Taiwan Mobile

2nd Quarter Results

for the period ended June 30, 2007

July 30, 2007

Topics in This Report

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

IR contact:

Shirley Chu
Deputy Director
Investor Relations
shirleychu@taiwanmobile.com

Rosie Yu
Vice President
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 [1]				
NT$bn	**1H07**	**YoY**	**2Q07**	**QoQ**	**YoY**
Revenue	**31.17**	**6%**	**16.69**	**15%**	**13%**
Telecom Service Revenue	**30.19**	**4%**	**15.78**	**10%**	**8%**
EBITDA	**14.76**	**12%**	**7.82**	**13%**	**16%**
Operating Income	**10.60**	**13%**	**5.62**	**13%**	**17%**
Non-op. Income (Expense)	**(0.03)**	**-93%**	**(0.03)**	**NM**	**NM**
Pre-tax Income	**10.57**	**18%**	**5.59**	**12%**	**6%**
(Less Tax)	**(2.56)**	**118%**	**(1.39)**	**19%**	**122%**
(Less Minority Interest)	**(0.01)**	**-73%**	**(0.01)**	**NM**	**-59%**
Net Income	**8.00**	**3%**	**4.19**	**10%**	**-10%**
EPS (NT$)	**1.82**	**16%**	**1.05**	**36%**	**12%**
EBITDA margin	47.35%	+2.25bps	46.88%		
Operating margin	33.99%	+2.14bps	33.65%		

1. Consolidation of TFN figures starts from April 17, 2007

Highlights of 2Q and 1H07 Results

In 2Q, three major business divisions' revenue exceeded our expectations. After the adjustments for intra-company transactions, the inclusions of fixed-line and cable TV business increased our existing revenue by 13% in 2Q. Consolidated EBIT came in better than expectation due to higher EBITDA margin in 2Q. Apart from summing up EBIT at three divisions, we added back NT$220m depreciation savings in 2Q, which is derived from a negative goodwill generated from TFN acquisition. In a nutshell, our EBIT and net profit reached a respective 114% and 116% of official guidance in 2Q.

In 1H07, mobile EBIT was up 8% YoY; fixed-line business had an 80% reduction in operating loss; cable MSO showed a 20% YoY growth in EBIT.

Updates on TFN Acquisition

• A merger resolution with TIT by TFN's AGM was passed on June 29 which is expected to be consummated by end of this year.
• The acquisition cost for 84.6% of TFN is NT$14.2bn lower than its net worth as of June 30, 2007. The amortization of the negative goodwill over TFN's remaining equipment useful life translates into NT$1bn p.a. of depreciation savings for TWM.
• In terms of balance sheet management, we have raised NT$16.37bn of new debts at TIT in 1H. In addition, we are in the process of refinancing borrowings at TFN Media to realize interest savings on its NT$5.33bn loans. We estimate to have a healthy balance sheet with gross debts of around NT$51bn at the end of this year.

Management Remark

TWM consummated the tender offer of TFN in 2Q, opening the door for providing a more diverse platform of services to our customers through quadruple play. Access to growth from various avenues other than mobile services to pre-empt future competition has become accessible. Despite the time-consuming process of integration of various entities, we expect to see positive developments continuously and look forward to delivering the results in due course.

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I. Revenue Analysis

Table 1. Key Operational Data

Revenue (NT$m)	2Q07	1Q07	2Q06	QoQ	YoY
Wireless	**14.80**	**14.48**	**14.75**	**2%**	**0%**
-Voice	13.62	13.31	13.72	2%	-1%
-VAS	1.11	1.10	0.92	1%	20%
Fixed-line	**1.92**	**1.92**	**1.88**	**0%**	**2%**
- Voice	1.30	1.27	1.29	2%	0%
- Data	0.54	0.52	0.45	5%	19%
Cable MSO	**1.01**	**0.98**	**0.92**	**3%**	**9%**
- Pay-TV & Others	0.94	0.92	0.87	2%	7%
- Broadband	0.07	0.06	0.05	7%	37%

	2Q07	1Q07	2Q06	QoQ	YoY
Wireless					
Subscribers (K)	6,202	6,176	6,119	0%	1%
-Postpaid	5,696	5,689	5,649	0%	1%
-Prepaid	506	487	471	4%	7%
Monthly Churn	1.6%	1.6%	2.0%		
MOU (bn)	3.63	3.52	3.57	3%	2%
ARPM (NT$)	4.06	4.10	4.10	-1%	-1%
Cable MSO					
Subscribers (K)	510	506	490	1%	4%

	2Q07	1Q07	2Q06	QoQ	YoY
Wireless					
ARPU (NT$)	794	779	800	2%	-1%
-Postpaid	811	795	822	2%	-1%
-Prepaid	624	619	561	1%	11%
MOU (minute)	196	190	195	3%	0%
Cable MSO					
ARPU (NT$)	661	648	631	2%	5%

Revenue Analysis

2Q mobile revenue YoY change was better than the industry, aided by 1) increasing minutes of use, 2) 20% pre-paid revenue increase (in contrast to 15% drop at our closest competitor), and 3) 20% rise in value-added services to more than compensate for NCC's mandatory price cut effective April 1 of the year.

Fixed-line's 2Q revenue growth was driven by 19% YoY increase in data revenue, while voice revenue stayed flat YoY.

The 9% YoY increase in cable MSO's revenue was propelled by 4% rise in total number of subscribers and 5% addition of ARPU, which came largely from broadband service and channel leasing.

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II. EBIT Analysis

Table 2. EBIT Breakdown

NT$bn	2Q07	1Q07	2Q06	QoQ	YoY
EBITDA					
Wireless	7.13	6.94	6.73	3%	6%
Fixed-line	0.29	0.26	0.13	10%	130%
Cable MSO	0.53	0.51	0.47	5%	14%
Margin					
Wireless	48.2%	47.9%	45.7%		
Fixed-line	15.2%	13.8%	6.8%		
Cable MSO	53.0%	51.7%	50.9%		
D&A[1]					
Wireless	2.00	1.96	1.93	2%	3%
Fixed-line	0.36	0.35	0.57	2%	-37%
Cable MSO	0.12	0.12	0.14	1%	-13%
EBIT					
Wireless	5.13	4.98	4.80	3%	7%
Fixed-line	(0.07)	(0.09)	(0.45)	N.M.	N.M.
Cable MSO	0.42	0.39	0.33	6%	25%

1. Excluding depreciation savings due to negative goodwill amortisation

Table 3. Non-operating Item

NT$bn	2Q07	1Q07	2Q06	QoQ	YoY
Non-Operating	**(0.03)**	**0.00**	**0.50**	**NM**	**NM**
-Net Interest Expense	(0.19)	(0.03)	(0.05)	610%	318%
- Write-off (Loss)	(0.22)	(0.18)	(0.18)	24%	26%
-Other Non-ops.	0.39	0.21	0.73	88%	-47%

EBIT Analysis

Mobile business saw continuous EBITDA margin expansion in 2Q. The sequential margin increase is attributable to lower cash network cost and stronger revenue while the YoY jump is due to lower marketing expenses.

Fixed-line's EBITDA margin in 2Q also enlarged both QoQ and YoY because of better product mix, lowered personnel expenses, and less marketing spending.

Cable MSO has benefited from better economies of scale with cash cost stayed flat while revenue continue to go up, leading to a higher EBITDA margin in 2Q.

As shown in table 2, depreciation & amortization edged up for mobile division due to 3G infrastructure roll-outs. In contrast, fixed-line had a noticeable reduction in D&A, following its major asset impairment in 2006 year-end.

Accordingly, EBIT for both mobile and cable divisions had good YoY growth in 2Q. Fixed-line division reported a significant YoY operating loss reduction during the period.

Non-Operating Item Analysis

Net interest expense increased in 2Q as we start factoring in interest expenses of fixed-line and cable MSO divisions.

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III. Income Statement Analysis

Table 4. Income Statement

NT$bn	2Q07	1Q07	2Q06
Revenue	**16.69**	**14.48**	**14.75**
Telecom Service Revenue	15.78	14.41	14.64
Other Revenue	0.91	0.07	0.11
Operating Cost	**7.37**	**6.18**	**6.09**
Operating Expenses	**3.70**	**3.32**	**3.86**
EBITDA	7.82	6.94	6.73
Operating Income	**5.62**	**4.98**	**4.80**
Non-op. Income (Expense)	(0.03)	0.00	0.50
Pre-tax Income	5.59	4.98	5.30
(Less Tax)	(1.39)	(1.17)	(0.63)
(Minority Interest)	(0.01)	0.00	(0.03)
Net Income - Attributed to the Parent	**4.19**	**3.81**	**4.65**
EPS (NT$)	1.05	0.77	0.94

Table 5. TWM Consolidated Results vs. Forecast

NT$bn	2Q07 Actual	2Q07 Forecast	% of Forecast Achieved
Revenue	16.69	16.40	102%
Operating Income	5.62	4.95	114%
Pre-tax Income	5.59	4.71	119%
(Less Tax)	(1.39)	(1.10)	126%
Net Income - **Attributed to the Parent**	4.19	3.62	116%
EPS (NT$)	1.05	1.01	104%
EBITDA	7.82	7.24	108%
EBITDA margin	46.88%	44.17%	

Income Statement Analysis

Taiwan Mobile recorded NT$16.69bn total revenue in 2Q, with three major business divisions' revenue exceeding our expectations. After the adjustments for intra-company transactions, the inclusions of fixed-line and cable TV business increased our existing revenue by 13% in 2Q.

Consolidated EBIT of NT$5.62bn came in better than expectation due to higher than expected EBITDA margin in 2Q. Apart from summing up EBIT at three divisions, we added back NT$220m depreciation savings in 2Q, which is derived from a negative goodwill generated from TFN acquisition. On a recurring basis, we estimate this depreciation savings to be NT$80m per month on the 84.6% TFN stake we have.

Compared to NT$500m non-operating income in 2Q06 due to the disposal of Howin Technology, TWM had no such one-off gain in the quarter.

In a nutshell, our EBIT and net profit reached a respective 114% and 116% of official guidance in 2Q.

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IV. Cash Flow Analysis

Table 6. Cash Flow

NT$bn	2Q07	1Q07	2Q06
Total Op Sources/(Uses)	**11.78**	**13.51**	**(3.00)**
Consolidated Net Income	4.20	3.81	4.67
Depreciation	1.93	1.71	1.67
Amortization	0.28	0.25	0.27
Asset Write-off Loss Add-back	0.22	0.18	0.18
Changes in Working Capital	(2.77)	1.39	(0.22)
Cash Management	7.91	6.17	(9.57)
Net Investing Sources/(Uses)	**(18.47)**	**(14.29)**	**(1.64)**
Divestment	10.42	0.00	0.07
Capex	(1.37)	(1.76)	(1.41)
Pledged Time Deposit	12.50	(12.50)	0.00
Acquisition of TFN	(39.99)	0.00	0.00
Net Financing Sources/(Uses)	**(6.73)**	**12.51**	**(2.82)**
Debt Repayment	(11.88)	0.00	0.00
Treasury Stock Transferred to Employees	0.71	0.03	0.06
Short-Term Borrowings	3.87	12.50	0.00
Minority Interest increase (decrease)	0.58	0.00	(0.63)
Cash Inherited from TFN	**3.92**	**0.00**	**0.00**
Net Cash Position Chg.	**(9.50)**	**11.73**	**(7.46)**

Table 7. Capex & FCF

NT$bn	2Q07	1Q07	2Q06
Cash Capex	**1.37**	**1.76**	**1.41**
- Mobile	**1.03**	**1.76**	**1.41**
- Fixed-line[1]	**0.23**		
- Cable MSO[1]	**0.11**		
% of Revenue	**8%**	**12%**	**10%**
Free Cash Flow	**10.41**	**11.75**	**(4.41)**

1. for only 2.5months cash capex

Cash Flow Analysis

Our 2Q cash flows included all the TFN consolidated cash flow activities from April 17 to June 30. Given the high cash generation nature of cable MSO business and improved fixed-line EBITDA, the inclusion of TFN had positive contributions to our operating cash flow in 2Q07.

Additionally, we liquidated our investments in money market instruments and generated NT$7.91bn cash in operating cash flow in 2Q. The payment of annual corporate tax attributed to the NT$2.77bn working capital cash outflow in the quarter.

TFN divested NT$10.76bn worth of bond funds in 2Q. We also assumed NT$3.92bn cash from TFN after the acquisition.

To finance TFN acquisitions, we borrowed additional 3.87bn short-term loans in 2Q07 from 1Q07. Separately, TFN repaid NT$11.5bn debts in 2Q.

Net net, our cash position reduced only by NT$9.5bn in 2Q, despite the NT$40bn spent on TFN transaction.

Capex and Free Cash Flow Analysis

Group capex in 2Q was on track and accounted for only 8% of revenue. In 1H, mobile, fixed-line, and cable MSO capex totaled NT$2.8bn, 341m, and 279m, respectively. We expect mobile and cable MSO capex to be more back-end loaded and maintain our full-year capex guidance of NT$6.8bn for mobile, NT$850m for fixed-line, and NT$540m for cable MSO.

V. Balance Sheet Analysis

Table 8. Balance Sheet

NT$bn	2Q07	1Q07	2Q06
Total Assets	**119.85**	**134.97**	**124.90**
Current Assets	26.50	52.06	40.18
- Cash & Cash Equivalents	14.65	24.14	14.36
-Available-for-Sale Financial Asset	3.31	0.36	8.78
-Financial Assets at Fair Value	0.00	7.91	9.57
- Other Current Assets	8.55	19.65	7.48
Long-Term Investment	2.89	3.88	4.01
Property and Equipment	65.69	58.74	61.37
Intangible Assets	22.16	15.62	16.37
-3G License	8.60	8.79	9.35
-Goodwill	9.95	6.84	6.84
Other Assets	2.62	4.67	2.97
Liabilities	**67.77**	**41.24**	**42.89**
Current Liabilities	52.43	30.71	28.10
- ST Debts	26.78	16.30	1.59
- Other Current Liabilities	25.65	14.41	26.51
Long-Term Borrowings	14.58	10.00	14.05
Other Liabilities	0.76	0.53	0.74
Shareholders' Equity	**52.09**	**93.73**	**82.01**

Table 9. Ratios

	2Q07	1Q07	2Q06
Current Ratio	51%	170%	143%
Interest Coverage (x)	31.0	63.9	40.4
Net Debt (Cash) to Equity	51%	-6%	-10%
ROE (annualized)	23%	17%	18%
ROA (annualized)	14%	12%	13%

Balance Sheet Analysis

To reflect our 84.6% stake in TFN, the TWM consolidated balance sheet figures shown in table 8 included assets and liabilities on TFN's consolidated balance sheet as of June 30 for the first time in 2Q07. By the same token, our shareholders' equity account was deducted by NT$37bn to comply with Taiwan GAAP of booking 27.4% TWM shares owned by TFN as treasury stocks. Separately, NT$3.97bn minority interest was credited into shareholders' equity for the 15.4% TFN not owned by us.

On the asset side, the integration of TFN increased our available-for-sale financial assets inclusive of NT$2.6bn worth of Fubon Financial Holding shares; net PP&E by NT$5.4bn; and goodwill by NT$3.1bn.

On the liability side, current liability rose because of cash dividend payable.

Besides the aforementioned factors, shareholders' equity in 2Q was reduced by the same amount of our dividend declaration and employee bonus.

Ratio Analysis

TFN transaction enabled TWM to have a more efficient balance sheet. As such, we had higher ROA and ROE. Although the treasury share accounting treatment lowered our shareholders' equity account to NT$52bn in 2Q from NT$94bn in 1Q, our net debt to equity of 51% was at a healthy level. Our net debts of NT$26.38bn at the end of 2Q equal to 0.89x of our full-year EBITDA.

A low current ratio is a seasonal norm when we declared cash dividend thus increased accounts payable.

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VI. Forecast

Table 10. Forecast

NT$bn	3Q07	4Q07	2007[1]
Revenue	17.23	17.00	65.40
-Telecom Service Revenue	15.98	15.80	61.98
EBITDA	7.55	7.37	29.68
EBITDA margin	43.78%	43.37%	45.37%
Operating Income	5.20	4.97	20.77
Pre-tax Income	4.77	(9.48)	5.87
(Less Tax)	(1.13)	2.42	(1.26)
Net Income	3.60	(7.08)	4.52
EPS (NT$)[2]	0.99	(1.68)	1.13

Note 1: 2007 forecast equals to 1H actual plus 2H forecast.
Note 2: EPS calculation in 3&4Q is based on 4.1bn and 4.0bn shares outstanding respectively.

Table 11. Mobile Division's Forecast

NT$bn	3Q07	YoY
Revenue	14.85	-1%
-Telecom Service Revenue	14.74	-1%
EBITDA	6.68	-4%
EBITDA margin	45.01%	
Operating Income	4.64	-8%
Pre-tax Income	4.65	-26%

We released our 3Q and 4Q guidance on May 16 and projected full-year revenue of NT$65.40bn, EBITDA of NT$29.68bn, and net profit of NT$4.52bn. For details, please refer to TWM website.

<u>Recap of our 3Q guidance</u>

Mobile business

Mobile revenue expects to have a 1% YoY dip in 3Q07, as MOU increases are expected to be offset by NCC's mandatory price cut. Rising network maintaining cost, and stronger sales activities are expected to weigh on 3Q's EBITDA. Assets write-off is to be remained at same level as last quarter at NT$205m. The one-off NT$1.5bn Chunghwa Telecom share disposal gains in 3Q06 makes 3Q07 pre-tax income a tough comparison.

Fixed-line business

3Q EBITDA in fixed-line business is estimated to expand and to grow double-digit YoY, benefited from better product mix and lowered operating expenses.

Cable TV business

The business is growing steadily, driven by basic pay-TV and broadband user increase and rising cable ARPU. In 3Q07, we expect its EBITDA to show a YoY increase with margin over 50% still.

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VII. Management Discussion & Analysis

Key Message

TWM consummated the tender offer of TFN in 2Q, opening the door for providing a more diverse platform of services to our customers through quadruple play. Access to growth from various avenues other than mobile services to pre-empt future competition has become accessible. Despite the time-consuming process of integration of various entities, we expect to see positive developments continuously and look forward to delivering the results in due course.

Update of the TFN Integration

- A merger resolution with TIT by TFN's AGM was passed on June 29 which is expected to be consummated by end of this year.
- The acquisition cost for 84.6% of TFN is NT$14.2bn lower than its net worth as of June 30, 2007. The amortization of the negative goodwill over TFN's remaining equipment useful life translates into NT$1bn p.a. of depreciation savings for TWM.
- In terms of balance sheet management, we have raised NT$16.37bn of new debts at TIT in 1H. In addition, we are in the process of refinancing borrowings at TFN Media to realize interest savings on its NT$5.33bn loans. We estimate to have a healthy balance sheet with gross debts of around NT$51bn at the end of this year.

WiMAX Licensing

- Taiwan Mobile was not awarded the WiMAX license as a result of our prudent approach toward the bidding given its immature technology and business model. This outcome will not have any impact on the current operations and future developments of our wireless broadband business. We will evaluate different business models for wireless broadband and all available technologies including 3G, 3.5G, WiMAX, Long-term Evolution (LTE), among others to provide comparably convenient and stable services to our customers.