Taiwan Mobile

4th Quarter Results

for the period ended December 31, 2010

January 27, 2011

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TWM consolidated

NT$bn	2010	YoY	4Q10	QoQ	YoY
Revenue	**70.15**	**2%**	**17.90**	**1%**	**6%**
EBITDA	**27.46**	**-6%**	**6.37**	**-7%**	**-14%**
Operating Income	**18.31**	**-10%**	**4.09**	**-9%**	**-21%**
Non-op. Income (Expense)	**(1.21)**	**-33%**	**(0.08)**	**-33%**	**-78%**
Pre-tax Income	**17.10**	**-8%**	**4.01**	**-9%**	**-17%**
(Less Tax)	**(3.28)**	**-31%**	**(0.83)**	**11%**	**-36%**
Net Income	**13.82**	**0%**	**3.19**	**-12%**	**-9%**
EPS (NT$)	**4.62**	**-1%**	**1.06**	**-13%**	**-9%**
EBITDA margin	39.15%	-3.63pps	35.56%	-2.94pps	-8.44pps
Operating margin	26.10%	-3.76pps	22.86%	-2.58pps	-7.81pps

Highlights of 4Q10 and Full-Year Results

With all three business groups posting better-than-expected revenues, our 4Q10 consolidated revenue surpassed guidance by 1%. In terms of EBITDA, both HBG and EBG outperformed their targets as higher revenue and better opex controls helped to alleviate pressure from higher-than-expected smartphone subsidies for the quarter. As a result, the 4Q10 consolidated EBITDA came in line with our expectations and net profit achieved 101% of its forecast.

Due to rising smartphone subsidies designed to grow our wireless data revenue, 2010 full-year consolidated EBITDA was down 6% YoY. Nevertheless, we still reported a stable EPS on the back of 1) fewer interest expenses and assets write-off losses and 2) lower statutory tax rate.

2011 Guidance

• Doubling smartphone penetration in both 2010 and 2011 in order to foster wireless data revenue is expected to reverse TWM’s EBITDA's previous declining trend in 2011, with the increase in revenue sufficient to cover increased handset subsidies.

• However, external factors including continuous mobile mandatory price cut and the regulator’s newly implemented fixed to mobile price cut are expected to reduce our EBITDA by an estimate of NT$1.7bn in 2011.

• Lesser asset write-off losses & tax expenses, coupled with lower number of share counts post capital reductions would partially compensate for the aforementioned EBITDA decrease. Thus, EPS for 2011 is forecasted to be NT$4.57, down a mere 1% YoY.

Management Remarks

Our growth strategy of wireless data starts to pay off in 2011. Regulatory intervention, however, will weigh on our mobile operations this year. But, comparatively, our 21% EBITDA contribution from cable TV and fixed-line will mitigate the impact to a certain degree. Our commitment to growth to both minimize earnings fluctuations and enhance shareholder returns will continue.

I. Revenue Analysis

Table 1. Key Operational Data

Revenue (NT$bn)	4Q10	QoQ	YoY	2010	YoY
CBG	**14.05**	**2%**	**6%**	**55.02**	**2%**
Mobile Service	12.34	0%	1%	48.84	-1%
-Voice	9.94	-3%	-5%	40.52	-5%
-VAS	2.40	14%	37%	8.31	26%
IDD	0.64	-6%	-11%	2.74	-8%
Device Sales	1.01	41%	197%	3.28	111%
EBG	**2.42**	**-2%**	**7%**	**9.50**	**2%**
Mobile Service	1.04	0%	10%	3.98	11%
Fixed-line	0.85	-5%	0%	3.47	-1%
ISR & Others	0.53	0%	12%	2.05	-7%
HBG	**1.46**	**2%**	**7%**	**5.70**	**7%**
- Pay-TV related	1.04	1%	4%	4.10	4%
- Broadband	0.21	5%	25%	0.77	30%
- Content & others[1]	0.21	1%	3%	0.83	3%

	4Q10	3Q10	4Q09	QoQ	YoY
Mobile Subscribers (K)	**6,399**	**6,390**	**6,409**	**0%**	**0%**
2G	1,994	2,124	2,761	-6%	-28%
3G	4,405	4,266	3,648	3%	21%
- Data card	264	250	199	6%	33%
Monthly Churn	**1.8%**	**1.8%**	**1.9%**		
MOU (bn)	**3.57**	**3.63**	**3.76**	**-1%**	**-5%**
ARPM (NT$)	**3.90**	**3.86**	**3.64**	**1%**	**7%**
Pay-TV Subs (K)	**566**	**564**	**551**	**0%**	**3%**
Cable Broadband Subs (K)	137	134	114	3%	20%

	4Q10	QoQ	YoY	2010	YoY
Wireless					
ARPU (NT$)	726	-1%	2%	718	0%
MOU per sub (minute/month)	186	-2%	-5%	188	-9%
Cable MSO					
Monthly Subscription (NT$)	510	0%	0%	510	0%
Broadband ARPU (NT$)	509	1%	3%	504	4%
Blended ARPU[2] (NT$)	735	1%	4%	726	5%

1. Cable TV & broadband related revenue (excluding content agency) divided by its CATV subscriber number

<u>Revenue Analysis</u>

<u>CBG:</u>

CBG's mobile business started seeing positive revenue growth in 4Q, benefiting from strong wireless data revenue increase offsetting mobile voice revenue softness. Mobile APRU as a result grew 2% YoY in the quarter.

Our wireless data revenue growth rate accelerated to 37% YoY in 4Q, outperforming our peers. This is supported by a 73% YoY increase in mobile internet access revenue, stemming from a more than 50% YoY rise in data APRU and a 20% YoY increase in the number of active data users in 4Q.

IDD business in 4Q was lackluster attributable to keen competition, but the rate of revenue declined narrowed in the quarter.

<u>EBG:</u>

EBG mobile revenue was up 10% YoY, attributed to growing enterprise subscriber base and rising roaming revenue. ISR and others' revenue, while currently represents some 20% of EBG's revenue, is quite volatile due to its wholesale nature with overseas carriers.

<u>HBG:</u>

In 4Q, pay-TV related revenue increase came from a 3% YoY expansion in subscriber base.

Broadband's double digit revenue growth arose from a 20% and 3% YoY increase in subscribers and ARPU, respectively. Broadband APRU enhancement is underway with 87% of our newly acquired broadband customers subscribing to 6Mbps or above services in this quarter, up from 59% in 3Q.

DTV penetration reached 5% as of 2010 year end, generating around NT$170 ARPU.

By selling more services into the same pay-TV household, HBG's blended APRU showed a pronounced 4% YoY increase in 4Q10.

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II. EBIT Analysis

Table 2. EBIT Breakdown

NT$bn	4Q10	QoQ	YoY	2010	YoY
EBITDA	**6.37**	**-7%**	**-14%**	**27.46**	**-6%**
- CBG	5.02	-9%	-19%	22.31	-10%
- EBG	0.61	1%	4%	2.33	11%
- HBG	0.72	3%	12%	2.80	12%
Margin	**35.6%**	**-2.9%**	**-8.4%**	**39.2%**	**-3.6%**
- CBG	35.8%	-3.9%	-10.8%	40.5%	-5.2%
- EBG	25.4%	0.6%	-0.6%	24.5%	2.0%
- HBG	49.6%	0.5%	2.1%	49.1%	2.4%
D&A	**2.27**	**-2%**	**1%**	**9.16**	**4%**
- CBG	1.94	-3%	-1%	7.91	2%
- EBG	0.17	11%	36%	0.58	33%
- HBG	0.12	-3%	-5%	0.50	-1%
EBIT	**4.09**	**-9%**	**-21%**	**18.31**	**-10%**
- CBG	3.08	-12%	-27%	14.39	-15%
- EBG	0.45	-2%	-4%	1.75	6%
- HBG	0.60	4%	15%	2.30	16%

Table 3. Non-operating Item

NT$bn	4Q10	QoQ	YoY	2010	YoY
Non-Operating	**(0.08)**	**-33%**	**-78%**	**(1.21)**	**-33%**
-Net Interest Expense	(0.05)	-36%	-76%	(0.28)	-49%
- Write-off Loss	(0.16)	-28%	-46%	(1.47)	-10%
-Others	0.13	-28%	-11%	0.54	45%

EBITDA Analysis

For 4Q10, EBITDA of both EBG and HBG continued trending up sequentially and YoY. However, EBITDA of CBG hit its lowest level of the year as close to 40% of full-year smartphones were sold in 4Q, which weighed on margins.

In terms of full-year results, CBG's EBITDA was negatively affected by TWM's smartphone sales volume more than quadrupling from a year ago. In return, our wireless data revenue as a percentage of mobile service revenue reached 18.5% as of year end, up from 13.9% a year ago, with an annual growth of 26% in 2010.

EBG's full-year profit growth is underpinned by rising enterprise mobile and roaming revenue, coupled with contained expenses.

HBG's profit rise came from 1) better economies of scale and 2) higher blended ARPU as explained in the previous page.

Non-Operating Item Analysis

The non-operating expenses in 4Q decreased QoQ and YoY, mainly due to lower assets write-off losses and interest expenses.

For the full-year, in addition to the factors mentioned above, we realized NT$51m disposal gains vs. NT$49m disposal loss booked in 2009, which also provided a positive impact to TWM's bottom line growth in 2010.

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III. Income Statement Analysis

Table 4. 4Q Consolidated Results vs. Forecast

NT$bn	4Q10 Actual	4Q10 Forecast	% of Forecast Achieved
Revenue	17.90	17.78	101%
Operating Income	4.09	4.11	100%
Pre-tax Income	4.01	3.95	102%
(Less Tax)	(0.83)	(0.78)	106%
Net Income - **Attributed to the Parent**	3.19	3.17	101%
EPS (NT$)	1.06	1.06	100%
EBITDA	6.37	6.38	100%
EBITDA margin	35.6%	35.9%	

Table 5. Income Statement

NT$bn	4Q10	3Q10	4Q09
Revenue	**17.90**	**17.71**	**16.88**
Service Revenue[1]	16.87	16.99	16.54
Operating Cost	**10.33**	**9.82**	**8.06**
Operating Expenses	**3.48**	**3.39**	**3.64**
EBITDA	6.37	6.82	7.43
Operating Income	**4.09**	**4.51**	**5.18**
Non-op. Income (Expense)	(0.08)	(0.12)	(0.37)
Pre-tax Income	4.01	4.38	4.81
(Less Tax)	(0.83)	(0.75)	(1.29)
Net Income	**3.19**	**3.64**	**3.52**
EPS (NT$)	1.06	1.22	1.17

1. Total revenue deducted handset sales revenue.

Table 6. 2010 results

NT$bn	FY2010	YoY
Revenue	**70.15**	**2%**
Operating Cost	**38.16**	**15%**
Operating Expenses	**13.68**	**-8%**
EBITDA	27.46	-6%
Operating Income	**18.31**	**-10%**
Non-op. Income (Expense)	(1.21)	-33%
--Net Interest Expense	(0.28)	-49%
--Asset Write-off Loss	(1.47)	-10%
Pre-tax Income	17.10	-8%
(Less Tax)	(3.28)	-31%
Net Income - Attributed to the Parent	**13.82**	**0%**
EPS (NT$)	4.62	-1%

Income Statement Analysis

As the three business groups all posted better-than-expected revenues, our 4Q10 consolidated revenue surpassed guidance by 1%. In terms of EBITDA, both HBG and EBG outperformed their targets, credited to higher revenue and better opex controls. This helped to alleviate pressure from higher-than-expected smartphone subsidies for the quarter. As a result, the 4Q10 consolidated EBITDA came in line with our expectations. The non-operating expense also came in less than guidance due to lower-than-expected assets write-off losses and disposal gain from selling an idle property, resulting in 101% achievement rate for 4Q10 net profit.

2010 Full-Year Results

2010 full-year consolidated EBITDA edged down, due to rising smartphone subsidies designed to grow our wireless data revenue. Nevertheless, we still reported a stable EPS on the back of 1) stringent opex controls, namely cutting down network cost, bad debt expense, and non-smart phone subsidies, 2) beefing up the EBITDAs of EBG and HBG, 3) fewer interest expenses and assets write-off losses, and 4) lower statutory tax rate.

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Table 7. Cash Flow

NT$bn	2010	2009	4Q10	3Q10
Total Op Sources/(Uses)[1]	**25.99**	**23.95**	**7.63**	**5.78**
Consolidated Net Income	13.82	13.89	3.18	3.64
Depreciation	8.06	7.75	2.00	2.04
Amortization	1.09	1.09	0.27	0.27
Changes in Working Capital	0.59	(2.24)	1.87	(0.60)
Asset Write-off Add-backs	1.47	1.63	0.16	0.22
Other Add-backs	0.96	1.82	0.14	0.20
Net Investing Sources/(Uses)	**(6.32)**	**(6.75)**	**(1.53)**	**(1.82)**
Capex	(6.20)	(6.67)	(1.40)	(1.97)
Divestment (Acquisition) & Others	(0.12)	(0.08)	(0.12)	0.15
Net Financing Sources/(Uses)	**(16.63)**	**(18.06)**	**(2.80)**	**(7.08)**
Dividends Payment	(15.03)	(13.97)	0.00	(15.03)
Short-Term Borrowings	(3.60)	6.80	(5.30)	7.90
Commercial Paper Payable	(0.30)	0.80	0.20	0.05
Long-Term Bank Loan	2.30	(5.20)	2.30	0.00
Corporate Bond Payable	0.00	(7.50)	0.00	0.00
Others	(0.01)	1.00	0.00	0.00
Net Cash Position Chg.	**3.05**	**(0.87)**	**3.30**	**(3.11)**

1. Inclusive of cash flow for cash management.

Table 8. Capex & FCF

NT$bn	2010	2009	4Q10	3Q10
Cash Capex	**6.20**	**6.67**	**1.40**	**1.97**
- Mobile	4.17	4.88	0.78	1.40
- Fixed-line	1.52	1.35	0.57	0.40
- Cable MSO	0.51	0.45	0.06	0.17
% of Revenue	**9%**	**10%**	**8%**	**11%**
Free Cash Flow	**19.80**	**17.28**	**6.23**	**3.81**

Cash Flow Analysis

Operating cash flow for the quarter increased to NT$7.63bn as there was tax payment in 3Q.

Cash outlay on investing activity was mainly for NT$1.4bn in cash capex and an incremental NT$150m investment in our 49.9%-held Taipei New Horizons Co., Ltd.

On the financing front, a NT$5.1bn decrease in short-term borrowings was partially funded by NT$2.3bn of new long-term borrowings in the quarter.

With higher operating cash flow and lower capex & debt repayment, cash balance increased by NT$3.3bn in 4Q10.

In terms of 2010 full-year cash flow, we had a net cash inflow of N$3.05bn instead of a net cash outflow of NT$0.87bn in 2009, mainly due to 1) lower tax payments, 2) falling capex, and 3) lesser debt repayments in 2010.

Capex and Free Cash Flow Analysis

For 2010, our cash capex totaled NT$6.2bn, represented 9% of total revenue and was lower than our guidance of NT$6.9bn with the difference coming from delays in across the strait undersea cable construction and faster than expected fall in prices on equipment for HSPA-related projects. Main use of mobile, fixed, and CATV capex in 2010 was to support increasing demands for wireless data, cable internet and DTV businesses.

Free cash flow came in at NT$19.8bn for the year, translating into an annualized yield of 7.5%.

V. Balance Sheet Analysis

Table 9. Balance Sheet

NT$bn	4Q10	3Q10	4Q09
Total Assets	**85.48**	**82.91**	**85.89**
Current Assets	15.24	12.00	11.56
- Cash & Cash Equivalents	6.05	2.75	3.00
-Available-for-Sale Financial Asset	0.20	0.19	0.18
-Financial Assets at Fair Value	0.00	0.20	0.00
- Other Current Assets	8.99	8.86	8.39
Long-Term Investment	3.20	3.05	3.21
Property and Equipment	43.61	43.89	46.54
Intangible Assets	20.35	20.59	21.21
Other Assets	3.08	3.37	3.35
Liabilities	**34.58**	**35.18**	**33.80**
Current Liabilities	23.23	26.13	24.75
- ST Debts/Commercial Paper Payable	3.70	8.80	7.60
- Other Current Liabilities	19.53	17.33	17.15
Long-Term Borrowings	10.30	8.00	8.00
Other Liabilities	1.05	1.06	1.06
Shareholders' Equity	**50.90**	**47.72**	**52.08**
-Paid-in Capital	38.01	38.01	38.01
-Capital Surplus	12.43	12.43	12.43
-Legal Reserve	15.33	15.33	13.94
-Treasury Shares	(31.89)	(31.89)	(31.89)
-Un-appropriated Earnings*	2.27	2.27	2.27
-Special Reserve	0.82	0.82	3.35
-Retained Earnings & Others	13.93	10.75	13.97

*: excluding YTD profits

Table 10. Ratios

	4Q10	3Q10	4Q09
Current Ratio	66%	46%	47%
Interest Coverage (x)	49.1	52.2	22.7
Net Debt to Equity	16%	29%	24%
Net Debt to EBITDA (x)	0.29	0.50	0.43
ROE (annualized)	26%	32%	28%
ROA (annualized)	15%	18%	17%

Balance Sheet Analysis

On the asset side, cash balance was NT$6.05bn as of the end of 4Q. Financial assets at fair value decreased due to the disposal of a bond fund investment in the quarter.

In 4Q10, a cash injection of NT$150m in our 49.9% owned Taipei New Horizons increased our long-term investment balance to NT$3.2bn.

Net PP&E balance at the end of 4Q10 was down both sequentially and YoY, with depreciation and assets write-off higher than capex. The 2G's net book value was reduced to NT$12.95bn, while 3G's rose to NT$12.50bn as of the end of 2010. The net PP&E balance consists of $37.3bn in mobile, $4.4bn in fixed network and $1.9bn in cable-TV assets.

With a NT$2.8bn reduction in borrowings, our gross debts reduced to NT$14bn and net debt fell to NT$7.95bn at the end of 4Q.

Ratio Analysis

4Q current ratio improved to 66% due to an increase in cash and a reduction in short-term debts which also improved net debt to EBITDA and net debt to equity ratios.

VI. Forecast

Table 11. Forecast

NT$bn	2011	2010	YoY
Revenue	73.96	70.15	5%
Cash Cost[1]	34.83	29.80	17%
Selling Expense	9.50	9.16	4%
G&A	4.74	4.52	5%
EBITDA	25.77	27.46	-6%
EBITDA Margin	34.85%	39.15%	-4.31pps
D&A	9.48	9.16	3%
Operating Income	16.29	18.31	-11%
Asset write-off	(0.61)	(1.47)	-58%
Pre-tax Income	15.76	17.10	-8%
Tax Expense	(2.68)	(3.28)	-18%
Net Income	13.08	13.82	-5%
EPS (NT$)[2]	4.57	4.62	-1%

1. Including handset sales costs
2. 2011 EPS is based on weighted average share counts of 2.86bn, to reflect 10% capital reduction, effective Aug. 2011. 2010 EPS is based on 2.99bn shares.

Guidance

- In terms of divisional performance, both HBG and EBG expect to grow their EBITDA by 6%. Their combined contribution to total EBITDA will be 21% in 2011.
- Aided by doubling smart-phone penetration in both 2010 and 2011 in order to foster wireless data revenue, TWM's EBITDA in 2011 is expected to reverse its previous declining trend, with the increase in revenue sufficient to cover increased handset subsidies.
- Nonetheless, the aforementioned bright side will be overshadowed by external factors including continuous mobile mandatory price cut and the regulator's newly implemented fixed to mobile price cut, which combined will reduce our EBITDA by an estimate of NT$1.7bn in 2011.
- Lower asset write-off losses, tax expenses, and fewer number of share counts are expected to provide cushions to our bottom line. Accordingly, we expect EPS to edge down by a mere 1% in 2011.

VII. Management Discussion & Analysis

Key message

Our growth strategy of wireless data starts to pay off in 2011. Regulatory intervention, however, will weigh on our mobile operations this year. But, comparatively, our 21% EBITDA contribution from cable TV and fixed-line will mitigate the impact to a certain degree. Our commitment to growth to both minimize earnings fluctuations and enhance shareholder returns will continue.

2011 Capex guidance

2011 capex guidance of NT$6.4bn consisted of NT$4.6bn in mobile, NT$1.2bn in fixed-line and NT$0.6bn in cable TV operations.

Management

Announced the appointment of George C. Chou as president of TFN, Rosie Yu as CFO of TWM and Steve HS Wang as acting CTO.

Regulatory update

On January 1, 2011, the pricing right of fixed-to-mobile (F2M) calls has been returned to fixed-line service providers from mobile players. Separately, with the benefit of the consumer in mind, NCC has regulated a gradual reduction of the amount consumers pay for F2M calls. Accordingly, both the tariff that fixed-line service providers can receive and the interconnection revenue mobile operators can generate will decrease gradually from the end of 2010 to the end of 2016. We want to share with you that the price reduction is not evenly distributed in the six-year period. By our estimate, around 50% of the tariff reduction will be implemented in 2011, which means much lesser impact for the rest of the period.

Product and service

- TWM completed an integrated platform to launch a pioneering digital convergence service

"4 screens and a cloud", which includes "my Photo", "ezPeer (on-line music)" and the "Connect TV service" (surfing internet on TV by simply using a remote control), ahead of peers in 1Q11.

- Due to the popularity of iPad and tablet products, TWM has introduced its own brand tablet PC, "myPad P1", to establish a market foothold.

Awards

- Awarded for the fourth time "Best Corporate Governance Award" from *Euromoney*.
- Received "Environmental Protection Award" from the Environmental Protection Administration, Executive Yuan two years in a row.
- TWM's "match" mobile internet service was awarded the "Outstanding I.T. Applications/ Products Award" at the 2010 ICT Exhibition.