

January 29, 2016 Topics in This Report <ul style="list-style-type: none"> • Revenue Analysis • EBITDA Analysis • Income Statement Analysis • Cash Flow Analysis • Balance Sheet Analysis • Guidance • Management Remarks IR contact: Shirley Chu Senior Director Investor Relations shirleychu@taiwanmobile.com Rosie Yu CFO rosieyu@taiwanmobile.com 13F, No. 88, Yan Chang Rd., Taipei City 110, Taiwan, ROC Tel: 8862 6636 3159 ir@taiwanmobile.com http://www.taiwanmobile.com	<u>TWM Consolidated</u>					
	NT\$bn	<u>2015</u>	<u>YoY</u>	<u>4Q15</u>	<u>QoQ</u>	<u>YoY</u>
	Revenue	116.14	3%	30.53	11%	1%
	EBITDA	32.28	3%	7.80	-9%	8%
	Operating Income	18.77	-5%	4.34	-16%	5%
	Non-op. Income (Expense)	(0.60)	-29%	(0.20)	113%	192%
	Pre-tax Income	18.17	-4%	4.14	-18%	2%
	(Income Tax)	(2.00)	-38%	(0.25)	-68%	-71%
	(Minority Interest & others)	(0.48)	-23%	(0.12)	2%	-17%
	Net Income	15.69	5%	3.77	-9%	24%
	EPS (NT\$)	5.76	4%	1.38	-10%	24%
		<u>Highlights of Operating Results</u>				
		<ul style="list-style-type: none"> • In 4Q15, a steady increase in the 4G subscriber base has resulted in a YoY rise in telecom service revenue. The lowered handset subsidy level and our stringent expense controls led to a brisk 8% YoY growth in consolidated EBITDA. • 4Q15 operating income also registered a healthy YoY growth of 5% as the strong rise in EBITDA was far more than sufficient enough to mitigate the increase in 4G related D&A. In addition, 4Q15 net income was 24% higher than a year ago credited to one-off gains related to income tax and the receipt of preferred stock dividends from Taiwan High Speed Rail. • For full-year 2015, the respective 3% and 5% YoY increases in EBITDA and net profit reflects the solid execution of our 4G strategy and some one-off gains. As a result, EPS increased 4% YoY to NT\$5.76 and exceeded our guidance by 14% in 2015. 				
	<u>2016 Guidance</u>					
	<i>Telecom Business</i>					
	<ul style="list-style-type: none"> • We expect the mobile industry to continue benefiting from rising 4G adoptions. Taiwan Mobile estimates to have 4.7mn 4G subscribers by the end of 2016, up from 3mn a year earlier. Therefore, the mobile postpaid ARPU is expected to rise by 3% in 2016. • The telecom segment is expected to deliver 1% YoY increase in EBITDA credited to an increase in service revenue and a contained handset subsidy level. 					
	<i>Other Businesses</i>					
	<ul style="list-style-type: none"> • The combined EBITDA of CATV, retail and other businesses will increase by 5% YoY in 2016 and represent 16% of our total EBITDA. 					
	To sum up, EPS for 2016 is forecasted to come in at NT\$5.15, resulting from a projected 2% EBITDA growth and a 6% rise in D&A.					
	<u>Board Resolutions</u>					
	The board today (January 29, 2016) approved a NT\$11.1bn capex for 2016, including NT\$6.0bn for mobile, NT\$2.2bn for fixed-line, NT\$1.3bn for CATV and NT\$1.6bn for momo and other subsidiaries.					
	<u>Key Message</u>					
	An increase in the forecast for telecom EBITDA coupled with over NT\$3bn reduction in telecom capex are expected to enhance Taiwan Mobile's free cash flow generation capability in 2016. With sufficient LTE spectrum holdings and no exposure to 2.6GHz investments, we will have less burden from depreciation and amortization, compared to our peers. As such, we will continue to endeavor to enhance shareholder returns.					
	The information contained in this presentation, including all forward-looking information, is subject to change without notice, whether as a result of new information, future events or otherwise, and Taiwan Mobile Co., Ltd. (the "Company") undertakes no obligation to update or revise the information contained in this presentation. No representation or warranty, either expressed or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein, nor is the information intended to be a complete statement of the Company, markets or developments referred to in this presentation.					

I. Revenue Analysis

Table 1. Key Operational Data

Residual Value (NT\$bn)	4Q15	YoY	2015	YoY
Mobile Service Revenue	16.48	1%	65.40	1%
Postpaid ARPU (NT\$)	874	4%	860	3%
Blended ARPU (NT\$)	735	1%	733	0%
Telecom Service Revenue	17.69	2%	70.29	1%

Revenue (NT\$bn)	4Q15	QoQ	YoY	2015	YoY
Telecom	21.93	12%	-1%	83.78	2%
Service	15.35	0%	0%	61.15	0%
Device Sales	6.58	55%	-4%	22.63	7%
CATV	1.67	2%	4%	6.55	3%
- Pay-TV Related	1.12	0%	1%	4.46	2%
- Broadband	0.32	0%	4%	1.28	5%
- Content & Others	0.23	18%	18%	0.81	6%
momo	6.85	8%	8%	25.64	7%
- Online Shopping	4.76	11%	16%	17.22	15%
- TV Shopping & Others	2.10	3%	-6%	8.42	-6%
Others¹	0.17	14%	38%	0.60	56%

Note 1: Other revenue primarily consists of operating revenue from our 49.9%-held Taipei New Horizon Co., Ltd., which became a consolidated entity on Feb 21, 2014.

	4Q15	3Q15	4Q14	QoQ	YoY
Mobile Subscribers (K)	7,453	7,507	7,430	-1%	0%
- Postpaid	5,981	5,982	6,056	0%	-1%
Monthly Churn	2.7%	1.9%	2.7%		
- Postpaid	1.5%	1.5%	1.7%		
MOU (bn)	2.75	2.83	2.86	-3%	-4%
Pay-TV Subs (K)	589	590	588	0%	0%
Cable Broadband Subs (K)	199	197	190	1%	5%
DTV Subs (K)	189	188	172	1%	10%

CATV ARPU (NT\$)	4Q15	QoQ	YoY	2015	YoY
Basic TV	488	0%	-1%	491	-1%
Broadband	538	-1%	-1%	542	0%
DTV	130	-1%	-2%	132	-1%
Blended ¹	815	0%	1%	812	2%

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

Telecom:

The 4G service take-up rate reached 43% of the postpaid installed base as of the end of 2015. As 4G postpaid ARPU was 1.5x the company's postpaid ARPU, a rising 4G postpaid subscriber number helped mobile postpaid ARPU grow by 4% YoY in 4Q15, hitting a record high of NT\$874.

Mobile MOU (minutes of use) YoY decline in 4Q15 narrowed to only 4% compared to 7% a quarter ago, aided by growing voice roaming business.

4Q15 device sales increased QoQ because of the launch of the iPhone 6S. However, device sales volume came off from a year ago, due partially to weaker demand for high-end smartphone.

Cable:

The YoY growth in pay-TV related revenue was resilient at 1%, underpinned by continual increases in digital TV service adoptions. Cable broadband business also benefited from expanding subscriber numbers and a rising mix of the higher-speed services, i.e. above 50Mbps, up to 37% in 4Q15 from 28% a year ago.

momo

momo derived 69% of its revenue from the online shopping business which registered a healthy 15% YoY growth in 4Q15. However, its TV home shopping business remained lackluster.

II. EBITDA Analysis

Table 2. EBITDA Breakdown

NT\$bn	4Q15	QoQ	YoY	2015	YoY
EBITDA	7.80	-9%	8%	32.38	3%
- Telecom	6.53	-11%	10%	27.23	4%
- CATV	0.89	1%	4%	3.56	4%
- momo	0.28	0%	-28%	1.19	-24%
- others	0.07	15%	41%	0.24	18%
Margin	25.6%	-5.5ppts	1.5ppts	27.8%	0.0ppts
- Telecom	29.8%	-7.7ppts	3.0ppts	32.5%	0.8ppts
- CATV	53.5%	-0.9ppts	0.5ppts	54.4%	0.5ppts
- momo	4.1%	-0.3ppts	-2.0ppts	4.6%	-1.9ppts
- others	42.7%	0.1ppts	1.2ppts	39.8%	-12.8ppts

D&A	3.47	1%	11%	13.52	17%
- Telecom	3.13	2%	12%	12.12	17%
- CATV	0.22	-4%	-2%	0.90	10%
- momo	0.03	-14%	-16%	0.13	-2%
- others	0.05	-1%	28%	0.21	48%
EBIT	4.34	-16%	5%	18.77	-5%
- Telecom	3.40	-20%	8%	15.12	-4%
- CATV	0.68	2%	7%	2.66	2%
- momo	0.25	2%	-29%	1.06	-26%
- others	0.02	95%	100%	0.03	-52%

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	4Q15	QoQ	YoY	2015	YoY
Non-Operating Revenue (Expense)	(0.20)	113%	192%	(0.60)	-29%
- Net Interest Expense	(0.15)	-4%	38%	(0.58)	14%
- Write-off Loss	(0.23)	312%	-38%	(0.37)	-62%
- Other Revenue (Expense)	0.18	57%	-56%	0.34	-46%

EBITDA Analysis

Due to a steadily increasing mobile service revenue coupled with fewer handset subsidies from lesser handsets sold as well as lower SAC (subscriber acquisition cost), YoY growth rate in 4Q15 telecom EBITDA accelerated to 10%. The sequential decline in telecom EBITDA was due to the impact from iPhone 6S launch.

Rising revenues in HBG's broadband and DTV businesses and effective cost controls supported a 4% YoY increase to its EBITDA in 4Q15.

Negatively affected by higher TV channel costs paid and lower revenue mix from its higher-margin TV home shopping business, momo still had a YoY margin contraction in 4Q15. Nevertheless, its 4Q15 EBITDA stabilized sequentially.

D&A Analysis

We deployed 30MHz spectrum for LTE service in 4Q15, up from 20MHz a year ago. This, together with an expanding 4G network roll-out, led to a YoY increase in 4Q15 telecom D&A expenses.

The YoY change in CATV 4Q15 D&A expense became negative as the D&A addition from the new digital set-up-boxes invested was lower than the D&A reduction from those purchased two years earlier which have been fully depreciated.

Non-Operating Item Analysis

For full year 2015, assets write-off loss decreased YoY significantly. The one-off gains in 2015, which was lower than a year ago, mainly came from the NT\$215m dividends received in 4Q15 from the investments in Taiwan High Speed Rail's preferred shares. Net net, 2015 reported a YoY decrease in non-operating expense.

III. Income Statement Analysis

Table 4. 4Q15 Consolidated Results vs. Forecast

NT\$bn	4Q15	QoQ	YoY	% of 4Q15 Forecast
Revenue	30.53	11%	1%	92%
Operating Cost	21.56	18%	0%	93%
Operating Expense	4.64	10%	0%	91%
Operating Income	4.34	-16%	5%	90%
Non-op. Income (Expense)	(0.20)	113%	192%	57%
Pre-tax Income	4.14	-18%	2%	93%
Net Income	3.77	-9%	24%	106%
EPS (NT\$)	1.38	-10%	24%	107%
EBITDA	7.80	-9%	8%	92%
EBITDA margin	25.6%			

Income Statement Analysis

4Q15

A steady increase in the 4G subscriber base has resulted in a YoY rise in telecom service revenue. The lowered handset subsidy level and our stringent expense controls led to a brisk 8% YoY growth in consolidated EBITDA in 4Q15.

Operating income also registered a healthy growth of 5% as the strong rise in EBITDA was far more than sufficient enough to mitigate the increase in 4G related D&A. In addition, 4Q15 net income was 24% higher than a year ago credited to one-off gains related to income tax and the receipt of preferred stock dividends from Taiwan High Speed Rail.

Table 5. 2015 Consolidated Results vs. Forecast

NT\$bn	2015	YoY	% of 2015 Forecast
Revenue	116.14	3%	93%
Operating Cost	79.79	6%	92%
Operating Expense	17.59	-1%	90%
Operating Income	18.77	-5%	99%
Non-op. Income (Expense)	(0.60)	-29%	41%
Pre-tax Income	18.17	-4%	104%
Net Income	15.69	5%	113%
EPS (NT\$)	5.76	4%	114%
EBITDA	32.28	3%	98%
EBITDA margin	27.8%		

2015

For full-year 2015, the respective 3% and 5% YoY increases in EBITDA and net profit reflects the solid execution of our 4G strategy and some one-off gains. As a result, EPS increased 4% YoY to NT\$5.76 and exceeded our guidance by 14% in 2015.

IV. Cash Flow Analysis

Table 6. Cash Flow

NT\$bn	2015	2014	4Q15	3Q15
Total Op Sources/(Uses)	25.81	28.34	7.74	7.25
Pre-tax Income	18.17	18.77	4.14	5.05
Depreciation	10.58	9.72	2.67	2.65
Amortization	2.94	1.87	0.79	0.79
Changes in Working Capital	(7.11)	(3.72)	(0.33)	(1.52)
Asset Write-off Add-backs	0.33	0.97	0.23	0.04
Other Add-backs	0.90	0.73	0.23	0.26
Net Investing Sources/(Uses)	(15.18)	(19.66)	(1.76)	(4.44)
Capex ¹	(12.62)	(14.70)	(2.80)	(2.96)
Divestment (Acquisition)	0.58	(4.35)	0.00	0.65
4G License Fees	(3.43)	-	-	-
Other Financial Assets (Increase)	0.13	(1.94)	(0.02)	(1.20)
Cash from Subsidiary	-	1.21	-	-
Refundable Deposits (Increase)	(0.00)	(0.01)	1.02	(1.00)
Others	0.17	0.14	0.04	0.07
Net Financing Sources/(Uses)	(9.95)	(8.74)	(4.68)	(4.33)
Cash Dividend Payment	(15.24)	(15.06)	-	(15.24)
Short-Term Borrowings	(4.68)	(11.71)	0.87	0.70
Commercial Paper Payable Increase	5.20	3.19	(6.88)	10.29
Long-Term Bank Loan	6.56	8.90	2.00	0.09
Dividends Paid to Minority Shareholders	(0.67)	(0.22)	-	-
Others	(1.12)	6.17	(0.67)	(0.16)
Net Cash Position Chg.	0.68	(0.05)	1.30	(1.51)

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

Table 7. Capex & FCF

NT\$bn	2015	2014	4Q15	3Q15
Cash Capex	12.62	14.70	2.80	2.96
- Mobile	9.48	9.62	2.21	2.46
- Fixed-line	1.60	1.54	0.45	0.21
- Cable MSO	0.72	0.98	0.13	0.18
- momo & others	0.82	2.57	0.00	0.11
% of Revenue	11%	13%	9%	11%
Free Cash Flow	13.19	13.63	4.94	4.29

Cash Flow Analysis

4Q15

In 4Q15, working capital cash outflow decreased QoQ mainly due to more corporate income tax paid in 3Q15. Accordingly, operating cash inflow showed a mild sequential increase for the quarter.

Investing cash outflow came off QoQ. The major investing activities in 4Q15 were a NT\$2.80bn capex and NCC's refund of TWM's NT\$1bn deposit for the 2.6GHz spectrum auction.

On the financing front, a total of NT\$4.01bn in borrowings was repaid in the quarter supported by the improving free cash flows. In addition, momo spent NT\$397m buying back 2m of its shares from the market in 4Q15.

2015

Despite a lower operating cash inflow resulting from more handset payments made for the year, TWM's free cash flow remained stable compared to a year ago, aided by a lower cash capex resulting from contained mobile capex and the pushback of momo's capex with regards to its new logistic center.

Capex and Free Cash Flow Analysis

In 4Q15, aided by higher operating cash inflow and lower capex, TWM generated higher FCF compared to a quarter ago. Full year capex came off from a year ago so did the ratio of capex as a percentage of revenue.

V. Balance Sheet Analysis

Table 8. Balance Sheet

NT\$bn	4Q15	3Q15	4Q14
Total Assets	156.09	154.87	153.54
Current Assets	34.16	31.26	32.83
- Cash & Cash Equivalents	8.58	7.28	7.90
- Accounts Receivable	15.70	15.90	15.02
- Inventories	4.19	2.24	3.21
- Short-Term Investment	1.03	1.06	2.21
- Other Current Assets	4.66	4.79	4.48
Non-current Assets	121.93	123.61	120.70
- Long-Term Investment	4.96	4.59	5.07
- Property and Equipment	47.25	47.85	47.07
- Concession	40.45	41.08	39.10
- Other Non-current Assets	29.28	30.09	29.46
Liabilities	90.79	93.26	87.04
Current Liabilities	59.23	64.81	53.47
- ST Debt	14.22	13.35	18.90
- Commercial Paper Payable	10.79	17.68	5.59
- LT Borrowings due in one year	10.27	11.34	2.21
- Other Current Liabilities	23.95	22.44	26.77
Non-current Liabilities	31.56	28.45	33.57
- Long-Term Borrowings	26.48	23.40	27.98
- Other Non-current Liabilities	5.08	5.04	5.59
Shareholders' Equity	65.29	61.62	66.50
-Paid-in Capital	34.21	34.21	34.21
-Capital Surplus	14.59	14.72	14.72
-Legal Reserve	23.04	23.04	21.54
-Un-appropriated Earnings	2.76	2.76	4.83
-Treasury Shares	(29.72)	(29.72)	(29.72)
-Non-controlling Interest	5.74	5.88	6.25
-Retained Earnings & Others*	14.67	10.72	14.67

* Including YTD profits and other equity items

Table 9. Ratios

	4Q15	3Q15	4Q14
Current Ratio	58%	48%	61%
Interest Coverage (x)	22.5	26.8	31.9
Net Debt (Cash) to Equity	81%	95%	70%
Net Debt (Cash) to EBITDA (x)	1.65	1.78	1.49
ROE (annualized)	25%	30%	20%
ROA (annualized)	10%	11%	8%

Assets

As of the end of 4Q15, cash balance increased QoQ as shown in the cash flow analysis section.

The QoQ increase in inventory was mainly due to the launch of the iPhone 6S in 4Q15. 4Q14's lower inventory level was partially attributed to Apple's supply shortage.

Long-term investment increased sequentially to reflect the mark-to-market value appraised on our equity investments in Ambit and THSR. The YoY decline was mainly due to the redemption of NT\$0.5bn of THSR's preferred shares made in 3Q15.

PP&E decreased QoQ as new addition in 4G equipment was smaller than the overall depreciation incurred for the quarter.

The YoY increase in concession was due to TWM's purchase of 5MHz LTE spectrum on the 700MHz frequency band from Ambit in 1Q15.

Other non-current assets decreased sequentially mainly due to NCC's refund of TWM's NT\$1bn deposit for the 2.6GHz spectrum auction.

Liabilities & Shareholders' Equity

Gross debt balance fell to NT\$61.76bn, following a NT\$4.01bn debt repayment made in the quarter.

The QoQ decreases in capital surplus and non-controlling interest were both due to momo's buyback of its shares from the market in 4Q15.

Ratio Analysis

With more debt repayment made in 4Q15, the ratios of net debt to equity and net debt to EBITDA both came off from a quarter ago.

VI. Guidance

Table 10. 2016 Guidance

NT\$bn	2016	2015	YoY
Revenue	120.60	116.14	4%
Cash Cost¹	69.25	66.27	5%
Expense	18.51	17.59	5%
EBITDA	32.84	32.28	2%
D&A	14.32	13.52	6%
Operating Income	18.52	18.77	-1%
Non-operating Expense	(1.00)	(0.60)	65%
Pre-tax Income	17.52	18.17	-4%
Net Income	14.01	15.69	-11%
EPS (NT\$) ²	5.15	5.76	-11%
Recurring EPS (NT\$)³	5.15	5.31	-3%

1. Including handset sales costs, but not including total D&A.
2. EPS is based on total share counts of 2.722bn for both 2016 and 2015.
3. One-off gains and tax savings were excluded from 2015 EPS.

Telecom business

- We expect the mobile industry to continue benefiting from rising 4G adoptions. Taiwan Mobile estimates to have 4.7mn 4G subscribers by the end of 2016, up from 3mn a year earlier. Therefore, the mobile postpaid ARPU is expected to rise by 3% in 2016.
- The telecom segment is expected to deliver 1% YoY increase in EBITDA credited to an increase in service revenue and a contained handset subsidy level.

Other businesses

- The combined EBITDA of CATV, retail and other businesses will increase by 5% YoY in 2016 and represent 16% of our total EBITDA.

EPS

- EPS for 2016 is forecasted to come in at NT\$5.15, resulting from a projected 2% EBITDA growth and a 6% rise in D&A.

VII. Management Remarks

Key Message

An increase in the forecast for telecom EBITDA coupled with over NT\$3bn reduction in telecom capex are expected to enhance Taiwan Mobile's free cash flow generation capability in 2016. With sufficient LTE spectrum holdings and no exposure to 2.6GHz investments, we will have less burden from depreciation and amortization, compared to our peers. As such, we will continue to endeavor to enhance shareholder returns.

Capex

The board today (January 29, 2016) approved a NT\$11.1bn capex for 2016, including NT\$6.0bn for mobile, NT\$2.2bn for fixed-line, NT\$1.3bn for CATV and NT\$1.6bn for momo and other subsidiaries.

For 2016, both telecom capex and capex as a percentage of service revenue are forecasted to come off significantly from 2015. Mobile capex in particular will drop 39% YoY. Regarding cable TV, investments in digital set-up-boxes will continue in 2016. momo's expected YoY rise in capex is due to the pushback of its capex with regards to the new logistic center.

Implication of 2.6GHz Auction Results

TWM announced its exit from the 2.6GHz spectrum auction in 4Q15 as its current spectrum holdings are sufficient enough for future growth in demand. Cash savings from payments for concession, capex and related opex will be used to enhance our marketing flexibility and accelerate the monetization of our 4G investment better than our peers.

Corporate Social Responsibility Awards and Recognition

- Received the following four awards from the Taiwan Institute for Sustainable Energy Research for the second consecutive year: “Taiwan's Top 10 Role Model Company of Sustainability”, the “Integrity and Transparency Award”, the “Role



Taiwan Mobile

Model Award for Community Service and Outreach” and the “2015 Taiwan’s Top 50 Corporate Sustainability Report Award – Gold Award in Telecom Sector”

- Received the internationally renowned Swiss SGS Qualicert certification for its quality direct stores channel and customer service system for the fourth year in a row (2012~2015)