

<p><b>July 27, 2016</b></p> <p><b>Topics in This Report</b></p> <ul style="list-style-type: none"> <li>• Revenue Analysis</li> <li>• EBITDA Analysis</li> <li>• Income Statement Analysis</li> <li>• Cash Flow Analysis</li> <li>• Balance Sheet Analysis</li> <li>• Management Remarks</li> </ul> <p><u>IR contact:</u></p> <p>Shirley Chu Senior Director Investor Relations shirleychu@taiwanmobile.com</p> <p>Rosie Yu CFO rosieyu@taiwanmobile.com</p> <p>13F, No. 88, Yan Chang Rd., Taipei City 110, Taiwan, ROC Tel: 8862 6636 3159</p> <p>ir@taiwanmobile.com <a href="http://www.taiwanmobile.com">http://www.taiwanmobile.com</a></p>	<b><u>TWM Consolidated</u></b>					
	NT\$bn	<b><u>2Q16</u></b>	<b><u>1Q16</u></b>	<b><u>2Q15</u></b>	<b><u>QoQ</u></b>	<b><u>YoY</u></b>
	<b>Revenue</b>	28.44	29.20	28.33	-3%	0%
	<b>EBITDA</b>	8.72	8.42	8.31	4%	5%
	<b>Operating Income</b>	5.24	5.00	4.95	5%	6%
	<b>Non-op. Income (Expense)</b>	(0.12)	(0.24)	(0.12)	-48%	5%
	<b>Pre-tax Income</b>	5.12	4.77	4.83	7%	6%
	<b>(Income Tax)</b>	(0.86)	(0.83)	(0.76)	4%	12%
	<b>(Minority Interest)</b>	(0.14)	(0.17)	(0.12)	-16%	17%
	<b>Net Income</b>	4.12	3.77	3.95	9%	4%
	<b>EPS (NT\$)</b>	1.51	1.39	1.45	9%	4%
	<b><u>Highlights of Operating Results</u></b>					
	<b>2Q16</b>					
	<p>Once again, TWM led the pack by posting the strongest YoY growth rate in terms of the total mobile subscriber number, blended ARPU and mobile service revenue in 2Q16. In addition, the Company also stood out in telecom EBITDA growth, aided by above-industry top-line growth and larger expense savings. Together with EBITDA growth from CATV and retail businesses, the Company delivered solid financial results with net income increasing by 4% YoY, the only operator showing positive earnings growth in the industry.</p> <p>In terms of 2Q16 guidance achievement rate, consolidated revenue slightly missed our forecast for the quarter mainly due to lower-than-expected handset sales. However, our EBITDA and net profit benefited from fewer-than-expected handset subsidies and interest expenses. Therefore, we managed to beat our EBITDA and EPS targets by 5% and 13% in 2Q16, respectively.</p>					
<b>1H16</b>						
<p>Year to June, our consolidated EBITDA was up by 8% from a year ago, credited to operating leverage. In addition, 1H16 EPS accumulated to NT\$2.9 and reached 56% of our full-year target.</p>						
<b><u>Key Message</u></b>						
<p>The big three's rational moves regarding the 4G rate plans and contained handset subsidies set the tone for a healthier growth path for the industry. Taiwan Mobile will continue to create shareholder value through discipline in both mobile spectrum investments and handset subsidies.</p>						
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## I. Revenue Analysis

**Table 1. Key Operational Data**

Residual Value (NT\$bn)	2Q16	1Q16	2Q15	QoQ	YoY
Mobile Service Revenue	16.60	16.34	16.41	2%	1%
Postpaid ARPU (NT\$)	883	869	861	2%	3%
Blended ARPU (NT\$)	743	733	739	1%	1%
Telecom Service Revenue	17.76	17.57	17.69	1%	0%

Revenue (NT\$bn)	2Q16	1Q16	2Q15	QoQ	YoY
<b>Telecom</b>	<b>20.05</b>	<b>20.50</b>	<b>20.48</b>	<b>-2%</b>	<b>-2%</b>
Service	15.42	15.25	15.42	1%	0%
Device Sales	4.63	5.25	5.07	-12%	-9%
<b>CATV</b>	<b>1.65</b>	<b>1.64</b>	<b>1.63</b>	<b>0%</b>	<b>1%</b>
- Pay-TV Related	1.09	1.10	1.12	0%	-2%
- Broadband	0.33	0.33	0.32	0%	2%
- Content & Others	0.23	0.22	0.19	5%	19%
<b>momo</b>	<b>6.69</b>	<b>7.01</b>	<b>6.20</b>	<b>-5%</b>	<b>8%</b>
- Online Shopping	4.82	4.99	4.10	-4%	18%
- TV Shopping & Others	1.87	2.01	2.10	-7%	-11%
<b>Others<sup>1</sup></b>	<b>0.14</b>	<b>0.15</b>	<b>0.14</b>	<b>-7%</b>	<b>1%</b>

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.

	2Q16	1Q16	2Q15	QoQ	YoY
<b>Mobile Subscribers (K)</b>	<b>7,458</b>	<b>7,434</b>	<b>7,426</b>	<b>0%</b>	<b>0%</b>
- Postpaid	5,973	5,975	6,001	0%	0%
<b>Monthly Churn</b>	<b>2.3%</b>	<b>2.5%</b>	<b>2.1%</b>		
- Postpaid	1.4%	1.5%	1.5%		
<b>MOU (bn)</b>	<b>2.66</b>	<b>2.65</b>	<b>2.86</b>	<b>0%</b>	<b>-7%</b>
<b>Pay-TV Subs (K)</b>	<b>585</b>	<b>588</b>	<b>590</b>	<b>-1%</b>	<b>-1%</b>
Cable Broadband Subs (K)	201	200	195	0%	3%
DTV Subs (K)	192	191	185	1%	4%

CATV ARPU (NT\$)	2Q16	1Q16	2Q15	QoQ	YoY
Basic TV	479	483	493	-1%	-3%
Broadband	536	539	545	-1%	-2%
DTV	129	130	133	-1%	-3%
Blended <sup>1</sup>	807	806	812	0%	-1%

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

### Telecom:

The 4G service take-up rate reached 55% of the postpaid installed base and helped mobile postpaid ARPU grow by 3% YoY in 2Q16. As a result, TWM reported a 1% YoY increase in mobile service revenue, the best performance among peers on a like-for-like basis.

2Q16 device sales decreased QoQ and YoY because of weaker demand for iPhone and entry-level smartphones.

Unlike the peers' declining trends, TWM managed to maintain a flat YoY change in subscriber number, supported by its stabilizing postpaid churn rate.

### Cable:

Rising revenues from the content agency, cable broadband and digital TV businesses more than offset the YoY decline in basic TV subscription revenue as a result of price competition from new entrants. Consequently, the YoY growth in revenue from the cable business was still a resilient 1%.

### momo

With an 18% YoY top-line growth, online shopping remained as the brightest spot for momo. In Q2, online shopping contributed 60% of momo's total EBITDA.

## II. EBITDA Analysis

**Table 2. EBITDA Breakdown**

NT\$bn	2Q16	1Q16	2Q15	QoQ	YoY
<b>EBITDA</b>	<b>8.72</b>	<b>8.42</b>	<b>8.31</b>	<b>4%</b>	<b>5%</b>
- Telecom	7.40	7.06	7.05	5%	5%
- CATV	0.90	0.90	0.89	0%	1%
- momo	0.34	0.40	0.30	-13%	13%
- others	0.05	0.05	0.05	-4%	-3%
<b>Margin</b>	<b>30.7%</b>	<b>28.8%</b>	<b>29.3%</b>	<b>+1.8ppts</b>	<b>+1.3ppts</b>
- Telecom	36.9%	34.4%	34.4%	+2.5ppts	+2.5ppts
- CATV	54.6%	54.6%	54.9%	-0.1ppts	-0.4ppts
- momo	5.1%	5.6%	4.9%	-0.5ppts	+0.2ppts
- others	36.0%	34.8%	37.3%	+1.2ppts	-1.3ppts

<b>D&amp;A</b>	<b>3.48</b>	<b>3.41</b>	<b>3.36</b>	<b>2%</b>	<b>4%</b>
- Telecom	3.15	3.08	3.01	2%	5%
- CATV	0.22	0.22	0.23	3%	-4%
- momo	0.02	0.03	0.03	-12%	-32%
- others	0.05	0.05	0.05	0%	0%
<b>EBIT</b>	<b>5.24</b>	<b>5.00</b>	<b>4.95</b>	<b>5%</b>	<b>6%</b>
- Telecom	4.25	3.98	4.04	7%	5%
- CATV	0.68	0.68	0.66	0%	2%
- momo	0.32	0.37	0.27	-13%	18%
- others	(0.00)	0.00	0.00	NM	NM

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	2Q16	1Q16	2Q15	QoQ	YoY
<b>Non-Operating Revenue (Expense)</b>	<b>(0.12)</b>	<b>(0.24)</b>	<b>(0.12)</b>	<b>-48%</b>	<b>5%</b>
- Net Interest Expense	(0.11)	(0.14)	(0.14)	-17%	-16%
- Write-off Loss	(0.05)	(0.04)	(0.04)	20%	17%
- Other Revenue (Expense)	0.04	(0.05)	0.06	NM	-31%

### EBITDA Analysis

Due to smaller handset subsidies from fewer handsets sold as well as lower SAC (subscriber acquisition cost), telecom EBITDA posted a 5% YoY growth in 2Q16. The sequential increase in telecom EBITDA was due to lesser smartphone sales volume in the quarter.

Despite competition from new entrants, CATV EBITDA managed to show positive YoY growth aided by rising revenues from cable broadband, content agency and digital TV services.

For 2Q, momo's solid 13% YoY increase in EBITDA came not only from its online shopping business but also from the business turnaround in China.

### D&A Analysis

Two thirds of the 2Q16 telecom D&A YoY increase arose from 4G equipment and the balance from 4G spectrum amortization.

CATV 2Q16 D&A expense decreased YoY 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

Interest expense, the biggest item of non-operating expenses, dropped QoQ and YoY mainly due to lower interest rates and decreasing bank borrowings.

### III. Income Statement Analysis

**Table 4. 2Q16 Consolidated Results vs. Forecast**

NT\$bn	2Q16	QoQ	YoY	% of 2Q16 Forecast
<b>Revenue</b>	<b>28.44</b>	<b>-3%</b>	<b>0%</b>	<b>98%</b>
<b>Operating Cost</b>	<b>18.81</b>	<b>-4%</b>	<b>-1%</b>	<b>95%</b>
Operating Expense	4.40	-3%	2%	97%
<b>Operating Income</b>	<b>5.24</b>	<b>5%</b>	<b>6%</b>	<b>111%</b>
Non-op. Income (Expense)	(0.12)	-48%	5%	72%
Pre-tax Income	5.12	7%	6%	112%
<b>Net Income</b>	<b>4.12</b>	<b>9%</b>	<b>4%</b>	<b>113%</b>
EPS (NT\$)	1.51	9%	4%	113%
<b>EBITDA</b>	<b>8.72</b>	<b>4%</b>	<b>5%</b>	<b>105%</b>
EBITDA margin	30.7%			

#### Income Statement Analysis

##### *2Q16*

TWM delivered solid financial results with net income increasing by 4% YoY, the only operator showing positive earnings growth in the industry.

In terms of 2Q16 guidance achievement rate, consolidated revenue slightly missed our forecast for the quarter mainly due to lower-than-expected handset sales. However, our EBITDA and net profit benefited from fewer-than-expected handset subsidies and interest expenses. Therefore, we managed to beat our EBITDA and EPS targets by 5% and 13% in 2Q16, respectively.

**Table 5. 1H16 Consolidated Results vs. Forecast**

NT\$bn	1H16	YoY	% of Full Year Forecast
<b>Revenue</b>	<b>57.64</b>	<b>-1%</b>	<b>48%</b>
<b>Operating Cost</b>	<b>38.49</b>	<b>-4%</b>	<b>46%</b>
Operating Expense	8.91	2%	48%
<b>Operating Income</b>	<b>10.24</b>	<b>10%</b>	<b>55%</b>
Non-op. Income (Expense)	(0.36)	15%	36%
Pre-tax Income	9.89	10%	56%
<b>Net Income</b>	<b>7.89</b>	<b>2%</b>	<b>56%</b>
EPS (NT\$)	2.90	2%	56%
<b>EBITDA</b>	<b>17.14</b>	<b>8%</b>	<b>52%</b>
EBITDA margin	29.7%		

##### *1H16*

Year to June, our consolidated EBITDA was up by 8% from a year ago, credited to operating leverage. In addition, 1H16 EPS accumulated to NT\$2.9 and reached 56% of our full-year target.

## IV. Cash Flow Analysis

**Table 6. Cash Flow**

NT\$bn	2Q16	1Q16	2Q15
<b>Total Op Sources/(Uses)</b>	<b>5.97</b>	<b>10.03</b>	<b>5.44</b>
Pre-tax Income	5.12	4.77	4.83
Depreciation	2.70	2.62	2.63
Amortization	0.79	0.79	0.73
Changes in Operating Assets and Liabilities	(2.89)	1.54	(2.96)
Asset Write-off/Add-backs	0.05	0.04	0.03
Other Add-backs	0.21	0.27	0.18
<b>Net Investing Sources/(Uses)</b>	<b>(2.70)</b>	<b>(2.91)</b>	<b>(2.30)</b>
Capex <sup>1</sup>	(2.43)	(2.75)	(3.57)
Divestment (Acquisition)	-	(0.20)	(0.08)
Other Financial Assets (Increase)	(0.30)	0.01	1.33
Refundable Deposits (Increase)	(0.05)	(0.00)	(0.01)
Others	0.07	0.03	0.03
<b>Net Financing Sources/(Uses)</b>	<b>(4.42)</b>	<b>(7.00)</b>	<b>(2.56)</b>
Short-Term Borrowings	(0.51)	(4.49)	(1.15)
Commercial Paper Payable Increase	(6.30)	(2.30)	(4.59)
Long-Term Bank Loan	3.08	(0.06)	4.02
Dividends Paid to momo's Minority Shareholders	(0.54)	-	(0.67)
Others	(0.15)	(0.15)	(0.17)
<b>Net Cash Position Chg.</b>	<b>(1.15)</b>	<b>0.12</b>	<b>0.57</b>

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

**Table 7. Capex & FCF**

NT\$bn	2Q16	1Q16	2Q15
<b>Cash Capex</b>	<b>2.43</b>	<b>2.75</b>	<b>3.57</b>
- Mobile	1.78	2.00	2.47
- Fixed-line	0.24	0.25	0.48
- Cable MSO	0.22	0.29	0.16
- momo & others	0.19	0.21	0.46
<b>% of Revenue</b>	<b>9%</b>	<b>9%</b>	<b>13%</b>
<b>Free Cash Flow</b>	<b>3.54</b>	<b>7.29</b>	<b>1.87</b>

### Cash Flow Analysis

Despite higher cash earnings, 2Q16 operating cash inflows decreased sequentially due to the payment of the 2015 corporate income tax and more handset payments. Compared to a year ago, 2Q16 operating cash inflows were larger on the back of higher earnings.

We note that investing cash outflow in 2Q16 decreased both QoQ and YoY because of continuous declines in mobile capex, which has been providing a positive boost to our free cash flow.

On the financing front, apart from paying NT\$0.54bn in dividends to momo's minority shareholders, we further reduced our bank borrowings by NT\$3.73bn in the quarter. This compared to the NT\$1.72bn debt repayment and NT\$0.67bn in dividends to momo's minority shareholders a year ago.

### Capex and Free Cash Flow Analysis

In 2Q16, total capex as a percentage of revenue maintained at 9%, the same level a quarter ago. Total cash capex came off from a year ago mainly due to a decline in 4G mobile capex.

FCF netted NT\$10.83bn in 1H16, translating into an annualized FCF yield of 7%.

## V. Balance Sheet Analysis

**Table 8. Balance Sheet**

NT\$bn	2Q16	1Q16	2Q15
<b>Total Assets</b>	<b>152.47</b>	<b>153.75</b>	<b>156.51</b>
Current Assets	32.72	32.96	32.15
- Cash & Cash Equivalents	7.55	8.70	8.79
- Accounts Receivable	15.97	15.70	15.28
- Inventories	2.85	2.78	2.92
- Short-Term Investment	1.27	1.24	1.70
- Other Current Assets	5.08	4.53	3.46
Non-current Assets	119.75	120.79	124.36
- Long-Term Investment	5.21	5.37	5.18
- Property and Equipment	46.40	46.46	48.05
- Concession	39.17	39.81	41.71
- Other Non-current Assets	28.97	29.15	29.42
<b>Liabilities</b>	<b>94.45</b>	<b>84.09</b>	<b>98.53</b>
Current Liabilities	56.17	49.84	69.51
- ST Debt	9.22	9.73	12.65
- Commercial Paper Payable	2.20	8.49	7.39
- LT Borrowings due in one year	6.25	7.30	11.21
- Other Current Liabilities	38.50	24.31	38.26
Non-current Liabilities	38.28	34.25	29.02
- Long-Term Borrowings	33.52	29.39	23.44
- Other Non-current Liabilities	4.76	4.86	5.58
<b>Shareholders' Equity</b>	<b>58.02</b>	<b>69.66</b>	<b>57.98</b>
-Paid-in Capital	34.21	34.21	34.21
-Capital Surplus	14.59	14.59	14.72
-Legal Reserve	24.61	23.04	23.04
-Un-appropriated Earnings	0.63	2.76	2.76
-Treasury Shares	(29.72)	(29.72)	(29.72)
-Non-controlling Interest	5.50	5.90	5.80
-Retained Earnings & Others*	8.21	18.89	7.18

\* Including YTD profits and other equity items

**Table 9. Ratios**

	2Q16	1Q16	2Q15
<b>Current Ratio</b>	58%	66%	46%
<b>Interest Coverage (x)</b>	33.5	27.8	29.0
<b>Net Debt (Cash) to Equity</b>	75%	66%	79%
<b>Net Debt (Cash) to EBITDA (x)</b>	1.29	1.39	1.40
<b>ROE (annualized)</b>	31%	24%	30%
<b>ROA (annualized)</b>	11%	10%	10%

### Assets

The YoY decrease in short-term investments was due to the disposal of the investment in THSR's (Taiwan High Speed Rail) preferred shares made in August 2015.

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

### Liabilities & Shareholders' Equity

Gross debt balance fell to NT\$51.19bn, following a NT\$3.73bn debt repayment made in the quarter. Additionally, we also increased the portion of long-term borrowings to 65% in the quarter, up from 43% a year ago.

The QoQ increase in other current liabilities was mainly due to the \$15.2bn cash dividends payable which was paid on July 21, 2016.

Shareholders' equity was down to NT\$58.02bn following AGM's approval of dividends which became a payable item thereafter and was paid as mentioned earlier.

This resulted in a QoQ drop in current ratio while ROE further rose sequentially to 31% in 2Q16.

### Ratio Analysis

In 2Q16, our net debt to EBITDA dropped to a low of 1.29x, arising from continuous debt repayments.



## VI. Management Remarks

### Key Message

The big three's rational moves regarding the 4G rate plans and contained handset subsidies set the tone for a healthier growth path for the industry. Taiwan Mobile will continue to create shareholder value through discipline in both mobile spectrum investments and handset subsidies.

### Awards and Recognition

- Won awards in the categories of Taiwan's "Best Investor Relations", "Best Corporate Social Responsibility", and "Best CFO" in the *Corporate Governance Asia's 2016 Asian Excellence Awards*. Taiwan Mobile was the only telecom operator in Taiwan awarded.
- Ranked within top 5 percent of listed companies in the second annual Corporate Governance Evaluation conducted jointly by the Taiwan Stock Exchange and Taipei Exchange (GreTai Securities Market).
- Received the 2016 CSR award in the "Annual CSR Survey – Service Sector" from *Global Views Monthly*.
- Awarded the ISO 14001 environmental management system certification, the first in Taiwan telecommunications industry.