

October 29, 2009

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TWM consolidated

NT\$bn	<u>3Q09</u>	<u>2Q09</u>	<u>3Q08</u>	<u>QoQ</u>	<u>YoY</u>
Revenue	17.36	17.35	17.61	0%	-1%
EBITDA	7.43	7.40	7.65	0%	-3%
Operating Income	5.21	5.20	5.55	0%	-6%
Non-op. Income (Expense)	(0.53)	(0.39)	(0.13)	35%	291%
Pre-tax Income	4.68	4.81	5.42	-3%	-14%
(Less Tax)	(1.17)	(1.20)	(1.35)	-3%	-13%
Net Income	3.51	3.61	4.06	-3%	-14%
EPS (NT\$)	1.18	1.21	1.36	-2%	-13%
EBITDA margin	42.80%	42.63%	43.45%	0.16pps	-0.65pps
Operating margin	30.02%	29.98%	31.53%	0.04pps	-1.51pps

Highlights of 3Q09 Results

Our 3Q revenue reached NT\$17.4bn, remaining stable QoQ and down only 1% YoY. Lower-than-expected mobile subscriber acquisition expense and good G&A expense control resulted in 3Q EBTIDA exceeding our guidance by 1%.

On the non-operating front, as network optimization was slightly ahead of schedule, NT\$0.47bn of assets write-off losses in 3Q09 exceed our guidance by NT\$82mn.

To sum up, 3Q09 net income reached 101% of the official guidance. And net profits for the first nine months of this year totaled NT\$10.37bn, or NT\$3.49 in EPS, reaching 75% of our full-year target.

4Q09 and Full-Year Guidance

- Mobile revenue in 4Q is estimated be resilient, compared to the level a year ago. Operating expense controls will lead to a positive YoY growth in EBITDA in 4Q.
- In 4Q, we expect cable related revenue and profits to trend up sequentially and to record double digit YoY growth.
- Fixed network's EBITDA in 4Q is expected to have a small YoY increase, backed by expense disciplines.
- Net income in 4Q is expected to be NT\$1.18, up 11% YoY. Full-year EPS is forecast to be NT\$4.67.

Management Remark

We have been able to meet our guidance for the past three quarters and expect to finish the year in the same manner for our existing businesses.

To regain growth momentum and pave the way for the long term, we have announced the plan to acquire Carlyle's cable assets in Taiwan. After the deal is approved and consummated, TWM's competitive landscape is expected to change entirely, with more revenue & EBITDA from non-voice businesses. We look forward to further enhancing shareholder return in the foreseeable future.

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I. Revenue Analysis

Table 1. Key Operational Data

Revenue (NT\$bn)	3Q09	2Q09	3Q08	QoQ	YoY
CBG	13.70	13.45	13.92	2%	-2%
Mobile Service	12.53	12.34	13.01	2%	-4%
-Voice	10.86	10.75	11.69	1%	-7%
-VAS	1.67	1.59	1.32	5%	27%
IDD	0.73	0.74	0.79	-1%	-7%
Device Sales	0.40	0.34	0.09	19%	330%
EBG	2.36	2.40	2.56	-2%	-8%
Mobile Service	0.95	0.88	0.95	8%	0%
Fixed-line	0.87	0.90	0.95	-3%	-8%
ISR & Others	0.54	0.62	0.66	-13%	-19%
HBG¹	1.35	1.32	1.10	2%	23%
- Pay-TV related	0.99	0.98	0.96	1%	3%
- Broadband	0.15	0.14	0.10	8%	49%
- content & others	0.20	0.20	0.03	2%	560%

	3Q09	2Q09	3Q08	QoQ	YoY
Mobile Subscribers (K)	6,415	6,390	6,224	0%	3%
2G	3,035	3,323	4,120	-9%	-26%
3G	3,380	3,066	2,103	10%	61%
- Data card	175	145	56	21%	211%
Monthly Churn	1.8%	1.7%	1.9%		
MOU (bn)	3.97	4.09	3.82	-3%	4%
ARPM (NT\$)	3.54	3.37	3.81	5%	-7%
Pay-TV Subs (K)	548	544	535	1%	2%
Cable Broadband Subs (K)	109	102	82	7%	33%

	3Q09	2Q09	3Q08	QoQ	YoY
Wireless					
ARPU (NT\$)	731	722	780	1%	-6%
MOU per sub (minute)	207	214	205	-4%	1%
Cable MSO					
Monthly Subscription (NT\$)	510	510	510	0%	0%
Broadband ARPU (NT\$)	486	481	440	1%	11%
Blended ARPU ² (NT\$)	697	689	667	1%	5%

1. HBG KPIs included content & other businesses since January 2008.

2. All CATV revenue divided by its subscriber number

Revenue Analysis

CBG:

CBG's 3Q09 mobile revenue further improved, leading to a high QoQ growth and narrowed YoY decrease. We note that mobile revenue benefited from continuous improvement in revenue per minute as a result of lower free minutes in 3Q09. Wireless data revenue also recorded a pronounced growth in the quarter.

With dropping number of foreign workers, IDD business growth remained in the negative territory in the quarter.

EBG:

In line with CBG's pattern, enterprise mobile revenue also saw QoQ growth, aided by rising sub number and seasonality of higher international roaming revenue (all mobile roaming revenue booked under EBG). The QoQ fixed-line revenue decrease was due mainly to higher one-time revenue booked in 2Q09. Compared to a year ago, both fixed-line voice and data business were still under pressure in 3Q09. ISR & other revenue drop was partially associated with lower international wholesale traffics.

HBG:

As of the end of 3Q09, our cable broadband penetration reached 20%, higher than industry average of 15%. Growing broadband penetration coupled with rising broadband ARPU resulted in an up-lift in blended HBG ARPU.

II. EBIT Analysis

Table 2. EBIT Breakdown

NT\$bn	3Q09	2Q09	3Q08	QoQ	YoY
EBITDA	7.43	7.40	7.65	0%	-3%
- CBG	6.24	6.22	6.63	0%	-6%
- EBG	0.51	0.53	0.45	-3%	13%
- HBG	0.63	0.62	0.54	2%	15%
Margin	42.8%	42.6%	43.5%	0.2pps	-0.7pps
- CBG	45.5%	46.2%	47.6%	-0.7pps	-2.1pps
- EBG	21.7%	22.0%	17.7%	-0.3pps	4.0pps
- HBG	46.6%	46.7%	49.7%	-0.1pps	-3.1pps
D&A	2.22	2.20	2.10	1%	6%
- CBG	1.94	1.92	1.86	1%	5%
- EBG	0.11	0.10	0.07	1%	58%
- HBG	0.13	0.13	0.13	0%	-3%
EBIT	5.21	5.20	5.55	0%	-6%
- CBG	4.30	4.30	4.77	0%	-10%
- EBG	0.41	0.42	0.39	-4%	5%
- HBG	0.50	0.49	0.41	2%	21%

Table 3. Non-operating Item

NT\$bn	3Q09	2Q09	3Q08	QoQ	YoY
Non-Operating	(0.53)	(0.39)	(0.13)	35%	291%
-Net Interest Expense	(0.11)	(0.10)	(0.14)	12%	-21%
- Write-off Loss	(0.47)	(0.38)	(0.19)	22%	147%
-Others	0.05	0.09	0.20	-43%	-73%

EBITDA Analysis

Compared to 2Q09, CBG's 3Q EBITDA was sustained by rising revenue, contained SAC (subscriber acquisition cost), and G&A expense savings to compensate for higher retention expense and advertising expense. Compared to a year ago, CBG's EBITDA was negatively affected by voice revenue drop, company store related opex rise, and advertising expense increase to promote new tariff 699 plan, BlackBerry new model, Storm, and two new Android phones.

EBG's EBITDA was down from a quarter ago mainly due to higher one-time revenue booked in 2Q09. In contrast to revenue decrease, YoY EBITDA growth was credited to opex savings.

HBG contributed to 8% of total EBITDA in 3Q09 and reported a healthy 2% QoQ and 15% YoY increase in EBITDA. Although its EBITDA margin decreased in 3Q09 contracted from a year ago due to inclusions of more content related revenue, while cable broadband EBITDA margin expanded to 43.7% in 3Q09, from 28.2% a year ago, benefiting from larger economies of scale.

Non-Operating Item Analysis

Net interest expenses in 3Q09 declined by 21% YoY, due mainly to a reduced debt level and lower funding costs. Compared to 3Q08, asset write-off loss in 3Q09 was higher. Separately, we realized NT\$48m loss from divesting Hurray ADS.

III. Income Statement Analysis

Table 4. TWM Consolidated Results vs. Forecast

NT\$bn	3Q09 Actual	3Q09 Forecast	% of Forecast Achieved
Revenue	17.36	17.57	99%
Operating Income	5.21	5.09	102%
Pre-tax Income	4.68	4.64	101%
(Less Tax)	(1.17)	(1.16)	101%
Net Income - Attributed to the Parent	3.51	3.48	101%
EPS (NT\$)	1.18	1.17	101%
EBITDA	7.43	7.36	101%
EBITDA margin	42.8%	41.87%	

Table 5. Income Statement

NT\$bn	3Q09	2Q09	3Q08
Revenue	17.36	17.35	17.61
Service Revenue ¹	16.95	17.00	17.51
Operating Cost	(8.33)	(8.44)	(8.13)
Operating Expenses	(3.82)	(3.70)	(3.93)
EBITDA	7.43	7.40	7.65
Operating Income	5.21	5.20	5.55
Non-op. Income (Expense)	(0.53)	(0.39)	(0.13)
Pre-tax Income	4.68	4.81	5.42
(Less Tax)	(1.17)	(1.20)	(1.35)
Net Income	3.51	3.61	4.07
EPS (NT\$)	1.18	1.21	1.36

1. Total revenue deducted handset sales revenue.

Table 6. 1-3Q09 results vs. 2009 Forecast

NT\$bn	1-3Q09	YoY	% of Forecast Achieved
Revenue	51.59	-1%	74%
Operating Cost	(25.12)	6%	77%
Operating Expenses	(11.20)	-5%	68%
EBITDA	21.86	-5%	75%
Operating Income	15.27	-10%	76%
Non-op. Income (Expense)	(1.44)	171%	86%
Pre-tax Income	13.84	-15%	75%
(Less Tax)	(3.46)	-16%	75%
Net Income - Attributed to the Parent	10.37	-15%	75%
EPS (NT\$)	3.49	-15%	75%

Income Statement Analysis

Our 3Q revenue reached NT\$17.4bn, remaining stable QoQ and down only 1% YoY.

Lower-than-expected mobile subscriber acquisition expense and good G&A expense control resulted in 3Q EBTIDA exceeding our guidance by 1%.

On the non-operating front, as network optimization execution was slightly ahead of schedule, NT\$0.47bn of assets write-off losses in 3Q09 exceed our guidance by NT\$82mn. We estimate full-year write-off loss of NT\$1.70bn.

To sum up, 3Q09 net income reached 101% of the official guidance. And net profits for the first nine months of this year totaled NT\$10.37bn, or NT\$3.49 in EPS, reaching 75% of our full-year target.

IV. Cash Flow Analysis

Table 7. Cash Flow

NT\$bn	3Q09	2Q09	3Q08
Total Op Sources/(Uses)¹	4.92	4.05	5.71
Consolidated Net Income	3.51	3.61	4.07
Depreciation	1.95	1.92	1.82
Amortization	0.27	0.27	0.27
Changes in Working Capital	(1.93)	(2.78)	(0.87)
Other Add-back	1.12	1.02	0.42
Net Investing Sources/(Uses)	(1.13)	(2.10)	(1.79)
Capex	(1.25)	(2.09)	(2.01)
Disposal of Hurray Holding ADS	0.14	0.00	0.00
Net Financing Sources/(Uses)	(7.49)	(0.16)	(4.45)
Dividend and Bonus Payment	(13.97)	(0.00)	(7.80)
Short-Term Borrowings	3.30	(0.50)	2.45
Commercial Paper Payable	0.50	0.00	1.85
Long-Term Borrowings	2.30	0.00	(0.90)
Disposal of Treasury Stock	0.38	0.36	0.00
Net Cash Position Chg.	(3.70)	1.78	(0.52)

1. Inclusive cash flow for cash managements.

Table 8. Capex & FCF

NT\$bn	3Q09	2Q09	3Q08
Cash Capex	1.25	2.09	2.01
- Mobile	0.96	1.38	1.67
- Fixed-line	0.16	0.61	0.29
- Cable MSO	0.13	0.11	0.04
% of Revenue	7%	12%	11%
Free Cash Flow	3.67	1.95	3.70

Cash Flow Analysis

3Q09 operating cash flow rose from 2Q09 partially due to the fewer payments of corporate tax in this quarter.

3Q09's lower cash capex was resulted from pulling in cash payments in 2Q. Year to date, the accumulative capex reached NT\$4.84bn versus our full-year target of NT\$6.5bn.

In terms of financing activities, total borrowings increased by NT\$6.1bn to supply the NT\$14bn dividend payment in 3Q09. NT\$0.38bn cash inflows were from selling treasury shares to employees in 3Q09. Following the closing of cable asset acquisition, total number of treasury shares will fall to 223m shares from current 812m.

Capex and Free Cash Flow Analysis

The QoQ rise in 3Q09 FCF was resulted from escalated operating cash inflows and lower cash capex as mentioned above.

Despite the recent share price run-up, annualized free cash flow yield in 3Q09 stood at 7%.

V. Balance Sheet Analysis

Table 9. Balance Sheet

NT\$bn	3Q09	2Q09	3Q08
Total Assets	87.07	91.88	91.81
Current Assets	11.91	15.70	13.05
- Cash & Cash Equivalents	2.81	6.50	3.73
-Available-for-Sale Financial Asset	0.17	0.32	0.30
- Other Current Assets	8.93	8.88	9.02
Long-Term Investment	3.22	3.22	3.04
Property and Equipment	46.99	47.76	49.18
Intangible Assets	21.44	21.69	22.34
Other Assets	3.51	3.50	4.21
Liabilities	38.46	47.26	42.98
Current Liabilities	27.16	38.24	35.04
- ST Debts/Commercial Paper Payable	11.30	7.50	17.74
- Other Current Liabilities	15.86	30.74	17.30
Long-Term Borrowings	10.30	8.00	7.50
Other Liabilities	1.00	1.02	0.45
Shareholders' Equity	48.61	44.62	48.83
-Paid-in Capital	38.01	38.01	38.01
-Capital Surplus	12.43	12.37	12.27
-Legal Reserve	13.94	13.94	12.41
-Treasury Shares	(31.89)	(32.27)	(31.89)
-Un-appropriated Earnings*	2.27	2.27	2.34
-Special Reserve	3.35	3.35	3.41
-Retained Earnings & Others	10.49	6.94	12.28

*: excluding YTD profits

Table 10. Ratios

	3Q09	2Q09	3Q08
Current Ratio	44%	41%	37%
Interest Coverage (x)	41.5	46.4	31.6
Net Debt to Equity	39%	20%	44%
Net Debt to EBITDA (x)	0.64	0.31	0.71
ROE (annualized)	30%	29%	40%
ROA (annualized)	16%	16%	18%

Balance Sheet Analysis

Cash balance was down by NT\$3.69bn from previous quarter mainly due to dividend payment of NT\$14bn on July 24. Short term borrowing of NT\$3.8bn and long term debts of NT\$2.3bn were raised in 3Q09 to fund this payout. As such, net debt to EBITDA went up to 0.64x in 3Q.

Available for sale finance asset decreased in the quarter as we disposed of our holding in Hurray! Holding's ADS.

Net PP&E balance at the end of 3Q09 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\$17.92bn as of the end of 3Q09.

Following the closing of recently announced cable acquisition deal, we estimate total capital surplus to reach NT\$21.22bn from current NT\$12.43bn, boosted by capital gains of treasury share sale.

Ratio Analysis

Current ratio improved to 44% in 3Q09 due to the decline in other current liabilities as dividends were paid.

Net debt to EBITDA rose in 3Q because of increased debt levels.

VI. Forecast

Table 11. Forecast

NT\$b	4Q09	QoQ	YoY	2009
Revenue	17.52	1%	3%	69.11
Cash Cost	(6.18)	-2%	1%	(29.25)
Selling Expense	(2.82)	8%	2%	(10.40)
G&A	(1.34)	11%	9%	(4.95)
EBITDA	7.39	-1%	5%	29.25
EBITDA Margin	42.17%	-0.63pps	+0.65pps	42.33%
D&A	(2.30)	4%	7%	(8.89)
Operating Income	5.09	-2%	4%	20.36
Asset write-off	(0.37)	-22%	-47%	(1.70)
Pre-tax Income	4.70	0%	12%	18.53
Tax Expense	(1.17)	0%	12%	(4.64)
Net Income	3.52	0%	12%	13.89
EPS (NT\$)	1.18	0%	11%	4.67

Note:

1. 4Q and 2009 full-year forecast was issued in January 2009 which did not factor in content aggregation related revenue and profits
2. 2009 full-year forecast is using 1-3Q actual results plus 4Q forecast.

Guidance

- In 4Q, we expect cable related revenue and profits to trend up sequentially and to record double-digit YoY growth, propelled by pay-TV, content distribution, and cable broadband.
- Mobile revenue in 4Q is not expected to further trend up from 3Q due to seasonality but is estimated to be resilient, compared to the level a year ago. Operating expense controls will lead to a positive YoY growth in EBITDA in 4Q.
- Fixed network's EBITDA in 4Q is expected to be stable QoQ and have a small YoY increase, backed by expense disciplines.
- Main non-operating item in 4Q will be NT\$366m of asset write-off loss.

VII. Management Discussion & Analysis

Key message

We have been able to meet our guidance for the past three quarters and expect to finish the year in the same manner for our existing businesses.

To regain growth momentum and pave the way for the long term, we have announced the plan to acquire Carlyle's cable assets in Taiwan. After the deal is approved and consummated, TWM's competitive landscape is expected to change entirely, with more revenue & EBITDA from non-voice businesses. We look forward to further enhancing shareholder return in the foreseeable future.

Acquisition

- Filing with FTC (Fair Trade Commission) on October 9th to acquire Carlyle's cable assets in Taiwan

Award

- Awarded A+, the highest ranking in Information Disclosure and Transparency Assessments conducted by Securities and Futures Institute, four times in a row

New Product and Service

- Launched a new rate plan with monthly fee of NT\$699 featuring lowest mobile → fixed tariff
- Introduced two new Android phones, Samsung Galaxy i7500 and HTC Tattoo. Launched brand new "Match" portal and new data plans with lower monthly spending commitments catered to low-data usage users
- Launched "New TV" digital TV service in our CATV operating regions in Yi-Lan and Kao-Hsiung counties in September, following in Taipei County in July