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Topics in This Report

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

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TWM consolidated¹

| NT\$bn | <u>1H08</u> | <u>YoY</u> | <u>2Q08</u> | <u>QoQ</u> | <u>YoY</u> |
|---------------------------------|---------------|--------------|---------------|-------------|--------------|
| Revenue | 34.75 | 12% | 17.50 | 2% | 5% |
| EBITDA | 15.37 | 4% | 7.73 | 1% | -1% |
| Operating Income | 11.33 | 7% | 5.69 | 1% | 1% |
| Non-op. Income (Expense) | (0.40) | 1629% | (0.40) | NM | 1616% |
| Pre-tax Income | 10.93 | 3% | 5.29 | -6% | -5% |
| (Less Tax) | (2.76) | 8% | (1.32) | -8% | -5% |
| (Less Minority Interest) | (0.01) | 6% | (0.00) | -99% | -99% |
| Net Income | 8.16 | 2% | 3.97 | -5% | -5% |
| EPS (NT\$) | 2.76 | 52% | 1.32 | -8% | 26% |
| EBITDA margin | 44.23% | -3.13pps | 44.15% | -0.16pps | -2.74pps |
| Operating margin | 32.61% | -1.39pps | 32.52% | -0.18pps | -1.15pps |

1. Consolidation of TFN figures from April 17, 2007 and TTN from Sept. 2007

Highlights of 1H and 2Q08 Results

1H08 revenue and EBIT rose YoY, due to inclusions of cable TV and fixed-line business with healthy top line and profit growth. Net non-operating expense increased in 1H08 from a year ago due to increased net interest expense and asset write-off loss. For 2Q08, EBIT came in 3% higher than guidance along with lower selling expenses arising from less-than-expected new sub acquisitions. On the non-operating front, interest expense in 2Q was lower than our forecast due to reduced short-term borrowings. Asset write-off loss in 2Q met our guidance of NT\$0.4bn. In a nutshell, our net income surpassed guidance by 6% in 2Q0

3Q08 Guidance

We forecast 3Q revenue YoY growth for cable to be 7%; 26% for fixed-line and -2% for mobile. As for operating costs and expenses, apart from NT\$112m increase from a year ago due to expensing employee bonuses (NT\$37m in cost, NT\$27m in selling exp., and NT\$48m in G&A), selling expense is estimated to be flattish from a year ago but to rise sequentially due to a seasonal norm. Sequential cash cost rise would come largely from increasing handset costs on higher sales volume (same reason for YoY cost increase) and base station electricity price hike. EPS in 3Q is expected to grow 23% YoY, benefiting from a stable net income and fewer share counts arising from capital reductions.

Management Remark

Our 1H results came in better than expected, despite pressure on mobile revenue. The worldwide inflationary pressure, however, has already loomed large for a slower economic growth, which will inevitably weigh on private consumption. We are bracing for the challenge ahead.

Board meeting today (July 31) approved TFN Investment's plan to sell 75m Taiwan Mobile (TWM) shares to TWM employees in three tranches from Dec. 08 to Dec. 09. The disposal price is based on 10-day average closing prior to July 31 or intraday low on July 31, whichever is lower. To fix the long-term funding cost, Board meeting today also approved the issuance of an unsecured corporate bond for no more than NT\$8bn after Oct. 17 (one year after previous capital reduction approval) at a fixed rate with duration of no more than five years.

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I. Revenue Analysis

Table 1. Key Operational Data

| Revenue (NT\$m) | 2Q08 | 1Q08 | 2Q07 | QoQ | YoY |
|-------------------------------|--------------|--------------|--------------|-----------|------------|
| Wireless | 14.70 | 14.62 | 14.80 | 1% | -1% |
| -Voice | 13.20 | 13.16 | 13.61 | 0% | -3% |
| -VAS | 1.31 | 1.35 | 1.12 | -3% | 17% |
| Fixed-line¹ | 2.52 | 2.33 | 1.91 | 8% | 32% |
| - Voice | 1.53 | 1.44 | 1.30 | 7% | 18% |
| - Data & Others | 0.99 | 0.90 | 0.61 | 0% | 62% |
| Cable MSO | 1.06 | 1.04 | 1.01 | 2% | 5% |
| - Pay-TV & Others | 0.96 | 0.95 | 0.94 | 2% | 3% |
| - Broadband | 0.10 | 0.09 | 0.07 | 10% | 38% |

1. TTN's revenue was included since Sept. 2007

| | 2Q08 | 1Q08 | 2Q07 | QoQ | YoY |
|---------------------------|-------|-------|-------|-----|-----|
| Mobile Subscribers (K) | 6,223 | 6,228 | 6,202 | 0% | 0% |
| -Postpaid | 5,639 | 5,664 | 5,696 | 0% | -1% |
| -Prepaid | 584 | 564 | 506 | 4% | 15% |
| Monthly Churn | 1.8% | 1.8% | 1.6% | | |
| MOU (bn) | 3.74 | 3.61 | 3.63 | 4% | 3% |
| ARPM (NT\$) | 3.88 | 4.02 | 4.06 | -3% | -4% |
| Cable MSO Subscribers (K) | 529 | 522 | 510 | 1% | 4% |

| | 2Q08 | 1Q08 | 2Q07 | QoQ | YoY |
|-----------------------|------|------|------|-----|-----|
| Wireless | | | | | |
| ARPU (NT\$) | 778 | 776 | 794 | 0% | -2% |
| -Postpaid | 791 | 786 | 809 | 1% | -2% |
| -Prepaid | 644 | 675 | 616 | -5% | 4% |
| MOU (minute) | 201 | 193 | 196 | 4% | 3% |
| Cable MSO | | | | | |
| Pay-TV ARPU (NT\$) | 598 | 600 | 609 | 0% | -2% |
| Broadband ARPU (NT\$) | 455 | 456 | 470 | 0% | -2% |

Revenue Analysis

Mobile industry did not fare well in 2Q with expanded YoY revenue dip. But TWM outperformed industry average by reporting a mere 1% YoY decline in terms of mobile service revenue, leading to further expansion in market share. This was mainly credited to a 20% YoY rise in pre-paid revenue, coupled with 17% YoY growth in value-added services.

Aided by healthy pre-paid ARPU increase, TWM continued standing out with the highest blended ARPU and the lowest blended ARPU contraction, among the big three. But we note that growing prepaid MOUs with much lower ARPM than post-paid and more free airtimes offered for post-paid services weighed on ARPM and offset MOU growth.

A detailed look at TTN's revenue performance shows that fixed-line saw a 20% growth in data services, credited to increased IP transit services provided to MSOs and non-group related VPN and leased lines. The rest of the growth in fixed-line revenue was explained by TTN's contribution (not until 3Q07), one-time sports lottery equipment sales, and growing group related business, namely mobile to IDD calls and leased line revenue, which was eliminated in consolidated financials.

On the cable business front, 7% channel leasing revenue growth in 2Q08 compensated for the negative revenue impact on pay-TV's subscription revenue arising from price cap downward adjustment for customers in Taipei County, effective January this year. Despite pricing pressure from our competitors, cable broadband ARPU drop moderated in the quarter on the back of higher mix on higher speed service. Cable broadband subscriber number growth led to the 38% broadband revenue increase seen in the quarter.

II. EBIT Analysis

Table 2. EBIT Breakdown

| NT\$bn | 2Q08 | 1Q08 | 2Q07 | QoQ | YoY |
|----------------------------|-------|-------|--------|-----|------|
| EBITDA | | | | | |
| Wireless | 6.69 | 6.65 | 7.13 | 1% | -6% |
| Fixed-line | 0.48 | 0.45 | 0.29 | 8% | 66% |
| Cable MSO | 0.54 | 0.55 | 0.53 | -1% | 2% |
| Margin | | | | | |
| Wireless | 45.5% | 45.5% | 48.2% | | |
| Fixed-line | 19.2% | 19.2% | 15.3% | | |
| Cable MSO | 51.1% | 52.7% | 53.0% | | |
| D&A¹ | | | | | |
| Wireless | 1.84 | 1.81 | 2.00 | 2% | -8% |
| Fixed-line | 0.03 | 0.03 | 0.36 | -3% | -91% |
| Cable MSO | 0.13 | 0.12 | 0.12 | 2% | 6% |
| EBIT | | | | | |
| Wireless | 4.85 | 4.84 | 5.13 | 0% | -6% |
| Fixed-line | 0.45 | 0.42 | (0.07) | 9% | NM |
| Cable MSO | 0.42 | 0.42 | 0.42 | -2% | 0% |

1. Excluding depreciation savings due to negative goodwill amortization in 2007

Table 3. Non-operating Item

| NT\$bn | 2Q08 | 1Q08 | 2Q07 | QoQ | YoY |
|---------------------------|---------------|-------------|---------------|-----------|--------------|
| Non-Operating | (0.40) | 0.00 | (0.02) | NM | 1616% |
| -Net Interest Expense | (0.14) | (0.17) | (0.20) | -16% | -29% |
| - Write-off (Loss) | (0.37) | (0.20) | (0.22) | 83% | 65% |
| -Disposal Gain and Others | 0.11 | 0.37 | 0.40 | -71% | -73% |

EBIT Analysis

Increased subsidies on handsets and data cards sold, expensing employee bonuses, and increased contract renewals weighed on 2Q08 mobile EBITDA margin.

Benefited from integration synergies, fixed-line business showed the highest profit growth among the three main business divisions. Nonetheless, as cost synergy has all being factored in, fixed-line's EBITDA margin remained stable at the level of 19-20% range.

For cable business, the one-time adjustment in 2Q07 on content cost made 2Q08 a tough comparison. Separately, the continuous rise in cable broadband revenue mix also led to a lower blended margin due to its business nature, which still requires continuous investments in marketing & promotion.

Non-Operating Item Analysis

Non-operating loss in 2Q was up both YoY and QoQ, due to higher asset write-off losses and lack of stock disposal gains. That said, net interest expense declined both YoY and QoQ, along with cash raised through treasury share disposals.



III. Income Statement Analysis

Table 4. TWM Consolidated Results vs. Forecast

| NT\$bn | 2Q08 Actual | 2Q08 Forecast | % of Forecast Achieved |
|--|-------------|---------------|------------------------|
| Revenue | 17.50 | 17.96 | 98% |
| Operating Income | 5.69 | 5.53 | 103% |
| Pre-tax Income | 5.29 | 5.01 | 106% |
| (Less Tax) | (1.32) | (1.25) | 106% |
| Net Income - Attributed to the Parent | 3.97 | 3.76 | 106% |
| EPS (NT\$) | 1.32 | 1.25 | 106% |
| EBITDA | 7.73 | 7.54 | 102% |
| EBITDA margin | 44.15% | 42.02% | |

Table 5. Income Statement

| NT\$bn | 2Q08 | 1Q08 | 2Q07 |
|--|--------------|--------------|--------------|
| Revenue | 17.50 | 17.24 | 16.68 |
| Operating Cost | 7.89 | 7.63 | 7.35 |
| Operating Expenses | 3.92 | 3.98 | 3.71 |
| EBITDA | 7.73 | 7.64 | 7.82 |
| Operating Income | 5.69 | 5.64 | 5.61 |
| Non-op. Income (Expense) | (0.40) | 0.00 | (0.02) |
| Pre-tax Income | 5.29 | 5.64 | 5.59 |
| Pre-tax Income -recurring | 5.66 | 5.58 | 5.82 |
| (Less Tax) | (1.32) | (1.44) | (1.39) |
| (Minority Interest) | (0.00) | (0.01) | (0.01) |
| Net Income - Attributed to the Parent | 3.97 | 4.19 | 4.19 |
| EPS (NT\$) | 1.32 | 1.44 | 1.05 |

Income Statement Analysis

Pricing pressure on mobile service to a larger extent and aggressive fixed-line business target to a lesser extent are attributable to the revenue short-fall in 2Q08.

Despite the revenue short-fall, 2Q EBIT came in 3% higher than guidance along with lower selling expenses arising from less-than-expected new sub acquisitions.

On the non-operating front, interest expense in 2Q was lower than our forecast due to reduced short-term borrowings. Asset write-off loss in 2Q met our guidance of NT\$0.4bn.

In a nutshell, our net income surpassed guidance by 6% in 2Q08.

IV. Cash Flow Analysis

Table 6. Cash Flow

| NT\$bn | 2Q08 | 1Q08 | 2Q07 |
|---------------------------------------|---------------|---------------|----------------|
| Total Op Sources/(Uses) | 6.39 | 7.45 | 11.78 |
| Consolidated Net Income | 3.97 | 4.20 | 4.20 |
| Depreciation | 1.76 | 1.73 | 1.93 |
| Amortization | 0.28 | 0.28 | 0.28 |
| Asset Write-off Loss Add-back | 0.37 | 0.20 | 0.22 |
| Changes in Working Capital | 0.01 | 0.91 | (2.77) |
| Cash Management | 0.00 | 0.13 | 7.91 |
| Net Investing Sources/(Uses) | (1.61) | (0.35) | (18.47) |
| Divestment of Financial Asset | 0.00 | 2.09 | 10.40 |
| Capex | (1.43) | (1.25) | (1.37) |
| Pledged Time Deposit | 0.00 | 0.00 | 12.50 |
| Acquisition | (0.13) | 0.00 | (39.99) |
| Increase in Goodwill | (0.10) | (1.12) | 0.00 |
| Net Financing Sources/(Uses) | (9.39) | (5.35) | (6.73) |
| Short-Term Borrowings | (6.95) | (2.44) | 3.87 |
| Debt Repayment | 0.00 | (2.45) | (11.88) |
| Commercial Paper Payable | (3.30) | 2.70 | 0.00 |
| Long-Term Borrowings | 0.90 | 0.00 | 0.00 |
| Minority Interest Increase (Decrease) | (0.04) | (7.24) | 0.58 |
| Capital Reduction | 0.00 | (9.43) | 0.00 |
| Disposal of Treasury Stock | 0.00 | 13.51 | 0.00 |
| Cash Inherited | 0.10 | 0.00 | 3.92 |
| Net Cash Position Chg. | (4.51) | 1.74 | (9.50) |

Table 7. Capex & FCF

| NT\$bn | 2Q08 | 1Q08 | 2Q07 |
|-----------------------|-------------|-------------|--------------|
| Cash Capex | 1.43 | 1.25 | 1.37 |
| - Mobile | 1.16 | 0.98 | 1.03 |
| - Fixed-line | 0.12 | 0.15 | 0.23 |
| - Cable MSO | 0.15 | 0.12 | 0.11 |
| % of Revenue | 8% | 7% | 8% |
| Free Cash Flow | 4.96 | 6.19 | 10.41 |

Cash Flow Analysis

The noticeable decrease in cash flow from operations from a year ago was due to NT\$7.91bn inflows from liquidation of money market funds to finance TFN acquisition in 2Q07. Separately, 2Q08 working capital cash outflow was less on lower tax paid versus 2Q07.

Investing cash flows decreased mainly from previous quarter for the lack of divestment of Fubon Financial Holdings. Compared to last year, 2Q07 had quite substantial cash outflows, of which NT\$40bn payment was associated with TFN acquisition, financed partially through NT\$10.76bn worth of financial assets divestments and NT\$12.5bn new borrowings.

For the financing activities, NT\$10.25bn of cash outflows for short-term debt repayment were to save the interest expenditure and increased NT\$0.9bn of long-term loan in this quarter to reduce the reliance on short-term debt.

Capex and Free Cash Flow Analysis

Group capex in 2Q was on track and accounted for only 8% of service revenue.

With good core business cash earnings and stable cash capex, 1H08 free cash flow yield was at 11% (annualized).

V. Balance Sheet Analysis

Table 8. Balance Sheet

| NT\$bn | 2Q08 | 1Q08 | 2Q07 |
|--------------------------------------|--------------|--------------|---------------|
| Total Assets | 92.56 | 97.49 | 119.85 |
| Current Assets | 13.33 | 17.08 | 26.50 |
| - Cash & Cash Equivalents | 4.26 | 8.77 | 14.65 |
| - Available-for-Sale Financial Asset | 0.31 | 0.31 | 3.31 |
| - Other Current Assets | 8.76 | 8.01 | 8.55 |
| Long-Term Investment | 3.02 | 3.06 | 2.89 |
| Property and Equipment | 49.33 | 50.29 | 65.74 |
| Intangible Assets | 22.59 | 22.71 | 22.16 |
| - 3G License | 7.85 | 8.04 | 8.60 |
| - Goodwill | 10.48 | 10.35 | 9.95 |
| Other Assets | 4.30 | 4.35 | 2.57 |
| Liabilities | 47.80 | 48.86 | 67.77 |
| Current Liabilities | 38.91 | 40.90 | 52.43 |
| - ST Debts/Commercial Paper Payable | 13.45 | 23.69 | 26.78 |
| - Other Current Liabilities | 25.47 | 17.21 | 25.65 |
| Long-Term Borrowings | 8.40 | 7.50 | 14.58 |
| Other Liabilities | 0.49 | 0.45 | 0.76 |
| Shareholders' Equity | 44.76 | 48.63 | 52.09 |
| - Paid-in Capital | 38.01 | 38.01 | 50.00 |
| - Capital Surplus | 12.27 | 12.27 | 8.77 |
| - Treasury Shares | (31.89) | (31.89) | (37.75) |

Table 9. Ratios

| | 1H08 | 1Q08 | 1H07 |
|------------------------------|------|------|------|
| Current Ratio | 34% | 42% | 51% |
| Interest Coverage (x) | 30.6 | 29.3 | 30.6 |
| Net Debt to Equity | 39% | 46% | 51% |
| Net Debt to EBITDA | 0.59 | 0.75 | 0.89 |
| ROE (annualized) | 42% | 41% | 23% |
| ROA (annualized) | 18% | 18% | 14% |

Balance Sheet Analysis

PP&E balance was down by NT\$0.96bn from 1Q08 as 2G assets write-offs and depreciation charge were higher than the purchase of new 3G equipment.

Gross debt balance fell to NT\$21.85bn at the end of 2Q08 as a result of NT\$10.25bn reduction in short-term debt and NT\$0.9bn increase in long-term debt. We plan to further reduce our short-term debt portion by increasing long-term borrowings in 2H this year.

Other current liabilities increased QoQ in 2Q which came largely from NT\$0.2bn employee bonuses payables and NT\$7.6bn dividend payable which was paid on July 24.

Ratio Analysis

As cash level dropped after paying down some short-term debt and payable rose for cash dividend payment, current ratio decreased to 34% in 2Q end. Meanwhile, interest coverage improved from last quarter with net debt to EBITDA dropping to 0.59x. ROE remained high at 42% in 2Q.

VI. Forecast

Table 10. Forecast

| NT\$bn | 3Q08 | QoQ | YoY |
|---------------------|--------|-----|------|
| Revenue | 17.78 | 2% | 1% |
| Cash Cost | 6.41 | 5% | 12% |
| Selling Expense | 2.85 | 6% | 3% |
| G&A | 1.29 | 6% | -1% |
| EBITDA | 7.47 | -3% | -7% |
| EBITDA Margin | 42.01% | | |
| Operating Income | 5.40 | -5% | -6% |
| (Asset write-off) | (0.42) | 13% | -40% |
| Pre-tax Income | 4.96 | -6% | -3% |
| (Tax Expense) | (1.24) | -6% | -4% |
| (Minority Interest) | (0.00) | NM | NM |
| Net Income | 3.72 | -6% | 0% |
| EPS (NT\$) | 1.25 | -5% | 23% |

3Q08 guidance

We forecast 3Q revenue YoY growth for cable to be 7%; 26% for fixed-line and -2% for mobile. As for operating costs and expenses, apart from NT\$112m increase from a year ago due to expensing employee bonuses (NT\$37m in cost, NT\$27m in selling exp., and NT\$48m in G&A), selling expense is estimated to be flattish from a year ago but to rise sequentially due to a seasonal norm. Sequential cash cost rise would come largely from increasing handset costs on higher sales volume (same reason for YoY cost increase) and base station electricity price hike.

Asset write-off loss is forecast to be NT\$420m, up from NT\$373m in the previous quarter. Full-year asset write-off loss has been revised downward to NT\$1.3bn, down from NT\$2bn, due to delay in regulator's approval on network integration.

EPS in 3Q is expected to grow 23% YoY, benefiting from a stable net income and fewer share counts arising from capital reductions.

VII. Management Discussion & Analysis

Key Message

Our 1H results came in better than expected, despite pressure on mobile revenue. The worldwide inflationary pressure, however, has already loomed large for a slower economic growth, which will inevitably weigh on private consumption. We are bracing for the challenge ahead.

Treasury share disposal

Board meeting today (July 31) approved TFN Investment's plan to sell 75m Taiwan Mobile (TWM) shares to TWM employees in three tranches from Dec. 2008 to Dec. 2009. The disposal price is based on 10-day average closing prior to July 31 or intraday low on July 31, whichever is lower.

Straight bond issuance

To fix the long-term funding cost, Board meeting today (July 31) approved the issuance of an unsecured corporate bond for no more than NT\$8bn after Oct. 17 (one year after previous capital reduction approval) at a fixed rate with duration of no more than five years.

Regulatory updates

Legislative Yuan approved the second term of 7 new NCC commissioners, who will take office on Aug 1. Only one remained in office from the first term. 3 commissioners out of 7 are with two-year tenure while the rest with four-year tenure. Among the 7 new commissioners, 3 have telecom and/or economics related expertise, 3 for broadcasting and 1 for law.

Award and Recognition

- Awarded A⁺, the highest ranking in Information Disclosure and Transparency Assessments conducted by Securities and Futures Institute, three times in a row.
- Ranked as one of Taiwan's top 3 in "4th Corporate Governance Asia Recognition Award 2008" by *Corporate Governance Asia*. TWM was the sole telecom awardee.
- Received awards in 3 categories in "IT Best Choice 2007" by Institute for Information Industry.