

FINANCIAL OVERVIEW

I. OVERVIEW

In the first half of 2024, the Company fully implemented the new development philosophy, bravely acting as the role of the leading contributor of digital information operation and services and the pioneer of digital technology integration and innovation, deeply promote network innovation, technological innovation and service innovation, and business development was steadily progressing. Total revenue was RMB197.34 billion, up by 2.9% year-on-year. Profit attributable to equity shareholders of the Company was RMB13.79 billion, up by 11.3% year-on-year.

In the first half of 2024, the Company's net cash flow from operating activities was RMB29.29 billion. Capital expenditure was RMB23.90 billion. Liabilities-to-assets ratio was 45.5% as at 30 June 2024, kept within reasonable range.

II. REVENUE

In the first half of 2024, the Company's revenue steadily improved, it reached RMB197.34 billion, up by 2.9% year-on-year, of which, service revenue was RMB175.66 billion, up by 2.7% year-on-year due to continuous optimisation of the revenue mix.

The table below sets forth the Company's service revenue of the two main types of business for the first half of 2024 and 2023:

(RMB in billions)	First half of 2024		First half of 2023	
	Total amount	Mix proportion	Total amount	Mix proportion
Connectivity and Communications business revenue ¹	125.06	74.2%	122.55	75.0%
Computing and Digital Smart Applications business revenue ¹	43.54	25.8%	40.83	25.0%

1. Connectivity and Communications business revenue

In the first half of 2024, revenue from Connectivity and Communications business was RMB125.06 billion, up by 2.1% year-on-year.

2. Computing and Digital Smart Applications business revenue

In the first half of 2024, revenue from Computing and Digital Smart Applications business was RMB43.54 billion, up by 6.6% year-on-year.

III. OPERATING COSTS

In the first half of 2024, total operating costs amounted to RMB184.69 billion, up by 2.2% year-on-year.

The table below sets forth the items of the operating costs and the changes in their respective percentage of the revenue for the first half of 2024 and 2023:

(RMB in billions)	First half of 2024		First half of 2023	
	Total amount	As a percentage of revenue	Total amount	As a percentage of revenue
Operating costs	184.69	93.6%	180.70	94.2%
Include: Interconnection charges	5.48	2.8%	5.60	2.9%
Depreciation and amortisation	42.36	21.5%	42.42	22.1%
Network, operation and support expenses	30.45	15.4%	29.17	15.2%
Employee benefit expenses	28.71	14.5%	32.25	16.8%
Costs of telecommunications products sold	21.15	10.7%	20.27	10.6%
Selling and marketing expenses	17.73	9.0%	17.32	9.0%
General and administrative expenses	2.29	1.2%	2.37	1.2%
Other operating expenses	36.52	18.5%	31.30	16.3%

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1. Interconnection charges

The interconnection charges were RMB5.48 billion in the first half of 2024, down by 2.2% year-on-year and, as a percentage of revenue, decreased from 2.9% in the first half 2023 to 2.8% in the first half of 2024.

2. Depreciation and amortisation

Mainly benefiting from the Company's precision investment, network "co-build co-share" and optimisation work in recent years, depreciation and amortisation charges were RMB42.36 billion in the first half of 2024, down by 0.1% year-on-year and, as a percentage of revenue, decreased from 22.1% in the first half of 2023 to 21.5% in the first half of 2024.

3. Network, operation and support expenses

Due to reasons such as the expansion of the Company's network sharing scale, the Company's network, operation and support expenses were RMB30.45 billion in the first half of 2024, up by 4.4% year-on-year and, as a percentage of revenue, increased from 15.2% in the first half of 2023 to 15.4% in the first half of 2024.

4. Employee benefit expenses

The Company's employee benefit expenses were RMB28.71 billion in the first half of 2024, down by 11.0% year-on-year and, as a percentage of revenue, decreased from 16.8% in the first half of 2023 to 14.5% in the first half of 2024.

5. Cost of telecommunications products sold

Costs of telecommunications products sold were RMB21.15 billion and revenue from sales of telecommunications products were RMB21.68 billion in the first half of 2024. Gross profits on sales of telecommunications products was RMB0.53 billion.

6. Selling and marketing expenses

The Company continuously enhanced selling and market expenses' quality and efficiency and simultaneously increased investment to ensure market attractiveness, selling and marketing expenses were RMB17.73 billion in the first half of 2024, up by 2.4% year-on-year and, as a percentage of revenue was basically the same as 9.0%.

7. General and administrative expenses

General and administrative expenses were RMB2.29 billion in the first half of 2024, down by 3.4% year-on-year and, as a percentage of revenue was basically the same as 1.2%.

8. Other operating expenses

The Company's other operating expenses were RMB36.52 billion in the first half of 2024, up by 16.7% year-on-year and, as a percentage of revenue, increased from 16.3% in the first half of 2023 to 18.5% in the first half of 2024.

IV. EARNINGS

(RMB in billions)	First half of	First half of	Change
	2024	2023	
	Total amount	Total amount	
Operating profits	12.65	11.13	13.7%
Net interest (expenses)/income	(0.04)	0.11	-139.8%
Share of net profit of associates	1.31	1.21	7.7%
Share of net profit of joint ventures	0.84	0.93	-9.1%
Other income-net	2.16	1.94	11.3%
Profit before income tax	16.92	15.32	10.4%
Income tax expenses	3.08	2.82	9.3%
Profit for the period	13.84	12.50	10.7%
Include: the profit attributable to equity shareholders of the Company	13.79	12.39	11.3%

1. Profit before income tax

In the first half of 2024, the Company continuously enhanced its profitability, profit before income tax was RMB16.92 billion, up by 10.4% year-on-year.

2. Income tax expenses

In the first half of 2024, the Company's income tax expenses was RMB3.08 billion and the effective tax rate was 18.2%.

3. The profit attributable to equity shareholders of the Company

In the first half of 2024, the profit attributable to equity shareholders of the Company was RMB13.79 billion, up by 11.3% year-on-year. Basic earnings per share was RMB0.451, up by 11.3% year-on-year.

V. EBITDA²

In the first half of 2024, the Company's EBITDA was RMB55.01 billion, up by 2.7% year-on-year. EBITDA as a percentage of service revenue was basically the same as 31.3%.

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VI. CAPITAL EXPENDITURE AND CASH FLOW

In the first half of 2024, the Company fully strengthened network industry collaboration and precision investment, achieved an effective control in capital expenditure. Capital expenditure of the Company totaled RMB23.90 billion. In the first half of 2024, the Company's net cash flow from operating activities was RMB29.29 billion. Free cash flow³ was RMB5.39 billion after the deduction of the capital expenditure for the period.

VII. BALANCE SHEET

The Company's total assets increased from RMB661.05 billion as at 31 December 2023 to RMB667.74 billion as at 30 June 2024. Total liabilities decreased from RMB307.15 billion as at 31 December 2023 to RMB303.67 billion as at 30 June 2024. The liabilities-to-assets ratio was 45.5% as at 30 June 2024, down by 1.0 percentage points compared with 31 December 2023. The debt-to-capitalisation ratio decreased from 11.6% as at 31 December 2023 to 10.8% as at 30 June 2024. The net debt-to-capitalisation ratio was -0.4% as at 30 June 2024.

Note 1: Connectivity and Communications business revenue is the sum of relevant amounts in various types of service revenue, including voice usage and monthly fees RMB10.31 billion, broadband and mobile data services RMB77.23 billion, data and internet application services RMB8.43 billion, other value-added services RMB15.19 billion, transmission lines usage and associated services RMB12.42 billion and other services RMB1.48 billion. Computing and Digital Smart Applications business revenue consists of service revenue related to data and internet application services RMB43.54 billion. In addition to the above two business revenue, other business service revenue was RMB7.06 billion. Details of the disaggregation of service revenue, please refer to Note 5 of the unaudited condensed consolidated financial statements.

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 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.