



中国通信服务
CHINA COMSERVICE

CHINA COMMUNICATIONS SERVICES CORPORATION LIMITED

Stock Code : 552

Annual Results

2017

27 March 2018



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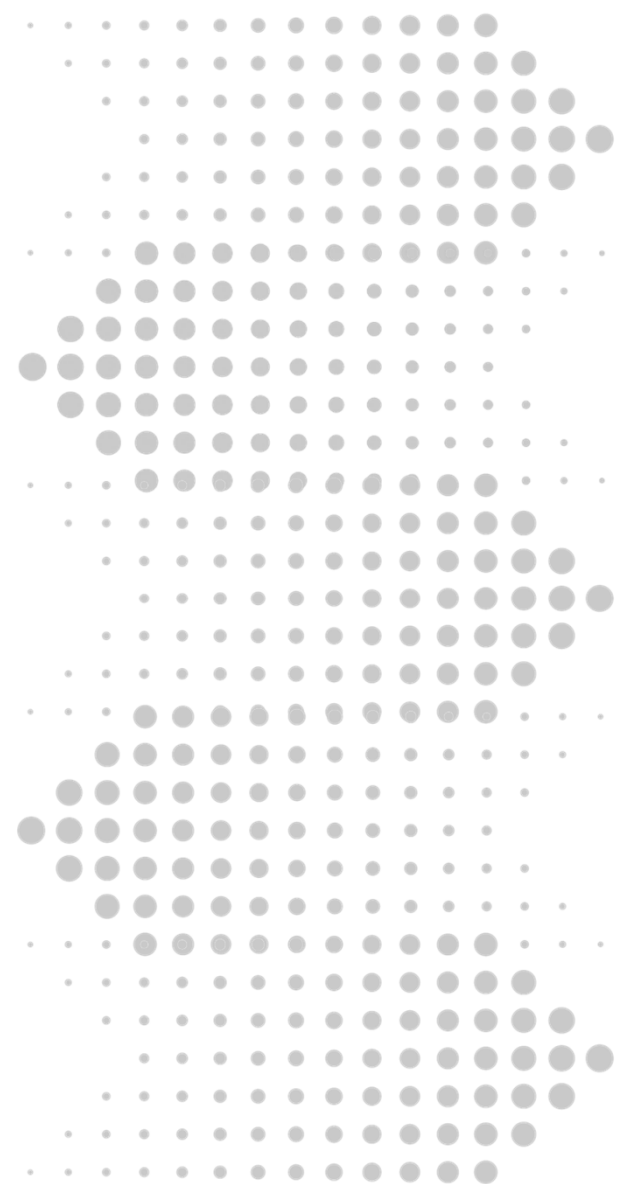
Overview



Business Review



Financial Results





Overview



Domestic Non-operator Market Achieved Double-digit Growth and Became the New Growth Engine

Domestic Non-operator Revenue: **+12.4%**

In which:

Core Businesses: **+26.5%**

Core Businesses Contribution: **>80%**

Diversified Business Development Promoted Sustained Growth in Domestic Operator Market

Domestic Operator Revenue: **+6.9%**

In which:

China Telecom: **+2.4%**

Other than China Telecom: **+15.9%**



Value-driven Principle Drove High-Quality Sustainable Growth

Revenue: **+6.9%** Core Businesses Revenue: **+12.4%**

Net Profit: **+7.0%** Free Cash Flow: **+40.3%**

Successfully Transformed Growth Momentum and Core BPO Businesses Achieved Rapid Growth

TIS Business: **+10.1%**

Core BPO Businesses: **+17.0%**

ACO Business: **+12.7%**

Cash Flow Maintained at Healthy Level, Leading to Higher Shareholders' Return

Total DPS: **+7.1%** (Special dividend inclusive)

Dividend Payout Ratio: **36%** (Special dividend inclusive)



Unless otherwise stated, the following terms in the presentation are defined as follows:

⁽¹⁾ Other than three telecommunications operators, domestic operator market also includes China Tower

⁽²⁾ Core businesses comprise TIS, Core BPO and ACO Businesses, in which Core BPO businesses comprise Maintenance, Facilities Management and Supply Chain businesses, i.e. excluded Products Distribution business. Please refer to the business revenue breakdown on p.12 for details

⁽³⁾ Free cash flow = profit for the year + depreciation & amortization – changes in working capital – CAPEX

Sustained Solid Growth in Operating Results

- Revenue and net profit grew at the same pace with enhanced profitability
- Free cash flow was higher than net profit and sustained at a healthy level

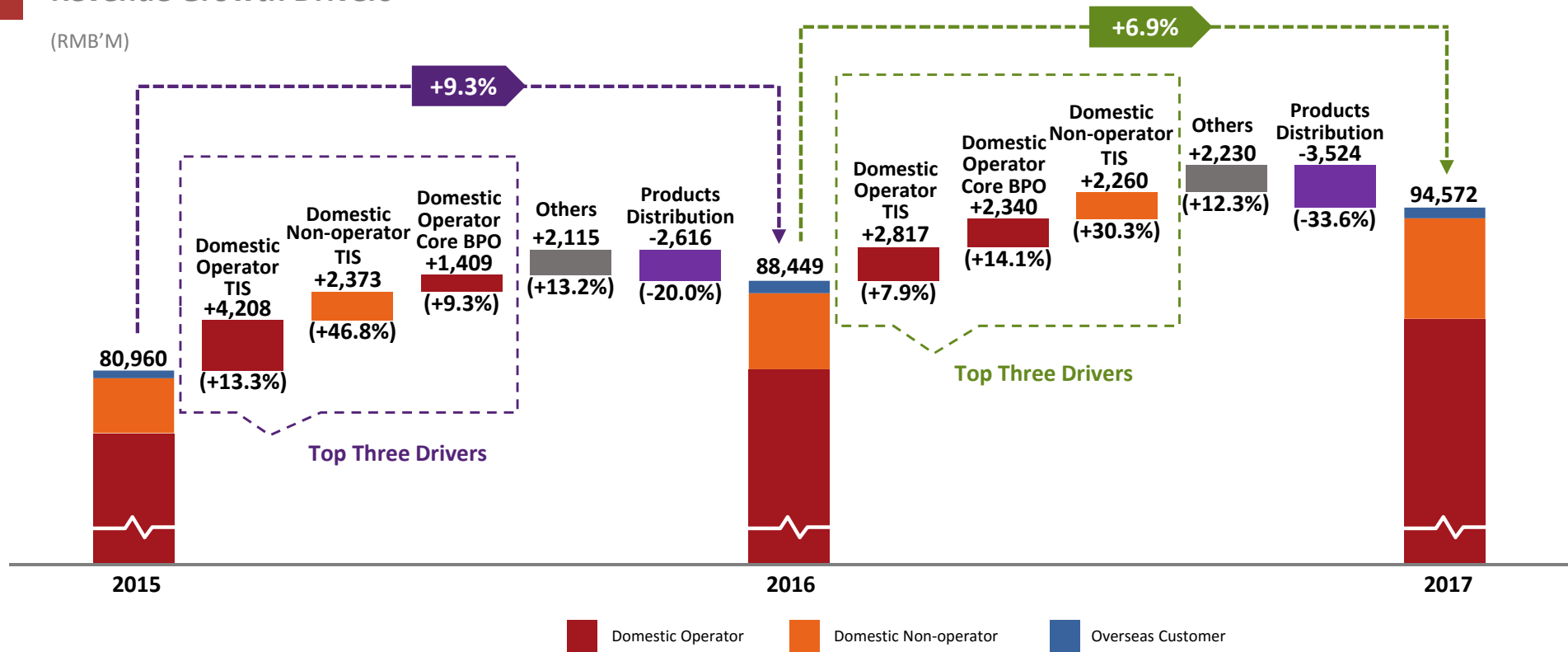
(RMB'M, except EPS, dividend & % figures)

	2016	2017	Change
Revenue	88,449	94,572	6.9%
Net Profit	2,536	2,714	7.0%
Free Cash Flow	4,361	6,118	40.3%
Gross Profit Margin (%)	13.2%	12.9%	-0.3pp
Net Profit Margin (%)	2.9%	2.9%	-
EPS (RMB)	0.366	0.392	7.0%
Total Dividend per Share (RMB)	0.1318	0.1411	7.1%
- Final Dividend per Share (RMB)	0.1098	0.1176	7.1%
- Special Dividend per Share (RMB)	0.0220	0.0235	6.8%

Transform Growth Momentum to Support Overall Sustainable Development

Revenue Growth Drivers

(RMB'M)



- New impetus of growth driving business development
 - Focusing on OPEX business of domestic operators, contribution from core BPO businesses increased significantly
 - Continued strong growth momentum of domestic non-operator drove overall revenue growth consistently
- Although overall CAPEX of domestic operators declined, domestic operator TIS business continued to grow by sustaining stable-to-rising market share
- Development quality further enhanced by continuing to control businesses of low efficiency proactively

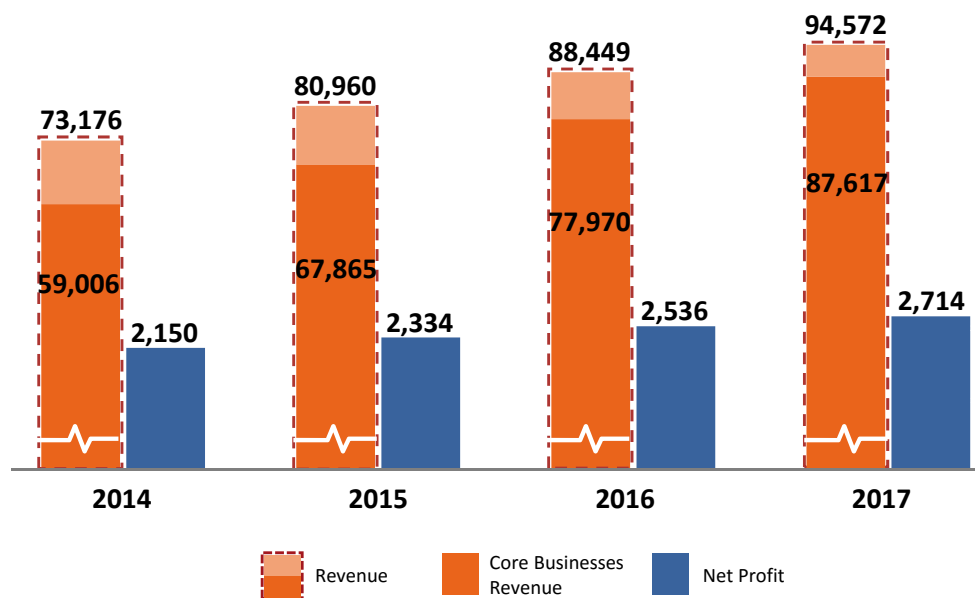
Results of Innovation and Transformation – Continuous Business Growth

CAGR of Revenue: 8.9%

CAGR of Core Businesses Revenue: 14.1%

CAGR of Net Profit: 8.1%

(RMB'M)

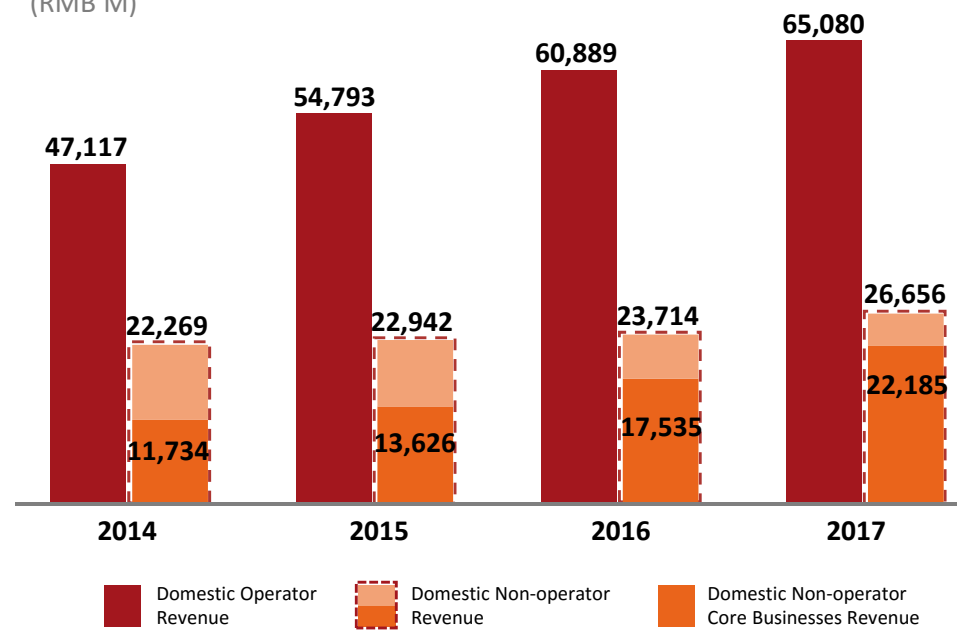


- CAGR of revenue achieved high single-digit, in which CAGR of core businesses revenue reached 14.1%
- CAGR of net profit and revenue were broadly in the same pace

CAGR of Domestic Operator Revenue: 11.4%

CAGR of Domestic Non-operator Core Businesses Revenue: 23.7%

(RMB'M)

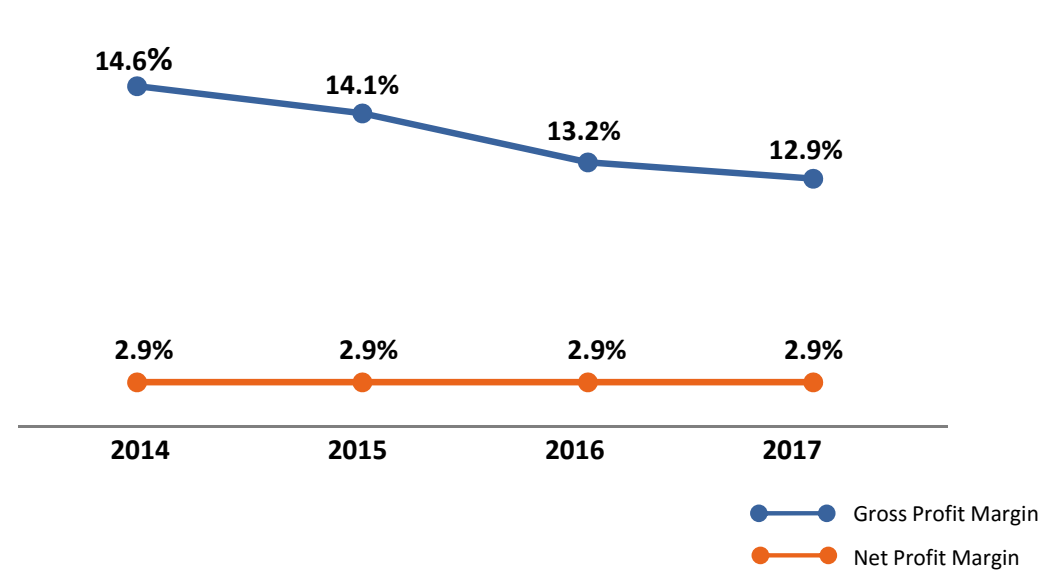


- Revenue from domestic operator grew continuously even after the 4G CAPEX peak
- High-valued core businesses revenue of domestic non-operator market achieved a CAGR of 23.7%, and its proportion over domestic non-operator revenue increased from approximately 50% in 2014 to above 80% in 2017

Results of Innovation and Transformation – Steadily Enhancing Efficiency

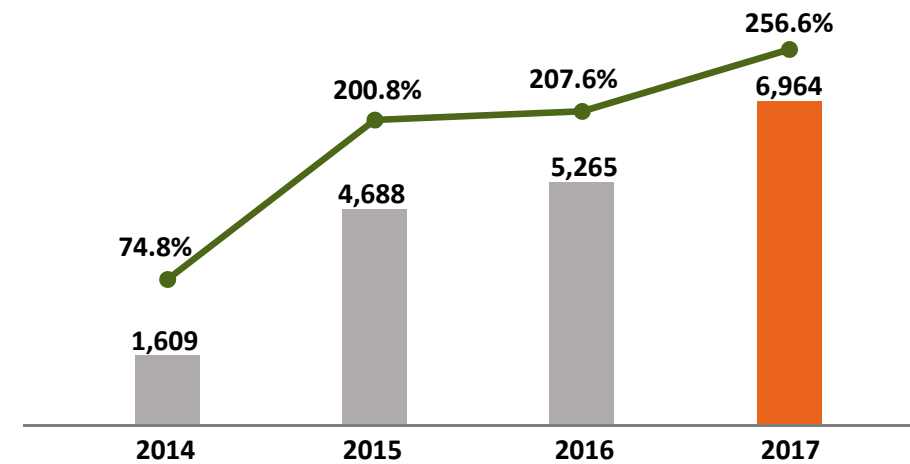
Gross Profit Margin and Net Profit Margin

(%)



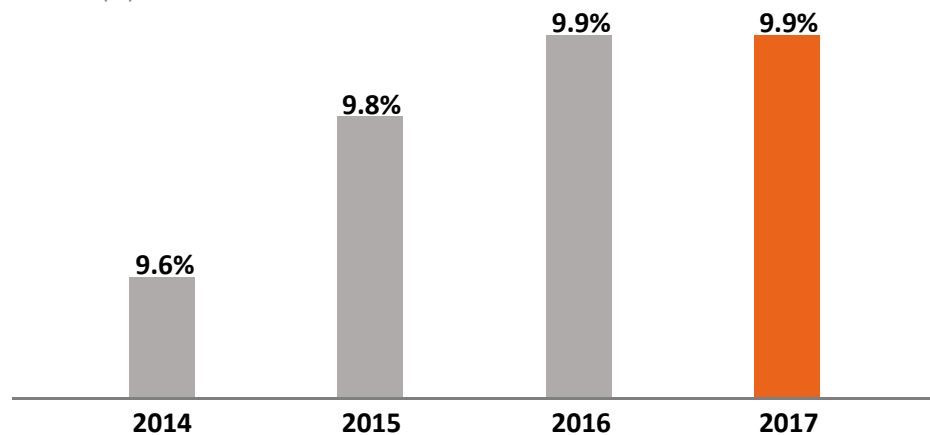
Operating Cash Flow and Cash Conversion Ratio

(RMB'M)



ROE

(%)



Entering into a stage of high-quality development:

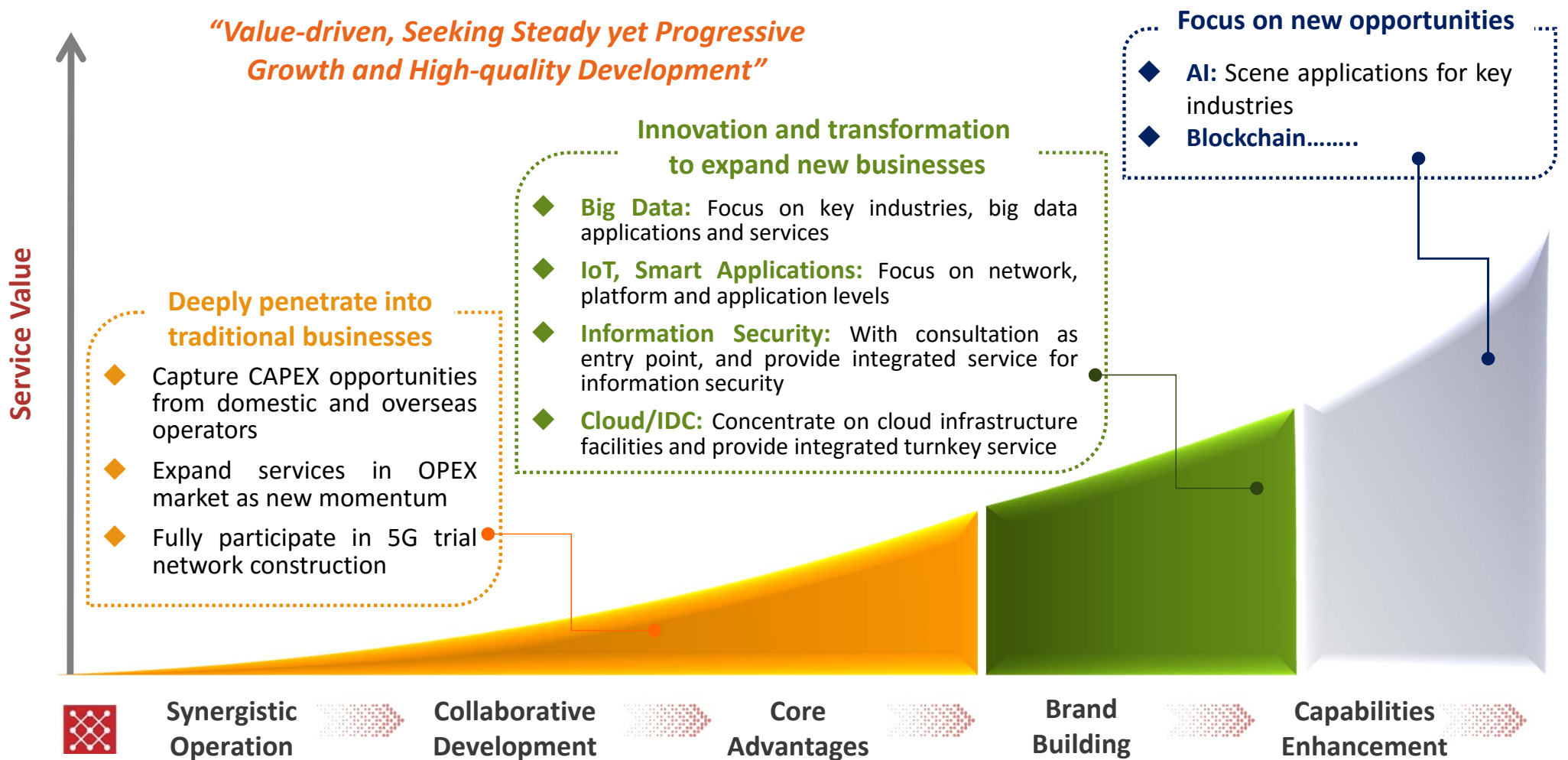
- Decline of gross profit margin moderated and net profit margin remained stable
- Operating cash flow increased remarkably and cash conversion ratio maintained at a high level
- ROE increased steadily

Focus on Emerging Demand and Grasp New Room for Development

National policies such as Supply-Side Structural Reform, Cyberpower, Smart Society; deep integration of Internet, Big Data, AI with real economy; as well as Belt and Road Initiative, leading to the new impetus of growth

Leading Provider of Producer Services in the Informatization Sector

“Value-driven, Seeking Steady yet Progressive Growth and High-quality Development”



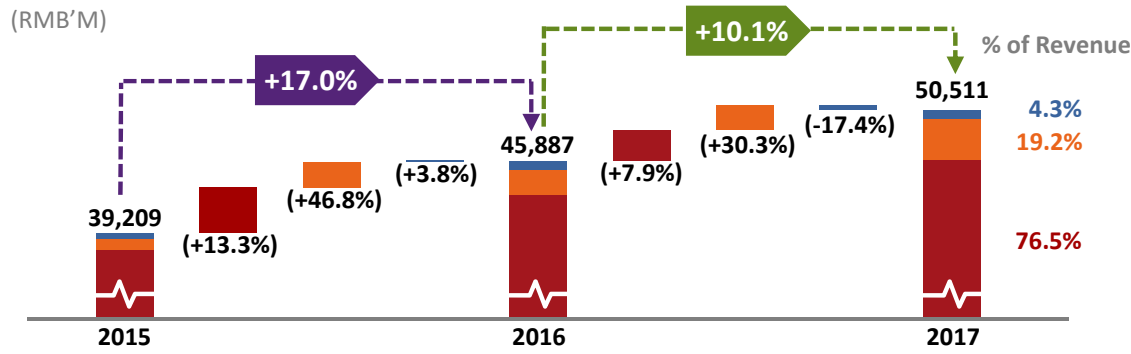


Business Review

Business Revenue Breakdown

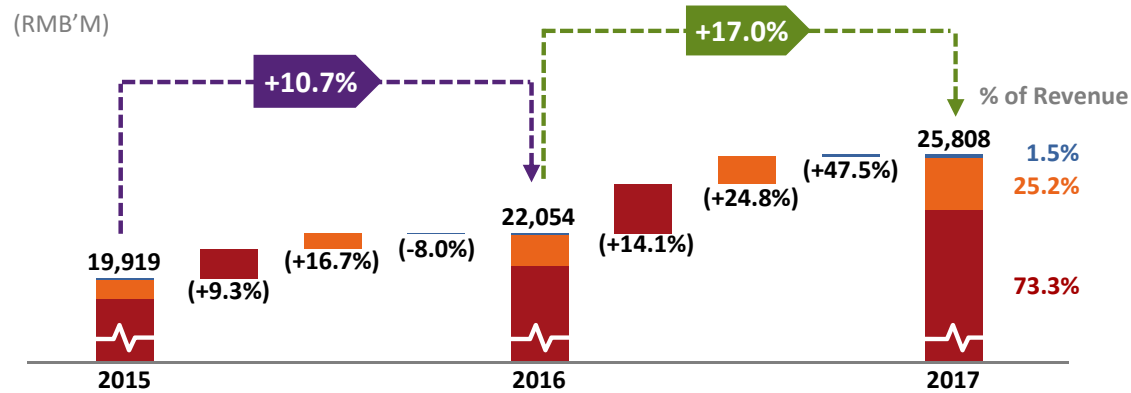
(RMB'M)	2016	2017	Change	% of Revenue	
TIS (Telecommunications Infrastructure Services)					
Design	9,072	10,239	12.9%	10.8%	
Construction	33,711	36,668	8.8%	38.8%	
Supervision	3,104	3,604	16.1%	3.8%	
Subtotal	45,887	50,511	10.1%	53.4%	
BPO (Business Process Outsourcing Services)					
Core BPO Businesses	Maintenance	10,685	12,829	20.1%	13.6%
	Facilities Management	4,160	4,555	9.5%	4.8%
	Supply Chain	7,209	8,424	16.8%	8.9%
	Subtotal	22,054	25,808	17.0%	27.3%
Products Distribution	10,479	6,955	-33.6%	7.3%	
Subtotal	32,533	32,763	0.7%	34.6%	
ACO (Applications, Content and Other Services)					
System Integration	4,809	5,790	20.4%	6.1%	
Software Development & System Support	1,687	2,049	21.4%	2.2%	
Value-added Services	1,654	1,570	-5.1%	1.7%	
Others	1,879	1,889	0.6%	2.0%	
Subtotal	10,029	11,298	12.7%	12.0%	
Total	88,449	94,572	6.9%	100%	

Business Revenue Growth Drivers



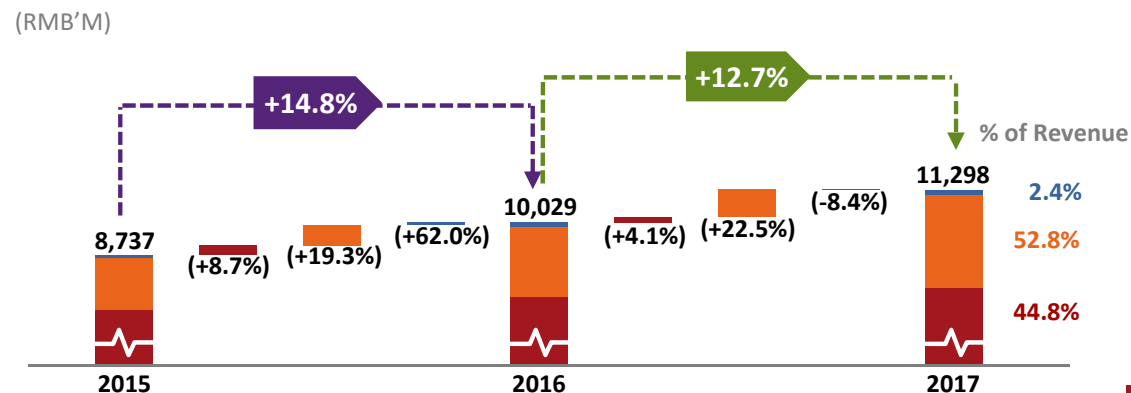
TIS

- Business from domestic operator sustained steady growth by consolidating or increasing market shares of different customers. Robust growth from domestic non-operator (+30.3%) supported the overall TIS growth



Core BPO

- Benefiting from our vigorous development in OPEX businesses, core BPO businesses growth accelerated, in which network maintenance business grew rapidly by 20.1%



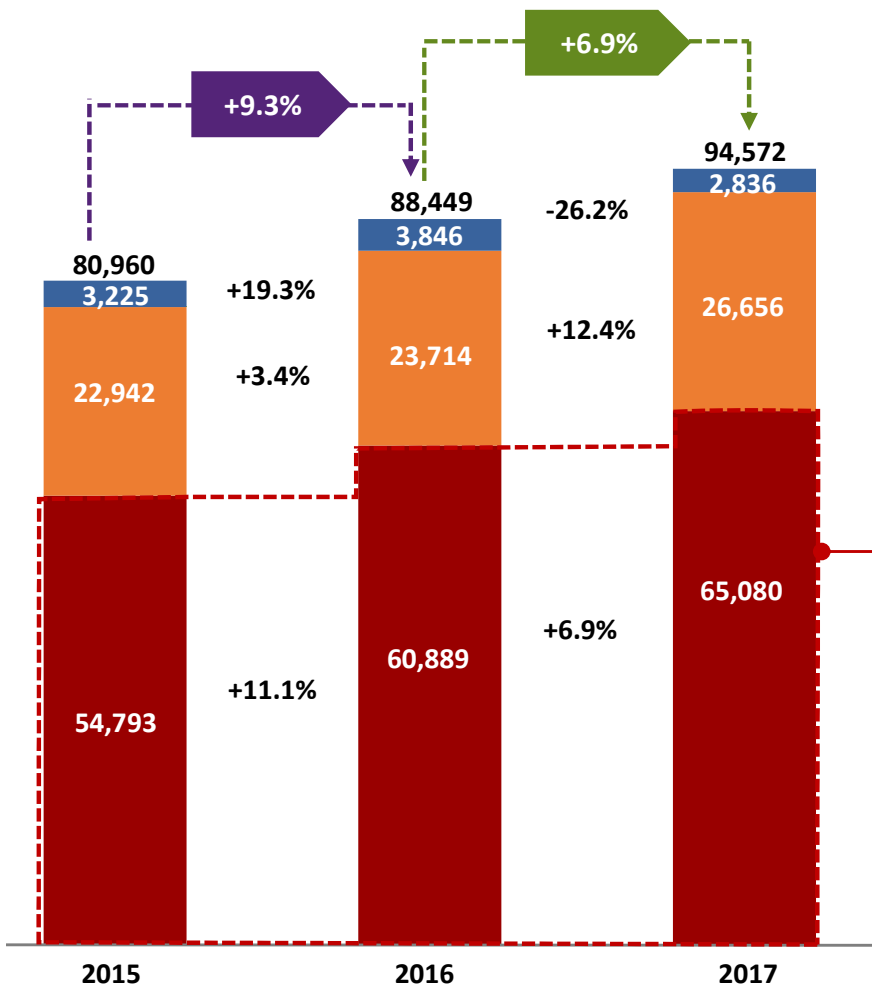
ACO

- ACO business from domestic non-operator continued a fast growth. Our innovation fund drove product research and development effectively, and our group-level smart applications solutions further emerged and optimized

Customer Revenue Breakdown

Revenue Growth of Three Customer Groups

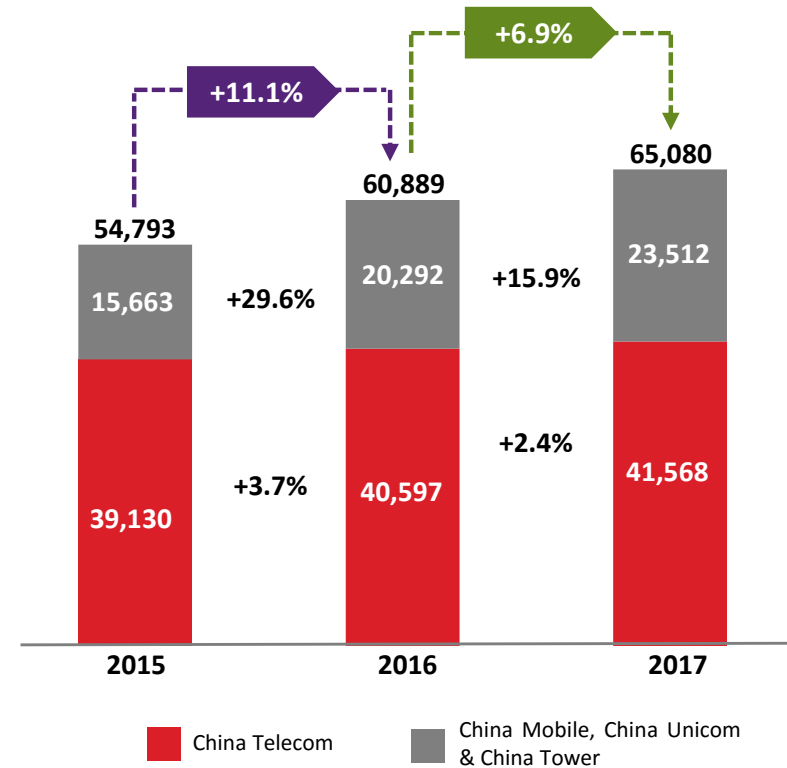
(RMB'M)



Domestic Operator Domestic Non-operator Overseas Customer

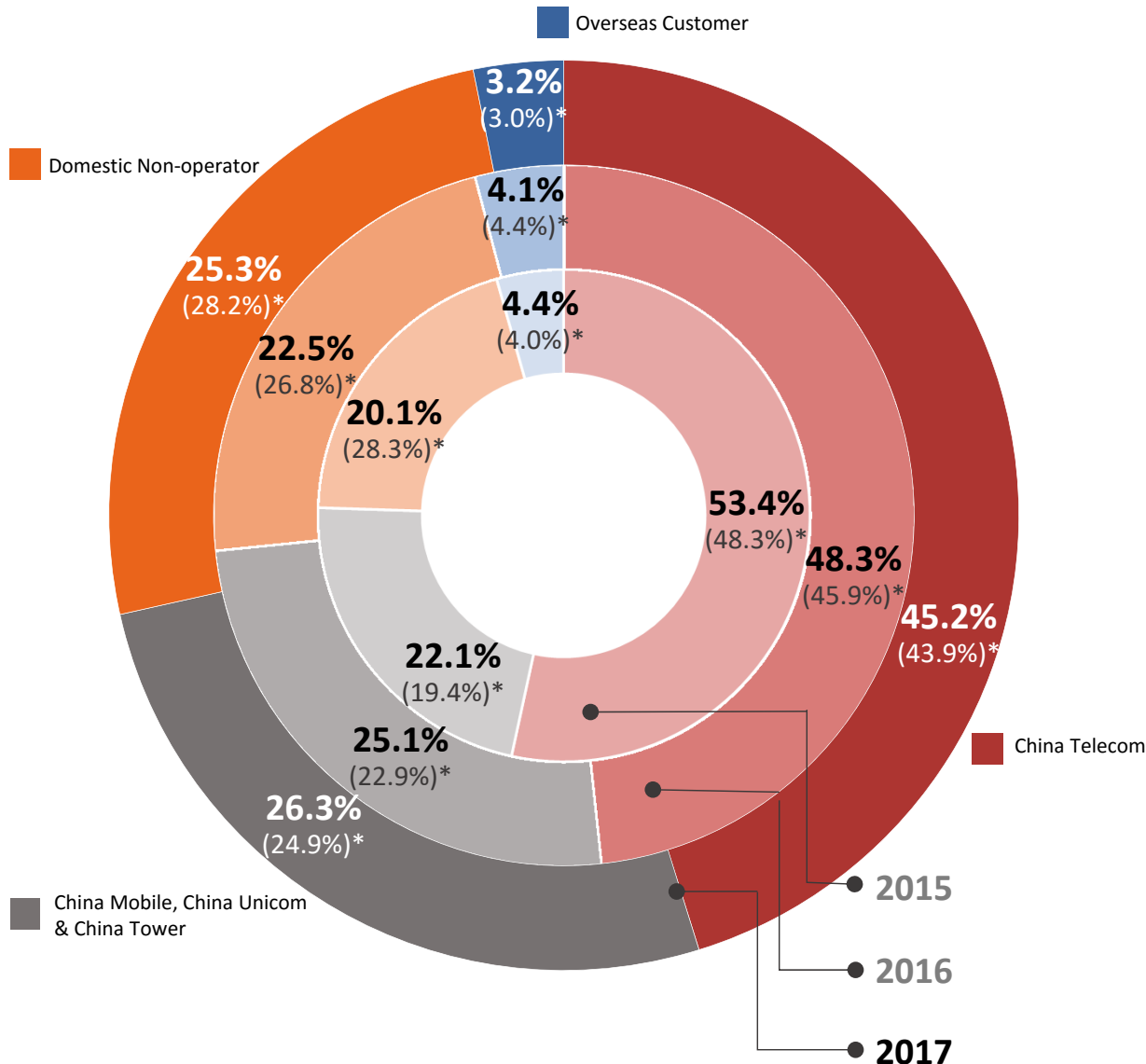
Revenue Growth of Domestic Operator

(RMB'M)



- Businesses of customers other than China Telecom were effectively expanded, revenues from China Mobile and China Tower both experienced a fast growth
- Diversified customer and business development drove sustainable revenue growth for domestic operator

Customer Revenue Composition (By Core Businesses)

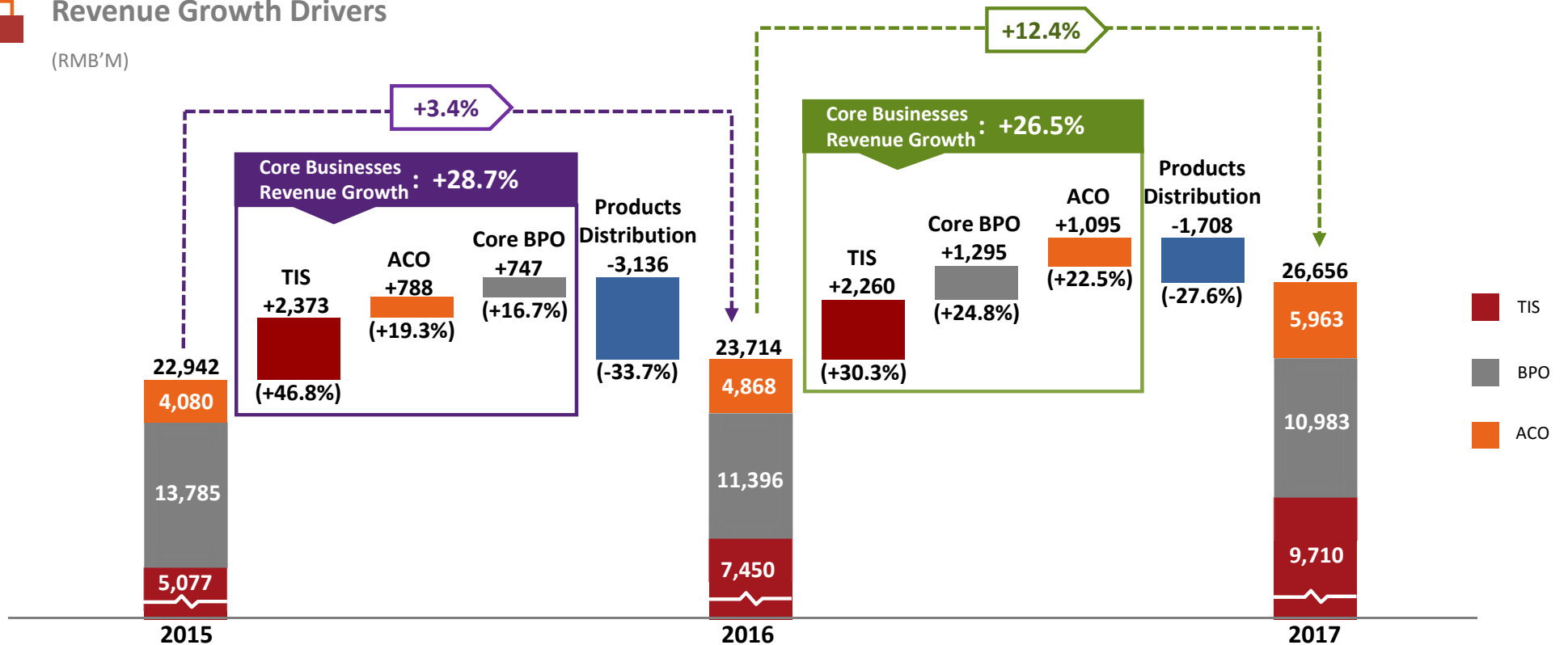


- Customer revenue structure further optimized and revenue sources became more diversified. Proportion of core businesses revenues from domestic operators other than China Telecom and domestic non-operator escalated, the aggregate proportion (51.6%) exceeded the proportion of core businesses revenue from China Telecom (45.2%) for the first time
- Business from China Tower sustained a rapid growth, proportion of its core businesses revenue rose to approximately 6%

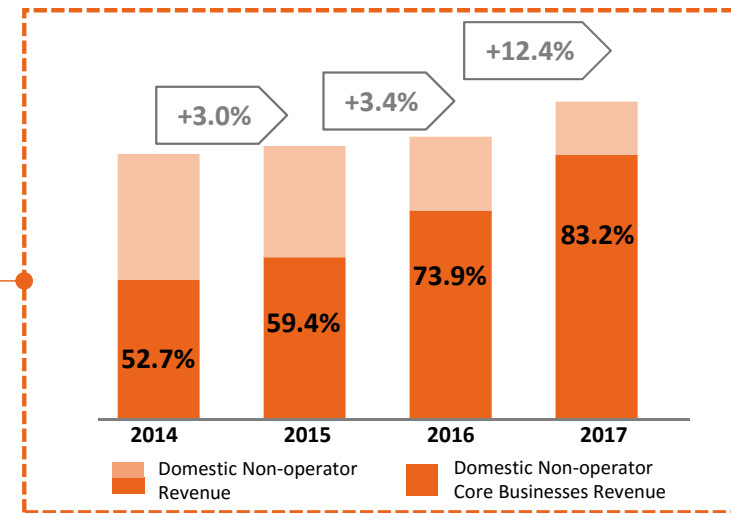
Performance in Domestic Non-operator Market

Revenue Growth Drivers

(RMB'M)



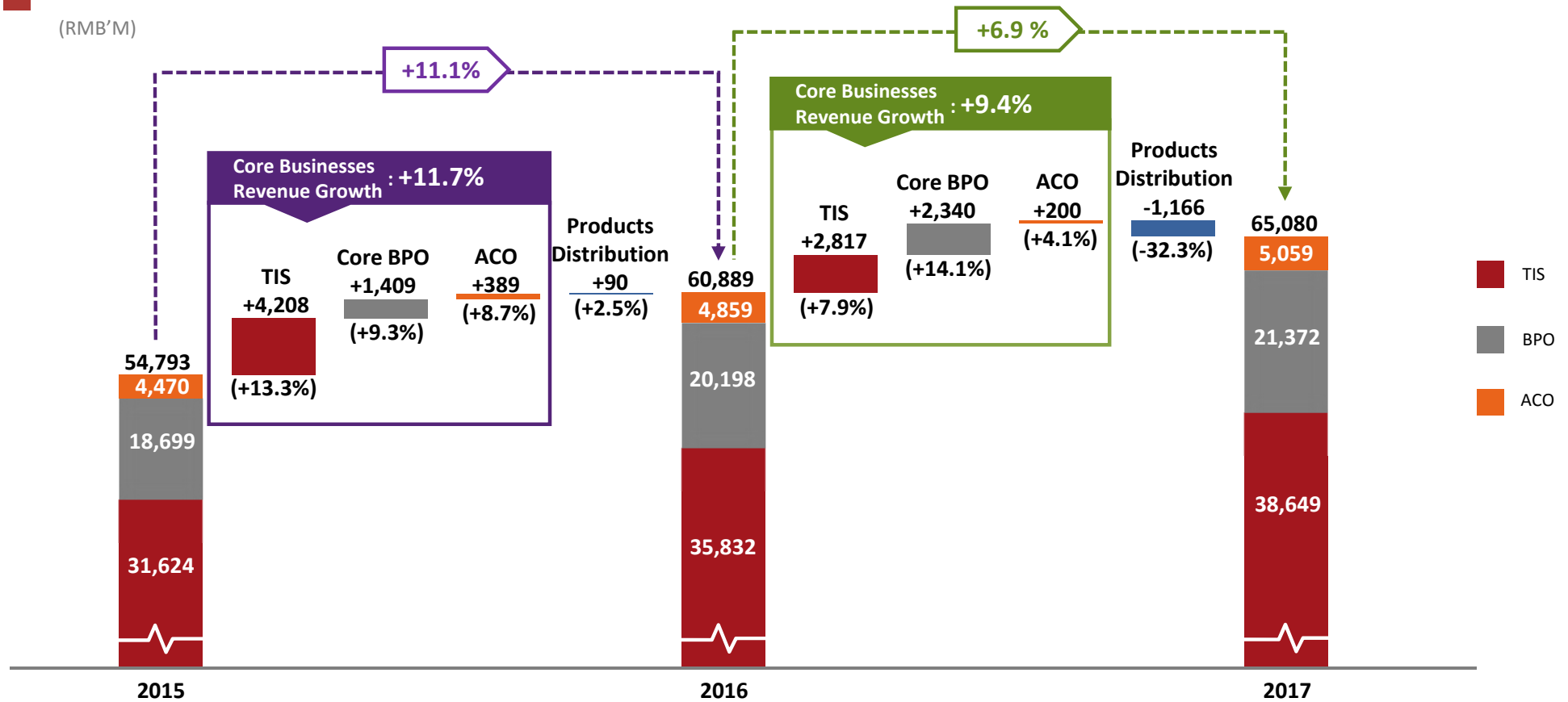
- Under continuous control on the products distribution business, proportion of core businesses revenue rose to above 80%. The overall revenue achieved a double-digit growth for the first time in recent years
- By capturing opportunities arising from digital economy and vigorously promoting integrated smart services, core businesses sustained a rapid growth



Performance in Domestic Operator Market

Revenue Growth Drivers

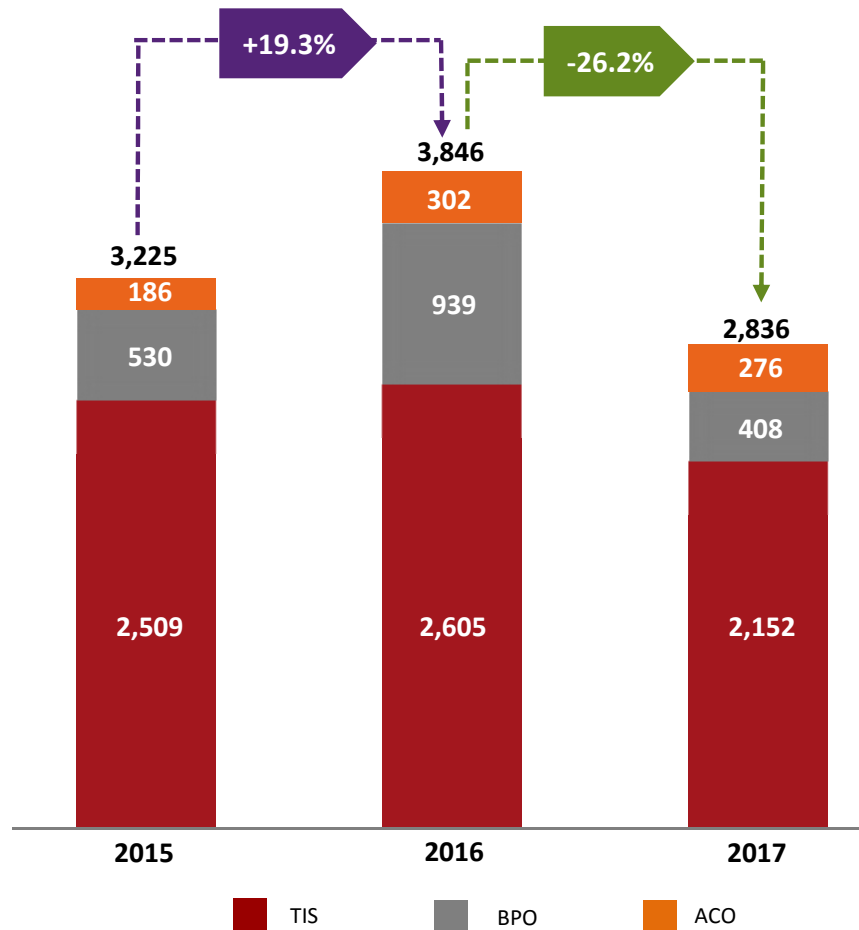
(RMB'M)



- Although domestic operators reduced CAPEX for consecutive years, TIS business maintained a steady growth through consolidating or raising market share of different customers
- New impetus of growth has been developed successfully, and contribution from core BPO businesses became more distinct, among which network maintenance business of domestic operator experienced a rapid growth of 19.1%

Revenue from Overseas Market

(RMB'M)



- Overseas business declined mainly due to our prudent business development where we have higher regards for projects' efficiency and risk exposures, as well as impacts from projects cyclical fluctuation
- Organizational structure adjustment and optimization have been largely completed. Overseas business is stabilizing and we make further progress on new projects development

Overseas Market Prospects

- "Belt and Road" Initiative, related national policies and overseas informatization demand provide valuable opportunities
- Leveraging our core competence in ICT, accelerate business development in industries such as electricity, education, healthcare and construction, etc.
- Enhance cooperation with domestic operators and "Go Abroad" Chinese enterprises by utilizing resources from different parties and developing synergistically
- Continue to trace large turnkey projects and accelerate the transformation and upgrade of overseas business

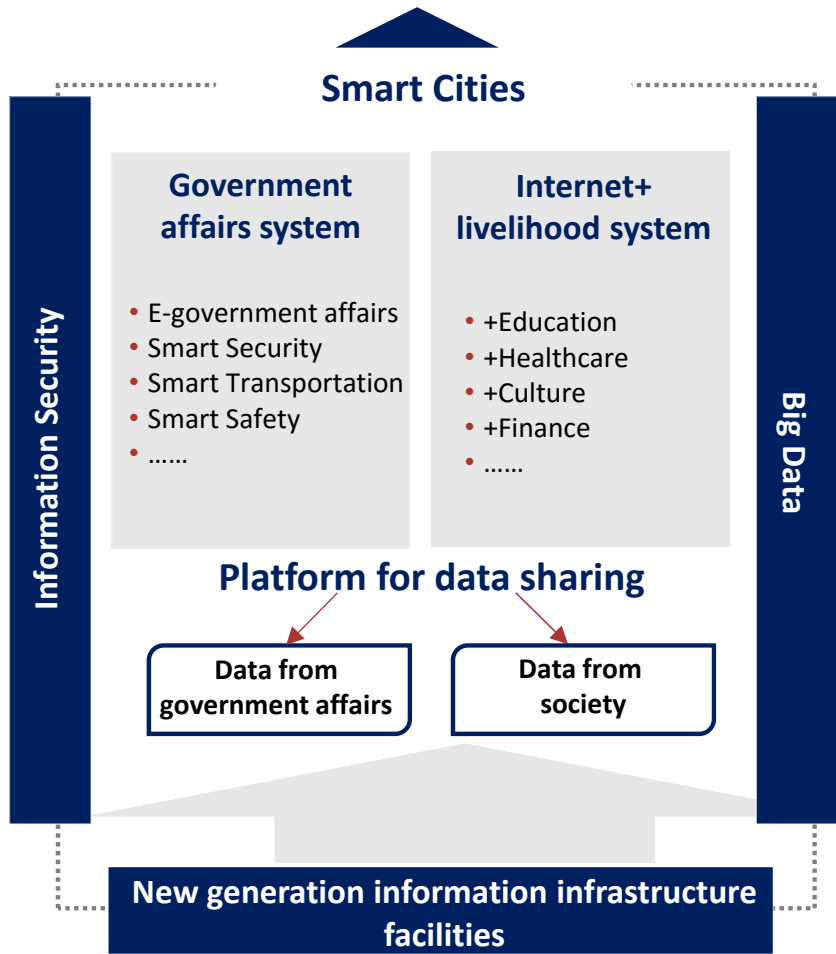
Prospects & Our Tactics: Domestic Non-operator Market

Massive Opportunities brought by National Big Data & Related Strategies

- ◆ Develop digital economy
- ◆ Improve the level of national governance
- ◆ Safeguard and improve people's livelihood

Focus on sectors such as Government, Transportation, Internet & IT, Electricity and Construction, etc to provide a series of turnkey solutions

Our typical cases



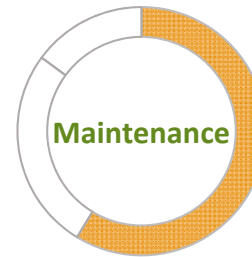
- Focus on Key Sectors
- +
- Strengthen System Construction
- +
- Continue Product Innovation
- +
- Enhance Synergistic Development
- +
- Push Forward Integration of Finance with Industrial Development
- +
- Improve Incentives and Rewards

- Smart City** ✓ Modern logistics centre in Guizhou...
- Smart Security** ✓ Smart Security Upgrade and Construction for Xinjiang Police Force...
- Smart Park / Tourism** ✓ Smart Park Informatization Construction Project in Guiyang...
- Smart Transportation** ✓ Smart Highway Informatization Project in Hunan...
- Smart Construction** ✓ Smart Construction Project for Power Company in Inner Mongolia...
- Smart Safety** ✓ Informatization Turnkey Project for State Administration of Work Safety...
- Smart Town** ✓ Beautiful Town Construction Project in Zhejiang...
- Smart Grid** ✓ Smart Meters Project for Power Supply Bureau in Guangdong...
- Information Security** ✓ Quantum Communications Project...
- Cloud Computing / IDC** ✓ IDC Project for an Internet company in Shanghai...

Deeply penetrate into CAPEX market

- ◆ Operators have sustained demand in fiber optic and rural broadband construction with respect to the target of national “Cyberpower”, constructing new generation information infrastructure facilities and network speed upgrade and tariff reduction requirements
- ◆ Penetrate into new room for traditional businesses and strive to increase market share: network refarming, power distribution in equipment room, cable lines rectification, and DC layout etc.
- ◆ Penetrate into new businesses such as operators’ network upgrade and transformation, strengthen development in emerging businesses such as NB-IoT, cloud computing, big data, and fully participate into the construction of 5G trial network

Build new growth momentum in OPEX market



- ◆ Deepen development in integrated maintenance, extend business areas beyond existing maintenance services
- ◆ Focus on capabilities enhancement in maintenance and create standardized service system

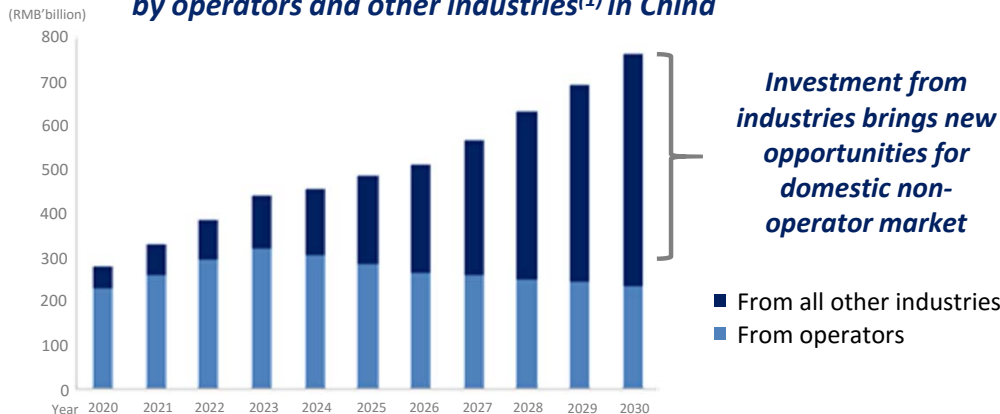


- **Logistics**
 - ◆ Optimize the deployment of national warehousing network
 - ◆ Promote unified logistics information system platform
- **Distribution**
 - ◆ Continue to optimize the core functions of national chain stores
 - ◆ Enhance professional management and operations, unify the distribution store brand, unify IT, unify procurements, unify...



- ◆ Unify the branding and promote synergistic operation
- ◆ Enhance the online platform for smart facilities

5G Expenditure by operators and other industries⁽¹⁾ in China



Unique integrated service capabilities among industry

Core Advantages

- ✓ Accumulated years of experiences and strengths in the field of new informatization services
- ✓ Listed state-owned enterprise, and highly market-oriented
- ✓ Multi-businesses integrated service
- ✓ Successful cases of smart products and platform solutions
- ✓ Consultation planning and software development expert teams have a total of about 20,000 staff
- ✓ Localized support in operation and maintenance
- ✓ Top-tier qualifications in security/safety field
- ✓ Robust financial position to strongly support business development

Unique “Consultant + Staff” Service Model

Consultant

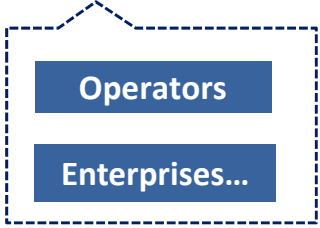
Focus on the demand of government & customers and act as their consultant, set the standard for their services and provide overall proposal by leveraging our neutral status and expertise in informatization sector



Staff

Act on behalf of our customers as their staff, undertake the role of a project implementer, and responsible for construction of infrastructure network, coordination of different parties along with industry chain

Government / Customers



Guide



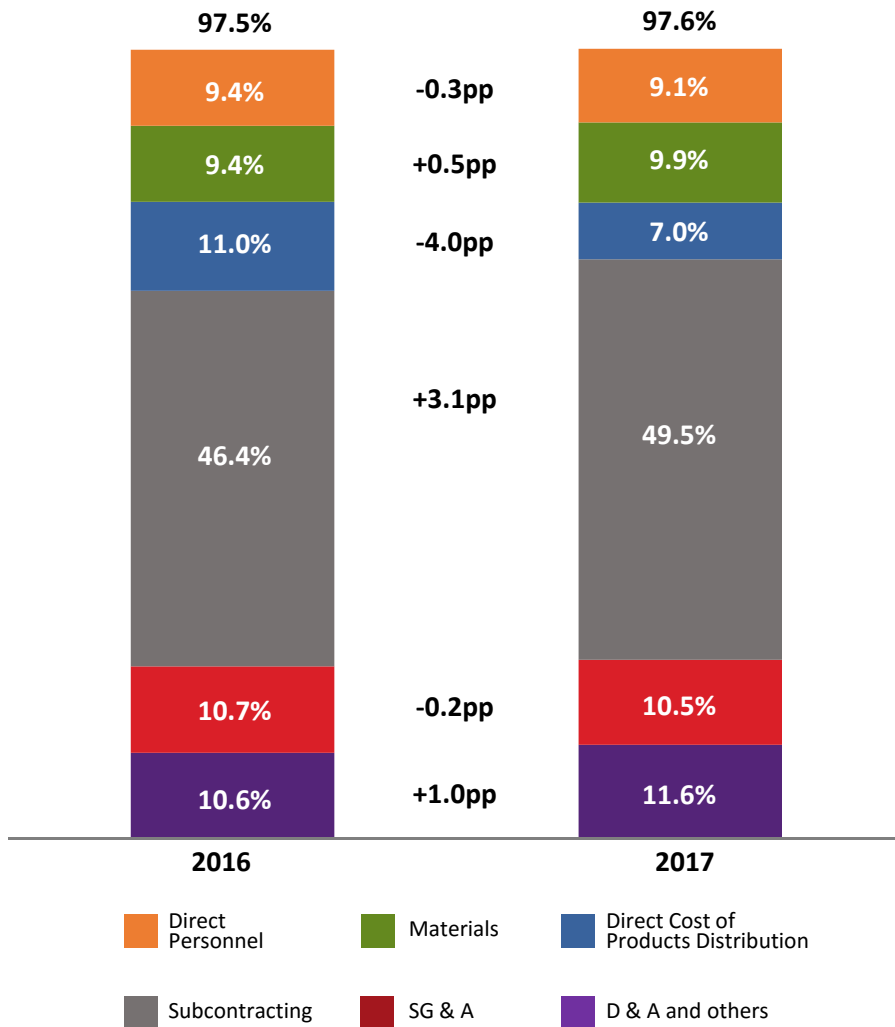
- ✓ Standard setting
- ✓ Comprehensive consultation
- ✓ Integrated construction
- ✓ Maintenance



Financial Results

(RMB'M)	2016	2017	Change	% of Revenue
Revenue	88,449	94,572	6.9%	100%
Cost of Revenue	76,759	82,360	7.3%	87.1%
Direct Personnel	8,317	8,647	4.0%	9.1%
Materials	8,281	9,328	12.6%	9.9%
Direct Cost of Products Distribution	9,764	6,595	-32.5%	7.0%
Subcontracting	41,017	46,858	14.2%	49.5%
D & A	455	473	3.8%	0.5%
Others	8,925	10,459	17.2%	11.1%
Gross Profit	11,690	12,212	4.5%	12.9%
SG & A	9,501	9,885	4.0%	10.5%
Net Profit	2,536	2,714	7.0%	2.9%
EPS (RMB)	0.366	0.392	7.0%	-
ROE (%)	9.9%	9.9%	-	-

Cost as a % of Revenue (%)



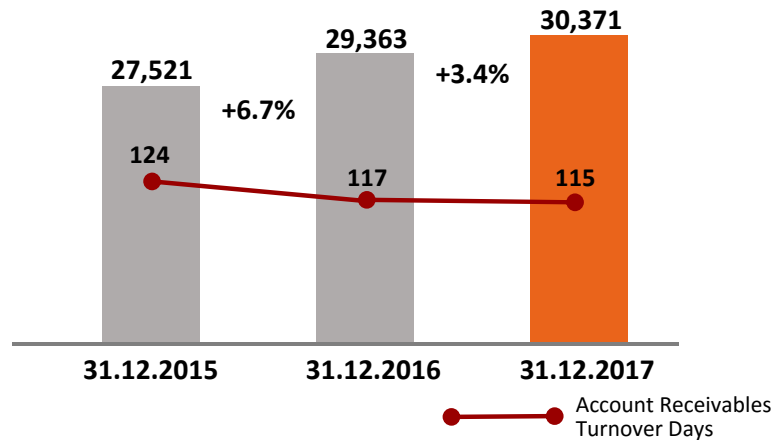
- By utilizing subcontracting resources adaptively, direct personnel cost as a % of revenue kept declining while labour productivity increased
- Rapid growth in businesses including system integration and construction drove increase in materials cost
- By proactively controlling the products distribution business, direct cost of products distribution as a % of revenue decreased significantly by 4.0 pp
- With enhanced subcontracting management, the rise of subcontracting cost as a % of revenue slowed down from 7.1 pp in 2016 to 3.1 pp in 2017
- Realized the benefit from economies of scale and stringent cost control, SG&A as a % of revenue further decreased
- Enhanced external cooperation to jointly develop projects, development and cooperation expenses in others cost experienced fast growth

Working Capital Management

- Effective value-driven appraisal system and working capital management measures continued to keep account receivables and payables turnover days under good control
- Operating cash flow and free cash flow maintained fast growth and remained at a healthy level

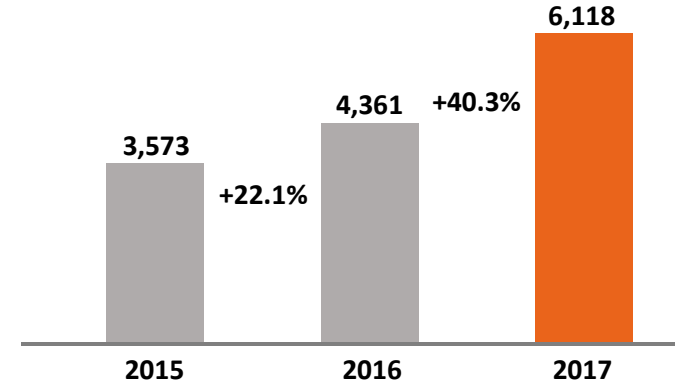
Account Receivables

(RMB'M)



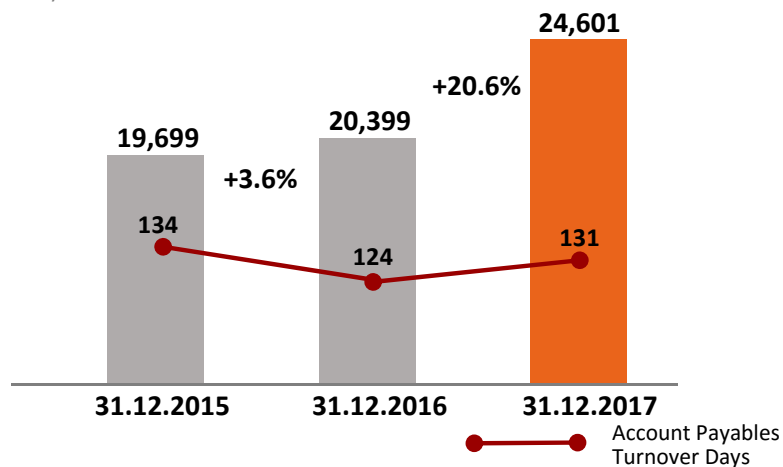
Free Cash Flow

(RMB'M)



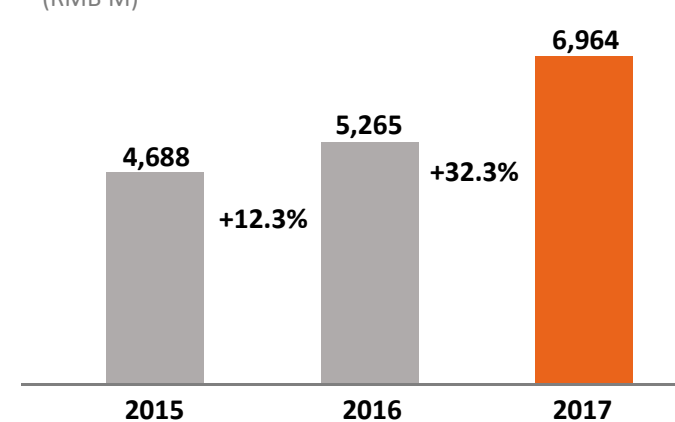
Account Payables

(RMB'M)



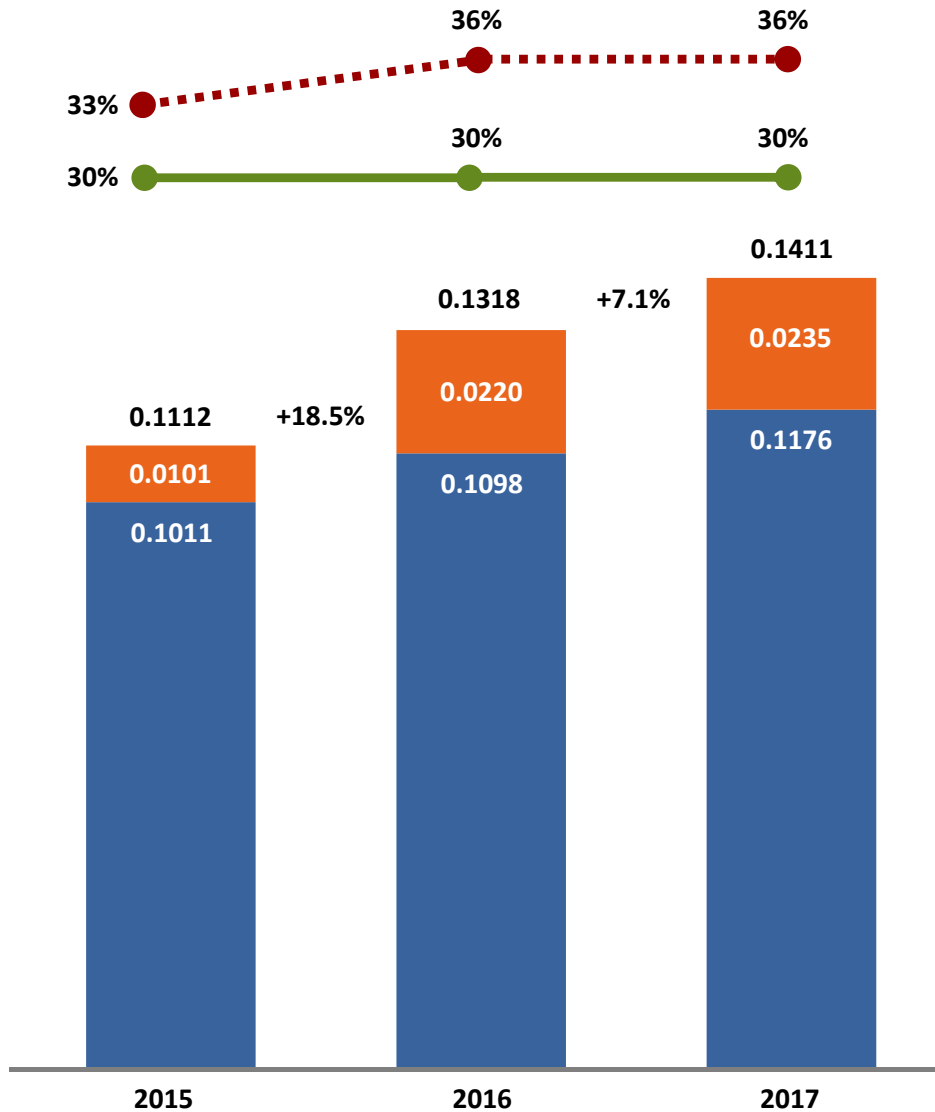
Operating Cash Flow

(RMB'M)



Shareholders' Return

DPS
(RMB)



- While maintaining a relatively stable and sustainable dividend policy, we increase return to our shareholders in consideration of results performance
- The Board recommended a final dividend of RMB0.1176 per share, and a special dividend of RMB0.0235 per share, total dividend for 2017 is RMB0.1411 per share, up by 7.1%, with the total dividend payout ratio of 36%

●—● Dividend Payout Ratio
●- - -● Dividend Payout Ratio (Special dividend inclusive)
 Final Dividend
 Special Dividend

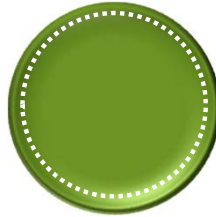
- Maintained at low debt and net cash position
- Utilized part of the funds to purchase short-term principal-protected wealth management products for enhancing resource utilization efficiency

(RMB'M)

	31.12.2016	31.12.2017
Total Assets ⁽¹⁾	62,594	70,735
Total Liabilities	35,546	41,915
Equity Attributable to Equity Shareholders	26,573	28,329
Total Liabilities / Total Assets (%)	56.8%	59.3%
Debt-to-Capitalization Ratio (%)	2.8%	1.1%
Cash and Deposits	16,216	16,621
Interest-bearing Liabilities	758	327

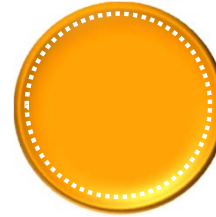
Working Capital

Support daily operation and large turnkey projects development, and maintain operation flexibility



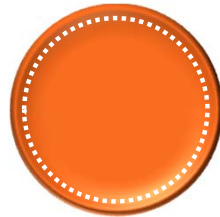
Factoring and Supply Chain Financing Business

Focus on industry chain, manage corporate's accounts receivable, accounts payable proactively, and assist business development



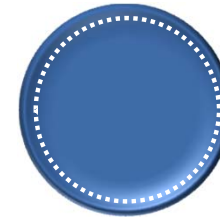
Integration of Finance and Industrial Development

Leverage financing capabilities to facilitate business development, and develop turnkey solution



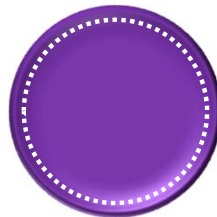
Dividend

Provide stable and sustainable dividend to shareholders and raise shareholders' return



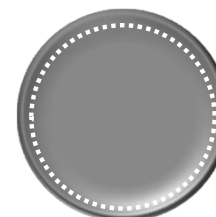
Innovation, R&D

Increase R&D, incentives, and utilize our innovation funds to support further development in innovative products



Wealth Management Products

Utilize funds to raise cash utilization efficiencies, increase finance income and profit



Raise Shareholders' Returns



Value-driven, Seeking Steady yet Progressive Growth and High-quality Development

Transform Growth Momentum

Capture CAPEX opportunities from operators, transform growth drivers to operators' OPEX, domestic non-operator and overseas markets

Enhance Capabilities and Quality

Increase marketing efforts of our brands and group-level products, enhance staff capabilities and service standards

Increase Operating and Management Efficiencies

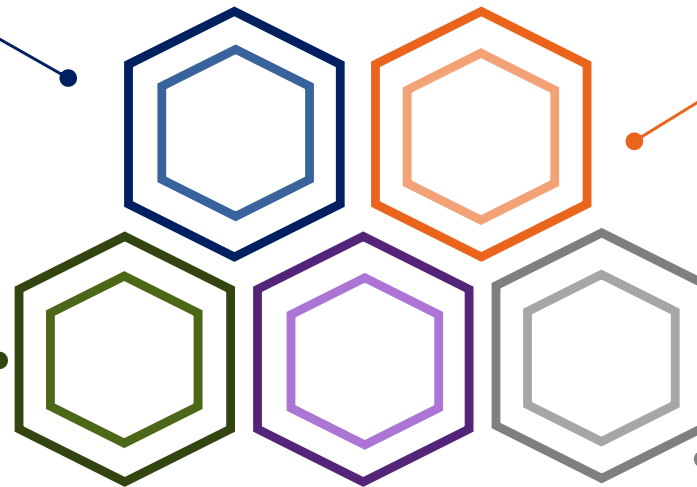
Consolidate resources and promote synergistic operation and development; utilize IT tools to enhance operation efficiencies and risk management competence

Innovate Operation and Cooperation Mechanism

Attempt new business and operation models and enhance cross-border collaboration; accelerate the integration of finance with industrial development to assist business development

Strengthen Value-driven Appraisal System

Continue to implement cash flow-driven appraisal system, increase incentives to support innovation and transformation





"Platinum Award - Excellence in Environmental, Social and
Corporate Governance"
by *The Asset*



"The Best of Asia - Icon on Corporate Governance"
by *Corporate Governance Asia*

Thank you!



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