



China Telecom Corporation Limited

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# Acquisition of CDMA Business

# Disclaimer

**Certain statements contained in this document may be viewed as “forward-looking statements” within the meaning of Section 27A of the U.S. Securities Act of 1933 (as amended) and Section 21E of the U.S. Securities Exchange Act of 1934 (as amended). Such forward-looking statements are subject to known and unknown risks, uncertainties and other factors, which may cause the actual performance, financial condition or results of operations of China Telecom Corporation Limited (the “Company”) to be materially different from any future performance, financial condition or results of operations implied by such forward-looking statements. In addition, we do not intend to update these forward-looking statements. Further information regarding these risks, uncertainties and other factors is included in the Company’s most recent Annual Report on Form 20-F filed with the U.S. Securities and Exchange Commission (the “SEC”) and in the Company’s other filings with the SEC.**

# Management team

**Name**

**Title**

Mr. Wang Xiaochu

Chairman & CEO

Madam Wu Andi

Executive Director, EVP & CFO

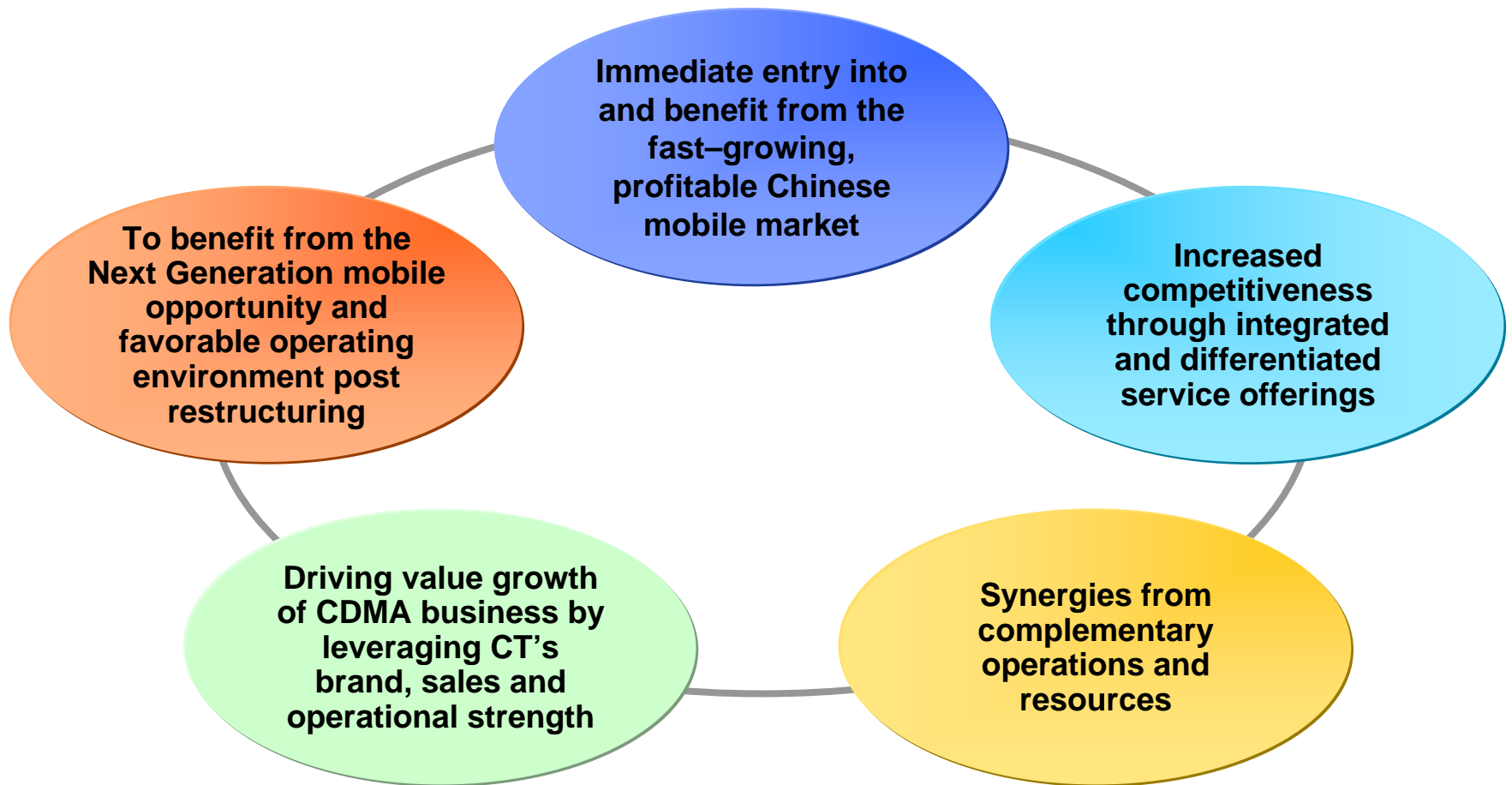
**Overview of the acquisition**

**Benefits of the acquisition**

**Target overview and outlook**

# Overview of the acquisition

# Significance and benefits of the acquisition



**A unique opportunity for the company's growth and shareholder value enhancement despite premium to current CDMA business performance**

# Key terms of framework agreement

**Seize the policy opportunities and reach agreement quickly to immediately enter mobile market**

## Acquisition targets

- The entire CDMA Business owned and operated by CUCL and relevant assets and liabilities (excluding any interest-accruing debt obligations)
  - CDMA subscribers with prefix 133/153 and relevant rights and obligations
  - Tangible and intangible assets, contracts and business arrangement relating to the CDMA Business
  - Other assets to be agreed by the two parties including CDMA and GSM shared base stations

## Acquisition price

- Consideration of RMB 43.8bn in cash
- Price adjustment subject to first half 2008 CDMA service revenues decreasing more than 2% versus the same period in the previous year
- Price payment schedule to be divided over time based on fulfilment of conditions

# Key terms of framework agreement (cont.)

## Key pre-closing conditions

- No material adverse change to the operation of the CDMA business
- Approval by Unicom independent shareholders of the termination of the existing Unicom CDMA network leasing agreement (including waiver of purchase option) and sale of CDMA Business
- Approval by China Telecom independent shareholders on CDMA leasing agreement between China Telecom Corp Ltd and China Telecom Group
- Relevant regulatory approvals
- Simultaneous completion of the CDMA Network Acquisition by China Telecom Group and the CDMA Business Acquisition

## Business Transfer

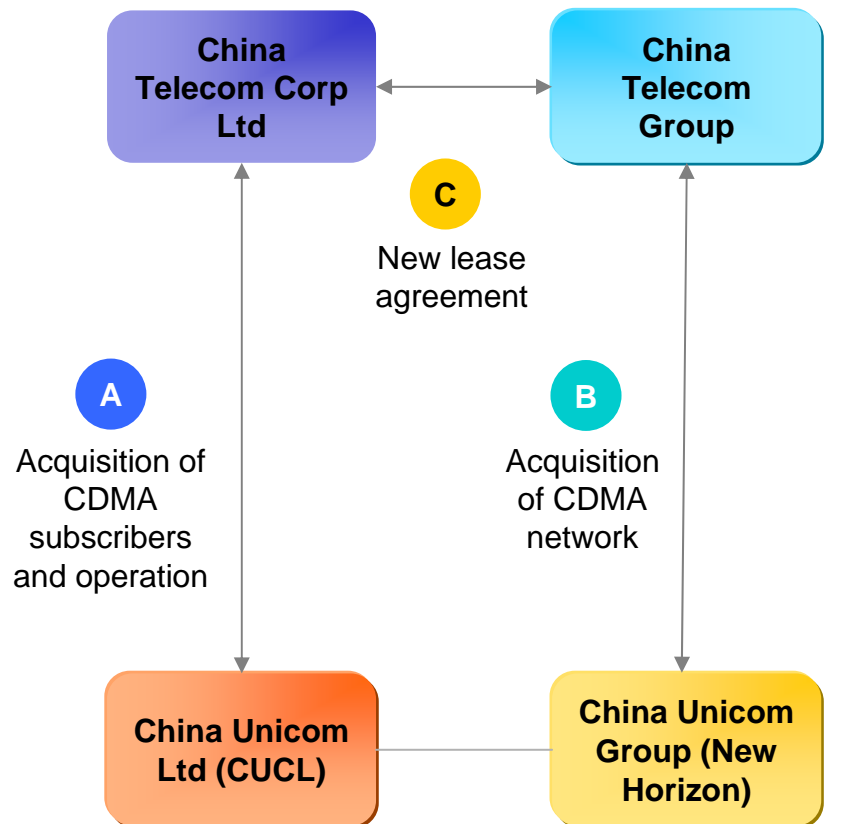
- Start-off date would be the first payment date
- To complete the substantive transfer within 60 days after the start-off date



# Acquisition overview

The acquisition structure allows operational and financial flexibility, while simplifying execution to enable fast completion of the acquisition

## Transactions overview



### A Acquisition of CDMA subscribers and operation

- Acquire the entire CDMA business, relevant assets and liabilities (excluding any interest accruing debt obligations) for RMB 43.8bn in cash

### B Acquisition of CDMA network

- Acquire the assets of Unicom New Horizon including core networks, wireless networks, VAS platforms, etc. for RMB 66.2bn

### C New lease agreement

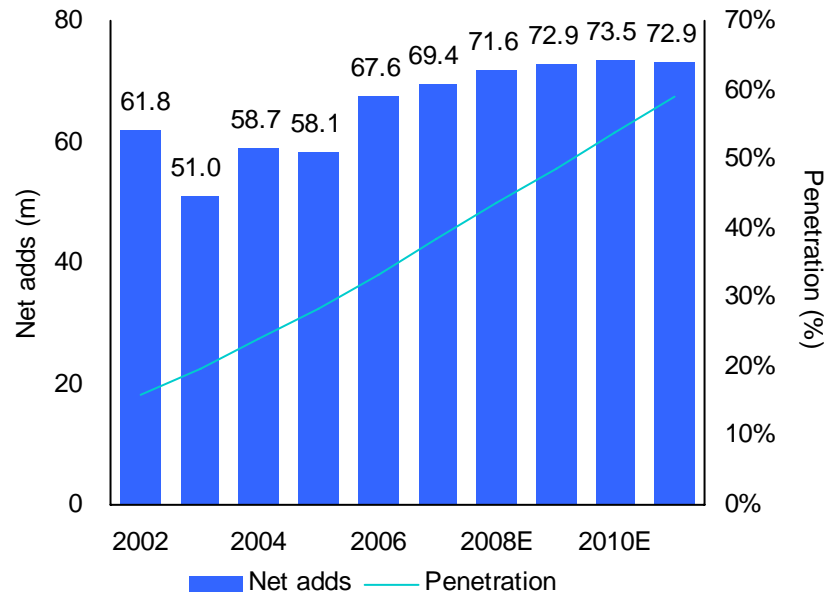
- New lease agreement to be entered into between China Telecom Corp Ltd and China Telecom Group
  - details of the new lease agreement to be disclosed and approved by independent shareholders
  - new lease terms to be negotiated with reference to the principles and framework of China Unicom's existing lease terms

# Benefits of the acquisition

# Immediate entry into fast-growing mobile market

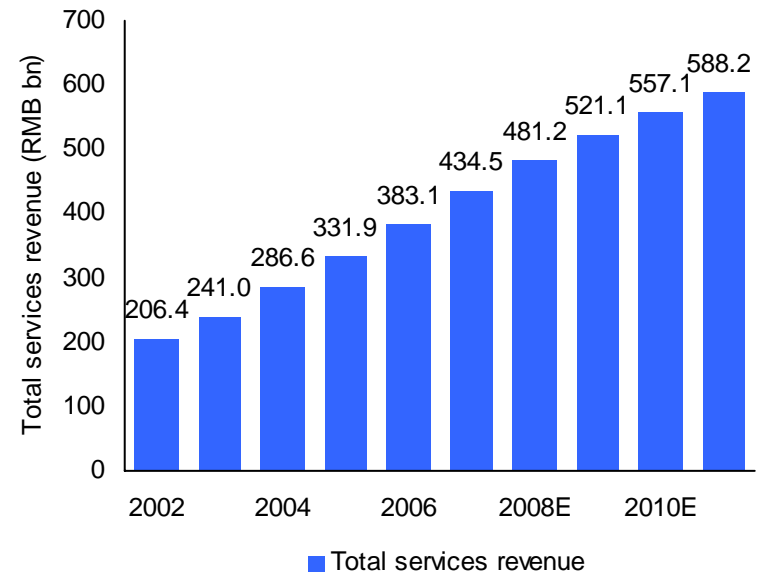
Immediate acquisition of an existing mobile operation is critical to the successful entry into and benefit from the fast growing, profitable Chinese mobile market and long-term competitiveness of the company

## China mobile market net adds and penetration trend



Source: Gartner

## China total mobile service revenue

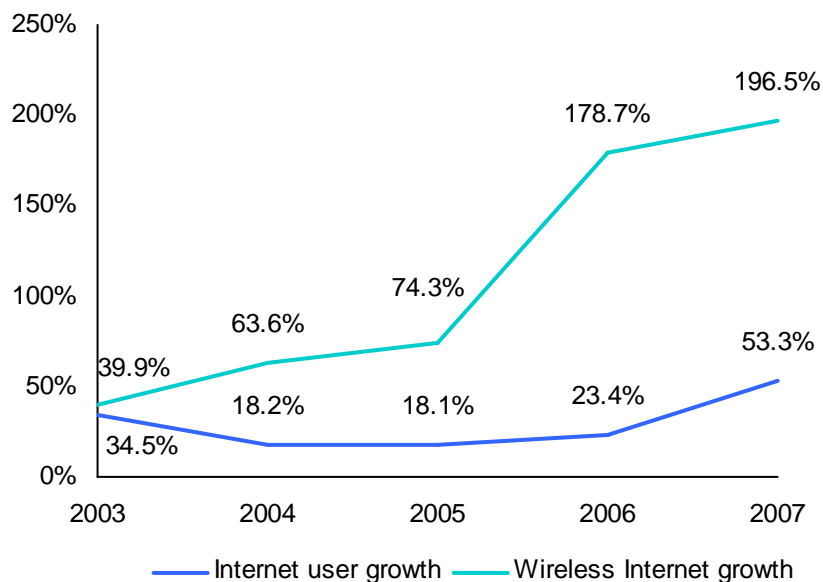


Source: Gartner

# Increasing demand for information services

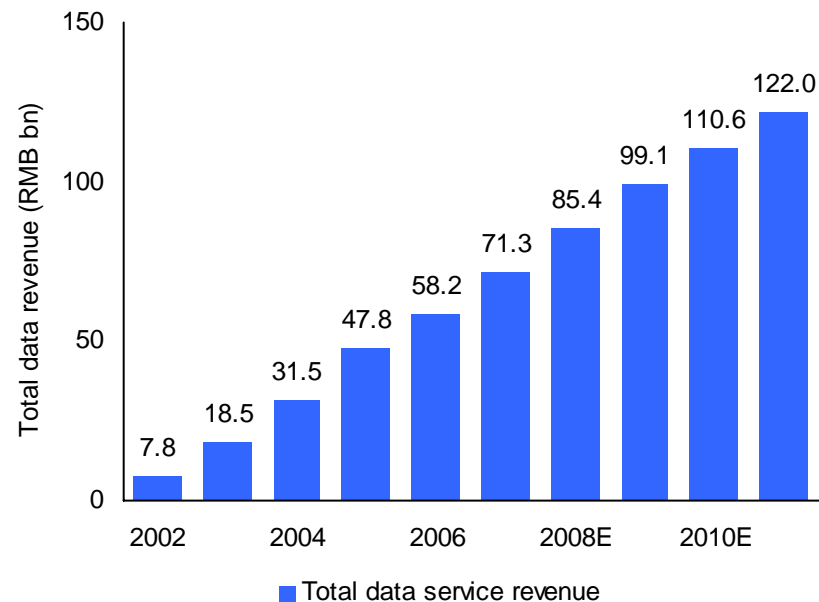
Sophisticated Chinese customers demand more integrated voice, data and media services

## China broadband and mobile internet market trend



Source: CNNIC

## China total mobile data revenue

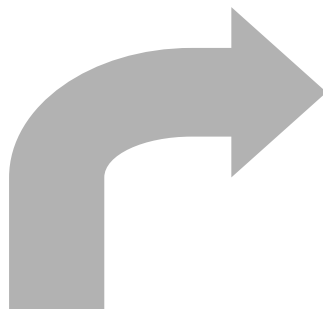


Source: Gartner

The new integrated service platform will enable the company to capture the opportunity from the increasing demand for information services

# Enhancing competitiveness through full service offering

Transformational transaction to become integrated service provider



## Core competencies

- ◆ Huge subscriber base
- ◆ Reliable and stable network
- ◆ Government and enterprise customer service capability
- ◆ R&D capabilities

## Proactive preparation for full service operation

- ◆ Talent pool
- ◆ Brand management
- ◆ Capital accumulation
- ◆ Network preparation
- ◆ Integrated information services

## Capability to offer full services

- ◆ Bundled fixed line and mobile services
- ◆ Development of integrated services

## Integrated information service provider

- ◆ Single, integrated business platform
- ◆ Opex and capex efficiency
- ◆ Customized services to meet sophisticated demand of customers

**Enriching customer experience**

**Enhancing the company's competitiveness**

**Realizing significant synergies**

**Creating shareholder value**

# Key areas generating synergies

## Brand

- Strong “China Telecom” corporate brand
- Creating individual customer brand in addition to the existing customers brands for “government and enterprise” and “household”

## Customer base

- Strong subscriber base with approximately 220m fixed-line voice and 38m broadband subscribers
- Expanding to mid and high-end customer base through differentiated services strategy

## Network and IT system

- Extensive backbone and “last mile” access network covering large part of China
- Leveraging existing network resource to enhance efficiency of investment and operation
- Leveraging existing IT system to support mobile business

## Sales and distribution network

- Capitalizing on existing proprietary marketing outlets and dedicated direct sales channels for the government and enterprise customers
- Attracting extensive distribution agents with strong brand name

## Value-added and integrated information service

- Leveraging existing value-added business platform to provide more value-added service, including fixed-mobile integration service
- Creating new area for integrated information service

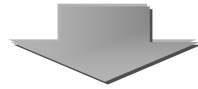
## Customer service

- Fully utilise current customer service systems to provide integrated customer services

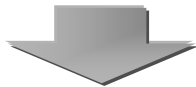
**Increase the value of mobile business  
as well as the overall business**

# Future Next Generation mobile market opportunity and regulatory support

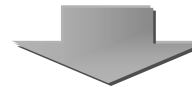
**MII, NDRC and MOF announcement**



**Objective: To support the formation of 3 telecom operators with nationwide network resources, relatively comparable strength and scale, and full service operation capabilities with enhanced competitiveness**



**Formulate asymmetric regulatory measures to foster a more balanced sector structure**



**Issue three 3G licenses post restructuring**

**Creates a favorable operating environment post-restructuring which helps the company's successful entry into the mobile market and enhances its overall competitiveness in the market**

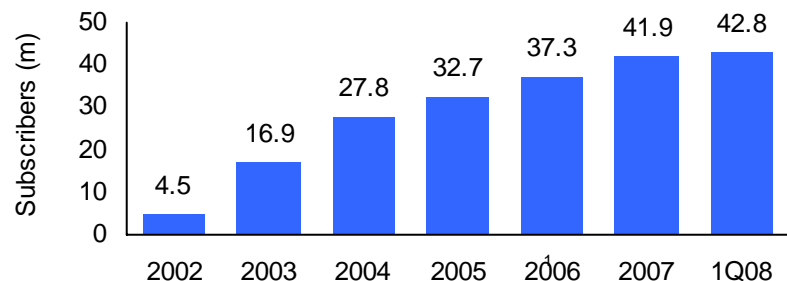
# Target overview and outlook



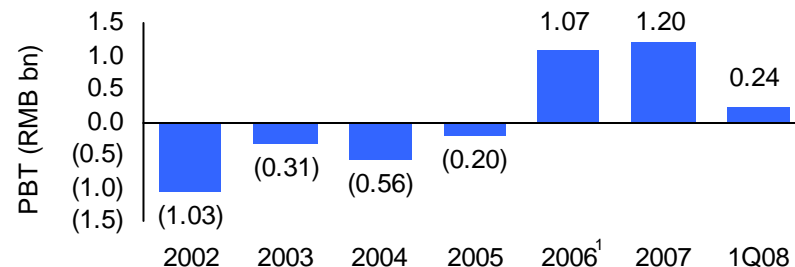
# Target overview

**Nationwide CDMA mobile operation with substantial subscriber base and huge growth potential**

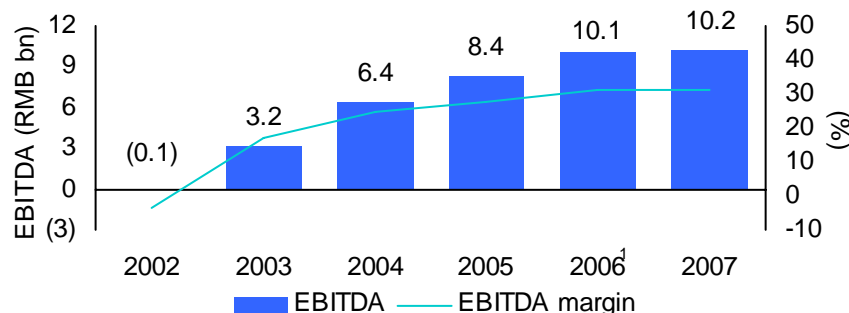
## Subscriber



## Profit before tax



## EBITDA—before lease payment



- Stable pre-lease payment EBITDA and EBITDA margin
- Sufficient network capacity to support further growth and value enhancement
  - network capacity of 84m subscribers<sup>2</sup>
  - network utilisation rate of approximately 51%<sup>2</sup>

Source: China Unicom company filings, 20F filings

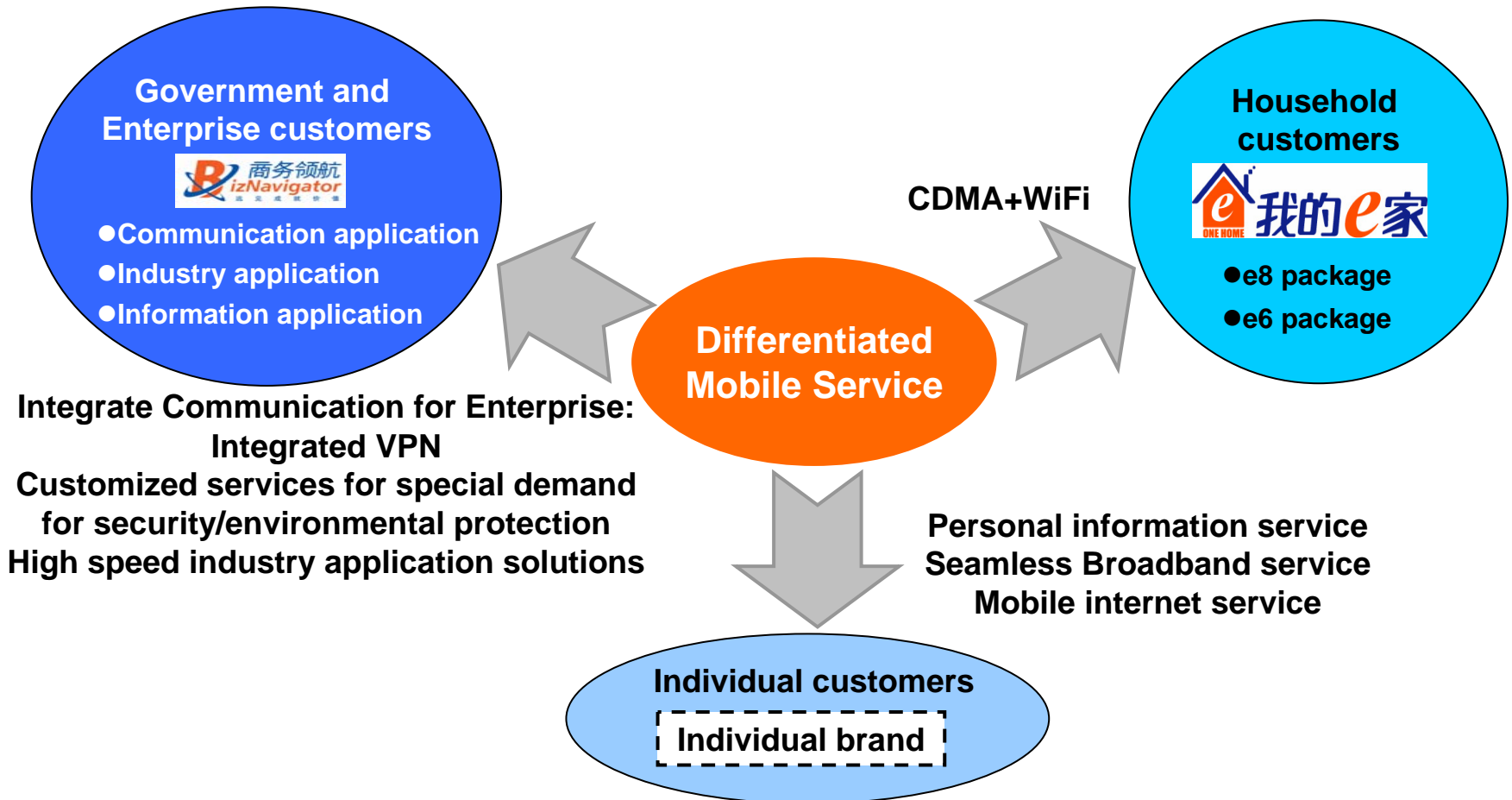
Note:

1 Restated to include the results of the Guizhou business, acquired by China Unicom in 2007

2 Network utilisation rate calculated as the number of subscribers at April 08 as announced by China Unicom, divided by the network capacity (84m) as disclosed in the 2006 20F filings by China Unicom

# Customer-focused innovative information service strategy

This acquisition enables the company to provide integrated services to enhance our competitiveness...



...by maintaining our current branding and business strategy for the three customer groups, whilst further enhancing customer value through the addition of mobile services

# Mobile service strategy: customer-focused differentiated competitive strategy

**Rapidly expand subscriber base and realize economy of scale**

**Fully utilize resources of the existing fixed line network and newly acquired CDMA network to enhance return on incremental investment**

**Focus on mid to high-end customers, and provide differentiated services**

- Strong brand recognition
- Focus on mid-to high end customers
- Satisfy special market demand

**Increase market share**

- Fully utilize resources such as existing network, marketing channel, human resources, etc.
- Implement reasonable cost control policy

**Gradually improve profitability**

- Combine fixed-line and mobile services
- Fully develop industry value chain

**Innovative business plan**

- Improve network quality
- Achieve network upgrade

**Improve network coverage and enhance service quality**

# Summary

**Immediate entry into and benefit from the fast-growing and profitable Chinese mobile market**

**Achieve full service platform to enhance competitiveness**

**Value creation from operational synergies**

**Maintain operational and financial flexibilities**

**Shareholder value enhancement**

**Thank you**

# Appendix: Indicative timetable

**From today**

- Announcement of framework agreement
  - Due diligence and negotiation of Detailed Transaction Agreements and lease agreement
- 

**July – August**

- Execute Detailed Transaction Agreements with China Unicom
  - Finalize lease agreement with China Telecom Group
- 

**As soon as possible after detailed transaction agreement execution**

- Distribute Circular and Notice of EGM
- 

**Min. 45 days after notice**

- China Telecom shareholder EGM
- 

**Within 3 days upon satisfying pre-closing conditions**

- Begin Business transfer/First payment date
- 

**Within 3 days of completion of Business transfer**

- Second payment date
- 

**Before 31st March 2009**

- Third payment date