

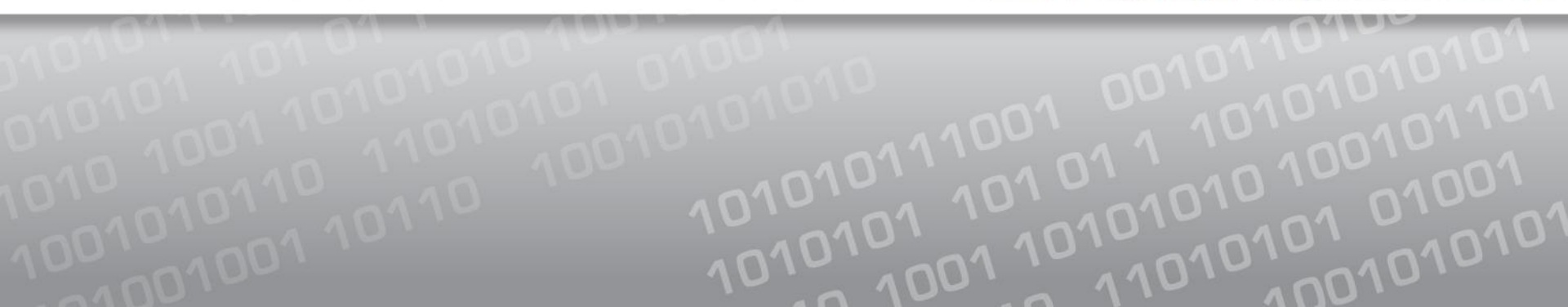


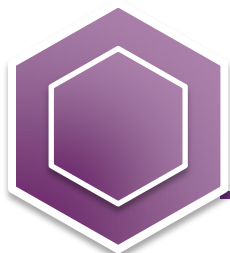
CHINA COMMUNICATIONS SERVICES CORPORATION LIMITED

STOCK CODE: 552

## Annual Results 2012

March 27, 2013





**MR. LI PING**

CHAIRMAN



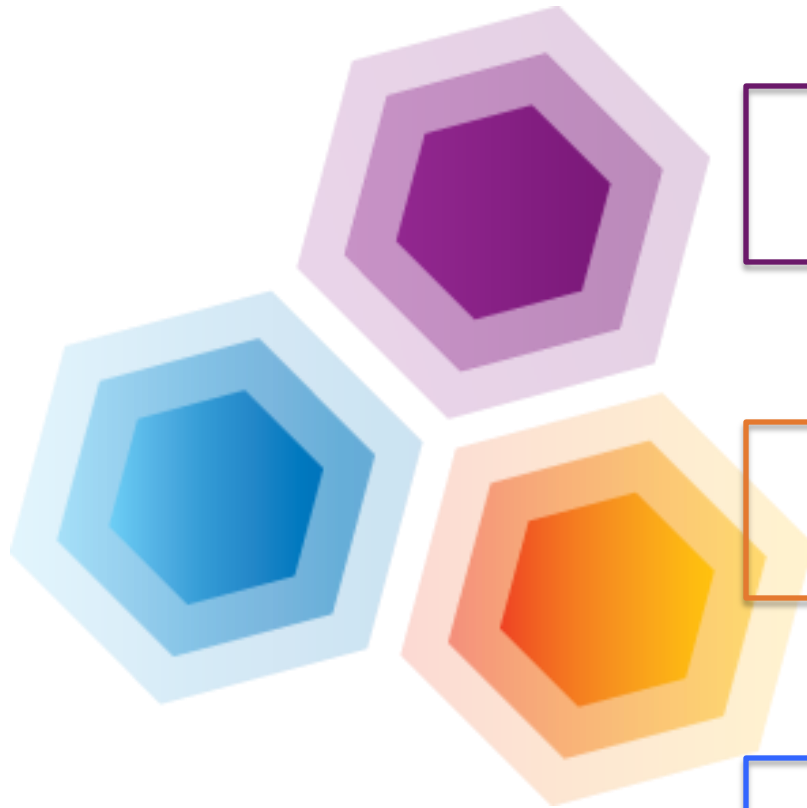
**MR. ZHENG QIBAO**

PRESIDENT



**MS. HOU RUI**

EXECUTIVE VICE PRESIDENT  
& CFO



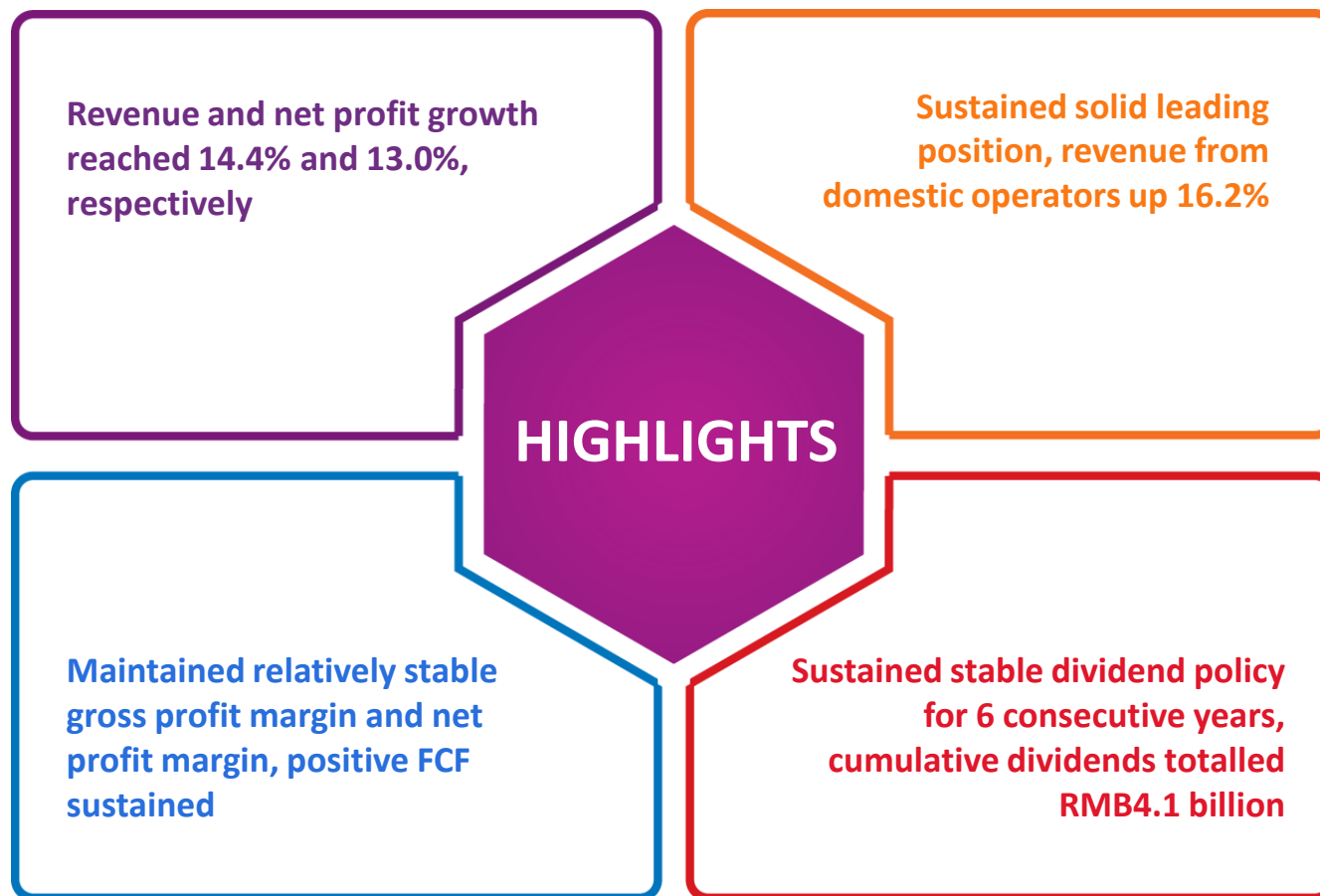
**Overview**

**Business Review**

**Financial Results**



# Overview



Note: Historical financial data in this presentation have been restated to include the results of the companies newly acquired in June 2012 in accordance with relevant accounting standard.

# Favorable Overall Performance



Achieved a favorable opening of the second five-year period since listing in 2006 with revenue exceeding RMB60 billion; Revenue and net profit reached RMB61.5 billion and RMB2.4 billion, respectively

Gross profit margin and net profit margin were 15.9% and 3.9%, respectively; Positive free cash flow sustained

(RMB'M, except EPS & % figures)	2011	2012	Change
<b>Revenue</b>	53,780	61,517	14.4%
<b>Gross Profit</b>	8,581	9,785	14.0%
<b>Gross Profit Margin</b>	16.0%	15.9%	-0.1pp
<b>Net Profit</b>	2,129	2,407	13.0%
<b>Net Profit Margin</b>	4.0%	3.9%	-0.1pp
<b>Free Cash Flow <sup>(2)</sup></b>	193	166	-14.0%
<b>EPS <sup>(1)</sup> (RMB)</b>	0.358	0.353	-1.4%
<b>ROE (%)</b>	13.7%	13.1%	-0.6pp

(1) EPS for the year ended 31 Dec 2011 have been restated due to following factors: (1) companies newly acquired in 2012; (2) the enlarged share capital after rights issue in February 2012. Please refer to the notes to the financial statements for details.

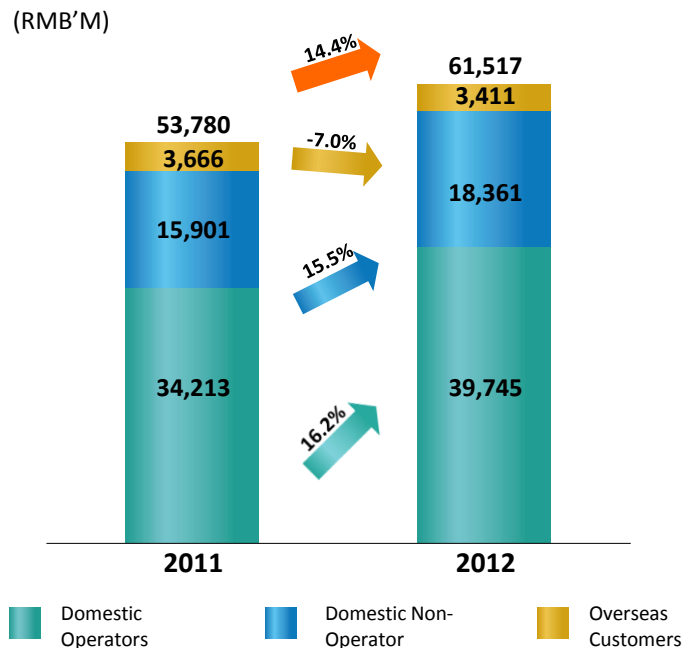
(2) Free cash flow = profit for the year + depreciation/amortization – changes in working capital – CAPEX

# Favorable Results in Domestic Operator Market and Domestic Non-Operator Market

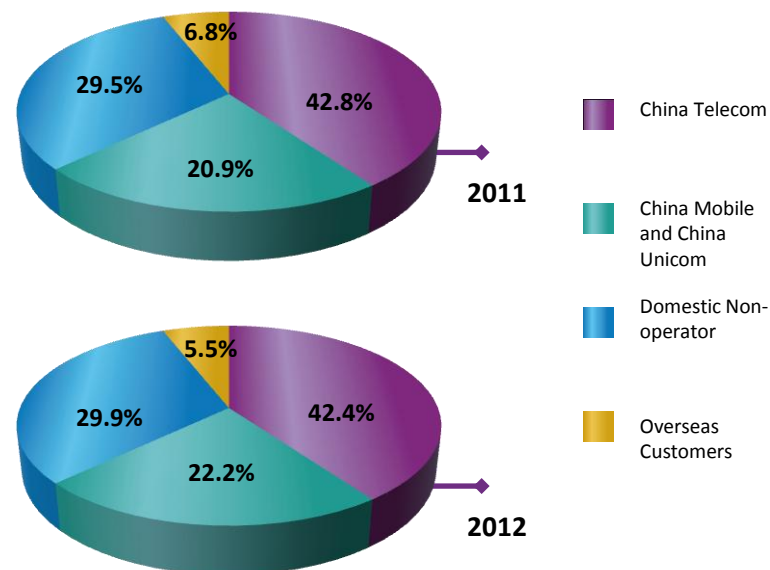


- Revenue growth from domestic operator market accelerated and reached 16.2% (2011: 15.9%), contributing to 71.5% of total incremental revenue of 2012
- Service quality further recognized, revenue in aggregate from China Mobile and China Unicom as % of total revenue up 1.3pp
- Development of domestic non-operator market showed favorable momentum
- Overseas market development experienced volatility due to factors such as unstable macro economy and project cycle

## Revenue by Customer



## Revenue Mix by Customer



# Relatively Stable Mix of Three Businesses



BPO business up 17.8% driven by rapid growth of maintenance and distribution services

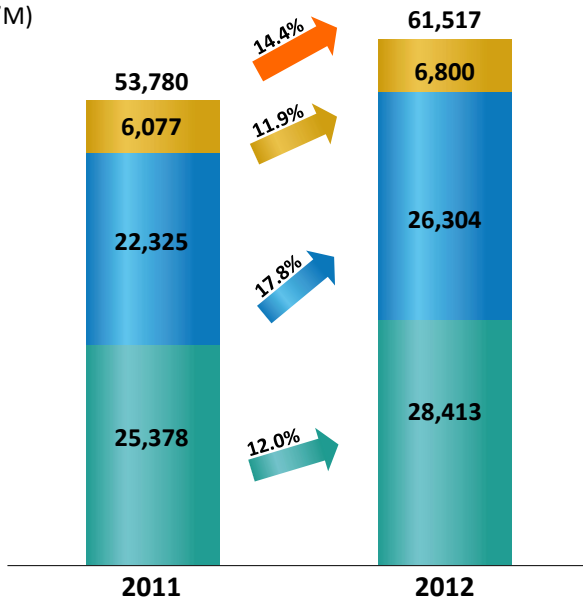


Mix of three businesses remained stable while revenue scale enlarging



## Revenue by Business

(RMB'M)



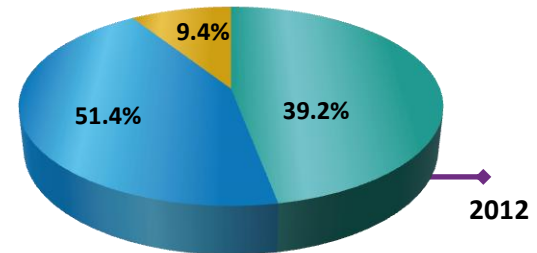
TIS

BPO

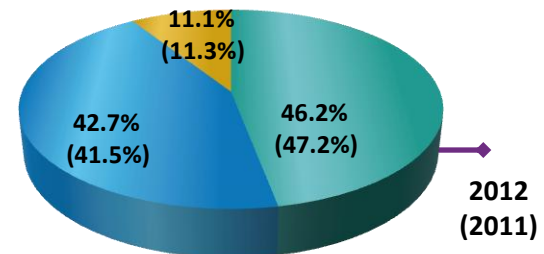
ACO



## Incremental Revenue Mix by Business



## Revenue Mix by Business





# High Growth Sustained with Steadily Increasing Dividends



Revenue CAGR and net profit CAGR since 2006 were 20.4% and 19.4%, respectively



EPS was RMB0.353 per share in 2012; The Board proposed a dividend of RMB0.1390 per share, and total dividends for 2012 amounted to RMB963 million

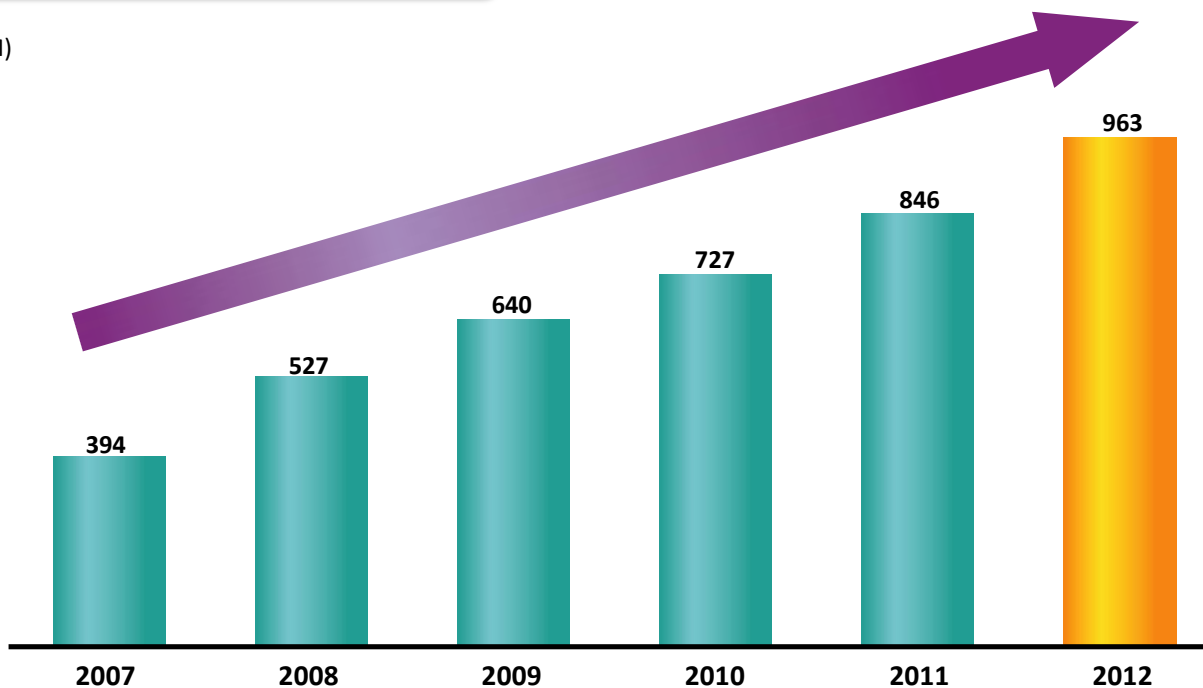


Dividends grew steadily over the years and cumulative dividends totalled RMB4.1 billion



## Dividends

(RMB'M)



# Assessing Future Development Circumstance



Continue to drive innovation and transformation,  
grasp opportunities to meet ever changing demands of our customers

Opportunities and Challenges Co-exist,  
Opportunities > Challenges

## Macro Policies

- ◆ Industrialization, Informatization, urbanization and agriculture modernization
- ◆ Broadband China
- ◆ Overseas "Go Abroad" strategy
- ◆ Virtual Operation



## New Technologies

- ◆ 4G/LTE
- ◆ Big Data
- ◆ Cloud Computing
- ◆ Mobile Internet

## Opportunities

### Domestic operators

- ◆ LTE commercialization
- ◆ Operation and maintenance outsourcing
- ◆ Construction of data center based on cloud computing

### Domestic non-operator

- ◆ Government: Smart City
- ◆ Industry customers: specialized informatization services
- ◆ SMEs: Virtual Operation

### Overseas customers

- ◆ Demands for communications construction
- ◆ Superior capability of delivering

## Challenges

### External Environment

- ◆ Sluggish recovery of global economy
- ◆ Intensified industry competition and lowered telecom tariff
- ◆ Greater demand for specialized services by customers

### Internal

- ◆ Improve efficiency of capturing opportunities
- ◆ Enhance core capabilities



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

### Emphasize on both Scale and Efficiency

Labor Intensive  
Servicing Domestic  
Operators  
Leading in  
Domestic Market

Transformation

Technology and Management  
Intensive  
Servicing Informatization  
Sector  
World - Class Enterprise

- ◆ Strategy of Maintaining a Leading Position in the Domestic Operator Market
- ◆ Strategy of Differentiation and Cooperation in the Domestic Non-operator Market
- ◆ Strategy of Focusing on Overseas Market and "Four Steps"

Strategy of Talent Management

Strategy of Synergistic Operation

Market  
Transformation

Business  
Transformation

Operation  
Transformation

Human Resource  
Transformation

# Business Review

# Revenue Breakdown



(RMB'M)	2011	2012	Change	% of Revenue
<b>TIS</b>	<b>25,378</b>	<b>28,413</b>	<b>12.0%</b>	<b>46.2%</b>
Design	5,129	5,788	12.8%	9.4%
Construction	18,559	20,638	11.2%	33.6%
Supervision	1,690	1,987	17.6%	3.2%
<b>BPO</b>	<b>22,325</b>	<b>26,304</b>	<b>17.8%</b>	<b>42.7%</b>
Maintenance	5,276	6,414	21.6%	10.4%
Distribution	14,443	16,944	17.3%	27.5%
Facility Management	2,606	2,946	13.0%	4.8%
<b>ACO</b>	<b>6,077</b>	<b>6,800</b>	<b>11.9%</b>	<b>11.1%</b>
IT Applications	3,106	3,877	24.8%	6.3%
Internet Services	537	544	1.3%	0.9%
Voice VAS	746	753	0.8%	1.2%
Others	1,688	1,626	-3.7%	2.7%
<b>Total</b>	<b>53,780</b>	<b>61,517</b>	<b>14.4%</b>	<b>100.0%</b>

Note: TIS refers to Telecommunications Infrastructure Services

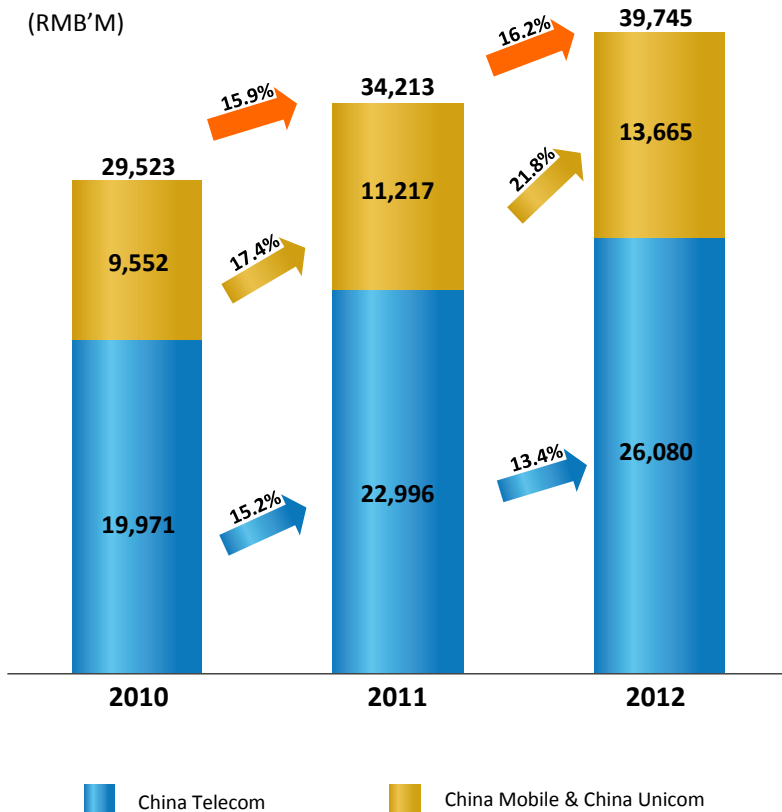
BPO refers to Business Process Outsourcing Services

ACO refers to Applications, Content and Other Services

# Domestic Operator Market(1/2): Adhere to Adaptive Resources Allocation with Leading Position Further Enhanced



## Revenue by Customer



Proactive market expansion according to the changing business development needs of customers, revenue from domestic operators up 16.2%, continuing a favorable growth momentum



Service capability and quality further recognized by customers, revenue from China Mobile and China Unicom in aggregate up 21.8%

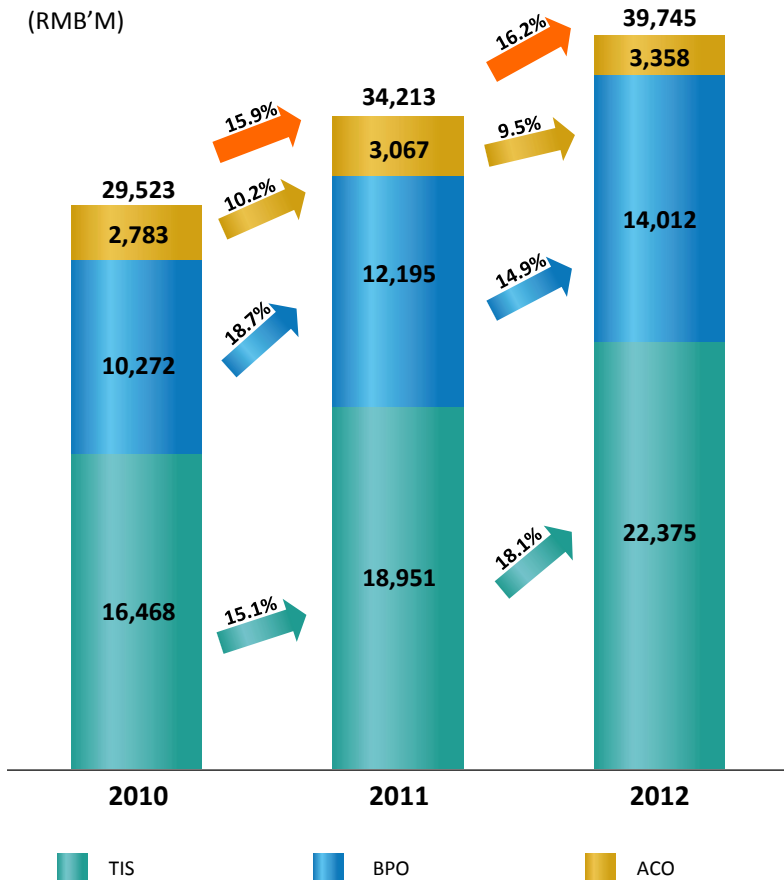


Proactive participation in 4G/LTE trial projects, specialists were trained and reserved

# Domestic Operator Market(2/2): Adhere to Adaptive Resources Allocation with Leading Position Further Enhanced



## Revenue by Business



Capturing opportunities, TIS revenue from domestic operators up 18.1%, faster than the overall growth of revenue from domestic operators



Focusing OPEX spending and continued outsourcing trend from domestic operators, revenue from operators' maintenance business grew 20%;

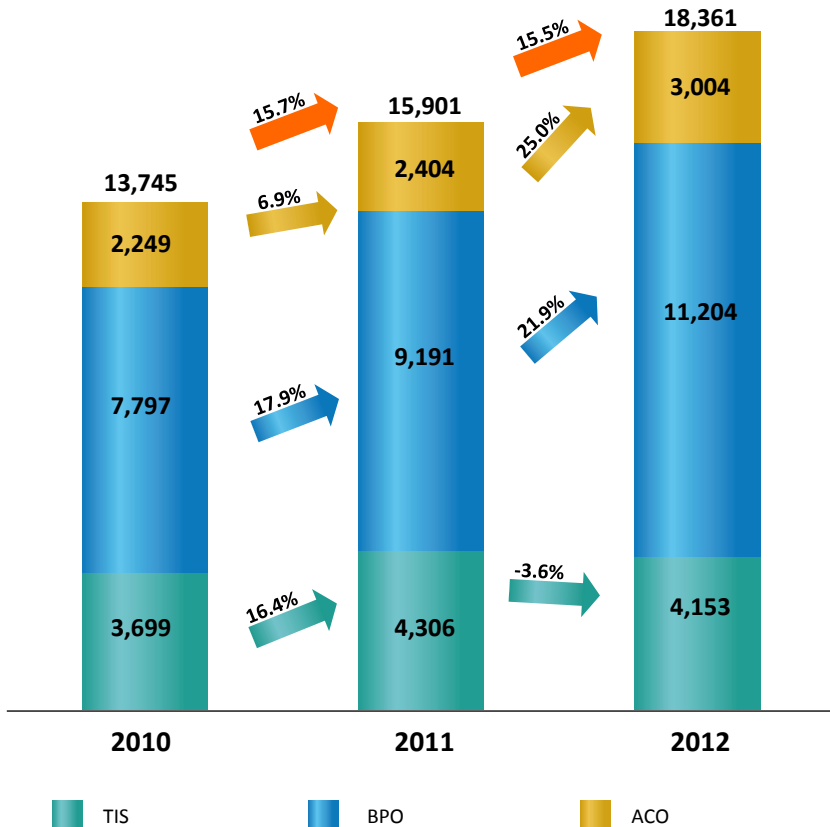
- ◆ Number of base stations under maintenance amounted to 291 thousand, up 20%

# Domestic Non-Operator Market: Steady Growth Continued



## Revenue from Domestic Non-operator

(RMB'M)



Revenue steadily up 15.5% in spite of moderating growth in domestic economy



Adhering to “Three-Steps” strategy\*, new breakthroughs achieved in new customer expansion and ACO business expedited

- ◆ “Smart Nanjing” - Integrated Management, Operation and Service Platform Development Project
- ◆ Fujian Province - Integrated Public Safety Management System Platform Construction Project
- ◆ China Southern Power Grid – Data Management Construction Project



Project funding set up to support turnkey project expansion and explore key customers

\* Three-Steps Strategy: (1) business replication, (2) capability extension and (3) innovation of industry informatization

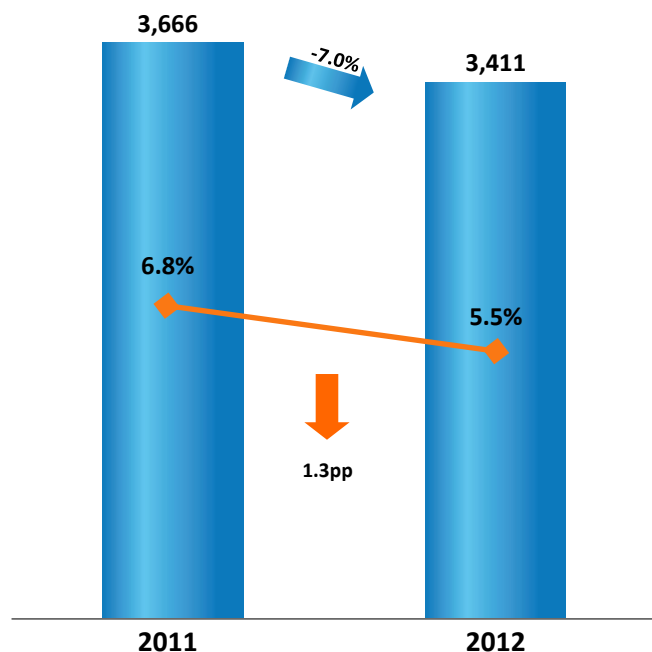


# Overseas Market: Promising Outlook Ahead amid Volatility



## Revenue from Overseas Market

(RMB'M)



◆ ◆ % of total revenue



Developed overseas businesses prudently under complicated international political and economic situation. Revenue growth experienced volatility due to implementation delay of certain turnkey projects



Great development potential with several turnkey projects commenced or delivered in the second half of 2012:

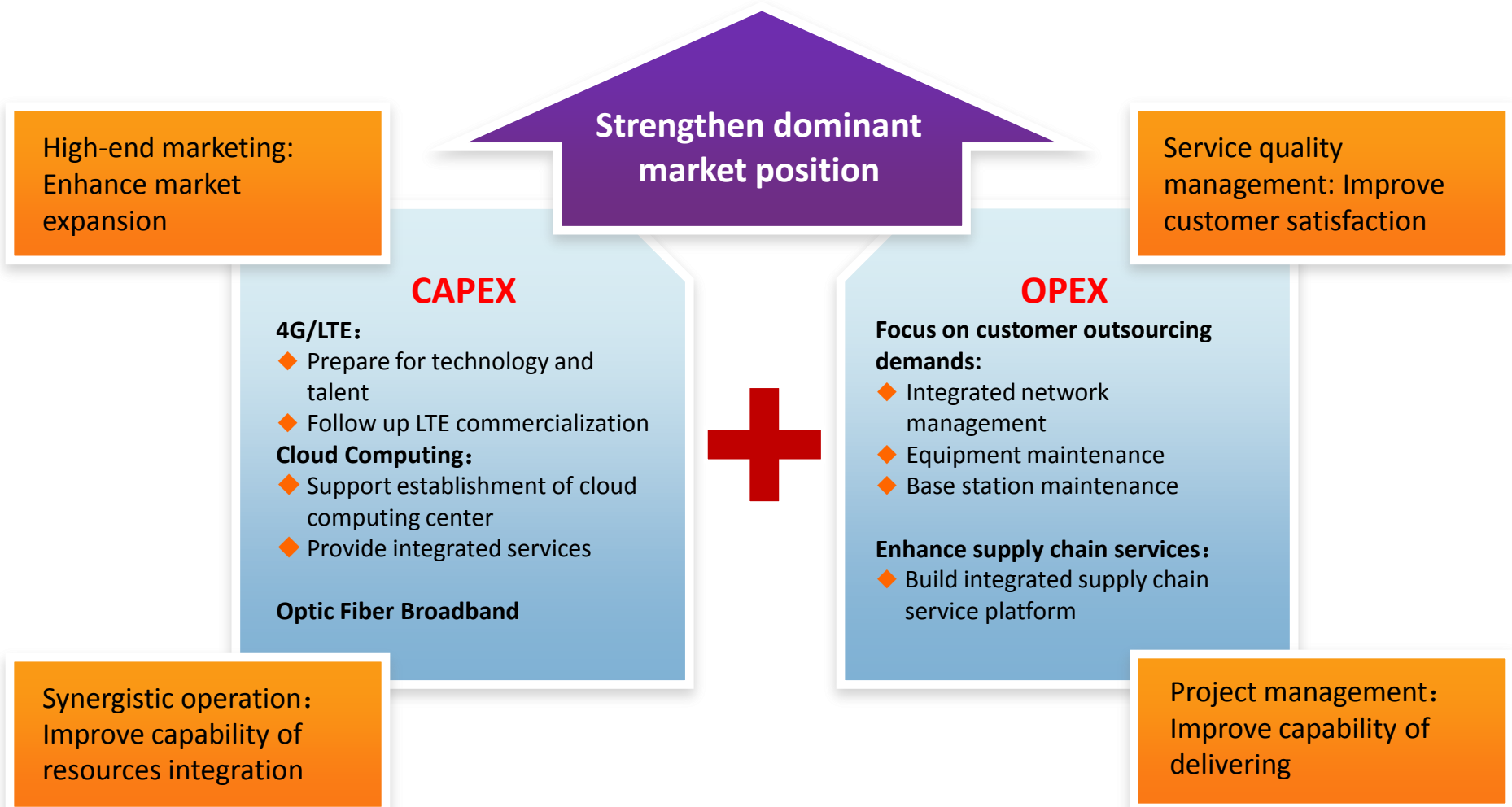
- ◆ Congo (K) Phase II National Backbone Optic Cable Network
- ◆ Saudi Arabia Mobily FTTH Project
- ◆ Algeria Communications Construction Project



Enhance management on overseas subsidiaries to efficiently manage and control risks

- ◆ Enhance team building
- ◆ Refine business management procedure
- ◆ Optimize contract arrangement to avoid exchange loss

# Business Strategy – Sustain Leading Position in the Domestic Operator Market



# Business Strategy – Persist in “Three-Steps” Strategy and Enhance Differentiation and Cooperation in Domestic Non-Operator Market



**Government  
Customer -  
Smart City Solutions**

**Industry Customers -  
Industrial Solutions**

## Adhere to “Three-Steps” Strategy\*

- ◆ Product Innovation: Encourage the promotion of self-developed products
- ◆ Marketing Innovation: Strengthen synergistic marketing by leveraging high-end businesses e.g. ACO, design and consulting services
- ◆ Management Innovation: Focus on expansion of large projects and optimize resource allocation
- ◆ Synergistic Operation: Build up product base, implement synergistic R&D and enhance cooperation along industrial chain

**SME -  
Virtual Operation**

**Equipment Vendors -  
Synergistic  
Outsourcing**

Develop products  
with differentiation

Strengthen  
cooperation and  
marketing efforts

**Continue to  
Develop and  
Nurture Key  
Customers**

\* Three-Steps Strategy: (1) business replication, (2) capability extension and (3) innovation of industry informatization

# Business Strategy – Adhere to “Overseas-Focus and Four-steps” Strategy\* in Overseas Market



## Vigorously Develop Turnkey Projects

- ◆ Obtain more turnkey projects in the developing countries by leveraging our strong financing capability
- ◆ Improve marketing capability of overseas subsidiaries to win more turnkey projects

## Boost Synergistic Subcontracting

- ◆ Enhance synergistic operation and outsourcing
- ◆ Strengthen specialized management of subcontracting project and project management to improve efficiency

## Operation Outsourcing

- ◆ Reinforce co-development with operators to expand overseas operation outsourcing business

Market  
Focus

Realize Scale  
Development  
of Overseas  
Business

\* Four-Steps Strategy: Subcontracting, Turnkey Projects, Operation Outsourcing, Equity Investment

# Financial Results

# Financial Performance



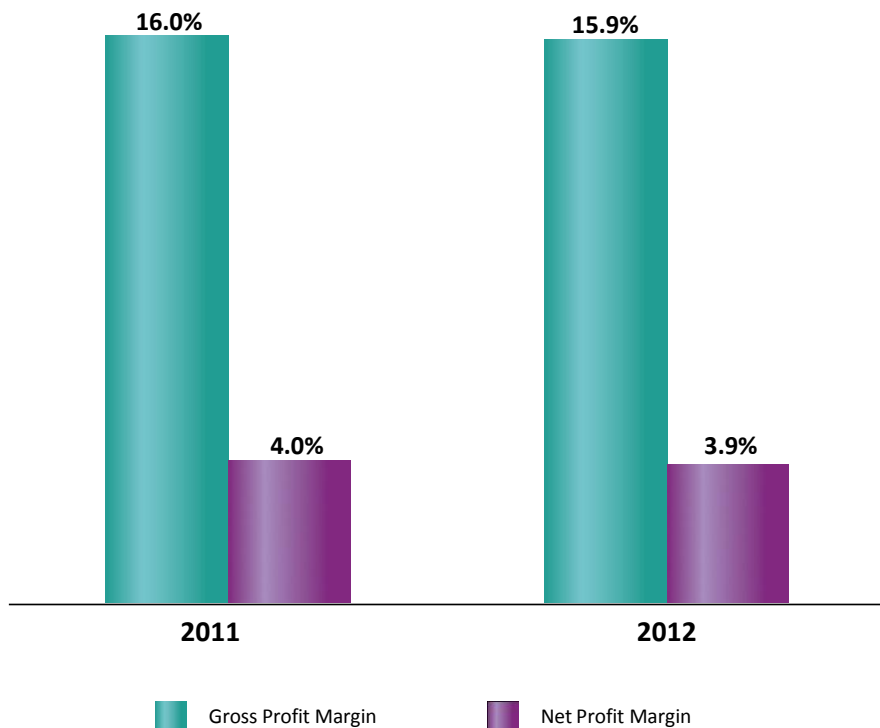
(RMB'M)	2011	2012	Change	% of Revenue
<b>Revenue</b>	<b>53,780</b>	<b>61,517</b>	<b>14.4%</b>	<b>100.0%</b>
<b>Cost of Revenue</b>	<b>45,199</b>	<b>51,732</b>	<b>14.5%</b>	<b>84.1%</b>
Direct personnel	8,517	9,229	8.4%	15.0%
Materials <sup>(1)</sup>	16,253	17,646	8.6%	28.7%
Subcontracting	14,528	18,448	27.0%	30.0%
D & A	430	439	2.0%	0.7%
Others	5,471	5,970	9.1%	9.7%
<b>Gross Profit</b>	<b>8,581</b>	<b>9,785</b>	<b>14.0%</b>	<b>15.9%</b>
<b>SG&amp;A</b>	<b>6,465</b>	<b>7,515</b>	<b>16.2%</b>	<b>12.2%</b>
<b>Net Profit</b>	<b>2,129</b>	<b>2,407</b>	<b>13.0%</b>	<b>3.9%</b>
<b>EPS (RMB)</b>	<b>0.358</b>	<b>0.353</b>	<b>-1.4%</b>	<b>-</b>
<b>ROE (%)</b>	<b>13.7%</b>	<b>13.1%</b>	<b>-0.6PP</b>	<b>-</b>

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

# Gross Profit Margin and Net Profit Margin



## Gross Profit Margin and Net Profit Margin (%)



Profitability sustained through various methods:

- ◆ Focused on quality customers, high-end and turnkey business
- ◆ Strengthened project management and subcontracting management to manage and control costs



Strengthened synergistic management to gradually realize efficiency of scale



Continue to drive business transformation and management innovation so as to maintain profitability

# Overall Cost Structure Remained Stable and Labor Productivity Further Improved



## Cost as a % of Total Revenue

(%)	Materials	Subcontracting	Direct Personnel	SG&A	Other	Total
2010	29.7%	26.0%	16.4%	12.4%	11.6%	96.1%
2011	30.2%	27.0%	15.8%	12.0%	11.1%	96.1%
<b>2012</b>	<b>28.7%</b>	<b>30.0%</b>	<b>15.0%</b>	<b>12.2%</b>	<b>10.4%</b>	<b>96.3%</b>

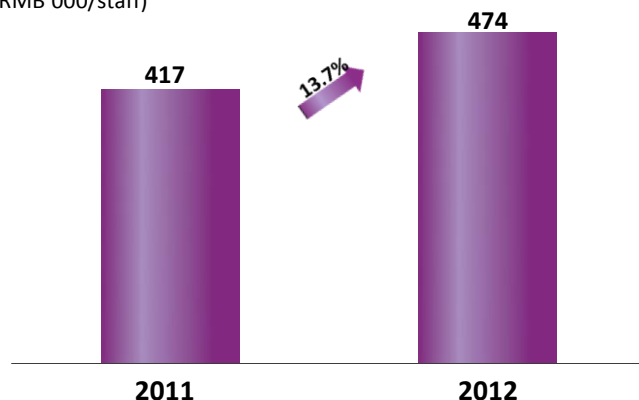
Total cost as a % of total revenue remained relatively stable

Material cost up 8.6% to RMB17.65 billion

Total personnel cost <sup>(2)</sup> up 11.7% to RMB13.81 billion; Labor productivity up 13.7%

## Labor Productivity <sup>(1)</sup>

(RMB'000/staff)



Subcontracting cost up 27.0% to RMB18.45 billion

◆ Subcontract low-end business to maintain headcount scale, and thereby lowering personnel cost as % of total revenue

SG&A up 16.3% to RMB7.52 billion; SG&A as a % of total revenue remained stable

(1) Labor productivity = revenue over period end staff number  
 (2) Total personnel cost = direct personnel + staff cost in SG&A  
 (3) As of 31 December 2012, total number of staff was 130 thousand



# Solid Balance Sheet



Capital structure remained stable; Gearing further decreased

Fully utilized two-tiers funding pool with >80% idle cash centralized

(RMB'M)

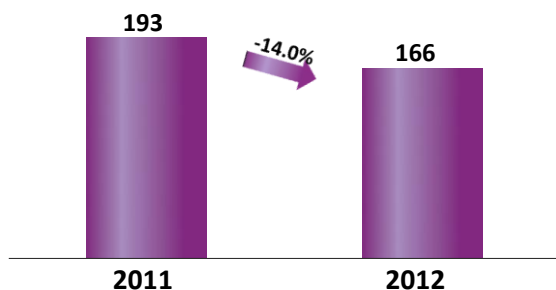
	2011	2012	Change
<b>Total Assets</b>	<b>38,955</b>	<b>44,961</b>	<b>6,006</b>
Cash and cash equivalents	7,380	8,879	1,499
Account receivables	17,323	21,322	3,999
Fixed assets (NBV)	4,496	4,518	22
<b>Total Liabilities</b>	<b>22,319</b>	<b>23,958</b>	<b>1,639</b>
Interest-bearing borrowings	1,130	500	-630
Account payables	12,781	14,844	2,063
<b>Equity Attributable to Equity Shareholders</b>	<b>16,284</b>	<b>20,503</b>	<b>4,219</b>
<b>Total Liabilities / Total Assets (%)</b>	<b>57.3%</b>	<b>53.3%</b>	<b>-4.0pp</b>
<b>Debt-to-Capitalization Ratio (%)</b>	<b>6.5%</b>	<b>2.4%</b>	<b>-4.1pp</b>

# Working Capital Management



## Free Cash Flow

(RMB'M)



Growing business scale posted greater demand for working capital and increasing pressure on free cash flow

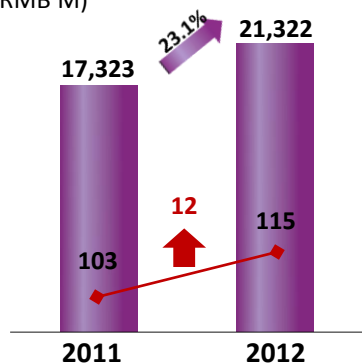


Enhance account receivables collection by strengthening AR management:

- ◆ Enhance analysis on ageing and customer mix of AR and increase assessment frequency
- ◆ Push on AR collection targeting long-term past due payments
- ◆ Leverage financial instrument proactively, and adopt AR financing in certain overseas projects

## Account Receivables

(RMB'M)



## Account Payables

(RMB'M)



◆ ◆ AR Turnover days

◆ ◆ AP Turnover days

AR turnover days = average balance of account receivables/revenue\*365

AP turnover days = average balance of account payables/(material cost + subcontracting cost) \*

365

# Insist Management Innovation, Improve Efficiency and Increase Shareholders' Returns



## Increase Shareholders' Returns

### Refine Business Management

- ◆ Focus on project management and improve core competitiveness
- ◆ Leverage resource advantage and implement synergistic operation

### Strengthen Risk Control

- ◆ Strengthen internal auditing and risk assessment to improve risk detection and control ability
- ◆ Leverage IT system to enhance business and financial management

## Improve Efficiency

### Drive Funding Management

- ◆ Enhance management of funding pool to better utilize funding
- ◆ Strengthen account receivables management and improve efficiency of cash collection

### Build Talent Team

- ◆ Select and nurture leaders with specific expertise
- ◆ Adopt market-oriented appraisal and incentive policy

**THANK YOU**

# Forward Looking Statement



**This presentation and the presentation materials distributed herewith include "forward-looking statements". All statements, other than statements of historical facts, that address activities, events or developments that China Communications Services Corporation Limited ("China Communications Services") expects or anticipates will or may occur in the future (including but not limited to projections, targets, estimates and business plans) are forward-looking statements. China Communications Services' actual results or developments in the futures, including those of the businesses that China Communications Services may acquire, may differ materially from those indicated by these forward-looking statements as a result of various factors and uncertainties, including but not limited to the level of demand for telecommunications services; competitive forces in more liberalized markets; the effects of tariff reduction initiatives; changes in the regulatory policies and other risks and factors beyond China Communications Services' control. In addition, China Communications Services makes the forward-looking statements referred to herein as of today and undertakes no obligation to update these statements.**