Financial Review

We actively responded to challenges, our strategy delivered results and our profitability continued to lead the industry:

- Operating revenue up by 9.8%
- EBITDA margin reached 50.7%
- Margin of profit attributable to shareholders reached 25.5%

Our solid financial strength and strong cash flow provide us a solid foundation for managing risks and for future development.

Key Financial Data

	2009 RMB million	2008[1] RMB million	Change %
Financial Results			
Operating revenue (Turnover)	**452,103**	411,810	9.8
Usage fees and monthly fees	**300,632**	278,608	7.9
Value-added services fees	**131,434**	113,288	16.0
Other operating revenue	**20,037**	19,914	0.6
Operating expenses	**305,095**	269,415	13.2
Leased lines	**3,006**	2,641	13.8
Interconnection	**21,847**	22,264	(1.9)
Depreciation	**80,179**	71,509	12.1
Personnel	**21,480**	19,960	7.6
Other operating expenses	**178,583**	153,041	16.7
Profit from operations	**147,008**	142,395	3.2
Other net income	**1,780**	2,159	(17.6)
Profit attributable to shareholders	**115,166**	112,627	2.3
EBITDA[2]	**229,023**	216,267	5.9
Basic EPS (RMB)	**5.74**	5.62	2.2
Financial Position			
Current assets	**287,355**	240,170	19.6
Including: total cash and bank balances[3]	**264,507**	218,259	21.2
Non-current assets	**464,013**	418,257	10.9
Total assets	**751,368**	658,427	14.1
Current liabilities	**209,805**	183,559	14.3
Non-current liabilities	**33,929**	34,217	(0.8)
Total liabilities	**243,734**	217,776	11.9
Minority interests	**886**	629	40.9
Shareholders' equity	**506,748**	440,022	15.2
Cash Flows			
Net cash generated from operating activities	**207,123**	193,647	7.0
Net cash used in investing activities	**(165,927)**	(139,026)	19.3
Net cash used in financing activities	**(49,774)**	(45,684)	9.0
Free cash flow[4]	**77,756**	57,355	35.6

1 *With effect from 1 January 2009, the Company retrospectively adopted the IFRIC/HK(IFRIC) Interpretation 13—Customer loyalty programmes. The comparative figures have been restated according to IFRIC/HK(IFRIC) Interpretation 13.*

2 *China Mobile Limited defines EBITDA as profit for the year before taxation, share of loss of jointly controlled entity, finance costs, interest income, non-operating net income, depreciation and amortization of other intangible assets.*

3 *Total cash and bank balances represent cash and cash equivalents and bank deposits.*

4 *China Mobile Limited defines free cash flow as net cash generated from operating activities less investments incurred in capital expenditure. Free cash flow is a measure we use internally to evaluate our cash flow performance, but is not a measure of financial performance in accordance with generally accepted accounting principles. "Free cash flow" should not be used to determine the financial position of the Group. There is only limited comparability between China Mobile Limited's definition of free cash flow and methods of calculating this measure and similarly designated measures and disclosures of other companies.*

Management's Discussion and Analysis of Financial Condition and Results of Operations

Summary of Financial Results

2009 has been an extraordinary year for the telecommunications industry in China. The country's economy is gradually recovering from the aftermath of the global financial crisis. Following the restructuring of the telecommunications industry and the issuance of 3G licenses, market competition has increasingly intensified. The increasing mobile penetration rate has gradually shown its impact on our business in some economically developed regions. Despite all the challenges, the Group embraced rational competition and endeavored to explore innovations. Through our effective refined management and by leveraging our enormous customer base, premium network quality, powerful brand, strong execution capability and other advantages, the Group's business development remained stable and healthy. Operating performance achieved steady growth. Market leading position continued to strengthen.

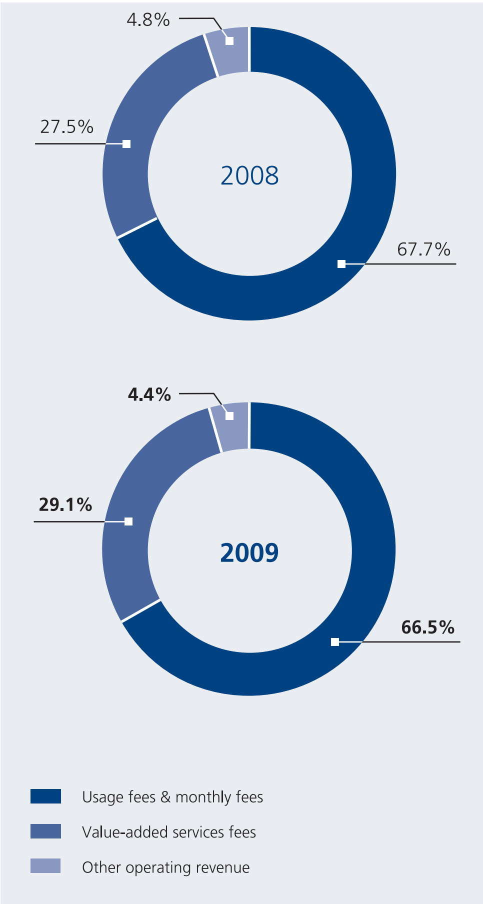
Benefited from the continuous consolidation of customer base, stable growth in voice usage volume and the prominent pulling effect of the value-added business on revenue, operating revenue of the Group for 2009 grew steadily to RMB452,103 million, up 9.8% year-on-year. In order to support the positive development of customers, voice usage and new businesses, as well as to maintain the Group's competitive advantages and capabilities in sustaining healthy development, we focused on boosting our future competitiveness and strengthening resource allocation. We appropriately increased our investments in sales channels, customer service, network optimization, system support and R&D. Operating expenses reached RMB305,095 million, up 13.2% as compared to the previous year. The Group's profitability remained industry-leading. Profit attributable to shareholders was RMB115,166 million, up 2.3% year-on-year. Margin of profit attributable to shareholders reached a high level of 25.5%. EBITDA was RMB229,023 million, up 5.9% year-on-year, arriving at a margin of 50.7%. Basic EPS was RMB5.74, up 2.2% year-on-year.

The Group sustained its robust cash flow as a result of healthy business growth, refined management over cost control, rational and efficient investment in capital expenditure and consistently apparent economies of scale. In 2009, the Group's net cash generated from operating activities and free cash flow reached RMB207,123 million and RMB77,756 million, respectively. Total debt to total book capitalization ratio and interest coverage multiple remained at sound level. Moody's further upgraded the Company's corporate credit rating to A1/Outlook Positive along with the upgrading of China's sovereign credit rating, while Standard and Poor's maintained the Company's corporate credit rating in line with China's sovereign credit rating. Our commitment to consistently practicing prudent management discipline continued to earn market recognition.

Underpinned by its solid capital structure and financial strength as well as strong cash flow generating capability, the Group is well-positioned to manage risks and achieve continued healthy growth.

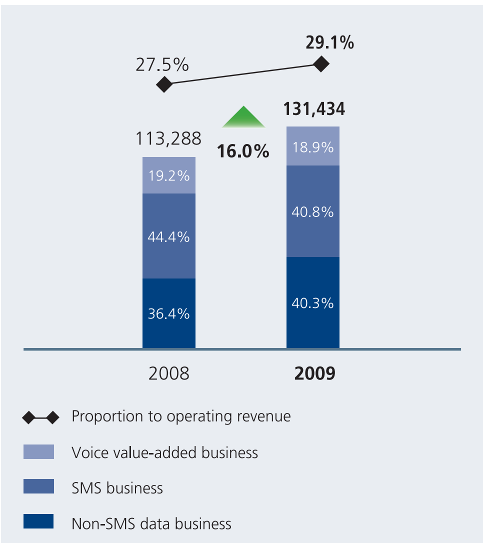
FINANCIAL REVIEW

Operating Revenue Distribution



Value-added Services Fees

(RMB million)



Operating Revenue (Turnover)

In 2009, benefited from the continuous consolidation of customer base, stable growth in voice usage volume and the prominent pulling effect of the value-added business on revenue, operating revenue of the Group reached RMB452,103 million, up 9.8% year-on-year. The Group persistently advocated and actively pursued rational competition. Various ongoing efforts which focused on enhancing innovative capabilities, exploring families and corporate customers to the greatest extent while at the same time continuing to vigorously develop the rural market, exploring the potentials of existing customers to the greatest extent, proactively retaining high-value customers, were on the agenda. In 2009, the number of net addition customers for the Group was 65.033 million. In addition, the Group gradually advanced the adjustment of its tariff structure and increasingly enhanced its specific marketing efforts in relation to voice usage. Although affected by the change in macro-economy, voice usage volume nonetheless maintained a relatively rapid growth. Total minutes of usage rose to 2,918.712 billion minutes, up 19.6% year-on-year. The increasingly strengthened customer base and the stable growth in voice usage volume guaranteed the sustainable revenue growth of the Group.

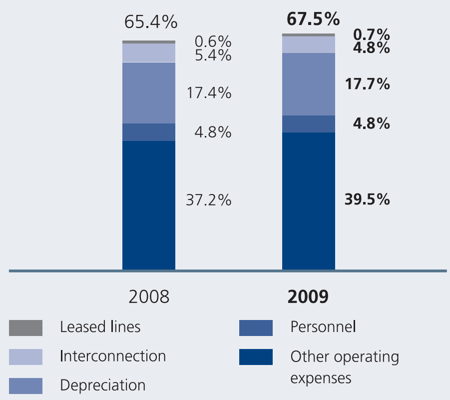
The Group actively conducted product innovation and business development for value-added business. These drove forward growth in various value-added businesses and the contribution to revenue growth was increasingly notable. In 2009, revenue from value-added business grew 16.0% year-on-year to RMB131,434 million, accounting for 29.1% of the Group's total operating revenue. While the Short Message Services (SMS) business continued to maintain at a relatively high growth momentum, the contribution of other value-added businesses, such as "Color Ring", Handset Internet Access and Multimedia Messaging Services (MMS), to revenue increased notably. Businesses such as Wireless Music Club, "Fetion" and 12580 Integrated Information Service Line also demonstrated a rapid growth. Revenue from SMS and non-SMS data businesses reached RMB53,557 million and RMB52,998 million, representing 40.8% and 40.3% of the Group's value-added business revenue, respectively. Overall revenue structure for value-added business was further optimized.

FINANCIAL REVIEW

Operating Expenses

In order to strengthen the dominance of the Group in the mobile communications industry and boost our future competitiveness, we consistently uphold our principles of rational investment, effective resource allocation, forward-looking planning and effective refined management in cost allocations. The Group implemented centralization, standardization and informatization in areas such as procurement, operation and maintenance, business support and financial management. Management efficiency was thereby enhanced and highly-efficient operation was achieved at a low cost. In 2009, operating expenses were RMB305,095 million, increased 13.2% year-on-year and amounted to 67.5% of the total operating revenue. Average operating expenses per user per month were RMB51.7, declining by 4.7%. Average operating expenses per minute of voice usage were RMB0.105, declining by 5.3%. We commit to continuously enhancing effective refined management on cost effectiveness and optimizing the cost structure to enhance the efficiency and effectiveness of cost investment and achieve the best returns on costs.

Operating Expenses Structure



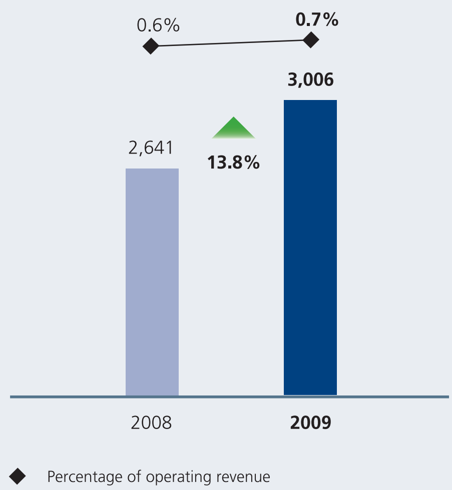
Note: Each of the above percentage represents the proportion of the operating expense to operating revenue.

Leased Lines

With the Group's continuous effort in optimizing network structure and efficient utilization of new lines, the self-constructed and jointly-constructed lines reached a sizeable scale. The scale of leased lines had been relatively small. Following the operation of 3G business using TD wireless network leased from the parent company, the Group's TD network capacity leasing fees payable to its parent company were RMB222 million in 2009. Leased line expenses as a percentage of total operating revenue in 2009 increased as compared to the previous year.

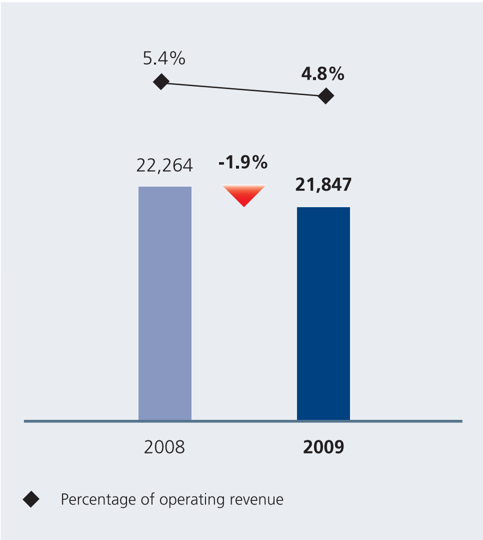
Leased Lines

(RMB million)



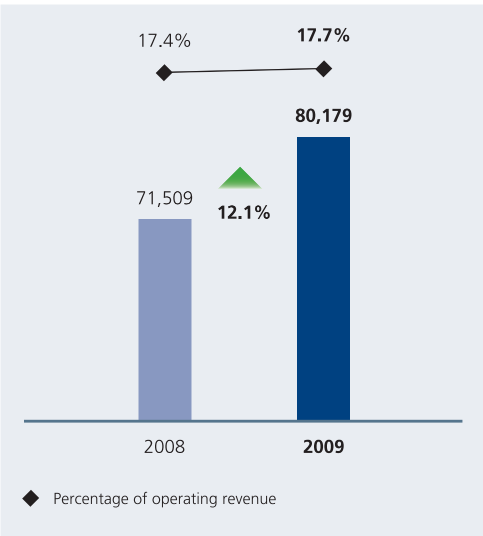
Interconnection

(RMB million)



Depreciation

(RMB million)



Interconnection

In 2009, interconnection expenses decreased by RMB417 million from the previous year. The Group continued to increase its efforts in optimizing the network structure. Through effective marketing strategy, the Group thoroughly reorganized and re-routed traffic volume. The proportion of intra-network voice usage volume continued to increase.

Depreciation

In order to maintain the leading position and competitive advantages of our network, to better support the growth of customers and voice usage volume as well as to meet the development of various innovative data and information businesses, the Group continued to allocate capital expenditure for network construction and optimization, leading to a corresponding increase in depreciation expense by RMB8,670 million over the previous year. Despite the increase, our premium network enhanced customer loyalty and supported the sustainable development of our new businesses as well as our favorable financial results. In addition, the Group derived advantages from rational capital expenditures and economies of scale, depreciation expenses per minute of voice usage decreased by 6.2% as compared to the previous year. This reflected a favorable return on investments.

Personnel

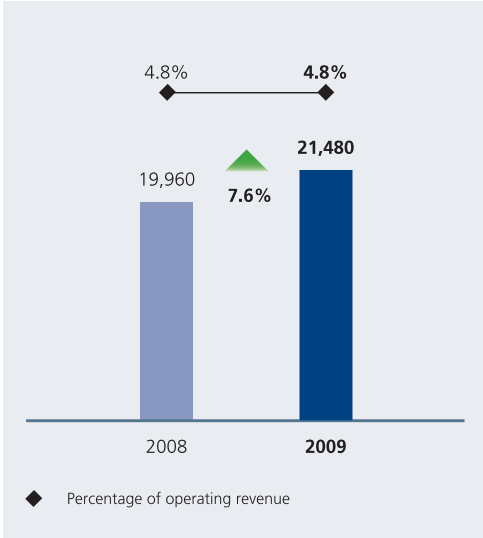
The Group continued to strengthen its highly-efficient personnel management and incentive mechanism and enhance its human resources management. The Group has implemented a comprehensive budget management system and performance-based evaluation system, which helped to maintain its competitive advantage in terms of human resources while appropriately controlling personnel expenses. Personnel expenses for 2009 were RMB21,480 million. The ratio of personnel expenses to operating revenue remained the same as last year and the ratio of personnel expenses to operating expenses declined slightly comparing to the previous year. As at 31 December 2009, the Group had a total of 145,954 employees.

Other Operating Expenses

In 2009, other operating expenses (consisting primarily expenses for selling and promotion, network maintenance, operating lease, labor service expenses, bad debts, asset write-offs, administration and others) increased by RMB25,542 million over the previous year. In order to effectively respond to market competition and boost its future competitiveness, the Group appropriately increased its investments in sales channels, customer service, network optimization, system support and R&D to support the Group's sustainable and stable business growth. As a result, other operating expenses such as selling and promotion expenses, network maintenance expenses and operating lease expenses increased accordingly. The number of labor sourced by third parties reached 281,306 as at 31 December 2009 and the associated expenses were RMB13,577 million. In view of the Group's continuous efforts in monitoring customer credit and stringent control over defaults in payment by customers, the Group maintained its bad debt ratio at a relatively low level of 1.00% in 2009.

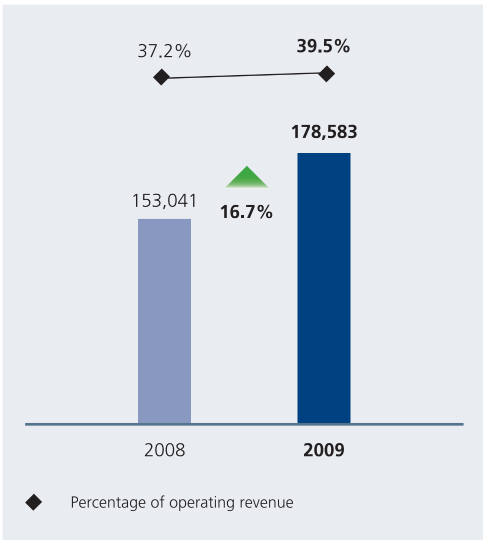
Personnel

(RMB million)



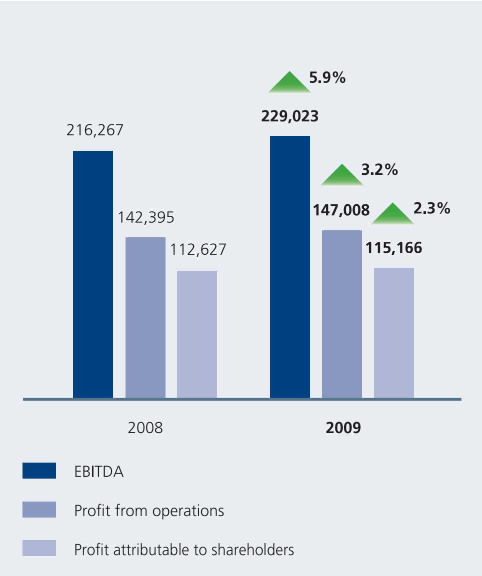
Other Operating Expenses

(RMB million)



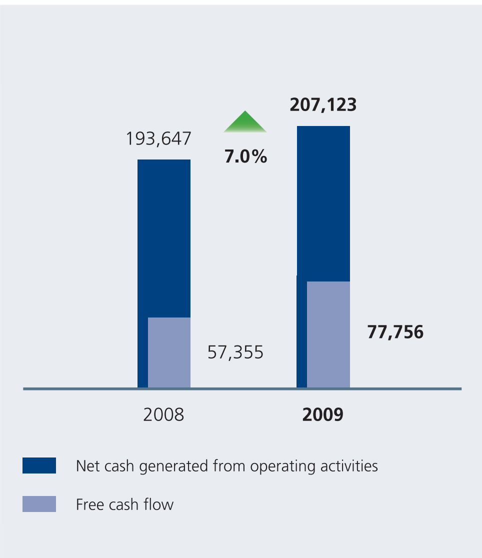
EBITDA, Profit from Operations and Profit Attributable to Shareholders

(RMB million)



Cash Flow

(RMB million)



EBITDA, Profit from Operations and Profit Attributable to Shareholders

The Group continued to maintain a relatively high level of profitability in the industry. Margin of profit attributable to shareholders and EBITDA margin in 2009 reached 25.5% and 50.7%, respectively. Profit from operations reached RMB147,008 million. EBITDA, profit attributable to shareholders and basic EPS were RMB229,023 million, RMB115,166 million and RMB5.74, respectively. Along with the steady revenue growth, these results also reflected the Group's ongoing efforts in optimizing resource allocation and management efficiency on operating expenses and in leveraging economies of scale. Overall operational efficiency of the Group was enhanced. We consistently commit to achieving good profitability so as to generate greater returns and create value for its shareholders.

Fund Management, Cash Flow, Capital Structure and Credit Rating

Fund Management and Cash Flow

The Group consistently upheld prudent financial principles and strict fund management policy. In order to strengthen the safe custody of cash, enhance fund efficiency and reduce cost of capital, the Group continued to reinforce its centralized fund management function and make appropriate allocations of overall funds, thereby enhancing the Group's ability to effectively deploy internal funds with maximum utility. Through highly centralized management of our investments and financing and strict control over investments, the Group's funds were safeguarded.

In 2009, the Group continued generating strong cash flow. The Group's net cash generated from operating activities was RMB207,123 million and free cash flow was RMB77,756 million. As at the end of 2009, the Group's total cash and bank balance was RMB264,507 million, of which 96.9%, 0.3% and 2.8% was denominated in RMB, U.S. dollar and Hong Kong dollar, respectively. The steady fund management and sufficient cash flow further provided a solid foundation for the long-term development of the Group.

Credit Rating

Capital Structure

As at the end of 2009, the sum of the Group's long-term and short-term debts were RMB34,261 million in the aggregate, and its total debt to total book capitalization ratio (with total book capitalization representing the sum of total debt and shareholders' equity) was 6.3%, reflecting the fact that the Group's financial position continues to remain at a sound level.

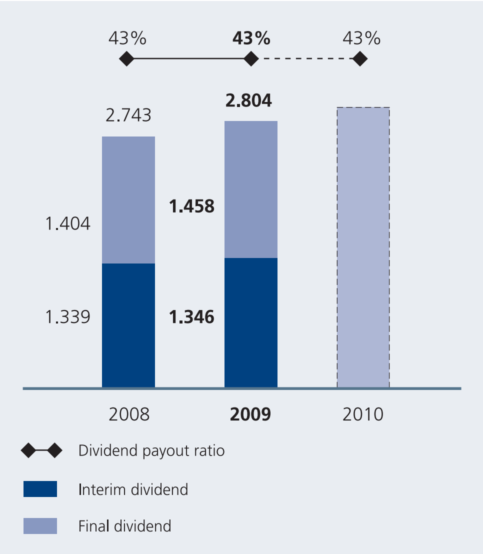
Of the total borrowings, 31.0% were in RMB (consisting principally of RMB bonds), and 69.0% were in U.S. dollars (consisting principally of the balances of the deferred consideration for the acquisition of the eight and the ten provincial telecommunications operators). Approximately 83.6% of the Group's borrowings were made at floating interest rates. The effective average interest rate of borrowings of the Group was approximately 3.70%. The effective interest coverage multiple (ratio of profit before interest and tax to finance costs) was about 120 times. This reflected the prudent financial risk management principle that was consistently adopted by the Group, as well as its strong cash flow and sound repayment capabilities.

Credit Rating

In 2009, with the upgrading of China's sovereign credit rating, Moody's upgraded the Company's corporate credit rating from A1/Outlook Stable to A1/Outlook Positive. Standard & Poor's maintained the Company's corporate credit rating in line with China's sovereign credit rating as A+/Outlook Stable. These ratings demonstrated that the Group's sound financial strength, favorable business opportunities and solid financial management have established wide and deep market recognition.

Dividend and Dividend Payout Ratio

(HK$)



Dividends

The Company determines and commits to hold in the highest regard the interests of its shareholders and the returns achieved for them, especially for minority shareholders. In the view of the Company's good profitability of 2009 and taking into consideration its long-term future development, the Board recommends payment of a final dividend of HK$1.458 per share for the financial year ended 31 December 2009 in accordance with the dividend payout ratio of 43% planned for the full year of 2009. This, together with the interim dividend of HK$1.346 per share that was paid in 2009, amounts to an aggregate dividend payment of HK$2.804 per share for the full financial year of 2009. The dividend payout ratio for the year of 2009 was 43%.

In 2010, taking into consideration various relevant factors such as the Company's overall financial condition, cash flow generating capability and the need for future sustainable development, the Company plans the dividend payout ratio for the full year of 2010 to be 43%.

The Board is of the view that the Company's good profitability and strong cash flow generating capability will continue to support the future sustainable development of the Company, while providing shareholders with a favorable return.

Conclusion

We will consistently uphold prudent financial principles and strictly monitor the financial risks, with an aim to striving for stable profitability and robust cash generating capability. In addition, we will focus on forward-looking resource allocation optimization and maintain stable debt level with a view to continuously creating value for our shareholders.