

# FINANCIAL OVERVIEW

## OVERVIEW

In 2018, the Company comprehensively deepened the implementation of "Focus Strategy". The Company's revenue was RMB290.88 billion in 2018, up by 5.8% year-on-year, of which service revenue improved steadily and reached RMB263.68 billion, up by 5.9% year-on-year. Net profit<sup>1</sup> was RMB10.20 billion, up by RMB8.37 billion year-on-year.

In 2018, net cash flow from operating activities was RMB92.39 billion. Capital expenditure was RMB44.87 billion. Liabilities-to-assets ratio was 41.8% as at 31 December 2018.

## REVENUE

In 2018, the Company's revenue was RMB290.88 billion, up by 5.8% year-on-year, of which, service revenue accounted for RMB263.68 billion, up by 5.9% year-on-year.

The table below sets forth the composition of service revenue, and the percentage contribution of each service to total service revenue for the years of 2018 and 2017:

**SERVICE REVENUE**  
(RMB BIL)

**263.68**

**NON-VOICE  
SERVICE**  
(RMB BIL)  
**217.62**

**NET PROFIT<sup>1</sup>**  
**▲457.8%**

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

(RMB in billions)	2018		2017	
	Total amount	As a percentage of service revenue	Total amount	As a percentage of service revenue
<b>Service revenue</b>	263.68	100.0%	249.02	100.0%
Include : Voice service	46.06	17.5%	53.52	21.5%
Non-voice service	217.62	82.5%	195.50	78.5%

#### Voice Service

In 2018, service revenue from the voice service was RMB46.06 billion, down by 13.9% year-on-year.

#### Non-Voice Service

In 2018, service revenue from the non-voice service was RMB217.62 billion, up by 11.3% year-on-year.

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## COSTS AND EXPENSES

In 2018, total costs and expenses amounted to RMB277.80 billion, up by 2.0% year-on-year.

The table below sets forth the items of the costs and expenses and their respective percentage of the revenue for the years of 2018 and 2017:

(RMB in billions)	2018		2017	
	Total amount	As a percentage of revenue	Total amount	As a percentage of revenue
<b>Total costs and expenses</b>	<b>277.80</b>	<b>95.50%</b>	272.24	99.06%
Operating costs	<b>281.75</b>	<b>96.86%</b>	270.89	98.57%
Include: Interconnection charges	<b>12.58</b>	<b>4.32%</b>	12.62	4.59%
Depreciation and amortisation	<b>75.78</b>	<b>26.05%</b>	77.49	28.20%
Network, operation and support expenses	<b>55.08</b>	<b>18.93%</b>	54.51	19.83%
Employee benefit expenses	<b>48.14</b>	<b>16.55%</b>	42.47	15.45%
Costs of telecommunications products sold	<b>27.60</b>	<b>9.49%</b>	26.64	9.69%
Selling and marketing expenses	<b>35.17</b>	<b>12.09%</b>	34.09	12.40%
General, administrative and other expenses	<b>27.40</b>	<b>9.43%</b>	23.07	8.41%
Finance costs, net of interest income	<b>-0.09</b>	<b>-0.03%</b>	4.09	1.49%
Share of net profit of associates	<b>-2.48</b>	<b>-0.85%</b>	-0.89	-0.32%
Share of net profit of joint ventures	<b>-0.60</b>	<b>-0.21%</b>	-0.57	-0.21%
Other income-net	<b>-0.78</b>	<b>-0.27%</b>	-1.28	-0.47%

### **Interconnection charges**

The interconnection charges amounted to RMB12.58 billion in 2018, down by 0.3% year-on-year and, as a percentage of revenue, decreased from 4.59% in 2017 to 4.32% in 2018.

### **Depreciation and amortisation**

Depreciation and amortisation charges were RMB75.78 billion in 2018, down by 2.2% year-on-year and, as a percentage of revenue, decreased from 28.20% in 2017 to 26.05% in 2018.

### **Network, operation and support expenses**

Network, operation and support expenses were RMB55.08 billion in 2018, up by 1.0% year-on-year and, as a percentage of revenue, decreased from 19.83% in 2017 to 18.93% in 2018.

### **Employee benefit expenses**

As a result of the improved operating results, the Company's employee benefit expenses amounted to RMB48.14 billion in 2018, up by 13.4% year-on-year and, as a percentage of revenue, changed from 15.45% in 2017 to 16.55% in 2018.

### **Cost of telecommunications products sold**

Costs of telecommunications products sold amounted to RMB27.60 billion and revenue from sales of telecommunications products amounted to RMB27.19 billion in 2018. Loss on sales of telecommunications products was RMB0.41 billion, of which handset subsidy cost amounted to RMB0.96 billion in 2018, down by 23.7% year-on-year.

### **Selling and marketing expenses**

Selling and marketing expenses were RMB35.17 billion in 2018, up by 3.2% year-on-year and, as a percentage of revenue, decreased from 12.40% in 2017 to 12.09% in 2018.

### **General, administrative and other expenses**

General, administrative and other expenses were RMB27.40 billion in 2018, up by 18.7% year-on-year and, as a percentage of revenue, changed from 8.41% in 2017 to 9.43% in 2018.

### **Finance costs, net of interest income**

Finance costs, net of interest income, was RMB-0.09 billion in 2018, down by 102.1% year-on-year.

### **Other income-net**

Other income-net was RMB0.78 billion in 2018, down by RMB0.50 billion year-on-year.

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## EARNINGS

### Profit before income tax

In 2018, the Company's profit before income tax was RMB13.08 billion, up by RMB10.49 billion year-on-year.

### Income tax

In 2018, the Company's income tax was RMB2.82 billion and the effective tax rate was 21.6%.

### Net profit

In 2018, the Company's net profit<sup>1</sup> was RMB10.20 billion, up by RMB8.37 billion year-on-year. Basic earnings per share was RMB0.333, up by 347.9% year-on-year.

## EBITDA<sup>2</sup>

In 2018, the Company's EBITDA was RMB84.91 billion, up by 4.3% year-on-year. EBITDA as a percentage of service revenue was 32.2%, down by 0.5 percentage points year-on-year.

## CAPITAL EXPENDITURE AND CASH FLOW

In 2018, capital expenditure of the Company totaled RMB44.87 billion, which mainly consisted of investments in mobile network, broadband and data, and infrastructure and transmission network etc. In 2018, the Company's net cash inflow from operating activities was RMB92.39 billion. Free cash flow was RMB47.52 billion after the deduction of the capital expenditure.

**To Elevate Shareholder Value through Quality & Efficiency Enhancement**

Continue to optimise the value-oriented mechanism for sharing of incremental returns

Strengthen cost benchmarking control to reduce costs & raise efficiency

Further strengthen total life cycle management of assets

Enhance the strategic financial system & operational financial system

Continue to strengthen internal control as well as audit to ensure safe & proper operations

The table below sets forth the major items of the capital expenditure in 2018.

RMB (in billions)	2018	
	Total amount	As percentage
<b>Total</b>	<b>44.87</b>	<b>100.0%</b>
Include: Mobile network	<b>18.73</b>	<b>41.7%</b>
Broadband and data	<b>9.16</b>	<b>20.4%</b>
Infrastructure and transmission network	<b>10.32</b>	<b>23.0%</b>
Others	<b>6.66</b>	<b>14.9%</b>

## BALANCE SHEET

The Company's total assets changed from RMB571.98 billion as at 31 December 2017 to RMB540.32 billion as at 31 December 2018. Total liabilities changed from RMB267.64 billion as at 31 December 2017 to RMB226.03 billion as at 31 December 2018. The liabilities-to-assets ratio down by 46.8% as at 31 December 2017 to 41.8% as at 31 December 2018. The debt-to-capitalisation ratio down by 19.5% as at 31 December 2017 to 11.3% as at 31 December 2018. The net debt-to-capitalisation ratio was 2.8% as at 31 December 2018.

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

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.