

Financial OVERVIEW

OVERVIEW

In 2020, the Company continuously deepened the implementation of “Focus Strategy”, total revenue was RMB303.84 billion in 2020, up by 4.6% year-on-year. Service revenue reached RMB275.81 billion, up by 4.3% year-on-year. Net profit¹ was RMB12.49 billion, up by RMB1.16 billion year-on-year.

In 2020, the Company’s net cash flow from operating activities was RMB105.55 billion. Capital expenditure was RMB67.65 billion. Liabilities-to-assets ratio was 43.6% as at 31 December 2020.

REVENUE

In 2020, the Company’s revenue was RMB303.84 billion, up by 4.6% year-on-year, of which, service revenue was RMB275.81 billion, up by 4.3% year-on-year due to continuous optimisation of the revenue mix.

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 2020 and 2019:

SERVICE REVENUE

(RMB BIL)

275.81

EBITDA²

(RMB BIL)

94.14

NON-VOICE SERVICE REVENUE

(RMB BIL)

240.32

	2020		2019	
(RMB in billions)	Total amount	As a percentage of service revenue	Total amount	As a percentage of service revenue
Service revenue	275.81	100.00%	264.39	100.00%
Include: Voice service	35.49	12.87%	39.48	14.93%
Non-voice service	240.32	87.13%	224.91	85.07%

Voice Service

In 2020, service revenue from the voice service was RMB35.49 billion, down by 10.1% year-on-year.

Non-Voice Service

In 2020, service revenue from the non-voice service was RMB240.32 billion, up by 6.9% year-on-year.

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COSTS AND EXPENSES

In 2020, total costs and expenses amounted to RMB287.81 billion, up by 4.1% 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 2020 and 2019:

(RMB in billions)	2020		2019	
	Total amount	As a percentage of revenue	Total amount	As a percentage of revenue
Total costs and expenses	287.81	94.73%	276.35	95.12%
Operating costs	292.72	96.34%	279.25	96.12%
Include: Interconnection charges	10.57	3.48%	11.51	3.96%
Depreciation and amortisation	83.02	27.32%	83.08	28.60%
Network, operation and support expenses	46.29	15.23%	43.24	14.88%
Employee benefit expenses	55.74	18.35%	50.52	17.39%
Costs of telecommunications products sold	26.86	8.84%	26.41	9.09%
Selling and marketing expenses	30.46	10.03%	33.54	11.55%
General, administrative and other operating expenses	39.78	13.09%	30.95	10.65%
Finance costs, net of interest income	0.38	0.13%	0.85	0.29%
Share of net profit of associates	-1.59	-0.52%	-1.36	-0.47%
Share of net profit of joint ventures	-0.79	-0.26%	-0.65	-0.22%
Other income-net	-2.91	-0.96%	-1.74	-0.60%

Interconnection charges

The Company was affected by the decline in voice service, the interconnection charges were RMB10.57 billion in 2020, down by 8.2% year-on-year and, as a percentage of revenue, decreased from 3.96% in 2019 to 3.48% in 2020.

Depreciation and amortisation

Depreciation and amortisation charges were RMB83.02 billion in 2020, down by 0.1% year-on-year and, as a percentage of revenue, decreased from 28.60% in 2019 to 27.32% in 2020.

Network, operation and support expenses

Network, operation and support expenses were RMB46.29 billion in 2020, up by 7.1% year-on-year and, as a percentage of revenue, increased from 14.88% in 2019 to 15.23% in 2020 mainly due to increase in the tower usage fee, energy consumption cost and rental expenses of premises and equipment.

Employee benefit expenses

As a result of the improved operating results and increased the introduction of talent pipeline in the meantime, employee benefit expenses were to RMB55.74 billion in 2020, up by 10.3% year-on-year and, as a percentage of revenue, increased from 17.39% in 2019 to 18.35% in 2020.

Cost of telecommunications products sold

Costs of telecommunications products sold were RMB26.86 billion and revenue from sales of telecommunications products were RMB28.02 billion in 2020. Gross profits on sales of telecommunications products was RMB1.16 billion.

Selling and marketing expenses

The Company promoted transformation on digitisation and strengthened O2O integrated operation, selling and marketing expenses were RMB30.46 billion in 2020, down by 9.2% year-on-year and, as a percentage of revenue, decreased from 11.55% in 2019 to 10.03% in 2020.

General, administrative and other operating expenses

General, administrative and other operating expenses were RMB39.78 billion in 2020, up by 28.6% year-on-year, mainly due to the rapid growth of ICT services leading to increased related service costs and increased investment in technical support for innovative businesses.

Finance costs, net of interest income

Finance costs, net of interest income was RMB0.38 billion in 2020, decreased by RMB0.47 billion year-on-year mainly due to fall in interest-bearing debts.

Other income-net

Other income-net was RMB2.91 billion in 2020, increased by RMB1.18 billion year-on-year.

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EARNINGS

Profit before income tax

In 2020, the Company benefited from continuous enhancement in growth quality and profitability, profit before income tax was RMB16.03 billion, up by 13.1% year-on-year.

Income tax

In 2020, the Company's income tax was RMB3.45 billion and the effective tax rate was 21.5%.

Profit for the year

In 2020, the Company's net profit¹ was RMB12.49 billion, increased by RMB1.16 billion year-on-year. Basic earnings per share was RMB0.408, up by 10.3% year-on-year.

EBITDA²

In 2020, the Company's EBITDA was RMB94.14 billion, down by 0.2% year-on-year. EBITDA as a percentage of service revenue was 34.1%, down by 1.6 percentage points year-on-year.

CAPITAL EXPENDITURE AND CASH FLOW

In 2020, capital expenditure of the Company totaled RMB67.65 billion, which mainly consisted of investments in mobile network, broadband and data, and infrastructure and transmission network etc. In 2020, the Company's net cash flow from operating activities was RMB105.55 billion. Free cash flow³ was RMB37.90 billion after the deduction of the capital expenditure.

TO ELEVATE SHAREHOLDER VALUE THROUGH QUALITY & EFFICIENCY ENHANCEMENT

- Strengthen cash flow management and promote transformation of resources allocation & utilisation to enhance productivity of all essential factors
- Accelerate operating model transformation, to foster pan-marketing coordinated operation & high quality development
- Deepen network & business integration with precise investment to enhance the edges of cloud-network integration

The table below sets forth the major items of the capital expenditure in 2020:

RMB (in billions)	2020	
	Total amount	As percentage
Total	67.65	100.00%
Include: Mobile network	38.17	56.42%
Broadband and data	10.15	15.01%
Infrastructure and transmission network	11.04	16.32%
Others	8.29	12.25%

BALANCE SHEET

The Company's total assets changed from RMB562.50 billion as at 31 December 2019 to RMB580.62 billion as at 31 December 2020. Total liabilities changed from RMB241.74 billion as at 31 December 2019 to RMB253.10 billion as at 31 December 2020. The liabilities-to-assets ratio changed from 43.0% as at 31 December 2019 to 43.6% as at 31 December 2020. The debt-to-capitalisation ratio decreased from 15.2% as at 31 December 2019 to 12.2% as at 31 December 2020. The net debt-to-capitalisation ratio was 6.0% as at 31 December 2020.

Note 1: Net profit represented profit attribute 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 expenses, 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. However, it is a non-GAAP financial measure which does not have a standardised meaning and therefore may not be comparable to similar measures presented by other companies.

Note 3: Free cash flow represents operating cash flow less capital expenditure. However, it is a non-GAAP financial measure which does not have a standardised meaning and therefore may not be comparable to similar measures presented by other companies.

- Strengthen centralised IT operation & data governance to boost overall IT efficiency
- Continue to promote value management leveraging innovative revitalisation of operating assets & enhancement of talent performance