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**Topics in This Report**

- Revenue Analysis
- Cost & Expense Analysis
- Income Statement Analysis
- Cash Flow Analysis
- Balance Sheet Analysis
- Forecast
- Management Remark

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NT\$bn	<u>TWM+TAT+MBT<sup>1</sup></u>					<u>TWM</u>
	<u>1Q06</u>	<u>4Q05</u>	<u>1Q05</u>	<u>QoQ</u>	<u>YoY</u>	<u>consolidated<sup>2</sup></u>
<b>Revenue</b>	<b>14.51</b>	<b>14.79</b>	<b>14.33</b>	<b>-2%</b>	<b>1%</b>	<b>14.60</b>
<b>Telecom Service Revenue</b>	<b>14.50</b>	<b>14.77</b>	<b>14.27</b>	<b>-2%</b>	<b>2%</b>	<b>14.49</b>
<b>EBITDA</b>	<b>6.45</b>	<b>6.73</b>	<b>6.85</b>	<b>-4%</b>	<b>-6%</b>	<b>6.48</b>
<b>Operating Income</b>	<b>4.50</b>	<b>4.68</b>	<b>5.06</b>	<b>-4%</b>	<b>-11%</b>	<b>4.53</b>
<b>Non-op. Income (Expense)</b>	<b>(0.88)</b>	<b>(0.74)</b>	<b>(0.30)</b>	<b>18%</b>	<b>188%</b>	<b>(0.86)</b>
<b>Pre-tax Income</b>	<b>3.63</b>	<b>3.93</b>	<b>4.76</b>	<b>-8%</b>	<b>-24%</b>	<b>3.67</b>
<b>(Less Tax)</b>	<b>(0.51)</b>	<b>(0.42)</b>	<b>(0.72)</b>	<b>21%</b>	<b>-29%</b>	<b>(0.55)</b>
<b>(Less Minority Interest)</b>	<b>(0.01)</b>	<b>0.03</b>	<b>(0.10)</b>	<b>NM</b>	<b>-87%</b>	<b>(0.02)</b>
<b>Net Income</b>	<b>3.10</b>	<b>3.54</b>	<b>3.94</b>	<b>-12%</b>	<b>-21%</b>	<b>3.10</b>
<b>EPS (NT\$)</b>	<b>0.63</b>	<b>0.71</b>	<b>0.81</b>	<b>-11%</b>	<b>-22%</b>	<b>0.63</b>
EBITDA margin	44.44%	45.55%	47.83%			44.41%
Operating margin	31.04%	31.64%	35.33%			31.03%

1. Unaudited pro forma for TWM, TAT, and MBT only  
 2. Reviewed consolidated for TWM and affiliates.

**Highlights of 1Q06 Results**

Taiwan Mobile (TWM) 1Q06 revenue growth was in line with industry while the number of post-paid churned subscribers reached record low in the past eight quarters. Aided by the rate plan launched earlier this year, myZone, TWM surpassed its competition in terms of post-paid subscriber gross adds for the quarter.

At the non-operating level, TWM realized NT\$626m gains from selling Chunghwa Telecom (CHT) shares (which were not factored into our 1Q forecast) and NT\$1.5bn 2G asset write-off losses (which were lower than NT\$1.7bn provided in the guidance).

Compared to our 1Q guidance, our telecom service revenue was in line with expectation while net income exceeded our forecast by 25%. Sales proceeds of CHT shares helped us to reduce our net debt to zero and continuous 2G asset write-down has led to lower 2G depreciation expense to compensate for rising 3G depreciation charge.

**Management Remark**

We expect 2Q06 telecom service revenue to grow 4% from 1Q or a modest 1% YoY increase. In anticipation of a modest reduction in marketing expenses, we forecast 2Q EBITDA to increase by 4% QoQ. Operating income is projected to rise 8% QoQ, due to the expected sequential decline in depreciation and amortization expense, resulting from continuous asset write-offs.

Non-operating income is expected to surge from the previous quarter with a mere NT\$170 asset write-off loss vs. NT\$1.5bn in 1Q. Separately, we will dispose of our stake in one of our affiliates, Howin Technology. As such, we will book NT\$526m in profits from Howin Technology.

2Q net income is expected to reach NT\$4.48bn, with an EPS of NT\$0.91. We estimate EPS for the first half of the year to reach NT\$1.54.

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## I. Revenue Analysis

*Pro forma TWM+TAT+MBT only*

**Table 1. Key Operational Data**

	1Q06	4Q05	1Q05	QoQ	YoY
<b>Revenue (NT\$bn)</b>	<b>14.51</b>	<b>14.79</b>	<b>14.33</b>	<b>-2%</b>	<b>1%</b>
Telecom service revenue	14.50	14.77	14.27	-2%	2%
-Voice Revenue	13.58	13.91	13.41	-2%	1%
-VAS Revenue	0.93	0.86	0.86	8%	8%
Others	0.00	0.01	0.06	-91%	-98%
Data Rev as % to Total	6.4%	5.8%	6.0%		
<b>End Subscribers (K)</b>	<b>6,090</b>	<b>6,101</b>	<b>6,625</b>	<b>0%</b>	<b>-8%</b>
-Postpaid	5,633	5,638	6,010	0%	-6%
-Prepaid	457	463	615	-1%	-26%
<b>Monthly Churn</b>	<b>2.3%</b>	<b>2.3%</b>	<b>2.8%</b>	<b>-2%</b>	<b>-19%</b>
<b>MOU (bn)</b>	<b>3.91</b>	<b>3.84</b>	<b>3.76</b>	<b>2%</b>	<b>4%</b>
<b>ARPM (NT\$)</b>	<b>3.70</b>	<b>3.85</b>	<b>3.79</b>	<b>-4%</b>	<b>-2%</b>

**Table 2. Per Sub Spending & Usage**

	1Q06	4Q05	1Q05	QoQ	YoY
<b>ARPU (NT\$)<sup>1</sup></b>	<b>793</b>	<b>807</b>	<b>707</b>	<b>-2%</b>	<b>12%</b>
-Postpaid	810	825	743	-2%	9%
-Prepaid	578	576	355	0%	63%
<b>MOU (minute)</b>	<b>214</b>	<b>210</b>	<b>186</b>	<b>2%</b>	<b>15%</b>

<sup>1</sup> Blended ARPU is based solely on telecom service revenue

### Revenue Analysis

TWM's 1Q06 service revenue grew by 1.6% year on year, in line with the industry.

Overall subscriber base remained flat at last year end's level. Postpaid gross additions grew by more than 40% year on year, benefiting from a very popular differentiated rate plan - "myZone". Churn rate remained stable sequentially but saw a large decline compared with a year ago thanks to the completion of inactive subscriber clean-up.

1Q blended ARPU increased by 12% compared with the same period last year. TWM enjoyed the highest YoY growth in ARPU among peers driven by the improvement of subscriber pyramid. Moreover, TWM recorded the highest prepaid ARPU out of the incumbents for three consecutive quarters.

## II. Cost and Expense Analysis

*Pro forma TWM+TAT+MBT only*

**Table 3. Operating Cost Breakdown**

NT\$bn	1Q06	4Q05	1Q05	QoQ	YoY
<b>Operating Cost</b>	<b>6.03</b>	<b>6.26</b>	<b>5.76</b>	<b>-4%</b>	<b>5%</b>
Cost of Goods Sold	0.00	0.00	0.06	NM	NM
Telecom Service Cost	6.03	6.26	5.70	-4%	6%
- Depreciation	1.58	1.56	1.50	1%	5%
-Amortization-3G	0.19	0.19	0.00	0%	NM
- Interconnection	2.44	2.52	2.43	-3%	0%
- BTS related	1.32	1.47	1.30	-10%	1%
- Spectrum fee/license concession/USO	0.50	0.50	0.46	-1%	7%

**Table 4. Operating Expense Breakdown**

NT\$bn	1Q06	4Q05	1Q05	QoQ	YoY
<b>Total Op. Exp.</b>	<b>3.98</b>	<b>3.84</b>	<b>3.51</b>	<b>3%</b>	<b>13%</b>
Selling Exp.	<b>2.96</b>	<b>2.70</b>	<b>2.45</b>	<b>10%</b>	<b>21%</b>
- SAC + SRC	2.15	1.81	1.64	19%	31%
- Direct Store & Customer Service Exp	0.48	0.52	0.46	-7%	5%
G&A Exp.	<b>1.02</b>	<b>1.14</b>	<b>1.06</b>	<b>-11%</b>	<b>-4%</b>

**Table 5. Non-operating Item**

NT\$bn	1Q06	4Q05	1Q05	QoQ	YoY
<b>Non-Operating Items</b>	<b>(0.88)</b>	<b>(0.74)</b>	<b>(0.30)</b>	<b>18%</b>	<b>188%</b>
-Net interest expense	(0.07)	(0.11)	(0.16)	-39%	-58%
-CHT disposal gains	0.63	0.00	0.00	NM	NM
-Asset disposal /write-off gain (loss)	(1.54)	(0.80)	(0.14)	93%	1033%
-CB buy-back (loss)	(0.04)	0.00	(0.18)	NM	-75%
-Other non-ops.	0.15	0.17	0.17	-9%	-12%

### Cost/Expense Analysis

Network costs, exclusive of depreciation and amortization, were well-contained in 1Q. Aided by network optimization cost synergies, BTS related opex only increased slightly despite an additional 1,000 3G sites deployed, compared to a year ago. Depreciation expense did not see much increase year over year as new 3G depreciation expenses were partially offset by lower 2G depreciation due to asset write-off/disposal.

Selling expenses rose by 21% YoY due mainly to surging acquisition costs associated with more than 40% YoY increase in postpaid gross adds. Renewal contracts also increased but retention costs edged down as per sub cost declined as a result of more favorable handset/airtime mix.

Continuous investment into our IT system has been adding more G&A expenses. Nonetheless, total G&A expenses leveled down due to stopping amortization of goodwill. Pursuant to ROC SFAS No. 35 and the amendment of No. 25, the Company is not amortizing the remaining goodwill assets from this year onwards but has to do asset impairment assessments periodically.

### Non-Operating Item Analysis

Asset write-off in 1Q totaled NT\$1.54bn instead of forecasted NT\$1.76bn due to the deferred dumping schedule, but the whole year forecast on write-off remains unchanged. This quarter TWM sold 50m Chunghwa Telecom (CHT) shares with a disposal gain of NT\$626m. Loss from CB buy-back amounted to NT\$44m.

### III. Income Statement Analysis

*Consolidated basis*

**Table 6. Income Statement**

NT\$bn	1Q06	4Q05	1Q05
<b>Revenue</b>	<b>14.60</b>	<b>14.92</b>	<b>14.46</b>
Telecom Service Revenue	14.49	14.77	14.30
Other Revenue	0.10	0.15	0.16
<b>Operating Cost*</b>	<b>6.03</b>	<b>6.24</b>	<b>5.83</b>
Telecom Service Cost	6.03	6.24	5.77
Cost of Good Sold	0.00	0.00	0.07
<b>Operating Expenses*</b>	<b>4.03</b>	<b>4.01</b>	<b>3.51</b>
EBITDA	6.48	6.76	6.94
<b>Operating Income</b>	<b>4.53</b>	<b>4.67</b>	<b>5.12</b>
Non-op. Income (Expense)	(0.86)	(0.73)	(0.34)
Pre-tax Income	3.67	3.93	4.78
(Less Tax)	(0.55)	(0.40)	(0.74)
(Minority Interest)	(0.02)	0.01	(0.10)
<b>Net Income - Attributed to the Parent</b>	<b>3.10</b>	<b>3.54</b>	<b>3.94</b>
EPS (NT\$)	0.63	0.71	0.81

\*Please note that the 4Q05 and 1Q05 operating cost and operating expense have been restated to account for the reclassification of TT&T labor cost from operation cost to operating expense.

#### Income Statement Analysis

The consolidated income statement is similar to the combined figures in Table 1 to Table 5 as the key difference is the revenue and expenses from TT&T.

Our 1Q06 consolidated income statement reviewed by CPA shows a 1% YoY increase in total revenue to NT\$14.6bn. EBITDA for the same period came in at NT\$6.5bn, with EBITDA margin of 44.41%.

## IV. Cash Flow Analysis

*Consolidated basis*

**Table 7. Cash Flow**

NT\$bn	1Q06	4Q05	1Q05
<b>Total Op Sources/(Uses)</b>	<b>8.12</b>	<b>6.46</b>	<b>10.40</b>
Consolidated Net Income	3.12	3.54	4.04
Depreciation	1.68	1.69	1.61
Amortization	0.28	0.40	0.22
Disposal Loss (Gain) on Investment	(0.63)	0.00	0.00
Changes in Working Capital & Others	3.67	0.83	4.53
<b>Net Investing Sources/(Uses)</b>	<b>1.45</b>	<b>(1.19)</b>	<b>(0.97)</b>
Divestment (Acquisition)	2.99	(0.02)	0.00
Capex	(1.43)	(1.07)	(0.82)
<b>Net Financing Sources/(Uses)</b>	<b>(2.58)</b>	<b>0.01</b>	<b>(9.47)</b>
Debt Repayment	(1.50)	0.00	(7.83)
CB Buyback	(0.94)	0.00	(1.04)
<b>Net Cash Position Chg.</b>	<b>7.00</b>	<b>5.27</b>	<b>(0.04)</b>

**Table 8. Capex & FCF**

NT\$bn	1Q06	4Q05	1Q05
<b>Total Capex</b>	<b>1.43</b>	<b>1.07</b>	<b>0.82</b>
<b>% of Revenue</b>	<b>10%</b>	<b>7%</b>	<b>6%</b>
<b>Free Cash Flow*</b>	<b>6.69</b>	<b>5.39</b>	<b>9.57</b>

\*Free cash flow: operating cash flow minus capex

### Cash Flow Analysis

Based on SFAS No. 34, cash flows from investment/divestment of financial assets on trading purpose should be classified as operating cash flows. As such, NT\$3.5bn proceeds from bond fund redemption resulted in a surge in 1Q05 operating cash flows. If putting this aside, TWM's core cash earnings in 1Q06 rose both YoY and QoQ although the non-cash asset write-off of NT\$1.5bn negatively affected our net income.

Major investing cash inflows were NT\$3.0bn proceeds from CHT share disposals. Capital expenditures were NT\$1.4bn in this quarter.

For financing activities, TWM redeemed its NT\$1.5bn corporate bonds due in February and bought back NT\$1.0bn of convertible bonds. Cash outlays for acquisition of MBT minority interests was NT\$0.2bn. The large cash outflow during the same period last year primarily stemmed from NT\$7.8bn debt repayments.

### Capex and Free Cash Flow Analysis

Capex was NT\$1.4bn and fixed asset gross adds for 1Q was NT\$0.9bn with 3G/2G split of 80%/20%. We expect 2Q fixed asset gross adds to be NT\$1.5bn with 3G/2G mix at 70%/30%.

Free cash flow in 1Q06 was as high as NT\$6.7bn.

## V. Balance Sheet Analysis

*Consolidated basis*

**Table 9. Balance Sheet**

NT\$bn	1Q06	4Q05	1Q05
<b>Total Assets</b>	<b>123.64</b>	<b>119.83</b>	<b>121.87</b>
Current Assets	38.18	32.40	29.59
- Cash & Cash Equivalents	21.82	14.79	7.77
- Available-for-Sale Financial Asset*	9.18	9.28	9.28
- Other Current Assets	7.19	8.34	12.54
Long-Term Investment	4.01	4.03	4.44
Property and Equipment	62.21	64.53	66.59
Intangible Assets	15.99	16.13	16.98
- 3G License	9.53	9.72	10.28
- Goodwill	6.46	6.41	6.70
Other Assets	3.25	2.73	4.28
<b>Liabilities</b>	<b>30.70</b>	<b>32.03</b>	<b>34.86</b>
Current Liabilities	15.01	16.64	16.22
- ST Debts	1.94	4.54	3.99
- Other Current Liabilities	13.07	12.10	12.23
Long-Term Borrowings	14.89	14.58	18.11
Other Liabilities	0.79	0.80	0.53
<b>Shareholders' Equity</b>	<b>92.94</b>	<b>87.80</b>	<b>87.01</b>

\*Please note that investments in CHT shares are measured at fair value and reclassified to Available-for-Sale Financial Asset" in 1Q06 to pursuant to ROC SFAS No.34.

**Table 10. Ratios**

	1Q06	4Q05	1Q05
<b>Current Ratio</b>	254%	195%	182%
<b>Interest Coverage (x)</b>	30.2	32.7	28.4
<b>Net Debt (Cash) to Equity</b>	-5%	5%	16%
<b>ROE (annualized)</b>	14%	17%	19%
<b>ROA (annualized)</b>	11%	12%	13%

### Balance Sheet Analysis

Pursuant to ROC SFAS No. 34, TWM's investment in CHT common shares has been re-classified as "financial assets available for sale" from "short-term investments" and booked at market value instead of book value starting from this year. As of the end of 1Q, TWM's CHT stake valued NT\$9.2bn based on the closing price as of March end (NT\$61.2 per share). The difference between its market value and original book value has been booked as "unrealized gain of financial assets" under shareholders' equity.

Cash and cash equivalents of NT\$21.8bn comprised NT\$14.9bn from Taiwan Mobile, NT\$3.7bn from TAT, NT\$2.1bn from MBT, and NT\$1.1bn from other affiliates. We expect to conduct capital reductions at various affiliates to repatriate their excess cash back to the parent company.

Compared with 2005 year-end, despite NT\$0.9bn of gross adds, gross fixed assets were reduced and so was the accumulative depreciation due to continuous asset write-offs.

As TWM redeemed its outstanding corporate bonds due in February and bought back some CBs in 1Q, short-term debt balance declined to NT\$1.9bn from NT\$4.5bn.

Unrealized gain of financial assets under shareholders' equity amounted to NT\$1.9bn as of 1Q end, comprising NT\$2.2bn unrealized gain of CHT stake, and NT\$0.3bn unrealized loss from interest rate swap transaction which TWM entered into in 2002 to hedge its inverse-floating corporate bonds at a fixed interest rate.

### Ratio Analysis

Current ratio grew to 254% due to a big increase in cash. TWM turned into net cash position benefited from strong cash generations and continuous de-leveraging.

## VI. Forecast

**Table 11. TWM Consolidated Results vs Forecast**

NT\$bn	1Q06 Actual	1Q06 Forecast	% of Forecast Achieved
Revenue	14.60	14.55	100%
Operating Income	4.53	4.59	99%
Pre-tax Income	3.67	2.82	130%
(Less Tax)	(0.55)	(0.32)	170%
(Less Minority Interest)	(0.02)	(0.02)	64%
Net Income	3.10	2.48	125%
EPS (NT\$)	0.63	0.50	126%
EBITDA	6.48	6.55	99%
EBITDA margin	44.41%	45.00%	

**Table 12. TWM Consolidated Q2Forecast**

NT\$bn	2Q06	QoQ	YoY
Revenue	15.11	4%	0%
-Telecom Service Revenue	15.04	4%	1%
Operating Income	4.87	8%	-8%
Pre-tax Income	5.26	43%	3%
(Less Tax)	(0.77)	40%	6%
(Less Minority Interest)	(0.01)	-43%	-91%
Net Income	4.48	44%	4%
EPS (NT\$)	0.91	44%	3%
EBITDA	6.77	4%	-6%
EBITDA margin	44.82%		

Compared to the guidance, 1Q06 revenue was in line. Operating income was 1% behind due to higher-than-expected marketing spending, despite well-contained network costs and G&A expenses. Less 2G asset write-off due to the deferred site dumping schedule and a gain from CHT share disposal made our pre-tax income 30% higher than our 1Q guidance.

We expect 2Q06 telecom service revenue to grow 4% sequentially, which translates into a fairly stable 1% YoY growth.

In anticipation of a modest reduction in marketing expenses, we forecast 2Q EBITDA to increase by 4% QoQ.

Operating income is projected to rise 8% QoQ, due to the expected sequential decline in depreciation and amortization expense, resulting from continuous asset write-off.

Non-operating income is expected to surge from the previous quarter with a mere NT\$170m asset write-off loss vs. NT\$1.5bn in 1Q. Separately, we will dispose of our stake in one of our affiliates, Howin Technology. As such, we will book NT\$526m in profits from Howin Technology pursuant to SFAS No. 5, which previously was deferred investment income.

Net income for 2Q is expected to reach NT\$4.48bn with an EPS of NT\$0.91. We estimate EPS for the first half of the year to reach NT\$1.54.





## VII. Management Discussion & Analysis

### Key Messages

TWM posted a relatively healthy operating result in 1Q despite heightened competition. Looking into 2Q, we expect competitive environment to improve and new entrants are unlikely to post any meaningful threat, same as the situation in the previous quarter.

Compared to one year ago, TWM has successfully further upgraded its customer quality and closed the gap with its competitors on the acquisition front. Our ARPM continues its rising trend while churn rate is declining. All these accomplishments will build momentums for our future growth and we are confident that we are capable of living up to our new challenges in the future.

### MNP Updates

MNP so far has minimal impact on TWM in the sense that accumulative NP successful cases (excluding internal NP within the same business group) from Oct. 2005 through mid April 2006 represented only 0.85% of total mobile users in Taiwan.

### 3G Updates

We still stick to our disciplined approach toward 3G investment. We plan to spend around NT\$4.5bn on 3G capex including HSDPA trial in 2006, that would put our total cumulative spending on 3G to be around NT\$11bn. By this year end, we will have 3,200 3G sites focusing on major metropolitan areas and covering approximately 80% of total Taiwan population.

At the end of 1Q06, we had 310K 3G SIM users, accounting for 5% of TWM's total subscriber base. We observe that 3G subscribers have three times data penetration rate than 2G and 3G handset users on average generate more than two times ARPU than 2G average. With expanding handset varieties and improving price performance, we expect 3G handset adoption rate to pick up in 2H this year.

### AGM

TWM's annual general shareholders' meeting will be held on June 15, 2006.

### Share Buyback

To maintain the stability of our workforce, TWM's board approved on Apr. 27 to buy back 60m shares to provide long-term incentives to the employees. Total spending will be no more than NT\$2bn with price ranging from NT\$25.48/share to NT\$37.17/share. The buyback period is from Apr. 28 through Jun. 27.

### Investment Updates

- TWM's ownership of MBT rose to 100% (from 94.28%) in Jan. 06
- TT&T (95.88%-owned before) has become wholly-owned since Apr. 5
- TWM's various subsidiaries will conduct capital reduction exercises to upstream around NT\$2.6bn cash to TWM this year