2nd Quarter Results

for the period ended June 30, 2009

July 30, 2009

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TWM consolidated [1]

NT$bn	2Q09	1Q09	2Q08	QoQ	YoY
Revenue	**17.35**	**16.89**	**17.50**	**3%**	**-1%**
EBITDA	**7.40**	**7.04**	**7.72**	**5%**	**-4%**
Operating Income	**5.20**	**4.86**	**5.69**	**7%**	**-9%**
Non-op. Income (Expense)	**(0.39)**	**(0.52)**	**(0.40)**	**-24%**	**-2%**
Pre-tax Income	**4.81**	**4.34**	**5.29**	**11%**	**-9%**
(Less Tax)	**(1.20)**	**(1.09)**	**(1.32)**	**10%**	**-9%**
(Less Minority Interest)	**(0.00)**	**(0.00)**	**(0.00)**	**NM**	**NM**
Net Income	**3.61**	**3.25**	**3.97**	**11%**	**-9%**
EPS (NT$)	**1.21**	**1.10**	**1.32**	**10%**	**-8%**
EBITDA margin	42.63%	41.69%	44.13%	0.95pps	-1.49pps
Operating margin	29.98%	28.78%	32.50%	1.19pps	-2.52pps

1. Consolidation of TFN figures from April 17, 2007 and TTN from Sept. 2007

Highlights of 2Q09 Results

We met our 2Q revenue guidance because of better-than-expected HBG performance. Despite the lack of revenue growth in telecom business, our 2Q09 EBITDA surpassed the guidance, due primarily to marketing expense cuts and network cost controls.

On the non-operating front, as network consolidation was slightly behind schedule, NT$384mn of assets write-off losses in 2Q09 came in NT$51m lower than our guidance, while we maintain full-year write-off loss estimate of NT$1.6bn.

To sum up, 2Q09 net income reached 102% of the official guidance. And net profits for the first half of this year totaled NT$6.86bn, or NT$2.31 in EPS, reaching 50% of our full-year target.

3Q09 Guidance

• Mobile and cable related service revenue is expected to edge up sequentially, containing YoY revenue drop in 3Q09.
• Adding in content aggregation cost into 3Q guidance, cash cost will trend up to reflect higher revenue and utility cost of base stations. That said, cost will be down YoY due to network cost savings.
• On the expense front, we expect to sign up more new subscribers in 3Q, leading to a QoQ rise in selling expense. SG&A expenditure discipline is expected to help us achieve 3Q EBITDA target.
• Main non-operating item in 3Q is expected to be NT$387m of asset write-off loss.

Management Remark

With on-going economic recovery, Taiwan Mobile's revenue is expected to stabilize. Continuous growth in mobile value-added service, driven largely by data cards, and expanding HBG business, particularly in cable broadband and content aggregation, together with discipline over spending is expected to help meet our 3Q target.

I. Revenue Analysis

Table 1. Key Operational Data

Revenue (NT$bn)	2Q09	1Q09	2Q08	QoQ	YoY
CBG	**13.45**	**13.51**	**13.86**	**0%**	**-3%**
Mobile Service	12.34	12.20	13.01	1%	-5%
-Voice	10.75	10.62	11.74	1%	-8%
-VAS	1.59	1.59	1.27	0%	25%
IDD	0.74	0.79	0.77	-6%	-3%
Device Sales	0.34	0.47	0.06	-29%	463%
EBG	**2.40**	**2.26**	**2.48**	**6%**	**-3%**
Mobile Service	0.88	0.81	0.92	9%	-4%
Fixed-line	0.90	0.87	0.96	4%	-6%
ISR & Others	0.62	0.58	0.61	5%	1%
HBG[1]	**1.34**	**1.32**	**1.09**	**1%**	**22%**
- Pay-TV related	0.98	0.97	0.96	0%	3%
- Broadband	0.14	0.13	0.11	9%	35%
- content & others	0.22	0.22	0.03	-2%	560%

	2Q09	1Q09	2Q08	QoQ	YoY
Mobile Subscribers (K)	**6,390**	**6,345**	**6,223**	**1%**	**3%**
2G	3,323	3,567	4,420	-7%	-25%
3G	3,066	2,778	1,803	10%	70%
- Data card	147	116	33	27%	340%
Monthly Churn	**1.7%**	**1.8%**	**1.8%**		
MOU (bn)	**4.09**	**3.97**	**3.74**	**3%**	**9%**
ARPM (NT$)	**3.37**	**3.43**	**3.88**	**-2%**	**-13%**
Pay-TV Subs (K)	**544**	**541**	**529**	**1%**	**3%**
Cable Broadband Subs (K)	102	95	73	7%	40%

	2Q09	1Q09	2Q08	QoQ	YoY
Wireless					
ARPU (NT$)	722	720	778	0%	-7%
MOU per sub (minute)	214	210	201	2%	7%
Cable MSO					
Monthly Subscription (NT$)	510	511	514	0%	-1%
Broadband ARPU (NT$)	481	473	455	2%	6%
Blended ARPU[2](NT$)	689	682	674	1%	2%

1. HBG KPIs included content & other businesses since January 2008.
2. All CATV revenue divided by its subscriber number

Revenue Analysis

CBG:
Compared to 1Q09, 2Q09 mobile voice revenue's YoY declines moderated while wireless data revenue's YoY growth further accelerated, underpinned by rising data package subscribers. With dropping number of foreign workers, both mobile pre-paid and IDD business showed a YoY decline in the quarter.

EBG:
Following CBG's pattern of moderated YoY revenue decrease coupled with sub number increase, enterprise mobile revenue trended up sequentially. As for the QoQ rise in fixed-line revenue, it's largely driven by wholesale business and one-off sale of IRU (indefeasible Right of Use).

HBG:
Besides steady growth in pay-TV related business and a strong rise in cable broadband revenue, further aided by newly added Star-TV content distribution business in 2009, HBG saw a 22% YoY jump in total revenue. With the launch of premium service, namely digital TV (DTV) programs, and the bundling of DTV with high-speed cable broadband service, HBG is expected to gain more growth momentum going forward.

II. EBIT Analysis

Table 2. EBIT Breakdown

NT$bn	2Q09	1Q09	2Q08	QoQ	YoY
EBITDA	**7.40**	**7.04**	**7.72**	**5%**	**-4%**
- CBG	6.22	6.02	6.64	3%	-6%
- EBG	0.52	0.44	0.49	20%	8%
- HBG	0.62	0.60	0.53	3%	15%
Margin	42.6%	41.7%	44.1%	0.9pps	-1.5pps
- CBG	46.2%	44.6%	47.9%	1.7pps	-1.6pps
- EBG	21.9%	19.4%	19.6%	2.5pps	2.3pps
- HBG	46.0%	45.0%	48.8%	1.1pps	-2.8pps
D&A	2.20	2.18	2.04	1%	8%
- CBG	1.92	1.91	1.80	0%	7%
- EBG	0.10	0.10	0.05	7%	109%
- HBG	0.13	0.12	0.13	1%	-5%
EBIT	5.20	4.86	5.69	7%	-9%
- CBG	4.30	4.11	4.84	5%	-11%
- EBG	0.42	0.34	0.44	24%	-4%
- HBG	0.49	0.47	0.40	4%	22%

2Q09 HBG EBITDA included 2Q09 EBITDA from content distribution;
2Q09 consolidated EBITDA included 1H09 EBITDA from content distribution.

<u>EBITDA Analysis</u>

CBG staged a sequential improvement in EBITDA margin in 2Q09 on continuous expense cut coupled with gradual revenue recovery. Cost control discipline is evidenced by both YoY and QoQ decrease in base station operating expenses and backhaul costs in 2Q09 as well as declining mobile subscriber acquisition cost from 1Q09 to 2Q09.

EBG's EBITDA in 2Q09 was up YoY, due to savings from advertisement, customer service, and personnel expense. The sequential rise in EBITDA margin was mainly from lower ISR settlement cost.

HBG posted the highest YoY EBITDA growth, amongst three business divisions. This was because of expanding cable broadband and content aggregation business. With the reclassification of content related business into HBG, its EBITDA margin came off as content business has lower margins.

Table 3. Non-operating Item

NT$bn	2Q09	1Q09	2Q08	QoQ	YoY
Non-Operating	**(0.39)**	**(0.52)**	**(0.40)**	**-24%**	**-2%**
-Net Interest Expense	(0.10)	(0.11)	(0.14)	-12%	-28%
- Write-off Loss	(0.38)	(0.48)	(0.37)	-20%	3%
-Others	0.09	0.08	0.11	16%	-18%

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

Net interest expenses in 2Q09 declined by 12% QoQ, due mainly to a reduced debt level. Lower interest expense and write-off loss resulted in the 24% sequential drop in non-operating expense in 2Q09
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III. Income Statement Analysis

Table 4. TWM Consolidated Results vs. Forecast

NT$bn	2Q09 Actual	2Q09 Forecast	% of Forecast Achieved
Revenue	17.35	17.30	100%
Operating Income	5.20	5.15	101%
Pre-tax Income	4.81	4.73	102%
(Less Tax)	(1.20)	(1.18)	102%
Net Income - **Attributed to the Parent**	3.61	3.54	102%
EPS (NT$)	1.21	1.19	102%
EBITDA	7.40	7.27	102%
EBITDA margin	42.63%	42.00%	

Table 5. Income Statement

NT$bn	2Q09	1Q09	2Q08
Revenue	**17.35**	**16.89**	**17.50**
Service Revenue[1]	17.00	16.40	17.39
Operating Cost	**(8.44)**	**(8.35)**	**(7.90)**
Operating Expenses	**(3.70)**	**(3.67)**	**(3.92)**
EBITDA	7.40	7.04	7.72
Operating Income	**5.20**	**4.86**	**5.69**
Non-op. Income (Expense)	(0.39)	(0.52)	(0.40)
Pre-tax Income	4.81	4.34	5.29
(Less Tax)	(1.20)	(1.09)	(1.32)
(Minority Interest)	(0.00)	(0.00)	(0.00)
Net Income - Attributed to the Parent	**3.61**	**3.25**	**3.97**
EPS (NT$)	1.21	1.10	1.32

1. Total revenue deducted handset sales revenue.

Table 6. 1H09 results vs. 2009 Forecast

NT$bn	1H09	YoY	% of Forecast Achieved
Revenue	**34.23**	**-1%**	**49%**
Operating Cost	**(16.79)**	**8%**	**51%**
Operating Expenses	**(7.38)**	**-7%**	**45%**
EBITDA	14.43	-6%	50%
Operating Income	**10.06**	**-11%**	**50%**
Non-op. Income (Expense)	(0.91)	130%	54%
Pre-tax Income	9.15	-16%	49%
(Less Tax)	(2.29)	-17%	49%
Net Income - Attributed to the Parent	**6.86**	**-16%**	**49%**
EPS (NT$)	2.31	-16%	50%

Income Statement Analysis

We met our 2Q revenue guidance because of better-than-expected HBG performance.

Despite the lack of revenue growth in telecom business, our 2Q09 EBITDA surpassed the guidance, due primarily to marketing expense cuts and network cost controls. 2Q selling expense came in 12% less than our guidance. Mobile subscriber acquisition and retention related expense combined dropped 2% YoY and 12% QoQ in 2Q09.

On the non-operating front, as network consolidation was slightly behind schedule, NT$384mn of assets write-off losses in 2Q09 came in lower than our guidance of NT$435mn, while we maintain full-year write-off loss estimate of NT$1.6bn.

To sum up, 2Q09 net income reached 102% of the official guidance. And net profits for the first half of this year totaled NT$6.86bn, or NT$2.31 in EPS, reaching 50% of our full-year target.

IV. Cash Flow Analysis

Table 7. Cash Flow

NT$bn	2Q09	1Q09	2Q08
Total Op Sources/(Uses)[1]	**4.05**	**6.92**	**6.40**
Consolidated Net Income	3.61	3.25	3.97
Depreciation	1.92	1.91	1.76
Amortization	0.27	0.27	0.28
Changes in Working Capital	(2.78)	0.78	(0.12)
Other Add-back	1.02	0.71	0.51
Net Investing Sources/(Uses)	**(2.10)**	**(1.66)**	**(1.62)**
Capex	(2.09)	(1.50)	(1.44)
Acquisition	0.00	(0.01)	(0.13)
Disposal of Property & Equipment	0.00	0.00	0.05
Net Financing Sources/(Uses)	**(0.16)**	**(4.41)**	**(9.39)**
Short-Term Borrowings	(0.50)	0.50	(6.95)
Commercial Paper Payable	0.00	0.00	(3.30)
Long-Term Borrowings	0.00	(5.20)	0.90
Disposal of Treasury Stock	0.36	0.32	0.00
Net Cash Position Chg.	**1.78**	**0.86**	**(4.51)**

1. Inclusive cashflow for cash managements.

Cash Flow Analysis

Main operating cash flow in the quarter was affected by the payment of corporate tax, which was none event in 1Q09. Cash payment of corporate income tax in 1H is a function of taxable income of the previous year. As taxable income in 2008 is higher than that in 2007, this resulted in lower operating cash inflows in 2Q09.

The 2Q09 investing cash outlay was mainly for capex. On top of 3G base station addition and HSDPA upgrade, cash capex outlays were used in upgrading fixed network into IP based.

In terms of financing activities, we repaid short-term borrowings of NT$0.5bn in this quarter. NT$0.36bn cash inflows were from selling treasury shares to employees in 2Q09. Treasury shares amounted to 821mn shares as of the end of 2Q09.

Table 8. Capex & FCF

NT$bn	2Q09	1Q09	2Q08
Cash Capex	**2.09**	**1.50**	**1.44**
- Mobile	1.38	1.10	1.16
- Fixed-line	0.61	0.31	0.13
- Cable MSO	0.11	0.09	0.15
% of Revenue	**12%**	**9%**	**8%**
Free Cash Flow	**1.95**	**5.42**	**4.96**

Capex and Free Cash Flow Analysis

Group capex in 2Q was on track and accounted for 12% of total revenue.

The aforementioned operating cash flow changes attributed to a lower free cash flow in 2Q. Accumulatively, total free cash flow in the first half of this year reached NT$7.38bn, translating into an annualized yield of 7%.

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V. Balance Sheet Analysis

Table 9. Balance Sheet

NT$bn	2Q09	1Q09	2Q08
Total Assets	**91.88**	**90.99**	**92.56**
Current Assets	15.70	13.11	13.12
- Cash & Cash Equivalents	6.50	4.73	4.26
-Available-for-Sale Financial Asset	0.32	0.22	0.31
- Other Current Assets	8.88	8.17	8.54
Long-Term Investment	3.22	3.25	3.02
Property and Equipment	47.76	48.53	49.53
Intangible Assets	21.69	21.90	22.59
Other Assets	3.50	4.20	4.31
Liabilities	**47.26**	**36.51**	**47.80**
Current Liabilities	38.24	27.56	38.91
- ST Debts/Commercial Paper Payable	7.50	8.00	13.45
- Other Current Liabilities	30.74	19.56	25.47
Long-Term Borrowings	8.00	8.00	8.40
Other Liabilities	1.02	0.96	0.49
Shareholders' Equity	**44.62**	**54.48**	**44.76**
-Paid-in Capital	38.01	38.01	38.01
-Capital Surplus	12.37	12.30	12.27
-Legal Reserve	13.94	12.41	12.41
-Treasury Shares	(32.27)	(32.63)	(31.89)
-Un-appropriated Earnings*	2.27	2.34	2.34
-Special Reserve	3.35	3.41	3.41
-Retained Earnings & Others	6.94	18.64	8.21

*: excluding YTD profits

<u>Balance Sheet Analysis</u>

The 2Q09 cash level rose sequentially from the previous quarter on the back of stable operating cash inflows.

Net PP&E balance at the end of 2Q09 was down sequentially, as 2G asset write-offs and depreciation charge outweighed new 3G equipment purchase in the quarter. The 2G's net book value was reduced to NT$19.02bn as of the end of 2Q09.

On the liability side, gross debt reduced to NT$15.5bn from NT$16bn a quarter ago, as a result of paying down NT$0.5bn of short-term borrowings.

Other current liabilities increased QoQ in 2Q, largely from NT$14bn cash dividend payable which was paid on July 24.

We had NT$12.37bn capital surplus and NT$13.94bn legal reserve, which would be eligible for the source of paying cash dividend, should Taiwan legislation pass the revision of Company Act. Additionally, we had NT$2.27bn un-appropriated earnings and NT$3.35bn special reserve, which had been used partially to top up our cash dividend received in July this year.

Table 10. Ratios

	2Q09	1Q09	2Q08
Current Ratio	41%	48%	34%
Interest Coverage (x)	46.4	37.7	32.0
Net Debt to Equity	20%	21%	39%
Net Debt to EBITDA (x)	0.31	0.39	0.58
ROE (annualized)	29%	25%	34%
ROA (annualized)	16%	15%	17%

<u>Ratio Analysis</u>

Current ratio at 2Q was lower than 1Q due to cash dividend payable. Meanwhile, interest coverage further improved from a quarter ago with net debt to EBITDA dropping to 0.31x.

VI. Forecast

Table 11. Forecast

NT$bn	3Q09	QoQ	YoY
Revenue	17.57	1%	0%
Cash Cost	6.25	-3%	1%
Selling Expense	2.82	16%	5%
G&A	1.35	5%	8%
EBITDA	7.36	-1%	-4%
EBITDA Margin	41.87%	-0.77pps	-1.58pps
D&A	2.26	3%	8%
Operating Income	5.09	-2%	-8%
Asset write-off	(0.39)	1%	104%
Pre-tax Income	4.64	-3%	-14%
Tax Expense	(1.16)	-3%	-14%
Net Income	3.48	-3%	-14%
EPS (NT$)	1.17	-3%	-14%

Note: 3Q forecast was issued in January 2009 which did not factor in content aggregation related revenue and profits

Guidance

- Mobile and cable related service revenue is expected to edge up sequentially, containing YoY revenue drop in 3Q09.
- Adding in content aggregation cost into 3Q guidance, cash cost will trend up to reflect higher revenue and utility cost of base stations. That said, cost will be down YoY due to network cost savings.
- On the expense front, we expect to sign up more new subscribers in 3Q, leading to a QoQ rise in selling expense. SG&A expenditure discipline is expected to help us achieve 3Q EBITDA target.
- Main non-operating item in 3Q is expected to be NT$387m of asset write-off loss.

VII. Management Discussion & Analysis

Key message

With on-going economic recovery, Taiwan Mobile's revenue is expected to stabilize. Continuous growth in mobile value-added service, driven largely by data cards, and expanding HBG business, particularly in cable broadband and content aggregation, together with discipline over spending is expected to help meet our 3Q target.

Regulatory and peers updates

- The Taiwan's authority has not yet approved the China Mobile - FET deal at this stage.
- CHT has agreed to lower the price of IP peering, effective from January 2009.
- The cabinet proposed a Company Act revision, by lowering the threshold of dividend distribution from capital surplus and legal reserve, to be passed by legislators.
- The Legislative Yuan passed the Income Tax Act to reduce corporate statutory tax rate from 25% to 20%, effective 2010.

Award and recognition

- Ranked sixth in the "Info tech 100 Taiwan" by *Business Next Magazine* and U.S. *Business Week*, ahead of telecom rivals
- Received, for the sixth year in a row, the "Gold Trusted Brand" by *Reader's Digest*