

April 30, 2009

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TWM consolidated ¹

NT\$bn	<u>1Q09</u>	<u>4Q08</u>	<u>1Q08</u>	<u>QoQ</u>	<u>YoY</u>
Revenue	16.89	16.94	17.24	0%	-2%
EBITDA	7.04	7.03	7.64	0%	-8%
Operating Income	4.86	4.89	5.64	-1%	-14%
Non-op. Income (Expense)	(0.52)	(0.70)	0.00	-26%	NM
Pre-tax Income	4.34	4.19	5.64	4%	-23%
(Less Tax)	(1.09)	(1.05)	(1.44)	4%	-24%
(Less Minority Interest)	(0.00)	0.00	(0.01)	NM	-97%
Net Income	3.25	3.15	4.19	3%	-22%
EPS (NT\$)	1.10	1.06	1.44	4%	-24%
EBITDA margin	41.69%	41.5%	44.29%	-0.17pps	-2.60pps
Operating margin	28.78%	28.8%	32.68%	-0.06pps	-3.90pps

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

Highlights of 1Q09 Results

We met our 1Q revenue guidance because of better-than-expected HBG performance and higher handset sales which compensated for telecom service revenue decline.

Despite the aforementioned revenue pressure, our 1Q09 EBITDA achieved the guidance, due primarily to marketing expense cuts. Selling expense plus mobile device subsidy netted 17.7% of total service revenue in 1Q09, down from 18.7% in 4Q08.

On the non-operating front, as network consolidation was ahead of schedule, assets write-off losses exceeded our guidance. Therefore, 1Q09 net income reached 97% of the official guidance.

2Q09 Guidance

We forecast mobile service and cable TV revenue to rise sequentially in 2Q09. With contained SAC per sub, the QoQ rise in selling expense of our forecast is largely to reflect stronger gross adds of wireless data and planned marketing campaigns. The sequential pick-up in EBITDA is expected to help stem the decline in profits. We will try to maintain discipline over spending as implemented in 1Q09.

Management Remark

The worldwide financial turmoil has affected every economy. Taiwan is no exception. Reflective of the weakness in domestic economy, Taiwan Mobile inevitably posted a decline in EBITDA in 1Q, but was able to meet the guidance. Looking ahead, the economic outlook remains bleak. Taiwan Mobile will strive to sustain EBITDA levels in line with guidance to maintain shareholder return.

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I. Revenue Analysis

Table 1. Key Operational Data

Revenue (NT\$bn)	1Q09	4Q08	1Q08	QoQ	YoY
CBG	13.48	13.50	13.89	0%	-3%
Mobile Service	12.18	12.48	13.08	-2%	-7%
-Voice	10.60	11.06	11.77	-4%	-10%
-VAS	1.58	1.43	1.31	10%	21%
IDD	0.79	0.79	0.74	0%	6%
Device Sales	0.47	0.18	0.04	163%	11.7x
EBG	2.29	2.44	2.26	-6%	1%
Mobile Service	0.83	0.93	0.87	-10%	-5%
Fixed-line	0.87	0.91	0.92	-4%	-6%
ISR & Others	0.59	0.61	0.47	-4%	26%
HBG	1.10	1.08	1.04	3%	7%
- Pay-TV & Others	0.97	0.96	0.95	1%	3%
- Broadband	0.13	0.11	0.09	14%	49%

	1Q09	4Q08	1Q08	QoQ	YoY
Mobile Subscribers (K)	6,345	6,270	6,228	1%	2%
2G	3,567	3,827	4,720	-7%	-24%
3G	2,778	2,444	1,508	14%	84%
- Data card	116	85	16	37%	6.1x
Monthly Churn	1.8%	1.8%	1.8%		
MOU (bn)	3.97	3.87	3.61	3%	10%
ARPM (NT\$)	3.43	3.60	4.02	-5%	-15%
Pay-TV Subs (K)	541	538	522	1%	4%
Cable Broadband Subs (K)	95	88	67	9%	43%

	1Q09	4Q08	1Q08	QoQ	YoY
Wireless					
ARPU (NT\$)	720	743	776	-3%	-7%
MOU per sub (minute)	210	206	193	2%	9%
Cable MSO					
Monthly Subscription (NT\$)	511	509	516	0%	-1%
Broadband ARPU (NT\$)	473	447	454	6%	4%
Blended ARPU ¹ (NT\$)	682	669	664	2%	3%

1. All CATV revenue divided by its subscriber number

Revenue Analysis

CBG:

Mobile voice revenue of this division was negatively affected by the economy slump. The bright spots seen in the quarter were 21% YoY growth in value-added services and 6% YoY rise in IDD revenue generated by mobile users. Device sales in the quarter escalated due to more sales volume of company-procured data cards, netbooks, and smart phones.

EBG:

Among mobile related revenue (enterprise mobile, fixed-mobile convergent service, and mobile roaming), only enterprise mobile still posted a 16% YoY rise in 1Q09. Fixed-line wholesale also recorded growth in the quarter. Fixed-line revenue declined largely in voice due to less international call traffic.

HBG:

The additions of two shopping programs broadcasting on our TV network since 3Q08 and 4% YoY rise in basic-TV subscribers led to a 3% YoY increase in pay-TV related revenue. Separately, cable broadband saw both subscriber number and ARPU rise in the quarter. Broadband ARPU was up YoY, due to the rise in mid-to-high download speed service users, making up 75% of total as of March 2009 up from 55% a year ago. We have completed the upgrade to DOCSIS3.0, which will allow us to offer faster speed cable broadband service this year.

For mobile service as a whole in 1Q09, subscriber number rose 2% YoY, mainly coming from 100K data card subscriber additions; ARPU was down 7% YoY because higher-yield minutes of use dropped. That said, wireless value-added service still posted a healthy 22% YoY growth in 1Q09, higher than our peers. On cable business, broadband subscriber remained strong growth momentum, sending two-service penetration to 18%. Our fixed-line focuses on providing solutions to contain our backhaul expenses in the wake of fast growing wireless data and cable broadband business.

II. EBIT Analysis

Table 2. EBIT Breakdown

NT\$bn	1Q09	4Q08	1Q08	QoQ	YoY
EBITDA	7.04	7.03	7.64	0%	-8%
- CBG	5.98	6.07	6.60	-1%	-9%
- EBG	0.44	0.44	0.48	1%	-8%
- HBG	0.57	0.54	0.54	5%	6%
Margin	41.7%	41.5%	44.3%	0.2pps	-2.6pps
- CBG	44.4%	44.9%	47.5%	-0.6pps	-3.2pps
- EBG	19.3%	17.8%	21.3%	1.5pps	-1.9pps
- HBG	51.6%	50.3%	52.1%	1.3pps	-0.5pps
D&A	2.18	2.15	2.00	1%	9%
- CBG	1.91	1.91	1.77	0%	8%
- EBG	0.10	0.07	0.05	32%	98%
- HBG	0.12	0.12	0.12	1%	-1%
EBIT	4.86	4.89	5.64	-1%	-14%
- CBG	4.07	4.16	4.83	-2%	-16%
- EBG	0.34	0.36	0.43	-5%	-20%
- HBG	0.45	0.42	0.42	7%	7%

Table 3. Non-operating Item

NT\$bn	1Q09	4Q08	1Q08	QoQ	YoY
Non-Operating	(0.52)	(0.70)	0.00	-26%	NM
-Net Interest Expense	(0.11)	(0.14)	(0.17)	-18%	-31%
- Write-off Loss	(0.48)	(0.71)	(0.20)	-32%	136%
-Disposal Gain and Others	0.08	0.15	0.37	-48%	-79%

EBITDA Analysis

CBG's YoY decrease in EBITDA mainly reflected lower revenue as cash network cost and operating expense were cut from a year ago. CBG EBITDA margin contraction narrowed in 1Q09 from a quarter ago, credited to further expense cut measures to cope with weaker revenue trend. Besides reducing expenses of advertisement and sales related overhead, we further slashed mobile device subsidies and dealer commissions in March. As such, handset subsidies (a cost item) and selling expenses combined were flattish from a year ago and dropped 5% QoQ. Stripping out handset sales which diluted margins, CBG EBITDA margin stood at 46.1% of its service revenue in 1Q09, down 1.6pps YoY.

EBG's EBITDA margin in 1Q09 was down YoY, due to higher percentage of revenue coming from lower-margin business e.g. ISR. The significant growth of D&A was reflective of increased fixed-line capex for IP network and transmission equipment from a low base (almost all legacy equipment was written off by the end of 2007).

HBG's performance in 1Q09 was resilient with a healthy 6% YoY increase in EBITDA as consumer's spending on cable TV and broadband was not negatively affected by the financial turmoil.

Non-Operating Item Analysis

Net interest expense declined by 18% QoQ, due mainly to the repayment of NT\$5.2bn syndicate loan in 1Q09. 1Q09 non-operating expense was NT\$0.52bn, in contrast to a net non-operating income of NT\$5mn in 1Q08, resulting from stock disposal gains of NT\$260m and less write-off loss.

III. Income Statement Analysis

Table 4. TWM Consolidated Results vs. Forecast

NT\$bn	1Q09 Actual	1Q09 Forecast	% of Forecast Achieved
Revenue	16.89	16.86	100%
Operating Income	4.86	4.86	100%
Pre-tax Income	4.34	4.45	98%
(Less Tax)	(1.09)	(1.11)	98%
Net Income - Attributed to the Parent	3.25	3.34	97%
EPS (NT\$)	1.10	1.12	98%
EBITDA	7.04	6.99	101%
EBITDA margin	41.69%	41.47%	

Table 5. Income Statement

NT\$bn	1Q09	4Q08	1Q08
Revenue	16.89	16.94	17.24
Service Revenue ¹	16.40	16.75	17.20
Operating Cost	(8.35)	(8.05)	(7.63)
Operating Expenses	(3.67)	(4.00)	(3.98)
EBITDA	7.04	7.03	7.64
Operating Income	4.86	4.89	5.64
Non-op. Income (Expense)	(0.52)	(0.70)	0.00
Pre-tax Income	4.34	4.19	5.64
(Less Tax)	(1.09)	(1.05)	(1.44)
(Minority Interest)	(0.00)	0.00	(0.01)
Net Income - Attributed to the Parent	3.25	3.15	4.19
EPS (NT\$)	1.10	1.06	1.44

1. Total revenue deducted handset sales revenue.

Income Statement Analysis

We met our 1Q revenue guidance because of better-than-expected HBG performance and higher handset sales which compensated for telecom service revenue decline.

Despite the aforementioned revenue pressure, our 1Q09 EBITDA achieved the guidance, due primarily to marketing expense cuts. Selling expense plus mobile device subsidy netted 17.7% of total service revenue in 1Q09, compared to 18.7% in 4Q08 and 16.8% in 1Q08.

On the non-operating front, as network consolidation was ahead of schedule, NT\$0.48bn of assets write-off losses in 1Q09 exceeded our guidance. As a result, 1Q09 net income reached 97% of the official guidance.



IV. Cash Flow Analysis

Table 6. Cash Flow

NT\$bn	1Q09	4Q08	1Q08
Total Op Sources/(Uses)¹	6.92	7.86	7.47
Consolidated Net Income	3.25	3.14	4.20
Depreciation	1.91	1.88	1.73
Amortization	0.27	0.27	0.28
Changes in Working Capital	0.78	1.44	0.99
Other Add-back	0.71	1.13	0.27
Net Investing Sources/(Uses)	(1.66)	(2.11)	(0.37)
Divestment of Financial Asset	0.00	0.00	2.09
Capex	(1.50)	(1.81)	(1.28)
Acquisition	(0.01)	(0.26)	0.00
Disposal of Property & Equipment	0.00	0.00	0.00
Net Financing Sources/(Uses)	(4.41)	(5.62)	(5.35)
Short-Term Borrowings	0.50	(12.40)	(2.44)
Commercial Paper Payable	0.00	(2.84)	2.70
Corporate Bond Payable	0.00	5.50	0.00
Long-Term Borrowings	(5.20)	5.20	(2.45)
Shares Buyback	0.00	(1.06)	0.00
Capital Reduction	0.00	0.00	(9.43)
Disposal of Treasury Stock	0.32	0.00	13.51
Minority Interest (Decrease)	0.00	0.00	(7.24)
Net Cash Position Chg.	0.86	0.13	1.74

1. Inclusive cashflow for cash managements.

Table 7. Capex & FCF

NT\$bn	1Q09	4Q08	1Q08
Cash Capex	1.50	1.81	1.28
- Mobile	1.10	1.53	0.97
- Fixed-line	0.31	0.18	0.18
- Cable MSO	0.09	0.10	0.12
% of Revenue	9%	11%	7%
Free Cash Flow	5.42	6.05	6.19

Cash Flow Analysis

Operating cash flow remained stable in 1Q09.

The 1Q09 investing activity cash outlay was mainly for NT\$1.5bn in cash capex. 83 3G base stations were added in 1Q and close to 100% of our 3G stations are HSDPA enabled.

In terms of financing activities, we repaid syndicate loan of NT\$5.2bn, and increased short-term borrowings by NT\$0.5bn. NT\$0.32bn cash inflows were from selling treasury shares to employees in 1Q09. Treasury shares amounted to 829mn shares as of the end of 1Q09.

Capex and Free Cash Flow Analysis

With good core business cash earnings and stable cash capex (9% of revenue), 1Q09 free cash flow of NT\$5.42bn improved to 12% yield.

Full-year capex would be revised downward from NT\$6.9bn to NT\$6.5bn, reflecting mobile equipment price declines. Newly revised 2009 capex breakdown: NT\$4.7bn for mobile, NT\$1.2bn for fixed-line and NT\$0.6bn for cable.

V. Balance Sheet Analysis

Table 8. Balance Sheet

NT\$bn	1Q09	4Q08	1Q08
Total Assets	90.99	91.94	97.49
Current Assets	13.11	12.88	16.97
- Cash & Cash Equivalents	4.73	3.87	8.77
-Available-for-Sale Financial Asset	0.22	0.24	0.31
- Other Current Assets	8.17	8.77	7.90
Long-Term Investment	3.25	3.35	3.06
Property and Equipment	48.53	49.47	50.38
Intangible Assets	21.90	22.12	22.71
-3G License & Goodwill	17.77	17.96	18.39
Other Assets	4.20	4.12	4.37
Liabilities	36.51	41.00	48.86
Current Liabilities	27.56	26.74	40.90
- ST Debts/Commercial Paper Payable	8.00	7.50	23.69
- Other Current Liabilities	19.56	19.24	17.21
Long-Term Borrowings	8.00	13.20	7.50
Other Liabilities	0.96	1.07	0.45
Shareholders' Equity	54.48	50.94	48.63
-Paid-in Capital	38.01	38.01	38.01
-Capital Surplus	12.30	12.30	12.27
-Treasury Shares	(32.63)	(32.95)	(31.89)
-Un-appropriated Earnings*	2.34	2.34	4.11
-Special Reserve	3.41	3.41	3.49
-Retained Earnings & Others	31.05	27.83	22.64

*: excluding YTD profits

Table 9. Ratios

	1Q09	2008	1Q08
Current Ratio	48%	48%	41%
Interest Coverage (x)	37.7	30.8	29.3
Net Debt to Equity	21%	33%	46%
Net Debt to EBITDA (x)	0.39	0.56	0.75
ROE (annualized)	25%	37%	41%
ROA (annualized)	15%	17%	18%

Balance Sheet Analysis

The 1Q09 cash level rose sequentially from the previous quarter on the back of stable operating cash inflows.

Net PP&E balance at the end of 1Q09 was down by NT\$0.94bn from 4Q08 as 2G assets write-offs and depreciation charge was higher than new 3G equipment purchase in the quarter. The 2G's net book value was NT\$19.74bn as of the end of 1Q09 while that for 3G rose to NT\$12.17bn.

On the liability side, gross debt reduced to NT\$16bn from NT\$20.7bn a quarter ago, as a result of paying down NT\$5.2bn of syndicate loan.

Ratio Analysis

Interest coverage further improved from a quarter ago due to lower gearings. As long-term debt level reduced, both net debt to EBITDA and net debt to equity ratios came off in 1Q09. ROE was higher for 2008 and 1Q08 than in 1Q09, due to continuous rise in retained earnings.

VI. Forecast

Table 10. Forecast

NT\$bn	2Q09	QoQ	YoY
Revenue	17.30	2%	-1%
Cash Cost	(6.12)	-4%	1%
Selling Expense	(2.77)	9%	3%
G&A	(1.33)	17%	9%
EBITDA	7.27	3%	-6%
EBITDA Margin	42.00%	0.32pps	-2.12pps
D&A	(2.11)	-3%	4%
Operating Income	5.15	6%	-9%
Asset write-off	(0.44)	-10%	17%
Pre-tax Income	4.73	9%	-11%
Tax Expense	(1.18)	8%	-11%
Net Income	3.54	9%	-11%
EPS (NT\$)	1.19	8%	-10%

Guidance

We forecast mobile service and cable TV revenue to rise sequentially in 2Q09. With contained SAC per sub, the QoQ rise in selling expense of our forecast is largely to reflect stronger gross adds of wireless data and planned marketing campaigns associated with pre-paid and contract renewals. The sequential pick-up in EBITDA is expected to help stem the decline in profits. We will try to maintain discipline over spending as implemented in 1Q09.

VII. Management Discussion & Analysis

Key message

The worldwide financial turmoil has affected every economy. Taiwan is no exception. Reflective of the weakness in domestic economy, Taiwan Mobile inevitably posted a decline in EBITDA in 1Q, but was able to meet the guidance. Looking ahead, the economic outlook remains bleak. Taiwan Mobile will strive to sustain EBITDA levels in line with guidance to maintain shareholder return.

2008 Earnings distribution

On March 5, 2009, TWM's board meeting approved the proposal to distribute NT\$14bn out of our retained earnings as dividends to shareholders. Dividend per share is NT\$4.7 based on share count of 2,972m, net of treasury shares held by subsidiaries and shares bought from the market.

New product and service

- Ahead of the pack launching own-brand netbooks, providing the best mobile broadband services to customers.
- Introducing DTV in our CATV operating regions in Taipei County in June and the rest regions in September.

Award and recognition

- Awarded "5th Corporate Governance Asia Recognition Awards" in Asia Pacific region by *Corporate Governance Asia* the third year in a row.
- Received "IT Best Choice" awards from Institute for Information Industry in three categories.
- Awarded for "Excellence in Corporate Social Responsibility" by *CommonWealth* magazine for the third year in a row.
- Won seven commendations from NCC, the most among peers, for the efforts of bridging digital gap in remote areas.

Regulatory updates

- On March 18, 2009, NCC announced to require SOs to provide performance guarantee on advance receipts from CATV customers. The new regulation is expected to take effect in 2010.