CHINA TELECOM CORP LTD
Form 6-K
September 02, 2004

1934 Act Registration No. 1-31517

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

Report of Foreign Issuer

Pursuant to Rule 13a-16 or 15d-16 of

the Securities Exchange Act of 1934

For the Month of September 2004

China Telecom Corporation Limited

(Translation of registrant s name into English)

31 Jinrong Street, Xicheng District

Beijing, China 100032

(Address of principal executive offices)

(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.)

Form 20-F __X__ Form 40-F ______

(Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): __)

(Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): __)

(Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.)

Yes ______ No __X__

(If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b):82-____ .)

THIS REPORT ON FORM 6-K SHALL BE DEEMED TO BE INCORPORATED BY REFERENCE IN THE PROSPECTUS INCLUDED IN THE REGISTRATION STATEMENT ON FORM F-3 (FILE NO.333-113181) OF CHINA TELECOM CORPORATION LIMITED AND TO BE A PART THEREOF FROM THE DATE ON WHICH THIS REPORT IS FURNISHED, TO THE EXTENT NOT SUPERSEDED BY DOCUMENTS OR REPORTS SUBSEQUENTLY FILED OR FURNISHED.

EXHIBITS

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	CHINA TELECOM CORPORATION LIMITED	
Date: September 2, 2004	By:	/s/ Zhou Deqiang
	Name:	Zhou Deqiang
	Title:	Chairman and CEO

Exhibit 1.1

Dear Shareholders,

In the first half of 2004, driven by the sustained and rapid growth of the Chinese economy, the demand for telecommunications services continued to grow with a steady increase in the total volume of voice services, further expansion of Internet services and more opportunities for the development of value-added services. At the same time, competition within the telecommunications market further intensified. Voice services were the key focus of such competition as mobile substitution became more visible. While the increased market demands have provided us with new opportunities for development, the intensified competition among telecommunications operators has brought about new challenges to us.

Faced with this challenge, we adhered to our core value of Innovation and Solid Execution , focussed on improving our operational systems and enhancing corporate management, and consistently promoted our market-oriented, customer-centred and return-driven business model throughout the organisation. These measures improved our market responsiveness, product development, marketing capabilities and our ability to thrive in the market place, increasing our profitability and shareholders value. In the first half of 2004, our local wireline services subscriber base increased by 17.51 million, reaching 178 million at the end of June and our broadband subscriber base increased by 3.66 million, reaching 10.89 million at the end of June. Driven by the strength in our local voice services and broadband Internet services, we recorded a steady growth in operating revenue which reached RMB80,217 million, an increase of 8.3% over the same period in 2003. Our EBITDA was RMB43,991 million and our net profit was RMB14,708 million, of which RMB4,236 million was generated from amortisation of connection fees.

In the first half of this year, we successfully completed the acquisition of telecommunications businesses in ten provinces. To fund the acquisition, we raised net proceeds of approximately US$1.5 billion through a successful offering of new H shares. With the implementation of our management system, all levels of management of the newly acquired subsidiaries have been geared towards achieving their business and financial objectives. The growth rates of these companies increased and their operating and capital expenditures were effectively controlled, thus improving their profitability. In the first half of this year, our newly acquired telecommunications subsidiaries in the ten provinces generated revenue of RMB17,916 million from their operations, an increase of 10.0% from the same period last year, and realised net profit of RMB2,553 million, of which RMB818 million was generated from amortisation of connection fees. After the Acquisition, our basic earnings per share reached RMB0.19, representing an increase of 11.8% over the same period last year. We now enjoy better growth prospects.

In the first half of this year, we further improved the management of our distribution channels, implemented the revenue-and-service-accountability system and improved the efficiency of the distribution channels, whereby a client-focussed, full coverage distribution channel system was established which has helped to stabilise the usage from our existing customers and played an important role in driving revenue growth. At the same time, we made substantial adjustments to our marketing operation management model applied by head office, including strengthening the market strategy planning and unifying brand management, unifying customer service interface and reinforcing the sales planning function. In addition, a product development centre was set up to strengthen our business innovation capability.

Since our initial public offering, our financial management has been improving continuously. The key importance of financial management in various aspects of the business continued to be emphasised, overall budget control has been more stringently implemented and cost control has been further improved. With more centralised network maintenance and higher efficiency, our network operations and support expenses have decreased. Following our philosophy of running the enterprise in an industrious and economical way , we have focussed effort in cutting our administrative expenses. As a result, our management and administrative expenditure continued to decrease. However, in order to ensure the continuing growth of our core business in a competitive environment, our sales expenses increased. Capital expenditure is expected to be more proportionate between the first half and second half of this year. The first half of this year recorded a total capital expenditure of RMB25,018 million, an increase of 12.4% from the same period last year.

In the first half of this year, we continued to focus our effort on centralising our network resources management and network maintenance. A centralised control and maintenance system covering various

A - 2

telecommunications networks was preliminarily established in all our local branch companies. We have further centralised the management of local branch companies resources. A transmission resources management system has been established and a conduit resources management system is taking shape. These measures will help us to realise dynamic deployment and distribution of our network resources, effectively increase the efficiency of our network operations and maintenance, and improve our market responsiveness.

In the first half of this year, Business Process Re-engineering (BPR) has been extensively implemented throughout the Company. 212 out of our 228 local branch companies have adopted or are adopting BPR. With BPR as our platform to implement various new management measures, we were able to expand our process management over a wider area, implement process management reform at all levels of the business. In particular, we have made substantial progress in our process-based and integrated management of distribution channels. The implementation of BPR has accelerated the establishment of a market-oriented, process-based management system, and further enhanced our local branch companies overall marketing abilities, market responsiveness, provisioning capabilities and network management. This has in turn improved our operating efficiency and profitability.

Further progress has been made with the development of CTG-MBOSS, an information technology platform for our businesses. The management support system (MSS), one of the three sub-systems of CTG-MBOSS, has been successfully launched on a trial basis at Guangdong Telecom and Shanghai Telecom. Such system will be further implemented in these two subsidiaries and extended to subsidiaries in other provinces in the second half of this year. The implementation of MSS will enable us, through information sharing, to improve our operating efficiency and financial management and standardise the management of our internal control, thus effectively minimising business risks.

Business Review

In the first half of this year, our major business lines continued to grow. The subscriber base for our local telephone services expanded rapidly and the volume of our local voice services also increased substantially. The wireless local access service made an important contribution to the growth of our business. Broadband services continued to develop at high growth rates and revenue generated therefrom accounted for a higher proportion of our total operating revenue. The domestic long distance services recorded positive growth both in terms of volume and revenue.

Local Telephone Services

As our core business, local telephone services recorded RMB40,527 million in revenue, an increase of 7.7% from the same period last year. Local telephone revenue accounted for 50.5% of our total operating revenue, which was similar to that of last year.

As at the end of June, our local telephone subscriber base increased by 17.51 million and by 10.9% from the end of last year, reaching 178 million. The growth in wireless local access subscribers and public telephone users was particularly strong with the total number of subscribers increasing by 10.91 million and 1.43 million, respectively, from the end of last year, reaching 36.47 million and 11.03 million, respectively. Their semi-annual growth rates were 42.7% and 14.8%, respectively.

By leveraging the strengths in our distribution channels and further promoting our packaged products in the first half of this year, we generated local telephone usage fees of RMB24,072 million, an increase of 7.1% from the same period last year. At the same time, the total usage of local voice service reached 210.7 billion pulses, an increase of 13.6% from the same period last year.

The steady and rapid increase in the number of wireless local access subscribers has effectively mitigated the pressure from mobile substitution. The packaging of wireless local access with residential and business wireline services has created synergies and increased the value of wireline services. We have reduced the investment cost of the wireless local access service per subscriber by approximately 10% and have increased the utilisation of the network by approximately 3%, thus maintaining a desirable level of investment return on such business.

Internet Services

In the first half of this year, the revenue generated from Internet services reached RMB6,602 million, an increase of 51.6% from the same period last year, and accounted for 8.2% of our total operating revenue, which increased by 2.4 percentage points over the same period last year. This line of revenue has contributed substantially to our overall growth in revenue. As at the end of June, our subscriber base for the broadband access service reached 10.89 million, an increase of 3.66 million from the end of last year or a semi-annual growth rate of 50.6%, hence strengthening our leading position in the broadband market.

We have focussed our attention on capitalising the strength of our full service portfolio. We combined broadband access with other wireline services and broadband application services and launched flexible tariff packages to create and satisfy different customer demands. The marketing strength of our broadband access products has been improved as we extended our distribution channels to full coverage. At the same time, based on ChinaVnet platform, we strengthened the integration of broadband application resources to encourage third party providers to join efforts in expanding the spectrum of the broadband content and applications market. As at the end of June 2004, the number of registered subscribers for ChinaVnet reached 4.66 million and over 200 broadband content providers nationwide joined ChinaVnet .

While the number of broadband subscribers was increasing rapidly, their ARPU value was kept at a relatively high level. Benefiting from economies of scale and centralised procurement, the investment cost per subscriber for broadband ADSL was reduced by approximately 5%, thus maintaining a relatively high investment return rate.

Long Distance Services

In the first half of this year, our revenue generated from domestic long distance services was RMB13,145 million, an increase of 3.6% from the same period last year. The total transmission volume for our domestic long distance services reached 39.4 billion minutes, an increase of 21.4% from the same period last year. We continued to maintain our leading position in this area.

While benefiting from increasing demands in the domestic long distance services market which was stimulated by the rapid growth of the Chinese economy, we adopted a flexible and efficient marketing strategy in the face of market competition. We maximised revenue from the domestic long distance services by adopting appropriate pricing strategies. Sales efforts were tailored to customers based on our detailed customer segmentation. For instance, we increased the density of public telephone outlets and strengthened our control over and further motivated the agency channels. These measures enabled us to maintain our strong position in the rapidly growing long distance services market for mobile population.

Revenue from international, Hong Kong, Macau and Taiwan long distance services decreased by 2.3% from the same period last year to RMB1,906 million in the first half of this year. The volume of international long distance usage was 812 million minutes, approximately the same as that of last year.

Managed Data and Leased Line Services

In the first half of this year, revenue generated from our managed data services was RMB1,524 million, a reduction of 6.4% from the same period last year, which accounted for 1.9% of our total operating revenue. Benefiting from the accelerating progress in the use of information technology by the general public, the leasing of standard ports of DDN, FR and ATM increased by 3.3%, 35.6% and 1.3%, respectively, from the end of 2003. On the other hand, under the pressure of competition within the market, the unit prices for our managed data services decreased.

We generated RMB2,112 million from our leased line services in the first half of this year, a reduction of 19.0% from the same period last year, which accounted for 2.6% of our total operating revenue. As at the end of June 2004, the total number of 2M digital lines leased was 146,200, a reduction of 10.4% from the end of 2003. This decrease was mainly due to the reduction in demand for leased lines from other domestic telecommunications operators.

Interconnection Services

In the first half of this year, revenue from interconnection services was RMB5,013 million, an increase of 22.4% from the same period last year. The net interconnection revenue was RMB3,240 million, an increase of 25.0% from the same period last year. Driven by the continuous expansion of our subscriber base and the overall growth in the domestic telecommunications market, the volume of inbound local calls reached 46.2 billion minutes in the first half of this year, an increase of 32.4% from the same period last year. The volume of inbound long distance calls also increased compared to the same period last year.

Value-added Services

We continued our efforts to develop wireline value-added services in the first half of this year and substantially increased the revenue generated from them. As at the end of June 2004, our subscribers for the caller ID service reached 98.19 million, representing a penetration rate of 55.0%, an increase of nearly 4 percentage points from the end of 2003. The semi-annual usage volume for our telephone information service reached 1,038 million minutes, an increase of 35.0% from the same period last year. Since the launch of the SMS over wireless local access service in the first half of this year, the volume of its usage has increased substantially and the service has demonstrated great potential for further development. As an important component of wireline services, value-added services continue to be one of our key focuses and an important source of our future growth.

Outlook for the Second Half of the Year

In the second half of 2004, sustained, rapid, healthy and coordinated growth of the Chinese economy is expected. Accelerating adoption of information technology in the Chinese economy will continue to drive greater demands for telecommunications services. The increasing competition in the telecommunications market will become a significant factor in our operations in the second half of 2004.

We plan to fully explore the development potential of wireline services as our pillar business, conduct comprehensive network optimisation for the wireless local access network to improve our network quality and capability of developing new businesses. Furthermore, we will consistently develop our broadband access service, expand the market for broadband applications, strengthen the development of value-added services and continuously explore new areas for our services.

We will continue to strengthen the capacities of, and improve the management of, our distribution channels. We will also continue to harmonise the relationship between marketing, products development, distribution and customers, effectively improve marketing design and planning, and improve our brand management to enhance our brand value.

We intend to continue transforming our business towards a value-driven growth model. We will also continue to improve overall budget control and budget implementation accountability, optimise cost structure, enhance management of capital expenditure and achieve a more even distribution of capital and operating expenditure. Moreover, we will further implement BPR to establish a process-based management system with a long standing effect. We will strengthen our internal control system to achieve the international best practice, so as to mitigate business risks. We will also speed up the establishment of CTG-MBOSS to provide effective IT support for our marketing and sales, operational management and internal control.

With a view to improving our human resources capital, we will continue with our human resources reforms and implement a merit-based appointment system. We will expand our talented team consisting of professional business managers, technical specialists, skilful marketing and maintenance personnel and professional administrative personnel.

We will pay close attention to new developments in the regulation of the telecommunications industry. Based on our in-depth understanding of regulatory policies, we will continue to comply with all regulatory requirements and foster a favourable business environment. Based on a win-win philosophy and through the creation of a favourable competitive environment, we will promote the healthy development of the industry.

In summary, we will adhere to our goal of becoming a world-class telecommunications operator . Focussing on rapid development, continued business reform, effective management and human-resources-based strategy, we will strive to achieve the sustainable and sound development of the business and maximise shareholders value.

Zhou Deqiang

Chairman and CEO

Beijing, PRC

1 September 2004

To the Board of Directors of

China Telecom Corporation Limited

INTRODUCTION

We have been instructed by the Company to review the interim financial statements of the Company and its subsidiaries (the Group) set out on pages 9 to 30.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of interim financial statements to be in compliance with the relevant provisions thereof and International Accounting Standard 34 Interim Financial Reporting promulgated by the International Accounting Standards Board. The interim financial statements are the responsibility of, and have been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial statements and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

REVIEW WORK PERFORMED

We conducted our review in accordance with Statement of Auditing Standards 700 Engagement to review interim financial reports issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of Group management and applying analytical procedures to the interim financial statements and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the interim financial statements.

REVIEW CONCLUSION

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial statements for the six-month period ended 30 June 2004.

KPMG

Certified Public Accountants

Hong Kong, China

1 September 2004

	Note	30 June 2004 RMB	31 December 2003 RMB
ASSETS			
Non-current assets			
Property, plant and equipment, net		303,725	309,896
Construction in progress		39,522	31,617
Lease prepayments		4,555	4,485
Interests in associates		500	513
Investments		237	206
Deferred tax assets	9	10,662	10,523
Other assets		13,323	13,609
Total non-current assets		372,524	370,849
Current assets			
Inventories		3,227	3,253
Accounts receivable, net	4	15,186	12,951
Prepayments and other current assets		3,715	3,695
Time deposits with maturity over three months		350	473
Cash and cash equivalents	5	16,710	12,721
Total current assets		39,188	33,093
Total assets		411,712	403,942
LIABILITIES AND SHAREHOLDERS EQUITY			
Current liabilities			
Short-term debt	6	65,511	56,243
Current portion of long-term debt	7	14,970	13,957
Accounts payable	8	34,591	35,629
Accrued expenses and other payables		30,300	26,004
Income tax payable		3,664	3,395
Current portion of finance lease obligations		117	50
Current portion of deferred revenues		12,656	13,857
Total current liabilities		161,809	149,135
Net current liabilities		(122,621)	(116,042)
Total assets less current liabilities		249,903	254,807

The notes on pages 15 to 30 form part of these interim financial statements.

	Note	30 June 2004 RMB	31 December 2003 RMB
Non-current liabilities			
Long-term debt	7	72,491	68,632
Finance lease obligations		155	43
Deferred revenues		29,219	32,744
Deferred tax liabilities	9	1,575	1,325
Total non-current liabilities		103,440	102,744
Total liabilities		265,249	251,879
Minority interests		1,349	1,269
Shareholders equity			
Share capital	10	80,932	75,614
Reserves		64,182	75,180
Total shareholders equity		145,114	150,794
Total liabilities and shareholders equity		411,712	403,942

The notes on pages 15 to 30 form part of these interim financial statements.

		Six-month periods ended 30 June	
		2004	**2003**
	Note	**RMB**	**RMB**
Operating revenues	11	80,217	74,068
Operating expenses			
Depreciation and amortisation		(23,255)	(22,666)
Network operations and support		(20,325)	(20,767)
Selling, general and administrative		(14,105)	(10,866)
Other operating expenses		(1,796)	(1,541)
Total operating expenses		(59,481)	(55,840)
Operating profit		20,736	18,228
Net finance costs	12	(2,341)	(1,728)
Investment loss			(85)
Share of profit from associates		6	
Profit before taxation and minority interests	13	18,401	16,415
Taxation	14	(3,681)	(3,333)
Profit before minority interests		14,720	13,082
Minority interests		(12)	(24)
Profit attributable to shareholders		14,708	13,058
Basic earnings per share	16	0.19	0.17
Weighted average number of shares		76,725	75,614

The notes on pages 15 to 30 form part of these interim financial statements.

	Note	Share capital	Capital reserve	Share premium	Revaluation reserve	Surplus reserves	Statutory common welfare fund	Other reserves	Retained earnings	Total shareholders equity
		RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB
Balance as at 1 January 2003, as previously reported		75,614	20,955	3,362	4,904	8,121	1,624	31,064	7,204	152,848
Adjusted for the Second Acquisition	1							34,177		34,177
Balance as at 1 January 2003, as adjusted		75,614	20,955	3,362	4,904	8,121	1,624	65,241	7,204	187,025
Net profit for the six-month period ended 30 June 2003									13,058	13,058
Contributions from China Telecom									215	215
Distributions to China Telecom									(214)	(214)
Transfer from retained earnings to other reserves								3,823	(3,823)	
Dividends	15								(673)	(673)
Revaluation surplus realised					(4)				4	
Deferred tax on land use rights realised								(76)	76	
Balance as at 30 June 2003		75,614	20,955	3,362	4,900	8,121	1,624	68,988	15,847	199,411
Net profit for the six-month period ended 31 December 2003									824	824
Contributions from China Telecom									4,094	4,094
Distributions to China Telecom									(1,020)	(1,020)
Assets distributed to China Telecom in connection with the Second Acquisition	1								(10,762)	(10,762)

Recognition of deferred tax assets								2,209		2,209
Transfer from retained earnings to other reserves								(15,635)	15,635	
Consideration for the acquisition of the First Acquired Group	1							(45,649)		(45,649)
Appropriations						7,340	1,748		(9,088)	
Transfer from other reserves to capital reserve			(14,388)					14,388		
Revaluation surplus					1,537					1,537
Eliminations of deferred tax liabilities									150	150
Revaluation surplus realised					(13)				13	
Deferred tax on land use rights realised								(55)	55	
Balance as at 31 December 2003		75,614	6,567	3,362	6,424	15,461	3,372	24,246	15,748	150,794
Issue of shares, net of issuing expenses of RMB294 million		5,318		7,384						12,702
Net profit for the six-month period ended 30 June 2004									14,708	14,708
Contributions from China Telecom									100	100
Transfer from retained earnings to other reserves								2,653	(2,653)	
Consideration for the acquisition of the Second Acquired Group	1							(27,800)		(27,800)
Transfer from other reserves to capital reserve			(9,371)					9,371		

Dividends	15								(5,224)	(5,224)
Revaluation surplus realised					(8)				8	
Effect of change in tax rate	9							(166)		(166)
Deferred tax on land use rights realised								(74)	74	
Balance as at 30 June 2004		80,932	(2,804)	10,746	6,416	15,461	3,372	8,230	22,761	145,114

The notes on pages 15 to 30 form part of these interim financial statements.

	Note	Six-month periods ended 30 June 2004	2003
		RMB	RMB
Net cash from operating activities	(a)	35,517	29,558
Cash flows from investing activities			
Capital expenditure		(26,023)	(24,161)
Purchase of investments		(42)	(73)
Lease prepayments		(125)	(28)
Proceeds from disposal of property, plant and equipment		136	49
Increase in time deposits with maturity over three months		(45)	(294)
Maturity of time deposits with maturity over three months		168	1,262
Net cash used in investing activities		(25,931)	(23,245)
Cash flows from financing activities			
Capital element of finance lease payments		(30)	(35)
Proceeds from issue of shares, net of issuing expenses		12,702	
Proceeds from bank and other loans		41,129	48,119
Repayments of bank and other loans		(42,083)	(52,424)
Payment of dividends		(4,833)	
Cash contributions from minority interests		68	18
Cash payment for the acquisition of the Second Acquired Group		(12,650)	
Cash contributions from China Telecom		100	292
Cash distributions to China Telecom			(224)
Net cash used in financing activities		(5,597)	(4,254)
Net increase in cash and cash equivalents		3,989	2,059
Cash and cash equivalents at 1 January		12,721	22,743
Cash and cash equivalents at 30 June		16,710	24,802

The notes on pages 15 to 30 form part of these interim financial statements.

(a) Reconciliation of profit before taxation and minority interests to net cash from operating activities

	Six-month periods ended 30 June	
	2004	2003
	RMB	RMB
Profit before taxation and minority interests	18,401	16,415
Adjustments for:		
Depreciation and amortisation	23,255	22,666
Provision for doubtful accounts	679	733
Investment loss		85
Share of profit from associates	(6)	
Interest income	(109)	(151)
Interest expense	2,522	1,820
Unrealised foreign exchange (gains)/losses	(56)	41
Loss on retirement and disposal of property, plant and equipment	65	967
Increase in accounts receivable	(2,914)	(3,702)
Decrease/(increase) in inventories	26	(271)
Decrease/(increase) in prepayments and other current assets	16	(108)
Decrease/(increase) in other non-current assets	169	(2)
Increase/(decrease) in accounts payable	878	(456)
Increase in accrued expenses and other payables	3,770	3,311
Decrease in deferred revenues	(4,726)	(4,862)
Cash generated from operations	41,970	36,486
Interest received	109	151
Interest paid	(3,125)	(2,572)
Investment income received	30	13
Income tax paid	(3,467)	(4,520)
Net cash from operating activities	35,517	29,558

The notes on pages 15 to 30 form part of these interim financial statements.

1. PRINCIPAL ACTIVITIES, ORGANISATION AND BASIS OF PRESENTATION

Principal activities

China Telecom Corporation Limited (the Company) and its subsidiaries (hereinafter, collectively referred to as the Group) are engaged in the provision of wireline telecommunications and related services in Shanghai Municipality, Guangdong Province, Jiangsu Province, Zhejiang Province, Anhui Province, Fujian Province, Jiangxi Province, Guangxi Zhuang Autonomous Region, Chongqing Municipality, Sichuan Province, Hubei Province, Hunan Province, Hainan Province, Guizhou Province, Yunnan Province, Shaanxi Province, Gansu Province, Qinghai Province, Ningxia Hui Autonomous Region and Xinjiang Uygur Autonomous Region of the People s Republic of China (the PRC). The Group offers a comprehensive range of wireline telecommunications services to residential and business customers, including local, domestic long distance (DLD) and international long distance (ILD) telephone services, Internet and managed data, leased line, and other related services.

The operations of the Group are subject to the supervision and regulation by the PRC government. The Ministry of Information Industry, pursuant to the authority delegated to it by the PRC s State Council, is responsible for formulating the telecommunications industry policies and regulations, including the regulation and setting of tariff levels for basic telecommunications services, such as local and long distance telephone services, managed data services, leased line and interconnection arrangements.

Organisation

The Company was incorporated in the PRC on 10 September 2002 as part of the reorganisation (the Restructuring) of China Telecommunications Corporation (China Telecom and together with its subsidiaries other than the Company referred to as China Telecom Group), a state-owned enterprise which is under the supervision and regulation of the Ministry of Information Industry. In November 2001, pursuant to a further industry restructuring plan approved by the State Council, China Telecom s wireline telecommunications networks and related operations in 10 northern provinces, municipalities and autonomous regions of the PRC were transferred to China Netcom Group. China Telecom retained the wireline telecommunications networks and related operations of 21 provinces, municipalities and autonomous regions of the PRC, including those of the Company s subsidiaries. In accordance with this industry restructuring plan, China Telecom and China Netcom Group own 70% and 30%, respectively, of the nationwide inter-provincial optic fibres.

1. PRINCIPAL ACTIVITIES, ORGANISATION AND BASIS OF PRESENTATION

Organisation

Pursuant to the resolution passed by the Company s independent shareholders at an Extraordinary General Meeting held on 15 December 2003, the Company acquired the entire equity interests in Anhui Telecom Company Limited, Fujian Telecom Company Limited, Jiangxi Telecom Company Limited, Guangxi Telecom Company Limited, Chongqing Telecom Company Limited and Sichuan Telecom Company Limited (collectively the First Acquired Group) and certain network management and research and development facilities from China Telecom for a total purchase price of RMB46,000 million on 31 December 2003 (hereinafter, referred to as the First Acquisition). The purchase price consisted of a cash payment of RMB11,000 million and a long-term payable of RMB35,000 million. In connection with the First Acquisition and effective 31 December 2002, China Telecom transferred the wireline telecommunications business and related operations in Anhui Province, Fujian Province, Jiangxi Province, Guangxi Zhuang Autonomous Region, Chongqing Municipality and Sichuan Province together with the related assets and liabilities in consideration for the entire equity interests in each of the entities of the First Acquired Group. Certain assets historically associated with these operations were retained by China Telecom, and as at 31 December 2002, these assets amounted to RMB5,189 million and consisted primarily of investments in non-telecommunications industries and properties.

Pursuant to the resolution passed by the Company s independent shareholders at an Extraordinary General Meeting held on 9 June 2004, the Company acquired the entire equity interests in Hubei Telecom Company Limited, Hunan Telecom Company Limited, Hainan Telecom Company Limited, Guizhou Telecom Company Limited, Yunnan Telecom Company Limited, Shaanxi Telecom Company Limited, Gansu Telecom Company Limited, Qinghai Telecom Company Limited, Ningxia Telecom Company Limited and Xinjiang Telecom Company Limited (collectively the Second Acquired Group) from China Telecom for a total purchase price of RMB27,800 million on 30 June 2004 (hereinafter, referred to as the Second Acquisition). The purchase price consisted of a cash payment of RMB8,340 million and a long-term payable of RMB19,460 million. On 30 June 2004, the Company repaid RMB4,310 million of this payable amount using the net proceeds from issue of new H shares in May 2004 (see Note 10). In connection with the Second Acquisition and effective 31 December 2003, China Telecom transferred the wireline telecommunications business and related operations in Hubei Province, Hunan Province, Hainan Province, Guizhou Province, Yunnan Province, Shaanxi Province, Gansu Province, Qinghai Province, Ningxia Hui Autonomous Region and Xinjiang Uygur Autonomous Region together with the related assets and liabilities in consideration for the entire equity interests in each of the entities of the Second Acquired Group. Certain assets historically associated with these operations were retained by China Telecom, and as at 31 December 2003, these assets amounted to RMB10,762 million and consisted primarily of investments in non-telecommunications industries and properties.

1. PRINCIPAL ACTIVITIES, ORGANISATION AND BASIS OF PRESENTATION

Basis of presentation

As the First Acquired Group and the Second Acquired Group (the Acquired Groups) were under the common control of China Telecom, the acquisitions have been reflected in the accompanying consolidated interim financial statements as a combination of entities under common control in a manner similar to a pooling-of-interests. Accordingly, the assets and liabilities of the Acquired Groups have been accounted for at historical amounts and the consolidated financial statements of the Company prior to the acquisitions have been restated to include the results of operations and assets and liabilities of the Acquired Groups on a combined basis. The assets retained by China Telecom in respect of the First Acquisition and the Second Acquisition have been reflected as distributions to China Telecom in the consolidated statement of shareholders equity as at 31 December 2002 and 31 December 2003 respectively. The considerations paid by the Company for the Acquired Groups have been accounted for as equity transactions in the consolidated statement of shareholders equity.

The results of operations previously reported by the Group for the six-month period ended 30 June 2003 have been restated to include the results of the First Acquired Group and the Second Acquired Group as set out below:

	The Group (as previously reported)	The First Acquired Group	The Second Acquired Group	The Group (combined)
	RMB millions	RMB millions	RMB millions	RMB millions
Result of operations:				
Operating revenues	39,536	18,247	16,285	74,068
Operating profit	12,198	4,863	1,167	18,228
Net profit	9,260	3,371	427	13,058
Basic earnings per share (RMB)	0.12	0.04	0.01	0.17

1. PRINCIPAL ACTIVITIES, ORGANISATION AND BASIS OF PRESENTATION

Basis of presentation

The financial condition as at 31 December 2003 and shareholders equity as at 31 December 2003 and 1 January 2003 previously reported by the Group have been restated to include the assets and liabilities of the Second Acquired Group as set out below:

	The Group (as previously reported)	The Second Acquired Group	The Group (combined)
	RMB millions	RMB millions	RMB millions
Financial condition:			
Current assets	25,504	7,589	33,093
Total assets	305,605	98,337	403,942
Current liabilities	96,666	52,469	149,135
Total liabilities	173,064	78,815	251,879
Shareholders equity as at 31 December 2003	131,272	19,522	150,794
Shareholders equity as at 1 January 2003	152,848	34,177	187,025

For the periods presented, all significant balances and transactions between the Group and the Acquired Groups have been eliminated.

2. BASIS OF PREPARATION

These interim financial statements have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting promulgated by the International Accounting Standards Board and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. These interim financial statements reflect the unaudited financial position of the Group as at 30 June 2004 and the unaudited results of operations and cash flows of the Group for the six-month period then ended, which are not necessarily indicative of the results of operations and cash flows expected for the year ending 31 December 2004.

The interim financial statements set out on pages 9 to 30 have been authorised for issue by the Board of Directors on 1 September 2004. These interim financial statements are unaudited, but have been reviewed by the Audit Committee of the Company. These interim financial statements have also been reviewed by the Company s international auditors, KPMG, in accordance with Statement of Auditing Standards 700 Engagements to review interim financial reports issued by the Hong Kong Society of Accountants.

2. BASIS OF PREPARATION

The accounting policies adopted in the 2003 annual financial statements have been consistently applied by the Group in preparing these interim financial statements. The consolidated interim financial statements presented herein should be read in conjunction with the consolidated financial statements and notes thereto included in the 2003 annual report of the Company.

3. SEGMENTAL REPORTING

A business segment is a distinguishable component of the Group that is engaged in providing products or services and is subject to risks and rewards that are different from those of other segments. For the periods presented, the Group has one operating segment which is the provision of wireline telecommunications services. All the Group s operating activities are carried out in the PRC.

4. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net, are analysed as follows:

	30 June 2004	31 December 2003
	RMB millions	RMB millions
Accounts receivable	17,369	14,769
Less: Allowance for doubtful accounts	(2,183)	(1,818)
	15,186	12,951

Amounts arising from the provision of wireline telecommunications services to residential and business customers are due within 30 days from the date of billing. Customers who have accounts overdue by more than 90 days will have their services disconnected.

Ageing analysis of accounts receivable from telephone and Internet subscribers is as follows:

	30 June 2004	31 December 2003
	RMB millions	RMB millions
Current, within 1 month	11,051	9,650
1 to 3 months	1,684	1,425
4 to 12 months	1,320	1,169
More than 12 months	826	611
	14,881	12,855
Less: Allowance for doubtful accounts	(2,146)	(1,780)
	12,735	11,075

4. ACCOUNTS RECEIVABLE, NET

Ageing analysis of accounts receivable from other telecommunications operators and customers is as follows:

	30 June 2004	31 December 2003
	RMB millions	RMB millions
Current, within 1 month	1,048	1,147
1 to 3 months	695	355
4 to 12 months	537	285
More than 12 months	208	127
	2,488	1,914
Less: Allowance for doubtful accounts	(37)	(38)

	2,451	1,876

5. CASH AND CASH EQUIVALENTS

	30 June 2004	31 December 2003
	RMB millions	RMB millions
Cash at bank and in hand	12,464	12,451
Time deposits with maturity within three months	4,246	270
	16,710	12,721

6. SHORT-TERM DEBT

Short-term debt is analysed as follows:

	Note	30 June 2004	31 December 2003
		RMB millions	RMB millions
Bank loans		56,042	56,243
Loans from China Telecom	(i)	9,469	
Total short-term debt		65,511	56,243

Note:

(i) The loans from China Telecom bear interest at fixed rates ranging from 2% to 3.45% per annum, are unsecured and are repayable within 1 year.

7. LONG-TERM DEBT

Long-term debt is analysed as follows:

	Note	30 June 2004	31 December 2003
		RMB millions	RMB millions
Bank loans	(i)	37,300	47,553
Other loans		11	36
Amount due to China Telecom in connection with the First Acquisition	(ii)	35,000	35,000
Amount due to China Telecom in connection with the Second Acquisition	(iii)	15,150	
Total long-term debt		87,461	82,589
Less: current portion		(14,970)	(13,957)
Non-current portion		72,491	68,632

Note:

(i) As at 30 June 2004, bank loans of RMB6 million (2003: RMB22 million) were secured by certain of the Group s property, plant and equipment. The net book value of the property, plant and equipment pledged as security amounted to RMB1 million as at 30 June 2004 (2003: RMB27 million).

(ii)

This represents the deferred consideration payable to China Telecom in respect of the First Acquisition (Note 1). The amount is unsecured, and for the first five years after the date of the First Acquisition, the Company pays interest on the outstanding balance at the rate of 5.184% per annum. Thereafter the interest rate is adjusted based on the prevailing market interest rate. This amount is repayable on 31 December 2013 and the Company may, from time to time, repay all or part of the amount at any time until 31 December 2013 without penalty.

(iii) This represents the remaining balance of the deferred consideration payable to China Telecom in respect of the Second Acquisition (Note 1). The amount is unsecured, and for the first five years after the date of the Second Acquisition, the Company pays interest on the outstanding balance at the rate of 5.184% per annum. Thereafter the interest rate is adjusted based on the prevailing market interest rate. This amount is repayable on 30 June 2014 and the Company may, from time to time, repay all or part of the amount at any time until 30 June 2014 without penalty.

8. ACCOUNTS PAYABLE

Accounts payable are analysed as follows:

	30 June 2004	31 December 2003
	RMB millions	RMB millions
Third parties	26,923	28,367
China Telecom Group	7,668	7,262
	34,591	35,629

Amounts due to China Telecom Group are repayable in accordance with normal commercial terms.

Ageing analysis of accounts payable is as follows:

	30 June 2004	31 December 2003
	RMB millions	RMB millions
Due within 1 month or on demand	4,560	6,658
Due after 1 month but within 3 months	7,688	5,661
Due after 3 months but within 6 months	7,698	8,099
Due after 6 months	14,645	15,211
	34,591	35,629

9. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and deferred tax liabilities are attributable to the items set out below:

	Assets		Liabilities		Net balance	
	30 June 2004	31 December 2003	30 June 2004	31 December 2003	30 June 2004	31 December 2003
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
Current						
Provisions, primarily for receivables	326	198			326	198
Non-current						
Property, plant and equipment	74	67	(734)	(579)	(660)	(512)
Deferred revenues and installation costs	2,032	1,788	(841)	(746)	1,191	1,042
Land use rights	8,230	8,470			8,230	8,470
Deferred tax assets/(liabilities)	10,662	10,523	(1,575)	(1,325)	9,087	9,198

Movements in temporary differences are as follows:

	Note	Balance at 1 January 2004	Recognised in statement of income	Recognised in shareholders equity	Balance at 30 June 2004
		RMB millions	RMB millions	RMB millions	RMB millions
Current					
Provisions, primarily for receivables		198	128		326
Non-current					
Property, plant and equipment		(512)	(148)		(660)
Deferred revenues and installation costs		1,042	149		1,191
Land use rights	(i)	8,470	(74)	(166)	8,230
Net deferred tax assets		9,198	55	(166)	9,087
			(Note 14)		

Note:

(i) In connection with the Restructuring, the First Acquisition and the Second Acquisition, the land use rights of the Group were revalued as required by the relevant PRC rules and regulations. The tax bases of the land use rights have been adjusted to conform to such revalued amounts. The land use rights were not revalued for financial reporting purposes and accordingly, deferred tax assets were created with corresponding increases in shareholders equity.

In the second quarter of 2004, certain subsidiaries with operations in the western region of the PRC obtained approval from tax authority to reduce the income tax rate from 33% to 15% for the period from 1 January 2004 to 31 December 2010. Accordingly, the effect of the change in tax rate on the amount of the deferred tax asset expected to be realised during 2004 to 2010 amounting to RMB166 million was charged to shareholders equity.

10. SHARE CAPITAL

	30 June 2004	31 December 2003
	RMB millions	RMB millions
Registered, issued and fully paid		
67,054,958,321 (2003: 67,586,776,503) ordinary domestic shares of RMB1.00 each	67,055	67,587
13,877,410,000 (2003: 8,027,410,000) overseas listed H shares of RMB1.00 each	13,877	8,027
	80,932	75,614

In May 2004, the Company issued and allotted 5,318,181,818 new H shares with a par value of RMB1.00 each, representing 4,466,693,018 H shares and 8,514,888 American Depositary Shares (ADSs , each representing 100 H shares), at prices of HK$2.30 per H share and US$29.49 per ADS, respectively, by way of a global offering to Hong Kong and overseas investors. As part of the global offering, 531,818,182 existing domestic shares of RMB1.00 each owned by China Telecom and the other domestic shareholders were converted into H shares and sold to Hong Kong and overseas investors. The Company raised net proceeds of RMB12,702 million from issue of new H shares.

11. OPERATING REVENUES

Operating revenues represent revenues from the provision of wireline telecommunications services. The components of the Group s operating revenues are as follows:

		Six-month periods ended 30 June	
	Note	2004	2003
		RMB millions	RMB millions
Upfront connection fees	(i)	4,236	4,886
Upfront installation fees	(ii)	1,432	1,301
Monthly fees	(iii)	15,023	13,829
Local usage fees	(iv)	24,072	22,486
DLD	(iv)	13,145	12,693
ILD	(iv)	1,906	1,951
Internet	(v)	6,602	4,355
Managed data	(vi)	1,524	1,628
Interconnections	(vii)	5,013	4,095
Leased line	(viii)	2,112	2,608
Others	(ix)	5,152	4,236
		80,217	74,068

11. OPERATING REVENUES

Note:

(i) Represent the amortised amount of the upfront fees received for the initial activation of wireline services.

(ii) Represent the amortised amount of the upfront fees received for installation of wireline services.

(iii) Represent amounts charged to customers each month for their use of the Group s telephone services.

(iv) Represent usage fees charged to customers for the provision of telephone services.

(v) Represent amounts charged to customers for the provision of Internet access services.

(vi) Represent amounts charged to customers for the provision of managed data transmission services.

(vii) Represent amounts charged to domestic and foreign telecommunications operators for delivery of calls connecting to the Group s wireline telecommunications networks.

(viii) Represent lease income from other domestic telecommunications operators and business customers for the usage of the Group s wireline telecommunications networks and is measured by the number of lines leased and the agreed upon rate per line leased. The lease arrangements are primarily on a year to year basis.

(ix) Represent primarily revenues from provision of value-added telecommunications services to customers, sale and repairs and maintenance of customer-end equipment, and lease of telecommunications network facilities.

12. NET FINANCE COSTS

Net finance costs comprise:

	Six-month periods ended 30 June	
	2004	**2003**
	RMB millions	**RMB millions**
Interest expense incurred	3,260	2,576
Less: Interest expense capitalised*	(738)	(756)
Net interest expense	2,522	1,820
Interest income	(109)	(151)
Foreign exchange losses	4	100
Foreign exchange gains	(76)	(41)
	2,341	1,728

* Interest expense was capitalised in construction in progress at the following rates per annum	4.1% 5.2%	4.3% 5.5%

13. PROFIT BEFORE TAXATION AND MINORITY INTERESTS

Profit before taxation and minority interests is arrived at after charging:

Six-month periods

	ended 30 June	
	2004	2003
	RMB millions	RMB millions
Personnel expenses	11,689	10,342
Interconnection charges	1,773	1,504

14. TAXATION

Taxation in the consolidated statement of income comprises:

	Six-month periods ended 30 June	
	2004	2003
	RMB millions	RMB millions
Provision for PRC income tax	3,736	3,782
Deferred taxation *(Note 9)*	(55)	(449)
	3,681	3,333

A reconciliation of the expected tax with the actual tax expense is as follows:

		Six-month periods ended 30 June	
	Note	2004	2003
		RMB millions	RMB millions
Profit before taxation and minority interests		18,401	16,415
Expected PRC income tax expense at statutory tax rate of 33%	(i)	6,072	5,417
Differential tax rate on subsidiaries income	(i)	(954)	(398)
Non-deductible expenses	(ii)	435	199
Non-taxable income	(iii)	(1,872)	(1,885)
Income tax		3,681	3,333

14. TAXATION

(i) The provision for PRC current income tax is based on a statutory rate of 33% of the assessable income of the Group as determined in accordance with the relevant income tax rules and regulations of the PRC, except for certain subsidiaries of the Group which are taxed at a preferential rate of 15%.

(ii) Amounts represent personnel and other miscellaneous expenses in excess of statutory deductible limits for tax purpose.

(iii) Amounts primarily represent connection fees received from customers which are not subject to income tax.

15. DIVIDENDS

Pursuant to the shareholders approval at the Annual General Meeting held on 3 May 2004, a final dividend of RMB0.069083 per share totaling RMB5,224 million in respect of the year ended 31 December 2003 was declared and was paid on 20 May 2004.

Pursuant to the shareholders approval at the Annual General Meeting held on 20 June 2003, a final dividend of RMB0.008897 per share totaling RMB673 million in respect of the year ended 31 December 2002 was declared and was paid on 10 July 2003.

The Board of Directors has resolved not to pay an interim dividend for the year ending 31 December 2004.

16. BASIC EARNINGS PER SHARE

The calculation of basic earnings per share for the six-month period ended 30 June 2004 is based on the net profit of RMB14,708 million and the weighted average number of shares in issue during the period of 76,724,576,113 shares. The weighted average number of shares in issue during the six-month period ended 30 June 2004 reflects the issuance of 5,318,181,818 new H shares in May 2004 (see Note 10). The calculation of basic earnings per share for the six-month period ended 30 June 2003 is based on the net profit of RMB13,058 million divided by 75,614,186,503 shares.

The amount of diluted earnings per share is not presented as there were no dilutive potential ordinary shares in existence for both periods presented.

17. CAPITAL COMMITMENTS

As at 30 June 2004, the Group had capital commitments as follows:

	30 June 2004	31 December 2003
	RMB millions	RMB millions
Authorised and contracted for		
Properties	2,268	1,857
Telecommunications network plant and equipment	5,124	9,257
	7,392	11,114
Authorised but not contracted for		
Properties	2,105	2,458
Telecommunications network plant and equipment	10,629	12,725
	12,734	15,183

18. RELATED PARTY TRANSACTIONS

The principal related party transactions with China Telecom Group which were carried out in the ordinary course of business are as follows:

		Six-month periods ended 30 June	
	Note	2004	2003
		RMB millions	RMB millions
Purchases of telecommunications equipment and materials	(i)	152	222
Construction, engineering and information technology services	(ii)	2,597	2,851
Provision of community services	(iii)	1,101	1,064
Provision of ancillary services	(iv)	796	683
Provision of comprehensive services	(v)	120	
Operating lease expenses	(vi)	203	235
Centralised service expenses	(vii)	108	144
Interconnection revenues	(viii)	98	99
Interconnection charges	(viii)	201	280
Interest on amounts due to and loans from China Telecom	(ix)	993	

18. RELATED PARTY TRANSACTIONS

Note:

(i) Represent purchases of telecommunications equipment and materials from China Telecom Group.

(ii)

Represent provision of network construction, engineering and information technology services to the Group by China Telecom Group.

(iii) Represent amounts paid and payable by the Group to China Telecom Group in respect of cultural, educational, hygiene and other community services.

(iv) Represent amounts paid and payable by the Group to China Telecom Group in respect of ancillary services such as repairs and maintenance of telecommunications equipment and facilities and certain customer services.

(v) Represent amounts paid and payable by the Group to China Telecom Group in respect of comprehensive services provided (see scope of comprehensive service defined below).

(vi) Represent amounts paid and payable to China Telecom Group for operating leases in respect of business premises and inter-provincial transmission optic fibres.

(vii) Represent net amount charged by China Telecom to the Group for costs associated with common corporate services and international telecommunications facilities.

(viii) Represent amounts charged from/to China Telecom for interconnection of domestic long distance telephone calls.

(ix) Represent interest paid and payable to China Telecom with respect to the deferred consideration payable to China Telecom in connection with the First Acquisition and interest with respect to loans from China Telecom (Note 7).

In connection with the Second Acquisition, the Group and China Telecom Group entered into a number of agreements on 13 April 2004. The principal terms of these agreements are similar to those disclosed in Note 32 to the Group s 2003 consolidated financial statements, other than an increase in the maximum commission rate for domestic equipment procurement from 1.8% to 3% to reflect the latest market price.

In addition, the Company entered into a comprehensive services framework agreement with China Telecom on 13 April 2004 to govern the terms and conditions of transactions between the Group and entities within China Telecom Group which were not within the scope of the agreements entered into previously. Such transactions include procurement of telecommunications equipment, network design, software upgrade, system integration, manufacture of calling cards and other services. Pursuant to this agreement, China Telecom Group charges the Group for these services in accordance with the following terms:

government prescribed price;

where there is no government prescribed price but where there is a government guided price, the government guided price will apply;

18. RELATED PARTY TRANSACTIONS

where there is neither a government prescribed price nor a government guided price, the market price will apply;

where none of the above is available, the price is to be agreed between the relevant parties, which shall be based on the cost incurred in providing the services plus a reasonable profit margin.

The directors of the Company are of the opinion that the above transactions with related parties were conducted in the ordinary course of business and on normal commercial terms or in accordance with the agreements governing such transactions, and this has been confirmed by the independent non-executive directors.

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19. PRINCIPAL SUBSIDIARIES

Following the completion of the Second Acquisition on 30 June 2004, the Company has the following wholly-owned subsidiaries which principally affect the results of operations and the financial position of the Group:

Name of Company	Type of legal entity	Date of incorporation	Registered capital
			(RMB millions)
Shanghai Telecom Company Limited	Limited company	11 October 2002	15,984
Guangdong Telecom Company Limited	Limited company	10 October 2002	47,513
Jiangsu Telecom Company Limited	Limited company	19 October 2002	19,208
Zhejiang Telecom Company Limited	Limited company	10 October 2002	22,400
Anhui Telecom Company Limited	Limited company	26 August 2003	3,871
Fujian Telecom Company Limited	Limited company	28 August 2003	10,364
Jiangxi Telecom Company Limited	Limited company	18 September 2003	1,153
Guangxi Telecom Company Limited	Limited company	28 August 2003	4,992
Chongqing Telecom Company Limited	Limited company	22 August 2003	4,276
Sichuan Telecom Company Limited	Limited company	28 August 2003	8,123
Hubei Telecom Company Limited	Limited company	9 March 2004	5,412
Hunan Telecom Company Limited	Limited company	12 March 2004	661
Hainan Telecom Company Limited	Limited company	9 March 2004	580
Guizhou Telecom Company Limited	Limited company	12 March 2004	2,401
Yunnan Telecom Company Limited	Limited company	9 March 2004	3,747
Shaanxi Telecom Company Limited	Limited company	8 March 2004	2,482
Gansu Telecom Company Limited	Limited company	10 March 2004	3,413
Qinghai Telecom Company Limited	Limited company	10 March 2004	965
Ningxia Telecom Company Limited	Limited company	10 March 2004	795
Xinjiang Telecom Company Limited	Limited company	11 March 2004	4,660

All of the above subsidiaries are incorporated in the PRC.

The Group s accounting policies conform with IFRS which differ in certain significant respects from accounting principles generally accepted in the United States of America (US GAAP). The nature of differences which have a significant effect on the Group s net profit and shareholders equity are set out below. The US GAAP reconciliation presented below is included as supplemental information and is not required as part of the basic interim financial statements and has not been subject to independent audit or review.

(A) REVALUATION OF PROPERTY, PLANT AND EQUIPMENT

In connection with the Restructuring, the property, plant and equipment of the Company s predecessor operations were revalued as at 31 December 2001. The net revaluation deficit has been reflected in the consolidated financial statements as at 31 December 2001. Such revaluation resulted in an increase directly to shareholders equity of RMB4,154 million with respect to the increase in carrying amount of certain property, plant and equipment above their historical cost bases, and a charge to income of RMB11,930 million with respect to the reduction in carrying amount of certain property, plant and equipment below their historical cost bases.

In connection with the First Acquisition, the property, plant and equipment of the First Acquired Group were revalued as at 31 December 2002. The net revaluation deficit has been reflected in the consolidated financial statements as at 31 December 2002. Such revaluation resulted in an increase directly to shareholders equity of RMB760 million with respect to the increase in carrying amount of certain property, plant and equipment above their historical cost bases, and a charge to income of RMB14,690 million with respect to the reduction in carrying amount of certain property, plant and equipment below their historical cost bases.

In connection with the Second Acquisition, the property, plant and equipment of the Second Acquired Group were revalued as at 31 December 2003. The net revaluation deficit has been reflected in the consolidated financial statements as at 31 December 2003. Such revaluation resulted in an increase directly to shareholders equity of RMB1,537 million with respect to the increase in carrying amount of certain property, plant and equipment above their historical cost bases, and a charge to income of RMB14,832 million with respect to the reduction in carrying amount of certain property, plant and equipment below their historical cost bases.

Under US GAAP, property, plant and equipment are stated at their historical cost less accumulated depreciation unless an impairment loss has been recorded. An impairment loss on property, plant and equipment is recorded under US GAAP if the carrying amount of such asset exceeds its future undiscounted cash flows resulting from the use of the asset and its eventual disposition. The future undiscounted cash flows of the Group s property, plant and equipment, whose carrying amount was reduced in connection with the Restructuring, the First Acquisition and the Second Acquisition, exceed the historical cost carrying amount of such property, plant and equipment and, therefore, impairment of such assets is not appropriate under US GAAP. Accordingly, the revaluation reserve recorded directly to shareholders equity and the charge to income recorded under IFRS as a result of the Restructuring, the First Acquisition and the Second Acquisition, are reversed for US GAAP purposes.

However, as a result of the tax deductibility of the net revaluation deficit, a deferred tax liability related to the net revaluation deficit is created under US GAAP with a corresponding decrease in shareholders equity.

(B) DISPOSAL OF REVALUED PROPERTY, PLANT AND EQUIPMENT

Under IFRS, on disposal of a revalued asset, the gain and loss on disposal of the asset is determined with reference to the asset s revalued amount less subsequent depreciation, and any related revaluation surplus is transferred from the revaluation reserve to retained earnings. Under US GAAP, the gain and loss on disposal of an asset is determined with reference to the asset s historical cost carrying amount and included in current earnings.

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(C) EFFECT OF CHANGE IN TAX RATE

Under IFRS, the effect of a change in tax rate that results in a change in the carrying amounts of deferred tax assets and liabilities is charged or credited directly to equity, to the extent that such deferred tax assets and liabilities are previously charged or credited to equity. Under US GAAP, the effect of a change in tax rate for all items of deferred tax assets and liabilities is recorded in the income statement.

Reconciliation of net profit and shareholders equity under IFRS to US GAAP

The effect on net profit of significant differences between IFRS and US GAAP for the six-month period ended 30 June 2004 and 2003 is as follows:

	Six-month periods ended 30 June		
	2004	**2004**	**2003**
	US$ millions (Note)	***RMB millions***	***RMB millions***
Net profit under IFRS	1,777	14,708	13,058
US GAAP adjustments:			
Depreciation on revalued property, plant and equipment	(426)	(3,530)	(2,037)
Disposal of revalued property, plant and equipment	(3)	(24)	(23)
Effect of change in tax rate on deferred tax assets arising from revaluation of land use rights	(20)	(166)	
Effect of change in tax rate on deferred tax liabilities arising from revaluation of property, plant and equipment	251	2,079	
Deferred tax effect of US GAAP adjustments	113	934	679
Net profit under US GAAP	1,692	14,001	11,677
Basic earnings per share under US GAAP	US$ 0.02	RMB 0.18	RMB 0.15
Basic earnings per ADS* under US GAAP	US$ 2.20	RMB 18.25	RMB 15.44

* Basic earnings per ADS is calculated on the basis that one ADS is equivalent to 100 H shares.

The effect on shareholders equity of significant differences between IFRS and US GAAP as at 30 June 2004 and 31 December 2003 is as follows:

	30 June 2004	**30 June 2004**	**31 December 2003**
	US$ millions (Note)	***RMB millions***	***RMB millions***
Shareholders equity under IFRS	17,533	145,114	150,794
US GAAP adjustments:			
Revaluation of property, plant and equipment, net of minority interests	3,112	25,758	29,312
Deferred tax effect of US GAAP adjustment	(779)	(6,452)	(9,465)
Shareholders equity under US GAAP	19,866	164,420	170,641

Note:

Solely for the convenience of the reader, the amounts as at and for the six-month period ended 30 June 2004 have been translated into United States dollars at the noon buying rate in New York City on 30 June 2004 for cable transfers in RMB as certified for custom purposes by the Federal Reserve Bank of New York of US$1.00=RMB8.2766. No representation is made that the RMB amounts could have been, or could be, converted into United States dollars at that rate or at any other certain rate on 30 June 2004, or at any other date.

MANAGEMENT DISCUSSION AND ANALYSIS

According to paragraph 40 of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, save as disclosed herein, the Company confirms that the current company information in relation to those matters set out in paragraph 32 of Appendix 16 has not changed materially from the information disclosed in the Company s 2003 Annual Report.

INTERIM DIVIDEND

The Board of Directors of the Company has resolved that no interim dividend be paid for the six months ended 30 June 2004.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the period, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company s listed securities.

DIRECTORS AND SUPERVISORS INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2004, none of the Directors or Supervisors had any interests or short positions in any shares, underlying shares of equity derivatives or debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the SFO)) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

As at 30 June 2004, the Company has not granted its Directors or Supervisors, or their respective spouses or children below the age of 18 any rights to subscribe for the shares or debentures of the Company or any of its associated corporations and none of them has ever exercised any such right to subscribe for the shares or debentures.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2004, the interests or short positions of substantial shareholders who are entitled to exercise or control the exercise of 10% or more of the voting power at any of the Company s general meetings and other persons who are required to disclose their interests pursuant to Part XV of the SFO (including those who are entitled to exercise or control the exercise of 5% or more of the voting power at any of the Company s general meetings, but excluding the Directors and Supervisors) in the shares and underlying shares of equity derivatives of the Company as recorded in the register required to be kept under Section 336 of the SFO are as follows:

(1) (a) Interests in domestic shares and H shares of the Company

Name of Shareholder	Number and type of shares held	% of the total issued share capital of that type of shares	Capacity
China Telecommunications Corporation	58,346,370,499 domestic shares	87.01%	Principal
Guangdong Rising Assets Management Co., Ltd.	5,614,082,653 domestic shares	8.37%	Principal
J.P. Morgan Chase & Co.	1,401,997,276 H shares	10.10%	Beneficial owner; investment manager; custodian (shares available for lending)
Huawei Tech. Investment Co., Limited	959,154,000 H shares	6.91%	Beneficial owner
The Capital Group Companies, Inc.	883,744,400 H shares	6.37%	Investment manager

(b) Interests in underlying shares of the Company

In the register required to be kept under Section 336 of the SFO, no long positions of substantial shareholders or other persons who are required to disclose their interests pursuant to Part XV of the SFO were recorded to hold any interests in the underlying shares of equity derivatives of the Company.

(2) Short positions in shares and underlying shares of the Company

In the register required to be kept under Section 336 of the SFO, China Telecommunications Corporation held short positions in 977,004,913 domestic shares which amounted to 1.46% of the total issued domestic shares. This short position is created as part of a reform plan approved by the State Council on the administration of rural telecommunications services, in which China Telecommunications Corporation agreed to transfer 977,004,913 shares of the Company to Fujian Electronic Information (Group) Co., Ltd. Such transfer will only be made after the satisfaction of certain conditions precedent. The transfer will not be carried out before 10 September 2005.

Save as stated above, as at 30 June 2004, in the register required to be kept under Section 336 of the SFO, no other persons were recorded to hold any interests or short positions in the shares or underlying shares of the equity derivatives of the Company.

AUDIT COMMITTEE

The audit committee has reviewed with management and the Company s international auditors, KPMG, the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the review of this Interim Report.

COMPLIANCE WITH CODE OF BEST PRACTICE

None of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not during the period, in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

By Order of the Board

Zhou Deqiang

Chairman and CEO

Beijing, PRC
1 September 2004

Exhibit 1.2

China Telecom Corporation Limited

(A joint stock limited company incorporated in the People s Republic of China with limited liability)

(Stock Code: 0728)

Announcement of Interim Results for the Six Months Ended 30 June 2004

HIGHLIGHTS

Total operating revenue was RMB80,217 million, up by 8.3%

EBITDA reached RMB43,991 million

Profit attributable to shareholders was RMB14,708 million

Total number of access lines in service reached 178 million, up by 10.9% from the end of 2003

Broadband subscribers reached 10.89 million, up by 50.6% from the end of 2003

Chairman s Statement

Dear Shareholders,

In the first half of 2004, driven by the sustained and rapid growth of the Chinese economy, the demand for telecommunications services continued to grow with a steady increase in the total volume of voice services, further expansion of Internet services and more opportunities for the development of value-added services. At the same time, competition within the telecommunications market further intensified. Voice services were the key focus of such competition as mobile substitution became more visible. While the increased market demands have provided us with new opportunities for development, the intensified competition among telecommunications operators has brought about new challenges to us.

Faced with this challenge, we adhered to our core value of Innovation and Solid Execution , focussed on improving our operational systems and enhancing corporate management, and consistently promoted our market-oriented, customer-centred and return-driven business model throughout the organisation. These measures improved our market responsiveness, product development, marketing capabilities and our ability to thrive in the market place, increasing our profitability and shareholders value. In the first half of 2004, our local wireline services subscriber base increased by 17.51 million, reaching 178 million at the end of June and our broadband subscriber base increased by 3.66 million, reaching 10.89 million at the end of June. Driven by the strength in our local voice services and broadband Internet services, we recorded a steady growth in operating revenue which reached RMB80,217 million, an increase of 8.3% over the same period in 2003. Our EBITDA was RMB43,991 million and our net profit was RMB14,708 million, of which RMB4,236 million was generated from amortisation of connection fees.

In the first half of this year, we successfully completed the acquisition of telecommunications businesses in ten provinces. To fund the acquisition, we raised net proceeds of approximately US$1.5 billion through a successful offering of new H shares. With the implementation of our management system, all levels of management of the newly acquired subsidiaries have been geared towards achieving their business and financial objectives. The growth rates of these companies increased and their operating and capital expenditures were effectively controlled, thus improving their profitability. In the first half of this year, our newly acquired telecommunications subsidiaries in the ten provinces generated revenue of RMB17,916 million from their operations, an increase of 10.0% from the same period last year, and realised net profit of RMB2,553 million, of which RMB818 million was generated from amortisation of connection fees. After the Acquisition, our basic earnings per share reached RMB0.19, representing an increase of 11.8% over the same period last year. We now enjoy better growth prospects.

In the first half of this year, we further improved the management of our distribution channels, implemented the revenue-and-service-accountability system and improved the efficiency of the distribution channels, whereby a client-focussed, full coverage distribution channel system was established which has helped to stabilise the usage from our existing customers and played an important role in driving revenue growth. At the same time, we made substantial adjustments to our marketing operation management model applied by head office, including strengthening the market strategy planning and unifying brand management, unifying customer service interface and reinforcing the sales planning function. In addition, a product development centre was set up to strengthen our business innovation capability.

Since our initial public offering, our financial management has been improving continuously. The key importance of financial management in various aspects of the business continued to be emphasised, overall budget control has been more stringently implemented and cost control has been further improved. With more centralised network maintenance and higher efficiency, our network operations and support expenses have decreased. Following our philosophy of running the enterprise in an industrious and economical way , we have focussed effort in cutting our administrative expenses. As a result, our management and administrative expenditure continued to decrease. However, in order to ensure the continuing growth of our core business in a competitive environment, our sales expenses increased. Capital expenditure is expected to be more proportionate between the first half and second half of this year. The first half of this year recorded a total capital expenditure of RMB25,018 million, an increase of 12.4% from the same period last year.

In the first half of this year, we continued to focus our effort on centralising our network resources management and network maintenance. A centralised control and maintenance system covering various telecommunications networks was preliminarily established in all our local branch companies. We have further centralised the management of local branch companies resources. A transmission resources management system has been established and a conduit resources management system is taking shape. These measures will help us to realise dynamic deployment and distribution of our network resources, effectively increase the efficiency of our network operations and maintenance, and improve our market responsiveness.

In the first half of this year, Business Process Re-engineering (BPR) has been extensively implemented throughout the Company. 212 out of our 228 local branch companies have adopted or are adopting BPR. With BPR as our platform to implement various new management measures, we were able to expand our process management over a wider area, implement process management reform at all levels of the business. In particular, we have made substantial progress in our process-based and integrated management of distribution channels. The implementation of BPR has accelerated the establishment of a market-oriented, process-based management system, and further enhanced our local branch companies overall marketing abilities, market responsiveness, provisioning capabilities and network management. This has in turn improved our operating efficiency and profitability.

Further progress has been made with the development of CTG-MBOSS, an information technology platform for our businesses. The management support system (MSS), one of the three sub-systems of CTG-MBOSS, has been successfully launched on a trial basis at Guangdong Telecom and Shanghai Telecom. Such system will be further implemented in these two subsidiaries and extended to subsidiaries in other provinces in the second half of this year. The implementation of MSS will enable us, through information sharing, to improve our operating efficiency and financial management and standardise the management of our internal control, thus effectively minimising business risks.

Business Review

In the first half of this year, our major business lines continued to grow. The subscriber base for our local telephone services expanded rapidly and the volume of our local voice services also increased substantially. The wireless local access service made an important contribution to the growth of our business. Broadband services continued to develop at high growth rates and revenue generated therefrom accounted for a higher proportion of our total operating revenue. The domestic long distance services recorded positive growth both in terms of volume and revenue.

B-2

Local Telephone Services

As our core business, local telephone services recorded RMB40,527 million in revenue, an increase of 7.7% from the same period last year. Local telephone revenue accounted for 50.5% of our total operating revenue, which was similar to that of last year.

As at the end of June, the local telephone subscriber base increased by 17.51 million and by 10.9% from the end of last year, reaching 178 million. The growth in wireless local access subscribers and public telephone users was particularly strong with the total number of subscribers increasing by 10.91 million and 1.43 million, respectively, from the end of last year, reaching 36.47 million and 11.03 million, respectively. Their semi-annual growth rates were 42.7% and 14.8%, respectively.

By leveraging the strengths in our distribution channels and further promoting our packaged products in the first half of this year, we generated local telephone usage fees of RMB24,072 million, an increase of 7.1% from the same period last year. At the same time, the total usage of local voice service reached 210.7 billion pulses, an increase of 13.6% from the same period last year.

The steady and rapid increase in the number of wireless local access subscribers has effectively mitigated the pressure from mobile substitution. The packaging of wireless local access with residential and business wireline services has created synergies and increased the value of wireline services. We have reduced the investment cost of the wireless local access service per subscriber by approximately 10% and have increased the utilisation of the network by approximately 3%, thus maintaining a desirable level of investment return on such business.

Internet Services

In the first half of this year, the revenue generated from Internet services reached RMB6,602 million, an increase of 51.6% from the same period last year, and accounted for 8.2% of our total operating revenue, which increased by 2.4 percentage points over the same period last year. This line of revenue has contributed substantially to our overall growth in revenue. As at the end of June, the subscriber base for the broadband access service reached 10.89 million, an increase of 3.66 million from the end of last year or a semi-annual growth rate of 50.6%, hence strengthening our leading position in the broadband market.

We have focussed our attention on capitalising the strength of our full service portfolio. We combined broadband access with other wireline services and broadband application services and launched flexible tariff packages to create and satisfy different customer demands. The marketing strength of our broadband access products has been improved as we extended our distribution channels to full coverage. At the same time, based on ChinaVnet platform, we strengthened the integration of broadband application resources to encourage third party providers to join efforts in expanding the spectrum of the broadband content and applications market. As at the end of June 2004, the number of registered subscribers for ChinaVnet reached 4.66 million and over 200 broadband content providers nationwide joined ChinaVnet.

While the number of broadband subscribers was increasing rapidly, their ARPU value was kept at a relatively high level. Benefiting from economies of scale and centralised procurement, the investment cost per subscriber for broadband ADSL was reduced by approximately 5%, thus maintaining a relatively high investment return rate.

Long Distance Services

In the first half of this year, our revenue generated from domestic long distance services was RMB13,145 million, an increase of 3.6% from the same period last year. The total transmission volume for our domestic long distance services reached 39.4 billion minutes, an increase of 21.4% from the same period last year. We continued to maintain our leading position in this area.

While benefiting from increasing demands in the domestic long distance services market which was stimulated by the rapid growth of the Chinese economy, we adopted a flexible and efficient marketing strategy in the face of market competition. We maximised revenue from the domestic long distance services by adopting appropriate pricing strategies. Sales efforts were tailored to customers based on our detailed customer segmentation. For instance, we increased the density of public telephone outlets and strengthened our control over and further motivated the agency channels. These measures enabled us to maintain our strong position in the rapidly growing long distance services market for mobile population.

Revenue from international, Hong Kong, Macau and Taiwan long distance services decreased by 2.3% from the same period last year to RMB1,906 million in the first half of this year. The volume of international long distance usage was 812 million minutes, approximately the same as that of last year.

Managed Data and Leased Line Services

In the first half of this year, revenue generated from our managed data services was RMB1,524 million, a reduction of 6.4% from the same period last year, which accounted for 1.9% of our total operating revenue. Benefiting from the accelerating progress in the use of information technology by the general public, the leasing of standard ports of DDN, FR and ATM increased by 3.3%, 35.6% and 1.3%, respectively, from the end of 2003. On the other hand, under the pressure of competition within the market, the unit prices for our managed data services decreased.

We generated RMB2,112 million from our leased line services in the first half of this year, a reduction of 19.0% from the same period last year, which accounted for 2.6% of our total operating revenue. As at the end of June 2004, the total number of 2M digital lines leased was 146,200, a reduction of 10.4% from the end of 2003. This decrease was mainly due to the reduction in demand for leased lines from other domestic telecommunications operators.

Interconnection Services

In the first half of this year, revenue from interconnection services was RMB5,013 million, an increase of 22.4% from the same period last year. The net interconnection revenue was RMB3,240 million, an increase of 25.0% from the same period last year. Driven by the continuous expansion of our subscriber base and the overall growth in the domestic telecommunications market, the volume of inbound local calls reached 46.2 billion minutes in the first half of this year, an increase of 32.4% from the same period last year. The volume of inbound long distance calls also increased compared to the same period last year.

Value-added Services

We continued our efforts to develop wireline value-added services in the first half of this year and substantially increased the revenue generated from them. As at the end of June 2004, our subscribers for the caller ID service reached 98.19 million, representing a penetration rate of 55.0%, an increase of nearly 4 percentage points from the end of 2003. The semi-annual usage volume for our telephone information service reached 1,038 million minutes, an increase of 35.0% from the same period last year. Since the launch of the SMS over wireless local access service in the first half of this year, the volume of its usage has increased substantially and the service has demonstrated great potential for further development. As an important component of wireline services, value-added services continue to be one of our key focuses and an important source of our future growth.

Outlook for the Second Half of the Year

In the second half of 2004, sustained, rapid, healthy and coordinated growth of the Chinese economy is expected. Accelerating adoption of information technology in the Chinese economy will continue to drive greater demands for telecommunications services. The increasing competition in the telecommunications market will become a significant factor in our operations in the second half of 2004._We plan to fully explore the development potential of wireline services as our pillar business, conduct comprehensive network optimisation for the wireless local access network to improve our network quality and capability of developing new businesses. Furthermore, we will consistently develop our broadband access service, expand the market for broadband applications, strengthen the development of value-added services and continuously explore new areas for our services.

We will continue to strengthen the capacities of, and improve the management of, our distribution channels. We will also continue to harmonise the relationship between marketing, products development, distribution and customers, effectively improve marketing design and planning, and improve our brand management to enhance our brand value.

We intend to continue transforming our business towards a value-driven growth model. We will also continue to improve overall budget control and budget implementation accountability, optimise cost structure, enhance management of capital expenditure and achieve a more even distribution of capital and operating expenditure. Moreover, we will further implement BPR to establish a process-based management system with a long standing effect. We will strengthen our internal control system to achieve the international best practice, so as to mitigate business risks. We will also speed up the establishment of CTG-MBOSS to provide effective IT support for our marketing and sales, operational management and internal control.

With a view to improving our human resources capital, we will continue with our human resources reforms and implement a merit-based appointment system. We will expand our talented team consisting of professional business managers, technical specialists, skilful marketing and maintenance personnel and professional administrative personnel.

We will pay close attention to new developments in the regulation of the telecommunications industry. Based on our in-depth understanding of regulatory policies, we will continue to comply with all regulatory requirements and foster a favourable business environment. Based on a win-win philosophy and through the creation of a favourable competitive environment, we will promote the healthy development of the industry.

In summary, we will adhere to our goal of becoming a world-class telecommunications operator. Focussing on rapid development, continued business reform, effective management and human-resources-based strategy, we will strive to achieve the sustainable and sound development of the business and maximise shareholders value.

Zhou Deqiang

Chairman and CEO

Beijing, PRC

1 September 2004

GROUP RESULTS

China Telecom Corporation Limited (the Company) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the Group) for the six months ended 30 June 2004.

CONSOLIDATED BALANCE SHEET (UNAUDITED)

at 30 June 2004

(Amounts in millions)

			30 June	**31 December**			
			2004	**2003**			
	Note		**RMB**	***RMB***			
ASSETS							
Non-current assets							
Property, plant and equipment, net			**303,725**	309,896			
Construction in progress			**39,522**	31,617			
Lease prepayments			**4,555**	4,485			
Interests in associates			**500**	513			
Investments			**237**	206			
Deferred tax assets	9		**10,662**	10,523			
Other assets			**13,323**	13,609			
Total non-current assets			**372,524**	370,849			
Current assets							
Inventories			**3,227**	3,253			
Accounts receivable, net	4		**15,186**	12,951			(714.99)
Basic and diluted earnings (loss) per share (yen)		**4,253.83**			(2,315.48)	6,569.31	

3. CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

	(UNAUDITED) Year ended March 31, 2003	Year ended March 31, 2002	Increase (Decrease)
		(Millions of yen)	
Common stock:			
At beginning of year	**¥ 949,680**	¥ 949,680	¥
At end of year	**949,680**	949,680	
Additional paid-in capital:			
At beginning of year	**1,262,672**	1,262,672	
Share exchanges	**43,456**		43,456
At end of year	**1,306,128**	1,262,672	43,456
Retained earnings:			
At beginning of year	**956,899**	1,083,126	(126,227)
Cash dividends	**(10,036)**	(10,036)	
Net income (loss)	**212,491**	(116,191)	328,682
At end of year	**1,159,354**	956,899	202,455
Accumulated other comprehensive income:			
At beginning of year	**122,632**	23,109	99,523
Unrealized losses on available-for-sale securities	**(727)**	(2,136)	1,409
Net revaluation of financial instruments	**257**	(90)	347
Foreign currency translation adjustments	**(39,315)**	105,147	(144,462)
Minimum pension liability adjustment	**(19,910)**	(3,398)	(16,512)
At end of year	**62,937**	122,632	(59,695)
Treasury stock:			
At beginning of year			
Acquisition of treasury stock	**(234,470)**		(234,470)
Share exchanges	**231,885**		231,885
At end of year	**(2,585)**		(2,585)
TOTAL SHAREHOLDERS EQUITY	**¥3,475,514**	¥3,291,883	¥183,631

4. CONSOLIDATED STATEMENTS OF CASH FLOWS

	(UNAUDITED) Year ended March 31, 2003	Year ended March 31, 2002
	(Millions of yen)	
I. Cash flows from operating activities:		
1. Net income (loss)	**¥ 212,491**	¥ (116,191)
2. Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
(1) Depreciation and amortization	**749,197**	640,505
(2) Deferred taxes	**(56,653)**	(524,549)
(3) Loss on sale or disposal of property, plant and equipment	**30,348**	39,204
(4) Equity in net losses of affiliates	**549,775**	1,114,240
(5) Minority interests in earnings of consolidated subsidiaries	**16,033**	28,977
(6) Cumulative effect of accounting change	**35,716**	
(7) Changes in current assets and liabilities:		
Decrease in accounts receivable, trade	**229,061**	42,336
Decrease in allowance for doubtful accounts	**(1,744)**	(1,874)
Decrease in inventories	**28,685**	11,404
Increase (decrease) in accounts payable, trade	**27,820**	(99,689)
Increase in other current liabilities	**10,131**	8,483
(Decrease) increase in accrued taxes on income	**(161,565)**	89,594
Increase in liability for employee benefits, net of deferred pension costs	**43,972**	18,933
Other, net	**(128,657)**	89,715
Net cash provided by operating activities	**1,584,610**	1,341,088
II. Cash flows from investing activities:		
1. Purchases of property, plant and equipment	**(700,468)**	(863,184)
2. Purchases of intangible and other assets	**(164,238)**	(199,517)
3. Purchases of investments	**(10,312)**	(68,189)
4. Other, net	**3,588**	5,797
Net cash used in investing activities	**(871,430)**	(1,125,093)
III. Cash flows from financing activities:		
1. Issuance of long-term debt	**202,274**	395,238
2. Repayment of long-term debt	**(212,934)**	(177,686)
3. Payments to acquire treasury stock	**(234,470)**	
4. Principal payments under capital lease obligations	**(6,908)**	(8,418)
5. Dividends paid	**(10,036)**	(10,036)
6. Proceeds from short-term borrowings	**339,912**	957,619
7. Repayment of short-term borrowings	**(410,962)**	(1,190,769)
8. Other, net	**(153)**	680
Net cash used in financing activities	**(333,277)**	(33,372)
IV. Effect of exchange rate changes on cash and cash equivalents		
V. Net increase in cash and cash equivalents	**379,903**	182,623
VI. Cash and cash equivalents at the beginning of year	**301,048**	118,425

VII. Cash and cash equivalents at the end of year	**¥**	**680,951**	¥	301,048
Supplemental disclosures of cash flow information				
Cash paid during the year for:				
Interest	**¥**	**19,874**	¥	20,165
Income taxes		**558,084**		364,321
Non-cash investing and financing activities:				
Decrease in treasury stock by share exchanges		**231,885**		
Assets acquired through capital lease obligations		**4,001**		5,376

Basis of Presentation:

The accompanying consolidated financial information of NTT DoCoMo, Inc. and its subsidiaries (collectively DoCoMo) has been prepared in accordance with accounting principles generally accepted in the United States (U.S.GAAP).

1. Adoption of new accounting principle:

Accounting for certain commissions paid to agent resellers

Effective April 1, 2002, DoCoMo adopted Emerging Issues Task Force (EITF) Issue No. 01-09, Accounting for Consideration Given by a Vendor to a Customer or a Reseller of the Vendor s Products . The adoption results in the reclassification of certain amounts of commissions paid to agent resellers previously included in non-personnel expenses as a reduction of equipment sales. EITF 01-09 also requires that reduction of revenue and corresponding expenses be recognized at the time of equipment sales, in lieu of the date of payment. Consequently, net equipment sales and non-personnel expenses decreased ¥558,923 million, and ¥571,223 million, respectively. The adoption also resulted in an adjustment as of April 1, 2002 for the cumulative effect of accounting change in DoCoMo s statement of operations and comprehensive income (loss) by ¥35,716 million (net of taxes). Prior periods have been reclassified to be consistent with current year presentation.

2. Significant accounting policies:

Inventories

Inventories are stated at the lower of cost or market. The cost of equipment sold is determined by the first-in, first-out method.

Property, plant and equipment

Property, plant and equipment is stated at cost and includes capitalized interest expense incurred during construction periods. It is depreciated over the estimated useful lives of respective assets using the declining-balance method with the exception of buildings that are depreciated using the straight-line method.

Investments in affiliates

The equity method of accounting is applied for investments in affiliates where DoCoMo either owns an aggregate interest of 20% to 50% or is able to exercise significant influence over the affiliate.

DoCoMo evaluates its investments in affiliates for impairment due to declines in value considered to be other than temporary. In the event of a determination that a decline in value is other than temporary, a charge to earnings is recorded for the loss, and a new cost basis in the investment is established.

Marketable securities

Marketable securities consist of investments in debt and equity securities which DoCoMo accounts for in accordance with Statement of Financial Accounting Standards (SFAS) No. 115, Accounting for Certain Investments in Debt and Equity Securities.

Goodwill and other intangible assets

Effective April 1, 2001, DoCoMo accounts for goodwill and other intangible assets in accordance with SFAS No. 142, Goodwill and Other Intangible Assets .

Impairment of long-lived assets

In accordance with SFAS No. 144, DoCoMo s long-lived assets other than goodwill, including property, plant and equipment, software and other intangibles, are reviewed for impairment, and if the asset is determined to be impaired, the amount of the loss is recognized in earnings.

Derivative financial instruments

DoCoMo accounts for derivative instruments in accordance with SFAS No. 133, Accounting for Derivatives and Hedging Activities , as amended by SFAS No. 138. All derivative instruments are recorded on the balance sheets at fair value, with the change in the fair value recognized either in other comprehensive income or in net income depending on whether the derivative instrument qualifies as a hedge for accounting purposes, and if so, the nature of hedging activity.

Employee benefit plans

Pension benefits earned during the period, as well as interest on projected benefit obligations, are accrued currently. Prior service costs and credits resulting from changes in plan benefits are amortized over the average remaining service period of the employees expected to receive benefits.

Revenue recognition

Base monthly service and airtime are recognized as revenues as service is provided to the subscribers. Equipment sales are recognized as revenue upon delivery of the equipment to the customer (agent resellers).

Upfront activation fees are being deferred and recognized as revenue over the expected term of customer relationship of each service. The related direct costs are also being deferred only to the extent of the related upfront fee amount and are being amortized over the same periods.

Income taxes

Income taxes are provided based on the asset and liability method of income tax accounting. Deferred income taxes are recorded to reflect the tax consequences in future years of differences between the tax basis of assets and liabilities and the amount reported in the balance sheets.

Other footnotes to consolidated financial statements:

1. Equity in net losses of affiliates:

For the year ended March 31, 2003, Equity in net losses of affiliates primarily relates to the impairment charges (net of taxes) recognized on the investments in the following affiliates:

AT&T Wireless Services, Inc.	¥	167,584 million
Hutchison 3G UK Holdings Limited	¥	72,233 million
KPN Mobile N.V.	¥	67,949 million
KG Telecommunications Co., Ltd.	¥	5,709 million
DoCoMo AOL, Inc.	¥	6,089 million

Due to dilution in DoCoMo s shareholding percentage in KPN Mobile N. V. (KPNM), and loss of certain of its minority shareholder s rights such as Board representation during the year ended March 31, 2003, DoCoMo no longer has the ability to exercise significant influence over KPNM. Consequently, DoCoMo removed KPNM from the scope of equity method accounting.

2. Share exchanges:

As a result of the completion of share exchanges to make the regional subsidiaries wholly-owned which took place on November 1, 2002, the treasury stock amount of ¥234,462 million (870,000 shares) which had been acquired before the share exchanges was decreased to ¥2,585 million (9,593.89 shares).

The share exchanges were accounted for using the purchase method, in accordance with SFAS No. 141. In accordance therewith, the acquisition costs of the subsidiaries stocks which exceed the net assets of each of the eight regional subsidiaries are assigned to assets acquired and liabilities assumed based on estimated fair value at the date of the share exchanges, and deferred tax liabilities or assets are recognized for differences between the assigned values and the tax bases of the recognized assets acquired and liabilities assumed.

The aggregate amount of acquisition costs that exceed the related determinable assets less liabilities is recorded as goodwill on the consolidated balance sheet.

3. Segment information:

	Year ended March 31, 2003	
	(Millions of yen)	
Operating Revenues:		
Mobile phone business	¥ 4,690,444	97.5%
PHS business	85,038	1.8%
Quickcast business	8,088	0.2%
Miscellaneous businesses	25,518	0.5%
Consolidated operating revenues	4,809,088	100.0%
Operating income (loss):		
Mobile phone business	1,087,187	
PHS business	(28,294)	
Quickcast business	(6,458)	
Miscellaneous businesses	4,284	
Consolidated operating income	¥ 1,056,719	

Notes:

1. Segment information for the year ended March 31, 2003 is prepared in accordance with U.S. GAAP.
2. DoCoMo segments its businesses internally as follows:

a. Mobile phone business	Cellular services, FOMA services, packet communications services, satellite mobile communications services, in-flight telephone service and equipment sales for each service
b. PHS business	PHS services and PHS equipment sales
c. Quickcast business	Quickcast services and Quickcast equipment sales (formerly paging services and paging equipment sales)
d. Miscellaneous businesses	International dialing services and other miscellaneous businesses

4. Employee benefits:

(1) Liability recognized on the balance sheets:

	March 31, 2003	March 31, 2002
	(Millions of yen)	
Liability for employees retirement benefits	**¥ (149,700)**	¥ (105,728)
Intangible and other assets	**790**	732

Accumulated other comprehensive income	**50,307**	16,689
Total liability for employees retirement benefits	**¥ (98,603)**	¥ (88,307)

(2) Charges to income:

	Year ended March 31, 2003	Year ended March 31, 2002
	(Millions of yen)	
Net pension cost	**¥ 22,396**	¥ 21,175

(3) Assumptions in determination of net pension cost:

	Year ended March 31, 2003	Year ended March 31, 2002
Discount rate	**2.0%**	2.5%
Long-term rate of salary increases	**2.1%**	3.0%
Long-term rate of return on funded assets	**2.5%**	3.0%

5. Subsequent events:

(1) Shareholder loan to H3G UK:

After careful consideration of the necessity of a funding request from Hutchison 3G UK Holdings Limited (H3G UK), the loan conditions proposed by H3G UK and the provisions of the H3G UK Shareholders Agreement between DoCoMo and Hutchison Whampoa Limited, DoCoMo accepted the funding request at the Board of Directors meeting on April 23, 2003, and provided the following advance on May 2, 2003:

(i) DoCoMo s loan:	£200 million (¥38,242 million)
(ii) Use of proceeds:	Capital expenditures in 3G network and business operating expenses
(iii) Terms:	a. Maturity: 10 years
	b. Interest: LIBOR + 1.0%

(2) Reduction in tariffs:

On May 8, 2003, DoCoMo s Board of Directors approved the amendment of the billing plans for cellular services and FOMA services. DoCoMo notified the Minister of Public Management, Home Affairs, Posts and Telecommunications of reduction of charges for calls generated from fixed wireline network and accessed to the DoCoMo s network, which will be effective on June 1, 2003.

Non-consolidated Financial Statements May 8, 2003
For the Fiscal Year Ended March 31, 2003 **[Japanese GAAP]**

Name of registrant:	**NTT DoCoMo, Inc.**
Code No.:	9437
Stock exchange on which the Company s shares are listed:	Tokyo Stock Exchange-First Section
Address of principal executive office: (URL http://www.nttdocomo.co.jp/)	Tokyo, Japan
Representative:	Keiji Tachikawa, Representative Director, President and Chief Executive Officer
Contact:	Ken Takeuchi, Senior Manager, General Affairs Department / TEL (03) 5156-1111
Date of the meeting of the Board of Directors for approval of the non-consolidated financial statements:	May 8, 2003
Date of the meeting of shareholders for approval of the non-consolidated financial statements:	June 19, 2003
Interim dividends plan:	Yes
Adoption of the Unit Share System:	No

1. Non-consolidated Financial Results for the Fiscal Year Ended March 31, 2003 (April 1, 2002 - March 31, 2003)

(1) Non-consolidated Results of Operations

Amounts are truncated to nearest 1 million yen throughout this report.

	Operating Revenues		Operating Income		Recurring Profit	
	(Millions of yen, except per share amounts)					
Year ended March 31, 2003	2,476,821	5.1%	455,227	8.3%	633,278	55.8%
Year ended March 31, 2002	2,355,760	10.0%	420,159	24.8%	406,471	38.8%

	Net Income (Loss)	Earnings (Loss) per Share	Diluted Earnings per Share	ROE (Ratio of Net Income to Shareholders Equity)	ROA (Ratio of Recurring Profit to Total Assets)	Recurring Profit Margin (Ratio of Recurring Profit to Operating Revenues)
Year ended March 31, 2003	84,850	1,698.61(yen)		3.5%	14.5%	25.6%
Year ended March 31, 2002	(310,720)	(6,192.11)(yen)		(12.1%)	9.3%	17.3%

Notes: 1. Earnings (loss) per share information is adjusted to reflect a five-for-one stock split that took effect on May 15, 2002.

Treasury shares are not included in the calculation of the weighted average number of shares outstanding.

Weighted average number of shares outstanding:

For the year ended March 31,2003: 49,952,907 shares
For the year ended March 31, 2002: 50,180,000 shares

2. Change in accounting policy: Yes

3. Percentages above represent annual changes compared to corresponding previous year.

(2) Dividends

	Total Dividends per Share	Interim Dividends per Share	Year-End Dividends per Share	Total Dividends for the Year	Payout Ratio	Ratio of Dividends to Shareholders Equity
	(Yen, except Total Dividends for the Year)					
Year ended March 31, 2003	500.00	0.00	500.00	25,085(million yen)	29.4%	1.0%
Year ended March 31, 2002	1,500.00	500.00	1,000.00	15,054(million yen)		0.6%

(3) Non-consolidated Financial Position

	Total Assets	Shareholders Equity	Equity Ratio (Ratio of Shareholders Equity to Total Assets)	Shareholders Equity per Share
	(Millions of yen, except per share amounts)			
Year ended March 31, 2003	4,483,130	2,448,293	54.6%	48,799.56(yen)
Year ended March 31, 2002	4,252,097	2,405,426	56.6%	47,935.97(yen)

Notes: 1. Shareholders equity per share information is adjusted to reflect a five-for-one stock split that took effect on May 15, 2002. Treasury shares are not included in the number of shares outstanding at the end of the year.

Number of shares outstanding at end of year : March 31, 2003: 50,170,406 shares March 31, 2002: 50,180,000 shares

2. Number of treasury shares: March 31, 2003: 9,594 shares March 31, 2002: shares

2. Non-consolidated Financial Results Forecasts for the Fiscal Year Ending March 31, 2004 (April 1, 2003 - March 31, 2004)

	Operating Revenues	Recurring Profit	Net Income	Total Dividends per Share: Interim Dividends per Share	Year-End Dividends per Share	
	(Millions of yen, except per share amounts)					
Year ending March 31, 2004	2,526,000	469,000	301,000	500(yen)	500(yen)	1,000(yen)

(Reference) Expected Earnings per Share: 5,999.55 yen

Note: With regard to the assumptions and other related matters concerning the above estimated results, please refer to pages 7 and 8.

<NON-CONSOLIDATED FINANCIAL STATEMENTS>

1. NON-CONSOLIDATED BALANCE SHEETS

	March 31, 2003		March 31, 2002		
	Amount	%	Amount	%	Increase (Decrease)
			(Millions of yen)		
ASSETS					
Non-current assets					
Fixed assets for telecommunication businesses Property, plant and equipment	**1,198,756**		1,201,569		(2,813)
Machinery and equipment	**498,887**		506,864		(7,976)
Antenna facilities	**139,589**		138,151		1,437
Satellite mobile communications facilities	**16,339**		4,567		11,772
Terminal equipment	**61**		2,453		(2,392)
Telecommunications line facilities	**582**		371		210
Pipe and hand holes	**378**		216		162
Buildings	**224,922**		169,214		55,707
Structures	**19,737**		20,217		(480)
Other machinery and equipment	**10,727**		11,163		(436)
Vehicles	**206**		259		(53)
Tools, furniture and fixtures	**148,237**		167,325		(19,087)
Land	**100,307**		93,268		7,039
Construction in progress	**38,779**		87,496		(48,716)
Intangible assets	**390,370**		381,672		8,698
Rights to use utility facilities	**3,322**		3,624		(302)
Computer software	**375,472**		331,659		43,812
Patents	**238**		251		(13)
Leasehold rights	**2,379**		2,307		71
Other intangible assets	**8,958**		43,827		(34,869)
Total non-current assets for telecommunication businesses	**1,589,126**		1,583,241		5,885
Investments and other assets					
Investment securities	**16,984**		11,191		5,792
Investments in capital	**433**		506		(72)
Investments in affiliated companies	**834,326**		1,231,029		(396,702)
Long-term loan receivable from an affiliated company	**1,000**		16,000		(15,000)
Long-term prepaid expenses	**1,359**		48		1,311
Deferred income taxes	**544,585**		458,301		86,284
Other investments and other assets	**33,658**		32,456		1,201
Allowance for doubtful accounts	**(375)**		(372)		(2)
Total investments and other assets	**1,431,972**		1,749,160		(317,188)
Total fixed assets	**3,021,099**	**67.4**	3,332,401	78.4	(311,302)
Current assets					
Cash and bank deposits	**637,134**		220,025		417,108
Accounts receivable, trade	**381,260**		491,107		(109,846)
Accounts receivable, other	**306,536**		141,061		165,474
Inventories and supplies	**32,136**		51,653		(19,516)
Advances	**2,362**		5,051		(2,689)
Prepaid expenses	**4,557**		20		4,536
Deferred income taxes	**9,017**		15,425		(6,407)
Short-term loans	**79,000**				79,000

Other current assets	**17,649**		2,624		15,025
Allowance for doubtful accounts	**(7,624)**		(7,273)		(350)
Total current assets	**1,462,030**	**32.6**	919,695	21.6	542,335
TOTAL ASSETS	**4,483,130**	**100.0**	4,252,097	100.0	231,032

	March 31, 2003		March 31, 2002		
	Amount	%	Amount	%	Increase (Decrease)
			(Millions of yen)		
LIABILITIES					
Long-term liabilities					
Bonds	**770,020**		608,000		162,020
Long-term borrowings	**397,086**		418,705		(21,619)
Liability for employees severance payments	**64,108**		58,069		6,038
Reserve for point loyalty programs	**35,256**		31,913		3,342
Other long-term liabilities	**289**		372		(82)
Total long-term liabilities	**1,266,760**	**28.3**	1,117,061	26.3	149,699
Current liabilities					
Current portion of long-term debt	**62,619**		118,712		(56,093)
Accounts payable, trade	**234,545**		207,536		27,009
Accounts payable, other	**197,786**		242,898		(45,112)
Accrued expenses	**7,199**		6,507		691
Accrued taxes on income	**961**		123,522		(122,561)
Advances received	**1,822**		1,653		168
Deposits received	**261,556**		28,618		232,938
Other current liabilities	**1,584**		159		1,425
Total current liabilities	**768,075**	**17.1**	729,608	17.1	38,466
TOTAL LIABILITIES	**2,034,836**	**45.4**	1,846,670	43.4	188,165
SHAREHOLDERS EQUITY					
Common stock			949,679	22.4	(949,679)
Statutory reserves					
Additional paid-in capital			1,292,385	30.4	(1,292,385)
Legal reserve			4,099	0.1	(4,099)
Total statutory reserves			1,296,484	30.5	(1,296,484)
Retained earnings					
General reserve			463,000		(463,000)
Unappropriated deficit			304,585		(304,585)
[including Net loss]			[310,720]		[(310,720)]
Total retained earnings			158,414	3.7	(158,414)
Net unrealized gains on securities			848	0.0	(848)
Common stock	**949,679**	**21.2**			949,679
Capital surplus					
Additional paid-in capital	**292,385**				292,385
Other capital surplus	**971,178**				971,178
Total capital surplus	**1,263,563**	**28.2**			1,263,563
Earned surplus					
Legal reserve	**4,099**				4,099
Voluntary reserve	**123,000**				123,000
Unappropriated retained earnings	**110,228**				110,228
[including Net income]	**[84,850]**				[84,850]
Total earned surplus	**237,328**	**5.3**			237,328
Net unrealized gains on securities	**306**	**0.0**			306
Treasury stock	**(2,584)**	**(0.1)**			(2,584)
TOTAL SHAREHOLDERS EQUITY	**2,448,293**	**54.6**	2,405,426	56.6	42,866
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	**4,483,130**	**100.0**	4,252,097	100.0	231,032

2. NON-CONSOLIDATED STATEMENTS OF INCOME

	Year ended March 31, 2003		Year ended March 31, 2002		
	Amount	**%**	**Amount**	**%**	**Increase (Decrease)**
			(Millions of yen)		
Recurring profits and losses					
Operating revenues and expenses					
Telecommunication businesses					
Operating revenues	**2,032,142**	**82.1**	1,925,866	81.8	106,275
Voice transmission services	**1,431,446**		1,428,332		3,114
Data transmission services	**381,053**		297,138		83,915
Other	**219,642**		200,396		19,245
Operating expenses	**1,585,223**	**64.0**	1,516,957	64.4	68,265
Business expenses	**898,480**		847,841		50,638
Administrative expenses	**57,705**		72,415		(14,710)
Depreciation	**398,287**		344,694		53,592
Loss on disposal of property, plant and equipment and intangible assets	**22,274**		26,780		(4,505)
Communication network charges	**191,028**		212,191		(21,163)
Taxes and public dues	**17,447**		13,033		4,414
Operating income from telecommunication businesses	**446,918**	**18.1**	408,908	17.4	38,009
Supplementary businesses					
Operating revenues	**444,679**	**17.9**	429,894	18.2	14,785
Operating expenses	**436,370**	**17.6**	418,643	17.8	17,726
Operating income from supplementary businesses	**8,309**	**0.3**	11,250	0.4	(2,941)
Total operating income	**455,227**	**18.4**	420,159	17.8	35,068
Non-operating revenues and expenses					
Non-operating revenues	**209,025**	**8.4**	6,923	0.3	202,101
Interest income and discounts	**123**		136		(12)
Interest from securities			1		(1)
Dividend income	**202,497**		1,763		200,734
Gain on sale of investment securities	**300**		1,170		(870)
Foreign exchange gains	**227**		828		(600)
Lease and rental income	**1,456**		1,285		170
Miscellaneous income	**4,418**		1,737		2,681
Non-operating expenses	**30,974**	**1.2**	20,611	0.8	10,362
Interest expense and discounts	**6,683**		7,538		(855)
Interest expense-bonds	**8,695**		6,149		2,545
Loss on write-off of inventories	**13,668**		4,517		9,151
Impairment of investment securities	**380**		130		249
Miscellaneous expenses	**1,546**		2,274		(728)
Recurring profit	**633,278**	**25.6**	406,471	17.3	226,806
Special profits and losses					
Special losses	**602,000**	**24.3**	947,441	40.2	(345,440)
Write-downs of investments in affiliated companies	**602,000**	**24.3**	947,441	40.2	(345,440)
Income (loss) before income taxes	**31,277**	**1.3**	(540,969)	(22.9)	572,247
Income taxes-current	**25,900**	**1.1**	186,600	7.9	(160,700)
Income taxes-deferred	**(79,472)**	**(3.2)**	(416,849)	(17.6)	337,376
Net income (loss)	**84,850**	**3.4**	(310,720)	(13.2)	395,570
Retained earnings brought forward	**25,378**		11,152		14,225
Interim dividends			5,018		(5,018)
Unappropriated retained earnings (deficit)	**110,228**		(304,585)		414,814

Note:

The denominator used to calculate the percentage figures is the aggregate amount of operating revenues from telecommunication businesses and supplementary businesses

3. PROPOSAL FOR APPROPRIATION OF RETAINED EARNINGS

	Year ended March 31, 2003	Year ended March 31, 2002
	(Millions of yen)	
Unappropriated retained earnings (deficit)	**110,228**	(304,585)
Reversal of general reserve		340,000
Sub-total	**110,228**	35,414
The above shall be appropriated as follows:		
Cash dividends	**25,085**	10,036
	(¥500 per share)	(¥1,000 per share) : year-end dividend ¥500 : special commemorative dividend ¥500
General reserve	**34,000**	
Retained earnings carried forward	**51,143**	25,378

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Significant Accounting Policies for the Non-Consolidated Financial Statements

The accompanying non-consolidated financial statements of NTT DoCoMo, Inc. (the Company) have been prepared in accordance with accounting principles generally accepted in Japan.

1. Depreciation of non-current assets

   (1) Property, plant and equipment

Depreciation of property, plant and equipment is computed by the declining balance method with the exception of buildings, which are depreciated on the straight-line method.

   (2) Intangible assets

Intangible assets are amortized using the straight-line method.

Computer software for internal use is amortized on the straight-line method over the estimated useful life.

2. Valuation of securities

   (1) Investments in subsidiaries and affiliates are stated at cost, which is determined by the moving-average method.

   (2) Available-for-sale securities whose fair value is readily determinable are stated at fair value as of the end of the fiscal year with unrealized gains and losses, net of applicable deferred tax assets/liabilities, not reflected in earnings, but directly reported as a separate component of shareholders equity. The cost of securities sold is determined by the moving-average method. Available-for-sale securities whose fair value is not readily determinable are stated primarily at moving-average cost except for debt securities, which are stated at amortized cost.

3. Valuation of inventories

Inventories are stated at cost. The cost of telecommunications equipment to be sold is determined by the first-in, first-out method. The cost of other inventories is determined by the specific identification method.

4. Bond issuance costs

Bond issuance costs are expensed at the time of payment.

5. Foreign currency translation

Foreign currency monetary assets and liabilities are translated into Japanese yen at the current spot rate at the end of the fiscal year and the resulting translation gains or losses are included in current earnings.

6. Allowance for doubtful accounts, Liability for employees severance payments and Reserve for point loyalty programs

(1) Allowance for doubtful accounts

The Company provides for doubtful accounts principally at an amount computed based on the historical bad debt experience plus the estimated uncollectable amount based on the analysis of certain individual accounts, including claims in bankruptcy.

(2) Liability for employees severance payments

In order to provide for the employees retirement benefits, the Company accrues the liability as of the end of the fiscal year in an amount calculated based on the estimated projected benefit obligation and plan assets at the end of the fiscal year.

Actuarial losses are expensed as incurred.

Prior service cost is amortized on the straight-line method over the average remaining service periods of the employees.

(3) Reserve for point loyalty programs

The costs of awards under the point loyalty programs called DoCoMo Point Service and Club DoCoMo that are reasonably estimated to be redeemed by its customers in the following fiscal years based on historical data are accounted for as reserve for point loyalty programs.

7. Leases

Finance leases other than those deemed to transfer ownership of properties to lessees are not capitalized and are accounted for in the same manner as operating leases.

8. Hedge accounting

(1) Hedge accounting

Japanese GAAP provides for two general accounting methods for hedging financial instruments. One method is to recognize the changes in fair value of a hedging instrument in earnings in the period of the change as gain or loss together with the offsetting loss or gain on the hedged item attributable to the risk being hedged. The other method is to defer the gain or loss over the period of the hedging contract together with offsetting loss or gain deferral of the hedged items. The Company has adopted the latter accounting method.

However, when a forward foreign exchange contract meets certain conditions, it is accounted for in the following manner:

(i) The difference between the Japanese yen amounts of the forward exchange contract translated using the spot rate at the transaction date of the hedged item and the spot rate at the date of inception of the contract, if any, is recognized in earnings in the period which includes the inception date of the contract; and

(ii) The discount or premium on the contract (that is, the difference between the Japanese yen amounts of the contract translated using the contracted forward rate and the spot rate at the date of inception of the contract) is recognized over the term of the contract.

In addition, when an interest rate swap contract meets certain conditions, the net amount to be paid or received under the contract is added to or deducted from the interest on the hedged items.

(2) Hedging instruments and hedged items

Hedging instruments:	Hedged items:
Forward foreign exchange contracts	Foreign currency transactions
Interest rate swap contracts	Interest expense on borrowings

(3) Hedging policy

The Company uses financial instruments to hedge market fluctuation risks in accordance with its internal policies and procedures.

(4) Assessment method of hedge effectiveness

The Company does not assess hedge effectiveness, because all its forward foreign exchange contracts and interest rate swap contracts are accounted for in the manner described in 8. (1) above.

9. Consumption tax

Consumption tax is separately accounted for by excluding it from each transaction amount.

10. Early adoption of revised Telecommunications Business Law and its related accounting regulations

The Company s balance sheet and statement of income for the year ended March 31, 2003 are prepared in accordance with the revised Telecommunications Business Law and its related accounting regulations.

Change in Presentation

Short-term loans , which had been included in other current assets as of March 31, 2002, was separately reported as of March 31, 2003, because the amount became significant (¥700 million as of March 31, 2002).

Notes to Non-consolidated Balance Sheets

1. As of March 31, 2003 and 2002, non-current assets for telecommunications businesses include those used in General Type II Telecommunications Carrier business, Special Type II Telecommunications Carrier business and supplementary businesses, because these amounts are not significant.

2. Accumulated depreciation of property, plant and equipment

	March 31, 2003	March 31, 2002
	(Millions of yen)	
Accumulated depreciation	**1,144,727**	927,804

3. As financial institutions in Japan were closed on March 31, 2002, amounts that would normally be settled on the day was collected or paid on the following business day, April 1, 2002. The effects of the settlement on the following business day instead of the end of the reporting period were as follows:

	March 31, 2002
	(Billions of yen)
Cash and bank deposits	Approximately (234)
Accounts receivable, trade	Approximately 127
Accounts payable, other	Approximately 20
Deposits received	Approximately (127)

The deposits received were related to intercompany funds transfer with eight regional subsidiaries (such as NTT DoCoMo Kansai, Inc.).

4. Assets or liabilities due from or to subsidiaries and affiliates, the amounts of which exceed one percent of total assets or total liabilities and shareholders equity of the Company, are as follows:

	March 31, 2003	March 31, 2002
	(Millions of yen)	
Accounts receivable, trade	**122,264**	116,386
Accounts receivable, other	**168,599**	114,442
Accounts payable, other		57,276
Short-term loans	**79,000**	
Deposits received	**260,684**	

5. Common stock

	March 31, 2003	March 31, 2002
	(Shares)	

Authorized	**191,500,000.00**	38,300,000
Issued	**50,180,000.00**	10,036,000
Outstanding	**50,170,406.11**	10,036,000

6. Share exchanges

The Company repurchased ¥234,461 million (870,000 shares) as treasury stock in the share exchanges finalized during the year ended March 31, 2003 in order to make regional subsidiaries wholly-owned.

The Company accounts for the share repurchase in accordance with Accounting Standard on Treasury Stock and Reversal of Legal Reserves (Issued by Accounting Standards Board of Japan on February 21, 2002), by which the Company transferred its additional paid-in capital to other capital surplus by ¥1,000,000 million, and reduced the other capital surplus by ¥28,821 million for the losses from these treasury stock transactions.

As a result of completion of the share exchanges, treasury stock decreased to ¥2,584 million (9,593.89 shares).

7. Unrealized gains on marketable securities as of March 31, 2003 as stipulated in Paragraph 3 of Article 124 of Regulations regarding the Commercial Code of Japan was ¥306 million.

8. Guarantee

In connection with its investment, the Company provides a counter indemnity of a performance guarantee up to HK$24,099 thousand (¥371 million) guaranteeing performance by Hutchison Telephone Company Limited, an affiliate of the Company, with respect to certain contracts or obligations owed to its governmental authorities in relation to its business. The Company has a HK$1,638 thousand (¥25 million) indemnity outstanding as of March 31, 2003.

Notes to Non-consolidated Statements of Income

1. The total amounts of research and development expenses included in operating expenses of telecommunication businesses and supplementary businesses are as follows:

Year ended March 31, 2003	**¥125,876 million**	Year ended March 31, 2002	¥100,174 million

2. For the years ended March 31, 2003 and 2002, revenues and expenses related to General Type II Telecommunications Carrier business and Special Type II Telecommunications Carrier business are included in supplementary businesses, because these amounts are not significant.

3. Non-operating revenues:

	Year ended March 31, 2003	**Year ended March 31, 2002**
	(Millions of yen)	
Dividends received from subsidiaries and affiliates	**202,426**	1,722

4. For the years ended March 31, 2003 and 2002, Write-downs of investments in affiliated companies mainly relates to the impairment charges recognized on the investments in the following subsidiaries that have overseas investments in affiliated companies, and affiliates.

	Year ended March 31, 2003	**Year ended March 31, 2002**
	(Millions of yen)	
DCM Capital USA (UK) Limited [Ultimate investee: AT&T Wireless Services, Inc.]	**338,908**	591,726
DCM Capital NL (UK) Limited	**107,863**	300,883

[Ultimate investee: KPN Mobile N.V.]		
DCM Capital TWN (UK) Limited		
[Ultimate investee: KG Telecommunications Co., Ltd.]	**13,533**	32,467
DCM Capital LDN (UK) Limited		
[Ultimate investee: Hutchison 3G UK Holdings Limited]	**126,078**	20,494
DoCoMo AOL, Inc.	**15,616**	

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Marketable Securities

For the years ended March 31, 2003, and 2002, there were no subsidiaries and affiliates shares directly owned by the Company that had readily determinable market value.

Subsequent Events

1. Shareholder loan to H3G UK

After careful consideration of the necessity of a funding request from Hutchison 3G UK Holdings Limited (H3G UK), the loan conditions proposed by H3G UK and the provisions of the H3G UK Shareholders Agreement between DoCoMo and Hutchison Whampoa Limited, DoCoMo accepted the funding request at the Board of Directors meeting on April 23, 2003, and provided the following advance on May 2, 2003:

(1) DoCoMo s loan:	£200 million (¥38,242 million)	
(2) Use of proceeds:	Capital expenditures in 3G network and business operating expenses	
(3) Term:	(i) Maturity:	10 years
	(ii) Interest:	LIBOR + 1.0%

2. Reduction in tariffs

On May 8, 2003, DoCoMo s Board of Directors approved the amendment of the billing plans for cellular services and FOMA services. DoCoMo notified the Minister of Public Management, Home Affairs, Posts and Telecommunications of reduction of charges for calls generated from fixed wireline network that accessed to the DoCoMo s network, which will be effective on June 1, 2003.

<<Change of Board of Directors >>

The change of the board of directors, if any, will be decided at the board meeting to be held in May 2003, which is planned to be made public thereafter.

Operation Data for 4th Quarter of 2002

(APPENDIX 1)

		4th Quarter of 2002 (from January to March, 2003)	[Ref.] 4th Quarter of 2001 (from January to March, 2002)	[Ref] Fiscal 2002 ended March 31, 2003 (full year results)	[Ref.] Fiscal 2003 ending March 31, 2004 (full year forecasts as of May 8, 2003)
Cellular					
Subscribers	thousands	**43,861**	**40,783**	**43,861**	**45,760**
FOMA	thousands	**330**	**89**	**330**	**1,460**
i-shot compatible	thousands	**8,825**		**8,825**	
Market share(1)	%	**58.0**	**59.0**	**58.0**	
Net Increase from previous period	thousands	**987**	**1,148**	**3,078**	**1,900**
FOMA	thousands	**178**	**62**	**241**	**1,130**
Aggregate ARPU (PDC)(2)	yen/month/contract	**7,990**	**8,020**	**8,120**	**7,810**
Voice ARPU(3)	yen/month/contract	**6,120**	**6,430**	**6,370**	**5,980**
i-mode ARPU(4)	yen/month/contract	**1,870**	**1,590**	**1,750**	**1,830**
ARPU generated purely from i-mode (PDC)	yen/month/contract	**2,190**	**2,040**	**2,110**	**2,110**
Aggregate ARPU (FOMA)(2)	yen/month/contract	**8,030**	**8,430**	**7,740**	
Voice ARPU(3)	yen/month/contract			**5,050**	
Packet ARPU	yen/month/contract			**2,690**	
i-mode ARPU(4)	yen/month/contract			**2,120**	
ARPU generated purely from i-mode (FOMA)	yen/month/contract			**2,340**	
MOU (PDC)(5)	minute/month/contract	**162**	**169**	**168**	
MOU (FOMA)(5)	minute/month/contract			**109**	
Churn Rate(6)	%	**1.33**	**1.15**	**1.22**	
i-mode					
Subscribers	thousands	**37,758**	**32,156**	**37,758**	**40,000**
FOMA	thousands	**303**		**303**	
i-applicompatible(7)	thousands	**17,130**	**12,621**	**17,130**	
i-mode Subscription Rate	%	**86.1**	**78.8**	**86.1**	**87.4**
Net Increase from previous period	thousands	**1,549**	**1,974**	**5,602**	**2,240**
i-Menu Sites	sites	**3,462**	**2,994**	**3,462**	
i-appli	sites	**550**	**270**	**550**	
Access Percentage by Content Category(8)					
Ringing tone/Screen	%	**39**	**42**	**38**	
Game/Horoscope	%	**19**	**19**	**19**	
Entertainment Information	%	**21**	**19**	**22**	
Information	%	**11**	**10**	**12**	
Database	%	**5**	**5**	**5**	
Transaction	%	**5**	**5**	**4**	
Independent Sites	sites	**64,207**	**53,534**	**64,207**	
Percentage of Packets					

Transmitted(8)					
Web	%	**87**	**83**	**86**	
Mail	%	**13**	**17**	**14**	
PHS					
Subscribers	thousands	**1,688**	**1,922**	**1,688**	**1,780**
Market Share(1)	%	**30.9**	**33.7**	**30.9**	
Net Increase from previous period	thousands	**(74)**	**12**	**(234)**	**90**
ARPU	yen/month/contract	**3,430**	**3,640**	**3,530**	
MOU(5)	minute/month/contract	**116**	**117**	**116**	
Data Transmission Rate (time)(9)	%	**79.4**	**75.5**	**77.6**	
Churn Rate(6)	%	**3.61**	**3.71**	**3.42**	
Others					
Prepaid Subscribers(10)	thousands	**125**	**178**	**125**	
DoPa Single Service Subscribers (11)	thousands	**287**	**230**	**287**	

(1) Source: Telecommunications Carriers Association
(2) ARPU(Average monthly revenue per unit)
Aggregate ARPU (PDC) = Voice ARPU (PDC) + i-mode ARPU (PDC)
Aggregate ARPU (FOMA) = Voice ARPU (FOMA) + Packet ARPU (FOMA)
(3) Inclusive of circuit switched data communications
(4) i-mode ARPU = ARPU generated purely from i-mode x (no. of active i-mode subscribers/no. of active cellular phone subscribers)
(5) MOU (Minutes of Usage) : Average communication time per one month per one user
(6) Churn Rate:
4Q : Total cancellations for 4th quarter/Sum of subscribers at the end of each month, from December to February
FY : Total cancellations for one year/Sum of subscribers at the end of each month, from March to February
(7) Inclusive of FOMA handsets
(8) Calculation does not include i-mode access via FOMA
(9) Percent of data traffic in total outbound call time
(10) Included in total cellular subscribers
(11) Not included in total cellular subscribers
* No. of active subscribers used in ARPU/MOU calculation are as below:

PDC:
4Q Results:{(No. of subscribers at Dec. 31+ no. of subscribers at Mar. 31) /2}x3 months
FY Results&Forecast:{(No. of subscribers at the end of previous fiscal year +
No. of subscribers at the end of current fiscal year)/2}x12 months

FOMA:
4Q Results: Sum of no. of active subscribers* for each month from January to March
FY Results: Sum of no. of active subscribers* for each month from April to March

* active subscribers =

(No. of subscribers at end of previous month+ no. of subscriber at end of current month)/2

(APPENDIX 2)

Summary of the Company and Regional Subsidiaries

	Operating revenues	Operating income	Recurring profit	Net income
		(100 millions of yen)		
NTT DoCoMo Hokkaido, Inc.	¥ 2,233	¥ 389	¥ 385	¥ 222
NTT DoCoMo Tohoku, Inc.	3,658	750	741	429
NTT DoCoMo, Inc.	**24,768**	**4,552**	**6,332**	**848**
NTT DoCoMo Tokai, Inc.	5,741	1,061	1,035	597
NTT DoCoMo Hokuriku, Inc.	1,167	228	227	130
NTT DoCoMo Kansai, Inc.	8,683	1,571	1,542	885
NTT DoCoMo Chugoku, Inc.	3,011	487	483	277
NTT DoCoMo Shikoku, Inc.	1,782	322	319	179
NTT DoCoMo Kyushu, Inc.	6,056	1,121	1,119	646

(APPENDIX 3)

Reconciliations between the Disclosed Non-GAAP Financial Measures and

the Most Directly Comparable GAAP Financial Measures

The reconciliations for the year ending March 31, 2004 (forecasts) are provided to the extent available without unreasonable efforts.

1. EBITDA and EBITDA margin

	Year ended March 31, 2003	Year ended March 31, 2002	Year ending March 31, 2004 (Forecasts)
		(100 millions of yen)	
a. Operating income	¥ 10,567	¥ 10,009	¥ 10,900
b. Depreciation and amortization expenses + Losses on sale or disposal of property, plant and equipment	7,795	6,797	7,860
c. EBITDA (=a+b)	18,363	16,806	18,760
d. Total operating revenues	48,091	46,593	48,990
EBITDA margin (=c/d)	38.2%	36.1%	38.3%

2. ROCE after tax effect

	Year ended March 31, 2003	Year ended March 31, 2002	Year ending March 31, 2004 (Forecasts)
		(100 millions of yen)	
a. Operating income	¥ 10,567	¥ 10,009	¥ 10,900
b. Operating income after tax effect {=a*(1-effective tax rate)}	6,129	5,805	6,322
c. Capital employed	47,725	47,415	49,789
ROCE before tax effect (=a/c)	22.1%	21.1%	21.9%
ROCE after tax effect (=b/c)	12.8%	12.2%	12.7%

Notes: Capital employed = Two fiscal year ends average of (Shareholders equity + Interest bearing liabilities)
Interest bearing liabilities = Current portion of long-term debt + Short-term borrowings + Long-term debt

3. Free cash flows and Adjusted free cash flows

	Year ended March 31, 2003	Year ended March 31, 2002	Year ending March 31, 2004 (Forecasts)
		(100 millions of yen)	
a. Cash flows from operating activities	¥ 15,846	¥ 13,411	¥ 16,960
b. Cash flows from investing activities	(8,714)	(11,251)	(8,560)
c. Net payments for short-term loans, deposits, and other investments	5	27	
d. Cash flows from investing activities (excluding net payments for short-term loans, deposits, and other investments) (=b-c)	(8,719)	(11,278)	(8,560)
e. Free cash flows (=a+d)	7,127	2,133	8,400
f. Irregular factors	2,440	(200)	
Adjusted free cash flows (excluding irregular factors) (=e-f)	4,687	2,333	8,400

Note: Irregular factors represent the effects of uncollected revenues due to bank holidays at the end of the fiscal years.

4. Market equity ratio

	March 31, 2003	March 31, 2002	March 31, 2004 (Forecasts)
		(100 millions of yen)	
a. Shareholders equity	¥ 34,755	¥ 32,919	¥
b. Market value of total share capital	110,898	176,634	
c. Total assets	60,580	60,672	
Equity ratio (=a/c)	57.4%	54.3%	
Market equity ratio (=b/c)	183.1%	291.1%	

Note: Market equity ratio is not forecasted because it is difficult to estimate the market value of total share capital in the future.

5. Capital expenditures

	Year ended March 31, 2003	Year ended March 31, 2002	Year ending March 31, 2004 (Forecasts)
		(100 millions of yen)	
a. Purchases of property, plant and equipment	¥ (7,005)	¥ (8,632)	¥
b. Purchases of intangible and other assets	(1,642)	(1,995)	
c. Effects of timing difference between acquisition dates and payment dates	108	304	
Capital expenditures {=-(a+b+c)}	8,540	10,323	8,180

Note: Capital expenditures are calculated on an accrual basis for the purchases of property, plant and equipment, and intangible and other assets. In preparing the forecasts for the year ending March 31, 2004, capital expenditures are not broken down into purchases of property, plant and equipment and purchases of intangible and other assets. In addition, effects of timing difference between acquisition dates and payment dates are not estimated for the year ending March 31, 2004.