1st Quarter Results

for the period ended March 31, 2011

April 28, 2011

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		TWM consolidated			
NT$bn	**1Q11**	**4Q10**	**1Q10**	**QoQ**	**YoY**
Revenue	**18.22**	**17.90**	**17.08**	**2%**	**7%**
EBITDA	**6.29**	**6.37**	**7.06**	**-1%**	**-11%**
Operating Income	**3.98**	**4.09**	**4.78**	**-3%**	**-17%**
Non-op. Income (Expense)	**(0.01)**	**(0.08)**	**(0.26)**	**-82%**	**-94%**
Pre-tax Income	**3.97**	**4.01**	**4.52**	**-1%**	**-12%**
(Less Tax)	**(0.67)**	**(0.83)**	**(0.90)**	**-19%**	**-25%**
Net Income	**3.29**	**3.19**	**3.62**	**3%**	**-9%**
EPS (NT$)	**1.10**	**1.06**	**1.21**	**4%**	**-9%**
EBITDA margin	34.51%	35.56%	41.33%	-1.05pps	-6.82pps
Operating margin	21.85%	22.86%	27.98%	-1.01pps	-6.13pps

Highlights of 1Q11 Results

We managed to increase mobile service revenue by NT$96mn or 0.7% YoY in 1Q, on the back of NT$880mn or 46% YoY growth in wireless data revenue, to offset the NT$648mn negative revenue impact (or 4.8% YoY drop in mobile service revenue) on mobile voice business from the regulation interventions. CATV and cable internet also contributed another NT$69mn in revenue increase.

Both EBG's and HBG's EBITDAs maintained a healthy double-digit YoY growth and made up 22% of total profits in 1Q11. Nonetheless, consolidated EBITDA in 1Q11 decreased by NT$773mn YoY, arising mainly from the aforementioned regulatory interventions.

Non-operating expenses dropped 94% YoY, mainly due to an 80% decrease in asset write-off losses.

Guidance

Looking into 2Q, we expect both revenue & EBITDA to trend up sequentially. With higher asset write-off losses in 2Q, our 2Q EPS is forecasted to be NT$1.10, flattish QoQ.

Dividend Proposal

TWM's board meeting today (April 28) approved a proposal to distribute NT$12.4bn of cash dividends or 90% payout to shareholders. Dividend per share is NT$4.16.

Management Remark

Our thrust into smartphone penetration has paid off in the first quarter in helping mitigate the impact from regulatory intervention. Pending approval from the FTC, the Momo acquisition as announced will further support our drive to diversify into other core businesses. Meanwhile, regulatory uncertainties remain. TWM will step up our efforts to grow non-voice businesses to enhance shareholder return.

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I. Revenue Analysis

Table 1. Key Operational Data

Revenue (NT$bn)	1Q11	4Q10	1Q10	QoQ	YoY
CBG[1]	**14.37**	**14.05**	**13.51**	**2%**	**6%**
Mobile Service	12.05	12.31	12.03	-2%	0%
-Voice	9.37	9.91	10.19	-5%	-8%
-VAS	2.68	2.40	1.84	12%	46%
IDD	0.64	0.64	0.73	0%	-13%
Device Sales	1.59	1.01	0.67	57%	136%
EBG	**2.41**	**2.44**	**2.24**	**-1%**	**8%**
Mobile Service	0.96	1.04	0.92	-7%	5%
Fixed-line	0.87	0.87	0.85	0%	2%
ISR & Others	0.57	0.53	0.47	9%	22%
HBG	**1.45**	**1.46**	**1.39**	**0%**	**4%**
- Pay-TV related	1.04	1.04	1.01	0%	3%
- Broadband	0.22	0.21	0.18	4%	22%
- Content & others[1]	0.20	0.21	0.21	-4%	-2%

	1Q11	4Q10	1Q10	QoQ	YoY
Mobile Subscribers (K)	**6,417**	**6,399**	**6,391**	**0%**	**0%**
2G	1,881	1,994	2,511	-6%	-25%
3G	4,536	4,405	3,880	3%	17%
- Data card	281	264	218	6%	29%
Monthly Churn	**1.7%**	**1.8%**	**1.8%**		
MOU (bn)	**3.50**	**3.57**	**3.60**	**-2%**	**-3%**
ARPM (NT$)	**3.88**	**3.90**	**3.74**	**0%**	**4%**
Pay-TV Subs (K)	**570**	**566**	**555**	**1%**	**3%**
Cable Broadband Subs (K)	142	137	121	4%	18%

	1Q11	4Q10	1Q10	QoQ	YoY
Wireless					
ARPU (NT$)	707	726	703	-3%	1%
MOU per sub (minute/month)	182	186	188	-2%	-3%
Cable MSO					
Monthly Subscription (NT$)	506	510	511	-1%	-1%
Broadband ARPU (NT$)	516	509	501	1%	3%
Blended ARPU[2] (NT$)	735	735	715	0%	3%

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:
In 1Q11, mobile voice revenue YoY decline enlarged to 8% from 5% a quarter ago, due to the F2M tariff cut implemented starting this year. Thanks to the strong wireless data revenue increase offsetting mobile voice revenue softness, mobile service revenue remained flattish from a year ago.

Our wireless data revenue growth rate accelerated to 46% YoY in 1Q, outperforming our peers and expectations. This is supported by an 86% YoY increase in mobile internet access revenue, stemming from a 55% YoY rise in data APRU and a 25% YoY increase in the number of active data users. As a result, TWM reported the highest ARPU amongst the big three. IDD business in 1Q, however, was lackluster attributable to intense competition.

EBG:
EBG mobile revenue was up 8% YoY, attributed to a growing enterprise subscriber base and a rising roaming revenue. Enterprise customers' fixed-line revenue grew 2% from a year ago, due to a pick-up in internet/data/access business. ISR and other revenues, while currently representing some 20% of EBG's revenue, are quite volatile.

HBG:
The price caps on basic TV monthly subscription in New Taipei City and Yilan County were downward adjusted by local governments in 2011, leading to a slight YoY dip in CATV subscription ARPU. The pay-TV related revenue, however, managed to grow 3% YoY from the expansion in subscriber base.
Broadband's double digit revenue growth resulted from an 18% and 3% YoY increase in subscribers and ARPU, respectively. Broadband APRU enhancement was underway with 65% of our newly acquired broadband customers subscribing to 10Mbps or above services in this quarter, up from 56% in 4Q10.
DTV penetration reached 5.3% at the end of 1Q11, generating around NT$170 in ARPU.
By selling more services into the same pay-TV household, HBG's blended APRU showed a 3% YoY increase in 1Q11.

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II. EBIT Analysis

Table 2. EBIT Breakdown

NT$bn	1Q11	4Q10	1Q10	QoQ	YoY
EBITDA	**6.29**	**6.37**	**7.06**	**-1%**	**-11%**
- CBG	4.92	5.02	5.86	-2%	-16%
- EBG	0.61	0.62	0.52	-1%	16%
- HBG	0.75	0.72	0.67	5%	12%
Margin	**34.5%**	**35.6%**	**41.3%**	**-1.1%**	**-6.8%**
- CBG	34.3%	35.8%	43.4%	-1.5%	-9.1%
- EBG	25.3%	25.3%	23.4%	0.0%	1.8%
- HBG	51.9%	49.6%	48.5%	2.4%	3.4%
D&A	**2.31**	**2.27**	**2.28**	**1%**	**1%**
- CBG	1.96	1.94	1.99	1%	-1%
- EBG	0.18	0.17	0.12	9%	48%
- HBG	0.12	0.12	0.13	2%	-4%
EBIT	**3.98**	**4.09**	**4.78**	**-3%**	**-17%**
- CBG	2.96	3.08	3.87	-4%	-24%
- EBG	0.43	0.45	0.40	-5%	6%
- HBG	0.63	0.60	0.55	5%	16%

Table 3. Non-operating Item

NT$bn	1Q11	4Q10	1Q10	QoQ	YoY
Non-Operating	**(0.01)**	**(0.08)**	**(0.26)**	**-82%**	**-94%**
-Net Interest Expense	(0.06)	(0.05)	(0.08)	21%	-17%
- Write-off Loss	(0.06)	(0.16)	(0.30)	-62%	-80%
-Others	0.11	0.13	0.12	-16%	-7%

<u>EBITDA Analysis</u>

For the quarter, the company's increased smartphone subsidies were largely offset by strong data revenue growth and savings from G&A. Nonetheless, CBG's EBITDA still reported a decline attributing mainly to the mandatory tariff cut and lower F2M tariff regulated by NCC.

For 1Q11, both EBG's and HBG's EBITDAs maintained a healthy double-digit YoY growth and made up 22% of total profits.

EBG's 1Q11 profit growth is underpinned by rising enterprise mobile and roaming revenue, coupled with contained expenses.

HBG's profit rise came from 1) better economies of scale sending its EBITDA margin to a new high of 51.9% and 2) higher blended ARPU as explained in the previous page.

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

Non-operating expenses dropped 94% YoY, mainly due to an 80% decrease in asset write-off losses. Despite a sequential drop in gross debt in 1Q11, net interest expense rose from a quarter ago as an interest revenue of NT$24mn resulted from a corporate income tax refund was booked in 4Q10.

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III. Income Statement Analysis

Table 4. 1Q Consolidated Results vs. Forecast

NT$bn	1Q11 Actual	2011 Forecast	% of Forecast Achieved
Revenue	18.22	73.96	25%
Service Revenue[1]	16.60	67.52	25%
Handset Sales	1.62	6.44	25%
Operating Income	3.98	16.29	24%
Non-op. Income (Expense)	(0.01)	(0.54)	3%
Asset Write-off Losses	(0.06)	(0.61)	10%
Pre-tax Income	3.97	15.76	25%
(Less Tax)	(0.67)	(2.68)	25%
Net Income	3.29	13.08	25%
EPS (NT$)	1.10	4.57	24%
EBITDA	6.29	25.77	24%
EBITDA margin	34.5%	34.8%	

1. Total revenue deducted handset sales revenue.

Table 5. Income Statement

NT$bn	1Q11	4Q10	1Q10
Revenue	**18.22**	**17.90**	**17.08**
Service Revenue[1]	16.60	16.87	16.41
Operating Cost	**10.91**	**10.33**	**8.80**
Operating Expenses	**3.33**	**3.48**	**3.50**
EBITDA	6.29	6.37	7.06
Operating Income	**3.98**	**4.09**	**4.78**
Non-op. Income (Expense)	(0.01)	(0.08)	(0.26)
Pre-tax Income	3.97	4.01	4.52
(Less Tax)	(0.67)	(0.83)	(0.90)
Net Income	**3.29**	**3.19**	**3.62**
EPS (NT$)	1.10	1.06	1.21

1. Total revenue deducted handset sales revenue.

<u>Income Statement Analysis</u>

1Q11 consolidated revenue and EBITDA surpassed our expectation and achieved 25% and 24% of full-year guidance, respectively, mainly due to better-than-expected wireless data revenue as well as higher-than-expected handset sales. Separately, 1Q11 non-operating expenses also came in less than guidance, due to fewer-than-expected asset write-off losses. As such, our net profit achieved 25% of full-year guidance. However, full-year write-off losses will stay as guided.

Despite a combined NT$648mn negative revenue impact (or 4.8% YoY drop in mobile service revenue) on mobile voice business from the regulation interventions in 1Q11, we still managed to increase mobile service revenue by NT$96mn or 0.7% YoY, on the back of NT$880mn or 46% YoY growth in wireless data revenue. CATV and cable internet also contributed another NT$69mn in revenue increase.

Consolidated EBITDA in 1Q11 decreased by NT$773m YoY, arising mainly from the aforementioned regulatory interventions.

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IV. Cash Flow Analysis

Table 6. Cash Flow

NT$bn	1Q11	4Q10	1Q10
Total Op Sources/(Uses)[1]	**6.00**	**7.63**	**7.90**
Consolidated Net Income	3.29	3.18	3.62
Depreciation	2.02	2.00	2.01
Amortization	0.29	0.27	0.28
Changes in Working Capital	0.15	1.87	1.50
Asset Write-off Add-backs	0.06	0.16	0.30
Other Add-backs	0.18	0.14	0.20
Net Investing Sources/(Uses)	**(1.48)**	**(1.53)**	**(1.49)**
Capex	(1.28)	(1.40)	(1.46)
Deferred charges (Increase)	(0.20)	(0.05)	(0.02)
Divestment (Acquisition) & Others	(0.00)	(0.07)	(0.01)
Net Financing Sources/(Uses)	**(4.64)**	**(2.80)**	**(6.45)**
Short-Term Borrowings	(1.84)	(5.30)	(5.65)
Commercial Paper Payable	(0.50)	0.20	(0.80)
Long-Term Bank Loan	(2.30)	2.30	0.00
Net Cash Position Chg.	**(0.12)**	**3.30**	**(0.04)**

1. Inclusive of cash flow for cash management.

Table 7. Capex & FCF

NT$bn	1Q11	4Q10	1Q10
Cash Capex	**1.28**	**1.40**	**1.46**
- Mobile	0.89	0.78	1.03
- Fixed-line	0.34	0.57	0.28
- Cable MSO	0.06	0.06	0.15
% of Revenue	**7%**	**8%**	**9%**
Free Cash Flow	**4.71**	**6.23**	**6.44**

<u>Cash Flow Analysis</u>

Operating cash flow for the quarter decreased by NT$1.6bn QoQ due to a reduction in payables. In addition to the aforementioned reason, a drop in EBITDA also resulted in a YoY decline in 1Q11 operating cash flow.

1Q11 investing cash outflow was similar to previous levels, on the back of stable capex.

The NT$4.64bn debt repayment was the main cash outflow for financing activities during the quarter.

<u>Capex and Free Cash Flow Analysis</u>

Cash capex was on track and accounted for 7% of total revenue in 1Q. We estimate group capex to be more back-end loaded and the full-year capex guidance of NT$6.4bn to remain unchanged.

The decline in operating cash flow in 1Q11 led to free cash flow decreasing to NT$4.71bn, translating into an annualized yield of 7.2%.

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V. Balance Sheet Analysis

Table 8. Balance Sheet

NT$bn	1Q11	4Q10	1Q10
Total Assets	**84.44**	**85.48**	**84.43**
Current Assets	15.66	15.24	11.49
- Cash & Cash Equivalents	5.93	6.05	2.96
-Available-for-Sale Financial Asset	0.20	0.20	0.17
- Inventories	2.00	1.13	0.66
- Other Current Assets	7.53	7.86	7.71
Long-Term Investment	3.19	3.20	3.20
Property and Equipment	42.33	43.61	45.48
Intangible Assets	20.11	20.35	20.98
Other Assets	3.15	3.08	3.27
Liabilities	**30.25**	**34.58**	**28.74**
Current Liabilities	21.16	23.23	19.68
- ST Debts/Commercial Paper Payable	1.36	3.70	1.15
- Other Current Liabilities	19.80	19.53	18.53
Long-Term Borrowings	8.00	10.30	8.00
Other Liabilities	1.09	1.05	1.06
Shareholders' Equity	**54.19**	**50.90**	**55.69**
-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	17.21	13.93	17.58

*: excluding YTD profits

Balance Sheet Analysis

Cash balance at the end of 1Q11 remained stable from the previous quarter while inventories were up as a result of more smartphone procurements. Our smartphone sales volume rose 1.8x YoY and 27% QoQ in the quarter.

Net PP&E balance at the end of 1Q11 continued trending down, with depreciation and asset write-off higher than capex. 2G's net book value was reduced to NT$12.44bn, while 3G's rose to NT$12.46bn as of the end of 1Q11. The net PP&E balance consists of $35.9bn in mobile, $4.5bn in fixed network and $1.9bn in cable-TV assets.

Gross debt balance fell to NT$9.36bn due to a NT$4.64bn debt repayment in the quarter. That made net debt further decline to NT$3.43bn.

Table 9. Ratios

	1Q11	4Q10	1Q10
Current Ratio	74%	66%	58%
Interest Coverage (x)	56.8	49.1	57.9
Net Debt to Equity	6%	16%	11%
Net Debt to EBITDA (x)	0.13	0.29	0.23
ROE (annualized)	25%	26%	27%
ROA (annualized)	16%	15%	17%

Ratio Analysis

Current ratio's further rise was from a reduction in short-term debts which also improved net debt to EBITDA and net debt to equity ratios.

VI. Management Discussion & Analysis

Key message

Our thrust into smartphone penetration has paid off in the first quarter in helping mitigate the impact from regulatory intervention. Pending approval from the FTC, the Momo acquisition as announced will further support our drive to diversify into other core businesses. Meanwhile, regulatory uncertainties remain. TWM will step up our efforts to grow non-voice businesses to enhance shareholder return.

Dividend Proposal

TWM's board meeting today (April 28) approved a proposal to distribute NT$12.4bn of cash dividends or 90% payout to shareholders. Dividend per share is NT$4.16 based on 2,989m shares, which excluded treasury shares held by 100%-owned subsidiaries.

Regulatory update

In March, the Executive Yuan drafted the following major law revisions and put them on the high priority list for the Legislative Yuan's review.

- In the "Radio and Television Act", the "Cable Radio and Television Act" and the "Satellite Broadcasting Act": To relax regulations from the current 0% to 10% on direct and indirect government ownership in companies offering these services.
- In the "Cable Radio and Television Act": To permit cable TV system operators to provide services across regions, but not exceed the current limit of 1/3 market share, to promote competition.

Awards

Won a 2011 Asian Excellence Recognition Award for "Best Corporate Investor Relations" in Taiwan from *Corporate Governance Asia* magazine.

Product and service

- In March, introduced a smartphone promotion specifically targeting students where students can choose from a variety of smartphones with great savings in both handset price and monthly fees.
- In addition to high-end smartphones such as Google's Nexus S, HTC's Incredible S, Dell's Streak 5, and Sony Ericsson's Play, TWM also exclusively launched mid-level models like Samsung's Ace and Galaxy Mini in the 1st quarter to further boost smartphone penetration.