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Alliance

BUILDING POWERFUL ALLIANCE WITH STRATEGIC INVESTORS TO DRIVE
WIN-WIN BUSINESS GROWTH

FINANCIAL OVERVIEW

Innovative



Note 1: Net profit represented profit attributable to equity shareholders of the Company.

I. OVERVIEW

In 2017, the Company comprehensively deepened the implementation of the Focus Strategy, the Company's revenue was RMB274.83 billion in 2017, up by 0.2% compared with last year, of which service revenue improved steadily and reached RMB249.02 billion, up by 4.6% compared with last year. Net profit¹ was RMB1.83 billion, up by 192.5% compared with last year. Excluding the net loss on asset disposal related to optical fibre network upgrade, net profit was RMB4.00 billion, up by RMB3.38 billion compared with last year.

In 2017, net cash flow from operating activities was RMB85.05 billion. Capital expenditure was RMB42.13 billion. Liabilities-to-assets ratio was 46.8% as at 31 December 2017.

II. REVENUE

In 2017, the Company's revenue was RMB274.83 billion, up by 0.2% compared with last year, of which, service revenue accounted for RMB249.02 billion, up by 4.6% compared with last year.

The table below sets forth the composition of service revenue, including as a percentage of the service revenue for the years of 2017 and 2016:

Business Model

NON-VOICE SERVICES
(RMB BILLIONS)

195.50

FAST MOBILE SERVICE REVENUE GROWTH OUTPERFORMED
INDUSTRY AVERAGE AMID LOWERED CUSTOMER ACQUISITION
COSTS & SUBSIDY

(RMB in billions)	2017		2016	
	Total amount	As a percentage of service revenue	Total amount	As a percentage of service revenue
Service revenue	249.02	100.0%	238.03	100.0%
Include: Voice service	53.52	21.5%	62.41	26.2%
Non-voice services	195.50	78.5%	175.62	73.8%

1. Voice Service

In 2017, service revenue from the voice service was RMB53.52 billion, down by 14.2% compared with last year.

2. Non-Voice Services

In 2017, service revenue from the non-voice services was RMB195.50 billion, up by 11.3% compared with last year.

SERVICE REVENUE
(RMB BILLIONS)

249.02

Financial Overview

III. COSTS AND EXPENSES

In 2017, total costs and expenses amounted to RMB272.24 billion, down by 0.4% 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 2017 and 2016:

(RMB in billions)	2017		2016	
	Total amount	As a percentage of revenue	Total amount	As a percentage of revenue
Total costs and expenses	272.24	99.06%	273.41	99.71%
Operating costs	270.89	98.57%	271.49	99.01%
Include: Interconnection charges	12.62	4.59%	12.74	4.65%
Depreciation and amortisation	77.49	28.20%	76.80	28.01%
Network, operation and support expenses	54.51	19.83%	51.17	18.66%
Employee benefit expenses	42.47	15.45%	36.91	13.46%
Costs of telecommunications products sold	26.64	9.69%	39.30	14.33%
Selling and marketing expenses	34.09	12.40%	34.65	12.64%
General, administrative and other expenses	23.07	8.41%	19.92	7.26%
Finance costs, net of interest income	4.09	1.49%	3.86	1.41%
Share of net profit of associates	-0.89	-0.32%	-0.20	-0.07%
Share of net profit of joint ventures	-0.57	-0.21%	-0.15	-0.06%
Other income-net	-1.28	-0.47%	-1.59	-0.58%

1. Interconnection charges

Mainly due to the decrease in volume of the interconnection voice calls, the interconnection charges amounted to RMB12.62 billion in 2017, down by 1.0% compared with last year and, as a percentage of revenue, decreased from 4.65% in 2016 to 4.59% in 2017.

2. Depreciation and amortisation

Depreciation and amortisation charges in 2017 were RMB77.49 billion, up by 0.9% compared with last year and, as a percentage of revenue, changed from 28.01% in 2016 to 28.20% in 2017.

3. Network, operation and support expenses

The expanded network scale caused higher usage fee of telecommunication towers. The Company incurred network, operation and support expenses of RMB54.51 billion in 2017, up by 6.5% compared with last year. Network, operation and support expenses, as a percentage of revenue, changed from 18.66% in 2016 to 19.83% in 2017.

4. Employee benefit expenses

As a result of the improved operating results, the Company's employee benefit expenses amounted to RMB42.47 billion in 2017, up by 15.1% compared with last year and, as a percentage of revenue, changed from 13.46% in 2016 to 15.45% in 2017.

5. Cost of telecommunications products sold

Costs of telecommunications products sold amounted to RMB26.64 billion and revenue from sales

of telecommunications products amounted to RMB25.81 billion in 2017. Loss on sales of telecommunications products was RMB0.83 billion, of which terminal subsidy cost amounted to RMB1.25 billion in 2017, down by 59.1% compared with last year.

6. Selling and marketing expenses

In 2017, the Company continuously promoted the transformation of its sales and marketing model. Selling and marketing expenses were RMB34.09 billion, down by 1.6% compared with last year and, as a percentage of revenue, changed from 12.64% in 2016 to 12.40% in 2017.

7. General, administrative and other expenses

General, administrative and other expenses were RMB23.07 billion in 2017, up by 15.8% compared with last year and, as a percentage of revenue, changed from 7.26% in 2016 to 8.41% in 2017. It was mainly due to the net loss on asset disposal related to the optical fibre network upgrade of RMB2.90 billion.

8. Finance costs, net of interest income

In 2017, finance costs, net of interest income, was RMB4.09 billion, up by 6.0% compared with last year.

9. Other income-net

Other income-net was RMB1.28 billion in 2017, down by RMB0.31 billion compared with last year.

Financial Overview

IV. EARNINGS

1. Profit before income tax

In 2017, the Company's profit before income tax was RMB2.59 billion. Excluding the net loss on asset disposal related to the optical fibre network upgrade, the Company's profit before income tax was RMB5.49 billion, up by RMB4.71 billion compared with last year.

2. Income tax

In 2017, the Company's income tax was RMB0.74 billion and the effective tax rate was 28.6%.

3. Net profit¹

In 2017, the Company's net profit was RMB1.83 billion. Excluding the net loss on asset disposal related to the optical fibre network upgrade, the Company's net profit was RMB4.00 billion, up by RMB3.38 billion compared with last year. Basic earnings per share was RMB0.074, up by 185.1% compared with last year.

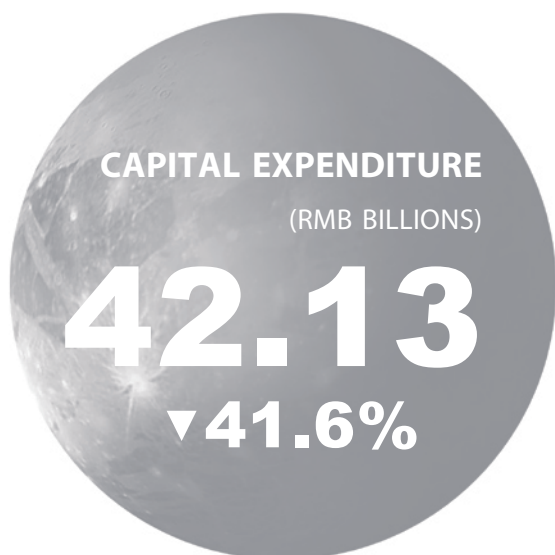
V. EBITDA²

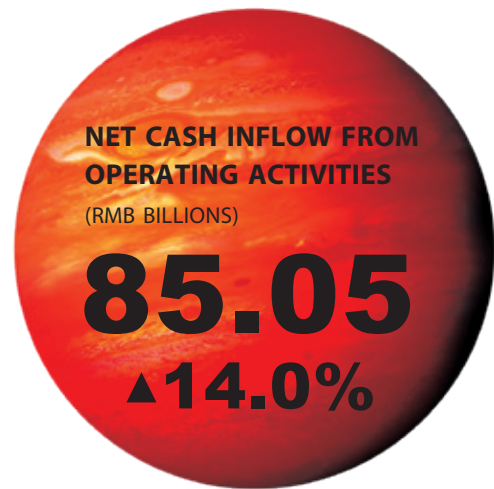
In 2017, the Company's EBITDA was RMB81.43 billion, up by 2.4% compared with last year. Excluding the net loss on asset disposal related to the optical fibre network upgrade, the Company's EBITDA was RMB84.33 billion, up by 6.1% compared with last year. EBITDA as a percentage of service revenue was 33.9%, up by 0.5 percentage points compared with last year.

VI. CAPITAL EXPENDITURE AND CASH FLOW

In 2017, capital expenditure of the Company totaled RMB42.13 billion, which mainly consisted of investments in mobile network, broadband and data, and infrastructure and transmission network etc. In 2017, the Company's net cash inflow from operating activities was RMB85.05 billion. Free cash flow was RMB42.92 billion after the deduction of the capital expenditure.

Note 2: EBITDA represents profit for the year before finance costs, interest income, shares of net profit of associates, share of net profit 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 Company.





The table below sets forth the major items of the capital expenditure in 2017.

(RMB in billions)	2017	
	Total amount	As percentage
Total	42.13	100.0%
Include: Mobile network	15.92	37.8%
Broadband and data	9.02	21.4%
Infrastructure and transmission network	11.94	28.3%
Others	5.25	12.5%

VII. BALANCE SHEET

The Company's total assets changed from RMB614.15 billion as at 31 December 2016 to RMB571.98 billion as at 31 December 2017. Total liabilities changed from RMB386.47 billion as at 31 December 2016 to RMB267.64 billion as at 31 December 2017. The liabilities-to-assets ratio changed from 62.9% as at 31 December 2016 to 46.8% as at 31 December 2017. The debt-to-capitalisation ratio changed from 43.5% as at 31 December 2016 to 19.5% as at 31 December 2017. The net debt-to-capitalisation ratio was 10.8% as at 31 December 2017.

VIII. SUBSCRIPTION OF NEW SHARES OF THE COMPANY BY UNICOM BVI

As part of the mixed ownership reform plan implemented by Unicom Group, on 28 November 2017, the Company completed the issuance of 6,651,043,262 shares of the Company to Unicom BVI. The gross proceeds raised by the Company amounted to RMB74,954 million. The proceeds will be used by the Company in accordance with the plan disclosed in the circular issued by the Company on 28 August 2017.