

Financial Highlights

	2016	2017	2018
Operating revenues (RMB millions)	352,534	366,229	377,124
EBITDA ¹ (RMB millions)	95,162	102,171	104,207
EBITDA margin ²	30.7%	30.9%	29.7%
Net profit ³ (RMB millions)	18,018	18,617	21,210
Capital expenditure (RMB millions)	96,817	88,712	74,940
Free cash flow ⁴ (RMB millions)	(7,648)	7,267	22,457
Total debt/Equity ⁵	35.7%	32.0%	27.9%
Earnings per share (RMB)	0.2226	0.2300	0.2621
Dividend per share (HK\$)	0.105	0.115	0.125

¹ EBITDA was calculated based on operating revenues minus operating expenses plus depreciation and amortisation.

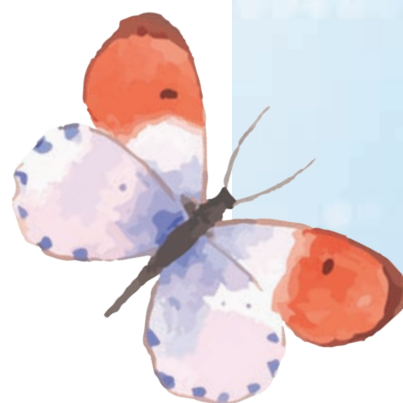
² EBITDA margin was calculated based on EBITDA divided by service revenues.

³ Net profit represented profit attributable to equity holders of the Company.

⁴ Free cash flow was calculated from EBITDA minus capital expenditure and income tax.

⁵ Equity represented equity attributable to equity holders of the Company.

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Management's Discussion and Analysis

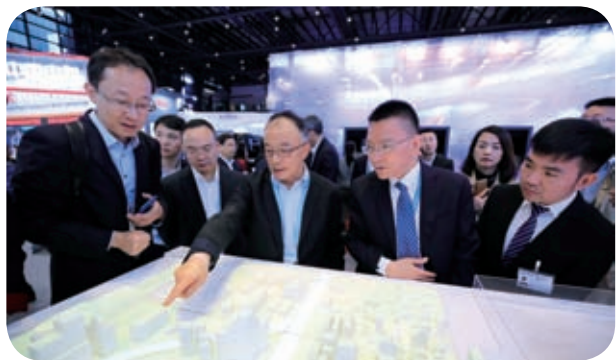
Business Review

The following table sets out the key operating data for 2016, 2017 and 2018:

	Unit	2016	2017	2018	2018 change over 2017
Mobile subscribers	Million	215.00	249.96	303.00	21.2%
of which: 4G subscribers	Million	121.87	182.04	242.43	33.2%
Mobile voice usage	Million minutes	720,566	769,152	827,724	7.6%
Handset data traffic	kTB	1,277	3,597	14,073	291.2%
4G subscribers DOU	GB/month/user	1.0	2.0	5.5	182.3%
Wireline broadband subscribers	Million	123.12	133.53	145.79	9.2%
of which: Fibre-to-the-Home (FTTH) subscribers	Million	105.99	126.17	140.66	11.5%
e-Surfing HD subscribers	Million	61.33	85.76	105.35	22.8%
Internet of Things connected devices	Million	14.19	44.30	106.93	141.4%
BestPay average monthly active users	Million	16.21	33.00	43.41	31.5%
Access lines in service	Million	126.86	121.80	116.48	-4.4%
Wireline local voice usage	Million pulses	93,403	75,144	60,213	-19.9%



World Internet Conference



Management's Discussion and Analysis

Business Review

In 2018, the Company adhered to the new development principles, deepened reform and innovation, and continued to promote network intelligentisation, service ecologicalisation, and operation intellectualisation. The Company also accelerated scale development, improved quality and efficiency and continuously increased its corporate value.

Key Operating Performance in 2018

1. Healthy growth in operating revenues and continuous optimisation of business structure

In 2018, the Company's operating revenues increased by 3.0% year on year to RMB377.1 billion. Service revenues increased by 5.9% year on year to RMB350.4 billion. The Company's revenue structure was further optimised, with revenues from emerging businesses accounting for 51.9% of service revenues, up nearly 6 percentage points year on year. Of which, handset Internet access revenue and DICT revenue increased by 22.4% and 21.4% respectively year on year, forming the major drivers of revenue growth.



DICT Revenue

▲ 21.4%



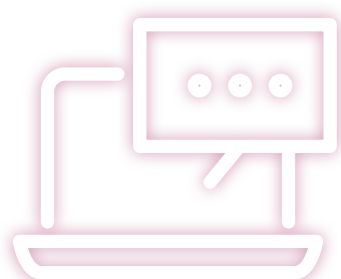
World Conference on VR Industry


Management's Discussion and Analysis

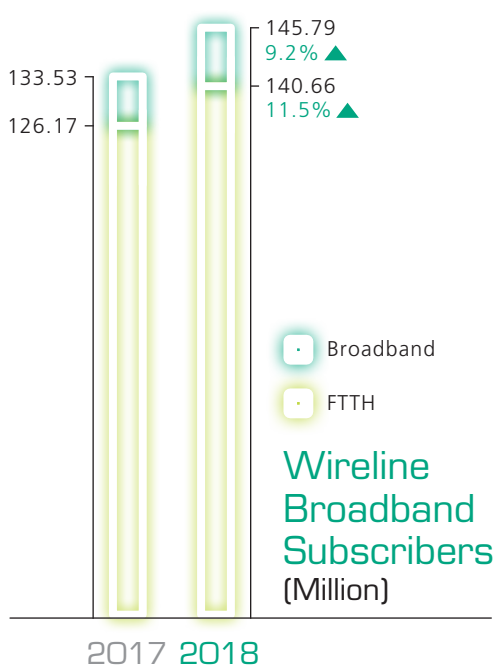
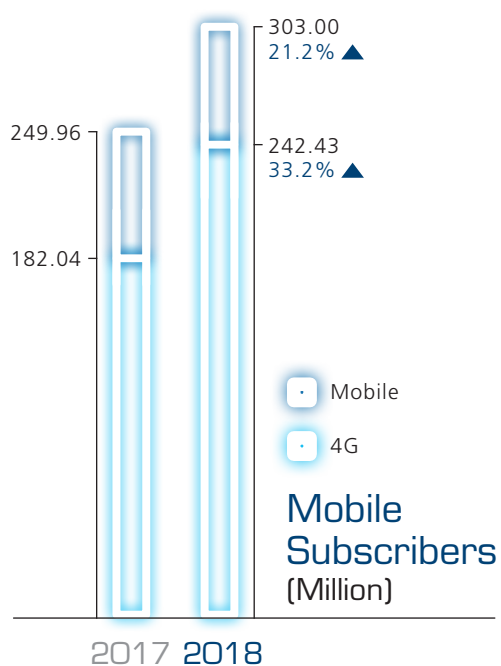
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2. Capitalising on opportunities arising from the development of large data traffic business: scale expansion of mobile business reached a new high

In 2018, mobile subscribers net addition of the Company was 53.04 million, which represented an increase of 51.7% compared to last year and was the all-time high in the Company's history. The total number of mobile subscribers now exceeds 300 million, with market share climbing to 19.6%, representing an increase of 2.0 percentage points compared to the end of last year. Of which, 4G subscribers reached 242 million, with a net addition of 60.39 million.



Six-Year High 
Broadband Subscribers
Net Addition



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The Company firmly grasped opportunities brought by the rising demand for data consumption, and further sped up the expansion of mobile subscribers scale. The market share of mobile subscribers net addition reached 43.6%, ranking the first in the industry. While maintaining the strategy to position large data traffic packages as the key products, the Company optimised its package portfolio and reduced the number of packages. Focusing on cooperation with Internet companies leading in video and e-commerce areas, the Company promoted the convergence of large data traffic, content, applications and users-only offers. Leveraging on differentiation advantages from BestPay red packet and Orange Instalment Payment Service, the Company strengthened the coordination among channels and enhanced user experience to

drive volume and value growth of data traffic. As a result, handset data traffic and handset Internet access revenue registered increases of 291% and 22.4% year on year, respectively. User satisfaction with the Company's handset Internet access ranked the first in the industry. The Company insisted on the multi-mode handset strategy, promoted industry chain development, and published the industry's first white paper on multi-mode AI handsets. The accumulated number of multi-mode handsets within the industry now exceeded 1 billion, maintaining a stable market share of over 80% of the entire handset market. In 2018, the number of self-registered multi-mode handsets of the Company was 160 million, an increase of 23% over the previous year.



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3. Comprehensive Smart Family services upgrade, with leadership in broadband service quality maintained

In 2018, the Company's wireline broadband subscribers net addition was 12.26 million, with the total number of subscribers reaching 146 million, of which, subscribers of 100Mbps or above accounted for 66%. The e-Surfing HD subscribers net addition was 19.59 million, with the total number of subscribers reaching 105 million.

Insisting on the positioning of Gbps service as the Company's top broadband product and a convergence-driven development approach, the Company fulfilled the needs of individual and family consumers with convergence packages that feature high-speed premium broadband, large data

traffic, e-Surfing HD, and Smart Family applications. In this way, the Company created new edges in terms of smart broadband services, with the net addition of broadband subscribers reaching a six-year high. Focusing on the needs of its family customers, the Company scaled up its introduction of Smart Family applications, built a nationwide



Total Number of e-Surfing HD Subscribers Exceeded

▶ 100Mil



Management investigated remote medical services infrastructure in Guizhou Provincial People's Hospital

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centralised platform for value-added services, and unified previously separate accounts for broadband and e-Surfing HD services. The Company also sourced popular content to create members-only packages of e-Surfing HD with movies and TV shows, education and sports. This enables a shift in the Company's business model from charging connection fees to charging membership-based fees, thereby propelling the e-Surfing HD business towards value creation. The Company further enhanced the user experience of family cloud, whose subscribers number exceeded 26 million. The Company also built professional Smart Family engineering teams, and promoted the standardisation of Smart Home Networking service, whose number of services delivered was close to 20 million times during the year. The Company also maintained its leading edge in broadband services, sped up the upgrade of installation and maintenance systems and capabilities, and promoted services and products upselling on top of installation and maintenance. The success rate for honouring the Company's "same-day installation, same-day maintenance service

guarantee, compensation for service delay" was significantly improved, while the satisfaction rate for broadband services continued to outperform the industry.

4. Robust growth of emerging businesses supported by integration and mutual development

In 2018, the growth of revenues from the Company's Intelligent Applications ecospheres accelerated and accounted for 16.9% of service revenues, an increase of 2.2 percentage points compared to last year. The Intelligent Applications ecospheres also contributed over 50% of incremental service revenues and increased revenue growth by 3.3 percentage points.

The Company sped up service ecologicalisation through enhancement of core product capability induced by accelerated ecosphere endowment. DICT business achieved rapid growth, with products capabilities centred on cloud-network integration being proactively promoted. The Company developed industry dedicated lines and dedicated cloud access, while its



IoT Connected Devices

Exceeded

▶ 100Mil

Management's Discussion and Analysis

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capability of developing holistic industry cloud-network solutions was significantly enhanced. The Company also explored vertical "Internet+" services area in detail, spurred upgrade of conventional industries with "Internet+" services and the number of projects with annualised revenue higher than RMB10 million exceeded 100. DICT revenue increased by 21.4%, of which, revenue for cloud business increased by 85.9% compared to last year. The Internet of Things (IoT) business has entered high-speed phase of development. Based on the framework of "Cloud – Pipes – Devices – Applications", the Company continued to focus on developing its core IoT capabilities and providing one-stop solutions for industrial IoT applications. Net addition of IoT users doubled year on year, with the number of connected devices exceeding 100 million. IoT revenue also doubled compared to last year. Internet Finance ecosphere also made new breakthroughs. The Company leveraged the advantages offered by its traditional channels to



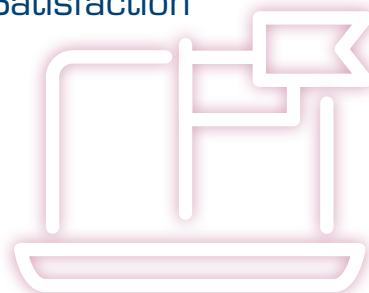
Inauguration of China Telecom's first Smart Sales Outlet

widely expand consumption scenarios, while the Company's innovative integration of payment channels provided one-for-all receipt and payment solution. The number of BestPay active participating merchants increased by more than 2 times, while the number of average monthly active users exceeded 43 million. Innovative products like BestPay red packet and the Orange Instalment Payment Service drove mobile subscribers to increase by approximately 20%, achieving integration and mutual development among ecospheres.



Handset
Internet Access
User Satisfaction
Industry #1

Broadband Service User Satisfaction



Continued to
Outperform
the Industry

5. Building three systems to strengthen the foundation for scale development

The Company continued to build three systems in terms of ecosphere products, customer management and integrated sales channels, surrounding the "Trinity" value management system featuring "convergence for scale expansion, integration for application development and intelligentisation for efficiency enhancement". Such measures created competitive advantages based on factors of productivity plus capabilities, further cemented the capability foundation for scale development of the five ecospheres.

The Company promoted the construction of an ecosphere products system, accelerated the consolidation of its resources and mechanism innovation, formed capability development centres for cloud, DICT applications, Smart Family and IoT. The Company also fostered high-quality products and enhanced its supply-side capability. Focusing on user experience and value management, the Company established a customer lifecycle management system, injected intelligent elements to and provided ecological endowment for its channels through precision marketing leveraging Big Data. The Company propelled the process of existing customers upgrading to

multi-featured convergence packages as well as large data traffic packages, and commenced ongoing uplift of its customer service quality. The precision marketing backed by Big Data covered more than 60% of the Company's customers, whereas the triple-play penetration rate of broadband subscribers increased by 12.7 percentage points compared to last year. The Company built an integrated sales channel system of "self-owned + third-party", "online + offline" and "platform + sales reach" channels, in order to adapt to the trend of sales channels' step-up transformation in the new retail era, and to bolster efficiency and effectiveness. As a result, the proportion of outlets with high sales volume further increased compared to last year. The intelligent upgrade of our self-owned outlets set a new industry benchmark, while innovative collaborations with third-party channels expanded our sales reach. Through extensive cooperation with new retail stores, we also scaled up the expansion of our integrated sales channels. The operational capability of our sales channels was continuously enhanced, while the establishment of a corporate core was further promoted, injecting intelligent elements to our marketing and operational management. As a result, average system processing time for services was greatly reduced, and operational efficiency and customer experience were significantly enhanced.

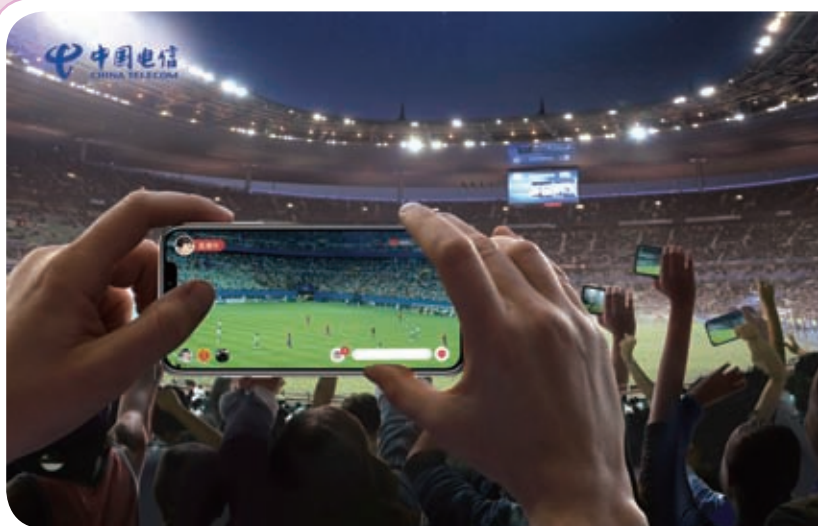
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6. Progressive enhancement of network capability, significant uplift in perceptions of service quality

With customer experience as the focus, the Company continued to promote the quality enhancement and intelligent upgrade of its network. To strengthen its fundamental network, the Company leveraged Big Data to enhance in-depth coverage in key locations and support dynamic capacity expansion of its 4G network. The total number of 4G base stations reached 1.38 million. Nationwide commercial trials for VoLTE services were carried out. Fibre network now fully covers all cities and towns in the service area of the Company. The Company proactively explored the Gbps market, with Gbps connections now enabled in 180 cities. The bandwidth of IP metropolitan network and backbone network remained industry leading. To maintain the leading

edges in attaining comprehensive IoT network coverage, NB-IoT network was optimised continuously, while the scale of eMTC pilot trial was expanded according to demand. The Company accelerated cloud-network integration, and carried out coordinated deployment of IDC and cloud resources to further enhance its service capability. The Company connected cloud resource pools with the carrying network, enabling a cloud-led network. Furthermore, the Company introduced new technologies of SDN/NFV, and rolled out scale deployment of intelligent user-customised network products as well as home gateway products based on SDN technology, which allowed service activation within minutes, and supported rapid access to cloud services. By improving NFVI standards and building virtualised core networks, the Company established a foundation for future network cloudification.



天翼 4G⁺
网络更好
上传更快

我的主场
中国电信

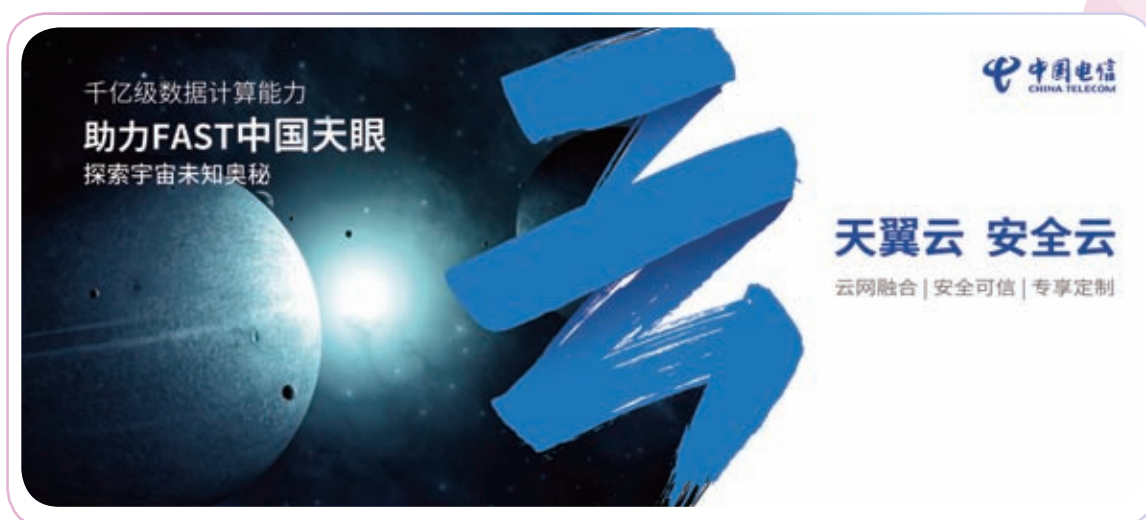
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The Company built a comprehensive customer service system involving all aspects, processes and personnel in order to enhance its customer service capability. The Company optimised user experience of its mobile network, offered equal rights to new and existing subscribers, and provided higher transparency regarding customers' spending. The Company also enhanced user experience of its broadband speed as well as video service quality, strengthened cloud-network integration and IoT service system, and offered relevant one-stop solutions. As a result, the Company achieved the lowest rate of complaints and the highest satisfaction level in overall terms in the industry. The advantages of the Company's intelligent customer service capability began to emerge, with the roll-out of "Smart 10000" hotline accelerating, and service volume delivered by chatbots reaching 460 million times.

Outlook for 2019

In 2019, focusing on network intelligentisation, service ecologicalisation, and operation intellectualisation, the Company will continue to propel the establishment of a "Trinity" value management system featuring convergence, integration and intelligentisation, in order to further expand the scale of its five business ecospheres and accelerate its high-quality development. Firstly, regarding convergence for scale expansion, the Company will reinforce and strengthen its position in the fundamental businesses market, striving to achieve more breakthroughs in terms of market share of mobile subscribers and more prominent edges in broadband services quality by deepening convergence of its fundamental businesses, insisting on a market-share oriented approach while leveraging large data traffic packages, full-service convergence and handset-driven strategies. The Company will accelerate



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cloud-network integration, constantly enrich and upgrade its products and solutions based on cloud-network integration, and try to create a vertically integrated support system for service delivery, in the hope of shaping user experience featuring high quality, low latency and differentiation. The Company will also promote the innovation of convergence of Intelligent Applications services, optimise and upgrade its large data traffic packages and intelligent broadband services, while enriching applications such as Smart Home Networking, smart TV, smart home appliances, smart surveillance, and family cloud for family customers. Integrated "cloud + network + smart applications" solutions will be offered to government and enterprise customers, with a focus on cloud network applications in areas of administration, enterprise, finance, education and medical service, as well as ready-made solutions for small and medium-sized enterprises. Secondly, regarding integration for application development, the sharing of capabilities will be facilitated by consolidating capabilities that are common in the Company's five ecospheres to drive business innovation and mutual development. In terms of sales channels

sharing, the Company will coordinate the cross-ecosphere utilisation of physical channels from Intelligent Connections ecosphere, merchant channels from Internet Finance as well as government and enterprise channels from DICT, in order to enhance sales capabilities of convergence products and emerging services. With regard to data sharing, the Company will aggregate data of the five ecospheres to better support business development and service capabilities enhancement. The Company will also promote mutual development of its businesses and design all-in-one solutions for various customer groups through integrating products from different ecospheres, to achieve complementation of offers to customers. Thirdly, regarding intelligentisation for efficiency enhancement, the Company will promote precision marketing, and accelerate the launch and application of next-generation BSS, in order to gain an accurate insight of the market and its customers. The Company will enhance customer experience by pushing forward precision service and refining its customer management. The Company will also promote precision network operation by elevating the intelligence level of its network operation backed by

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strengthened use of Big Data analysis. The Company will also adopt precision management and extend the use of Big Data and AI in areas such as human resources and finance-related functions to enhance personnel efficiency.

The Company will continue to construct high-quality networks. Guided by CTNet2025, the Company will propel network intelligentisation, and constantly optimise its three superior networks, namely mobile network, fibre broadband network and IoT network. By fully promoting "cloudification" of infrastructure and cloud-network integration, the Company will further enhance the comprehensive competitive advantages of its integrated cloud network resources. Firmly grasping the new window of market opportunities presented by 5G, the Company will work with both

upstream and downstream partners along the value chain to explore ways to build an industry ecosystem in the future ahead of time. This will allow us to take a lead in shaping the market structure in the future, and laying a foundation for the development of 5G businesses.

The Company will adhere to the new development principles and supply-side structural reforms, accelerate the promotion of high-quality development. Persisting in scale development as the foundation and value management as the core, the Company will continue to strive to become a leading integrated intelligent information services operator, and promote the common growth in its corporate value, its customers' value and its employees' value.



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Summary

In 2018, the Company insisted on new development ideas, continuously promoted transformation and upgrades, comprehensively deepened its reform and innovation, and accelerated scale development. The growth of the Company's service revenues continued to surpass the industry average. Meanwhile, with deepened value operations, reasonable and optimised allocation of resources and reinforced cost delicate management, the Company's operation efficiency and effectiveness were continuously enhanced. As a result, the overall operating results achieved favourable growth. Operating revenues in 2018 were RMB377,124 million, representing an increase of 3.0% from year 2017; service revenues¹ were RMB350,434 million, representing an increase of 5.9% from year 2017; operating expenses were RMB348,410 million, representing an increase of 2.8% from year 2017; profit attributable to equity holders of the Company was RMB21,210 million, representing an increase of 13.9% from year 2017; basic earnings per share were RMB0.26; EBITDA² was RMB104,207 million, representing an increase of 2.0% from year 2017 and the EBITDA margin³ was 29.7%.

Operating Revenues

The Company firmly seized the development opportunities of digital economy and deepened integrated operation. The growth of subscriber scale set a new record high. Revenues continued to maintain favourable growth while revenue structure was continuously optimised. Operating revenues in 2018 were RMB377,124 million, representing an increase of 3.0% from year 2017. Service revenues were RMB350,434 million, representing an increase of 5.9% from year 2017 (if excluding the impact of the application of International Financial Reporting Standard 15 ("IFRS 15") on the service revenues for the current year, it represented an increase of 7.2% from year 2017). Of which, mobile service revenues were RMB167,705 million, representing an increase of 9.1% from year 2017; wireline service revenues were RMB182,729 million, representing an increase of 3.1% from year 2017.



*If excluding the impact of the application of IFRS 15 on the service revenues for the current year

¹ Service revenues were calculated based on operating revenues minus sales of mobile terminals (2018: RMB18,836 million; 2017: RMB26,759 million), sales of wireline equipment (2018: RMB5,659 million; 2017: RMB6,446 million) and other non-service revenues (2018: RMB2,195 million; 2017: RMB1,980 million).

² EBITDA was calculated based on operating revenues minus operating expenses plus depreciation and amortisation. As the telecommunications business is a capital intensive industry, capital expenditure, the level of gearing and finance costs may have a significant impact on the net profit of companies with similar operating results. Therefore, we believe EBITDA may be helpful in analysing the operating results of a telecommunications service provider such as the Company. Although EBITDA has been widely applied in the global telecommunications industry as a benchmark to reflect operating performance, debt raising ability and liquidity, it is not regarded as a measure of operating performance and liquidity under generally accepted accounting principles. It also does not represent net cash from operating activities. In addition, our EBITDA may not be comparable to similar indicators provided by other companies.

³ EBITDA margin was calculated based on EBITDA divided by service revenues.

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The following table sets forth a breakdown of the operating revenues for 2017 and 2018, together with their respective rates of change:

<i>(RMB millions, except percentage data)</i>	For the year ended 31 December		
	2018	2017	Rates of change
Voice	50,811	61,678	-17.6%
Internet	190,871	172,554	10.6%
Information and application services	83,478	73,044	14.3%
Telecommunications network resource and equipment services	20,211	19,125	5.7%
Others ⁴	31,753	39,828	-20.3%
Total operating revenues	377,124	366,229	3.0%

⁴ Other revenues in 2018 refers to the aggregate amount of sales of goods and others, included in revenue from contracts with customers, and revenue from other sources.

Voice

In 2018, being continuously affected by the substitution effect of mobile Internet services such as OTT, revenue from voice services was RMB50,811 million, representing a decrease of 17.6% from year 2017, accounting for 13.5% of operating revenues. The proportion of revenue from voice services to total operating revenues continued to decline while the revenue structure was continuously optimised.

Internet

In 2018, revenue from Internet services was RMB190,871 million, representing an increase of 10.6% from year 2017, accounting for 50.6% of operating revenues. To proactively respond to the impact of the domestic data roaming fee cancellation policy, the Company optimised its data traffic operation system and promoted large data traffic package, fully leveraging on the benefits of data price elasticity. The data traffic revenues maintained rapid growth momentum. Mobile handset Internet access revenue was RMB111,218 million, representing an increase of 22.4% from year 2017. The

Company continuously promoted the scale development of broadband subscribers and reinforced its efforts in integration. The expansion from basic Internet access to customer value operations was accelerated with more superior network and services strengthening customer loyalty. At the end of 2018, the number of wireline broadband subscribers reached 146 million, with a net increase of 12.26 million. Due to intensified market competition, the wireline broadband revenue was RMB74,262 million, representing a decrease of 3.2% from year 2017.

Information and Application Services

In 2018, the mutual integration and mutual promotion of the Company's service ecology achieved prominent results. Revenue from information and application services was RMB83,478 million, representing an increase of 14.3% from year 2017, accounting for 22.1% of operating revenues which became strong revenue growth area. The growth was mainly benefited from the rapid development of emerging businesses such as IDC, cloud and e-Surfing HD services.

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Telecommunications Network Resource and Equipment Services

In 2018, revenue from telecommunications network resource and equipment services was RMB20,211 million, representing an increase of 5.7% from year 2017, accounting for 5.4% of operating revenues. The growth was mainly due to the favourable growth in revenues from digital circuit service and IP-VPN service.

Others

In 2018, other revenues were RMB31,753 million, representing a decrease of 20.3% from year 2017, accounting for 8.4% of operating revenues. The decline was mainly due to the increasing number in mobile terminals sold through open channels and the reduction in the revenue from terminals sold through our own distribution channels.

Operating Expenses

The Company firmly seized the prime period for scale development opportunities and appropriately increased the deployment of resources. At the same time, with continuous implementation of precise allocation of resources and multi-dimensional sub-division, cost efficiency was enhanced while the increase rate of expenses was lower than the increase rate of revenues, effectively supporting the scale development and the value enhancement of the enterprise. In 2018, operating expenses were RMB348,410 million, representing an increase of 2.8% from year 2017. Operating expenses accounted for 92.4% of operating revenues, representing a decrease of 0.2 percentage point from year 2017.

The following table sets forth a breakdown of the operating expenses in 2017 and 2018 and their respective rates of change:

<i>(RMB millions, except percentage data)</i>	For the year ended 31 December		
	2018	2017	Rates of change
Depreciation and amortisation	75,493	74,951	0.7%
Network operations and support	116,062	103,969	11.6%
Selling, general and administrative	59,422	58,434	1.7%
Personnel expenses	59,736	56,043	6.6%
Other operating expenses	37,697	45,612	-17.4%
Total operating expenses	348,410	339,009	2.8%

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Depreciation and Amortisation

In 2018, depreciation and amortisation was RMB75,493 million, representing an increase of 0.7% from year 2017, which was basically the same as that of year 2017, accounting for 20.0% of operating revenues.

Network Operations and Support

In 2018, network operations and support expenses were RMB116,062 million, representing an increase of 11.6% from year 2017, accounting for 30.8% of operating revenues. It was mainly due to the Company's persistent efforts in optimising and enhancing network quality and capabilities and supporting rapid development of emerging businesses through appropriate increase in resource input in order to further enhance the Company's competitiveness and to lay a strong foundation for the Company's future development.

Selling, General and Administrative

In 2018, selling, general and administrative expenses amounted to RMB59,422 million, representing an increase of 1.7% from year 2017, accounting for 15.8% of operating revenues. Selling expenses were RMB50,794 million, representing an increase of 0.9% from year 2017. In order to maintain the competitiveness in the market, the Company appropriately invested in sales and marketing resources and promoted the growth of subscriber scale. At the same time, with the Company's continuous optimisation of its sales and marketing model and enhancement in its precision management of sales and marketing resources, taking into consideration the impact of the application of IFRS 15, the growth of the selling expenses slowed down. The general and administrative expenses amounted to RMB8,628 million, representing an increase of 6.7% from

year 2017, which was mainly due to the increase in research and development expenditure to support the transformation and development of the Company and the innovative research and development of new business.

Personnel Expenses

In 2018, personnel expenses were RMB59,736 million, representing an increase of 6.6% from year 2017, accounting for 15.8% of operating revenues. The main reason for the increase was that the Company increased performance-oriented incentives tilted towards frontline employees as well as the motivation to induce emerging businesses and technical talents. For details of the number of employees, remuneration policies and training schemes, please refer to the Environmental, Social and Governance Report in this annual report.

Other Operating Expenses

In 2018, other operating expenses were RMB37,697 million, representing a decrease of 17.4% from year 2017, accounting for 10.0% of operating revenues. It was mainly due to the decrease in cost of terminal equipment sold over last year in connection with the decline in revenue from sales of terminals.

Net Finance Costs

Seizing favourable market opportunities, the Company allocated low cost financing products in a flexible manner and increased its efforts in capital centralisation, effectively controlling the scale of indebtedness and enhancing the turnover and utilisation efficiency of its capital. In 2018, net finance costs were RMB2,708 million, representing a decrease of 17.7% from year 2017. Net exchange gain amounted to RMB79 million in year 2018. The fluctuation of foreign exchange gain or loss was mainly due to the effect of changes in the exchange rate of RMB against USD.

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Profitability Level

Income Tax

The Company's statutory income tax rate is 25%. In 2018, income tax expenses were RMB6,810 million with the effective income tax rate of 24.2%. The difference between the effective income tax rate and the statutory income tax rate was mainly due to the preferential income tax rate enjoyed by some of the subsidiaries and some branches that are located in Western region of China. Meanwhile, the one-off disposal gain from the listing of China Tower Corporation Limited ("China Tower") was not subject to tax in the current year.

Profit Attributable to Equity Holders of the Company

In 2018, profit attributable to equity holders of the Company was RMB21,210 million, representing an increase of 13.9% from year 2017.

Cash Flows

Net decrease in cash and cash equivalents in 2018 was RMB2,939 million while the net decrease in cash and cash equivalents in year 2017 was RMB4,908 million.

The following table sets forth the cash flow position in 2017 and 2018:

(RMB millions)	For the year ended	
	31 December 2018	2017
Net cash flow from operating activities	99,298	96,502
Net cash flow used in investing activities	(85,954)	(85,263)
Net cash flow used in financing activities	(16,283)	(16,147)
Net decrease in cash and cash equivalents	(2,939)	(4,908)

Changes in Accounting Policies

On 1 January 2018, the Company has applied IFRS 15, "Revenue from Contracts with Customers" and IFRS 9, "Financial Instruments" for the first time. For the specific impacts of the application of the above standards, please refer to note 2 of the audited consolidated financial statements for the year for details.

Capital Expenditure and Cash Flows

Capital Expenditure

In 2018, the Company continued to implement Big Data precision investment, persistently established superior network and at the same time reinforced management and control in capital expenditure. In 2018, capital expenditure was RMB74,940 million, representing a decrease of 15.5% from year 2017.



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In 2018, the net cash inflow from operating activities was RMB99,298 million, representing an increase of 2.9% from year 2017, the growth of which was basically in line with the growth of revenues.

In 2018, the net cash outflow used in investing activities was RMB85,954 million, representing an increase of 0.8% from year 2017.

In 2018, the net cash outflow used in financing activities was RMB16,283 million, representing an increase of 0.8% from year 2017.

Working Capital

The Company consistently upheld prudent financial principles and stringent fund management policies. At the end of 2018, working capital (total current assets minus total current liabilities) deficit was RMB185,915 million, representing a decrease in deficit of RMB17,943 million from year 2017. The liquidity of the Company continuously improved. As at 31

December 2018, the unutilised credit facilities were RMB150,693 million (2017: RMB154,793 million). Given the stable net cash inflow from operating activities and the sound credit record, the Company has sufficient working capital to satisfy the operation requirement. At the end of 2018, cash and cash equivalents amounted to RMB16,666 million, among which cash and cash equivalents denominated in Renminbi accounted for 64.0% (2017: 81.6%).

Assets and Liabilities

In 2018, the Company continued to maintain a solid financial position. At the end of 2018, the total assets increased by 0.3% to RMB663,382 million from RMB661,194 million at the end of 2017. Total indebtedness decreased to RMB95,744 million from RMB104,377 million at the end of 2017. The gearing ratio⁵ decreased to 21.8% from 24.3% at the end of 2017.

Indebtedness

The indebtedness analysis as at the end of 2017 and 2018 is as follows:

<i>(RMB millions)</i>	For the year ended	
	31 December 2018	2017
Short-term debt	49,537	54,558
Long-term debt maturing within one year	1,139	1,146
Long-term debt	44,852	48,596
Finance lease obligations (including current portion)	216	77
Total indebtedness	95,744	104,377

⁵ 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.

Management's Discussion and Analysis

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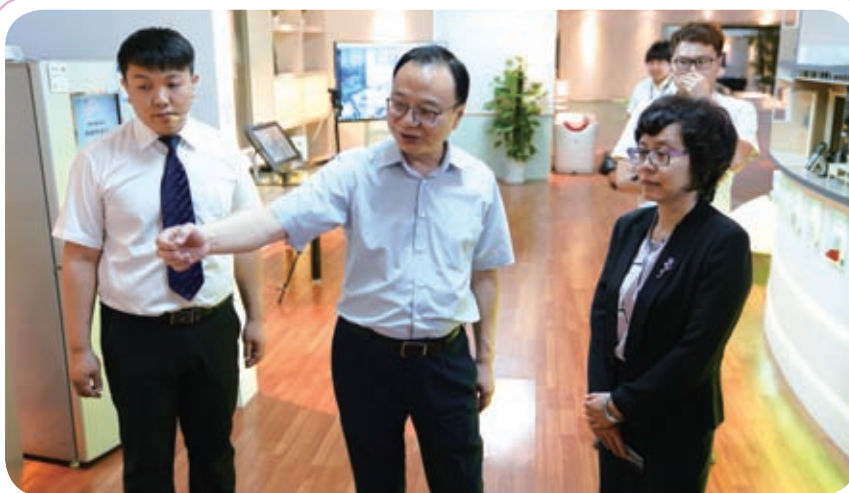
By the end of 2018, the total indebtedness was RMB95,744 million, representing a decrease of RMB8,633 million from the end of 2017, which was mainly due to the effective reduction in the scale of interest-bearing debt as a result of the efficient centralised capital management implemented by the Company. Of the total indebtedness, loans denominated in Renminbi, US Dollars and Euro accounted for 99.4% (2017: 99.4%), 0.4% (2017: 0.4%) and 0.2% (2017: 0.2%), respectively. 99.8% (2017: 99.5%) of the indebtedness are loans with fixed interest rates, while the remaining portion of the indebtedness represented loans with floating interest rates.

As at 31 December 2018, neither the Company nor any of its subsidiaries pledge any assets as collateral for debt (2017: Nil).

Most of the revenues received and expenses paid in our business were denominated in Renminbi, therefore there were no significant risk exposures arising from foreign exchange fluctuations.

Investment in China Tower

In 2018, China Tower was listed and the Company's shareholding in China Tower was diluted from 27.9% to 20.5%. Please refer to note 9 of the audited consolidated financial statements for its financial performance during the year. In the future, the Company can enjoy more fundamental network resources through China Tower. As one of the shareholders of China Tower, it is expected that we can benefit from the enhancement of profits and values from China Tower.



Management visited Shanghai Telecom Information Life Experience Hall and conducted on-site research of BestPay development

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Contractual Obligations

Contractual obligations as at 31 December 2018 are as follows:

<i>(RMB millions)</i>	Total	Within 1 year	Between 1 to 2 years	Between 2 to 3 years	Between 3 to 4 years	Between 4 to 5 years	Thereafter
Short-term debt	51,091	51,091	-	-	-	-	-
Long-term debt	52,625	2,602	19,604	1,942	21,953	1,166	5,358
Operating lease commitments	65,805	15,658	14,466	13,440	12,682	3,461	6,098
Capital commitments	15,303	15,303	-	-	-	-	-
Total contractual obligations	184,824	84,654	34,070	15,382	34,635	4,627	11,456

Note: Amounts of short-term debt and long-term debt include recognised and unrecognised interest payable, and are not discounted.