Taiwan Mobile

4th Quarter Results

for the period ended December 31, 2009

January 28, 2010

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TWM consolidated

NT$bn	2009	YoY	4Q09	QoQ	YoY
Revenue	**68.47**	**-1%**	**16.88**	**-3%**	**0%**
EBITDA	**29.29**	**-3%**	**7.43**	**0%**	**6%**
Operating Income	**20.45**	**-6%**	**5.18**	**-1%**	**6%**
Non-op. Income (Expense)	**(1.80)**	**47%**	**(0.37)**	**-31%**	**-47%**
Pre-tax Income	**18.65**	**-9%**	**4.81**	**3%**	**15%**
(Less Tax)	**(4.76)**	**-8%**	**(1.29)**	**11%**	**24%**
Net Income	**13.89**	**-10%**	**3.52**	**0%**	**12%**
EPS (NT$)	**4.66**	**-10%**	**1.17**	**-1%**	**10%**
EBITDA margin	42.78%	-0.58pps	44.00%	1.21pps	2.49pps
Operating margin	29.86%	-1.54pps	30.67%	0.65pps	1.83pps

Highlights of 4Q09 and Full-Year Results

Despite slightly declined 4Q mobile revenue, we still managed to achieve our profit guidance through expense discipline. As a result, EBITDA and net profit recorded a respective 6% and 12% YoY increase in 4Q09.

For 2009, rising handset sales revenue and newly added content agency business partially offset the drop in telecom revenue. Cost control measures implemented in 2009 including mobile handset subsidy cuts and reduced reliance on third-party’s E1 leased-lines which helped us minimize the impact on profit arising from revenue decline.

1Q2010 Guidance

• In 1Q10, we forecast total revenue to edge up by 1% YoY, with cable TV, cable broadband, wireless data, and mobile device sales showing growth.

• Among three business groups, both EBG and HBG are expected to show positive profit growth in 1Q10. CBG in 1Q10 is estimated to have flattish revenue change from a year ago and stable subscriber acquisition and retention related expense. That said, company’s increased number of direct stores will lead to an opex rise.

• Non-operating expense in 1Q10 is estimated to be NT$247m, down 52% YoY with 41% less in asset write-off loss than a year ago.

• EPS for the quarter is forecast to be NT$1.2, up 9% YoY.

Management Remark

We were able to meet the 2009 guidance through expense discipline. With a firmer outlook on the economic front for 2010, we still expect to face stiff challenges from regulatory interventions.

Approval for the acquisition of Carlyle’s cable assets is still pending. Before receipt of the approval, we will continue fine-tuning our businesses to meet the challenges.

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I. Revenue Analysis

Table 1. Key Operational Data

Revenue (NT$bn)	4Q09	3Q09	4Q08	QoQ	YoY
CBG	**13.27**	**13.70**	**13.52**	**-3%**	**-2%**
Mobile Service	12.18	12.53	12.50	-3%	-3%
-Voice	10.42	10.86	11.07	-4%	-6%
-VAS	1.76	1.67	1.44	5%	22%
IDD	0.72	0.73	0.79	-2%	-10%
Device Sales	0.34	0.40	0.18	-15%	84%
EBG	**2.26**	**2.36**	**2.42**	**-4%**	**-6%**
Mobile Service	0.95	0.95	0.91	0%	4%
Fixed-line	0.85	0.88	0.91	-3%	-6%
ISR & Others	0.47	0.54	0.60	-12%	-22%
HBG[1]	**1.37**	**1.34**	**1.11**	**2%**	**23%**
- Pay-TV related	1.00	0.99	0.96	1%	4%
- Broadband	0.17	0.15	0.11	8%	45%
- content & others	0.20	0.20	0.03	1%	536%

	4Q09	3Q09	4Q08	QoQ	YoY
Mobile Subscribers (K)	**6,409**	**6,415**	**6,270**	**0%**	**2%**
2G	2,761	3,035	3,827	-9%	-28%
3G	3,648	3,380	2,444	8%	49%
- Data card	199	175	85	14%	136%
Monthly Churn	**1.9%**	**1.8%**	**1.8%**		
MOU (bn)	**3.76**	**3.97**	**3.87**	**-5%**	**-3%**
ARPM (NT$)	**3.64**	**3.54**	**3.60**	**3%**	**1%**
Pay-TV Subs (K)	**551**	**548**	**538**	**1%**	**3%**
Cable Broadband Subs (K)	114	109	88	5%	31%

	4Q09	3Q09	4Q08	QoQ	YoY
Wireless					
ARPU (NT$)	712	731	743	-3%	-4%
MOU per sub (minute)	195	207	206	-5%	-5%
Cable MSO					
Monthly Subscription (NT$)	510	510	509	0%	0%
Broadband ARPU (NT$)	493	486	447	1%	10%
Blended ARPU[1](NT$)	704	697	669	1%	5%

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

Revenue Analysis

CBG:
In light of usage/revenue per minute recovery as well as a low base, CBG continued seeing a narrowed mobile revenue decline in the quarter. Mobile data recorded a pronounced 22% YoY growth in this quarter, aided by fast growth of wireless broadband revenue generated by data card users and our effective bundling of smart devices with data rate plans.

Keener competitions and reduced number of foreign workers in Taiwan put pressure on mobile pre-paid and IDD (internal direct dialing) business.

EBG:
EBG recorded a YoY growth in enterprise mobile revenue in the quarter, credited to rising subscriber number. On the contrary, it had a lackluster fixed network revenue performance, attributed to dropping fixed-line telephony and decreased internet/data/ access business.

HBG:
Cable business continued its healthy growth momentum, underpinned by 31% YoY increase of cable broadband subscriber number. Additionally, as more broadband users were migrated to high-speed (≧6Mbps) services via bundle package with digital TV service, broadband ARPU was up 10% YoY in 4Q09. Separately, digital TV users rose to represent 1.3% of our total CATV subscriber base at the end of 2009.

II. EBIT Analysis

Table 2. EBIT Breakdown

NT$bn	4Q09	3Q09	4Q08	QoQ	YoY
EBITDA	**7.43**	**7.43**	**7.03**	**0%**	**6%**
- CBG	6.18	6.24	6.07	-1%	2%
- EBG	0.58	0.51	0.43	12%	34%
- HBG	0.65	0.63	0.53	3%	22%
Margin	44.0%	42.8%	41.5%	1.2pps	2.5pps
- CBG	46.6%	45.5%	44.9%	1.1pps	1.7pps
- EBG	25.4%	21.8%	17.8%	3.7pps	7.6pps
- HBG	47.4%	46.6%	47.8%	0.8pps	-0.5pps
D&A	2.25	2.22	2.15	1%	5%
- CBG	1.96	1.94	1.91	1%	3%
- EBG	0.12	0.11	0.07	15%	63%
- HBG	0.13	0.13	0.12	0%	2%
EBIT	5.18	5.21	4.89	-1%	6%
- CBG	4.22	4.30	4.16	-2%	1%
- EBG	0.45	0.41	0.36	11%	28%
- HBG	0.52	0.50	0.41	4%	28%

<u>EBITDA Analysis</u>

CBG's 4Q EBITDA was sustained by contained handset subsidies/ commissions, advertising and G&A expenses, leveling EBITDA margin up to 46.6%. CBG's EBITDA YoY change turned positive in 4Q09 from negative in the previous quarters.

EBG continued reported EBITDA increase in the quarter, attributed to opex savings.

HBG contributed to 9% of total EBITDA in 4Q09. Although its 4Q EBITDA margin contracted from a year ago due to inclusions of more content related revenue, the cable broadband EBITDA margin expanded to 47.2% in 4Q09, from 29.1% a year ago, benefiting from larger economies of scale.

Table 3. Non-operating Item

NT$bn	4Q09	3Q09	4Q08	QoQ	YoY
Non-Operating	**(0.37)**	**(0.53)**	**(0.70)**	**-31%**	**-47%**
-Net Interest Expense	(0.22)	(0.11)	(0.14)	95%	56%
- Write-off Loss	(0.29)	(0.47)	(0.71)	-37%	-58%
-Others	0.15	0.05	0.15	179%	-4%

<u>Non-Operating Item Analysis</u>

Net non-operating expense in 4Q09 came in slightly less than guidance with lower write-off losses offsetting higher interest expense.

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III. Income Statement Analysis

Table 4. 4Q Consolidated Results vs. Forecast

NT$bn	4Q09 Actual	4Q09 Forecast	% of Forecast Achieved
Revenue	16.88	17.52	96%
Operating Income	5.18	5.09	102%
Pre-tax Income	4.81	4.69	102%
(Less Tax)	(1.29)	(1.17)	110%
Net Income - **Attributed to the Parent**	3.52	3.52	100%
EPS (NT$)	1.17	1.18	99%
EBITDA	7.43	7.39	101%
EBITDA margin	44.0%	42.2%	

Table 5. Income Statement

NT$bn	4Q09	3Q09	4Q08
Revenue	**16.88**	**17.36**	**16.94**
Service Revenue[1]	16.54	16.95	16.75
Operating Cost	**(8.06)**	**(8.33)**	**(8.06)**
Operating Expenses	**(3.64)**	**(3.81)**	**(3.99)**
EBITDA	7.43	7.43	7.03
Operating Income	**5.18**	**5.21**	**4.89**
Non-op. Income (Expense)	(0.37)	(0.53)	(0.70)
Pre-tax Income	4.81	4.68	4.19
(Less Tax)	(1.29)	(1.17)	(1.05)
Net Income	**3.52**	**3.51**	**3.15**
EPS (NT$)	1.17	1.18	1.06

1. Total revenue deducted handset sales revenue.

Table 6. Full-year Results vs. Forecast

NT$bn	2009	YoY	% of Forecast Achieved
Revenue	**68.47**	**-1%**	**99%**
Operating Cost	**(33.20)**	**5%**	**102%**
Operating Expenses	**(14.83)**	**-6%**	**90%**
EBITDA	29.29	-3%	101%
Operating Income	**20.45**	**-6%**	**101%**
Non-op. Income (Expense)	(1.80)	47%	107%
Pre-tax Income	18.65	-9%	101%
(Less Tax)	(4.76)	-8%	103%
Net Income - Attributed to the Parent	**13.89**	**-10%**	**100%**
EPS (NT$)	4.66	-10%	100%

<u>Income Statement Analysis</u>

Despite slightly declining 4Q mobile revenue, we still managed to achieve our quarterly profit guidance through expense discipline. As a result, EBITDA and net profit recorded a respective 6% and 12% YoY increase in 4Q09.

For 2009, total revenue was down 1% YoY, with rising handset sales revenue and newly added content agency business partially offsetting the drop in telecom revenue. CBG, EBG, and HBG revenue for the full-year came in at NT$53.9bn, NT$9.3bn, and NT$5.3bn, respectively, down 2%, 4%, and up 22%.

Cost control measures implemented in 2009 including mobile handset subsidy cuts and reduced reliance on third-party's E1 leased-lines, led to 1% decrease in CBG's selling expense and 7% savings in cash network cost. This also helped us minimize the impact on profit arising from revenue decline. In 2009, CBG, EBG, and HBG recorded NT$24.7bn, NT$2.1bn, and NT$2.5bn in EBITDA with EBITDA margins of 45.7%, 22.2%, and 46.6%, respectively.

Non-operating expense in 2009 went up from 2008 because of the loss of NT$48m from Hurray ADS disposal booked in 2009, in contrast to a disposal gain of NT$264m from Fubon Financial Holding in 2008. Separately, asset write-off loss of NT$1.63bn in 2009 was higher than the level of NT$1.47bn in 2008.

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IV. Cash Flow Analysis

Table 7. Cash Flow

NT$bn	4Q09	3Q09	4Q08
Total Op Sources/(Uses)[1]	**8.06**	**4.92**	**7.95**
Consolidated Net Income	3.52	3.51	3.14
Depreciation	1.98	1.95	1.88
Amortization	0.27	0.27	0.27
Changes in Working Capital	1.69	(1.93)	1.53
Other Add-back	0.60	1.12	1.13
Net Investing Sources/(Uses)	**(1.86)**	**(1.13)**	**(2.21)**
Capex	(1.83)	(1.25)	(1.91)
Disposal of Hurray Holding ADS	0.00	0.14	0.00
Net Financing Sources/(Uses)	**(6.00)**	**(7.49)**	**(5.62)**
Dividend and Bonus Payment	0.00	(13.97)	0.00
Short-Term Borrowings	3.50	3.30	(12.40)
Commercial Paper Payable	0.30	0.50	(2.84)
Long-Term Borrowings	(2.30)	2.30	5.20
Corporate Bond Payable	(7.50)	0.00	5.50
Disposal of Treasury Stock	0.00	0.38	0.00
Share Buy back	0.00	0.00	(1.06)
Net Cash Position Chg.	**0.19**	**(3.70)**	**0.13**

1. Inclusive cash flow for cash managements.

Cash Flow Analysis

4Q09 operating cash flow rose from a quarter ago mainly due to the payments of corporate tax in 3Q09.

The 4Q09 investing cash outlay was largely for NT$1.83bn in capex.

In terms of financing activities, total borrowings decreased by NT$6bn in 4Q09, inclusive of NT$3.8bn of new short-term debts and the repayment of a NT$2.3bn syndicate loan and a NT$7.5bn corporate bond.

For 2009, we generated NT$17.28bn in free cash flow, of which NT$13.97bn was used to pay dividends.

Table 8. Capex & FCF

NT$bn	4Q09	3Q09	4Q08
Cash Capex	**1.83**	**1.25**	**1.91**
- Mobile	1.45	0.96	1.53
- Fixed-line	0.26	0.16	0.28
- Cable MSO	0.12	0.13	0.10
% of Revenue	**11%**	**7%**	**11%**
Free Cash Flow	**6.23**	**3.67**	**6.05**

Capex and Free Cash Flow Analysis

Our total cash capex in 2009 was NT$6.67bn (or 9.7 % of revenue): NT$4.88bn for mobile; NT$1.35bn for fixed-line; and NT$0.44bn for cable TV.

Full year free cash flow came in at NT$17.28bn, translating into a 7.3% yield.

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V. Balance Sheet Analysis

Table 9. Balance Sheet

NT$bn	4Q09	3Q09	4Q08
Total Assets	**85.90**	**87.07**	**91.94**
Current Assets	11.60	11.91	12.71
- Cash & Cash Equivalents	3.00	2.81	3.87
-Available-for-Sale Financial Asset	0.18	0.17	0.24
- Other Current Assets	8.42	8.93	8.60
Long-Term Investment	3.21	3.22	3.26
Property and Equipment	46.54	46.99	49.72
Intangible Assets	21.21	21.44	22.12
Other Assets	3.33	3.51	4.12
Liabilities	**33.82**	**38.46**	**41.00**
Current Liabilities	24.76	27.16	26.74
- ST Debts/Commercial Paper Payable	7.60	11.30	7.50
- Other Current Liabilities	17.16	15.86	19.24
Long-Term Borrowings	8.00	10.30	13.20
Other Liabilities	1.06	1.00	1.07
Shareholders' Equity	**52.08**	**48.61**	**50.94**
-Paid-in Capital	38.01	38.01	38.01
-Capital Surplus	12.43	12.43	12.30
-Legal Reserve	13.94	13.94	12.41
-Treasury Shares	(31.89)	(31.89)	(32.95)
-Un-appropriated Earnings*	2.27	2.27	2.34
-Special Reserve	3.35	3.35	3.41
-Retained Earnings & Others	13.97	10.49	15.42

*: excluding YTD profits

Table 10. Ratios

	4Q09	3Q09	4Q08
Current Ratio	47%	44%	48%
Interest Coverage (x)	22.7	41.5	28.1
Net Debt to Equity	24%	39%	33%
Net Debt to EBITDA (x)	0.43	0.64	0.56
ROE (annualized)	28%	30%	25%
ROA (annualized)	17%	16%	14%

Balance Sheet Analysis

On the asset side, cash balance remained stable and net PP&E balance at the end of 4Q09 was down sequentially, with depreciation and assets write-off higher than capex. The 2G's net book value was reduced to NT$16.9bn, while 3G's rose to NT$12.6bn as of the end of 2009.

With a NT$6bn reduction in borrowings in the quarter as mentioned in the cash flow analysis, our gross debt dropped to NT$15.6bn, and net debt to NT$12.6bn, respectively. Net debt to equity and net debt to EBITDA was 24% and 0.43x in 2009.

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VI. Forecast

Table 11. Forecast

NT$bn	1Q10	QoQ	YoY
Revenue	17.03	1%	1%
Cash Cost	6.55	9%	3%
Selling Expense	2.47	0%	-3%
G&A	1.21	4%	7%
EBITDA	7.00	-6%	-1%
EBITDA Margin	41.1%	-2.9pps	-0.6pps
D&A	2.26	1%	4%
Operating Income	4.74	-8%	-3%
Asset write-off	(0.28)	-3%	-41%
Pre-tax Income	4.49	-7%	3%
Tax Expense	(0.90)	-31%	-18%
Net Income	3.59	2%	10%
EPS (NT$)	1.20	3%	9%

Note:
1. Kbro numbers are not factored in the guidance

<u>Guidance</u>

- In 1Q10, we forecast HBG to grow its TV and broadband revenue by a respective 2% and 35% YoY and record 7% YoY increase in EBITDA.
- EBG is expected to see a YoY rise in mobile revenue while no growth in fixed network business in 1Q10. EBITDA increase from a year ago is expected, benefiting from interconnecting cost reductions for the quarter.
- CBG in 1Q10 is estimated to have flattish revenue change from a year ago and stable subscriber acquisition and retention related expenses. That said, company's increased number of direct stores will lead to an opex rise.
- On a consolidated basis, G&A expense in 1Q10 would see a 7% YoY increase, explained by one-time expense reversal in 1Q09 and our conservative estimate of bad debt expense.
- Non-operating expense in 1Q10 is estimated to be NT$247m, down 52% YoY with 41% less in asset write-off loss than a year ago. We expect 2010 full-year write-off and net interest expense to be less than the levels in 2009.
- TWM's board today (January 28, 2010) approved 2010 capex budget of T$6.9bn, including NT$4.7bn for mobile; 1.6bn for fixed network; and 0.6bn for cable TV.

VII. Management Discussion & Analysis

<u>Key message</u>

We were able to meet the 2009 guidance through expense discipline. With a firmer outlook on the economic front for 2010, we still expect to face stiff challenges from regulatory interventions.
Approval for the acquisition of Carlyle's cable assets is still pending. Before receipt of the approval, we will continue fine-tuning our businesses to meet the challenges.

<u>Kbro Acquisition</u>

Taiwan Fair Trade Commission (FTC), on December 2, 2009, issued conditional approval for TWM's acquisition of Kbro. Carlyle is still awaiting MOEA's Investment Commission (IC) approval.

<u>Regulations</u>

- Local governments approved the same monthly fee cap for CATV analog programs in 2010 in TWM's operating areas, while implementing a respective 3% and 1% price reduction in Taipei City and Changhua County, Kbro's operating regions.
- NCC announced the second round of mobile tariff cut of 5.87% (△CPI-X value) on outgoing SMS and mobile off-net calls, effective on April 1, 2010.
- NCC adjusted interconnection fee charge retrospectively from 2009 by the following % for regular/ off-peak hours: F→M +7%/+1%, M→F -12%/-30%, TWM expects to save interconnection expenses in mobile business.

<u>New Products and Services</u>

- Promotions of HTC's Tattoo (Android platform) and HD2 (Windows Mobile platform) in an aim to increase wireless data revenue
- Launched e-book services, which are supported on various models of Java/Android based smartphones

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Awards

- Received "Environmental Protection Award" from the Environmental Protection Administration, Executive Yuan; the first awardee from the service industry
- Awarded "The Top Service Awards 2009" from *Next Magazine* for the second consecutive year