

FINANCIAL OVERVIEW

SERVICE
REVENUE
(RMB BIL)

296.15

EBITDA²
(RMB BIL)

96.32

NON-VOICE
SERVICE
REVENUE
(RMB BIL)

261.57

OVERVIEW

In 2021, the company's operating situation was stable, favourable momentum and efficiency of business scale continually enhance, the comprehensive strength led the company reached to a new level, achieving a good start in the "14th Five-Year Plan", the total revenue was RMB327.85 billion in 2021, up by 7.9% year-on-year. Service revenue reached RMB296.15 billion, up by 7.4% year-on-year. Net profit¹ was RMB14.37 billion, up by RMB1.88 billion year-on-year.

In 2021, the Company's net cash flow from operating activities was RMB110.64 billion. Capital expenditure was RMB68.96 billion. Liabilities-to-assets ratio was 43.6% as at 31 December 2021.

REVENUE

In 2021, the Company's revenue was RMB327.85 billion, up by 7.9% year-on-year, of which, service revenue was RMB296.15 billion, up by 7.4% 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 2021 and 2020:

(RMB in billions)	2021		2020	
	Total amount	As a percentage of service revenue	Total amount	As a percentage of service revenue
Service revenue	296.15	100.00%	275.81	100.00%
Include: Voice service	34.58	11.68%	35.49	12.87%
Non-voice service	261.57	88.32%	240.32	87.13%

Voice Service

In 2021, service revenue from the voice service was RMB34.58 billion, down by 2.6% year-on-year.

Non-Voice Service

In 2021, service revenue from the non-voice service was RMB261.57 billion, up by 8.8% year-on-year.

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COSTS AND EXPENSES

In 2021, total costs and expenses amounted to RMB309.92 billion, up by 7.7% 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 2021 and 2020:

(RMB in billions)	2021		2020	
	Total amount	As a percentage of revenue	Total amount	As a percentage of revenue
Total costs and expenses	309.92	94.53%	287.81	94.73%
Operating costs	317.18	96.75%	292.72	96.34%
Include: Interconnection charges	11.56	3.52%	10.57	3.48%
Depreciation and amortisation	85.65	26.13%	83.02	27.32%
Network, operation and support expenses	53.09	16.19%	46.29	15.23%
Employee benefit expenses	58.94	17.98%	55.74	18.35%
Costs of telecommunications products sold	30.68	9.36%	26.86	8.84%
Selling and marketing expenses	32.21	9.83%	30.46	10.03%
General, administrative and other operating expenses	45.05	13.74%	39.78	13.09%
Finance costs, net of interest income	0.17	0.05%	0.38	0.13%
Share of net profit of associates	-1.86	-0.57%	-1.59	-0.52%
Share of net profit of joint ventures	-1.45	-0.44%	-0.79	-0.26%
Other income-net	-4.12	-1.26%	-2.91	-0.96%

Interconnection charges

The interconnection charges were RMB11.56 billion in 2021, up by 9.3% year-on-year and, as a percentage of revenue, increased from 3.48% in 2020 to 3.52% in 2021.

Depreciation and amortisation

Depreciation and amortisation charges were RMB85.65 billion in 2021, up by 3.2% year-on-year and, as a percentage of revenue, decreased from 27.32% in 2020 to 26.13% in 2021.

Network, operation and support expenses

Network, operation and support expenses were RMB53.09 billion in 2021, up by 14.7% year-on-year and, as a percentage of revenue, changed from 15.23% in 2020 to 16.19% in 2021 mainly due to increase in rental expenses of premises and equipment, network maintenance and energy consumption cost.

Employee benefit expenses

As a result of the ongoing effort in incentive mechanism reform to strengthen performance-based compensation and the acquisition of innovative talents in the meantime, employee benefit expenses were to RMB58.94 billion in 2021, up by 5.7% year-on-year and, as a percentage of revenue, changed from 18.35% in 2020 to 17.98% in 2021.

Cost of telecommunications products sold

Costs of telecommunications products sold were RMB30.68 billion and revenue from sales of telecommunications products were RMB31.70 billion in 2021. Gross profits on sales of telecommunications products was RMB1.02 billion.

Selling and marketing expenses

The Company fully promoted transformation on digitisation, strengthened O2O integrated operation and exercised stringent control over users development costs, selling and marketing expenses were RMB32.21 billion in 2021, up by 5.7% year-on-year and, as a percentage of revenue, decreased from 10.03% in 2020 to 9.83% in 2021.

General, administrative and other operating expenses

General, administrative and other operating expenses were RMB45.05 billion in 2021, up by 13.3% 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.

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EARNINGS

Profit before income tax

In 2021, the Company benefited from continuous enhancement in growth quality and profitability, profit before income tax was RMB17.93 billion, up by 11.9% year-on-year.

Income tax expenses

In 2021, the Company's income tax expenses was RMB3.42 billion and the effective tax rate was 19.1%.

Profit for the year

In 2021, the Company's net profit¹ was RMB14.37 billion, increased by RMB1.88 billion year-on-year. Basic earnings per share was RMB0.470, up by 15.0% year-on-year.

EBITDA²

In 2021, the Company's EBITDA was RMB96.32 billion, up by 2.3% year-on-year. EBITDA as a percentage of service revenue was 32.5%, down by 1.6 percentage points year-on-year.

CAPITAL EXPENDITURE AND CASH FLOW

In 2021, capital expenditure of the Company totaled RMB68.96 billion, which mainly consisted of investments in mobile network, broadband and data, and infrastructure and transmission network etc. In 2021, the Company's net cash flow from operating activities was RMB110.64 billion. Free cash flow³ was RMB41.68 billion after the deduction of the capital expenditure.

Value orientation

Be value-oriented and dynamically adjust budget and KPIs to incentivise revenue and profit generation

Risk control

Establish full-process fullchain risk control system to prevent and resolve various risks

Technological innovation

Facilitate digital transformation and smart operation upgrade with technological innovation

Flexibility and agility

Build a platform-based organisational structure which is flat, coordinated, agile and connected with ecosystem

Effective incentive

Establish differentiated incentive system focusing on strategic deployments

FULLY
IMPLEMENT
NEW STRATEGY,
FORGE HEAD
AND CREATE
GREATER
VALUE FOR
SHAREHOLDERS

The table below sets forth the major items of the capital expenditure in 2021:

(RMB in billions)	2021	
	Total amount	As percentage
Total	68.96	100.00%
Include: Mobile network	33.89	49.14%
Broadband and data	12.93	18.75%
Infrastructure and transmission network	11.08	16.07%
Others	11.06	16.04%

FINANCIAL POSITION

The Company's total assets changed from RMB580.62 billion as at 31 December 2020 to RMB591.08 billion as at 31 December 2021. Total liabilities changed from RMB253.10 billion as at 31 December 2020 to RMB257.64 billion as at 31 December 2021. The liabilities-to-assets ratio as at 31 December 2021 was 43.6%, basically same as the end of the prior year. The debt-to-capitalisation ratio decreased from 12.2% as at 31 December 2020 to 9.7% as at 31 December 2021. The net debt-to-capitalisation ratio was 0.4% as at 31 December 2021.

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.

