

BUSINESS REVIEW

2014 was the first year of full 4G commercialization. Facing challenges including increasing penetration in the mobile communications market, intensifying competition within the industry and the increased impact of mobile Internet businesses on the traditional telecommunications industry, the Group endeavored to seize the opportunities arising from 4G developments, proactively embraced mobile Internet and thereby established new competitive advantages. Focusing on promoting entrepreneurship and innovation, the Group maintained its market leading position with further enhancement in operational management.

As at the end of 2014, the Group's total customer base reached 807 million, representing a growth of 5.1% from the previous year, of which, 4G customers reached 90.06 million. Voice services revenue was RMB309.0 billion, down by 13.1% compared to the previous year. Data services revenue was RMB253.1 billion, up by 22.3% compared to the previous year, of which, revenue from mobile data traffic reached RMB150.6 billion, up by 42.9% compared to the previous year and accounting for 25.9% of revenue from telecommunications services, which represented an increase of 8.1 percentage points compared to the previous year.

KEY OPERATING DATA OF THE GROUP

	2014	2013
Customer Base (million)	806.6	767.2
Net Additional Customers (million)	39.4	56.9
4G Customer Base (million)	90.1	–
Average Minutes of Usage per User per Month (MOU) (minutes/user/month)	453	486
Average Handset Data Traffic per User per Month (DOU) (MB/user/month)	155	72
Average Handset Data Traffic per 4G User per Month (MB/user/month)	780	–
Average Revenue per User per Month (ARPU) (RMB/user/month)	61	67

OPERATING RESULTS

In 2014, the Group continued to focus on the three key drivers of operations – existing business, data traffic and corporate customers, accelerated transformation and actively developed 4G business which achieved evident results. As at the end of 2014, the Group's total customer base reached 807 million and net additional customers for the year accounted for 39.43 million. 4G business achieved transcending developments and the number of 4G customers reached 90.06 million. The Group solidly pushed forward the operation of existing business and middle-to-high-end customer base remained stable. Data traffic operation experienced rapid developments and mobile data traffic increased by 115.1% compared to the previous year. The Group made remarkable achievements in corporate customer operations and revenue from corporate informationalization services increased by 24.8%. The Group achieved scale development in device sales and the number of handsets sold hit a record high.

The substitution impact of Internet businesses continued to intensify. In 2014, voice services revenue was RMB309.0 billion, down by 13.1% compared to the previous year. Total voice usage was 4.29 trillion minutes, down by 0.5% compared to the previous year. Average minutes of usage per user per month (MOU) was 453 minutes, down by 6.7% compared to the previous year. SMS and MMS revenue amounted to RMB34.8 billion, down by 15.8% compared to the previous year. The Group proactively adopted various measures with a view to deferring the decline in traditional businesses.

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The Group's data services revenue reached RMB253.1 billion, up by 22.3% compared to the previous year, of which, mobile data traffic continued to grow robustly and reached 1.13 trillion MB, up by 115.1% compared to the previous year. Average handset data traffic per user per month (DOU) reached 155 MB, up by 115.1% compared to the previous year. Revenue from mobile data traffic reached RMB150.6 billion, up by 42.9% compared to the previous year, and rose to 25.9% of revenue from telecommunications services.

The Group's applications and information services maintained steady development with revenue reaching RMB64.4 billion, up by 12.3% compared to the previous year. In addition to the continuing development of informationalization services provided to corporate customers, content businesses such as reading, video, games and animation also experienced rapid growth.

TRANSCENDING 4G DEVELOPMENTS

In 2014, the Group proactively promoted the transformation from voice-centric to data-centric operations, endeavored to promote 4G developments with tremendous efforts, achieved remarkable growth pace and established new competitive advantages. The network diversion capability of 4G services was significantly improved. Average handset data traffic per 4G user per month reached 780 MB, and 4G network has gradually become the major data carrying network.

With respect to network, the Group cumulatively put in use 720,000 4G base stations which cover a population of more than one billion, realizing nationwide continuous coverage in almost all cities and counties as well as data hotspot coverage in developed rural towns and villages. At the same time, the establishment of 4G network management system and the device-to-device quality optimization system significantly improved customer perception and laid a solid foundation for developing the 4G market.

With respect to marketing, the Group promoted rapid migration of customers from 2G and 3G networks to 4G network by implementing "no new number, no re-registration and speedy SIM swap" and actively promoting new integrated 4G tariff plans. The number of 4G customers reached 90.06 million, demonstrating an accelerating growth momentum.

With respect to business, the Group launched a series of 4G featured services including lossless music, high definition videos and high-speed games, and explored new business models such as data traffic sharing and corporate-sponsored data traffic. All these measures were well received by the market and strongly promoted the development of customer base and data traffic growth.

With respect to devices, the device supply chain matured rapidly with over 600 TD-LTE handset models. The line of models at around RMB1,000 became increasingly enriched. A market landscape with multiple brands, diversified device models, comprehensive modes and low average prices was established. In 2014, the number of 4G handsets sold achieved breakthrough.

With respect to global developments, the Group has initiated 4G international roaming services in 71 countries and regions. The global development of TD-LTE was continuously accelerated through the efforts of GTI (Global TD-LTE Initiative), with 52 networks for commercial use.

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PROMOTING ENTREPRENEURSHIP AND INNOVATIVE DEVELOPMENT

The Group proactively transformed its traditional operation mode, developed effective means for entrepreneurship and innovation and endeavored to explore room for future development.

The Group gradually built up its capabilities in specialized operations and the specialized companies accomplished significant developments. China Mobile Device actively promoted market-oriented device sales, realizing rapid growth in both sales volume and revenue. Five-mode smartphones under the Group's own brand priced at around RMB1,000 have been sold to markets including Hong Kong, France, Spain, Pakistan and Thailand. The Group's Government and Enterprise Service Company strengthened its product research and development of self-owned brandings, introduced various Mobile Cloud products and launched Internet of Vehicles services. The connection coverage of dedicated lines for key corporate customers was close to 90%. The International Company launched the innovative "RMB3/6/9" international roaming data packages and "RMB30/60/90" unlimited daily data tariffs, which were well received by the market. The Global Network Center in Hong Kong officially commenced operations. The Group successfully acquired equity interest in True Corporation, an integrated telecommunications operator in Thailand. The Group also established operating companies specialized in digital services and digital content, including China Mobile Online Services Company Limited and MIGU Company Limited.

The Group focused on the system of new products and proactively developed digital services. The Group published the unified communications white paper on "New Communications, New Messages, New Contacts" and had developed the initial capabilities for pre-commercial operations. The Group enhanced the consolidation and operations of digital-content products and launched "and-Entertainment" product packages covering the five major content-type businesses, namely, "Migu Music", "and-Reading", "and-Video", "and-Game", and "and-Animation". Customers' subscription for "and-Entertainment" product packages exceeded 200 million and data usage per customer increased significantly. Revenue from "and-Entertainment" rose rapidly. The Group launched the self-branded set-top box to tap into the family market and endeavored to establish early presence in family homes. The Group also built up an open platform for Internet of Things, optimized dedicated networks and numbers and endeavored to promote growth in the scale of Internet of Things.

The Group further promoted the transformation of its marketing system and optimized the tariff structure and marketing model while deepening products innovation, and accomplished initial results in separating the businesses of voice services, data traffic and data services as well as separating devices, contracts and plans. With various provincial companies and China Mobile Device all entering e-Commerce marketplaces, the Group enhanced its capacities in electronic channels and achieved a sales amount exceeded RMB200 billion in online transactions through self-operated electronic channels. The number of customers who activated through handset outlets reached 40 million.

ENHANCED MANAGEMENT, REDUCED COSTS AND INCREASED EFFICIENCY

Facing the changing industry landscape, the Group adhered to the principles of "centralized management, operational specialization, market-oriented mechanism, the building of a flat organization, the standardization of processes" and proactively promoted management enhancement.

The Group further strengthened its centralized management. The electronic procurement and tendering system has covered a few thousand projects and the electronic procurement amount exceeded RMB100 billion. The Group's level of centralized procurement was continuously enhanced, and thereby further reduced procurement cost. There was steady progress in the construction of modern infrastructures such as centralized data centers and call centers, which comprehensively promoted centralized network failure management, performance management, network optimization and maintenance management.

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At the same time, the Group established market-oriented mechanisms for both human resources management and remuneration and incentives. A quantitative performance-based remuneration system encompassed all the front-line marketing and network staff, and thereby, effectively vitalizing the Group's organization.

The Group endeavored to reduce costs and increase efficiency. The Group proactively promoted transformation of marketing models through adjusting and optimizing the allocation of selling expenses, significantly reducing device subsidies, stopping physical products marketing across the board and closing high-cost services including VIP lounges at airports. The Group also optimized the social channel commissions structure by significantly lowering the commissions for mobile number subscription. By virtue of a series of measures, the Group's selling expenses in 2014 were reduced by 17.5%.

CAPITAL EXPENDITURE

The Group is at a critical phase of transformation development and strives to promote the three changes, namely, from voice-centric to data-centric operations, from mobile communications services to innovative full-services and from communications services to digital services. The Group will maintain a reasonable investment scale to safeguard efficiency and return on investment. The focus of capital expenditure will be on facilitating 4G developments and responding to the increasing demand for data traffic, supporting technology innovations and business developments in areas including mobile Internet, Internet of Things and cloud computing and enhancing accumulation of infrastructure resources to improve the Group's competitive advantages in full-services.

The Group's capital expenditure for 2014 was RMB213.5 billion, which was mainly expended on the construction of mobile communications networks (48%), transmission (34%), business networks (4%), support systems (4%), buildings and infrastructure (8%) and others (2%). Capital expenditure of the Group for 2015 is budgeted at RMB199.7 billion, which will be expended on the construction of mobile communications networks (39%), transmission (33%), business networks (8%), support systems (5%), buildings and infrastructure (13%) and others (2%).

FUTURE OUTLOOK

The complex and evolving landscape nurtures both new opportunities and new challenges. From a macroeconomic perspective, China's economic development has entered a new phase with new norms. Nurturing new business models, stimulating information consumption and developing modern servicing industry have emerged as the direction for further economic growth. In terms of industry trends, the extremely rapid development of mobile Internet is propagating a transcending social evolution and profoundly changing social lifestyles. In terms of competition within the industry, 4G has become the main focus of competition. Various 4G networks will compete on the same platform, customer migration to 4G networks will accelerate and competition in 4G services will become more intensified.

The Group will firmly seize the opportunities arising from 4G developments and strive to maintain its leading positions in 4G networks, market position and business operations with a view to building up an overall leading advantage in 4G services. At the same time, the Group will focus on entrepreneurship and innovation in order to create new miracles amid the mobile Internet era.