Taiwan Mobile

2nd Quarter Results

for the period ended June 30, 2010

July 27, 2010

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TWM consolidated

NT$bn	2Q10	1Q10	2Q09	QoQ	YoY
Revenue	**17.45**	**17.08**	**17.35**	**2%**	**1%**
EBITDA	**7.22**	**7.06**	**7.40**	**2%**	**-2%**
Operating Income	**4.93**	**4.78**	**5.20**	**3%**	**-5%**
Non-op. Income (Expense)	**(0.75)**	**(0.26)**	**(0.39)**	**192%**	**91%**
Pre-tax Income	**4.18**	**4.52**	**4.81**	**-8%**	**-13%**
(Less Tax)	**(0.81)**	**(0.90)**	**(1.20)**	**-11%**	**-33%**
Net Income	**3.38**	**3.62**	**3.61**	**-7%**	**-6%**
EPS (NT$)	**1.13**	**1.21**	**1.21**	**-7%**	**-7%**
EBITDA margin	41.36%	41.33%	42.63%	+0.02pps	-1.30pps
Operating margin	28.25%	27.98%	29.98%	+0.27pps	-2.00pps

Highlights of 2Q10 Results

Compared to a year ago, we recorded a mere 1% drop in mobile service revenue, stable fixed network revenue, and a 7% rise in cable TV related revenue (on a pro forma basis). Despite expense discipline, rising smart device sales and assets write-off losses weighed on 2Q10 profit.

3Q10 Guidance

• In 3Q10, despite continued healthy wireless data revenue growth, we expect mobile service revenue to edge down 2% YoY. Separately, cable internet growth will continue to propel HBG's revenue in 3Q10. Our expectations of higher enterprise related mobile revenue will also contribute to the revenue growth.
• To cope with pressure on mobile voice revenue, we will continue lowering network cost and administrative related expense in 3Q10 from a year ago. In terms of marketing campaigns, resource increases will largely be use for retention efforts to level up smart phone penetration.
• As we had recognized some of the asset write-off losses earlier than expected in the 1H, 3Q10 write-off losses will taper off. This, coupled with a lower tax rate, will translate into an 6% QoQ and 1% YoY growth in EPS of NT$1.19.

Management Remark

Due to indirect state ownership, our attempt to acquire Carlyle's cable assets could not be consummated. The agreement expired on 6/30. TWM will re-evaluate the opportunities when the law is revised.

Taiwan Mobile

I. Revenue Analysis

Table 1. Key Operational Data

Revenue (NT$bn)	2Q10	1Q10	2Q09	QoQ	YoY
CBG	**13.67**	**13.47**	**13.45**	**1%**	**2%**
Mobile Service	12.07	12.03	12.34	0%	-2%
-Voice	10.11	10.19	10.75	-1%	-6%
-VAS	1.96	1.84	1.59	6%	24%
IDD	0.69	0.73	0.74	-6%	-7%
Device Sales	0.87	0.67	0.34	29%	159%
EBG	**2.38**	**2.24**	**2.40**	**6%**	**-1%**
Mobile Service	0.98	0.92	0.88	7%	12%
Fixed-line	0.88	0.86	0.90	2%	-3%
ISR & Others	0.52	0.47	0.62	10%	-16%
HBG	**1.42**	**1.39**	**1.32**	**2%**	**7%**
- Pay-TV related	1.03	1.01	0.98	2%	5%
- Broadband	0.19	0.18	0.14	6%	32%
- Content & others[1]	0.20	0.21	0.20	-1%	2%

	2Q10	1Q10	2Q09	QoQ	YoY
Mobile Subscribers (K)	**6,380**	**6,391**	**6,390**	**0%**	**0%**
2G	2,309	2,511	3,323	-8%	-31%
3G	4,071	3,880	3,066	5%	33%
- Data card	233	218	145	7%	61%
Monthly Churn	**1.7%**	**1.8%**	**1.7%**		
MOU (bn)	**3.59**	**3.60**	**4.09**	**0%**	**-12%**
ARPM (NT$)	**3.79**	**3.74**	**3.37**	**1%**	**12%**
Pay-TV Subs (K)	**559**	**555**	**544**	**1%**	**3%**
Cable Broadband Subs (K)	128	121	102	5%	25%

	2Q10	1Q10	2Q09	QoQ	YoY
Wireless					
ARPU (NT$)	711	703	722	1%	-2%
MOU per sub (minute)	188	188	214	0%	-12%
Cable MSO					
Monthly Subscription (NT$)	511	511	510	0%	0%
Broadband ARPU (NT$)	503	501	481	0%	5%
Blended ARPU[2] (NT$)	726	715	689	1%	5%

1. Jan-Jun 2009 content distribution revenue was recorded as an aggregated amount in June 2009 financial statement. Quarterly breakdown of the same amount is stated in the HBG revenue section.
2. Cable TV & broadband related revenue (excluding content agency) divided by its CATV subscriber number

Revenue Analysis

CBG:

Our strategy of leveling up smart device take-up worked to boost device sales and total CBG revenue growth of 159% and 2% YoY respectively in 2Q10. Mobile VAS YoY growth accelerated from 1Q10, supported by a 54% YoY increase in mobile internet revenue, which alleviated pressure from the mandatory tariff cut. As a result, mobile service revenue remained stable QoQ.

IDD business was negatively affected by a reducing number of foreign workers and continuously fierce competition in the quarter.

EBG:

EBG mobile revenue continued its double-digit YoY growth momentum, mainly attributed to a 33% YoY increase in roaming revenue. Fixed-line revenue showed QoQ growth for the second consecutive quarter, credited to a 6% QoQ increase in voice revenue in the quarter.

HBG:

Broadband revenue continued to be the key growth driver for HBG and reported a strong 32% YoY increase. As of quarter end, TWM broadband penetration rose to 23%, higher than the industry average of 19%. In addition, with over 50% of 2Q10 gross additions choosing 10Mbps service as well as 6Mbps and above service adoption rate rising to 25.5% from 16.2% a year ago, broadband ARPU was up 5% YoY.

II. EBIT Analysis

Table 2. EBIT Breakdown

NT$bn	2Q10	1Q10	2Q09	QoQ	YoY
EBITDA	**7.22**	**7.06**	**7.40**	**2%**	**-2%**
- CBG	5.93	5.86	6.23	1%	-5%
- EBG	0.57	0.52	0.52	11%	10%
- HBG	0.70	0.67	0.62	3%	12%
Margin	**41.4%**	**41.3%**	**42.6%**	**0.0pps**	**-1.3pps**
- CBG	43.4%	43.5%	46.3%	-0.1pps	-2.9pps
- EBG	24.1%	23.1%	21.8%	1.1pps	2.4pps
- HBG	49.1%	48.5%	46.9%	0.7pps	2.3pps
D&A	**2.29**	**2.28**	**2.20**	**0%**	**4%**
- CBG	1.98	1.99	1.93	0%	3%
- EBG	0.14	0.12	0.10	11%	33%
- HBG	0.13	0.13	0.13	-2%	0%
EBIT	**4.93**	**4.78**	**5.20**	**3%**	**-5%**
- CBG	3.95	3.88	4.30	2%	-8%
- EBG	0.44	0.40	0.42	11%	5%
- HBG	0.57	0.55	0.49	4%	16%

EBITDA Analysis

CBG managed to grow EBITDA by 1% and retained a stable EBITDA margin QoQ, credited to better-than-expected mobile service revenue and disciplined execution on cost initiatives despite the mandatory tariff cut. In 2Q10, a diversified mix of smartphone sales helped sustain the margin.

EBG EBITDA improved both QoQ and YoY, driven by continued gains in roaming and cost management.

HBG EBITDA further advanced and contributed to 10% of the total EBITDA in 2Q10. Benefiting from the rapid subscriber growth in broadband service – with an EBITDA margin of 53%, overall HBG EBITDA margin was up 2.3pps YoY.

Table 3. Non-operating Item

NT$bn	2Q10	1Q10	2Q09	QoQ	YoY
Non-Operating	**(0.75)**	**(0.26)**	**(0.39)**	**192%**	**91%**
-Net Interest Expense	(0.07)	(0.08)	(0.10)	-13%	-34%
- Write-off Loss	(0.79)	(0.30)	(0.38)	166%	105%
-Others	0.11	0.12	0.09	-8%	16%

Non-Operating Item Analysis

In 2Q10, we pulled in some of the 2H asset write-off plans, causing non-operating expenses to increase 192% QoQ and 91% YoY.

III. Income Statement Analysis

Table 4. 2Q Consolidated Results vs. Forecast

NT$bn	2Q10 Actual	2Q10 Forecast	% of Forecast Achieved
Revenue	17.45	16.88	103%
Operating Income	4.93	4.22	117%
Pre-tax Income	4.18	3.89	107%
(Less Tax)	(0.81)	(0.78)	103%
Net Income - **Attributed to the Parent**	3.38	3.11	108%
EPS (NT$)	1.13	1.04	108%
EBITDA	7.22	6.53	111%
EBITDA margin	41.36%	38.68%	

Table 5. Income Statement

NT$bn	2Q10	1Q10	2Q09
Revenue	**17.45**	**17.08**	**17.35**
Service Revenue[1]	16.58	16.41	17.00
Operating Cost	**(9.21)**	**(8.80)**	**(8.44)**
Operating Expenses	**(3.31)**	**(3.50)**	**(3.70)**
EBITDA	7.22	7.06	7.40
Operating Income	**4.93**	**4.78**	**5.20**
Non-op. Income (Expense)	(0.75)	(0.26)	(0.39)
Pre-tax Income	4.18	4.52	4.81
(Less Tax)	(0.81)	(0.90)	(1.20)
Net Income	**3.38**	**3.62**	**3.61**
EPS (NT$)	1.13	1.21	1.21

1. Total revenue deducted handset sales revenue.

Table 6. 1H10 results

NT$bn	1H10	YoY
Revenue	**34.53**	**1%**
Operating Cost	**18.01**	**7%**
Operating Expenses	**6.81**	**-8%**
EBITDA	14.28	-1%
Operating Income	**9.71**	**-3%**
Non-op. Income (Expense)	(1.00)	11%
Pre-tax Income	8.71	-5%
(Less Tax)	(1.71)	-25%
Net Income - Attributed to the Parent	**7.00**	**2%**
EPS (NT$)	2.34	1%

Income Statement Analysis

2Q10 revenue exceeded our guidance by 3%, mainly attributable to better-than-expected mobile voice and data revenue as well as higher handset sales revenue. Lower-than-expected mobile subscriber acquisition expense, and good base station related and G&A expense control further boosted 2Q10 EBITDA to surpass our guidance by 11%.

Compared to a year ago, we recorded a mere 1% drop in mobile service revenue, stable fixed network revenue, and a 7% rise in cable TV related revenue (on a pro forma basis). Despite expense discipline, rising smart device sales and assets write-off losses weighed on 2Q10 profit.

On a quarter-on-quarter basis, telecom service revenue showed a sequential increase with the seasonality of a higher number of calendar/working days and better economic sentiment being the main contributing factors. Contained SG&A expense also contributed to the EBITDA growth.

Corporate income tax rate was revised down to 17% from 20%, effective retroactively on January 1, 2010. Therefore, over accrued tax expense from January to May were reversed all at once in June, which was fully offset by lower deferred tax assets due to lower statutory tax rate. But we expect tax savings by 3% of pre-tax income in 3Q10.

1H10

Despite the rising costs of mobile phones sold, YTD EBITDA managed to stand still, aided by incremental EBITDA contributions from EBG and HBG as well as admin expense cuts. In 1H10, the corporate income tax rate reduction offset the higher assets write-off losses, leading to a 2% net income growth.

IV. Cash Flow Analysis

Table 7. Cash Flow

NT$bn	2Q10	1Q10	2Q09
Total Op Sources/(Uses)[1]	**4.68**	**7.90**	**4.05**
Consolidated Net Income	3.38	3.62	3.61
Depreciation	2.01	2.01	1.92
Amortization	0.27	0.28	0.27
Changes in Working Capital	(2.19)	1.50	(2.78)
Asset Write-off Add-backs	0.79	0.30	0.38
Other Add-backs	0.42	0.20	0.64
Net Investing Sources/(Uses)	**(1.48)**	**(1.49)**	**(2.10)**
Capex	(1.36)	(1.46)	(2.09)
Long-Term Investment	(0.10)	0.00	0.00
Net Financing Sources/(Uses)	**(0.31)**	**(6.45)**	**(0.16)**
Short-Term Borrowings	(0.55)	(5.65)	(0.50)
Commercial Paper Payable	0.25	(0.80)	0.00
Treasury Stock Transferred to Employees	0.00	0.00	0.36
Net Cash Position Chg.	**2.90**	**(0.04)**	**1.78**

1. Inclusive cash flow for cash managements.

Cash Flow Analysis

2Q operating cash flow was affected by the payment of the 2009 corporate income tax. Other add-backs in 2Q was NT$0.42bn, including NT$0.23bn of deferred income tax asset reduction due to corporate tax rate decreasing to 17% from 20% in 2Q10.

The 2Q10 cash outlay on investing activity was mainly for the NT$1.36bn in cash capex. Long-term investment expenditures consisted primarily of investing NT$53.1m for a 45% stake in Taiwan Kuro Times Co., Ltd., a digital music operator, to enhance our mobile service and a cash injection of NT$49.9m in our 49.9%-held Taipei New Horizons Co., Ltd. Depending on construction progress, a total of NT$1.92bn capital injections into Taipei New Horizons is expected from TWM from 2009 through 2012.

In terms of financing activities, short term debts were reduced by NT$0.3bn.

Table 8. Capex & FCF

NT$bn	2Q10	1Q10	2Q09
Cash Capex	**1.36**	**1.46**	**2.09**
- Mobile	0.96	1.03	1.38
- Fixed-line	0.27	0.28	0.61
- Cable MSO	0.13	0.15	0.11
% of Revenue	**8%**	**9%**	**12%**
Free Cash Flow	**3.32**	**6.44**	**1.95**

Capex and Free Cash Flow Analysis

Total capex accounted for 8% of total revenue in 2Q10. In 1H10, mobile, fixed-line and cable cash capex achieved 42%, 35% and 48% of the 2010 guidance, respectively. We expect each division's capex to be more back-end loaded and, thus, maintain our full-year capex guidance of NT$6.9bn.

Total free cash flow for 1H10 was NT$9.76bn, translating into an annualized yield of 8%.

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V. Balance Sheet Analysis

Table 9. Balance Sheet

NT$bn	2Q10	1Q10	2Q09
Total Assets	**86.38**	**84.43**	**91.88**
Current Assets	14.63	11.49	15.69
- Cash & Cash Equivalents	5.86	2.96	6.50
-Available-for-Sale Financial Asset	0.17	0.17	0.32
- Other Current Assets	8.60	8.36	8.87
Long-Term Investment	3.30	3.20	3.22
Property and Equipment	44.27	45.48	47.76
Intangible Assets	20.75	20.98	21.69
Other Assets	3.44	3.27	3.52
Liabilities	**42.33**	**28.74**	**47.26**
Current Liabilities	33.27	19.68	38.24
- ST Debts/Commercial Paper Payable	0.85	1.15	7.50
- Other Current Liabilities	32.42	18.53	30.74
Long-Term Borrowings	8.00	8.00	8.00
Other Liabilities	1.07	1.06	1.02
Shareholders' Equity	**44.04**	**55.69**	**44.62**
-Paid-in Capital	38.01	38.01	38.01
-Capital Surplus	12.43	12.43	12.37
-Legal Reserve	15.33	13.94	13.94
-Treasury Shares	(31.89)	(31.89)	(32.27)
-Un-appropriated Earnings*	2.27	2.27	2.27
-Special Reserve	0.82	3.35	3.35
-Retained Earnings & Others	7.07	17.58	6.94

*: excluding YTD profits

<u>Balance Sheet Analysis</u>

On the asset side, cash balance continued rising along with steady operating cash inflows.

Net PP&E balance at the end of 2Q10 was down sequentially, with depreciation and assets write-off higher than capex. The 2G's net book value was reduced to NT$14.6bn, and 3G's was NT$12.3bn as of the end of 2Q10. The net PP&E balance consists of $38.5bn in mobile, $3.7bn in fixed and $2bn in cable assets.

With a NT$0.3bn reduction in borrowing in the quarter, our gross debt dropped to NT$8.85bn and net debt to NT$2.99bn, respectively.

Other current liabilities increased QoQ in 2Q, which was a reflection of the NT$15bn cash dividend payment made on July 23.

Special reserve was down by NT$2.53bn to top up our cash dividend.

Table 10. Ratios

	2Q10	1Q10	2Q09
Current Ratio	44%	58%	41%
Interest Coverage (x)	59.9	57.9	46.4
Net Debt to Equity	7%	11%	20%
Net Debt to EBITDA (x)	0.11	0.23	0.31
ROE (annualized)	27%	27%	29%
ROA (annualized)	16%	17%	16%

<u>Ratio Analysis</u>

Current ratio at the end of 2Q was lower than 1Q because of cash dividend payable. Lower debt contributed to better interest coverage ratio in 2Q. With rising cash levels in 2Q, both net debt to equity and net debt to EBITDA ratios fell off sequentially.

VI. Forecast

Table 11. Forecast

NT$bn	3Q10	QoQ	YoY
Revenue	17.46	0%	1%
Cash Cost	7.34	3%	16%
Selling Expense	2.33	6%	-11%
G&A	1.17	5%	-3%
EBITDA	6.81	-6%	-8%
EBITDA Margin	39.0%	-2.3pps	-3.8pps
D&A	2.29	0%	3%
Operating Income	4.53	-8%	-13%
Asset write-off	(0.29)	-64%	-39%
Pre-tax Income	4.30	3%	-8%
Tax Expense	(0.73)	-9%	-38%
Net Income	3.57	6%	2%
EPS (NT$)	1.19	6%	1%

1. including handset sales costs

<u>Guidance</u>

- In 3Q10, despite continued healthy wireless data revenue growth, we expect mobile service revenue to edge down 2% YoY. Separately, cable internet growth will continue to propel HBG's revenue in 3Q10. Our expectations of higher enterprise related mobile revenue will also contribute to the revenue growth.
- To cope with pressure on mobile voice revenue, we will continue lowering network cost and administrative related expense in 3Q10 from a year ago. In terms of marketing campaigns, resource increases will largely be use for retention efforts to level up smart phone penetration.
- As we had recognized some of the asset write-off losses earlier than expected in the 1H, 3Q10 write-off losses will taper off to NT$287m. This, coupled with a lower tax rate, will translate into a positive net profit increase both QoQ and YoY.

VII. Management Discussion & Analysis

<u>Key message</u>

Due to indirect state ownership, our attempt to acquire Carlyle's cable assets could not be consummated. The agreement expired on 6/30. TWM will re-evaluate the opportunities when the law is revised.

<u>New Products and Services</u>

- Following iPhone launch in mid-March, TWM offered a wide selection of Samsung, Motorola, HTC and LG Smartphones in every price range, becoming the leader in the explosive growth in the sales of Android phones.

<u>Regulations</u>

- Mobile operators' 2G licenses will expire one after another beginning the end of 2012. Both MOTC and NCC intend to extend license period with conditions and release mobile broadband technology neutral licenses at a proper time in connection with next generation technology.
- Executive Yuan is planning to revise "Cable Radio and Television Act", "Satellite Broadcasting Act", "Radio and Television Act" and "Telecommunications Act" by phases. The amendment is based on creating an environment which would permit cross industry competition among providers of content, operation platform and infrastructure in order to facilitate the development of the island's digital convergence.
- Administrative regulations on Femtocell will be announced by year end. This will help expand 3G coverage, alleviate data traffic and increase transmission speed.

6

<u>Awards</u>

- Received the "Corporate Governance Asia Recognition Award" in the Asia-Pacific region by *Corporate Governance Asia* for the fourth year in a row.
- Won the "Trusted Brand Gold Award" by Reader's Digest for the seventh consecutive year.