Financial Review

- Operating revenue increased by **6.1%**
- EBITDA margin reached **45.3%**
- Margin of profit attributable to equity shareholders reached **23.1%**

In 2012, facing challenges from the increasing mobile penetration rate, the unprecedentedly intense market competition, the structural change of the industry value chain and the more apparent substitution effect from Internet businesses, the Group initiated proactive responses, adhered to effectiveness and value, implemented refined management, consolidated and enhanced the core competitiveness, and focused on promoting the strategic transformation and a sustainable healthy development.

PURSUE SUSTAINABLE DEVELOPMENT

PROFESSIONAL
OPERATION

Financial Review

Key Financial Data

	2012 RMB million	2011 RMB million	Change %
Financial Results			
Operating revenue	560,413	527,999	6.1
Voice services	368,025	364,189	1.1
Data services	166,348	139,330	19.4
Others	26,040	24,480	6.4
Operating expenses	409,891	376,700	8.8
Leased lines	9,909	5,188	91.0
Interconnection	25,140	23,533	6.8
Depreciation	100,848	97,113	3.8
Personnel	31,256	28,672	9.0
Selling expenses	104,906	96,830	8.3
Other operating expenses	137,832	125,364	9.9
Profit from operations	150,522	151,299	(0.5)
Other net income	2,208	2,559	(13.7)
Share of profit of associates	5,685	4,306	32.0
Profit attributable to equity shareholders	129,274	125,870	2.7
EBITDA[1]	253,646	251,025	1.0
Basic EPS (RMB)	6.43	6.27	2.6
Financial Position			
Current assets	446,593	382,685	16.7
Non-current assets	605,516	569,873	6.3
Total assets	1,052,109	952,558	10.5
Current liabilities	297,796	273,244	9.0
Non-current liabilities	29,004	28,895	0.4
Total liabilities	326,800	302,139	8.2
Non-controlling interests	1,862	1,355	37.4
Total equity attributable to equity shareholders	723,447	649,064	11.5
Cash Flows			
Net cash generated from operating activities	230,709	226,756	1.7
Net cash used in investing activities	(191,176)	(169,356)	12.9
Net cash used in financing activities	(54,897)	(58,420)	(6.0)
Free cash flow[2]	103,306	98,208	5.2

1. The Company defines EBITDA as profit for the year before taxation, share of loss of jointly controlled entity, share of profit of associates, finance costs, interest income, non-operating net income, depreciation and amortization of other intangible assets.

2. The Company defines free cash flow as net cash generated from operating activities less investments incurred in capital expenditure.

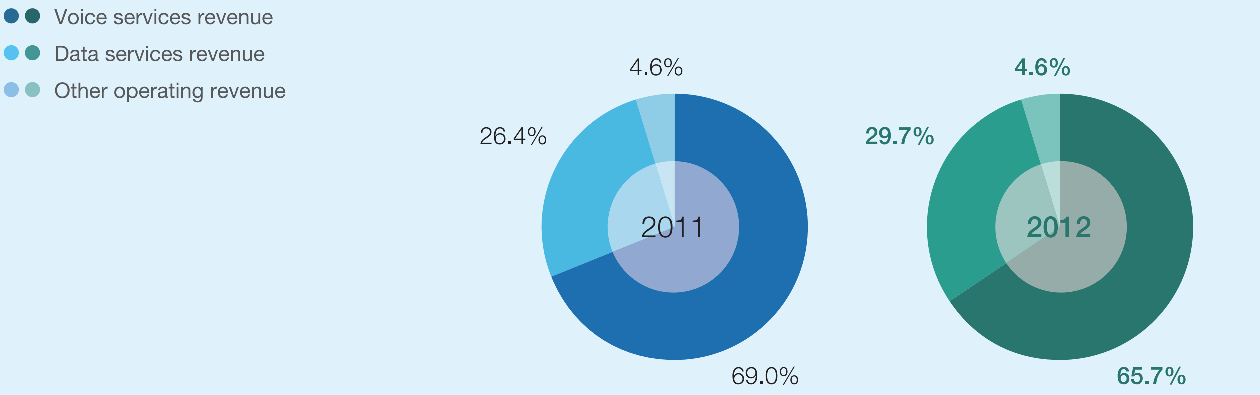
Summary of Financial Results

Benefiting from the solid customer base, continued remarkable addition of new customers, strong growth in wireless data traffic business and favourable growth in the applications and information services businesses, the Group's operating revenue for 2012 reached RMB560.4 billion, representing 6.1% increase compared to the previous year. In order to effectively support the growth of the customer base and business, respond to market competition, as well as consolidate and enhance the Group's core competitiveness in various areas including network, channels, products and services and human resources, the Group focused its efforts on sustainable healthy development and continuously optimized resource allocation. While appropriately increasing contribution and input of major resources, the Group strived to improve the efficiency and effectiveness in resource utilization. The operating expenses in 2012 were approximately RMB409.9 billion, representing an increase of 8.8% compared to the previous year. The Group's profitability continued to be in a leading position in the industry. Profit attributable to equity shareholders was RMB129.3 billion, representing an increase of 2.7% compared to the previous year. The margin of profit attributable to equity shareholders reached 23.1%. EBITDA was RMB253.6 billion, representing an increase of 1.0% compared to the previous year, with EBITDA margin reaching 45.3%. Basic EPS was RMB6.43, representing an increase of 2.6% compared to the previous year.

The Group maintained its robust cash flow as a result of its stable business growth, scientifically refined cost control, rational and efficient capital expenditure as well as the significantly prominent economies of scale. In 2012, the Group's net cash generated from its operating activities and free cash flow were approximately RMB230.7 billion and RMB103.3 billion, respectively. The total debt to total book capitalization ratio (with total book capitalization representing the sum of total debt and total equity attributable to equity shareholders) and interest coverage multiple (ratio of profit before interest and tax to finance costs) remained at a sound level. The Company currently has a corporate credit rating of Aa3/Outlook Positive from Moody's Investor Service and AA-/Outlook Stable from Standard & Poor's, equivalent to China's sovereign credit rating respectively.

Underpinned by its perennially stable capital structure, prominent financial strength and strong cash flow generating capability, the Group has laid a sound foundation for risk management and the achievement of sustainable healthy development.

OPERATING REVENUE COMPOSITION



Operating Revenue

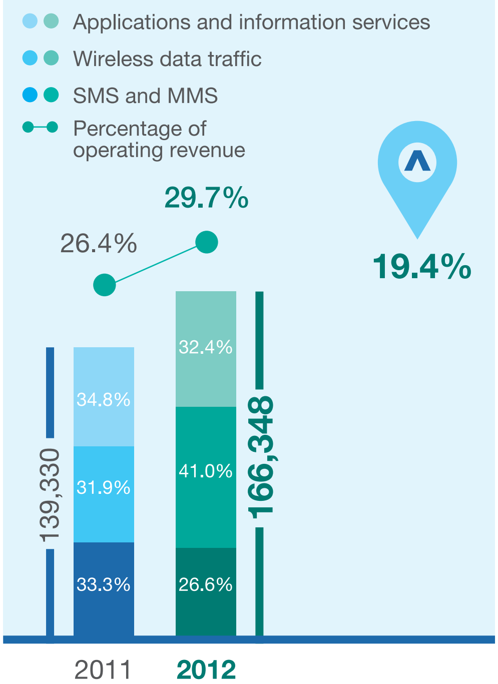
In 2012, the Group achieved a stable growth in its customer base, strong growth in wireless data traffic business and favourable growth in applications and information services businesses. The operating revenue of the Group reached RMB560.4 billion, representing an increase of 6.1% compared to the previous year.

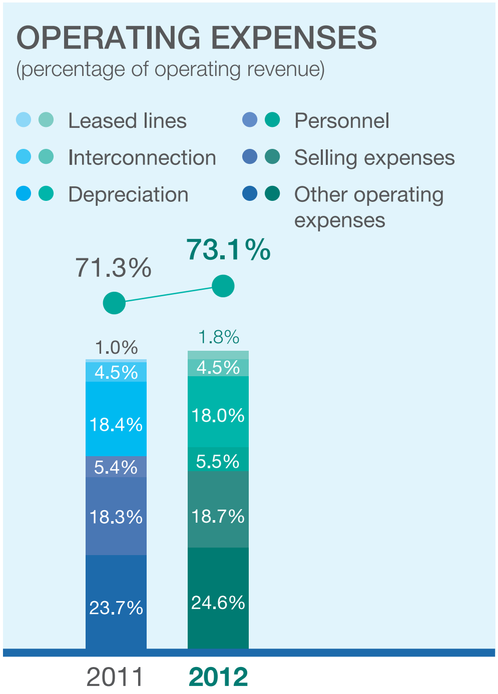
The Group is devoted to optimizing its customer service system, building up differentiated competitive advantages, enhancing relationships with the existing customers, proactively retaining high-value customers, vigorously exploring corporate customers and endeavoring to improve customer satisfaction. In 2012, the number of net additional customers for the Group was 60.73 million. With the rapid 3G market development, the number of 3G customers reached 87.93 million at the end of 2012.

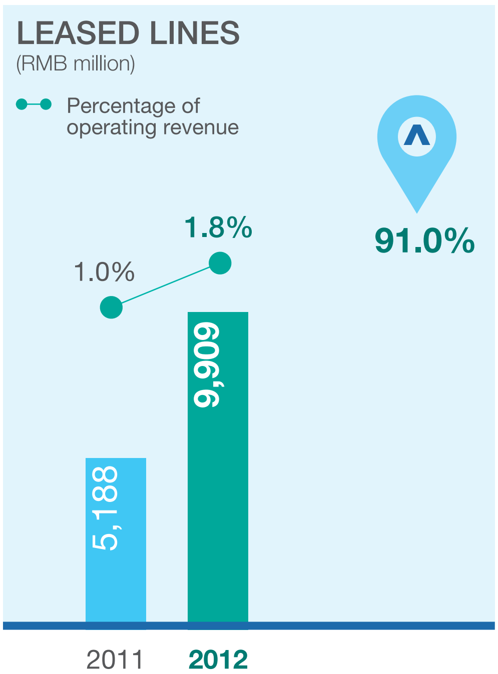
The Group accelerated the strategic transformation, enhanced its innovation in business applications, strengthened the planning in and development of new business areas and optimized the business and revenue structure. In 2012, data services revenue reached RMB166.3 billion, representing an increase of 19.4% compared to the previous year, and data services revenue as a percentage of operating revenue has increased to 29.7%. The Group actively responded to the impact brought to the traditional voice businesses by new Internet businesses and effectively launched its marketing efforts in relation to voice usage, driving the growth potential of voice usage volume and maintaining the overall stabilization of the voice businesses. The Group accelerated the

DATA SERVICES REVENUE

(RMB million)







development of corporate SMS and MMS business to minimize the substitution impact brought by emerging Internet businesses on SMS and MMS business. In 2012, SMS and MMS revenue reached RMB44.2 billion, representing a decrease of 4.8% compared to the previous year. With the full utilization of the Four-Network Coordination advantages, the Group promoted the rapid popularity of smartphones, enhanced the data traffic dredge effectiveness, in order to enhance the continuous and rapid growth of the wireless data businesses. In 2012, wireless data traffic increased by 187.6% and its revenue reached RMB68.3 billion, representing an increase of 53.6% compared to the previous year and constituting 12.2% of the operating revenue, which has become the premier drive of the revenue growth. Due to efforts made for the promotion of business innovation, key businesses such as Mobile Mailbox, Mobile Reading, Mobile Video and Mobile Gaming recorded a favourable growth momentum and their revenue continued to grow. With the improvement of the marketing, capability and support systems, as well as the efforts made in the development of corporate informationalization services, the Group lays a solid foundation for its sustainable development.

Operating Expenses

In order to consolidate the leading position of the Group in the mobile telecommunications industry and enhance its future competitiveness, the Group consistently upheld the principles of forward-looking planning, effective resource allocation, rational investment and refined management with respect to its cost-resource allocation. With centralized management, professional operations, market-oriented mechanisms, lean organizational structure and standardized processes as the objectives, the Group made efforts to enhance management efficiency, to optimize cost structure, to strictly control and reduce the expenses not directly related to production, and achieved a low-cost, highly efficient operation. In 2012, the operating expenses increased 8.8% compared to the previous year to approximately RMB409.9 billion, representing 73.1% of operating revenue. The Group is committed to continuously strengthening its refined management, implementing benchmarked cost-management and continuously optimizing the cost structure to enhance the efficiency and effectiveness of cost and achieve optimal returns.

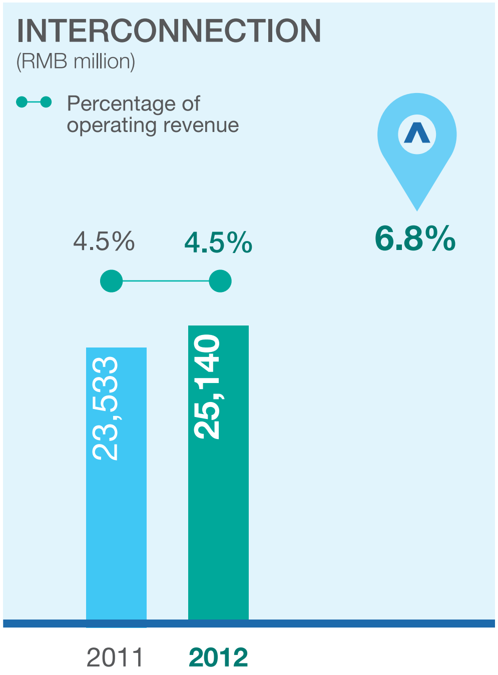
Leased Lines

Due to the rapid growth of the 3G customer base and the 3G business, the TD network utilization rate was significantly increased and the Group's TD wireless network capacity leasing fees, which are payable to its parent company according to actual TD network usage, increased to

RMB2.5 billion in 2012, and the leasing fees for Internet ports also increased as a result of the development of mobile Internet business. In 2012, leased line expenses as a percentage of operating revenue was 1.8%, showing an increase from the previous year.

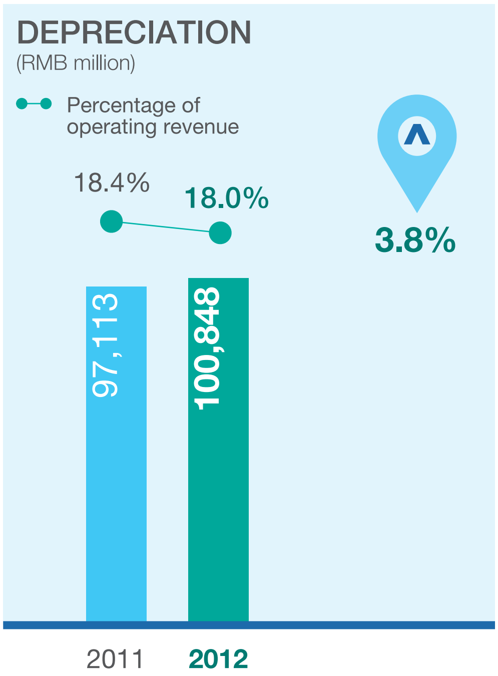
Interconnection

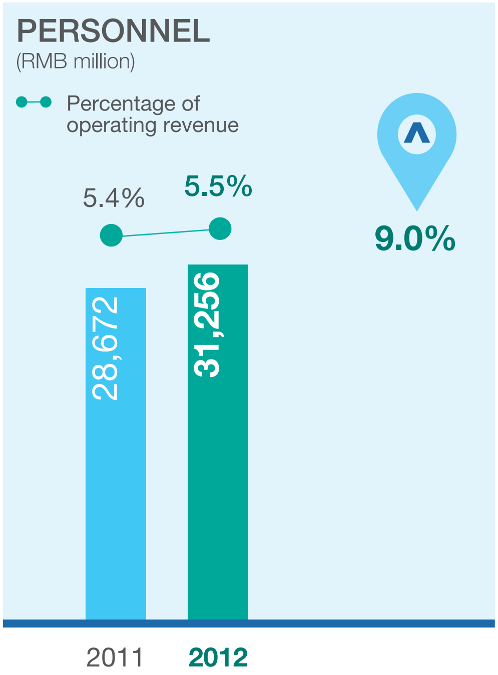
Due to the growth of interconnection voice usage volume, interconnection expenses in 2012 increased to RMB25.1 billion, representing an increase of RMB1.6 billion from the previous year. However, interconnection expenses as a percentage of operating revenue remained stable as compared with the previous year.

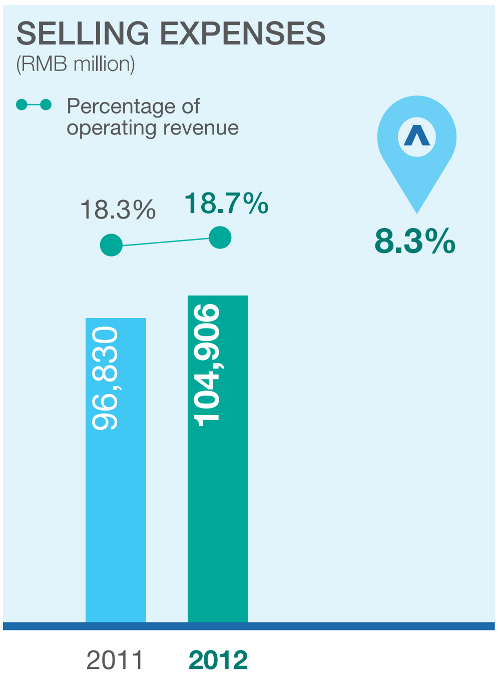


Depreciation

In order to maintain the leading position and competitive advantages in respect of its network capability and quality, support the growth in customer base and business volume and promote the rapid development of the mobile Internet business, as well as reserve certain resources and capabilities for future sustainable development, the Group continued to invest in network construction and optimization, which led to a corresponding increase in depreciation expenses in 2012 by approximately RMB3.7 billion compared to the previous year. The Group's high quality network provided a fundamental platform to retain existing customers and develop new customers, support the healthy development of its businesses and maintain its favorable financial results. In addition, the Group is committed to rational investment, sustainable healthy development in the future, ongoing optimization of capital expenditure structure, enhancing centralized procurement and promoting best practices. The Group carefully considered the cost-effectiveness of its capital expenditure and investments, realized the advantages of economies of scale and ensured favorable returns on its investments.







Personnel

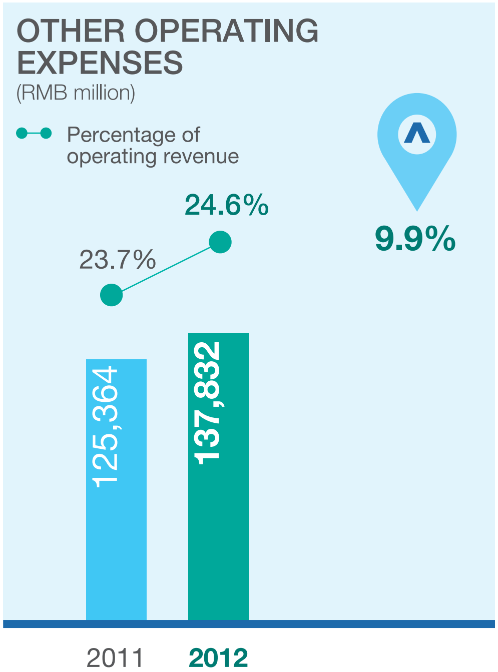
The Group continued to enhance effective personnel management and incentive mechanisms and promoted vitality and creativity of its staff. The Group implemented a comprehensive budget management system and performance-based evaluation system, which helped to maintain its competitive advantage in terms of human resources while appropriately controlling personnel expenses. In 2012, in order to support its business development and professional operations, the Group further strengthened its personnel capabilities in various aspects and recruited more employees. As at 31 December 2012, the Group had a total of 182,487 employees. Personnel expenses for 2012 were RMB31.3 billion. The ratio of personnel expenses to operating revenue remained stable as compared with the previous year.

Selling Expenses

In order to effectively respond to market competition, enhance the Group's future competitiveness, continuously improve service quality and customer satisfaction, strengthen the relationship with existing customers and solidify the competitiveness in expanding new customer base, the Group continued to increase the investment in sales channels, terminals development, customer services, etc. Selling expenses increased by RMB8.1 billion from the previous year, representing an increase of 8.3% when compared with the previous year. Meanwhile, the Group adopted measures to strengthen the utilization of available sales and marketing resources and endeavored to achieve a low-cost, highly efficient model through electronic channels and centralized management of customer services and optimized handset subsidy models and improved the subsidy efficiency. In doing so, the Group was able to effectively control the ratio of selling expenses to the Group's operating revenue. In 2012, selling expenses as a percentage of operating revenue was 18.7%, a slight increase compared to the previous year. In 2012, the average selling expenses per customer per month were RMB12.8, representing a further decrease from the previous year, reflecting favorable cost efficiencies.

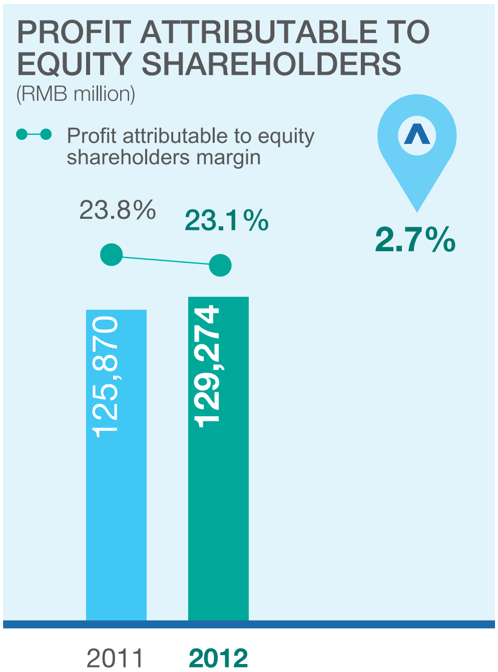
Other Operating Expenses

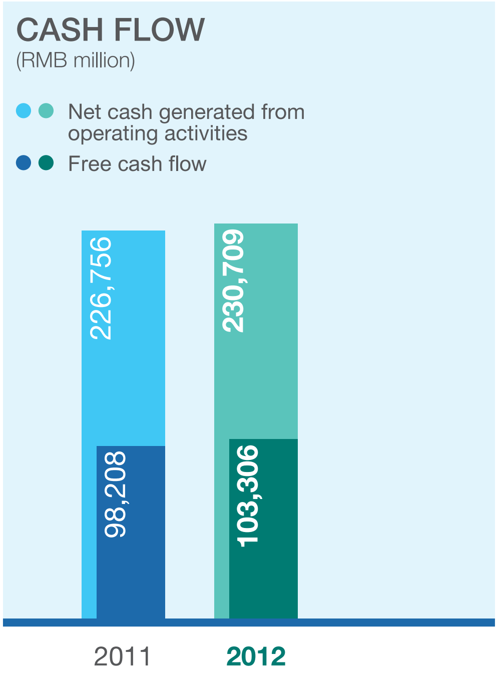
In 2012, other operating expenses (consisting primarily of network maintenance expenses, operating lease charges, labor service expenses, water, electricity and heating expenses, bad debts, asset write-offs, administration and others) increased by RMB12.5 billion compared to the previous year. In order to consolidate the leading network advantages, effectively support its customer and business growth, the Group reasonably increased its investments in network optimization, system support, research and development, etc. In addition, with the continuous expansion of assets scale and the continuous increase in rents and energy prices, the corresponding expenses, such as network maintenance expenses, operating lease charges, and water, electricity and heating expenses, increased accordingly. The number of labor sourced by third parties reached 334,782 as at 31 December 2012 and the related labor service expenses were RMB23.9 billion. In view of the Group's efforts in monitoring customer credits and stringent control over defaults in payment by its customers, the Group maintained its bad debt ratio at a favorable level of 0.80% in 2012. The Group made tremendous efforts to promote the diligent and thrifty mantra in its business operation, greatly reduce administrative expenses and promote cost consciousness of all the employees and endeavored to establish a low-cost, highly efficient operating system.



EBITDA, Profit from Operations and Profit Attributable to Equity Shareholders

The Group continued to maintain a relatively high level of profitability in the industry. The margin of profit attributable to equity shareholders and EBITDA margin in 2012 reached 23.1% and 45.3%, respectively. The profit from operations was RMB150.5 billion. EBITDA, profit attributable to equity shareholders and basic EPS were approximately RMB253.6 billion, RMB129.3 billion and RMB6.43, respectively. On the foundation of a slower growth in the operating revenue, the Group continued to optimize its resource allocation, promote management innovation, improve its refined management and explored avenues of increasing income and saving costs. The Group is committed to improving its overall operational efficiency and profitability as well as continuously creating value for its shareholders.





Fund Management, Cash Flow, Capital Structure and Credit Ratings

Fund Management and Cash Flow

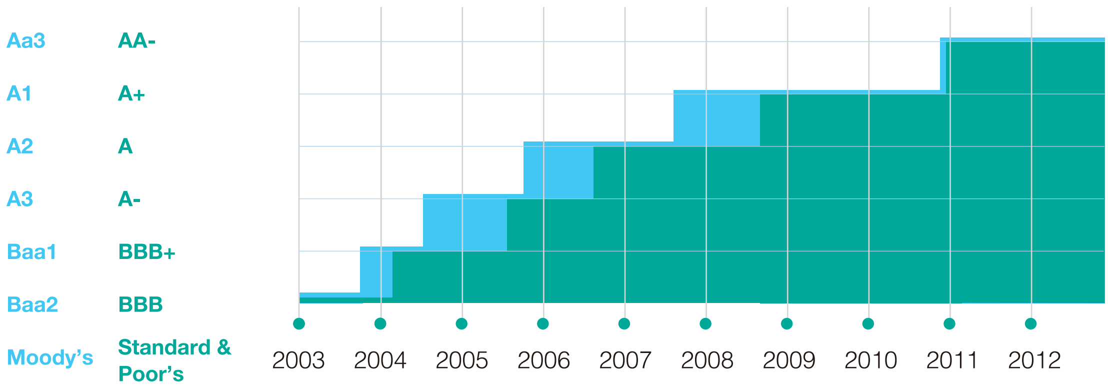
The Group consistently upheld prudent financial principles and strict fund management policies. In order to further strengthen the safe custody of its cash, enhance efficiency of fund usage and reduce the costs of capital, the Group established China Mobile Finance to continue to reinforce its centralized fund management function and make appropriate allocations of funds, thereby enhancing the Group's ability to deploy internal funds effectively. The Group ensured the safety and integrity of its funds through its highly centralized management of investments and financing and strict control over its investments.

In 2012, the Group continued to generate strong cash flow. The Group's net cash generated from operating activities was approximately RMB230.7 billion and its free cash flow was RMB103.3 billion. As at the end of 2012, the Group's total cash and bank balances were RMB408.3 billion, of which 99.1%, 0.2% and 0.7% were denominated in RMB, U.S. dollars and Hong Kong dollars, respectively. The solid fund management and sufficient cash flow further provided a solid foundation for the long-term development of the Group.

Capital Structure

As at the end of 2012, the aggregate sum of the Group's long-term and short-term debts was RMB29.8 billion, and its total debt to total book capitalization ratio was 4.0%, reflecting the fact that the Group's financial position continued to remain at a sound level. Of the total borrowings, 20.8% was denominated in RMB (consisting primarily of RMB bonds), and 79.2% was denominated in U.S. dollars (consisting primarily of the balances of the deferred consideration for the acquisition of the eight and the ten provincial telecommunications operators). Approximately 79.4% of the Group's borrowings were made at floating interest rates. The effective average interest rate of the borrowings of the Group in 2012 was approximately 1.36%. The effective interest coverage multiple was about 408 times. This reflected the prudent financial risk management principle consistently adopted by the Group, as well as its strong cash flow and sound repayment capabilities.

CREDIT RATINGS



Credit Ratings

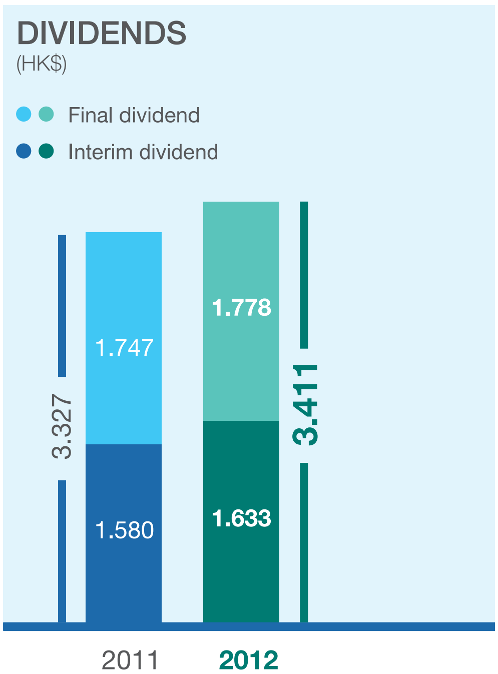
The Group currently has a corporate credit rating of Aa3/Outlook Positive from Moody's Investor Service and AA-/Outlook Stable from Standard & Poor's, equivalent to China's sovereign credit rating respectively. These ratings demonstrated that the Company's sound financial strength, favorable business potentials and solid financial management have led to wider and deeper market recognition.

Dividends

In view of the Group's stable profitability in 2012 and taking into consideration its long-term future development, the Board recommends payment of a final dividend of HK$1.778 per share for the financial year ended 31 December 2012 in accordance with the dividend payout ratio of 43% planned for the full financial year of 2012. This, together with the interim dividend of HK$1.633 per share that was paid in 2012, amounts to an aggregate dividend payment of HK$3.411 per share for the full financial year of 2012.

In 2013, taking into consideration various relevant factors such as the Group's overall financial condition, cash flow generating capability and the needs for future sustainable development, the Company's planned dividend payout ratio for the full year of 2013 will be 43%.

The Board believes that the Company's continuously stable profitability and strong cash flow generating capability will be able to support future sustainable development, while providing shareholders with a favorable return.



Conclusion

The Group will consistently uphold prudent financial principles and strictly monitor and control financial risks in order to strive for leading profitability, robust cash flow generating capability and the ability to preserve and enhance value. In addition, the Group will focus on scientific allocation of resources, maintain a solid capital structure and aim to continuously create value for its shareholders.