Taiwan Mobile

4th Quarter Results

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TWM consolidated

NT$bn	2011	YoY	4Q11	QoQ	YoY
Revenue	**81.37**	**16%**	**23.44**	**8%**	**31%**
EBITDA	**27.09**	**-1%**	**6.64**	**-12%**	**4%**
Operating Income	**17.59**	**-4%**	**4.23**	**-18%**	**3%**
Non-op. Income (Expense)	**(1.46)**	**21%**	**(0.13)**	**-90%**	**57%**
Pre-tax Income	**16.13**	**-6%**	**4.10**	**6%**	**2%**
(Less Tax)	**(2.50)**	**-24%**	**(0.70)**	**66%**	**-16%**
Net Income	**13.47**	**-3%**	**3.31**	**-2%**	**4%**
EPS (NT$)	**4.70**	**2%**	**1.22**	**0%**	**15%**

Highlights of 4Q11 and Full Year Results

4Q11 service revenue rose YoY, underpinned by mobile data revenue growth. As telecom revenue growth was sufficient to cover the increased handset subsidies in 4Q on top of contributions from momo, consolidated EBITDA grew 4% from a year ago.

For 2011 full year, mobile voice revenue was negatively impacted by the mandatory tariff cuts. But operating performance stability from all three business groups as well as earnings contribution from momo allowed for solid full year earnings. Consolidated revenue and net income for the year reached 110% and 103% of their full-year guidance, respectively.

2012 Guidance

- We forecast telecom (mobile & fixed-line) revenue together with cable TV related business to grow 6% YoY or NT$4bn in 2012, with a 39% or NT$4.8bn rise in mobile data revenue. Aided by its organic growth and a full-year contribution (5.5 months in 2011), momo’s revenue contribution will increase to account for 19% of consolidated revenue.

- Healthy growth in EBITDA, higher contributions from our 51%-owned momo, and lower non-operating expense will allow our net income to rise 7% in 2012. EPS is expected to benefit from our recent capital reduction and to grow 14% in 2012.

- Capex Guidance

The board has approved a 2012 capex of NT$10.8bn, including NT$5.8bn for mobile, NT$4.1bn for fixed-line, NT$0.7bn for CATV, and the balance for other subsidiaries. The increase in 2012 capex vs. a year ago includes a NT$2.1bn increase in contract payments for the new IDC currently under construction and a NT$1.2bn rise in mobile for adding 900 new 3G base stations and increasing HSPA+ capacity.

Management Remark

Looking ahead, in addition to exceeding consumer expectations with unparalleled communication products & application services in a digital convergence world, TWM will also expedite smart device penetration to maintain growth momentum. The Euro crisis though may cast some economic uncertainties, we are cautiously optimistic about 2012 outlook. As always, enhancing shareholders return remains the top priority of the Company.

I. Revenue Analysis

Table 1. Key Operational Data

Revenue (NT$bn)	4Q11	QoQ	YoY	2011	YoY
CBG[1]	**15.13**	**4%**	**8%**	**58.11**	**5%**
Mobile Service	12.54	-1%	2%	49.52	1%
-Voice	9.08	-4%	-8%	37.28	-8%
-VAS	3.45	8%	44%	12.24	47%
IDD	0.70	1%	9%	2.67	-2%
Device Sales	1.79	77%	77%	5.53	69%
EBG	**2.56**	**2%**	**5%**	**9.86**	**4%**
Mobile Service	1.05	2%	1%	4.05	2%
Fixed-line	0.96	3%	11%	3.68	6%
ISR & Others	0.54	2%	3%	2.14	4%
HBG	**1.49**	**-1%**	**2%**	**5.91**	**4%**
- Pay-TV related	1.05	0%	1%	4.18	2%
- Broadband	0.25	5%	19%	0.92	20%
- Content & others[1]	0.19	-10%	-8%	0.81	-2%
momo & Others[2]	4.26	32%	NM	7.48	NM

	4Q11	3Q11	4Q10	QoQ	YoY
Mobile Subscribers (K)	**6,663**	**6,574**	**6,399**	**1%**	**4%**
2G	1,573	1,673	1,994	-6%	-21%
3G	5,090	4,900	4,405	4%	16%
- Data card	340	323	264	5%	29%
Monthly Churn	**1.9%**	**1.8%**	**1.8%**		
MOU (bn)	**4.10**	**4.02**	**3.57**	**2%**	**15%**
ARPM (NT$)	**3.48**	**3.57**	**3.90**	**-3%**	**-11%**
Pay-TV Subs (K)	**575**	**575**	**566**	**0%**	**2%**
Cable Broadband Subs (K)	155	152	137	2%	13%

	4Q11	QoQ	YoY	2011	YoY
Wireless					
ARPU (NT$)	718	-2%	-1%	719	0%
MOU per sub (minute/month)	206	205	186	196	4%
Cable MSO					
Monthly Subscription (NT$)	504	0%	-1%	505	-1%
Broadband ARPU (NT$)	536	2%	5%	524	4%
Blended ARPU[3] (NT$)	751	0%	2%	743	2%

1. Ezpeer's financials were included in CBG's P&L since January 2010 on a pro forma basis.
2. momo's financials were included in consolidated P&L since July 13, 2011.
3. Cable TV & broadband related revenue (excluding content agency) divided by its CATV subscriber number

Revenue Analysis

CBG:
CBG maintained its mobile service revenue growth momentum with strong data revenue more than offsetting voice revenue declines in 4Q11. The wireless data revenue growth was supported by an 86% YoY increase in mobile internet access revenue, stemming from a 51% YoY rise in data APRU and a 29% YoY increase in the number of active data users in 2011. As a result, our wireless data revenue as a percentage of mobile service revenue reached 26% as of year-end, the highest among peers.

Handset sales in 4Q11 surged due to the launch of iPhone 4S on Dec. 16 as well as further rises in Android phone sales.

EBG:
In addition to a stable mobile business, fixed-line revenue showed healthy growth, driven by more new contracts gained in the IP transit and IDC businesses.

HBG:
4Q11 HBG's revenue growth came from a 19% YoY growth in broadband revenue. Market share gains in the high-speed segment was the main growth driver.

The bundled package of broadband and DTV raised DTV penetration up to 8% at the end of 4Q11.

The QoQ drop in HBG's 4Q11 revenue was explained by the reversal of over-accrued content revenue after the finalization of full-year contract terms.

momo
momo's 4Q11 revenue increased sequentially mainly due to benefits from a change to the product mix on its TV home shopping and e-commerce competiveness enhancement.

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II. EBIT Analysis

Table 2. EBIT Breakdown

NT$bn	4Q11	QoQ	YoY	2011	YoY
EBITDA	**6.64**	**-12%**	**4%**	**27.09**	**-1%**
- CBG	4.89	-15%	-3%	20.75	-7%
- EBG	0.70	-16%	14%	2.76	19%
- HBG	0.75	-3%	4%	3.04	9%
-momo[1] & others	0.30	39%	NM	0.53	NM
Margin	**28.3%**	**-6.6ppts**	**-7.2ppts**	**33.3%**	**-5.9ppts**
- CBG	32.3%	-7.5ppts	-3.4ppts	35.7%	-4.7ppts
- EBG	27.3%	-5.9ppts	2.0ppts	28.0%	3.5ppts
- HBG	50.4%	-1.0ppts	0.8ppts	51.4%	2.3ppts
-momo & others	7.0%	0.4%	NM	7.1%	NM
D&A	**2.41**	**-1%**	**6%**	**9.50**	**4%**
- CBG	1.98	-2%	2%	7.94	0%
- EBG	0.22	4%	32%	0.81	41%
- HBG	0.13	4%	11%	0.51	2%
-momo & others	0.08	14%	93%	0.23	NM
EBIT	**4.23**	**-18%**	**3%**	**17.59**	**-4%**
- CBG	2.92	-22%	-5%	12.81	-11%
- EBG	0.48	-23%	7%	1.96	11%
- HBG	0.62	-4%	2%	2.53	10%
-momo[1] & others	0.22	52%	NM	0.30	NM

Table 3. Non-operating Item

NT$bn	4Q11	QoQ	YoY	2011	YoY
Non-Operating	**(0.13)**	**-90%**	**57%**	**(1.46)**	**21%**
-Net Interest Revenue (Expense)	(0.08)	10.4x	45%	(0.14)	-49%
- Write-off Loss	(0.09)	-21%	-41%	(0.44)	-70%
-Impairment Loss-L-T Investments	0.00	NM	NM	(1.21)	NM
-Others	0.04	-39%	-67%	0.33	-38%

1. Momo's financials were included in consolidated P&L since July 13, 2011.

EBITDA Analysis

Thanks to profit increases from the enterprise, cable internet and CATV businesses, our 4Q EBITDA managed to grow YoY. Momo also contributed 5% of TWM's consolidated EBITDA in the quarter with its sequential improvement in profits.

EBITDA's high level in 3Q was due to the one-time reversal of certain over-accrued expenses. In addition, increased handset subsidies resulting from higher smartphone sales in 4Q attributed to the sequential dip in EBITDA.

CBG's 2011 EBITDA was negatively affected by TWM's mobile data growth strategy with smartphone penetration doubling from a year ago. In return, our wireless data revenue posted an annual growth of 47% in 2011, outperforming our rivals.

EBG's full-year profit posted double-digit YoY growth, credited to the rising enterprise mobile, IP transit and IDC businesses as well as contained expenses.

HBG's profit rise came from 1) better economies of scale and 2) a higher blended ARPU as a result of selling more services to the same household.

Non-Operating Item Analysis

In 2011, we had less equipment write-off loss than 2010. But booking the NT$1.21bn impairment loss from our Taiwan High Speed Rail investment in our 2011 financials resulted in a 21% YoY increase in non-operating expense.

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III. Income Statement Analysis

Table 4. Income Statement

NT$bn	4Q11	3Q11	4Q10
Revenue	**23.44**	**21.73**	**17.90**
Service Revenue[1]	17.28	17.42	16.87
Handset Sales	1.85	1.04	1.03
momo Revenue[2]	4.31	3.26	--
Operating Cost	**14.82**	**12.57**	**10.33**
Operating Expenses	**4.40**	**4.02**	**3.48**
EBITDA	6.64	7.58	6.37
Operating Income	**4.23**	**5.14**	**4.09**
Non-op. Income (Expense)	(0.13)	(1.26)	(0.08)
Pre-tax Income	4.10	3.88	4.01
(Less Tax)	(0.70)	(0.42)	(0.83)
Net Income	**3.31**	**3.39**	**3.19**
EPS (NT$)	1.22	1.22	1.06

1. Total revenue deducted handset sales revenue.

Table 5. 2011 Consolidated Results vs. Forecast

NT$bn	FY2011	YoY	% of Full-year Forecast
Revenue	81.37	16%	110%
Service Revenue[1]	68.13	2%	101%
Handset Sales	5.67	72%	88%
momo Revenue	7.57	NM	NM
Operating Income	17.59	-4%	108%
Non-op. Income (Expense)	(1.46)	21%	272%
Asset Write-off Loss	(0.44)	-70%	72%
Investment Impairment Loss	(1.21)	NM	NM
Pre-tax Income	16.13	-6%	102%
(Less Tax)	(2.50)	-24%	93%
Net Income	13.47	-3%	103%
EPS (NT$)	4.70	2%	103%
EBITDA	27.09	-1%	105%
EBITDA margin	33.3%	-5.9ppts	

1. Total revenue deducted handset sales revenue.
2. momo's numbers were consolidated in TWM's financial statement from July 13, 2011.

Income Statement Analysis

4Q11 service revenue rose YoY, underpinned by mobile data revenue growth. With telecom revenue growth sufficient enough to offset the increased handset subsidies on top of contributions from momo, consolidated EBITDA managed to grow 4% in 4Q from a year ago. Benefiting from capital reduction, EPS for the quarter was up 15% YoY.

2011 Full-Year Results

For 2011 full year, mobile voice revenue was negatively impacted by the mandatory tariff cuts. But operating performance stability from all three business groups as well as earnings contribution from Momo allowed for solid full year earnings. Benefiting from capital reduction, EPS for the year grew 2% from a year ago. Consolidated revenue and net income for the year reached 110% and 103% of their full-year guidance, respectively.

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IV. Cash Flow Analysis

Table 6. Cash Flow

NT$bn	2011	2010	4Q11	3Q11
Total Op Sources/(Uses)[1]	**25.26**	**25.99**	**7.85**	**5.59**
Consolidated Net Income	13.63	13.82	3.40	3.46
Depreciation	8.21	8.06	2.09	2.07
Amortization	1.29	1.09	0.33	0.37
Changes in Working Capital	(0.16)	0.59	1.76	(1.71)
Asset Write-off Add-backs	0.44	1.47	0.09	0.12
Other Add-backs	1.86	0.96	0.17	1.29
Net Investing Sources/(Uses)	**(15.44)**	**(6.32)**	**(1.50)**	**(10.91)**
Capex	(6.42)	(6.20)	(1.46)	(2.22)
Divestment (Acquisition)	(8.61)	(0.02)	0.00	(8.51)
Deferred charges (Increase)& Others	(0.40)	(0.10)	(0.04)	(0.18)
Net Financing Sources/(Uses)	**(11.50)**	**(16.63)**	**(7.39)**	**0.84**
Dividends Payment	(12.44)	(15.03)	0.00	(12.44)
Short-Term Borrowings	5.80	(3.60)	(4.90)	12.87
Commercial Paper Payable	0.40	(0.30)	0.50	0.40
Long-Term Bank Loan	(2.30)	2.30	0.00	0.00
Capital Reduction	(2.99)	0.00	(2.99)	0.00
Others	0.03	0.00	0.00	0.01
Cash Inherited from Acquisition of momo	**2.29**	**--**	**0.00**	**2.29**
Net Cash Position Chg.	**0.64**	**3.05**	**(1.02)**	**(2.15)**

1. Inclusive of cash flow for cash management.

Table 7. Capex & FCF

NT$bn	2011	2010	4Q11	3Q11
Cash Capex	**6.42**	**6.20**	**1.46**	**2.22**
- Mobile	4.27	4.17	0.89	1.35
- Fixed-line	1.60	1.52	0.34	0.67
- Cable MSO	0.32	0.51	0.13	0.09
- momo	0.22	--	0.11	0.11
% of Revenue	**8%**	**9%**	**6%**	**10%**
Free Cash Flow	**18.84**	**19.80**	**6.38**	**3.37**

Cash Flow Analysis

4Q11 net cash inflow from operating activities grew QoQ on higher inflows of changes in working capital. That said, 2011 full-year operating cash flow remained stable from 2010.

Net investing cash outflow in 2011 was NT$15.44bn mainly for NT$6.42bn in cash capex and NT$8.61bn in investment expenditures. 2011 long-term investments consisted of a NT$8.35bn investment in acquiring a 51% stake in Momo

In terms of financing activities, NT$4.4bn of debt repayment and NT$2.99bn of capital return to shareholders were the main cash outflows in 4Q11. In 2011, in total we returned NT$15.43bn of cash to shareholders (NT$12.44bn in cash dividend & $2.99bn in capital return), higher than NT$15.03bn in 2010.

Capex and Free Cash Flow Analysis

Cash capex in 4Q was lower than a quarter ago due to a NT$0.3bn IDC (internet data center) contract payment in 3Q.

For 2011, cash capex was NT$6.42bn lower than the guidance of NT$7.3bn due to the delays in making payments of 1) a NT$0.4bn capex related to the purchase of Nokia equipment to replace equipment previously purchased from China and 2) NT$0.2bn for IDC construction. Delays in receiving approval from the NCC for the imported 3G equipment also reduced our cash capex for the year.

With steady capex, 2011 free cash flow was at NT$18.84bn, translating into a 6% yield.

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V. Balance Sheet Analysis

Table 8. Balance Sheet

NT$bn	4Q11	3Q11	4Q10
Total Assets	**91.79**	**93.22**	**85.48**
Current Assets	18.13	18.85	15.24
- Cash & Cash Equivalents	6.69	7.72	6.05
-Available-for-Sale Financial Asset	0.22	0.22	0.20
- Inventories	2.07	1.90	1.13
- Other Current Assets	9.15	9.01	7.86
Long-Term Investment	2.16	2.17	3.20
Property and Equipment	41.31	41.87	43.61
Intangible Assets	27.25	27.19	20.35
Other Assets	2.94	3.15	3.08
Liabilities	**41.73**	**46.56**	**34.58**
Current Liabilities	36.35	37.20	23.23
- ST Debt/Commercial Paper Payable	13.90	14.30	3.70
- Other Current Liabilities	22.46	22.90	19.53
Long-Term Borrowings	4.00	8.00	10.30
Other Liabilities	1.38	1.37	1.05
Shareholders' Equity	**50.06**	**46.66**	**50.90**
-Paid-in Capital	34.21	34.21	38.01
-Capital Surplus	12.43	12.43	12.43
-Legal Reserve	16.72	16.72	15.33
-Treasury Shares	(31.08)	(31.08)	(31.89)
-Un-appropriated Earnings*	2.27	2.27	2.27
-Special Reserve	0.82	0.82	0.82
-Retained Earnings & Others	14.70	11.29	13.93

*: excluding YTD profits

<u>Balance Sheet Analysis</u>

Assets:

In 4Q11, cash balance decreased due to cash outlays for loan repayments as well as a capital reduction payment.

The increase in inventories from a quarter ago was mainly due to more smart devices procured.

The net PP&E balance consists of $33.7bn in mobile, $5.1bn in fixed network, $1.9bn in cable-TV assets and $0.6bn in momo.

Compared to 4Q10, intangible assets increased by NT$6.9bn, mainly due to the purchase of momo with the purchase price higher than its net worth.

Liabilities & Shareholders' Equity:

NT$4.4bn in short-term borrowings was repaid in the quarter. Separately, NT$4bn of domestic unsecured bonds will be repaid in 2012 and thus was reclassified from long-term borrowings to short-term debt at the end of 4Q11. As a result, the percentage of short-term borrowings rose to 78%, up from 26 a year ago.

Table 9. Ratios

	4Q11	3Q11	4Q11
Current Ratio	50%	51%	66%
Interest Coverage (x)	46.8	43.8	49.1
Net Debt (Cash) to Equity	22%	31%	16%
Net Debt (Cash) to EBITDA (x)	0.41	0.54	0.29
ROE (annualized)	27%	30%	26%
ROA (annualized)	15%	16%	15%

<u>Ratio Analysis</u>

Net debt to equity and net debt to EBITDA at the end of 4Q11 remained at healthy levels. Current ratio came off due to the rise in short-term borrowings as half of our corporate bonds will mature in 2012. ROE and ROA in 4Q11 stayed at reasonably high levels.

VI. Forecast

Table 10. Forecast

NT$bn	2012	2011	YoY
Revenue	101.83	81.37	25%
Cash Cost[1]	56.62	40.07	41%
Selling Expense	12.89	10.79	19%
G&A	4.80	4.34	11%
EBITDA	28.56	27.09	5%
EBITDA Margin	28.04%	33.29%	
D&A	9.96	9.50	5%
Operating Income	18.59	17.59	6%
Non-op. Income	(0.78)	(1.46)	-47%
- Asset write-off	(0.73)	(0.44)	64%
Pre-tax Income	17.82	16.13	10%
Tax Expense	(3.03)	(2.50)	21%
Net Income	14.36	13.47	7%
EPS (NT$)[2]	5.34	4.70	14%

1. Including handset sales costs, but not including D&A.
2. EPS is based on total share counts of 2.69bn for 2012; 2.86bn shares for 2011.

Revenue

We forecast telecom (mobile & fixed-line) revenue together with cable TV related business to grow 6% YoY or NT$4bn in 2012, with a 39% or NT$4.8bn rise in mobile data revenue. Aided by its organic growth and a full-year contribution (5.5 months in 2011), momo's revenue contribution will increase to account for 19% of consolidated revenue. The remaining revenue growth will come largely from higher handset sales revenue.

Cash Cost

momo's expanding revenue and more months of its contributions to TWM will lead to some NT$10bn increase in cost of goods sold. Mobile device related procurement cost will also increase by more than NT$5bn. The remaining cash cost increase will come from interconnecting cost and traffic/network costs.

SG&A

Around 51% of the YoY increase will stem from momo due to inclusions of more operating months. The remaining increase will come largely from our expansion of company stores from 280 at the end of 2011 to 390 by 2012 year end.

Non-operating

Compared to 2011, in which a NT$1.2bn investment impairment loss was booked, we expect non-operating expense in 2012 to be halved.

Net Income & EPS

Healthy growth in EBITDA, higher contributions from our 51%-owned momo, and lower non-operating expense will allow our net income to rise 7% in 2012. EPS is expected to benefit from our recent capital reduction and to grow 14% in 2012.

Capex Guidance

The board has approved a 2012 capex of NT$10.8bn, including NT$5.8bn for mobile, NT$4.1bn for fixed-line, NT$0.7bn for CATV, and the balance for other subsidiaries. The increase in 2012 capex vs. a year ago includes a NT$2.1bn increase in contract payments for the new IDC and a NT$1.2bn rise in mobile for adding 900 new 3G base stations and increasing HSPA+ capacity.

VII. Management Discussion & Analysis

Key message

In line with our expectations, we have achieved our 2011 target. For 2012, in addition to exceeding consumer expectations with unparalleled communication products & application services in a digital convergence world, TWM will also expedite smart device penetration to maintain growth momentum. The Euro crisis though may cast some economic uncertainties, we are cautiously optimistic about 2012 outlook. As always, enhancing shareholders return remains the top priority of the Company.

Product and Service

– Exclusively introduced the Google phone - Galaxy Nexus and Moto RAZR in 4Q11, and provided the latest smartphone models such as iPhone 4S, HTC Titan, Sensation XL/XE, Samsung Galaxy Note, BB Torch 9860 and Bold 9900 to our customers.

- Extended the mobile e-book service platform, “myBook”, to provide the sale of physical books as well as delivery service.
- Introduced high-speed 60Mbps cable broadband service for only NT$889 per month, the lowest price nationwide.

Regulatory Update

In December 2011, the Legislative Yuan approved revisions to the Company Act to allow direct cash distribution from legal reserve and capital surplus through AGM’s approval. For legal reserve, only the excess of 25% of the paid-in capital can be used for distribution.

Awards

- The Chairman of Taiwan Mobile, Richard Tsai, received the “Asia Innovator of the Year Award” from CNBC.
- TWM received the “CG6006 Certification” from the Corporate Governance Association.
- TWM’s efforts in corporate governance have been included in “Stories of Integrity from Taiwan Enterprises”, published by the Industrial Development Bureau of The Ministry of Economic Affairs.
- TWM was granted the “R.O.C. Enterprises Environmental Protection Award” by the Environmental Protection Administration of the Executive Yuan for the third consecutive year.