Operating Revenues

In the first half of 2018, the Company adhered to its transformation and upgrades strategy, insisted on development of innovation and integration and accelerated scale expansion. Revenue structure was continuously optimised with revenue growth surpassing the industry average. In the first half of the year, operating revenues amounted to RMB193,029 million, representing an increase of 4.7% over the same period last year[1]. Service revenues[2] amounted to RMB177,588 million, representing an increase of 7.0% over the same period last year. Excluding the impact of the application of IFRS 15 on the current period, service revenues increased by 8.5% over the same period last year. Among the service revenues, mobile service revenues amounted to RMB83,552 million, increased by 10.3% over the same period last year; wireline service revenues amounted to RMB94,036 million, increased by 4.2% over the same period last year. Non-voice service revenues accounted for 85.0% of service revenues, representing an increase of 4.2 percentage points over the same period last year.

Operating Expenses

The Company efficiently allocated resources and optimised the cost structure in order to support scale development, facilitating persistent increases in effectiveness and efficiency of resources utilisation. In the first half of the year, operating expenses amounted to RMB173,872 million, representing an increase of 4.5% over the same period last year. Operating expenses accounted for 90.1% of operating revenues, representing a decrease of 0.1 percentage point over the same period last year.

In order to further enhance network capabilities and quality to support business scale development, the Company has increased its investment in and maintenance of 4G and fibre broadband network in recent years. In the first half of the year, depreciation and amortisation amounted to RMB36,701 million, representing an increase of 6.6% over the same period last year. At the same time, network operations and support expenses amounted to RMB54,184 million, representing an increase of 11.8% over the same period last year.

In the first half of the year, selling, general and administrative expenses amounted to RMB29,048 million, representing an increase of 1.1% over the same period last year.

The Company increased the incentives for frontline employees as well as talents for emerging businesses and technical experts. In the first half of the year, personnel expenses amounted to RMB32,649 million, representing an increase of 6.1% over the same period last year.

Through continuous increase in number of terminals sold through open channels as well as reduction in centralised procurement, the number of terminals directly sold by the Company declined. In the first half of the year, other operating expenses amounted to RMB21,290 million, representing a decrease of 10.9% over the same period last year.

[1] In 2017, the Group acquired the satellite communications business and Shaanxi Zhonghe Hengtai Insurance Agent Limited (陝西中和恒泰保險代理有限公司). As the transaction was recognised as a combination of entities under common control, the comparative figures of prior period have been restated accordingly. Please refer to note 2 to the unaudited interim financial statements in this interim report for details.

[2] Service revenues were calculated based on operating revenues minus sales of mobile terminals (first half of 2018: RMB12,079 million; first half of 2017: RMB15,951 million), sales of wireline equipment (first half of 2018: RMB2,773 million; first half of 2017: RMB1,890 million) and other non-service revenues (first half of 2018: RMB589 million; first half of 2017: RMB478 million).

Net Finance Costs

The Company persistently intensified its efforts in efficiently-centralised capital management, which effectively lowered the level of interest-bearing debt. In the first half of 2018, the net finance costs of the Company amounted to RMB1,514 million, representing a decrease of 14.6% over the same period last year.

Profitability Level

Leading by its transformation and upgrades strategy, the Company deepened its reform and innovation and strived to promote cost reduction and efficiency enhancement, resulting in consistent improvement in profitability. In the first half of the year, profit attributable to equity holders of the Company amounted to RMB13,570 million, representing an increase of 8.1% over the same period last year. EBITDA[3] amounted to RMB55,858 million, representing an increase of 6.5% over the same period last year, while EBITDA margin[4] was 31.5%.

Capital Expenditure and Cash Flows

The Company persistently optimised the investment structure. Through the implementation of precision investment, investment efficiency and effectiveness were concurrently enhanced while comprehensive advantages in network were consistently reinforced. In the first half of the year, capital expenditure amounted to RMB32,947 million, representing a decrease of 19.9% over the same period last year. Benefitting from the sound growth in the Company's business and revenues, as well as effective management on capital expenditure, the free cash flow[5] was significantly improved in the first half of the year and amounted to RMB18,383 million, representing an increase of 154.1% over the same period last year.

Assets and Liabilities

The Company continued to maintain a solid financial position. As at 30 June 2018, the total assets increased by 0.2% to RMB662,299 million from RMB661,194 million at the end of 2017. Total indebtedness decreased by 20.2% to RMB83,267 million from RMB104,377 million at the end of 2017. The gearing ratio[6] decreased to 19.9% from 24.3% at the end of 2017.

Changes in Accounting Policies

On 1 January 2018, the Company has applied, for the first time, IFRS 15, "*Revenue from Contracts with Customers*" and IFRS 9, "*Financial Instruments*". For the specific impact of the application of the above standards, please refer to note 4 to the unaudited interim financial statements in this interim report for details.

3 EBITDA was calculated based on operating revenues minus operating expenses plus depreciation and amortisation.

4 EBITDA margin was calculated based on EBITDA divided by service revenues.

5 Free cash flow was calculated from EBITDA minus capital expenditure and income tax.

6 Gearing ratio was calculated based on total indebtedness divided by total capital while total capital was calculated based on total equity attributable to equity holders of the Company plus total indebtedness.