

# FINANCIAL HIGHLIGHTS

	2018	2019	2020
Operating revenues (RMB millions)	377,124	375,734	<b>393,561</b>
EBITDA <sup>1</sup> (RMB millions)	104,207	117,215	<b>118,880</b>
EBITDA margin <sup>2</sup>	29.7%	32.8%	<b>31.8%</b>
Net profit <sup>3</sup> (RMB millions)	21,210	20,517	<b>20,850</b>
Capital expenditure (RMB millions)	74,940	77,557	<b>84,800</b>
Free cash flow <sup>4</sup> (RMB millions)	22,457	21,725	<b>14,276</b>
Total debt/Equity <sup>5</sup>	27.9%	22.4%	<b>14.7%</b>
Earnings per share (RMB)	0.2621	0.2535	<b>0.2576</b>
Dividend per share (HK\$)	0.125	0.125	<b>0.125</b>

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

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

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

<sup>4</sup> Free cash flow is calculated based on EBITDA minus capital expenditure, income tax and depreciation charge for right-of-use assets other than land-use-rights.

<sup>5</sup> Total indebtedness refers to interest-bearing debts excluding lease liabilities. Total equity represented equity attributable to equity holders of the Company.

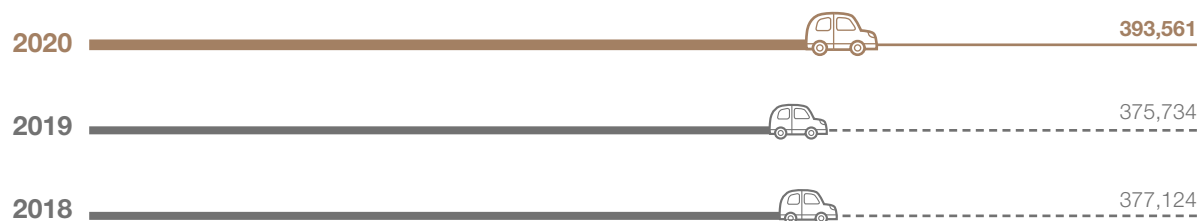
## Forward-Looking Statements

Certain statements contained in this report may be viewed as “forward-looking statements” within the meaning of Section 27A of the U.S. Securities Act of 1933 (as amended) and Section 21E of the U.S. Securities Exchange Act of 1934 (as amended). Such forward-looking statements are subject to known and unknown risks, uncertainties and other factors, which may cause the actual performance, financial condition or results of operations of the Company to be materially different from any future performance, financial condition or results of operations implied by such forward-looking statements. In addition, we do not intend to update these forward-looking statements. Further information regarding these risks, uncertainties and other factors is included in the Company’s most recent Annual Report on Form 20-F filed with the U.S. Securities and Exchange Commission (the “SEC”) and in the Company’s other filings with the SEC.



## OPERATING REVENUES

(RMB millions)



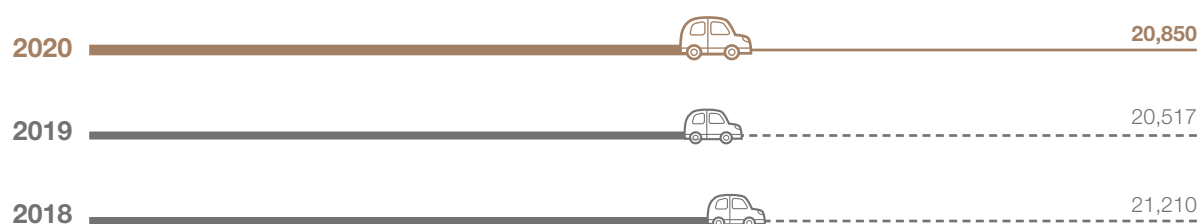
## EBITDA

(RMB millions)



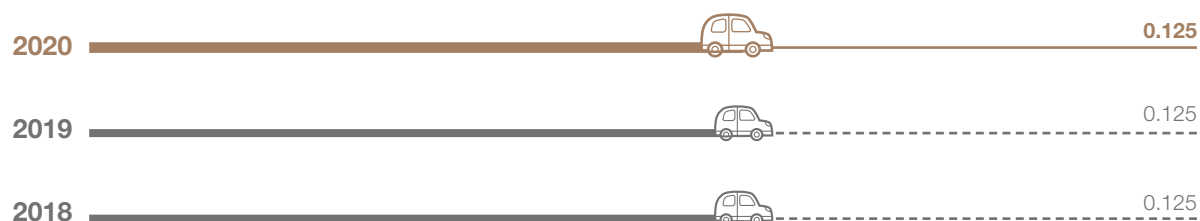
## NET PROFIT

(RMB millions)



## DIVIDEND PER SHARE

(HK\$)



# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Business Review

The following table sets out the key operating data for 2018, 2019 and 2020:

	Unit	2018	2019	2020	2020 change over 2019
Mobile subscribers	Million	303.00	335.57	351.02	4.6%
Mobile voice usage	Million minutes	827,724	820,346	784,485	-4.4%
Handset data traffic	kTB	14,073	24,370	34,690	42.3%
Wireline broadband subscribers	Million	145.79	153.13	158.53	3.5%
e-Surfing HD subscribers	Million	105.35	112.62	115.92	2.9%
IoT connected devices	Million	106.93	157.41	237.60	50.9%
Access lines in service	Million	116.48	110.85	107.88	-2.7%



Customers trying out VR application



Cloud gaming application attracted customers

## KEY OPERATING PERFORMANCE IN 2020

In 2020, the Company continued adhering to its customer-oriented approach, coordinated its efforts in Epidemic prevention and control with operation and development, seized the opportunity emerging from the digital transformation of the economy and society to actively push forward its “Cloudification and Digital Transformation” strategy and accelerate its cloud-network integration. The Company also continued to enhance sci-tech innovation capabilities and deepen corporate reforms. As a result, the Company made a significant progress in its high quality development. The Company's operating revenues grew by 4.7% year-on-year to RMB393.6 billion, of which service revenues increased by 4.5% year-on-year to RMB373.8 billion, a growth rate that remains higher than the industry average.



Thriving 5G business development



**Mobile subscribers  
net add**

**15.45Mil**

**Market share**

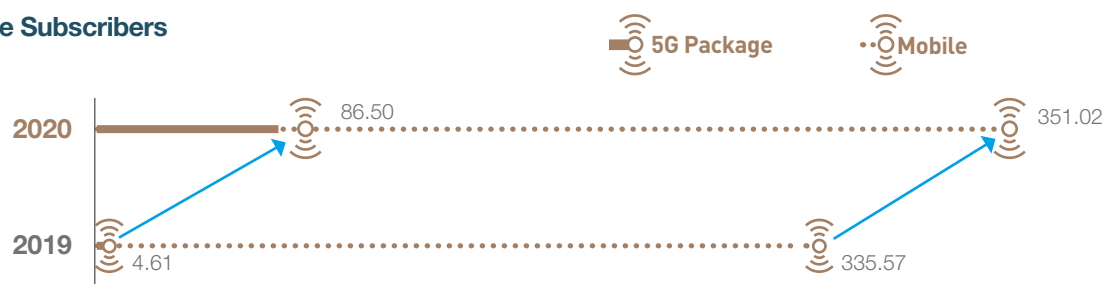
**gain  
maintained**

### 5G drove development of personal informatisation service; scale of mobile subscriber base continued to expand

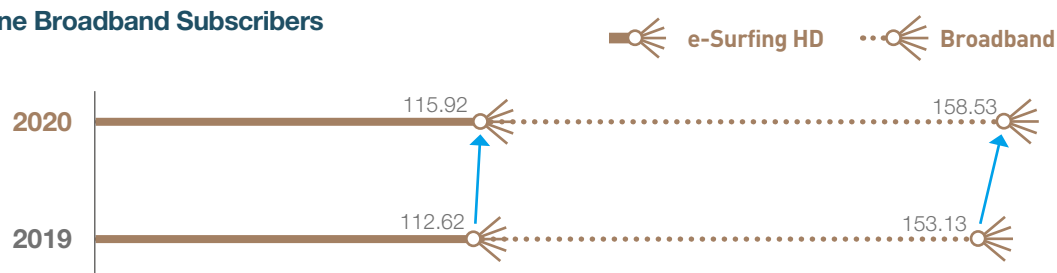
Adhering to customer-oriented operating principles and backed by “5G + e-Surfing Cloud”, the Company forged competitive advantages with enhanced network experience and differentiated services, expedited the upgrade of its 5G applications, optimised its 5G member privilege scheme and enhanced personal informatisation services, which led to solid expansion of its mobile subscriber base. The Company also adhered to proactive marketing strategy and strengthened precision marketing capabilities empowered by data. By targeting the actual usage scenarios and needs of customers across different segments, the Company continued to optimise product convergence and customer upgrade strategies to expand the scale of its 5G subscriber base. Regarding 5G application upgrade, the Company hastened the upgrades to e-Surfing-branded ultra HD, cloud games, cloud computers and cloud VR, among other applications. The Company also pioneered to launch “e-Surfing One”, its proprietary brand of 5G cloud mobile phone, facilitating innovative device-application integration. The Company improved customer perceptions by enriching its 5G member privilege scheme, rolling out exclusive privileges regarding network, security and services, and expanding portfolio of concessionary privileges with cooperation partners for common use cases in daily living, education, and health. The Company strengthened terminal operation by fully leveraging its sales channels and sales points as well as broadening its Orange Instalment Payment Service, to meet consumers' demand for upgrading to 5G devices and to foster popularity of 5G terminals. In 2020, the Company's mobile subscriber base reached 351 million, representing a net addition of 15.45 million, with market share gain maintained. The number of 5G package subscribers reached 86.50 million, with a penetration rate of 24.6%. The scale of its 5G members and featured application users expanded rapidly, while total handset data traffic and mobile service revenue continued to grow.

**Mobile Subscribers**

(Millions)

**Wireline Broadband Subscribers**

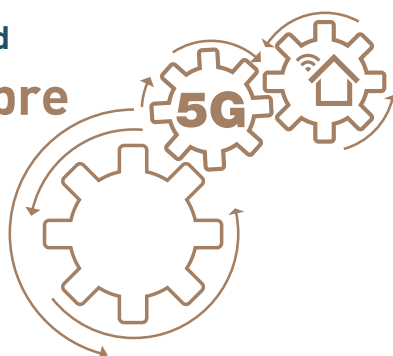
(Millions)

**Expedited family informatisation services upgrade with overall value of broadband business increased**

The value contributed by the Company's family informatisation business continued to grow as the Company focused on meeting the demand for digitalisation and intelligentisation from family customers, by continuing to enhance the quality of its family connectivity services and upgrading its Smart Family product and service ecosystem. With the "Triple Gigabit" access service (i.e. 5G + Fibre Broadband + WiFi6), the Company enhanced the customer experience of family services by promoting convergence of 5G and family services and accelerating the speed upgrades of family broadband and WiFi services. By upgrading the specifications of customised Whole-home WiFi terminals and launching Gigabit network customisation service, the number of Whole-home WiFi subscribers increased by 117% year-on-year. The Company strengthened the

AI functions and interactive experience of its e-Surfing Webcams and boosted scale development by use case-based marketing for "safe villages" campaign, leading to a 505% year-on-year growth of e-Surfing Webcam subscribers. Furthermore, the Company built whole-home intelligent solutions by enriching the portfolio of terminals and applications in functional use cases such as home security surveillance, living space cosiness, education and entertainment. The number of devices connected to the Smart Family Platform increased by more than 60%. In 2020, the number of broadband subscribers for the Company reached 159 million with a net addition of 5.40 million, while broadband access ARPU recorded positive year-on-year growth. Revenues from Smart Family reached RMB11.1 billion, representing a year-on-year increase of 37.5%. Smart Family business also propelled a year-on-year increase of 4.2% for broadband blended ARPU to RMB44.4.

**Promote convergence of 5G and family services with 5G+Fibre Broadband+WiFi6 "Triple Gigabit" access**





Management presented at new media forum

**Reform and innovation of informatisation services for government and enterprise customers deepened, revenue size of Industrial Digitalisation maintained an industry-leading position**

Firmly seizing the opportunities emerging from the digital transformation of the economy and society and leveraging 5G, cloud and other emerging technologies, the Company accelerated the development of the Industrial Digitalisation business by constructing digitalised platform, repackaging fundamental capabilities, and stimulating new demand for integrated intelligent information services with supply-side reform. The Company was the first to achieve large-scale commercialisation of 5G SA, and launched 5G customised network service with three modes called “Wide-area”, “Adjacent” and “Wingspan” to meet different needs of vertical industry customers for features such as low latency, massive number of connections, network security and cloud-edge coordination. The Company also pushed ahead with its efforts to develop benchmark projects in industrial Internet, new media, smart healthcare, transportation and logistics and other areas, while also gradually exploring use cases such as remote control, HD live broadcasting and machine vision. Furthermore, the Company stepped up the optimisation of its cloud resource structure, expedited problem-tackling efforts in the key core technologies of e-Surfing Cloud, and built secure, reliable, and trustworthy cloud-network integration products that meet the needs of customers for different scenarios of cloud usage. In order to strengthen capabilities for professional services and operations, the

Company set up dedicated business groups to serve customers in different sectors. Leveraging on its digitalised platform, the Company continued to enrich fundamental capabilities and aggregate application ecologies to support the digital transformation of different industries. In 2020, revenue arising from the Company’s Industrial Digitalisation amounted to RMB84.0 billion, representing an increase of 9.7% year-on-year. Revenue from Overall Cloud services continued to grow robustly, reaching RMB13.8 billion. The number of IoT connected devices was nearly 240 million, with revenues for IoT increasing by 16.1% year-on-year.



AR application transformed a shopping mall in Shanghai to an aquarium



**Scan QR code to  
learn more about**

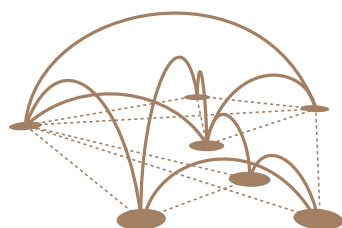
**China Telecom's  
5G 2B applications**







Propelled live streaming economy development



**Coverage of targeted  
marketing**

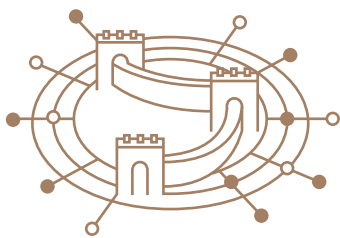
**>85%**

### Actively pursuing digital transformation, with continual efficiency improvements of operations and management

Fully leveraging the advantages arising from corporate informatisation, the Company expedited digital transformation, leading to continual improvement of the quality and efficiency of operations and management. The Company promoted the digital transformation of customer operations by building customer operation teams comprising relevant talents, strengthening data modelling for different sales scenarios, improving data-driven insight capabilities, utilising AI for marketing activities to match customer needs with high precision. The coverage of targeted marketing was over 85%, while the Company's customer retention and digital and intelligence marketing capabilities also significantly enhanced. By pursuing the digital transformation of sale channel operation, the Company took advantage of online-offline integration, accelerated the construction of a marketing service system that integrates all channels, covers all use cases and engages the cooperation of all ecologies. The Company's volume of online subscriber development increased by 7 percentage points year-on-year as it moved businesses and services online. The Company also continued to transform its physical outlet network to operate with chain store-like and experience-oriented approach, providing a continuously improving customer service perception on scenario-based experience. The Company pressed on with the digital transformation of customer services by establishing a cloud-based platform for customer service staff to provide service at home, promoting remote video service counters, and fully utilising intelligent voice navigation and online service contact points to assure service quality during the Epidemic. Hence, the Company enjoyed an industry-leading overall satisfaction.

### **Earnestly pushing forward network construction while further expanding cloud-network integration capabilities**

The Company adhered to the strategic direction of “Cloud central, Network around, Network adaptive to cloud, Cloud and network as one”, and spurred the construction of new infrastructure of cloud-network integration. Through the pursuit of co-build and co-share, the Company had over 380 thousand 5G base stations in use. The Company also led the development and release of “5G SA Implementation Guidelines”, while taking a global lead in large-scale commercial use of 5G SA networks. Guided by market demand, the Company continued to expand fibre network coverage and deployment of Gigabit optical broadband network. The Company also completed the construction of five major regional ROADM backbone networks covering the entire country, alongside a new planar network for ChinaNet to further reduce cloud-network latency. The Company optimised overall network layout according to “2+4+31+X+O” principle, and accelerated the construction of e-Surfing Cloud and IDC. It also commenced the development of MEC and promoted cloud-edge coordination. The Company continued to push ahead with the construction of its next-generation cloud-network operating system and progressively established systems for unified cloud-network production and cloud-network business assurance.



**Built 5 major regional  
ROADM backbone  
network  
covering the  
entire country**



Develop smart manufacturing project leveraging 5G technology

In 2020, following the outbreak of Epidemic, the Company united as one and adhered to the use of technology to support Epidemic control, actively mobilising equipment, technology and personnel to assure the safe and stable running of its network and business operations. The Company leveraged the advantages of 5G, cloud-network integration, AI and other areas to quickly set up 5G networks and cloud platforms at Huoshenshan Hospital, Leishenshan Hospital and other hospitals, and launched “Operation Warm Spring”, which comprised of 9 informatisation services such as cloud access for SMEs, e-Surfing Cloud conferencing and e-Surfing HD Classroom. The Company also co-developed services such as the “Big Data Itinerary Card” and “Health QR Code” with various collaborators across society to support Epidemic prevention and the resumption of work, production and schools effectively.

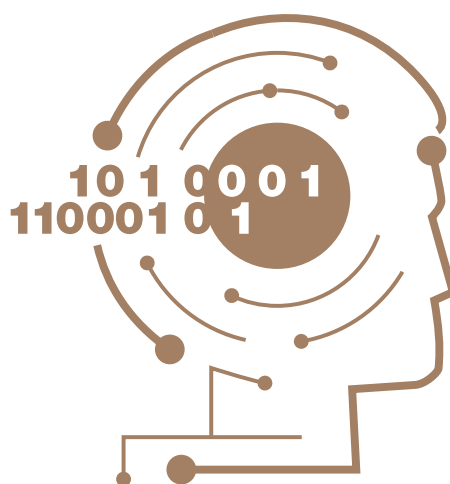


## OUTLOOK FOR 2021

China embarks on its 14th Five-Year Plan in 2021. With vast growth potential brought about by the flourishing digital economy, the Company will enter a new stage of development and carry out new development principles and build new development models. The Company will propel thorough execution of “Cloudification and Digital Transformation” strategy on all fronts, deepen corporate reforms, strengthen sci-tech innovation, construct high-standard open ecologies, and make all-out efforts to promote corporate high-quality development.

The Company will continue to insist on a customer-oriented approach while proactively exploring the informatisation services market. The Company will expedite expansion in informatisation market for government and enterprises, deepen the overall hierarchy reform of vertical industry servicing teams, strengthen capabilities of local system integration business teams and dedicated specialist teams for different sectors, spur the application and promotion of its fundamental capabilities and proprietary digital platforms to support the upgrade of industries, governance as well as consumption. The Company will speed up expansion in the family informatisation market, by providing whole-home intelligent solutions leveraging cloud-network integration, and pushing forward the upgrade of its family business towards digitalised and intelligent services covering all scenarios. The Company will also extend family services to community and public services by interconnecting the platforms of Smart Family, smart community and smart city services. The Company will also speed up expansion in the personal informatisation market by building an agile, intelligent and closed-loop customer marketing and servicing system, and offering a new model of “Platform + Applications + Ecosystem” for 5G-based personal informatisation services on digital lifestyle, with an aim to continuously fulfil customers’ digitalisation demand for a better quality of living.

The Company will speed up digital transformation to continue improving development efficiency and customer experience. It will further accelerate digital transformation internally and externally, with particular focus placed on digitalisation of key elements, operations and service. Internally, it will promote digital operations on all fronts by leveraging digital means to facilitate precision investment and cost controls to improve quality and efficiency as well as energy saving and emission reduction. Externally, the Company will leverage digitalised platform to aggregate fundamental capabilities, enhance level of intelligence with data to empower the digitalisation and intelligentisation of products, services and industries.



**Inject intelligence  
powered by data and  
provide endowment for  
products and services**

**Overall network capability  
was utilised**

**>10 billion times**

The Company will insist on co-creating and co-sharing to pursue win-win outcome and build open and high-standard cooperative ecologies. It will also nurture a healthy industry ecology focusing on key areas, by deepening inter-industry coordination, expanding scope of co-building and co-sharing, as well as by broadening cooperation on innovations in emerging areas. The Company will boost the momentum for high-quality development by continuously expanding platform-based cooperation, and leverage core platform to aggregate ecologies of 5G, family DICT, cloud, IoT, vertical industries and supply chains, to smooth out the circulation among and within key industries.

In 2021, the Company will adhere to new development principles, step up sci-tech innovations, expedite the construction of new information infrastructure by integrated development of 5G, cloud and artificial intelligence, continue to build digitalised platform based on cloud-network integration and nurture open ecologies, with a view to support the intelligentisation upgrade of various industries and empower the digital transformation of the entire society. The Company will work with various parties to enjoy new digital lifestyles, and to capitalise the new opportunities stemming from the digital economy together.



Telemedicine became a benchmark project for 5G application



**Promoting  
sci-tech innovation**

**Mastered**

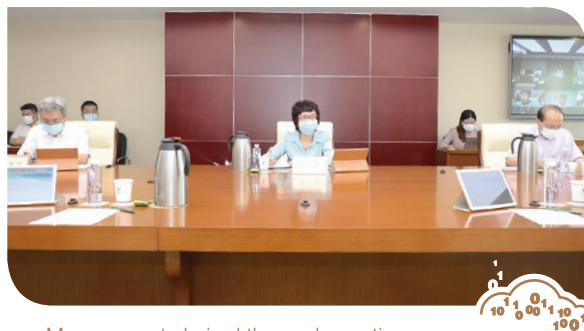
**20** core technologies  
including **PaaS**

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Financial Review

### SUMMARY

In 2020, the Company coordinated Epidemic prevention and control with operation and development, firmly seized the opportunities emerging from the digital transformation of the economy and society, comprehensively promoted its Cloudification reform as well as digital transformation, constructed new infrastructure based on cloud-network integration, and continued to promote high-quality development. The service revenues of the Company continued to grow, and the growth rate has surpassed the industry average for many years. Meanwhile, the Company actively supported the development of 5G and Industrial Digitalisation service capabilities, continued to strengthen precision cost control, effectively improved resource utilisation effectiveness, and achieved steady growth in operating results. Operating revenues in 2020 were RMB393,561 million, representing an increase of 4.7% from year 2019; service revenues<sup>1</sup> were RMB373,798 million, representing an increase of 4.5% from year 2019; operating expenses were RMB364,921 million, representing an increase of 5.3% from year 2019; profit attributable to equity holders of the Company was RMB20,850 million, representing an increase of 1.6% from year 2019; basic earnings per share were RMB0.26; EBITDA<sup>2</sup> was RMB118,880 million, representing an increase of 1.4% from year 2019 and the EBITDA margin<sup>3</sup> was 31.8%.



Management chaired the work meeting on auditing and risk control

### OPERATING REVENUES

The Company captured opportunities arising from the digital transformation of the economy and society, leveraged the strengths of cloud-network service capabilities, accelerated the development of Industrial Digitalisation service, strived to promote effective scale development, and continued to maintain healthy growth in revenue and optimise the revenue structure. Operating revenues in 2020 were RMB393,561 million, representing an increase of 4.7% from year 2019. Service revenues were RMB373,798 million, representing an increase of 4.5% from year 2019, of which mobile service revenues were RMB181,687 million, representing an increase of 3.5% from year 2019, and wireline service revenues were RMB192,111 million, representing an increase of 5.5% from year 2019.

<sup>1</sup> Service revenues are calculated based on operating revenues minus sales of mobile terminals (2020: RMB10,711 million; 2019: RMB9,364 million), sales of wireline equipment (2020: RMB5,430 million; 2019: RMB5,226 million), and other non-service revenues (2020: RMB3,622 million; 2019: RMB3,534 million).

<sup>2</sup> EBITDA is 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>3</sup> EBITDA margin is calculated based on EBITDA divided by service revenues.

The following table sets forth a breakdown of the operating revenues for 2019 and 2020, together with their respective rates of change:

(RMB millions, except percentage data)	For the year ended		Rates of change
	31 December		
	2020	2019	
Voice	<b>40,866</b>	45,146	-9.5%
Internet	<b>208,019</b>	197,244	5.5%
Information and application services	<b>96,885</b>	87,623	10.6%
Telecommunications network resource and network equipment services	<b>22,623</b>	21,978	2.9%
Others <sup>4</sup>	<b>25,168</b>	23,743	6.0%
Total operating revenues	<b>393,561</b>	375,734	4.7%

<sup>4</sup> Other revenues in 2020 refers to the aggregate amount of sales of goods and others, included in revenues from contracts with customers, and revenues from other sources.

### Voice

In 2020, having been continuously affected by the cannibalisation of mobile Internet services such as OTT, revenue from voice services was RMB40,866 million, representing a decrease of 9.5% from year 2019 and accounting for 10.4% of operating revenues. The revenue structure was continuously optimised.

### Internet

In 2020, revenue from Internet services was RMB208,019 million, representing an increase of 5.5% from year 2019, accounting for 52.9% of operating revenues. The 5G consumer service achieved a promising start, enabling the Company to achieve a valuable scale expansion in the mobile subscriber market. Mobile ARPU decline continuously narrowed, data traffic revenue maintained

rapid growth, and handset Internet access revenue was RMB130,655 million, representing an increase of 6.0% from year 2019. The Company comprehensively promoted the upgrade of family informatisation services, and the value of broadband access business was reshaped. Wireline broadband revenue ceased to decline and rebounded. Wireline broadband revenue for the year was RMB71,872 million, representing an increase of 5.1% from year 2019.

### Information and Application Services

In 2020, the Company sped up the integration and innovation of emerging technologies. Industrial Digitalisation service was developed at a quicker speed. Revenue from information and application services was RMB96,885 million, representing an increase of 10.6% from year 2019 and accounting for 24.6% of operating revenues which benefited from the rapid development of emerging businesses such as IDC, Industry Cloud, e-Surfing HD and Internet Finance.

### Telecommunications Network Resource and Equipment Services

In 2020, revenue from telecommunications network resource and equipment services was RMB22,623 million, representing an increase of 2.9% from year 2019 and accounting for 5.7% of operating revenues. The growth was mainly due to favourable growth in revenues from cloud dedicated lines and IP-VPN service.

### Others

In 2020, other revenues were RMB25,168 million, representing an increase of 6.0% from year 2019 and accounting for 6.4% of operating revenues. The increase was mainly due to the increase in the scale of mobile terminals sold.

## OPERATING EXPENSES

The Company seized the opportunity of 5G scale development, accelerated digital transformation development, and continued to increase investment in government and enterprise business and research and development system. Concurrently, the Company internally strengthened the deployment of the digital platform, took various measures to continue to strengthen precision cost control, further carried out multi-dimensional subdivision, and effectively improved the effectiveness of resource utilisation. In 2020, operating expenses were RMB364,921 million, representing an increase of 5.3% from year 2019. Operating expenses accounted for 92.7% of operating revenues, representing an increase of 0.4 percentage point from year 2019.

The following table sets forth a breakdown of the operating expenses in 2019 and 2020 and their respective rates of change:

	For the year ended		Rates of change
	31 December		
(RMB millions, except percentage data)	2020	2019	
Depreciation and amortisation	90,240	88,145	2.4%
Network operations and support	119,517	109,799	8.9%
Selling, general and administrative	55,059	57,361	-4.0%
Personnel expenses	65,989	63,567	3.8%
Other operating expenses	29,074	27,792	4.6%
Impairment loss on property, plant and equipment	5,042	–	Not Applicable
Total operating expenses	364,921	346,664	5.3%



### Depreciation and Amortisation

In 2020, depreciation and amortisation amounted to RMB90,240 million, representing an increase of 2.4% from year 2019 and accounting for 22.9% of operating revenues. The main reason for the increase was that the Company increased its capital expenditure in order to support the scale construction of 5G network and constantly strengthen its competitive advantages in network.

### Network Operations and Support

In 2020, network operations and support expenses amounted to RMB119,517 million, representing an increase of 8.9% from year 2019 and accounting for 30.4% of operating revenues. The main reason for the increase was because the Company's continuously optimisation in network quality while improving user perception, actively supporting the development of 5G and Industrial Digitalisation service, and appropriately increasing the deployment in network operation expenditures.

### Selling, General and Administrative

In 2020, selling, general and administrative expenses amounted to RMB55,059 million, representing a decrease of 4.0% from year 2019 and accounting for 14.0% of operating revenues. Selling expenses were RMB45,447 million, representing a decrease of 6.2% from year 2019, which was mainly due to the Company seizing the development opportunities of Internet online business, accelerating the transformation of sales model and the online and offline synergistic development, as well as enhancing its big data online precision marketing capabilities and continuously improving the input efficiency of marketing resources. General and administrative expenses amounted to RMB9,612 million, representing an increase of 8.1% from year 2019, which was mainly because of the Company's active promotion of sci-tech innovation, accelerated transformation to a sci-tech company and increase in the investment in research and development.

### Personnel Expenses

In 2020, personnel expenses amounted to RMB65,989 million, representing an increase of 3.8% from year 2019 and accounting for 16.8% of operating revenues. The increase was mainly due to the Company's continued introduction of high-tech talents and increased incentives for front-line employees and high performance team, so as to enhance employees' vitality. Investments in personnel expenses are in line with the transformation of the Company towards a sci-tech company in the future. Details of the number of employees, remuneration policies and training programs have been included in the Environmental, Social and Governance report in this annual report.

### Other Operating Expenses

In 2020, other operating expenses amounted to RMB29,074 million, representing an increase of 4.6% from year 2019 and accounting for 7.4% of operating revenues. The increase was mainly due to the increase in the scale of mobile terminals sold.

### Impairment loss on property, plant and equipment

Following the network evolution and the full coverage of 4G and 5G scale deployment, the data traffic carried by the Company's 3G network is rapidly shrinking and the cash flow from the continual use of 3G specific network assets is expected to be so small and even become negligible. In accordance with the relevant requirements of International Financial Reporting Standard, the Group conducted an impairment test on the assets such as 3G specific network assets and recognised an impairment loss of RMB5,042 million at the end of 2020.



### Net Finance Costs

Seizing favourable market opportunities, the Company implemented low-cost financing and reduced financing costs, continued to improve the capability of funds management, carried out sophisticated management on financing, and competently controlled the scale of indebtedness. In 2020, net finance costs amounted to RMB3,014 million, representing a decrease of 17.2% from year 2019. Net exchange loss amounted to RMB163 million in year 2020 which was mainly due to change in the exchange rate of RMB against USD.

## PROFITABILITY LEVEL

### Income Tax

The Company's statutory income tax rate is 25%. In 2020, income tax expenses were RMB6,307 million while the effective income tax rate was 23.0%. The difference between the effective income tax rate and the statutory income tax rate was mainly due to the low tax rates enjoyed by some subsidiaries and some branches located in the western region of China and the preferential tax policies enjoyed by the Company such as additional tax deduction on expenses for research and development proactively implemented by the Company. Meanwhile, income from investment in the associate company, China Tower Corporation Limited ("China Tower"), was not subject to tax during the period of the investment held.

### Profit Attributable to Equity Holders of the Company

The Company closely followed the digital transformation progress of the economy and society, deepened reform and innovation, and strived to improve quality and increase efficiency. In 2020, profit attributable to equity holders of the Company was RMB20,850 million, representing an increase of 1.6% from 2019.

## CAPITAL EXPENDITURE AND CASH FLOWS

### Capital Expenditure

In 2020, the Company continually promoted the 5G network co-building and co-sharing, sped up investment in 5G network construction, and continuously improved 5G network coverage. Meanwhile, the Company accelerated the construction of e-Surfing Cloud and IDC. In 2020, capital expenditure was RMB84,800 million, representing an increase of 9.3% from year 2019.

### Cash Flows

The net increase in cash and cash equivalents for year 2020 was RMB3,076 million and the net increase in cash and cash equivalents for year 2019 was RMB4,098 million.



### Net finance costs

↓17.2%

The following table sets forth the cash flow position in 2020 and 2019:

(RMB millions)	For the year ended	
	31 December	
	2020	2019
Net cash flow from operating activities	<b>132,260</b>	112,600
Net cash flow used in investing activities	<b>(87,077)</b>	(77,214)
Net cash flow used in financing activities	<b>(42,107)</b>	(31,288)
Net increase in cash and cash equivalents	<b>3,076</b>	4,098

In 2020, the net cash inflow from operating activities was RMB132,260 million, representing an increase of 17.5% from year 2019. This was mainly because the Company strengthened the management of accounts receivable and more subscribers applied the pre-paid method, so as to increase the net cash inflow from operating activities.

In 2020, the net cash outflow used in investing activities was RMB87,077 million, representing an increase of 12.8% from year 2019. The increase was mainly because of the increase in capital expenditure on supporting the development of 5G and Industrial Digitalisation service.

In 2020, the net cash outflow in financing activities was RMB42,107 million, representing an increase of 34.6% from year 2019. The main reason was that the Company controlled the scale of indebtedness within a reasonable level, resulting in decline in the cash inflow from loans.

#### Working Capital

The Company consistently upheld stable and prudent financial principles and stringent fund management policies. At the end of 2020, the working capital (total current assets minus total current liabilities) deficit was RMB187,126 million, representing a decrease in deficit of RMB4,353 million from year 2019. The liquidity of the Company continuously improved. As at 31 December 2020, the unutilised credit facilities were RMB244,326 million (2019: RMB245,847 million). Given the stable net cash inflow from operating activities and sound credit record, the Company has sufficient working capital to satisfy operational needs. At the end of 2020, cash and cash equivalents amounted to RMB23,684 million, among which cash and cash equivalents denominated in Renminbi accounted for 73.0% (2019: 78.0%).

## ASSETS AND LIABILITIES

In 2020, the Company continued to maintain a solid financial position. At the end of 2020, the total assets increased by 1.7% from RMB703,131 million at the end of 2019 to RMB715,096 million. Total indebtedness<sup>5</sup> decreased to RMB53,342 million from RMB79,022 million at the end of 2019. Gearing ratio<sup>6</sup> decreased to 12.8% from 18.3% at the end of 2019.

### Indebtedness

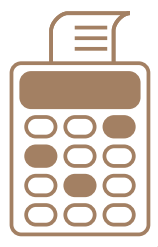
The indebtedness analysis as at the end of 2020 and 2019 is as follows:

(RMB millions)	For the year ended 31 December	
	2020	2019
Short-term debt	27,994	42,527
Long-term debt maturing within one year	1,126	4,444
Long-term debt	24,222	32,051
Total indebtedness	53,342	79,022

As of the end of 2020, the total indebtedness was RMB53,342 million, representing a decrease of RMB25,680 million from the end of 2019, which was mainly due to the continuous enhancement of funds management, improving the centralised funds management and appropriately controlling the scale of indebtedness. Of the total indebtedness, loans denominated in Renminbi, US Dollars and Euro accounted for 99.3% (2019: 99.4%), 0.4% (2019: 0.4%) and 0.3% (2019: 0.2%), respectively. 90.1% (2019: 82.9%) 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 2020, neither the Company nor any of its subsidiaries pledged any assets as collateral for debt (2019: Nil).

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



### Gearing ratio

↓5.5 p.p.

<sup>5</sup> Total indebtedness refers to interest-bearing debts excluding lease liabilities.

<sup>6</sup> Gearing ratio is calculated based on total indebtedness divided by total capital, while total capital is calculated based on total equity attributable to equity holders of the Company plus total indebtedness.

### Significant Investment

As at 31 December 2020, the Company's external investments included interests in associates and equity instruments at fair value through other comprehensive income, with carrying amounts of RMB40,303 million and RMB1,073 million, respectively. The Company's investment in China Tower, an associate of the Company, constituted its significant investment. Details of such investment are set out below:

Company name	Stock code	Principal businesses	Place of incorporation	As at 31 December 2020					Size of fair value relative to total assets of the Group
				Investment cost (RMB millions)	Number of shares held	Percentage of shares held	Carrying amount (RMB millions)	Fair value (RMB millions)	
China Tower	0788.HK	Include the tower business and indoor Distributed Antenna System (DAS) business for telecommunications industry, and the Trans-sector Site Application and Information (TSSAI) business and energy operation business for customers from various industries across wider society	China	36,087	36,087,147,592	20.50%	37,463	34,625	4.8%

As at 31 December 2020, the carrying amount of the Group's interests in China Tower, an associate of the Company, was RMB37,463 million, accounting for 5.2% of the Group's total assets. In 2020, share of unrealised profits of China Tower recognised by the Company amounted to RMB1,466 million, and dividends received amounted to RMB525 million. 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 the Company can benefit from the long-term enhancement of profits and values from China Tower.

### Contractual Obligations

Contractual obligations as at 31 December 2020 are as follows:

(RMB millions)	Total	Within 1 year	Between 1 to 2 years	Between 2 to 5 years	Thereafter
Short-term debt	28,417	28,417	–	–	–
Long-term debt	27,805	1,410	17,838	5,609	2,948
Lease liabilities	43,896	14,449	13,363	12,110	3,974
Capital commitments	20,199	20,199	–	–	–
Total contractual obligations	120,317	64,475	31,201	17,719	6,922

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