

FINANCIAL HIGHLIGHTS

	2017	2018	2019
Operating revenues (RMB millions)	366,229	377,124	375,734
EBITDA ¹ (RMB millions)	102,171	104,207	117,215
EBITDA margin ²	30.9%	29.7%	32.8%
Net profit ³ (RMB millions)	18,617	21,210	20,517
Capital expenditure (RMB millions)	88,712	74,940	77,557
Free cash flow ⁴ (RMB millions)	7,267	22,457	21,725
Total debt/Equity ⁵	32.0%	27.9%	22.4%
Earnings per share (RMB)	0.2300	0.2621	0.2535
Dividend per share (HK\$)	0.115	0.125	0.125

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

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

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

⁴ In order to more objectively reflect the Company's free cash flow, enable a comparable basis to free cash flow of prior years and avoid incomparability of free cash flow resulting from the application of IFRS 16, the original free cash flow calculation "free cash flow = EBITDA minus capital expenditure and income tax" has been changed to "free cash flow = EBITDA minus capital expenditure, income tax and depreciation charge for right-of-use assets other than land-use-rights".

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



For further information,
please browse our website at
www.chinatelecom-h.com

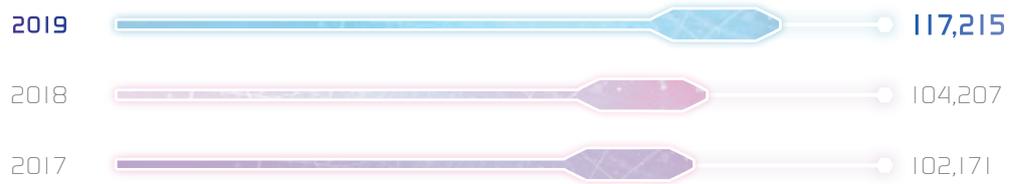
Operating Revenues

(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 2017, 2018 and 2019:

	Unit	2017	2018	2019	2019 change over 2018
Mobile subscribers	Million	249.96	303.00	335.57	10.7%
Mobile voice usage	Million minutes	769,152	827,724	820,346	-0.9%
Handset data traffic	kTB	3,597	14,073	24,370	73.2%
Wireline broadband subscribers	Million	133.53	145.79	153.13	5.0%
e-Surfing HD subscribers	Million	85.76	105.35	112.62	6.9%
IoT connected devices	Million	44.30	106.93	157.41	47.2%
BestPay average monthly active users	Million	33.00	43.41	56.31	29.7%
Access lines in service	Million	121.80	116.48	110.85	-4.8%
Wireline local voice usage	Million pulses	75,144	60,213	55,870	-7.2%



Mobile World
Congress 2019



Key Operating Performance in 2019

In 2019, adhering to customer-centric principles, the Company further expedited scale development, pushed forward value operation, deepened reform and innovation, and improved service quality, which led to new achievements in the Company's high-quality development. The Company's operating revenues reached RMB375.7 billion, of which service revenues increased by 2.0% year on year to RMB357.6 billion. Revenues from emerging businesses increased 8.6% year on year to RMB197.7 billion, which drove service revenue growth up by 4.5 percentage points.

1. Advancing scale development of the mobile business to the next level, building new edge on 5G-driven personal informatisation services

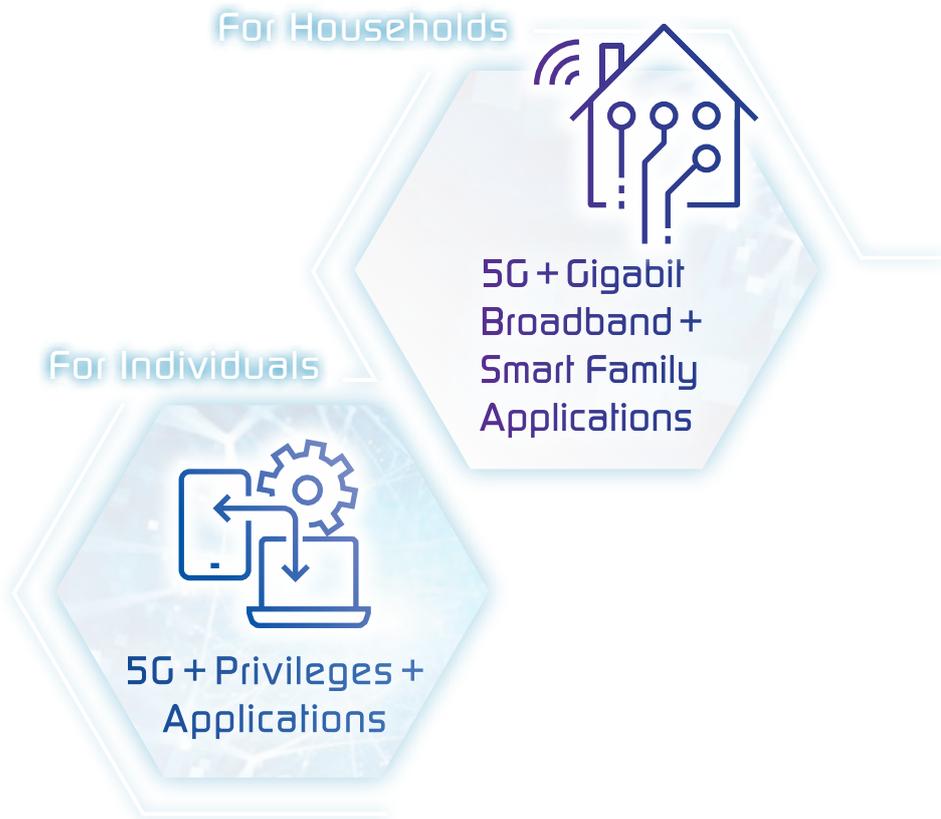
The Company insisted on valuable scale development, firmly implemented a proactive market strategy, focused on customers' perceptions and demands, further strengthened data operation as well as business convergence, and continued to streamline, optimise and upgrade its service package offerings, which together elevated both of the Company's customer and corporate values. The Company strengthened terminal-driven strategy and terminal

operations by stepping up effort in developing Orange Instalment Payment Service to better fulfill customers' demands for terminals. The Company also strengthened marketing and sales organisation in key markets and further expanded, with differentiation and innovation, into enterprise and rural markets. In 2019, the Company's mobile subscribers net addition was nearly 32.57 million, achieving a 53.2% share of total subscriber net addition in the industry, maintaining a leading position in the industry. The Company's total number of mobile subscribers was approximately 336 million, leaping to the second place in the industry in the country, while mobile service revenues increased 4.7% year-on-year.

Mobile Subscriber Net Addition



The Company seized new opportunities arising from 5G commercialisation by creating a new development model of "5G + Privileges + Applications" to forge new edges in the area of individual informatisation services. It launched a member privilege system for 5G subscribers, strengthened operation of its membership system, and worked with leading partners to continue to develop ecosystem privileges. Leveraging the strengths of cloud-network integration, the Company introduced HD contents and launched a number of featured applications such as Cloud VR/AR, Cloud Gaming, and Cloud Computer. These prompted across-the-board enhancement of user experience of 5G individual informatisation services. As of the end of February 2020, the number of the Company's 5G package subscribers had reached 10.73 million, creating new momentum to enhance the value of the mobile business.



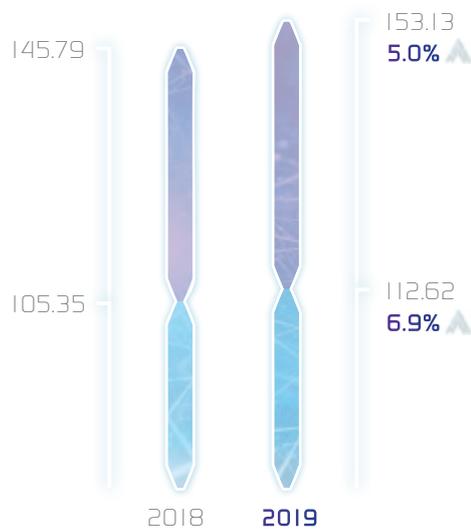
Mobile Subscribers

(Million)



Wireline Broadband Subscribers

(Million)



Mobile
4G

Broadband
e-Surfing HD

2. Building Smart Family system on all fronts, with household informatisation applications beginning to take shape

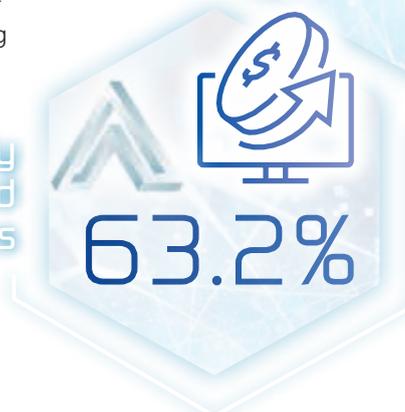
The Company proactively planned the development of household informatisation, while developing a comprehensive five-in-one Smart Family product and service portfolio that encompasses Smart Broadband, Smart Family Platform, Smart Applications, Smart Security and Smart Services. It launched Smart Broadband service and forged an end-to-end service system for "5G + Gigabit Broadband + Smart Family Applications". It set up the Smart Family Platform, strengthened the operational management of ubiquitous smart terminals, and enabled API exposure to empower the industry ecosystem. Over 120 million of devices had already been connected to the Smart Family Platform. The Company further enriched its Smart Applications, including 4K/8K ultra-high-definition videos which offer abundant content and splendid experience, while e-Surfing Webcam leveraged the resource empowerment of cloud-network integration and platform capabilities to widely support the "safe communities" and "safe villages" initiatives and safeguarded millions of families. The Company also put emphasis on Smart Security, protecting the interests of users and data security by fortifying

terminals, access, applications, cloud storage and other aspects. The Company upgraded Smart Services by continuously enhancing the expertise of its Smart Family Engineer teams, in order to meet the needs for the smart detection of Wi-Fi signals in different environments and the design of customised home networking solutions. The number of Whole-home Wi-Fi users reached 17.91 million. In 2019, the Company's wireline broadband subscriber net addition reached 7.34 million, bringing the total number of broadband subscribers to 153 million. The subscribers of e-Surfing HD (IPTV) reached 113 million, while revenues of Smart Family applications and services¹ increased by 63.2% year-on-year, delivering an increasing value contribution.

Broadband Subscriber Net Addition



Smart Family Applications and Services Revenues

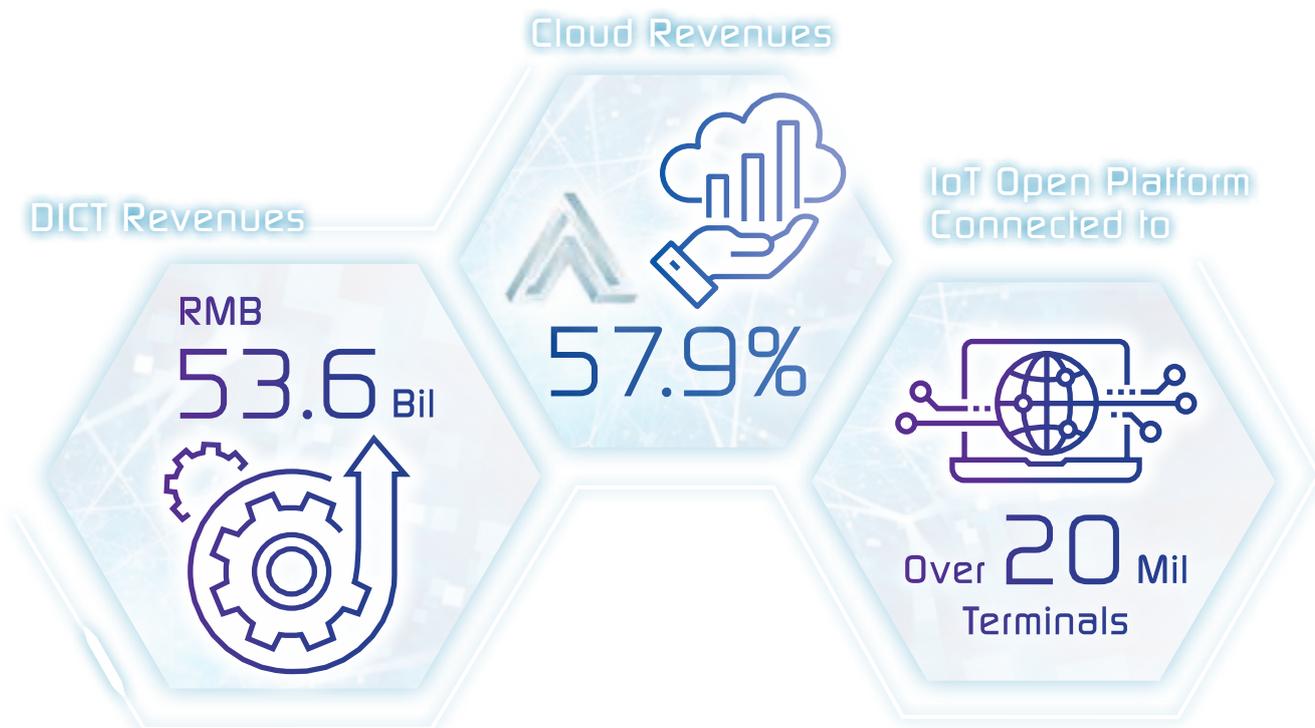


¹ Revenues of Smart Family applications and services include revenues from Whole-home Wi-Fi, Family Cloud and other businesses.

3. Innovative development in government and enterprise informatisation, alongside continuous reinforcement of leading edge in services

The Company hastened government and enterprise business reform, innovated and optimised organisations and mechanisms, and continued to enhance professional capabilities. It also focused on key areas to develop use cases, as well as gathered industries' forces to forge the "5G + Cloud + DICT" ecosystem. As a result, key related businesses maintained rapid growth. The Company formed innovation centres for digital government, smart cities and industrial Internet sectors. It strengthened capabilities

in terms of platform and business integration in cloud, IoT, etc., which prompted continuous enhancement of professional capabilities. The Company also developed more than 100 use cases for media live broadcast, industrial Internet, video surveillance, smart healthcare and other key areas. The Company further founded the 5G Industry Innovation Alliance, the 5G United Innovation Centres and 5G open labs, with an aim to actively nurture industry ecosystem. The Company's e-Surfing Cloud gained a market share ranking no. 7 in the global public cloud IaaS market and no. 1 among global telecom operators², while its brand influence also continued to expand with its IDC business earning a no. 1 overall ranking in the country³.



² Source: IDC

³ Source: China Internet Weekly

The Company's IoT open platform are connected to over 20 million terminals and supported mainstream IoT access protocols, enabling the rapid launch of partners' application products. In 2019, revenues from the Company's DICT business reached RMB53.6 billion, of which revenues from cloud business was RMB7.1 billion, representing an increase of 57.9% year-on-year. The number of IoT connected devices reached 157 million, with revenues increasing by 21.7% year-on-year.



Management conducted on-site research of 5G commercial launch in Chaoyang district outlet of Beijing

4. Continuous improvement of operations and management, maintaining industry-leading customer satisfaction

The Company utilised data to enhance the efficiency of its operations and management, continued to optimise its intellectual corporate core, strengthened data consolidation to empower frontline customer touchpoints by precision products strategies matching, and fully launched the BSS3.0 system, resulting in significant increase in the efficiency of product operation. By optimising the layout of its sales channels, applying chain-store approach in the operations of its core outlets, and exploring scene marketing for 5G + Smart Family services, the professional competence and efficiency of the Company's sales channel operation steadily increased. The Company formed a customer-centric product system, continued to optimise product management, development and operation based on customers' needs. It also propelled the construction of customer-oriented service system by continuously increasing the efficiency of AI-powered smart services and optimising star-grade services, thereby realising more prominent value of the services. In 2019, the Company continued to lead the industry in overall customer satisfaction and in customer satisfaction for mobile Internet access service⁴.

⁴ Source: The Ministry of Industry and Information Technology of the PRC

5. Strengthening network edge with cloud-network integration accelerated

The Company constantly promoted high-quality network construction and pushed forward network intelligentisation with reference to CNet 2025 as the blueprint. Capitalising on extensive resources and co-building and co-sharing development philosophy, the Company spurred rapid scale deployment of 5G network beginning with precision coverage in regions with high data traffic volume and high value. The Company built 40 thousand 5G base stations and co-shared over 20 thousand 5G base stations of China Unicom, yielding over 60 thousand base stations in use. Guided by user experience and perception, the Company utilised Big

Data to support the in-depth coverage and dynamic capacity expansion of its 4G network at key locations, powerfully supporting the growth of 4G subscribers and data traffic volume, as well as the full commercialisation of VoLTE service. Adhering to market demands, the Company expanded its fibre network coverage on a need basis and improved the efficiency of resources utilisation, while catering to the needs of high-speed users by 10G PON network upgrade in developed urban areas. Persisting with the goal to build a high-quality smart ubiquitous network, the Company stepped up technological R&D and innovation, accelerated cloud-network integration, and committed itself to building a next-generation, fully cloud-based and full-fibre intelligent network that is simple, agile, efficiently-centralised, open and secure.



Management attended Artificial Intelligence Development Whitepaper Release Event

Outlook for 2020

In 2020, the outbreak of the novel coronavirus (COVID-19) epidemic caused impact to the Company's business development and network construction. Since the outbreak, the Company has actively carried out epidemic control and telecommunication assurance in an effort to tackle the impact. Meanwhile, the Company supported the rapid deployment of informatisation systems in frontline hospitals through its healthcare cloud services which provided computing and storage capabilities with security defenses. It also satisfied the demands for informatisation applications for various use cases such as SME Cloud, e-Surfing Cloud Conferencing, Education Cloud, Cloud Classroom, among others.

Looking forward to the new year, the Company will continue to deepen corporate reform, broaden its collaboration with external parties, enhance service quality, expand subscriber scale and promote high-quality development, as it marches firmly towards a leading integrated intelligent information services operator.

The Company will continue to focus on customers' demands to strengthen its information services. Upholding scale development and value operation, it will focus on individual, household, government and enterprise and overseas customers in key areas to enhance capabilities

of professionalisation of marketing management, digitalisation of marketing services, ecologicalisation of marketing collaboration as well as refinement of marketing organisation, with an aim to boost competitiveness in various business aspects. The Company will continue to strengthen China Telecom's "Trustworthy" brand image and provide customers with satisfying integrated intelligent information services.

The Company will continue to foster cloud-network integration to solidify the foundation for development. It will build a smart ubiquitous network that is simple, agile, efficiently-centralised, open and secure. It will also establish a digitalised platform for cloud-network integration to serve as the foundation for DICT solutions based on cloud-network unification; it will build unified cloud-network infrastructure and promote 5G network construction. It will also establish unified cloud-network operating system to meet the demands of customers looking for "extensive product offerings, timely delivery, leading quality, security and reliability" of cloud-network services. The Company will also create unified cloud-network products and applications that enable the evolution from "cloud-network connectivity" to "cloud-driven network configuration adjustment" and "network convergence into cloud", and to launch more cloud application models for different customers.

The Company will safeguard network and information security and provide reliable services. The Company will continue to promote the establishment of network and information security system and capabilities, and strengthen the protection of critical information infrastructure. The Company will expand its network and information security product and service portfolio, and capitalise on enterprise resources to provide reliable security services for various customers. The Company will also gather forces to establish network security ecosystems in fields such as 5G security, cloud security, data security, IoT and security consultancy, among others.

The Company will step up operational management to improve corporate efficiency. The Company will enhance capabilities of corporate core to efficiently support intelligent operation. It will invigorate its channels and touchpoints and build, centering around customers, the integrated sales channel 2.0 that is professional, digitalised, open and innovative. The Company will also further optimise its supervision system, transform and upgrade its procurement processes, improve its audit management system and bolster its risk management work.

The Company will deepen reform and innovation, and expand ecological cooperation. The Company will intensify effort to deepen corporate reforms and improve system and mechanism innovation while fully motivating subsidiaries and employees at all levels in terms of proactiveness, initiative-taking and creativity. The Company will further engage in ecological cooperation and focus on five key areas, namely IoT, e-Surfing Cloud, smart living, vertical industrial applications and 5G, to build a "4+2+1" foundation for API exposure constituting of communications, cloud, IoT, data, channels, services, and API enablement platform.

Realising dreams with hard work and striving for future success, China Telecom will proactively pursue its new development ideals, leverage on its reliable, intelligent and secure integrated cloud-network resources to continue to bring its comprehensive edge of cloud-network integration into full play, and to push forward with innovative development of 5G. With better networks, better services, and newer user experiences, the Company is poised to bring greater satisfaction and felicity to its customers, and join hands to enter the golden smart age of the "Internet of Everything" together.



MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Review

Summary

In 2019, the Company adhered to new development principles and continuously deepened reform and innovation, achieving remarkable results of high-quality scale development. The Company's service revenues continued to increase and persisted to maintain at a level exceeding industry average. Meanwhile, with optimised allocation of resources, focused key areas resources, and reinforced precision management, resources utilisation effectiveness and operational efficiency were consistently enhanced while the overall operating results remained healthy and robust. Operating revenues in 2019 were RMB375,734 million, representing a decrease of 0.4% from year 2018; service revenues¹ were RMB357,610 million, representing an increase of 2.0% from year 2018; operating expenses were RMB346,664 million, representing a decrease of 0.5% from year 2018; profit attributable to equity holders of the Company was RMB20,517 million, representing a decrease of 3.3%; as compared with the profit attributable to equity holders of the Company for the year 2018 excluding the one-off after-tax gain² from the listing of China Tower Corporation Limited ("China Tower"), representing an

increase of 2.0% from year 2018; basic earnings per share were RMB0.25; EBITDA³ was RMB117,215 million, representing an increase of 12.5% from year 2018 and the EBITDA margin⁴ was 32.8%. Excluding the impact of the application of International Financial Reporting Standard 16 ("New Lease Standard"), the EBITDA margin was 29.2%.

Operating Revenues

The Company strived to uphold the industry value, promoted value operations with customers as the focus, fully leveraged on the network and talent edges and deepened integrated operation. Revenues continued to maintain favourable growth while revenue structure was continuously optimised. Operating revenues in 2019 were RMB375,734 million, representing a decrease of 0.4% from year 2018. Service revenues were RMB357,610 million, representing an increase of 2.0% from year 2018, of which mobile service revenues were RMB175,546 million, representing an increase of 4.7% from year 2018, and wireline service revenues were RMB182,064 million, representing a decrease of 0.4% from year 2018.

¹ Service revenues are calculated based on operating revenues minus sales of mobile terminals (2019: RMB9,364 million; 2018: RMB18,836 million), sales of wireline equipment (2019: RMB5,226 million; 2018: RMB5,659 million) and other non-service revenues (2019: RMB3,534 million; 2018: RMB2,195 million).

² In 2018, a one-off after-tax gain from the listing of China Tower amounting to approximately RMB1.1 billion was recognised by the Company.

³ 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.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Review

The following table sets forth a breakdown of the operating revenues for 2018 and 2019, together with their respective rates of change:

(RMB millions, except percentage data)	For the year ended 31 December		Rates of change
	2019	2018	
Voice	45,146	50,811	-11.1%
Internet	197,244	190,871	3.3%
Information and application services	87,623	83,478	5.0%
Telecommunications network resource and network equipment services	21,978	20,211	8.7%
Others ⁵	23,743	31,753	-25.2%
Total operating revenues	375,734	377,124	-0.4%

⁵ Other revenues in 2019 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 2019, having been continuously affected by the substitution of mobile Internet services such as OTT, revenue from voice services was RMB45,146 million, representing a decrease of 11.1% from year 2018 and accounting for 12.0% of operating revenues. The revenue structure was continuously optimised.

Internet

In 2019, revenue from Internet services was RMB197,244 million, representing an increase of 3.3% from year 2018, accounting for 52.5% of operating revenues. Insisting on mobile data traffic as the driving force, the Company was determined to strengthen ecological cooperation, enhanced the differentiated market competitiveness of convergence operation, continuously expanding the subscriber base. Total number of mobile subscribers of the Company was approximately 336 million, ranking second in the industry nationwide. The

data traffic revenues continued to achieve rapid growth. Mobile handset Internet access revenue was RMB123,203 million, representing an increase of 10.8% from year 2018. The scale of the Company's broadband subscribers continuously expanded and customer loyalty was persistently maintained. However, due to increasingly intensifying market competition, wireline broadband revenue was RMB68,413 million, representing a decrease of 7.9% from year 2018.

Information and Application Services

In 2019, the Company continuously developed and leveraged the advantages on cloud-network integration. Revenue from information and application services was RMB87,623 million, representing an increase of 5.0% from year 2018 and accounting for 23.3% of operating revenues which benefited from the rapid development of emerging businesses such as IDC, cloud, Internet of Things and Internet Finance.

Telecommunications Network Resource and Equipment Services

In 2019, revenue from telecommunications network resource and equipment services was RMB21,978 million, representing an increase of 8.7% from year 2018 and accounting for 5.9% of operating revenues. The growth was mainly due to favourable growth in revenues from digital circuit service and IP-VPN service.

Others

In 2019, other revenues were RMB23,743 million, representing a decrease of 25.2% from year 2018 and accounting for 6.3% of operating revenues. The decline was mainly due to the decrease in the scale of mobile terminals sold.

Operating Expenses

The Company insisted on valuable scale development and continuously enhanced its capabilities development and investment in R&D system, laying out plans for

sustainable development in the future. At the same time, with a focus on key resources and multi-dimensional sub-division, the effectiveness and efficiency of resource utilisation was continuously improved. In 2019, operating expenses were RMB346,664 million, representing a decrease of 0.5% from year 2018. Operating expenses accounted for 92.3% of operating revenues, representing a decrease of 0.1 percentage point from year 2018.

Effectiveness and Efficiency of Resource Utilisation Continuously Improved



The following table sets forth a breakdown of the operating expenses in 2018 and 2019 and their respective rates of change:

<i>(RMB millions, except percentage data)</i>	For the year ended 31 December		
	2019	2018	Rates of change
Depreciation and amortisation	88,145	75,493	16.8%
Network operations and support	109,799	116,062	-5.4%
Selling, general and administrative	57,361	59,422	-3.5%
Personnel expenses	63,567	59,736	6.4%
Other operating expenses	27,792	37,697	-26.3%
Total operating expenses	346,664	348,410	-0.5%

Depreciation and Amortisation

In 2019, depreciation and amortisation was RMB88,145 million, representing an increase of 16.8% from year 2018, accounting for 23.5% of operating revenues. Excluding the impact of the application of the New Lease Standard, depreciation and amortisation increased by 1.4% from year 2018. The main reason for the increase was that in order to strengthen the competitive advantages of the network in recent years, the Company maintained a relatively high level of capital expenditure.

Network Operations and Support

In 2019, network operations and support expenses were RMB109,799 million, representing a decrease of 5.4% from year 2018 and accounting for 29.2% of operating revenues. Excluding the impact of the application of the New Lease Standard, network operations and support expenses increased by 5.2% from year 2018 and such increase rate was significantly lower than that of year 2018. The increase was mainly due to the Company's continuous optimisation and enhancement of network capabilities and quality to support rapid development of emerging businesses and thus resulting in appropriate increase in resource investment.

Selling, General and Administrative

In 2019, selling, general and administrative expenses amounted to RMB57,361 million, representing a decrease of 3.5% from year 2018 and accounting for 15.3% of operating revenues. Selling expenses were RMB48,472 million, representing a decrease of 4.6% from year 2018, which was mainly due to the Company's continuous optimisation of its sales and marketing model and reinforcement in its precision management of sales and marketing resources resulting in enhancement of the effectiveness of sales and marketing resources. General and administrative expenses amounted to RMB8,889 million, representing an increase of 3.0% from year

2018 as a result of the increase in research and development expenditure to promote high quality development and strengthen the building of core capabilities.

Personnel Expenses

In 2019, personnel expenses were RMB63,567 million, representing an increase of 6.4% from year 2018 and accounting for 16.9% of operating revenues, which was mainly due to the Company's increased incentives for high-tech talents and frontline employees. 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 2019, other operating expenses were RMB27,792 million, representing a decrease of 26.3% from year 2018 and accounting for 7.4% of operating revenues. It was mainly due to the decrease in the sales of mobile terminals.

Sales, General and Administrative Expenses



Net Finance Costs

Seizing favourable market opportunities, the Company appropriately increased the allocation of bond products with favourable costs and continued to improve the capability of internal capital centralisation, effectively controlling the scale of indebtedness and financing costs and further enhancing the capital turnover rate and utilisation efficiency. In 2019, net finance costs were RMB3,639 million, representing an increase of 34.4%, and a decline of 25.0% from year 2018 excluding the impact of the application of the New Lease Standard. Net exchange loss amounted to RMB41 million in year 2019 which was mainly due to the depreciation of the exchange rate of RMB against USD.

Profitability Level

Income Tax

The Company's statutory income tax rate is 25%. In 2019, income tax expenses were RMB6,322 million while the effective income tax rate was 23.4%. 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, was not subject to tax during the period when the investment is held.

Profit Attributable to Equity Holders of the Company

In 2019, profit attributable to equity holders of the Company was RMB20,517 million, representing a decrease of 3.3%. Excluding the one-off after-tax gain from the listing of China Tower recognised in 2018, the profit attributable to equity holders of the Company increased by 2.0% from year 2018.

Capital Expenditure and Cash Flows

Capital Expenditure

In 2019, the Company continued to optimise network experience, deploying targeted coverage and dynamic capacity expansion for 4G network resulting in strengthening of the comprehensive competitive advantage of networks. Meanwhile, the Company steadily promoted the construction of 5G network to gear up the potential for the future development of 5G. In 2019, capital expenditure was RMB77,557 million, representing an increase of 3.5% from year 2018.



Management instructed employees at sales outlet

Cash Flows

The net increase in cash and cash equivalents for year 2019 was RMB4,098 million while the net decrease in cash and cash equivalents for year 2018 was RMB2,939 million.

The following table sets forth the cash flow position in 2019 and 2018:

<i>(RMB millions)</i>	For the year ended 31 December	
	2019	2018
Net cash flow from operating activities	112,600	99,298
Net cash flow used in investing activities	(77,214)	(85,954)
Net cash flow used in financing activities	(31,288)	(16,283)
Net increase/(decrease) in cash and cash equivalents	4,098	(2,939)

In 2019, the net cash inflow from operating activities was RMB112,600 million, representing an increase of 13.4% from year 2018. Upon the application of the New Lease Standard, the principal portion of the rental expenses paid was adjusted from operating activities to financing activities which was a structural adjustment.

In 2019, the net cash outflow used in investing activities was RMB77,214 million, representing a decrease of 10.2% from year 2018. The main reason was that the Company withdrew certain short-term bank deposits investments which were due during the year.

In 2019, the net cash outflow used in financing activities was RMB31,288 million, representing an increase of 92.2% from year 2018. The main reason was that upon the application of the New Lease Standard, part of the cash outflow from operating activities was reflected in the financing activities during the year. Meanwhile, the Company repaid certain interest-bearing debts during the year.

Working Capital

The Company consistently upheld stable and prudent financial principles and stringent fund management policies. At the end of 2019, the working capital (total current assets minus total current liabilities) deficit was RMB191,479 million, representing an increase in deficit of RMB5,564 million from year 2018. It was mainly due to the recognition of lease liabilities as a result of the application of the New Lease Standard. As at 31 December 2019, the unutilised credit facilities were RMB245,847 million (2018: RMB150,693 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 2019, cash and cash equivalents amounted to RMB20,791 million, among which cash and cash equivalents denominated in Renminbi accounted for 78.0% (2018: 64.0%).

Assets and Liabilities

In 2019, the Company continued to maintain a solid financial position. At the end of 2019, the total assets increased by 6.0% to RMB703,131 million from RMB663,382 million at the end of 2018. Excluding the impact of the New Lease Standard, the total assets were comparable with that of last year. Total indebtedness⁶

decreased to RMB79,022 million from RMB95,744 million at the end of 2018. Gearing ratio⁷ decreased to 18.3% from 21.8% at the end of 2018.

Indebtedness

The indebtedness analysis as at the end of 2019 and 2018 is as follows:

(RMB millions)	For the year ended 31 December	
	2019	2018
Short-term debt	42,527	49,537
Long-term debt maturing within one year	4,444	1,139
Long-term debt	32,051	44,852
Finance lease obligations (including current portion)	–	216
Total indebtedness	79,022	95,744

By the end of 2019, the total indebtedness was RMB79,022 million, representing a decrease of RMB16,722 million from the end of 2018, which was mainly due to the continuous enhancement of centralised management of interest-bearing debt and precision management in daily control, effectively improving the efficiency of capital utilisation and reducing the scale of interest-bearing debt. Of the total indebtedness, loans denominated in Renminbi, US Dollars and Euro accounted for 99.4% (2018: 99.4%), 0.4% (2018: 0.4%) and 0.2% (2018: 0.2%), respectively. 82.9% (2018: 99.8%) of the indebtedness are loans with fixed interest rates while the remaining portion of the indebtedness represented loans with floating interest rates.

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.

As at 31 December 2019, neither the Company nor any of its subsidiaries pledged any assets as collateral for debt (2018: Nil).

Gearing Ratio



⁶ Total indebtedness refers to interest-bearing debts excluding lease liabilities.

⁷ 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.

Changes in Accounting Policies

On 1 January 2019, the Company applied, for the first time, the New Lease Standard

and the major impacts of the application of the New Lease Standard were already stated above. For details of the impacts specifically, please refer to note 2 of the audited consolidated financial statements for the year.

Significant Investment

As at 31 December 2019, the Company's external investments included interests in associates and equity instruments at fair value through other comprehensive income, the carrying amounts of which were RMB39,192 million and RMB1,458 million, respectively. The Company's investment in China Tower, an associate of the Company, constituted its significant investment. Details of such investment were set out below:

Company name and stock code	Principal businesses	Place of incorporation	Investment cost (RMB millions)	Number of shares held	As at 31 December 2019		Size of fair value relative to total assets of the Group	
					Percentage of shares held	Carrying amount (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	20.5%	36,560	55,601	7.9%

As at 31 December 2019, the carrying amount of the Group's interests in China Tower, an associate of the Company, was RMB36,560 million, accounting for 5.2% of the Group's total assets. In 2019, share of unrealised profits of China Tower recognised by the Company amounted to RMB1,219 million, and dividends received

amounted to RMB81 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 enhancement of profits and values from China Tower.

Contractual Obligations

Contractual obligations as at 31 December 2019 are as follows:

<i>(RMB millions)</i>	Total	Within 1 year	Between 1 to 2 years	Between 2 to 5 years	Thereafter
Short-term debt	43,697	43,697	-	-	-
Long-term debt	40,791	4,625	1,184	30,824	4,158
Lease liabilities	45,535	12,846	11,794	17,266	3,629
Capital commitments	20,941	20,941	-	-	-
Total contractual obligations	150,964	82,109	12,978	48,090	7,787

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