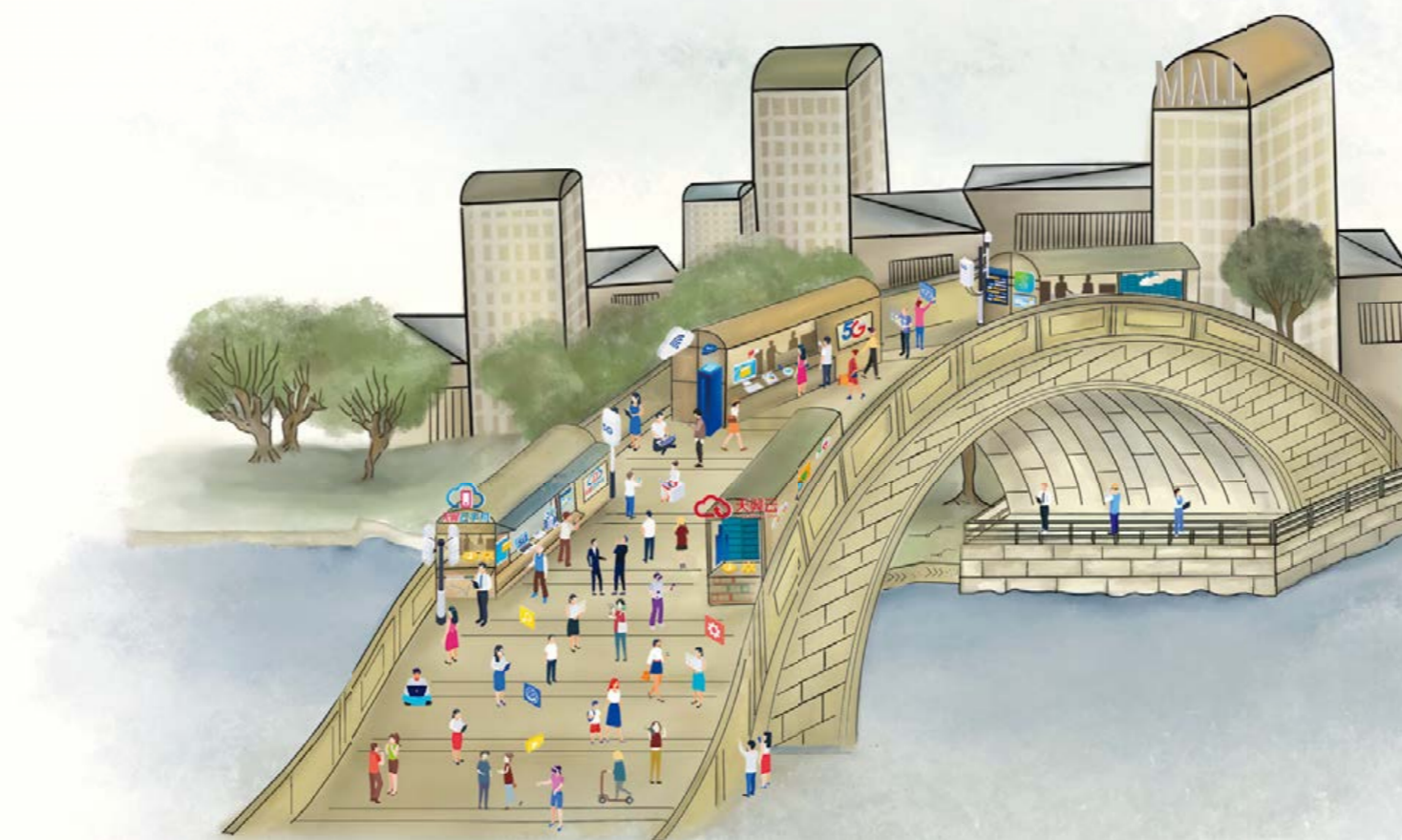


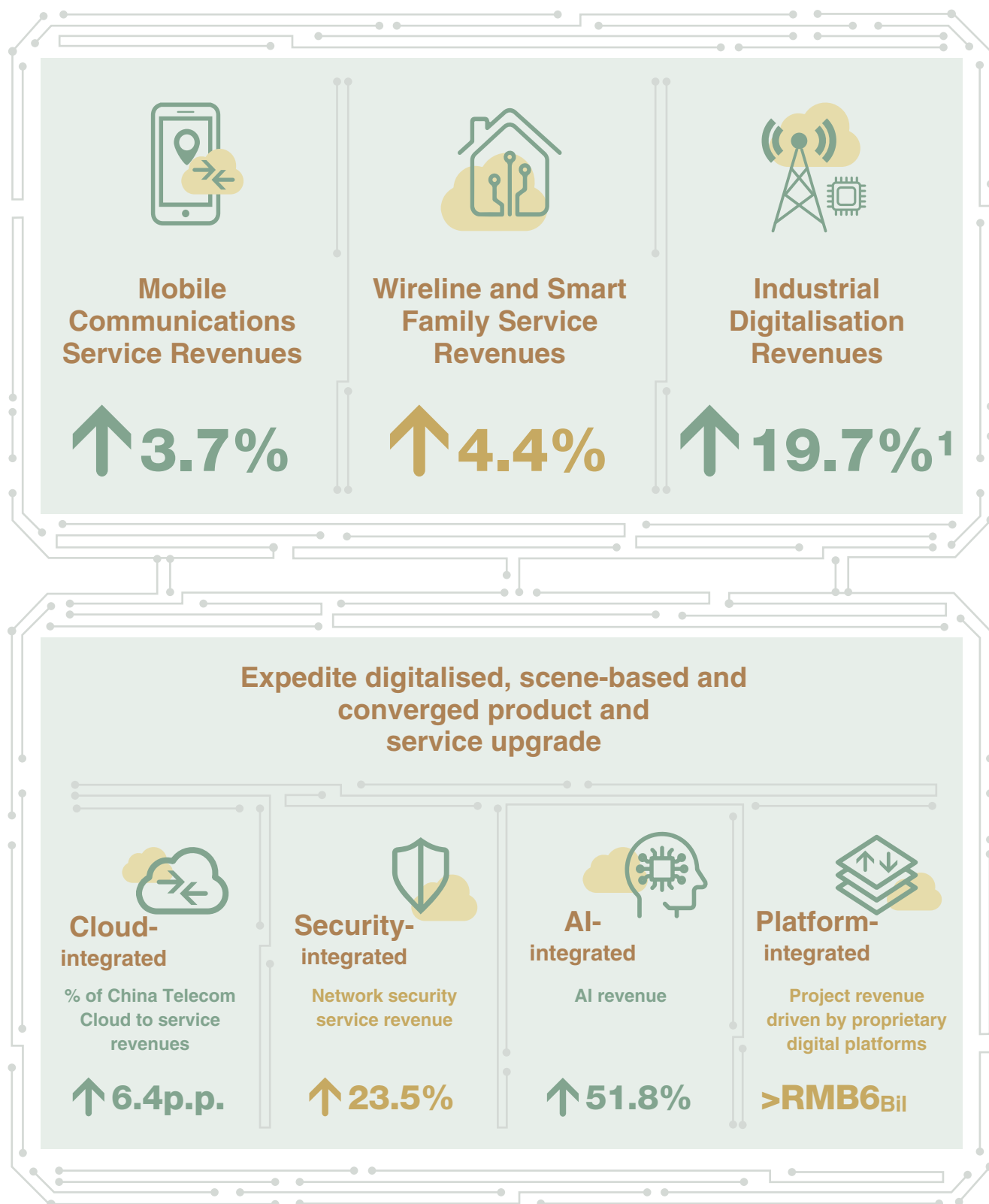
PERSONAL CLOUD TO ENABLE INFINITE POSSIBILITIES

2022 Highlights

- Fully implemented Cloudification and Digital Transformation taking high-quality development to a new level
- Fundamental Businesses and Industrial Digitalisation serve as dual engines and China Telecom Cloud revenue doubled again
- Insist on the leading role of sci-tech innovation with substantial progress in capability deployment
- Expedite promotion of cloud-network integration to solidify the foundation of digital infrastructure
- Fully deepen corporate reform and further enhance corporate vitality and impetus
- Develop world-class enterprise and fulfill the responsibility in building Digital China



SECTION III MANAGEMENT'S DISCUSSION AND ANALYSIS (REPORT OF THE DIRECTORS)



¹ The Industrial Digitalisation revenue growth is on comparable basis by excluding the Internet Finance revenue for 2021 of E-surfing Pay Co., Ltd. (which was disposed in April 2021).



Ke Ruiwen
*Chairman and Chief
Executive Officer*

1. DISCUSSION AND ANALYSIS OF OPERATIONS

In 2022, the further advancement in the building of Digital China as well as the thriving development of digital economy brought new development opportunities to the industry. The Company implemented the new development principles completely, accurately and comprehensively based on the new development stage, while taking the initiative to serve and integrate into the new development pattern. The Company resolutely fulfilled its responsibilities in building Cyberpower and Digital China as well as safeguarding network and information security and fully implemented its

Cloudification and Digital Transformation strategy. The Company further advanced the deployment of capabilities led by sci-tech innovation and leveraged deepened reforms to propel the unleashing of development momentum continuously. The Company's corporate governance system has been further optimised. The Company spared no effort in developing a service-oriented, technology-oriented and secured enterprise, while sharing the new achievements of its high-quality development with shareholders, customers and society.

1. OVERALL RESULTS

In 2022, the Company's operating revenues amounted to RMB481.4 billion, representing an increase of 9.5% year-on-year. Service revenues² amounted to RMB434.9 billion, representing an increase of 8.0% year-on-year. Excluding the revenue impact from the disposals of its subsidiaries in 2021³, the year-on-year growth rate reached 8.1%. EBITDA⁴ amounted to RMB130.4 billion, representing an increase of 5.2% year-on-year. Net profit⁵ amounted to RMB27.6 billion, representing an increase of 6.3% year-on-year. Excluding the one-off after-tax gain from the disposals of its subsidiaries in 2021⁶, the year-on-year growth rate reached 12.5%. The basic earnings per share were RMB0.30. Capital expenditure was RMB92.5 billion and free cash flow⁷ reached RMB13.2 billion.

The Company attaches great importance to shareholder returns and strives to enhance its profitability and

cash flow generation capabilities, while effectively controlling capital expenditure. Taking the Company's profitability into full consideration, alongside cash flow levels and capital needs for its future development, the Board of Directors has decided to recommend at the Annual General Meeting that a final dividend of 2022 of RMB0.076 per share (pre-tax) shall be declared. Together with the 2022 interim dividend of RMB0.120 per share (pre-tax) which has been distributed, the full year dividend of 2022 amounts to RMB0.196 per share (pre-tax), and the aggregate amount of the full year dividend represents 65% of the profit attributable to equity holders of the Company for the year. Within the three years following the Company's A Share Offering and Listing, the profit to be distributed in cash for each year will gradually increase to 70% or above of the profit attributable to equity holders of the Company for that year, continuously creating more value to all shareholders.

² Service revenues are calculated based on operating revenues minus sales of mobile terminals, sales of wireline equipment and other non-service revenues. Of which, mobile service revenues amounted to RMB206.9 billion, representing an increase of 6.0% year-on-year; wireline service revenues amounted to RMB228.0 billion, representing an increase of 9.8% year-on-year.

³ Service revenues for 2021 excluded Internet Finance revenue prior to the disposal of E-surfing Pay Co., Ltd. which was completed in April 2021.

⁴ EBITDA is calculated based on operating revenues minus operating expenses plus depreciation and amortisation.

⁵ Net profit represents profit attributable to equity holders of the Company.

⁶ The one-off after-tax gain from the disposals of E-surfing Pay Co., Ltd. and China Telecom Leasing Corporation Limited was approximately RMB1,416 million.

⁷ 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.

Strong Revenue Growth Remained, Profitability Further Enhanced



↑9.5%

Operating revenues

↑8.0%

Service revenues

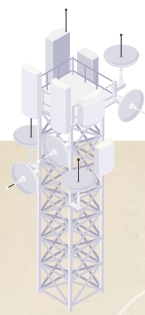
10th consecutive
year of growth

↑12.5%

Comparable net profit

Maintained
double-digit growth
Surpassed
revenue growth



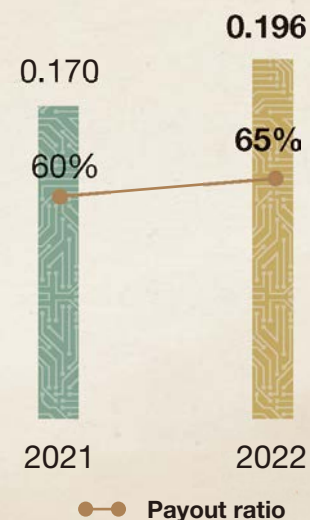


Full-year dividend
per share RMB**0.196**

Payout ratio
65%

Increase Dividend to Reward Shareholders

Dividend per share
RMB



2. FULLY IMPLEMENTING CLOUDIFICATION AND DIGITAL TRANSFORMATION STRATEGY, WHILE TAKING HIGH-QUALITY CORPORATE DEVELOPMENT TO A NEW LEVEL

In 2022, the Company comprehensively implemented its Cloudification and Digital Transformation strategy, and fully completed its deployment in the fields of businesses, capabilities, sci-tech innovation, cloud-network and reforms. The Company built new development momentum through cloud-, AI-, security- and platform-integrated initiatives and further enhanced its digital supply capabilities. The Company strived to develop an enterprise with “three orientations”⁸ while further advancing its high-quality development.

2.1 Further upgrade of integrated intelligent information products and services, with adherence to the customer-oriented approach

The Company further accelerated the transformation of its fundamental businesses, strengthened the promotion of digital products supply, and proactively expanded the new path featuring integrated development of Smart Family, Digital Village and Smart Community, enabling the whole society to enjoy a better digital life while promoting the steady growth of its fundamental businesses. The Company continued to strengthen its 5G network coverage, optimise network quality and enhance 5G user experience to promote mobile subscribers growth and value stabilisation. Leveraging the convergence of

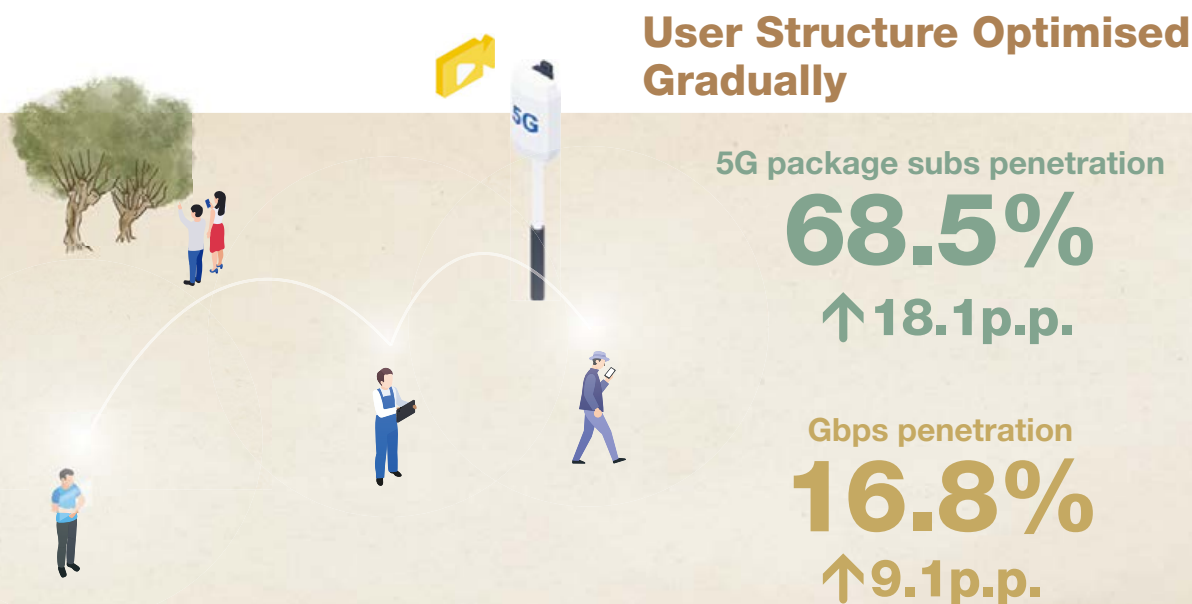
⁸ Enterprise with “three orientations”: service-oriented, technology-oriented and secured enterprise.

"5G + Gigabit broadband + Gigabit WiFi", as well as the incorporation of digital elements such as AI, security, cloud, the Company promoted the application expansion and service upgrade of broadband subscribers. With the creation of an open and integrated digital life platform, the Company provided communities and villages with leading capabilities in connecting households, communities and government, as well as abundant solutions for grassroots governance. The Company also provided integrated scene-based applications such as Video Door Access Control, Community Management and Village Governance. In 2022, the Company's mobile communications service revenues amounted to RMB191.0 billion, representing an increase of 3.7% year-on-year, maintaining favourable growth. The penetration

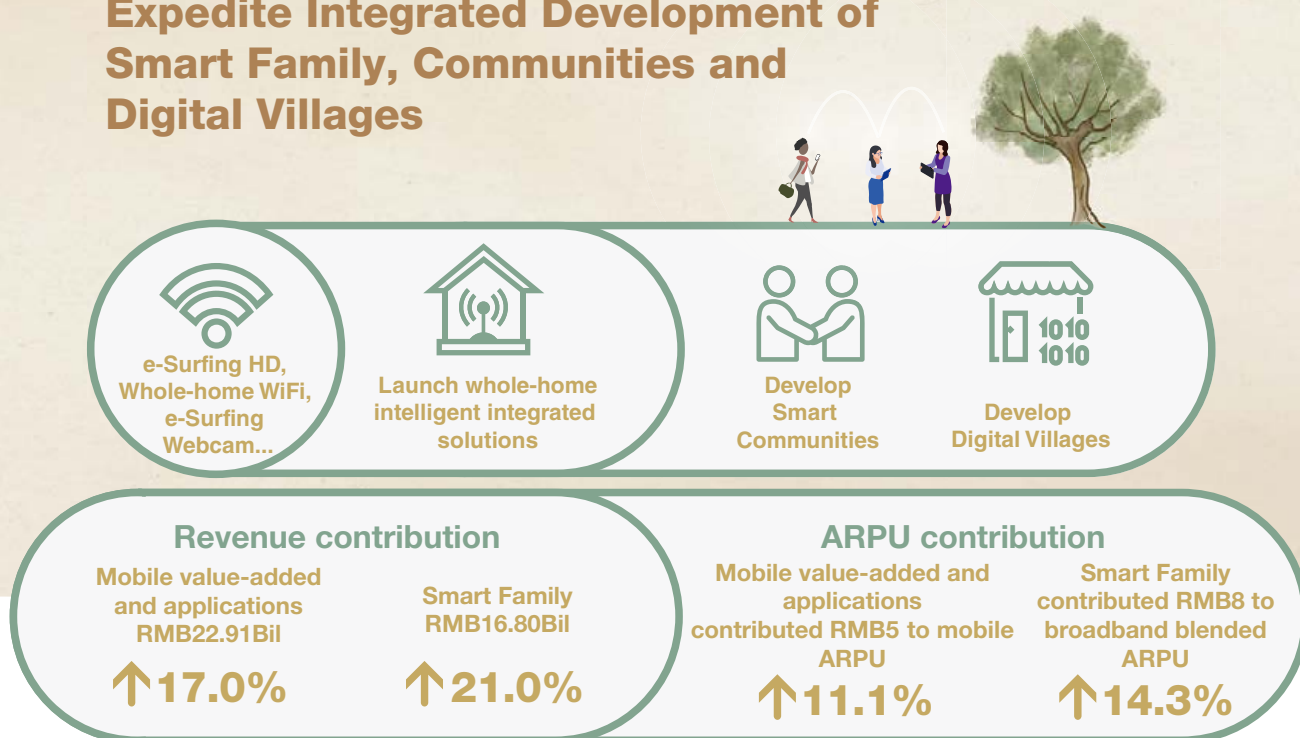
rate of 5G package subscribers reached 68.5%. The value contributions from mobile value-added services and applications continued to grow, with mobile ARPU⁹ reaching RMB45.2, representing an increase of 0.4% year-on-year. Wireline and Smart Family service revenues amounted to RMB118.5 billion, representing an increase of 4.4% year-on-year. The penetration rate of Gigabit broadband reached 16.8%. The number of Whole-home WiFi and e-Surfing Webcam subscribers increased by 45.8% and 52.7% respectively. The value contributions from Smart Family service continued to grow. Broadband blended ARPU¹⁰ reached RMB46.3, representing an increase of 0.9% year-on-year. The Company's overall customer satisfaction maintained an industry-leading position.

⁹ Mobile ARPU = monthly average revenues from mobile services/the average number of mobile subscribers.

¹⁰ Broadband blended ARPU = monthly average revenues from broadband access, e-Surfing HD and Smart Family applications and services/the average number of broadband subscribers.



Expedite Integrated Development of Smart Family, Communities and Digital Villages



The Company proactively seized the current opportunities brought by the demands from various industries in the economy and society for network-based, digitalised, and smart integrated information services and created a model for Industrial Digitalisation development that deeply integrates “cloud-network capability foundation + industry application platforms”, providing digital integrated solutions for numerous walks of life. China Telecom Cloud has entered into a stage of 4.0 with full commercialisation after more than ten years of development. The market share of China Telecom Cloud continued to increase, becoming the world’s largest carrier cloud and China’s largest hybrid cloud. It has grown to rank among the top-three in China’s public cloud IaaS market and public cloud IaaS+PaaS market, while maintaining its No.1 position in the dedicated cloud market in terms of market share. The Company supported the digital transformation of the national

economy and society, achieving remarkable results in scale expansion in key areas of national economy and people’s livelihood. Focusing on 5G industry use cases, the cumulative number of 5G 2B commercial projects developed by the Company reached approximately 15,000, of which the number of newly added projects in 2022 exceeded 8,000. This fully unleashed new momentum of transformation for vertical industries. Meanwhile, emerging businesses, such as network security, Big Data, AI and digitalised platform, have gradually become new drivers for Industrial Digitalisation development. In 2022, revenue from Industrial Digitalisation of the Company amounted to RMB117.8 billion, representing a year-on-year growth of 19.7% on a comparable basis¹¹. Revenue from China Telecom Cloud reached RMB57.9 billion, representing an increase of 107.5% year-on-year. Revenue from network security services amounted to RMB4.7 billion, representing an increase of 23.5% year-on-year.

¹¹ Revenue for Industrial Digitalisation in 2021 has excluded the Internet Finance revenue before the disposal of E-surfing Pay Co., Ltd.



Chairman Ke
Ruiwen presented
at World 5G
Convention

2.2 Seizing opportunities arising from the development of digital economy and bolstering the momentum of the second growth curve

The Company further deepened the forward-looking deployment of digital technologies to lay a solid foundation for the innovation and development of digital economy. The Company also built new development momentum through cloud-, AI-, security- and platform-integrated initiatives, and further advanced capability deployment of various emerging businesses. The Company promoted the rapid development of the second growth curve to empower the high-quality development of digital economy. The Company completed the upgrade to China Telecom Cloud 4.0 which is a distributed cloud with wide-area coverage, featuring the integration of “cloud, network, edge, terminal, data, intelligence and security” as a whole. A number of its proprietary core technologies in fundamental software and hardware of cloud computing, such as TeleCloudOS4.0 cloud operating system, CTyunOS server operating system, TeleDB database and Zijin DPU were fully launched and achieved scale commercialisation of products. This further consolidated the independent and controllable cloud foundation featuring polymorphism and multiple

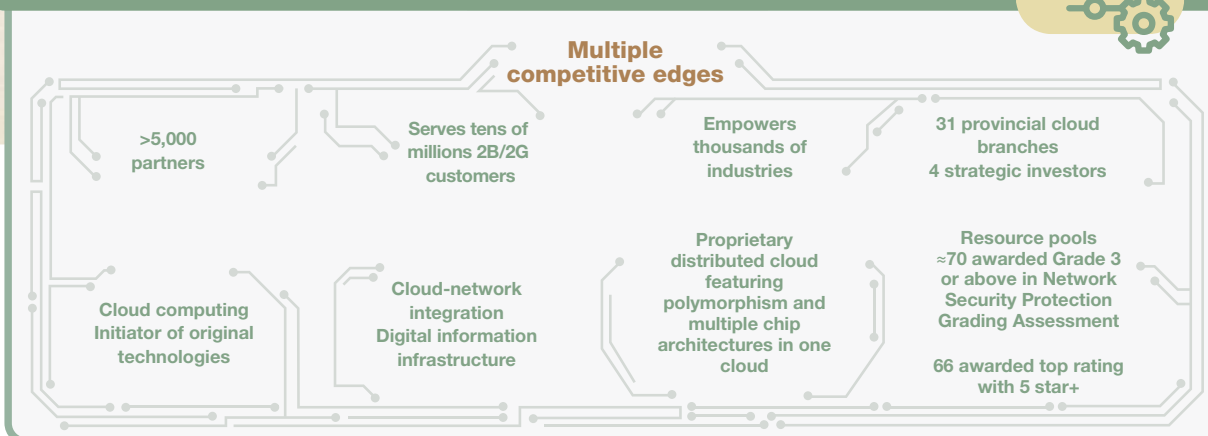
chip architectures in one cloud. The Company strengthened proprietary research and development (R&D) of AI core capabilities, built the industry’s first billion-parameter large-scale model for urban governance and promoted the expansion of large-scale models towards model hubs at the industry level. The Company strengthened the end-to-end supply of security products and services, completed the construction of “Cloud Dam” platform with full network coverage as well as a processing capacity of 10Tbps. The Company built an integrated security infrastructure platform, “Security Brain”, for industry customers. The Company accelerated the building of proprietary digital platform capabilities, and built the unified industry digitalised platform foundation. The Company enhanced the efficiency and quality of proprietary platform development, and promoted the development of Industry Digitalisation business. The number of Internet of Things (IoT) subscribers exceeded 400 million, achieving “IoT connections exceeding human connections”. e-Surfing Internet of Video Things (IoVT) achieved rapid development, with its number of subscribers exceeding 46 million. Use cases such as Kitchen Monitoring, Security Smart Eye, Smart Enterprise and e-Surfing Emergency Response achieved scale commercialisation.

China Telecom Cloud Revenue Doubled

RMB Mil



IaaS, IaaS + PaaS market shares industry top 3¹²



2.3 Insisting on the leading role of sci-tech innovation while further advancing the industrialisation upgrade of technological capabilities

Adhering to “science and technology constitute a primary productive force”, the Company strove to develop a technology-oriented enterprise. The Company was credited with the honorary title of “Enterprise with Outstanding Contribution to Sci-tech Innovation” by the State-owned Assets Supervision and Administration Commission (SASAC). The Company fully completed the

deployment of its R&D system for sci-tech innovation, RDO¹³, and proactively explored a development path featuring productisation of technological capabilities and industrialisation of innovative achievements. The Company built a platform for high-level sci-tech innovation, strengthened the fundamental support for R&D, and proactively forged the source of original cloud computing technologies while undertaking the construction of innovation platforms such as cloud-network infrastructure. The Company established joint sci-tech research institutions with key laboratories,

¹² Source of market share data: IDC Quarterly Public Cloud Services Tracker, 2022Q3.

¹³ RDO: fundamental research (R), applied technological research and development (D) and operational development (O).

SECTION III MANAGEMENT'S DISCUSSION AND ANALYSIS (REPORT OF THE DIRECTORS)

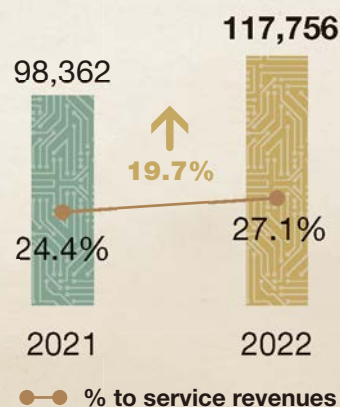
renowned universities and sci-tech research institutes for cutting-edge technologies such as 6G and next-generation network. The Company further strove for core technologies breakthroughs, with significant enhancement of capabilities in R&D of cloud-network technologies. The Company's achieved breakthroughs in key technologies of cloud computing such as software and hardware integration, operating system as well as database. The Company's computing power channelling of cloud storage and etc. has reached an advanced level within the industry. The computing power distribution network platform of China Telecom Cloud 4.0, "XiRang", was successfully selected as one of the "2022 Top 10 Super Projects of Central Enterprises". The Company also built China's largest quantum metropolitan network, the "Hefei Quantum Metropolitan Network". The Company further strengthened the industrialisation of

application achievements, realising the application of AI large-scale models under a number of scenes such as digital life and smart manufacturing. The Company also rolled out scale commercialisation of products such as Security Brain, Cloud Computer and CDN. Domestic invention patents and PCT patent applications were 1.4 times and 2 times, respectively, of the same period of last year. The Company achieved scale expansion and quality enhancement of its tech talents, with the introduction of leading talents in areas of cloud computing, AI and Big Data, among others. The number of chief experts being newly recruited or renewed exceeded 10. The Company also innovated its talent development mechanism and introduced a chief technician system, along with honouring awards for tech talents and the promotion of special talent pool systems, altogether creating a conducive ecology for innovation.



**Industrial
Digitalisation
Grew Robustly**

Revenue¹⁴
RMB Mil



¹⁴ The Industrial Digitalisation revenue and % to service revenues in 2021 as well as growth rate in 2022 are on comparable basis by excluding the Internet Finance revenue for 2021 of E-surfing Pay Co., Ltd. (which was disposed in April 2021).

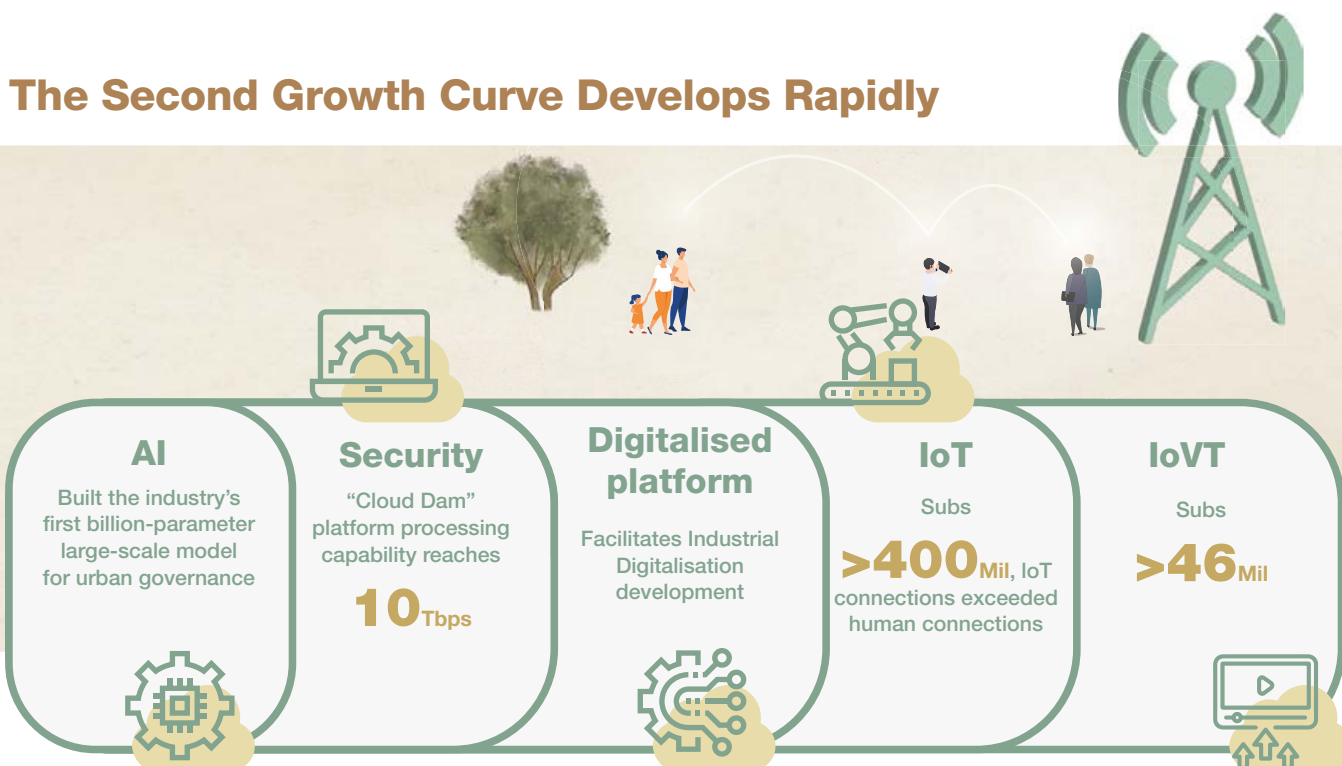


Chairman Ke Ruiwen introduced China Telecom's measures in promoting cloud-network integration and co-building the age of computing power

2.4 Expediting the promotion of cloud-network integration to consolidate the foundation of digital information infrastructure

The Company comprehensively advanced the overall planning and coordinated deployment of various digital elements such as “cloud, network, data, intelligence and security”. The Company also accelerated the transformation and upgrades of networks as well as the construction of intelligent integrated digital information infrastructure that is high-speed and ubiquitous, aerial-ground in one, cloud-network integrated, intelligent and agile, green and low-carbon, as well as secure and controllable. The Company further optimised the “2 + 4 + 31 + X + O” layout of its computing power and built proprietary multiple availability zones (AZs) capabilities of China Telecom Cloud 4.0 in central nodes of regions of Beijing-Tianjin-Hebei, Yangtze River Delta, Guangdong-

The Second Growth Curve Develops Rapidly



SECTION III MANAGEMENT'S DISCUSSION AND ANALYSIS (REPORT OF THE DIRECTORS)

Hong Kong-Macau Greater Bay Area and Chengdu-Chongqing. The number of cities covered by “One-City-One-Pool” exceeded 240, while the number of edge computing power nodes surpassing 800, providing customers with highly-efficient and efficiently-centralised distributed cloud service with ultra-low latency. In 2022, the newly added computing power of China Telecom Cloud was 1.7 EFLOPS, with its total computing power reaching 3.8 EFLOPS, representing an increase of 81% year-on-year. The Company built the four-level AI computing power comprising of “entire network-region-edge-terminal” with nationwide coverage. The Company also built an efficiently-centralised core platform for AI capabilities, achieving unified channelling of AI computing power, algorithms and data while aggregating more than 5,000 algorithms and over 100 scene-based solutions. The Company proactively responded to the national strategy of “East-to-West Computing Resource Transfer” and stepped up deployment with a focus on 8 hub nodes. The Company currently owns more than 700 IDC sites and over 3,000 edge DC, and the number of IDC cabinets amounted to 513,000 with a utilisation rate of over 70%. The Company has the greatest number and the most extensive distribution of IDC resources in China. Surrounding national datacentres, the Company

built interconnection networks for datacentres with large bandwidth, high reliability, wide coverage and multiple layers. The latency between AZs was below 1ms. The Company built the largest Gigabit fibre network in scale, with the number of 10G PON ports exceeding 6.30 million, covering over 250 million family users in the Company’s service region. The Company achieved interconnection between the mobile network and the satellite network and realised multiple functions for one single card. The Company continued to give full play to its role in safeguarding network and information security, formed security infrastructure capabilities covering cloud, network, edge and terminal, and completed the construction of “Cloud Dam” platform with full network coverage. The Company’s security capability pools covered more than 150 cities. The Company’s new-generation cloud-network operating system was fully launched, realising the integrated management of cloud, network and security as well as the automatic activation of the whole business process for cloud-network integration. The Company fully promoted the green and low-carbon transformation of cloud-network infrastructure, and adopted measures such as customised high-performance servers to enhance computing efficiency. The Company also applied various



Customers experiencing VR game application



Customers shopping for Smart Family products

Further Advancing the Industrialisation Upgrade of Technological Capabilities



Proactively forge the source of original cloud computing technologies



Strive for core technologies breakthroughs



Strengthen the industrialisation of application achievements



Scale expansion and quality enhancement of tech talents



new energy-saving technologies to enhance the energy efficiency of datacentres and telecommunications equipment rooms, and sped up the energy-saving application of AI technologies to mobile base stations and old equipment rooms, with a power saving of over 600 million kWh per year. The Company and China Unicom further promoted 4G/5G co-building and co-sharing. The cumulative number of 5G base stations co-built and co-shared by the two parties exceeded one million while the number of co-shared 4G stations exceeding 1.1 million. The co-building and co-sharing achieved remarkable results. The cumulative investment savings in network construction for both parties amounted to over RMB270 billion, while the annualised savings of operating costs exceeded RMB30 billion, contributing key technologies in co-building and co-sharing as well as operation and management experiences to the global communications industry.

2.5. Continuing to unlock reform momentum to significantly bolster corporate development vitality

With the satisfaction of customers' digitalisation demands as the core and the enhancement of corporate core competitiveness as the target, the Company comprehensively promoted the reform of corporate organisations, processes, and market-oriented operation mechanisms. The Company continued to deepen its enterprise service reform, solidly advanced the development of industrial research institute, cloud core platform, as well as local integration teams to establish a cloud-centric main business process and a highly



Management introduced the strong development momentum of China Telecom Cloud

efficient operating system. The Company stepped up its efforts and accelerated the reform of professional companies, making substantial progress in diversifying the equity ownership of its cloud company. It also achieved corporate operation of Big Data and AI centre, rapidly enhancing its level of market-orientation. The Company's cloud, security and IoT companies were shortlisted by SASAC in its list of "Sci-tech Reform Demonstration Enterprises", with its core competitiveness in sci-tech innovation continuing to strengthen. The Company fully leveraged its massive data resources to build a distributed Big Data lake and develop a Big Data storage and processing model with cloud-edge coordination. While empowering the digital transformation of its customers, the Company also accelerated its internal digital transformation of products, sales, service, operation and management to continuously promote costs reduction and efficiency enhancement, while further uplifting its operating efficiency. With in-

depth implementation of market-oriented operation mechanisms, the Company fully implemented a tenure system and contractual management at the managerial level. It also launched the "Talent Nurturing Programme" for the first time, while vigorously implementing incentive measures for talents such as special talent pools, expert incentives, equity and bonus sharing based on job positions. This continued to enhance employee vitality. The Company established a 4-in-1 integration system of "market insight, budget, assessment and incentive", with steady enhancement of the development as well as the value creation capability of various business units.

Adhering to the cooperation philosophy of "Broadest Scope, Best Service, Best Value, Farthest Growth", the Company carried out greater, broader and deeper ecological cooperation with its partners. The Company signed strategic cooperation agreements with governments of various provinces and cities to comprehensively support governments' informatisation construction. The Company expanded the informatisation service for the government affairs market, strengthened ecological cooperation with industry leaders, and opened up the digital platform of fundamental capabilities. The Company aggregated proprietary capabilities as well



SECTION III MANAGEMENT'S DISCUSSION AND ANALYSIS (REPORT OF THE DIRECTORS)

as capabilities from ecological cooperation to provide customers with integrated “cloud-network + data-intelligence” solutions. The Company continuously expanded 5G Industry Innovation Alliance to explore 5G innovative applications and build 5G industry ecology. The number of member units exceeded 400. The Company commenced extensive cooperation with partners from four areas including technology, application, channel and service. The Company created a cloud computing community and fully opened up to co-build the national cloud ecology. The Company also carried out in-depth cooperation with leading vendors to push forward the construction of a security capability pool that effectively aggregates capabilities of various parties, while creating an open security ecology. By vigorous promotion of industry and research cooperation in the field of AI with domestically well-known universities and sci-tech research institutions, the Company spared no effort to jointly build an innovation ecology of AI industry. The Company conducted deployment in the capital ecology with a focus on key areas, and promoted coordinated development with companies within the capital ecology to give full play to the multiplier effect of capital investment and bring new momentum for the Company's value growth.



Management introduced the Company's achievements of innovations in cloud-network core capabilities





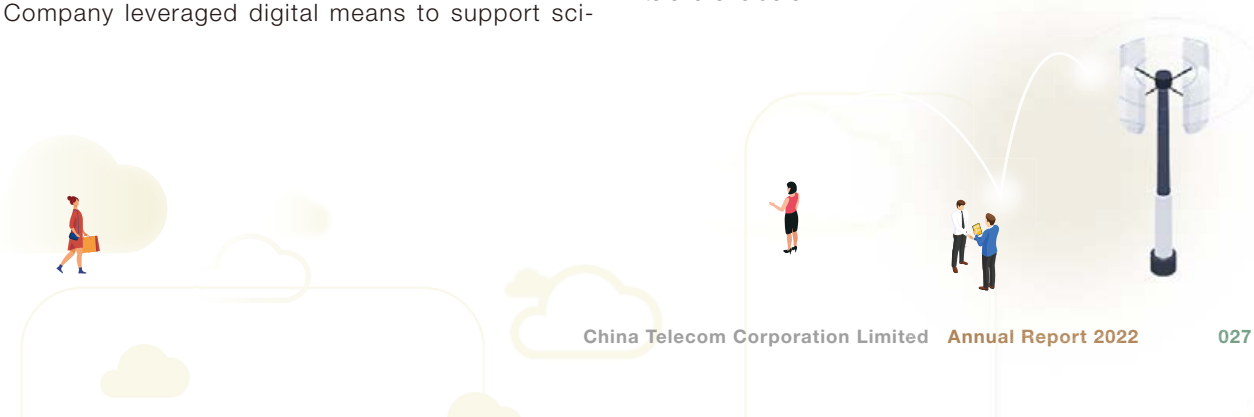
Successfully completed various major communications assurance tasks

3. UNDERTOOK SOCIAL RESPONSIBILITIES WHILE OPTIMISING CORPORATE GOVERNANCE

The Company proactively fulfilled its social responsibilities, successfully completed communications assurance tasks for important scenes and spared no effort to establish network “lifelines” during times of natural disasters. The Company also proactively promoted green cloud-network construction and operation. In 2022, through co-building and co-sharing and various energy saving measures, the Company reduced its greenhouse gas emissions by more than 13 million tons, while greenhouse gas emissions per unit of information flow decreased by 20.6% year-on-year. It built the country’s first “zero-carbon datacentre” in Qinghai. The Company served rural revitalisation, promoted universal service and bridged the digital divide. The Company also proactively participated in social welfare, and provided informatised products for Covid-19 Epidemic (“Epidemic”) prevention such as e-Surfing Cloud Broadcasting, Cloud Conference, Cloud Computer, Cloud SaaS applications and Display of Caller Name Card, among others. The Company leveraged digital means to support sci-

tech based Epidemic prevention and assisted small and medium-sized enterprises (SMEs) to overcome challenges. The Company strengthened employee care and promoted the mutual development of both employees and the Company.

Insisting on high-standard corporate governance while adhering to excellent, prudent and effective corporate governance principles, the Company continued to optimise its corporate governance system, standardise its corporate operations, strengthen its internal control system and implement refined governance and disclosure measures. In addition to the compliance and efficient operation of its Shareholders Meeting, Board of Directors and Supervisory Committee, the Company fully achieved the establishment of Board of Directors on various levels of its subsidiaries where appropriate. The Company further realised lean management and stable operation. The Company continued to optimise its internal control and comprehensive risk management to effectively ensure stable operation of the Company. The level of its corporate governance continued to strengthen to effectively protect the best and long-term interests of its shareholders.



SECTION III MANAGEMENT'S DISCUSSION AND ANALYSIS (REPORT OF THE DIRECTORS)

In 2022, the Company received high affirmation and recognition from domestic and international capital markets and industry organisations. Of which, the Company was voted as the “Most Honoured Companies in Asia” for the 12th consecutive year by *Institutional Investor*. The Company also ranked No.1 in categories such as “Best Investor Relations”, “Best IR Team” and “Best Overall ESG”. In addition, the Company received a number of awarded such as “Asia’s Best Corporate Social Responsibility”, “Best Corporate Communications”, “Best Environmental Responsibility” and “Best Investor Relations Company” in the “Asian Excellence Award 2022” organised by *Corporate Governance Asia*, a renowned journal on corporate governance in Asia. Moreover, the Company was voted as “Most Outstanding Company in China – Telecommunication Services Sector” in *Asiamoney’s* “Asia’s Outstanding Companies Poll 2022”. The Company was further awarded with the “Overall Most Outstanding Company in China” among all winners from different sectors in China. At the same time, the Company was also awarded with “Best Practice of Office of Board of Directors for Public Companies in 2022” as well as “Best Practice Award of 2021 Annual Results Briefing for Public Companies” by China Association for Public Companies.

4. OUTLOOK

The building of Digital China is an important driver for the advancement of Chinese modernisation in the digital era. The Company will firmly seize the valuable strategic development opportunities, proactively fulfill its responsibility in building Digital China and insist on seeking progress while maintaining stability. With high-quality development as the theme, digital transformation as the main line, reform, opening and innovation as the driving force, the Company will comprehensively and deeply implement the Cloudification and Digital Transformation strategy while further striving for breakthroughs in key core technologies of digitalisation. The Company will create the supply of digital products with a focus on customer demands, and strive to build a digital service platform that is open and co-shared. The Company will also speed up the construction of the digital information infrastructure, stimulate the potential of data elements and proactively promote reforms of organisations and mechanisms that are adaptable to digital transformation. The Company will tangibly enhance its core competitiveness and accelerate the building of a world-class enterprise.



Ke Ruiwen

Chairman and Chief Executive Officer
Beijing, China

22 March 2023



2. OVERVIEW OF THE COMPANY'S INDUSTRY DURING THE REPORTING PERIOD

1. INDUSTRY OVERVIEW

In 2022, the communications industry comprehensively promoted the implementation of the “14th Five-Year Plan”. The revenue of telecommunications business maintained its relatively rapid growth momentum, showing the development characteristics of positive trends, optimised structure and enhanced momentum. The Company appropriately advanced the deployment of 5G, Gigabit and other new infrastructure construction and continuously enhanced the supporting role of digital development. The quality enhancement and upgrade of information service supply continued to inject new digital momentum into the economic development.

In 2022, China's telecommunications service revenue accumulated to RMB1.58 trillion, representing an increase of 8.0% over the previous year. The business structure was further optimised, and the role of emerging businesses in driving revenue growth continued to strengthen. Emerging digital services, which mainly include datacentres, cloud computing, Big Data, IoT, etc., developed rapidly, contributing 64.2% to the revenue growth of telecommunications services. The traditional businesses, which mainly include mobile data traffic, broadband access, voice and SMS, still played the stabiliser role, accounting for 66.8% of the revenue from telecommunications services.

In 2022, the investment in the industry maintained growth. The total investment in fixed assets in the telecommunications industry amounted to RMB419.3 billion, and the investment in 5G exceeded RMB180.3 billion. The wireline network has gradually leaped from 100Mbps to Gigabit, and the number of 10G PON ports with Gigabit service capabilities exceeded 15 million. Mobile network maintained a global leading position in terms of 5G construction. China has built and activated 2,312,000 5G base stations. The fundamental telecommunications enterprises stepped up their efforts in the construction of their own computing power. The net addition of cabinets in self-used datacentres was 160,000 for the year. They also strove to build service capabilities with the integration of network, connectivity, computing power, data and security, laying the foundation for providing high-quality new digital services.

In 2022, there were continuous achievements of integrated applications from fields such as smart manufacturing, smart healthcare, smart education, digital government administration and others. The number of “5G + Industrial Internet” projects invested and constructed nationwide exceeded 4,000, creating a batch of full 5G-connected factories and providing over 14,000 5G virtual private networks. The whole industry successfully completed major communications service assurance tasks such as the Beijing Winter Olympics, carried out special actions in the Internet industry and strengthened app governance, continuously enhanced the support capability of Big Data in communications, and further uplifted the service level.

Note: The above data are from MIIT's Statistical Communique of the Communications Industry in 2022.



SECTION III MANAGEMENT'S DISCUSSION AND ANALYSIS (REPORT OF THE DIRECTORS)

2. SIGNIFICANT IMPACT OF NEW LAWS, ADMINISTRATIVE REGULATIONS, DEPARTMENTAL RULES AND INDUSTRY POLICIES ON THE INDUSTRY

During the Reporting Period, a number of laws and departmental rules were promulgated and implemented, introducing new requirements for the development and compliance operation of the industry.

On 24 June 2022, the Standing Committee of the National People's Congress considered and approved *the Decision to Amend the Anti-monopoly Law of the People's Republic of China*, which came into effect on 1 August 2022. According to the amended *Anti-monopoly Law of the People's Republic of China* (the "Anti-monopoly Law"), operators shall not use data and algorithms, technologies, capital advantages and platform rules to engage in monopolistic activities prohibited by the Anti-monopoly Law; they shall not organise other operators to enter into monopoly agreements or provide substantive assistance for other operators to enter into monopoly agreements; operators with dominant market positions shall not engage in actions that abuse their dominant market positions through the use of data and algorithm, technologies and platform rules.

On 7 July 2022, the Cyberspace Administration of China published *the Measures for the Security Assessment of Outbound Data Transfer*, which came into effect on 1 September 2022. The *Measures for the Security Assessment of Outbound Data Transfer* specify: the circumstances under which data processors shall report the security assessment of outbound data transfer and the procedures for the security assessment of outbound data transfer; data processors shall conduct self-assessment of outbound data transfer risks before reporting the security assessment of outbound data transfer; and the legal documents entered into with overseas receivers shall clearly stipulate the responsibilities for data security protection.

On 2 September 2022, the Standing Committee of the National People's Congress considered and approved *the Law of the People's Republic of China on Anti-Telecom and Online Fraud* (the "Anti-Telecom and Online Fraud Law"), which came into effect on 1 December 2022. According to the *Anti-Telecom and Online Fraud Law*, telecommunications business operators shall fully implement the real identity information registration system for telephone users in accordance with the law, standardise the transmission of real call numbers and the lease of telecommunications lines, and block, intercept and trace phone calls made with changed numbers; no excessive telephone cards shall be processed; no support or assistance shall be provided to others for the execution of telecom and online fraud activities; technical measures shall be taken to timely identify and block illegal equipment and software access to the network, and report to the public security authorities and relevant industry authorities.

On 8 December 2022, the Ministry of Industry and Information Technology issued *the Administrative Measures for Data Security in the Field of Industry and Information Technology (for Trial Implementation)* (the "Administrative Measures for Data Security (Trial)"), which came into effect on 1 January 2023. According to the *Administrative Measures for Data Security (Trial)*, data processors in the industry and information technology field shall regularly sort out the data and file the catalogues of important data and core data of their units with the regional industry regulatory authorities; a lifecycle data security management system should be established; data security risk monitoring should be carried out, potential safety hazards should be identified in a timely manner, and necessary measures should be taken to prevent data security risks.



Management presented at Cloud Ecology Conference

The Company will conscientiously implement the relevant newly issued and revised laws, administrative regulations, departmental rules and industry policies, and proactively follow and study the relevant upcoming laws, administrative regulations, departmental rules and industry policies to ensure that the relevant business operations are in compliance with laws and regulations and that the Company operates in compliance with laws and regulations.

3. BUSINESS OF THE COMPANY DURING THE REPORTING PERIOD

In 2022, the Company proactively integrated into the overall situation of digital economy construction, fully implemented the development strategy of “Cloudification and Digital Transformation”, and focused on building a service-oriented, technology-oriented and secured enterprise, elevating its high-quality development to a new level.

The Company seized opportunities arising from the development of digital economy, continued to accelerate the transformation of fundamental businesses, strengthened the supply of digital products, and promoted the steady growth of fundamental businesses. The Company continuously enhanced 5G network coverage and network quality, upgraded 5G-featured applications, strengthened the incorporation of new differentiated elements such as AI, security and cloud, to promote subscriber growth and value stabilisation. Leveraging the convergence of “5G + Gigabit Broadband + Gigabit WiFi”, the Company continued to accelerate the upgrade of broadband speed, enriched the supply of scene-based applications for households, and proactively expanded the new development path featuring integrated development of Smart Family, Digital Village and Smart Community. In 2022, the Company’s mobile subscribers reached 391 million, representing a net increase of 18.75 million. 5G package subscribers reached 268 million, with its penetration rate reaching 68.5%, representing a year-on-year increase of 18.1 percentage points. Mobile ARPU reached RMB45.2, representing a year-on-year increase of 0.4%. Broadband subscribers reached 181 million, representing a net increase of 11.19 million. The penetration rate of Gigabit subscribers reached 16.8%, representing a year-on-year increase of 9.1 percentage points. Broadband blended ARPU reached RMB46.3, representing a year-on-year increase of 0.9%.



SECTION III MANAGEMENT'S DISCUSSION AND ANALYSIS (REPORT OF THE DIRECTORS)

The Company firmly grasped the demand for network-based, digitalised, and smart integrated information services in the era of digital economy, created a model for Industrial Digitalisation development that deeply integrates “cloud-network capability foundation + industry application platforms”, providing digital integrated solutions for numerous walks of life. Insisting on the driving force from cloud-, AI-, security- and platform-integrated initiatives, the Company further advanced the capability deployment of emerging businesses, boosted the rapid development of the second growth curve, and empowered the high-quality development of digital economy. China Telecom Cloud has entered into a stage of 4.0 with full commercialisation, with continuous increase in market share. The number of 5G 2B commercial projects increased rapidly, fully unleashing new momentum of transformation for vertical industries. Emerging businesses, such as network security, Big Data, AI and digitalised platform, have gradually become new drivers for Industrial Digitalisation development. In 2022, revenue from Industrial Digitalisation of the Company amounted to RMB117.8 billion, representing a year-on-year growth of 19.7% on a comparable basis. Revenue from China Telecom Cloud reached RMB57.9 billion, representing an increase of 107.5% year-on-year. Revenue from network security services amounted to RMB4.7 billion, representing an increase of 23.5% year-on-year.

For detailed business analysis of the Company, please refer to “5. MAJOR OPERATION DURING THE REPORTING PERIOD” in this section.

4. ANALYSIS OF CORE COMPETITIVENESS DURING THE REPORTING PERIOD

In 2022, China Telecom fully implemented its “Cloudification and Digital Transformation” strategy, and achieved new results in high-quality development.

CONTINUOUS OPTIMISATION OF BUSINESS DEPLOYMENT, WITH INDUSTRIAL DIGITALISATION AND CHINA TELECOM CLOUD BECOMING IMPORTANT DRIVERS FOR REVENUE GROWTH

The Company continued to optimise its business deployment, and Industrial Digitalisation and China Telecom Cloud have become important drivers for revenue growth. By creating a model for Industrial Digitalisation development that deeply integrates “cloud-network capability foundation + industry application platforms”, the Company provided digital integrated solutions for numerous walks of life. China Telecom Cloud has entered into a stage of 4.0 with full commercialisation after more than ten years of development. The market share of China Telecom Cloud continued to increase, becoming the world’s largest carrier cloud and China’s largest hybrid cloud. It has grown to rank among the top-three in China’s public cloud IaaS market and public cloud IaaS+PaaS market, while maintaining its No.1 position in the dedicated cloud market in terms of market share. Focusing on 5G industry use cases, the cumulative number of 5G 2B commercial projects developed by the Company reached approximately 15,000, of which the number of newly added projects in 2022 exceeded 8,000. This fully unleashed new momentum of transformation for vertical industries. Meanwhile, emerging businesses, such as network security, Big Data, AI and digitalised platform, have gradually become new drivers for Industrial Digitalisation development.



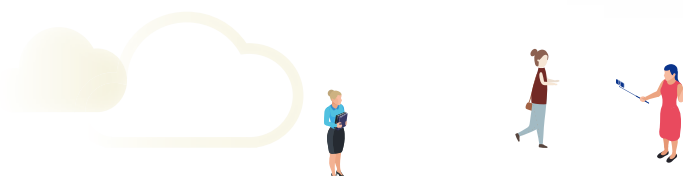
FURTHER ADVANCEMENT OF CAPABILITY DEPLOYMENT AND RAPID GROWTH OF NEW MOMENTUM FOR MARKET DEVELOPMENT

The Company's further advanced its capability deployment, built new development momentum through cloud-, AI-, security- and platform-integrated initiatives, and boosted the rapid development of the second growth curve. The Company completed the upgrade to China Telecom Cloud 4.0 which is a distributed cloud with wide-area coverage, featuring the integration of "cloud, network, edge, terminal, data, intelligence and security" as a whole. A number of its proprietary core technologies in fundamental software and hardware of cloud computing, such as TeleCloudOS4.0 cloud

operating system, CTyunOS server operating system, TeleDB database and Zijin DPU were fully launched and achieved scale commercialisation of products. This further consolidated the independent and controllable cloud foundation featuring polymorphism and multiple chip architectures in one cloud. The Company strengthened proprietary R&D of AI core capabilities, built the industry's first billion-parameter large-scale model for urban governance and promoted the expansion of large-scale models towards model hubs at the industry level. The Company strengthened the end-to-end supply of security products and services, completed the construction of "Cloud Dam" platform with full network coverage as well as a processing capacity of 10Tbps. The Company built an integrated security infrastructure platform, "Security Brain", for industry customers. The Company accelerated the building of proprietary digital platform capabilities, and built the unified industry digitalised platform foundation. The Company enhanced the efficiency and quality of proprietary platform development, and promoted the development of Industry Digitalisation business. The number of IoT subscribers exceeded 400 million, achieving "IoT connections exceeding human connections". e-Surfing IoT achieved rapid development, with its number of subscribers exceeding 46 million. Use cases such as Kitchen Monitoring, Security Smart Eye, Smart Enterprise and e-Surfing Emergency Response achieved scale commercialisation.



Rapid replication of 5G smart agriculture projects



SECTION III MANAGEMENT'S DISCUSSION AND ANALYSIS (REPORT OF THE DIRECTORS)

CONSTANT DEEPENING OF THE REFORM DEPLOYMENT AND SIGNIFICANT ENHANCEMENT OF EMPLOYEES' VITALITY

With the satisfaction of customers' digitalisation demands as the core and the enhancement of corporate core competitiveness as the target, the Company comprehensively promoted the reform of corporate organisations, processes, and market-oriented operation mechanisms. The Company continued to deepen its enterprise service reform, solidly advanced the development of industrial research institute, cloud core platform, as well as local integration teams to establish a cloud-centric main business process and a highly efficient operating system. The Company stepped up its efforts and accelerated the reform of professional companies, making substantial progress in diversifying the equity ownership of its cloud company. It also achieved corporate operation of Big Data and AI centre, rapidly enhancing its level of market-orientation. The Company's three subsidiaries were shortlisted by SASAC in its list of "Sci-tech Reform Demonstration Enterprises", with its core competitiveness in sci-tech innovation continuing to strengthen. The Company also accelerated its internal digital transformation of products, sales, service, operation and management to continuously promote costs reduction and efficiency enhancement, while further uplifting its operating efficiency. With in-depth implementation of market-oriented operation mechanisms, the Company fully implemented a tenure system and contractual management at the managerial level. It also launched the "Talent Nurturing Programme" for the first time, while vigorously implementing incentive measures for talents such as special talent pools, expert incentives, equity and bonus sharing based on job positions. This continued to enhance employee vitality. The Company established a 4-in-1 integration system of "market insight, budget, assessment and incentive", with steady enhancement of the development as well as the value creation capability of various business units.

SOLID PROMOTION OF CLOUD- NETWORK DEPLOYMENT AND CONTINUOUS ENHANCEMENT OF OPERATION CAPABILITY

The Company accelerated the construction of digital information infrastructure with cloud-network integration as the core feature. The Company further optimised the "2 + 4 + 31 + X + O" layout of its computing power and built proprietary multiple AZs capabilities of China Telecom Cloud 4.0. The number of cities covered by "One-City-One-Pool" exceeded 240. In 2022, the total computing power of China Telecom Cloud reached 3.8 EFLOPS. The Company built the four-level AI computing power comprising of "entire network-region-edge-terminal" with nationwide coverage. The Company also built an efficiently-centralised core platform for AI capabilities. The Company proactively responded to the national strategy of "East-to-West Computing Resource Transfer". The Company has the greatest number and the most extensive distribution of IDC resources in China. Surrounding national datacentres, the Company built interconnection networks for datacentres with large bandwidth, high reliability, wide coverage and multiple layers. The Company built the largest Gigabit fibre network in scale, with the number of 10G PON ports exceeding 6.30 million. The Company achieved interconnection between the mobile network and the satellite network. The Company completed the construction of "Cloud Dam" platform with full network coverage. The Company's security capability pools covered more than 150 cities. The Company's new-generation cloud-network operating system was fully launched, realising the integrated management of cloud, network and security as well as the automatic activation of the whole business process for cloud-network integration. The Company fully promoted the green and low-carbon transformation of cloud-network infrastructure. The Company sped up the energy-saving

application of AI technologies to mobile base stations and old equipment rooms, with a power saving of over 600 million kWh per year. The Company and China Unicom further promoted 4G/5G co-building and co-sharing. The cumulative number of 5G base stations co-built and co-shared by the two parties exceeded one million while the number of co-shared 4G stations exceeding 1.1 million. The cumulative investment savings in network construction for both parties amounted to over RMB270 billion.

ADHERING TO THE PEOPLE-ORIENTED DEVELOPMENT PHILOSOPHY AND CONTINUOUSLY STRENGTHENING SERVICE CAPABILITIES

The Company adhered to the people-oriented and problem-oriented principles, regarded customer perception as the starting point and foothold of all work, and comprehensively enhanced service quality. The Company strengthened the new supply of digital products, proactively promoted the digitalisation of production methods, lifestyle and social governance, and strove to meet the new digital needs of customers. The Company deepened the service mechanism of “customers have the final say”, promoted the construction of a “customer-centric” production and operation organisation, established long-term mechanisms such as service review, service red flags, supervision and accountability, and quickly resolved the difficult and hot issues that customers were concerned about. Customer satisfaction has reached the best level in recent years, while the service quality of networks, products and channels continuing to strengthen and customer reputation continuing to become more positive.



INSISTING ON SELF-RELIANCE AND SELF-IMPROVEMENT OF HIGH-LEVEL TECHNOLOGIES, WHILE ACHIEVING BREAKTHROUGHS IN SCI-TECH INNOVATION

Adhering to “science and technology constitute a primary productive force”, the Company strove to develop as a technology-oriented enterprise and was credited with the honorary title of “Enterprise with Outstanding Contribution to Sci-tech Innovation”. The Company fully completed the deployment of its R&D system for sci-tech innovation, RDO. The Company built a platform for high-level sci-tech innovation, strengthened the fundamental support for R&D, and proactively forged the source of original cloud computing technologies while undertaking the construction of innovation platforms such as cloud-network infrastructure. The Company established joint sci-tech research institutions with key laboratories, renowned universities and sci-tech research institutes for cutting-edge technologies. The Company further strove for core technologies breakthroughs, achieving breakthroughs in key technologies of cloud

computing such as software and hardware integration. The Company’s computing power channelling of cloud storage and etc. has reached an advanced level within the industry. The computing power distribution network platform of China Telecom Cloud 4.0, “XiRang”, was successfully selected as one of the “2022 Top 10 Super Projects of Central Enterprises”. The Company also built China’s largest quantum metropolitan network, the “Hefei Quantum Metropolitan Network”. The Company further strengthened the industrialisation of application achievements, realising the application of AI large-scale models under a number of scenes such as digital life and smart manufacturing. The Company also rolled out scale commercialisation of products such as Security Brain, Cloud Computer and CDN. Domestic invention patents and PCT patent applications were 1.4 times and 2 times, respectively, of the same period of last year. The Company achieved scale expansion and quality enhancement of its tech talents. The Company also innovated its talent development mechanism, altogether creating a conducive ecology for innovation.



ADHERING TO THE OVERALL NATIONAL SECURITY CONCEPT AND STEADILY ENHANCING SECURITY CAPABILITIES

The Company gave play to its role as the fundamental assurance in the field of network and information security, and accelerated the improvement in supply of security products and services supply. Focusing on the industrial chain, innovation chain and supply chain, the Company stepped up its expansion efforts, aggregated open and integrated core capabilities, and gradually optimised its security-oriented corporate strategy. The Company established a security technologies system, enhanced the security operation system and accountability system with strengthened security talents, and continuously optimised the deployment of security work. The Company established a big security products system to continuously enhance the capabilities of network security, cloud security, data security and public security products. The Company continued to enhance the effectiveness of security governance, with its AI + anti-fraud technology capabilities becoming significantly strengthened.

5. MAJOR OPERATION DURING THE REPORTING PERIOD

The Company proactively integrated into the overall situation of digital economy construction, deeply implemented the customer-centric operation principles, and continued to enhance digital products and services supply capabilities for various customer groups such as individuals, households, governments and enterprises. The Company strove to build a service-oriented, technology-oriented and secured enterprise, elevating its high-quality development to a new level. In 2022, the Company's operating revenues amounted to RMB481.4 billion, representing an increase of 9.5% year-on-year. Of which, service revenues amounted to RMB434.9 billion, representing an increase of 8.0% year-on-year. Excluding the revenue impact from the disposals of its subsidiaries in 2021, the year-on-year growth rate reached 8.1%, maintaining favourable growth.



SECTION III MANAGEMENT'S DISCUSSION AND ANALYSIS (REPORT OF THE DIRECTORS)

FURTHER ACCELERATING THE UPGRADE OF 5G NETWORK AND APPLICATIONS, AND ENRICHING DIGITAL PRODUCTS SUPPLY, ACHIEVING STEADY GROWTH AS WELL AS SCALE AND QUALITY ENHANCEMENT OF MOBILE BUSINESS

The Company deeply explored customer needs and application scenes in the digital era, continued to upgrade integrated intelligent information products and services by leveraging the further strengthened 5G cloud-network capabilities, and continuously promoted the steady development of its mobile business. **The Company continued to strengthen 5G network coverage and network quality** to provide users with a “more secure, more reliable and more intelligent” mobile communications experience. **The Company continued to upgrade 5G-featured applications**, constantly optimised large bandwidth applications such as 5G Ultra HD, 5G Cloud VR/AR and 5G Cloud Games, and accelerated the promotion of new applications such as 5G Messaging and 5G New Calls to meet the diversified application demands of customers. **The Company continued to strengthen the incorporation of new differentiated elements such as AI, security and cloud**, and launched AI-integrated products such as AI

Communications Assistant and AI Colour Ringback Tone with Video for individual customers. The Company also rolled out security-integrated products such as Quantum-encrypted Calls and e-Surfing Anti-Harassment, as well as cloud-integrated products such as China Telecom Cloud Mobile Phone and Cloud Drive, so as to further enhance the high-quality supply capabilities in the field of information consumption. **The Company continued to build the digitalised platforms**, constantly responded to changes in customer consumption habits and the needs for quality upgrade in the digital era. Focusing on various consumption scenes such as people's livelihood payment, catering and travel, the Company enriched the new model of mobile digital consumption, and drove the continuous enhancement of both scale and value of mobile subscribers.

In 2022, the Company's mobile communications service revenues amounted to RMB191.0 billion, representing an increase of 3.7% year-on-year, maintaining favourable growth. Mobile subscribers reached 391 million, representing a net addition of 18.75 million. 5G package subscribers reached 268 million, representing a penetration rate of 68.5% and a year-on-year increase of 18.1 percentage points. Mobile ARPU reached RMB45.2, representing a year-on-year increase of 0.4%.



Continuous
enhancement of
5G network coverage
and quality



Management introduced new measures to enhance customer service

FURTHER ACCELERATING THE SERVICE UPGRADE AND INTEGRATED DEVELOPMENT OF SMART FAMILY, SMART COMMUNITY AND DIGITAL VILLAGE, WITH STEADY GROWTH OF BROADBAND BLENDED ARPU AND CONSTANT ENHANCEMENT OF THE VALUE OF SMART FAMILY BUSINESS

The Company seized opportunities arising from the development of the digital economy, and continued to meet the needs of the whole society to enjoy a better digital life by leveraging the comprehensive advantages of continuously upgraded and optimised networks, applications, services and platforms. **The Company continued to accelerate the upgrade of broadband speed**, strengthened the integrated development of “5G + Gigabit Broadband + Gigabit WiFi”, built a solid foundation for high-speed access for Smart Family, and further promote the uplifting of the penetration rate of Gigabit subscribers as well as

subscriber value. **The Company continued to enrich the supply of applications under family scenes**, accelerated the construction of a smart, secure, convenient and comfortable digital home information service system, and constantly enhanced the “terminal + application + service” whole-home intelligent solutions to promote the evolution from Smart Home to Whole-home Intelligence. **The Company continued to promote the platform integration and connected development of Smart Family, Smart Community and Digital Village.** The Company accelerated the construction of a digitalised application platform integrating all scenes of “family-community-village-city”, providing communities and villages with leading capabilities in connecting households, communities and government, as well as abundant solutions for grassroots governance. The Company also provided integrated scene-based applications such as Video Door Access Control, Community Management and Village Governance, to establish a new scene featuring CHBG connection. Leveraging its digital capabilities and intelligent applications, the Company empowered and enhanced the quality of the modernised transformation of grassroots social governance, while supporting the digital transformation of lifestyle and social governance.

In 2022, the Company's Wireline and Smart Family service revenues amounted to RMB118.5 billion, representing an increase of 4.4% year-on-year. The number of broadband subscribers reached 181 million, representing a net addition of 11.19 million. The penetration rate of Gigabit broadband subscribers reached 16.8%, representing a year-on-year increase of 9.1 percentage points. Broadband blended ARPU reached RMB46.3, representing a year-on-year increase of 0.9%.

SECTION III MANAGEMENT'S DISCUSSION AND ANALYSIS (REPORT OF THE DIRECTORS)

CONTINUOUSLY ACCELERATING THE DEVELOPMENT OF THE SECOND GROWTH CURVE DRIVEN BY THE “FOUR-INTEGRATED” STRATEGY, ENABLING THE INDUSTRIAL DIGITALISATION BUSINESS TO GROW RAPIDLY AND CHINA TELECOM CLOUD TO DOUBLE ITS REVENUE

The Company firmly grasped the demand for network-based, digitalised, and smart integrated information services in the era of digital economy, and accelerated the building of the “second growth curve” driven by cloud-, AI-, security- and platform-integrated initiatives.

Continuously maintaining the rapid development of China Telecom Cloud. The Company strove to forge the source of original cloud computing technologies, and achieved breakthroughs in more than 50 key core technologies such as distributed database and cloud operating system. China Telecom Cloud 4.0 has entered the stage of full commercialisation, and its market share has continued to rise, becoming the world’s largest carrier cloud and China’s largest hybrid cloud. It has grown to rank among the top-three in China’s public cloud IaaS market and public cloud IaaS+PaaS market, while maintaining its No.1 position in the dedicated cloud market in terms of market share.

Continuously expanding deployment in emerging fields such as AI and security.

In terms of AI, the Company built the industry’s first billion-parameter large-scale model for urban governance, with core algorithm capabilities covering image, voice, semantics and other fields, and launched more than 5,000 AI algorithms. In terms of security, the Company further strengthened product and service capabilities, and built a “Cloud Dam” platform with full network coverage and an integrated-security infrastructure platform, “Security Brain”. The Company continued to optimise its proprietary quantum security service platform and launched the first quantum security phone product in the industry – Quantum-encrypted Calls.

Continuously building new advantages in 5G industry applications and digital platforms.

Leveraging its proprietary core capabilities such as 5G, cloud, IoT and Internet of Videos, the Company further upgraded 5G 2B businesses, accelerated the construction of a self-service operation platform for 5G customised network customers, and pushed forward the building of proprietary digital platforms capabilities. The Company also built a unified industry digital platform foundation, continued to accumulate fundamental capabilities, and further advanced the business capabilities and service level of 5G industry applications



Thriving development of Industrial Digitalisation, supporting “the cloud migration, the use of data and intelligence injection” for numerous walks of life

SECTION III MANAGEMENT'S DISCUSSION AND ANALYSIS (REPORT OF THE DIRECTORS)

and digital platforms. The cumulative number of 5G 2B commercial projects developed by the Company reached approximately 15,000, of which the number of newly added projects in 2022 exceeded 8,000. This fully unleashed new momentum of transformation for vertical industries.

In 2022, revenue from Industrial Digitalisation of the Company amounted to RMB117.8 billion, representing a year-on-year growth of 19.7% on a comparable basis. Revenue from China Telecom Cloud reached RMB57.9 billion, representing an increase of 107.5% year-on-year. Revenue from network security services amounted to RMB4.7 billion, representing an increase of 23.5% year-on-year.

CONTINUOUSLY ACCELERATING THE DIGITAL TRANSFORMATION OF PRODUCTS, CHANNELS, SALES AND MARKETING AND SERVICES, WHILE SIGNIFICANTLY ENHANCING THE DIGITAL OPERATION AND SERVICE CAPABILITIES

Adhering to the service principles of “Customer First and Service Foremost”, the Company accelerated the enhancement of key capabilities such as digitalisation of products, channels, sales and marketing and services, with a focus on changes in customer demands in the digital era. The Company also further promoted business innovation and service transformation, and strove to build a service-oriented enterprise.

The Company continued to enhance its loading of products in digitalised forms, while optimising its online activation and digital operating capabilities, to empower various online and offline contact points. It continued to deepen the online product supply, business processing and online and offline integrated delivery capabilities, optimised the digital management system of sales expenses such as channels, and increased the operation efficiency and effectiveness of channels. The Company further enhanced precision marketing and service capabilities based on AI and Big Data technologies. By strengthening the application of data labels, the Company generated accurate user profiles, and optimised its full-chain digital management of customer value insight, operation and retention as well as expansion and upgrade. The Company further stepped up the application of new technologies based on data and intelligence, introduced AI digital employees, and accelerated the enhancement of service efficiency of 10000 service hotline. This created a 24/7 and all-round new intelligent service experience, facilitated the combination of traditional services with smart innovation, and promoted the continuous upgrade of service efficiency and customer perceptions.

In 2022, the service quality of the Company's networks, products and channels further strengthened, and customer reputation continued to become more positive, while its overall customer satisfaction maintained an industry-leading position.



SECTION III MANAGEMENT'S DISCUSSION AND ANALYSIS (REPORT OF THE DIRECTORS)

CONTINUOUSLY ACCELERATING THE CONSTRUCTION AND UPGRADE OF DIGITAL INFORMATION INFRASTRUCTURE, WHILE FURTHER ENHANCING CLOUD-NETWORK INTEGRATION CAPABILITIES

The Company resolutely fulfilled its responsibilities as the major force in building Cyberpower and Digital China, as well as in safeguarding network and information security. With the full implementation of its Cloudification and Digital Transformation strategy, the Company accelerated the construction of intelligent integrated digital information infrastructure that is high-speed and ubiquitous, aerial-ground in one, cloud-network integrated, intelligent and agile, green and low-carbon, and secure and controllable.

In the field of computing power, the Company further optimised the “2 + 4 + 31 + X + O” layout of its computing power and built proprietary multiple AZs capabilities of China Telecom Cloud 4.0 in central nodes of regions of Beijing-Tianjin-Hebei, Yangtze River Delta, Guangdong-Hong Kong-Macau Greater Bay Area and Chengdu-Chongqing. The number of cities covered by “One-City-One-Pool” exceeded 240, while the number of edge computing power nodes surpassing 800. The Company built the four-level AI computing power comprising of “entire network-region-edge-terminal” with nationwide coverage. The Company aggregated more than 5,000 algorithms and over 100 scene-based solutions. The Company proactively responded to the national strategy of “East-to-West Computing Resource Transfer” and stepped up deployment with a focus on 8 hub nodes. The Company has the greatest number and the most extensive distribution of IDC resources in China.



SECTION III MANAGEMENT'S DISCUSSION AND ANALYSIS (REPORT OF THE DIRECTORS)

In the field of Gigabit fibre network, the Company continued to accelerate the construction of Gigabit network and built the largest Gigabit fibre network in scale, with the number of 10G PON ports exceeding 6.30 million, covering over 250 million family users in the Company's service region.

In the field of 4G/5G network, the Company and China Unicom comprehensively deepened co-building and co-sharing. The cumulative number of 5G base stations co-built and co-shared by the two parties exceeded one million while the number of co-shared 4G stations exceeding 1.1 million, contributing key technologies in co-building and co-sharing as well as operation and management experiences to the global communications industry.

In the field of satellite communications, the Company continued to promote breakthroughs in key core technologies of the information network featuring aerial-ground in one. The Company achieved interconnection between the mobile network and the satellite network and realised multiple functions for one single card.

In the field of security, the Company continued to give full play to its role in safeguarding network and information security, formed security infrastructure capabilities covering cloud, network, edge and terminal, and completed the construction of "Cloud Dam" platform with full network coverage. The Company's security capability pools covered more than 150 cities.

In the field of green and low-carbon, the Company fully promoted the green and low-carbon transformation of cloud-network infrastructure, and adopted measures such as customised high-performance servers to enhance computing efficiency. The Company also applied various new energy-saving technologies to enhance the energy efficiency of datacentres and telecommunications equipment rooms, and sped up the energy-saving application of AI technologies to mobile base stations and old equipment rooms, with a power saving of over 600 million kWh per year, contributing to the green and low-carbon transformation of the economy and society.



SECTION III MANAGEMENT'S DISCUSSION AND ANALYSIS (REPORT OF THE DIRECTORS)



Management introduced the Company's market-oriented talent incentive mechanism

6. FINANCIAL OVERVIEW

In 2022, adhering to the new development principles, the Company seized opportunities arising from the development of digital economy and comprehensively implemented the “Cloudification and Digital Transformation” strategy. The Company increased investment in key areas such as sci-tech innovation and Industrial Digitalisation. At the same time, the Company strengthened digital operation to reduce costs and enhance efficiency, further increased resource efficiency, and supported the long-term value creation of the Company. The Company achieved new results in high-quality development. In 2022, operating revenues were

RMB481,448 million, representing an increase of 9.5% from year 2021¹⁵. Service revenues¹⁶ were RMB434,928 million, representing an increase of 8.0% from year 2021. Excluding the revenue impact from the disposals of its subsidiaries in 2021¹⁷, the year-on-year growth rate reached 8.1%, maintaining continuous growth for ten consecutive years. Operating expenses were RMB448,021 million, representing an increase of 9.6% from year 2021. The Company continued to enhance its profitability. Profit attributable to equity holders of the Company was RMB27,593 million, representing an increase of 6.3% from year 2021. Excluding the one-off after-tax gain from the disposals of its subsidiaries in 2021¹⁸, the year-on-year growth rate reached 12.5%. Basic earnings per share were RMB0.30. EBITDA¹⁹ amounted to RMB130,359 million, representing an increase of 5.2% from year 2021. EBITDA margin²⁰ was 30.0%.

OPERATING REVENUES

In 2022, the Company leveraged its edges in cloud-network servicing capabilities, accelerated the development of Industrial Digitalisation service, further upgraded its integrated intelligent information products and services, and strengthened the new supply of digital products. As a result, its revenues continuously maintained favourable growth while its revenue structure further optimised. In 2022, operating revenues were RMB481,448 million, representing an increase of 9.5% from year 2021. Service revenues were RMB434,928 million, representing an increase of 8.0% from year 2021.

¹⁵ In 2022, the Group acquired Beeya (Shanghai) Technology Co., Ltd.. As a business combination under common control, comparative figures of the prior year have been restated.

¹⁶ Service revenues are calculated based on operating revenues minus sales of mobile terminals, sales of wireline equipment, and other non-service revenues.

¹⁷ Service revenues for 2021 excluded Internet Finance revenue prior to the disposal of E-surfing Pay Co., Ltd. which was completed in April 2021.

¹⁸ The one-off after-tax gain from the disposals of E-surfing Pay Co., Ltd. and China Telecom Leasing Corporation Limited in 2021 was approximately RMB1,416 million.

¹⁹ 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 the International Financial Reporting Standards. 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.

²⁰ EBITDA margin is calculated based on EBITDA divided by service revenues.

SECTION III MANAGEMENT'S DISCUSSION AND ANALYSIS (REPORT OF THE DIRECTORS)

The following table sets forth a breakdown of the operating revenues for year 2022 and 2021, together with their respective rates of change:

<i>(RMB million, except percentage data)</i>	For the year ended 31 December		
	2022	2021 (Restated)	Rates of change
Service revenues	434,928	402,828	8.0%
Of which: Mobile communications service revenues	191,026	184,158	3.7%
Wireline and Smart Family service revenues	118,534	113,522	4.4%
Industrial Digitalisation service revenues	117,756	98,945	19.0%
Other service revenues	7,612	6,203	22.7%
Revenues from sales of goods and others	46,520	36,725	26.7%
Total operating revenues	481,448	439,553	9.5%

Mobile communications service revenues

In 2022, the Company continued to strengthen its 5G network coverage, optimise network quality and enhance 5G user experience to promote mobile subscribers growth and value stabilisation as well as the stable growth of fundamental businesses. In 2022, revenues from mobile communications services were RMB191,026 million, representing an increase of 3.7% over the same period of last year and accounting for 39.7% of operating revenues.

Wireline and Smart Family service revenues

In 2022, leveraging the convergence of "5G + Gigabit broadband + Gigabit WiFi", the Company promoted the speed upgrade of broadband subscribers as well as the upgrade from Whole-home Intelligence to family DICT. The value contribution from Smart Family services continued to grow, with broadband blended ARPU maintaining favourable growth. In 2022, the Company's Wireline and Smart Family service revenues were RMB118,534 million, representing an increase of 4.4% over the same period of last year and accounting for 24.6% of operating revenues.

SECTION III MANAGEMENT'S DISCUSSION AND ANALYSIS (REPORT OF THE DIRECTORS)

Industrial Digitalisation service revenues

In 2022, the Company proactively seized the current opportunities brought by the demands from various industries in the economy and society for network-based, digitalised, and smart integrated information services. Leveraging its own resources in the whole process and whole network, the Company empowered the digital transformation of numerous walks of life and promoted “the cloud migration, the use of data and intelligence injection” for more enterprises. In 2022, the Company's Industrial Digitalisation service revenues were RMB117,756 million, representing an increase of 19.0% over last year and accounting for 24.5% of operating revenues.

Other service revenues

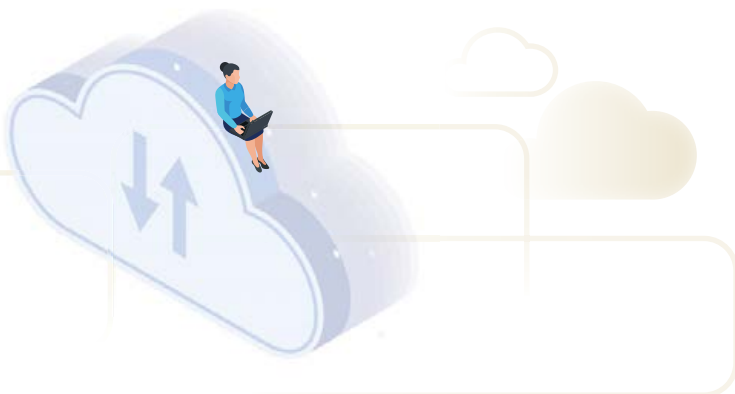
In 2022, revenues from other services amounted to RMB7,612 million, representing an increase of 22.7% from year 2021, mainly due to the increase in revenues from property rental.

Revenues from sales of goods and others

In 2022, revenues from sales of goods and others amounted to RMB46,520 million, representing an increase of 26.7% from year 2021, mainly due to the rapid growth in the sales volume of mobile terminals, such as 5G mobile phones.

OPERATING EXPENSES

Seizing the opportunities arising from the development of digital economy, the Company increased investment in key areas such as sci-tech innovation and Industrial Digitalisation. At the same time, the Company strengthened digital operation to reduce costs and enhance efficiency, further increased resource efficiency, and supported the high-quality development and long-term value creation of the Company. In 2022, operating expenses were RMB448,021 million, representing an increase of 9.6% from year 2021. Operating expenses accounted for 93.1% of operating revenues.



SECTION III MANAGEMENT'S DISCUSSION AND ANALYSIS (REPORT OF THE DIRECTORS)

The following table sets forth a breakdown of the operating expenses in 2022 and 2021 and their respective rates of change:

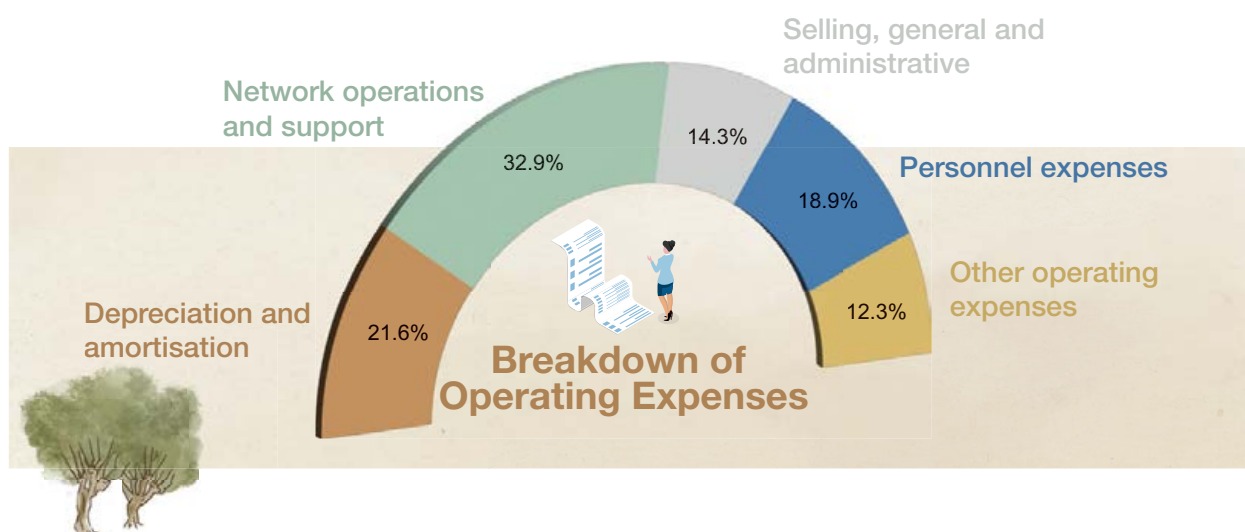
<i>(RMB million, except percentage data)</i>	For the year ended 31 December		
	2022	2021 (Restated)	Rates of change
Depreciation and amortisation	96,932	92,966	4.3%
Network operations and support	147,589	133,340	10.7%
Selling, general and administrative	64,277	61,154	5.1%
Personnel expenses	84,772	76,057	11.5%
Other operating expenses	54,451	45,088	20.8%
Total operating expenses	448,021	408,605	9.6%

Depreciation and amortisation

In 2022, the Company further promoted 5G co-building and co-sharing as well as 4G network co-sharing. At the same time, in order to support the construction of 5G network at scale and expand the deployment of new infrastructure such as datacentres and cloud, the Company continued its capital expenditure input. Depreciation and amortisation amounted to RMB96,932 million, representing an increase of 4.3% from year 2021 and accounting for 20.1% of operating revenues.

Network operations and support

In 2022, the Company proactively supported the rapid development of 5G, Industrial Digitalisation business and Smart Family business, and appropriately increased investment in the build-up of capabilities. At the same time, with the continuous expansion of the Company's network, operating costs such as electricity charge and tower rental fees increased accordingly. Network operations and support expenses amounted to RMB147,589 million, representing an increase of 10.7% from year 2021 and accounting for 30.7% of operating revenues.



SECTION III MANAGEMENT'S DISCUSSION AND ANALYSIS (REPORT OF THE DIRECTORS)

Selling, general and administrative

In 2022, selling, general and administrative expenses amounted to RMB64,277 million, representing an increase of 5.1% from year 2021 and accounting for 13.4% of operating revenues. The Company firmly seized the development opportunities of 5G and maintained the necessary input in marketing resources. At the same time, the Company deepened channel transformation and upgrades, accelerated the construction of a new digital marketing service channel system, and strengthened online and offline coordination. The Company also stepped up precision marketing and enhanced the efficiency of selling expenses. In 2022, selling expenses were RMB50,486 million, representing an increase of 3.9% from year 2021. The Company proactively promoted sci-tech innovation to accelerate its transformation towards a technology-oriented enterprise, with appropriate increase in R&D initiatives. In 2022, general and administrative expenses amounted to RMB13,791 million, representing an increase of 9.8% from year 2021.

Personnel expenses

The Company firmly seized the opportunities arising from the development of the digital economy, boosted sci-tech innovation, strengthened the recruitment of high-tech talents and increased incentives for frontline employees and high-performance team. Inputs in personnel expenses were aligned with the development direction of the Company to transform itself to be a technology-oriented enterprise in the future. In 2022, personnel expenses amounted to RMB84,772 million, representing an increase of 11.5% from year 2021 and accounting for 17.6% of operating revenues. For details regarding the number of employees, remuneration policy and training programs, please refer to Corporate Social Responsibility Report 2022 ("CSR Report 2022").

Other operating expenses

In 2022, other operating expenses amounted to RMB54,451 million, representing an increase of 20.8% from year 2021 and accounting for 11.3% of operating revenues. The increase was mainly due to the increase in the sales volume of mobile terminals, such as 5G mobile phones.

Net finance costs

In 2022, net finance costs amounted to RMB7 million, representing a decrease of 99.4% from year 2021, mainly because the Company maintained sound operating cash flows, while A Share Offering effectively covered the capital needs of key investment projects, and the scale of interest-bearing debt was effectively reduced.

PROFITABILITY LEVEL

Income taxes

The Company's statutory income tax rate is 25%. In 2022, income tax expenses were RMB8,038 million while the effective tax rate was 22.5%, representing a decrease of 0.3 percentage point from last year. The reasons for the effective tax rate being lower than the statutory tax rate were because income from investment in the associate company, China Tower was not subject to tax during the period of the investment held, the application of preferential policies such as additional tax deduction from research and development expenses, and some subsidiaries and some branches located in the western region of China enjoyed low tax rates.

Profit attributable to equity holders of the Company

The Company firmly seized the strategic opportunities arising from the booming digital economy, deepened reform and innovation and strived to enhance quality and efficiency, resulting in a significant increase in profit attributable to equity holders. In 2022, the profit attributable to equity holders of the Company was RMB27,593 million, representing an increase of 6.3% from year 2021. Excluding the one-off after-tax gain of disposals of its subsidiaries in 2021²¹, the year-on-year growth rate was 12.5%.

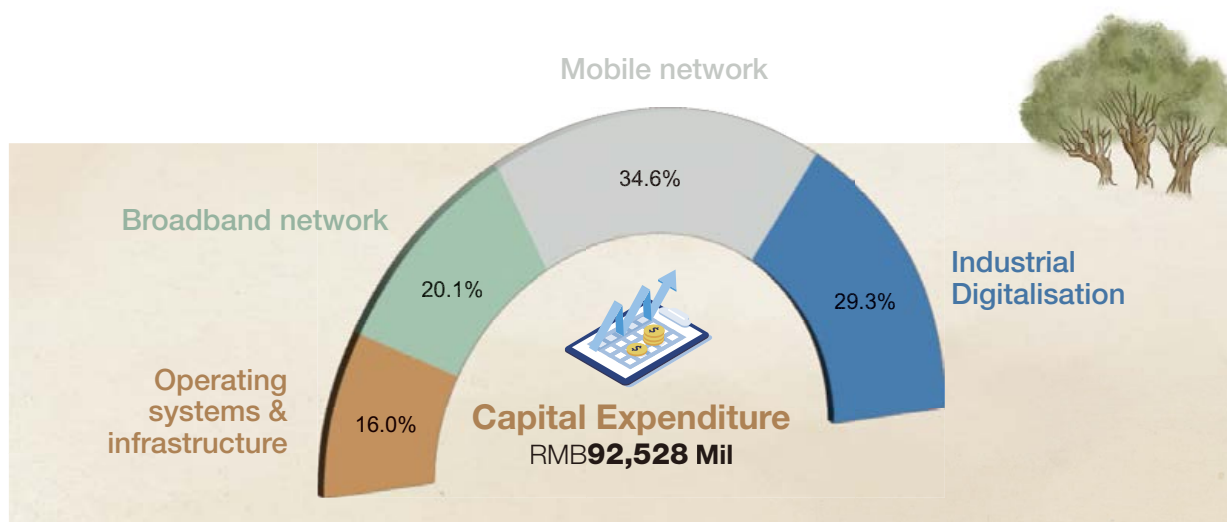
²¹ The one-off after-tax gain from the disposals of E-surfing Pay Co., Ltd. and China Telecom Leasing Corporation Limited in 2021 was approximately RMB1,416 million.

CAPITAL EXPENDITURE AND CASH FLOWS

Capital expenditure

In 2022, in order to support the construction of 5G network at scale and strengthen its network competitive advantages, the Company proactively expanded the deployments of new infrastructure such as datacentres and cloud, built the intelligent integrated digital

information infrastructure, and expedited the construction of cloud-network foundation in the computing power era. At the same time, the Company further promoted 5G network co-building and co-sharing as well as 4G network co-sharing with China Unicom. Capital expenditure for the year was RMB92,528 million, representing an increase of 6.7% from year 2021.



Cash flows

The net decrease in cash and cash equivalents for year 2022 was RMB1,270 million.

The following table sets forth the cash flow position in 2022 and 2021:

(RMB million)	For the year ended 31 December	
	2022	2021 (Restated)
Net cash flow from operating activities	136,432	137,533
Net cash used in investing activities	(96,796)	(80,288)
Net cash used in financing activities	(40,906)	(7,518)
Net (decrease)/increase in cash and cash equivalents	(1,270)	49,727

SECTION III MANAGEMENT'S DISCUSSION AND ANALYSIS (REPORT OF THE DIRECTORS)

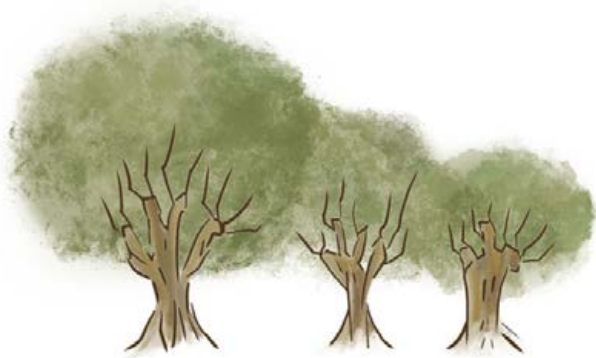
In 2022, the net cash inflow from operating activities was RMB136,432 million, representing a decrease of 0.8% from year 2021, mainly due to the increase in accounts receivable and the decrease in user prepaid service fees for the year as a result of the change in business structure.

In 2022, the net cash outflow used in investing activities was RMB96,796 million, representing an increase of 20.6% from year 2021, mainly due to the increase in capital expenditure of the Company, as well as the increase in loans granted by its finance company.

In 2022, the net cash outflow used in financing activities was RMB40,906 million, representing an increase of 444.1% from year 2021, mainly due to the impact of the proceeds from the Company's A Share Offering last year.

WORKING CAPITAL

The Company consistently upheld stable and prudent financial principles and stringent fund management policies. At the end of 2022, the working capital (total current assets minus total current liabilities) deficit was RMB140,665 million, representing an increase in deficit of RMB2,957 million compared to the end of 2021. As at 31 December 2022, the unutilised credit facilities were RMB233,639 million (2021: RMB276,483 million). Given the stable net cash inflow from operating activities and sound credit record, the Company has sufficient working capital to satisfy operational needs. As at the end of 2022, cash and cash equivalents amounted to RMB72,465 million, among which cash and cash equivalents denominated in Renminbi accounted for 94.3% (2021: 89.6%).



ASSETS AND LIABILITIES

In 2022, the Company continued to maintain a solid financial position. At the end of 2022, the total assets increased by 6.0% from RMB762,239 million as at the

end of 2021 to RMB807,698 million. Total indebtedness²² decreased to RMB10,484 million from RMB16,496 million as at the end of 2021. Debt to asset ratio as at the end of 2022 was 46.0%.

Indebtedness

The indebtedness analysis as at the end of 2022 and 2021 is as follows:

<i>(RMB million)</i>	For the year ended 31 December	
	2022	2021
Short-term debts	2,840	2,821
Current portion of long-term debts	3,160	6,280
Long-term debts	4,484	7,395
Total indebtedness	10,484	16,496

As at the end of 2022, the total indebtedness was RMB10,484 million, representing a decrease of RMB6,012 million from the end of 2021, which was mainly due to the impact of the Company's listing in the A-share market, as the proceeds satisfied the capital requirements of key projects, leading to decreased external financing needs. Of the total indebtedness, loans denominated in Renminbi, US Dollars and Euro accounted for 97.4% (2021: 98.2%), 1.7% (2021: 1.1%) and 0.9% (2021: 0.7%), respectively. 95.8% (2021: 95.9%) of the indebtedness were loans with fixed interest rates while the remaining portion of the indebtedness represented loans with floating interest rates.

As at 31 December 2022, neither the Company nor any of its subsidiaries pledged any assets as collateral for debt (2021: Nil).

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

²² Total indebtedness refers to interest-bearing debts excluding lease liabilities.

SECTION III MANAGEMENT'S DISCUSSION AND ANALYSIS (REPORT OF THE DIRECTORS)

Significant investment

As at 31 December 2022, the Company's external investments mainly included interests in associates and joint ventures, and equity instruments measured at fair value with the change in the fair value included

in other comprehensive income, with book values of RMB42,220 million and RMB885 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	Investment cost (RMB million)	As at 31 December 2022			Fair value (RMB million)	Size of fair value relative to total assets of the Group
					Number of shares held	Percentage of shares held	Book value (RMB million)		
China Tower	0788.HK	Principally engaged in the construction, maintenance and operation of base station ancillary facilities such as telecommunications towers, public network coverage in high-speed railways and subways, and large-scale indoor Distributed Antenna Systems (DAS), and to provide energy application services such as information application and intelligent battery exchange and power backup to the society	The PRC	36,087	36,087,147,592	20.5%	39,271	27,078	3.4%

As at 31 December 2022, the book value of the Group's interests in China Tower, an associate of the Company, was RMB39,271 million, accounting for 4.9% of the Group's total assets. In 2022, share of unrealised attributable profits of China Tower recognised by the Company amounted to RMB1,954 million, and

dividends received amounted to RMB947 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 in the future.

Contractual obligations

Contractual obligations as at 31 December 2022 are as follows:

(RMB million)	Total	Within 1 year	Between 1 to 2 years	Between 2 to 5 years	Thereafter
Short-term debts	2,884	2,884	–	–	–
Long-term debts	8,595	3,226	1,187	2,509	1,673
Lease liabilities	73,034	16,163	14,685	38,195	3,991
Capital commitments	16,607	16,607	–	–	–
Total contractual obligations	101,120	38,880	15,872	40,704	5,664

Note: Amounts of short-term debts, long-term debts and lease liabilities include recognised and unrecognised interest payable, and the amounts shown above were not discounted.

7. DISCUSSION AND ANALYSIS ON THE FUTURE DEVELOPMENT OF THE COMPANY

1. INDUSTRY LANDSCAPE AND TREND

At present, there are new strategic opportunities for the development of the information communications industry. The information communications industry should make proactive and accurate analysis and judgment, proactively respond to changes, cultivate opportunities, and start a new situation.

Firstly, the world is living through accelerating changes unseen in a century, bringing new strategic opportunities for China's development. As the Chinese economy has strong resilience, great potential and full vitality, the key conditions for building a new development pattern are relatively sufficient. The momentum of effective demand recovery is becoming increasingly obvious, and the effects of various policies continue to become apparent. The overall economic operation is expected to rebound in 2023, and the long-term positive fundamentals of China's economy remain unchanged.

Secondly, digital economy has become an important support and key engine to promote the high-quality development of the economy and society. The digital transformation of the economy and society has become a general trend. The new thinking, new technologies and new models brought by digitalisation will reconstruct the technology systems, business models and industrial formats of human society. The digital development momentum in key areas such as industrial Internet, smart city, smart healthcare and smart commerce is strong. As the main force of the digital economy, the information communications industry not only maintains its own high growth, but also provides strong support for the stable economic growth.

Thirdly, the continuous expansion of information consumption scenes has created a new trend of digital

life and new demands for service quality. Currently, users are shifting from physical to online contactless services, with rapid growth of the number of various online users, while the all-round digital lifestyle is becoming a reality. User demand has been upgraded from standardised products to typical scenes, and then to customised services. Large-scale and rapid satisfaction of personalised customisation demands has become a new trend and new requirement for products and services. 2B, 2C and 2H have opened up multiple identities of customers, with continuously deepened integration of multi equipment and multi screens. This promoted the integrated development of information services and products.

Fourthly, science and technology constitute a primary productive force, while the scale commercialisation of the new generation digital technologies is accelerating. At present, the human society has entered the digital era after the agricultural era, the industrial era and the information era. The scale commercialisation of the new generation digital technologies such as cloud computing, Big Data and AI is accelerating. Cloud computing and AI have unlimited potential, and are accelerating the transformation of various industries from the bottom. Cloud computing has grown rapidly in terms of market size. AI is at a key turning point for the transition from small-scale verification to large-scale application, and is about to enter a stage of spurt and large-scale implementation.

Fifthly, the challenges of security risks have increased, and security demands have become more urgent. The cloud-network security operation is under severe situation, with the number of global DDoS attacks increasing rapidly, and major network failures occurring frequently. The cost of security incidents continued to rise, and the security market expenditure continued to grow rapidly. All kinds of security incidents in the world became alarm bells for the information communications industry.

SECTION III MANAGEMENT'S DISCUSSION AND ANALYSIS (REPORT OF THE DIRECTORS)

Sixthly, green and low-carbon development has become a general consensus and are integrated into the products and services of enterprises at all fronts. Promoting green and low-carbon development of the economy and society is key to achieve high-quality development. Green development puts forward new requirements for the information communications industry. At the same time, the digital technology empowers the green and low-carbon development, creating a huge market while bringing huge opportunities to the information communications industry.

The changes in the world, times and history are unfolding in an unprecedented manner. Facing new changes of situation and new requirements of tasks, the Company will accurately grasp its historical orientation, firmly seize the new strategic opportunities for its corporate development, fully and deeply implement its "Cloudification and Digital Transformation" strategy, accelerate the construction of a world-class enterprise, and continuously create greater value for shareholders.

2. DEVELOPMENT STRATEGY OF THE COMPANY

China Telecom resolutely fulfils its missions and responsibilities in building a Cyberpower and Digital China, as well as in safeguarding network and information security. Adhering to the customer-centric approach, the Company strengthens the core capabilities in sci-tech innovation, accelerates the construction of new information infrastructure featuring cloud-network integration, greenness and security, and consolidates the foundation for green development and network and information security. The Company builds a digitalised platform hub, creates a win-win cooperation ecology, and deepens the reform of systems and mechanisms. The Company also provides customers with integrated intelligent services that are flexible and diversified, integrated and convenient, of quality experience, green and secure. The Company meets people's demands for a better information life and continues to advance the building of a service-oriented, technology-oriented and secured enterprise. The Company effectively enhances

its corporate core competitiveness and accelerates the construction of a world-class enterprise leveraging accelerated development with higher quality, higher level of sci-tech innovation, more comprehensive and deepened reforms, greater efforts in opening up and cooperation, more emphasis on risk prevention, as well as more pragmatic work style and unity in hard work.

3. BUSINESS PLAN

In 2023, the Company will firmly seize the strategic opportunities arising from the building of Digital China and the development of digital economy. Insisting on high-quality development as the theme, digital transformation as the main line, and reform, opening and innovation as the driving force, the Company will comprehensively and deeply implement the Cloudification and Digital Transformation strategy, and continue to increase the supply of high-quality digital products such as cloud, AI, security and digitalised platforms. The Company will accelerate the quality and scale enhancement of 5G and Gigabit subscribers, and speed up the integrated development of businesses such as Smart Family, Smart Community, Digital Village and e-Surfing IoVT. The Company will build the full-stack solution capabilities for various industries, strengthen ecological cooperation, promote the acceleration and upgrade of Industrial Digitalisation, and empower and inject intelligence into the digital transformation of numerous walks of life. The Company will continue to build the digital information infrastructure with cloud-network integration as the core feature, strengthen data integration and sharing, promote the deep integration of digital economy and real economy, and strive to achieve high-quality development that is more efficient, more sustainable and more secure.

4. POTENTIAL RISKS

Risks of adapting to economic and policy environment

At present, the recovery of the world economy is weak, with frequent regional conflicts and turmoil, and the global problem is intensifying. The foundation for China's economic recovery is not yet solid, and the "triple pressure" of shrinking demand, supply shocks and

weakening expectations remain high. The increasingly stringent regulatory environment may bring risks and challenges to the Company's business development and revenue growth. The Company will strengthen the analysis and judgment of the external environment, proactively prevent and respond to the risks brought by environmental changes, comprehensively deepen reform, promote the Cloudification and Digital Transformation strategy, innovate business models, accelerate technological innovation, optimise the compliance management system, and solidly promote the high-quality development of the Company.

Business operation risks

The Nation puts forward requirements to give full play to the supporting role of sci-tech innovation strategy, which will bring new opportunities as well as challenges to the sci-tech innovation of enterprises. With the rapid development of the digital economy, the upgrading and iteration of products and services have accelerated, while customer demands become more diversified and personalised. There is a certain gap between the Company's products and services and customer's demands in terms of varieties, performance and experience, as well as between the level of industrial digitalisation and the requirements of digital economy development. Market competition further intensified, with the growth rate of subscribers in the telecommunications industry facing a downward pressure and corresponding in technological and innovative development having deficiencies. The Company will further strengthen sci-tech innovation and R&D as well as the transformation of achievements, increase the dual driving forces of fundamental businesses and Industrial Digitalisation business, and step up efforts in R&D and promotion of supply-side products. The Company will promote the optimisation of 5G business model and industry chain, accelerate the scale development of 5G, and step up efforts in capital deployment intensity to expand the "circle of friends" in the ecology. This will further enhance the market competitiveness of product supply and meet the diversified and personalised customer demands.

Network and information security risks

The accelerated evolution of information and communications networks and the growing number of cyber-attacks for different purposes have brought new challenges to network security operations. With the implementation of *the Cybersecurity Law of the People's Republic of China*, *the Data Security Law of the People's Republic of China*, *the Personal Information Protection Law of the People's Republic of China*, *the Anti-Telecom and Online Fraud Law* and other relevant laws and regulations, the Nation continues to strengthen the supervision over relevant fields. Illegal and criminal acts on the Internet become concerns to the wider society, thus putting forward higher requirements for the data security and personal information protection for the Company. The Company will further consolidate the security foundation of new information infrastructure, strengthen the independent and self-controlled capabilities in core network technologies, enhance the supply chain security management system, and strengthen the emergency response and sourcing capabilities. Meanwhile, the Company will deepen data security and user personal information protection, accelerate the use of data and intelligence injection for the security core platform, continue to carry out network security risks screening, effectively ensure reliable operation of network security as well as data and personal information security.

International operation risks

The complex and volatile international situation has brought greater challenges to overseas operations. Factors such as changes in the policy environment in the countries/regions where the Company operates have brought risks to overseas business expansion. There is still a gap between products and services and demands of customers. The Company will further strengthen market analysis and study the policies and laws of relevant countries/regions, strengthen overseas compliance management, enhance risk response capabilities and continue to optimise the overseas risk prevention responsibility system.

SECTION III MANAGEMENT'S DISCUSSION AND ANALYSIS (REPORT OF THE DIRECTORS)

8. OTHER DISCLOSURES

1. PRINCIPAL BUSINESS

The principal business of the Company and the Group is the provision of fundamental telecommunications businesses including wireline and mobile communications services, value-added telecommunications businesses such as Internet access services, information services and other related businesses.

2. DIVIDEND POLICY

The basic principles of the Company's profit distribution policy are:

- (1) The Company attaches great importance to reasonable investment returns to investors, and the Company's profit distribution policy will take into account the overall interests of all shareholders, the Company's long-term interests and the Company's sustainable development;
- (2) Under the premise that the Company's profit distribution does not exceed the cumulative distributable profit and that the Company takes into account the continuous profits, meets regulatory requirements, operates regularly and develops in the long term, the Company will give priority to cash distribution of dividends.

The Board is responsible for formulating the dividend distribution plan and will execute the relevant approval procedures in accordance with relevant laws, rules, regulations and articles of association of the Company (the "Articles of Association") before proceeding with the distribution. In the future, the Company will strive for profitability enhancement and at the same time continue to deliver favourable dividend return for the shareholders. Details of the dividend policy of the Company are set out in the "Corporate Governance Report" of this annual report.

3. DIVIDENDS

The Board of Directors proposed a final dividend of RMB0.076 per share (pre-tax) in an aggregate amount of RMB6,955 million calculated based on 91,507 million shares, being the total number of issued share capital of the Company as at the end of 2022. Together with the 2022 interim dividend of RMB0.120 per share (pre-tax) which has been distributed, the full-year dividend of the year 2022 amounts to RMB0.196 per share (pre-tax) in an aggregate amount of RMB17,935 million which represents 65% of the profit attributable to equity holders of the Company for the year 2022. The dividend proposal will be submitted for consideration at the Annual General Meeting to be held on Tuesday, 23 May 2023 (the "2022 AGM"). Dividends will be denominated and declared in Renminbi. Details of the profit distribution of the Company for 2022 are set out in the "Corporate Governance Report" of this annual report.

Dividends for holders of A Shares and the investors of the Shanghai Stock Exchange and Shenzhen Stock Exchange (including enterprises and individuals) investing in the H shares of the Company listed on the Hong Kong Stock Exchange (the "Southbound Trading Link") (the "Southbound Investors") will be paid in Renminbi, whereas dividends for H share shareholders other than Southbound Investors will be paid in Hong Kong dollars. The relevant exchange rate will be the average median rate of Renminbi to Hong Kong dollars as announced by the People's Bank of China for the week prior to the date of declaration of dividends at the 2022 AGM. The proposed final dividends are expected to be paid on or before 21 July 2023 upon approval at the 2022 AGM.

Pursuant to the "Enterprise Income Tax Law of the People's Republic of China", the "Implementation Rules of the Enterprise Income Tax Law of the People's Republic of China" and the "Circular of the State Taxation Administration on Issues Relating to the Withholding of Enterprise Income Tax by PRC Resident Enterprises on Dividends Paid to Overseas Non-PRC Resident

SECTION III MANAGEMENT'S DISCUSSION AND ANALYSIS (REPORT OF THE DIRECTORS)

Enterprise Shareholders of H Shares" (Guo Shui Han [2008] No. 897), the Company shall be obliged to withhold and pay 10% enterprise income tax when it distributes the proposed 2022 final dividends to non-resident enterprise shareholders of overseas H shares (including HKSCC Nominees Limited, other corporate nominees or trustees, and other entities or organisations) whose names appear on the Company's H share register of members on Thursday, 8 June 2023.

Pursuant to the "Notice of the State Taxation Administration on Issues Concerning Taxation and Administration of Individual Income Tax After the Repeal of Guo Shui Fa [1993] No. 045 (Guo Shui Han [2011] No. 348)", if the individual H share shareholders who are Hong Kong or Macau residents and those whose country of domicile is a country which has entered into a tax treaty with PRC stipulating a dividend tax rate of 10%, the Company will finally withhold and pay individual income tax at the rate of 10% on behalf of the individual H share shareholders. If the individual H share shareholders whose country of domicile is a country which has entered into a tax treaty with PRC stipulating a dividend tax rate of less than 10%, the Company will finally withhold and pay individual income tax at the rate of 10% on behalf of the individual H share shareholders. If the individual H share shareholders whose country of domicile is a country which has entered into a tax treaty with PRC stipulating a dividend tax rate of more than 10% but less than 20%, the Company will withhold and pay individual income tax at the actual tax rate stipulated in the relevant tax treaty. If the individual H share shareholders whose country of domicile is a country which has entered into a tax treaty with PRC stipulating a dividend tax rate of 20%, or a country which has not entered into any tax treaties with PRC, or under any other circumstances, the Company will withhold and pay individual income tax at the rate of 20% on behalf of the individual H share shareholders. If those shareholders need to request a refund of tax overpaid from the PRC tax authorities on his own or through an agent or the Company in accordance

with the relevant requirements of the "Announcement of the State Taxation Administration on Promulgating the Administrative Measures for Non-resident Taxpayers for Treatments under Tax Treaties" (Announcement [2019] No. 35 of the State Taxation Administration), they shall submit the "Information Report on Non-resident Taxpayers for Treatments under Tax Treaties" (Announcement [2019] No. 35 of the State Taxation Administration), and collect and file such information.

The Company will determine the country of domicile of the individual H share shareholders based on the registered address as recorded in the H share register of members of the Company on Thursday, 8 June 2023 (the "Registered Address"). If the country of domicile of an individual H share shareholder is not the same as the Registered Address or if the individual H share shareholder would like to apply for a refund of the additional amount of tax finally withheld and paid, the individual H share shareholder shall notify and provide relevant supporting documents to the Company on or before Thursday, 1 June 2023. Upon examination of the supporting documents by the relevant tax authorities, the Company will follow the guidance given by the tax authorities to implement relevant tax withholding and payment provisions and arrangements. Individual H share shareholders may either personally attend or appoint a representative to attend to the procedures in accordance with the requirements under the tax treaties notice if they do not provide the relevant supporting documents to the Company within the time period stated above.

For Southbound Investors (including enterprises and individuals), the Shanghai branch of China Securities Depository and Clearing Corporation Limited and the Shenzhen branch of China Securities Depository and Clearing Corporation Limited, as the nominees of the investors of the Southbound Trading Link, will receive all dividends distributed by the Company and will distribute the dividends to the relevant investors under the Southbound Trading Link through its depository and

SECTION III MANAGEMENT'S DISCUSSION AND ANALYSIS (REPORT OF THE DIRECTORS)

clearing system. According to the relevant provisions under the “Notice on Taxation Policies for Shanghai-Hong Kong Stock Connect Pilot Programme (Cai Shui [2014] No. 81)” and “Notice on Taxation Policies for Shenzhen-Hong Kong Stock Connect Pilot Programme (Cai Shui [2016] No. 127)”, the Company shall withhold and pay individual income tax at the rate of 20% with respect to dividends received by the Mainland individual investors for investing in the H shares of the Company listed on the Hong Kong Stock Exchange through the Southbound Trading Link. In respect of the dividends received by Mainland securities investment funds investing in the H shares of the Company listed on Hong Kong Stock Exchange through the Southbound Trading Link, the tax levied shall be ascertained by reference to the rules applicable to individual investors. The Company is not required to withhold and pay income tax on dividends derived by the Mainland enterprise investors under the

Southbound Trading Link, and such enterprises shall report the income and make tax payment by themselves. The record date for entitlement to the shareholders' rights and the relevant arrangements of dividend distribution for the Southbound Investors are the same as those for the Company's H share shareholders.

The Company assumes no responsibility and disclaims all liabilities whatsoever in relation to the tax status or tax treatment of the individual H share shareholders and for any claims arising from any delay in or inaccurate determination of the tax status or tax treatment of the individual H share shareholders or any disputes relating to the tax withholding and payment mechanism or arrangements.

4. DIRECTORS AND SENIOR MANAGEMENT OF THE COMPANY

The following table sets out certain information of the Directors and senior management of the Company:

Name	Age	Position in the Company	Date of Appointment*
Ke Ruiwen	59	Executive Director, Chairman and Chief Executive Officer	30 May 2012
Shao Guanglu	59	Executive Director, President and Chief Operating Officer	26 May 2020
Liu Guiqing	56	Executive Director and Executive Vice President	19 August 2019
Tang Ke	48	Executive Director and Executive Vice President	22 March 2022
Xia Bing	49	Executive Director and Executive Vice President	6 January 2023
Li Yinghui	52	Executive Director, Executive Vice President, Chief Financial Officer and Secretary of the Board	6 January 2023
Chen Shengguang	59	Non-Executive Director	23 May 2017
Ng, Kar Ling Johnny	62	Independent Non-Executive Director	6 January 2023
Wang Hsuehming	73	Independent Non-Executive Director	29 May 2014
Yeung Chi Wai, Jason	68	Independent Non-Executive Director	26 October 2018
Chen Dongqi	66	Independent Non-Executive Director	6 January 2023

* Date of appointment as Director

SECTION III MANAGEMENT'S DISCUSSION AND ANALYSIS (REPORT OF THE DIRECTORS)

References are made to the announcements in relation to the changes of Directors and senior management published by the Company on the following dates:

Mr. Tang Ke, an Executive Vice President of the Company, was appointed as an Executive Director of the Company at the Extraordinary General Meeting of the Company held on 22 March 2022. The relevant appointment became effective from 22 March 2022 until the Annual General Meeting of the Company for the year of 2022 to be held in the year of 2023.

On 26 April 2022, Mr. Xia Bing has been appointed as an Executive Vice President of the Company. Meanwhile, Mr. Li Yinghui has been appointed as an Executive Vice President and the Chief Financial Officer of the Company. The above proposed appointments became effective from 26 April 2022 until the Annual General Meeting of the Company for the year 2022 to be held in year 2023.

Due to his age, Mr. Li Zhengmao has retired from his positions as an Executive Director, the President and Chief Operating Officer of the Company with effect from 12 July 2022. On 16 August 2022, Mr. Shao Guanglu, an Executive Director of the Company, has been appointed as the President and Chief Operating Officer of the Company. The relevant appointments became effective from 16 August 2022 until the Annual General Meeting of the Company for the year 2022 to be held in year 2023.

On 5 September 2022, Mr. Li Yinghui, an Executive Vice President and the Chief Financial Officer of the Company, has been appointed as the Secretary of the Board of the Company. The relevant appointment became effective from 5 September 2022 until the Annual General Meeting of the Company for the year 2022 to be held in year 2023.

Reference is made to the announcement of the Company dated 16 August 2022 and the circular of the Company dated 13 December 2022. Pursuant to the relevant requirement issued by China Securities Regulatory Commission that the term of independent directors should not exceed six years, as Mr. Tse Hau Yin, Aloysius ("Mr. Tse"), Mr. Xu Erming ("Mr. Xu") and Madam Wang Hsuehming ("Madam Wang") have served as Independent Non-Executive Directors for more than 6 years, Mr. Tse, Mr. Xu and Madam Wang resigned from their positions as Independent Non-Executive Directors and in the special committees of the Board. Meanwhile, the Board sought approval for the proposed appointments of Mr. Ng, Kar Ling Johnny, Mr. Chen Dongqi and Madam Chen Lihua as Independent Non-Executive Directors of the Company from the shareholders of the Company. As Madam Chen Lihua did not seek appointment as an Independent Non-Executive Director of the Company for personal reasons, Madam Wang Hsuehming will continue to carry out her duties as an Independent Non-Executive Director till the date of election of a new Independent Non-Executive Director at a shareholders' meeting to be convened.

SECTION III MANAGEMENT'S DISCUSSION AND ANALYSIS (REPORT OF THE DIRECTORS)

The appointments of Mr. Xia Bing and Mr. Li Yinghui as Executive Directors of the Company and the appointments of Mr. Ng, Kar Ling Johnny and Mr. Chen Dongqi as Independent Non-Executive Directors of the Company have been approved at the Extraordinary General Meeting held on 6 January 2023. The relevant

appointments became effective from 6 January 2023 until the Annual General Meeting of the Company for the year 2022 to be held in year 2023. The resignation of Mr. Tse and Mr. Xu took effect on 6 January 2023. Meanwhile, the below changes to the members of special committees of the Board became effective on 6 January 2023:

Audit Committee	Mr. Ng, Kar Ling Johnny, Madam Wang Hsuehming, Mr. Yeung Chi Wai, Jason and Mr. Chen Dongqi serve as members, and Mr. Ng, Kar Ling Johnny serves as the Chairman.
Remuneration Committee	Mr. Yeung Chi Wai, Jason, Mr. Ng, Kar Ling Johnny and Madam Wang Hsuehming serve as members, and Mr. Yeung Chi Wai, Jason serves as the Chairman.
Nomination Committee	Mr. Chen Dongqi, Mr. Ng, Kar Ling Johnny and Mr. Yeung Chi Wai, Jason serve as members, and Mr. Chen Dongqi serves as the Chairman.

5. SUPERVISORS OF THE COMPANY

The following table sets out certain information of the Supervisors of the Company:

Name	Age	Position in the Company	Date of Appointment*
Han Fang	49	Chairlady of the Supervisory Committee and Shareholder Representative Supervisor	22 March 2022
Zhang Jianbin	57	Employee Representative Supervisor	16 October 2012
Dai Bin	54	Employee Representative Supervisor	26 May 2020
Xu Shiguang	43	Shareholder Representative Supervisor	26 October 2018
Wang Yibing	56	Shareholder Representative Supervisor	22 March 2022

* *Date of appointment as Supervisor*

References are made to the announcements in relation to the changes of Supervisors published by the Company on the following dates: on 17 December 2021, Mr. Sui Yixun and Mr. You Minqiang resigned from their positions as Supervisors due to reason of age and change in work arrangement respectively, and their resignations took effect on the date of election of the new Supervisors at the Extraordinary General Meeting of the Company held on 22 March 2022. Madam Han Fang and Madam Wang Yibing were subsequently appointed as the Shareholder Representative Supervisors of the seventh session of the Supervisory Committee of the Company at the

Extraordinary General Meeting of the Company held on 22 March 2022. The relevant appointments became effective from the date of approval at the Extraordinary General Meeting until the Annual General Meeting of the Company for the year of 2022 to be held in year of 2023. Madam Han Fang was elected as the Chairlady of the seventh session of the Supervisory Committee at a meeting of the Supervisory Committee held on 29 March 2022, with a term commencing from 29 March 2022 until the Annual General Meeting of the Company for the year of 2022 to be held in the year of 2023.

SECTION III MANAGEMENT'S DISCUSSION AND ANALYSIS (REPORT OF THE DIRECTORS)

6. SHARE CAPITAL, ISSUE OF SHARES AND USE OF PROCEEDS

As at 31 December 2022, the total share capital of the Company was approximately RMB91,507 million, divided into 91,507,138,699 shares at a nominal value of RMB1.00 per share (including 77,629,728,699 A Shares and 13,877,410,000 H shares). On 20 August 2021, the Company successfully completed the offering and listing of A Shares on the SSE and initially issued 10,396,135,267 A Shares (with a nominal value of RMB1.00 each) at an issue price of RMB4.53 per share. The subscribers are qualified natural persons and institutional investors (except those prohibited by the laws and regulations and other regulatory requirements applicable to the Company). The total proceeds from the issuance amounted to approximately RMB47,094 million before the exercise of the over-allotment option. After deducting the issuance expenses, the net proceeds amounted to approximately RMB46,712 million and the net proceeds per share amounted to approximately RMB4.49. The exercise period of the over-allotment option for the A Share Offering expired on 22 September 2021. Together with the proceeds from the initial issuance

of A Shares, the final gross proceeds from the issuance amounted to approximately RMB47,904 million, and the net proceeds after deducting the issuance expenses amounted to approximately RMB47,516 million and the net proceeds per share amounted to approximately RMB4.49. As disclosed in the Prospectus, the above proceeds will be used on the three investment projects of the Company, namely 5G Industrial Internet Construction Project, the Cloud-network integration new information infrastructure project and the research and development project of sci-tech innovation. During the Reporting Period, the proceeds were used, or are proposed to be used, according to the intentions previously disclosed in the Prospectus, and there was no material change or delay. As of 31 December 2021, the total amount of proceeds invested was approximately RMB14,895 million, and the amount of proceeds not utilised was approximately RMB32,621 million. As of 31 December 2022, the amount of proceeds invested during the Reporting Period was approximately RMB22,993 million, and the accumulated total amount of proceeds invested was approximately RMB37,888 million. The use of proceeds is as follows:

Projects invested with proceeds	Total committed investment of proceeds (RMB million)	Amount invested during the Reporting Period (RMB million)	Total accumulated amount invested as of the end of the Reporting Period (RMB million)	Amount not utilised as of the end of the Reporting Period (RMB million)	Expected timeline for use of proceeds
5G Industrial Internet Construction Project	9,957	7,160	9,957	0	2023 or before
Cloud-network integration new information infrastructure project	23,583	9,030	18,467	5,116	2023 or before
Research and development project of sci-tech innovation	13,976	6,803	9,464	4,512	2023 or before
Total	47,516	22,993	37,888	9,628	–

SECTION III MANAGEMENT'S DISCUSSION AND ANALYSIS (REPORT OF THE DIRECTORS)

7. MATERIAL INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2022, the interests or short position of persons who are entitled to exercise or control the exercise of 5% or more of the voting power at the

shareholders' class meetings of the Company (excluding the Directors and Supervisors) in the shares and underlying shares of the Company as recorded in the register required to be maintained under Section 336 of the Securities and Futures Ordinance (the "SFO") are as follows:

Name of shareholder	Number of shares*	Class of share	Approximate percentage of the respective class of shares in issue	Approximate percentage of the total number of shares in issue	Capacity
China Telecommunications Corporation	58,240,172,066 (Long Position)	A Share	75.02%	63.65%	Beneficial owner
Guangdong Rising Holdings Group Co., Ltd.	5,614,082,653 (Long Position)	A Share	7.25%	6.14%	Beneficial owner
GIC Private Limited	2,086,663,702 (Long Position)	H Share	15.04%	2.28%	Investment manager

* The information disclosed above is based on the interests and short position as recorded in the register required to be maintained by the Company under Section 336 of the SFO. Pursuant to the relevant provisions of the SFO, shareholders only have to file a disclosure of interest on the occurrence of certain events – called "relevant events". Accordingly, the exact numbers of shares held by the above-mentioned shareholders as at 31 December 2022 may be different from those as disclosed above.

Save as disclosed above, as at 31 December 2022, in the register required to be maintained under Section 336 of the SFO, no other persons were recorded to hold any interests or short positions in the shares and underlying shares of the Company.

8. DIRECTORS' AND SUPERVISORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

Save as disclosed below, as at 31 December 2022, none of the Directors and Supervisors of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated

corporations (as defined in Part XV of the SFO) as recorded in the register required to be maintained under Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules.

Name	Position	Class of share	Number of Shares	Capacity	Shares held as	Shares held as
					approximate percentage of the total number of respective class of shares in issue	approximate percentage of the total number of shares in issue
Chen Shengguang	Non-Executive Director	A Share	1,000	Beneficial owner	0.00%	0.00%
			(Long Position)			
			1,000	Interest of spouse	0.00%	0.00%
			(Long Position)			
Zhang Jianbin	Employee Representative Supervisor	A Share	1	Beneficial owner	0.00%	0.00%
			(Long Position)			

During the year 2022, the Company has not granted its Directors or Supervisors, or their respective spouses or any of their respective minor child (natural or adopted) or on their behalf any rights to subscribe for the shares or debentures of the Company or any of its associated corporations and none of them has ever exercised any such right to subscribe for the shares or debentures.

leasing of telecommunications towers and other related services to the Company. Mr. Liu Guiqing, an Executive Director and Executive Vice President of the Company, who also serves as a non-executive director of China Tower, has therefore abstained from voting on the board resolutions in respect of, among others, the Agreements.

9. DIRECTORS' AND SUPERVISORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

On 13 December 2022, the Board approved the entering into of the Commercial Pricing Agreement and the Service Agreement (the "Agreements") with China Tower by the Company with a term of five years commencing from 1 January 2023 to 31 December 2027. Pursuant to the Commercial Pricing Agreement and the Service Agreement, China Tower would continue to provide

Save as disclosed above and the service agreements entered into between the Company and the Directors and Supervisors, for the year ended 31 December 2022, the Directors and Supervisors of the Company or their connected entities did not have any material interest, whether directly or indirectly, in any transactions, arrangements or contracts which was significant to the Company's business and which was entered into by the Company, its parent company or any of its subsidiaries or fellow subsidiaries.

SECTION III MANAGEMENT'S DISCUSSION AND ANALYSIS (REPORT OF THE DIRECTORS)

10. SERVICE CONTRACTS

None of the Directors or Supervisors of the Company has entered into any service contract which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

11. EMOLUMENTS OF THE DIRECTORS AND SUPERVISORS

Please refer to note 34 of the audited consolidated financial statements for details of the emoluments of all Directors and Supervisors of the Company in 2022.

12. EMPLOYEES AND EMOLUMENT POLICY

The details of the Group's emolument policy are set out in the "Corporate Governance Report" in this annual report. The details of share appreciation rights are set out in the "Corporate Governance Report" in this annual report and note 46 of the audited consolidated financial statements.

13. PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

In 2022, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

14. MATERIAL ACQUISITIONS AND DISPOSALS

For the year ended 31 December 2022, the Company had no material acquisitions and disposals of subsidiaries, associates or joint ventures.

15. THE LEASE OF TELECOMMUNICATIONS TOWERS AND RELATED ASSETS FROM CHINA TOWER

After mutual negotiations and discussions on an arm's length basis, on 13 December 2022, the Board approved the entering into of the Commercial Pricing Agreement and the Service Agreement with China Tower by the Company with a term of five years commencing from 1 January 2023 to 31 December 2027. Pursuant to the Commercial Pricing Agreement and the Service Agreement, China Tower would continue to provide leasing of telecommunications towers and other related services to the Company. In accordance with International Financial Reporting Standards 16 "Leases", the Group would recognise right-of-use assets in connection with the lease transactions under the Commercial Pricing Agreement and the Service Agreement, and accordingly the Group would be regarded as acquiring right-of-use assets for the purposes of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The Company expected that the total value of right-of-use assets to be recognised in connection with transactions under the Commercial Pricing Agreement and the Service Agreement would be no more than RMB52 billion (unaudited), which included telecommunications tower assets that were then currently leased and expected to continue to be leased under the Commercial Pricing Agreement and the Service Agreement (from 1 January 2023 to 31 December 2027), as well as telecommunications tower assets that were expected to be newly leased in 2023. For details of the final amount of right-of-use assets to be recognised by the Group, please refer to notes 6 and 43(b) of the audited consolidated financial statements.

16. PUBLIC FLOAT

As at the date of this Report of the Directors, based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the public float required under the Listing Rules and as agreed with the Hong Kong Stock Exchange.

17. SUMMARY OF FINANCIAL INFORMATION

Please refer to pages 288 to 290 of this annual report for a summary of the operating results, assets and liabilities of the Group for each of the years in the five-year period ended 31 December 2022.

18. BANK LOANS AND OTHER BORROWINGS

Please refer to note 20 of the audited consolidated financial statements for details of bank loans and other borrowings of the Group.

19. CHARGE ON ASSETS

As at 31 December 2022, no fixed assets was pledged to banks as loan security (31 December 2021: Nil).

20. CAPITALISED INTEREST

Please refer to note 32 of the audited consolidated financial statements for details of the Group's capitalised interest for the year ended 31 December 2022.

21. FIXED ASSETS

Please refer to note 4 of the audited consolidated financial statements for movements in the fixed assets of the Group for the year ended 31 December 2022.

22. RESERVES

Distributable reserves of the Company as at 31 December 2022 before deducting the proposed final dividends for 2022 amounted to RMB155,806 million.

Please refer to note 26 of the audited consolidated financial statements for details of the movements in the reserves of the Company and the Group for the year ended 31 December 2022.

23. EQUITY-LINKED AGREEMENTS

The Company did not enter into any equity-linked agreement, nor did any equity-linked agreement exist for the year ended 31 December 2022.

24. DONATIONS

For the year ended 31 December 2022, the Group made charitable and other donations with a total amount of RMB5.63 million.

25. SUBSIDIARIES AND ASSOCIATES

Please refer to note 9 and note 10 of the audited consolidated financial statements for details of the Company's subsidiaries and the Group's associates as at 31 December 2022.

26. PERMITTED INDEMNITY

For the year ended 31 December 2022 and as at the date of approval of this report, the Company has arranged appropriate insurance coverage in respect of legal actions against the directors of the Group.

27. CHANGES IN EQUITY

Please refer to the consolidated statement of changes in equity as contained in the audited consolidated financial statements of the year.

28. RETIREMENT BENEFITS

Please refer to note 45 of the audited consolidated financial statements for details of the retirement benefits provided by the Group.

SECTION III MANAGEMENT'S DISCUSSION AND ANALYSIS (REPORT OF THE DIRECTORS)

29. PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights in the Articles of Association requiring the Company to offer new shares to the existing shareholders in proportion to their shareholdings.

30. MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2022, revenue generated from the five largest customers of the Group accounted for an amount of less than 30% of the total operating revenues of the Group.

For the year ended 31 December 2022, purchases from the five largest suppliers of the Group accounted for an amount of less than 30% of the total annual purchases of the Group.

31. COMPETING BUSINESS

None of the Directors of the Company had any interest in any business which competes or may compete, either directly or indirectly, with the business of the Group.

32. MANAGEMENT CONTRACTS

During the Reporting Period, the Company had not entered into any management contracts with respect to the entire or principal business of the Company.

33. RELATED PARTY TRANSACTIONS

Details of the related party transactions of the Group ("Related Party Transactions") are set out in note 43 of the consolidated financial statements. Only the Related Party Transactions set out in note 43(a) of the consolidated financial statements constitute continuing connected transactions under Chapter 14A of the Listing Rules, the details of which (except for fully exempt continuing connected transactions) have been disclosed in "Significant Events" in this annual report. Other Related Party Transactions do not constitute connected transactions or continuing connected transactions under Chapter 14A of the Listing Rules.

34. BUSINESS REVIEW

The details of the material development of the Group in 2022, a fair review of the business and a discussion and analysis of the Group's performance during the year and the material factors underlying its results and financial position, description of the principal risks and uncertainties faced by the Group and the outlook of the Group's business can be found throughout this annual report, particularly in this section. Particulars of important events affecting the Group that have occurred after 31 December 2022, if any, can also be found in the Notes to the consolidated financial statements.

Description of the Group's key relationships with its employees, customers, suppliers and others that have a significant impact on the Company and on which the Company's success depends can be found throughout different parts of the annual report (including this section, "Corporate Governance Report", etc.), and are particularly detailed in the CSR Report 2022 of the Company published on the websites of the Hong Kong Stock Exchange and the Company. In addition, more details regarding the financial key performance indicators and environmental policies, as well as compliance with relevant laws and regulations which have a significant impact on the Group, are also disclosed throughout this annual report (including this section, "Environmental and Social Responsibilities", "Corporate Governance Report", etc.) and the CSR Report 2022 of the Company. Each of the above-mentioned relevant contents form an integral part of this Report of the Directors.

35. COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Please refer to the "Corporate Governance Report" for details of our compliance with the Corporate Governance Code.

36. DEREGISTRATION OF AMERICAN DEPOSITARY SHARES AND TERMINATION OF REPORTING OBLIGATIONS

The delisting of the Company's American Depositary Shares ("ADS") became effective on 18 May 2021 and the Company's ADS program was terminated on 8 December 2021 (US eastern standard time). The Company filed a Form 15F with the Securities and Exchange Commission on 25 February 2022 to deregister the ADSs and terminate its reporting obligations under the U.S. Securities Exchange Act of 1934, as amended. Such deregistration and termination of reporting obligations became effective 90 days after the filing of the Form 15F.

For details, please refer to the announcements of the Company dated 4 January 2021, 5 January 2021, 7 January 2021, 21 January 2021, 28 January 2021, 7 May 2021, 10 September 2021 and 25 February 2022.

37. AUDITORS

PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian LLP were appointed as the external auditors of the Company for the year ended 31 December 2022. PricewaterhouseCoopers has audited the consolidated financial statements set out in this report, which have been prepared in accordance with the International Financial Reporting Standards.

Pursuant to the relevant requirements of the Ministry of Finance of the People's Republic of China and the SASAC, the service term of Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Certified Public Accountants LLP, the international and domestic auditors of the Company for the year of 2020 expired on the date of the Annual General Meeting for the year of 2020 (7 May 2021). The appointments of PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian LLP as the external auditors of the Company for the year of 2021 and the external auditors of the Company for the year of 2022 were approved at the Annual General Meeting for the year of 2020 and the Annual General Meeting for the year of 2021 respectively. The Audit Committee and the Board of the Company had agreed on the re-appointment of PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian LLP as the external auditors of the Company for the year of 2023 and would propose the re-appointment of PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian LLP at the Annual General Meeting for the year of 2022 of the Company for consideration.

By Order of the Board

Ke Ruiwen

Chairman and Chief Executive Officer

Beijing, China

22 March 2023