4th Quarter Results

for the period ended December 31, 2012

January 31, 2013

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	TWM consolidated				
NT$bn	**2012**	**YoY**	**4Q12**	**QoQ**	**YoY**
Revenue	**98.14**	**21%**	**25.91**	**6%**	**11%**
EBITDA	**27.93**	**3%**	**6.90**	**-5%**	**4%**
Operating Income	**18.18**	**3%**	**4.41**	**-8%**	**4%**
Non-op. Income (Expense)	**(0.21)**	**-86%**	**(0.10)**	**162%**	**-20%**
Pre-tax Income	**17.97**	**11%**	**4.30**	**-9%**	**5%**
(Less Tax)	**(3.06)**	**22%**	**(0.73)**	**-10%**	**5%**
(Less Minority Interest)	**(0.22)**	**43%**	**(0.06)**	**74%**	**-34%**
Net Income	**14.69**	**9%**	**3.51**	**-10%**	**6%**
EPS (NT$)	**5.46**	**16%**	**1.30**	**-11%**	**7%**

Results Highlights

Although the launch of iPhone 5 in December 2012 weighed on 4Q12 consolidated EBITDA from a quarter ago, TWM still showed a YoY EBITDA rise due to stronger revenue increase and our measures taken to contain subscriber acquisition cost.

For 2012, consolidated EBITDA saw a YoY growth rate of 3%, credited to EBITDA increases from telecom and CATV businesses as well as the full-year inclusion of momo's profit contribution vs. 5.5 months a year ago.

In addition, less non-operating expense in 2012, due to the THSR impairment loss made in 2011, also contributed to a 9% YoY rise in net income.

Benefiting from a capital reduction conducted in 3Q11, EPS for 2012 came in at NT$5.46, up 16% from a year ago.

Board Resolutions

− **Accounting policy change**
To comply with the forthcoming implementation of IFRS, TWM's board approved the change in accounting policy regarding bundle sales from Residual Method to Relative Fair Value Method.

− **2013 Guidance**
We forecast telecom service revenue and EBITDA to grow at a respective 7% and 5% under the residual value method for bundle sales versus a 3% and flat increase under the relative fair value method in 2013. Net profit is estimated to be NT$15.37bn or NT$5.71 in EPS.

− **Capex guidance**
The board has approved a 2013 capex of NT$12.8bn, including NT$8.8bn for mobile, NT$2.4bn for fixed-line, NT$0.9bn for CATV and NT$0.7bn for momo.

Management Remark

In the face of a challenging environment, enhancing operating efficiency to grow our profitability and ensuring better customer satisfaction have become the top priorities for TWM. To this end, the spin-off of the direct stores and setting up of our own in-house mobile device repair & logistics center are paving the way for the stability of our long-term developments.

I. Revenue Analysis

Table 1. Key Operational Data

Revenue (NT$bn)	4Q12	QoQ	YoY	2012	YoY
CBG[1]	**16.41**	**5%**	**9%**	**62.90**	**8%**
Mobile Service	13.26	0%	6%	52.10	5%
-Voice	8.68	-2%	-4%	35.30	-5%
-VAS	4.59	6%	33%	16.80	37%
IDD	0.59	-7%	-16%	2.56	-4%
Device Sales	2.43	44%	36%	7.78	41%
EBG	**2.62**	**0%**	**2%**	**10.39**	**5%**
Mobile Service	1.17	2%	10%	4.49	11%
Fixed-line	0.92	-3%	-5%	3.78	3%
ISR & Others	0.54	0%	-1%	2.12	-1%
HBG	**1.54**	**0%**	**4%**	**6.12**	**4%**
- Pay-TV related	1.07	1%	2%	4.24	2%
- Broadband	0.28	2%	11%	1.07	15%
- Content & others	0.20	-4%	2%	0.80	-1%
momo & Others[1]	**5.34**	**13%**	**25%**	**18.73**	**NM**
- TV shopping & catalogue	2.21	4%	-7%	8.86	NM
- Online shopping	2.72	23%	77%	8.43	NM

	4Q12	3Q12	4Q11	QoQ	YoY
Mobile Subscribers (K)	**7,012**	**6,945**	**6,663**	**1%**	**5%**
- Data card	405	390	340	4%	19%
Consumer	6,654	6,603	6,381	1%	4%
Enterprise	358	342	282	5%	27%
Monthly Churn	**2.0%**	**1.9%**	**1.9%**		
MOU (bn)	**4.02**	**4.15**	**4.10**	**-3%**	**-2%**
Pay-TV Subs (K)	**580**	**579**	**575**	**0%**	**1%**
Cable Broadband Subs (K)	170	167	155	2%	10%

	4Q12	3Q12	4Q11	QoQ	YoY
Wireless					
ARPU (NT$) –post-paid	790	792	770	0%	3%
Cable MSO					
Monthly Subscription (NT$)	501	502	504	0%	0%
Broadband ARPU (NT$)	545	544	536	0%	2%
Blended ARPU[2] (NT$)	776	770	751	1%	3%

1. momo's financials were included in consolidated P&L since July 13, 2011.
2. Cable TV & broadband related revenue (excluding content agency) divided by its CATV subscriber number

Revenue Analysis

CBG:
Driven by sustained growth in the mobile internet business, mobile service revenue increased by 6% YoY for the quarter.

At the end of 2012, mobile data adoption rate reached 41%, rising from 28% a year ago. As a result, mobile broadband revenue rose 67% YoY. Wireless data revenue as a percentage of mobile service revenue reached 33% as of year-end, up from 26% a year ago.

Mobile IDD revenue YoY decline came largely from severe competition in prepaid markets as well as the revenue squeeze resulted from messaging apps.

Handset sales in 4Q12 surged due to the launch of iPhone 5 on Dec. 14.

EBG:
Mobile service revenue rose 10% YoY in 4Q12, credited to a rise in the number of subscribers and higher smartphone adoptions.

HBG:
HBG maintained its broadband growth momentum on the back of steady cable internet subscriber growth and an increase in ARPU as the subscriber mix of 20M & above rose to 28% at the end of 2012 vs. 12% a year ago.

Other revenue declined QoQ due to less advertising and performance-related revenue from momo kids channel in 4Q12.

momo
momo's online shopping revenue retained strong QoQ and YoY growth rates. Despite a YoY drop resulting from weak macro-economics, revenue from TV home shopping came in better sequentially thanks to strong sales from winter clothing and bedding products.

II. EBITDA Analysis

Table 2. EBITDA Breakdown

NT$bn	4Q12	QoQ	YoY	2012	YoY
EBITDA	**6.90**	**-5%**	**4%**	**27.93**	**3%**
- CBG	4.96	-8%	2%	20.48	-1%
- EBG	0.93	9%	26%	3.39	19%
- HBG	0.81	0%	8%	3.24	7%
-momo[1] & others	0.20	25%	-32%	0.82	NM
Margin	**26.6%**	**-2.9ppts**	**-1.7ppts**	**28.5%**	**-4.8ppts**
- CBG	30.2%	-4.3ppts	-1.9ppts	32.6%	-3.0ppts
- EBG	35.3%	2.8ppts	6.7ppts	32.7%	3.7ppts
- HBG	52.5%	-0.1ppts	2.1ppts	52.9%	1.5ppts
-momo & others	3.8%	0.4ppts	-3.2ppts	4.4%	NM
D&A	**2.49**	**3%**	**3%**	**9.75**	**3%**
- CBG	2.01	2%	2%	7.90	0%
- EBG	0.25	6%	13%	0.93	15%
- HBG	0.15	6%	13%	0.57	13%
-momo & others	0.09	-1%	5%	0.34	NM
EBIT	**4.41**	**-8%**	**4%**	**18.18**	**3%**
- CBG	2.95	-14%	2%	12.57	-1%
- EBG	0.68	10%	32%	2.46	20%
- HBG	0.66	-1%	7%	2.66	5%
-momo[1] & others	0.12	54%	-46%	0.48	NM

Table 3. Non-operating Item

NT$bn	4Q12	QoQ	YoY	2012	YoY
Non-Operating	**(0.10)**	**162%**	**-20%**	**(0.21)**	**-86%**
-Net Interest Revenue (Expense)	(0.07)	-11%	-10%	(0.27)	93%
- Write-off Loss	(0.21)	30%	120%	(0.59)	34%
-Others	0.17	-12%	305%	0.66	NM

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

EBITDA Analysis

Although the launch of iPhone 5 weighed on CBG's EBITDA from a quarter ago, EBITDA showed a YoY rise due to stronger revenue increase and our measures taken to contain subscriber acquisition cost.

EBG's 4Q12 EBITDA QoQ growth was largely resulted from expense discipline. In addition, its rising mobile service revenue from enterprise customers also contributed to the YoY EBITDA increase.

Despite a flat QoQ EBITDA change in 4Q12, HBG managed to maintain a high single digit YoY EBITDA growth rate, aided by profit rise came from 1) better economies of scale and 2) a higher blended ARPU as a result of selling more services to the same household.

momo showed a sequential EBITDA increase, credited to its expanding revenue from virtual channels and operation loss reductions in China.

For 2012, consolidated EBITDA saw a YoY growth rate of 3%, credited to EBITDA increases from telecom and CATV businesses as well as the full-year inclusion of momo's profit contribution vs. 5.5 months a year ago.

Non-Operating Item Analysis

The QoQ increase in non-operating expense came from a higher asset write-off loss in 4Q12. Nonetheless, full-year write-off loss came in lower than our guidance.

Full-year non-operating expense declined 86% YoY, mainly due to a NT$1.21bn impairment loss as a result of a Taiwan High Speed Rail (THSR) investment made in 2011.

III. Income Statement Analysis

Table 4. Income Statement

NT$bn	4Q12	3Q12	4Q11
Revenue	**25.91**	**24.51**	**23.44**
Service Revenue[1]	18.00	18.01	17.28
Handset Sales	2.53	1.74	1.85
momo Revenue[2]	5.38	4.76	4.31
Operating Cost	**17.02**	**15.41**	**14.82**
Operating Expenses	**4.49**	**4.31**	**4.40**
EBITDA	6.90	7.23	6.64
Operating Income	**4.41**	**4.79**	**4.23**
Non-op. Income (Expense)	(0.10)	(0.04)	(0.13)
Pre-tax Income	4.30	4.76	4.10
(Less Tax)	(0.73)	(0.81)	(0.70)
Net Income	**3.51**	**3.91**	**3.31**
EPS (NT$)	1.30	1.46	1.22

1. Total revenue deducted handset sales revenue.

Income Statement Analysis

In 4Q12, the QoQ profit pressure was resulted from the iPhone 5 launch as mentioned. Despite a higher iPhone sales volume due to sufficient supply this round compared to a year ago, TWM's consolidated EBITDA was up by 4% YoY on the back of healthy service revenue growth, stringent network cost control and better containment of handset subsidies.

Table 5. 2012 Consolidated Results vs. Forecast

NT$bn	2012	YoY	% of Full-year Forecast
Revenue	98.14	21%	96%
Service Revenue[1]	71.17	4%	99%
Handset Sales	8.05	42%	81%
momo Revenue	18.92	NM	96%
Operating Income	18.18	3%	98%
Non-op. Income (Expense)	(0.21)	-86%	27%
Asset Write-off Loss	(0.59)	34%	82%
Pre-tax Income	17.97	11%	101%
(Less Tax)	(3.06)	22%	101%
Net Income	14.69	9%	102%
EPS (NT$)	5.46	16%	102%
EBITDA	27.93	3%	98%
EBITDA margin	28.46%	-4.83ppts	

1. Total revenue deducted handset sales revenue.
2. momo's numbers were consolidated in TWM's financial statement from July 13, 2011.

2012 Full-Year Results

Apart from the EBITDA YoY growth explained in the previous section, less non-operating expense in 2012, due to the THSR impairment loss made in 2011, also contributed to a 9% YoY rise in net income. Group EBITDA margin decline was due to the change in revenue mix from the full-year inclusion of the retail business and higher handset sales. Benefiting from a capital reduction conducted in 3Q11, EPS for 2012 grew 16% from a year ago. Consolidated EBITDA and net income for the year reached 98% and 102% of their full-year guidance, respectively.

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IV. Cash Flow Analysis

Table 6. Cash Flow

NT$bn	2012	2011	4Q12	3Q12
Total Op Sources/(Uses)[1]	**25.86**	**25.25**	**9.42**	**5.02**
Consolidated Net Income	14.92	13.63	3.57	3.95
Depreciation	8.07	7.88	2.09	2.02
Amortization	1.68	1.61	0.41	0.42
Changes in Working Capital	0.04	(0.17)	3.02	(1.68)
Asset Write-off Add-backs	0.59	0.44	0.21	0.16
Other Add-backs	0.57	1.86	0.13	0.16
Net Investing Sources/(Uses)	**(9.51)**	**(15.44)**	**(2.71)**	**(3.08)**
Capex	(8.12)	(6.56)	(2.35)	(2.35)
Divestment (Acquisition)	(0.70)	(8.61)	(0.07)	(0.55)
Others	(0.69)	(0.28)	(0.29)	(0.18)
Net Financing Sources/(Uses)	**(15.81)**	**(11.48)**	**(5.23)**	**(2.32)**
Dividends Payment	(13.88)	(12.44)	0.00	(13.88)
Short-Term Borrowings	(5.84)	5.80	(9.93)	11.24
Commercial Paper Payable	(0.90)	0.40	(0.30)	0.30
Corporate Bond Payable	5.00	0.00	5.00	0.00
Capital Reduction	0.00	(2.99)	0.00	0.00
Long-Term Bank Loans	0.00	(2.30)	0.00	0.00
Others	(0.18)	0.05	0.01	0.01
Cash Inherited from Acquisition of momo	**0.00**	**2.29**	**0.00**	**0.00**
Net Cash Position Chg.	**0.53**	**0.64**	**1.48**	**(0.39)**

1. Inclusive of cash flow for cash management.

Table 7. Capex & FCF

NT$bn	2012	2011	4Q12	3Q12
Cash Capex	**8.12**	**6.56**	**2.35**	**2.35**
- Mobile	5.57	4.44	1.66	1.71
- Fixed-line	1.71	1.58	0.33	0.57
- Cable MSO	0.74	0.32	0.32	0.05
- momo	0.10	0.22	0.04	0.02
% of Revenue	**8%**	**8%**	**9%**	**10%**
Free Cash Flow	**17.74**	**18.70**	**7.07**	**2.66**

Cash Flow Analysis

2012 full-year operating cash flow was stable compared to 2011. 4Q12 net cash inflow from operating activities grew QoQ due to the seasonal payments related to full-year frequency usage fee, cable TV content cost as well as employee bonuses in 3Q12.

Net investing cash outflow in 2012 was NT$9.51bn mainly comprised of NT$8.12bn in cash capex and NT$0.7bn in long-term investments including 1) acquiring a 20% stake in Taiwan Pelican Express made by momo, 2) a capital injection to our 49.9%-held Taipei New Horizon, and 3) acquiring a 32.5% stake in Kbro Media. 2011 long-term investment expenditures were mainly for a NT$8.35bn investment in acquiring a 51% stake in momo.

In terms of financing activities in 2012, net cash outflow of NT$15.81bn was mainly due to NT$13.88bn of dividend payments and debt repayments. In 4Q12, we repaid NT$4bn of corporate bonds carrying a 2.88% coupon and NT$10.23bn of short-term debts as well as issued NT$9bn of new corporate bonds with a 1.34% coupon.

Capex and Free Cash Flow Analysis

2012 cash capex was NT$3.68bn lower than the guidance of NT$11.8bn due to delayed payments of the majority of the IDC (internet data center) construction cost to 1Q13 as well as incomplete payments for most of the 3G expansion completed in 2H12. Full-year cable cash capex rose to NT$0.74bn due to a portion of the payment for 2011 being delayed into 1Q12.

With increased cash capex from a year ago, full-year free cash flow came in at NT$17.74bn, translating into a 6% yield.

V. Balance Sheet Analysis

Table 8. Balance Sheet

NT$bn	4Q12	3Q12	4Q11
Total Assets	**92.38**	**90.17**	**91.79**
Current Assets	20.10	17.67	18.13
- Cash & Cash Equivalents	7.22	5.74	6.69
-Available-for-Sale Financial Asset	0.21	0.20	0.22
- Inventories	2.63	2.30	2.07
- Other Current Assets	10.04	9.42	9.14
Long-Term Investment	2.84	2.76	2.16
Property and Equipment	39.83	39.95	40.80
Intangible Assets	26.78	27.01	27.76
Other Assets	2.82	2.78	2.94
Liabilities	**41.57**	**42.93**	**41.73**
Current Liabilities	30.75	37.43	36.11
- ST Debt/Commercial Paper Payable	7.16	17.39	13.90
- Other Current Liabilities	23.59	20.04	22.21
Long-Term Borrowings	9.00	4.00	4.00
Other Liabilities	1.82	1.50	1.62
Shareholders' Equity	**50.81**	**47.24**	**50.06**
-Paid-in Capital	34.21	34.21	34.21
-Capital Surplus	12.43	12.43	12.43
-Legal Reserve	18.06	18.06	16.72
-Treasury Shares	(31.08)	(31.08)	(31.08)
-Un-appropriated Earnings*	1.33	1.33	2.27
-Special Reserve	0.00	0.00	0.82
-Retained Earnings & Others	15.85	12.29	14.70

*: excluding YTD profits

Table 9. Ratios

	4Q12	3Q12	4Q11
Current Ratio	65%	47%	50%
Interest Coverage (x)	52.4	53.7	46.5
Net Debt (Cash) to Equity	18%	33%	22%
Net Debt (Cash) to EBITDA (x)	0.32	0.55	0.41
ROE (annualized)	29%	35%	27%
ROA (annualized)	16%	18%	15%

Balance Sheet Analysis

Assets:

In 4Q12, cash balance increased due to more operating cash inflow in the quarter compared to a quarter ago.

The increase in inventories from a quarter ago was mainly due to more smart devices procured.

The net PP&E balance consists of $31.2bn in mobile, $6.1bn in fixed network, $2bn in cable-TV assets and $0.5bn in momo.

Liabilities & Shareholders' Equity:

Higher level of accounts payable associated with smartphone procurement resulted in higher other current liabilities in the quarter.

As mentioned in cash flow analysis section, 4Q12 short term debt was reduced as a production of repayments of NT$10.23bn bank borrowings and NT$4bn domestic unsecured bond as well as a reclassification of another NT$4bn corporate bond from long-term borrowings. In addition, NT$9bn of a 7-year corporate bond with a 1.34% coupon was issued in the quarter. As a result, the short-term borrowings to total borrowings ratio decreased to 44% from 81% a quarter ago.

Ratio Analysis

More short-term debt repayment in 4Q12 resulted in higher current ratio and lower ratios of net debt to equity and net debt to EBITDA.

ROE and ROA in 4Q12 stayed at reasonably high levels.

VI. Forecast

Table 10. Forecast
– IFRS (Relative Fair Value Method)

NT$bn	2013	2012	YoY
Revenue	**112.38**	**100.42**	**12%**
-Telecom service revenue	61.21	59.21	3%
-Handset sales revenue	21.43	15.59	38%
Revenue (Residual Value)	111.72	98.28	14%
-Telecom service revenue	69.16	64.59	7%
-Handset sales revenue	12.83	8.06	59%
Cash Cost[1]	62.88	52.52	20%
Selling Expense	13.87	12.60	10%
G&A	5.14	4.84	7%
Other income	0.07	0.07	0%
EBITDA	**30.56**	**30.53**	**0%**
EBITDA (Residual Value)	29.92	28.42	5%
D&A	10.27	9.75	5%
Operating Income	20.29	20.78	-3%
Non-op. Income	(1.42)	(0.84)	69%
- Asset write-off	(1.00)	(0.59)	68%
Pre-tax Income	18.87	19.94	-6%
Net Income	**15.37**	**16.33**	**-6%**
Net Income (Residual Value)	14.84	14.58	2%
EPS (NT$)[2]	**5.71**	**6.07**	**-6%**
EPS (NT$)[2] (Residual Value)	5.51	5.42	2%

1. Including handset sales costs, but not including D&A.
2. EPS is based on total share counts of 2.69bn for 2013 & 2012.

IFRS

The International Financial Reporting Standards (IFRS) has been applied starting from 2013. We expect 2013 revenue and EBITDA to grow 14% and 5%, respectively, with handset bundle sales under residual value method.

Accounting policy change

In addition to adopting IFRS, for handset bundle sales, we switched from Residual Method to Relative Fair Value Method. Handset sales in 2013, reflecting market price adjustment, will be up to NT$21.4bn, rather than NT$12.8bn we will receive from customers. Mobile service revenue, factoring in the aforementioned, plus the impacts carried forward from bundle sales prior to 2013, will be down to NT$61.2bn. As a result of the accounting policy change, we expect revenues to increase by 12% with 2012 numbers also shown on the same basis and EBITDA to remain flat YoY.

The additions to total revenue from residual value method to relative fair value method are forecasted to be NT$0.66bn in 2013. This, compared to NT$2.15bn revenue difference in 2012 on a pro forma basis, explains the main difference in EBITDA growth from 5% on a residual value method basis to 0% on a relative fair value method basis. This also explains the subdued revenue and profit YoY growth forecast for 2013.

We also note that the accounting policy change has generated NT$7.2bn increase in retained earnings as of January 1, 2013, reflecting accumulated adjustments arising from adopting relative fair value method due to unexpired contracts prior to 2013.

Non-operating

Non-operating expense increase will be mainly from larger asset write-off losses and more interest expense resulted from higher gearing prepared for 4G.
In a nutshell, we forecast 2013 EPS to reach NT$5.71.

VII. Management Remark

Key message

In the face of a challenging environment, enhancing operating efficiency to grow our profitability and ensuring better customer satisfaction have become the top priorities for TWM. To this end, the spin-off of the direct stores and setting up of our own in-house mobile device repair & logistics center are paving the way for the stability of our long-term developments.

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Board Resolutions

- Spin-off

  To enhance the company's distribution efficiency, TWM's board meeting today (January 31) approved to spin off its direct stores and related operations by setting up a 100% owned subsidiary. The resolution is pending AGM's approval.

- Accounting policy change

  To comply with the forthcoming implementation of IFRS, TWM's board approved the change in accounting policy for bundle sales from Residual Method to Relative Fair Value Method.

- Capex guidance

  The board has approved a 2013 capex of NT$12.8bn, including NT$8.8bn for mobile, NT$2.4bn for fixed-line, NT$0.9bn for CATV and NT$0.7bn for momo.

Product and Service

- "M+ Messenger"

  Developed locally with exclusive stickers and animations, and the first to allow users to purchase gift certificates within the app for local retail stores and send them as gifts, this service now has over 2 million users.

- "myVideo"

  Providing the largest film library, this service allows all users, via a single account, to access and view the streaming online content on their phones, tablets, computers, laptops and smart TVs.

- 60-inch high definition LED TV promotion

  To further boost digital TV and broadband penetration, this promotion offers household customers the opportunity to purchase the TV for NT$38,800 when they also sign a contract for digital TV or cable internet services.