

# FINANCIAL

## OVERVIEW



### I. OVERVIEW

In the first half of 2022, the Company thoroughly adhered to the Company's "1+9+3" strategic planning, total revenue was RMB176.26 billion, up by 7.4% year-on-year. Service revenue reached RMB160.97 billion in the first half of 2022, up by 8.3% year-on-year. Net profit<sup>1</sup> was RMB10.96 billion in the first half of 2022, up by RMB1.79 billion year-on-year.

In the first half of 2022, the Company's net cash flow from operating activities was RMB42.17 billion. Capital expenditure was RMB28.35 billion in the first half of 2022. Liabilities-to-assets ratio was 43.3% as at 30 June 2022.

## II. REVENUE

In the first half of 2022, the Company's revenue was RMB176.26 billion, up by 7.4% year-on-year, of which, service revenue was RMB160.97 billion, up by 8.3% year-on-year with 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 first half of 2022 and 2021:

(RMB in billions)	First half of 2022		First half of 2021	
	Total amount	As a percentage of service revenue	Total amount	As a percentage of service revenue
<b>Service revenue</b>	<b>160.97</b>	<b>100.00%</b>	148.67	100.00%
Include: Voice service	16.94	10.52%	17.51	11.78%
Non-voice service	144.03	89.48%	131.16	88.22%

### 1. Voice Service

In the first half of 2022, service revenue from the voice service was RMB16.94 billion, down by 3.3% year-on-year.

### 2. Non-Voice Service

In the first half of 2022, service revenue from the non-voice service was RMB144.03 billion, up by 9.8% year-on-year.

## III. COSTS AND EXPENSES

In the first half of 2022, total costs and expenses were RMB162.84 billion, up by 6.5% year-on-year.

The table below sets forth the items of the costs and expenses and their respective percentage of the revenue for the first half of 2022 and 2021:

(RMB in billions)	First half of 2022		First half of 2021	
	Total amount	As a percentage of revenue	Total amount	As a percentage of revenue
<b>Total costs and expenses</b>	<b>162.84</b>	<b>92.39%</b>	152.88	93.12%
Operating costs	166.75	94.61%	156.06	95.06%
Include: Interconnection charges	5.31	3.01%	5.25	3.20%
Depreciation and amortisation	41.90	23.77%	41.38	25.20%
Network, operation and support expenses	26.84	15.23%	25.11	15.29%
Employee benefit expenses	32.48	18.43%	30.99	18.88%
Costs of telecommunications products sold	14.57	8.27%	14.81	9.02%
Selling and marketing expenses	16.06	9.11%	15.56	9.48%
General, administrative and other operating expenses	29.59	16.79%	22.96	13.99%
Finance costs, net of interest income	-0.21	-0.12%	0.17	0.10%
Share of net profit of associates	-1.04	-0.59%	-1.10	-0.67%
Share of net profit of joint ventures	-0.92	-0.52%	-0.72	-0.44%
Other income-net	-1.74	-0.99%	-1.53	-0.93%

## FINANCIAL OVERVIEW

### 1. Interconnection charges

Interconnection charges were RMB5.31 billion in the first half of 2022, up by 1.3% year-on-year and, as a percentage of revenue, decreased from 3.20% in the first half of 2021 to 3.01% in the first half of 2022.

### 2. Depreciation and amortisation

Depreciation and amortisation charges were RMB41.90 billion in the first half of 2022, up by 1.3% year-on-year and, as a percentage of revenue, decreased from 25.20% in the first half of 2021 to 23.77% in the first half of 2022.

### 3. Network, operation and support expenses

The Company deeply promoted co-build co-share full resources to support the innovation business development, network, operation and support expenses were RMB26.84 billion in the first half of 2022, up by 6.9% year-on-year and, as a percentage of revenue, changed from 15.29% in the first half of 2021 to 15.23% in the first half of 2022.

### 4. 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 RMB32.48 billion in the first half of 2022, up by 4.8% year-on-year and, as a percentage of revenue, changed from 18.88% in the first half of 2021 to 18.43% in the first half of 2022.

### 5. Costs of telecommunications products sold

Costs of telecommunications products sold were RMB14.57 billion and revenue from sales of telecommunications products were RMB15.29 billion in the first half of 2022. Gross profits on sales of telecommunications products were RMB0.72 billion.

### 6. Selling and marketing expenses

The Company fully strengthened digital empowerment and accelerated O2O integrated operation development, selling and marketing expenses were RMB16.06 billion in the first half of 2022, up by 3.2% year-on-year and, as a percentage of revenue, decreased from 9.48% in the first half of 2021 to 9.11% in the first half of 2022.

### 7. General, administrative and other operating expenses

General, administrative and other operating expenses were RMB29.59 billion in the first half of 2022, up by 28.8% year-on-year, mainly due to the rapid growth of ICT emerging services leading to increased related service costs and increased expenditure in technical support for ICT emerging services.

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

Finance costs, net of interest income, was RMB-0.21 billion in the first half of 2022, down by RMB0.38 billion year-on-year.

### 9. Other income-net

Other income-net was RMB1.74 billion in the first half of 2022, up by RMB0.21 billion year-on-year.

## IV. EARNINGS

### 1. Profit before income tax

In the first half of 2022, the Company benefited from continuous enhancement in growth quality and profitability, and the Company's profit before income tax was RMB13.42 billion, up by 18.8% year-on-year.

## 2. Income tax expenses

In the first half of 2022, the Company's income tax expenses were RMB2.42 billion and the effective tax rate was 18.0%.

## 3. Profit for the period

In the first half of 2022, the Company's net profit<sup>1</sup> was RMB10.96 billion, up by RMB1.79 billion year-on-year. Basic earnings per share was RMB0.358, up by 19.5% year-on-year.

## V. EBITDA<sup>2</sup>

In the first half of 2022, the Company's EBITDA was RMB51.41 billion, up by 3.9% year-on-year. EBITDA as a percentage of service revenue was 31.9%, down by 1.4 percentage points year-on-year.

## VI. CAPITAL EXPENDITURE AND CASH FLOW

In the first half of 2022, capital expenditure of the Company totaled RMB28.35 billion, which mainly consisted of investments in mobile network, household internet and fixed-line voice, government, enterprise and innovative business and transmission network and infrastructure etc. In the first half of 2022, the Company's net cash flow from operating activities was RMB42.17 billion. Free cash flow<sup>3</sup> was RMB13.82 billion after the deduction of the capital expenditure.

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

(RMB in billions)	First half of 2022	
	Total amount	As percentage
<b>Total</b>	<b>28.35</b>	<b>100.00%</b>
Include: Mobile network	10.39	36.65%
Household internet and fixed-line voice	3.46	12.21%
Government, enterprise and innovative business	5.37	18.94%
Transmission network, infrastructure and others	9.13	32.20%

## VII. BALANCE SHEET

The Company's total assets changed from RMB591.08 billion as at 31 December 2021 to RMB603.62 billion as at 30 June 2022. Total liabilities changed from RMB257.64 billion as at 31 December 2021 to RMB261.53 billion as at 30 June 2022. The liabilities-to-assets ratio changed from 43.6% as at 31 December 2021 to 43.3% as at 30 June 2022. The debt-to-capitalisation ratio decreased from 9.7% as at 31 December 2021 to 8.2% as at 30 June 2022. The net debt-to-capitalisation ratio was -3.8% as at 30 June 2022.

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

Note 2: EBITDA represents profit for the period 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.