

# Financial Highlights

	2015 <sup>6</sup> (restated)	2016 <sup>6</sup> (restated)	2017
Operating revenues (RMB millions)	331,517	352,534	<b>366,229</b>
EBITDA <sup>1</sup> (RMB millions)	94,113	95,162	<b>102,171</b>
EBITDA margin <sup>2</sup>	32.1%	30.7%	<b>30.9%</b>
Net profit <sup>3</sup> (RMB millions)	20,058	18,018	<b>18,617</b>
Capital expenditure (RMB millions)	109,094	96,817	<b>88,712</b>
Free cash flow <sup>4</sup> (RMB millions)	(21,533)	(7,648)	<b>7,267</b>
Total debt/Equity <sup>5</sup>	38.4%	35.7%	<b>32.0%</b>
Earnings per share (RMB)	0.2478	0.2226	<b>0.2300</b>
Dividend per share (HK\$)	0.095	0.105	<b>0.115</b>

<sup>1</sup> EBITDA was calculated based on operating revenues minus operating expenses plus depreciation and amortisation.

<sup>2</sup> EBITDA margin was calculated based on EBITDA divided by service revenues.

<sup>3</sup> Net profit represented profit attributable to equity holders of the Company.

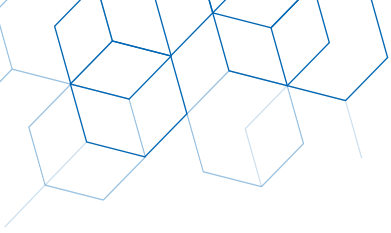
<sup>4</sup> Free cash flow was calculated from EBITDA minus capital expenditure and income tax.

<sup>5</sup> Equity represented equity attributable to equity holders of the Company.

<sup>6</sup> Certain prior years figures were retrospectively restated due to the acquisition of satellite communications business and Shaanxi Zhonghe Hengtai Insurance Agent Limited. Please refer to note 1 to the audited consolidated financial statements in this annual report for details.

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# Management's Discussion and Analysis

## Business Review

The following table sets out the key operating data for 2015, 2016 and 2017:

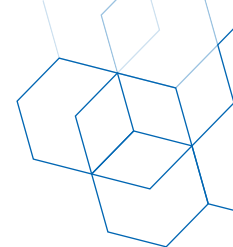
	Unit	2015	2016	2017	2017 change over 2016
Mobile subscribers	Million	197.90	215.00	249.96	16.3%
of which: 4G users	Million	58.46	121.87	182.04	49.4%
Mobile voice usage	Billion minutes	667.5	720.6	769.2	6.7%
Handset data traffic	kTB	554.7	1,277.0	3,597.0	181.7%
4G users DOU	MB/month/user	751	1,029	2,012	95.5%
Wireline broadband subscribers	Million	113.06	123.12	133.53	8.5%
of which: Fibre-to-the-Home (FTTH) subscribers	Million	70.99	105.99	126.17	19.0%
e-Surfing HD subscribers	Million	40.38	61.33	85.76	39.8%
Internet of Things connected devices	Million	0.98	14.19	44.30	212.2%
"BestPay" average monthly active users	Million	3.51	16.21	33.00	103.6%
Access lines in service	Million	134.32	126.86	121.80	-4.0%
Wireline local voice usage	Billion pulses	110.9	93.4	75.1	-19.6%



World Internet Conference

World  
Internet  
Conference





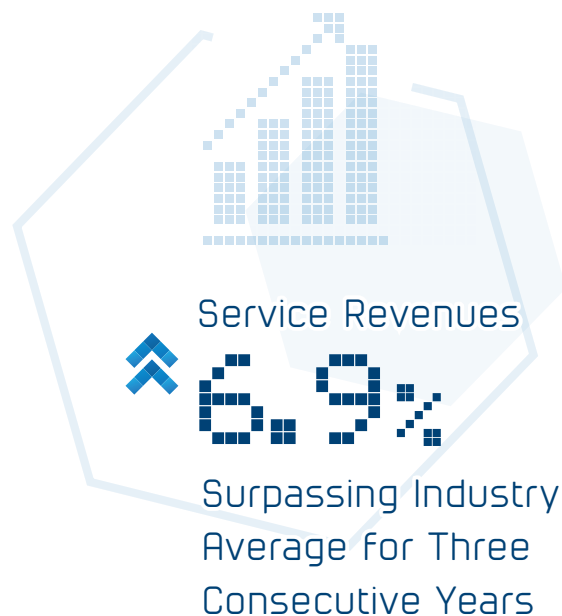
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In 2017, with accelerated promotion of network intelligentisation, service ecologicalisation and operation intellectualisation, the Company focused on the scale development of the five ecospheres, and achieved sound revenue growth momentum, continuous optimisation of business structure, sustained subscriber scale expansion and remarkably strengthened comprehensive capabilities.

### Key Operating Performance in 2017

#### 1. Healthy growth in operating revenues with continuous optimisation in business structure

In 2017, the Company's operating revenues increased by 3.9% year-on-year to RMB366.2 billion. Service revenues increased by 6.9% year-on-year to RMB331.0 billion. Revenue structure was further optimised, with emerging businesses accounting for 46% of service revenues, up 6.4 percentage points year-on-year. Of which, handset Internet access revenue and New ICT Application revenue increased by 33% and 20% respectively year-on-year, forming major drivers of revenue growth.



Implementation of Speed Upgrade and Tariff Reduction cum promotion of "6-mode" handset ceremony

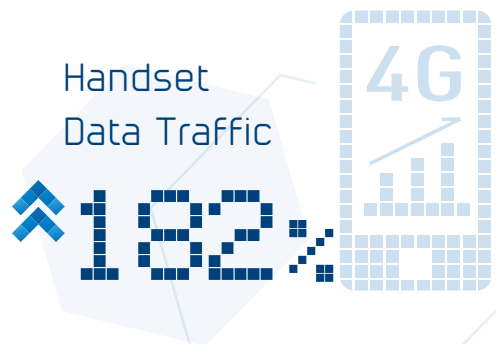
# Management's Discussion and Analysis

## Business Review

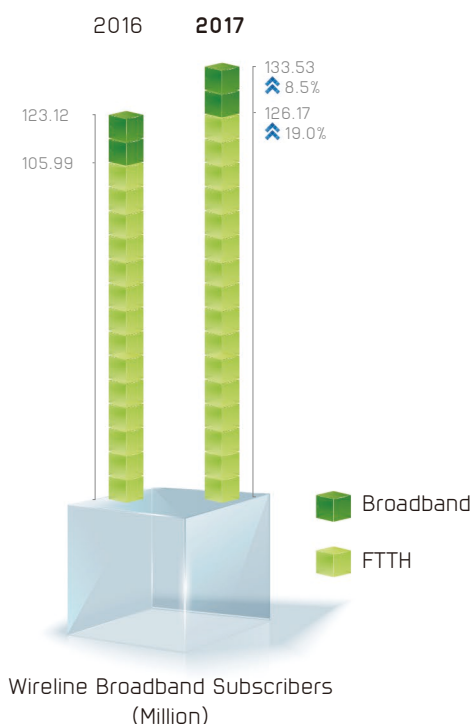
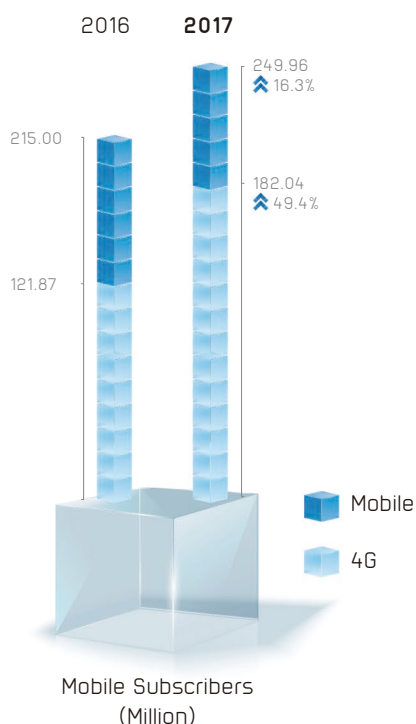
### 2. Strong growth momentum for mobile services with scale hitting six-year high

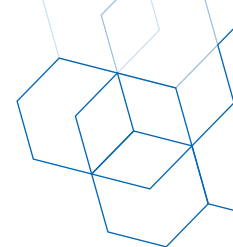
Mobile subscribers reached 250 million in 2017, with a net addition of 34.96 million. Its market share reached 17.6%, representing an increase of 1.4 percentage points over the end of last year. Of which, 4G users reached 182 million, with a net addition of 60.17 million.

With 4G development entering into the phase of scale expansion and value realisation in 2017, the Company kept abreast of the market trend and grasped the opportunities arising from handset upgrade, demand for multiple SIM cards and explosive growth of data traffic ignited by Internet applications, to actively create new development models and leverage flexible combination of



initiatives including multi-business convergence, “multi-mode” handsets and BestPay red packet, etc., striving to accelerate scale expansion. Thereby, net addition of mobile subscribers doubled year-on-year. Actively leveraging on data price elasticity, the Company launched large data traffic packages and Internet card products to raise both volume consumption and value of data, achieving growth of both data traffic and revenue. As a result, handset data traffic and handset Internet access revenue recorded



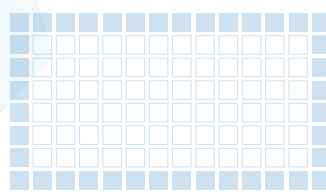


## Management's Discussion and Analysis Business Review

year-on-year increases of 182% and 33%, respectively. The Company accelerated the popularisation of, and acquired international standard certification for "multi-mode" handsets, and integrated the industry value chain, so as to strengthen handset business operation. In 2017, "multi-mode" handsets sales volume of the whole industry increased by over 20%<sup>1</sup> year-on-year, accounting for 80%<sup>1</sup> of total handset sales volume. Of which, China Telecom's "multi-mode" handset sales were over 130 million, representing a year-on-year increase of nearly 70%, opening up more room for mobile business development.

demonstrating high resilience and growth momentum. With Smart Family as springboard, the Company sped up developing the Smart Family ecosphere by launching convergence packages with various services including fibre broadband, e-Surfing HD, Intelligent WiFi Networking Services, Family Cloud, etc. so as to address the growing market demand for applications such as smart household, video entertainment, and household networking. Adhering to leading development concepts while further implementing the strategy of "Broadband China, Fibre Cities", the Company became the pioneer in achieving full fibre network coverage and leadership with Gbps capability, while also ensured high quality end-to-end Internet access experience with optimised network structure. The Company expedited response to installation and maintenance requests and promoted service standards of "installation within one day, repairs within one day, compensation in the event of delay", while also introduced the industry's first HD-TV service standard to enhance subscribers' experience, which all contributed to the industry-leading customer satisfaction ratings of wireline Internet access service.

e-Surfing HD  
Subscribers Accounting  
for **64%** of Broadband  
Subscribers



### 3. Prominent brand differentiation edge of broadband service with strengthened resilience and growth momentum

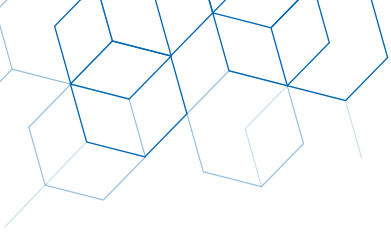
Net addition of wireline broadband subscribers was 10.41 million in 2017, reaching a total of 134 million, of which share of subscribers enjoying access bandwidth of 100 Mbps or above was nearly 50%. Net addition of e-Surfing HD subscribers was 24.43 million, reaching a total of 85.76 million.

In 2017, in face of intensified competition and changing market landscape, the broadband business of the Company continued to grow rapidly, with net addition of subscribers hitting five-year high,

Share of 100Mbps+  
Bandwidth  
Subscribers Nearly

**50%**

<sup>1</sup> The data is quoted from SINO Market Research.



## Management's Discussion and Analysis

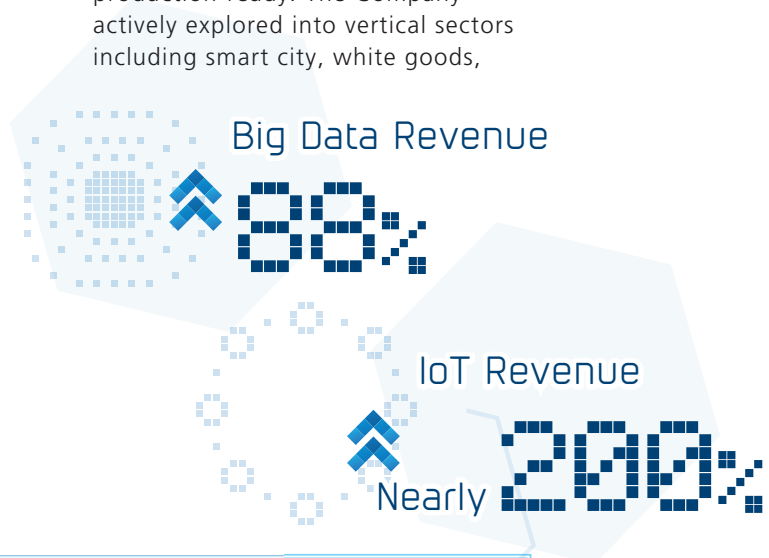
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#### 4. Ecologicalised operation achieved significant results with emerging business demonstrating strong momentum

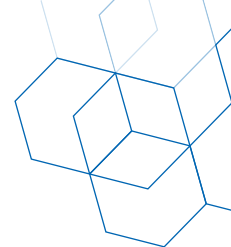
Revenue of New ICT Application ecosphere in 2017 grew by 20% year-on-year. Of which, revenues from IDC, cloud and Big Data increased by 20%, 62% and 88% respectively. Revenue from IoT ecosphere increased by nearly 200%.

In 2017, the Company accelerated the exploration of emerging business and launched cloud platform featuring ICT capability exposure for enterprise customers by consolidating cloud, Big Data and other smart platforms, and collaborating with partners in respect of contents, solutions and applications, in response to booming development of cloud, Big Data and IoT markets, as well as scale expansion of government administration cloud and smart city markets. The Company focused on four key targeted markets namely government administration, education, healthcare and industrial Internet, and extended efforts in strengthening open cooperation and fostering informatised applications,

so as to facilitate industry transformation and upgrades. The Company comprehensively upgraded its IoT open platform by fully leveraging on first-mover advantage of NB-IoT network, and innate edges of deep coverage of 800MHz frequency band, as well as high online rate of IoT connected devices. The Company also pioneered to announce a white paper for NB-IoT modules, and expedited the maturing process of upper stream of the industry value chain by means such as module subsidies and project engagement. 34 models of NB-IoT communication modules of 30 brands are now mass production-ready. The Company actively explored into vertical sectors including smart city, white goods,



New generation NB-IoT officially commercialised in Qingdao



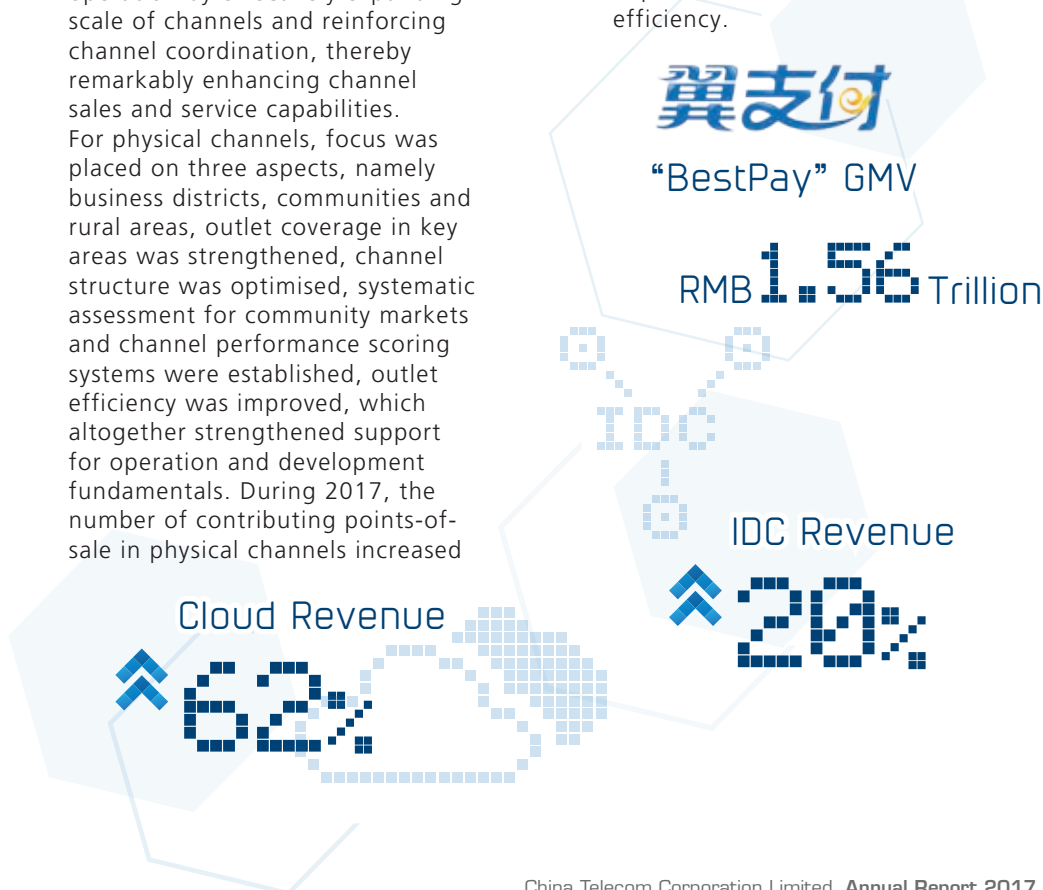
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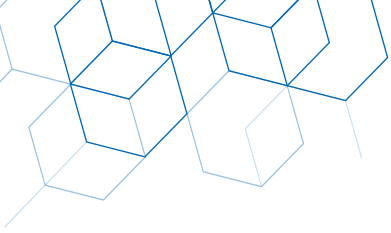
and Internet of livestock, and took the lead to launch smart applications and products with industry-leading partners to establish new benchmark of new generation IoT. The Company also propelled innovative development model of consumer financing by rolling out BestPay red packet and Orange Instalment Payment Service, which also mutually supported and coordinatedly developed with fundamental business. Through creating more spending scenarios in offline channel and increasing users' spending frequency, scale of "BestPay" active users, active participating merchants as well as the gross merchandise value grew rapidly.

### 5. Strengthening channel operation; channel sales and service capabilities steadily enhanced

The Company continued to push forward professional channel operation by effectively expanding scale of channels and reinforcing channel coordination, thereby remarkably enhancing channel sales and service capabilities. For physical channels, focus was placed on three aspects, namely business districts, communities and rural areas, outlet coverage in key areas was strengthened, channel structure was optimised, systematic assessment for community markets and channel performance scoring systems were established, outlet efficiency was improved, which altogether strengthened support for operation and development fundamentals. During 2017, the number of contributing points-of-sale in physical channels increased

by 20,000 year-on-year and the sales-per-self-owned outlet increased by 26% year-on-year. On the online channel frontier, the Company coordinated O2O operation through innovative sales models such as cooperation with Internet companies for Internet card products and precision marketing. As a result, online sales capability was further strengthened and online sales accounted for 13% of total sales volume. On the government and enterprise channel frontier, the Company reinforced the direct sales system and built a team integrating sales, support and servicing functions, so as to enhance sales capability in emerging business. The Company also explored new service channels and injected intelligence into services, and launched intelligentised services like customer servicing on live video chat and Wechat platforms as well as intelligent customer service robots, so as to achieve comprehensive improvement of customer service efficiency.



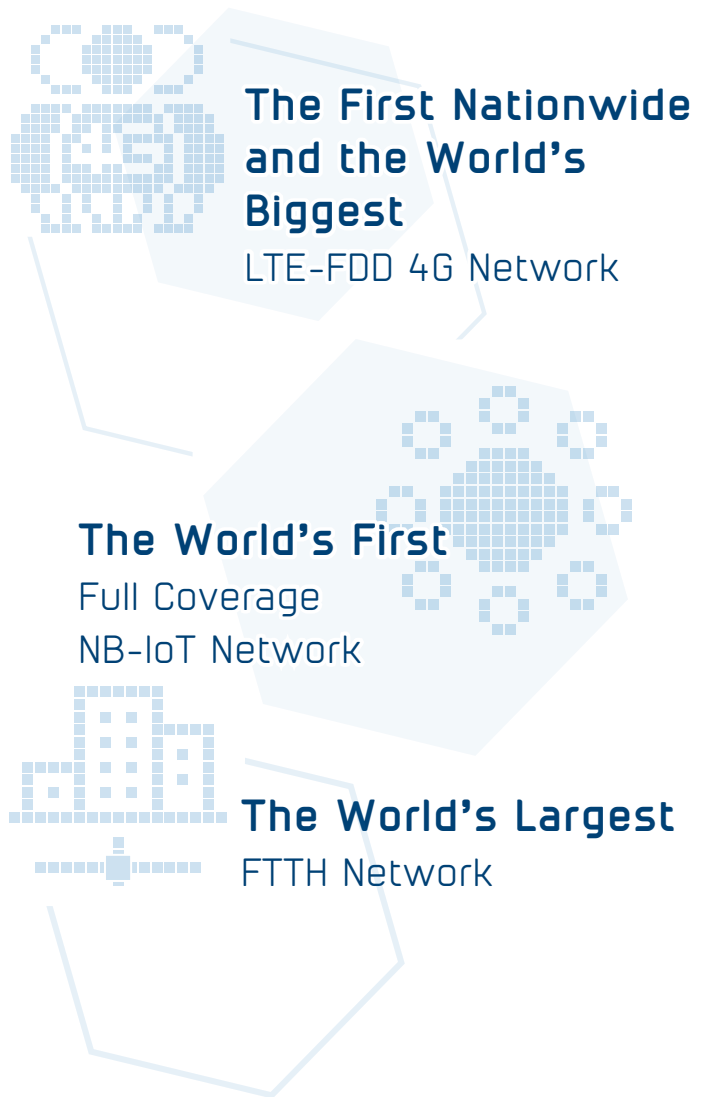


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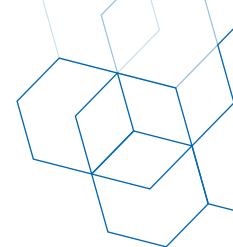
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#### 6. Basic completion of construction of superior networks further establishing network leadership advantages

The Company has accelerated the construction of 4G, all-fibre and IoT superior networks and quickened the pace of network intelligentisation, completing the first nationwide and the world's largest LTE-FDD 4G network with 1.17 million base stations in total, covering 98% population of China. The Company has established the largest FTTH network in the world achieving full coverage of fibre network in residential areas of cities, towns and townships. Gbps fibre network was also deployed on an on-demand basis in over 150 key cities, effectively securing leading edge of fibre network. Leveraging the low-frequency 800MHz LTE network, the Company became the pioneer in building the world's first full coverage NB-IoT network at low cost, which became the key carrier for Internet of everything such as smart family, smart city and intelligent manufacturing. Cloud infrastructure and Big Data platform under unified operation were basically established, offering strong support to the business scale development of ecospheres.







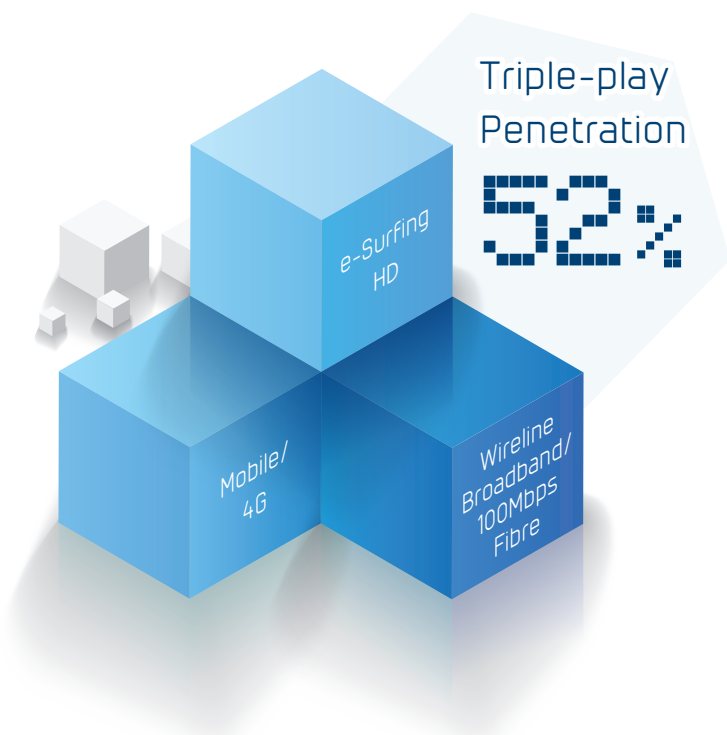
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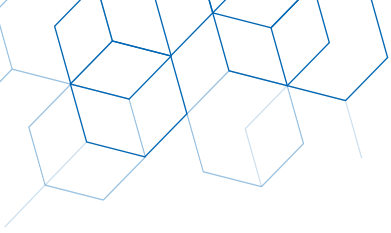
### Outlook for 2018

2018 is a crucial year for the Company to further establish competitive edges and promote transformation and upgrades. Guided by various strategic principles, the Company will further bolster network intelligentisation, service ecologicalisation and operation intellectualisation, further develop the five ecospheres and forge differentiated edges, in a bid to achieve new breakthrough in both business scale and revenue. In respect of Intelligent Connections ecosphere, the Company will apply full-service convergence strategy, integrating differentiated edges in large data traffic plans, "multi-mode" handsets, BestPay red packet, premium broadband, 4K HD TV and Smart Family applications, so as to further expedite the scale expansion of 4G and fibre broadband businesses, and re-accelerate the development of fundamental business. The Company will strengthen data traffic operation and business development on existing subscribers, optimise the data operation model that integrates data traffic and content, so as to enhance subscriber value. In respect of Smart Family ecosphere, the Company will speed



up scale expansion and value monetisation of e-Surfing HD service, spur rapid volume growth, upgrade and content enrichment of key applications such as Family Cloud, Intelligent WiFi Networking Services, Smart Speaker, Webcam Surveillance and Unified Account, so as to expedite ecologicalisation. In respect of Internet Finance ecosphere, the Company will leverage its fundamental business edge to expand the scales of gross merchandise value, active users and actively participating merchants of "BestPay" with diversification of payment scenarios and enhancement in payment functions, with an aim of perfecting customer experience.





## Management's Discussion and Analysis

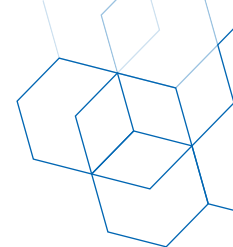
### Business Review

In respect of IoT ecosphere, the Company will target at three markets, namely smart city, vertical industries and personal consumption, leveraging advantages of 4G dedicated network and low-frequency NB-IoT network to produce enablement platform edge, seize the IoT application market and achieve scale breakthrough. In respect of New ICT Application ecosphere, the Company will make cloud the leading element of key businesses, build the advantage from converging "Two Ts"<sup>2</sup>, transform "simple connectivity" to cloud-network integration and IoT-cloud integration, and use cloud to drive the development of mobile, dedicated line and satellite businesses, thereby achieving convergence development, competition by differentiation and ecologicalised synergies.

In 2018, the Company will accelerate operation intellectualisation, endeavour to establish supporting and enablement edges in terms of IT, Big Data, channel and customer service. The Company will forge an open digital capability operating platform for internal use and clients, integrating IT, data, platform and other standard capabilities across the entire network, and extend the application of such platform in marketing, customer service, product development and network operation in typical application scenarios, so as to foster enhancement in quality and efficiency and customer experience improvement. The Company will endeavour to build a new demand-oriented, Big Data application-driven and online-offline-intergrated comprehensive channel system, so as to enhance the sales and service capabilities of channels. The



<sup>2</sup> Two Ts: DICT and IoT



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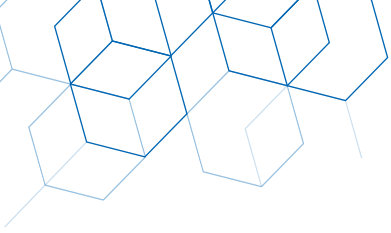
Company will also establish a nationwide-unified artificial intelligence platform with the "Proactive Service and Intelligent Alert" function to continuously increase service efficiency. A quality control mechanism for products, operation and services will be set up to further optimise the Company's quality management system and to secure quality edges of all products and services.

Guided by *CTNet2025*, the Company will also deepen the promotion of network intelligentisation, to build three superior fundamental networks, namely 4G network, all-fibre network and IoT network, so as to establish comprehensive network edge. The 4G network will aim to secure leading position in four aspects, i.e. appropriate leading position in wide area coverage, relative leading position in continuous coverage, absolute leading position in shallow coverage and focused leading position in deep coverage, to

ensure subscribers have brand new experience with and perception of the 4G network, and to support the scale commercialisation of VoLTE HD voice business. Meanwhile, end-to-end fine-tuning of broadband network will be reinforced, so as to strengthen the Company's advantage in fibre network coverage, and secure absolute edges in family broadband, government and enterprise access. In addition, the Company will continue to optimise NB-IoT network and accelerate the introduction of eMTC, aiming to build a premium IoT network. The Company will carry out coordinated planning for cloud/IDC infrastructure and CDN deployment, and promote SDN/NFV deployment as planned. The Company will proactively yet steadily promote the implementation of transformation and upgrades strategy, provide strong support to business scale development, continue to enhance the quality and efficiency of corporate development, and foster mutual growth in corporate value, customer value and employee value.



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# Management's Discussion and Analysis

## Financial Review

### Summary

In 2017, the Company deepened its reform and innovation and accelerated the scale development leading by its transformation and upgrades strategy. Development capabilities were continuously accumulated while efficiency and effectiveness were successfully enhanced. As a result, the overall operating results achieved steady growth. Operating revenues in 2017 were RMB366,229 million, an increase of 3.9% from year 2016<sup>1</sup>; service revenues<sup>2</sup> were RMB331,044 million, an increase of 6.9% from year 2016; operating expenses were RMB339,009 million, an increase of 4.2% from year 2016; profit attributable to equity holders of the Company was RMB18,617 million, an increase of 3.3% from year 2016; basic earnings per share were RMB0.23; EBITDA<sup>3</sup> was RMB102,171 million, an increase of 7.4% from year 2016 and the EBITDA margin<sup>4</sup> was 30.9%, an increase of 0.2 percentage point from last year.

### Operating Revenues

In 2017, the Company insisted on integration and innovation, and effectively responded to market competition. The subscribers scale grew rapidly and the revenue structure was continuously optimised with steady growth in operating revenues. Operating revenues in 2017 were RMB366,229 million, an increase of 3.9% from year 2016. Of which, total mobile revenues were RMB180,535 million, an increase of 4.8% from year 2016; total wireline revenues were RMB185,694 million, an increase of 3.0% from year 2016.

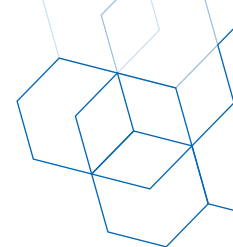


<sup>1</sup> In 2017, the Group acquired the satellite communications business and Shaanxi Zhonghe Hengtai Insurance Agent Limited (陝西中和恒泰保險代理有限公司). As the transaction was recognised as a combination of entities under common control, the comparative figures of prior years have been restated accordingly. Please refer to note 1 of the audited consolidated financial statements for details.

<sup>2</sup> Service revenues were calculated based on operating revenues minus sales of mobile terminals (2017: RMB26,759 million; 2016: RMB34,612 million), sales of wireline equipment (2017: RMB6,446 million; 2016: RMB5,902 million) and other non-service revenues (2017: RMB1,980 million; 2016: RMB2,208 million).

<sup>3</sup> 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.

<sup>4</sup> 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 2016 and 2017, together with their respective rates of change:

<i>(RMB millions, except percentage data)</i>	<b>For the year ended 31 December</b>		
	<b>2017</b>	2016 (restated)	Rates of change
Voice	<b>61,678</b>	70,185	-12.1%
Internet	<b>172,554</b>	150,449	14.7%
Information and application services	<b>73,044</b>	66,881	9.2%
Telecommunications network resource services and lease of network equipment	<b>19,125</b>	17,781	7.6%
Others	<b>39,828</b>	47,238	-15.7%
<b>Total operating revenues</b>	<b>366,229</b>	352,534	3.9%

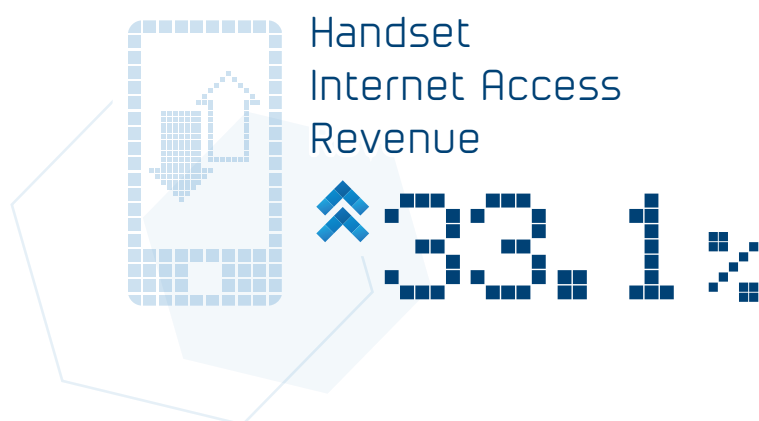
#### Voice

In 2017, being continuously affected by the substitution effect of mobile Internet services such as OTT, revenue from voice services was RMB61,678 million, a decrease of 12.1% from year 2016, accounting for 16.8% of operating revenues. Of which, revenue from wireline voice services was RMB22,263 million, a decrease of 14.3% from year 2016; revenue from mobile voice services was RMB39,415 million, a decrease of 10.8% from year 2016. The risks associated with revenue from voice services were further mitigated while the revenue structure was continuously optimised.

#### Internet

In 2017, revenue from Internet services was RMB172,554 million, an increase

of 14.7% from year 2016, accounting for 47.1% of operating revenues. The Company further deepened its integrated operation and strengthened applications enrichment. With optimisation in network and service quality, we are able to reinforce our leading position in the broadband market. Besides, we strived to preserve our corporate value while expanding the scale development of broadband subscribers. At the end of 2017, the number of wireline broadband subscribers reached 134 million, with a net increase of 10.41 million. The wireline broadband revenue was RMB76,744 million, which was relatively stable as compared with that of year 2016. The Company well planned the all-rounded 4G development through active promotion of popularity of "multi-mode" handsets, innovative introduction of large data traffic products and continuous construction of the superior 4G network, providing new engines for the fast-growing mobile services and effectively driving the rapid increase in mobile data traffic and related revenue. Revenue from mobile Internet access services was RMB92,961 million, an increase of 31.5% from year 2016. Of which, mobile handset Internet access revenue was RMB90,865 million, an increase of 33.1% from year 2016.



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#### Information and Application Services

In 2017, revenue from information and application services was RMB73,044 million, an increase of 9.2% from year 2016, accounting for 20.0% of operating revenues. Of which, revenue from wireline information and application services was RMB52,037 million, an increase of 17.3% from year 2016, mainly benefiting from the rapid growth of IDC, cloud, Big Data and e-Surfing HD services. Revenue from mobile information and application services was RMB21,007 million, a decrease of 6.7% from year 2016, which was mainly due to the decrease in revenue from traditional value-added services such as information inquiry services.

#### Telecommunications Network Resource Services and Lease of Network Equipment

In 2017, revenue from telecommunications network resource services and lease of network equipment was RMB19,125

million, an increase of 7.6% from year 2016, accounting for 5.2% of operating revenues. Of which, revenue from wireline telecommunications network resource services and lease of network equipment was RMB18,835 million, an increase of 7.0% from year 2016, which was mainly due to the favourable growth in revenue from the IP-VPN service and digital circuit service.

#### Others

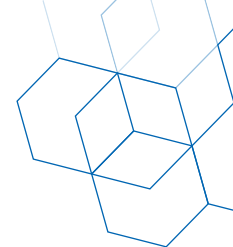
In 2017, revenue from other services was RMB39,828 million, a decrease of 15.7% from year 2016, accounting for 10.9% of operating revenues. Revenue from sales of mobile terminals was RMB26,759 million, a decrease of 22.7% from year 2016, which was mainly attributable to the enhanced promotion and increasing popularisation of "multi-mode" handsets, the increase of number of terminals sold through open channels as well as the reduction in the Company's centralised procurement, resulting in the decline in revenue from sales of terminals.

### Operating Expenses

The Company continued to optimise the cost structure and rationalised the allocation of resources in order to support the scale development. In 2017, operating expenses were RMB339,009 million, an increase of 4.2% from year 2016. Operating expenses accounted for 92.6% of operating revenues, an increase of 0.3 percentage point from year 2016.

The following table sets forth a breakdown of the operating expenses in 2016 and 2017 and their respective rates of change:

<i>(RMB millions, except percentage data)</i>	For the year ended 31 December		
	2017	2016 (restated)	Rates of change
Depreciation and amortisation	<b>74,951</b>	67,942	10.3%
Network operations and support	<b>103,969</b>	94,156	10.4%
Selling, general and administrative	<b>58,434</b>	56,426	3.6%
Personnel expenses	<b>56,043</b>	54,504	2.8%
Other operating expenses	<b>45,612</b>	52,286	-12.8%
Total operating expenses	<b>339,009</b>	325,314	4.2%



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#### Depreciation and Amortisation

In 2017, depreciation and amortisation was RMB74,951 million, an increase of 10.3% from year 2016, accounting for 20.5% of operating revenues. The increase was mainly due to the changes in accounting depreciable lives of certain fixed assets from 10 years to 5 years by the Company with effect from 1 October 2017, and accordingly the depreciation expenses increased by RMB4,045 million. Meanwhile, since the Company continued with its large-scale investment in the development of 4G and fibre broadband network in recent years, the increase in depreciation of newly added assets outweighed the decrease in depreciation of the existing assets.

#### Network Operations and Support

In 2017, network operations and support expenses were RMB103,969 million, an increase of 10.4% from year 2016, accounting for 28.4% of operating revenues. It was mainly due to the increase in the tower assets lease fee and the costs of repairs and maintenance attributed to the enhancement of network capabilities and quality. At the same time, the Company implemented stringent cost management and control and therefore, the increase in network operations and support expenses was under effective control.

#### Selling, General and Administrative

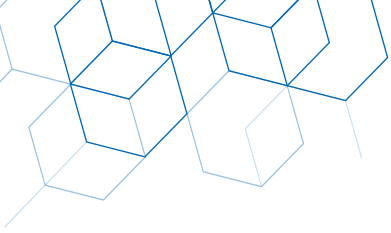
In 2017, selling, general and administrative expenses amounted to RMB58,434 million, an increase of 3.6% from year 2016, accounting for 16.0% of operating revenues. Selling expenses were RMB50,345 million, an increase of 5.3% from year 2016. The Company continuously optimised its sales and marketing model, appropriately increased its investment in channel costs and significantly reduced the terminal subsidies, achieving enhancement in the overall utilisation effectiveness of sales and marketing expenses. Of which, commission and service expenses for third parties amounted to RMB36,273 million, an increase of 17.9% from year 2016. Advertising and promotion expenses amounted to RMB14,072 million, a decrease of 17.6% from year 2016, of which the terminal subsidies amounted to RMB4,707 million, a decrease of 49.8% from year 2016.

#### Personnel Expenses

In 2017, personnel expenses were RMB56,043 million, an increase of 2.8% from year 2016, accounting for 15.3% of operating revenues. For details of the number of employees, remuneration policies and training schemes, please refer to the Environmental, Social and Governance Report in the Annual Report for the year ended 31 December 2017.

#### Other Operating Expenses

In 2017, other operating expenses were RMB45,612 million, a decrease of 12.8% from year 2016, accounting for 12.4% of operating revenues. The cost of mobile terminal equipment sold amounted to RMB25,488 million, a decrease of 22.5% from year 2016, which was in line with the decrease in revenue from sales of mobile terminals.



## Management's Discussion and Analysis

### Financial Review

#### Net Finance Costs

In 2017, net finance costs were RMB3,291 million, an increase of 1.7% from year 2016. Net exchange loss amounted to RMB134 million in year 2017. The fluctuation of foreign exchange gain or loss was mainly due to the effect of changes in the exchange rate of RMB against USD.

#### Profitability Level

##### Income Tax

The Company's statutory income tax rate is 25%. In 2017, income tax expenses were RMB6,192 million with the effective income tax rate of 24.8%. The difference between the effective income tax rate and the statutory income tax rate was mainly due to the preferential income tax rate, which was lower than the statutory income tax rate, enjoyed by some of our branches with operations in the western region of China and some of our subsidiaries.

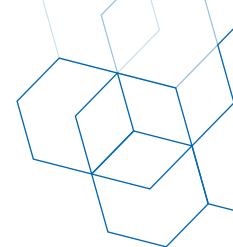
##### Profit Attributable to Equity Holders of the Company

In 2017, profit attributable to equity holders of the Company was RMB18,617 million, an increase of 3.3% from year 2016.

#### Changes in Accounting Estimates

Since the implementation of transformation and upgrades strategy in June 2016, the Company has expedited the construction of new generation network, continuously raising the demand for high performance and rapid cannibalisation of assets. Following an assessment conducted during the year, the Company considered that there were changes in the expected useful lives of the enterprise information system equipment, IPTV equipment and CDN equipment along with the fast high-definition development of the video services, the rapid evolution of information technology and the accelerated cannibalisation of equipment. To ensure the accounting depreciable lives of fixed assets better reflecting the condition of actual usage of the assets, the Company resolved to change the accounting depreciable lives of the above assets from 10 years to 5 years in order to further reinforce assets quality and enhance the market competitiveness of our services, which will in turn promote the long-term sustainable development of the Company. The above changes have been implemented with effect from 1 October 2017. These changes in accounting estimates resulted in the corresponding increase of depreciation expenses by RMB4,045 million in year 2017.





## Management's Discussion and Analysis

### Financial Review

#### Capital Expenditure and Cash Flows

##### Capital Expenditure

In 2017, the Company continued to enhance its management and control of capital expenditure, consistently optimised the investment structure as well as took advantage of Big Data to implement precision investment, which resulted in improvement of the investment efficiency and effectiveness. In 2017, capital expenditure was RMB88,712 million, a decrease of 8.4% from year 2016.

The following table sets forth the cash flow position in 2016 and 2017:

<i>(RMB millions)</i>	For the year ended 31 December	
	2017	2016 (restated)
Net cash flow from operating activities	<b>96,502</b>	101,135
Net cash flow used in investing activities	<b>(85,263)</b>	(99,043)
Net cash flow used in financing activities	<b>(16,147)</b>	(9,555)
Net decrease in cash and cash equivalents	<b>(4,908)</b>	(7,463)

In 2017, the net cash inflow from operating activities was RMB96,502 million, a decrease of 4.6% from year 2016, which was mainly due to the increase in expenses related to operating activities.

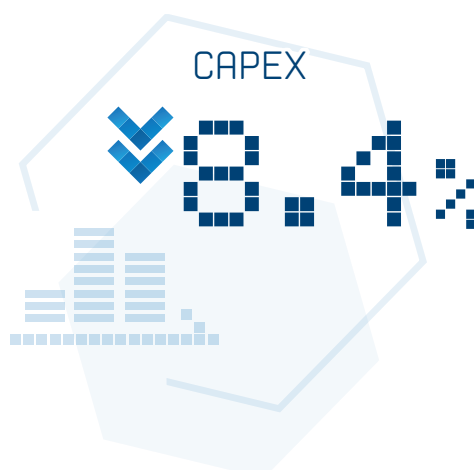
In 2017, the net cash outflow used in investing activities was RMB85,263 million, a decrease of 13.9% from year 2016, which was mainly due to the decrease in capital expenditure.

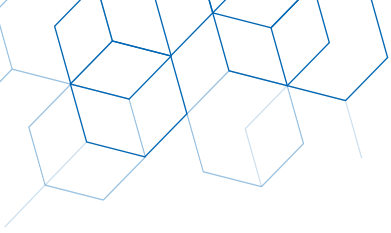
In 2017, the net cash outflow used in financing activities was RMB16,147 million, an increase of 69.0% from

##### Cash Flows

Net decrease in cash and cash equivalents in 2017 was RMB4,908 million while the net decrease in cash and cash equivalents in year 2016 was RMB7,463 million.

year 2016, which was mainly due to the higher amount of repayment of deferred consideration of mobile network acquisition due this year than the newly obtained borrowings.





## Management's Discussion and Analysis

### Financial Review

#### Working Capital

The Company consistently upheld prudent financial principles and stringent fund management policies. At the end of 2017, working capital (total current assets minus total current liabilities) deficit was RMB203,858 million, a decrease in deficit of RMB41,141 million from year 2016. The decrease in deficit was mainly due to the repayment of deferred consideration of mobile network acquisition due this year. As at 31 December 2017, the unutilised credit facilities were RMB154,793 million (2016: RMB161,229 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 2017, cash and cash equivalents amounted to RMB19,410 million, amongst which cash and cash equivalents denominated in Renminbi accounted for 81.6% (2016: 81.8%).

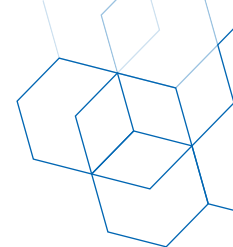
#### Assets and Liabilities

In 2017, the Company continued to maintain a solid financial position. At the end of 2017, the total assets increased by 1.3% to RMB661,194 million from RMB652,558 million at the end of 2016. Total indebtedness decreased to RMB104,377 million from RMB112,528 million at the end of 2016. The ratio of total indebtedness to total assets decreased to 15.8% from 17.2% at the end of 2016.

#### Indebtedness

The indebtedness analysis as at the end of 2016 and 2017 is as follows:

<i>(RMB millions)</i>	<b>For the year ended 31 December</b>	
	<b>2017</b>	2016
Short-term debt	<b>54,558</b>	40,780
Long-term debt and payable maturing within one year	<b>1,146</b>	62,276
Long-term debt	<b>48,596</b>	9,370
Finance lease obligations (including current portion)	<b>77</b>	102
Total debt	<b>104,377</b>	112,528



## Management's Discussion and Analysis

### Financial Review

By the end of 2017, the total indebtedness was RMB104,377 million, a decrease of RMB8,151 million from the end of 2016, which was mainly due to the effective reduction in 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% (2016: 99.4%), 0.4% (2016: 0.4%) and 0.2% (2016: 0.2%), respectively. 99.5% (2016: 44.3%) 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 2017, neither the Company nor any of its subsidiaries pledge any assets as collateral for debt (2016: 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.

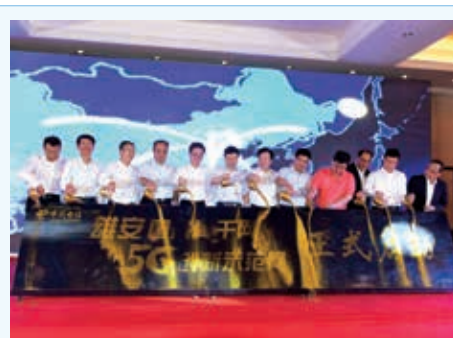
### Investment in China Tower

In 2017, the Company held 27.9% of China Tower Corporation Limited ("China Tower"). 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.

### Contractual Obligations

(RMB millions)	1 January 2018 to 31 December Total	1 January 2019 to 31 December 2018	1 January 2020 to 31 December 2019	1 January 2021 to 31 December 2020	1 January 2022 to 31 December 2021	1 January 2022 to 31 December 2022	Thereafter
Short-term debt	55,682	55,682	-	-	-	-	-
Long-term debt	58,543	2,725	2,716	22,719	1,942	21,951	6,490
Operating lease commitments	69,766	20,680	19,563	16,730	6,631	3,376	2,786
Capital commitments	11,246	11,246	-	-	-	-	-
<b>Total contractual obligations</b>	<b>195,237</b>	<b>90,333</b>	<b>22,279</b>	<b>39,449</b>	<b>8,573</b>	<b>25,327</b>	<b>9,276</b>

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



Launch ceremony for the construction of national backbone network & 5G innovative demo network in Xiong'an



Management signed the strategic cooperation framework with the Qingdao government