

October 27, 2011

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TWM consolidated

NT\$bn	<u>3Q11</u>	<u>2Q11</u>	<u>3Q10</u>	<u>QoQ</u>	<u>YoY</u>
Revenue	21.73	17.97	17.71	21%	23%
EBITDA	7.58	6.58	6.82	15%	11%
Operating Income	5.14	4.24	4.51	21%	14%
Non-op. Income (Expense)	(1.26)	(0.06)	(0.12)	2174%	936%
Pre-tax Income	3.88	4.18	4.38	-7%	-12%
(Less Tax)	(0.42)	(0.71)	(0.75)	-41%	-44%
Net Income	3.39	3.47	3.64	-2%	-7%
EPS (NT\$)	1.22	1.16	1.22	5%	0%
Operating margin	23.67%	23.56%	25.44%	0.11ppts	-1.77ppts

Highlights of 1-3Q11 Results

Aided by strong wireless data revenue growth, 3Q mobile service revenue growth further accelerated to 2% YoY and 4% QoQ. Our wireless data revenue growth of 52% YoY in 3Q was the highest among peers.

Thanks to sound revenue growth that more than offset the increase in both handset subsidy and new store expense, EBITDA growth in 3Q was a pronounced 11% YoY. Momo also contributed an additional source of growth to the company this quarter.

We mitigated the negative impact from the Taiwan High Speed Rail (THSR) impairment loss by a strong core business performance and an over-accrued corporate tax expense reversal in 3Q. Additionally, 10% capital reduction in August helped boost our 3Q EPS up 5% QoQ while keeping it at the same level as a year ago.

In terms of year-to-date results, aside from good mobile data performance, we halved the negative impact of the regulatory interventions on profits through cost savings and more profit contributions from the cable TV business and Momo. Therefore, accumulative EBITDA only edged down by 3% and reached 79% of our full-year target. EPS for the first three quarters came in at NT\$3.48.

Management Remark

Strong smartphone sales have laid a solid foundation for revenue growth. Increasing subsidies are expected to be offset by an increase in revenues, hence making a positive contribution to EBITDA. However, the timing of the iPhone 4S launch can still have a final defining impact on 4Q results.

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I. Revenue Analysis

Table 1. Key Operational Data

Revenue (NT\$bn)	3Q11	2Q11	3Q10	QoQ	YoY
CBG¹	14.49	14.13	13.86	3%	4%
Mobile Service	12.69	12.24	12.39	4%	2%
-Voice	9.49	9.34	10.28	2%	-8%
-VAS	3.20	2.91	2.11	10%	52%
IDD	0.69	0.65	0.68	6%	1%
Device Sales	1.01	1.13	0.72	-11%	41%
EBG	2.51	2.39	2.45	5%	2%
Mobile Service	1.03	0.99	1.04	4%	0%
Fixed-line	0.94	0.91	0.88	3%	6%
ISR & Others	0.54	0.49	0.53	10%	1%
HBG	1.50	1.47	1.43	2%	5%
- Pay-TV related	1.05	1.04	1.03	1%	2%
- Broadband	0.24	0.22	0.20	5%	19%
- Content & others ¹	0.21	0.20	0.21	5%	2%
Momo & Others²	3.24	(0.01)	(0.03)	NM	NM

	3Q11	2Q11	3Q10	QoQ	YoY
Mobile Subscribers (K)	6,574	6,474	6,390	2%	3%
2G	1,673	1,781	2,124	-6%	-21%
3G	4,900	4,693	4,266	4%	15%
- Data card	323	299	250	8%	29%
Monthly Churn	1.8%	1.7%	1.8%		
MOU (bn)	4.02	3.69	3.63	9%	11%
ARPM (NT\$)	3.57	3.75	3.86	-5%	-7%
Pay-TV Subs (K)	575	573	564	0%	2%
Cable Broadband Subs (K)	152	147	134	4%	14%

	3Q11	2Q11	3Q10	QoQ	YoY
Wireless					
ARPU (NT\$)	734	716	731	2%	0%
MOU per sub (minute/month)	205	191	189	8%	8%
Cable MSO					
Monthly Subscription (NT\$)	505	505	509	0%	-1%
Broadband ARPU (NT\$)	527	519	504	2%	5%
Blended ARPU ³ (NT\$)	748	739	728	1%	3%

1. Ezpeer's financials were included in CBG's P&L since January 2010 on a pro forma basis.

2. Momo's financials were included in consolidated P&L since July 13, 2011.

3. Cable TV & broadband related revenue (excluding content agency) divided by its CATV subscriber number

Revenue Analysis

CBG:

Aided by strong wireless data revenue growth, 3Q mobile service revenue growth further accelerated to 2% YoY and 4% QoQ.

Our wireless data revenue growth of 52% YoY in 3Q was the highest among peers. This was supported by a 90% YoY increase in mobile internet access revenue, stemming from a 52% YoY rise in data APRU and a 31% YoY increase in the number of active data users.

Handset sales in 3Q11 continued to trend down due to a lower mix of smartphones.

EBG:

In addition to a stable mobile business, fixed-line revenue showed healthy growth, driven by more new contracts gained in the IP transit and IDC businesses.

HBG:

3Q11 HBG revenue growth was mainly aided by a 19 % YoY growth in broadband revenue with a 5% YoY rise in broadband ARPU and a 14% YoY increase in the number of subscribers.

The bundled package of broadband and DTV raised DTV penetration up to 7% at the end of 3Q11, generating around NT\$170 in incremental ARPU.

The increased cable internet and DTV service take-up further improved HBG's blended APRU by 3% YoY in 3Q11.

Momo

We have acquired a 51% stake in Momo since July 13, 2011. In 3Q11, revenue of Momo grew 6% YoY and accounted for 15% of TWM's consolidated revenue.

II. EBIT Analysis

Table 2. EBIT Breakdown

NT\$bn	3Q11	2Q11	3Q10	QoQ	YoY
EBITDA	7.58	6.58	6.82	15%	11%
- CBG	5.76	5.17	5.48	11%	5%
- EBG	0.83	0.63	0.61	33%	36%
- HBG	0.77	0.76	0.70	1%	10%
-Momo ¹ & others	0.22	0.01	0.02	NM	NM
Margin	34.9%	36.6%	38.5%	-1.7ppts	-3.6ppts
- CBG	39.8%	36.6%	39.6%	3.2ppts	0.2ppts
- EBG	33.2%	26.2%	24.9%	6.9ppts	8.3ppts
- HBG	51.4%	51.9%	49.0%	-0.5ppts	2.4ppts
-Momo & others	6.7%	NM	NM	NM	NM
D&A	2.44	2.34	2.31	4%	5%
- CBG	2.02	1.98	2.00	2%	1%
- EBG	0.21	0.20	0.15	9%	42%
- HBG	0.13	0.12	0.12	3%	4%
-Momo & others	0.07	0.04	0.04	73%	63%
EBIT	5.14	4.24	4.51	21%	14%
- CBG	3.74	3.20	3.49	17%	7%
- EBG	0.62	0.43	0.46	43%	34%
- HBG	0.64	0.64	0.58	1%	11%
-Momo ¹ & others	0.14	(0.03)	(0.02)	NM	NM

Table 3. Non-operating Item

NT\$bn	3Q11	2Q11	3Q10	QoQ	YoY
Non-Operating	(1.26)	(0.06)	(0.12)	21.7x	9.4x
-Net Interest Revenue (Expense)	(0.01)	0.01	(0.08)	NM	-92%
- Write-off Loss	(0.12)	(0.17)	(0.22)	-30%	-47%
-Impairment Loss-L-T Investments	(1.21)	0.00	0.00	NM	NM
-Others	0.07	0.11	0.18	-36%	-62%

1. Momo's financials were included in consolidated P&L since July 13, 2011.

EBITDA Analysis

In 3Q11, CBG's EBITDA was up both QoQ and YoY due to 1) mobile service revenue growth 2) the reversal of over-accrued operating expense, and 3) well-contained G&A expenses.

EBG's EBITDA further improved QoQ and YoY credited to a rise in revenue and cost savings. 3Q EBITDA's increase aided EBITDA margin expansion to 33%.

HBG's EBITDA maintained a stable double-digit YoY growth, benefiting from expanding broadband revenue.

Momo contributed 3% of TWM's consolidated EBITDA in 3Q11. Negatively affected by a shift from high-margin dietary supplements to higher-turnover lower margin consumer electronics as well as high start-up costs of its China operations, Momo's EBITDA failed to post a YoY growth in the quarter.

Non-Operating Item Analysis

We booked NT\$1.21bn of impairment loss from a Taiwan High Speed Rail (THSR) investment in August, bringing down our 3.5% THSR common stock investment value to NT\$913m.

III. Income Statement Analysis

Table 4. Income Statement

NT\$b	3Q11	2Q11	3Q10
Revenue	21.73	17.97	17.71
Service Revenue ¹	17.42	16.82	16.99
Handset Sales	1.04	1.16	0.73
Momo Revenue ²	3.26	--	--
Operating Cost	12.57	10.36	9.82
Operating Expenses	4.02	3.38	3.39
EBITDA	7.58	6.58	6.82
Operating Income	5.14	4.24	4.51
Non-op. Income (Expense)	(1.26)	(0.06)	(0.12)
Pre-tax Income	3.88	4.18	4.38
(Less Tax)	(0.42)	(0.71)	(0.75)
Net Income	3.39	3.47	3.64
EPS (NT\$)	1.22	1.16	1.22

1. Total revenue deducted handset sales revenue.

Table 5. 1-3Q Consolidated Results vs. Forecast

NT\$b	1-3Q11 Actual	YoY	% of Full-year Forecast
Revenue	57.93	11%	78%
Service Revenue ¹	54.11	8%	80%
Handset Sales	3.82	68%	59%
Operating Income	13.36	-6%	82%
Non-op. Income (Expense)	(1.33)	19%	248%
Asset Write-off Loss	(0.35)	-73%	57%
Investment Impairment Loss	(1.21)	NM	NM
Pre-tax Income	12.03	-8%	76%
(Less Tax)	(1.81)	-26%	67%
Net Income	10.16	-5%	78%
EPS (NT\$)	3.48	-2%	76%
EBITDA	20.45	-3%	79%
EBITDA margin	35.3%	-5.1ppts	

1. Total revenue deducted handset sales revenue.

2. Momo's numbers were consolidated in income statement from July 13, 2011.

Income Statement Analysis

Thanks to sound revenue growth that more than offset the increase in both handset subsidy and new store expense, EBITDA growth in 3Q was a pronounced 11% YoY. Momo also contributed an additional source of growth to the company this quarter.

We mitigated the negative impact from the Taiwan High Speed Rail (THSR) impairment loss by a strong core business performance and an over-accrued corporate tax expense reversal in 3Q. As such, net income still exceeded our 3Q guidance. Additionally, 10% capital reduction in August helped boost our 3Q EPS up 5% QoQ while keeping it at the same level as a year ago.

For the first three quarters, our investments in smartphones paid off with mobile data revenue growth coming in higher than the increased handset subsidies. Separately, we halved the negative impact of the regulatory interventions on profits through cost savings and more profit contributions from the cable TV business and Momo. Therefore, accumulative EBITDA only edged down by 3% and reached 79% of our full-year target.

IV. Cash Flow Analysis

Table 6. Cash Flow

NT\$bn	3Q11	2Q11	3Q10
Total Op Sources/(Uses)¹	5.59	5.83	5.78
Consolidated Net Income	3.46	3.47	3.64
Depreciation	2.07	2.04	2.04
Amortization	0.37	0.30	0.27
Changes in Working Capital	(1.71)	(0.37)	(0.60)
Asset Write-off Add-backs	0.12	0.17	0.22
Other Add-backs	1.29	0.21	0.20
Net Investing Sources/(Uses)	(10.91)	(1.55)	(1.81)
Capex	(2.22)	(1.45)	(1.97)
Divestment (Acquisition)	(8.51)	(0.10)	0.22
Deferred charges (Increase)& Others	(0.19)	0.00	(0.06)
Net Financing Sources/(Uses)	0.84	(0.33)	(7.09)
Dividends Payment	(12.44)	0.00	(15.03)
Short-Term Borrowings	12.87	(0.33)	7.90
Commercial Paper Payable	0.40	0.00	0.05
Cash Inherited from Acquisition of Momo	2.29	0.00	0.00
Net Cash Position Chg.	(2.15)	3.94	(3.11)

1. Inclusive of cash flow for cash management.

Table 7. Capex & FCF

NT\$bn	3Q11	2Q11	3Q10
Cash Capex	2.22	1.45	1.97
- Mobile	1.35	1.14	1.40
- Fixed-line	0.67	0.26	0.40
- Cable MSO	0.09	0.05	0.17
- Momo	0.11	--	--
% of Revenue	10%	8%	11%
Free Cash Flow	3.37	4.38	3.81

Cash Flow Analysis

3Q11 operating cash inflow remained at a comparable level to a quarter ago. Higher cash outflow of working capital in this quarter was mainly due to a NT\$0.9bn tax payment for the Taiwan tax authority's final assessment on TWM's statutory corporate tax. The increase in other add-backs came from the provisioning of THSR impairment loss in 3Q11.

IDC (internet data center) contract payments made in 3Q11 increased capex. In addition, for the quarter, there was 1) a NT\$8.35bn investment for acquiring a 51% stake in Momo and 2) a NT\$66mn investment towards increasing our holdings of EZpeer (digital music service provider) to 100% from 55%.

In terms of financing activities, we increased short-term borrowing in 3Q11 to fund the Momo acquisition and cash dividend payments.

Capex and Free Cash Flow Analysis

Capex in the first three quarters totaled NT\$4.95bn, 8.5% of revenue, running in line with our annual capex forecast of NT\$7.3bn.

Fixed-line capex increase was due to a NT\$0.3bn IDC (internet data center) contract payment made in the quarter.

Accumulative free cash flow reached NT\$12.46bn, translating into an annualized yield of 5.8%.

V. Balance Sheet Analysis

Table 8. Balance Sheet

NT\$bn	3Q11	2Q11	3Q10
Total Assets	93.22	87.16	82.91
Current Assets	18.85	19.21	12.00
- Cash & Cash Equivalents	7.72	9.87	2.75
-Available-for-Sale Financial Asset	0.22	0.21	0.19
- Inventories	1.90	1.39	0.96
- Other Current Assets	9.01	7.74	8.09
Long-Term Investment	2.17	3.28	3.05
Property and Equipment	41.87	41.69	43.89
Intangible Assets	27.19	19.88	20.59
Other Assets	3.15	3.11	3.37
Liabilities	46.56	41.93	35.18
Current Liabilities	37.20	32.80	26.13
- ST Debts/Commercial Paper Payable	14.30	1.03	8.80
- Other Current Liabilities	22.90	31.78	17.33
Long-Term Borrowings	8.00	8.00	8.00
Other Liabilities	1.37	1.13	1.06
Shareholders' Equity	46.66	45.23	47.72
-Paid-in Capital	34.21	38.01	38.01
-Capital Surplus	12.43	12.43	12.43
-Legal Reserve	16.72	16.72	15.33
-Treasury Shares	(31.08)	(31.89)	(31.89)
-Un-appropriated Earnings*	2.27	2.27	2.27
-Special Reserve	0.82	0.82	0.82
-Retained Earnings & Others	11.29	6.87	10.75

*: excluding YTD profits

Table 9. Ratios

	3Q11	2Q11	3Q10
Current Ratio	51%	59%	46%
Interest Coverage (x)	43.8	71.5	52.2
Net Debt (Cash) to Equity	31%	-2%	29%
Net Debt (Cash) to EBITDA (x)	0.54	-0.03	0.50
ROE (annualized)	30%	28%	32%
ROA (annualized)	16%	16%	18%

Balance Sheet Analysis

Assets:

NT\$2.29bn cash was inherited from Momo acquisition for the quarter. Nonetheless, cash balance decreased sequentially mainly due to cash outlays for the Momo acquisition.

Inventories and other current assets increased from a quarter ago mainly due to the inclusion of Momo's inventories.

The decrease in long-term investment is due to the NT\$1.21bn write-offs on THSR investment.

The net PP&E balance consists of \$34.4bn in mobile, \$5.1bn in fixed network, \$1.8bn in cable-TV assets and \$0.6bn in Momo.

The increase in intangible assets resulted mainly from the purchase of Momo with the purchase price higher than its net worth by NT\$7.5bn.

Liabilities & Shareholders' Equity:

Other current liabilities dropped as a result of a combination of : 1) cash dividend payment in 3Q, 2) a reduction of tax payable by NT\$1.3bn, 3) a NT\$3bn increase in capital return payable, and 4) an inclusion of Momo's payable of NT\$1.9bn.

Net debt netted NT\$14.6bn or 54% annual EBITDA, following a NT\$13.27bn increase in short-term debt in 3Q11.

Paid-in capital decreased to NT\$34.21bn, following the 10% capital reduction or NT\$1/share effective from August 1, 2011. Carrying value of treasury shares also reduced by NT\$812m accordingly.

Ratio Analysis

Current ratio at the end of 3Q11 was lower than a quarter ago because of a lower cash level and higher short-term borrowing. Gearing and ROE in 3Q11 remained healthy, similar to the levels a year ago.



VI. Management Discussion & Analysis

Key message

Strong smartphone sales have laid a solid foundation for revenue growth. Increasing subsidies are expected to be offset by a rise in revenues, hence making a positive contribution to EBITDA. However, the timing of the iPhone 4S launch can still have a final defining impact on 4Q results.

Product and Service

- For a limited time only, launched “On-net Free Program” for newly subscribed, contract renewal and number portability customers. By bundling unlimited data service with a voice rate plan of \$401 or \$699, users are entitled to upgrade to try out TWM’s premium 21Mbps internet access for free as well as unlimited free on-net calls.
- In the third quarter, introduced an exclusive variety of smartphones and tablet PCs such as the Sony Ericsson Xperia Ray, HTC EVO 3D, an own-brand smartphone called the Fantastic T3, and an own-brand Tablet PC called the myPad P2, providing our customers with even more choices.
- Introduced IaaS (Infrastructure as a Service) cloud computing solutions for enterprise customers to outsource their IT infrastructure and to provide them with a more flexible B2B pricing model to enhance their cost-efficiency.

Regulatory Update

NCC approved a proposal to expand the CATV service areas based on city/county and to open licenses to new entrants. The implementation announcement is expected to be made in the first quarter of next year at the earliest as the details are still under deliberation.

Awards

- Received an “ A+ ” ranking and ranked as one of the top 10 listed companies in “ Transparency and Information Disclosure ” for the sixth consecutive year by the Securities and Futures Institute.
- Awarded for “ Excellence in Corporate Social Responsibility ” by *CommonWealth* magazine for the fifth year in a row.