

INFORMATIZATION &

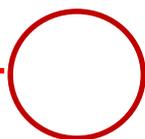
DIGITALIZATION

FUTURE 信息化與數字化
未來

2018 Interim Results

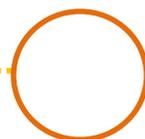
30 Aug 2018

CHAIRMAN



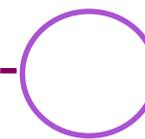
MR. ZHANG ZHIYONG

PRESIDENT



MR. SI FURONG

*EXECUTIVE VICE PRESIDENT
& CFO*



MS. HOU RUI



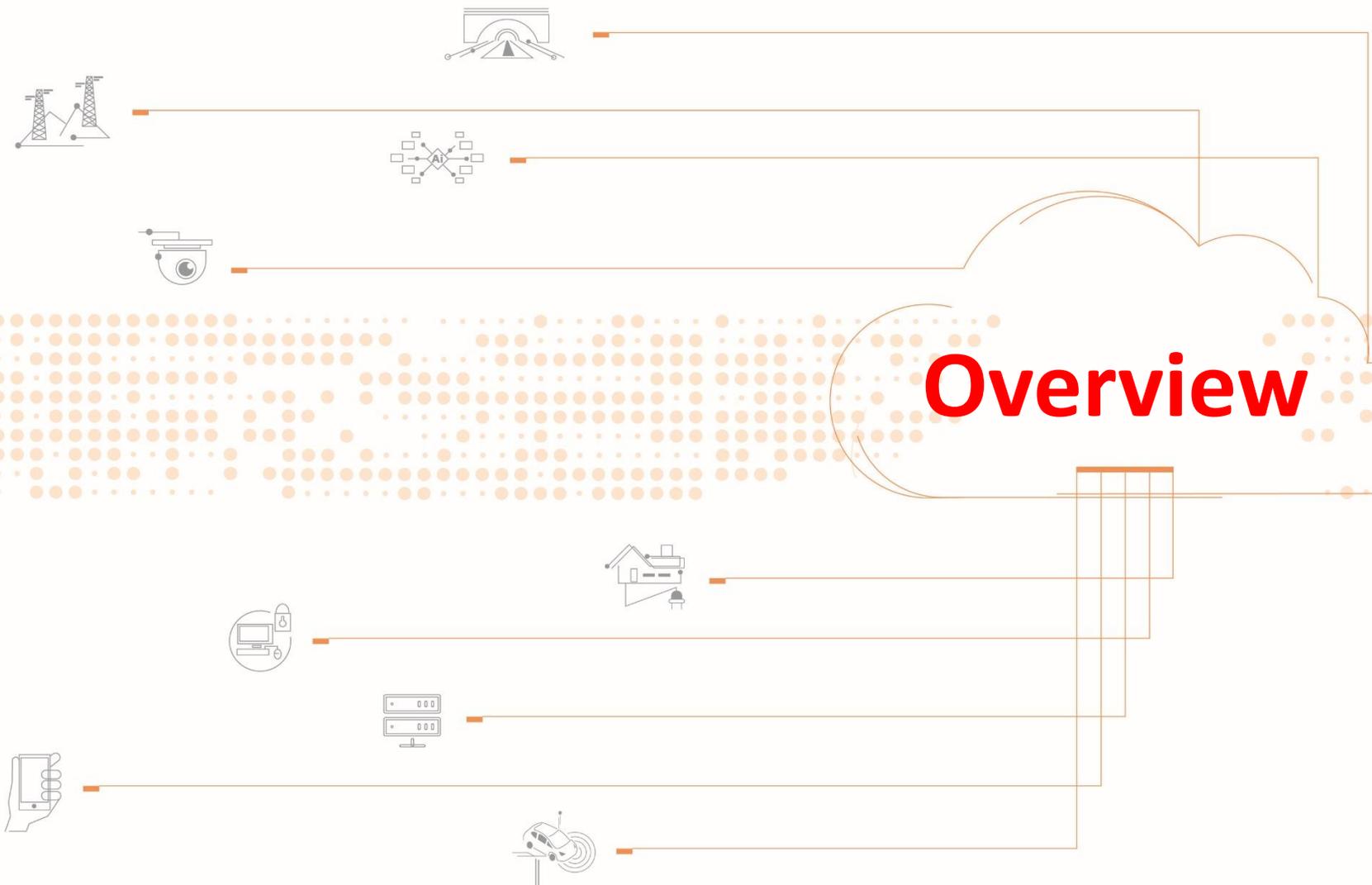
Overview

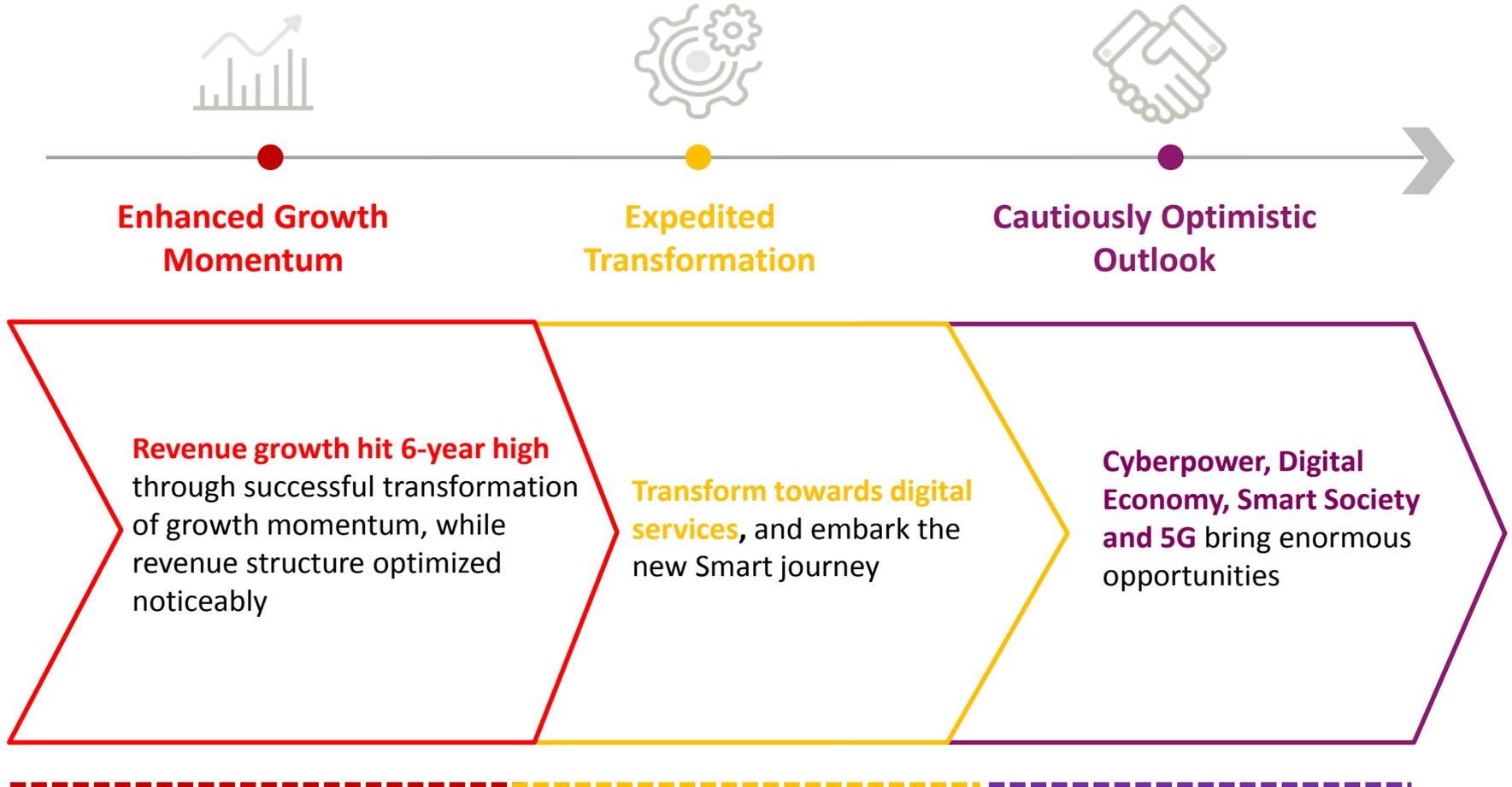


*Business
Review*



*Financial
Results*





Encouraging Operating Results with Noticeable Revenue Structure Optimization



Revenue grew by **13.2%**
to RMB **50,792 million**;
of which core businesses
revenue increased by
17.1%



Net profit achieved
high single-digit growth of
8.6% to
RMB **1,595 million**



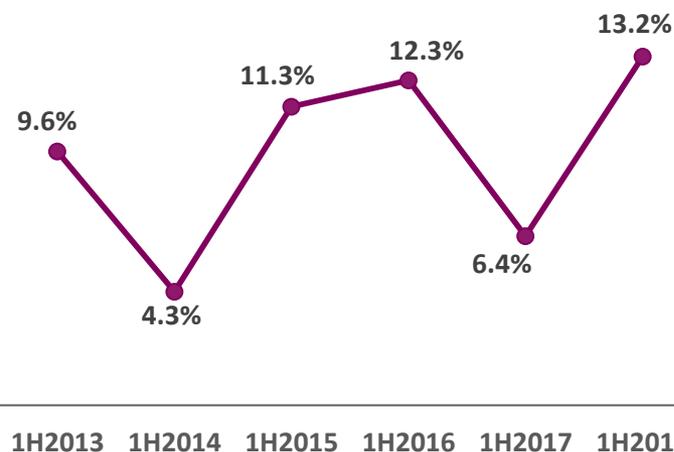
Free cash flow reached
RMB **877 million**,
accounted for
>50% of net profit



Customer structure
continued to optimize,
portion from domestic non-
operator and domestic
operators other than China
Telecom
**both reached 30% for
the first time**



Revenue Growth Rate



Revenue growth **hit 6-year high**

Unless otherwise stated, the following terms in the presentation are defined as follows:

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

⁽²⁾ Core businesses comprise TIS, Core BPO and ACO Businesses, i.e. excluded Products Distribution Business. Please refer to the business revenue breakdown on p.12 for details

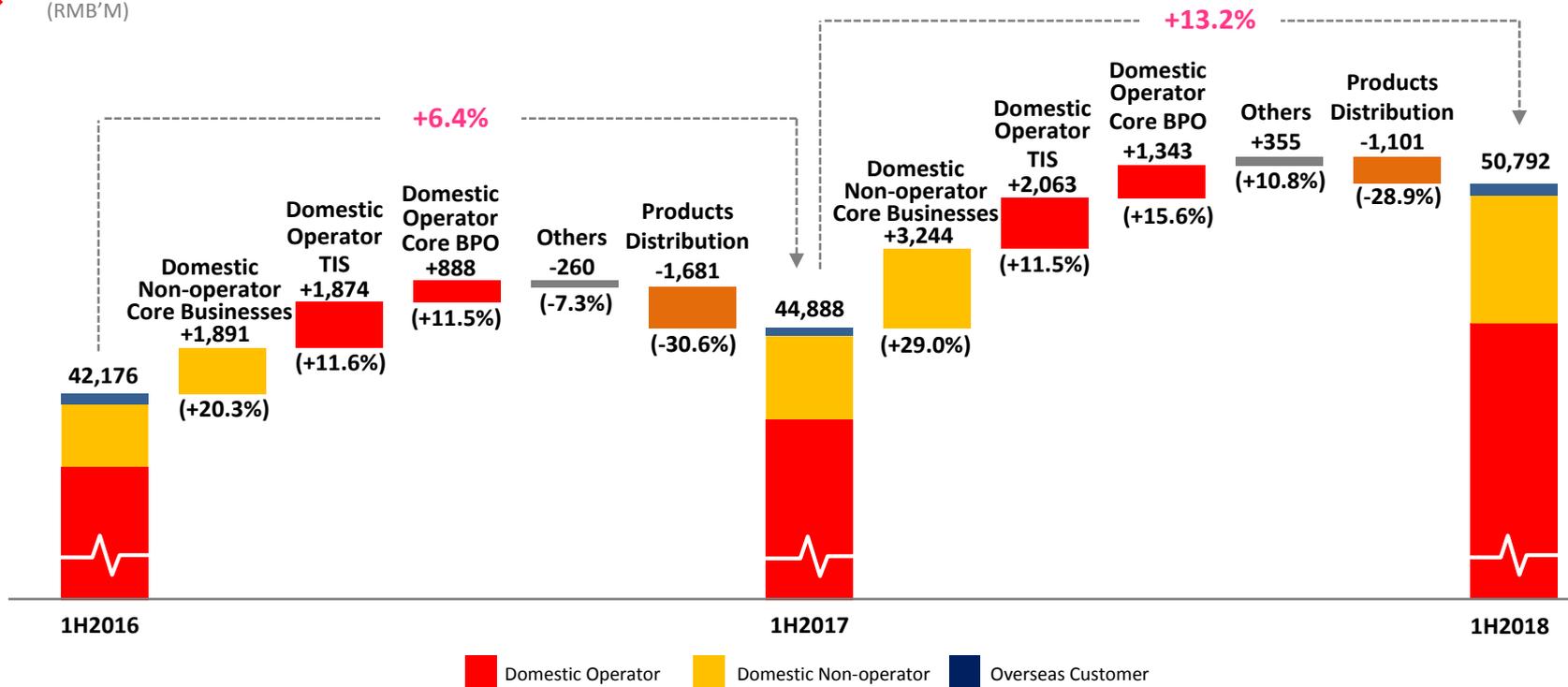
⁽³⁾ Free cash flow = profit for the year + depreciation & amortization – changes in working capital – CAPEX

Transformation of Growth Momentum Led to Notably Accelerated Revenue Growth



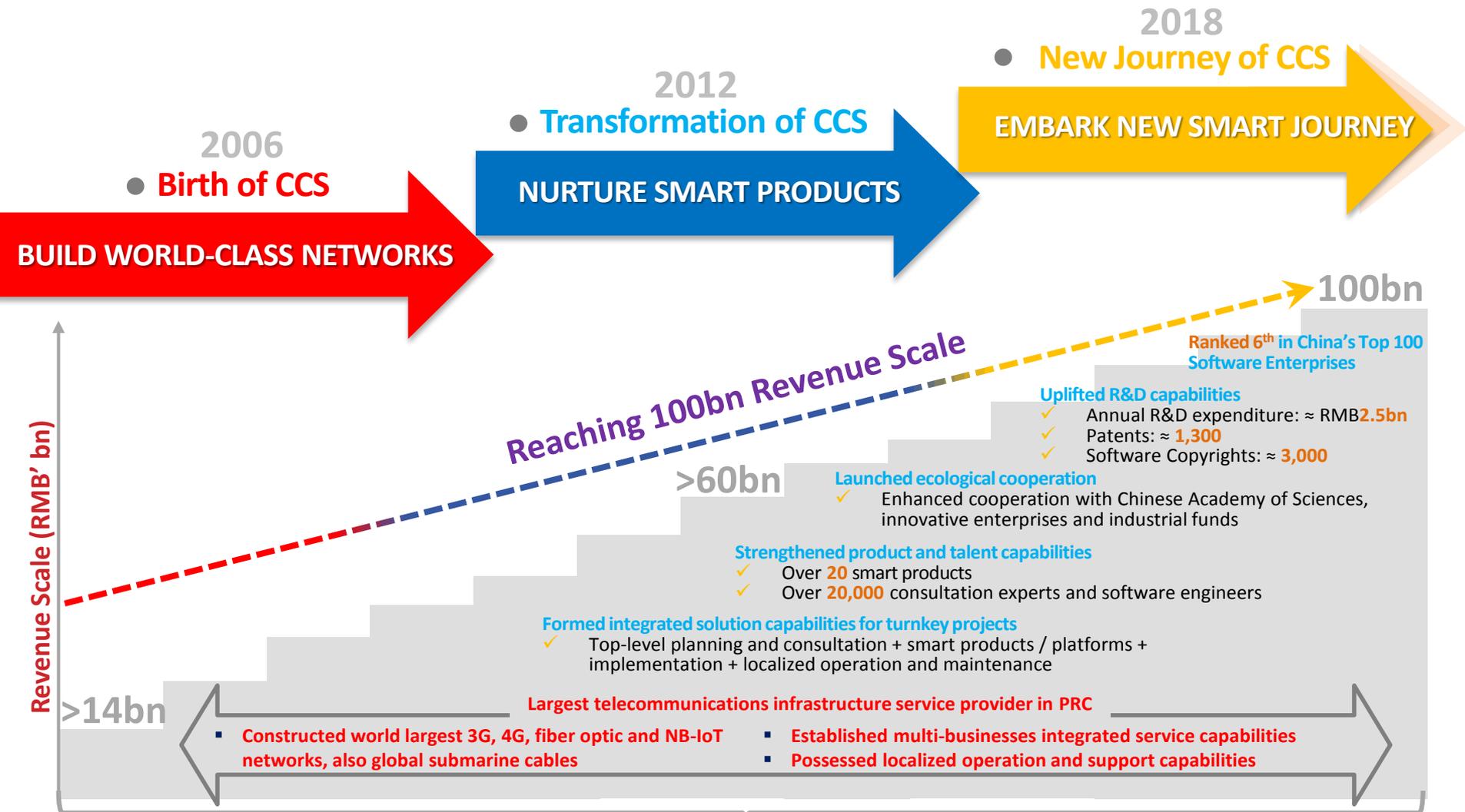
Revenue Growth Drivers

(RMB'M)



Revenue growth was driven by 2 dual-engines, including “Domestic Non-operator + Domestic Operator” and “CAPEX + OPEX”

- Made further progress on smart products promotion and drove strong momentum for domestic non-operator business continuously, with core businesses growth accelerated to ≈ 30%
- Endeavoured to increase market share, with TIS business from CAPEX of domestic operators maintained steady growth
- Vigorously developed OPEX business of domestic operators, with Core BPO businesses growth expedited
- Optimized business mix further by controlling products distribution business of low efficiency proactively



Continuous Improvement in CCS Competencies

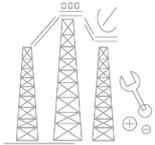
NEW SMART JOURNEY

Building Smart Society; Boosting Digital Economy; Serving a Good Life



**Builder of New
Generation Information
Infrastructure Facilities**

Construct high-speed, mobile, ubiquitous and safe networks, including network level and network information security



**Provider of Smart
Products and
Platforms**

Provide more than 20 smart products and open platforms based on our capabilities and collaborative development such as our Cloud and IoT platforms



**Provider of Big Data
Application Services**

Make use of Big Data application platform, provide customers with integrated big data analysis, modelling, applications and solutions



**Operator of Smart
Services**

Assist government, industries and enterprises to launch Smart Operation



Adapting to New Situation; Seizing Opportunities and Expediting Development

Cyberpower Digital Economy Network and Information Country Smart Society Belt and Road Initiative SOE Reform ...

Persist in the 3 Tracks of Development



Leading Provider of Producer Services in the Informatization Sector

Value-driven, Seeking Steady yet Progressive Growth and High-quality Development

- High-quality Operation
- High-quality Features
- High-quality Management
- High-quality Team



Business Review

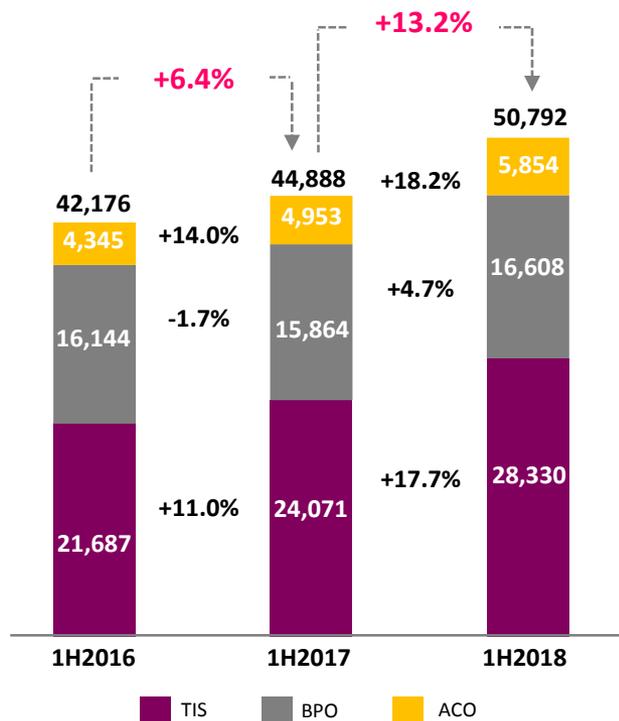
Business Revenue Breakdown

(RMB'M)	1H2017	1H2018	Change %	% of Revenue
TIS (Telecommunications Infrastructure Services)				
Design	5,089	5,355	5.2%	10.6%
Construction	17,235	20,942	21.5%	41.2%
Supervision	1,747	2,033	16.4%	4.0%
Subtotal	24,071	28,330	17.7%	55.8%
BPO (Business Process Outsourcing Services)				
Maintenance	5,802	6,604	13.8%	13.0%
Facilities Management	2,094	2,353	12.4%	4.7%
Supply Chain	4,153	4,937	18.9%	9.7%
Subtotal	12,049	13,894	15.3%	27.4%
Products Distribution	3,815	2,714	-28.9%	5.3%
Subtotal	15,864	16,608	4.7%	32.7%
ACO (Applications, Content and Other Services)				
System Integration	2,595	3,198	23.2%	6.3%
Software Development & System Support	742	950	28.1%	1.9%
Value-added Services	751	813	8.3%	1.6%
Others	865	893	3.2%	1.7%
Subtotal	4,953	5,854	18.2%	11.5%
Total	44,888	50,792	13.2%	100%

Core BPO
Businesses

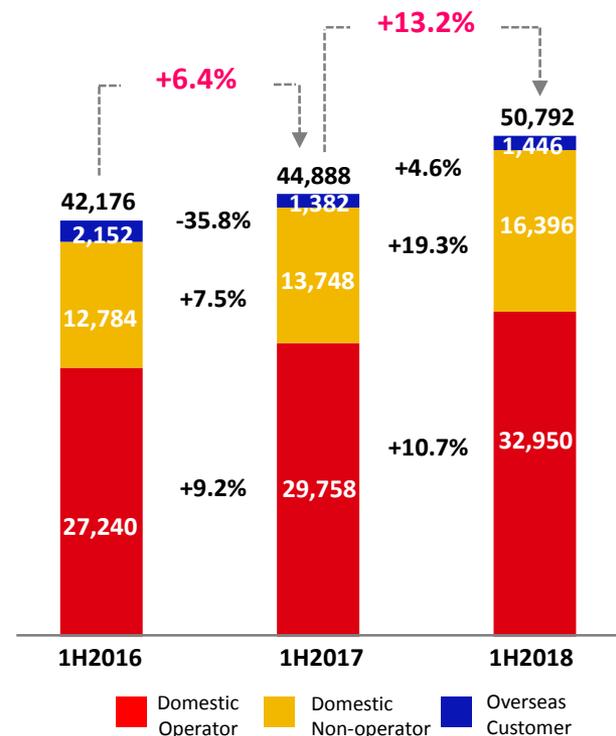
Revenue Growth by Businesses

(RMB'M)



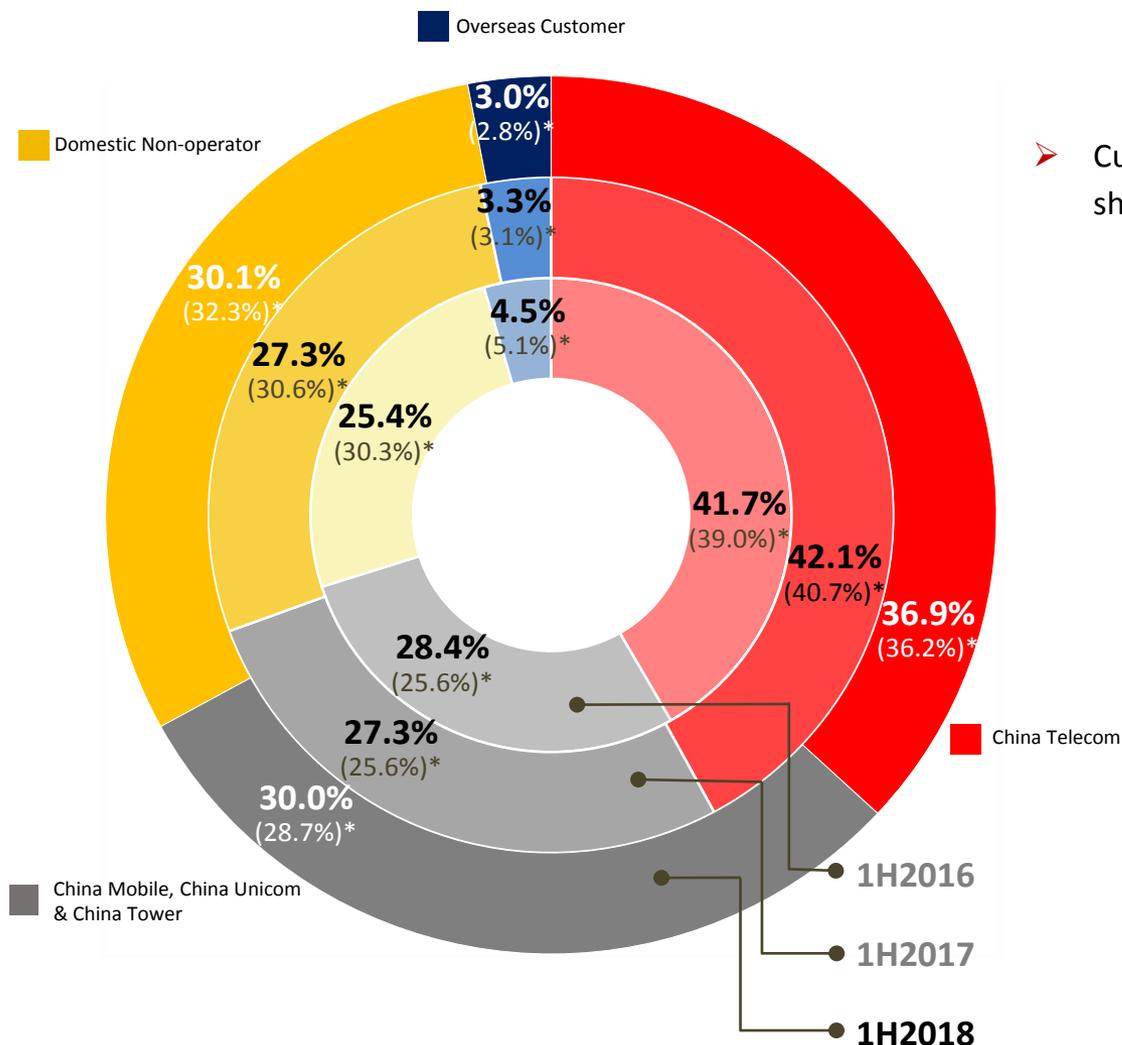
Revenue Growth by Customers

(RMB'M)



- Achieved accelerating growth for all businesses and customers
- Provided integrated solutions for domestic non-operator customers: leading by design and consultation businesses as well as capitalizing on software products, promoted the development of other businesses by strengthening collaboration
- Effectively executed “CAPEX and OPEX-driven” strategy, favourable growth of TIS and BPO businesses led to stable development of domestic operator business

Customer Revenue Composition (By Core Businesses)



➤ Customer revenue structure further diversified and showed noticeable changes:

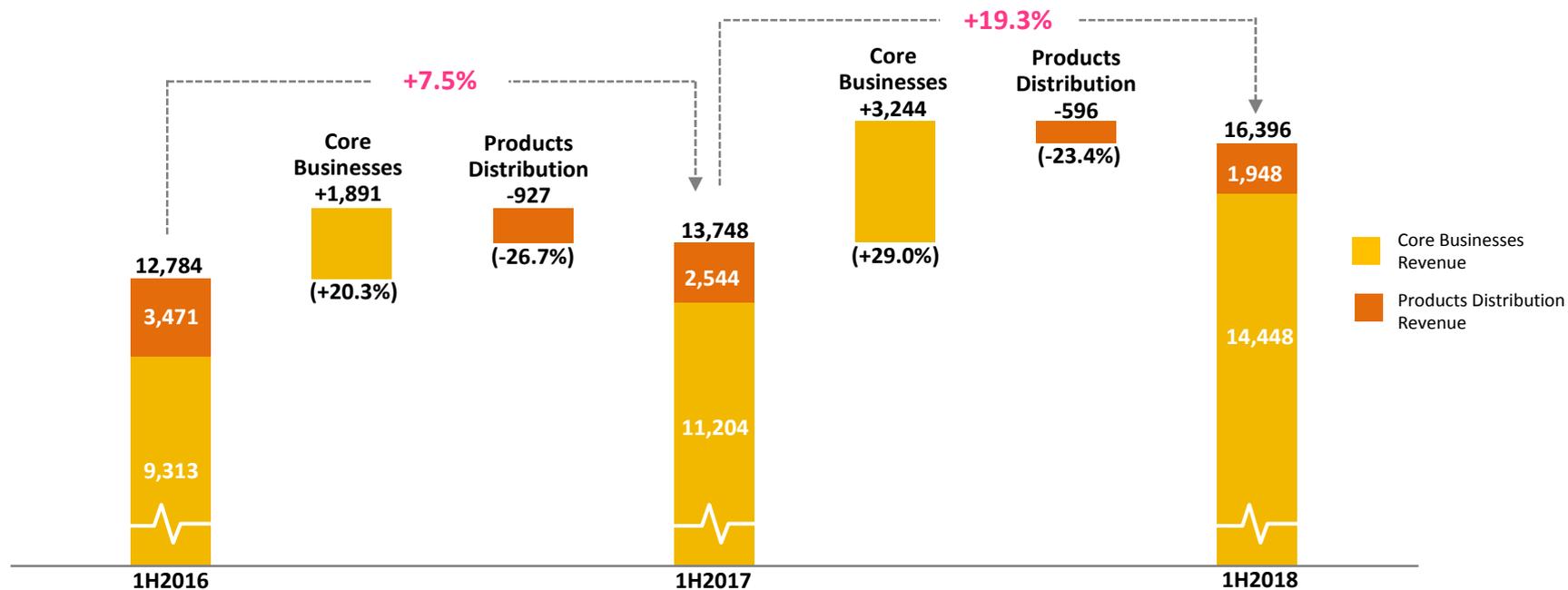
- Portion of revenue from domestic non-operator escalated progressively and **reached 30% for the first time**
- Portion of revenue from domestic operators other than China Telecom **reached 30% for the first time**
- Portion of revenue from China Telecom further reduced to 36.9%, and dependence on a single customer further decreased

Domestic Non-operator Market I – Growth Momentum Enhanced



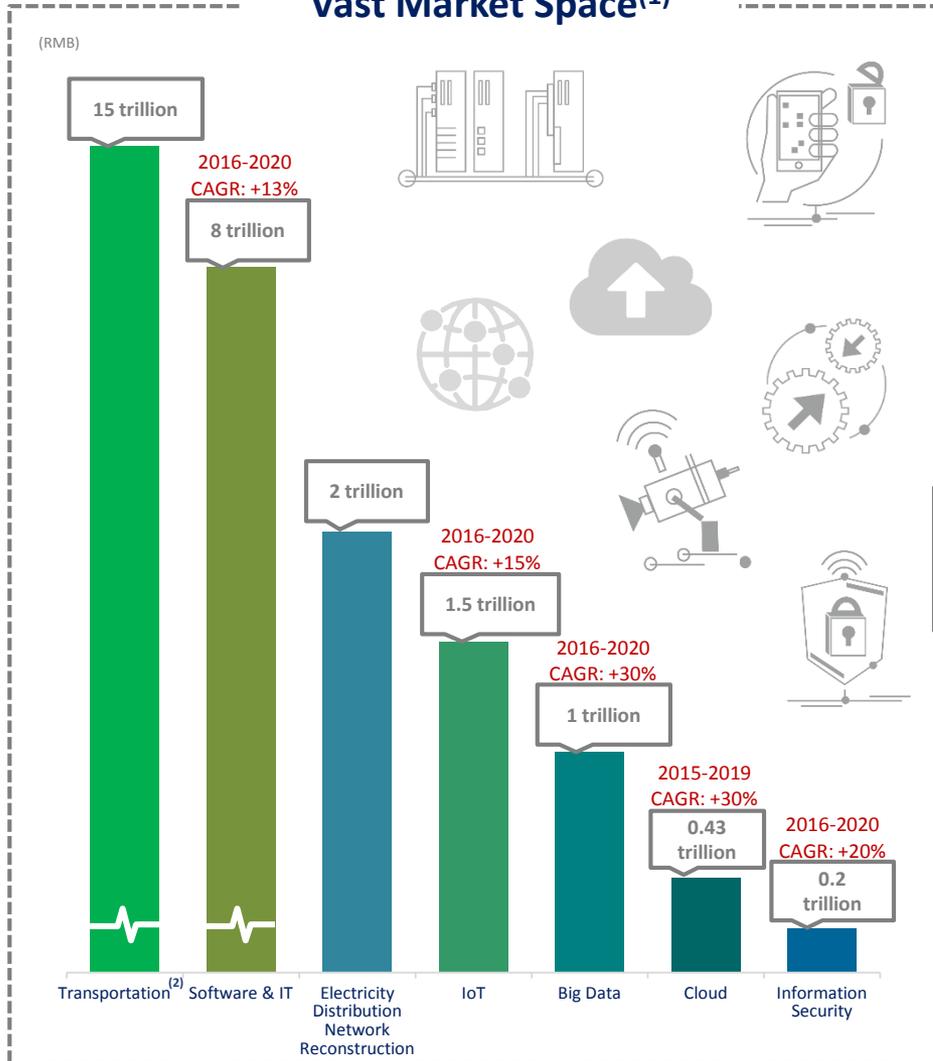
Revenue Growth Drivers

(RMB'M)

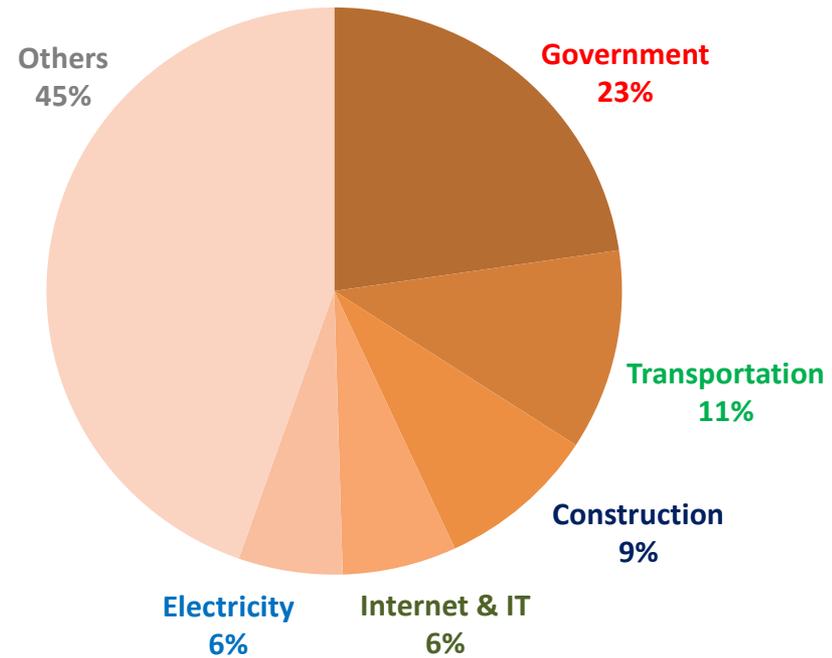


- Seized the opportunities from Digital Economy and Smart Society to further enhance the integrated service capabilities and market influence
 - Continuously enriched a series of smart products and held Smart Product Release Conference to make official introduction of over 20 smart products during China International Big Data Industry Expo 2018
 - Cooperated with Chinese Academy of Sciences and other innovative companies to form “Smart Service Industrial Ecosystem Alliance”
 - Ranked 6th in China’s Top 100 Software Enterprises

Vast Market Space⁽¹⁾



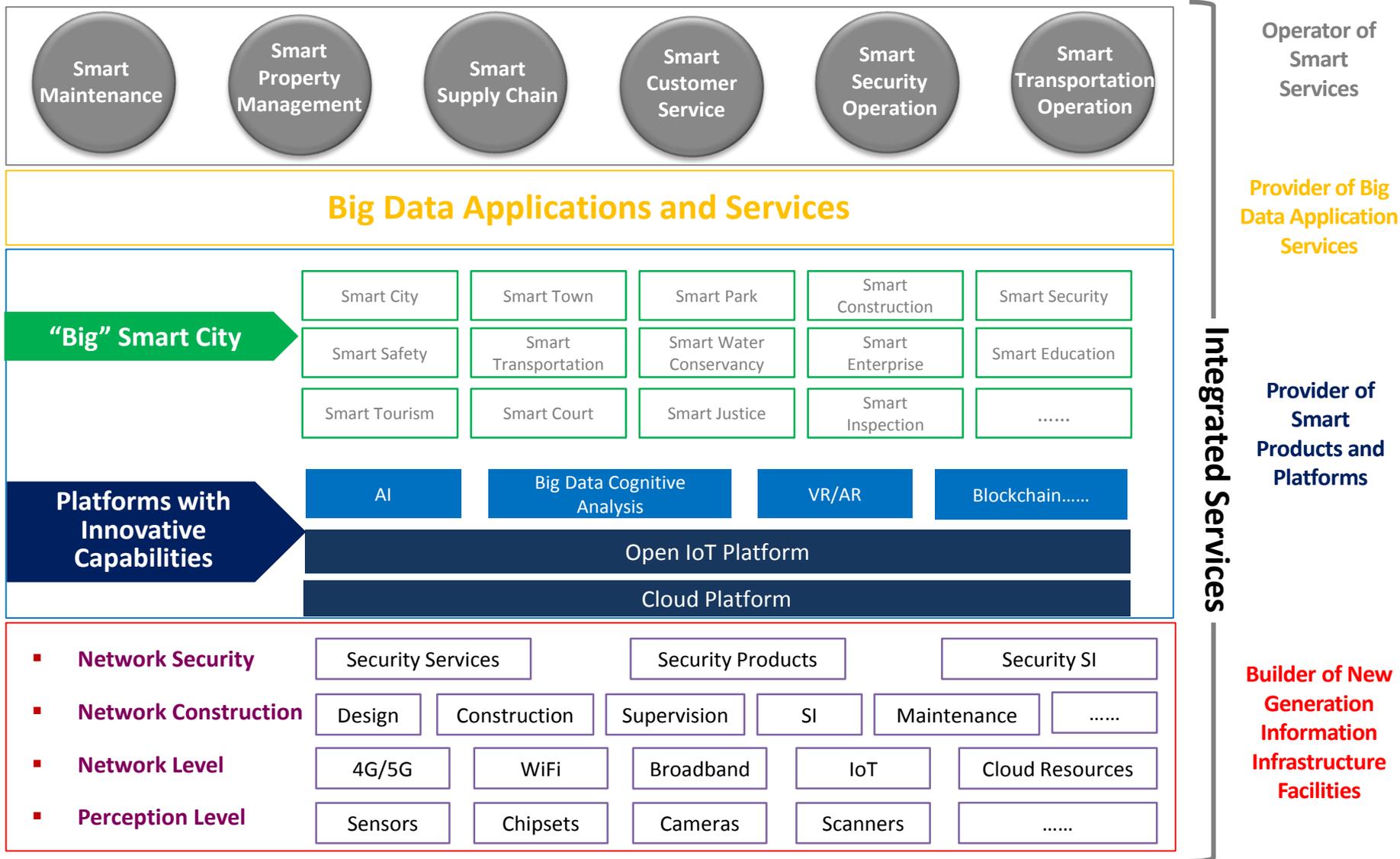
1H2018 Newly-signed Contract Amount by Sectors (%)

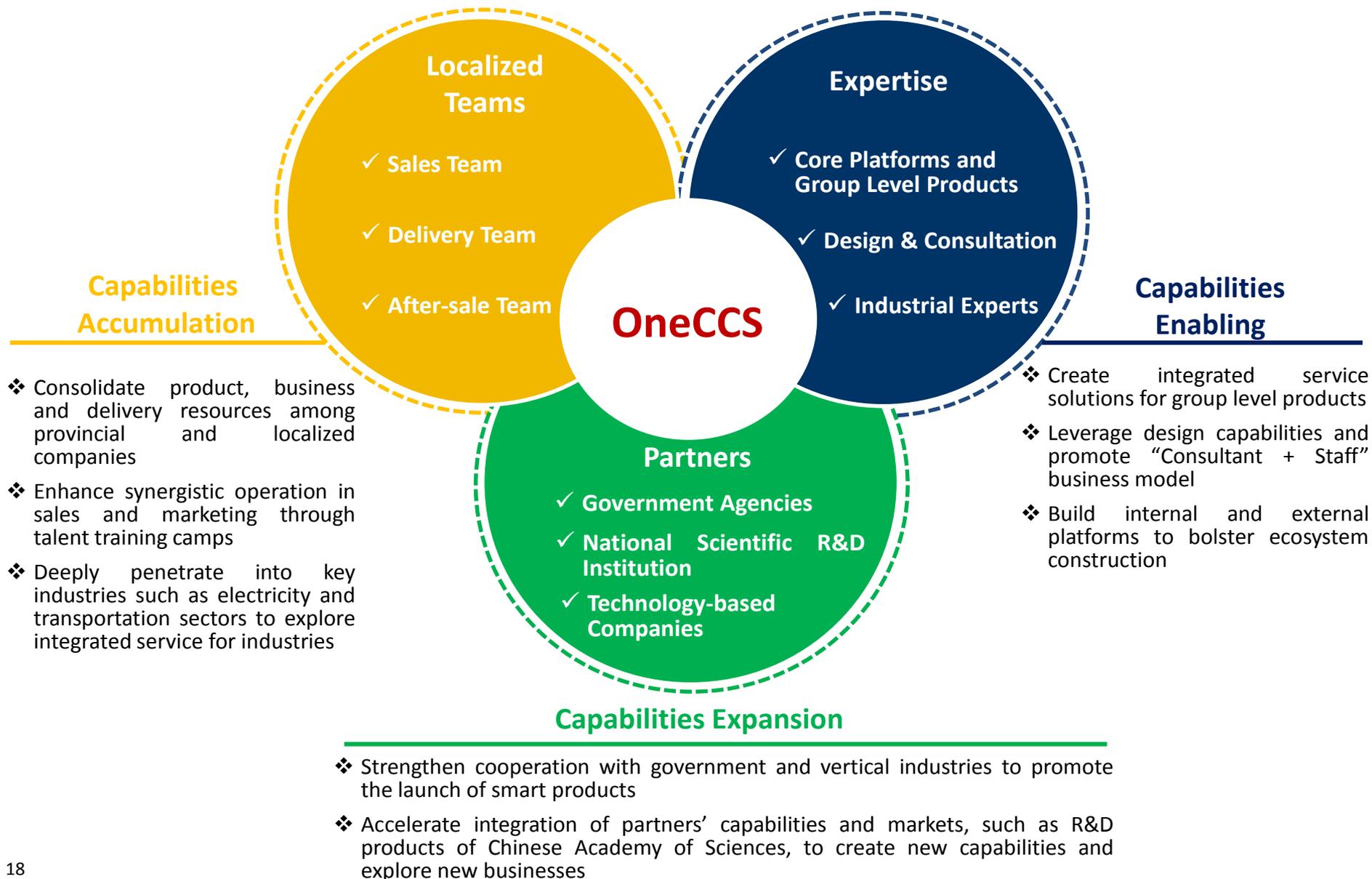


⁽¹⁾ Sources: Related government documents

⁽²⁾ Investment in transportation includes highways, railways, aviation, marine transport, etc. Currently, we mainly focus on electrical / mechanical work, informatization and pipeline relocation projects.

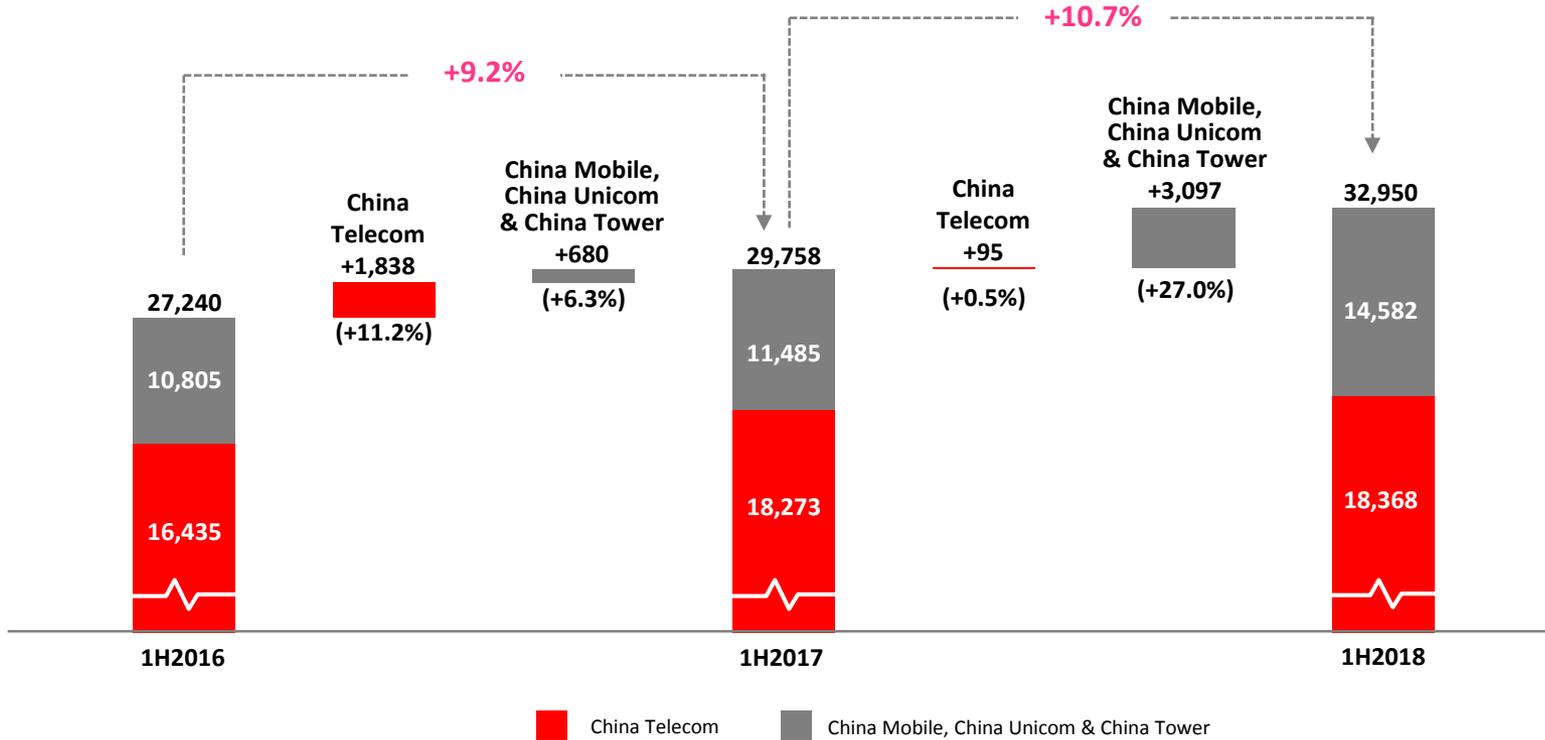
Domestic Non-operator Market III – Market Development : Enriched Smart Society Products





Revenue Growth Drivers

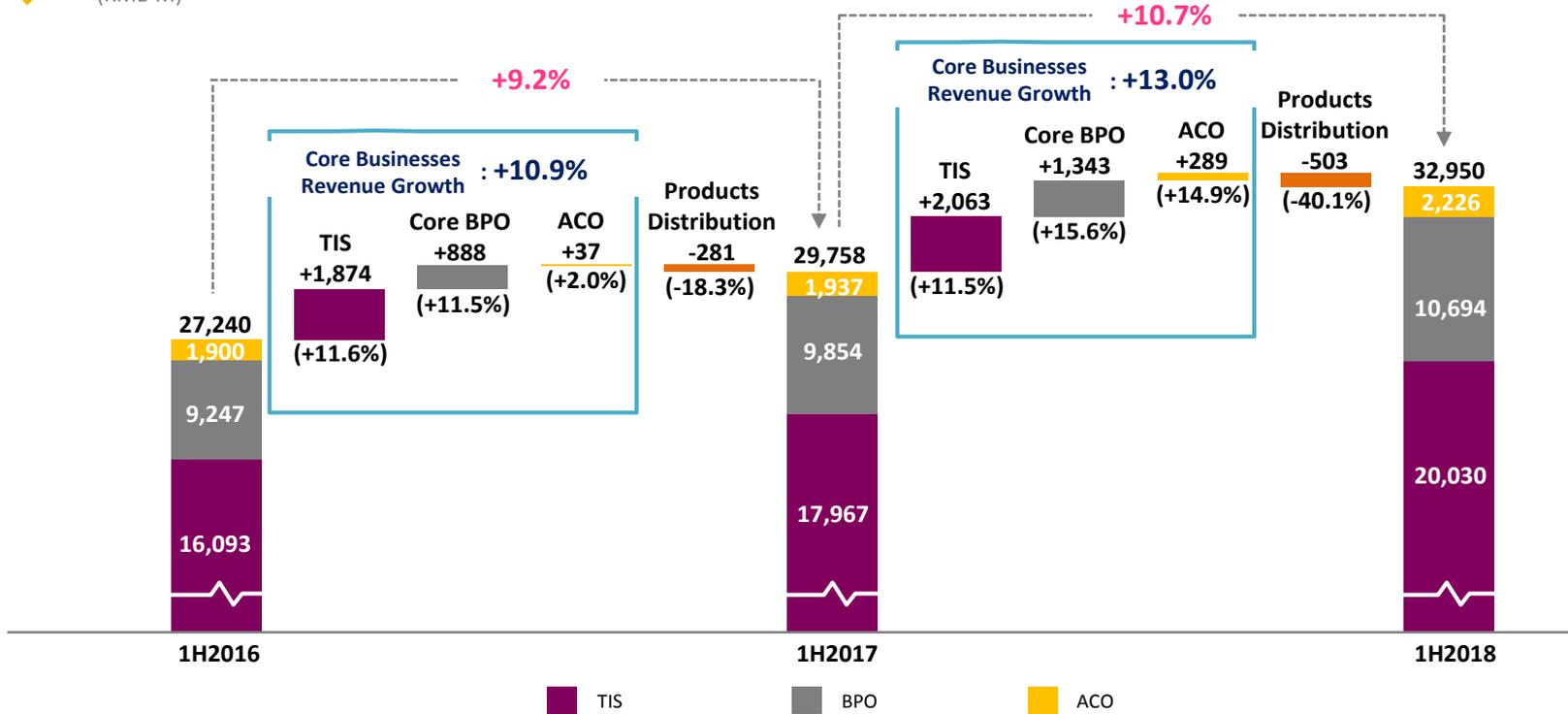
(RMB'M)



- Maintained steady growth in domestic operator market and our business fundamental further reinforced
- Increased market share through enhancing project management and delivery quality

Revenue Growth Drivers

(RMB'M)

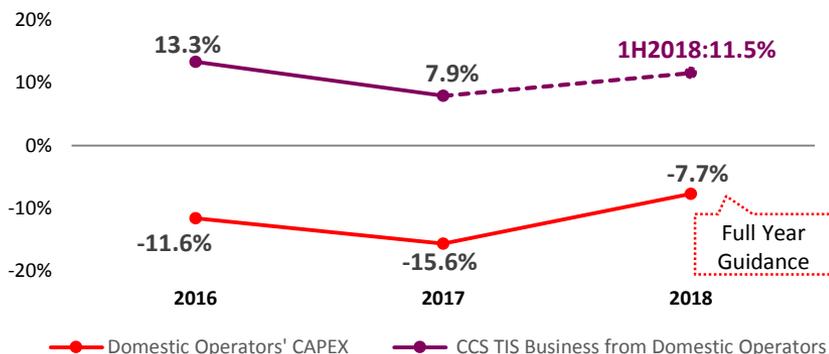


- Through raising market share, TIS business maintained a double-digit growth although domestic operators reduced CAPEX continuously
- Growth of Core BPO businesses accelerated by vigorously developing OPEX business, and bolstered the overall stable performance in domestic operator market

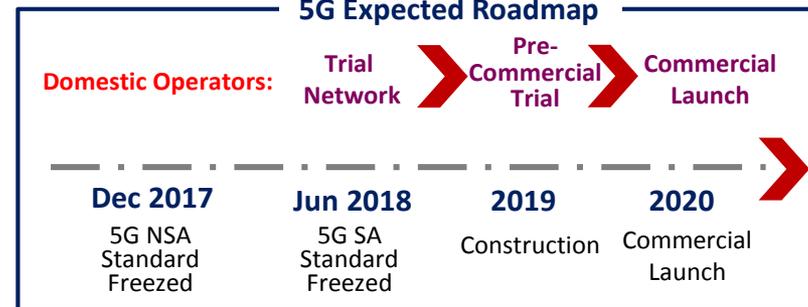
Domestic Operator Market III – CAPEX and OPEX Drive Future Development

TIS – CAPEX

Change of CAPEX⁽¹⁾ and CCS TIS Business from Domestic Operators



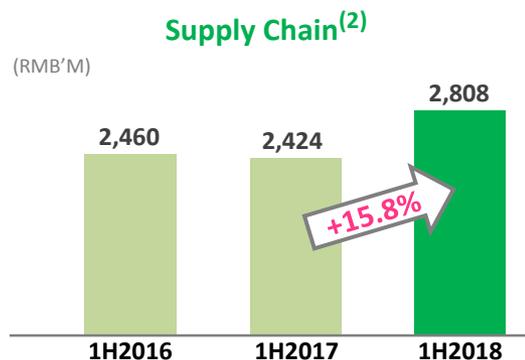
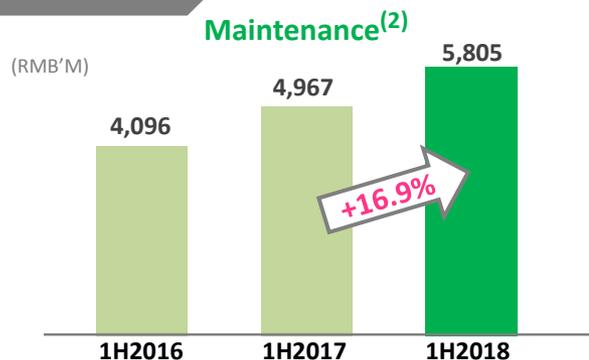
5G Expected Roadmap



Strive to Increase Market Share

- Firmly seize transformation and upgrade opportunities from operators
- Focus new businesses from operators' 5G and IoT through enhancing informatization service capabilities

BPO – OPEX



Continue to Improve Synergistic Operation Capabilities

- Set industry service benchmark; continue to promote branding unification of chain stores, consolidate logistic and warehousing resources, optimize nationwide unified logistic information system; promote synergistic operation for facilities

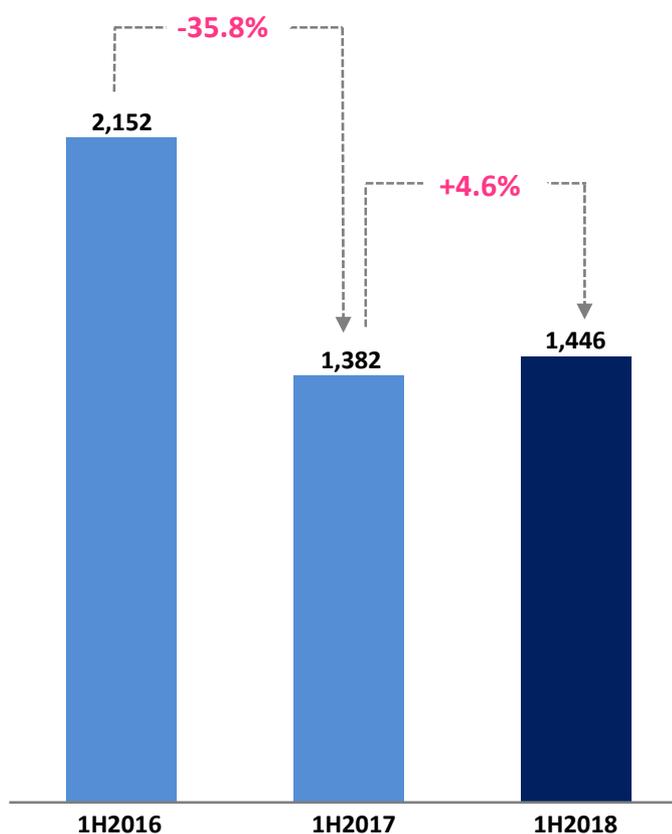
⁽¹⁾ Domestic operators' CAPEX numbers are from three telecom operators and China Tower. 2018 data are the planned numbers announced by these companies.

⁽²⁾ Such data reflects revenues from domestic operator market only.



Revenue from Overseas Market

(RMB'M)



Review

- Overseas business stabilized and key projects achieved progress through:
 - Deeply penetrating into telecom infrastructure business
 - Targeting on opportunities from key industries such as electricity, education and healthcare
 - Extending smart products overseas
- Cooperated with domestic operators and “Go Abroad” Chinese enterprises and made progress in jointly developed projects
- Further optimized overseas management structure to synergize resources, enhance service and risk-prevention capabilities

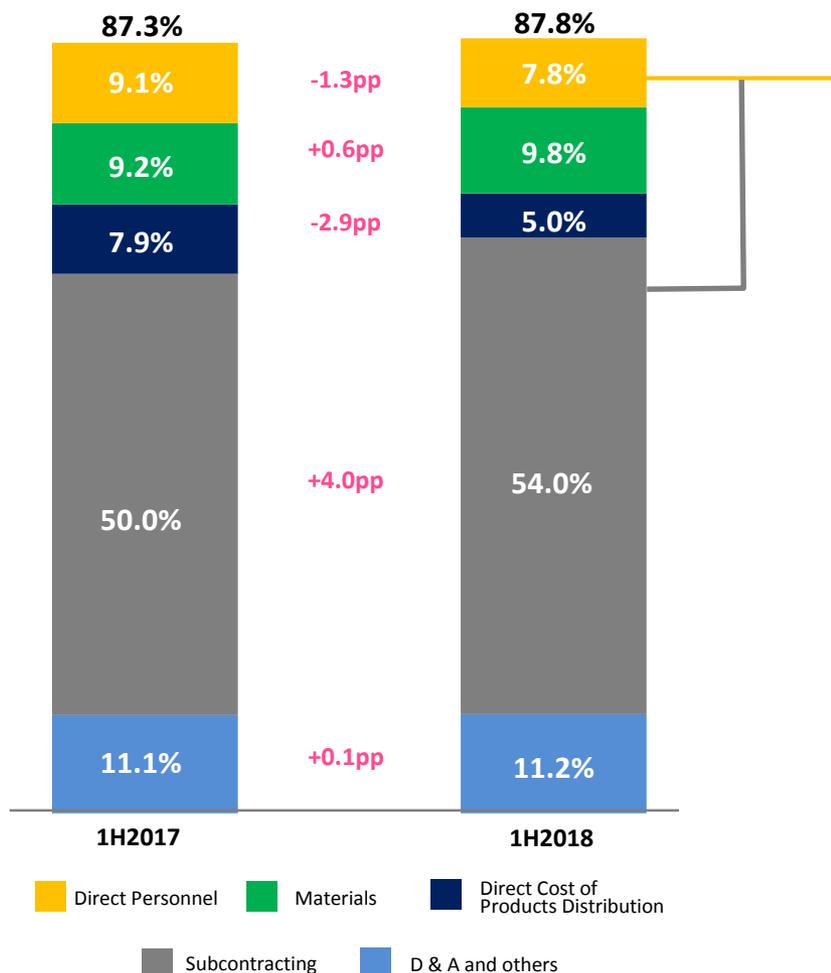
Prospect

- Telecom sector in Asia-Pacific region, Africa and the Middle East are mostly emerging markets with enormous infrastructure demand
- Belt and Road Initiative and related national policies provide favourable environment
- Enhance cooperation with domestic operators and “Go Abroad” Chinese enterprises and extend smart products overseas
- Push forward the implementation of key projects and realize the transformation and upgrade of overseas business



Financial Results

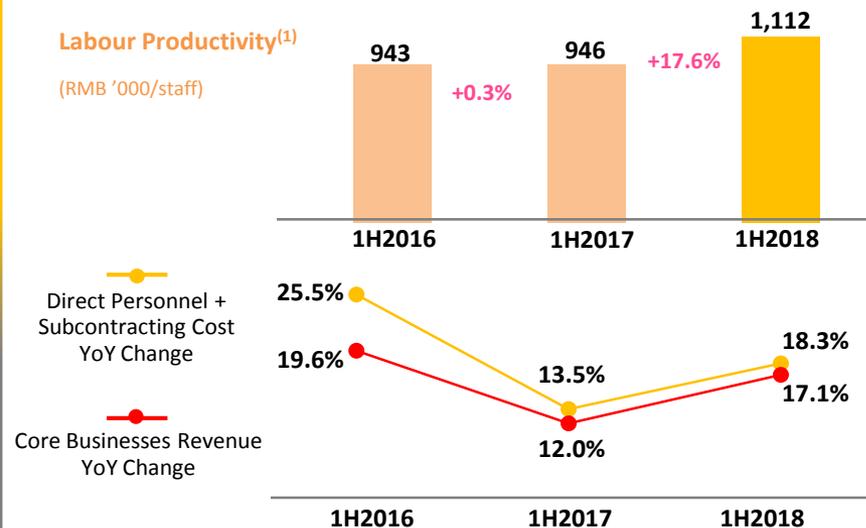
(RMB'M)	1H2017	1H2018	Change %	% of Revenue
Revenue	44,888	50,792	13.2%	100%
Cost of Revenue	39,179	44,616	13.9%	87.8%
Direct Personnel	4,101	3,959	-3.5%	7.8%
Materials	4,124	5,008	21.4%	9.8%
Direct Cost of Products Distribution	3,520	2,529	-28.1%	5.0%
Subcontracting	22,424	27,414	22.3%	54.0%
D & A	238	239	0.3%	0.5%
Others	4,772	5,468	14.6%	10.7%
Gross Profit	5,709	6,176	8.2%	12.2%
SG & A	4,347	4,661	7.2%	9.2%
Net Profit	1,469	1,595	8.6%	3.1%
EPS (RMB)	0.212	0.230	8.6%	-



By utilizing subcontracting resources adaptively and controlling total staff number, direct personnel cost as a % of revenue kept declining while labour productivity increased rapidly

Labour Productivity⁽¹⁾

(RMB '000/staff)



Products distribution business does not involve subcontracting cost, and so a more meaningful analysis for subcontracting cost is by comparing this with core businesses revenue, and also together with direct personnel cost

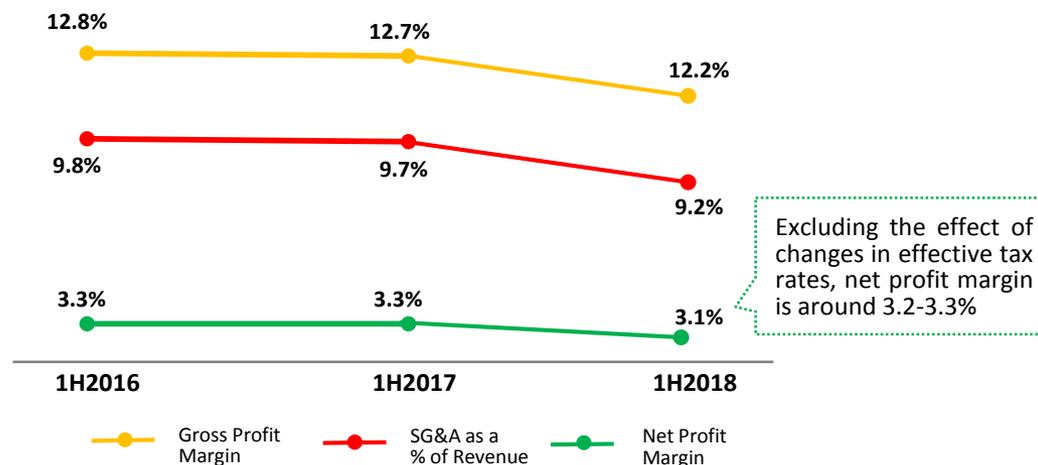
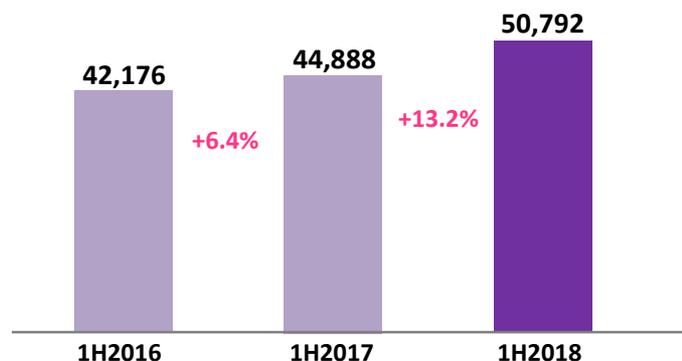
Rapid growth in businesses including construction, system integration and supply chain drove relatively fast increase in materials cost

By proactively controlling the products distribution business, direct cost of products distribution as a % of revenue decreased by 2.9 pp

⁽¹⁾ Labour Productivity = revenue (annualized basis)/ staff number

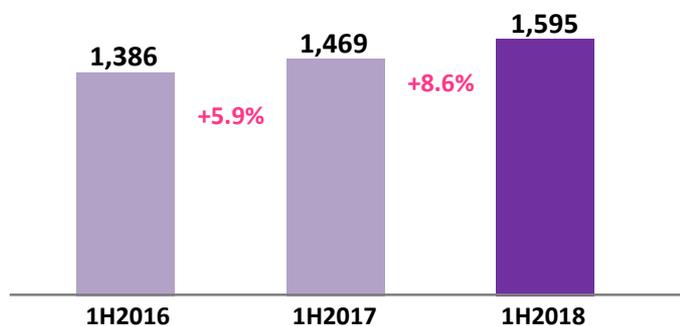
Revenue

(RMB'M)



Net Profit

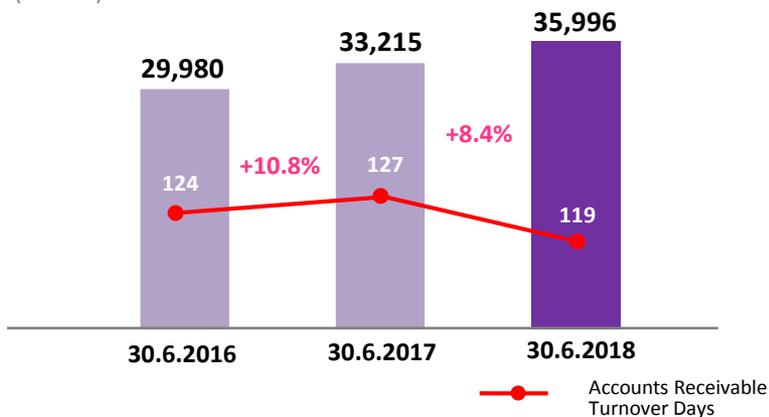
(RMB'M)



- Decreased service price and increased labour related cost led to a decrease in gross profit margin
- Realized the benefit from economies of scale and stringent sales and admin expense control, SG&A as a % of revenue further decreased
- Strive to push forward transformation and control costs to maintain stability in overall efficiency

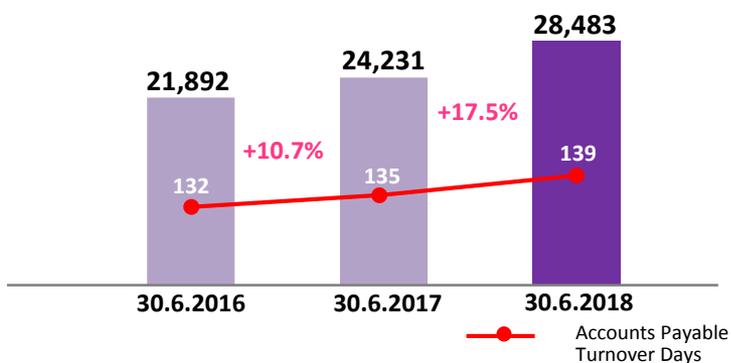
Accounts Receivable⁽¹⁾

(RMB'M)



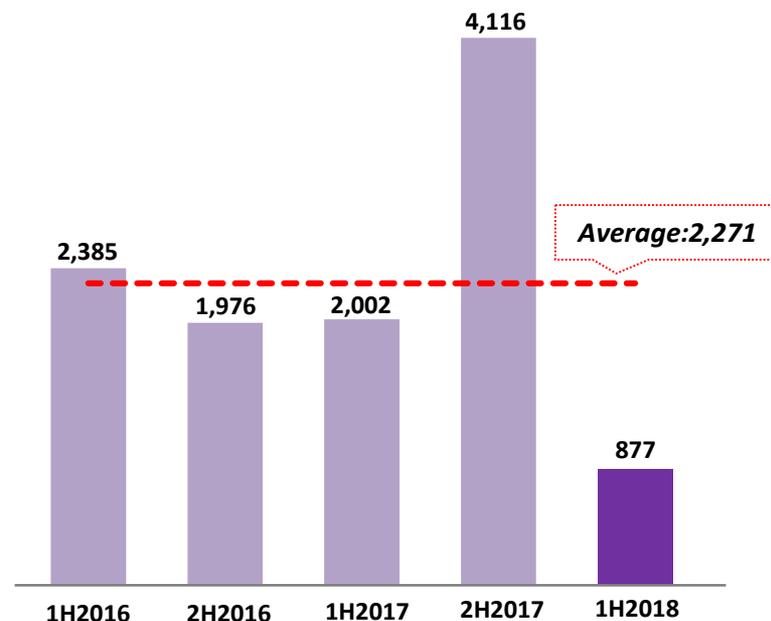
Accounts Payable

(RMB'M)



Free Cash Flow

(RMB'M)



- Due to the sharp increase in 2H2017, free cash flow in 1H2018 was relatively lower
- Accounts receivable and accounts payable days were still under good control

⁽¹⁾ Disclosures on certain items of financial statements have been adjusted following the adoption of new accounting standards from 1 Jan 2018. To maintain the comparability with past year figures, the amount of accounts receivable as at 30 Jun 2018 is the sum of "Accounts and bills receivable, net" and "Contract assets" in financial statements.

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

(RMB'M)	31.12.2017	30.6.2018
Total Assets⁽¹⁾	70,735	79,108
Total Liabilities	41,915	47,604
Equity Attributable to Equity Shareholders	28,329	31,022
Total Liabilities / Total Assets (%)	59.3%	60.2%
Debt-to-Capitalization Ratio (%)	1.1%	1.3%
Cash and Deposits	16,621	14,747
Interest-bearing Liabilities	327	408

⁽¹⁾ Total assets as of 30 Jun 2018 included principal-protected wealth management products of approximately RMB6.5 billion (31 Dec 2017: approximately RMB5 billion)



Thank you!



- Best CEO
 - Best CFO
 - Best Investor Relations
- by *Corporate Governance Asia*



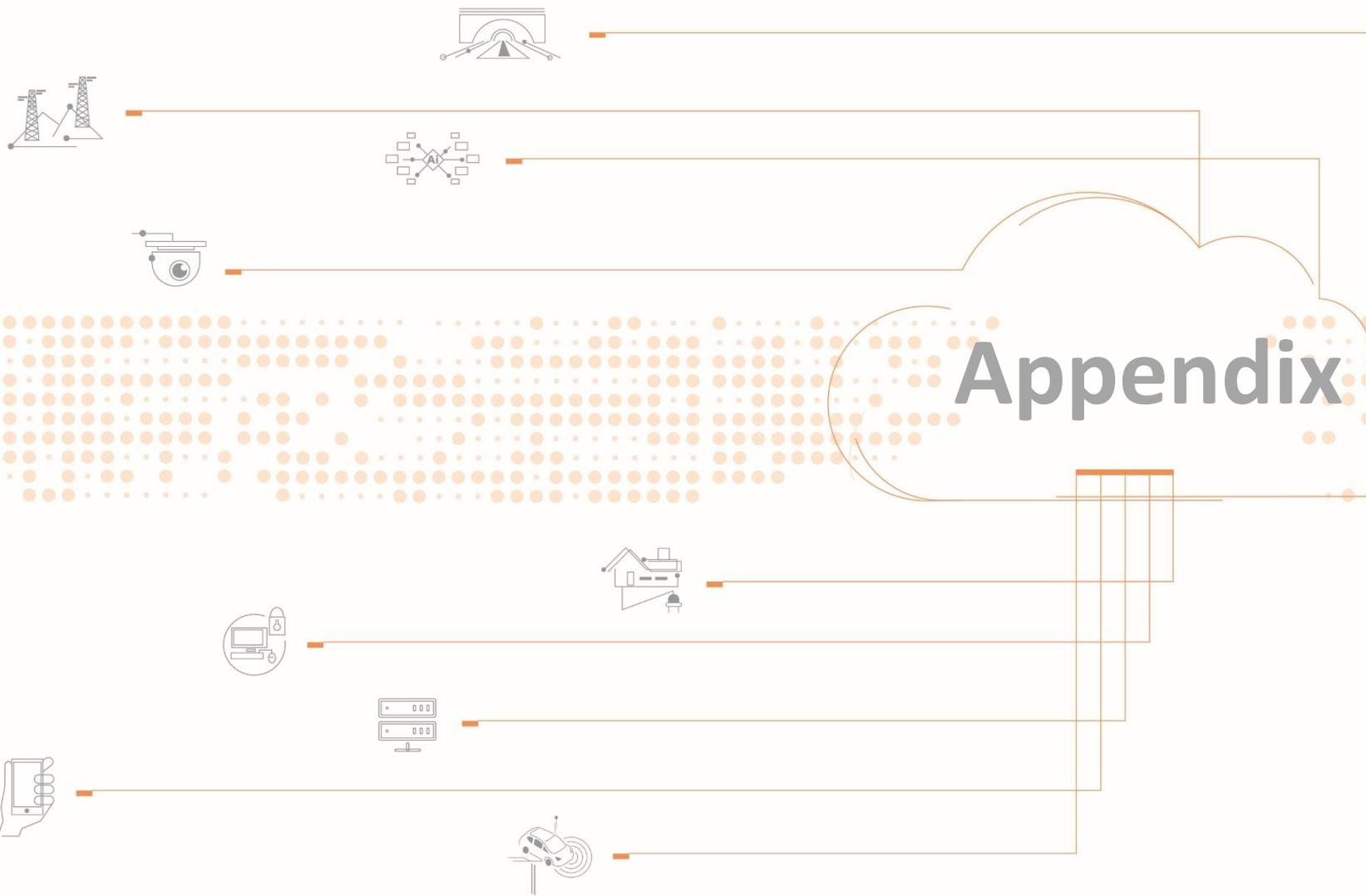
ASIA'S
BEST
COMPANIES
2018

- 6th in Best Managed Company
 - 4th in Most Committed to Corporate Governance
 - 5th in Best at Corporate Social Responsibility
 - 5th in Best at Investor Relations
- by *FinanceAsia*



- Platinum Award - Excellence in Environmental, Social and Corporate Governance
- by *The Asset*





Appendix

Business Revenue Breakdown – By Customers

(RMB'M)	1H2017	1H2018	Change	Change %
TIS (Telecommunications Infrastructure Services)				
Domestic Operator	17,967	20,030	2,063	11.5%
Domestic Non-operator	5,043	7,273	2,230	44.2%
Overseas Customer	1,061	1,027	-34	-3.3%
TIS total	24,071	28,330	4,259	17.7%
Core BPO (Business Process Outsourcing Services)				
Domestic Operator	8,600	9,943	1,343	15.6%
Domestic Non-operator	3,266	3,793	527	16.1%
Overseas Customer	183	158	-25	-13.7%
Subtotal (Core BPO)	12,049	13,894	1,845	15.3%
Products Distribution	3,815	2,714	-1,101	-28.9%
BPO total	15,864	16,608	744	4.7%
ACO (Applications, Content and Other Services)				
Domestic Operator	1,937	2,226	289	14.9%
Domestic Non-operator	2,895	3,382	487	16.8%
Overseas Customer	121	246	125	103.9%
ACO total	4,953	5,854	901	18.2%
Total	44,888	50,792	5,904	13.2%

Integrated with frontier technologies and driven by big data, the smart management system covers three major informatization areas for highway -

Surveillance, Toll, Maintenance and Operation

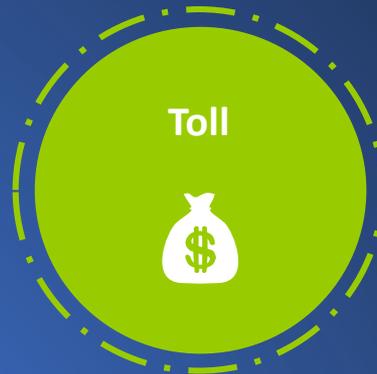
Smart Management



Surveillance

Multi-level Digital Surveillance System

- Province-wide supervision network
- Real-time monitor of highway
- Operation status examination
- Operation data display



Toll

Innovative Smart Toll Model

- Duo-camera vehicle identification system
- AI + Self-developed billing platform – electronic toll collection
- Blockchain credit system



Maintenance and Operation

First Class IT & Network Operation and Maintenance

- Support mainstream IT, network and electromechanical equipment
- Automatic alarm system
- One-stop control over electromechanical system and roadside equipment

Hunan Smart Highway – Provincial Big Data Platform in China under Smart Management



Massive Data

- Collect and consolidate data from highway network equipment, photos and videos, toll stations and road condition

Real-time Information

- Process, analyze and display massive data, and the fastest refresh rate is **every 5 second**

Flexible Display

- Display allows module assembly, and configurable deployment, as well as seasonal or holiday specific themes

Shanghai-Nanjing Expressway



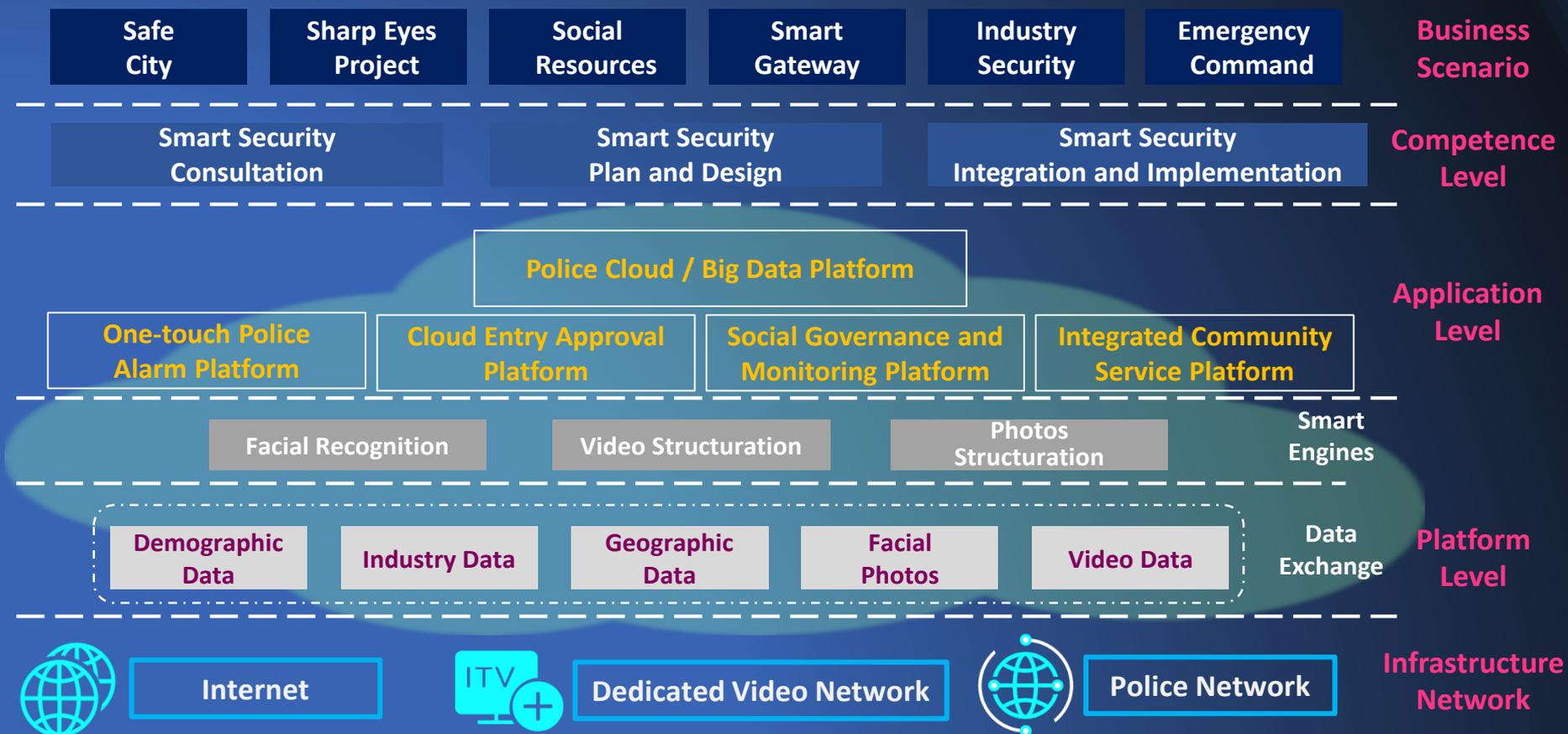
- One of the three demonstrative projects from Ministry of Transport, Jiangsu Economic and Information Technology Commission and Jiangsu Provincial Department of Transportation

Changyi Expressway



- One of the 10 most congested highway sections nationwide; the system construction alleviated prolonged congestion and ensured smooth operation during the 2018 Spring Festival Travel at Hunan

Our Smart Security services are led by consultation, planning and design, taking **applications as core competence** while leveraging on system integration and implementation



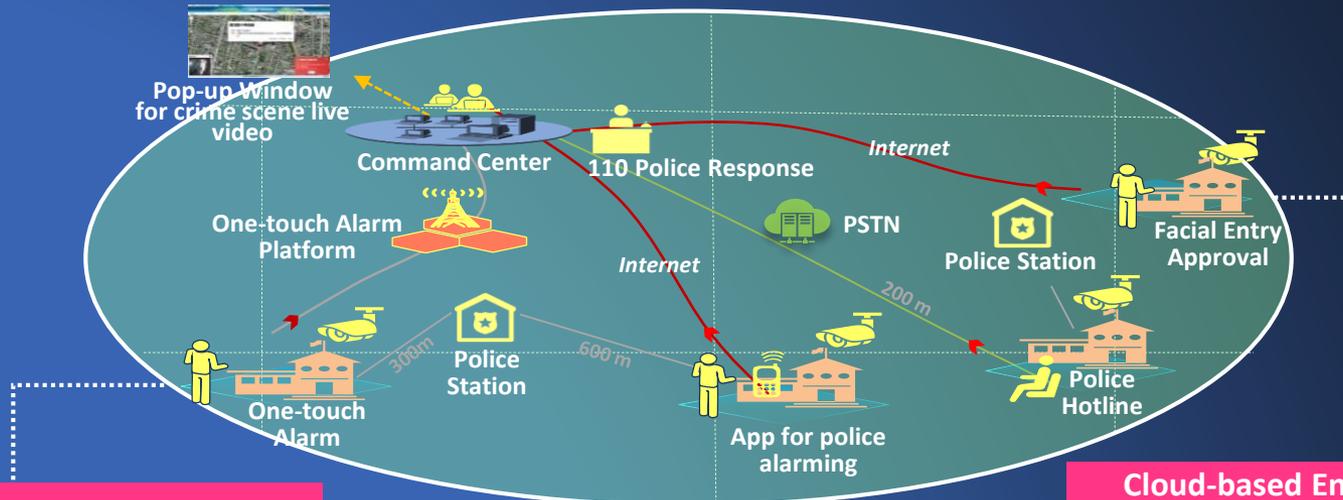
“Smart Talk”-

Visualized Applications for Police Mission Command Center



“Smart Watch”-

Dynamic Monitoring on Key Areas Crime Scene



One-touch Alarm: Xinjiang

Solutions	Results
<ul style="list-style-type: none"> One-touch Alarm: Swift response from police stations 3-parties intercom: Police hotline pop-up window+ Auto Police station group call Police-Video Connection: Live Video 	<ul style="list-style-type: none"> Police arrival within 1 min and lowered damage Reduced crime rate by 50% and increased security level

Cloud-based Entry Approval: Chongqing Police Department

Solutions	Results
<ul style="list-style-type: none"> Facial recognition for entry Store resident information and entry record in cloud platform Provide abnormal warning to reduce police workload and increase efficiency 	<ul style="list-style-type: none"> Reduced Crime Dynamic monitoring for citizens

Cloud integration: Integrated cloud services

Construction Capabilities on Integrated Data Centers

- Customers cover various industries
- Constructed over 500k data center racks
- Constructed Asia’s biggest, the most environmental friendly, and of highest security level cloud computing information parks

Standardized Cloud Migration Services

- Completed various large-scale cloud migration projects for telecom operators, industrial and manufacturing sectors, etc, which ensured no key data loss and business intermission

Integrated Cloud + Network Management

Equipment + Facilities Management

- Power Supply/Environment/AC/Facilities...

IDC Management

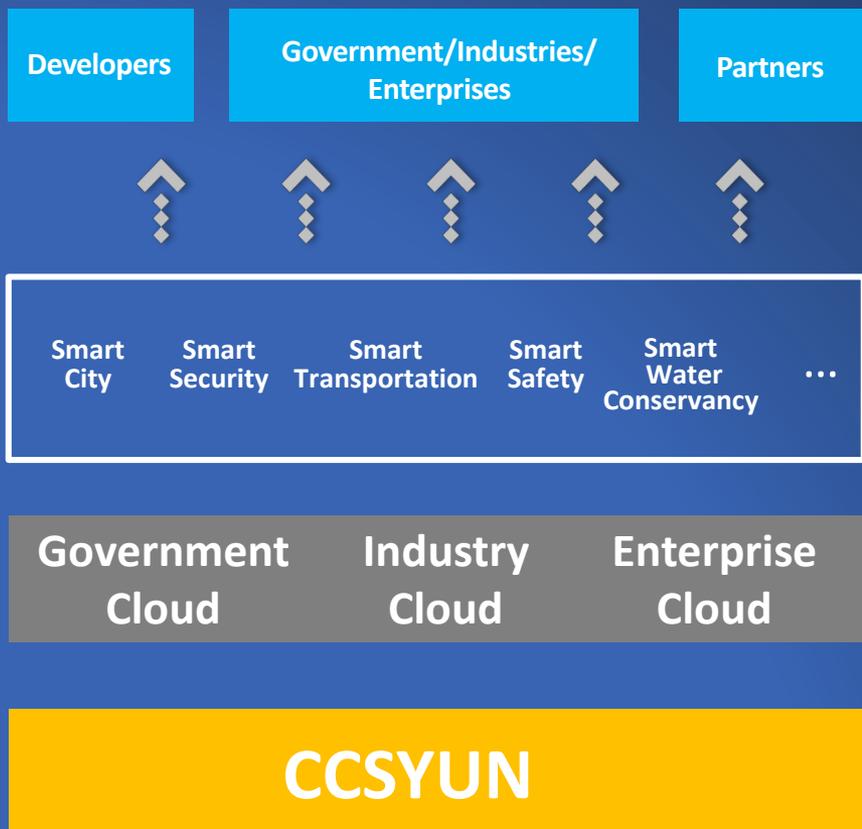
- Racks/Network/Servers/Storage...

Heterogeneous Cloud Management Platform

- Heterogeneous Cloud Computing/Cloud Network/Cloud Storage...



Build Private Cloud for government, industries and enterprises



Open

Not only capable of managing Hybrid Cloud, but also can be integrated

Safe

Comprehensive security for businesses, platforms, network and data

Capabilities Enabling

Unified collaborative development tool to enhance efficiency

Capabilities Accumulation

Sharing of data, applications and capabilities to overcome organizational barriers

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