

July 28, 2011

**Topics in This Report**

- Revenue Analysis
- EBIT Analysis
- Income Statement Analysis
- Cash Flow Analysis
- Balance Sheet Analysis
- Management Remark

IR contact:

 Shirley Chu  
 Director  
 Investor Relations  
 shirleychu@taiwanmobile.com

 Rosie Yu  
 CFO  
 rosieyu@taiwanmobile.com

 18Fl, No. 172-1, Sec.2, Ji-Lung  
 Rd., Taipei 106, Taiwan, ROC  
 Tel: 8862 6636 3159

 ir@taiwanmobile.com  
 http://www.taiwanmobile.com

TWM consolidated

NT\$bn	<u>2Q11</u>	<u>1Q11</u>	<u>2Q10</u>	<u>QoQ</u>	<u>YoY</u>
<b>Revenue</b>	<b>17.97</b>	<b>18.22</b>	<b>17.45</b>	<b>-1%</b>	<b>3%</b>
<b>EBITDA</b>	<b>6.58</b>	<b>6.29</b>	<b>7.22</b>	<b>5%</b>	<b>-9%</b>
<b>Operating Income</b>	<b>4.24</b>	<b>3.98</b>	<b>4.93</b>	<b>6%</b>	<b>-14%</b>
<b>Non-op. Income (Expense)</b>	<b>(0.06)</b>	<b>(0.01)</b>	<b>(0.75)</b>	<b>280%</b>	<b>-93%</b>
<b>Pre-tax Income</b>	<b>4.18</b>	<b>3.97</b>	<b>4.18</b>	<b>5%</b>	<b>0%</b>
<b>(Less Tax)</b>	<b>(0.71)</b>	<b>(0.67)</b>	<b>(0.81)</b>	<b>5%</b>	<b>-12%</b>
<b>Net Income</b>	<b>3.47</b>	<b>3.29</b>	<b>3.38</b>	<b>6%</b>	<b>3%</b>
<b>EPS (NT\$)</b>	<b>1.16</b>	<b>1.10</b>	<b>1.13</b>	<b>5%</b>	<b>3%</b>
EBITDA margin	36.58%	34.51%	41.36%	2.07pps	-4.78pps
Operating margin	23.56%	21.85%	28.25%	1.72pps	-4.68pps

Highlights of 2Q11 Results

Mobile service revenue YoY change turned positive as wireless data revenue increase was able to fully offset voice revenue decline in 2Q11. Thus, along with rising revenue contribution from CATV and cable internet, consolidated revenue saw a 3% YoY for the quarter.

Sequential increases in the EBITDAs of all the business groups resulted in margin expansions in 2Q11. Separately, YoY rises in the EBITDAs of EBG and HBG, coupled with a reduction in CBG's EBITDA decline, mitigated the company's EBITDA decrease. With lower non-operating expenses, 2Q11 EPS grew to \$1.16, up 3% YoY.

In terms of year-to-date results, both 1H11 consolidated revenue and EBITDA surpassed our expectations and net profit achieved 52% of full-year guidance.

Capital Reduction

The board approved the capital reduction schedule with a trading suspension period of September 27 to October 12. Shareholders shall receive a cash return of NT\$1 per share on October 13.

Momo Acquisition

On June 30, the Fair Trade Commission approved the acquisition which was later transacted on July 13, the date from which Momo's financials were consolidated into TWM's.

Management Remark

Expansion of smartphone take-up has reached 15% of our clientele and successfully alleviated the burden from regulatory interventions. We expect the trend to continue into the second half of this year. Looking ahead, we will reinforce network upgrades to attract more wireless data users to solidify our market share and build up future growth momentum.

The information contained in this presentation, including all forward-looking information, is subject to change without notice, whether as a result of new information, future events or otherwise, and Taiwan Mobile Co., Ltd. (the "Company") undertakes no obligation to update or revise the information contained in this presentation. No representation or warranty, either expressed or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein, nor is the information intended to be a complete statement of the Company, markets or developments referred to in this presentation.

## I. Revenue Analysis

**Table 1. Key Operational Data**

Revenue (NT\$bn)	2Q11	1Q11	2Q10	QoQ	YoY
<b>CBG<sup>1</sup></b>	<b>14.13</b>	<b>14.37</b>	<b>13.70</b>	<b>-2%</b>	<b>3%</b>
Mobile Service	12.24	12.05	12.07	2%	1%
-Voice	9.34	9.37	10.11	0%	-8%
-VAS	2.91	2.68	1.96	8%	48%
IDD	0.65	0.64	0.69	2%	-6%
Device Sales	1.13	1.59	0.87	-29%	30%
<b>EBG</b>	<b>2.39</b>	<b>2.41</b>	<b>2.37</b>	<b>-1%</b>	<b>1%</b>
Mobile Service	0.99	0.96	0.98	3%	1%
Fixed-line	0.91	0.87	0.87	4%	4%
ISR & Others	0.49	0.57	0.52	-15%	-6%
<b>HBG</b>	<b>1.47</b>	<b>1.45</b>	<b>1.42</b>	<b>1%</b>	<b>4%</b>
- Pay-TV related	1.04	1.04	1.03	1%	2%
- Broadband	0.22	0.22	0.19	4%	20%
- Content & others <sup>1</sup>	0.20	0.20	0.20	1%	0%

	2Q11	1Q11	2Q10	QoQ	YoY
<b>Mobile Subscribers (K)</b>	<b>6,474</b>	<b>6,417</b>	<b>6,380</b>	<b>1%</b>	<b>1%</b>
2G	1,781	1,881	2,309	-5%	-23%
3G	4,693	4,536	4,071	3%	15%
- Data card	299	281	233	7%	29%
<b>Monthly Churn</b>	<b>1.7%</b>	<b>1.7%</b>	<b>1.7%</b>		
<b>MOU (bn)</b>	<b>3.69</b>	<b>3.50</b>	<b>3.59</b>	<b>5%</b>	<b>3%</b>
<b>ARPM (NT\$)</b>	<b>3.75</b>	<b>3.88</b>	<b>3.79</b>	<b>-3%</b>	<b>-1%</b>
<b>Pay-TV Subs (K)</b>	<b>573</b>	<b>570</b>	<b>559</b>	<b>1%</b>	<b>2%</b>
Cable Broadband Subs (K)	147	142	128	3%	15%

	2Q11	1Q11	2Q10	QoQ	YoY
<b>Wireless</b>					
ARPU (NT\$)	716	707	711	1%	1%
MOU per sub (minute/month)	191	182	188	5%	2%
<b>Cable MSO</b>					
Monthly Subscription (NT\$)	505	506	511	0%	-1%
Broadband ARPU (NT\$)	519	516	503	1%	3%
Blended ARPU <sup>2</sup> (NT\$)	739	735	726	1%	2%

1. Ezpeer's financials were included in CBG's P&L since January 2010, on a pro forma basis.

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

### Revenue Analysis

#### CBG:

Mobile service revenue YoY change turned positive as wireless data revenue increase was able to fully offset voice revenue decline in 2Q11.

Our wireless data revenue growth of 48% YoY in 2Q surpassed our peers and expectations. This was supported by a 90% YoY increase in mobile internet access revenue, stemming from a 53% YoY rise in data APRU and a 27% YoY increase in the number of active data users.

2Q11 device sales volume remained stable while revenue was down 29% QoQ. This was due to a higher mix of feature phones, pushed by our recent campaigns catering to lower spending segments.

#### EBG:

EBG mobile revenue was up 1% YoY. Fixed-line revenue showed a 4% QoQ and YoY growth, due to a pick-up in IP transit business. ISR and other revenues, while currently representing some 20% of EBG's revenue, are quite volatile.

#### HBG:

HBG revenue was up 4% YoY in 2Q mainly due to broadband's 20% YoY revenue growth. Aided by 70% of newly acquired broadband customers subscribing to 10Mbps or above services and the launch of the new 24Mbps & 50Mbps download speed services in June, broadband ARPU and subscribers increased 3% and 15% YoY respectively.

The bundled package of broadband and DTV leveled up DTV penetration to 6% at the end of 2Q11, generating around NT\$170 in incremental ARPU.

Moreover, selling more services into the same pay-TV households improved HBG's blended APRU, up 2% YoY in 2Q11.

## II. EBIT Analysis

**Table 2. EBIT Breakdown**

NT\$bn	2Q11	1Q11	2Q10	QoQ	YoY
<b>EBITDA</b>	<b>6.58</b>	<b>6.29</b>	<b>7.22</b>	<b>5%</b>	<b>-9%</b>
- CBG	5.17	4.92	5.92	5%	-13%
- EBG	0.63	0.61	0.58	3%	8%
- HBG	0.76	0.75	0.70	1%	10%
<b>Margin</b>	<b>36.6%</b>	<b>34.5%</b>	<b>41.4%</b>	<b>2.1pps</b>	<b>-4.8pps</b>
- CBG	36.6%	34.3%	43.2%	2.4pps	-6.6pps
- EBG	26.2%	25.2%	24.5%	1.0pps	1.7pps
- HBG	51.9%	51.9%	49.1%	-0.1pps	2.7pps
<b>D&amp;A</b>	<b>2.34</b>	<b>2.31</b>	<b>2.29</b>	<b>1%</b>	<b>2%</b>
- CBG	1.98	1.96	1.99	1%	0%
- EBG	0.20	0.18	0.14	7%	44%
- HBG	0.12	0.12	0.13	2%	-1%
<b>EBIT</b>	<b>4.24</b>	<b>3.98</b>	<b>4.93</b>	<b>6%</b>	<b>-14%</b>
- CBG	3.20	2.96	3.94	8%	-19%
- EBG	0.43	0.43	0.45	1%	-3%
- HBG	0.64	0.63	0.57	1%	12%

**Table 3. Non-operating Item**

NT\$bn	2Q11	1Q11	2Q10	QoQ	YoY
<b>Non-Operating</b>	<b>(0.06)</b>	<b>(0.01)</b>	<b>(0.75)</b>	<b>280%</b>	<b>-93%</b>
-Net Interest Revenue (Expense)	0.01	(0.06)	(0.07)	NM	NM
- Write-off Loss	(0.17)	(0.06)	(0.79)	181%	-79%
-Others	0.11	0.11	0.11	-1%	1%

### EBITDA Analysis

For the quarter, due to improved mobile service revenue coupled with less smartphone subsidies, CBG's EBITDA rose by 5% QoQ and YoY decline narrowed.

EBG's 2Q11 EBITDA increased both QoQ and YoY, driven by a rise in enterprise mobile revenue and cost management.

In 2Q11, benefiting from a higher blended ARPU as a result of a rising broadband subscriber base, HBG's EBITDA had a 10% YoY growth and its EBITDA margin was up 2.7% from a year ago.

Sequential increases in the EBITDAs of all the business groups resulted in margin expansions in 2Q11. Separately, YoY rises in the EBITDAs of EBG and HBG, coupled with a reduction in CBG's EBITDA decline, mitigated the company's EBITDA decrease.

### Non-Operating Item Analysis

2Q non-operating expenses dropped 93% YoY, mainly due to a 79% decrease in asset write-off losses. Net interest expense turned into net interest revenue due to decreasing bank loans.

### III. Income Statement Analysis

**Table 4. 1H Consolidated Results vs. Forecast**

NT\$bn	1H11 Actual	2011 Forecast	% of Forecast Achieved
<b>Revenue</b>	36.20	73.96	49%
Service Revenue <sup>1</sup>	33.42	67.52	49%
Handset Sales	2.77	6.44	43%
<b>Operating Income</b>	8.22	16.29	50%
<b>Non-op. Income (Expense)</b>	(0.07)	(0.54)	13%
Asset Write-off Losses	(0.23)	(0.61)	37%
Pre-tax Income	8.15	15.76	52%
(Less Tax)	(1.38)	(2.68)	52%
<b>Net Income</b>	6.76	13.08	52%
EPS (NT\$)	2.26	4.57	49%
<b>EBITDA</b>	12.86	25.77	50%
EBITDA margin	35.5%	34.8%	

1. Total revenue deducted handset sales revenue.

**Table 5. Income Statement**

NT\$bn	2Q11	1Q11	2Q10
<b>Revenue</b>	<b>17.97</b>	<b>18.22</b>	<b>17.45</b>
Service Revenue <sup>1</sup>	16.82	16.60	16.58
<b>Operating Cost</b>	<b>10.36</b>	<b>10.91</b>	<b>9.21</b>
<b>Operating Expenses</b>	<b>3.38</b>	<b>3.33</b>	<b>3.31</b>
EBITDA	6.58	6.29	7.22
<b>Operating Income</b>	<b>4.24</b>	<b>3.98</b>	<b>4.93</b>
Non-op. Income (Expense)	(0.06)	(0.01)	(0.75)
Pre-tax Income	4.18	3.97	4.18
(Less Tax)	(0.71)	(0.67)	(0.81)
<b>Net Income</b>	<b>3.47</b>	<b>3.29</b>	<b>3.38</b>
EPS (NT\$)	1.16	1.10	1.13

1. Total revenue deducted handset sales revenue.

#### Income Statement Analysis

1H11 consolidated revenue and EBITDA surpassed our guidance, mainly attributable to the better-than-expected wireless data revenue. Separately, 1H11 non-operating expenses also came in less than guidance, because of lower-than-expected asset write-offs and interest expenses. As such, our net profit achieved 52% of full-year guidance.

2Q11 service revenue rose both QoQ and YoY, underpinned by mobile data revenue growth. That said, 2Q EBITDA still reported a decline due to increased handset subsidies. With lower non-operating expenses, 2Q11 EPS grew to \$1.16, up 5% QoQ and 3% YoY.

#### IV. Cash Flow Analysis

**Table 6. Cash Flow**

NT\$bn	2Q11	1Q11	2Q10
<b>Total Op Sources/(Uses)<sup>1</sup></b>	<b>5.83</b>	<b>6.00</b>	<b>4.68</b>
Consolidated Net Income	3.47	3.29	3.38
Depreciation	2.04	2.02	2.01
Amortization	0.30	0.29	0.27
Changes in Working Capital	(0.37)	0.15	(2.19)
Asset Write-off Add-backs	0.17	0.06	0.79
Other Add-backs	0.21	0.18	0.42
<b>Net Investing Sources/(Uses)</b>	<b>(1.55)</b>	<b>(1.48)</b>	<b>(1.49)</b>
Capex	(1.45)	(1.28)	(1.36)
Divestment (Acquisition)	(0.10)	0.00	(0.09)
Deferred charges (Increase)& Others	0.00	(0.20)	(0.03)
<b>Net Financing Sources/(Uses)</b>	<b>(0.33)</b>	<b>(4.64)</b>	<b>(0.30)</b>
Short-Term Borrowings	(0.33)	(1.84)	(0.55)
Commercial Paper Payable	0.00	(0.50)	0.25
Long-Term Bank Loan	0.00	(2.30)	0.00
<b>Net Cash Position Chg.</b>	<b>3.94</b>	<b>(0.12)</b>	<b>2.90</b>

1. Inclusive of cash flow for cash management.

**Table 7. Capex & FCF**

NT\$bn	2Q11	1Q11	2Q10
<b>Cash Capex</b>	<b>1.45</b>	<b>1.28</b>	<b>1.36</b>
- Mobile	1.14	0.89	0.96
- Fixed-line	0.26	0.34	0.27
- Cable MSO	0.05	0.06	0.13
<b>% of Revenue</b>	<b>8%</b>	<b>7%</b>	<b>8%</b>
<b>Free Cash Flow</b>	<b>4.38</b>	<b>4.71</b>	<b>3.32</b>

#### Cash Flow Analysis

2Q11 operating cash inflow remained at a comparable level to a quarter ago.

On the investing activity front, capex for the quarter was similar to previous levels. Cash outflow of NT\$99.8mn was injected into our 49.9%-own subsidiary, Taipei New Horizons Co., Ltd.

The NT\$0.33bn debt repayment was the main cash outflow for financing activities during the quarter.

#### Capex and Free Cash Flow Analysis

Cash capex accounted for 8% of total revenue in 2Q.

Total free cash flow for 1H11 was NT\$9.09bn, translating into an annualized yield of 6.1%.

On July 28, the Board approved an additional capital expenditure for 2011 to purchase real estate for IDC (Internet Data Center) purposes and the expansion of the fixed network. The group's capex budget would be raised by NT\$0.9bn to around NT\$7.3bn.



## V. Balance Sheet Analysis

**Table 8. Balance Sheet**

NT\$bn	2Q11	1Q11	2Q10
<b>Total Assets</b>	<b>87.16</b>	<b>84.44</b>	<b>86.37</b>
Current Assets	19.21	15.66	14.63
- Cash & Cash Equivalents	9.87	5.93	5.86
-Available-for-Sale Financial Asset	0.21	0.20	0.17
- Inventories	1.39	2.00	0.85
- Other Current Assets	7.74	7.53	7.75
Long-Term Investment	3.28	3.19	3.30
Property and Equipment	41.69	42.33	44.27
Intangible Assets	19.88	20.11	20.75
Other Assets	3.11	3.15	3.43
<b>Liabilities</b>	<b>41.93</b>	<b>30.25</b>	<b>42.33</b>
Current Liabilities	32.80	21.16	33.27
- ST Debts/Commercial Paper Payable	1.03	1.36	0.85
- Other Current Liabilities	31.78	19.80	32.42
Long-Term Borrowings	8.00	8.00	8.00
Other Liabilities	1.13	1.09	1.06
<b>Shareholders' Equity</b>	<b>45.23</b>	<b>54.19</b>	<b>44.04</b>
-Paid-in Capital	38.01	38.01	38.01
-Capital Surplus	12.43	12.43	12.43
-Legal Reserve	16.72	15.33	15.33
-Treasury Shares	(31.89)	(31.89)	(31.89)
-Un-appropriated Earnings*	2.27	2.27	2.27
-Special Reserve	0.82	0.82	0.82
-Retained Earnings & Others	6.87	17.21	7.07

\*: excluding YTD profits

**Table 9. Ratios**

	2Q11	1Q11	2Q10
<b>Current Ratio</b>	59%	74%	44%
<b>Interest Coverage (x)</b>	71.5	56.8	59.9
<b>Net Debt (Cash) to Equity</b>	-2%	6%	7%
<b>Net Debt (Cash) to EBITDA (x)</b>	-0.03	0.13	0.11
<b>ROE (annualized)</b>	28%	25%	27%
<b>ROA (annualized)</b>	16%	16%	16%

### Balance Sheet Analysis

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

The increase in long-term investment was largely from the cash injection into Taipei New Horizons Co., Ltd.

Net PP&E balance at the end of 2Q11 continued trending down, with depreciation and asset write-off higher than capex. 2G's net book value was reduced to NT\$11.43bn, while 3G's rose to NT\$12.56bn as of the end of 2Q11. The net PP&E balance consists of \$35.2bn in mobile, \$4.6bn in fixed network and \$1.9bn in cable-TV assets.

Other current liabilities increased QoQ in 2Q, which was a reflection of the NT\$12.4bn cash dividend payment made on July 21.

Gross debt balance fell to NT\$9.03bn due to continuous year-to-date debt repayments. We turned into a net cash position as of 2Q11.

### Ratio Analysis

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. In 3Q11, we expect to be back into a net debt position due to the financing of dividend payments.

## VI. Management Discussion & Analysis

### Key message

Expansion of smartphone take-up has reached 15% of our clientele and successfully alleviated the burden from regulatory interventions. We expect the trend to continue into the second half of this year. Looking ahead, we will reinforce network upgrades to attract more wireless data users to solidify our market share and build up future growth momentum.

### Capital Reduction

Today (July 28), the board approved the capital reduction schedule with trading suspension period from September 27 to October 12. Shareholders shall receive a cash return of NT\$1 per share on October 13.

### Momo Acquisition

On June 30, the Fair Trade Commission approved the acquisition which was later transacted on July 13, the date from which Momo's financials are consolidated into TWM's.

### Product and Service\*

- Launched “ Family Hotline ” promotion designed to address the more budget-minded subscribers. Subscribers to this plan will receive a free handset and free on-net calls to the family for a low monthly fee of NT\$88.
- Offered up to 67% discount on monthly fees for voice rate plans to new customers and contract renewals only in the 3Q to stimulate the growth momentum of the mobile voice business.
- TWM has upgraded its base stations to HSPA<sup>+</sup> in the greater Taipei, and will expand to all metropolitan areas and hot spots by year end. Ahead of its peers, TWM has provided a premium service of 21Mbps mobile internet and 5GB data usage for users on \$699 data package to try out.

- Launched three exclusive smartphones in 2Q11: LG Optimus Black, LG P350 and BlackBerry 9780.

### Regulatory Update

NCC suggests domestic operators not to import Chinese telecom equipments used in metropolitan area networks in light of national security concerns.

### Awards

- Received the “Corporate Governance Asia Recognition Award” in the Asia-Pacific region by *Corporate Governance Asia* five years in a row.
- Ranked 6th in the “Info Tech 100 Taiwan” by *Business Next* Magazine and also chosen within the “Info Tech 100 Asia”. In addition, received first prize in the ICT group of the “2011 Service On Awards” by *Business Next* Magazine.
- Won the “Trusted Brand Gold Award” by *Reader's Digest* for the eighth consecutive year.
- “Myfone Creativity Awards” was awarded first place in the education category of the “Corporate Social Responsibility Awards” by *Global Views Monthly*.

\* Complete and accurate description of products and rate plans can be found on the company's official website.