1st Quarter Results

for the period ended March 31, 2007

April 26, 2007

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	TWM consolidated [1]				
NT$bn	**1Q07**	**4Q06**	**1Q06**	**QoQ**	**YoY**
Revenue	**14.48**	**14.53**	**14.60**	**0%**	**-1%**
Telecom Service Revenue	**14.41**	**14.45**	**14.46**	**0%**	**0%**
EBITDA	**6.94**	**6.93**	**6.50**	**0%**	**7%**
Operating Income	**4.98**	**4.94**	**4.55**	**1%**	**9%**
Non-op. Income (Expense)	**0.00**	**(1.25)**	**(0.88)**	**NM**	**NM**
Pre-tax Income	**4.98**	**3.70**	**3.67**	**35%**	**36%**
(Less Tax)	**(1.17)**	**(0.75)**	**(0.55)**	**56%**	**113%**
(Less Minority Interest)	**(0.00)**	**(0.00)**	**(0.02)**	**-94%**	**-100%**
Net Income	**3.81**	**2.94**	**3.10**	**29%**	**23%**
EPS (NT$)	**0.77**	**0.60**	**0.63**	**28%**	**22%**
EBITDA margin	47.89%	47.70%	44.54%		
Operating margin	34.38%	34.03%	31.16%		

1. Same as audited financials

Highlights of 1Q07 Results

We delivered a good set of quarterly results with EBITDA and net income rising 7% YoY and 23% YoY, respectively. This is achieved by a good performance of the following operating matrix:

1. Above-industry growth in value-added service
2. Faster growth in pre-paid business
3. Much improved post-paid customer loyalty
4. Effective controls of operating expense

2Q Forecast

We expect 2Q revenue and EBITDA to reach NT$16.4bn and NT$7.24bn, respectively. It is noted that TFN will be EBIT accretive to TWM in 2Q. We have consolidated TFN's numbers from April 17 to 2Q end for our 2Q projections.

Updates on TFN Acquisition

1. TWM's 100%-owned TIT spent NT$39.7bn and acquired 4,782m shares or 74.09% of TFN through a tender offer. Plus the original 9.95% stake in TFN (carrying cost of NT$3.7bn), TWM in total controls 84.04% of TFN.
2. TFN's AGM will propose a merger resolution with TIT on June 29.
3. Cable TV business with organic growth and higher margins will offer growth momentum for TWM.
4. TWM will leverage integration synergies progressively to attain better operation and network efficiency by streamlining business among mobile, fixed-line, and cable TV businesses.

Management Remark

The successful completion of TFN tender offer has created a new platform for us to explore how TWM can synergize among mobile, fixed line and cable businesses to differentiate us from the competition. Combination with TFN does enable TWM to embrace a new triple play vision. Formulating a critical mass to achieve the end, though time consuming, would be our major task ahead. We would direct our focus on the task in the next few months.

I. Revenue Analysis

Consolidated basis

Table 1. Key Operational Data

	1Q07	4Q06	1Q06	QoQ	YoY
Revenue (NT$bn)	**14.48**	**14.53**	**14.60**	**0%**	**-1%**
Telecom service revenue	14.41	14.45	14.46	0%	0%
-Voice Revenue	13.31	13.45	13.52	-1%	-2%
-VAS Revenue	1.11	1.00	0.94	11%	18%
Others	0.07	0.08	0.14	-8%	-48%
Data Rev as % to Total	7.6%	6.9%	6.4%		
End Subscribers (K)	**6,176**	**6,151**	**6,090**	**0%**	**1%**
-Postpaid	5,689	5,671	5,633	0%	1%
-Prepaid	487	480	457	1%	7%
Monthly Churn	**1.6%**	**1.7%**	**2.3%**	**-3%**	**-28%**
MOU (bn)	**3.52**	**3.51**	**3.53**	**0%**	**0%**
ARPM (NT$)	**4.10**	**4.11**	**4.10**	**0%**	**0%**

Revenue Analysis

Taiwan Mobile fared better in terms of YoY revenue change, compared to a quarter ago and attributable to a recovery in MOU.

Unlike FET's and CHT's decelerated data revenue growth, TWM maintained a healthy growth momentum in value added service in 1Q07. This was aided by increasing adoption of VAS packages with higher monthly fees.

Post-paid subscriber base remained stable on a YoY basis, while pre-paid business gained some market share.

Table 2. Per Sub Spending & Usage

	1Q07	4Q06	1Q06	QoQ	YoY
ARPU (NT$)[1]	**779**	**785**	**790**	**-1%**	**-1%**
-Postpaid	795	805	810	-1%	-2%
-Prepaid	619	576	578	7%	7%
MOU (minute)	**190**	**191**	**193**	**0%**	**-1%**

Note 1: Blended ARPU is based solely on telecom service revenue

Blended ARPU was underpinned by a better growth in pre-paid ARPU.

In contrast to our peers' YoY decline in revenue per minute, TWM managed to maintain a stable pricing in the quarter.

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II. Cost and Expense Analysis

Consolidated basis

Table 3. Operating Cost Breakdown

NT$bn	1Q07	4Q06	1Q06	QoQ	YoY
Operating Cost	**6.18**	**6.29**	**6.03**	**-2%**	**2%**
Cost of Goods Sold	0.02	0.01	0.00	23%	--
Telecom Service Cost	6.17	6.28	6.03	-2%	2%
- Depreciation	1.57	1.61	1.58	-3%	0%
-Amortization-3G	0.19	0.19	0.19	0%	0%
- Interconnection Cost	2.38	2.42	2.44	-1%	-2%
- BTS Related Opex	1.53	1.55	1.32	-2%	16%
- Spectrum fee/license concession/USO	0.48	0.49	0.50	-2%	-3%

Cost/Expense Analysis

Despite rising 3G equipment maintenance expense, TWM's depreciation expense remained flat, benefited from continuous 2G asset write-off. This coupled with a slight drop in interconnecting cost led to a stable operating cost in 1Q07.

Table 4. Operating Expense Breakdown

NT$bn	1Q07	4Q06	1Q06	QoQ	YoY
Total Op. Exp.	**3.32**	**3.29**	**4.01**	**1%**	**-17%**
Selling Exp.	**2.22**	**2.21**	**3.01**	**1%**	**-26%**
- SAC + SRC	1.51	1.49	2.15	2%	-30%
- Direct Store & Phone Center	0.40	0.42	0.53	-6%	-26%
G&A Exp.	**1.10**	**1.08**	**1.00**	**1%**	**9%**

Well controlled marketing expense contributed to further EBITDA margin expansion. Separately, strengthened collection of receivables led to a noticeable sequential drop in bad debt expense. Nonetheless, the continuous IT investments leveled up G&A expenses.

Table 5. Non-operating Item

NT$bn	1Q07	4Q06	1Q06	QoQ	YoY
Non-Operating	**0.00**	**(1.25)**	**(0.88)**	**NM**	**NM**
-Net Interest Expense	(0.03)	(0.04)	(0.07)	-39%	-59%
- Write-off (Loss)	(0.18)	(1.37)	(1.54)	-87%	-88%
-Other Non-ops.	0.21	0.17	0.73	22%	-71%

Non-Operating Item Analysis

Apart from NT$0.18bn asset write-off charge, TWM had no major non-operating income/loss in the quarter in contrast to a NT$1.54bn of asset write-off charge and NT$0.63bn of CHT disposal gains a year ago.

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III. Income Statement Analysis

Consolidated basis

Table 6. Income Statement

NT$bn	1Q07	4Q06	1Q06
Revenue	**14.48**	**14.53**	**14.60**
Telecom Service Revenue	14.41	14.45	14.46
Other Revenue	0.07	0.08	0.14
Operating Cost	**6.18**	**6.29**	**6.03**
Telecom Service Cost	6.17	6.28	6.03
Cost of Good Sold	0.02	0.01	0.00
Operating Expenses	**3.32**	**3.29**	**4.01**
EBITDA	6.94	6.93	6.50
Operating Income	**4.98**	**4.94**	**4.55**
Non-op. Income (Expense)	0.00	(1.25)	(0.88)
Pre-tax Income	4.98	3.70	3.67
(Less Tax)	(1.17)	(0.75)	(0.55)
(Minority Interest)	(0.00)	(0.00)	(0.02)
Net Income - Attributed to the Parent	**3.81**	**2.94**	**3.10**
EPS (NT$)	0.77	0.60	0.63

Table 7. TWM Consolidated Results vs. Forecast

NT$bn	1Q07 Actual	1Q07 Forecast	% of Forecast Achieved
Revenue	14.48	14.40	101%
Operating Income	4.98	4.38	114%
Pre-tax Income	4.98	4.41	113%
(Less Tax)	(1.17)	(1.15)	102%
Net Income - **Attributed to the Parent**	3.81	3.26	117%
EPS (NT$)	0.77	0.65	118%
EBITDA	6.94	6.34	109%
EBITDA margin	47.89%	44.04%	

Income Statement Analysis

We recorded a slightly better than guidance revenue in 1Q due to higher-than-expected MOU. The contained selling expense under marketing resource rationalization efforts and controlled network cost contributed to better-than-expected EBITDA. On account of higher-than-expected operating income and no major non-operating items, net income was ahead of our guidance by 17%.

As a result of good operating performance, we returned to the number two position in the mobile business in terms of mobile EBITDA and total subscriber number.

IV. Cash Flow Analysis

Consolidated basis

Table 8. Cash Flow

NT$bn	1Q07	4Q06	1Q06
Total Op Sources/(Uses)	**13.51**	**3.79**	**8.12**
Consolidated Net Income	3.81	2.95	3.12
Depreciation	1.71	1.74	1.68
Amortization	0.25	0.25	0.28
Disposal (Gain) on Investment	0.00	0.00	(0.63)
Asset Write-off Loss Add-back	0.18	1.37	1.54
Changes in Working Capital	1.39	1.07	1.53
Cash Management	6.17	(3.59)	0.60
Net Investing Sources/(Uses)	**(14.29)**	**0.14**	**1.45**
Divestment (Acquisition)	0.00	3.28	2.94
Capex	(1.76)	(3.19)	(1.43)
Pledged Time Deposit	(12.50)	0.00	0.00
Net Financing Sources/(Uses)	**12.51**	**(0.64)**	**(2.60)**
Debt Repayment	0.00	(1.25)	(1.50)
Treasury Stock Transferred to Employees	0.03	0.59	0.00
Short-Term Borrowings	12.50	0.00	0.00
Net Cash Position Chg.	**11.73**	**3.28**	**6.97**

<u>Cash Flow Analysis</u>

The increase in operating cash flow in 1Q07 was attributed to liquidating our investments in money market instruments, which translated into NT$6.17bn of cash inflows.

To finance TFN acquisitions, Taihsing International Telecommunications (TIT) pledged its time deposit to receive NT$12.5bn of short-term financing from banks at the end of 1Q07, which was repaid in early April. We note that this financing arrangement had no impact on 1Q07 cash flows.

Table 9. Capex & FCF

NT$bn	1Q07	4Q06	1Q06
Cash Capex	**1.76**	**3.19**	**1.43**
% of Revenue	**12%**	**22%**	**10%**
Free Cash Flow*	**11.75**	**0.60**	**6.69**

*Free cash flow: operating cash flow minus capex

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

FCF in 1Q was higher due to larger cash flow from money market investments liquidated.

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V. Balance Sheet Analysis

Consolidated basis

Table 10. Balance Sheet

NT$bn	1Q07	4Q06	1Q06
Total Assets	**134.97**	**118.41**	**123.64**
Current Assets	52.06	34.43	38.18
- Cash & Cash Equivalents	24.14	12.42	21.82
-Available-for-Sale Financial Asset	0.36	0.38	9.18
-Financial Assets at Fair Value	7.91	14.08	0.00
- Other Current Assets	19.65	7.56	7.19
Long-Term Investment	3.88	3.88	4.01
Property and Equipment	58.74	60.91	62.21
Intangible Assets	15.62	15.81	15.99
-3G License	8.79	8.97	9.53
-Goodwill	6.84	6.84	6.46
Other Assets	4.67	3.38	3.25
Liabilities	**41.24**	**28.52**	**30.70**
Current Liabilities	30.71	17.98	15.01
- ST Debts	16.30	3.81	1.94
- Other Current Liabilities	14.41	14.17	13.07
Long-Term Borrowings	10.00	10.00	14.48
Other Liabilities	0.53	0.54	1.21
Shareholders' Equity	**93.73**	**89.89**	**92.94**

Table 11. Ratios

	1Q07	4Q06	1Q06
Current Ratio	170%	192%	254%
Interest Coverage (x)	63.9	45.8	30.6
Net Debt (Cash) to Equity	-6%	-14%	-6%
ROE (annualized)	17%	18%	14%
ROA (annualized)	12%	14%	11%

Balance Sheet Analysis

TWM raised its cash position to pay for TFN transaction in 1Q07 by liquidating bond funds & other money market investments.

We had a reclassification of net PP&E in 1Q07 by moving an office building leasing to others into other assets with a book value of NT$1.7bn. Telecom equipment gross additions for the quarter netted NT$1.4bn, with 3G equipment making up 72% of total.

As mentioned in the cash flow analysis section, short-term debt rose by NT$12.5bn at the end of 1Q07 for financing TFN transaction, which was repaid in April.

After TFN tender offer was settled on April 17, we saw total cash position decreased by NT$25bn and gross debts rose by NT$3.9bn, compared to the end of 1Q07.

Ratio Analysis

As we had built up our cash position to pay for TFN acquisition by the end of 1Q07, while bank financing was not received until mid April, we were still in a net cash position equivalent to 6% of equity at the end of 1Q07.

After TFN tender offer was settled on April 17, we had NT$7.05bn in cash and NT$30.2bn in gross debts, translating into 25% net debt to equity (based on 1Q end equity).

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VI. Forecast

Table 12. TWM +TFN Consolidated Forecast

NT$bn	2Q07	1Q07[1]	1H07
Revenue	16.40	14.48	30.88
-Telecom Service Revenue	15.49	14.41	29.90
Operating Income	4.95	4.98	9.93
Pre-tax Income	4.71	4.98	9.69
(Less Tax)	(1.10)	(1.17)	(2.27)
Net Income	3.62	3.81	7.43
EPS[2] (NT$)	1.01	0.77	1.78
EBITDA	7.24	6.94	14.18
EBITDA margin	44.17%	47.89%	45.91%

1. 1Q07 numbers do not include TFN numbers
2. EPS calculation in 2Q is based on 3.59bn shares outstanding, which treats TWM shares held by TFN as treasury shares, while that in 1Q is based on 4.95bn shares outstanding.

Table 13. Mobile Division's Forecast

NT$bn	2Q07	QoQ	YoY
Revenue	14.60	1%	-1%
-Telecom Service Revenue	14.54	1%	-1%
Operating Income	4.67	-6%	-3%
Pre-tax Income	4.59	-8%	-13%
(Less Tax)	(1.04)	-11%	66%
Net Income	3.55	-7%	-24%
EBITDA	6.67	-4%	-1%
EBITDA margin	45.65%		

We start consolidating TFN numbers into our financials from April 17, 2007. So our 2Q P&L forecast as shown in Table 12 has factored in TFN's projections from April 17 to June 30. Nonetheless, no proforma historical numbers are available.

<u>Mobile business</u>

Mobile revenue expects to have a 1% YoY dip in 2Q07, as MOU increases are expected to be offset by NCC's mandatory price cut, effective April this year. 2Q's EBITDA margin is forecast to be the same as a year ago and EBITDA to be flat YoY. The sequential drop in EBITDA/EBITDA margin is to reflect a stronger sales activities and mandatory price cuts. Asset write-off loss is estimated to be similar to 1Q07 at around NT$172m in 2Q07. Due to one-off gains from the disposal of Howin in 2Q06, pre-tax income in 2Q07 will see a 13% YoY decrease.

<u>Fixed-line business</u>

Based on a conservative revenue projection and no meaningful cost savings from integrations yet, fixed-line business will result in a NT$48m operating loss on our consolidated P&L in 2Q07.

<u>Cable TV business</u>

The business is growing steadily and on track, driven by the combination of basic-pay TV as well as cable broadband user increase. In 2Q07, we expect this business to generate NT$347m in operating income.

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VII. Management Discussion & Analysis

Regulatory Development

- WiMAX license will be awarded in June. A prudent strategy will be adopted before we see 1) more matured commercialized Wimax equipment and CPE available in the market and 2) a viable business case.

Update of the Acquisition of TFN

- TWM's 100%-owned TIT spent NT$39.7bn and acquired 4,782m shares or 74.09% of TFN through a tender offer. Plus the original 9.95% stake in TFN (carrying cost of NT$3.7bn), TWM in total controls 84.04% of TFN.
- TFN's AGM will propose a merger resolution with TIT on June 29.
- Cable TV business with organic growth and higher margins will offer growth momentum for TWM.
- TWM will leverage integration synergies progressively to attain better operation and network efficiency by streamlining business among mobile, fixed-line, and cable TV businesses.

Key Message

The successful completion of TFN tender offer has created a new platform for us to explore how TWM can synergize among mobile, fixed line and cable businesses to differentiate us from the competition. Combination with TFN does enable TWM to embrace a new triple play vision. Formulating a critical mass to achieve the end, though time consuming, would be our major task ahead. We would direct our focus on the task in the next few months.

On the mobile front, Taiwan Mobile reiterated our endeavors to create the best mobile experience and lifestyle for our customers in the past few months which apparently paid off as reflected in the operation results. The improvement was most pronounced in our overall churn rate, coming off from 2.3% a year ago to 1.6% in 1Q 2007, and EBITDA margin, surpassing our competitor, first time since 2004. TWM will continue the efforts to strengthen our foothold in the marketplace.