Business Review

In 2011, the Group faced increasing penetration and intensifying competition in the traditional telecommunications market. Challenges also arose from a new industry ecosystem and business models that seek to eschew the traditional telecommunications industry. The Group overcame various challenges, continued to explore business growth potential, changed its mode of development, enhanced quality, focused on service and continued innovating. Capitalizing on its advantages in scale, networks, brand, service and talents, the Group maintained a leading market position. It continued to achieve stable growth in operating results, and its operational management has been taken to the next level.

Business Review

As at the end of 2011, the Group's total customer base was approximately 650 million, representing a growth of 11.2% from 2010. Total voice usage increased by 12.3% and reached 3,887.2 billion minutes in 2011. Data services revenue reached RMB139.3 billion, up by 15.4% from the previous year, and accounted for 26.4% of the Group's operating revenue, which was an increase of 1.5 percentage points. Wireless data traffic reached 361.4 billion megabytes, risen by 152.1% from the previous year.

KEY OPERATING DATA OF THE GROUP

	2011	2010
Customer Base (million)	649.6	584.0
Net Additional Customers (million)	65.6	61.7
3G Customer Base (million)	51.2	20.7
Net Additional 3G Customers (million)	30.5	15.2
Total Voice Usage (billion minutes)	3,887.2	3,461.6
Average Minutes of Usage per User per Month (MOU) (minutes/user/month)	525	521
Average Revenue per User per Month (ARPU) (RMB/user/month)	71	73
SMS Usage (billion messages)	736.1	711.0
Wireless Data Traffic (billion megabytes)	361.4	143.3

OPERATING RESULTS

In 2011, the Group achieved salient results in strengthening new customer acquisitions and management of existing customers. As at 31 December 2011, the Group's total customer base was approximately 650 million and net additional customers accounted for 65.55 million. The Group continued to maintain its industry leading position in market share of net additional customers. Rural and migrant markets continued to fuel growth. 3G customer base further expanded and exceeded 51 million. Through measures such as tariff optimization and service enhancement, the middle-to-high-end customer base experienced steady growth. The Group's corporate customers continued to grow and reached 3.24 million as at the end of 2011. Individual customers served under the corporate accounts took up 36.0% of the total customer base.

In 2011, the Group actively promoted its voice business. By better addressing customer needs and tapping the potential of long-distance calls, roaming services and international calls, the Group's voice business continued to grow. Total voice usage reached 3,887.2 billion minutes, up by 12.3% from the previous year. MOU reached 525 minutes. Voice services revenue reached RMB364.2 billion, up by 5.9% from 2010.

The Group's data business, comprising SMS and MMS, wireless data traffic, and applications and information services, demonstrated robust development momentum. In 2011, data services revenue reached RMB139.3 billion, reporting growth of 15.4% from 2010, and accounting for 26.4% of the Group's operating revenue, which increased by 1.5 percentage points from the previous year.

Business Review

As one of the components of data business, SMS and MMS continued to make a significant contribution to data services revenue. In 2011, revenue generated from SMS and MMS reached RMB46.5 billion.

The Group strengthened operations of its data traffic, and wireless data traffic grew rapidly. In 2011, wireless data traffic hiked 361.4 billion megabytes, up by 152.1% from the previous year. Wireless data traffic revenue reached RMB44.4 billion and rose by 45.0%, accounting for 8.4% of the Group's operating revenue. The growth of wireless data traffic business provided a strong impetus to revenue, realizing a healthy growth in traffic and revenue.
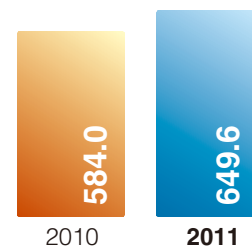
The Group's applications and information services experienced rapid growth. In 2011, its revenue reached RMB48.4 billion, up by 12.0% from the previous year, of which, Wireless Music sustained scale development, with revenue reaching RMB22.1 billion. Mobile Mailbox accounted for RMB1.5 billion in revenue. Mobile Reading and Mobile Video also enjoyed rapid growth, accounting for RMB0.63 billion and RMB0.57 billion in revenue respectively, and reported growth of 153.8% and 136.0% respectively. Businesses such as Mobile Gaming and location-based services also demonstrated robust development momentum.

The Group adhered to the principle of "Cooperation by opening up, development through competition" and accelerated the establishment of new development models for the Mobile Internet business. The development of Mobile Market, the Group's mobile application store, has been encouraging. The cumulative registered customers and cumulative application downloads reached 158 million and over 630 million respectively. Mobile Market has become the world's largest Chinese language application store.
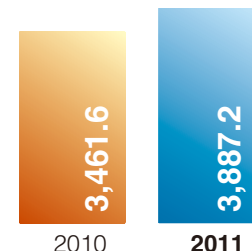
CUSTOMER BASE

(million)

▲ **11.2%**

584.0   649.6
2010   **2011**

TOTAL VOICE USAGE

(billion minutes)

▲ **12.3%**

3,461.6   3,887.2
2010   **2011**

MOU

(minutes)

▲ 0.8%

521	525
2010	**2011**
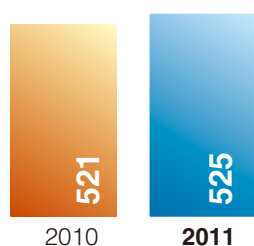
SMS USAGE

(billion messages)

▲ 3.5%

711.0	736.1
2010	**2011**
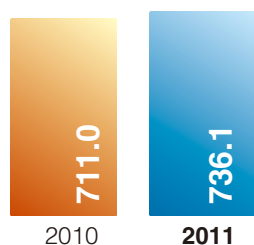
WIRELESS DATA TRAFFIC

(billion megabytes)

▲ 152.1%

143.3	361.4
2010	**2011**
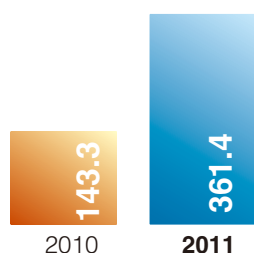
The Group accelerated the launch of standardized and modular "Internet of Things" products, and leveraged the "Wireless City" platform to continue expanding the scope and scale of "Internet of Things" applications. The construction of "Wireless City" achieved remarkable results. 31 provinces, autonomous regions and directly-administered municipalities, and 217 cities signed "Wireless City" cooperation agreements. National deployment is basically complete. 10 categories or 50 key applications covering public administration, traffic control, healthcare and employment service have posed for scale development.

IMPROVE QUALITY

The Group persisted with the mantra that "Quality is the lifeline of a telecommunications company". In 2011, the Group endeavored to enhance the quality of its basic networks, data business and business support. Quality of the GSM network maintained a leading position with voice call drop rate declining to 0.32% and successful connection rate climbing to 99.26%. Quality of the 3G network continued to improve, with voice call drop rate declining to 0.35% and successful connection rate increasing to 98.99%. Quality of data business was significantly enhanced, with 99% success rate for KPIs such as subscription and un-subscription for key products. Quality of Internet business improved substantially, with enhancements in network speeds and customer experience. The Group achieved steady improvements in business support capability, of which billing and data business subscription have achieved remarkable results. Improvements of network, business and support quality have laid a solid foundation for the Group to continuously develop its business in a complex and competitive environment.

IMPROVE SERVICES

The Group adhered to its mantra of "Customers are our priority, quality service is our principle," and established an end-to-end service quality management system, which continuously bolstered customer satisfaction. In 2011, the Group maintained a leading position in customer satisfaction in the industry.

Customer interface was further optimized, and basic customer service such as sales outlets and 10086 hotline obtained steady improvements. The construction of the unified portal, 10086.cn, achieved positive results, with online processing time down by 17%. Key businesses and products were processed through electronic channels, accounting for 76% of all business transactions of the Group, up by 22 percentage points from the previous year. Protection of consumer interests was enhanced. The Group has optimized customer billing across the board and introduced service measures such as inquiry and un-subscription through SMS, proactive alerts, and refund before investigation for billing disputes of Monternet services, to keep customers informed and to provide peace-of-mind for their spend. The Group takes customer complaints seriously and had the lowest number of complaints per million customers in the industry in 2011.

ENHANCE INNOVATION

In the area of network innovation, the Group established a strategy to realize Four-Network Coordination, namely 2G, 3G, WLAN and TD-LTE. The Group constructed and developed networks based on customer needs and different positioning of the networks. By the end of 2011, 2G base stations exceeded 700,000, maintaining a reasonable network utilization rate and leading network quality. 3G base stations increased to approximately 220,000, covering county-level and above cities, which strengthened the depth and contiguous coverage in the main districts. The number of WLAN access points climbed to approximately 2.2 million. Data traffic, which played a positive role in load-balancing, increased by 397.9% from the previous year. The Company assisted its parent company in completing the TD-LTE scale trial in 6 cities and constructed over 900 base stations. The trial will extend to 9 cities, reaching over 20,000 base stations through new-builds and smooth upgrade. Coverage of the main urban districts in Hangzhou and Shenzhen will reach pre-commercial standard. The Group will realize Four-Network Coordination and bring out strengths of the respective networks, to better satisfy customer demand.

In addition, the Group improved the planning and deployment of basic network resources and enhanced its full service capabilities to fare competition. The Group continued to garner basic resource reserves, and network transmission and deployment capabilities both improved significantly from the previous year. Moreover, the Group fully leveraged synergy with its parent company and pursued a differentiated full service strategy, which emphasized service excellence with quality individual customers, expanded targeted corporate customers and developed select family customers – to provide high bandwidth and differentiated access services, and to develop standardized products in scale.

With respect to business innovation, the Group kept up with the development trend of information technology and actively promoted its Mobile Internet business in light of the huge market that information services present. It implemented a development strategy, which features the combination of "a smart pipe, open platforms, featured businesses and an integrated interface". The Group strived to construct a useful, easy-to-use, efficient and smart pipe. The Group positioned Mobile Market as a customer-oriented sales platform, developer-oriented service platform and supply chain-oriented support platform, and established five key capabilities for open platforms, including Cloud Services for Mobile Market, "Internet of Things" capability, e-commerce capability, location-based capability and "Fetion+". Not only did it develop featured businesses, the Group also promoted in-depth integration of the terminals and business.

With regard to management innovation, the Group made substantive achievements in professional operations. China Mobile International Company Limited commenced operations, which expanded the Group's market share in international business and expedited the construction of Hong Kong international submarine cable POPs, paving the way for the rapid formation of global network capabilities at low cost. The Group drove down settlement costs by enhancing negotiation with international operators. International roaming tariffs to 38 key destinations were significantly lowered, which effectively enhanced voice usage and customer perception. The restructuring of China Mobile Group Terminal Company Limited united strengths of the industries, and enhanced scale of procurement and sales of terminals. As a result, terminal quality was improved and costs were down. Average per unit procurement cost dropped further. Professional and market-oriented operations have effectively supported business development and enhanced efficiency of operations and management.

In addition, the Group enhanced centralized management. It pushed forward the construction of "International Information Hubs" and "Center of Excellence (South Base)", which effectively created support and synergy. The Group accelerated the construction of centralized data center, call center and a warehouse-style low-cost Internet Data Center (IDC). The Group also implemented centralized management of the storage and logistics center and strived to establish a low-cost and efficient supply chain system which further enhanced the extent of centralized procurement to lower costs.

To fulfill its social responsibility, the Group is committed to energy-saving and emissions reduction. The Group endeavored to promote energy-saving technologies such as smart energy-saving according to frequency loading, the application of natural resource cooling and green packaging, which saved 1.6 billion kWh of energy in the year. The Group's power consumption per unit of telecommunications traffic decreased by 11% from the previous year.

CAPITAL EXPENDITURE

(RMB billion)

128.5	**131.9**	**130.0**	**125.0**
2011	**2012**	**2013**	**2014**

RATIONAL INVESTMENT

With a focus on strengthening core competencies and investment return, the Group scientifically scheduled its investments. Investments were primarily used in ensuring Four-Network Coordination, solidifying advantage in traditional voice business, and satisfying the increasing demand for data usage. Investments also focused on supporting technology innovation and business development of Mobile Internet, "Internet of Things" and cloud computing, and proactively reserving infrastructure resources and improving competitiveness of full service. The Group rationally managed investment scale, optimized investment structure and ascertained investment efficiency and return.

The Group's capital expenditure for 2011 was RMB128.5 billion, which was mainly expended on the construction of mobile communications networks (57%), transmission (18%), business development (6%), support systems (6%) and buildings and infrastructure (9%). Capital expenditure for the Group in 2012 to 2014 is budgeted at RMB131.9 billion, RMB130.0 billion and RMB125.0 billion, respectively. The capital expenditure for 2012 is budgeted according to the following schedule – mobile communications networks (41%), transmission (26%), business development (6%), support systems (8%), and buildings and infrastructure (16%).

SUSTAINABLE DEVELOPMENT

Looking to the future, the Group will proactively capture opportunities arising from the increasing demand for information and communication services, continue to increase its "Share of Daily Life Services" for individual customers and the "Share of Information Services" for companies and industries, and endeavor to explore and cultivate the development potential brought by emerging industries. The Group will continue to improve quality to ascertain an overall leading position, improve services to enhance customer satisfaction and strengthen innovation – to bring its development to the next level. It will strengthen market expansion to maintain economies of scale, implement precise management and drive low-cost and efficient operations to achieve the strategic vision of "Mobile Changes Life" and the Group's sustainable development.