

FINANCIAL OVERVIEW

OVERVIEW

In 2022, the Company firmly progressed to the Company's "1 + 9 + 3" strategic planning, total revenue was RMB354.94 billion in 2022, up by 8.3% year-on-year. Service revenue reached RMB319.35 billion, up by 7.8% year-on-year. Net profit¹ was RMB16.74 billion, up by RMB2.37 billion year-on-year.

In 2022, the Company's net cash flow from operating activities was RMB100.54 billion. Capital expenditure was RMB74.20 billion. Liabilities-to-assets ratio was 46.5% as at 31 December 2022.

REVENUE

In 2022, the Company's revenue was RMB354.94 billion, up by 8.3% year-on-year, of which, service revenue was RMB319.35 billion, up by 7.8% year-on-year due to continuous optimisation of the revenue mix.

SERVICE REVENUE (RMB BIL)

319.35

EBITDA² (RMB BIL)

99.17

INDUSTRY INTERNET BUSINESS SERVICE REVENUE (RMB BIL)

70.46

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 2022 and 2021:

(RMB in billions)	2022		2021	
	Total amount	As a percentage of service revenue	Total amount	As a percentage of service revenue
Service revenue	319.35	100.0%	296.15	100.0%
Include: Basic business	248.89	77.9%	241.37	81.5%
Industry Internet business	70.46	22.1%	54.78	18.5%

Basic Business

In 2022, service revenue from basic business was RMB248.89 billion, up by 3.1% year-on-year.

Industry Internet Business

In 2022, service revenue from Industry Internet business was RMB70.46 billion, up by 28.6% year-on-year.

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COSTS AND EXPENSES

In 2022, total costs and expenses amounted to RMB342.60 billion, up by 8.0% 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 2022 and 2021:

(RMB in billions)	2022		2021	
	Total amount	As a percentage of revenue	Total amount	As a percentage of revenue
Operating costs	342.60	96.5%	317.18	96.7%
Include: Interconnection charges	10.95	3.1%	11.56	3.5%
Depreciation and amortisation	86.83	24.4%	85.65	26.1%
Network, operation and support expenses	56.42	15.9%	53.09	16.2%
Employee benefit expenses	60.72	17.1%	58.94	18.0%
Include: salaries under employment contract	40.85	11.5%	39.75	12.1%
Costs of telecommunications products sold	34.72	9.8%	30.68	9.4%
Selling and marketing expenses	34.46	9.7%	32.21	9.8%
General, administrative and other operating expenses	58.50	16.5%	45.05	13.7%

Interconnection charges

The interconnection charges were RMB10.95 billion in 2022, down by 5.3% year-on-year and, as a percentage of revenue, changed from 3.5% in 2021 to 3.1% in 2022.

Depreciation and amortisation

Depreciation and amortisation charges were RMB86.83 billion in 2022, up by 1.4% year-on-year and, as a percentage of revenue, changed from 26.1% in 2021 to 24.4% in 2022.

Network, operation and support expenses

The Company expanded the scale of the basic network and relevant infrastructure. Network, operation and support expenses were RMB56.42 billion in 2022, up by 6.3% year-on-year and, as a percentage of revenue were basically stable, changed from 16.2% in 2021 to 15.9% in 2022.

Employee benefit expenses

The Company continued to optimise the operating results assessment to strengthen performance, effectiveness and the recruitment of innovative talents, employee benefit expenses were to RMB60.72 billion in 2022, up by 3.0% year-on-year and, as a percentage of revenue, changed from 18.0% in 2021 to 17.1% in 2022.

Cost of telecommunications products sold

Costs of telecommunications products sold were RMB34.72 billion and revenue from sales of telecommunications products were RMB35.59 billion in 2022. Gross profits on sales of telecommunications products was RMB0.87 billion.

Selling and marketing expenses

With the Company fully strengthening digital empowerment and accelerating O2O integrated operation development, selling and marketing expenses were RMB34.46 billion in 2022, up by 7.0% year-on-year and, as a percentage of revenue, decreased from 9.8% in 2021 to 9.7% in 2022.

General, administrative and other operating expenses

General, administrative and other operating expenses were RMB58.50 billion in 2022, up by 29.9% year-on-year, mainly due to the rapid growth of the Industry Internet business leading to increased related service costs.

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EARNINGS

(RMB in billions)	2022	2021	Change
	Total amount	Total amount	
Operating profits	12.34	10.67	15.7%
Net interest income/(finance costs)	0.66	-0.17	N/A
Share of net profit of associates	2.15	1.86	15.6%
Share of net profit of joint ventures	1.59	1.45	10.0%
Other income-net	3.85	4.12	-6.5%
Profit before income tax	20.59	17.93	14.8%
Income tax expenses	3.75	3.42	9.6%
Profit for the year	16.74	14.37	16.5%

Profit before income tax

In 2022, the Company benefited from continuous enhancement in growth quality and profitability, profit before income tax was RMB20.59 billion, up by 14.8% year-on-year.

Income tax expenses

In 2022, the Company's income tax expenses was RMB3.75 billion and the effective tax rate was 18.2%.

Profit for the year

In 2022, the Company's net profit¹ was RMB16.74 billion, increased by RMB2.37 billion year-on-year. Basic earnings per share was RMB0.547, up by 16.5% year-on-year.

COMMITTED TO
SHARING THE
FRUITS OF THE
COMPANY'S
LONG-TERM
DEVELOPMENT WITH
SHAREHOLDERS



EBITDA²

In 2022, the Company's EBITDA was RMB99.17 billion, up by 3.0% year-on-year. EBITDA as a percentage of service revenue was 31.1%, down by 1.4 percentage points year-on-year.

CAPITAL EXPENDITURE AND CASH FLOW

In 2022, capital expenditure of the Company totaled RMB74.20 billion, which mainly consisted of investments in mobile network, household internet and fixed-line voice, government, enterprise and innovative business etc. In 2022, the Company's net cash flow from operating activities was RMB100.54 billion. Free cash flow³ was RMB26.34 billion after the deduction of the capital expenditure.

The table below sets forth the major items of the capital expenditure in 2022:

(RMB in billions)	2022	
	Total expenditure	As percentage
Total	74.20	100.0%
Include: Mobile network	26.41	35.6%
Household internet and fixed-line voice	8.76	11.8%
Government, enterprise and innovative business	14.12	19.0%
Transmission network, infrastructure and others	24.91	33.6%

BALANCE SHEET

The Company's total assets changed from RMB591.08 billion as at 31 December 2021 to RMB642.66 billion as at 31 December 2022. Total liabilities changed from RMB257.64 billion as at 31 December 2021 to RMB299.13 billion as at 31 December 2022. The liabilities-to-assets ratio changed from 43.6% as at 31 December 2021 to 46.5% as at 31 December 2022. The debt-to-capitalisation ratio increased from 9.7% as at 31 December 2021 to 14.3% as at 31 December 2022. The net debt-to-capitalisation ratio was 0.5% as at 31 December 2022.

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 expense, 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.