FINANCIAL REVIEW

SUMMARY OF THE FINANCIAL RESULTS

In 2015, the Group seized the opportunities and directed its resources focusing on 4G development, established our leading edge in 4G market. Operating revenue continued to grow which leads the industry, whereas strongly compressed selling and administrative expenses, comprehensively promoted operations with low cost and high efficiency. The Group remains industry-leader in profitability and continuously creates value for the shareholders.

CREATE LONG-TERM VALUE FOR SHAREHOLDERS

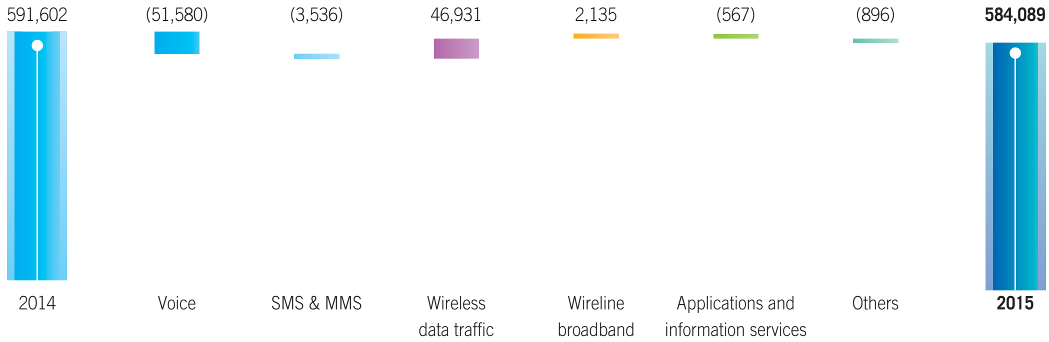
	2015	2014 As restated	Change
Operating revenue (RMB million)	**668,335**	651,509	2.6%
Of which: Revenue from telecommunications services (RMB million)	**584,089**	591,602	–1.3%
EBITDA (RMB million)	**240,028**	241,831	–0.7%
EBITDA margin	**35.9%**	37.1%	–1.2pp
EBITDA as a percentage of revenue from telecommunications services	**41.1%**	40.9%	0.2pp
Profit attributable to equity shareholders (RMB million)	**108,539**	109,218	–0.6%
Margin of profit attributable to equity shareholders	**16.2%**	16.8%	–0.6pp
Basic earnings per share (RMB)	**5.30**	5.38	–1.5%

OPERATING REVENUE

In 2015, the Group accelerated 4G development. Despite of various impacts such as the “transformation from business tax to value-added tax” policy and the “speed upgrade & tariff reduction” policy, the Group maintained a steady growth in revenue. Operating revenue reached RMB668.3 billion, up by 2.6% compared to the previous year, of which revenue from telecommunications services was RMB584.1 billion, down by 1.3% compared to the previous year. While revenue from traditional businesses continued to decline, revenue from data services grew rapidly and became the primary contributor, exceeding the revenue from voice services for the first time.

REVENUE FROM TELECOMMUNICATIONS SERVICES

(RMB million)



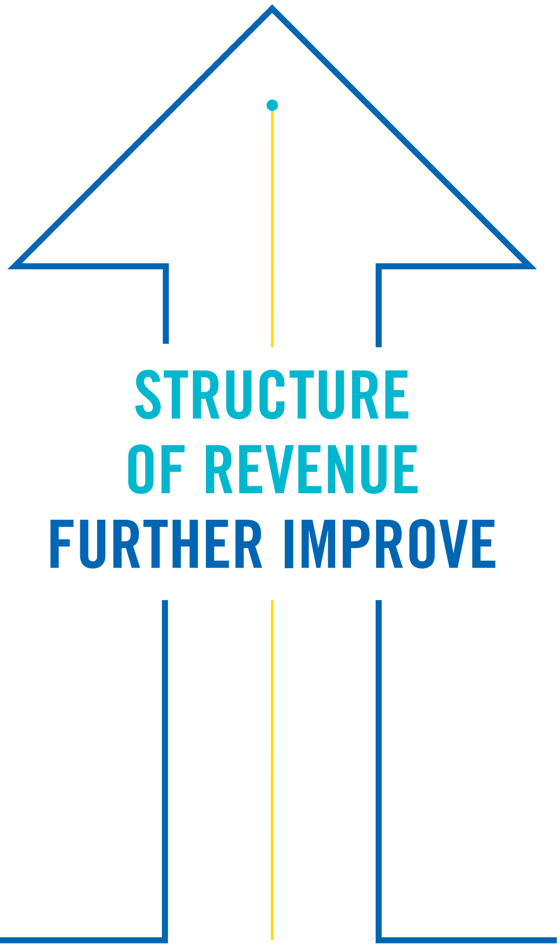
Revenue from Voice Services

Due to the impact of factors such as substitution effect of mobile Internet, revenue from voice services continued to decline. The amount for 2015 was RMB261.9 billion, down by 16.5% compared to the previous year, representing 44.8% of revenue from telecommunications services, down by 8.2 percentage points compared to the previous year.

Revenue from Data Services

In 2015, revenue from data services was RMB303.4 billion, up by 17.4% compared to the previous year, representing 52.0% of revenue from telecommunications services, up by 8.3 percentage points compared to the previous year.

The Group accelerated its business development with a focus on its 4G business, speeded up the migration of customers from 2G/3G networks to 4G networks, enriched various applications and enhanced its precise marketing of data traffic, leading to a rapid growth in data traffic which became the main engine of revenue growth. Revenue from wireless data traffic reached RMB200.9 billion, up by 30.5% compared to the previous year and representing 34.5% of revenue from telecommunications services, thereby effectively mitigated the decrease in revenue from voice and SMS/MMS services. Due to the impacts of substitution by OTT, revenue from SMS/MMS services was RMB31.2 billion, down by 10.2% compared to the previous year. The Group steadily developed its wireline broadband business and obtained a wireline broadband license through the acquisition of TieTong's assets and businesses, which is conducive to further synergy. Revenue from wireline broadband services was RMB18.3 billion, up by 13.2% compared to the previous year. Revenue from applications and information services was RMB53.0 billion, representing a slight decrease compare to previous year. The Group continues to innovate and explore in mechanism system and operation mode and expects greater room for expansion in the future.



A POSITIVE RESULT IN COST REDUCTION AND EFFICIENCY ENHANCEMENT

OPERATING EXPENSES

In 2015, the Group adhered to the principle of effectiveness, proactively optimized its allocation of resources, continued to strengthen its refined cost management and reduced its selling and administrative expenses, thereby achieving a positive result in cost reduction and efficiency enhancement. Operating expenses were RMB565.4 billion, up by 5.8% compared to the previous year and representing 84.6% of operating revenue. Profitability continued to be leading in the industry.

	2015 **RMB million**	2014 As restated RMB million	Change %
Operating expenses	**565,413**	534,189	5.8
Leased lines and network assets	**20,668**	15,843	30.5
Interconnection	**21,668**	23,502	–7.8
Depreciation	**136,832**	122,805	11.4
Employee benefit and related expenses	**74,805**	70,385	6.3
Selling expenses	**59,850**	75,655	–20.9
Cost of products sold	**89,297**	74,495	19.9
Other operating expenses	**162,293**	151,504	7.1

Leased Lines and Network Assets

The expenses for leased lines and network assets were RMB20.7 billion, up by 30.5% compared to the previous year and representing 3.1% of operating revenue, mainly comprised of usage fees for telecommunications towers, TD-SCDMA network capacity and "Village Connect" assets. Pursuant to actual circumstances, the Group accrued usage fees in respect of existing telecommunications towers for November and December 2015 and new telecommunications towers from the date of delivery amounted to RMB5.6 billion, which was the main reason for the increase in leasing fees.

Interconnection

Interconnection expenses were RMB21.7 billion, down by 7.8% compared to the previous year and representing 3.2% of operating revenue, which mainly due to the decline in the volume of voice and SMS/MMS services and hence a drop in the corresponding settlement amount.

Depreciation

Depreciation expenses were RMB136.8 billion, up by 11.4% compared to the previous year and representing 20.5% of operating revenue. Currently, the Group is at a critical stage of 4G development and strategic transformation. In order to maintain its leading edge in the 4G market and strengthen its market position, the Group increased its efforts in the construction of 4G and transmission networks. Depreciation expenses therefore increased with the expansion of the assets scale. The transfer of existing telecommunications towers and related assets would enable the Group to save depreciation costs in the future.

Employee Benefit and Related Expenses[1]

Employee benefit and related expenses were RMB74.8 billion, up by 6.3% compared to the previous year and representing 11.2% of operating revenue. Due to the implementation of the enterprise annuity system, the deepening of personnel structure adjustments, the distribution system reform, the enhancement of incentives for junior staff as well as the rigid rise in social insurance expenses, employee benefit and related expenses increased accordingly.

Selling Expenses

Selling expenses were RMB59.9 billion, down by 20.9% compared to the previous year and representing 9.0% of operating revenue. The Group deepened the transformation of its marketing mode, optimized the structure of its selling expenses, promoted the marketization of terminal sales, accelerated the transformation of social channels, enhanced the concentration of advertising and utilized big data for precise marketing, thereby boosting its marketing efficiency significantly. As a result, selling expenses reduced by over RMB30.0 billion in total for the last two years.

Cost of Products Sold

Cost of products sold were RMB89.3 billion, up by 19.9% compared to the previous year. The Group devoted itself to promoting the long-term development of TD-LTE terminal industry chain and focused on the sales of 4G terminals. As a result of the boost in sales volume, the cost of products sold increased accordingly.

Other Operating Expenses

Other operating expenses were RMB162.3 billion, up by 7.1% compared to the previous year and representing 24.2% of operating revenue. Other operating expenses primarily consist of maintenance expenses, operating lease expenses, provision for bad debts as well as asset written-off and impairment. Among these, maintenance and related expenses increased with the expansion of assets scale. Maintenance expenses were RMB54.0 billion, up by 2.1% compared to the previous year. Write-off and impairment of property, plant and equipment were RMB7.6 billion, mainly represents the provision for impairment of certain inefficient terminal transmission equipment and WLAN assets. The Group continued to strictly control its management expenses, with its administrative expenses such as conference and travelling expenses significantly reduced.

[1] In accordance with requirements of reducing the proportion of labor sourced by third parties that provide services to the Group ("outsourcing labor") among total labor under "Amendment to Labor Contract Law of the PRC" and its associated rules and regulations, the Group has made adjustment on the structure of employees and outsourcing labor. Such adjustment leads to the significantly increase in number of employees and the significantly decrease in number of outsourcing labor in 2015. In order to reasonably reflect the composition and fluctuation of employee benefit and related expenses, the Group presents employee benefit and related expenses by combining personnel expenses and labor service expenses, the latter of which was presented under other operating expenses prior to 2015. The comparative figures have been presented on the same basis.

INDUSTRY-LEADING LEVEL OF PROFITABILITY

PROFITABILITY

In 2015, due to the impact of factors such as the "transformation from business tax to value-added tax" policy and the "speed upgrade & tariff reduction" policy, profit from operations was RMB102.9 billion, down by 12.3% compared to the previous year. EBITDA reached RMB240.0 billion and EBITDA margin reached 35.9%. Profit attributable to equity shareholders was RMB108.5 billion and its margin was 16.2%, thereby maintaining an industry-leading level of profitability.

	2015 RMB million	2014 As restated RMB million	Change %
Profit from operations	**102,922**	117,320	–12.3
Gain on the transfer of Tower Assets	**15,525**	–	–
Other gains	**1,800**	1,171	53.7
Interest income	**15,852**	16,270	–2.6
Finance costs	**455**	487	–6.6
Share of profit for investments accounted for using the equity method	**8,090**	8,248	–1.9
Taxation	**35,079**	33,179	5.7
Profit attributable to equity shareholders	**108,539**	109,218	–0.6

CAPITAL STRUCTURE

The Group's financial position continued to remain steady. At the end of 2015, total assets grew from RMB1,348.0 billion at the end of the previous year to RMB1,427.9 billion. Total liabilities changed from RMB459.1 billion at the end of the previous year to RMB507.5 billion. Debt-to-assets ratio changed from 34.1% at the end of the previous year to 35.5%.

As at the end of 2015, total borrowings was RMB5.0 billion, total debt to total book capitalization ratio (with total book capitalization representing the sum of total debt and total equity attributable to equity shareholders) was 0.5%. All of the Group's borrowings were denominated in Renminbi and all made at fixed interest rates. The Group firmly adhered to its prudent financial risk management policies and maintained sound repayment capabilities. The Group's effective average interest rate of borrowings was 4.27% and its effective interest coverage multiple was 282 times.

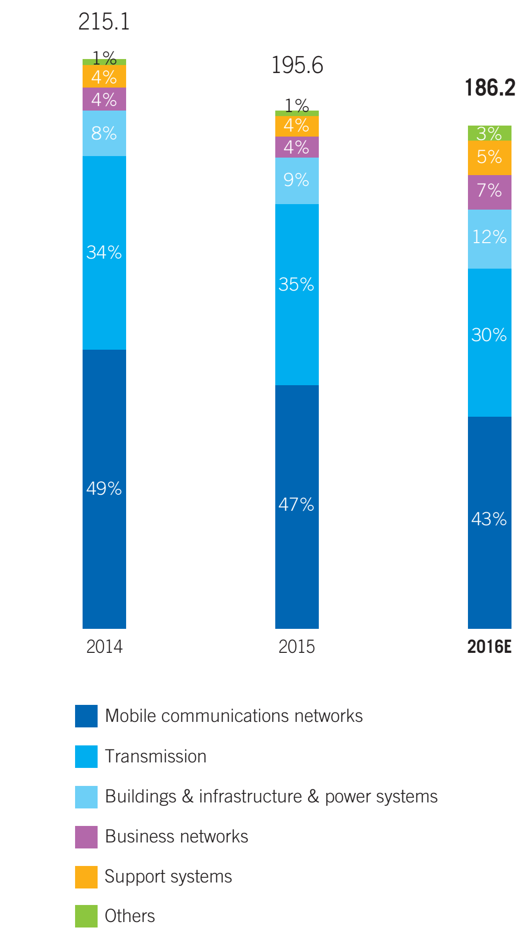
CAPITAL STRUCTURE REMAINS STEADY

	As at 31 December 2015 RMB million	As at 31 December 2014 As restated RMB million	Change %
Current assets	**488,697**	486,925	0.4
Non-current assets	**939,198**	861,110	9.1
Total assets	**1,427,895**	1,348,035	5.9
Current liabilities	**501,038**	452,492	10.7
Non-current liabilities	**6,489**	6,560	–1.1
Total liabilities	**507,527**	459,052	10.6
Non-controlling interests	**3,032**	2,067	46.7
Total equity attributable to equity shareholders	**917,336**	886,916	3.4

SUFFICIENT FUNDS SOLID FOUNDATION

CAPITAL EXPENDITURE DOWN YEAR BY YEAR

(RMB billion)



CAPITAL EXPENDITURE, FUND MANAGEMENT, CASH FLOW AND CREDIT RATINGS

Capital Expenditure

The Group is at a critical stage of transformation development. On one hand, by prioritizing its investments to make the most out of its first-mover advantage in the 4G market, the Group reinforced the optimization of its 4G network infrastructure and enhanced the quality of its 4G networks. On the other hand, the Group continuously increased its effort in the construction of transmission networks and achieved leaping improvements in its capabilities of transmission network, thereby supporting the Group's business development effectively.

In 2015, the Group appropriately controlled its investment schedule and optimized investment directions to ensure investment effectiveness. Capital expenditure for the year was RMB195.6 billion, down by 9.1% compared to the previous year, of which RMB79.1 billion was invested in 4G networks. Planned capital expenditure for 2016 is RMB186.2 billion, of which RMB75.7 billion, RMB11.2 billion and RMB39.0 billion will be invested in 4G networks, wireline broadband and transmission networks excluding access part, respectively.

Fund Management and Cash Flow

The Group consistently upheld prudent financial principles and strict fund management policies to maintain its cash flow at a healthy level. The Group ensured the safety and integrity of its funds through its highly centralized management of investing and financing activities. Meanwhile, the Group continued to reinforce its centralized fund management effort and make appropriate allocations of its funds through China Mobile Finance, thereby enhancing the efficiency of funds utilization.

In 2015, the Group's cash flow remained healthy. Net cash inflow generated from operating activities, net cash outflow from investing activities, net cash outflow from financing activities and free cash flow were RMB235.1 billion, RMB142.7 billion, RMB86.5 billion and RMB39.5 billion respectively. As at the end of 2015, the Group's cash and bank balances were RMB407.8 billion, of which 98.6%, 0.5% and 0.9% were denominated in Renminbi, U.S. dollars and Hong Kong dollars respectively. The steady fund management and healthy cash flow provided a solid foundation to withstand risk and achieve sustainable healthy development for the Group.

Credit Ratings

Currently, the Company's corporate credit ratings are equivalent to China's sovereign credit ratings, namely, AA-/Outlook Stable from Standard & Poor's and Aa3/Outlook Negative from Moody's. These ratings reflect that the Group's sound financial strength, favourable business potential and solid financial management are highly recognized by the market.

ACQUISITION OF TARGET ASSETS AND BUSINESSES FROM TIETONG

In 2015, CM TieTong and TieTong entered into an acquisition agreement, under which CM TieTong acquired certain assets, businesses and related liabilities of TieTong located in thirty-one provinces, autonomous regions and directly administered municipalities in China, and took over related employees, at a final consideration of RMB31.967 billion. The acquisition would enable the Group to obtain a wireline broadband license and network resources throughout the country, to enhance its competitiveness of full-services, to achieve cost synergy and to significantly reduce its scale of connected transactions.

TRANSFER OF EXISTING TELECOMMUNICATIONS TOWERS AND RELATED ASSETS TO CHINA TOWER

In 2015, CMC transferred its existing telecommunications towers and related assets to China Tower on an arm's length basis at a final consideration of RMB102.736 billion. Pursuant to the transaction agreement, China Tower has issued 45.151 billion consideration shares to CMC at an issue price of RMB1 per share, and a cash consideration of RMB57.585 billion shall also be payable to CMC. Of the cash consideration, the first RMB5 billion was paid on 25 February 2016, while the remaining RMB52.585 billion will be paid before 31 December 2017 with an interest rate of 3.92% per annum to be charged. The transaction generated a one-off gain of RMB10.096 billion. China Tower's centralized construction and operation of telecommunications towers resources would enable the Group to obtain more network infrastructure resources through the co-construction and sharing, and to save its capital expenditure. In addition, as one of the major shareholders of China Tower, the Group expects to benefit from China Tower's future earnings and value enhancement.