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## FINANCIAL OVERVIEW

# COMPETITIVE SHARPEN

### I. OVERVIEW

In 2016, the Company actively responded to the challenge of “Speed Upgrade and Tariff Reduction”<sup>1</sup>, “Real-name registration” and increased competition. At the same time, the Company actively mitigated underlying shortcomings and increased cost initiatives as appropriate to strive for an accelerated turnaround, enhance the ability of sustainable development. The Company’s revenue was RMB274.20 billion in 2016, down by 1.0% compared with last year, of which service revenue stopped deteriorating and stabilised and reached RMB240.98 billion, up by 2.4% compared with last year. Profit for the year<sup>2</sup> was RMB0.63 billion, down by 94.1% compared with last year, decreased by RMB3.00 billion compared with last year (excluding the net gain on disposal of telecommunication towers).

In 2016, net cash flow from operating activities was RMB74.59 billion. Capital expenditure was RMB72.11 billion. Liabilities-to-assets ratio was 62.9% as at 31 December 2016.

### II. REVENUE

In 2016, the Company’s revenue was RMB274.20 billion, down by 1.0% compared with last year, of which, service revenue accounted for RMB240.98 billion, up by 2.4% compared with last year. Revenue from sales of telecommunications products was RMB33.22 billion, down by 20.5% compared with last year.

The following table sets forth the composition of service revenue, including as a percentage of the service revenue for the years of 2016 and 2015:

#### SERVICE REVENUE (RMB IN BILLIONS)

2016 **240.98**  
↑ 2.4%

FINANCIAL OVERVIEW

FEEDGES  
VIEWED

(RMB in billions)	2016		2015	
	Total amount	As a percentage of service revenue	Total amount	As a percentage of service revenue
<b>Service revenue</b>	<b>240.98</b>	<b>100.0%</b>	235.28	100.0%
<b>Include: Mobile service</b>	<b>145.02</b>	<b>60.2%</b>	142.62	60.6%
<b>Fixed-line service</b>	<b>94.66</b>	<b>39.3%</b>	91.26	38.8%
Include: Fixed-line broadband access	<b>43.87</b>	<b>18.2%</b>	43.86	18.6%
IDC and cloud computing	<b>9.45</b>	<b>3.9%</b>	7.07	3.0%

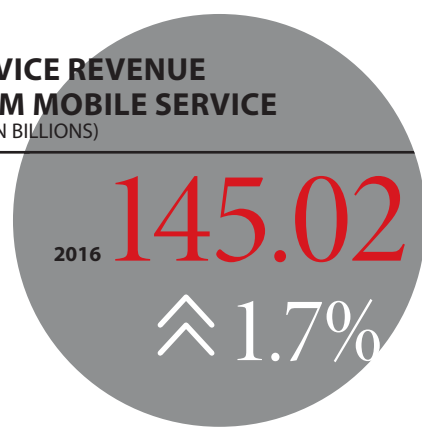
**1. Mobile service**

In 2016, service revenue from the mobile service was RMB145.02 billion, up by 1.7% compared with last year.

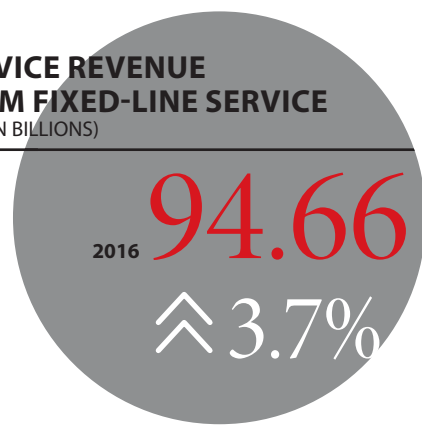
**2. Fixed-line service**

In 2016, service revenue from the fixed-line service was RMB94.66 billion, up by 3.7% compared with last year. Out of service revenue from the fixed-line service, revenue from broadband access was RMB43.87 billion which were basically same as last year. Revenue from IDC and cloud computing was RMB9.45 billion, up to 33.7% compared with last year.

**SERVICE REVENUE FROM MOBILE SERVICE**  
(RMB IN BILLIONS)



**SERVICE REVENUE FROM FIXED-LINE SERVICE**  
(RMB IN BILLIONS)

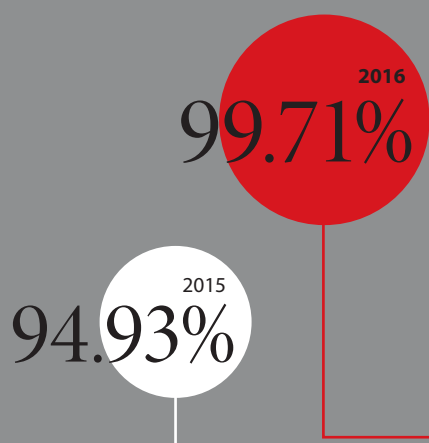


## FINANCIAL OVERVIEW

### III. COSTS AND EXPENSES

In 2016, total costs and expenses amounted to RMB273.41 billion, up by 4.0% compared with last year.

The table below sets forth the major items of the costs and expenses and their respective percentage of the revenue for the years of 2016 and 2015:



### ANALYSIS OF TOTAL COSTS AND EXPENSES

Percentage of total costs and expenses to revenue

Category	2016	2015
Interconnection charges	4.65%	4.73%
Depreciation and amortisation	28.01%	27.70%
Network, operation and support expenses	18.66%	15.27%
Employee benefit expenses	13.46%	12.68%
Cost of telecommunications products sold	13.32%	15.90%
Selling and marketing expenses	12.64%	11.54%
Others <sup>#</sup>	8.97%	7.11%

# Including general, administrative and other expenses, finance costs, net of interest income, share of net profit/loss of associates, share of net profit/loss of joint ventures and other income-net

(RMB in billions)	2016		2015	
	Total amount	As a percentage of revenue	Total amount	As a percentage of revenue
<b>Total costs and expenses</b>	<b>273.41</b>	<b>99.71%</b>	263.01	94.93%
Operating costs	271.49	99.01%	266.28	96.11%
Include: Interconnection charges	12.74	4.65%	13.09	4.73%
Depreciation and amortisation	76.80	28.01%	76.74	27.70%
Network, operation and support expenses	51.17	18.66%	42.31	15.27%
Employee benefit expenses	36.91	13.46%	35.14	12.68%
Costs of telecommunications products sold	36.53	13.32%	44.05	15.90%
Selling and marketing expenses	34.65	12.64%	31.97	11.54%
General, administrative and other expenses	22.69	8.27%	22.98	8.29%
Finance costs, net of interest income	3.86	1.41%	6.50	2.34%
Share of net (profit)/loss of associates	-0.20	-0.07%	0.76	0.27%
Share of net (profit)/loss of joint ventures	-0.15	-0.06%	0.04	0.02%
Other income-net	-1.59	-0.58%	-10.57	-3.81%

## FINANCIAL OVERVIEW

**1. Interconnection charges**

Mainly due to the decrease in volume of the interconnection voice calls, the interconnection charges amounted to RMB12.74 billion in 2016, down by 2.7% compared with last year and, as a percentage of revenue, decreased from 4.73% in 2015 to 4.65% in 2016.

**2. Depreciation and amortisation**

Depreciation and amortisation charges in 2016 were RMB76.80 billion which were basically same as last year and, as a percentage of revenue, changed from 27.70% in 2015 to 28.01% in 2016.

**3. Network, operation and support expenses**

The transformation of the tower operation model<sup>3</sup> and expanded network scale caused rapid growth in usage fee of telecommunication towers. The Company incurred network, operation and support expenses of RMB51.17 billion in 2016, up by 20.9% compared with last year. Network, operation and support expenses, as a percentage of revenue, changed from 15.27% in 2015 to 18.66% in 2016.

**4. Employee benefit expenses**

The Company continued to deepen the reform in recruitment and remuneration as well as resources allocation. The Company's employee benefit expenses amounted to RMB36.91 billion in 2016, up by 5.0% compared with last year and, as a percentage of revenue, changed from 12.68% in 2015 to 13.46% in 2016.

**5. Cost of telecommunications products sold**

Costs of telecommunications products sold amounted to RMB36.53 billion and revenue from sales of telecommunications products amounted to RMB33.22 billion in 2016. Loss on sales of telecommunications products was RMB3.31 billion, of which the Company continued

to optimise the terminal contract product mix, terminal subsidy cost accounted to RMB3.07 billion in 2016, up by 7.8% compared with last year.

**6. Selling and marketing expenses**

To accelerate business development and strive for revenue growth while enhance customers quality, the Company continued to optimise its selling and marketing strategies and increased selling and marketing expenses as appropriate. In 2016, selling and marketing expenses were RMB34.65 billion, up by 8.4% compared with last year and, as a percentage of revenue, increased from 11.54% in 2015 to 12.64% in 2016.

**7. General, administrative and other expenses, exclude selling and marketing expenses and cost of telecommunications products sold**

General, administrative and other expenses were RMB22.69 billion in 2016, down by 1.2% compared with last year and, as a percentage of revenue, basically the same as last year.

**8. Finance costs, net of interest income**

In 2016, finance costs, net of interest income, was RMB3.86 billion, down by RMB2.64 billion compared with last year. The decrease in finance costs, net of interest income compared with last year was mainly because there was the exchange loss accounted for RMB2.10 billion in last year as a result of the changes in exchange rate.

**9. Other income-net**

Other income-net was RMB1.59 billion in 2016, decreased by RMB8.98 billion compared with last year. The decrease in other income-net compared with last year was mainly due to the net gain on disposal of telecommunication towers (before tax) amounted to RMB9.25 billion in last year.

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### IV. EARNINGS

#### 1. Profit before income tax

Under the influence of increased tower usage fee which caused increased in network, operation and support expenses and selling and marketing expenses, the Company's profit before income tax was RMB0.78 billion in 2016. Exclude the net gain on disposal of telecommunication towers (before tax) amounted to RMB9.25 billion in last year, the Company's profit before income tax decreased by RMB4.01 billion compared with last year.

#### 2. Income tax

In 2016, the Company's income tax was RMB0.15 billion and the effective tax rate was 19.6%.

#### 3. Profit for the year

In 2016, the Company's profit for the year<sup>2</sup> was RMB0.63 billion. The Company's profit for the year decreased by RMB3.00 billion compared with last year (excluding the net gain on disposal of telecommunication towers in last year). Basic earnings per share was RMB0.026, down by 94.1% compared with last year.

### CAPITAL EXPENDITURE (RMB IN BILLIONS)

2016 **72.11**  
⚓ 46.1%

### V. EBITDA<sup>4</sup>

In 2016, the Company's EBITDA was RMB79.50 billion, down by 9.1% compared with last year. EBITDA as a percentage of service revenue was 33.0%, down by 4.2 percentage points compared with last year.

### FREE CASH FLOW (RMB IN BILLIONS)

2016 **2.48**  
⚓ 52.06

### VI. CAPITAL EXPENDITURE AND CASH FLOW

In 2016, capital expenditure of the Company totaled RMB72.11 billion, which mainly consisted of investments in mobile network, broadband and data, and infrastructure and transmission network etc. Out of the total capital expenditure, capital expenditure attributable to mobile network was RMB27.74 billion; capital expenditure attributable to broadband and data service was RMB16.84 billion; and capital expenditure attributable to infrastructure and transmission network was RMB19.71 billion.

In 2016, the Company's net cash inflow from operating activities was RMB74.59 billion. Free cash flow was RMB2.48 billion after the deduction of the capital expenditure in 2016.

The following table sets forth the major items of the capital expenditure in 2016.

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(RMB in billions)	2016	
	Total amount	As percentage
<b>Total</b>	<b>72.11</b>	<b>100.0%</b>
Include: Mobile network	<b>27.74</b>	<b>38.5%</b>
Broadband and data	<b>16.84</b>	<b>23.4%</b>
Infrastructure and transmission network	<b>19.71</b>	<b>27.3%</b>
Others	<b>7.82</b>	<b>10.8%</b>

**VII. BALANCE SHEET**

The Company's total assets increased from RMB610.35 billion as at 31 December 2015 to RMB614.15 billion as at 31 December 2016. Total liabilities changed from RMB379.13 billion as at 31 December 2015 to RMB386.47 billion as at 31 December 2016. The liabilities-to-assets ratio changed from 62.1% as at 31 December 2015 to 62.9% as at 31 December 2016. The debt-to-capitalisation ratio changed from 39.2% as at 31 December 2015 to 43.6% as at 31 December 2016. The net debt-to-capitalisation ratio was 37.7% as at 31 December 2016. Taking into consideration the Company's stable net cash inflows from its operating activities and good credit records, the Company believes that it should have sufficient funds to meet its needs for working capital.

Note 1: According to "Guiding Opinions on Accelerating the construction of high-speed broadband network to promote the network speed and lowering the data tariffs" issued by General Office of the State Council of the PRC in 2015, telecommunication industry should accelerating the construction of high-speed broadband network and further promote the network speed and lowering the data tariffs in order to improve the service.

Note 2: Profit for the year refers to profit attribute to equity shareholders of the Company.

Note 3: Following the establishment of China Tower Corporation Limited (hereafter referred to as "Tower Company") in 2014, the Company sold certain telecommunications towers and related assets to Tower Company in 2015. Therefore, the operation model regarding the use of telecommunications towers changed from self-construction and self-maintenance to payment of usage fee to Tower Company.

Note 4: EBITDA represents profit for the year before finance costs, interest income, shares of net profit/loss of associates, share of net profit/loss of joint ventures, other income-net, income tax, depreciation and amortisation. As the telecommunications business is a capital intensive industry, capital expenditure and finance costs may have a significant impact on the net profit of the companies with similar operating results. Therefore, the Company believes that EBITDA may be helpful in analysing the operating results of a telecommunications service operator like the Group.