

July 30, 2015	<u>TWM Consolidated</u>					
	NT\$bn	<u>2Q15</u>	<u>1Q15</u>	<u>2Q14</u>	<u>QoQ</u>	<u>YoY</u>
	Revenue	28.33	29.72	26.94	-5%	5%
	EBITDA	8.31	7.59	8.16	9%	2%
	Operating Income	4.95	4.34	5.39	14%	-8%
	Non-op. Income (Expense)	(0.12)	(0.19)	(0.20)	-40%	-41%
	Pre-tax Income	4.83	4.15	5.19	17%	-7%
	(Income Tax)	(0.76)	(0.21)	(0.89)	261%	-14%
	(Minority Interest & others)	(0.12)	(0.12)	(0.17)	-1%	-29%
	Net Income	3.95	3.81	4.14	4%	-5%
	EPS (NT\$)	1.45	1.40	1.54	4%	-6%
Topics in This Report	<u>Highlights of Operating Results</u>					
• Revenue Analysis	<i>2Q15</i>					
• EBITDA Analysis	Overall speaking, 2Q15 consolidated revenue increased by 5% YoY credited to revenue rises in all business lines, namely telecom, CATV and retail.					
• Income Statement Analysis	The 4G service take-up rate reached 29% of the postpaid installed base as of the end of 2Q15. In the view that 4G postpaid ARPU was 1.7x company's postpaid ARPU, a rising 4G postpaid subscriber number helped our mobile service revenue grow by 2% YoY in 2Q15, up from 0.2% a quarter ago, on the like-for-like basis with peers.					
• Cash Flow Analysis	In contrast to a 2% YoY drop in 1Q15, 2Q consolidated EBITDA rose 2% YoY, aided by expanding EBITDAs in the telecom and CATV segments.					
• Balance Sheet Analysis	<i>1H15</i>					
• Management Remarks	The continuous push on levelling up 4G penetration rate has paid off. Year to June, the consolidated EBITDA has caught up to the same level as it was prior to the 4G launch a year ago. 1H15 net income reached 56% of our full-year target.					
IR contact:	<u>2.6GHz Spectrum Auction</u>					
Shirley Chu Senior Director Investor Relations shirleychu@taiwanmobile.com	NCC scheduled a 2.5 / 2.6GHz spectrum auction in mid-to-late October 2015 to release a total bandwidth of 190MHz split into four paired and two unpaired spectrum blocks with an aggregate reserve price of NT\$14.4bn. TWM's board today (July 30, 2015) resolved to participate in the aforementioned auction.					
Rosie Yu CFO rosieyu@taiwanmobile.com	<u>THSR to Buy Back Its Preferred Shares</u>					
13F, No. 88, Yan Chang Rd., Taipei City 110, Taiwan, ROC Tel: 8862 6636 3159	Taiwan High Speed Rail (THSR) announced on July 6, 2015 to buy back and cancel its issued preferred shares. Accordingly, TCC Investment, TWM's 100%-owned subsidiary, expects to receive NT\$500mn from its investment in THSR at cost.					
ir@taiwanmobile.com http://www.taiwanmobile.com	<u>Key Message</u>					
	Deeper 4G penetration has enabled us to record a historical high postpaid ARPU and consolidated EBITDA. Should tiered-pricing be implemented, it will pave the way for a brighter industry outlook. We expect the growth momentum to continue and endeavor to deliver stronger shareholder value.					
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I. Revenue Analysis

Table 1. Key Operational Data

Revenue (NT\$bn)	2Q15	1Q15	2Q14	QoQ	YoY
Telecom	20.48	21.81	19.73	-6%	4%
Mobile Service	13.61	13.35	13.50	2%	1%
Device Sales	5.07	6.74	4.46	-25%	14%
Fixed-line	0.81	0.80	0.84	2%	-4%
IDD/ISR/Others	0.99	0.93	0.94	7%	6%
CATV	1.63	1.62	1.58	0%	3%
- Pay-TV related	1.12	1.11	1.09	0%	2%
- Broadband	0.32	0.32	0.30	1%	5%
- Content & others	0.19	0.19	0.18	-1%	4%
momo	6.20	6.26	5.62	-1%	10%
- Online shopping	4.10	4.07	3.52	1%	16%
- TV shopping & others	2.10	2.19	2.10	-4%	0%
Others¹	0.14	0.14	0.11	4%	31%

Note 1: Other revenue primarily consists of rental income related to leases on commercial space owned by our 49.9%-held Taipei New Horizon Co., Ltd., which became a consolidated entity on Feb 21, 2014.

	2Q15	1Q15	2Q14	QoQ	YoY
Mobile Subscribers (K)	7,426	7,370	7,413	1%	0%
- Postpaid	6,001	6,012	6,091	0%	-1%
Monthly Churn	2.1%	2.6%	1.8%		
- Postpaid	1.5%	1.7%	1.5%		
MOU (bn)	2.86	2.76	3.18	3%	-10%
Pay-TV Subs (K)	590	589	586	0%	1%
Cable Broadband Subs (K)	195	193	185	1%	6%
DTV Subs (K)	185	180	152	3%	22%

ARPU (NT\$)	2Q15	1Q15	2Q14	QoQ	YoY
Wireless (Residual Value)					
Postpaid	861	835	838	3%	3%
Blended	739	724	731	2%	1%
Cable MSO					
Basic TV	493	494	494	0%	0%
Broadband	545	545	546	0%	0%
DTV	133	133	133	0%	0%
Blended ¹	812	810	796	0%	2%

Note 1: Cable TV & broadband related revenue (excluding content agency) divided by CATV subscriber number

Telecom:

The 4G service take-up rate reached 29% of the postpaid installed base as of the end of 2Q15. In the view that 4G postpaid ARPU was 1.7x company's postpaid ARPU, rising 4G postpaid subscriber number helped mobile postpaid ARPU grow by 3% YoY in the quarter. This also accelerated our mobile service revenue YoY growth rate to 2% in 2Q15, up from 0.2% a quarter ago, on the like-for-like basis with peers.

Mobile MOU (minutes of use) decline in 2Q15 decelerated to 10%, aided by the voice roaming business.

Fixed-line revenue was negatively affected by a YoY drop in legacy voice business.

Device sales rose YoY due to a fast migration to 4G service, which boosted 4G bundled handsets sales. However, sales declined sequentially from 1Q15 as demand switched to lower-end phones.

Cable:

Benefitting from continual increases in digital TV service adoption and organic growth in basic TV subscriptions, 2Q15 pay-TV related revenue was up by 2% from a year ago.

Broadband revenue maintained a mid-single digit YoY growth on the back of a steady increase in the cable internet subscriber base. We have been successful upselling our cable internet service, migrating customers from the mainstream speed of 24Mbps to 60Mbps. As a result, customer mix on the high-speed service, i.e. above 50Mbps, rose to 33% from only 22% a year ago. Furthermore, we launched the 300Mbps cable broadband service in 2Q15, the fastest speed offered by MSOs.

momo

In 2Q15, momo derived around 66% of its revenue from the online shopping business which registered a healthy 16% YoY growth. The TV home shopping businesses in Taiwan and China remained lackluster.

II. EBITDA Analysis

Table 2. EBITDA Breakdown

NT\$bn	2Q15	1Q15	2Q14	QoQ	YoY
EBITDA	8.31	7.59	8.16	9%	2%
- Telecom	7.05	6.33	6.85	11%	3%
- CATV	0.89	0.89	0.86	1%	4%
- momo	0.30	0.33	0.40	-7%	-24%
- others	0.05	0.05	0.06	8%	-9%
Margin	29.3%	25.6%	30.3%	3.8%	-1.0%
- Telecom	34.4%	29.0%	34.7%	5.4ppts	-0.3ppts
- CATV	54.9%	54.7%	54.3%	0.2ppts	0.6ppts
- momo	4.9%	5.2%	7.1%	-0.3ppts	-2.2ppts
- others	37.3%	35.8%	53.9%	1.5ppts	-16.6ppts

D&A	3.36	3.25	2.77	3%	21%
- Telecom	3.01	2.90	2.46	4%	22%
- CATV	0.23	0.23	0.20	1%	18%
- momo	0.03	0.03	0.03	2%	5%
- others	0.05	0.05	0.04	4%	32%
EBIT	4.95	4.34	5.39	14%	-8%
- Telecom	4.04	3.42	4.39	18%	-8%
- CATV	0.66	0.66	0.66	1%	0%
- momo	0.27	0.29	0.37	-8%	-26%
- others	0.00	(0.00)	0.02	NM	-96%

Note: The combined total of telecom, CATV, momo and others does not equal the consolidated total of each account due to minor adjustments and eliminations.

Table 3. Non-operating Item

NT\$bn	2Q15	1Q15	2Q14	QoQ	YoY
Non-Operating	(0.12)	(0.19)	(0.20)	-40%	-41%
-Net Interest Expense	(0.14)	(0.14)	(0.12)	-4%	14%
- Write-off Loss	(0.04)	(0.04)	(0.09)	18%	-50%
-Other revenue (Expense)	0.06	(0.02)	0.01	NM	6.8x

EBITDA Analysis

The YoY change in telecom EBITDA turned positive to 3% in 2Q15 from -4% in 1Q15, continuously benefitting from accelerated mobile service revenue growth and better operating leverage.

Rising revenues in HBG's broadband and DTV businesses coupled with effective cost controls supported a YoY increase to its EBITDA in 2Q15.

momo's EBITDA margin contraction in 2Q15 was due to 1) higher start-up cost associated with its new B2B2C business, 2) higher channel costs for its TV home shopping business and 3) lower revenue mix from its higher-margin TV home shopping business.

D&A Analysis

In 2Q15, despite a continuous drop in 2/3G D&A, telecom D&A expense still increased YoY as a reflection of an expanding 4G network rollout and the amortization of the 4G spectrum, which started since June and September of 2014 for the 700 frequency band and the 1800 frequency band, respectively. The QoQ increase mainly resulted from the deployment of more 4G spectrum for LTE services.

An increase in CATV D&A expense was due to a rising depreciation expense from a growing installed base for the digital set-top-boxes.

Non-Operating Item Analysis

The YoY decrease in non-operating expense was mainly credited to lower asset write-off losses and a one-off gain from the disposal of an unused property in 2Q15.

Compared to a quarter ago, momo booked higher equity investment income from Thailand and China in 2Q15.

III. Income Statement Analysis

Table 4. 2Q15 Consolidated Results vs. Forecast

NT\$bn	2Q15	QoQ	YoY	% of 2Q15 Forecast
Revenue	28.33	-5%	5%	93%
Operating Cost	19.06	-9%	10%	91%
Operating Expense	4.32	-2%	3%	90%
Operating Income	4.95	14%	-8%	102%
Non-op. Income (Expense)	(0.12)	-40%	-41%	17%
Pre-tax Income	4.83	17%	-7%	116%
Net Income	3.95	4%	-5%	121%
EPS (NT\$)	1.45	4%	-6%	124%
EBITDA	8.31	9%	2%	101%
EBITDA margin	29.3%			

Table 5. 1H15 Consolidated Results vs. Forecast

NT\$bn	1H15	YoY	% of 2015 Forecast
Revenue	58.04	6%	46%
Operating Cost	40.04	13%	46%
Operating Expense	8.72	-1%	44%
Operating Income	9.29	-12%	49%
Non-op. Income (Expense)	(0.31)	35%	21%
Pre-tax Income	8.98	-13%	51%
Net Income	7.76	-6%	56%
EPS (NT\$)	2.85	-7%	56%
EBITDA	15.91	0%	48%
EBITDA margin	27.4%		

Income Statement Analysis

2Q15

Compared to a quarter ago, device sales did not grow sequentially from 1Q15 as demand switched to lower-end phones. Mobile service revenue, on the other hand, registered a healthy QoQ increase. This, coupled with lesser handset subsidies in 2Q15, led to a 9% sequential increase in consolidated EBITDA.

On a YoY basis, 2Q15 consolidated revenue increased by 5% credited to revenue rises in all business lines, namely telecom, CATV and retail. In contrast to a 2% YoY drop in 1Q15, 2Q consolidated EBITDA rose 2% YoY, aided by expanding EBITDAs in the telecom and CATV segments.

We missed our revenue target due largely to lower-than-expected handset sales and retail revenue in the quarter. However, with strict expense discipline and lower-than-expected non-operating expenses, we still managed to beat our EBITDA and EPS targets by 1% and 21%, respectively, in 2Q15.

1H15

The continuous push on levelling up 4G penetration rate has paid off. Year to June, the consolidated EBITDA has caught up to the same level as it was prior to the 4G launch a year ago. 1H15 net income reached 56% of our full-year target.

IV. Cash Flow Analysis

Table 6. Cash Flow

NT\$bn	2Q15	1Q15	2Q14
Total Op Sources/(Uses)	5.44	5.38	6.68
Pre-tax Income	4.83	4.15	5.15
Depreciation	2.63	2.62	2.37
Amortization	0.73	0.63	0.40
Changes in Working Capital	(2.96)	(2.29)	(1.54)
Asset Write-off Add-backs	0.03	0.04	0.09
Other Add-backs	0.18	0.23	0.21
Net Investing Sources/(Uses)	(2.30)	(6.68)	(4.79)
Capex ¹	(3.57)	(3.29)	(4.78)
4G spectrum fee-(5HMz on 700Mhz)	-	(3.43)	-
Divestment (Acquisition)	(0.08)	0.00	0.04
Other Financial Assets (Increase)	1.33	0.03	(0.07)
Cash from the consolidation of Subsidiary	0.02	0.01	0.02
Others			
Net Financing Sources/(Uses)	(2.56)	1.62	(4.07)
Short-Term Borrowings	(1.15)	(5.10)	(11.47)
Commercial Paper Payable Increase	(4.59)	6.39	0.80
Long-Term Bank Loan	4.02	0.45	7.00
Dividends Paid to Minority Shareholders	(0.67)	-	(0.22)
Others	(0.17)	(0.11)	(0.17)
Net Cash Position Chg.	0.57	0.31	(2.18)

1. Inclusive of prepayments for equipment and the acquisition of computer software & other intangible assets

Table 7. Capex & FCF

NT\$bn	2Q15	1Q15	2Q14
Cash Capex	3.57	3.29	4.78
- Mobile	2.47	2.33	2.02
- Fixed-line	0.48	0.46	0.44
- Cable MSO	0.16	0.25	0.14
- momo & others	0.46	0.25	2.18
% of Revenue	13%	11%	18%
Free Cash Flow	1.87	2.09	1.90

Cash Flow Analysis

In 2Q15, cash outflow of working capital increased QoQ and YoY mainly due to a corporate income tax payment made and more handset payable paid in the quarter, respectively. Nonetheless, the operating cash inflow rose sequentially bolstered by a higher cash earning.

The 2Q15 net investing cash outflow was mainly for a NT\$3.57bn cash capex. Other investment activities included 1) TFNM's investment of HK\$130mn in Media Asia Group Holdings Limited convertible notes and 2) momo's NT\$0.67bn investment of 20% stake in Global Home Shopping (Beijing). The source of funds came from 1) momo's liquidation of its time deposits & money market funds with a net proceed of NT\$2.3bn and 2) NT\$37mn in proceeds from TFN's sale of an unused property in the quarter.

On the financing front, we managed to pay down NT\$1.72bn in short-term debts in the quarter. Other financing cash outflows were largely the NT\$0.67bn dividends paid to momo's minority shareholders.

Capex and Free Cash Flow Analysis

2Q cash capex came off from a year ago, due mainly to momo's spending in 2014 on its new warehousing and logistic center.

V. Balance Sheet Analysis

Table 8. Balance Sheet

NT\$bn	2Q15	1Q15	2Q14
Total Assets	156.51	157.23	143.08
Current Assets	32.15	33.29	26.81
- Cash & Cash Equivalents	8.79	8.22	6.00
- Accounts Receivable	15.28	15.03	14.33
- Inventories	2.92	3.25	3.06
- Short-Term Investment	1.70	2.22	0.98
- Other Current Assets	3.46	4.57	2.44
Non-current Assets	124.36	123.94	116.28
- Long-Term Investment	5.18	4.77	2.57
- Property and Equipment	48.05	47.18	45.27
- Concession	41.71	42.30	39.70
- Other Non-current Assets	29.42	29.69	28.73
Liabilities	98.53	87.10	89.72
Current Liabilities	69.51	56.12	55.39
- ST Debt	12.65	13.80	12.37
- Commercial Paper Payable	7.39	11.98	1.30
- LT Borrowings due in one year	11.21	5.21	2.21
- Other Current Liabilities	38.26	25.13	39.51
Non-current Liabilities	29.02	30.98	34.33
- Long-Term Borrowings	23.44	25.42	29.08
- Other Non-current Liabilities	5.58	5.55	5.25
Shareholders' Equity	57.98	70.13	53.36
-Paid-in Capital	34.21	34.21	34.21
-Capital Surplus	14.72	14.72	12.48
-Legal Reserve	23.04	21.54	21.54
-Un-appropriated Earnings	2.77	4.83	4.83
-Treasury Shares	(29.72)	(29.72)	(31.08)
-Non-controlling Interest	5.80	6.36	2.96
-Retained Earnings & Others*	7.17	18.20	8.43

* Including YTD profits and other equity items

Table 9. Ratios

	2Q15	1Q15	2Q14
Current Ratio	46%	59%	48%
Interest Coverage (x)	29.0	25.3	36.9
Net Debt (Cash) to Equity	79%	69%	73%
Net Debt (Cash) to EBITDA (x)	1.40	1.47	1.22
ROE (annualized)	30%	24%	33%
ROA (annualized)	10%	10%	12%

Assets

Cash balance increased QoQ due to a steady rise in operating cash inflows.

The QoQ decrease in short-term investment & other current assets was a function of 1) momo's redemption of a NT\$2.3bn time deposit & money market investment and 2) the reclassification of a NT\$0.5bn worth of Taiwan High Speed Rail Corporation (THSR) preferred shares from long-term investment into the short-term as the shares will be redeemed in 3Q15.

Long-term investment increased sequentially as a result of investments in Global Home Shopping (Beijing) and convertible notes of Media Asia Group Holdings Limited. Apart from the aforementioned, the YoY increase in long-term investment also arose from TWM's acquisition of a 14.9% stake in Ambit in 4Q14.

PP&E's increase mainly came from the continuous addition of 4G equipment.

The YoY increase in concession was due to TWM's purchase of the 5MHz spectrum from Ambit in 1Q15.

Liabilities & Shareholders' Equity

Gross debt balance fell to NT\$54.7bn with a NT\$1.72bn repayment made in the quarter. But debt level increased by NT\$9.73bn from a year ago to finance TWM's recent purchase of additional 4G spectrum and equity investments.

The QoQ increase in other current liabilities was due to the \$15.2bn cash dividends payable which was paid on July 17, 2015.

Ratio Analysis

Both interest coverage and net debt to EBITDA improved, due to a lower debt level in 2Q15. Separately, we are in the process of refinancing some of the short-term borrowings with mid-term debts. We expect current ratio to improve then.

ROE improved from 1Q15 on the back of our high dividend payouts.



VI. Management Remarks

Key Message

Deeper 4G penetration has enabled us to record a historical high postpaid ARPU and consolidated EBITDA. Should tiered-pricing be implemented, it will pave the way for a brighter industry outlook. We expect the growth momentum to continue and endeavor to deliver stronger shareholder value.

2.6GHz Spectrum Auction

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THSR to Buy Back Its Preferred Shares

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New Mobile Rate Plans

Launched two new 4G rate plans, 298 and 698, offering a respective fixed 1.5GB and 5GB data allowance per month plus the choice of one value-added service from online books, music, and videos, to target the lower-end segment.

Awards and Recognition

- Ranked within top 5 percent of listed companies in the first Corporate Governance Evaluation conducted jointly by the Taiwan Stock Exchange and Taipei Exchange (GreTai Securities Market).
- Received the “Corporate Social Responsibility Award” in the category of service and telecom industries from Global Views Monthly, the sole recipient from the telecom field.