3rd Quarter Results

for the period ended September 30, 2010

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TWM consolidated

NT$bn	3Q10	2Q10	3Q09	QoQ	YoY
Revenue	**17.71**	**17.08**	**17.36**	**4%**	**2%**
EBITDA	**6.82**	**7.06**	**7.43**	**-3%**	**-8%**
Operating Income	**4.51**	**4.78**	**5.21**	**-6%**	**-14%**
Non-op. Income (Expense)	**(0.12)**	**(0.26)**	**(0.53)**	**-52%**	**-77%**
Pre-tax Income	**4.38**	**4.52**	**4.68**	**-3%**	**-6%**
(Less Tax)	**(0.75)**	**(0.90)**	**(1.17)**	**-18%**	**-36%**
Net Income	**3.64**	**3.62**	**3.51**	**1%**	**4%**
EPS (NT$)	**1.22**	**1.21**	**1.18**	**1%**	**3%**
EBITDA margin	38.51%	41.33%	42.80%	-2.83pps	-4.29pps
Operating margin	25.44%	27.98%	30.02%	-2.53pps	-4.58pps

Highlights of 3Q10 Results

By all measures (QoQ, YoY, vs. guidance), revenue increased mainly due to improving fixed network revenue, a 7% rise in cable TV related revenue and accelerating wireless value-added service revenue of 27% YoY. In addition, increased handset subsidies were partially offset by network cost reduction and a decrease in bad debt expense. Thus, along with a decrease in non-operating expense and a reduction in the tax rate, net profits managed to grow 4% YoY.

4Q10 Guidance

• Mobile service will turn the corner in 4Q10, with wireless data revenue expected to increase sufficiently enough to offset mobile voice revenue decrease as a result of our continuous initiative to grow smart device sales. For the quarter, we also expect both cable TV and fixed-line revenues to show single-digit growth from a year ago.

• 4Q10 cash cost will continue to increase both QoQ and YoY due to rising handset subsidies.

• 4Q10 asset write-off is estimated to be NT$181m, leading to NT$1.5bn of full-year write-off loss. 4Q EPS is forecasted to be NT$1.06, sending full-year EPS to NT$4.62, down 1% YoY.

Management Remarks

Following Harvey Chang's departure, a smooth succession made internally is expected. TWM's board of directors today approved a 10% capital reduction, translating to a NT$1 cash return per share to shareholders. In addition, the board also appointed Cliff Lai as President of Operations and Vivien Hsu as President of Administration, effective January 1, 2011. Enhancing shareholders return as well as the growth of data revenue will remain priorities for management the coming quarter. TWM is confident in concluding the year with an EPS of NT$4.62 as guided.

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I. Revenue Analysis

Table 1. Key Operational Data

Revenue (NT$bn)	3Q10	2Q10	3Q09	QoQ	YoY
CBG	**13.83**	**13.67**	**13.70**	**1%**	**1%**
Mobile Service	12.39	12.07	12.53	3%	-1%
-Voice	10.28	10.11	10.86	2%	-5%
-VAS	2.11	1.96	1.67	8%	26%
IDD	0.68	0.69	0.73	-1%	-7%
Device Sales	0.72	0.87	0.40	-17%	79%
EBG	**2.46**	**2.38**	**2.36**	**3%**	**4%**
Mobile Service	1.04	0.98	0.95	6%	9%
Fixed-line	0.89	0.88	0.88	1%	1%
ISR & Others	0.53	0.52	0.54	2%	-1%
HBG	**1.43**	**1.42**	**1.34**	**1%**	**7%**
- Pay-TV related	1.03	1.03	0.99	0%	4%
- Broadband	0.20	0.19	0.15	6%	29%
- Content & others[1]	0.21	0.20	0.20	2%	3%

	3Q10	2Q10	3Q09	QoQ	YoY
Mobile Subscribers (K)	**6,390**	**6,380**	**6,415**	**0%**	**0%**
2G	2,124	2,309	3,035	-8%	-30%
3G	4,266	4,071	3,380	5%	26%
- Data card	250	233	175	7%	43%
Monthly Churn	**1.8%**	**1.7%**	**1.8%**		
MOU (bn)	**3.63**	**3.59**	**3.97**	**1%**	**-9%**
ARPM (NT$)	**3.86**	**3.79**	**3.54**	**2%**	**9%**
Pay-TV Subs (K)	**564**	**559**	**548**	**1%**	**3%**
Cable Broadband Subs (K)	134	128	109	5%	23%

	3Q10	2Q10	3Q09	QoQ	YoY
Wireless					
ARPU (NT$)	731	711	731	3%	0%
MOU per sub (minute)	189	188	207	1%	-8%
Cable MSO					
Monthly Subscription (NT$)	509	511	510	0%	0%
Broadband ARPU (NT$)	504	503	486	0%	4%
Blended ARPU[2] (NT$)	728	726	697	0%	4%

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

Revenue Analysis

CBG:

As we continued to push up smartphone penetration, CBG revenue and device sales posted a respective 1% and 79% YoY increase. Mobile voice revenue YoY decline tapered off in 3Q10, credited to improved rate plan mix and a better economy. Accelerating wireless data revenue YoY growth was supported by a 57% YoY increase in mobile internet access revenue. Our bundling of smartphones with data rate plans leveled up wireless data ARPU by more than 40% and the number of active data users by more than 10% YoY.

IDD business was negatively affected by continuously fierce competition in the quarter.

EBG:

EBG mobile revenue was up 9% YoY, attributed to growing enterprise subscriber base and rising roaming revenue. Fixed-line revenue remained flattish compared to a year ago.

HBG:

Pay-TV related revenue growth was contributed by a 3% YoY expansion in subscriber base. Broadband revenue repeated its strong growth momentum, owing to a 23% and 4% YoY increase in subscribers and ARPU, respectively. 59% of our newly acquired cable broadband customers chose services of 6Mbps or above in this quarter, leveling the percentage of high-speed (≧6Mbps) service subscriber up to 28.7%, from 18.3% a year ago. Successfully bundled with cable internet business, our DTV penetration reached 4% as of quarter end, with an incremental ARPU of NT$180.

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II. EBIT Analysis

Table 2. EBIT Breakdown

NT$bn	3Q10	2Q10	3Q09	QoQ	YoY
EBITDA	**6.82**	**7.22**	**7.43**	**-5%**	**-8%**
- CBG	5.49	5.93	6.24	-7%	-12%
- EBG	0.61	0.58	0.53	5%	15%
- HBG	0.70	0.70	0.63	1%	12%
Margin	**38.5%**	**41.4%**	**42.8%**	**-2.8%**	**-4.3%**
- CBG	39.7%	43.3%	45.5%	-3.6%	-5.8%
- EBG	24.8%	24.4%	22.4%	0.4%	2.4%
- HBG	49.0%	49.1%	46.7%	-0.1%	2.3%
D&A	**2.31**	**2.29**	**2.22**	**1%**	**4%**
- CBG	1.99	1.98	1.94	1%	3%
- EBG	0.15	0.14	0.11	11%	33%
- HBG	0.12	0.13	0.13	-1%	-2%
EBIT	**4.51**	**4.93**	**5.21**	**-9%**	**-14%**
- CBG	3.50	3.94	4.31	-11%	-19%
- EBG	0.46	0.45	0.42	3%	10%
- HBG	0.58	0.57	0.50	2%	16%

EBITDA Analysis

CBG's 3Q10 EBITDA was negatively affected by TWM's stepped-up efforts in selling smart devices (35% of total sales volume vs. 10% in 2009) and data service plans. In return, our wireless data revenue as percentage of mobile service revenue reached 16.5% as of quarter end, up from 12.8% a year ago with growth of over 20% p.a.

EBG EBITDA improved both QoQ and YoY, backed by higher enterprise mobile and roaming revenue and contained operating expenses.

Benefiting from larger subscriber base and higher speed broadband service adoption, the growth momentum of HBG EBITDA remained good. 3Q10 broadband EBITDA rose 49% from a year ago, boosting overall HBG EBITDA growth rate to 12% YoY.

Table 3. Non-operating Item

NT$bn	3Q10	2Q10	3Q09	QoQ	YoY
Non-Operating	**(0.12)**	**(0.75)**	**(0.53)**	**-84%**	**-77%**
-Net Interest Expense	(0.08)	(0.07)	(0.11)	23%	-27%
- Write-off Loss	(0.22)	(0.79)	(0.47)	-72%	-53%
-Others	0.18	0.11	0.05	70%	246%

Non-Operating Item Analysis

Besides NT$51m disposal gains from NCIC, write-off loss also came in lower than previous quarters. Therefore, non-operating expenses came off QoQ and YoY accordingly.

III. Income Statement Analysis

Table 4. 3Q Consolidated Results vs. Forecast

NT$bn	3Q10 Actual	3Q10 Forecast	% of Forecast Achieved
Revenue	17.71	17.46	101%
Operating Income	4.51	4.53	100%
Pre-tax Income	4.38	4.30	102%
(Less Tax)	(0.75)	(0.73)	102%
Net Income - **Attributed to the Parent**	3.64	3.57	102%
EPS (NT$)	1.22	1.19	102%
EBITDA	6.82	6.81	100%
EBITDA margin	38.5%	39.0%	

Table 5. Income Statement

NT$bn	3Q10	2Q10	3Q09
Revenue	**17.71**	**17.45**	**17.36**
Service Revenue[1]	16.99	16.58	16.95
Operating Cost	**9.82**	**(9.21)**	**8.33**
Operating Expenses	**3.39**	**(3.31)**	**3.81**
EBITDA	6.82	7.22	7.43
Operating Income	**4.51**	**4.93**	**5.21**
Non-op. Income (Expense)	(0.12)	(0.75)	(0.53)
Pre-tax Income	4.38	4.18	4.68
(Less Tax)	(0.75)	(0.81)	(1.17)
Net Income	**3.64**	**3.38**	**3.51**
EPS (NT$)	1.22	1.13	1.18

1. Total revenue deducted handset sales revenue.

Table 6. 1-3Q10 results

NT$bn	1-3Q10	YoY
Revenue	**52.25**	**1%**
Operating Cost	**27.83**	**11%**
Operating Expenses	**10.20**	**-9%**
EBITDA	21.10	-4%
Operating Income	**14.22**	**-7%**
Non-op. Income (Expense)	(1.13)	-22%
Pre-tax Income	13.09	-5%
(Less Tax)	(2.46)	-29%
Net Income - Attributed to the Parent	**10.64**	**3%**
EPS (NT$)	3.56	2%

Income Statement Analysis

3Q10 revenue surpassed our guidance by 1%, with revenues of the three business units coming in better than expected. In terms of EBITDA, both EBG and HBG exceeded their 3Q targets, aided by higher-than-expected revenue and lower expenses. This helped to compensate for higher-than-expected smartphone subsidies in the quarter. As a result, 3Q10 consolidated EBITDA came in line with our expectations.

Compared to a year ago, we recorded a flattish YoY change in mobile service revenue, improving fixed network revenue, and a 7% rise in cable TV related revenue. Network cost reduction and bad debt expense decrease only partially offset increased handset subsidies in 3Q10. That said, net profits still managed to grow 4% YoY due to lower asset write-off losses and tax expense savings.

On a quarter-on-quarter basis, the seasonality of a higher number of calendar/working days as well as a better economy resulted in a sequential increase in service revenue. Nonetheless, EBITDA contracted from 2Q10 due to higher smartphone take-up in 3Q10.

YTD Results

Despite opex controls and incremental EBITDA contributions from EBG and HBG, YTD consolidated EBITDA was lower than a year ago, owing to rising costs of mobile phones sold. The corporate income tax rate reduction coupled with fewer assets write-off losses led to a 3% growth in net profit.

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Table 7. Cash Flow

NT$bn	3Q10	2Q10	3Q09
Total Op Sources/(Uses)[1]	**5.78**	**4.68**	**4.92**
Consolidated Net Income	3.64	3.38	3.51
Depreciation	2.04	2.01	1.95
Amortization	0.27	0.27	0.27
Changes in Working Capital	(0.60)	(2.19)	(1.93)
Asset Write-off Add-backs	0.22	0.79	0.47
Other Add-backs	0.20	0.42	0.65
Net Investing Sources/(Uses)	**(1.82)**	**(1.48)**	**(1.13)**
Capex	(1.97)	(1.36)	(1.25)
Divestment (Acquisition)	0.24	(0.10)	0.14
Others	(0.09)	(0.02)	(0.02)
Net Financing Sources/(Uses)	**(7.08)**	**(0.31)**	**(7.49)**
Dividends Payment	(15.03)	(0.00)	(13.97)
Short-Term Borrowings	7.90	(0.55)	3.30
Commercial Paper Payable	0.05	0.25	0.50
Long-Term Bank Loan	0.00	0.00	2.30
Treasury Stock Transferred to Employees	0.00	0.00	0.38
Net Cash Position Chg.	**(3.11)**	**2.90**	**(3.70)**

1. Inclusive cash flow for cash managements.

Table 8. Capex & FCF

NT$bn	3Q10	2Q10	3Q09
Cash Capex	**1.97**	**1.36**	**1.25**
- Mobile	1.40	0.96	0.96
- Fixed-line	0.40	0.27	0.16
- Cable MSO	0.17	0.13	0.13
% of Revenue	**11%**	**8%**	**7%**
Free Cash Flow	**3.81**	**3.32**	**3.67**

Cash Flow Analysis

3Q operating cash flow grew to NT$5.78bn on better operational performance and less tax payment.

The 3Q10 cash outlay on investing activity was mainly for the NT$1.97bn in cash capex. The divestment of NCIC generated NT$0.24bn of cash inflows.

In terms of financing activities, NT$15.03bn of cash dividend payment was funded by the combination of our cash balance and NT$7.95bn of new borrowing in the quarter.

Capex and Free Cash Flow Analysis

Year-to-quarter capex expenditure reached NT$4.79bn and accounted for 9% of total revenue. Major expenditure on mobile network included ongoing 3G network capacity increase to support wireless data traffic growth and 3G network coverage expansions. Most of the fixed-line capex was spent on supporting mobile data transmission, while cable capex was spent on expanding Cable Modem Termination System (CMTS) and Customer Premises Equipment (CPE) to support cable internet and DTV business growth.

Free cash flow for the first three quarters reached NT$13.57bn, translated into an annualized yield of 7%.

V. Balance Sheet Analysis

Table 9. Balance Sheet

NT$bn	3Q10	2Q10	3Q09
Total Assets	**82.91**	**86.38**	**87.07**
Current Assets	12.00	14.63	11.89
- Cash & Cash Equivalents	2.75	5.86	2.81
-Available-for-Sale Financial Asset	0.19	0.17	0.17
-Financial assets at fair value	0.20	0.00	0.00
- Other Current Assets	8.86	8.60	8.91
Long-Term Investment	3.05	3.30	3.22
Property and Equipment	43.89	44.27	46.99
Intangible Assets	20.59	20.75	21.44
Other Assets	3.37	3.44	3.53
Liabilities	**35.18**	**42.33**	**38.46**
Current Liabilities	26.13	33.27	27.16
- ST Debts/Commercial Paper Payable	8.80	0.85	11.30
- Other Current Liabilities	17.33	32.42	15.86
Long-Term Borrowings	8.00	8.00	10.30
Other Liabilities	1.06	1.07	1.00
Shareholders' Equity	**47.72**	**44.04**	**48.61**
-Paid-in Capital	38.01	38.01	38.01
-Capital Surplus	12.43	12.43	12.43
-Legal Reserve	15.33	15.33	13.94
-Treasury Shares	(31.89)	(31.89)	(31.89)
-Un-appropriated Earnings*	2.27	2.27	2.27
-Special Reserve	0.82	0.82	3.35
-Retained Earnings & Others	10.75	7.07	10.49

*: excluding YTD profits

Balance Sheet Analysis

As a result of the payout of NT$15.03bn cash dividend on July 23, cash balance was down by NT$3.11bn from 2Q and short-term debts were up by NT$7.95bn to fund this payment.

Available-for-sale financial asset increased by N$20m due to the investee's share price appreciations. Financial assets at fair value were the new bond fund investment made in 3Q10.

In 3Q10, the disposal of NCIC shares and the inclusion of Taiwan Kuro, our 55%-held subsidiary, as one of the consolidated entities since September, led to reductions of NT$187m and NT$52.3m in long-term investment, respectively.

Net PP&E balance at the end of 3Q10 was down sequentially, with depreciation and assets write-off higher than capex. The 2G's net book value was reduced to NT$13.8bn, and 3G's was NT$12.1bn as of the end of 3Q10. The net PP&E balance consists of $37.8bn in mobile, $4.1bn in fixed and $2bn in cable assets.

Other current liabilities dropped substantially as 2Q dividend was paid in 3Q.

Table 10. Ratios

	3Q10	2Q10	3Q09
Current Ratio	46%	44%	44%
Interest Coverage (x)	52.2	59.9	41.5
Net Debt to Equity	29%	7%	39%
Net Debt to EBITDA (x)	0.50	0.11	0.64
ROE (annualized)	32%	27%	30%
ROA (annualized)	18%	16%	16%

Ratio Analysis

Net debt to EBITDA and net debt to equity rose in 3Q because of increased debt level.
With higher net profits in 3Q, ROE & ROA climbed to 32% and 18%, respectively.

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VI. Forecast

Table 11. Forecast

NT$bn	4Q10	2010[2]	YoY
Revenue	17.78	70.03	2%
Cash Cost[1]	7.87	29.42	17%
Selling Expense	2.57	9.39	-7%
G&A	1.15	4.54	-5%
EBITDA	6.38	27.48	-6%
EBITDA Margin	35.89%	39.24%	-3.54pps
D&A	2.27	9.16	4%
Operating Income	4.11	18.33	-10%
Asset write-off	(0.18)	(1.49)	-9%
Pre-tax Income	3.95	17.04	-9%
Tax Expense	(0.78)	(3.24)	-32%
Net Income	3.17	13.80	-1%
EPS (NT$)	1.06	4.62	-1%

1. Including handset sales costs
2. 2010 full-year forecast refers to 1-3Q actuals plus 4Q estimates

Guidance

- Mobile service will turn the corner in 4Q10, with wireless data revenue increase more than sufficient to offset mobile voice revenue decrease, through our continuous attempt to grow smart device sales. For the quarter, we also expect both cable TV and fixed-line revenues to grow at healthy single digit rate from a year ago.
- 4Q10 cash cost will continue to increase both QoQ and YoY due to rising handset subsidies.
- 4Q10 asset write-off is estimated to be NT$181m, leading to NT$1.5bn of full-year write-off loss. 4Q EPS is forecasted to be NT$1.06, sending full-year EPS to NT$4.62, down 1% YoY.

VII. Management Discussion & Analysis

Key message

- With succession made internally following Harvey Chang's resignation as the CEO & President, a smooth transition of management is expected.
- Enhancing shareholder value remains a priority of TWM.
- Growth of data revenue continues to be an important initiative for management the coming quarter.
- TWM is confident in concluding the year with an EPS of NT$4.62 as guided.

Capital Management

- TWM's board of directors today approved a 10% capital reduction, translating to a NT$1 cash return per share to shareholders. After that, our paid-in capital will become NT$34.2bn, from current $38bn.

Management

- The board approved the resignation of the CEO & President, Harvey Chang, upon the expiration of his employment contract with Taiwan Mobile. It will be effective at the end of the year after the transition of his duties has been completed.
- The board also approved the appointments of Cliff Lai, current TWM's SVP & COO of CBG, and Vivien Hsu, current the Company's SVP & CFO, as Co-Presidents, effective January 1, 2011.

Awards

- Received an "A^{+}" ranking and ranked as one of the top 10 listed companies in "Transparency and Information Disclosure" for the fifth consecutive year.
- Awarded for "Excellence in Corporate Social Responsibility" by *CommonWealth* magazine for the fourth year in a row.

- Placed 1st in both the mobile/fixed-line communications and the 3C store channels categories in *Next* magazine's "2010 Top Service Awards".