

Financial Highlights

	2014	2015	2016
Operating revenues (RMB millions)	324,394	331,202	352,285
EBITDA ¹ (RMB millions)	94,853	94,106	95,139
EBITDA margin ²	33.0%	32.1%	30.7%
Net profit ³ (RMB millions)	17,680	20,054	18,004
Capital expenditure (RMB millions)	76,889	109,094	96,817
Total debt/Equity ⁴	36.8%	38.4%	35.7%
Earnings per share (RMB)	0.2185	0.2478	0.2225
Dividend per share (HK\$)	0.095	0.095	0.105

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

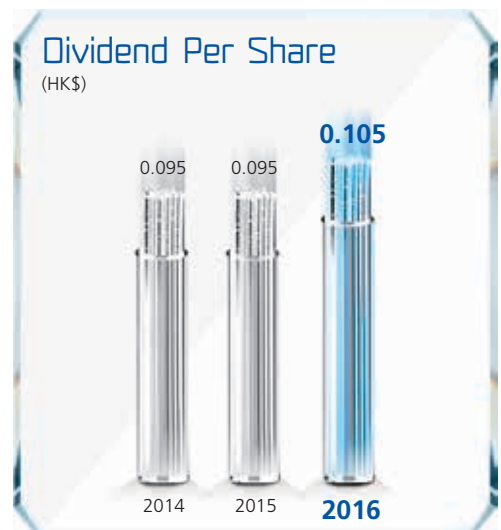
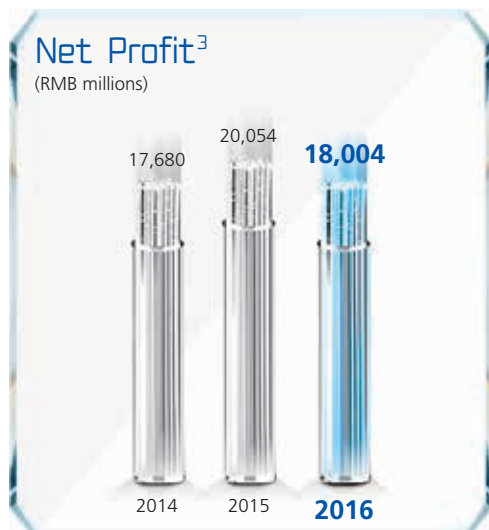
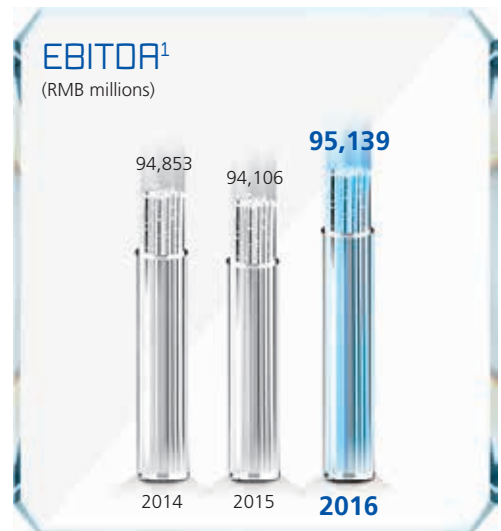
² EBITDA margin was calculated based on EBITDA divided by service revenues.

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

⁴ Equity represented equity attributable to equity holders of the Company.

For further information,
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Management's Discussion and Analysis

Business Review

The following table sets out the key operating data for 2014, 2015 and 2016:

	Unit	2014	2015	2016	Rates of change over 2015
Mobile subscribers	Million	185.62	197.90	215.00	8.6%
of which: 4G terminal users	Million	7.08	58.46	121.87	108.5%
Mobile voice usage	Million minutes	655,939	667,535	720,566	7.9%
Mobile SMS usage	Million messages	64,583	56,817	54,744	(3.6%)
Handset data traffic	kTB	266.6	554.7	1,277.0	130.2%
Wireline broadband subscribers	Million	106.95	113.06	123.12	8.9%
of which: Fibre-to-the-Home (FTTH) subscribers	Million	42.61	70.99	105.99	49.3%
Access lines in service	Million	143.56	134.32	126.86	(5.6%)
Wireline local voice usage	Million pulses	130,439	110,935	93,403	(15.8%)
e-Surfing HD subscribers	Million	31.26	40.38	61.33	51.9%
BestPay average monthly active users	Million	–	3.51	16.21	361.8%
Internet of Things connected devices*	Million	–	0.98	14.19	1,348.0%

* China Telecom completed the construction of its efficiently-centralised operating platform for Internet of Things and operation commenced in April 2016.



In 2016, the Company continued to focus on the "2+5" key businesses with continuous optimisation in business structure, achieving scale expansion, sound revenue growth momentum and remarkably strengthened comprehensive capabilities. Step-up transformation leaped forward to a new level.

Key operating performance in 2016

(1) Healthy growth in operating revenues with continuous optimisation in business structure

In 2016, the Company's operating revenues increased by 6.4% to RMB352,285 million. Service revenues increased by 5.6% to RMB309,644 million. Revenue structure was further optimised, with emerging businesses accounting for 39.6% of service revenues, up 5.2 percentage points. Of which, handset Internet access revenue and ICT service revenue increased by 42.9% and 17.2% respectively over last year, becoming the major drivers of revenue growth.

Emerging Business Revenue



21.5%

accounting for

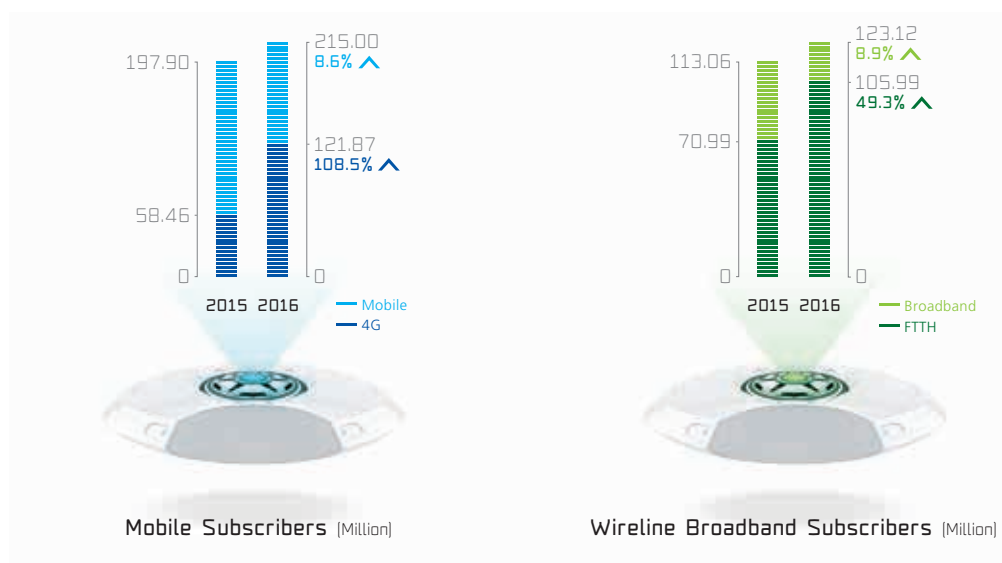
39.6%

of Service Revenues

(2) Rapid growth in mobile services with comprehensive acceleration in 4G business

Through persistence in aggressive marketing strategy, the Company implemented sales and marketing initiatives such as "Integration driving new subscribers", "Seizing card slots" and innovation in consumer finance, driving the rapid development in mobile services with consistent increase in the market share of mobile subscribers. The Company leveraged its 4G network edge to comprehensively promote its 4G business. Rapidly expanding in new subscribers market and accelerating subscribers migration, the Company became the world's largest LTE FDD operator. Grasping the pattern of value chain development, the Company promoted the "multi-mode" handsets¹ as the national standard to strengthen the competitive edges in handsets while expanding its sales radius to enhance terminal-led capability. The Company continuously optimised its product strategy,

improved its channel deployment and enhanced its sales organisation, resulting in accelerated subscriber scale expansion and rapid revenue growth. Mobile subscribers reached 215.00 million by the end of 2016, with a net addition of 17.10 million for the year. 4G terminal users reached 121.87 million by the end of 2016, with a net addition of 63.41 million for the year, accounting for 56.7% of total mobile subscribers. Mobile service revenues increased by 10.5% over last year to RMB137,611 million.



¹ "Multi-mode" handsets represent handsets supporting the six telecommunications standards namely TD-LTE, LTE FDD, WCDMA, TD-SCDMA, GSM and CDMA, which is compatible with all the 4G/3G/2G networks of China Telecom, China Mobile and China Unicom.



(3) Mutual enhancement in quantity and quality of data traffic operation with prominent results

Led by the mutual growth in data traffic volume and value, the Company diversified its products and optimised its 4G packages, and promoted the data traffic products including “spare time package”, “holiday package”, “dedicated data traffic package” and “integrated video card”, resulting in growth in data traffic volume while preserving data traffic value. Leveraging the edge of intellectual operation in Big Data, the Company promoted precision handsets upgrade of subscribers, accelerated subscribers migration from 3G to 4G. The Company focused on “large data traffic producer”, “large data traffic application” and “large data traffic area”, resulting in remarkable data traffic consumption with signature handsets, video applications and in key areas. 4G DOU exceeded 1GB, reaching 1,029MB, while data traffic has become the top growth driver for revenue. In 2016, handset data traffic reached 1,277kTB, representing an increase of 130.2% over last year, of which 4G handset data Internet traffic accounted for 83.1%, representing an increase of 32.4 percentage points over last year. The handset Internet access revenue accounted for 49.6% of mobile service revenues, representing an increase of 11.2 percentage points over last year.

(4) Extraction of high speed fibre broadband value with solid growth in wireline business

Guided by the broadband development strategies of "speed upgrade, content enrichment and brand establishment", the Company reinforced its differentiated edges in its broadband services driven by Hundred-Mbps products with Gbps products as demo. With the launch of its "smart fibre broadband standard", the Company redefined service connotation of high-speed broadband service as Hundred-Mbps bandwidth or above. Proactively expanding fibre broadband subscriber scale, China Telecom has become the world's largest FTTH operator. Building on the fundamental of its fibre network, the Company further developed its integrated services. Through smart home gateway and 4K TV set-top box, the Company introduced four core applications including e-Surfing HD, VPN, family cloud and video call, uplifted high bandwidth threshold and extracted broadband value to stabilise the revenue base of our wireline services, and to effectively compensate the revenue shortfall caused by the gradually declining wireline voice revenue. Net addition of wireline broadband subscribers was 10.06 million for the year, reaching

123.12 million by the end of 2016. Net addition of FTTH subscribers was 35.00 million for the year, reaching 105.99 million by the end of 2016, accounting for 86.1% of the total wireline broadband subscribers. Wireline broadband revenue was RMB76,766 million, representing an increase of 3.3% over last year. Wireline service revenues reached RMB172,033 million, representing an increase of 1.9% over last year. Wireline voice revenue was RMB25,987 million, accounting for 8.4% of the service revenues, representing a decrease of 1.7 percentage points from last year.

FTTH
Subscribers
as a % of
Wireline
Broadband
Subscribers



 **23.0**
pp



(5) Strong momentum in emerging business development with favourable market trend

The Company persisted in adhering to innovation as vitality and grasped business pattern to satisfy the continuously increasing and diversifying demand from customers. The Company strengthened research and development, expedited cultivation and pragmatically promoted its emerging business with remarkable achievements. In respect of Smart Family development, leveraging resource strengths, the Company comprehensively implemented efficiently centralised operations to form and operate the smart family alliance and developed four core applications namely e-Surfing HD, VPN, family cloud and video call in full strength, achieving stable expansion in its subscriber scale. By end 2016, e-Surfing HD subscribers reached 61.33 million, representing a net addition of 20.95 million for the year. In respect of Internet finance development, the Company stepped up emerging business promotion including consumer finance instalments and "BestPay red packet", with average monthly active users of "BestPay" reaching 16.21 million, representing an increase of 361.8% over last year, and actively participating merchants reaching 300,000, grew by 773.5% over last

e-Surfing HD Subscribers
Accounting for



50%

of Wireline Broadband
Subscribers



year. In respect of Internet of Things ("IoT") development, the Company implemented efficiently centralised operation in business development featured with one-stop acceptance for full range of service, launched the construction of NB-IoT and formed e-Surfing IoT industry alliance with focuses on the scale expansion in key industries such as Internet of vehicles, security monitoring and public affairs, achieving a net addition of 13.21 million connected devices. In respect of cloud services development, adhering to the principles of "cloud-network integration, appropriate deployment, reliable security and efficiently centralised operation", the Company refined the infrastructure deployment of cloud and IDC and launched "e-Surfing cloud 3.0" products in order to achieve industry-leading capabilities in key products such as cloud hosting, cloud storage and private cloud. Revenue from IDC service was RMB15,936 million, representing an increase of 27.9% over last year, while revenue from cloud service was RMB1,500 million, representing an increase of 48.8% over last year. In respect of Big Data development, through supporting precision sales and marketing internally and achieving breakthroughs externally in sectors including transportation, tourism and finance, the Company enhanced its level of operation intellectualisation. Revenue from Big Data service was RMB410 million, representing an increase of 81.4% over last year. In respect of "Internet+" development, the Company published the "Internet+" Action White Paper and prominently enhanced the scale and quality of big orders, remarkably strengthened its influence through scale expansion in industries such as government administration, education and healthcare.

(6) Enhancing channel capabilities by implementing sales and service integration via channels

The Company deepened the promotion of channel operation, effectively expanded the channel scale, refining and optimising the "channel overview" and "superior channel" systems while remarkably enhancing precision sales and service capabilities of the channels. The Company strengthened coordination between direct sales channels, physical channels and electronic channels for market development. Regarding physical stores, the Company expanded the open channels coverage in core business districts, built Smart Family experience stores in urban communities and promoted the establishment of sales outlets for "multi-mode" handsets in rural market. At the same time, the Company initiated cooperation with various industries and widely expanded into the household electrical appliance stores, comprehensively promoting sales and service integration. In direct sales channels, the Company leveraged the edges in big orders development and good customer relations, achieved remarkable enhancement in the volume of big orders and widespread influence in industries including government administration, education and healthcare. In electronic channels, the Company leveraged online stores and mobile online stores service system, with mobile online service app users exceeded 100 million. The Company deepened O2O operating capability and developed extensive cooperation with e-commerce companies, resulting in the consistent enhancement in sales volume of data traffic packages and customer acquisition.

(7) Focusing on "2+5" key businesses with enhancement in customer service capabilities

The Company focused on "2+5" key businesses and reinforced the consciousness of "proactive service and smart alert", in order to comprehensively improve the level of precision service and intellectualisation level. In respect of 4G services, the Company optimised the data traffic business rules and developed data traffic operation by scenario with pilot promotion of detailed record inquiries for data traffic. In respect of fibre broadband services, the Company implemented innovative service models to promote "pay after installation" in order to enhance end-to-end operation capabilities. In respect of key emerging businesses, the Company explicitly defined service scope and refined service system to solve key service problems. To strengthen customer relations, the Company comprehensively promoted star services and scaled-up bonus points reward. The company continuously enhanced channel service quality, improved service standard of sales outlets and strengthened the service capabilities of new media. In 2016, the Company ranked first in the industry in terms of customer satisfaction in both wireline and mobile Internet access services as assessed by the Ministry of Industry and Information Technology.



"Internet+" Terminal Value Chain Partnership Conference



Intelligent Device Value Chain Forum



(8) Strengthening network capabilities prominently with stable enhancement in operating efficiency

The Company persisted in customer-oriented development strategy with innovation and continuously enhanced its investment structure and optimise resources allocation. First, coordinating and planning for frequency resources, the Company leveraged the differentiated edges of "wide coverage with low frequency, adequate capacity with high frequency". With the comprehensive launch of the LTE 800MHz reform, the Company built the world's largest FDD network and achieved basic full coverage of 4G network. In 2016, the Company added 380,000 4G BTSs, reaching 890,000 4G BTSs by the end of 2016. Second, the Company efficiently promoted the full fibre network construction, consistently optimised network coverage and enhanced network capabilities. The Company added over 65 million FTTH/O ports for the year, reaching 210 million ports by the end of 2016, with basic full coverage of fibre network in the city area of southern China. Third, the Company officially published *China Telecom's CNet2025 Network Structure White Paper*, fully launched intelligentisation of network reconstitution, and officially established open laboratory for network reconstitution. With a more open attitude, the Company carried out tests of new technologies such as SDN/NFV with various parties along the value chain, accelerated the pace of technological innovation. Fourth, the Company endeavoured to promote co-building and sharing to avoid duplicated construction. In 2016, the Company jointly built 4G

BTSs with China Unicom, promoted the interconnection of two parties' primary and secondary trunk networks and coordinated the cooperation demand between southern and northern China, to foster the co-building and sharing of fibre transmission line, effectively saved capital expenditure.

% of 100Mbps+ Bandwidth Subscribers



Ceremony for Open Laboratories Establishment for CNet2025 Network Reconstitution & 5G

Outlook for 2017

2017 is a crucial year for the implementation of the corporate strategy regarding step-up transformation. Navigating with strong strategy-led, the Company will accelerate the promotion of network intelligentisation, service ecologicalisation and operation intellectualisation to further develop the "2+5" key businesses and forge differentiated edges. The Company will accelerate the promotion of service ecologicalisation surrounding the five service ecospheres. In respect of Intelligent Connection ecosphere, persisting in aggressive strategy, the Company will further expedite scale expansion of 4G and fibre broadband services, proactively expanding in subscribers acquisition, strengthening data traffic operation and servicing customer retention to enhance customer value. In respect of Smart Family ecosphere, leveraging the scale advantages of e-Surfing HD service, the Company will promote new integrated packages with scale deployment in e-Surfing gateway and 4K TV set-top box, and expedite the expansion in applications such as family cloud, VPN and video call, to strengthen Smart Family ecosphere development. In respect of Internet Finance ecosphere, accelerating the promotion of credit consumption model, the Company will expand the scales of gross merchandise value, active users and actively participating merchants in BestPay service, with the introduction of various payment scenarios and enhancement in payment capabilities, to enhance customers' experience. In respect of IoT ecosphere, accelerating the construction of connection management platform and business vitality platform, the Company will focus on three markets namely smart city, vertical industry and individual consumption and leverage the advantages in 4G dedicated network and

low-frequency NB-IoT network to achieve scale breakthrough. In respect of new ICT applications ecosphere, reinforcing the promotion of "cloud-network integration" and provision of platform services, the Company will leverage solid network foundation to build strong cloud platform, with a focus on key industries such as government administration, education, healthcare and industrial Internet, to promote the applications upgrade.

In 2017, the Company will seize the opportunity in refining Big Data platform capabilities on corporate level, to accelerate the promotion of operation intellectualisation. With the largest Big Data capability platform in Asia, the Company will endeavour to establish open mechanism of Big Data capabilities for both internal use and external clients. Internally, the Company will embed Big Data in the production systems including MSS, BSS and OSS. Externally, the Company will enhance its applications in areas including sales and marketing, customer services, product development and network operation, in order to foster the enhancement in quality and efficiency and enhance customers' experience. At the same time, the Company will leverage Big Data capabilities to deepen internal administration, and elaborate the corporate strategies for better execution.

Guided by CTNet2025, the Company will also accelerate the promotion of network intelligentisation. Expediting the network evolution and upgrades, the Company will build three superior basic networks, namely 4G network, all-fibre network and IoT network, providing strong support for the scale development of "2+5" businesses, consistently enhancing the quality and efficiency of corporate development, and fostering the mutual growth in corporate value, customer value and employee value.

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Summary

In 2016, with reform and innovation as the driving force, the Company adhered to the "2+5" operation focuses, changed the mode of development, strengthened the six key capabilities in order to enhance the effectiveness of operational management. The overall operating results were steadily improved. Operating revenues in 2016 were RMB352,285 million, an increase of 6.4% from 2015; service revenues¹ were RMB309,644 million, an increase of 5.6% from 2015; operating expenses were RMB325,084 million, an increase of 6.7% from 2015; profit attributable to equity holders of the Company was RMB18,004 million, a decrease of 10.2% from 2015; basic earnings per share were RMB0.22; EBITDA² was RMB95,139 million, an increase of 1.1% from 2015 and the EBITDA margin³ was 30.7%.

Operating Revenues

In 2016, while proactively responding to the impact of regulatory policies such as Speed Upgrade and Tariff Reduction, implementation of real-name registration and regional integration as a whole, the Company accelerated the scale development of 4G and fibre broadband business, continued to optimise its business structure and achieved a stable growth in its operating revenues. Operating revenues in 2016 were RMB352,285 million, an increase of 6.4% from 2015. Of which, the total mobile revenues were RMB172,223 million, an increase of 10.0% from 2015; the total wireline revenues were RMB180,062 million, an increase of 3.1% from 2015.

¹ Service revenues were calculated based on operating revenues minus sales of mobile terminals (2016: RMB34,612 million; 2015: RMB32,026 million), sales of wireline equipment (2016: RMB5,822 million; 2015: RMB4,430 million) and other non-service revenues (2016: RMB2,207 million; 2015: RMB1,480 million).

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

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

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The following table sets forth a breakdown of the operating revenues for 2015 and 2016, together with their respective rates of change:

<i>(RMB millions, except percentage data)</i>	For the year ended 31 December		
	2016	2015	Rates of change
Voice	70,120	78,593	(10.8%)
Internet	150,405	126,546	18.9%
Information and application services	66,838	66,343	0.7%
Telecommunications network resource services and lease of network equipment	17,773	17,635	0.8%
Others	47,149	42,085	12.0%
Total operating revenues	352,285	331,202	6.4%

Voice

In 2016, being affected by the substitution effect of mobile Internet services, such as OTT, revenue from voice services was RMB70,120 million, a decrease of 10.8% from 2015, accounting for 19.9% of operating revenues. Of this, revenue from wireline voice services was RMB25,987 million, a decrease of 12.2% from 2015, revenue from mobile voice services was RMB44,133 million, a decrease of 9.9% from 2015. The revenue contribution from voice services continued to decrease, resulting in persistent improvement in structures and effective mitigation of operating risks.

Internet

In 2016, revenue from Internet services was RMB150,405 million, an increase of 18.9% from 2015, accounting for 42.7% of operating revenues. The Company comprehensively upgraded the broadband access network, leveraged the integration advantage of "4G + fibre broadband + e-Surfing HD" and promoted the healthy development of broadband services. At the end of 2016, the number of wireline broadband subscribers reached 123 million, with a net increase of 10.06 million. The wireline broadband revenue was RMB76,766 million, an increase of 3.3% from 2015. The Company deepened the data traffic operation, enhanced integration of contents and data traffic and effectively drove the acceleration of mobile data traffic and revenue growth. Revenue from mobile Internet access services was RMB70,682 million, an increase of 39.4% from 2015. Of this, mobile handset Internet access revenue was RMB68,263 million, an increase of 42.9% from 2015.

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Information and Application Services

In 2016, revenue from information and application services was RMB66,838 million, an increase of 0.7% from 2015, accounting for 19.0% of operating revenues. Of which, revenue from wireline information and application services was RMB44,335 million, an increase of 5.5% from 2015, mainly benefiting from the rapid growth of IDC, cloud and e-Surfing HD services. Revenue from mobile information and application services was RMB22,503 million, a decrease of 7.4% from 2015, which was mainly due to the decrease in revenue from traditional services such as short and multimedia messaging services and information inquiry services.

Telecommunications Network Resource Services and Lease of Network Equipment

In 2016, revenue from telecommunications network resource services and lease of network equipment was RMB17,773 million, an increase of 0.8% from 2015, accounting for 5.0% of operating revenues. Of which, revenue from wireline telecommunications network resource services and lease of network equipment was RMB17,595 million, an increase of 2.2% from 2015.

Others

In 2016, revenue from other services was RMB47,149 million, an increase of 12.0% from 2015, accounting for 13.4% of operating revenues. Revenue from sales of mobile terminals was RMB34,612 million, an increase of 8.1% from 2015, which was mainly due to the growth in sales of mobile terminals driven by the sales of "multi-mode" handsets.

Service Revenues



Operating Expenses

The Company continued to optimise the allocation of resources and strengthened the precision management of costs and expenses in order to effectively support the business development. In 2016, the operating expenses were RMB325,084 million, an increase of 6.7% from 2015. Operating expenses accounted for 92.3% of operating revenues, an increase of 0.3 percentage point from 2015.

The following table sets forth a breakdown of the operating expenses in 2015 and 2016 and their respective rates of change:

<i>(RMB millions, except percentage data)</i>	For the year ended 31 December		
	2016	2015	Rates of change
Depreciation and amortisation	67,938	67,664	0.4%
Network operations and support	94,092	81,240	15.8%
Selling, general and administrative	56,417	54,472	3.6%
Personnel expenses	54,460	52,541	3.7%
Other operating expenses	52,177	48,843	6.8%
Total operating expenses	325,084	304,760	6.7%

Depreciation and Amortisation

In 2016, depreciation and amortisation was RMB67,938 million, an increase of 0.4% from 2015, accounting for 19.3% of operating revenues. The depreciation and amortisation of the newly added assets in 2016 was basically equivalent to the decrease in depreciation and amortisation resulted from the disposal of tower assets.

Network Operations and Support

In 2016, network operations and support expenses were RMB94,092 million, an increase of 15.8% from 2015, accounting for 26.7% of operating revenues. The growth was mainly due to the increase in the tower assets lease fee and related expenses. At the same time, the Company continuously strengthened cost management and control and the growth rate of network operations and support expenses was lower than that in the same period of last year.

Selling, General and Administrative

In 2016, selling, general and administrative expenses amounted to RMB56,417 million, an increase of 3.6% from 2015, accounting for 16.0% of operating revenues. Selling expenses were RMB47,821 million, an increase of 4.1% from 2015. The increase was due to the fact that the Company appropriately increased initiatives in marketing resources while continued to enhance the efficiency of resources utilisation. Of which, commission and service expenses for third parties amounted to RMB30,753 million, an increase of 15.4% from 2015. Advertising and promotion expenses amounted to RMB17,068 million, a decrease of 11.5% from 2015, of which the terminal subsidies amounted to RMB9,370 million, a decrease of 19.4% from 2015.

Personnel Expenses

In 2016, personnel expenses were RMB54,460 million, an increase of 3.7% from 2015, accounting for 15.5% 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 this annual report.

Other Operating Expenses

In 2016, other operating expenses were RMB52,177 million, an increase of 6.8% from 2015, accounting for 14.8% of operating revenues. The cost of mobile terminal equipment sold amounted to RMB32,849 million, an increase of 6.4% from 2015, which was mainly due to the increase in terminal sales leading to an increase in expenses.

Net Finance Costs

In 2016, net finance costs were RMB3,235 million, a decrease of 24.3% from 2015. The decrease was mainly due to the fact that the interest rate of the deferred consideration of Mobile Network Acquisition decreased from 5.11% per annum in 2015 to 4.00% per annum in 2016 (adjusted in accordance with a 5 basis points premium to the yield of the 5-year super AAA rated Medium Term Notes once a year pursuant to the agreement). Net exchange gains were RMB113 million in 2016. The fluctuation of foreign exchange gain or loss was mainly due to the depreciation of the RMB exchange rate against the US Dollar.

Net
Finance Costs 

 24.3% 

Profitability Level

Income Tax

The Company's statutory income tax rate is 25%. In 2016, income tax expenses were RMB5,988 million with the effective 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 2016, profit attributable to equity holders of the Company was RMB18,004 million, a decrease of 10.2% from 2015.



Capital Expenditure and Cash Flows

Capital Expenditure

In 2016, the Company strictly controlled the total amount of capital expenditure. On the basis of steady promotion of 4G and fibre broadband network investment, the Company continuously optimised the investment structure to ensure the maximisation of investment efficiency. In 2016, capital expenditure was RMB96,817 million, a decrease of 11.3% from 2015.

Cash Flows

In 2016, net decrease in cash and cash equivalents was RMB7,463 million, while the net increase in cash and cash equivalents was RMB11,309 million in 2015.

The following table sets forth the cash flow position in 2015 and 2016:

<i>(RMB millions)</i>	For the year ended	
	31 December	
	2016	2015
Net cash flow from operating activities	101,130	108,750
Net cash used in investing activities	(99,038)	(102,250)
Net cash (used in)/from financing activities	(9,555)	4,809
Net (decrease)/increase in cash and cash equivalents	(7,463)	11,309

In 2016, the net cash inflow from operating activities was RMB101,130 million, a decrease of 7.0% from 2015, which was mainly due to the increase in costs and expenses related to operating activities.

In 2016, the net cash outflow used in investing activities was RMB99,038 million, a decrease of 3.1% from 2015, which was mainly due to the decrease of capital expenditure for the year.

In 2016, the net cash outflow used in financing activities was RMB9,555 million, and the net cash inflow from financing activities in 2015 was RMB4,809 million. The change was mainly due to the repayment of part of the short-term commercial papers in 2016.

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Working Capital

The Company consistently upheld prudent financial principles and strict fund management policies. At the end of 2016, working capital (total current assets minus total current liabilities) deficit was RMB245,026 million, an increase in deficit of RMB67,205 million from RMB177,821 million in 2015. The deficit increased because the deferred consideration of RMB61,710 million for the Mobile Network Acquisition will become due at the end of 2017 and was reclassified as current liabilities. As at 31 December 2016, the unutilised credit facilities were RMB161,229 million (2015: RMB128,839 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 2016, cash and cash equivalents amounted to RMB24,617 million, amongst which cash and cash equivalents denominated in Renminbi accounted for 81.8% (2015: 92.6%).

Assets and Liabilities

In 2016, the Company continued to maintain a solid financial position. At the end of 2016, the total assets increased by 3.6% to RMB652,368 million from RMB629,561 million at the end of 2015. Total indebtedness decreased to RMB112,528 million from RMB116,669 million at the end of 2015. The ratio of total indebtedness to total assets decreased to 17.2% from 18.5% at the end of 2015.

Indebtedness

The indebtedness analysis as at the end of 2015 and 2016 is as follows:

(RMB millions)	For the year ended	
	31 December	2015
	2016	
Short-term debt	40,780	51,636
Long-term debt and payable maturing within one year	62,276	84
Long-term debt and payable	9,370	64,830
Finance lease obligations (including current portion)	102	119
Total debt	112,528	116,669

By the end of 2016, the total indebtedness was RMB112,528 million, a decrease of RMB4,141 million from the end of 2015, which was mainly due to the repayment of part of the short-term commercial papers. Of the total indebtedness, loans denominated in Renminbi, US Dollars and Euro accounted for 99.4% (2015: 99.4%), 0.4% (2015: 0.4%) and 0.2% (2015: 0.2%), respectively. 44.3% (2015: 46.3%) 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 2016, neither the Company and any of its subsidiaries pledge any assets as collateral for debt (2015: 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 2016, 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)	Total	1 January	1 January	1 January	1 January	1 January	Thereafter
		2017 to 31 December	2018 to 31 December	2019 to 31 December	2020 to 31 December	2021 to 31 December	
Short-term debt	41,425	41,425	-	-	-	-	-
Long-term debt and payable	75,126	62,307	1,187	1,201	1,205	1,195	8,031
Operating lease commitments	60,981	15,492	14,351	13,704	13,256	1,112	3,066
Capital commitments	13,740	13,740	-	-	-	-	-
Total contractual obligations	191,272	132,964	15,538	14,905	14,461	2,307	11,097

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