

## PRESIDENT'S STATEMENT



**Si Furong**  
President

Dear Shareholders,

I am very pleased to present the operating results of the Group in 2013.

### FINANCIAL PERFORMANCE

In 2013, the Group recorded total revenues of RMB68,459 million, representing a year-on-year growth of 11.3%. The sustained growth of total revenues was mainly attributable to the Group's focus on three major markets. While maintaining the steady business growth in the domestic telecommunications operator market, the Group also actively expanded into the domestic non-operator market and the overseas market, which achieved relatively rapid growth. However, the operating result of the Group was affected by various factors, including those factors discussed in the Chairman's Statement and other impacts brought by changes in revenue composition and new regulatory policies such as the replacement of business tax with value added tax and the amendments to the PRC tender regulations. In 2013, profit attributable to equity shareholders of the Company amounted to RMB2,238 million, representing a year-on-year decrease of 7.0%. Gross and net profit margins were 15.2% and 3.3%, respectively. Basic earnings per share amounted to RMB0.323.

Near the end of 2013, the Group devoted more resources to undertake more 4G network construction projects, also affecting its operating results to certain extent. In addition, due to the lengthened repayment cycle of its major customers, free cash flow<sup>1</sup> of the Group decreased as compared with the same period last year. In 2013, the free cash flow of the Group was RMB-324 million, and the net cash inflow from operating activities was RMB321 million.

<sup>1</sup> Free cash flow = Profit for the year + Depreciation and amortisation – Changes in working capital – Capital expenditure

The sustained growth of total revenues was mainly attributable to the Group's focus on three major markets. While maintaining the steady business growth in the domestic telecommunications operator market, the Group also actively expanded into the domestic non-operator market and the overseas market, which achieved relatively rapid growth.

## BUSINESS DEVELOPMENT

In 2013, the revenue from telecommunications infrastructure ("TIS") services sustained relatively rapid growth, representing a year-on-year increase of 12.8% and accounting for 46.8% of total revenues. During the year, the Group's TIS business was impacted by the back-end loaded capital expenditure ("CAPEX") of domestic telecommunications operators and the change in CAPEX structure due to 4G development. Nonetheless, attributable to our continuous business development efforts and breakthroughs achieved in the domestic non-operator market and overseas market, aggregate TIS revenues from such markets recorded a year-on-year growth of 18.1% and accounted for 22.3% of the total revenue of TIS services, leading to a relatively rapid growth of overall TIS business.

In 2013, the growth of revenue from business process outsourcing ("BPO") services moderated with a growth rate of 10.3% over the last year, accounting for 42.4% of total revenues. The Group firmly adhered to the principle of efficient development and prudently managed certain businesses with relatively low or decreasing operating efficiency. Therefore, growth of revenue from the distribution of telecommunications services and products, as well as the network maintenance businesses decreased to 11.7% and 7.3%, respectively.

In 2013, the revenue from applications, content and other ("ACO") services achieved a year-on-year increase of 9.0%, accounting for 10.8% of total revenues. The Group strived to enhance openness and innovation, as well as optimize business structure. The revenue from the core ACO services<sup>2</sup> grew by 14.1%, with its proportion to the total revenue from ACO services increased by 3.6 percentage points to 79.7%. Moreover, the Group proactively grasped the opportunities brought by the society and industry informatization in China and further explored system integration projects in the domestic non-operator market, making such market as an important driver for the healthy and steady growth of the revenue from ACO services.

<sup>2</sup> Core ACO services include system integration, software development and system support, and value added services.

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**MARKET EXPANSION**

The Group has been focusing on three major markets. While reinforcing its leading position in the domestic telecommunications operator market, the Group also actively expanded into the domestic non-operator market and maintained favourable development momentum in the overseas market. In 2013, due to the factors mentioned above including the back-end loaded CAPEX, the revenue from the domestic telecommunications operator market amounted to RMB43,326 million, representing a year-on-year growth of 9.0%, which became moderate as compared with the same period last year. Aggregate revenues from China Mobile and China Unicom achieved a year-on-year growth of 3.1%, accounting for 20.6% of the total revenues. Nevertheless, the issuance of 4G licenses near the end of the year also increased the number of network construction projects undertaken by the Group, driving the revenue from China Telecom to achieve a year-on-year increase of 12.1%, accounting for 42.7% of the total revenues. During the year, the Group strategically exerted more efforts to develop the two new markets. The revenue from the domestic non-operator market showed a favourable growth momentum and reached RMB21,321 million, representing a year-on-year growth of 16.1% and accounting for 31.1% of the total revenues. The revenue from the overseas market amounted to RMB3,812 million, representing a year-on-year growth of 11.8% and accounting for 5.6% of the total revenues.

**ENHANCING FOUR MAJOR CAPABILITIES AND FOCUSING ON "SWEET SPOT" TO INNOVATE AND TRANSFORM**

In addition to steadily improving the effectiveness of synergistic operation and management, the Group strives to enhance its four major capabilities. Firstly, the Group improves its innovation capability by motivating innovation in products and services, business model, human resources management and operation systems. Secondly, the Group enhances its implementation capability by strengthening the management of projects, subcontracting and resources. Thirdly, the Group reinforces its marketing capability by promoting marketing collaboration, turnkey projects and brand building. Lastly, the Group boosts its operation and management capability by strengthening its financial, risk and human resources management. Moreover, the Group proactively focuses on the "Sweet Spot" of communications, finance and mobile Internet, pursuing innovation in products, services and business model to strengthen its innovation and transformation.

## PROSPECT FOR 2014

The Group has determined to focus on the following tasks during 2014 so as to create greater value for both its customers and shareholders:

- Entrench our leading position in the domestic telecommunications operator market by seizing business opportunities arising from 4G development: the Group will monitor the changes in CAPEX structure and demands of operators, and firmly seize the opportunities from CAPEX for 4G, "Broadband China" and network upgrade and optimization. The Group will also seize the development opportunities arising from the continuing expenditure in network operation and maintenance outsourcing by the operators, and focus on exploring business opportunities on high-end network maintenance, virtual operation, data centre and cloud services.
- Pursue scale development in the domestic non-operator market by capturing opportunities driven by informatization: the Group will actively participate in the governmental "Smart City" projects by providing high-end consulting services. Meanwhile, leveraging its ACO products, the Group targets to serve key industry customers and aims to achieve breakthroughs in business scale by providing professional integrated services covering design, construction, supervision and maintenance. Besides, the Group will develop IT outsourcing services for SMEs by utilizing the operation of SAP public cloud services.
- Expand overseas turnkey projects synergistically: the Group will expand its overseas business by effective use of financial tools, capitalise on opportunities arising from the construction demands for "Broadband Countries, Smart Capitals and Regional Hubs" in Asia, Africa and Middle East regions, and strengthen resource allocation in key projects and regions.
- Strengthen external cooperation and innovation in ACO business: while strengthening our own research and development capability, the Group will establish strategic cooperation with partners possessing brand and technology advantages by leveraging its domestic channels and service edges, so as to develop competitive products and leading companies, and support the expansion into the three major markets.
- Enhance effectiveness of synergistic operation and management: the Group will strengthen its project management, account receivables management and risk management, as well as further enhance synergistic operation capability, so as to reinforce its management foundation to provide strong and reliable support for the future development of the Group.



**Si Furong**  
*President*

Beijing, the PRC  
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Submarine cable  
construction



EXPANDING  
UNDERSEA