



CHINA COMMUNICATIONS SERVICES CORPORATION LIMITED

STOCK CODE: 552

Interim Results 2013

August 28, 2013





MR. LI PING

CHAIRMAN



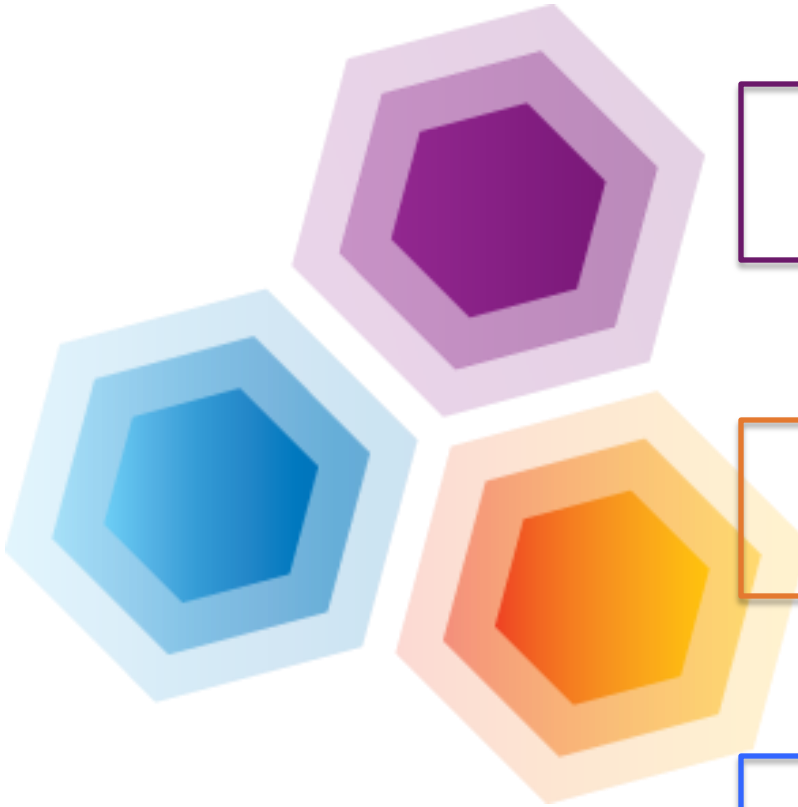
MR. ZHENG QIBAO

PRESIDENT



MS. HOU RUI

CFO



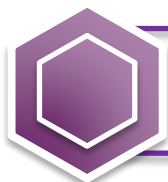
Overview

Business Review

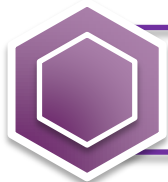
Financial Results



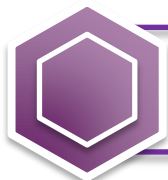
OVERVIEW



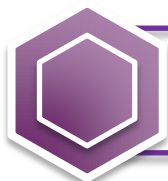
Revenue up by 9.6%⁽¹⁾ although CAPEX⁽²⁾ of domestic telecom operators down by 12.7%



“Two New Engines”, the overseas market and the domestic non-operator market, became the major growth driver of 1H 2013; Revenues up by 30.0% and 11.8%, respectively



ACO service, as a transformative and innovative business, realized steady yet rapid growth, in which major ACO revenue ⁽³⁾ increased by 21.5%



Gross profit margin comparable to last year, showing a sustained favorable quality of business development



Net profit up by 1.7% due to the impact of fixed costs and the relatively rapid increase in certain expenses

- (1) In accordance with relevant accounting standard, historical financial data in this presentation have been restated to include the results of SBSS, a company that we completed the acquisition of its 51% interest on 26 July 2012.
- (2) In the first half of 2013, the fixed assets investment in the telecom industry was RMB129.7 billion, down by 12.7% yoy. (Source: MIIT)
- (3) Major ACO revenue does not include the revenue of “Others” among the ACO revenue.

Key Performance Indicators



Revenues achieved RMB32.4 billion, up by 9.6%; Net profit realized RMB1.2 billion, up by 1.7%



Amount of newly-signed contracts increased by 13%, demonstrating favorable business development momentum



Profit margins and free cash flow under pressure

(RMB'M, except EPS & % figures)

	1H 2012	1H 2013	Change
Revenue	29,530	32,361	9.6%
Gross Profit	4,581	4,971	8.5%
Gross Profit Margin (%)	15.5%	15.4%	-0.1PP
Net Profit	1,221	1,242	1.7%
Net Profit Margin (%)	4.1%	3.8%	-0.3PP
Free Cash Flow ⁽¹⁾	-1,190	-2,005	-68.5%
EPS(RMB)	0.182	0.179	-1.6%
ROE ⁽²⁾ (%)	13.6%	12.0%	-1.6PP

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

(2) Annualized basis

Steady Development in Domestic Market and Rapid Growth in Overseas Market



Revenue from domestic non-operator market steadily grew by 11.8%, higher than the overall growth rate



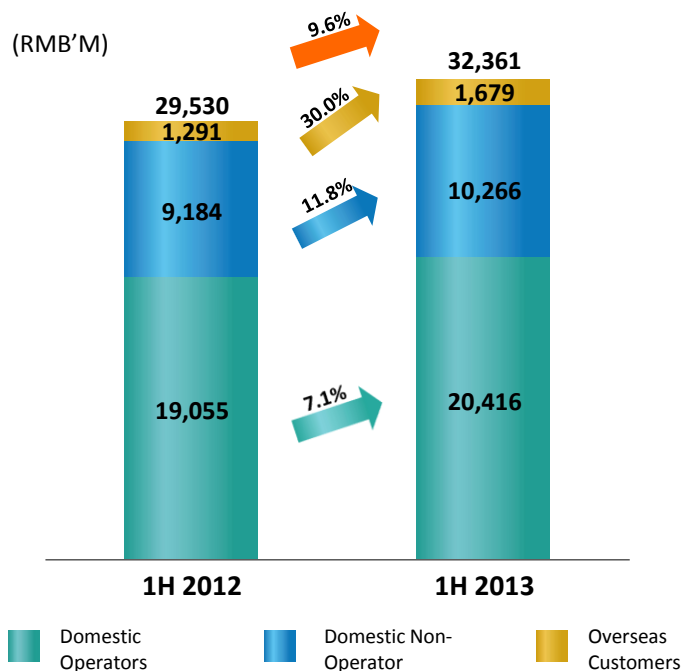
Revenue from overseas market rapidly up by 30.0% with its proportion to total revenues up by 0.8pp



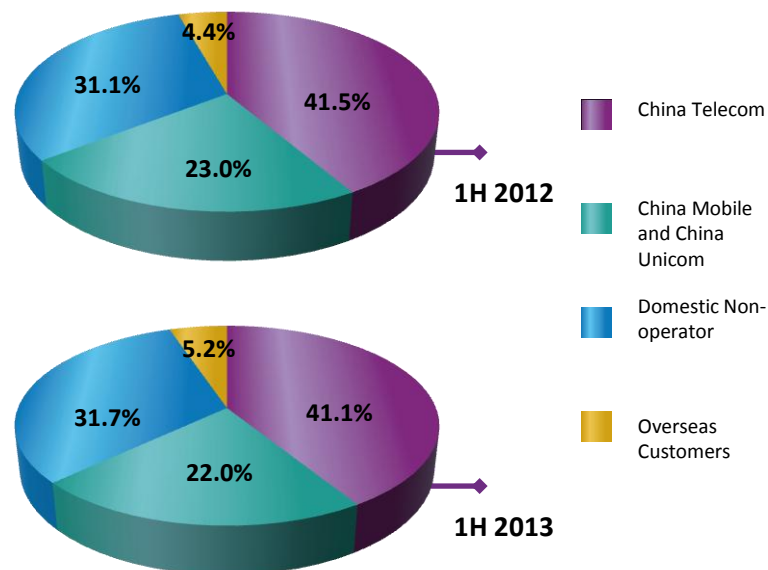
Incremental revenue of domestic non-operator and overseas customers accounted for 51.9% of total incremental revenues



Revenue Growth by Customer



Revenue Mix by Customer



Stable Mix of Three Business Lines



TIS revenue up by 9.7%, among which TIS revenue from the overseas market rapidly up by nearly 60%

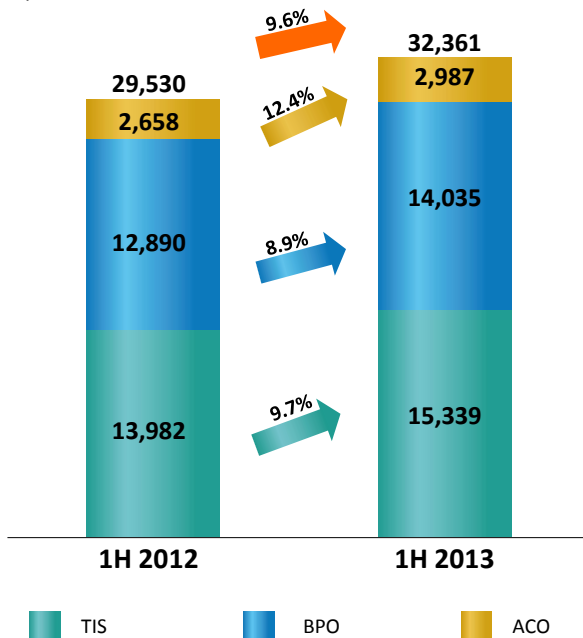


ACO revenue up by 12.4%, among which major ACO business ⁽¹⁾ up by 21.5%

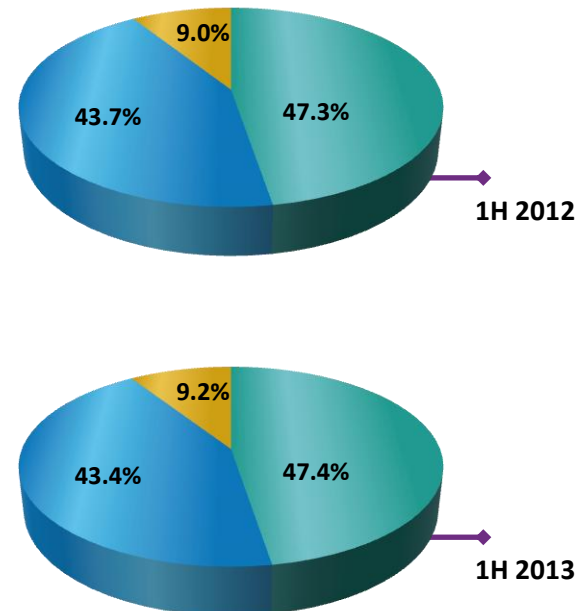


Revenue Growth by Business

(RMB'M)



Revenue Mix by Business



(1) Major ACO business does not include "Others" among ACO revenue.

Assessing Future Development Circumstance & Prospects



Opportunities and Challenges Co-exist
Opportunities > Challenges

Major Opportunities

Domestic Operators

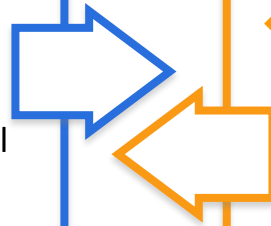
- ◆ CAPEX back-end loaded in 2nd half, LTE
- ◆ Broadband China/applications based on mobile Internet/cloud computing ...

Domestic Non-operator (ACO)

- ◆ Smart City
- ◆ Information consumption policies/industrial informatization / urbanization ...

Overseas Customers

- ◆ China's capital "going abroad"
- ◆ Strong demands for network construction in Africa, Middle East, South East Asia and South America...



Challenges

Macro

- ◆ Higher customer requirement for service quality; Prolonged repayment cycle
- ◆ Increasing costs of key operating elements
- ◆ New competition triggered by the more open environment in communications industry

Micro

- ◆ Ability to capture business opportunities
- ◆ Core competence of products and services

4G/LTE licensing is our most important opportunity in the near term



Build a 'Hundred-Billion' Enterprise with Superior Performance and a Culture of Harmony and Happiness

Emphasize on both Scale and Effectiveness

Focus on Domestic Operator Market, Domestic Non-operator Market and Overseas Market, and Offering our Integrated Services of TIS, BPO and ACO

Second Round Strategic Transformation

◆ **Domestic Operators:** Strategy of Market Leadership

◆ **Domestic Non-operator Customers:** Strategy of Differentiation and Strategic Partnership

◆ **Overseas Customers:** Strategy of Focusing on EPC Projects and "Four Steps" ⁽¹⁾ Approach

◆ Strategy of Talent Management

◆ Strategy of Synergistic Operation

Strengthen Execution of Strategies

Seize opportunities triggered by LTE, "Broadband China"

Focus on "Smart City" and develop key customers

Drive breakthroughs in overseas EPC projects

Develop core products and build key companies in ACO

Enhance synergistic financial management

(1) "Four-Steps": subcontracting projects, EPC projects, operation outsourcing, equity investment

Business Review

Revenue Breakdown



(RMB'M)	1H 2012	1H 2013	Change	% of Revenue
TIS ⁽¹⁾	13,982	15,339	9.7%	47.4%
Design	2,752	2,910	5.7%	9.0%
Construction	10,309	11,379	10.4%	35.2%
Supervision	921	1,050	14.0%	3.2%
BPO ⁽²⁾	12,890	14,035	8.9%	43.4%
Maintenance	3,014	3,140	4.2%	9.7%
Distribution	8,516	9,402	10.4%	29.1%
Facility Management	1,360	1,493	9.8%	4.6%
ACO ^(3,4)	2,658	2,987	12.4%	9.2%
System Integration	980	1,287	31.3%	4.0%
Software Development & System Support	440	454	3.1%	1.4%
VAS	476	564	18.4%	1.7%
Others	762	682	-10.5%	2.1%
Total	29,530	32,361	9.6%	100.0%

- (1) TIS refers to Telecommunications Infrastructure Services
 (2) BPO refers to Business Process Outsourcing Services
 (3) ACO refers to Applications, Content and Other Services

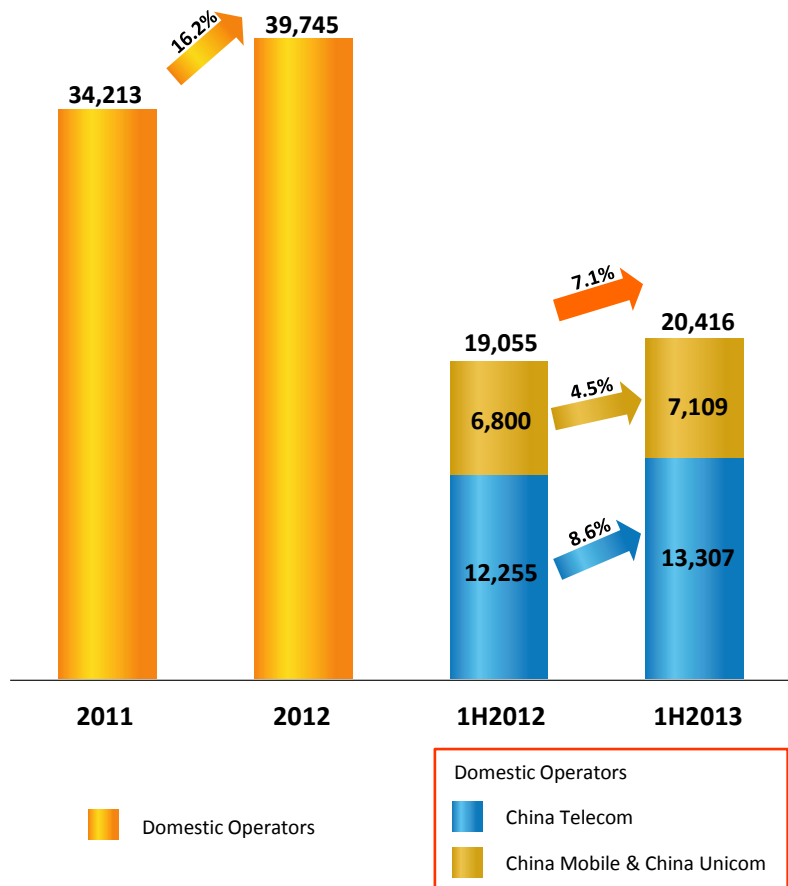
- (4) Starting from 1 January 2013, the Company has adjusted the business classification among ACO in accordance with its business development focus. This change in classification has no effect on total revenues. The comparative figures have been reclassified to conform to current year's presentation.

Domestic Operator Market (1/2) – Solid Business Fundamentals Maintained



Revenue Growth by Customer

(RMB'M)



Revenue growth from domestic operators moderated, up by 7.1%



Amount of newly-signed contracts increased by 12% through effective market expansion, indicating solid fundamentals for future development



Proactively participated LTE construction and well-prepared for technology, personnel, equipment /tools, etc.



Contributions brought by LTE opportunities will be gradually reflected in accordance with the pace and scale of CAPEX spending from domestic operators



Became China Telecom's solution provider to provide informatization solutions for customers in manufacturing industry

Domestic Operator Market (2/2) – Solid Business Fundamentals Maintained



Revenue Growth by Business

(RMB'M)

	1H2012	1H2013	Change
TIS	10,825	11,728	8.3%
BPO	6,947	7,238	4.2%
ACO	1,283	1,450	13.0%
Total	19,055	20,416	7.1%



TIS revenue from domestic operators still up by 8.3% although CAPEX of domestic operators decreased by 12.7% ⁽¹⁾



BPO revenue from domestic operators up by 4.2% as we emphasized on efficient business development and proactively managed the growth of certain businesses with lower operating efficiency



ACO revenue from domestic operators up by 13.0%, which was benefited by the growing demands from smart phone users for mobile data service during the transformation from 2G to 3G

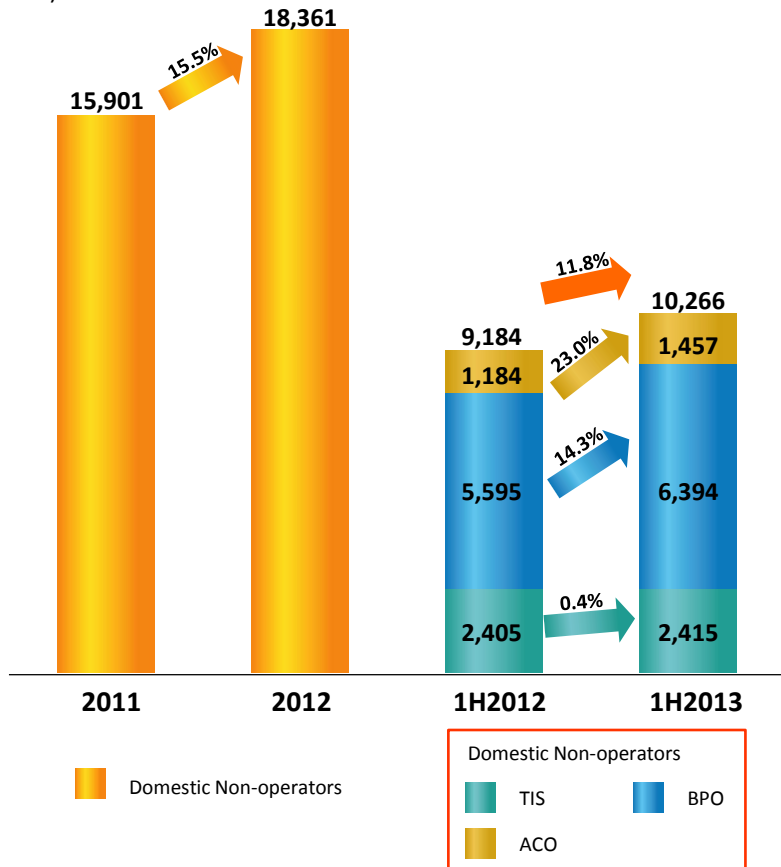
(1) In the first half of 2013, the fixed assets investment in the telecom industry was RMB129.7 billion, down by 12.7% yoy. (Source: MIIT)

Domestic Non-operator Market: Steady development with Structure Optimized



Revenue Growth by Business

(RMB'M)



Realized double-digit growth by capturing the opportunities driven by “New Four Modernizations”⁽¹⁾, leveraging on our integrated service advantage and deepening expansion into domestic non-operator market



Achieved important breakthrough in “Smart City” expansion: Obtained software development project following the construction of the Integrated Management, Operation and Service Platform for “Smart Nanjing”



Focus on key industries and key customers: Favorable growth momentum in key customer groups (government; construction and real estate industry; Internet, IT and media industry)



Strengthen product R&D and improve core capability: revenue of ACO business up by 23%

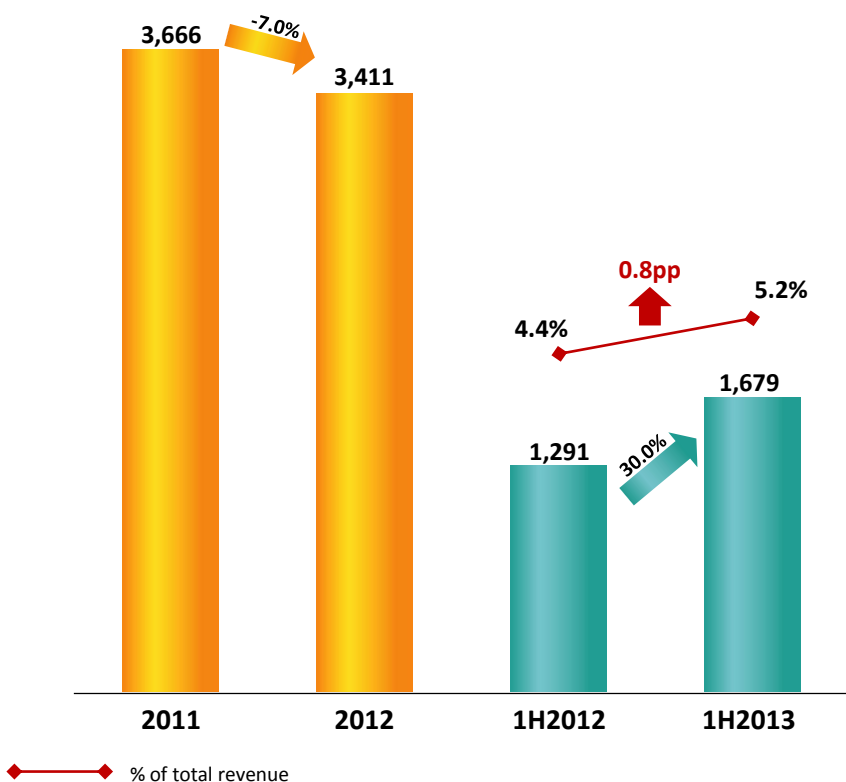
(1) “New Four Modernizations”: new industrialization, informatization, urbanization and agricultural modernization

Overseas Market: Rapid Growth Realized



Revenue Growth from Overseas Market

(RMB'M)



- Implemented large EPC projects as scheduled:
 - ◆ Congo (K) Phase II SCPT Backbone Optic Cable Network
 - ◆ Saudi Arabia Mobily FTTH Project (Phase II)
 - ◆ Brunei Telecom FTTH Project



After subcontracting and EPC projects, commenced operation outsourcing project for the first time in Congo (K) for its Backbone Optic Cable Network



Revenues from subsidiaries in Saudi Arabia, Congo (K), HK and Macau all exceeded RMB100 million each, forming regional centers for expansion in Middle East, Africa and Southeast Asia



Avoid risks in terms of overseas account receivables and foreign exchange through financial instruments

Business Strategy – Domestic Operator Market



Capture opportunities and maintain leading position to ensure the Company's fundamentals

Enhance communications with senior management at customer end

Leverage our edges in integrated service capabilities along the industry value chain

Centralized allocation of superior resources

OPEX Business
Network Optimization
Supply Chain Service ...

LTE

"Broadband China"

New Businesses
Mobile Internet Applications
IDC Construction
Energy-Saving and Emission-Reduction
Big Data.....

Focus on service quality and project implementation

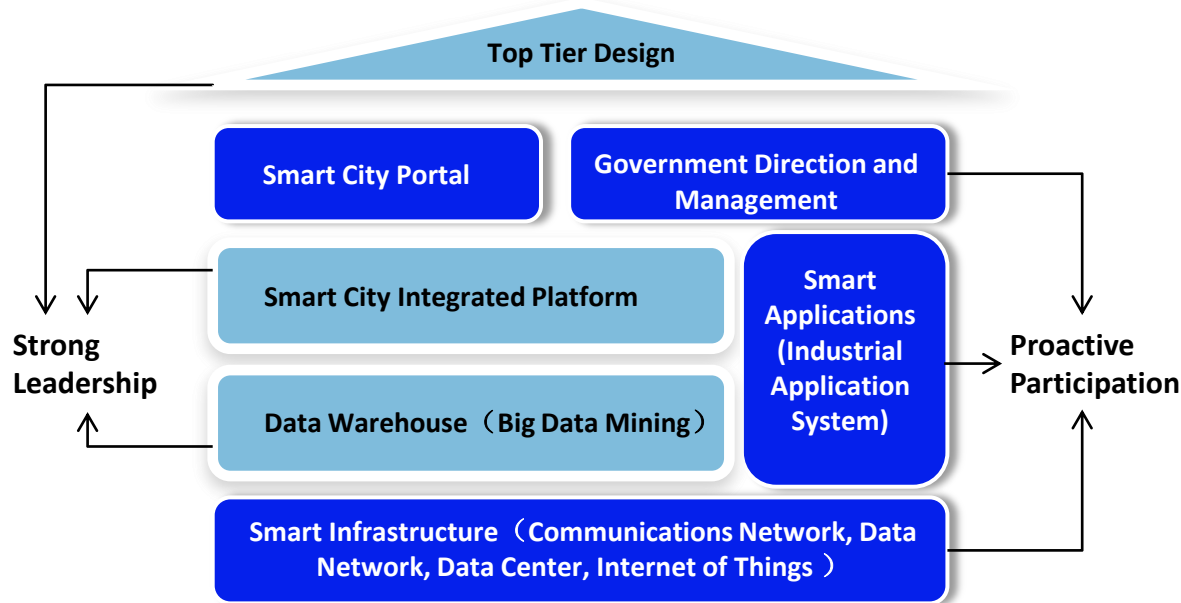
Reinforce R&D in new technology/product

Strengthen synergistic operation

Business Strategy – Domestic Non-operator Market



Target key industries and clients and cultivate important customers with our industrial solutions, including “Smart City” and “Intelligent Building”



“Smart Nanjing” Model

Start with design service and then further penetrate into the subsequent integrated solution with the construction of integrated platform and data warehouse etc. as its core services

Expand other local government, industrial informatization projects (high -valued) through participation of “Smart City” projects

Allocate resources and enhance marketing

Form professional marketing teams for core businesses

Share professional qualifications internally

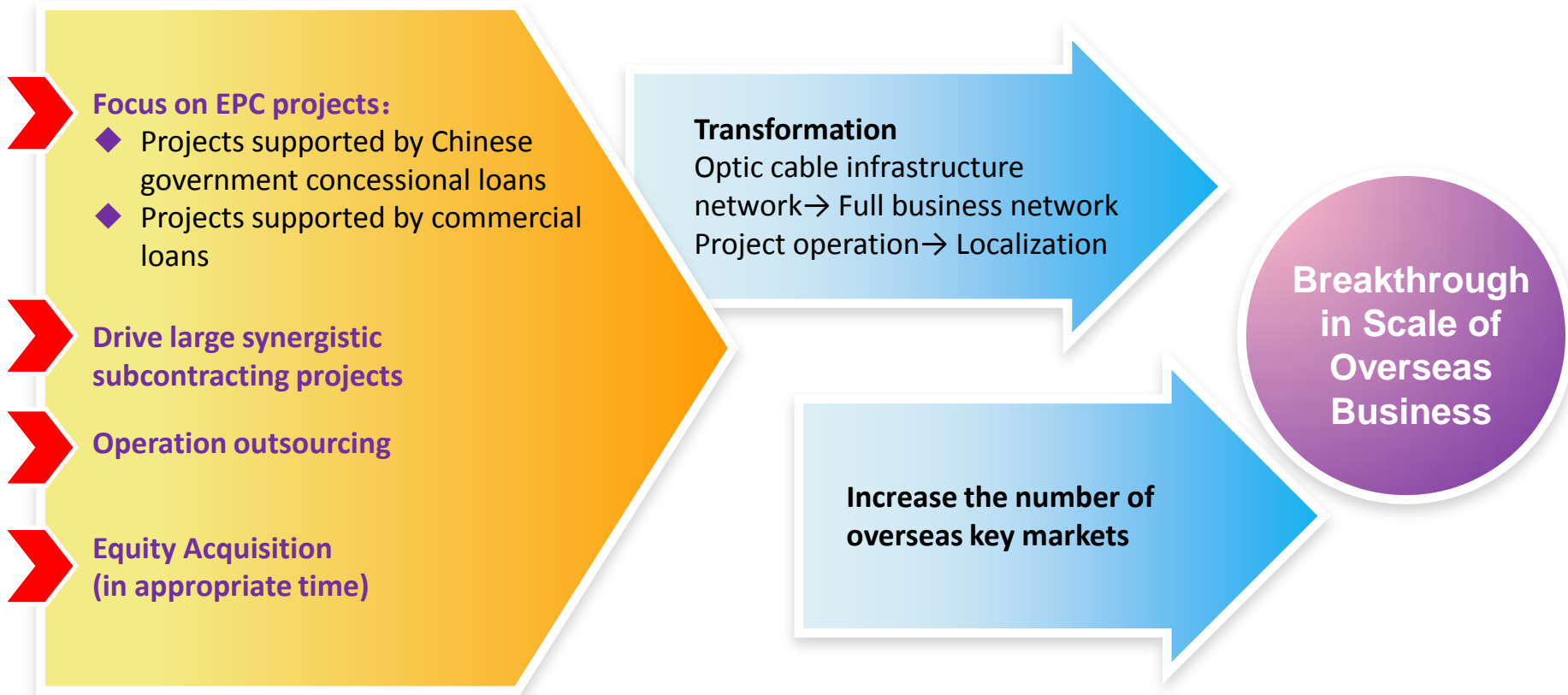
Enhance cooperation with domestic operators to jointly develop market

Push on strategic cooperation with well-known enterprises to improve core capability

Business Strategy – Overseas Market



Adhere to “Four-Steps”⁽¹⁾ approach, focus on overseas EPC projects and establish overseas key markets in order to realize breakthrough in the scale of overseas business



(1) “Four-Steps”: subcontracting projects, EPC projects, operation outsourcing, equity investment

Financial Results

Financial Performance



(RMB'M)	1H 2012	1H 2013	Change	% of Revenue
Revenue	29,530	32,361	9.6%	100.0%
Cost of Revenue	24,949	27,390	9.8%	84.6%
Direct personnel	4,225	4,289	1.5%	13.2%
Materials ⁽¹⁾	8,943	9,695	8.4%	30.0%
Subcontracting	8,869	10,291	16.0%	31.8%
D & A	215	215	0.0%	0.7%
Others	2,697	2,900	7.5%	8.9%
Gross Profit	4,581	4,971	8.5%	15.4%
SG&A	3,326	3,778	13.6%	11.7%
Net Profit	1,221	1,242	1.7%	3.8%
EPS (RMB)	0.182	0.179	-1.6%	-
ROE (%) ⁽²⁾	13.6%	12.0%	-1.6PP	-

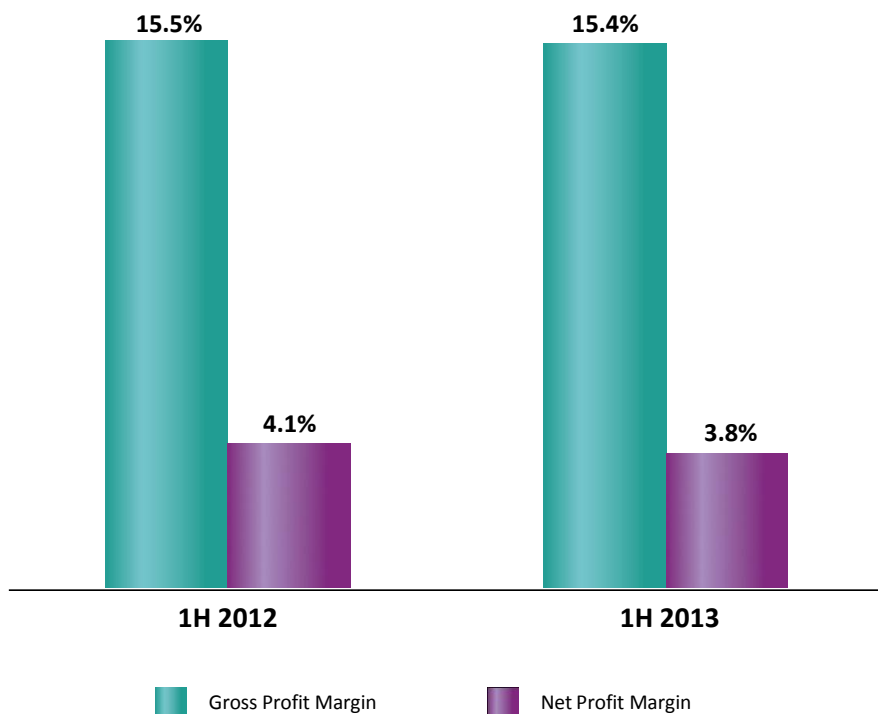
(1) Materials refer to purchase of materials and telecommunications products.

(2) Annualized basis

Gross Profit Margin and Net Profit Margin



Gross Profit Margin and Net Profit Margin



Emphasize profitable business development and sustain relatively stable gross profit margin through various methods

- ◆ Strengthened project management and implemented precise cost control
- ◆ Expanded high-value businesses through innovation and transformation
- ◆ Managed the rapid development of certain businesses with low value proactively



Net profit up by 1.7%, net margin down by 0.3pp

- ◆ Slowdown in revenue growth
- ◆ Impact from increase of fixed costs
- ◆ Increase in certain expenses



Face challenges in maintaining profitability

- ◆ Slowdown in macro economy
- ◆ Intensifying competition in the industry
- ◆ Rising labor costs



Cost as a % of Total Revenue

(%)	Materials	Subcontracting	Direct Personnel	SG&A	Other	Total
1H2012	30.3%	30.0%	14.3%	11.3%	9.9%	95.8%
1H2013	30.0%	31.8%	13.2%	11.7%	9.6%	96.3%



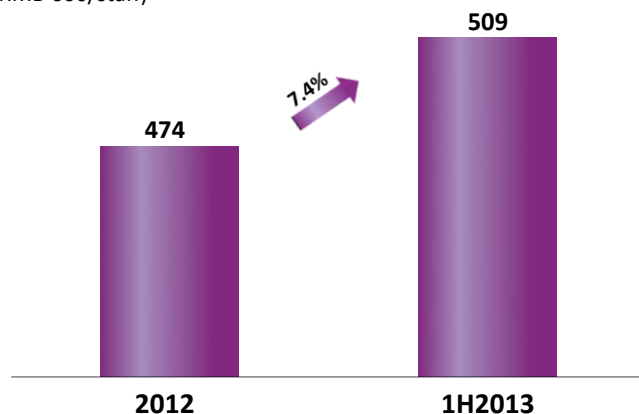
Materials cost up by 8.4% to RMB9.7 billion, grew slower than revenue



Total personnel cost ⁽²⁾ up by 6.5% to RMB6.7 billion, grew slower than revenue; labor productivity continued to increase

Labor Productivity ⁽¹⁾

(RMB'000/staff)



Continued to subcontract low-end tasks to enhance operation efficiency

- ◆ Subcontracting cost up by 16.0% to RMB10.3 billion



SG&A up by 13.6% to RMB3.8 billion, representing 11.7% to total revenues

- ◆ Strengthen R&D and market expansion
- ◆ Incentive measures (Stock Appreciation Right) to motivate core personnel
- ◆ Improve efficiency and strengthen synergistic operation

(1) Labor productivity = revenue over period end staff number (annualized basis) ; As of 30 June 2013, the total number of staff was 127 thousand

(2) Total personnel cost = direct personnel cost + staff cost in SG&A

Balance Sheet



Capital structure remained stable



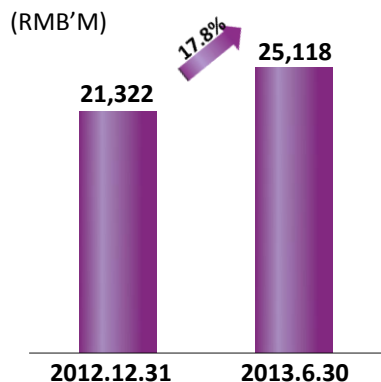
Growing business scale posted greater demand for funding

(RMB'M)	2012.12.31	2013.6.30	Change
Total Assets	44,961	47,395	2,434
Cash and cash equivalents	8,879	6,860	-2,019
Account receivables	21,322	25,118	3,796
Fixed assets (NBV)	4,518	4,359	-159
Total Liabilities	23,958	26,103	2,145
Interest-bearing borrowings	500	592	92
Account payables	14,844	16,207	1,363
Equity Attributable to Equity Shareholders	20,503	20,777	274
Total Liabilities / Total Assets (%)	53.3%	55.1%	1.8pp
Debt-to-Capitalization Ratio (%)	2.4%	2.8%	0.4pp

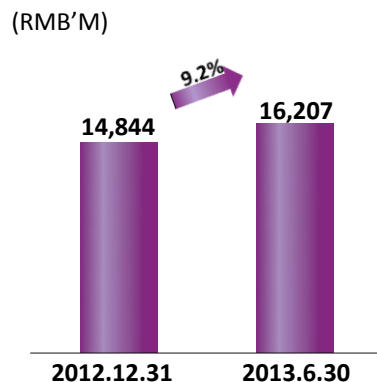
Working Capital Management



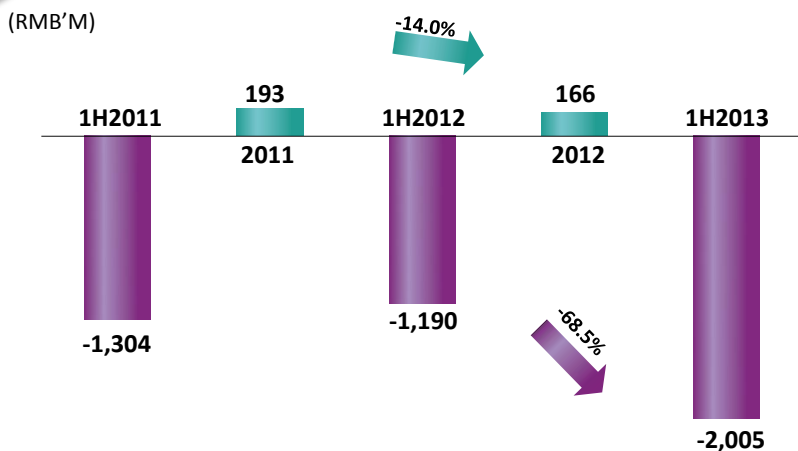
Account Receivables



Account Payables



Free Cash Flow



Overall quality of account receivables was favorable

- ◆ About 90% account receivables were due within 1 year
- ◆ About 70% account receivables were from domestic operators
- ◆ About 80% incremental account receivables were from domestic operators

Free cash flow down by 68.5%, posting greater pressure on funding operation

Future 4G / LTE construction requires even greater working capital

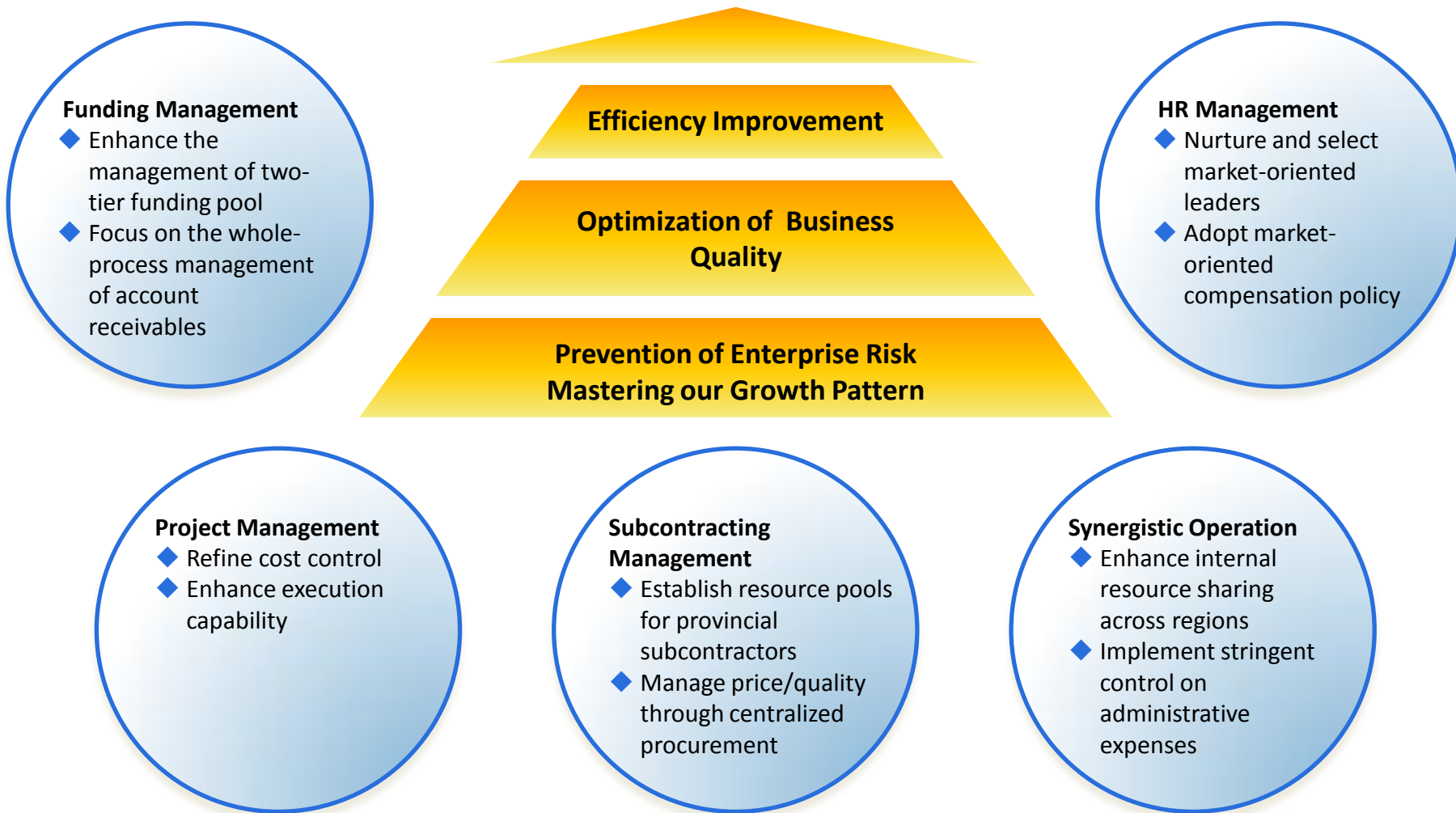
Continue to fortify funding management:

- ◆ Effectively utilize internal funding to support business development
- ◆ Enhance customers' credit assessment to prevent default risk
- ◆ Reinforce project management and account receivable collection
- ◆ Strengthen whole-process management and assessment on account receivable

Enhance Shareholders' Return by Effective Management



Increase Shareholders' Return





Thank you!



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