# Broadband Internet: Explosive growth Growth



# First 9 months 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 Competitions:

- ◆ 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



# Content

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# Terms of Acquisition

<b>Target Assets</b>	Anhui Telecom, Fujian Telecom, Jiangxi Telecom, Sichuan Telecom, Chongqing Telecom, Guangxi Telecom and their subsidiaries, and certain network management and R&D facilities currently owned by the Parent
<b>2003 Earning Forecast for Target Group</b>	RMB 4.004Bn (Excluding Upfront Connection Fee) RMB 6.352Bn (Including Upfront Connection Fee) <sup>(1)</sup>
<b>Acquisition Consideration</b>	Equity Value: RMB 46Bn Assumed Net Debt: RMB 34Bn <sup>(2)</sup> Enterprise Value : RMB 80 Bn
<b>Consideration Payment</b>	<ul style="list-style-type: none"> <li>■ Initial consideration: RMB 11Bn</li> <li>■ Deferred consideration: RMB 35Bn</li> </ul>
<b>Valuation Multiples</b>	<ul style="list-style-type: none"> <li>■ P/E: 11.49x<sup>(1)</sup></li> </ul>
<b>EPS Accretion</b>	21.1% <sup>(3)</sup> <sup>(4)</sup>
<b>Extraordinary General Meetings</b>	December 15th, 2003
<b>Financial Advisors to the China Telecom</b>	<ul style="list-style-type: none"> <li>■ Morgan Stanley Dean Witter Asia Limited</li> <li>■ China International Capital (Hong Kong) Corporation</li> </ul>
<b>Independent Financial Advisor</b>	JP Morgan Securities (Asia Pacific) Limited

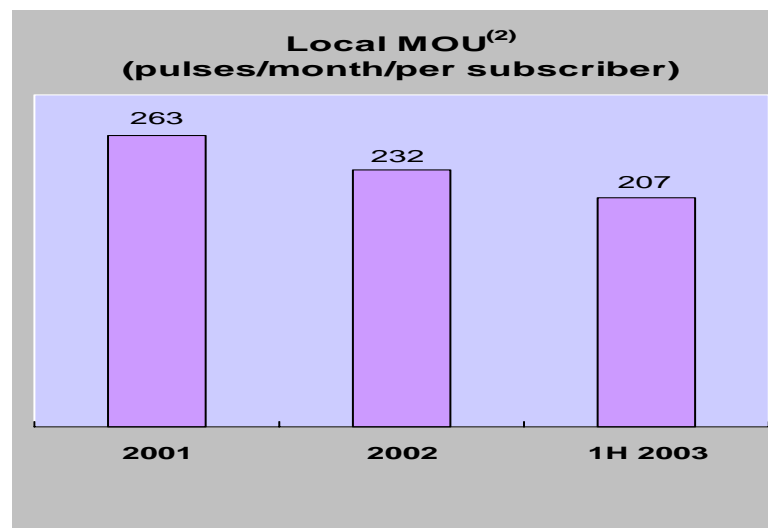
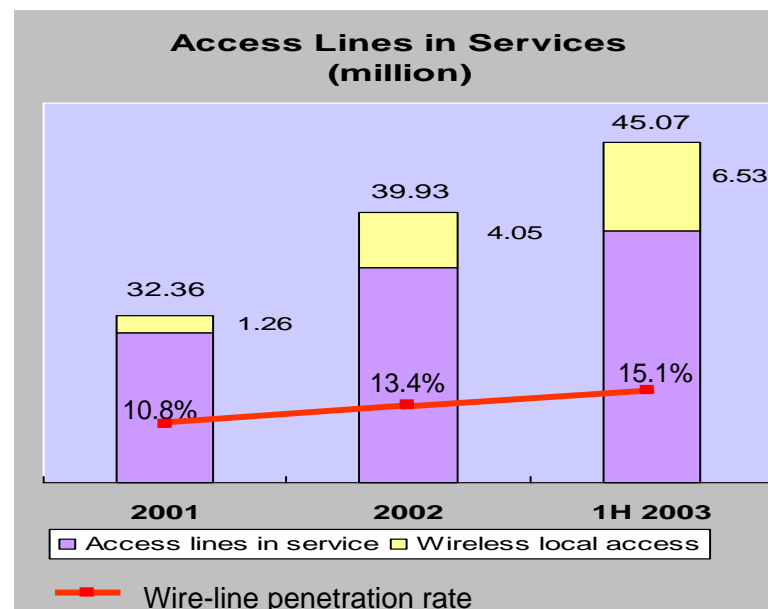
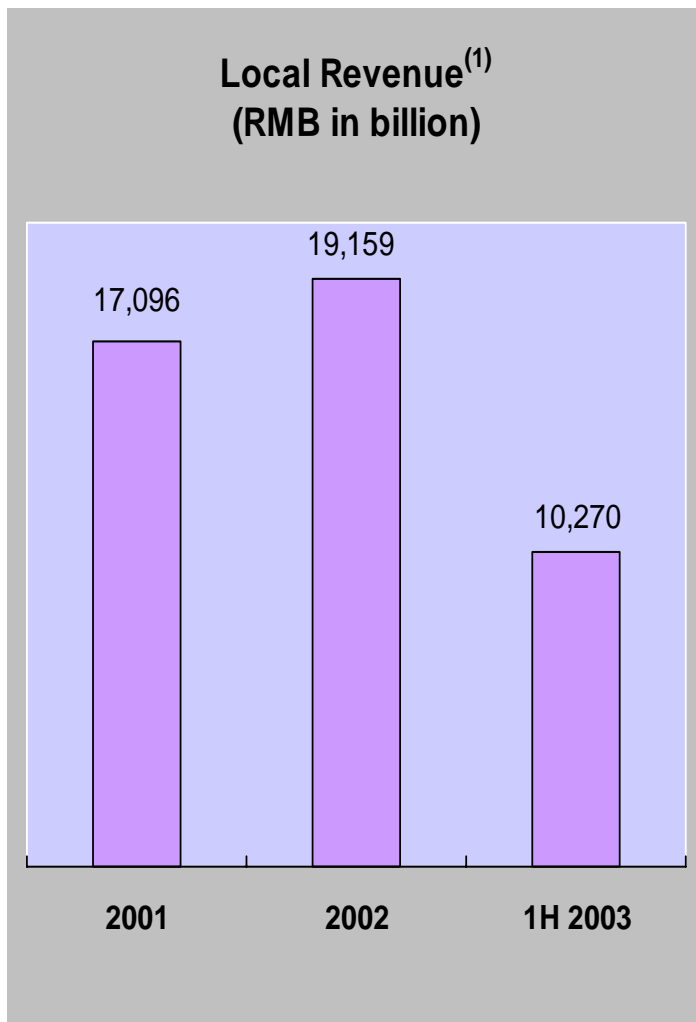
Notes: (1) Otherwise indicated, all information related to valuation hereafter excluding upfront connection fee of 2.348 billion RMB

(2) As of June 30<sup>th</sup>, 2003

(3) Calculation based on 20 trading days average closing price HK\$2.27 as of Oct 24th, 2003; P/E ratio of target company is based on company's earnings forecast and acquisition consideration

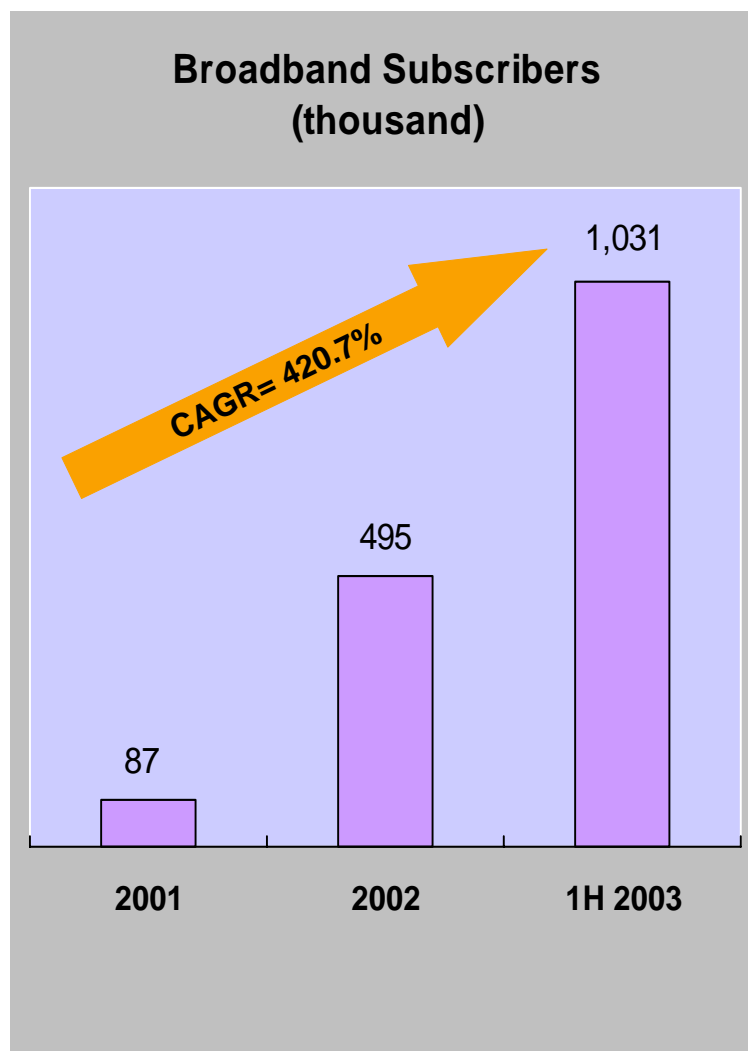
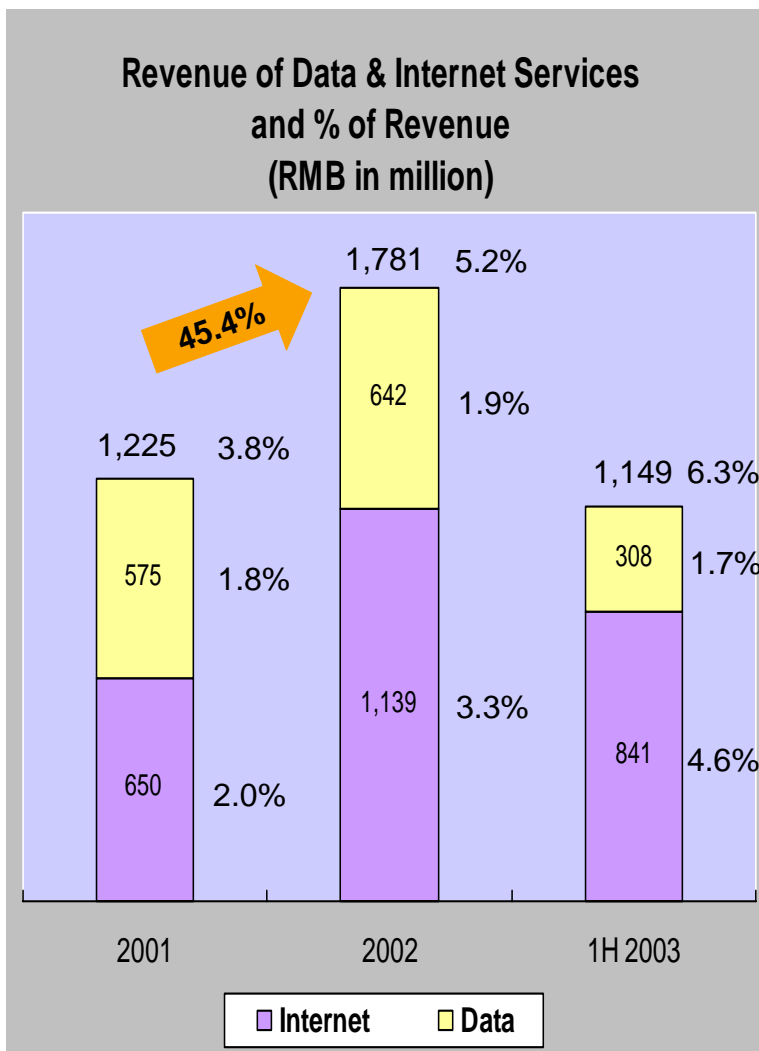
(4) EPS estimate for ListCo is based on the average of estimated EPS from Morgan Stanley and CICC research department. Illustrative purpose only, it does not reflect Company's guidance on earnings

# Wire-line Telephone Service Experienced Rapid Growth

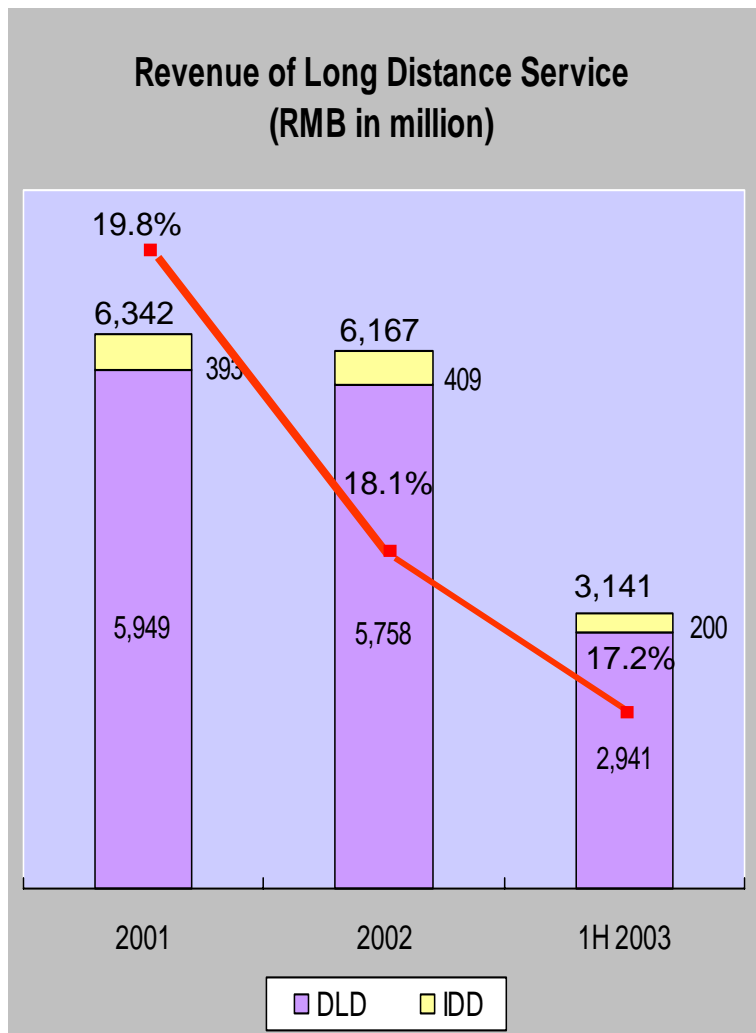


Note: (1) Upfront connection fee excluded  
(2) Excluding Dial-up minutes

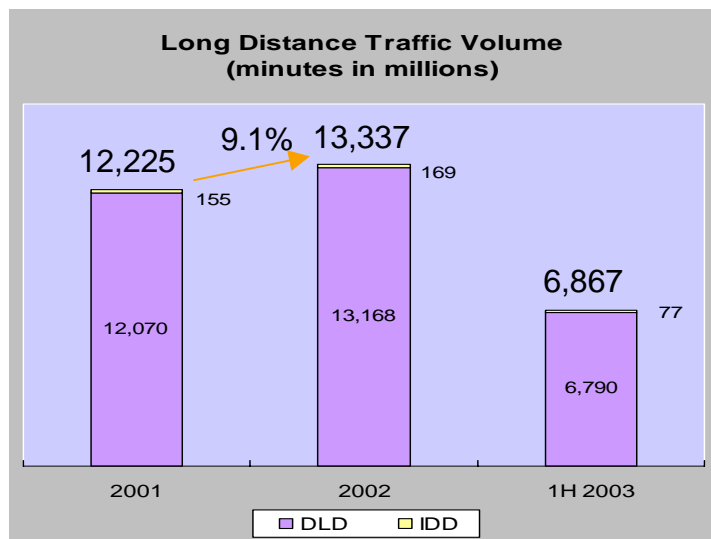
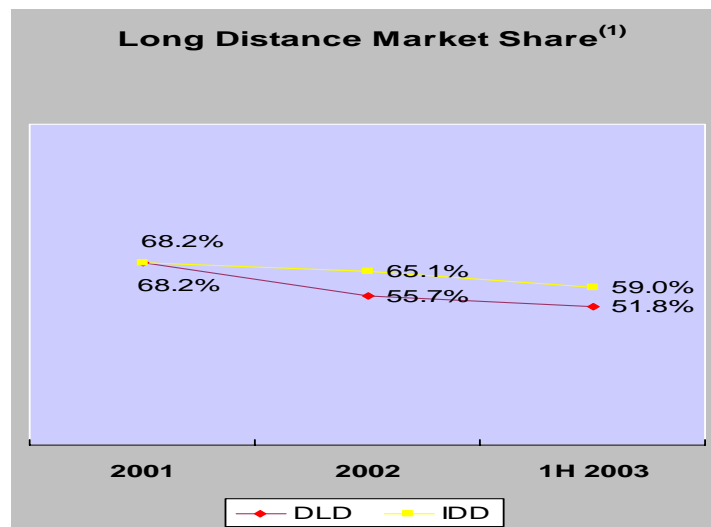
# Data and Internet Services



# Risk in Long Distance Service Moderated



—■ Total long distance revenue share



Note: (1) Market share of international long distance service is based on outgoing call minutes

## Realization of Operating Synergy

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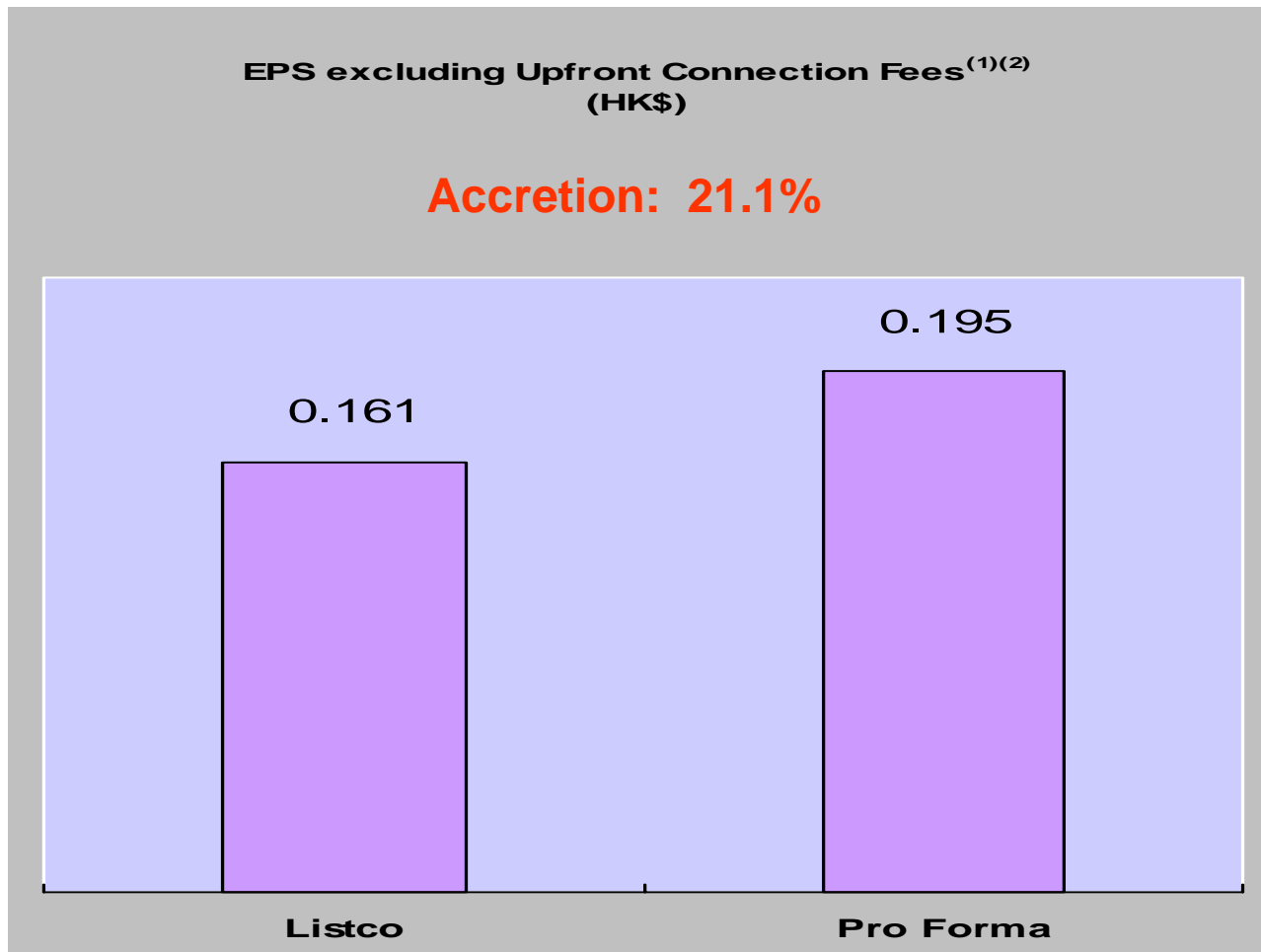
### Reduce Cost

- ❖ Interconnection revenue decreased by 13MM, interconnection expense decreased by 140MM in the first half of 2003 on a pro forma basis

### Achieve Management Synergy

- ❖ Centralize investment planning, procurement and financial management
- ❖ Launch business process reengineering initiatives
- ❖ Improve centralized management of network operation and R&D capabilities
- ❖ Wider implementation of employee incentive programs

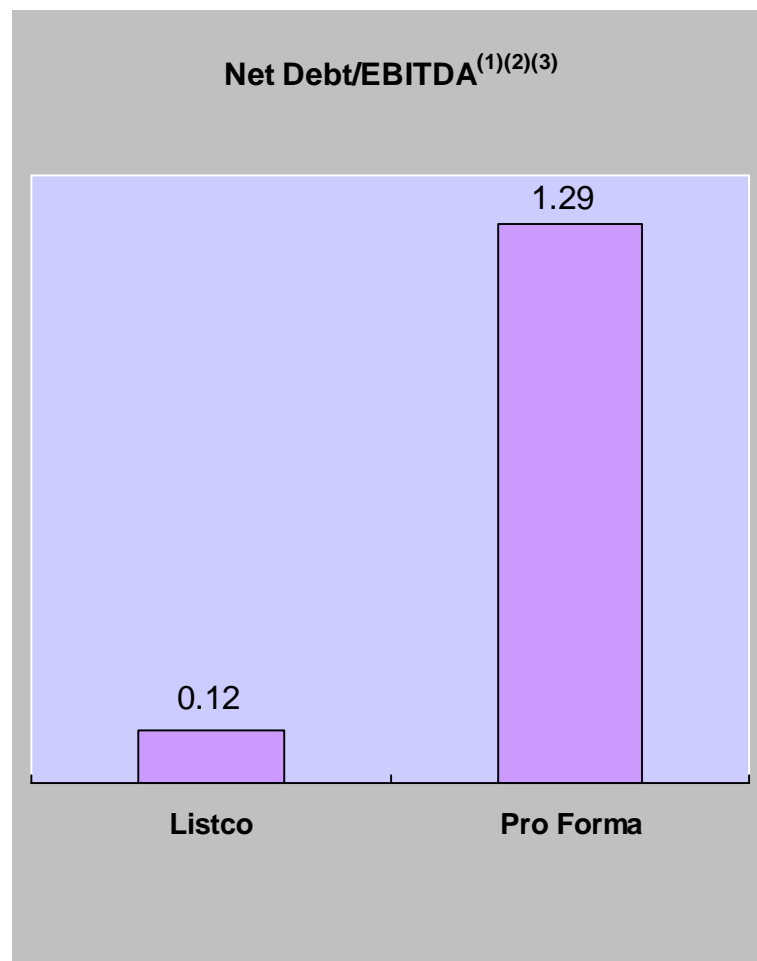
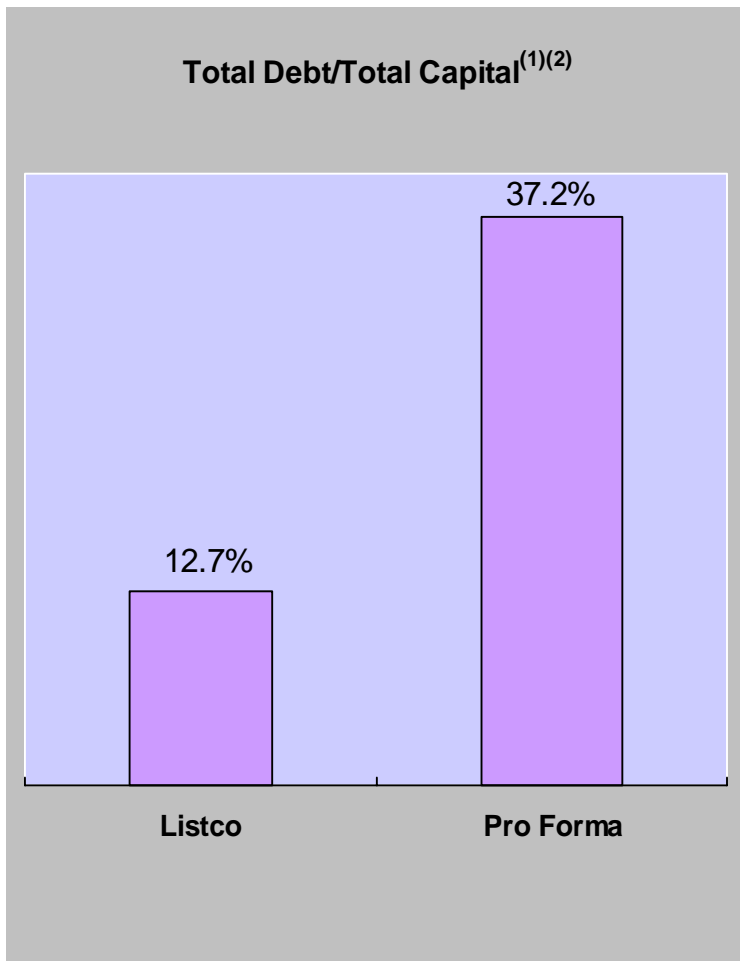
# Significant Earnings Accretion



Note: (1) Borrowing interest rate 5.18%, deposit interest rate 1.8%, income tax rate 33%

(2) EPS estimates for ListCo is based on average estimated EPS from Morgan Stanley and CICC research department. Illustrative purpose only, it does not reflect Company's guidance on earnings

# Improvement of Capital Structure, Enhancement of Shareholder Return



Note: (1) As of June 30, 2003

(2) Total Debt/Total Capital = Total Debt/(Total Debt + Deferred Revenue + Shareholders' Equity + Minority Interest); Total Debt = Long-term Debt + Short-term Debt + Financial Lease; Net Debt = Total Debt - Cash

(3) We annualize EBITDA of 1H2003 to get Net Debt/EBITDA

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# Thank You