

January 25, 2007 Topics in This Report <ul style="list-style-type: none"> • Revenue Analysis • Cost & Expense Analysis • Income Statement Analysis • Cash Flow Analysis • Balance Sheet Analysis • Forecast • Management Remark IR contact: Shirley Chu Deputy Director Investor Relations shirleychu@taiwanmobile.com Rosie Yu Vice President rosieyu@taiwanmobile.com 18Fl, No. 172-1, Sec.2, Ji-Lung Rd., Taipei 106, Taiwan, ROC Tel: 8862 6636 3159 ir@taiwanmobile.com http://www.taiwanmobile.com	<u>TWM consolidated</u>¹					
	NT\$bn	<u>2006</u>	<u>YoY</u>	<u>4Q06</u>	<u>QoQ</u>	<u>YoY</u>
Revenue	58.91	-2%	14.53	-3%	-3%	
Telecom Service Revenue	58.49	-1%	14.45	-3%	-2%	
EBITDA	27.16	-4%	6.93	-1%	3%	
Operating Income	19.33	-5%	4.94	-2%	6%	
Non-op. Income (Expense)	(0.42)	-70%	(1.25)	NM	70%	
Pre-tax Income	18.91	0%	3.70	-41%	-6%	
(Less Tax)	(2.69)	13%	(0.75)	-2%	89%	
(Less Minority Interest)	(0.04)	-83%	(0.00)	-171%	-115%	
Net Income	16.17	0%	2.94	-46%	-17%	
EPS (NT\$)	3.28	-1%	0.60	-46%	-15%	
EBITDA margin	46.10%		47.70%			
Operating margin	32.82%		34.03%			
<p>1. Same as audited financials</p> <p>Highlights of 2006 Full Year Results</p> <p>We delivered a stable net profit and a mere 1% dip in telecom service revenue in 2006, whilst private consumption growth decelerated to 1.5% from 2.7% a year ago and the mobile service industry recorded a 2% decline in revenue.</p> <p>The better-than-industry revenue performance is a result of good sales momentum, stemming from new rate plan offerings and effective retention efforts, which further lowered our churn rate in 2006. Despite the revenue pressure and increasing costs associated with expanding 3G infrastructure, our continuous cost control efforts staged a sequential improvement in profitability with EBITDA margin rising from 44.5% in 1Q to 47.7% in 4Q. Our commitment to creating value to shareholders is evidenced by our disposal of all Chunghwa Telecom shares, which boosted our reported profits in 2006.</p> <p>We are half-way toward the completion of an island-wide full-coverage 3G network with 3,200 base stations on air and accumulated capex of NT\$12bn at the end of 2006. We had around 10% our total subscriber base registering for 3G service plans by 2006 year-end.</p> <p>Board Resolution on Earnings Distribution</p> <p>The board meeting today approved 2006 earnings distribution to pay NT\$2.6/share cash dividend, based on current shares outstanding or total cash payment of NT\$12.9bn</p> <p>Management Remark</p> <p>Given the solid foundations that we have built in the past few years, our objective in 2007 is to ensure the stability of our operations. To achieve the end, we will focus on the following strategies:</p> <ul style="list-style-type: none"> • Capitalize our success in "myZone strategy" to root deeper into each regional market • Increase focuses on quality customer acquisition and existing customer relationship management • Drive growth in VAS and 3G, paced with market evolvement and readiness • Improve channel control and proliferate alternative channels to differentiate from competitors' channel strategy <p>These efforts shall serve to solidify our footing in the marketplace.</p>						
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I. Revenue Analysis

Consolidated basis

Table 1. Key Operational Data

	4Q06	3Q06	4Q05	QoQ	YoY
Revenue (NT\$bn)	14.53	15.03	14.92	-3%	-3%
Telecom service revenue	14.48	14.97	14.77	-3%	-2%
-Voice Revenue	13.49	14.03	13.91	-4%	-3%
-VAS Revenue	0.99	0.95	0.86	5%	15%
Others	0.04	0.06	0.15	-28%	-71%
Data Rev as % to Total	6.8%	6.3%	5.8%		
End Subscribers (K)	6,151	6,134	6,101	0%	1%
-Postpaid	5,671	5,656	5,638	0%	1%
-Prepaid	480	478	463	0%	4%
Monthly Churn	1.7%	1.9%	2.3%		
MOU (bn)	3.51	3.56	3.57	-1%	-2%
ARPM (NT\$)	4.12	4.15¹	4.14	-1%	0%

Note 1: Excluding CHT's lawsuit compensation of NT\$212m

Table 2. Per Sub Spending & Usage

	4Q06	3Q06	4Q05	QoQ	YoY
ARPU (NT\$)²	787	814	807	-3%	-2%
-Postpaid	805	835	825	-4%	-2%
-Prepaid	576	567	576	2%	0%
MOU (minute)	191	193	195	-1%	-2%

Note 2: Blended ARPU is based solely on telecom service revenue

Revenue Analysis

TWM witnessed a decelerating YoY decline in revenue in 4Q, compared to the previous quarter. During 4Q, we outperformed the industry in terms of service revenue YoY change.

Value added service (VAS) recorded good growth of 15% YoY in 4Q, aided by stronger YoY growth in SMS and mobile internet revenue.

Total subscriber number increased slightly on the back of healthy sales momentum and continuous decline in churn rates, resulting from more effective retention efforts.

The 2% YoY decrease in ARPU is a function of lower MOU per sub, negatively affected by over 10% YoY drop in F2M traffics. Compared to our peers, our revenue per minute was relatively stable in 4Q.

II. Cost and Expense Analysis

Consolidated basis

Table 3. Operating Cost Breakdown

NT\$bn	4Q06	3Q06	4Q05	QoQ	YoY
Operating Cost	6.29	6.31	6.27	0%	0%
Cost of Goods Sold	0.01	0.04	(0.08)	-96%	NM
Telecom Service Cost	6.28	6.27	6.35	6%	-1%
- Depreciation	1.61	1.58	1.56	2%	3%
-Amortization-3G	0.19	0.19	0.19	0%	0%
- Interconnection Cost	2.42	2.50	2.52	-3%	-4%
- BTS Related Opex	1.55	1.49	1.47	4%	6%
- Spectrum fee/license concession/USO	0.49	0.50	0.50	-1%	3%

Table 4. Operating Expense Breakdown

NT\$bn	4Q06	3Q06	4Q05	QoQ	YoY
Total Op. Exp.	3.29	3.68	3.98	-11%	-17%
Selling Exp.	2.21	2.48	2.75	-11%	-19%
- SAC + SRC	1.49	1.69	1.81	-12%	-18%
- Direct Store & Customer Service Exp	0.42	0.42	0.60	0%	-29%
G&A Exp.	1.08	1.20	1.24	-10%	-12%

Table 5. Non-operating Item

NT\$bn	4Q06	3Q06	4Q05	QoQ	YoY
Non-Operating Items	(1.25)	1.20	(0.73)	NM	70%
-Net Interest Expense	(0.04)	(0.05)	(0.09)	-15%	-53%
-Net Investment Income (Loss)	0.00	0.64	0.01	NM	NM
-CHT Disposal Gain	0.00	1.49	0.00	NM	NM
-Asset Disposal /Write-off Gain (Loss)	(1.37)	(1.18)	(0.83)	16%	66%
-Other Non-ops.	0.17	0.31	0.18	-45%	-3%

Cost/Expense Analysis

Network costs, exclusive of depreciation and amortization, remained stable YoY, with rising site opex offsetting declining interconnecting cost. Interconnecting cost trended in line with the MOU changes. BTS related opex edged up due to increasing maintenance expenses for 3G equipment off the warranty coverage period and rising leased-line leasing expense to cope with more capacity demand.

Marketing resource rationalization efforts in 4Q brought down marketing expense ratio to the lowest level of the year. Total subscriber acquisition expense was down YoY in 4Q, on the back of lower gross adds and a flat SAC per sub.

Non-Operating Item Analysis

In contrast to a sizeable one-off gain booked in 3Q, TWM recognized higher than expected asset write-off losses in 4Q. Asset write-off loss in 4Q came largely from TransAsia Telecom for its network consolidation with TWM and TWM's network infrastructure software upgrades.



III. Income Statement Analysis

Consolidated basis

Table 6. Income Statement

NT\$bn	4Q06	2006	2005
Revenue	14.53	58.91	60.05
Telecom Service Revenue	14.48	58.63	59.35
Other Revenue	0.04	0.28	0.71
Operating Cost	6.29	24.72	24.36
Telecom Service Cost	6.28	24.67	24.21
Cost of Good Sold	0.01	0.05	0.15
Operating Expenses	3.29	14.85	15.38
EBITDA	6.93	27.16	28.14
Operating Income	4.94	19.33	20.31
Non-op. Income (Expense)	(1.25)	(0.42)	(1.42)
Pre-tax Income	3.70	18.91	18.89
(Less Tax)	(0.75)	(2.69)	(2.39)
(Minority Interest)	(0.00)	(0.04)	(0.26)
Net Income - Attributed to the Parent	2.94	16.17	16.24
EPS (NT\$)	0.60	3.28	3.31

Income Statement Analysis

Our 4Q revenue recorded slightly better than the guidance due to higher-than-expected MOU. The contained selling expense under marketing resource rationalization efforts contributed to better-than-expected EBITDA. Nevertheless, 2G assets write-off losses weighed on the net income, which was lower than the guidance by 2%.

Table 7. TWM Consolidated Results vs Forecast

NT\$bn	4Q06 Actual	4Q06 Forecast	% of Forecast Achieved
Revenue	14.53	14.41	101%
Operating Income	4.94	4.59	108%
Pre-tax Income	3.70	3.55	104%
(Less Tax)	(0.75)	(0.54)	140%
Net Income - Attributed to the Parent	2.94	3.02	98%
EPS (NT\$)	0.60	0.61	98%
EBITDA	6.93	6.50	107%
EBITDA margin	47.70%	45.09%	

IV. Cash Flow Analysis

Consolidated basis

Table 8. Cash Flow

NT\$bn	4Q06	3Q06	4Q05
Total Op Sources/(Uses)	3.79	4.60	6.46
Consolidated Net Income	2.95	5.47	3.54
Depreciation	1.74	1.70	1.69
Amortization	0.25	0.25	0.40
Disposal (Gain) on Investment	0.00	(1.49)	0.00
Asset Write-off Loss Add-back	1.37	1.18	0.83
Changes in Working Capital	1.07	(1.60)	0.54
Cash Management	(3.59)	(0.92)	(0.54)
Net Investing Sources/(Uses)	0.14	3.51	(1.19)
Divestment (Acquisition)	3.28	4.85	(0.02)
Capex	(3.19)	(1.32)	(1.07)
Net Financing Sources/(Uses)	(0.64)	(13.34)	0.01
Dividend and Bonus Payments	0.00	(13.29)	(0.23)
Debt Repayment	(1.25)	(0.00)	0.00
Treasury Stock Transferred to Employees	0.59	0.00	0.57
Net Cash Position Chg.	3.28	(5.23)	5.27

Table 9. Capex & FCF

NT\$bn	4Q06	3Q06	4Q05
Total Capex	3.19	1.32	1.07
% of Revenue	22%	9%	7%
Free Cash Flow*	0.60	3.29	5.39

*Free cash flow: operating cash flow minus capex

Cash Flow Analysis

The decline of operating cash flow in 4Q06 was attributable to more cash outflows being parked into money market instruments.

For cash flow from investment activities, capex related cash outflow surged due largely to NT\$1.6bn expenditure for the purchase of office building from TFN in the quarter. Separately, we received NT\$3.3bn CHT ADR sales proceeds in the quarter for the transaction did at the end of 3Q.

Financing activity cash outlay was NT\$1.25bn debt payment in 4Q.

Capex and Free Cash Flow Analysis

Telecom equipment gross adds (excluding office building purchase) amounted to NT\$2.12bn in 4Q, with 3G equipment making up 79% of total. In 2006, we increased our gross telecom equipment assets by NT\$5.97bn, of which 3G related equipment accounted for 80%.

FCF in 4Q was lower due to high capex.

V. Balance Sheet Analysis

Consolidated basis

Table 10. Balance Sheet

NT\$bn	4Q06	3Q06	4Q05
Total Assets	118.41	114.20	119.83
Current Assets	34.43	30.92	32.40
- Cash & Cash Equivalents	12.42	9.13	14.79
-Available-for-Sale Financial Asset	0.38	0.37	9.28
-Financial Assets at Fair Value	14.08	10.49	0.60
- Other Current Assets	7.56	10.94	7.74
Long-Term Investment	3.88	3.88	4.03
Property and Equipment	60.91	60.36	64.53
Intangible Assets	15.81	15.99	16.13
-3G License	8.97	9.16	9.72
-Goodwill	6.84	6.84	6.41
Other Assets	3.38	3.04	2.73
Liabilities	28.52	27.92	32.03
Current Liabilities	17.98	13.51	16.64
- ST Debts	3.81	1.34	4.54
- Other Current Liabilities	14.17	12.17	12.10
Long-Term Borrowings	10.00	13.75	14.58
Other Liabilities	0.54	0.66	0.80
Shareholders' Equity	89.89	86.28	87.80

Table 11. Ratios

	4Q06	3Q06	4Q05
Current Ratio	192%	229%	195%
Interest Coverage (x)	45.8	47.6	32.7
Net Debt (Cash) to Equity	-14%	-5%	4%
ROE (annualized)	18%	20%	17%
ROA (annualized)	14%	15%	12%

Balance Sheet Analysis

Cash together with financial assets at fair value (largely money market instruments) reached NT\$26.5bn at the end of 4Q, up by NT\$6.9bn in 3Q.

For our net PP&E, the balance at the end of 4Q remained stable as 2G assets write-off and depreciation expense offset new telecom equipment and the office building purchase.

Total debts netted NT\$13.8bn at the end of 2006, down by NT\$1.28bn from the previous quarter due to NT\$1.25bn debt repayment and the decrease in CBII outstanding balance. Short-term debt portion rose in 4Q as more debts to mature within a year.

Ratio Analysis

Current ratio in 4Q decreased from 3Q's level, because of rising short-term debts.

VI. Forecast

Table 12. TWM Consolidated 1Q Forecast

NT\$bn	1Q07	QoQ	YoY
Revenue	14.40	-1%	-1%
-Telecom Service Revenue	14.28	-1%	-1%
Operating Income	4.38	-11%	-4%
Pre-tax Income	4.41	19%	20%
(Less Tax)	(1.15)	53%	109%
Net Income	3.26	11%	5%
EPS (NT\$)	0.65	8%	3%
EBITDA	6.34	-8%	-2%
EBITDA margin	44.04%		

We forecast 1Q07 service revenue and operating income to follow similar trend seen in the 4Q06.

1Q EBITDA margin is expected to be 44.04%, slightly lower than 44.54% a year ago, due to a small drop in revenue while fixed cost and expense remain stable. An expected sequential dip in EBITDA margin is a reflection of stronger marketing campaign at the beginning of each year.

We forecast minimal asset write-off loss in 1Q07, comparing to NT\$1.37bn loss in 4Q06 and NT\$1.54bn loss in 1Q06. Therefore, net income will see a 5% jump, by our estimate.



VII. Management Discussion & Analysis

Key Message

Given the solid foundations that we have built in the past few years, our objective in 2007 is to ensure the stability of our operations.

To achieve the end, we will focus on the following strategies:

- Capitalize our success in "myZone strategy" to root deeper into each regional market
- Increase focuses on quality customer acquisition and existing customer relationship management
- Drive growth in VAS and 3G, paced with market evolvement and readiness
- Improve channel control and proliferate alternative channels to differentiate from competitors' channel strategy

These efforts shall serve to solidify our footing in the marketplace.

Regulation

- NCC announced a 4.88% 2G price cut on 1) pre-paid, 2) F2M and 3) the price plan with the highest tariff/min with an estimate of less than 1% revenue impact in 2007.
- NCC's delayed regulation revision which allows us to remove redundant 2G BTS is expected to go through in this quarter.

Board Resolution on Earnings Distribution

TWM's board approved FY06 financial results and cash dividend distribution of NT\$2.6 per share, based on current shares outstanding. The NT\$2.6 cash dividend per share represents an 8% dividend yield.

New Product and Service

- Introduced BlackBerry service in December 2006, with more than 600 users signing up
- Launched HSDPA (3.5G) service for data cards and new rate plan "My zone 968" in January 07.

Event

- TWM's ex-CFO Vivien Hsu was appointed as the president of TFN, more synergies could be expected afterwards.
- To improve communication efficiency, TWM bought other floors of the same headquarter building from TFN with total transaction amount of NT\$ 1.6bn.