

# FINANCIAL OVERVIEW

## I. OVERVIEW

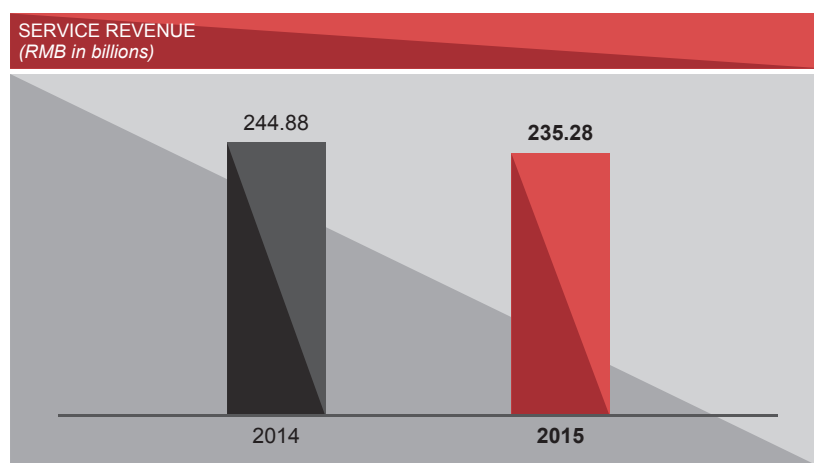
Under the influence of various factors including “Speed Upgrade and Tariff Reduction<sup>1</sup>”, the “One-month Mobile Data Carry-over<sup>2</sup>”, the replacement of business tax with value-added tax<sup>3</sup> (“VAT Reform”), the increased competition and the exchange loss incurred during the year etc., the Company’s revenue was RMB277.05 billion in 2015, down by 2.7% compared with last year. Profit for the year was RMB10.56 billion, down by 12.4% compared with last year. Basic earnings per share was RMB0.441, down by 12.7% compared with last year.

In 2015, net cash flow from operating activities was RMB84.30 billion. Capital expenditure was RMB133.88 billion. Liabilities-to-assets ratio was 62.1% as at 31 December 2015.

## II. REVENUE

In 2015, the Company’s revenue was RMB277.05 billion, down by 2.7% compared with last year, of which, service revenue accounted for RMB235.28 billion, down by 3.9% compared with last year. Revenue from sales of telecommunications products was RMB41.77 billion, up by 4.9% compared with last year.

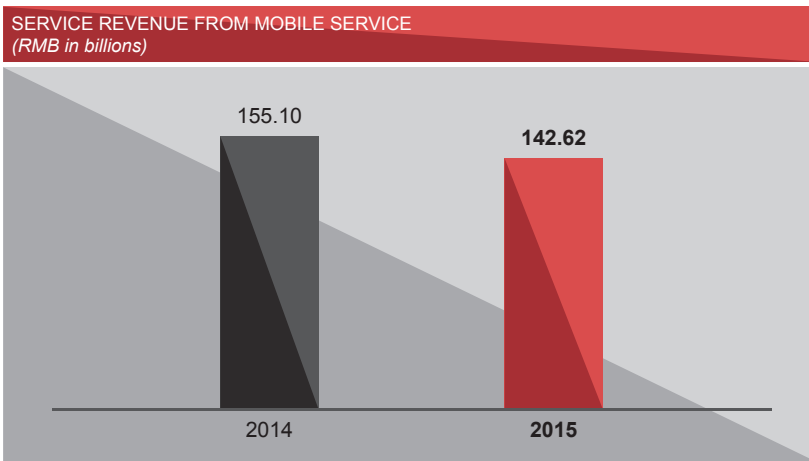
The table below sets forth the composition of service revenue, including as a percentage of the service revenue for the years of 2015 and 2014:



(RMB in billions)	2015		2014	
	Total amount	As a percentage of service revenue	Total amount	As a percentage of service revenue
<b>Service revenue</b>	<b>235.28</b>	<b>100.0%</b>	244.88	100.0%
<b>Include: Mobile service</b>	<b>142.62</b>	<b>60.6%</b>	155.10	63.3%
<b>Fixed-line service</b>	<b>91.26</b>	<b>38.8%</b>	88.48	36.1%
Include: Fixed-line broadband	53.96	22.9%	50.20	20.5%

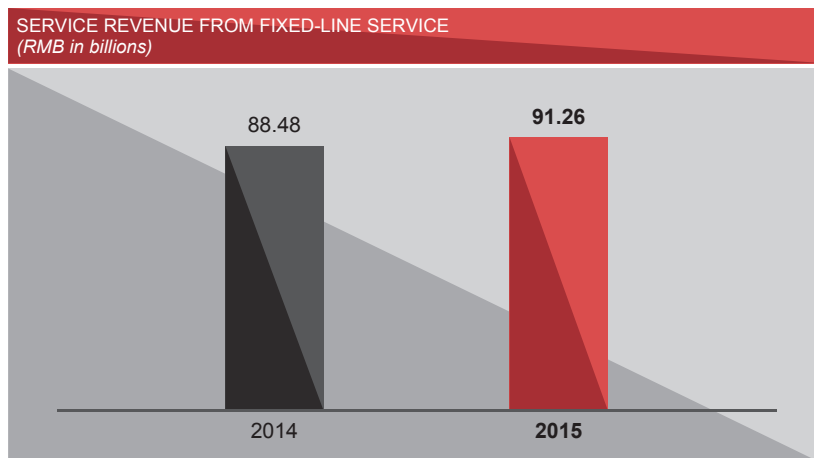
## 1. Mobile Service

In 2015, the market environment for expanding the Company's mobile service was challenging. Service revenue from the mobile service was RMB142.62 billion and decreased RMB12.48 billion compared with last year, down by 8.0% compared with last year.



## 2. Fixed-line Service

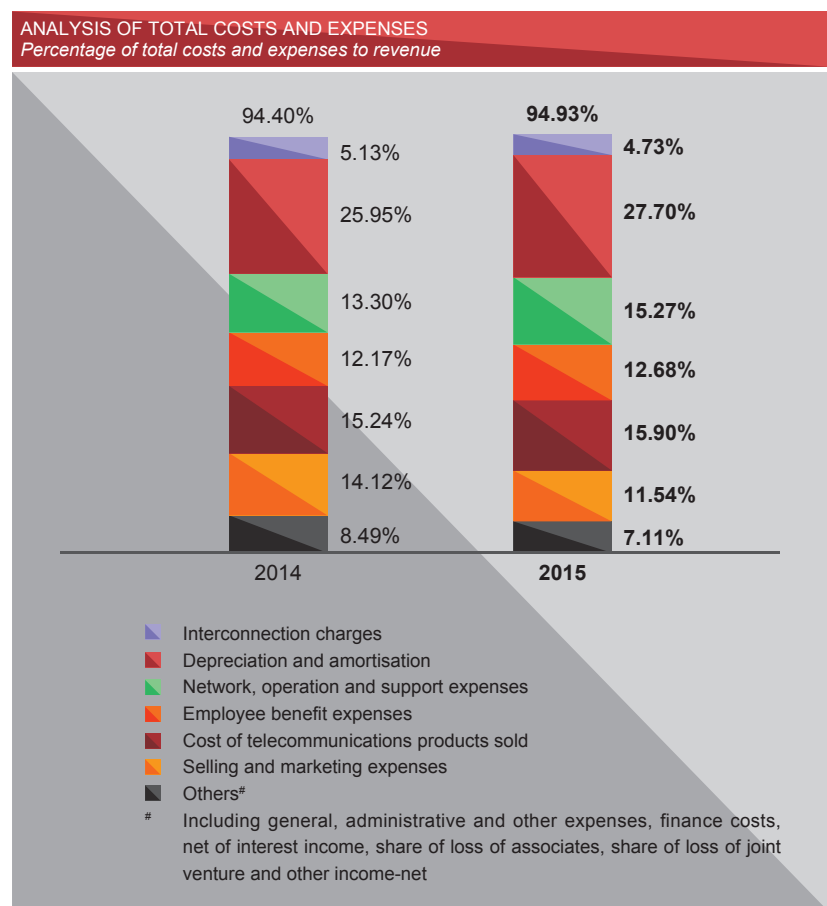
In 2015, service revenue from the fixed-line service was RMB91.26 billion, up by 3.1% compared with last year. The growth of service revenue from the fixed-line service was significantly driven by the service revenue from fixed-line broadband service. Service revenue from fixed-line broadband service was RMB53.96 billion, up by 7.5% compared with last year and, as a percentage of service revenue from the fixed-line service, increased from 56.7% in 2014 to 59.1% in 2015.



## III. COSTS AND EXPENSES

In 2015, the Company continued to optimise resources allocation and strengthen delicacy management. Total costs and expenses amounted to RMB263.01 billion, down by 2.1% compared with last year. Out of total costs and expenses, operating costs was RMB266.28 billion, up by 0.2% 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 2015 and 2014:





(RMB in billions)	2015		2014	
	Total amount	As a percentage of revenue	Total amount	As a percentage of revenue
<b>Total costs and expenses</b>	<b>263.01</b>	<b>94.93%</b>	268.75	94.40%
Operating costs	266.28	96.11%	265.78	93.36%
Include: Interconnection charges	13.09	4.73%	14.60	5.13%
Depreciation and amortisation	76.74	27.70%	73.87	25.95%
Network, operation and support expenses	42.31	15.27%	37.85	13.30%
Employee benefit expenses	35.14	12.68%	34.65	12.17%
Costs of telecommunications products sold	44.05	15.90%	43.40	15.24%
Selling and marketing expenses	31.97	11.54%	40.19	14.12%
General, administrative and other expenses	22.98	8.29%	21.22	7.45%
Finance costs, net of interest income	6.50	2.34%	4.33	1.52%
Share of loss of associates <sup>4</sup>	0.76	0.27%	—	—
Share of loss of joint venture	0.04	0.02%	—	—
Other income-net	-10.57	-3.81%	-1.36	-0.48%

### 1. Interconnection charges

Mainly due to the decrease in volume of the interconnection voice calls, the interconnection charges amounted to RMB13.09 billion in 2015, down by 10.3% compared with last year and, as a percentage of revenue, decreased from 5.13% in 2014 to 4.73% in 2015.

### 2. Depreciation and amortisation

The Company accelerated the network construction for 4G and fixed-line broadband. Depreciation and amortisation charges in 2015 were RMB76.74 billion, up by 3.9% compared with last year and, as a percentage of revenue, changed from 25.95% in 2014 to 27.70% in 2015.

### 3. Network, operation and support expenses

Started from 2015, the operation model regarding the use of telecommunications towers changed from self-operation to payment of usage fee to the Tower Company<sup>5</sup> led to an increase in expenses. At the same time, the Company expanded its network scale which led to the increase in utilities charges and properties rental expenses etc. As a result, the Company incurred network, operation and support expenses of RMB42.31 billion in 2015, up by 11.8% compared with last year. Network, operation and support expenses, as a percentage of revenue, changed from 13.30% in 2014 to 15.27% in 2015.

### 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 RMB35.14 billion in 2015, up by 1.4% compared with last year and, as a percentage of revenue, changed from 12.17% in 2014 to 12.68% in 2015.

### 5. Cost of telecommunications products sold

Costs of telecommunications products sold amounted to RMB44.05 billion and revenue from the sales of telecommunications products amounted to RMB41.77 billion in 2015. Loss on the sales of telecommunications products was RMB2.28 billion, of which terminal subsidy cost accounted to RMB2.85 billion in 2015, down by 38.7% compared with last year. The Company continued to optimise the terminal contract product mix and enhanced effectiveness on application of the terminal subsidy cost and, as a percentage of revenue, decreased from 1.6% in 2014 to 1.0% in 2015.

### 6. Selling and marketing expenses

The Company implemented costs control measures, focused on strengthening management of the selling and marketing expenses, proactively promoted the transformation of its sales and marketing model, optimised contract products and channel mix and further improved the quality of its subscribers. In 2015, selling and marketing expenses were RMB31.97 billion, down by 20.5% compared with last year and, as a percentage of revenue, decreased from 14.12% in 2014 to 11.54% in 2015.

### 7. General, administrative and other expenses

General, administrative and other expenses were RMB22.98 billion in 2015, up by 8.4% compared with last year and, as a percentage of revenue, changed from 7.45% in 2014 to 8.29% in 2015.

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

In 2015, finance costs, net of interest income, was RMB6.50 billion, up by RMB2.17 billion compared with last year as a result of change in exchange rate of Renminbi against other currencies, and the exchange loss incurred was RMB2.10 billion in 2015.

### 9. Other income-net

Due to the net gain on disposal of telecommunication towers amounted to RMB9.25 billion, other income-net was RMB10.57 billion in 2015, increased by RMB9.21 billion compared with last year.

## IV. EARNINGS

### 1. Profit before income tax

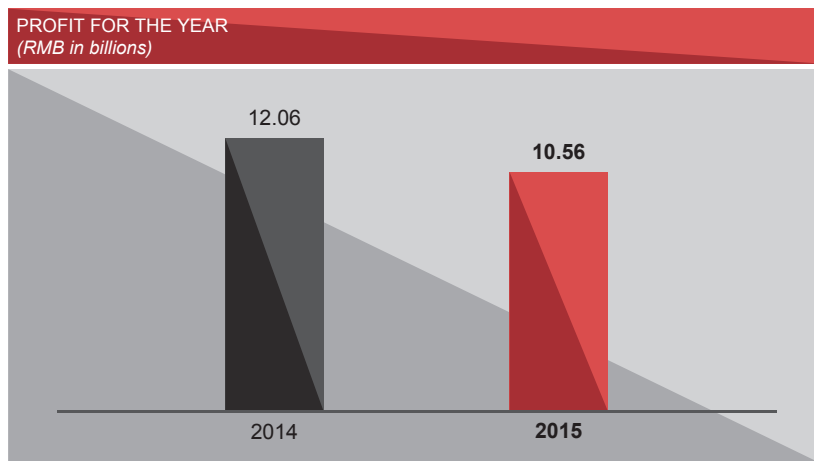
Under the influence of various factors including the initiative of Speed Upgrade and Tariff Reduction, the One-month Mobile Data Carry-over, the VAT Reform, the increased competition and the exchange loss incurred during the year etc., the Company's profit before income tax was RMB14.04 billion in 2015, down by 11.9% compared with last year. Net off the net gain on disposal of telecommunication towers of RMB9.25 billion, profit before income tax was RMB4.79 billion, down by 69.9% compared with last year.

### 2. Income tax

In 2015, the Company's income tax was RMB3.47 billion and the effective tax rate was 24.7%.

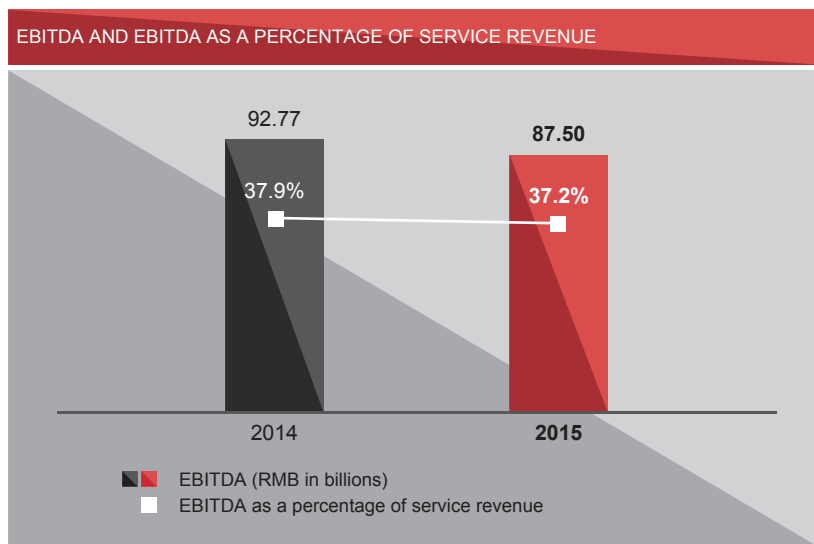
### 3. Profit for the year

In 2015, the Company's profit for the year was RMB10.56 billion, down by 12.4% compared with last year. Basic earnings per share was RMB0.441, down by 12.7% compared with last year.



### V. EBITDA<sup>6</sup>

In 2015, the Company's EBITDA was RMB87.50 billion, down by 5.7% compared with last year. EBITDA as a percentage of service revenue was 37.2%, down by 0.7 percentage points compared with last year.



## VI. CAPITAL EXPENDITURE AND CASH FLOW

In 2015, capital expenditure of the Company totaled RMB133.88 billion, which mainly consisted of investments in mobile network, broadband and data, and infrastructure and transmission network. Out of the total capital expenditure, capital expenditure attributable to mobile network was RMB61.02 billion; capital expenditure attributable to broadband and data service was RMB33.76 billion; and capital expenditure attributable to infrastructure and transmission network was RMB31.16 billion.

In 2015, the Company's net cash inflow from operating activities was RMB84.30 billion. Free cash flow was –RMB49.58 billion after the deduction of the capital expenditure in 2015.

The table below sets forth the major items of the capital expenditure in 2015.

RMB (in billions)	2015	
	Total amount	As percentage
<b>Total</b>	<b>133.88</b>	<b>100.0%</b>
Include: Mobile network	61.02	45.6%
Broadband and data	33.76	25.2%
Infrastructure and transmission network	31.16	23.3%
Others	7.94	5.9%

## VII. STATEMENT OF FINANCIAL POSITION

The Company's total assets increased from RMB545.07 billion as at 31 December 2014 to RMB610.35 billion as at 31 December 2015. Total liabilities changed from RMB317.53 billion as at 31 December 2014 to RMB379.13 billion as at 31 December 2015. The liabilities-to-assets ratio changed from 58.3% as at 31 December 2014 to 62.1% as at 31 December 2015. The debt-to-capitalisation ratio changed from 37.9% as at 31 December 2014 to 39.2% as at 31 December 2015. The net debt-to-capitalisation ratio was 33.5% as at 31 December 2015.

The Company's net current liabilities (i.e. current liabilities minus current assets) changed from RMB235.35 billion as at 31 December 2014 to RMB279.40 billion as at 31 December 2015. 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 accelerate the construction of high-speed broadband network and further promote the network speed and lower the data tariffs in order to improve the service.*

*Note 2: The Company launched the promotion plan which allowed the unused monthly data under the monthly package to be carried over for use till the end of the following month effective from 1 October 2015.*

*Note 3: The replacement of business tax with value-added tax implemented nationwide for the telecommunications industry from 1 June 2014 (hereinafter referred to as "VAT Reform").*

*Note 4: Due to the share of loss of China Tower Corporation Limited (hereinafter referred to as "Tower Company").*

*Note 5: Following the establishment of 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 6: EBITDA represents profit for the year before finance costs, interest income, share of loss of associates, share of loss of joint venture, 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.*