



Annual Results
2015

31 March 2016

MR. SUN KANGMIN

CHAIRMAN



MR. SI FURONG

PRESIDENT



MS. HOU RUI

EXECUTIVE VICE PRESIDENT & CFO



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Financial Results



Overview



中国通信服务
CHINA COMSERVICE

Achieved Remarkable Overall Results & Operating Efficiency Enhancement

Revenue and net profit growth accelerated, free cash flow increased substantially and reached historical high

Captured New Opportunities from Domestic Operator Market

Expanded businesses further in terms of customer, business and region, and revenue from domestic operator market grew by 16.3%

Nourished Two New Markets as Future Growth Momentum

Growth accelerated in key businesses and structure optimized for both domestic non-operator and overseas markets, initiated and pushing ahead our Sino-African large-scale project

Strengthened our Endogenous Power for Capturing Future Opportunities

Consolidated our resources, identified and focused on new growth initiatives, and driving growth by upholding 'value-driven' principle

Proposed Special Dividend to Enhance Shareholders' Return

Proposed final dividend of RMB0.1011 per share and a special dividend of RMB0.0101 per share, total dividend reached RMB0.1112 per share, up by 19.4%

Achieved Remarkable Overall Results



Favorable growth of both revenue and net profit, up by 10.6% and 8.6%, respectively



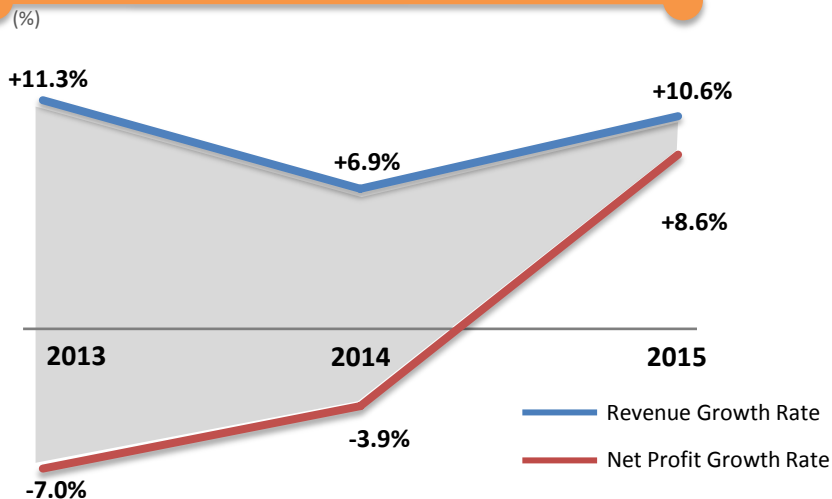
Free cash flow grew significantly, up by 328.8%, reaching historical high

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

	2014	2015	Change
Revenue	73,176	80,960	10.6%
Gross Profit	10,682	11,388	6.6%
Gross Profit Margin (%)	14.6%	14.1%	-0.5pp
Net Profit	2,150	2,334	8.6%
Net Profit Margin (%)	2.9%	2.9%	--
Free Cash Flow ⁽¹⁾	833	3,573	328.8%
EPS (RMB)	0.310	0.337	8.6%
Final Dividend per Share (RMB)	0.0931	0.1011	8.6%
Special Dividend per Share (RMB)	--	0.0101	--
Total Dividend per Share (RMB)	0.0931	0.1112	19.4%

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

Growth Rate of Revenue & Net Profit

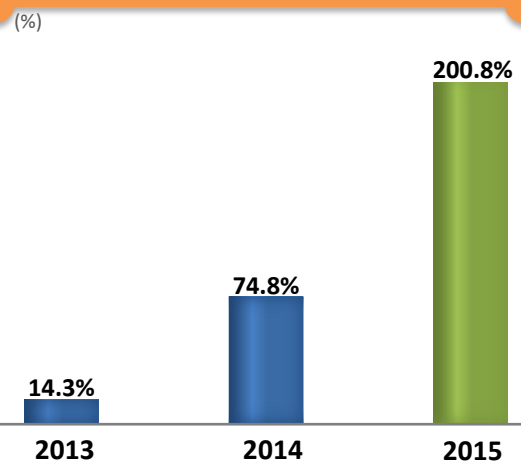


Achieved synchronal growth in revenue and net profit, and enhanced operating efficiency

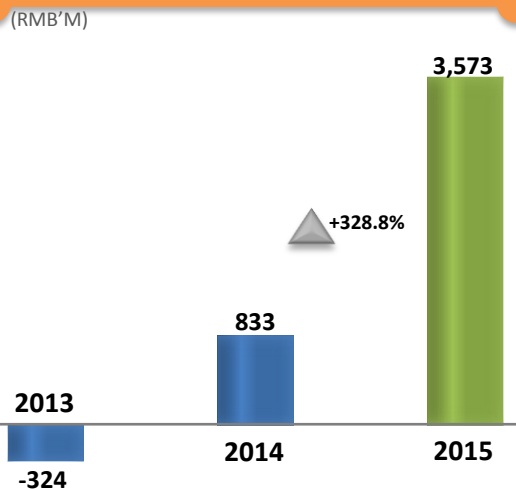
Value-driven management showed effect with cash conversion ratio increased significantly, driving substantial growth in free cash flow

Financial position remained solid and kept maintaining low gearing ratio and net cash position for years

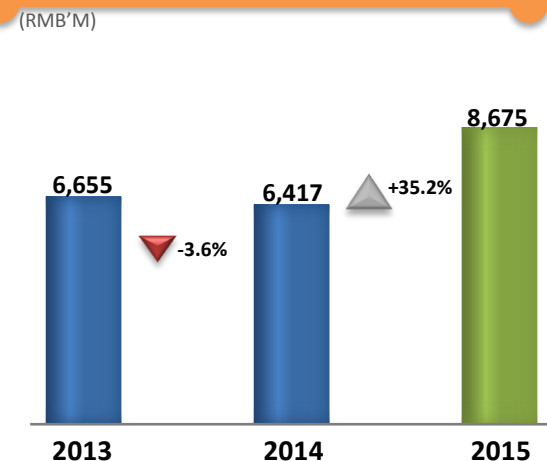
Cash Conversion Ratio⁽¹⁾



Free Cash Flow



Net Cash

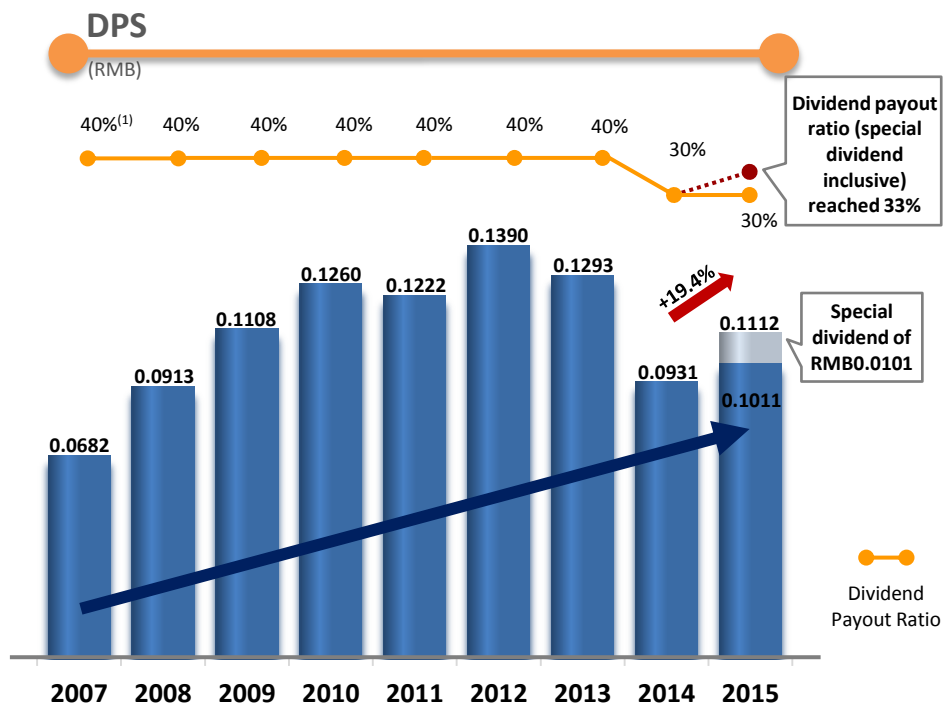
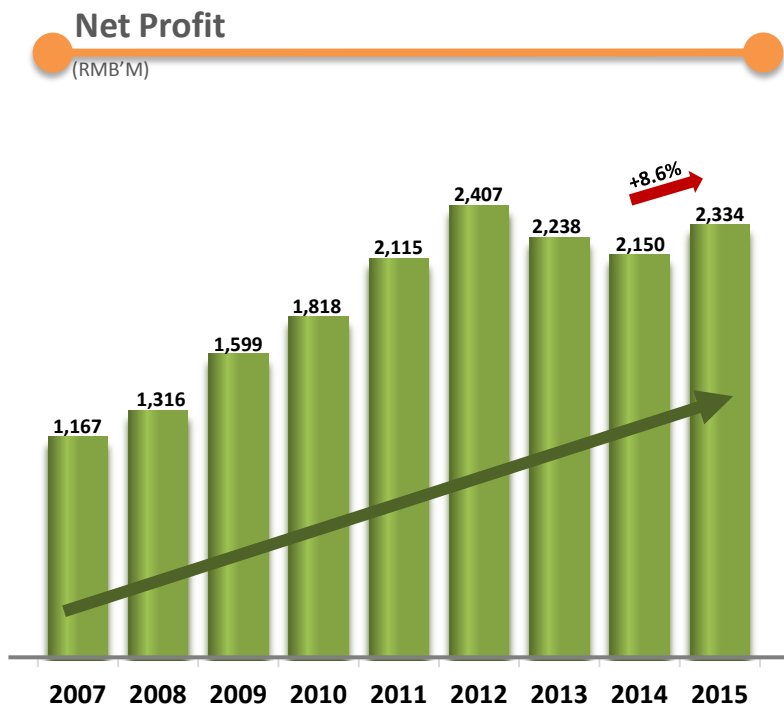


⁽¹⁾ Cash conversion ratio = net cash inflow from operation / net profit

Increasing Shareholders' Return

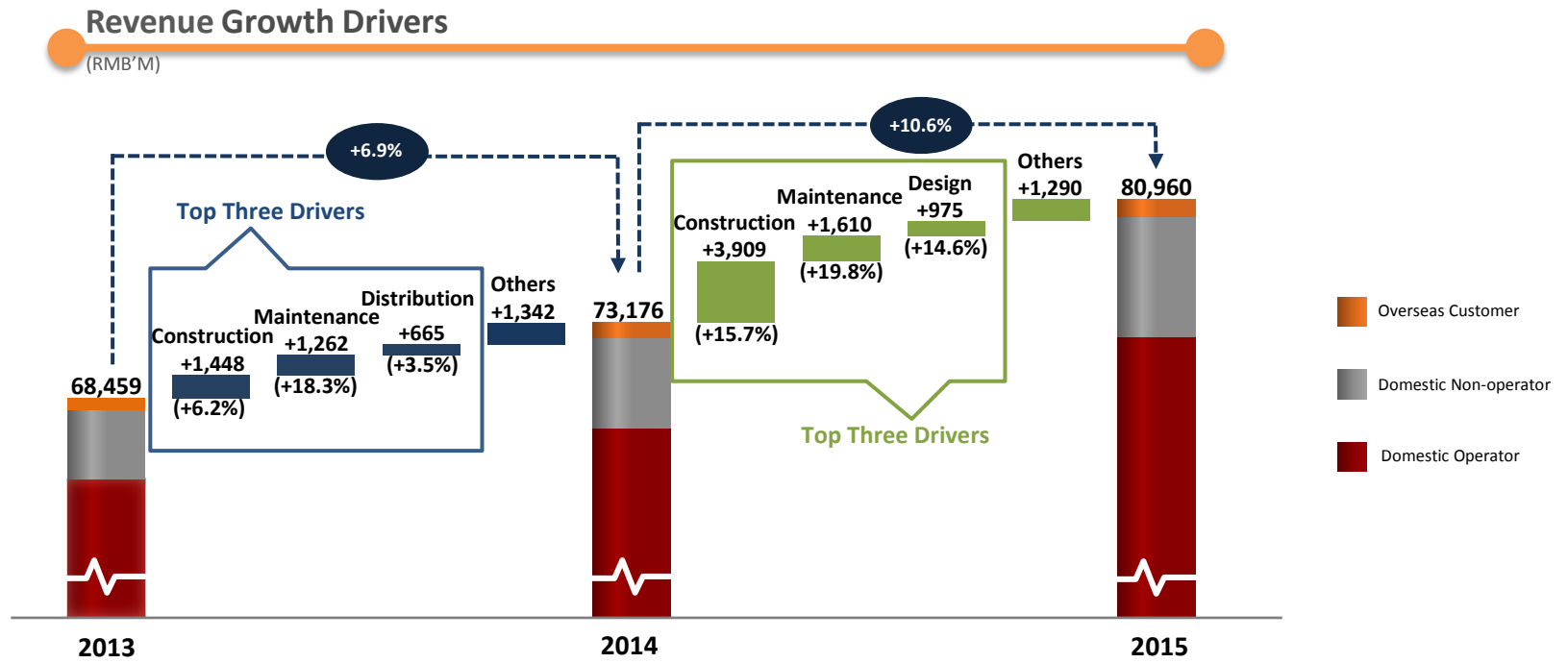
While maintaining a relatively stable and sustainable dividend policy, increase return to our shareholders in consideration of our favorable results performance

The Board recommended a final dividend of RMB0.1011 per share (representing a payout ratio of 30%), and a special dividend of RMB0.0101 per share; total dividend for 2015 is RMB0.1112 per share, up by 19.4%



⁽¹⁾ The net profits contributed by the acquisitions in 13 provincial business prior to 31 August 2007 (being the completion date of the acquisitions) was excluded from the calculation of 2007 dividend payout ratio.

Diversification in Customer and Business Supporting Continuous Revenue Growth



Revenue growth mainly driven by domestic operator market. Focusing both CAPEX and OPEX opportunities, TIS and BPO businesses grew favorably, in which maintenance business grew rapidly for two consecutive years



ACO business, included in “Others” among the revenue growth drivers, is also showing strong support to overall growth

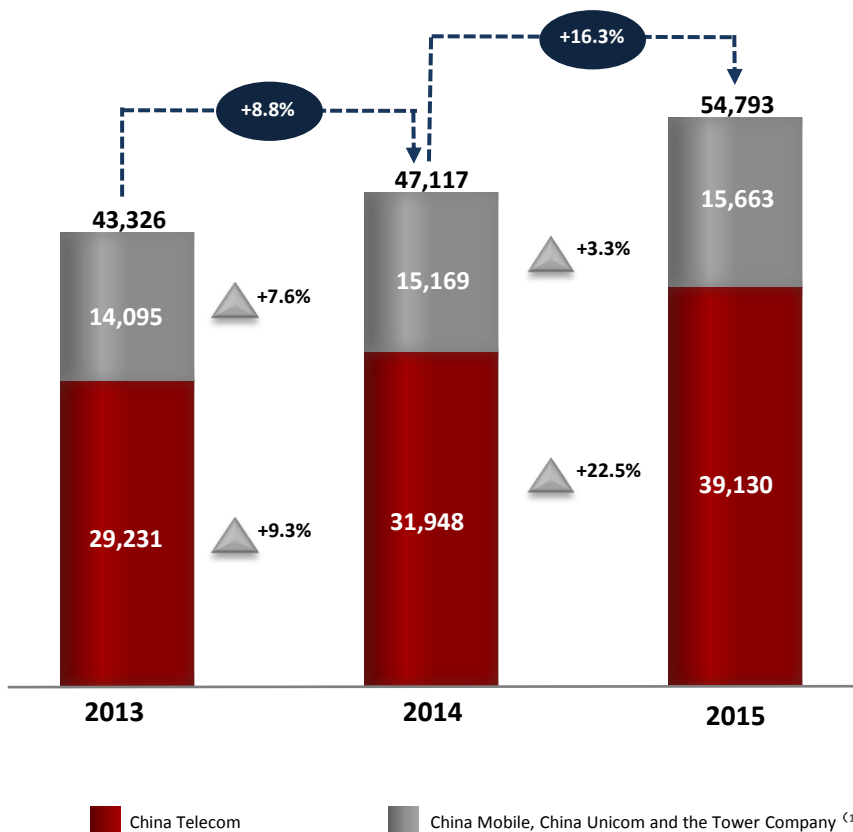



Revenue from the two other markets accounted for >30% of total revenues, supporting our sustainable growth


- Domestic non-operator market: Maintained steady growth, in which certain key businesses were growing fast and new businesses breakthrough were achieved in industries such as electricity sector
- Overseas market: Kept optimizing business structure, our proposed project for building “Information Superhighway” in Africa becomes a key Sino-foreign cooperative project supported by the Chinese Government

Revenue from Domestic Operator Market

(RMB'M)




 Firmly captured the construction opportunities from 4G network and fiber broadband, revenue from domestic operator increased by 16.3%, in which China Telecom up by 22.5%


 Aggregate revenues from customers other than China Telecom maintained stable growth

- China Mobile: Despite CAPEX decline, revenue only dropped mildly due to our effort to expand market share and develop OPEX-driven businesses
- China Unicom: Proactively seized new business opportunities and revenue achieved steady growth
- Tower Company: Became an important new customer and made obvious contribution to revenue growth. Cooperative agreements were signed with 15 provincial tower companies

⁽¹⁾ The Tower Company was jointly established by the three domestic operators in July 2014. Since 2015, the revenue from the Tower Company is temporarily classified under the domestic operator market.

Strengthened our Endogenous Power for Capturing Future Opportunities

- Identified OPEX-driven maintenance business as a new focus, and such revenue from domestic operator market achieved rapid growth of 18% and was the second largest contributor to incremental revenue for two consecutive years
 - Made a good start in the business development with new customer, Tower Company, and making meaningful contribution to our revenue growth
 - Optimized revenue structure in domestic non-operator market with the growth of key services accelerating and growth momentum enhancing
 - Integrated internal resources and implemented synergistic operation, in which our logistic business obtained “5A” qualification certificate and achieved double-digit growth continuously
 - Established new subsidiary in Inner Mongolia and mapping out our plans in expanding into northern China
- Enhanced operating efficiency through value-driven management, and maintained robust financial condition



- ◆ Comprehensive and deepened reform unleashes benefits
- ◆ Supply-side structural reform cultivates growth momentum and boosts economic development
- ◆ Innovation of investment and financing channels offers wider choices for cooperation

- ◆ Cyberpower, Broadband China, Internet +, Smart City, Utility Tunnel System, Information Security foster the booming development of informatization sector
- ◆ Mobile Internet, Cloud Computing, Big Data, Internet of Things, Industrial Internet fuel the growth of ICT sector

National Policies



Sector



Overseas



Industry/
Customer



- ◆ Implementation of “One Belt, One Road” Initiatives
- ◆ Launch of “10 Major Plans” of Sino-African cooperation by the Chinese Government
- ◆ “Going Abroad” of Chinese capital, equipment, technology, and services

- ◆ Vast demand for 4G and fiber broadband network construction and enlarged outsourcing scale of maintenance business from domestic operators
- ◆ Increasing demand for integrated construction and maintenance services from Tower Company
- ◆ Strong demand for informatization services in various industries including electricity, transportation, property, etc

Realize Sustainable Development

- ◆ Explore new opportunities in terms of businesses, customers and regional presence
- ◆ Pursue external and organic growth
- ◆ Follow value-driven principle and enhance resources allocation efficiency
- ◆ Leverage operating efficiency enhancement to drive revenue and net profit growth

Accelerate Structure Optimization

- ◆ Customer: Expand market share of domestic operators beyond China Telecom, further develop non-operator and overseas markets
- ◆ Business: Focus on both CAPEX and OPEX businesses, accelerate the expansion of OPEX business
- ◆ Region: Expand from southern to northern region of China, from domestic market to overseas market
- ◆ Product: Develop competitive products and solutions to meet customers' needs

Optimize Structure, Sustain Growth, Enhance Value

Pursue Resources Integration

- ◆ Integrate resources to enhance efficiency and strengthen capability for integrated service provision
- ◆ Unify branding and business model
- ◆ Subdivide evaluation units, optimize organizational hierarchy to enhance responsiveness to customers

Enhance Competitive Strength

- ◆ Explore cross-sector business, external cooperation and innovative business model
- ◆ Strengthen marketing and project delivery capability
- ◆ Optimize operating management mechanism, reinforce centralized management and facilitate synergy and resources sharing internally



Business Review

Business Revenue Breakdown

(RMB'M)	2014	2015	Change	% of Revenue
TIS (1)	34,008	39,209	15.3%	48.4%
Design	6,664	7,639	14.6%	9.4%
Construction	24,875	28,784	15.7%	35.6%
Supervision	2,469	2,786	12.9%	3.4%
BPO (2)	31,215	33,014	5.8%	40.8%
Maintenance	8,146	9,756	19.8%	12.0%
Distribution	19,599	19,489	-0.6%	24.1%
Facilities Management	3,470	3,769	8.6%	4.7%
ACO (3)	7,953	8,737	9.9%	10.8%
System Integration	3,574	3,917	9.6%	4.8%
Software Development & System Support	1,448	1,494	3.2%	1.8%
Value-added Services	1,285	1,497	16.5%	1.9%
Others	1,646	1,829	11.2%	2.3%
Total	73,176	80,960	10.6%	100%

(1) TIS refers to Telecommunications Infrastructure Services

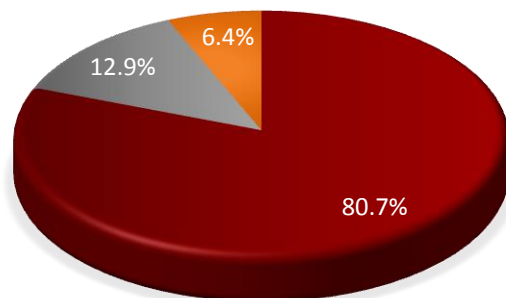
(2) BPO refers to Business Process Outsourcing Services

(3) ACO refers to Applications, Content and Other Services

2015 Business Revenue

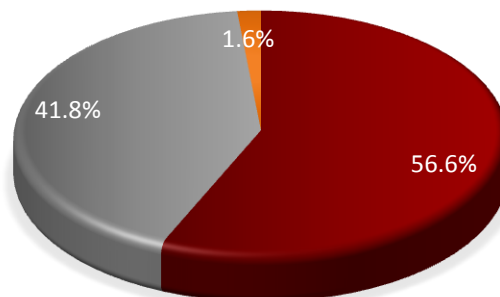
■ Domestic Operator ■ Domestic Non-operator ■ Overseas Customer

TIS



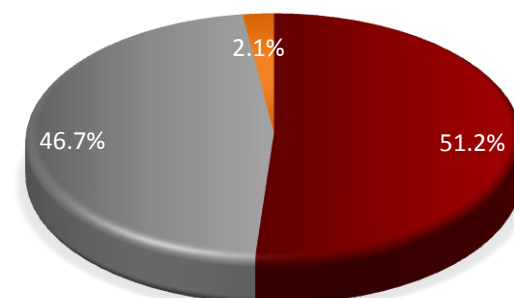
- Domestic operator is the major revenue contributor, while aggregate revenues from the other two customer groups also accounted for around 20%, and showing a rising momentum
- Businesses mainly driven by domestic operators' CAPEX, informatization and urbanization construction in China and telecommunications infrastructure construction in overseas

BPO



- Sources of revenue are well diversified and spread evenly between domestic operator and the other two customer groups
- Businesses mainly driven by OPEX-driven businesses, including maintenance, facilities management and supply chain management services (among distribution business)

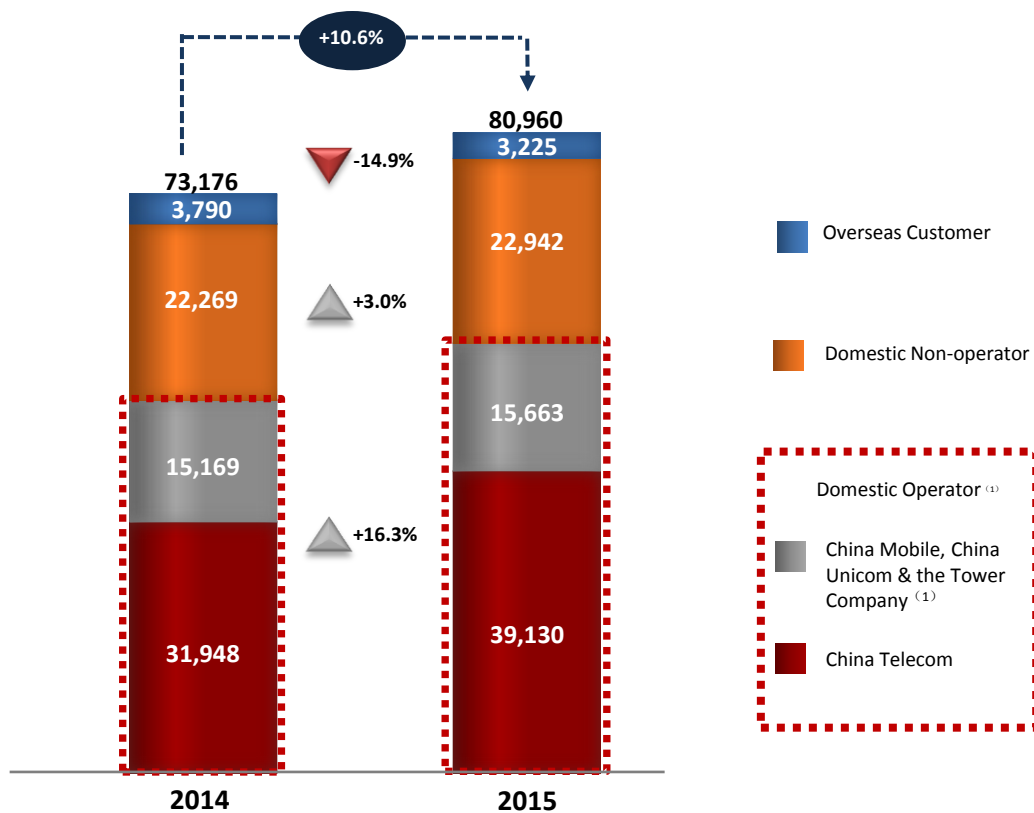
ACO



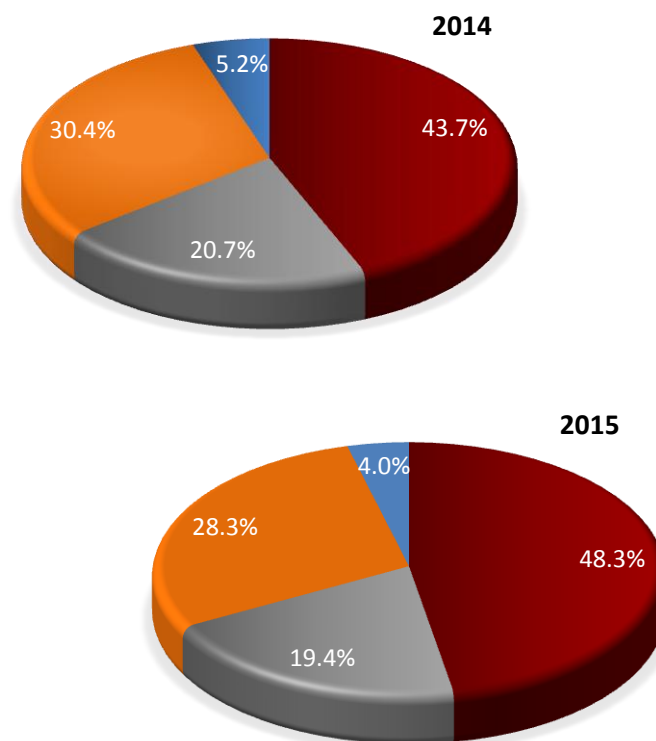
- Sources of revenue are well diversified and spread evenly between domestic operator and the other two customer groups
- Businesses mainly driven by Internet+ and informatization construction, both offering promising prospects

Revenue Growth by Customer

(RMB'M)



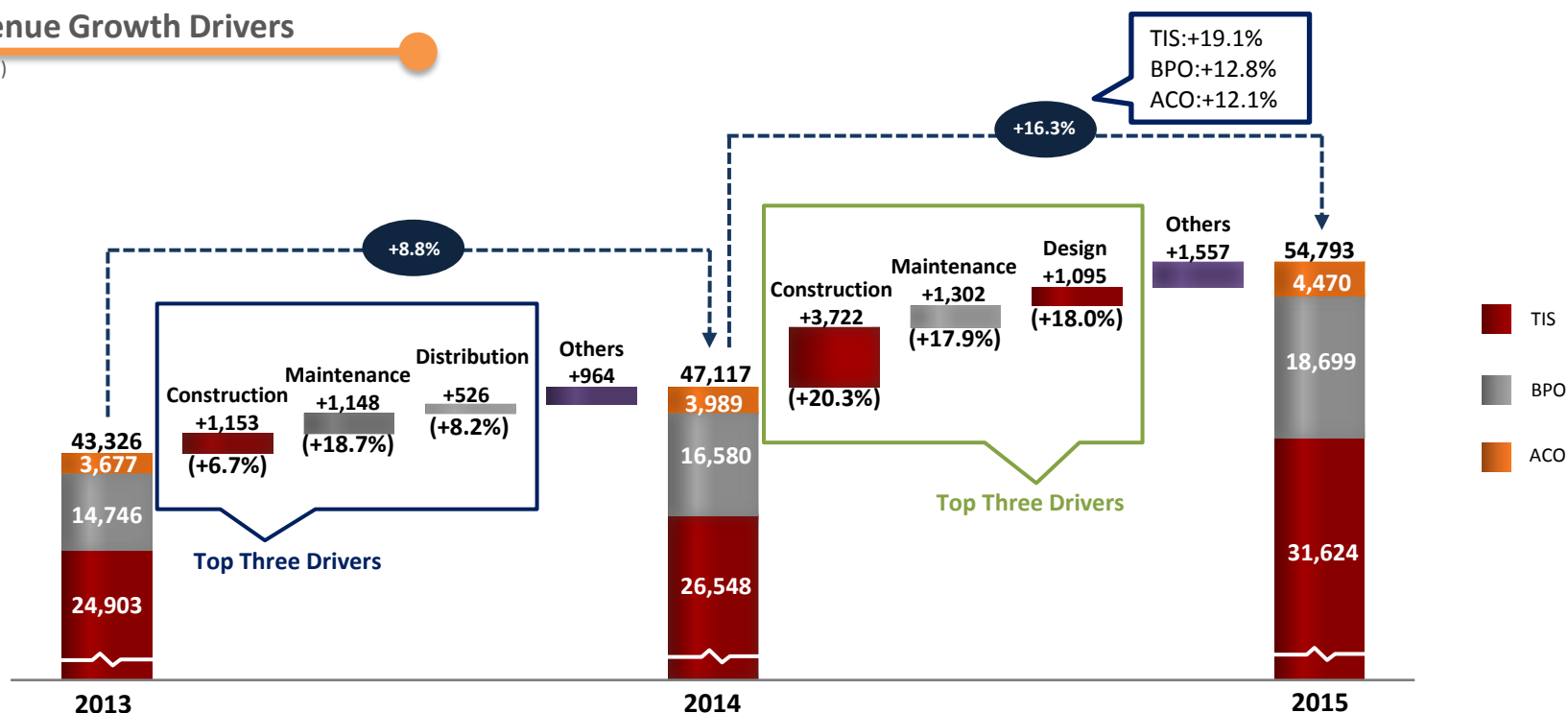
Revenue Mix by Customer



⁽¹⁾ The Tower Company was jointly established by the three domestic operators in July 2014. Since 2015, the revenue from the Tower Company is temporarily classified under the domestic operator market.

Revenue Growth Drivers

(RMB'M)



Firmly captured various business opportunities, revenue growth accelerated and reached 16.3%

- Driven by the construction demand from 4G and the fibre upgrade on broadband network, construction and design services of TIS business achieved robust growth
- Focused on new opportunities and expanded OPEX-driven businesses, maintenance business achieved 18% growth and was the second largest driver for two consecutive years
- Seized new opportunities from Tower Company, and making meaningful contribution to revenue growth
- ACO (among “Others” in the revenue growth drivers) grew favorably and contributed positively to overall business growth

**Reinforce Our Market Share in CAPEX-driven Market
Focus on OPEX-driven Businesses to Grasp New Market Opportunities**

Expanding New Market Space

On Customer Base

- ◆ Further expand market share in China Mobile and China Unicom
- ◆ Closely monitor the demand from Tower Company for integrated infrastructure and maintenance services

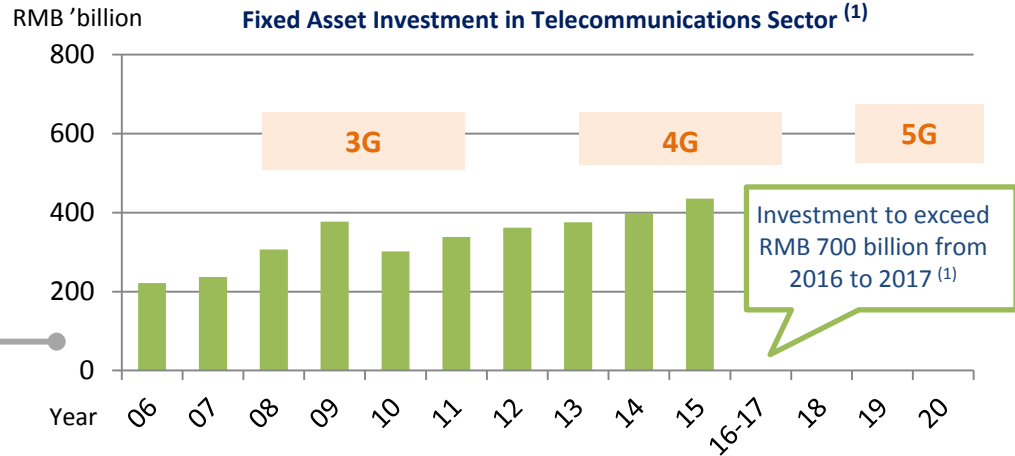
On Business Scope

- ◆ Grasp demand from 4G and broadband construction
- ◆ Expand OPEX-driven businesses including maintenance, logistics and facilities management, etc
- ◆ Promote emerging businesses including information security, e-commerce and big data, etc

On Regional Presence

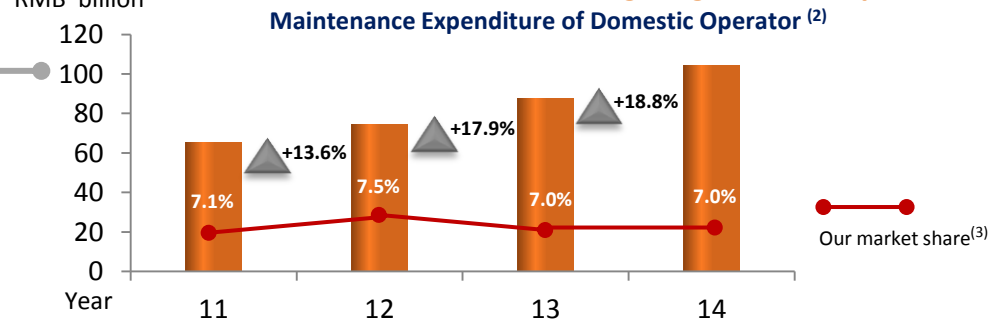
- ◆ Established new subsidiaries and explore new opportunities in northern China

Overall CAPEX Investment Maintained Steady Growth



⁽¹⁾ Sources: MIIT and related Government documents

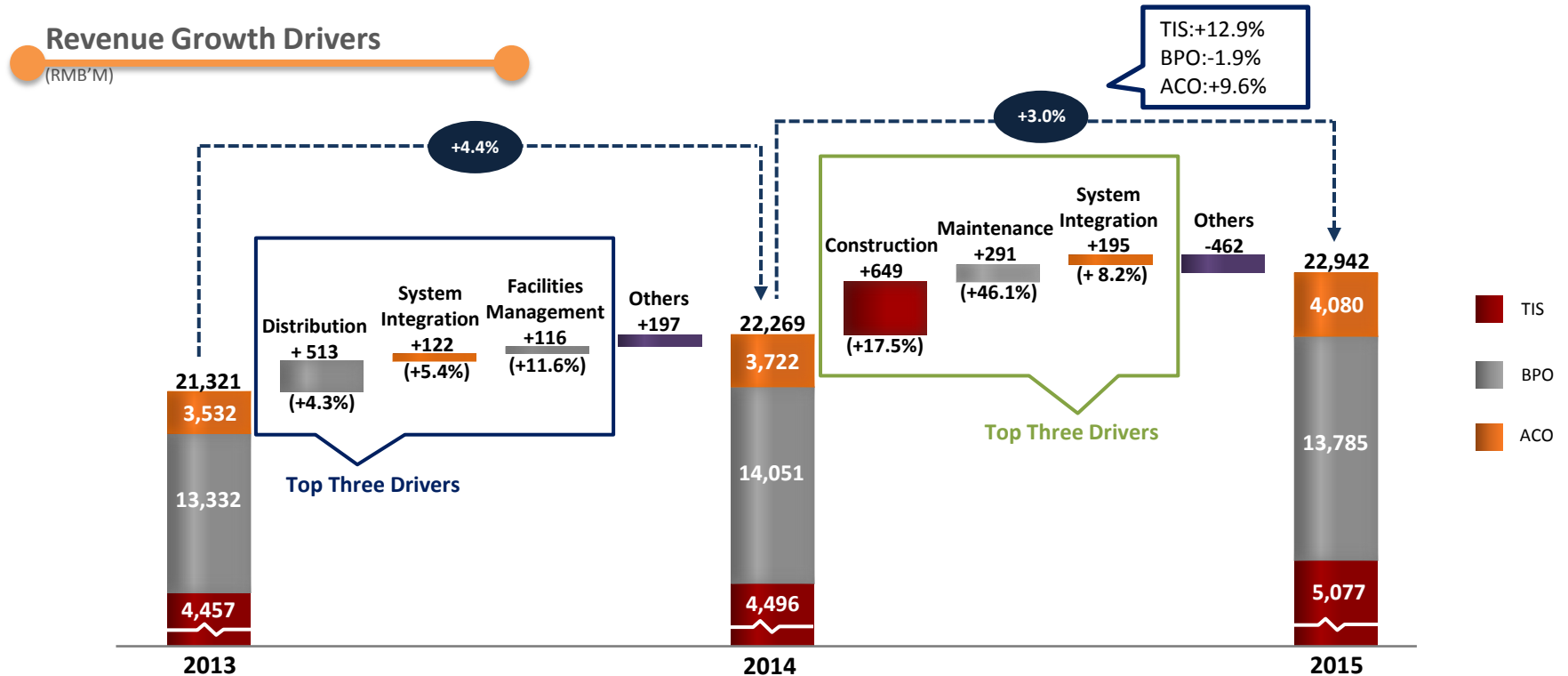
Persistent OPEX Growth Offering Large Market Space



⁽²⁾ Sources: Annual reports of domestic operators

⁽³⁾ Market share is calculated from our maintenance revenue / maintenance expenditure of domestic operators

Performance in Domestic Non-operator Market



Overall business sustained steady growth, in which TIS and ACO business growth accelerated with quality of growth improving

Sales and marketing mechanism established, and successful business development achieved in various industrial sectors

- ◆ World Internet Conference in Wuzhen – overall integrated network planning, construction and commissioning
- ◆ Smart Grid construction, network planning, optimization & maintenance
- ◆ Highway Informatization System construction in Hunan Province
- ◆ Smart Security Project of Binjiang District, Zhejiang Province
- ◆ Smart Water Conservancy System in Xuzhou, Jiangsu Province
- ◆ Data centre construction for a renowned Chinese insurance company
- ◆ Pipeline relocation project for Shenzhen subway

Focus on Key Industries to Nourish New Impetus for Development

National Policies & Strategies

Cyberpower

Internet +

Broadband China

New-style Urbanization

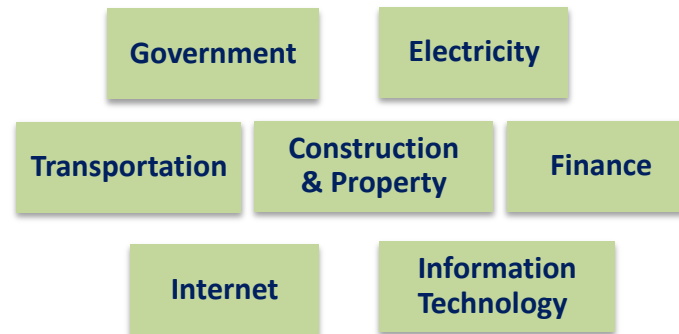


- ◆ To facilitate the construction of new generation of information infrastructure facilities
- ◆ To promote the application of Internet of Things, and accelerate the integration of the Internet with economy and society
- ◆ To accelerate the optimization of infrastructure and network of various aspects, including railway, highway, pipeline, etc

Our Competitive Edges

- Unique business model offering integrated TIS, BPO and ACO services
- Years of experience and capability in serving telecom and informatization sectors
- Offer comprehensive solutions by collaborating with domestic operators
- Strong company background as a neutral service provider, state-owned and listed company

1. Focus on Key Industries



2. Promote Key Products

- ◆ Smart City
- ◆ Intelligent Building
- ◆ Smart Security
- ◆ Smart Industrial Park
- ◆ E-certification
- ◆ Cloud Computing
- ◆ Information Security

3. Strengthen Internal Mechanisms

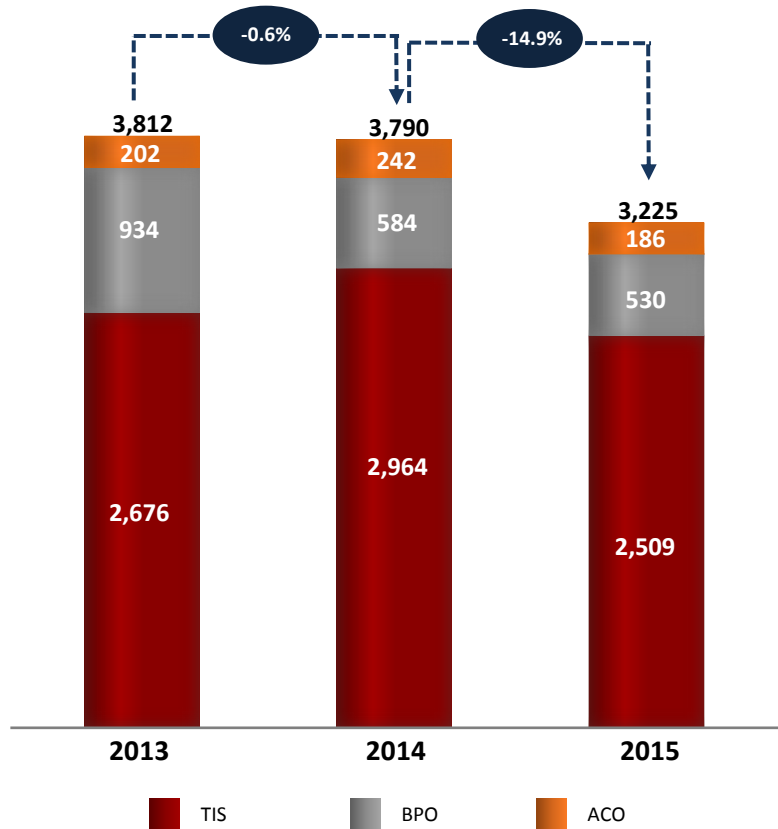
- ◆ Refine five major mechanisms covering sales, product, delivery, financing and procurement

4. Intensify Innovative Initiatives

- ◆ Explore PPP, BT/BOT model for project execution

Revenue from Overseas Market

(RMB'M)

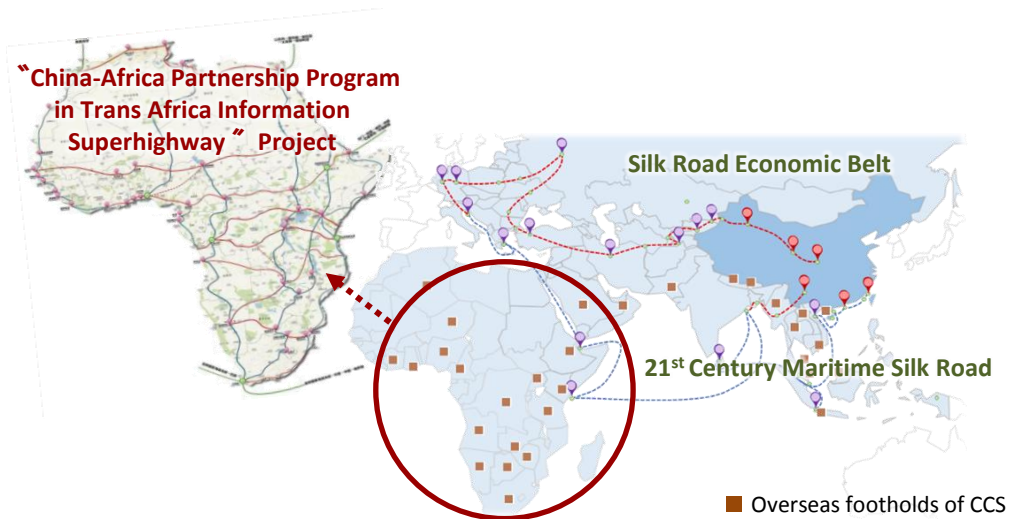


Optimize our geographical coverage and presence, and refine our ways of business development to conform with changes in government policies

Initiated the “China-Africa Partnership Program in Trans Africa Information Superhighway” Project and achieved initial progress

Successfully facilitated the signing of MOU between ITU, MIIT and Ministry of Communications of five East African countries, and such project was marked as 2016 key project of MIIT

Continue to utilize various financial instruments such as accounts receivables factoring to speed up cash turnover and manage overseas risks



Accelerate Resources Integration to Grasp New Market Opportunities

Rising Opportunities

- ◆ **National “One Belt One Road” Initiative:** Huge construction demand for infrastructure facilities from 65 countries
- ◆ **Multiple Sources of Financing :** Asia Infrastructure Investment Bank, Silk Road Fund and national policy banks provide reliable financing platform
- ◆ **“10 Major Plans” of Sino-African Cooperation:** US\$60 billion funding from Chinese Government to support infrastructure construction in Africa
- ◆ **“China-Africa Partnership Program in Trans Africa Information Superhighway” Project (“China-Africa Project”):** Great business opportunities in network consultation, construction, technical support and maintenance services by constructing a backbone fiber-optic network covering Africa



Evolution of our Overseas Business Development

Y2014

Y2015

Y2016

Y2017

Optimizing Business Structure

Start from subcontracting projects to focusing on large-scale EPC projects

Closely Monitoring Policy Changes and New Market Opportunities

Initiated the “China-Africa Project” in 2015 and pushed ahead the signing of MOU in governments level

Focusing on Large-scale Government Supported Projects, and Collaborating with Parties Along the Industries Chain, including Domestic Operators and Equipment Vendors

Strive to push ahead the “China-Africa Project” to the national level in 2016 and facilitate the implementation and signing of MOU with remaining African countries, with focus on developing “EPC+” projects

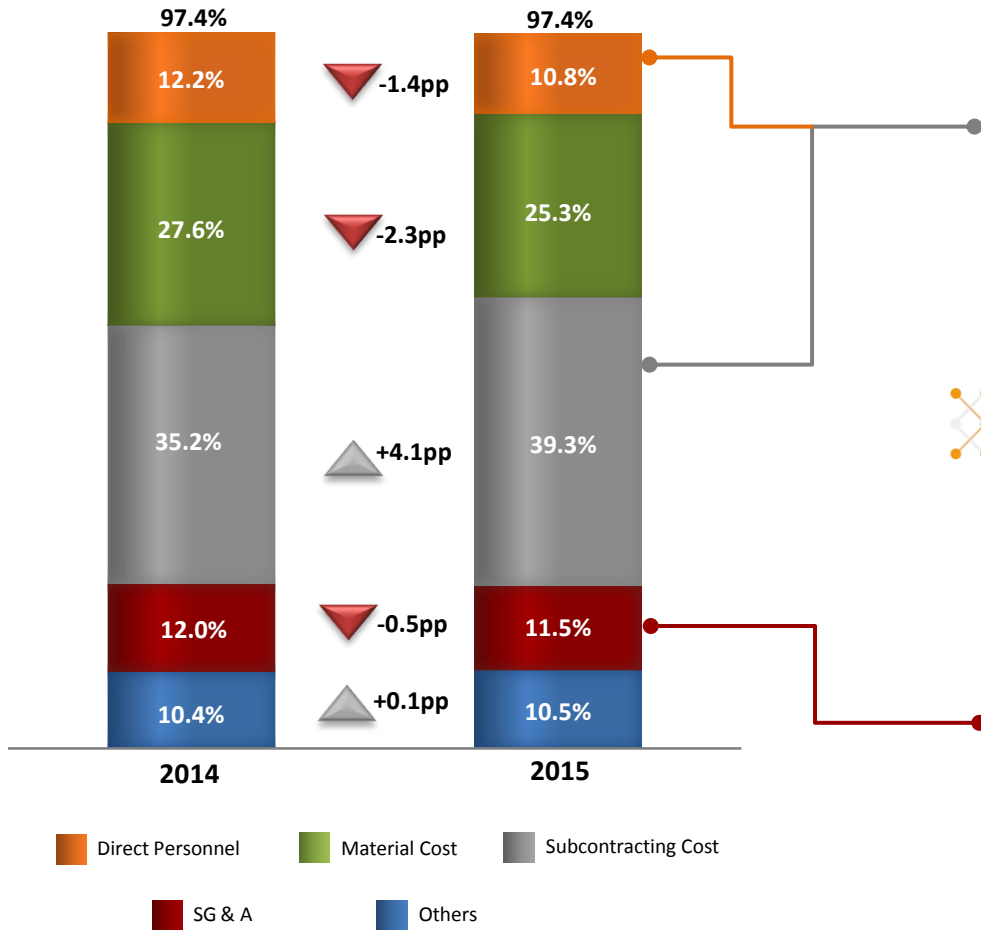
Financial Results

(RMB'M)	2014	2015	Change	% of Revenue
Revenue	73,176	80,960	10.6%	100%
Cost of Revenue	62,494	69,572	11.3%	85.9%
Direct Personnel	8,893	8,731	-1.8%	10.8%
Materials ⁽¹⁾	20,191	20,453	1.3%	25.3%
Subcontracting	25,763	31,812	23.5%	39.3%
D & A	451	447	-0.8%	0.5%
Others	7,196	8,129	13.0%	10.0%
Gross Profit	10,682	11,388	6.6%	14.1%
SG&A	8,777	9,306	6.0%	11.5%
Net Profit	2,150	2,334	8.6%	2.9%
EPS (RMB)	0.310	0.337	8.6%	-
ROE (%)	9.6%	9.8%	0.2pp	-

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

Cost as a % of Revenue

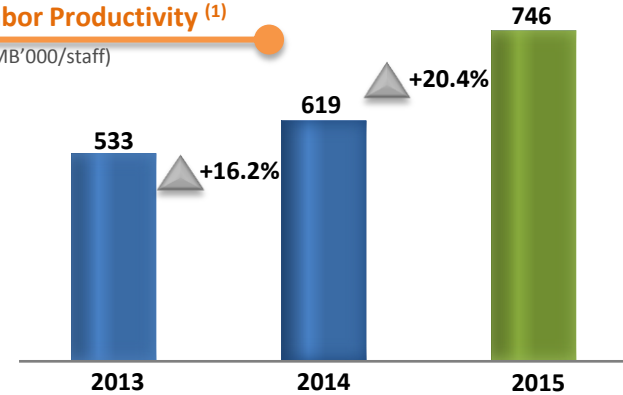
(%)



By utilizing subcontracting resources, direct personnel cost and headcount was under control, and labor productivity increased continuously

Labor Productivity ⁽¹⁾

(RMB'000/staff)



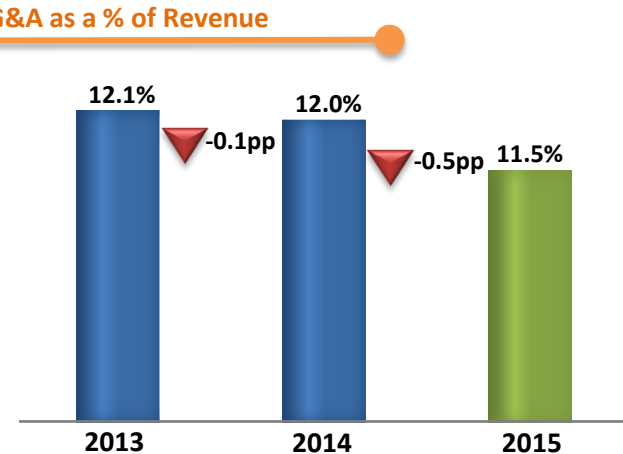
⁽¹⁾ Labor productivity = revenue over period-end staff number



Strengthened cost control and SG&A as a % of revenue decreased over years

SG&A as a % of Revenue

(%)





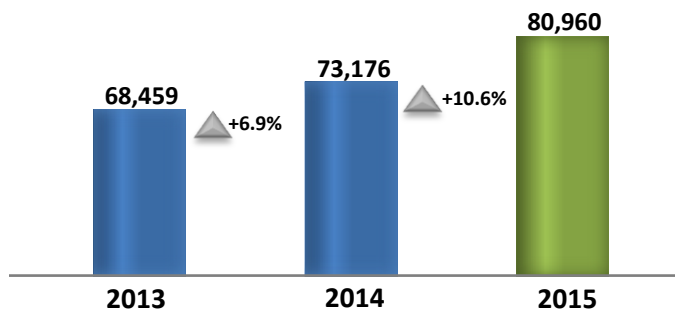
Both revenue and net profit achieved favorable growth, and net profit margin remained stable



Cash conversion cycle accelerated substantially, leading to a significant enhancement in operating cash flow

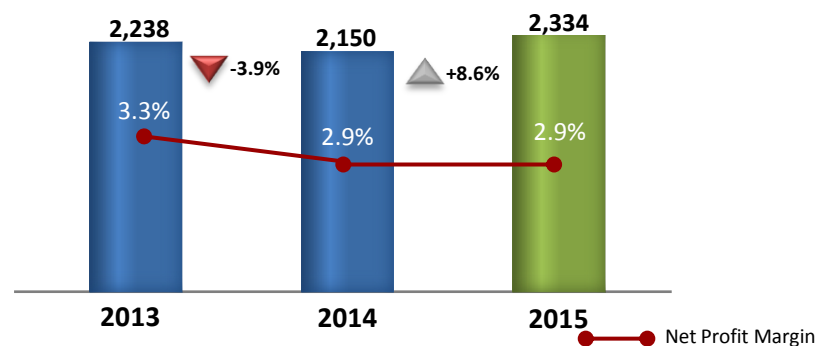
Revenue

(RMB'M)



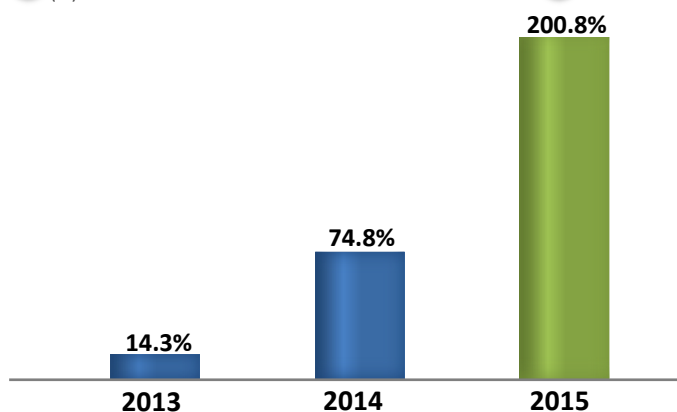
Net Profit

(RMB'M)



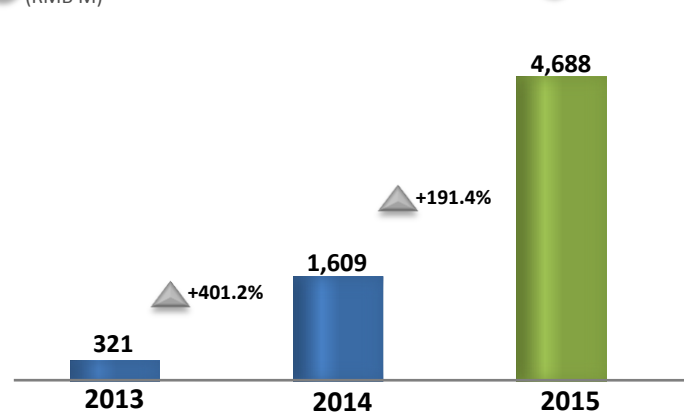
Cash Conversion Ratio ⁽¹⁾

(%)



Net Cash Inflow from Operation

(RMB'M)

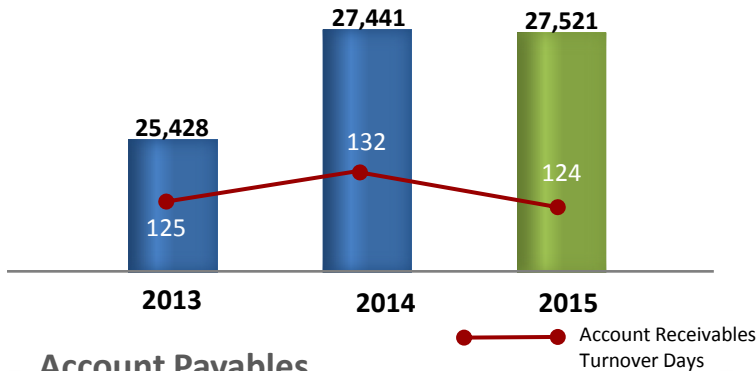


Account receivables turnover days shortened and reversed upward trend in past few years. Account payables management showed effect

Free cash flow continued to increase significantly, reaching a historical high

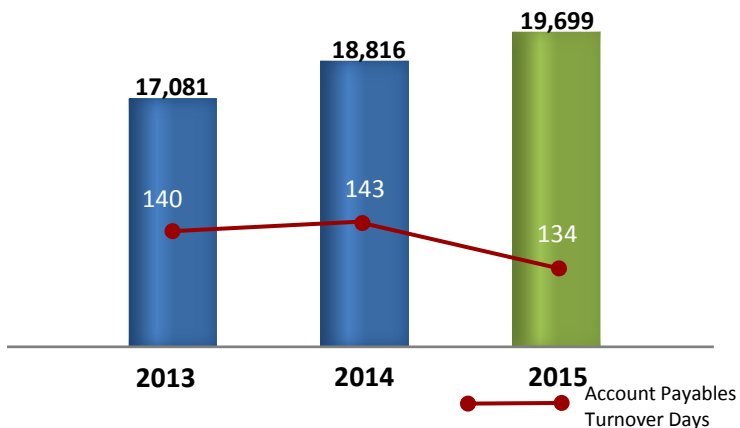
Account Receivables

(RMB'M)



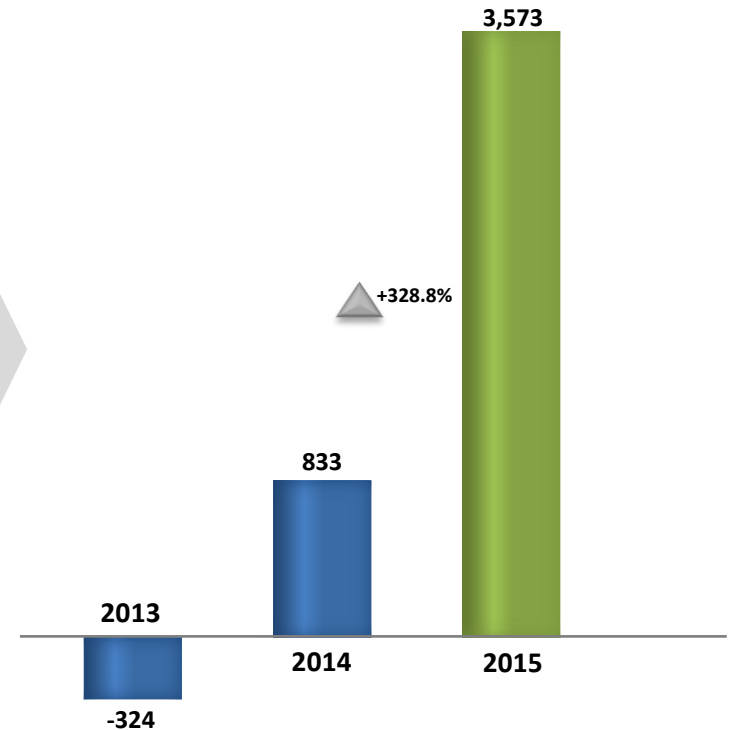
Account Payables

(RMB'M)



Free Cash Flow

(RMB'M)



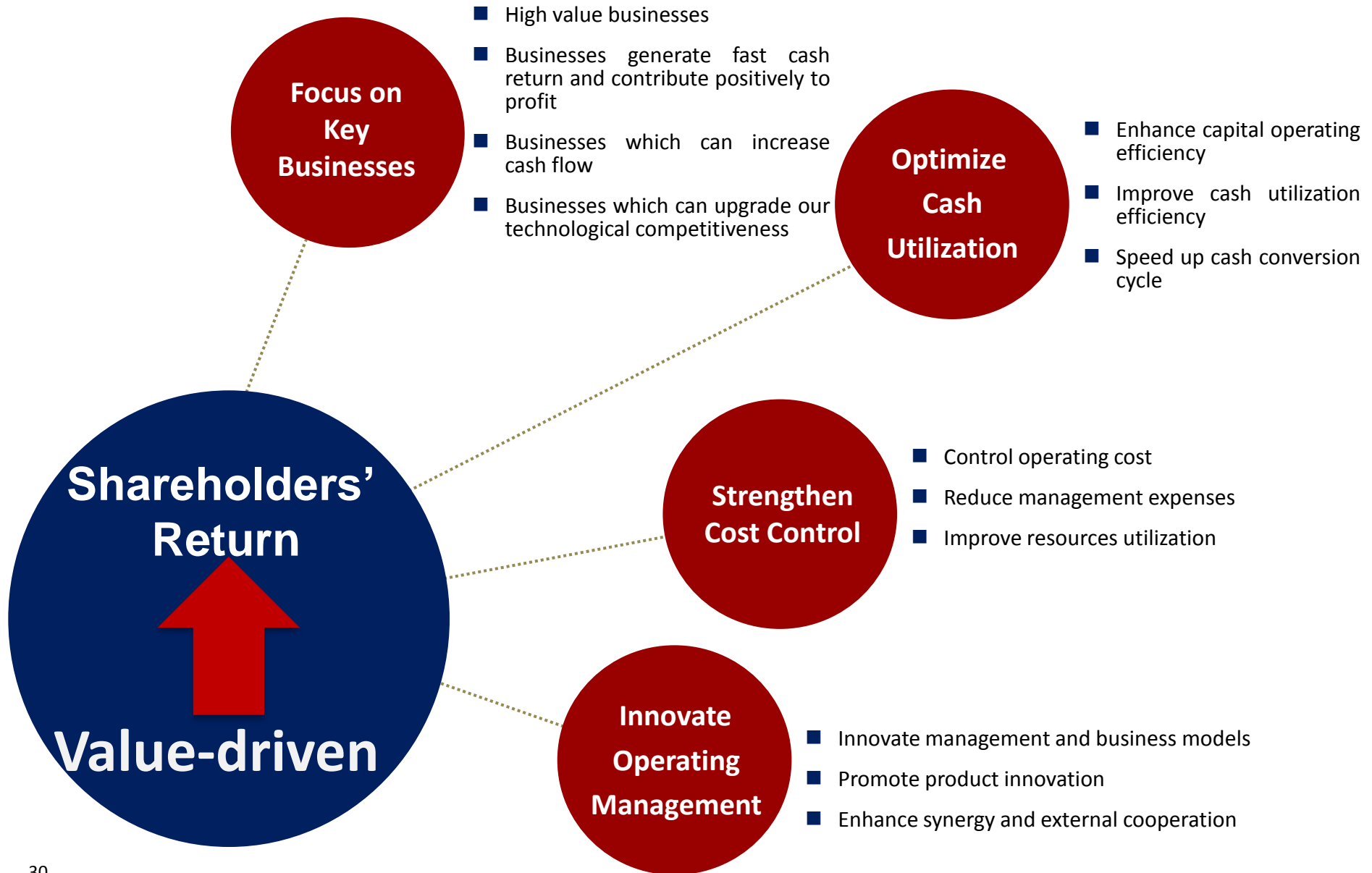


Maintained at low debt level and net cash position for years



Strong cash position and a healthy balance sheet provide strong support for future development

(RMB'M)	31.12.2014	31.12.2015
Total Assets	52,761	57,913
Cash and cash equivalents	7,314	9,536
Account receivables	27,441	27,521
Fixed assets (NBV)	4,539	4,332
Total Liabilities	29,218	32,704
Interest-bearing liabilities	897	861
Account payables	18,816	19,699
Equity Attributable to Equity Shareholders	23,030	24,761
Total Liabilities / Total Assets (%)	55.4%	56.5%
Debt-to-Capitalization Ratio(%)	3.8%	3.4%





Thank You!



中国通信服务
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