



Four-Network Coordination

Four-Network Coordination demonstrated early success — network capabilities and coverage continued to improve and structure of traffic loading was gradually optimized.

2G base stations reached 810 thousand, maintaining a reasonable network utilization rate and a leading position in voice quality.

3G base stations reached 280 thousand, covering cities at county-level or above and some towns and villages, achieving contiguous coverage for large and medium cities.

WLAN access points mounted to 3.83 million. WLAN data traffic increased by 274.0% compared to the previous year.

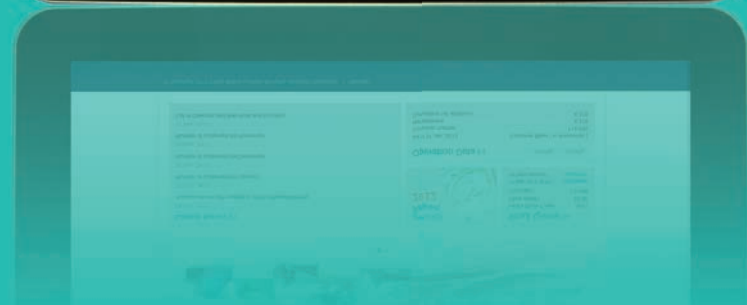
TD-LTE scale trial was launched and approximately 20 thousand base stations were constructed in 15 cities. This year will see construction of more than 200 thousand TD-LTE base stations and LTE commercial networks will avail.



PROMOTE FOUR-NETWORK COORDINATION



INNOVATION



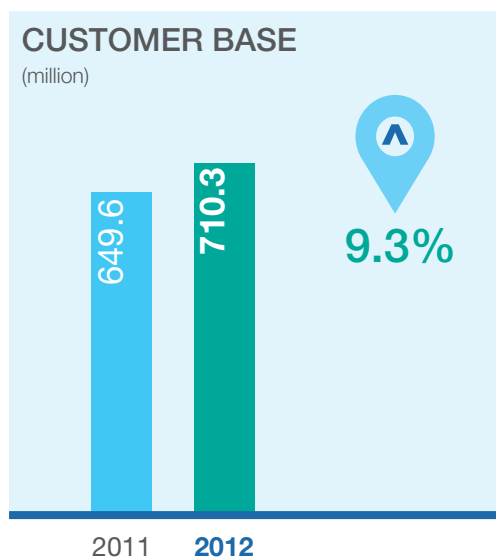
Business Review

In 2012, rising penetration in the telecommunications market, intensifying competition in service quality among operators, and more extensive substitution by Internet businesses posed serious tests to the Group. To straddle such challenges, the Group stepped up efforts in the execution of its development strategies encompassing Four-Network Coordination, full services and mobile Internet. The Group focused on quality, service and innovation. It enhanced its core capabilities to strengthen advantages in the traditional markets, improve operation of data traffic and develop information services. The Group continued to maintain scale advantage and achieved stable growth in operating results. Its operational management has been taken to the next level.

As at the end of 2012, the Group's total customer base reached 710 million, representing a growth of 9.3% from 2011. Total voice usage reached 4.19 trillion minutes in 2012, up 7.8% from 2011. Data services revenue reached RMB166.3 billion, up 19.4% from the previous year, and accounted for 29.7% of the Group's operating revenue, which was an increase of 3.3 percentage points. Wireless data traffic revenue reached RMB68.3 billion, representing an increase of 53.6% from the previous year.

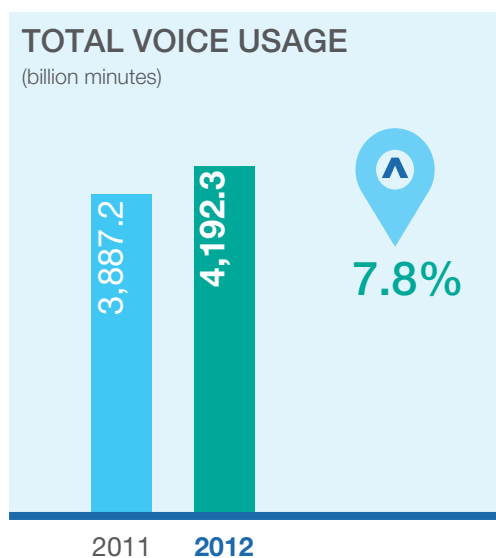
Key Operating Data of the Group

	2012	2011
Customer Base (million)	710.3	649.6
Net Additional Customers (million)	60.7	65.6
3G Customer Base (million)	87.9	51.2
Net Additional 3G Customers (million)	36.7	30.5
Total Voice Usage (billion minutes)	4,192.3	3,887.2
Average Minutes of Usage per User per Month (MOU) (minutes/user/month)	512	525
Average Revenue per User per Month (ARPU) (RMB/user/month)	68	71
SMS Usage (billion messages)	744.5	736.1
Wireless Data Traffic (billion megabytes)	1,039.2	361.4



Operating Results

In 2012, the Group strengthened management of existing and newly acquired customers, and continued to maintain its scale advantage. As at the end of 2012, the Group's total customer base reached 710 million and net additional customers accounted for 60.73 million. Market share of net additional customers dipped as a result of rising penetration and intensifying competition. 3G customer base expanded rapidly and reached 87.93 million. 3G handsets sold surpassed 56 million, of which over 60% were smartphones. The Group enhanced customer stability and value by consolidating critical factors such as tariffs, businesses, services and terminals. Middle-to-high-end customers remained stable as a result. The Group hustled up operation of corporate customers, which accounted for 3.46 million as at the end of 2012. Individual customers served under corporate accounts took up 34.5% of the total customer base and the cumulative number of corporate IP-VPN lines reached 781 thousand.



In 2012, the Group further exploited the demand for its voice business, professing focus on "long-distance calls, roaming, off-peak calling and in-group calling". The Group actively promoted voice usage to further propel call volume. Total voice usage reached 4.19 trillion minutes, up by 7.8% from 2011. Average minutes of usage per user per month (MOU) reached 512 minutes. Voice services revenue reached RMB368.0 billion, up by 1.1% from the prior year. Due to substitution by Internet businesses, the growth of voice business faces a bottleneck.

The Group's data business continued to develop rapidly in 2012. Data services revenue reached RMB166.3 billion, representing a growth of 19.4% from 2011 and accounting for 29.7% of the Group's operating revenue.

Among data businesses, wireless data traffic enjoyed rapid growth. In 2012, the Group strengthened operation of data traffic by optimizing the business process system for managing data traffic, and uplifting the scale and efficiency of data traffic, hence gravitated healthy growth of traffic volume and revenue. Poised on the revenue growth frontier, wireless data traffic hiked 1.04 trillion megabytes, up by 187.6 % from the previous year. Revenue accounted for RMB68.3 billion which rose by 53.6% to reach 12.2% of the Group's operating revenue.

The Group's applications and information services developed fast. In 2012, revenue reached RMB53.9 billion, up by 11.2% from the previous year, among which, revenue of key businesses such as Mobile Mailbox, Mobile Reading, Mobile Video and Mobile Gaming sufficed scale and trended well. Location-based services and Mobile Animation also demonstrated robust development momentum.

SMS and MMS revenue for 2012 was RMB44.2 billion, down by 4.8% compared to the previous year. Due to substitution by Internet businesses, point-to-point SMS and MMS revenue slipped while corporate SMS and MMS spurred in popularity, which slowed down the revenue slide.

Strategic Transformation

To adapt to the changing industry ecosystem, the Group proactively transformed its strategies and embarked three key development pillars, i.e. to drive Four-Network Coordination, enhance basic network capabilities and develop mobile Internet business.

Through Four-Network Coordination, the Group maintained overall competitive advantage in networks, and continued to improve its network capabilities and coverage. As at the end of 2012, 2G base stations reached 810 thousand, maintaining a reasonable network utilization rate and a leading position in voice quality. 3G base stations of the parent company reached 280 thousand, covering cities at county-level or above and some towns and villages, achieving contiguous coverage for large and medium cities. Network utilization rate was up by over 10 percentage points from the prior year. WLAN access points mounted to 3.83 million. WLAN traffic increased by 274.0% compared to the previous year. TD-LTE scale trial was launched and approximately 20 thousand base stations were constructed in 15 cities, where the technical performance of TD-LTE was thoroughly validated with favorable customer experience. Among the trial cities, networks constructed in Hangzhou, Guangzhou and Shenzhen achieved pre-commercial standard. Multi-mode-multi-frequency handsets, mobile voice and inter-operable solutions availed to accelerate the development of the TD-LTE supply chain. TD-LTE/LTE FDD integrated network services were launched in Hong Kong, which created favorable conditions for the international development of TD-LTE.

The Group strengthened the planning and deployment of basic network resources and enhanced capabilities to compete in full service. The Group continued to garner basic resource reserves, including metropolitan area transmission networks, public Internet and broadband access networks. IDC development was accelerated by introducing Internet hotspot resources, and on-net traffic increased to 75%. Efforts were focused on the development of fiber broadband access capability for corporate customers. In terms of products, corporate IP-VPN lines, IDC, unified communications and high-end family broadband started to form a core series of products, leveraging synergy with its parent company to pilot-launch 100MB family broadband services.

The Group adhered to the mobile Internet strategy comprising “smart pipe, open platform, featured businesses and friendly interface” to pursue professional operation and accelerated the deployment of mobile Internet. As at the end of 2012, Mobile Market’s (MM) cumulative registered customers and application downloads reached 270 million and 610 million, respectively. The supply chain was further converged through opening up capabilities such as MM and Fetion. The Group enhanced the development in new business areas and launched a series of featured mobile Internet products covering mobile payment, cloud service, location-based service and intelligent voice portal. The Group made a strategic investment in Anhui USTC and launched the intelligent voice portal “Lingxi”.

The Group continued to drive scale development of “Wireless City” for which to become the bridge and conduit between government authorities, various industries and their customers. In 2012, “Wireless City” had 70 million cumulative customers. The Group accelerated the development of quality and centralized “Internet of Things” applications to enhance capabilities of the “Internet of Things” public service platform. ICT products for “Internet of Things”, such as Household Security Service, Fleet Management Service and QR Code have become mature with comparative advantages.

Quality and Service

“Quality is the lifeline of a telecommunications company” is the Group’s entrenched mantra. In 2012, the Group continued to enhance the quality of its basic networks, data business and business support. GSM voice quality maintained its leading position whilst 3G network coverage and quality achieved steady improvements. The Group drove development of a WLAN automatic authentication system, through which the rate of successful authentication significantly improved. Further, the Group strengthened the assessment of customer experience and service quality, and enhanced pre-launch quality control and routine monitoring of services. Business support capabilities steadily improved, of which billing and data business ordering continued to excel.

The Group holds reverence in the mantra of “Customers are our priority, quality service is our principle”. In 2012, it stepped up efforts in customer service improvement – continued to promote protection of consumer interests, enhanced security management of customer information and strengthened service quality management. The Group took customer complaints seriously and secured the lowest rate of escalated complaints per million customers in the industry. Customer satisfaction achieved stable improvement and maintained a leading position in the industry. The Group actively transformed its marketing system. The self-owned channels initially sold SIM cards and provided customer service. Building on this foundation, sales capabilities of terminals continued to improve and sales of terminals through self-owned channels increased more than 50% compared to the prior year. The unified portal 10086.cn enhanced the sales function of terminals and SIM cards, and the percentage of business conducted through electronic channels increased to 78%.

Innovation and Development

The Group endeavored to explore innovation in management whilst pursuing network and technological innovation. Through centralized management, professional operations, market-oriented mechanisms, lean organizational structure and standardized processes, the Group continuously improved the quality of business management.

The Group's professional operations achieved early success. China Mobile Group Device Company Limited (formerly known as China Mobile Group Terminal Company Limited) converged partners in the supply chain to promote diversity of terminal models and product quality, and to streamline channel structure. Competitiveness and sales of products spruced up significantly as a result. 2012 saw debut of 242 models of 3G terminals, of which 138 models were smartphones. Mainstream models were launched at equitable schedule, quality and price as handsets of competing standards. China Mobile International Limited made strides in establishing networks and platforms with late-mover advantages. International bandwidth expanded by almost four fold within two years. Strengthening negotiations with international operators further reduced the unit cost of international roaming settlement. Promotion of the RMB1/2/3 international roaming zone model boosted voice traffic volume and customer perception. In 2012, China Mobile Group Finance Company Limited, China Mobile Communications Corporation Government and Enterprise Service Company, and China Mobile M2M Company Limited were incorporated. The Group has also been actively preparing for the establishment of a mobile Internet company and a shared services center, gradually forming its professional operations system.

The Group further enhanced its centralized management. In 2012, the Group continued to drive the construction of centralized data centers, call centers and a warehouse-style logistics system. Major logistics centers in the northern, southwestern and northwestern regions have commenced operations. The scope of centralized procurement has expanded, which further drove down procurement costs. Efforts were stepped up to promote centralization of IT support systems. The Group pilot-launched an integrated client portal, with preliminary success in realizing a common access for Internet customers. Centralized management highlighted the Group's scale advantage which drove cost savings and efficiency benefits.

To stimulate staff motivation, the Group established an internal talent management and incentive-based remuneration mechanism which is in line with the open market. Organizational structure was optimized to simplify decision-making and shorten response time. Standardizing the management system and operational management processes has effectively enhanced the Group's overall operational efficiency.

Capital Expenditure

Investing for the long-term, the Group adopts a forward-looking approach to investment planning. The Group pursues Four-Network Coordination to achieve balanced development of its network capabilities. It steadily builds up infrastructure resources and continues to enhance network transmission capabilities. Investments have been focused on developing mobile Internet and Internet of Things, fostering new business growth drivers and continuously promoting centralization. To adapt to the emerging trends under the new industry landscape and to bode well in business growth and competition, the Group's scale of investment will be maintained at a rational and essential level, so as to enhance overall competitiveness and ensure efficiency and return of investment.

The Group's capital expenditure for 2012 was RMB127.4 billion, mainly expended on the construction of mobile communications networks (44%), transmission (28%), business development (6%), support systems (8%) and buildings and infrastructure (11%). Capital expenditure for the Group for 2013 is budgeted at RMB190.2 billion, of which 42%, 31%, 6%, 6% and 13% will be expended on the construction of mobile communications networks, transmission, business development, support systems and buildings and infrastructure, respectively. In 2013, the investment in mobile communications networks includes the expenditure of TD-LTE network, taking up 22% of total capital expenditure. The Group will assume investments in TD-LTE moving forward.

Future Outlook

Looking to the future, the Government has slated a Chinese way to new industrialization, informatization, urbanization and agricultural modernization, which will provide ample scope for informatization to penetrate various areas. With the arrival of the mobile Internet era, information services are being embedded in everyday life and across various industries. "Mobile changes life" is becoming a reality. The World is recalibrating to next generation mobile communications. In addition, the accelerating proliferation of smartphones will create space and opportunities for the Group's development. The Group will capitalize on such opportunities. It will actively transform its strategies, move fast, align structure and promote entrepreneurship and innovation to achieve sustainable and healthy development.