

Letter to Shareholders

Dear Shareholders,

With digital convergence as our core strategy, Taiwan Mobile (“TWM” or “The Company”) has continued to aggressively roll out new and upgraded communications platforms (mobile internet, cable/digital TV, cable broadband), enriched its content (shopping channels, family channel, online music), and expanded traditional/virtual channels (myfone stores/website, momo cosmetic stores, momo department stores, momo online shopping and momo catalogue services). All these have strengthened and advanced Taiwan Mobile’s thrust into the T.I.M.E. – Telecoms, Internet, Media and Entertainment – fields.

Steady expansion of core business

Despite the impact of the National Communication Commissions’ regulatory intervention on mobile operators’ voice revenue, the Company still posted stable profits in 2011 due to healthy revenue growth and good margins from all three major business groups, plus earnings contribution from momo.

In 2011, Taiwan Mobile posted a consolidated revenue of NT\$81.37bn, up 16% from a year ago. The Company’s consolidated EBITDA of NT\$27.09bn and net income of NT\$13.47bn reached 105% and 103% of its annual targets respectively. Earnings per share rose 2% YoY to NT\$4.70. The main revenue growth drivers were as follows:

1. Wireless value-added services

The popularity of smartphones contributed to an increase in wireless data revenue, offering new opportunities in an already saturated telecommunications market. Taiwan’s mobile carriers, thus, entered into a growth cycle. As of the end of 2011, smartphone penetration in Taiwan was only around 20%, signifying ample room for growth. Taiwan Mobile, differentiating itself by offering quality network efficiency and a wide variety of the latest smartphone models, outperformed its peers by recording a 47% YoY rise in wireless value-added service revenue.

2. Cable broadband services

By successfully bundling digital TV services and offering customers higher broadband speed, Taiwan Mobile expanded its market share and saw its number of subscribers and average revenue per user (ARPU) from cable broadband services grow 13% and 4% respectively from a year ago, leading to a steady growth in revenue.

Maximizing shareholders’ value

1. Second round of capital reduction

The Company held a second round of capital reduction in August 2011, returning NT\$1 per share to shareholders. This, plus a cash dividend of NT\$4.1619 per share for 2010 earnings, translates into a cash yield of 6.4%, providing rich and steady returns for shareholders. Given a sound capital structure and relatively stable profits and dividends, Taiwan Mobile’s stock outperformed the market in 2011.

2. World-class corporate governance

Taiwan Mobile's commitment over the years to corporate governance has made it a role model in protecting shareholders' interests and promoting financial transparency. The Company's compliance with global standards has earned the trust of investors and has been recognized by various domestic and international ratings institutions. These include: a "CG6006" certification" from the Taiwan Corporate Governance Association; "Best Corporate Governance in Asia" and "Best Investor Relations, Taiwan" from *Corporate Governance Asia* magazine; and an A⁺ rating and a top 10 ranking of listed companies for "Transparency and Information Disclosure" by the Securities and Futures Institute. As a further recognition for its efforts, Taiwan Mobile was one of the in "Taiwanese Enterprises: Promoting Trust and Integrity," awarded by the Industrial Development Bureau under the Ministry of Economic Affairs.

3. A role model for corporate social responsibility

TWM has also won recognitions for employing its corporate and financial resources to assist non-profit organizations in promoting social welfare. These include the "Excellence in Corporate Social Responsibility" award from *CommonWealth* magazine for five consecutive years; the top prize for "Corporate Social Responsibility" in the education category by *GlobalViews Monthly* magazine; and the "R.O.C. Enterprises Environmental Protection Award" from the Environmental Protection Administration of the Executive Yuan for three years in a row.

4. Premium services and customer satisfaction

TWM's core value of "truly caring for customers" and continuous product and service innovations were critical to its winning *Reader's Digest's* "Trusted Brand Gold Award" for the eighth consecutive year, ranking 6th on *Business Next* magazine's "Info Tech 100 Taiwan" list and being included in its "Info Tech 100 Asia"; garnering the top prize in the "2011 Digital Service Award," ICT Group, of *Business Next* magazine's digital service power survey; as well as an award for "Outstanding IT Applications/ Products" at the 2011 ICT Exhibition.

For 2012, despite continuing challenges from the regulatory front, Taiwan Mobile is well-prepared for the digital convergence age, ready to enhance its business synergies, provide an all-encompassing digital life for its customers and create maximum returns for its shareholders.



Richard Tsai
Chairman