

FINANCIAL

Overview

REVENUE

In the first half of 2018, total revenue was RMB149.11 billion, up by 7.9% as compared to the same period of last year. The Company continued to implement the "Focus Strategies", operating results improved rapidly. Service revenue was RMB134.42 billion in the first half of 2018, up by 8.3% as compared to the same period of last year.

As a result of the rapid development in the Internet service and the continuous optimisation of the Company's business structure, revenue from non-voice service was RMB110.42 billion, up by 14.8% as compared to the same period of last year. Revenue from non-voice service as a percentage of service revenue further improved from 77.5% in the first half of 2017 to 82.1% in the first half of 2018.

COSTS AND EXPENSES¹

In the first half of 2018, total costs and expenses were RMB141.29 billion, up by 4.9% as compared to the same period of last year.

Depreciation and amortisation charge were RMB38.65 billion in the first half of 2018, down by 0.6% as compared to the same period of last year.

Network, operation and support expenses were RMB27.74 billion in the first half of 2018, up by 5.2% as compared to the same period of last year.

The Company continuously promoted the transformation of its sales and marketing model, selling and marketing expenses were RMB16.49 billion in the first half of 2018, up by 2.4% as compared to the same period of last year.

Interconnection charges were RMB6.69 billion in the first half of 2018, up by 5.6% as compared to the same period of last year.

Costs of telecommunications products sold were RMB14.70 billion, up by 0.4% as compared to the same period of last year. Loss on the sales of telecommunications products was RMB0.01 billion, of which terminal subsidy cost accounted to RMB0.38 billion, down by 52.3% as compared to the same period of last year.

As a result of the improved operating results, employee benefit expenses were RMB24.41 billion in the first half of 2018, up by 21.6% as compared to the same period of last year.

General, administrative and other expenses² were RMB13.41 billion, up by 20.9% as compared to the same period of last year.

Finance costs, net of interest income, was RMB0.21 billion, decreased by RMB2.22 billion as compared to the same period of last year.

EARNINGS

In the first half of 2018, profit before income tax was RMB7.82 billion, profit for the period³ was RMB5.91 billion, up by 144.9% as compared to the same period of last year. Basic earnings per share was RMB0.193 in the first half of 2018. EBITDA⁴ was RMB45.67 billion in the first half of 2018, up by 4.9% as compared to the same period of last year.

OPERATING CASH FLOW AND CAPITAL EXPENDITURE

In the first half of 2018, the Company's net cash flow from operating activities was RMB50.91 billion, up by 9.1% as compared to the same period of last year. Capital expenditure was RMB11.59 billion in the first half of 2018.

STATEMENT OF FINANCIAL POSITION

Liabilities-to-assets ratio decreased from 46.8% as at 31 December 2017 to 43.8% as at 30 June 2018. Debt-to-capitalisation ratio changed from 19.5% as at 31 December 2017 to 14.2% as at 30 June 2018.

Note 1: Including interconnection charges, depreciation and amortisation, network, operation and support expenses, employee benefit expenses, selling and marketing expenses, costs of telecommunications products sold, general, administrative and other expenses, finance costs, interest income, share of net profit of associates, share of net profit of joint ventures and other income-net.

Note 2: Excluded costs of telecommunications products sold and selling and marketing expenses.

Note 3: Profit for the period refers to profit attribute to equity shareholders of the Company.

Note 4: 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, 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.