

FINANCIAL OVERVIEW

I. OVERVIEW

In the first half of 2023, the Company steadily advanced the deepening and implementation of its strategic planning system, total revenue was RMB191.83 billion, up by 8.8% year-on-year. Service revenue reached RMB171.04 billion in the first half of 2023, up by 6.3% year-on-year. Net profit¹ was RMB12.39 billion in the first half of 2023, up by RMB1.43 billion year-on-year.

In the first half of 2023, the Company's net cash flow from operating activities was RMB38.29 billion. Capital expenditure was RMB27.59 billion in the first half of 2023. Liabilities-to-assets ratio was 46.4% as at 30 June 2023.

II. REVENUE

In the first half of 2023, the Company's revenue was RMB191.83 billion, up by 8.8% year-on-year, of which, service revenue was RMB171.04 billion, up by 6.3% 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 first half of 2023 and 2022:

(RMB in billions)	First half of 2023		First half of 2022	
	Total amount	As a percentage of service revenue	Total amount	As a percentage of service revenue
Service revenue	171.04	100.00%	160.97	100.00%
Include: Basic business	128.07	74.88%	124.03	77.05%
Industry Internet business	42.97	25.12%	36.94	22.95%

1. Basic business

In the first half of 2023, service revenue from basic business was RMB128.07 billion, up by 3.3% year-on-year.

2. Industry Internet business

In the first half of 2023, service revenue from Industry Internet business was RMB42.97 billion, up by 16.3% year-on-year.

III. OPERATING COSTS

In the first half of 2023, total operating costs were RMB180.70 billion, up by 8.4% year-on-year.

The table below sets forth the items of the operating costs and their respective percentage of the revenue for the first half of 2023 and 2022:

(RMB in billions)	First half of 2023		First half of 2022	
	Total amount	As a percentage of revenue	Total amount	As a percentage of revenue
Operating costs	180.70	94.2%	166.75	94.6%
Include: Interconnection charges	5.60	2.9%	5.31	3.0%
Depreciation and amortisation	42.42	22.1%	41.90	23.8%
Network, operation and support expenses	29.17	15.2%	26.84	15.2%
Employee benefit expenses	32.25	16.8%	32.48	18.4%
Costs of telecommunications products sold	20.27	10.6%	14.57	8.3%
Selling and marketing expenses	17.32	9.0%	16.06	9.1%
Cost of new ICT business	22.23	11.6%	17.30	9.8%
General, administrative and other operating expenses	11.44	6.0%	12.29	7.0%

FINANCIAL OVERVIEW

1. Interconnection charges

Interconnection charges were RMB5.60 billion in the first half of 2023, up by 5.5% year-on-year and, as a percentage of revenue, decreased from 3.0% in the first half of 2022 to 2.9% in the first half of 2023.

2. Depreciation and amortisation

Depreciation and amortisation charges were RMB42.42 billion in the first half of 2023, up by 1.2% year-on-year and, as a percentage of revenue, decreased from 23.8% in the first half of 2022 to 22.1% in the first half of 2023.

3. Network, operation and support expenses

The Company expanded the scale of the basic network and relevant infrastructure. Network, operation and support expenses were RMB29.17 billion in the first half of 2023, up by 8.7% year-on-year and, as a percentage of revenue were basically unchanged at 15.2%.

4. Employee benefit expenses

The Company ongoing effort in incentive mechanism reforms, strengthened performance-based compensation and optimised the human resources efficiency. Employee benefit expenses were RMB32.25 billion in the first half of 2023, down by 0.7% year-on-year and, as a percentage of revenue, decreased from 18.4% in the first half of 2022 to 16.8% in first half of 2023.

5. Cost of telecommunications products sold

Costs of telecommunications products sold were RMB20.27 billion and revenue from sales of telecommunications products were RMB20.79 billion in the first half of 2023. Gross profits on sales of telecommunications products were RMB0.52 billion.

6. Selling and marketing expenses

The Company appropriately increased selling and marketing expenses to enhance market attractiveness. Selling and marketing expenses were RMB17.32 billion in the first half of 2023, up by 7.9% year-on-year and, as a percentage of revenue, decreased from 9.1% in the first half of 2022 to 9.0% in the first half of 2023.

7. Cost of new ICT business²

The Company seized the growth opportunities of the digital economy and continued to develop the Industry Internet business. Cost of new ICT business were RMB22.23 billion in the first half of 2023, up by 28.6% year-on-year and, as a percentage of revenue, increased from 9.8% in the first half of 2022 to 11.6% in the first half of 2023.

8. General, administrative and other operating expenses

General, administrative and other operating expenses were RMB11.44 billion in the first half of 2023, down by 6.9% year-on-year, and, as a percentage of revenue, decreased from 7.0% in the first half of 2022 to 6.0% in the first half of 2023.

IV. EARNINGS

(RMB in billions)	First half of 2023	First half of 2022	Change
Operating profits	11.13	9.51	17.0%
Net finance income	0.11	0.21	-48.1%
Share of net profit of associates	1.21	1.04	17.2%
Share of net profit of joint ventures	0.93	0.92	1.5%
Other income-net	1.94	1.74	11.4%
Profit before income tax	15.32	13.42	14.2%
Income tax expenses	2.82	2.42	16.5%
Net profit ¹	12.39	10.96	13.1%

1. Profit before income tax

In the first half of 2023, the Company benefited from continuous enhancement in growth quality and profitability, profit before income tax was RMB15.32 billion, up by 14.2% year-on-year.

2. Income tax expenses

In the first half of 2023, the Company's income tax expenses was RMB2.82 billion and the effective tax rate was 18.4%.

3. Net profit¹

In the first half of 2023, the Company's net profit was RMB12.39 billion, up by RMB1.43 billion year-on-year. Basic earnings per share was RMB0.405, up by 13.1% year-on-year.

V. EBITDA³

In the first half of 2023, the Company's EBITDA was RMB53.55 billion, up by 4.1% year-on-year. EBITDA as a percentage of service revenue was 31.3%.

FINANCIAL OVERVIEW

VI. CAPITAL EXPENDITURE AND CASH FLOW

In the first half of 2023, capital expenditure of the Company totaled RMB27.59 billion, which emphasised on the construction of four premium networks, namely 5G, broadband, government and enterprise, and computing power. In the first half of 2023, the Company's net cash flow from operating activities was RMB38.29 billion. Free cash flow⁴ was RMB10.70 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 2023:

(RMB in billions)	First half of 2023	
	Total amount	As percentage
Total	27.59	100.0%
Include: Mobile network	7.68	27.8%
Household internet and fixed-line voice	4.30	15.6%
Government, enterprise and innovative business	6.23	22.6%
Transmission network, infrastructure and others	9.38	34.0%

VII. ASSETS AND LIABILITIES

The Company's total assets increased from RMB642.66 billion as at 31 December 2022 to RMB659.33 billion as at 30 June 2023. Total liabilities increased from RMB299.13 billion as at 31 December 2022 to RMB305.68 billion as at 30 June 2023. The liabilities-to-assets ratio enhanced from 46.5% as at 31 December 2022 to 46.4% as at 30 June 2023. The debt-to-capitalisation ratio decreased from 14.3% as at 31 December 2022 to 13.2% as at 30 June 2023. The net debt-to-capitalisation ratio was 0.4% as at 30 June 2023.

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

Note 2: Cost of new ICT business excluded IDC business costs.

Note 3: 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 4: 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.