1st Quarter Results

for the period ended March 31, 2010

April 29, 2010

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TWM consolidated

NT$bn	1Q10	4Q09	1Q09	QoQ	YoY
Revenue	**17.08**	**16.88**	**16.89**	**1%**	**1%**
EBITDA	**7.06**	**7.43**	**7.04**	**-5%**	**0%**
Operating Income	**4.78**	**5.18**	**4.86**	**-8%**	**-2%**
Non-op. Income (Expense)	**(0.26)**	**(0.37)**	**(0.52)**	**-30%**	**-50%**
Pre-tax Income	**4.52**	**4.81**	**4.34**	**-6%**	**4%**
(Less Tax)	**(0.90)**	**(1.29)**	**(1.09)**	**-30%**	**-17%**
Net Income	**3.62**	**3.52**	**3.25**	**3%**	**11%**
EPS (NT$)	**1.21**	**1.17**	**1.10**	**3%**	**10%**
EBITDA margin	41.33%	44.00%	41.69%	-2.67pps	-0.35pps
Operating margin	27.98%	30.67%	28.78%	-2.69pps	-0.80pps

Highlights of 1Q10 Results

We met our 1Q10 revenue guidance and recorded a stable total mobile revenue, a mere 1% decrease in fixed network revenue, and 7% rise in cable TV related revenue (on a pro forma basis), from a year ago.

Although costs of handset sales came in higher than guidance, we managed to meet our EBIT guidance through operating expense disciplines.

In addition to a stable 1Q10 EBITDA compared to a year ago, a 50% YoY reduction in non-operating expense, including lower assets write-off losses & interest expenses, coupled with lower income tax, also contributed to the net income growth.

2Q2010 Guidance

• Mandatory mobile price cut has taken effects since April 2010. We estimate negative revenue impact to be NT$315m for 2Q10.
• We plan to reduce SG&A expense in 2Q10 by 9% YoY or NT$324m to mitigate the negative revenue impact from the tariff cuts. Separately, we are optimistic about mobile data revenue growth and forecast more than 20% YoY growth in 2Q10. Nevertheless, our strategy of leveling up smart device take-up will lead to a YoY increase in handset sales costs in 2Q10. Therefore, 2Q10 EBITDA is expected to go down both QoQ and YoY.

Management Remark

Mandatory price cut has phased in to affect our 2Q earnings. SG&A savings are expected to mitigate the impact to an extent. With our stepped-up efforts in data, more resources will be deployed to beef up the take-up rate to ensure growth. We expect to see these efforts pay off for the longer term.

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I. Revenue Analysis

Table 1. Key Operational Data

Revenue (NT$bn)	1Q10	4Q09	1Q09	QoQ	YoY
CBG	**13.47**	**13.27**	**13.51**	**2%**	**0%**
Mobile Service	12.03	12.18	12.20	-1%	-1%
-Voice	10.19	10.42	10.61	-2%	-4%
-VAS	1.84	1.76	1.59	5%	16%
IDD	0.73	0.72	0.79	2%	-7%
Device Sales	0.67	0.34	0.47	97%	43%
EBG	**2.24**	**2.26**	**2.26**	**-1%**	**-1%**
Mobile Service	0.92	0.95	0.81	-3%	13%
Fixed-line	0.86	0.85	0.87	1%	-1%
ISR & Others	0.47	0.47	0.59	0%	-20%
HBG	**1.39**	**1.37**	**1.31**	**2%**	**7%**
- Pay-TV related	1.01	1.00	0.97	1%	4%
- Broadband	0.18	0.17	0.13	7%	36%
- Content & others[1]	0.21	0.20	0.20	1%	2%

	1Q10	4Q09	1Q09	QoQ	YoY
Mobile Subscribers (K)	**6,391**	**6,409**	**6,345**	**0%**	**1%**
2G	2,511	2,761	3,567	-9%	-30%
3G	3,880	3,648	2,778	6%	40%
- Data card	218	199	116	10%	89%
Monthly Churn	**1.8%**	**1.9%**	**1.8%**		
MOU (bn)	**3.60**	**3.76**	**3.97**	**-4%**	**-9%**
ARPM (NT$)	**3.74**	**3.64**	**3.43**	**3%**	**9%**
Pay-TV Subs (K)	**555**	**551**	**541**	**1%**	**3%**
Cable Broadband Subs (K)	121	114	95	6%	27%

	1Q10	4Q09	1Q09	QoQ	YoY
Wireless					
ARPU (NT$)	703	712	720	-1%	-2%
MOU per sub (minute)	188	195	210	-4%	-11%
Cable MSO					
Monthly Subscription (NT$)	511	510	511	0%	0%
Broadband ARPU (NT$)	501	493	473	2%	6%
Blended ARPU[2] (NT$)	715	704	682	2%	5%

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

Revenue Analysis

CBG:
Mobile voice revenue saw a narrower YoY decline in 1Q10, attributed to improved revenue per minute. Low-yield minutes were 46% less in the quarter, compared to a year ago. The successful launch of iPhone and overall smartphone sale campaigns helped to increase data plan take-up rate as well as device sales in the quarter.

IDD business showed a sign of recovery as revenue grew 2% from a quarter ago due to higher usage from prepaid users.

EBG:
EBG recorded a pronounced 13% YoY growth in mobile service revenue in the quarter, credited to growing enterprise subscriber base and higher unit price from roaming. In contrast, ISR revenue decreased 20% YoY as a result of slowing IDD business.

HBG:
In the quarter, pay-TV subscriber net addition reached a record high since 4Q08. Broadband revenue repeated its strong growth momentum, supported by 27% and 6% YoY increase in subscribers and ARPU, respectively. Through the bundled package with high-speed broadband service, digital TV users were up 64% from a quarter ago and represented 2.1% of our total pay-TV subscriber base, with incremental APRU of NT$198. 6M and above broadband made up 45% of 1Q10 gross adds with ARPU of NT$690.

II. EBIT Analysis

Table 2. EBIT Breakdown

NT$bn	1Q10	4Q09	1Q09	QoQ	YoY
EBITDA	**7.06**	**7.43**	**7.04**	**-5%**	**0%**
- CBG	5.88	6.19	6.03	-5%	-3%
- EBG	0.51	0.57	0.44	-12%	16%
- HBG	0.67	0.65	0.59	4%	13%
Margin	**41.3%**	**44.0%**	**41.7%**	**-2.7pps**	**-0.4pps**
- CBG	43.6%	46.7%	44.6%	-3.1pps	-1.0pps
- EBG	22.6%	25.3%	19.3%	-2.7pps	3.3pps
- HBG	48.5%	47.4%	45.5%	1.0pps	2.9pps
D&A	**2.28**	**2.25**	**2.18**	**1%**	**5%**
- CBG	1.99	1.96	1.92	1%	4%
- EBG	0.12	0.12	0.09	0%	29%
- HBG	0.13	0.13	0.12	1%	2%
EBIT	**4.78**	**5.18**	**4.86**	**-8%**	**-2%**
- CBG	3.89	4.24	4.11	-8%	-5%
- EBG	0.38	0.45	0.34	-15%	12%
- HBG	0.55	0.52	0.47	5%	16%

EBITDA Analysis

CBG's 1Q10 EBITDA was negatively affected by TWM's stepped-up efforts in selling 3G smart devices and data price plans. In return, we saw real 3G users' data revenue rising 15% QoQ by the end of March 2010.

EBG continued reporting a YoY EBITDA increase in the quarter, backed by a higher roaming revenue and contained operating expenses.

HBG has been benefiting from larger subscriber base and higher speed broadband service adoption. This coupled with better economies of scale increased its 1Q EBITDA by 13% YoY.

Table 3. Non-operating Item

NT$bn	1Q10	4Q09	1Q09	QoQ	YoY
Non-Operating	**(0.26)**	**(0.37)**	**(0.52)**	**-30%**	**-50%**
-Net Interest Expense	(0.08)	(0.22)	(0.11)	-65%	-33%
- Write-off Loss	(0.30)	(0.29)	(0.48)	1%	-38%
-Others	0.12	0.15	0.08	-20%	47%

Non-Operating Item Analysis

Non-operating expenses dropped 50% YoY, mainly due to the decrease in net interest expenses arising from significantly reduced short-term borrowing and 38% less in write-off losses.

III. Income Statement Analysis

Table 4. 1Q Consolidated Results vs. Forecast

NT$bn	1Q10 Actual	1Q10 Forecast	% of Forecast Achieved
Revenue	17.08	17.03	100%
Operating Income	4.78	4.74	101%
Pre-tax Income	4.52	4.49	101%
(Less Tax)	(0.90)	(0.90)	101%
Net Income - **Attributed to the Parent**	3.62	3.59	101%
EPS (NT$)	1.21	1.20	101%
EBITDA	7.06	7.00	101%
EBITDA margin	41.3%	41.1%	

Table 5. Income Statement

NT$bn	1Q10	4Q09	1Q09
Revenue	**17.08**	**16.88**	**16.89**
Service Revenue[1]	16.41	16.54	16.40
Operating Cost	**(8.80)**	**(8.06)**	**(8.35)**
Operating Expenses	**(3.50)**	**(3.64)**	**(3.67)**
EBITDA	7.06	7.43	7.04
Operating Income	**4.78**	**5.18**	**4.86**
Non-op. Income (Expense)	(0.26)	(0.37)	(0.52)
Pre-tax Income	4.52	4.81	4.34
(Less Tax)	(0.90)	(1.29)	(1.09)
Net Income	**3.62**	**3.52**	**3.25**
EPS (NT$)	1.21	1.17	1.10

1. Total revenue deducted handset sales revenue.

Income Statement Analysis

We met our 1Q10 revenue guidance and recorded a stable total mobile revenue, a mere 1% decrease in fixed network revenue, and 7% rise in cable TV related revenue (on a pro forma basis), from a year ago.

Although costs of handset sales came in higher than guidance, we managed to meet our EBIT guidance through operating expense disciplines.

In addition to a stable 1Q10 EBITDA compared to a year ago, a 50% YoY reduction in non-operating expense, including lower assets write-off losses & interest expenses, coupled with lower income tax, also contributed to the net income growth.

Compared to a quarter ago, seasonality with fewer number of calendar/working days resulted in a telecom related service revenue decline while higher smart-phone sales made up for the shortfall. Despite a sequential reduction in SG&A expense, rising cost of handset sales weighed on 1Q10 EBITDA .

IV. Cash Flow Analysis

Table 6. Cash Flow

NT$bn	1Q10	4Q09	1Q09
Total Op Sources/(Uses)[1]	**7.90**	**8.06**	**6.92**
Consolidated Net Income	3.62	3.52	3.25
Depreciation	2.01	1.98	1.91
Amortization	0.28	0.27	0.27
Changes in Working Capital	1.50	1.69	0.78
Other Add-back	0.50	0.60	0.71
Net Investing Sources/(Uses)	**(1.49)**	**(1.86)**	**(1.66)**
Capex	(1.46)	(1.83)	(1.50)
Others	(0.02)	(0.03)	(0.16)
Net Financing Sources/(Uses)	**(6.45)**	**(6.00)**	**(4.41)**
Short-Term Borrowings	(5.65)	3.50	0.50
Commercial Paper Payable	(0.80)	0.30	0.00
Long-Term Borrowings	0.00	(2.30)	(5.20)
Corporate Bond Payable	0.00	(7.50)	0.00
Treasury Stock Transferred to Employees	0.00	0.00	0.32
Net Cash Position Chg.	**(0.04)**	**0.19**	**0.86**

1. Inclusive cash flow for cash managements.

Table 7. Capex & FCF

NT$bn	1Q10	4Q09	1Q09
Cash Capex	**1.46**	**1.83**	**1.50**
- Mobile	1.03	1.45	1.10
- Fixed-line	0.28	0.26	0.31
- Cable MSO	0.15	0.12	0.09
% of Revenue	**9%**	**11%**	**9%**
Free Cash Flow	**6.44**	**6.23**	**5.42**

Cash Flow Analysis

Operating cash flow remained stable in 1Q10.

The 1Q10 investing activity cash outlay was mainly for NT$1.46bn in cash capex.

On the financing activities, we repaid short-term borrowings of NT$5.65bn and commercial paper of NT$0.8bn.

Capex and Free Cash Flow Analysis

Total capex accounted for 9% of total revenue in 1Q10 with mobile capex mainly for adding more 3G base stations and expanding HSDPA & core network capacity; fixed network capex largely for building fiber/ metro ethernet replacing T1/E1 lines; cable capex mostly for digital-TV capacity increase and cable broadband network optimization.

With good core business cash earnings and stable cash capex, 1Q10 free cash flow of NT$6.44bn translated into an improved annualized FCF yield of 11.3%.

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V. Balance Sheet Analysis

Table 8. Balance Sheet

NT$bn	1Q10	4Q09	1Q09
Total Assets	**84.43**	**85.90**	**90.99**
Current Assets	11.49	11.60	13.10
- Cash & Cash Equivalents	2.96	3.00	4.73
-Available-for-Sale Financial Asset	0.17	0.18	0.22
- Other Current Assets	8.36	8.42	8.15
Long-Term Investment	3.20	3.21	3.25
Property and Equipment	45.48	46.54	48.53
Intangible Assets	20.98	21.21	21.90
Other Assets	3.27	3.33	4.21
Liabilities	**28.74**	**33.82**	**36.51**
Current Liabilities	19.68	24.76	27.56
- ST Debts/Commercial Paper Payable	1.15	7.60	8.00
- Other Current Liabilities	18.53	17.16	19.56
Long-Term Borrowings	8.00	8.00	8.00
Other Liabilities	1.06	1.06	0.96
Shareholders' Equity	**55.69**	**52.08**	**54.48**
-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)	(32.63)
-Un-appropriated Earnings*	2.27	2.27	2.34
-Special Reserve	3.35	3.35	3.41
-Retained Earnings & Others	17.58	13.97	18.64

*: excluding YTD profits

Table 9. Ratios

	1Q10	4Q09	1Q09
Current Ratio	58%	47%	48%
Interest Coverage (x)	57.9	22.7	37.7
Net Debt to Equity	11%	24%	21%
Net Debt to EBITDA (x)	0.23	0.43	0.39
ROE (annualized)	27%	28%	25%
ROA (annualized)	17%	17%	15%

Balance Sheet Analysis

On the asset side, cash balance remained stable and net PP&E balance at the end of 1Q10 was down sequentially, with depreciation and assets write-off higher than capex. The 2G's net book value was reduced to NT$16.0bn, and 3G's was NT$12.5bn as of the end of 1Q10. The net PP&E balance consists of $40bn in mobile, $3.4bn in fixed and $2.1bn in cable assets.

With a NT$6.45bn reduction in borrowings in the quarter as mentioned in the cash flow analysis, our gross debt dropped to NT$9.15bn and net debt to NT$6.19bn, respectively.

Ratio Analysis

Interest coverage further improved and both net debt to equity and net debt to EBITDA ratios came off in 1Q10 from a quarter ago due to lower gearings.

VI. Forecast

Table 10. Forecast

NT$bn	2Q10	QoQ	YoY
Revenue	16.88	-1%	-3%
Cash Cost	(7.17)	7%	12%
Selling Expense	(2.18)	-7%	-10%
G&A	(1.20)	3%	-6%
EBITDA	6.53	-8%	-12%
EBITDA Margin	38.68%	-2.65pps	-3.95pps
D&A	(2.31)	1%	5%
Operating Income	4.22	-12%	-19%
Asset write-off	(0.35)	19%	-8%
Pre-tax Income	3.89	-14%	-19%
Tax Expense	(0.78)	-14%	-35%
Net Income	3.11	-14%	-14%
EPS (NT$)	1.04	-14%	-14%

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

Guidance

- Mandatory mobile price cut has taken effects since April 2010. We estimate negative revenue impact to be NT$315m for 2Q10.
- We plan to reduce SG&A expense in 2Q10 by 9% YoY or NT$324m to mitigate the negative revenue impact from the tariff cuts. Separately, we are optimistic about mobile data revenue growth and forecast more than 20% YoY growth in 2Q10. Nevertheless, our strategy of leveling up smart device take-up will lead to a YoY increase in handset sales costs in 2Q10. Therefore, 2Q10 EBITDA is expected to go down both QoQ and YoY.
- Non-operating expense in 2Q10 is estimated to be NT$329m, down 16% YoY with less asset write-off loss and interest expense than a year ago.

VII. Management Discussion & Analysis

Key message

Mandatory price cut has phased in to affect our 2Q earnings. SG&A savings are expected to mitigate the impact to an extent. With our stepped-up efforts in mobile data, more resources will be deployed to beef up the take-up rate to ensure growth. We expect to see these efforts pay off for the longer term.

Dividend Proposal

TWM's board meeting approved a proposal to distribute NT$15bn out of retained earnings and special reserve as dividends to shareholders. Dividend per share is NT$5.03 based on 2,989m shares, which excluded treasury shares held by 100%-owned subsidiaries.

New Products and Services

- Launched iPhone, HTC's Legend and TWM's own-brand Android phone – T1 in 1Q10, aiming for a better line-up of smart devices

Regulations

- NCC approved a bill amendment for easing restriction on state ownership of media companies up to 10% indirect holdings. The draft is under Executive Yuan's review.
- NCC proposed to lift the restriction on cable TV operators branching out to different service areas, and centralize authority for reviewing price cap of basic channels to NCC from local governments. The revision will require a public hearing before NCC can finalize the proposal, followed by Executive Yuan and Legislative Yuan's review.
- Executive Yuan approved the bill of mobile TV license releasing, authorizing NCC to facilitate bidding process. The bid is expected to be held at year end at the earliest.

Awards

- Received IR Global Rankings' (IRGR) 2010 "Best Financial Disclosure Award" in Asia Pacific and Greater China regions, and "Best IR Program Award", "Best IR Officer Award" and 3rd place for the "IR Website Award" in Taiwan region, placing TWM as the biggest winner of IRGR this year

- Awarded for the third time “Best Corporate Governance Award” from *Euromoney*, the only awardee among peers
- Won the “2010 Corporate Social Responsibility Award” at *Global Views Monthly*’s sixth annual awards