

Letter to Shareholders

Dear Shareholders,

Private consumption saw a mild increase in 2010 as the macroeconomic recovery drove up employment and wages. Although mobile voice revenue came under pressure due to regulatory tariff cuts, Taiwan Mobile (“TWM” or “The Company”) continued to thrive by exploring other revenue streams, such as mobile internet, CATV broadband and digital TV services. This, coupled with sound operating expense control, allowed the Company to outperform the industry in terms of operating results.

Focus on expanding core business

In 2010, Taiwan Mobile posted consolidated revenue of NT\$70.15bn, up 2% from a year ago. The Company's consolidated EBITDA of NT\$27.46bn and net income of NT\$13.82bn, which translates into earnings per share of NT\$4.62, reached 101% and 103% of its annual targets respectively. The main drivers of the revenue growth were as follows:

1. Wireless value-added services

2010 saw the transformation of smartphones into mainstream products as telecom companies launched different models, operating systems and price points to fully address the varying needs of the mass market. TWM dominated the market by providing the widest selection of handset models. With more customers adding data services to their subscriptions or migrating to higher monthly data plans, TWM's mobile value-added service revenue grew 26% from a year ago, offsetting a decline in voice revenue. As a result, overall mobile service revenue recovered from its contraction in 2009.

2. Cable broadband services

The Company not only offered premium quality cable broadband services at a lower price, but also successfully bundled them with digital TV services. This helped boost cable broadband subscriber numbers by 20% and service revenue by 30%. The launch of TWM's “Connect TV service” -- which allows users to control and surf the internet by using their TV remote control – in the first quarter of 2011 will again put TWM ahead of the competition and create a new source of revenue.

Furthermore, the Company has completed an integrated platform – “4 screens and a cloud” – to launch digital convergence services in 1Q11. Users will be able to use a single account to access any digital content, including music, pictures, images and videos, via a variety of internet-connected devices, such as handsets, computers, tablet PCs and TVs, to enjoy a seamless full convergence experience.

Maximizing shareholders' value

1. Capital reduction

In October 2010, the board of the Company approved a capital reduction of NT\$3.8bn, translating into a cash return of NT\$1 per share to shareholders. Together with the projected cash dividend distribution for 2010, this would result in a cash yield of 7.5%, ensuring steady and healthy returns to shareholders.

2. World-class corporate governance

The Company's commitment over the years to corporate governance has made it a role model in protecting shareholders' interests and promoting financial transparency. TWM's compliance with global standards has earned it the trust of investors and numerous awards from various domestic and international ratings institutions in 2010. These include "Best Corporate Governance in Asia" from both *Corporate Governance Asia* and *Euromoney* magazines; "Best Financial Disclosure in Asia" and "Best Investor Relations, Taiwan" from IR Global Rankings; and an A+ rating and a top 10 ranking of listed companies in "Transparency and Information Disclosure" by the Securities and Futures Institute.

3. A role model for corporate social responsibility

TWM has also won recognition for employing its corporate and financial resources to assist non-profit organizations in promoting social welfare. These include receiving the "Excellence in Corporate Social Responsibility" award from *CommonWealth* magazine for the fourth consecutive year; the "Corporate Social Responsibility Award" from *GlobalViews Monthly* magazine for the third time; the "R.O.C. Enterprises Environmental Protection Award" from the Environmental Protection Administration of the Executive Yuan two years in a row; and the "WenXin Gold Award" for the third consecutive year from the Council of Cultural Affairs of the Executive Yuan.

4. Premium services and customer satisfaction

TWM's core value of "truly caring for the customer" and continuous product and service innovations helped it win *Reader's Digest's* "Trusted Brand Gold Award" for the seventh consecutive year, place first in *Next Magazine's* "Top Service Awards" in both the mobile/fixed-line communications and 3C store channels categories as well as receive the "Outstanding I.T. Applications/ Products Award" at the 2010 ICT Exhibition.

With the continuous launch of new and novel consumer electronics products and an expanding base of users, private consumption is expected to further pick up in 2011. However, challenges also abound, including mandatory mobile tariff reductions and the implementation of the regulation that returns price-setting rights for fixed-line to mobile calls to the fixed-line operators. TWM has already drafted countermeasures to explore other potential businesses on the "4 screens and a cloud" platform to ensure stable revenues and solid shareholders' returns.



Richard Tsai
Chairman