

INNOVATION AND TRANSFORMATION

*A Leading Service Provider
in the Informatization Sector*

Annual Results
2016

30 MARCH 2017

MR. SUN KANGMIN

CHAIRMAN

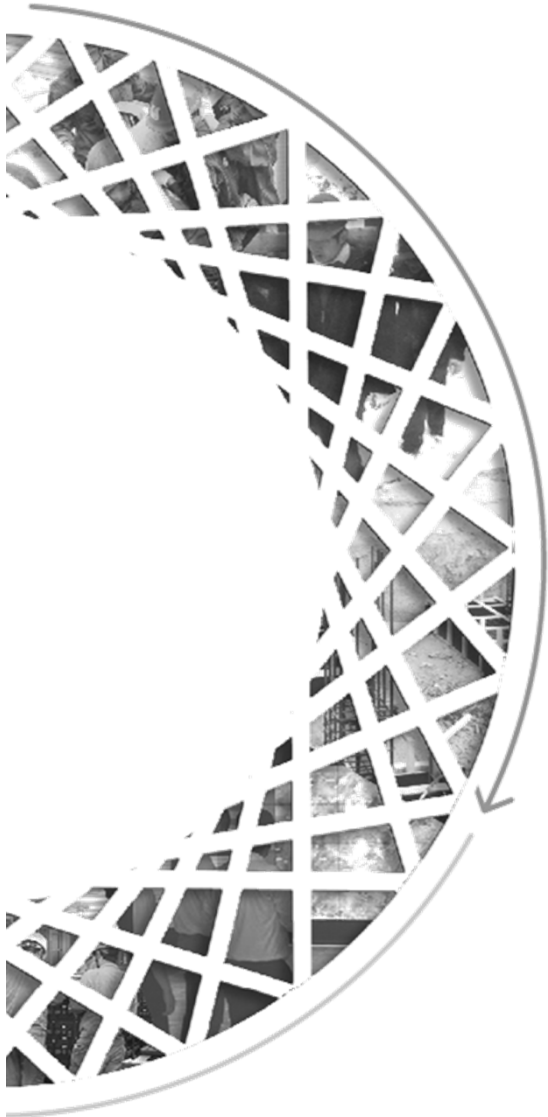
MR. SI FURONG

PRESIDENT

MS. HOU RUI

EXECUTIVE VICE PRESIDENT & CFO





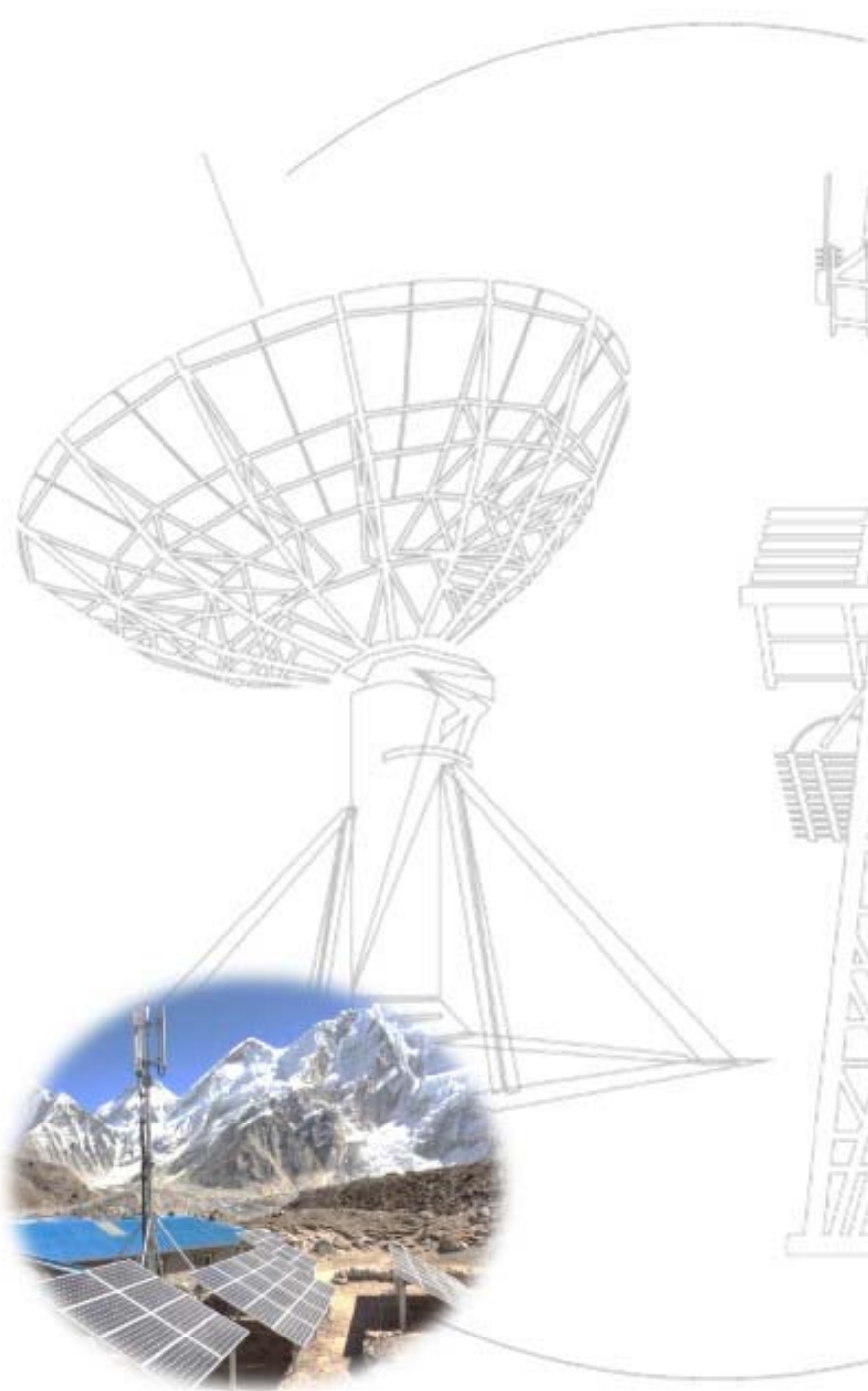
Overview



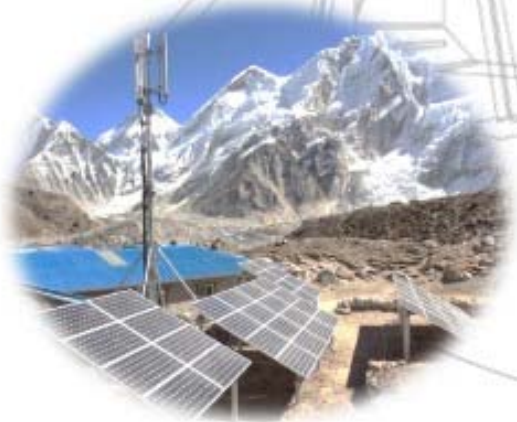
Business Review



Financial Results



Overview



Sustained Steady Growth in Domestic Operator Market⁽¹⁾

Revenue from:

Domestic Operator Customer: **+11.1%**

Domestic Operator Customer other than China Telecom: **+29.6%**

Robust Growth of the Two New Markets Drove Overall Development

Revenue from:

Domestic Non-operator Core Businesses⁽²⁾: **+28.7%**

Overseas Customer: **+19.3%**

Innovation and Transformation Supporting Steady Growth

Value-driven Principle Leading Quality Enhancement

Revenue: **+9.3%** Net Profit: **+8.6%** Free Cash Flow: **+22.1%**

Achieved Rapid Growth in Various Businesses with Structure Further Optimized

TIS Business: **+17.0%**

Core BPO Businesses⁽³⁾: **+10.7%**

ACO Business: **+14.8%**

Healthy Cash Flow Led to Increased Shareholders' Return

DPS: **+18.5%** (Special dividend inclusive)

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

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

⁽²⁾ Core businesses include TIS, Core BPO and ACO Businesses. Please refer to the business revenue breakdown on p.11 for details

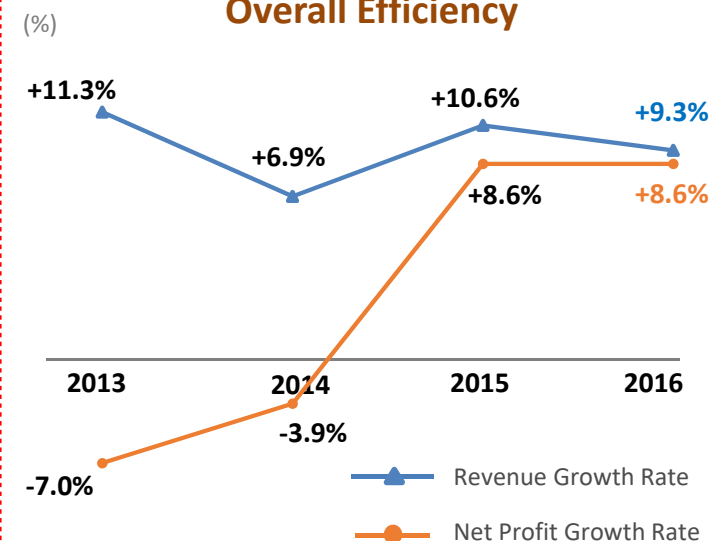
5 ⁽³⁾ Core BPO businesses include Maintenance, Facilities Management and Supply Chain businesses. Please refer to the business revenue breakdown on p.11 for details

Sustained Steady Growth in Overall Results with Quality of Growth Further Enhanced

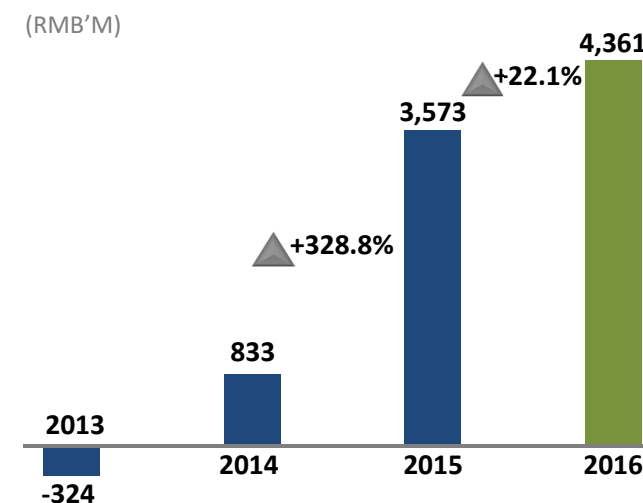
(RMB'M, except EPS, dividend & % figures)

	2015	2016	Change
Revenue	80,960	88,449	9.3%
Net Profit	2,334	2,536	8.6%
Free Cash Flow ⁽¹⁾	3,573	4,361	22.1%
Gross Profit Margin (%)	14.1%	13.2%	-0.9pp
Net Profit Margin (%)	2.9%	2.9%	--
EPS (RMB)	0.337	0.366	8.6%
Final Dividend per Share (RMB)	0.1011	0.1098	8.6%
Special Dividend per Share (RMB)	0.0101	0.0220	117.8%
Total Dividend per Share (RMB)	0.1112	0.1318	18.5%

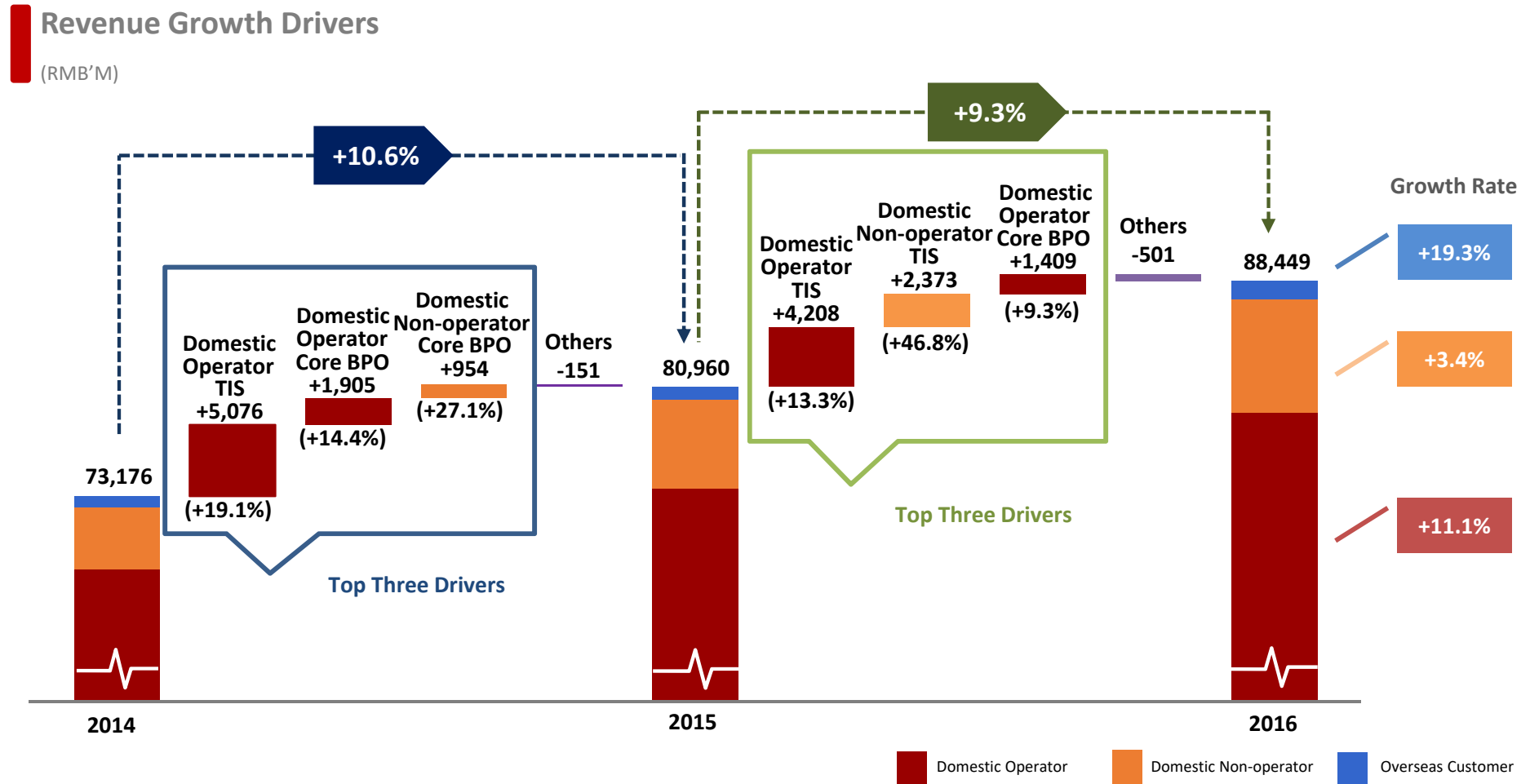
Continuous Enhancement in Overall Efficiency



Free Cash Flow Maintained at Healthy Level



Diversification in Customer and Business Supported Continuous Revenue Growth



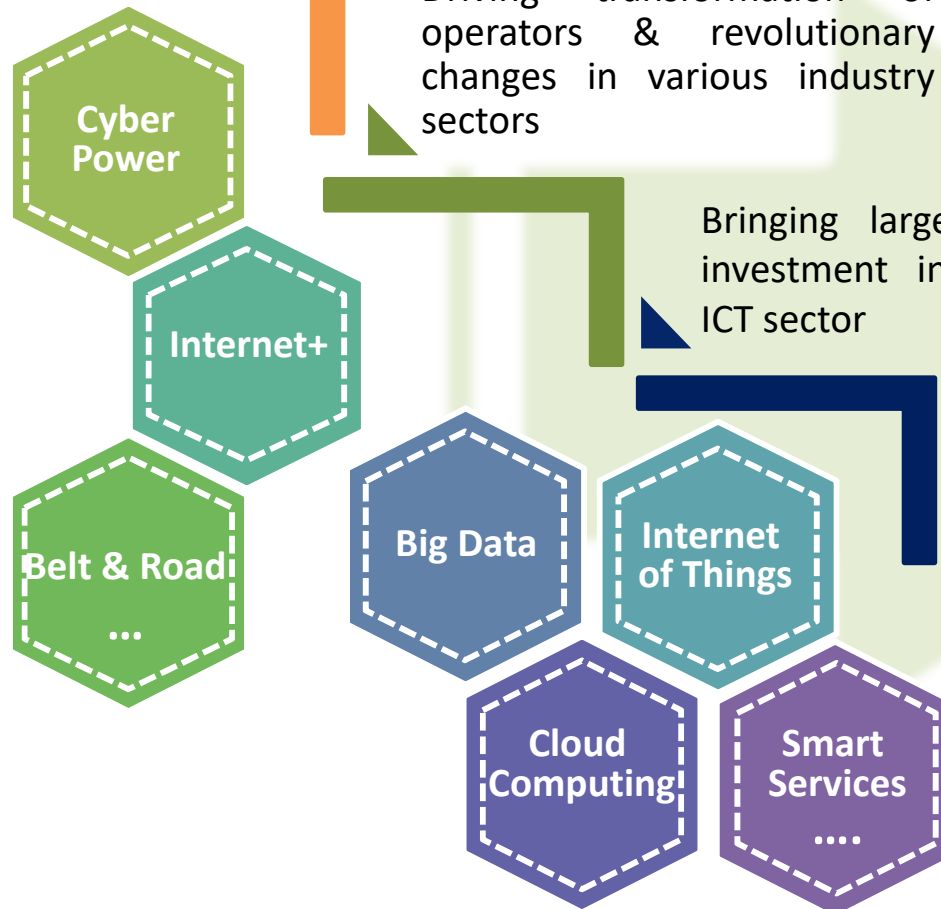
- ◆ Sustained overall growth amid CAPEX reduction by telecom operators
- ◆ Focused on both CAPEX and OPEX businesses, market share in domestic operator market further increased
- ◆ Innovation and transformation achieved significant progress, rapid growth of domestic non-operator business drove overall development

Enormous Opportunities

Accelerating information economy, emergence of intelligentization, couple with supportive policies

Driving transformation of operators & revolutionary changes in various industry sectors

Bringing large-scale investment in new ICT sector



A Leading Service Provider in the Informatization Sector

Value-driven Principle Leading Sustainable & Efficient Development

✓ Seeking steady yet progressive growth

Grasp new opportunities from domestic operators, domestic non-operators & overseas markets

✓ Enhancing capabilities with focus

Enhance service quality, and product innovation, collaboration & risk management capabilities

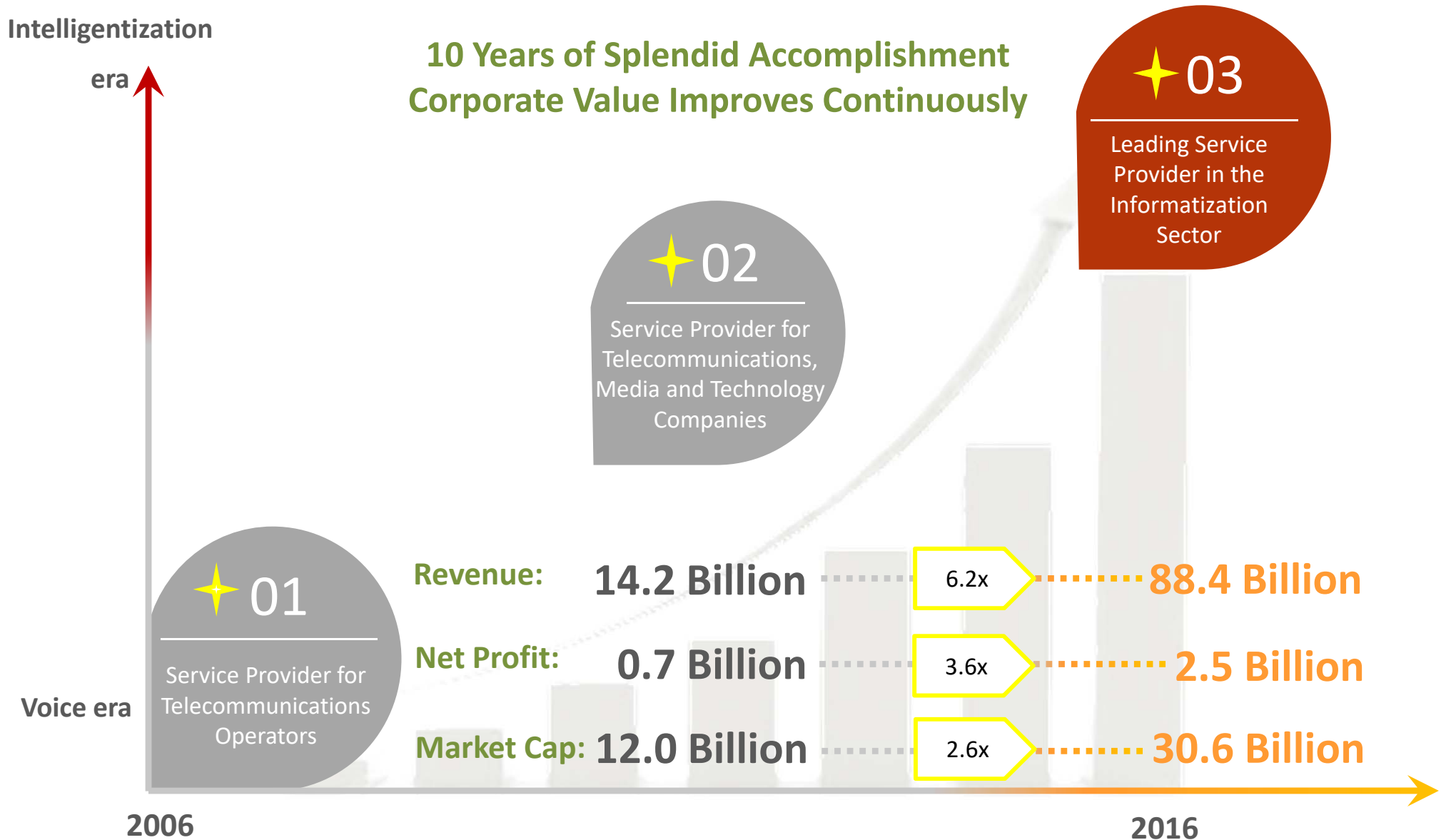
✓ Pursuing innovation for vitality

Promote synergistic integration and innovate operational, business and remuneration models

✓ Strengthening talent resources to enhance efficiency

Enlarge talent pool, cultivate management team, recruit high-end technical professionals

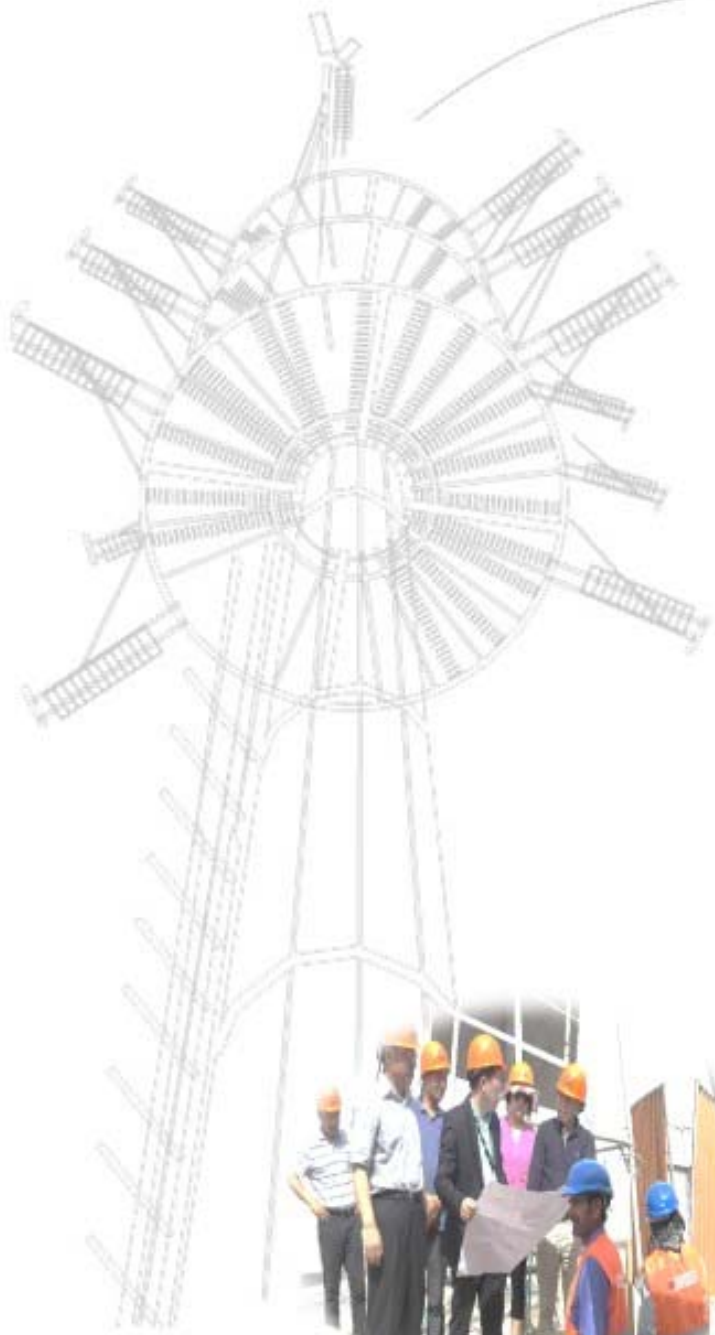
Remarkable Achievement in Innovation and Transformation



Remark: Above is the comparable figures of 2006 and 2016 in RMB, whereas the 2006 financial data are extracted from the 2006 annual report. Market capitalization is based on the total number of shares in the relevant year, multiplied by the listing price in 2006 and the year-end closing price in 2016, respectively.



Business Review



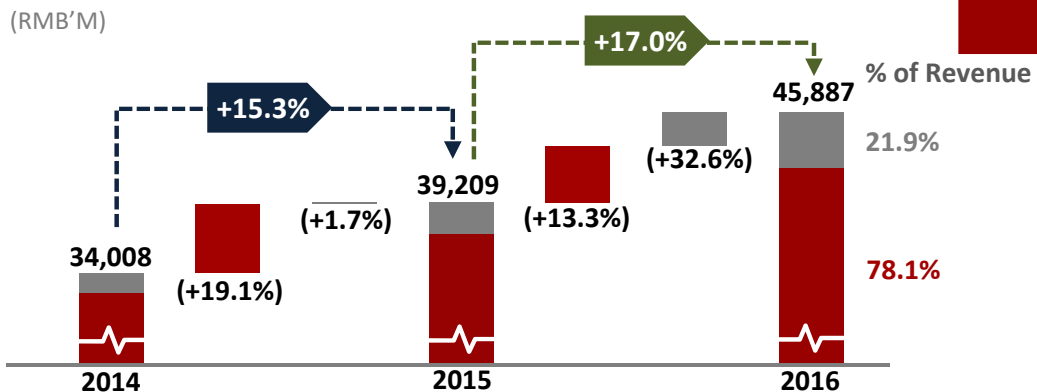
Business Revenue Breakdown

(RMB'M)	2015	2016	Change	% of Revenue
TIS (Telecommunications Infrastructure Services)				
Design	7,639	9,072	18.8%	10.3%
Construction	28,784	33,711	17.1%	38.1%
Supervision	2,786	3,104	11.4%	3.5%
Subtotal	39,209	45,887	17.0%	51.9%
BPO (Business Process Outsourcing Services)				
Maintenance	9,756	10,685	9.5%	12.1%
Facilities Management	3,769	4,160	10.4%	4.7%
Supply Chain ⁽¹⁾	6,394	7,209	12.7%	8.2%
Subtotal	19,919	22,054	10.7%	25.0%
Products Distribution ⁽¹⁾	13,095	10,479	-20.0%	11.8%
Subtotal	33,014	32,533	-1.5%	36.8%
ACO (Applications, Content and Other Services)				
System Integration	3,917	4,809	22.8%	5.4%
Software Development & System Support	1,494	1,687	12.9%	1.9%
Value-added Services	1,497	1,654	10.5%	1.9%
Others	1,829	1,879	2.7%	2.1%
Subtotal	8,737	10,029	14.8%	11.3%
Total	80,960	88,449	9.3%	100%

Core BPO
Businesses

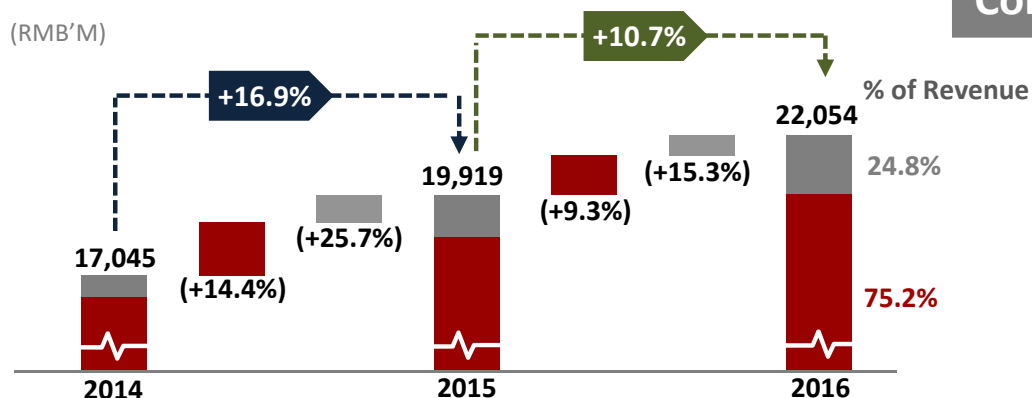
⁽¹⁾ The former Distribution Business has been subdivided into Supply Chain and Products Distribution Businesses since 2016. Corresponding historical figures have also been segregated for comparative purpose.

(RMB'M)



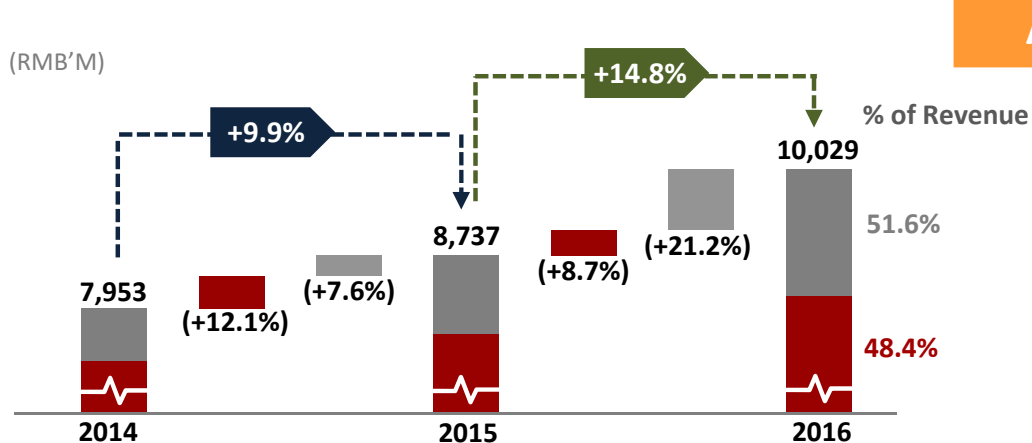
- ◆ Increased market share in domestic operator market (especially in China Tower) and business breakthrough in domestic non-operator market drove continued rapid growth

(RMB'M)



- ◆ Focused on OPEX businesses of domestic operator market, BPO business achieved steady growth and provided a sustainable and stable source of revenue

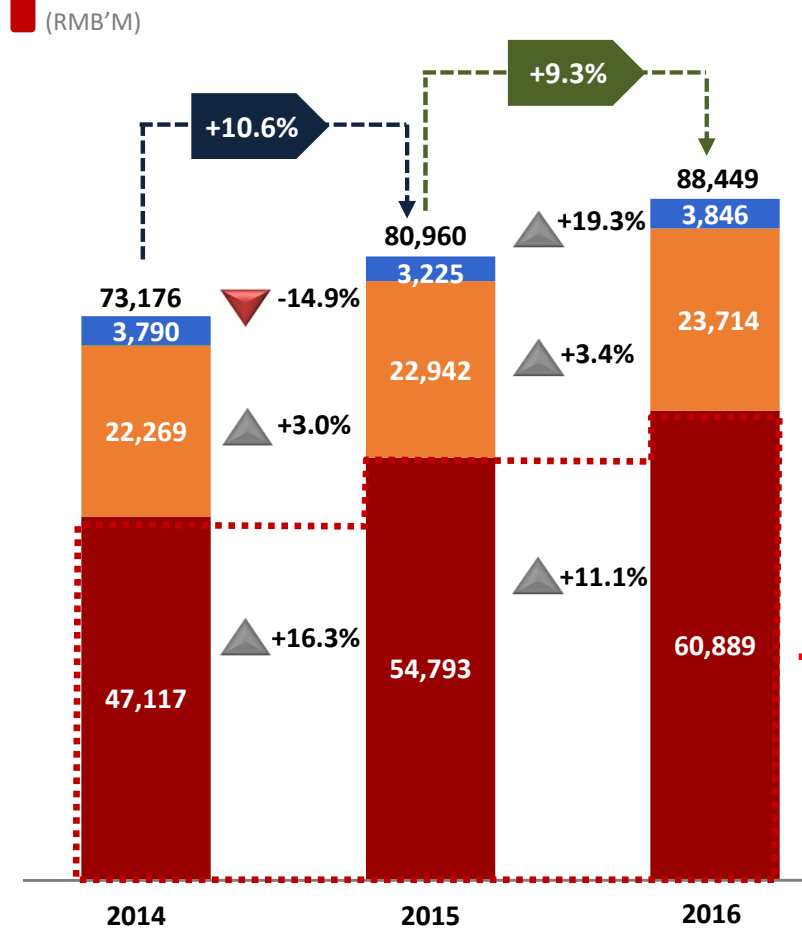
(RMB'M)



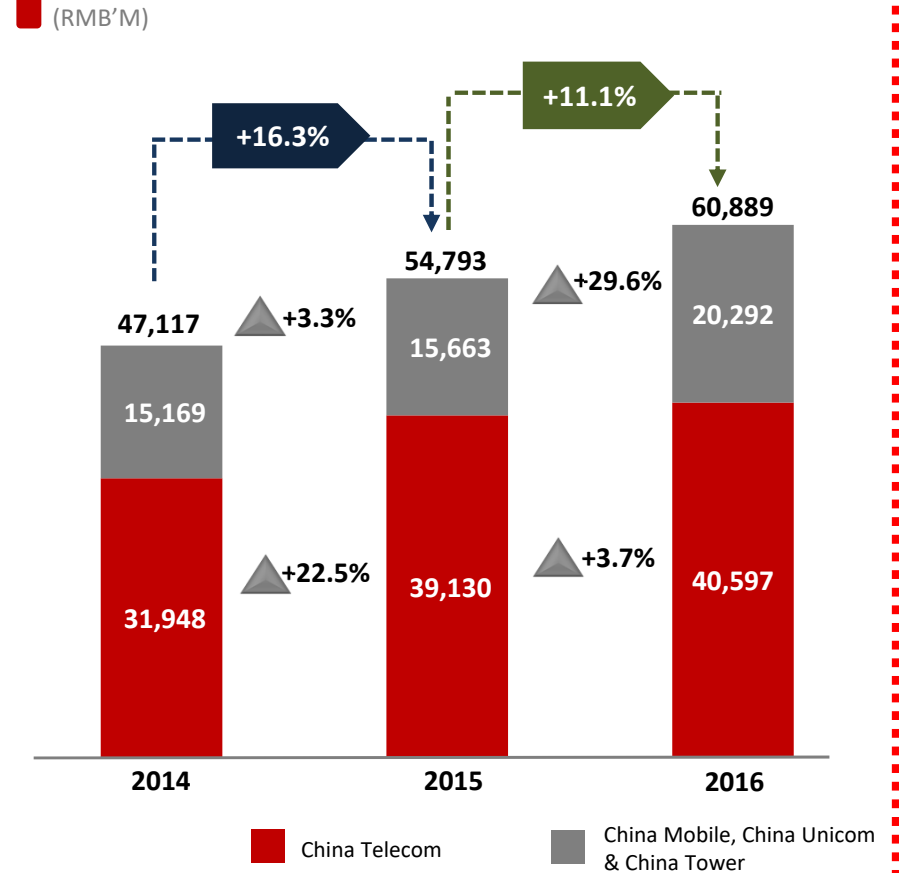
- ◆ Grasped the opportunities of intelligentization and informatization, growth of ACO business accelerated and the two new markets accounted for over 50% on both the % of revenue and the incremental revenue

Domestic Operator Two New Markets: -Domestic Non-operator
-Overseas Customer

Revenue Growth of Three Customer Groups



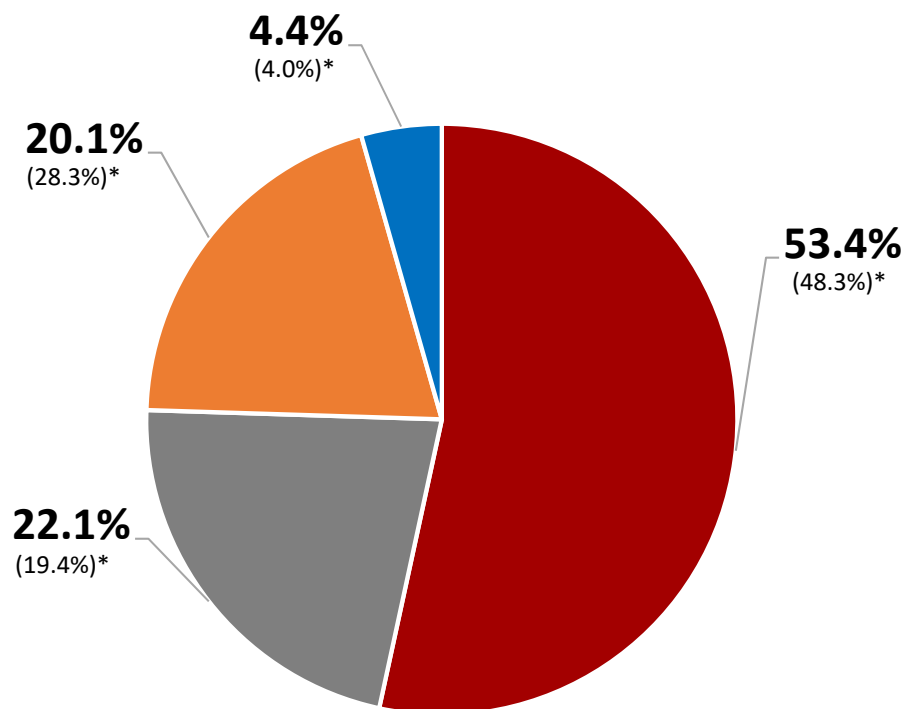
Revenue Growth of Domestic Operators



- ◆ Successfully expanded businesses for customers other than China Telecom, and revenue from China Mobile and China Unicom both achieved double-digit growth
- ◆ Achieved remarkable results for business development with China Tower, and it was the biggest contributor to the incremental revenue among the domestic operators

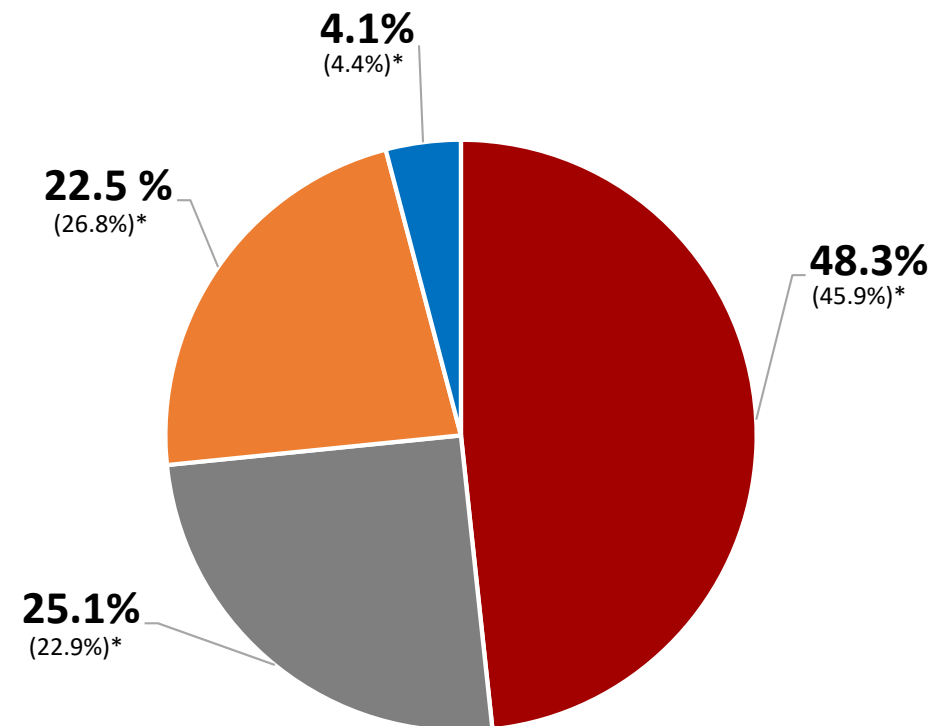
2015 Revenue of Core Businesses

(%)



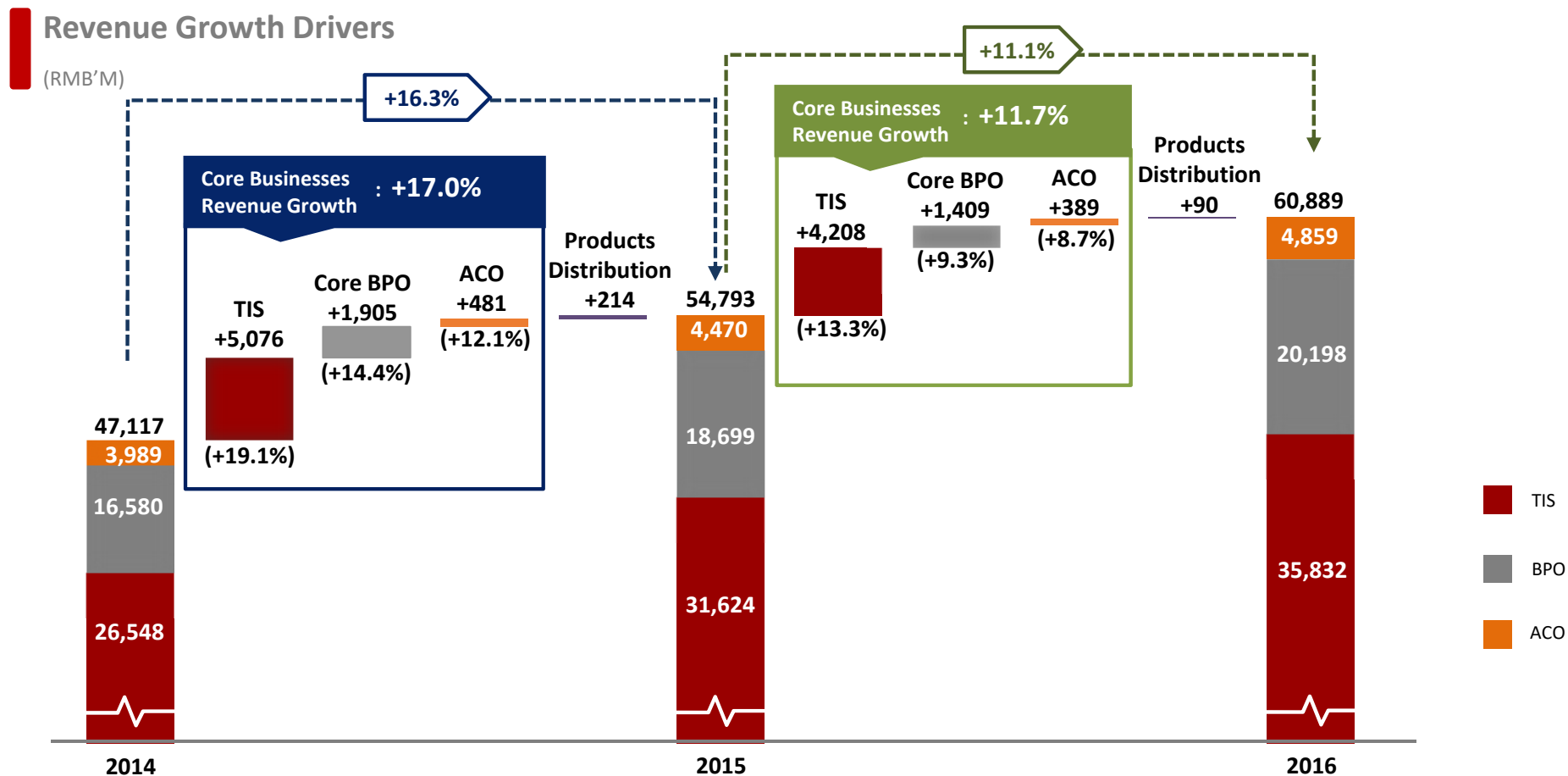
2016 Revenue of Core Businesses

(%)



■ China Telecom
 ■ China Mobile, China Unicom & China Tower
 ■ Domestic Non-operator
 ■ Overseas Customer

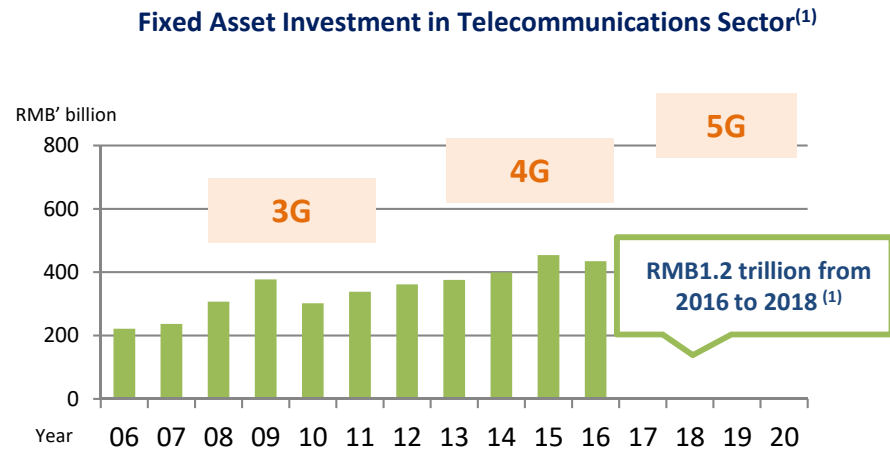
- ◆ The proportion of core businesses revenue from China Mobile, China Unicom and China Tower increased noticeably from 22.1% to 25.1%, and China Tower became our third largest customer
- ◆ Domestic non-operator business expansion achieved significant result. The proportion of core businesses revenue increased from 20.1% to 22.5%



- ◆ TIS business continued to achieve steady growth because of further expansion in CAPEX related businesses and market share gain
- ◆ Core BPO business grew steadily driven by expansion in maintenance and supply chain businesses
- ◆ ACO business recorded favourable development as domestic operators increased their investment in IT and related support services amid the intelligentization era

Further Penetration into CAPEX-driven Market Reinforce Expansion into OPEX-driven Market

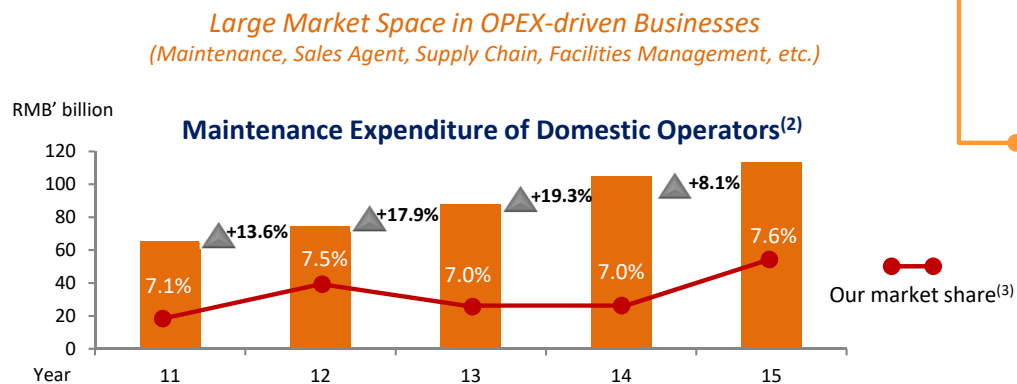
Proactively Tackle CAPEX Decline



⁽¹⁾Sources: MIIT and related Government documents

- ◆ RMB1.2 trillion⁽¹⁾ investment planned from 2016 to 2018 for infrastructure construction to upgrade infrastructure standard and network supporting capabilities
- ◆ Further penetrate into domestic operator market with enhanced service quality to enlarge market share
- ◆ Firmly grasp integrated construction and maintenance businesses of China Tower to further enlarge revenue scale

Firmly Grasp Opportunities of Growing OPEX



⁽²⁾Sources: Annual reports of three telecommunications operators

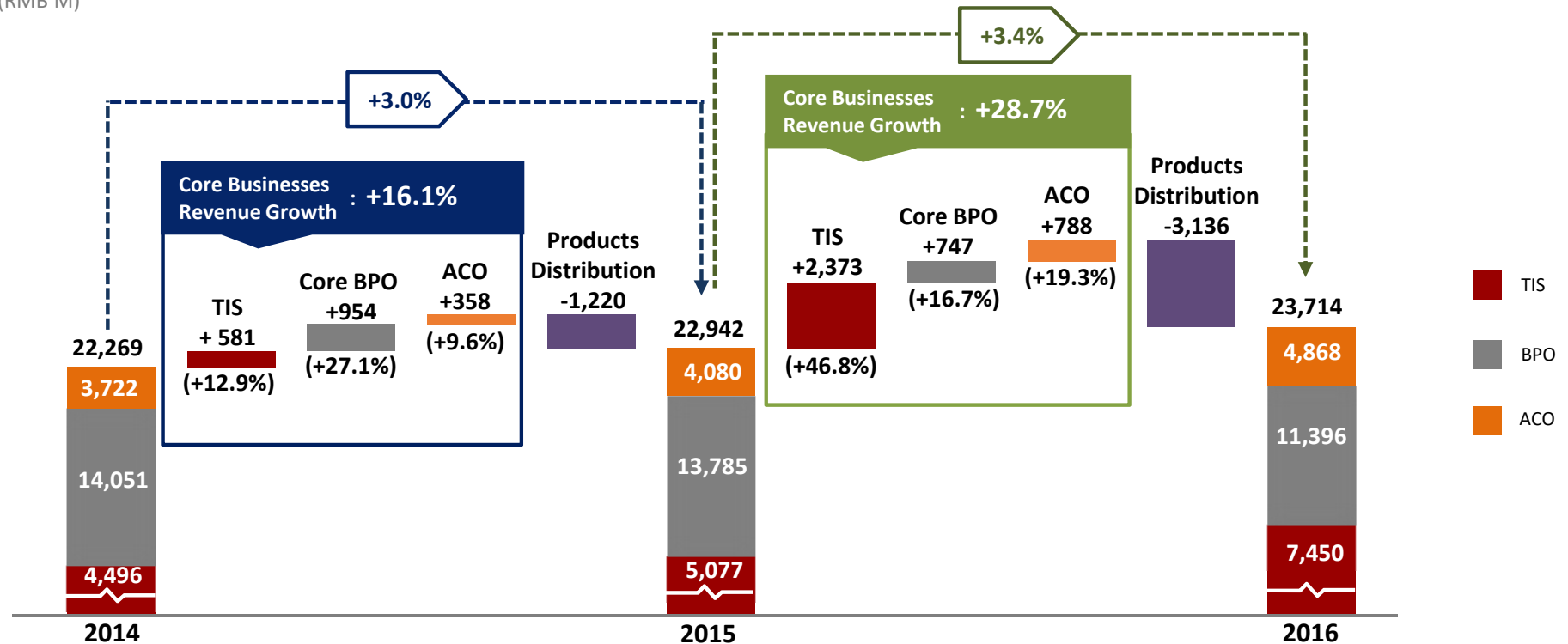
⁽³⁾Market share: our maintenance revenue/maintenance expenditure from three telecommunications operators

- ◆ Develop high-end maintenance business such as smart network management and integrated maintenance services
- ◆ Unify brand name and promote synergistic operation for distribution and supply chain businesses, etc.
- ◆ Seize the opportunities arising from domestic operators' transformation to explore new businesses in Smart Home and Internet of Things, etc.



Revenue Growth Drivers

(RMB'M)



- ◆ Core businesses revenue increased rapidly by 28.7%. Among that, revenue from TIS and ACO businesses increased by 46.8% and 19.3%, respectively
- ◆ Firmly captured the opportunities arising from information economy with focus on the development of key industries and businesses
- ◆ Proactively controlled the development of products distribution business of low value and efficiency, business structure further optimized

- ◆ Communications System Support for 2016 G20 Summit in Hangzhou
- ◆ Communications System Support for the Third World Internet Conference in Wuzhen
- ◆ Smart Security Project in Zunyi, Guizhou
- ◆ Communications, Information and Intelligence Low Voltage System Construction in Traffic Center of Wuhan Tianhe Airport
- ◆ Informatization System Construction of Shijiazhuang Bonded Area
- ◆ IDC Data Center Turnkey Project of China IT Company
- ◆ Smart Electricity System Construction Project in Inner Mongolia Residential Area
- ◆ Fuzhou Subway Communications Pipeline Relocation Project

Focus on Key Industries for Scale Development and Market Expansion

▶ Huge Market Space⁽¹⁾

◆ Development Goals of National Informatization Initiatives by 2020

- **Information industry:** RMB26.2 trillion (+8.9%), of which communications sector: RMB3.5 trillion (+15.5%)
- **Internet of Things:** RMB1.5 trillion
- **Big Data** and related products and services: RMB1 trillion (+30%)
- **Software and IT:** RMB8 trillion (+13%)
- **Information security:** RMB200 billion (+20%)

◆ Power Sector Investment in Electricity Distribution Network Reconstruction: RMB2 trillion

Key Industries

- ❖ Government
- ❖ Electricity
- ❖ Transportation
- ❖ Information Security
- ❖ Construction & Property
- ❖ Internet & IT...

Key Products

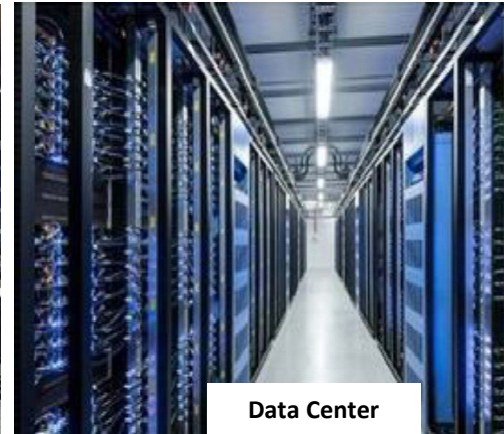
- ❖ Smart City
- ❖ Smart Security
- ❖ Intelligent Building
- ❖ Smart Transportation
- ❖ Smart Industrial Park
- ❖ Cloud Computing
- ❖ E-certification
- ❖ Information Security...



Communications System Support for Large-scale Conferences



Smart Security



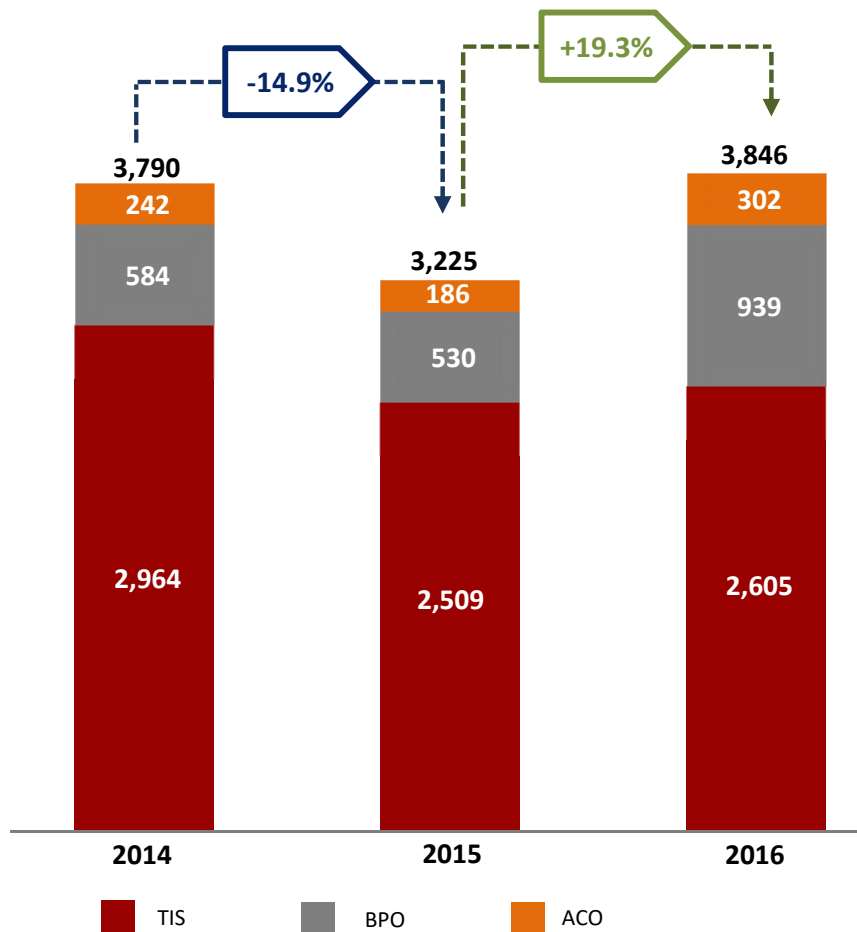
Data Center



Smart Grid

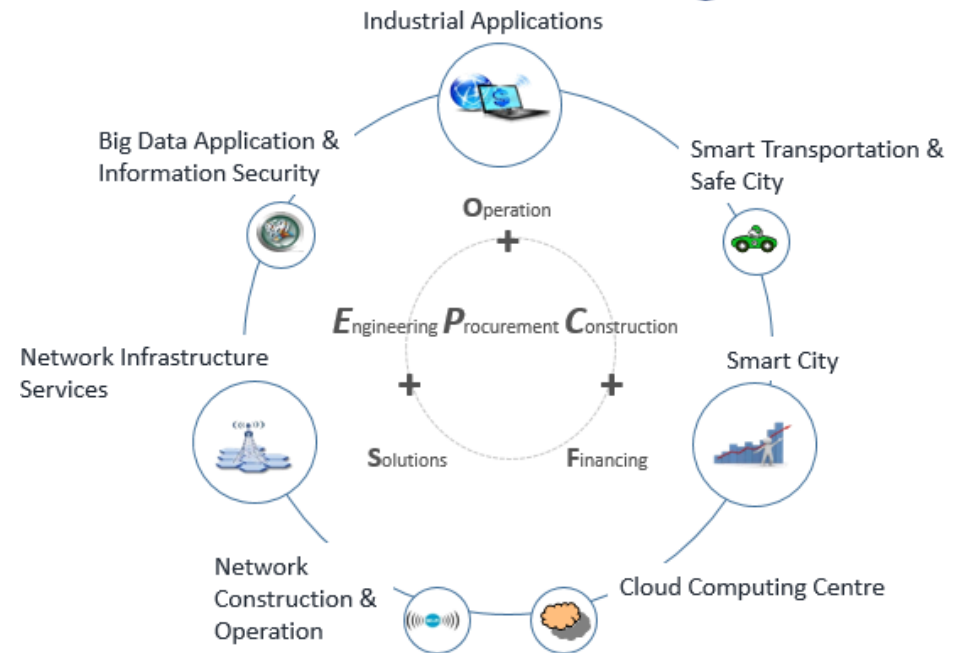
Revenue from Overseas Market

(RMB'M)



- ◆ Oversea business resumed growth and achieved favourable progress in major projects
- ◆ Actively developed businesses in Africa, the Middle East and Southeast Asia and pushed forward transformation through EPC+ mode

Provision of Integrated Business with EPC+ Mode



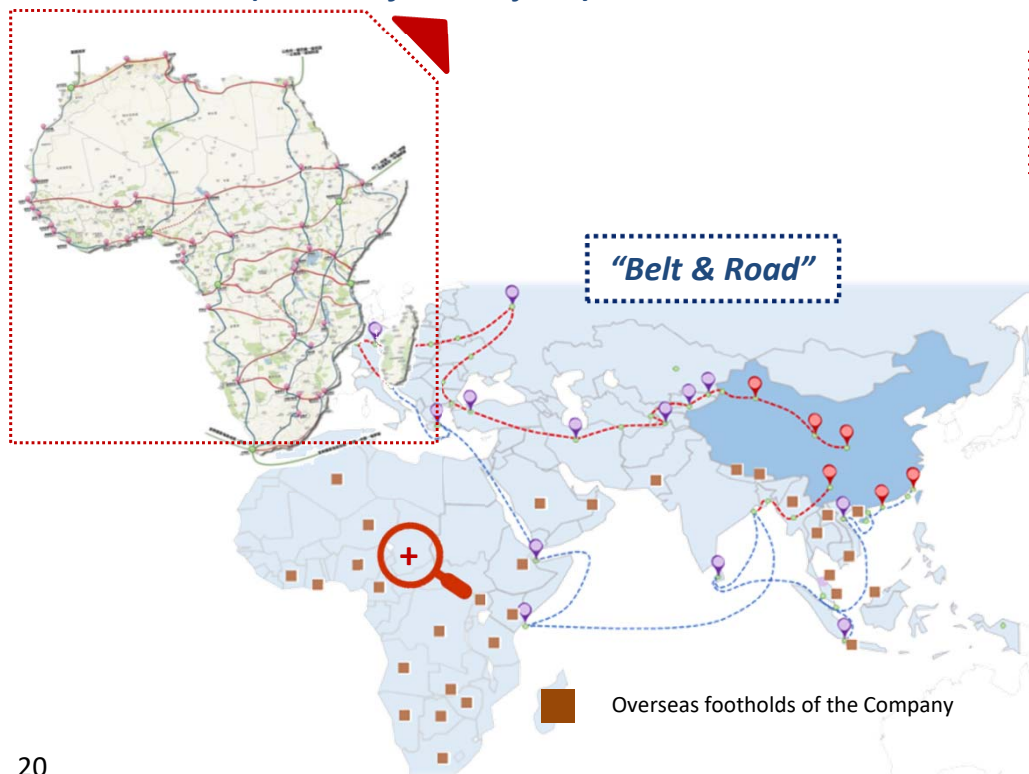
- ◆ Made further progress on our "China-Africa Partnership Program in Trans Africa Information Superhighway" Project, including strategic cooperation, resources integration and financing

Pursue Breakthroughs to Accelerate Scale Development

Outlook of Overseas Business

“China-Africa Partnership Program in Trans Africa Information Superhighway” Project (“China-Africa Project”)

- ◆ National “Belt and Road” Initiative and the Africa “Three Networks and Industrialization” Initiative provide huge opportunities
- ◆ Africa, the Middle East and South East Asian countries along the “Belt and Road” routes have strong informatization demand
- ◆ Overseas pan-operators, government and corporate customers, and “Going Abroad” state-owned enterprises witness rising opportunities



Endeavour to Push Forward our China-Africa Project to Achieve Further Progress

- ◆ Strive to arrange project financing through industry investment funds
- ◆ Further refine technical proposals and endeavour to kick start in four East African countries and major West African countries
- ◆ Strengthen strategic collaboration with telecommunications operators and “Going Abroad” Chinese enterprises
- ◆ Utilize various financing channels and financial instruments to control risks

Our Measures

- 1 Enhance products and business innovation capabilities to explore new growth opportunities
- +
- 2 Innovate operational and business models, and enhance marketing & service delivery capabilities to grasp market opportunities
- +
- 3 Strengthen internal coordination, pursue synergistic operation and leverage on IT solution to enhance efficiency
- +
- 4 Persist in our value-driven appraisal system to support efficient development

Results

- ✓ TIS business maintained fast growth amid declined CAPEX of telecom operators
- ✓ Core businesses from domestic non-operator customers recorded robust growth (+28.7%), became the top revenue driver
- ✓ ACO businesses growth accelerated; both revenue scale and incremental revenue from domestic non-operator customers surpassed those of domestic operator customers
- ✓ Business breakthroughs achieved in “Smart-related” applications, Cloud Computing, Big Data, Internet of Things, and non-telecom business, e.g. Power Sector
- ✓ Brand unified for nationwide distribution chain stores (‘中通福’)
- ✓ Overall efficiency (net profit margin) remained steady over the past 3 years
- ✓ Free cash flow continued to increase and maintained at healthy level



中国通信服务
CHINA COMSERVICE

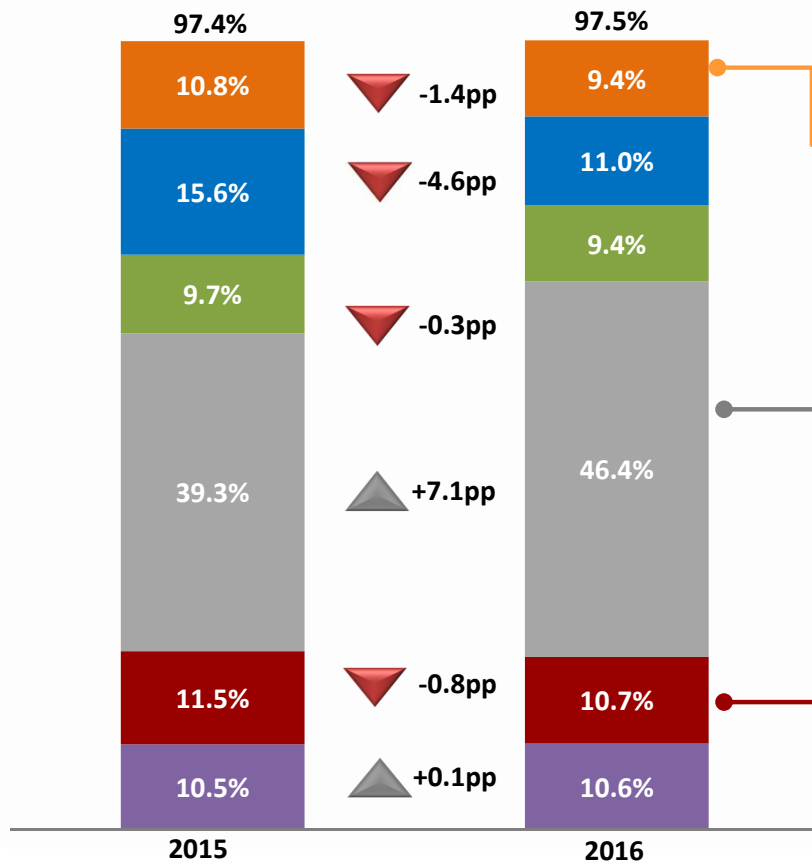


Financial Results



(RMB'M)	2015	2016	Change	% of Revenue
Revenue	80,960	88,449	9.3%	100%
Cost of Revenue	69,572	76,759	10.3%	86.8%
Direct Personnel	8,731	8,317	-4.7%	9.4%
Materials ⁽¹⁾	7,800	8,281	6.2%	9.4%
Direct Cost of Products Distribution ⁽¹⁾	12,653	9,764	-22.8%	11.0%
Subcontracting	31,812	41,017	28.9%	46.4%
D & A	447	455	1.8%	0.5%
Others	8,129	8,925	9.8%	10.1%
Gross Profit	11,388	11,690	2.7%	13.2%
SG&A	9,306	9,501	2.1%	10.7%
Net Profit	2,334	2,536	8.6%	2.9%
EPS (RMB)	0.337	0.366	8.6%	-
ROE (%)	9.8%	9.9%	0.1pp	-

Cost as a % of Revenue (%)

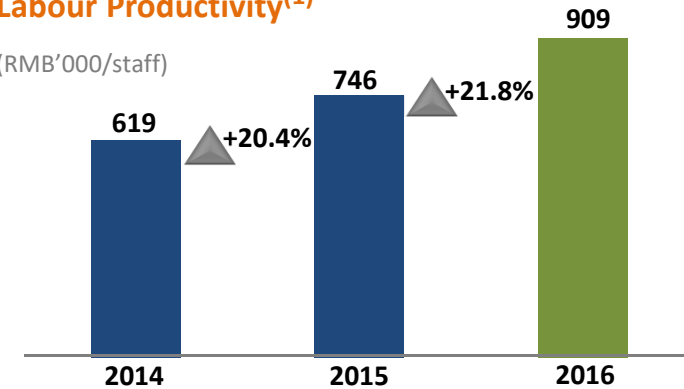


■ Direct Personnel ■ Direct Cost of Products Distribution ■ Materials
■ Subcontracting ■ SG & A ■ Others

- ◆ By proactively controlling the products distribution business, direct cost of products distribution reduced accordingly
- ◆ By utilizing subcontracting resources, direct personnel cost as a % of revenue continuously declined, labour productivity further increased

Labour Productivity⁽¹⁾

(RMB'000/staff)

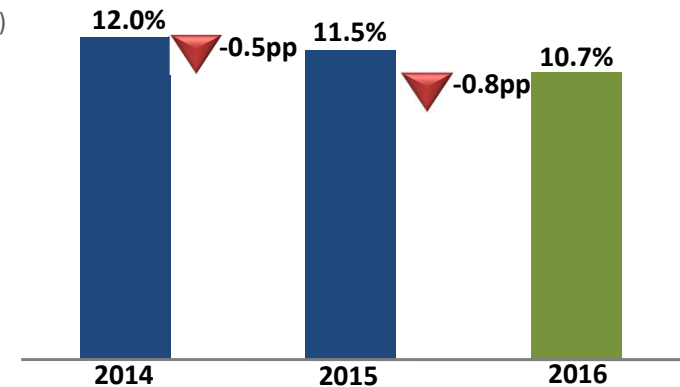


⁽¹⁾ Labour Productivity = revenue/staff number

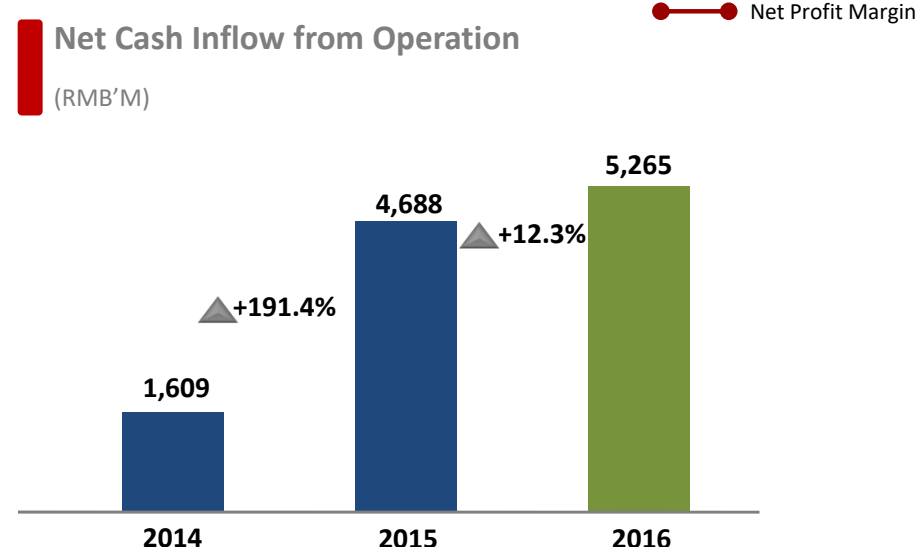
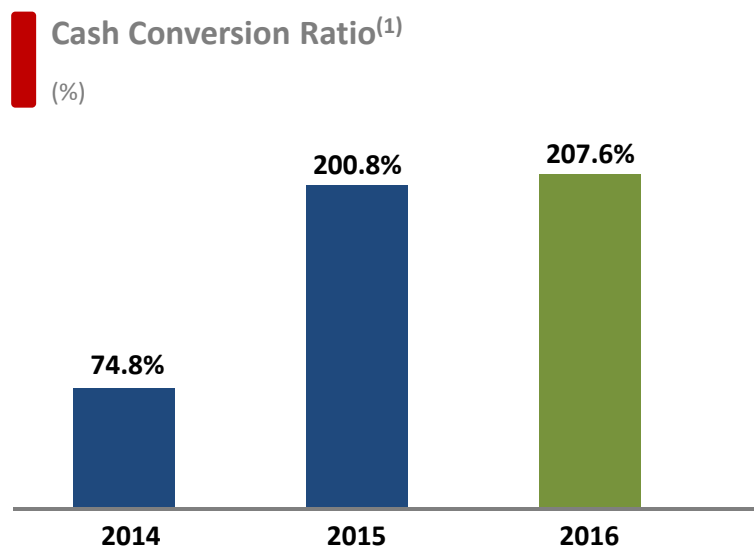
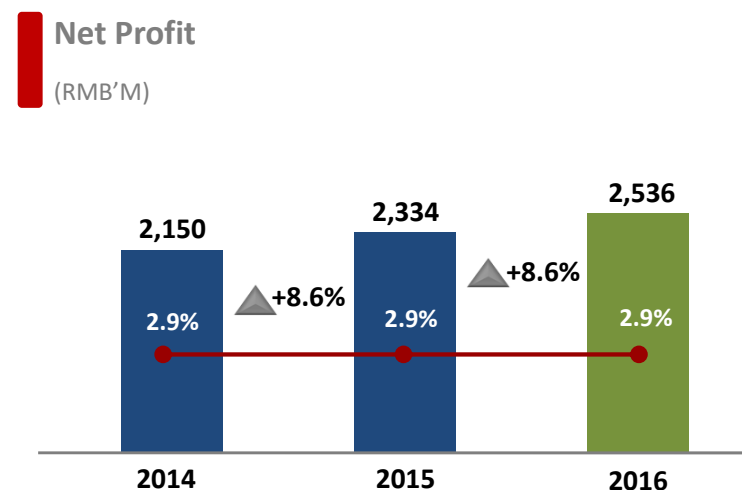
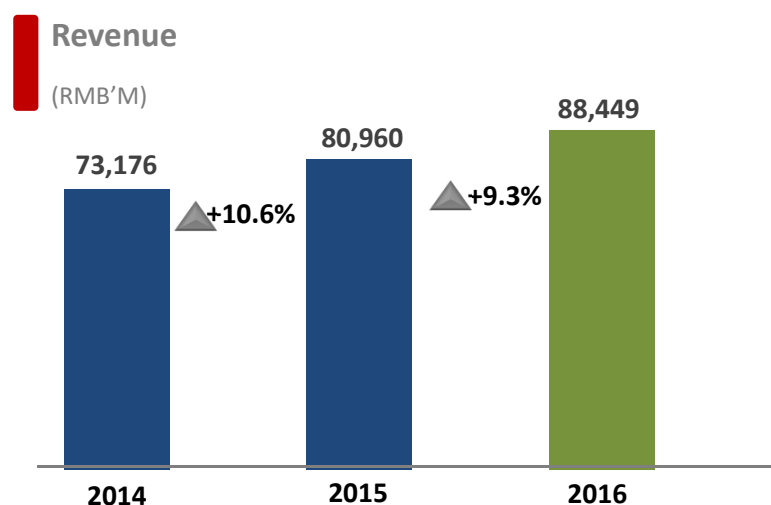
- ◆ Realized the benefit from economies of scale and strengthened cost control, SG&A as a % of revenue further decreased

SG&A as a % of Revenue (%)

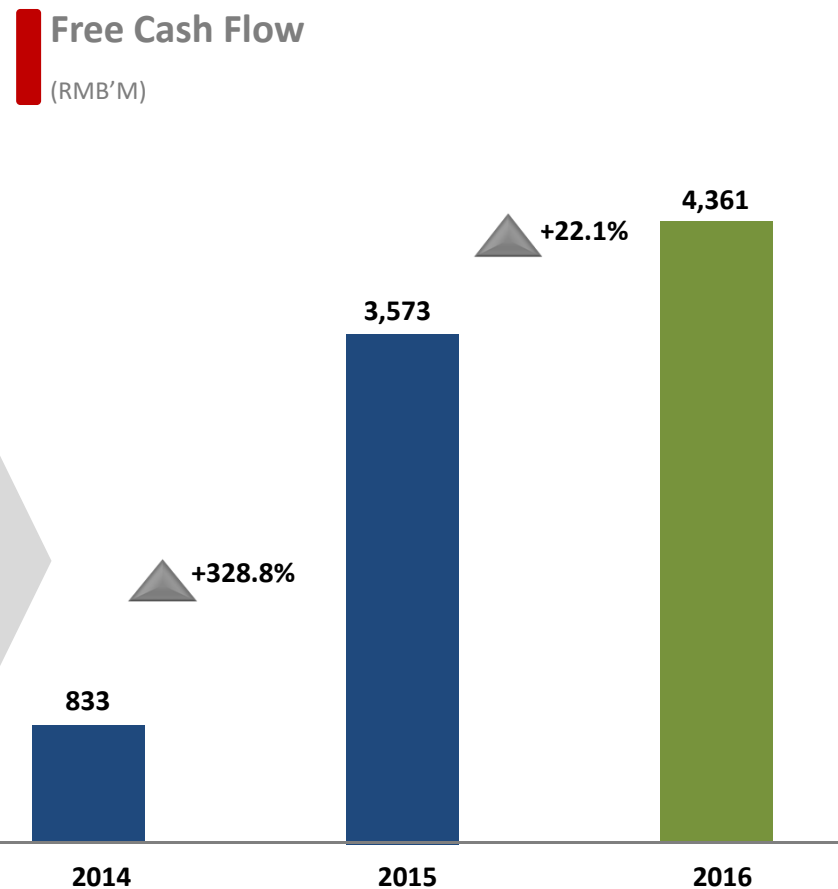
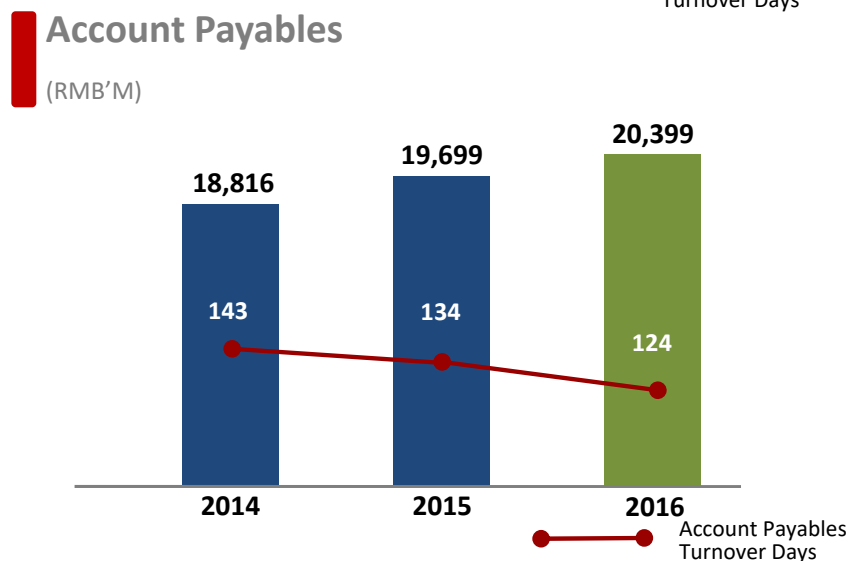
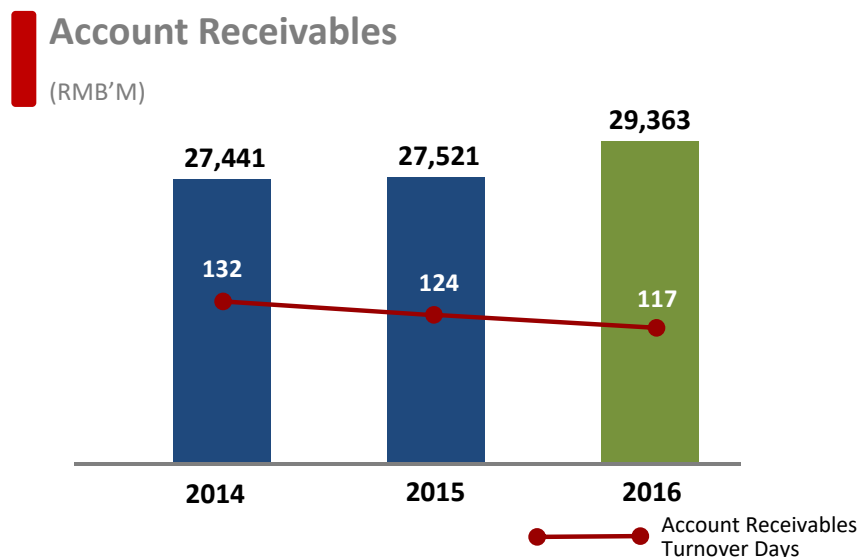
(%)

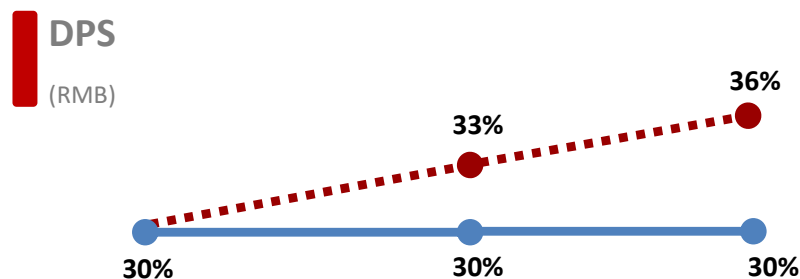


- ◆ Revenue and net profit achieved steady growth, and net profit margin remained stable
- ◆ Cash conversion ratio reached 207.6% and remained at relatively high level, operating cash flow maintained at healthy level

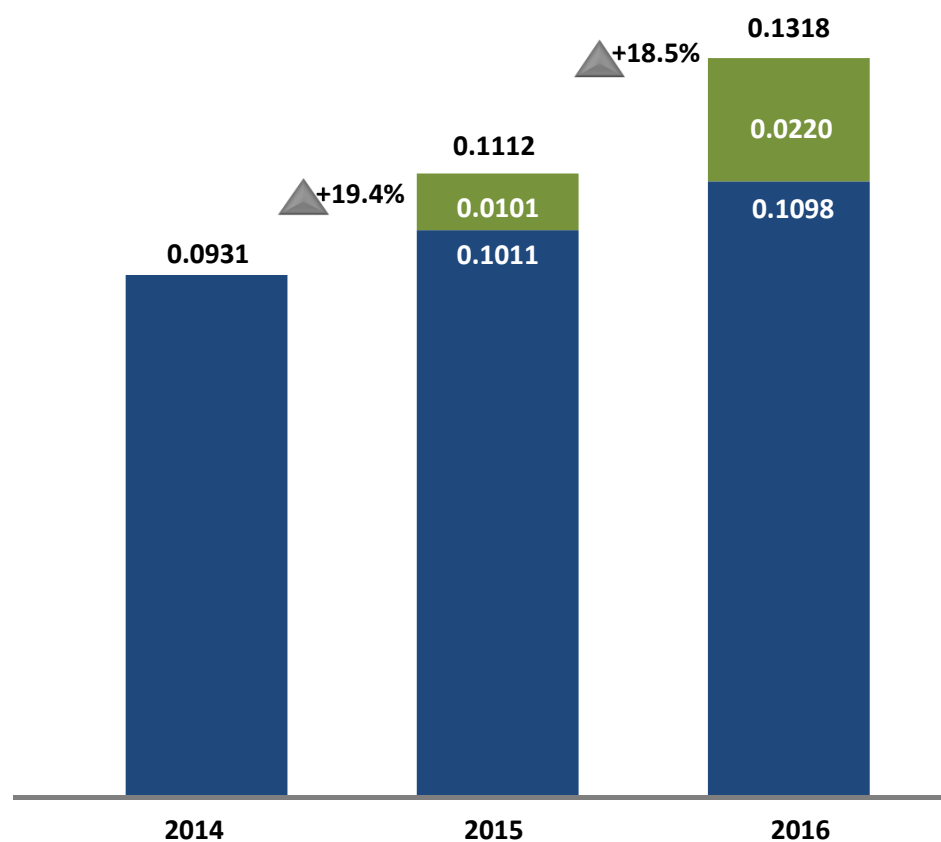


- ◆ Effective value-driven appraisal mechanism and working capital management measures shortened account receivables turnover days continuously
- ◆ Free cash flow continued to increase and remained at high level

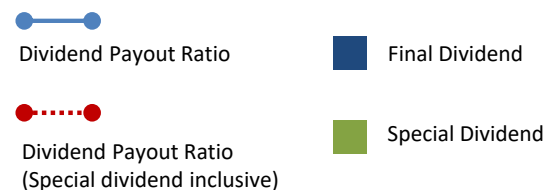




◆ While maintaining a relatively stable and sustainable dividend policy, we increase return to our shareholders in consideration of our favourable results performance



◆ The Board recommended a final dividend of RMB0.1098 per share, and a special dividend of RMB0.0220 per share, total dividend for 2016 is RMB0.1318 per share, up by 18.5%, with the total dividend payout ratio of 36%



- ◆ Maintained at low debt and net cash position for years
- ◆ Robust financial position offers financial flexibility to grasp new business opportunities

(RMB'M)

	31.12.2015	31.12.2016
Total Assets	57,913	62,594
Cash and cash equivalents	9,536	13,324
Account receivables	27,521	29,363
Fixed assets (NBV)	4,332	4,216
Total Liabilities	32,704	35,546
Interest-bearing liabilities	861	758
Account payables	19,699	20,399
Equity Attributable to Equity Shareholders	24,761	26,573
Total Liabilities / Total Assets (%)	56.5%	56.8%
Debt-to-Capitalization Ratio (%)	3.4%	2.8%

Promote System and Mechanism Innovation

- ✓ Innovate operational, business and remuneration models to boost vitality
- ✓ Enhance collaboration and synergistic management

Shareholders' Return

Focus on Key Businesses and Customers

- ✓ Develop high value businesses and customers
- ✓ Develop businesses which can enhance our technological competitiveness



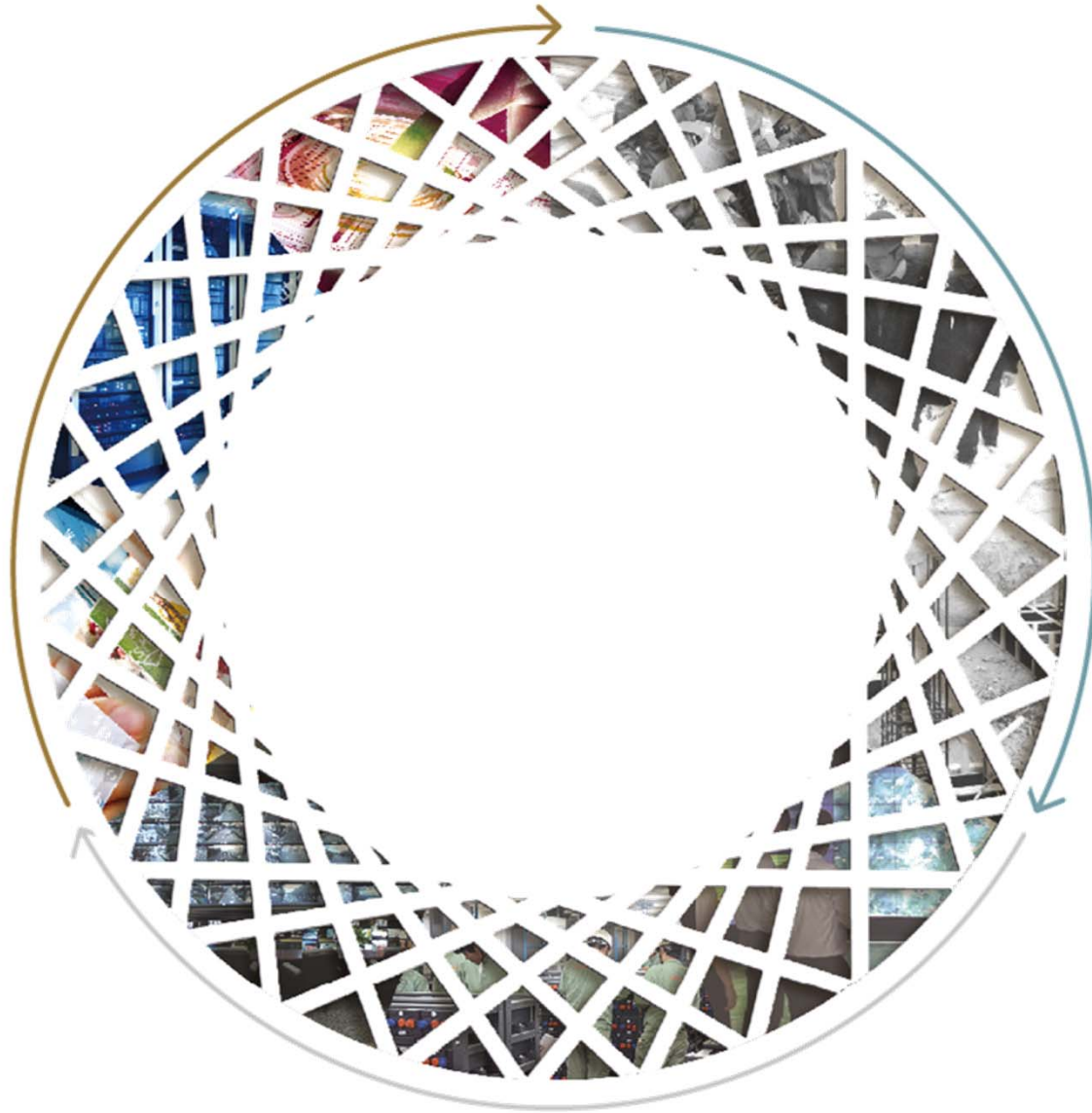
Enhance Management Efficiency

- ✓ Explore the development of financial services to better utilize cash resources
- ✓ Implement stringent cost control through various measures such as IT system

**Upholding Value-driven Principle
Striving for Innovation and Transformation
Realizing Sustainable and Efficient Development**

Reinforce Value-driven Appraisal Mechanism

- ✓ Direct our subsidiaries to fully implement the Group's corporate strategies
- ✓ Optimize resource allocation to support innovation and transformation



Thank You!

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